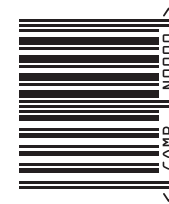


MILES AHEAD



COMMERCIAL BANK OF CEYLON PLC

ANNUAL REPORT 2011 {43RD ISSUE}

 COMMERCIAL BANK

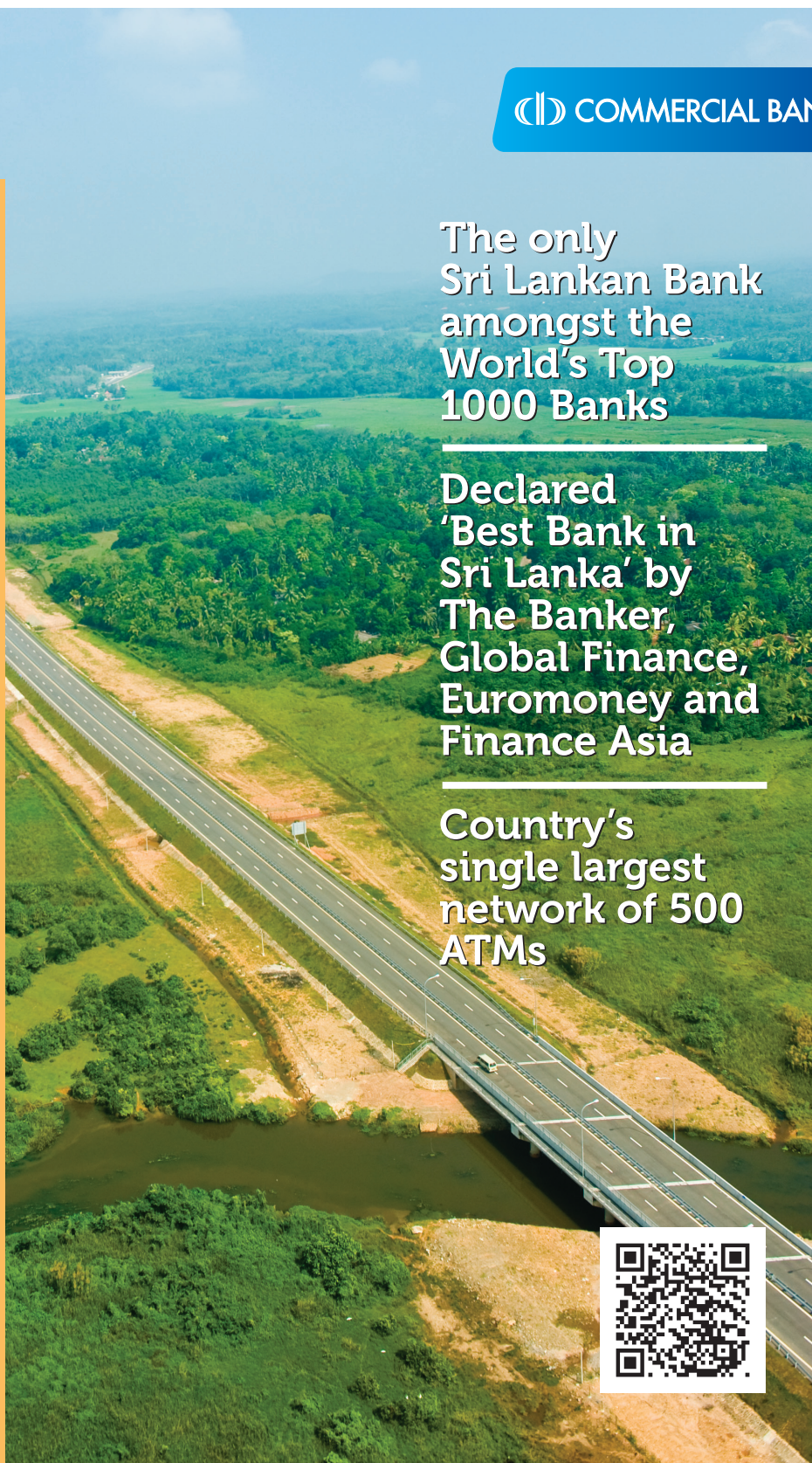
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The only
Sri Lankan Bank
amongst the
World's Top
1000 Banks

Declared
'Best Bank in
Sri Lanka' by
The Banker,
Global Finance,
Euromoney and
Finance Asia

Country's
single largest
network of 500
ATMs



Commercial Bank of Ceylon PLC is a public limited liability company incorporated in Sri Lanka on June 25, 1969 and listed on the main board of the Colombo Stock Exchange. It is a licensed commercial bank registered under the Banking Act No. 30 of 1988 and regulated by the Central Bank of Sri Lanka.

It is an emerging regional bank with operations in Sri Lanka and in Bangladesh. In Sri Lanka, it is the largest private sector bank with an asset base of Rs. 441 Bn. (USD 3.86 Bn.), 213 delivery points and 500 ATMs end 2011. In Bangladesh, it operates 17 delivery points and 14 ATMs.

Commercial Bank is the only Sri Lankan bank amongst the World's Top 1000 Banks rated by The Banker and has been adjudged the "Best Bank in Sri Lanka" by many reputed financial publications such as Global Finance, Euromoney and Finance Asia. Bank's Bangladesh operations has been adjudged "Best Foreign Bank" by The Industry Magazine.

Bank is rated AA(Ika) by Fitch Ratings Lanka Ltd. and AA+ by Ram Ratings Lanka Ltd. Bank's Bangladesh operations is rated AAA by Credit Rating Information Services Ltd.

COMMERCIAL BANK MOVED MANY MORE MILES DOWN THE ROAD TOWARDS REALISING ITS AMBITIOUS LONG TERM GOALS. THE PROGRESS WE'VE MADE MIRRORS THAT OF THE OVERALL FINANCIAL SECTOR, AND INDEED OF THE ENTIRE COUNTRY, AS SRI LANKA EMERGES FROM THREE DECADES OF CONFLICT AND CAN NOW DRIVE WITH CONFIDENCE TOWARDS A BRIGHTER FUTURE.

OUR NATION IS REBUILDING. AND THE NATION'S BANKS ARE PLAYING A VITAL ROLE IN THAT PROCESS. COMMERCIAL BANK HAS TAKEN A LEAD IN WORKING ALONGSIDE THE GOVERNMENT TO FUND NEW INFRASTRUCTURE PROJECTS AND THEREBY STIMULATE LONGER TERM DEVELOPMENT. THE ECONOMIC INITIATIVES NOW UNDER WAY, LIKE THE NEW EXPRESSWAYS THAT ARE BEGINNING TO LINK THE COUNTRY, WILL DRAMATICALLY BROADEN THE HORIZONS OF OPPORTUNITY.

WE BRING THAT SAME PURPOSEFUL FOCUS TO ADVANCING THE GOALS OF EVERY CUSTOMER. BY ENSURING THAT OUR CUSTOMERS KEEP MOVING FORWARD ALONG THE ROAD TO THEIR OBJECTIVES, WE'LL REMAIN MILES AHEAD.

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OPERATING HIGHLIGHTS

No. of Delivery Points

213 **17**
Sri Lanka Bangladesh

2010: 187 & 17/2009: 172 & 15

No. of ATMs

500 **14**
Sri Lanka Bangladesh

2010: 400 & 14/2009: 355 & 13

Staff Strength

4,329 **195**
Sri Lanka Bangladesh

2010: 4,123 & 198/2009: 3,862 & 209

Contribution to Government - Sri Lanka

Rs. 4,163.3 Mn.

2010: Rs. 6,586.3 Mn./2009: Rs. 5,068.4 Mn.

Capital Expenditure - Bank

Rs. 1,101.8 Mn.

2010: Rs. 961.7 Mn./2009: Rs. 891.3 Mn.

Donations - Bank

Rs. 110.0 Mn.

2010: Rs. 58.3 Mn./2009: Rs. 22.4 Mn.

Only Sri Lankan Bank to be ranked among the top 1000 Banks in the world for the second time - by 'The Banker'

Honoured with 5 top accolades as the 'Best' in Sri Lanka

Won top 4 accolades including Gold Award for the Overall Winner - at the Annual Reports Awards 2011 by The Institute of Chartered Accountants of Sri Lanka

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

The Bank's Bangladesh Operation's Credit Rating upgraded to AAA from AA+ by the Credit Rating Information Services Ltd.

Launched Islamic Banking Unit and Elite Branch for high-networth customers

Opened the highest number of delivery points in a single year - 26 delivery points

Single largest ATM Network operated by a bank in Sri Lanka

Successfully concluded a Rights Issue of ordinary shares followed by a share split

Business volumes grew: Net Loans and Advances by 27.35%, Deposit base by 22.59% and Total Assets by 19.20%

Signed milestone agreement to disburse Rs 1.5 Bn. to Road Development Authority from tax savings

Gross and Net NPL Ratios improved to 3.43% and 2.08% from 4.22% and 2.78% in 2010

Provision Cover improved to 39.53% in 2011 from 34.05% in 2010

Post-Tax profit increased by 45.71% reaching Rs. 8.0 Bn. Mark

Rewarded Shareholders with a total dividend payout ratio of 60.94% of which 40.63% represented a cash dividend

Return on Equity improved to 20.76% in 2011 compared to 17.87% in 2010

Return on Assets rose to 1.98% from 1.60% in 2010

Capital Adequacy Ratio improved to 13.01% in 2011 from 12.26% in 2010

FINANCIAL HIGHLIGHTS

	GROUP			BANK		
	2011	2010	Change %	2011	2010	Change %
Results for the Year (Rs. Mn.)						
Income	45,465.364	41,481.762	9.60	45,483.389	41,521.531	9.54
Profit Before Financial VAT and Taxation	12,591.592	12,009.384	4.85	12,510.367	12,026.311	4.02
Profit Before Taxation (PBT)	11,068.620	9,300.466	19.01	10,987.395	9,317.393	17.92
Provision for Taxation	2,973.468	3,790.472	(21.55)	2,939.567	3,794.100	(22.52)
Profit After Taxation (PAT)	8,095.152	5,509.994	46.92	8,047.828	5,523.293	45.71
Revenue to the Governments	4,197.280	6,582.708	(36.24)	4,163.379	6,586.336	(36.79)
Gross Dividends	4,904.701	2,645.950	85.37	4,904.701	2,645.950	85.37
At the Year End (Rs. Mn.)						
Shareholders' Funds (Capital and Reserves)	44,567.657	33,512.576	32.99	44,226.727	33,302.052	32.80
Deposits	318,404.310	259,744.567	22.58	318,461.431	259,778.911	22.59
Gross Loans and Advances	283,184.195	223,796.523	26.54	283,343.645	224,020.088	26.48
Total Assets	441,333.906	370,257.944	19.20	441,099.286	370,060.142	19.20
Information per Ordinary Share (Rs.)						
Earnings (Basic)	10.09	7.20	40.14	10.04	7.22	39.06
Earnings (Diluted)	9.97	7.15	39.44	9.91	7.17	38.21
Dividends - Cash	-	-	-	4.00	5.00	(20.00)
Dividends - Shares	-	-	-	2.00	2.00	-
Net Assets Value	54.52	43.81	24.45	54.10	43.53	24.28
Market Value at the Year end - Voting	N/A	N/A	-	100.00	259.90	(61.52)
Market Value at the Year end - Non-Voting	N/A	N/A	-	74.50	162.00	(54.01)
Ratios						
Return on Average Shareholders' Funds (%)	20.74	17.71	3.03	20.76	17.87	2.89
Return on Average Assets (%)	1.99	1.59	0.40	1.98	1.60	0.38
Price Earnings (times) - Ordinary Voting Shares	N/A	N/A	-	10.16	17.76	(42.79)
Price Earnings (times) - Ordinary Non-Voting Shares	N/A	N/A	-	7.57	11.07	(31.62)
Year on Year growth in Earnings (%)	46.92	31.41	15.51	45.71	28.30	17.41
Dividend Yield (%) - Ordinary Voting Shares	N/A	N/A	-	6.00	2.69	3.31
Dividend Yield (%) - Ordinary Non-Voting Shares	N/A	N/A	-	8.05	4.32	3.73
Dividend Cover per Ordinary Shares (times)	N/A	N/A	-	1.64	2.09	(21.53)
Statutory Ratios						
Liquid Assets (%)	N/A	N/A	-	26.21	29.74	(3.53)
Capital Adequacy Ratios						
Tier I (%) - Minimum Requirement (5%)	12.11	10.86	1.25	12.11	10.87	1.24
Tier I & II (%) - Minimum Requirement (10%)	13.01	12.26	0.75	13.01	12.27	0.74

FINANCIAL GOALS AND ACHIEVEMENTS

Financial Indicator - Bank	Goal	Achievement				
		2011	2010	2009	2008	2007
Return on Average Assets (%)	Over 2	1.98	1.60	1.43	1.55	1.67
Return on Average Shareholders' Funds (%)	Over 20	20.76	17.87	15.83	17.13	20.63
Growth in Income (%)	Over 20	9.54	(5.07)	(0.85)	25.25	43.95
Growth in Profit After Taxation (%)	Over 20	45.71	28.30	0.86	4.02	103.89
Growth in Total Assets (%)	Over 20	19.20	14.81	14.62	4.95	19.63
Dividend per Share (Rs.)	Over 5.00	6.00	7.00	7.00	7.00	7.00
Capital Adequacy Ratios: Group						
Tier I (%) - Minimum Requirement (5%)	Over 8	12.11	10.86	11.92	10.55	10.60
Tier I & II (%) - Minimum Requirement (10%)	Over 13	13.01	12.26	13.93	13.13	13.71

“DRIVERS” OF CHANGE



“Having served the Bank for 25 years as a Director, 16 years of which as the Chairman, I am proud of the Bank’s great transformation. Commercial Bank has for more than a decade now been the benchmark among private sector banks. I consider myself fortunate to have led the Bank during this period and to retire in one of its many banner years. I am confident that my successor Dinesh Weerakkody, who has served on the Bank’s Board for several years will steer the Bank on a charted course to reach new heights of excellence. He has, in the management and staff, one of the finest teams of banking professionals who are committed towards the Bank and passionate about their work. I take this opportunity to thank them and wish them well. My congratulations to Amitha Gooneratne the outgoing Managing Director for a very successful tenure and best wishes to Ravi Dias, the incoming Managing Director.”

Mahendra Amarasuriya



“As I assume my new role as Chairman, the Bank looks forward to challenging and rewarding times ahead. We will continue to focus on being more accessible than ever to our customers, pursuing further innovation in product development, delivery channels, convenient technologies and overall customer experience. We expect 2012 to be a year of transformation as Commercial Bank seeks to cross historical boundaries and create a new niche in the region and, indeed, the global financial sector.”

Dinesh Weerakkody



"As many shareholders are aware, on April 27, 2012, I will officially step down from my role as Managing Director, a position I've had the privilege to hold since 1996. I would like to take this opportunity to welcome our new Managing Director, Ravi Dias. I share with our Board the firm belief that for this role, the best path of succession leads from within. Ravi, having spent his entire working career at the Bank, has an intimate knowledge thereof and the complex environment in which it operates. The helm is in highly capable hands. I want to emphatically convey the personal debt I feel towards all of the fellow employees I've had the pleasure to work with for nearly 30 years. I have relied on you, I have learned from you, and I have felt proud to be associated with the successes you have achieved. The future strength of the Bank remains where it has always been - with its people."

Amitha Gooneratne



"We have exciting times ahead of us as the Country is on the verge of a step-change. The Bank will change with the times as well as play its part in catalysing change. Let us make it happen."

Ravi Dias



We expect 2012
to be a year of
transformation as

Commercial Bank seeks to
cross historical boundaries
and create a new niche in
the region and, indeed, the
global financial sector.



Dear Friends,

Banks have a unique and privileged role to play in the life of a nation. On the one hand, we provide the means by which a society achieves economic prosperity. We help people purchase homes, save for their children's education and secure their financial future. We support businesses as they attract investors, create jobs and seek new markets abroad. At the same time, banks are entrusted with safeguarding the stability of the financial system. We help to sustain a secure economic environment in which both individuals and governments can confidently set in place building blocks for the future.

In 2011 Commercial Bank embraced these interlinked responsibilities with new vigour to the benefit of both customers and shareholders. We offered our customers a broader range of attractive, flexible products and services through an extended network of branches and ATMs. We helped our commercial customers finance business expansion and pursue more export opportunities. And we supported the national government in its ambitious economic renewal initiatives, helping to finance key infrastructure projects as the country rebuilds following three decades of disruptive conflict.

In all its endeavours, Commercial Bank remains strongly committed to an exemplary corporate governance regime and the propagation of a truly sustainable business enterprise that nurtures and delivers value to all stakeholders.

The results achieved by the Bank in 2011 as detailed in the pages of this Annual Report, speak for themselves: the Bank once again established a new benchmark for profitability, surpassing last year's milestone to post a record Rs. 8,048 Bn. in profits after tax. Shareholders will be pleased to see their loyalty rewarded with a gross dividend that will ultimately total Rs. 4,905 Bn., a 85.37% increase over 2010. With your valued support, the Bank had an exceptionally good year by virtually every measure. And our collective investment helped strengthen the foundations of sustainable growth in the Sri Lankan economy.

The Bank's multifaceted agenda for the coming year is exemplified by two initiatives. The first focuses on technology. To attract today's customers and forge long term relationships, we must extend our digital banking strategy beyond the goal of simply reducing cost. By investing in innovative technologies, we can engage more customers with an enhanced user experience, mobile access to services and creative applications of social media.

Our second priority is talent development. As we continue to build capacity, we must also ensure that our people are equipped and motivated to do their best work. The Bank has invested in learning and development programmes so that we can count on a robust pipeline of skilled employees and future leaders who are ready to fill key positions.

It is this dynamic mix of innovation and talent that has transformed our Sri Lankan operations and enabled us to establish a meaningful presence in Bangladesh. Now we have set our sights on further expansion into neighbouring markets such as Nepal, Myanmar, Cambodia and even Indonesia. We're confident that we can build on our experience and momentum to become a significant regional player.

Credit for that continued momentum goes emphatically to the Bank's employees, whose excellent performance, under the guidance of our former Chairman and our Managing Director, played a pivotal role in making 2011 such a successful year. I applaud their efforts and at the same time extend sincere gratitude to my Board colleagues for the inspiration and guidance they have provided to this institution. I would also like to take this opportunity to thank our former Chairman, Mr. Mahendra Amarasiriya, our former Deputy Chairman, Mr. B.R.L. Fernando and former Director, Dr. Shelton Wanasinghe who resigned at the end of the year under review. I warmly welcome Mr. Lakshman Hulgalle, Mr. Dharma Deerasinghe and Mr. Preethi Jayawardena as members of the Board.

As I assume my new role as Chairman, the Bank looks forward to another challenging and rewarding year. We will continue to focus on being more accessible than ever to our customers pursuing further innovation in product development, delivery channels, convenient technologies and overall customer experience. We expect 2012 to be a year of transformation as Commercial Bank seeks to cross historical boundaries and create a new niche in the region and, indeed, the global financial sector.



Dinesh Weerakkody

Colombo.

February 09, 2012.

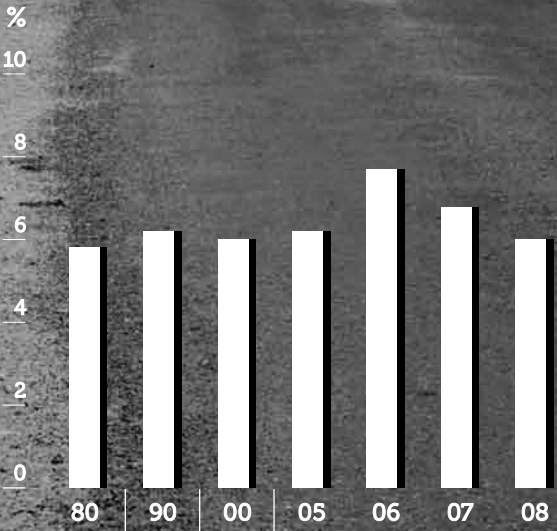
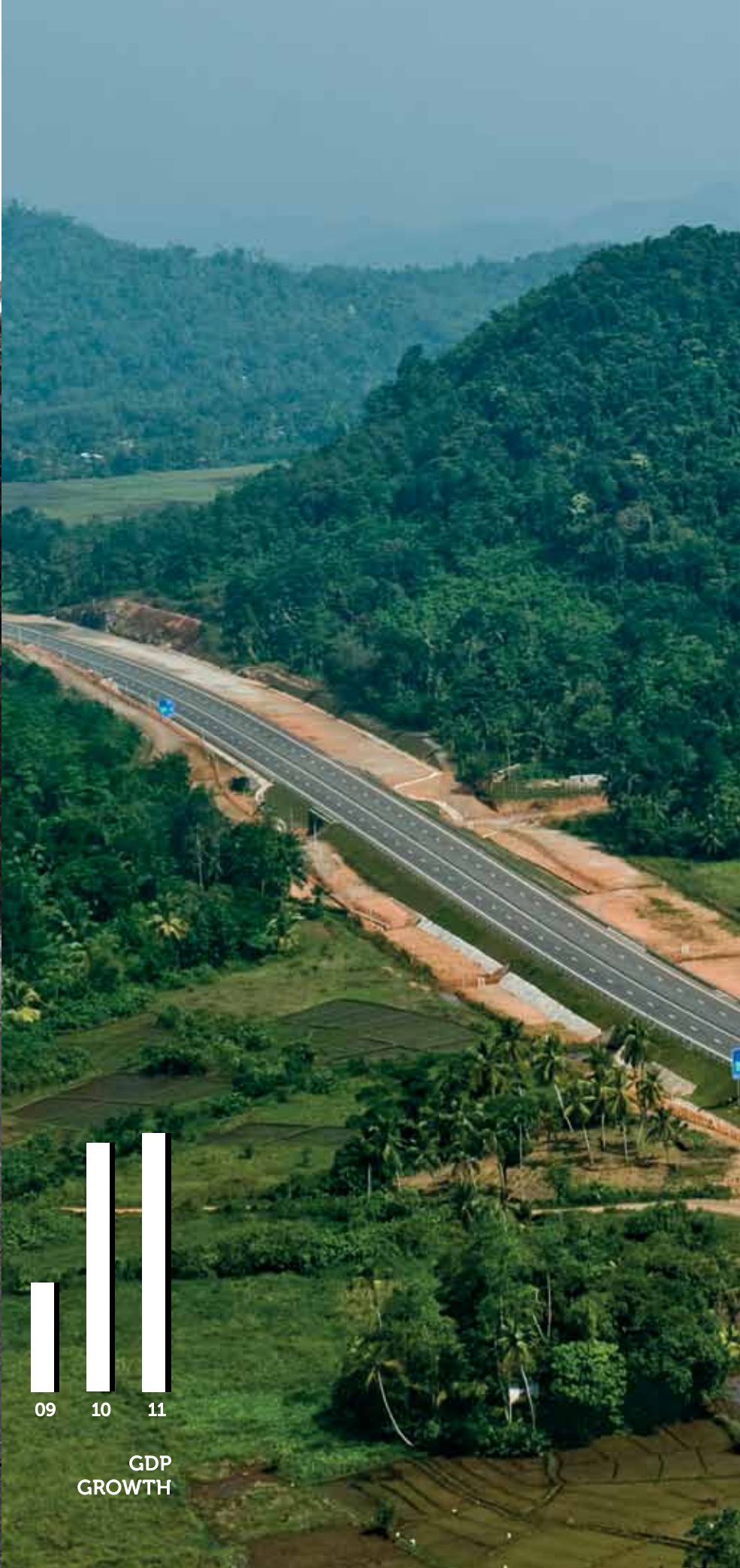
Our Vision

“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”

35
Kmph

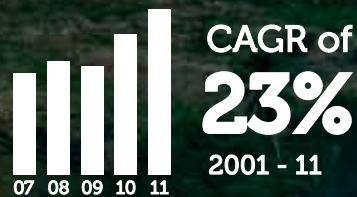


GDP
GROWTH

Our foot's on the pedal...we're ready to accelerate...

Up ahead we can see the signs of opportunity, development and prosperity. The 'expressway' of smooth acceleration and speed of enterprise beckons. We see the need to speed up... all the signs before us require us to place our foot more firmly on the accelerator.

The Bank is admirably prepared...during the year in review, our Profits After Tax have grown by 45.71%; Loans & Advances by 26.48%; Deposits by 22.59%; Total Assets by 19.20%. It only remains for us to put the 'pedal to the metal'.



**GROWTH IN
PROFIT BEFORE TAX**

MANAGING DIRECTOR'S REVIEW

The momentum reflected in our 2010 results continued at a healthy pace, yielding further increases in business volumes across the board. As a result, we have seen substantial improvements in almost every key performance ratio.



MANAGING DIRECTOR'S REVIEW

Shareholders are the ultimate judges of an enterprise's performance. In making their assessment, they look for the clearest measures of financial success and responsible management: the numbers. As 2011 drew to a close, Commercial Bank prepared for investors' objective appraisal with the same pride and confidence that we bring to meeting the expectations of our customers every day. As a team, and on behalf of all our stakeholders, we have reason to be proud: The excellent results we achieved over the past year rank amongst the most compelling - and rewarding - in the Bank's history.

Our positive performance against key success measures is particularly gratifying in the face of continuing uncertainty in the global economy, most notably with regard to European sovereign debt crisis and ongoing efforts to return stability to the international financial system. Within the Asia-Pacific region, Commercial Bank has proven itself as a strong and disciplined banking leader, well positioned to maintain steady growth.

The encouraging picture detailed in the pages of this Annual Report coincides with a carefully planned transition in the senior management of the Bank during the coming year. As our strategy continues to evolve under new leadership, it will do so on a solid foundation built on the accomplishments of the entire management team, and indeed all of our employees, over the past 15 years.

KEY DRIVERS OF PROFITABILITY

Post-tax profit for 2011 grew by 45.71% over the previous financial year, exceeding Rs. 2.524 Bn. for the first time in the Bank's history to end the year at Rs. 8.048 Bn.

The momentum reflected in our 2010 results continued at a healthy pace, yielding further increases in business volumes across the board. As a result, we have seen substantial improvements in almost every key performance ratio. One highlight worth underlining is the increased return on average shareholders' funds, which at 20.76% is significantly higher than the yield on Treasury Bills for the same period.

The challenge of excess liquidity, noted in last year's Annual Report, continued into 2011 but grew less acute as the year progressed. This improvement was aided in part by our fine-tuning of the Bank's overall strategy, as we shifted our focus from attracting deposits to expanding our portfolio of loans and advances. At the same time, our collective efforts were concentrated on enhancing and promoting the entire spectrum of consumer banking products and services, including personal loans, home loans, pawning and leasing. As a result, the Bank's market share in the consumer arena has increased substantially.

Another strategic priority in 2011 was to encourage and better service the flow of inward remittances from Sri Lankans working abroad. The gains realised in this regard reflect the competitive advantage that the Bank has created in recent years by building a more effective network of exchange houses overseas. We will continue to invest in this area going forward.

FINANCING A NATION'S RENEWAL

Commercial Bank led the Sri Lankan financial services sector in embracing the Investment Fund Account strategy introduced in November 2010 as a component of the Government's Budget for

the following year. Under this new programme, all banks are required to allocate a percentage of tax savings - resulting from the reductions in the VAT rate on financial services and rate of income tax - and make those funds available exclusively for purposes specified by the Government. In September 2011, the Bank approved a loan of Rs. 1.5 Bn. to the Road Development Authority, payable over 14½ years, for a major highway improvement project.

In providing this substantial long term lending facility, the Bank has not simply complied with legislation. Our leadership in deploying the Investment Fund Account reflects a deeper commitment to the Government's national development efforts through the financing of vital infrastructure projects.

In another innovative financing initiative aimed at stimulating economic development, the Bank reached an agreement with the International Finance Corporation (IFC), a member of the World Bank Group, establishing a seven-year facility totalling USD 65 Mn. (approximately Rs. 7.4 Bn.) to expand lending to small and medium enterprises (SMEs). Signed in December 2011, the deal marks the most significant investment to date in Sri Lanka by the IFC, one of the largest multilateral source of loan and equity financing for sustainable private sector projects in the developing world.

The IFC facility is also a first for South Asia in its use of future flow-backed financing: by securitising the value of expected remittance flows, the Bank has gained the necessary leverage to borrow funds at far below prevailing market rates. This in turn will enable us to improve access to credit for some 20,000 SMEs,

fostering better economic conditions in historically underserved areas - particularly Northern and Eastern Sri Lanka.

We expect continued growth in lending driven by post-war reconstruction and the general revival across all business sectors. The Bank is currently negotiating additional credit facilities and actively seeking out other financing opportunities with overseas partners.

SURE SIGNS OF GROWTH

Commercial Bank's operations in Bangladesh showed promising signs of sustainable growth in 2011. That country's economic prospects have brightened with the resumption of overseas demand for manufactured goods, particularly apparel. The rise in exports has brought a comparative improvement in the national standard of living, despite the challenges of several recent natural disasters and the lingering impact of the global economic downturn.

In this positive economic climate, we foresee continued growth in deposits and advances, as well as profit levels, in our Bangladesh business. In the coming year, we will be introducing a wider range of products and services tailored to the local marketplace while continuing our efforts to maintain tight controls on non-performing assets.

With respect to the Bank's international horizons, we have leveraged our traditional strength in trade finance to expand its role in our business mix, with excellent results over the past year. Our efforts on behalf of both importers and exporters earned the Bank recognition as 'Best Trade Finance Bank in Sri Lanka' for 2011 from the European publication Trade Finance.

MANAGING DIRECTOR'S REVIEW

LEADERS IN INNOVATION

With the global economic environment likely to favour comparatively low interest rates for some time, the Bank has been actively pursuing other avenues of profitable growth. One area of focus has been fee-based transactions, notably in facilitating overseas investments on behalf of companies and high-net-worth individuals. Fee-based income reached an all-time high in 2011, and we expect that success to continue.

The past year also saw a renewed emphasis on deepening and diversifying our fund-based operations - especially in the area of pawning, where our success has been a catalyst for growth across the Sri Lankan marketplace. We have also shown innovative leadership in the bullion business: last year the Bank was one of the largest importers of gold in the country.

Finally, Commercial Bank's dedication to strengthening our retail customer base is reflected in the expansion of our nationwide ATM network with an additional 100 locations over the past year. By making our products and services more accessible where customers live and work - including in high-traffic areas such as railway stations - we are fulfilling the Bank's vision of being the most innovative, technologically advanced and customer-friendly financial services organisation in Sri Lanka.

READY FOR THE FUTURE

The Bank's excellent performance in 2011 bolsters the foundation upon which we will meet the challenges and opportunities that lie ahead. As our business continues evolving in all aspects to keep pace with a changing world, several points are particularly noteworthy:

In terms of how we manage and report on our operations, we have begun making the transition to the International Financial Reporting Standards (IFRS) established by the International Accounting Standards Board. While full IFRS compliance is not required until the first quarter of 2012, there will be a definite paradigm shift within the Bank as our current policies and practices are modified - along with a welcome enhancement of our global standing as we endorse greater uniformity in reporting standards worldwide.

As for the consumer marketplace, we see exciting opportunities ahead as advances in technology open up new channels for the promotion and delivery of financial services. In particular, the rise of mobile banking - and the promise of forging deeper relationships with customers even when they are on the move - will challenge us to be more innovative than ever. Building on our past successes, we are confident that the Bank will once again be a leader in establishing this exciting new channel.

A final perspective on the future worth noting here is our view that further consolidation within Sri Lanka's banking industry is both necessary and inevitable. In an increasingly competitive environment, as customers' service expectations continue to rise, banks will be able to control the cost of intermediation only by leveraging economies of scale. Last year, Commercial Bank appeared for the second time in the prestigious Top 1000 World Banks ranking published by *The Banker* magazine. Our goal moving forward is to advance as quickly as possible into the top 500 - through domestic growth and by expanding internationally as well.

OUR LEGACY OF SUCCESS

As many shareholders are aware, on April 27, 2012, I will officially step down from my role as Managing Director, a position I've had the privilege to hold since 1996. I would therefore like to take this opportunity to add a few personal observations to what will be my last annual message to shareholders.

Over the past 15 years, Sri Lankans have witnessed dramatic changes in every area of our daily lives. Our country has been through periods of intense internal conflict and political turmoil. At the same time, we've been confronted with economic crises of global proportions. Indeed, the challenges we've faced at home have mirrored, to a large degree, those faced by other nations around the world.

It has been a difficult time for businesses of all kinds to remain focused on their objectives. And it has been particularly challenging for banks, which are not simply commercial enterprises but are also seen as both agents and stewards of economic prosperity. That Commercial Bank has not only prevailed but flourished through these years is a testament to the collective efforts of many talented, visionary and deeply committed individuals. I would like to pay tribute to their exemplary teamwork by touching on just a few highlights of the past decade and a half:

- Encouraging the IFC to invest in Commercial Bank via the stock exchange - the first such investment in the region by this highly-regarded global institution.
- Forging relationships with other significant investors.
- Expanding the business overseas, notably with the establishment of operations in Bangladesh.
- Building a more empowered and engaged workforce, and demonstrating the value of collaborative teamwork across the organisation.
- Establishing the Employee Share Option Plan, which offered Executive Officers of the Bank above in Grade III and above the chance to become material stakeholders in our success.
- Successfully structuring a pension buyback strategy to ensure the long-term financial health of our business.
- Making customer convenience the first priority for all operational initiatives, from the expansion of our ATM and branch networks, to our pioneering supermarket and holiday banking programmes, to our innovative championship of Internet-based and, more recently, mobile banking.
- Above all, delivering consistent, substantive value to shareholders, year after year:
 - An investment in Bank stock at the end of 1995 realised a compound Annual Growth Rate (CAGR) of over 13% (i.e., with the benefit of all rights, bonus issues and splits, and considering the time value of money) to the end of 2011.
 - Profit after tax has maintained a CAGR above 22% through the past 15 years.
 - Profit per employee, a key measure of the efficiency of our operations, has risen more than eightfold in that time.

MANAGING DIRECTOR'S REVIEW

- Return on average shareholders' funds has grown at a CAGR of nearly 23%.
- The Bank's dividend payout ratio has nearly tripled to 60%.
- Total assets have increased more than 17 times to Rs. 442.9 Bn.

The foregoing is merely a snapshot of all that we've accomplished together. It is gratifying to know that the deep personal satisfaction I feel in being associated with these achievements is magnified exponentially in the pride of all those who worked side by side to make them happen.

LOOKING BACK, LOOKING FORWARD

In closing, I would like to express my sincere gratitude to all members of the Board of Directors, past and present, for their support and guidance over the past 15 years. The road has not always been easy, but the results we've produced together, and the professional and personal bonds we've formed along the way, have made every step of the journey worthwhile.

I wish to make special mention of three highly valued Board Members who retired at the end of the year under review: our former Chairman, Mr. M.J.C. Amarasuriya; our former Deputy Chairman, Mr. B.R.L. Fernando; and one of our longest-serving Directors, Dr. H.S. Wanasinghe. These three gentlemen have been tireless in sharing their expertise and wise counsel over the years, and in return I can only offer my heartfelt thanks on behalf of all employees, shareholders and the entire enterprise that they have helped to guide. They will be missed, but their legacy will remain.

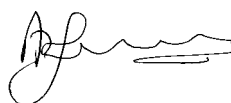
Of course, no such message would be complete without extending my thanks to the Governor and officers at all levels of the Central Bank of Sri Lanka. Over the years, they have approached their regulatory role in a spirit of co-operation and mutual respect that has ensured the best possible working relationship.

I would also like to take this opportunity to welcome the Managing Director Designate, Ravi Dias. I share with our Board the firm belief that for this role, the best path of succession leads from within. Ravi, having spent his entire working career at the Bank, has an intimate knowledge of our operations, our people, our customers, our key partners and the complex environment in which we operate. The helm is in highly capable hands.

Finally, and most emphatically, I want to convey the personal debt I feel toward all of the fellow employees I've had the pleasure to work with nearly 30 years. I have relied on you, I have learned from you, and I have felt proud to be associated with the successes you have achieved. The future strength of the Bank remains where it has always been - with its people.

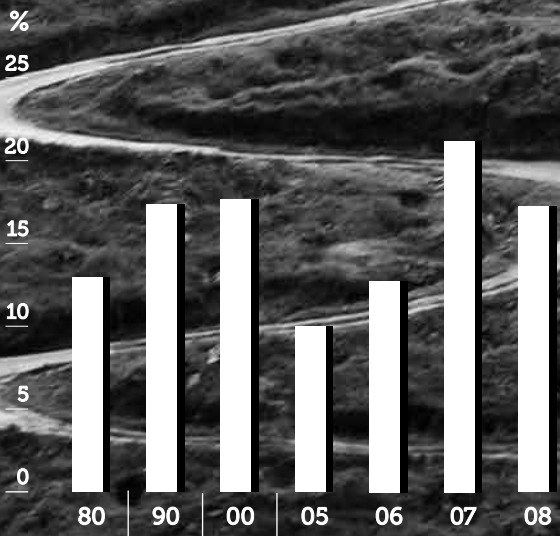
As this Annual Report makes clear, Commercial Bank was founded on principles of openness, transparency and sound governance. That these values continue to earn trust and confidence is evidenced by the steadfast support of shareholders - most recently, in the success of our latest rights issue at a time when most comparable issues were struggling for support.

Even more important, we know that a firm commitment to our founding principles - to being a Bank for everybody, devoted to the communities where we live, work and do business - will ensure that Commercial Bank continues to prosper alongside the customers who ultimately define our success. The Bank we've built together is a robust platform from which we will explore promising opportunities and meet whatever new challenges the future may hold.



Amitha Gooneratne
Managing Director

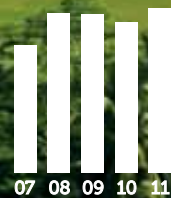
Colombo
February 09, 2012



3 MONTH
TREASURY
BILL RATE

Straight ahead... no twists and turns...

The beauty of an expressway is that it takes you along the most direct route from A to B...that means long stretches of straight road...no twists and turns to slow momentum. It allows for a steady build up of speed and helps to maintain momentum at optimal levels. Most of the Bank's key indicators have been showing steady positive growth over the years.



CAGR of

19%

2001 - 11

GROWTH IN
INCOME



MANAGEMENT DISCUSSION AND ANALYSIS

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THE MACROECONOMIC ENVIRONMENT

GLOBAL ECONOMY

Overall, the world economy grew by 3.8% in 2011, marginally lower than the IMF's September 2011 forecast of 4.40%, with advanced economies realising a 1.6% growth rate. Emerging and developing economies continue to be the world's economic engine, expanding by approximately 6.42% in 2011.

	2010 %	2011 %
World Output	5.2	3.8
Advanced Economies	3.2	1.6
United States	3.0	1.8
Germany	3.6	3.0
France	1.4	1.6
United Kingdom	2.1	0.9
Emerging & Developing Economies	7.3	6.2
Russia	4.0	4.1
China	10.4	9.2
India	9.9	7.4
Brazil	7.5	2.9

Source: IMF World Economic Outlook update, January 2012

The Global recovery has been challenged by increasing strains in the euro area and the fragilities elsewhere. Global output is expected to record 3.3% in 2012 largely due to expectations of a mild recession in the euro area as a result of the rise in sovereign yields, the effects of bank deleveraging on the real economy, and the impact of additional fiscal consolidation. Besides, growth in emerging and developing economies is expected to moderate due to a worsening external environment and a weakening of internal demand.

(Source: IMF World Economic Outlook Update, January 2012)

China

China's economy, the second largest on earth, expanded by approximately 9.2% in 2011, accounting close to 40% of global growth. Although growth is rapidly replacing inflation as Beijing's main policy concern, recent Chinese data show economic expansion easing as a result of fewer housing sales, lower construction

spending and slowing exports, particularly to Europe. Among financial commentators, concerns are mounting that the world's most populous country is heading for a hard landing, with grave implications for economies around the world.

India

The Governor of the Reserve Bank of India has signalled that Asia's third-largest economy may not reach the earlier growth estimate of 7.6% for the fiscal year ending March 2012. For reasons not yet fully understood, Foreign Direct Investments into India fell from USD 37.8 Bn. in the year ended March 2010 to USD 25.9 Bn. the following year, marking the first annual decline since 2003 - 2004.

Nevertheless, Asia's importance in the global economy has been steadily rising.

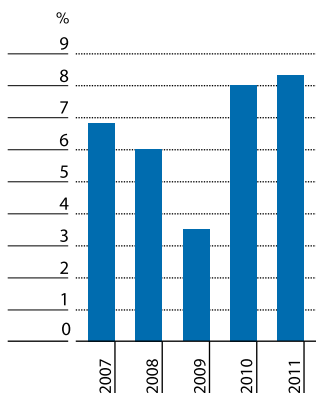
THE MACROECONOMIC ENVIRONMENT

SRI LANKAN ECONOMY

GDP

Growth in Sri Lanka's GDP reached an estimated 8.3% in 2011, topping 8.0% for the second consecutive year. This level of sustained growth is unprecedented in the country's history. In dollar terms, GDP is estimated to have exceeded USD 59.0 Bn. with a per capita income of USD 2,830.

GDP Growth Rate



The industrial sector is estimated to have achieved the highest growth rate across the Sri Lankan economy. The agricultural sector was afflicted by bad weather, especially in the first half of the year. The services sector grew by an estimated 8.6% in 2011, contributing to 58% of the total GDP.

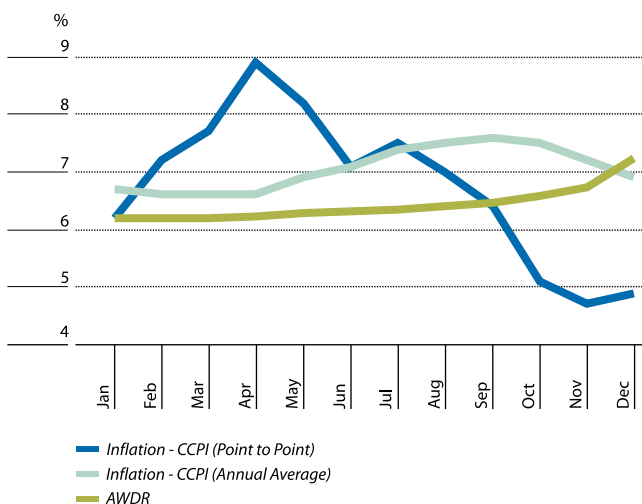
Unemployment

Sri Lanka had a record low unemployment level of 4.3% in the first half of the year, with the 15 - 24 age category seeing an especially sharp decline in unemployment. Reconstruction, infrastructure development and a rise in employment in the micro entrepreneurship category all contributed to the continued creation of employment opportunities. Moreover, a drop in the Poverty Head Count Index points to a significant reduction in poverty levels.

Rate of Inflation

The year on year inflation, as measured by the Colombo Consumer Price Index, was estimated at approximately 4.9% in December 2011. The inflation rate remained steady at mid single-digit levels throughout the year, showing a slight increase in the closing months. Inflation has been kept under control - despite a rise in commodity and food prices in international markets - thanks to improvements in the domestic supply side and food production, especially in the Northern and Eastern Provinces.

Inflation/AWDR - 2011



Exchange Rate

There was significant pressure on the LKR/USD exchange rate throughout 2011, due to the general weakening of major Asian currencies against the USD. Adding to this pressure was a sharp rise in import demands - specifically, a higher influx of (a) investment goods as the result of expanding infrastructure projects, (b) intermediate goods in the form of petroleum imports and (c) consumer goods, notably motor vehicles. The Central Bank intervened in the domestic foreign exchange market to mitigate excessive volatility, supplying USD at regular intervals up to the fourth quarter. When market pressures increased, the LKR was ultimately depreciated by 3% according to a Budget proposal tabled by the Government in November 2011.

Interest Rates

Many Sri Lankan banks increased their domestic rates even as monetary policy rates remained stagnant.

Key Interest Rates	December	
	2010 %	2011 %
Sri Lanka Inter-Bank Offered Rate (SLIBOR)	8.16	9.01
Average Prime Lending Rate (APLR)	9.29	10.77
One Year Treasury Bill Rate	7.55	9.31

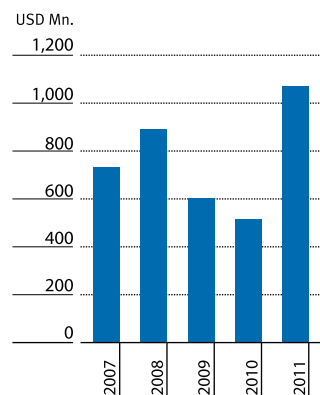
Credit to the private sector from the domestic banking units increased by 34.5% mainly due to the relatively low interest rate regime prevailed in the country during the year.

Investments

Investment growth in 2011 was directed primarily towards the construction of non-residential buildings and transport equipment, a typical pattern for a country in the process of rebuilding. It is expected that these increased investments will be attributable primarily to foreign sources, as domestic savings were projected to record a marginal decline.

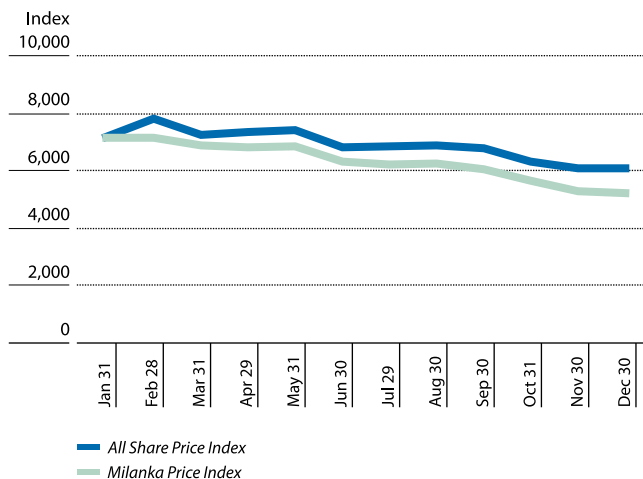
THE MACROECONOMIC ENVIRONMENT

Foreign Direct Investment



(Source: BOI)

Share Price Indices - 2011



Foreign capital inflows were strengthened with a sovereign bond issue of USD 1.0 Bn. in July 2011 and Foreign Direct Investment (FDI) inflows of over USD 1.0 Bn.

Despite the end of the war, Foreign Direct Investment (FDI) inflows have not shown significant improvement. To induce higher levels of investment, Sri Lanka needs to develop physical and technological infrastructure, enhance human capital and improve labour market conditions as well as administrative capabilities.

Stock Market

Stock market activity was somewhat subdued in 2011, compared to the unprecedented growth rates of 2010. The indices recorded increases throughout the first part of the year and declined thereafter. A total of 13 initial public offers attracted Rs. 19.0 Bn. from the market; in addition, 22 rights issues with a value of Rs. 26.0 Bn. were recorded during the year.

International Trade

Trade remained strong in 2011, with both import and export markets showing substantial growth. Export earnings increased significantly despite slower growth in traditional markets. There was also greater diversification in terms of markets served and products on offer. The rise in import was attributable to an increase in investment goods (for infrastructure development projects) as well as intermediate goods. Real income gains also led to higher imports of vehicles and non-essential goods.

Other notable developments

According to the Department of Registrar of Companies, 5,993 new companies registered in the first nine months of 2011. This represents an increase of over 40% in comparison to the corresponding period in 2010.

Tourist arrivals recorded 855,975 in 2011. This represents 30.8% increase over the previous year's

total. Tourism earnings for the year increased by 44.2%.

Worker remittances increased to USD 5.1 Bn. in 2011, an increase of 25% over the previous year. Remittances from abroad continued to be the leading foreign exchange earner, amounting to 8.7% of GDP - up from 8.3% in 2010. These gains were a major factor in containing the expanded trade deficit.

The Sri Lankan Government continued its fiscal consolidation efforts while maintaining public investment at high levels. The overall fiscal deficit was estimated at around 7% of GDP, down from 8% in 2010. As a result, the debt-to-GDP ratio fell to an estimated 78% in 2011. Fitch, Standard & Poor's and Moody's all gave Sri Lanka an improved sovereign rating during the year. The country's global ranking in many areas also improved, helping to consolidate its status as a "Middle Income Emerging Market".

BANKING INDUSTRY

Sri Lanka's evolution from a low-income to a middle-income country has pushed up real income levels, driving continued growth in consumer demand for services. The services sector grew by an estimated 8.6% in 2011, contributing approximately to 58% of annual GDP. Within the sector, the banking, insurance and real estate industries constitute approximately 9% of GDP; combined, the three grew by an estimated 8% over the past year. This growth is largely attributable to improved macroeconomic conditions, as well as the increased demand for financial services prompted by low interest rates.

Infrastructure

Twenty-four commercial banks now operate in Sri Lanka: two Government Banks, which account for the largest market share, along with 10 private sector banks and 12 foreign banks. Private sector banks control 40-45% of banking assets, while the 12 foreign banks possess about 10-15% of assets. There are also 76 financial service organisations operating in Sri Lanka; comprised of licensed specialised banks, licensed finance companies, specialised leasing companies and primary dealers.

Three new banking licenses were issued in 2011 - one to Amana Bank, which specialises in Islamic banking; another to Axis Bank Ltd. of India; and a third, provisional license to a private sector group.

Several banking outlets have opened in the Northern and Eastern Provinces since the conclusion of the war in 2009. As a result, more people in those areas now enter formal banking streams and enjoy improved

access to financial services. Banking outlets continue to be largely concentrated in the Western Province, although the area's dominance is gradually receding.

Banking Industry Performance

Excess liquidity in the money market gradually declined in 2011. By year end, the total figure was under Rs. 10.0 Bn., down from Rs. 124.0 Bn. at the end of 2010.

The Central Bank increased the Statutory Reserve Ratio to 8% in April 2011 from 7% to absorb excess liquidity from the market. The Central Bank also commenced overnight reverse repurchase auctions later in the year to ease the pressure on tight liquidity and to contain pressure on interest rates. In an atmosphere of stiff industry competition, banks were able to maintain interest margins at satisfactory levels, although there was some tightening during the year.

The dwindling liquidity position in the banking system in 2011 is shown in the section on 'Managing Risk At Commercial Bank' on pages 183 - 203.

Deposits and Advances

Lower interest rates across the industry led to a reduction in bank liquidity, especially in the second half of the year. Banking sector loans and advances increased significantly in 2011, in contrast to lower growth rates in deposits - a decrease also attributable to lower interest rates. The reduction in bank liquidity heightened pressure on interest rates, but the banking industry nevertheless recorded a growth in deposits of approximately 20% over the year.

The banking industry's total assets exceeded the Rs. 4.0 Tn. mark by November 2011, achieving an estimated growth rate of approximately 20% for the year. Banks recorded satisfactory capital adequacy ratios, well above the minimum level of 10%. Growth in the core capital was the largest contributor to capital base growth, while improved macroeconomic conditions helped to reduce the ratio of non-performing loans.

New Acts and Legislation during the Year

Sri Lanka's banking system was strengthened in 2011 by the issuance of a Customer Charter to safeguard consumers of licensed banking services. The Central Bank encouraged licensed banks to commence Islamic banking operations. Chinese renminbi was specified as a designated currency for foreign exchange transactions.

The Central Bank issued guidelines for an Integrated Risk Management (IRM) framework that documents risks faced by a bank, along with the management information and reporting mechanisms required to identify, mitigate and monitor such risks.

In conclusion, improved macroeconomic conditions have strengthened the overall soundness of Sri Lanka's banking system, especially since the end of the war in 2009.

FINANCIAL REVIEW

THE BANK IN 2011

With the aim of realising the vision, the Bank leveraged its business strategy during the year in such a way to consolidate its market position further while ensuring the sustainability of growth. At the beginning of the year, the Bank set very ambitious growth targets and achieved them through organic growth during the year. The Bank gained the competitive advantage through its financial strength as well as being the largest private sector Bank. Thus, Commercial Bank through its 92-year rich history has created a strong brand recall in the minds of Sri Lankan customers.

The Bank's IT system and the IT structure act as a catalyst in devising its business strategy. In that process, the Bank adopted several IT-based initiatives to improve the customer service during the year. Upgrading of its core banking system (ICBS) to Version 9.0 is the most noteworthy IT development carried out during the year. In addition, the Bank rolled out the Oracle E Business Suite with its implementation for payments during the year. The Bank has tested and completed all preliminary work and intends to move into a comprehensive loan origination system from the beginning of 2012.

On the other hand, the Bank took several steps to improve the level of customer service during the year. The Bank conducted a customer satisfaction survey and several existing services were re-designed to improve the customer services delivery process and to ensure that customer defined service standards are met.

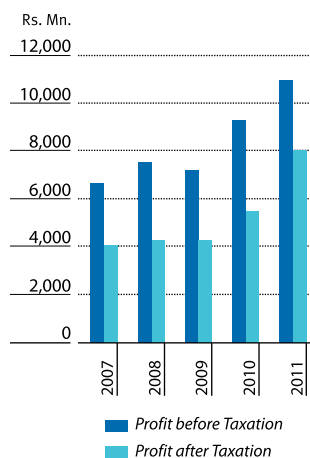
BANK PERFORMANCE

Profitability

Amidst favourable macroeconomic environment, the Bank continued to focus on improving its performance during 2011. Overall business volumes recorded satisfactory growth while the Bank's delivery points were further expanded during 2011. In terms of supporting the Bank's strategy, we have enhanced our capital and maintained the liquidity position at healthy levels despite liquidity constraints in the market. Further, the Bank has remained focused on integrating risk management function to be more resilient and strong not only within the industry but also in the context of unstable market conditions overseas.

As anticipated, the Bank faced increased competition in 2011 but delivered substantially improved results in almost all segments in which the Bank operates. The pre-tax profit of the Bank increased to Rs. 10.99 Bn. in 2011 from Rs. 9.32 Bn. in 2010, a growth of 17.92% or Rs. 1.67 Bn. The main contributor to this pre-tax growth is net interest income, the principal source of income on fund based operations which reached Rs. 18.00 Bn. in 2011 from Rs. 16.42 Bn. in 2010 registering a growth of Rs. 1.58 Bn. or 9.66%. This growth was achieved amidst shrinking of interest margins in the industry. The improvement in pre-tax profit is also supported by the reduction of the Financial VAT rate to 12% in 2011 from 20% in 2010 as per the Government Budget 2011.

Profit Before Taxation and After Taxation



As you would see from our financial results, the Bank has demonstrated a sustained and consistent track record of delivering record performance in each year.

Over the last 5-years, the Bank achieved a Compound Annual Growth Rate (CAGR) of 21.13% and 31.94% in pre and post tax profits respectively.

Income from Fund-based Operations

The interest income of the Bank increased by Rs. 2.90 Bn. or 8.35% from Rs. 34.74 Bn. in 2010 to Rs. 37.64 Bn. in 2011. Increased interest income from Fixed Loans, Housing Loans, Overdrafts, Leasing, Margin Trading & Loans against Gold were the main contributory factors for this growth in interest income. The Bank experienced a lower credit growth during the first half of the year, accelerated the growth from the beginning of the 2nd half of the year.

The interest expenses for the year were Rs. 19.64 Bn. and reflected an increase of Rs. 1.31 Bn. or 7.17% as against 2010. This increase was

mainly due to increased interest payments on Savings Deposits, Money Market Accounts and NRFC Accounts as a result of the substantial volume growths recorded in 2011.

The Bank's interest margin experienced a drop in 2011 in view of the intensified competition and in the midst of the low interest rate scenario of the country especially during the early part of the year. Consequently, the Bank's interest margin reached 4.44% after recording 30 bps decline from interest margin of 4.74% in 2010.

Income from Fee-Based Operations

The Bank earned foreign exchange income of Rs. 2.32 Bn., a 33.35% improvement over the Rs. 1.74 Bn. total in 2010. The main growth factors were higher volume of forward/spot exchange transactions and the higher margins achieved during the year. The Sri Lankan rupee depreciated 2.52% against the US dollar, in contrast to the 2.79% appreciation recorded in 2010. This was mainly due to the 3.0% devaluation of the rupee against the US Dollar put forward in the Government Budget proposals in November 2011. This move had a favourable impact on the year-end revaluation of retained profit of the Off-Shore Banking Centre.

The Bank's other income, comprised mainly of fees and commissions, increased by Rs. 481.89 Mn. or 9.56% over the 2010 total. The main contributory factors to this improvement were gains in the Bank's card-based business, as well as higher income from investments, Letters of Credit and Letters of Guarantee.

The Bank's total operating income reached Rs. 25.84 Bn. in 2011, an increase of Rs. 2.65 Bn. or 11.41% over the total of Rs. 23.19 Bn. achieved in the previous year.

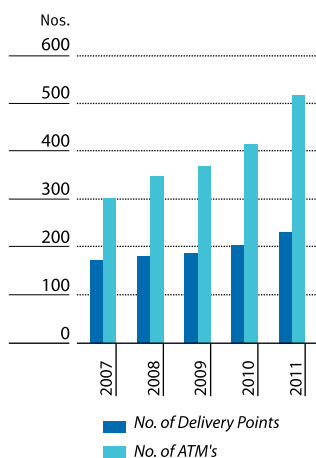
FINANCIAL REVIEW

Operating Expenses

Operating expenses, comprised mainly of staff costs, maintenance of premises & equipment, establishment expenses and the Financial VAT on profit, excluding loan losses and provisions, totalled to Rs. 13.35 Bn., an increase of 5.25% over the 2010 total of Rs. 12.68 Bn. The increase in operating expenses excluding financial VAT on profit amounted to Rs. 1.85 Bn. or 18.57% over the previous year. This increase is partially attributable to costs incurred on the deposit insurance scheme introduced by the Central Bank of Sri Lanka during the third quarter of 2010, the full impact of which was felt in 2011.

Personnel costs rose approximately 9% for the year. The Bank recorded a substantial increase in other overhead charges mainly due to the aggressive expansion of the Bank's delivery channels, which saw 26 new customer service points opened and 100 new ATMs installed during the year. However, the Bank recorded a drop of 7.19% on other overhead expenses mainly due to the reduction of rate on financial VAT on profit during the year. The Bank continued its disciplined approach to expense management while diligently evaluating costs versus benefits.

Number of Delivery Points and Number of ATM's



Loan Loss Provision

Guided by a Central Bank Direction, the general provision for performing and overdue loans and advances was reduced from 0.9% at the end of 2010 to 0.5% at the end of 2011. This reduction was mainly due to improved macroeconomic conditions in the country. As a result, the Bank recorded a Rs. 499.55 Mn. reversal of its general provision, compared to the Rs. 157.031 Mn. provision made in 2010. The Bank recorded a Rs. 950.23 Mn. increase in its specific provisions mainly due to additional specific provisions made on a prudential basis during the year. Discounting the impact of additional provisions made on prudential basis, the requirements of specific provisions would have been marginally lower than the last year. This decrease reflected the impact of a lower interest rate regime and the improved macroeconomic environment as well as the success of pre and post-credit mechanism in the Bank.

The Bank recorded a Rs. 854.53 Mn. reduction in corporate tax, mainly as a result of the lowering of the corporate tax rate from 35% in 2010 to 28% in 2011 and reversal of over provision of Income Tax relating to previous years. As a result, after tax profit amounted to Rs. 8.05 Bn., a substantial gain of Rs. 2.52 Bn. or 45.71% over the Rs. 5.52 Bn. figure recorded in 2010.

The Bank was able to significantly improve its effective tax rate following the reduction in corporate tax and the financial VAT on profit as announced in the Government's 2011 Budget. These measures addressed a long-standing need to reduce the relatively high taxes imposed on the Banking industry, which limited banks' ability to reinvest profits and ensure future expansion of their asset base.

Return on Assets & Return on Equity Ratios

Return on Assets increased to 1.98% as compared to 1.60% in 2010. This improvement was mainly due to the combined effect of the Bank's improved performance and the decrease of the financial VAT and corporate tax rates. Return on equity improved to 20.76%, up from 17.87% in 2010, despite the increase of Rs. 4.86 Bn. in shareholders' funds consequent to the rights issue of shares in 2011.

The Bank's earnings per share rose by Rs. 2.82 to Rs. 10.04 in 2011.

Business Volumes

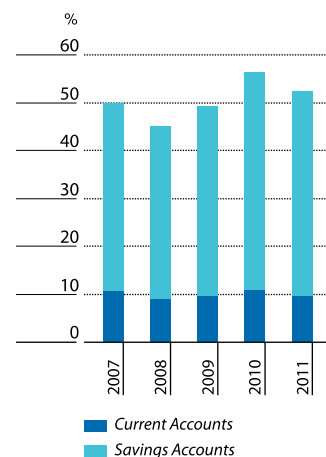
The Bank's deposit volume increased by Rs. 58.68 Bn. or 22.59%, reaching Rs. 318.46 Bn. as of December 31, 2011. Fixed deposits recorded a higher growth compared to savings deposits - largely because of an increase in interest rates during the latter part of the year. Nevertheless, the Bank recorded a current accounts and savings accounts (CASA) ratio of 52.41% as of December 31, 2011 compared to 56.32% recorded at the end of 2010. It is pertinent to mention that the Bank maintains one of the best CASA ratios in the Sri Lankan banking industry, according to figures published up to September 30, 2011. The Bank's presence in every corner of the country, coupled with its status as a national bank, acts as a catalyst for garnering new deposits. New customer service outlets opened, also accelerated the deposits mobilisation efforts of the Bank during the year.

The steady growth in deposits stands in contrast to the sluggish credit growth recorded during the first half of the year. The resulting excess liquidity was invested in gilt-edged securities with relatively low yields. This trend was reversed when the Bank experienced an accelerated growth in loans and advances in the second half of the year. An increasingly widespread

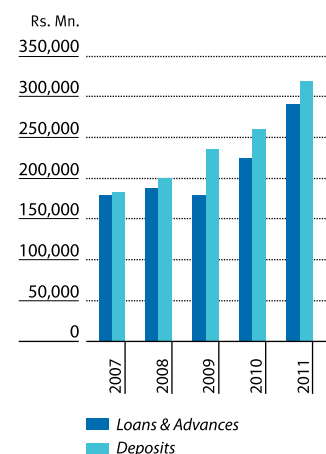
network of branches helped boost substantial growth in the retail-lending portfolio. At the same time, the Bank remained committed to strengthening long-standing relationships with its corporate clientele.

Net loans and advances reached Rs. 276.39 Bn. by end 2011, a phenomenal growth of Rs. 59.36 Bn. or 27.35% over the previous year's total. The CAGR in net loans and advances over the past 10 years is 21%. The past year's results were driven mainly by growth in fixed loans, overdrafts, leasing and loans against gold, especially during the latter part of the year.

Current Accounts and Savings Accounts (CASA) as a percentage of Total Deposits

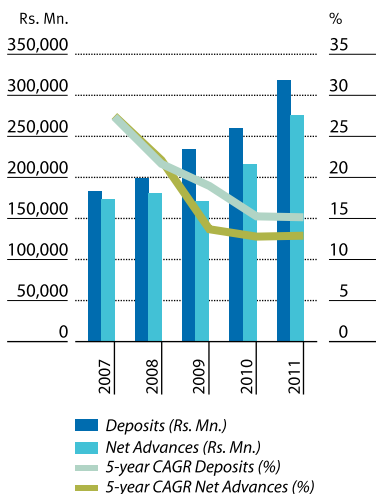


Business Volumes



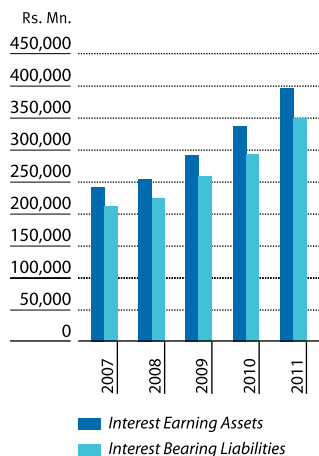
FINANCIAL REVIEW

Net Advances/Deposits/CAGR



The Bank's total assets stood at Rs. 441.10 Bn. as of December 31, 2011, an increase of Rs. 71.04 Bn. or 19.20% over the previous year's total. Interest-earning assets represented 89.73% of total assets as of December 31, 2011 compared to 91.16% at the end of 2010.

Interest Earning Assets & Interest Bearing Liabilities



Although liquidity in the banking industry was under pressure towards the end of the year, the Bank's liquidity position - both in the Domestic Banking Unit and the more tightly-regulated Off-Shore Banking Unit - remained at satisfactory levels. Nevertheless, the Bank's liquid assets ratio dropped to 26.35% by year-end, compared to the 29.74% ratio recorded in 2010 - a decrease largely attributable to the growth in loans and advances. To help improve its liquid assets ratio, the Bank negotiated for a US dollar 65.0 Mn. facility from the IFC, which will be used to expand lending to Small and Medium Enterprises (SMEs) during 2012.

Credit Quality Ratios

The Bank's gross non-performing ratio improved to 3.43% in 2011, from 4.22% in the previous year. This decrease can be linked to improved macroeconomic conditions, rigorous recovery efforts and the Bank's substantial credit growth over the year. Provision cover and open credit exposure ratios of 39.53% and 14.26% respectively recorded substantial improvements of 5.48% and 4.35% compared to the previous year. Additional provisions made on prudential basis also helped to improve these ratios.

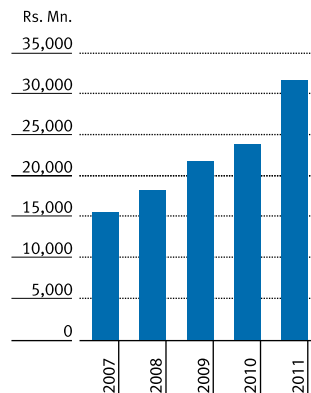
Equity

A dividend of Rs. 2.00 per share satisfied in the form of issue and allotment of shares was declared for 2010, which resulted in a capital infusion of Rs. 681 Mn. in April 2011. The Bank increased its stated capital by Rs. 4.86 Bn. in the third quarter through a rights issue of one new share for every existing 14 shares. Subsequent to this, the Bank

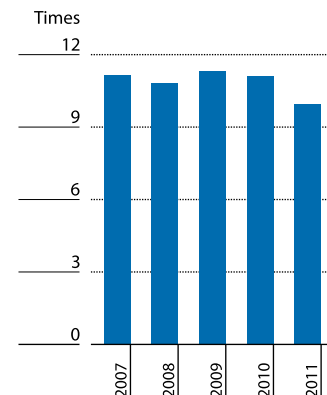
announced a 1:1 share split, doubling the total number of shares, a measure that created additional market liquidity for the Bank's shares. As a consequence of these developments, stated capital grew by 52.38% to Rs. 16.47 Bn., up from Rs. 10.81 Bn. in 2010. Total shareholders' funds also increased due to retained earnings. This included a reserve of Rs. 1.19 Bn. resulting from the funds transferred to the Investment Fund Account, being the taxes saved as proposed in the Government's 2011 Budget. According to the budget guidelines, banks are required to transfer 8% of savings resulting from the Financial VAT rate reduction and 5% of savings from the corporate tax reduction to an Investment Fund Account, the funds of which can be utilised for activities specified by the Central Bank.

Due to the prudent policies adopted over the time, the Bank was able to build up shareholders' funds and free capital derived thereon which stood at Rs. 44.26 Bn. and Rs. 31.61 Bn. respectively, as at December 31, 2011. These are considered to be the highest among local private Banks.

Free capital



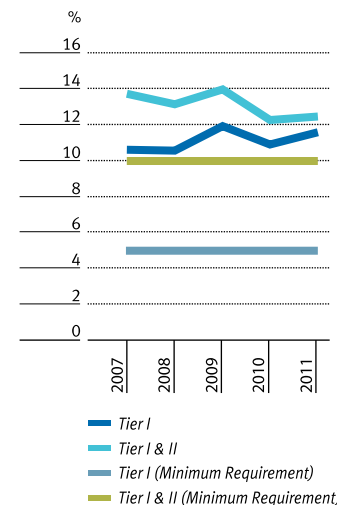
Total Assets to Shareholders' Funds



Capital Adequacy Ratios

The Bank's capital adequacy ratios improved in 2011, remaining at healthy levels throughout the year despite significant credit growth resulting from deliberate and sensible capital structure decisions. The Bank's Tier I ratio improved to 12.11%, up from 10.87% in 2010, while the combined Tier I & II (total capital) ratio grew to 13.01%, up from 12.27% in 2010. The Bank continuously monitors and explores potential avenues for enhancing the capital base; with Tier I capital representing

Capital Adequacy Ratio



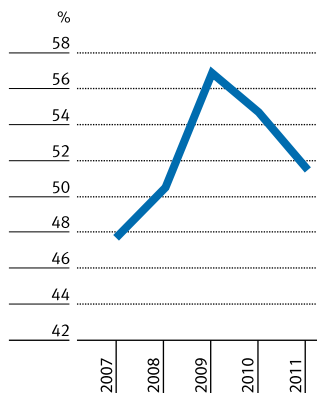
FINANCIAL REVIEW

93% of the total base. There are opportunities to increase Tier II capital. At the year end, the Bank was in the process of raising Rs. 1.0 Bn. through a debenture issue in early 2012.

Cost/Income Ratio

Commercial Bank's cost-to-income ratio, recognised as one of the best among Sri Lanka's private banks, improved to 51.66%, down from 54.69% in 2010. This improvement was also supported by the reduced financial VAT rate on profit. Excluding the financial VAT on profit, cost-to-income ratio increased marginally to 45.77%, up from 43.01% from the previous year's ratio.

Cost/Income Ratio



Over the past years, productivity ratios improved as the result of several factors including higher pre-tax profits, the rationalisation of staff deployment, new automation initiatives and the centralisation of business processes. Pre-tax profit per staff member improved to Rs. 2.48 Mn., up from Rs. 2.22 Mn. in 2010, a gain of Rs. 0.26 Mn.

Comprehensive efforts toward deposit mobilisation, combined with improved efficiencies in staff deployment, increased the deposit-per-staff member to Rs. 72.01 Mn., up from the previous year's figure of Rs. 61.91 Mn. In keeping with these increases, advances per staff member grew to Rs. 62.50 Mn., compared to Rs. 51.73 Mn. in 2010.

GROUP PERFORMANCE

Two of the Bank's subsidiaries recorded satisfactory improvement in consolidated performance in 2011. Commercial Development Company PLC (CDC) and One Zero Company Ltd. recorded pre-tax profit growths of Rs. 297.99 Mn. and Rs. 13.90 Mn. respectively, while Commex Italy experienced a loss of Rs. 34.39 Mn., as its operations are yet to commence.

The Group's pre-tax profit was Rs. 11.07 Bn., an increase of Rs. 1.77 Bn. or 19.01%, over the Rs. 9.30 Bn. total recorded in 2010. The Group's post-tax profit was Rs. 8.10 Bn., up from Rs. 5.51 Bn., a gain of Rs. 2.59 Bn. or 46.92%.

Dividend

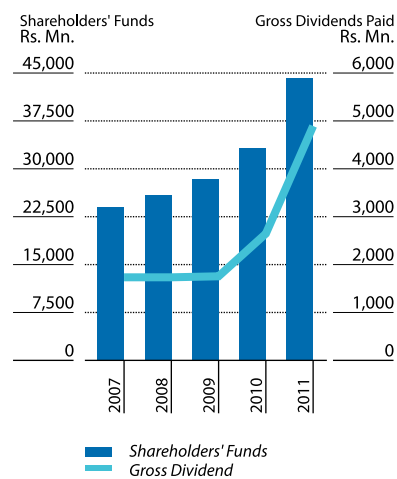
The Bank's dividend policy, designed to maximise shareholders' wealth, has an impact on cash dividend distribution. In framing its distribution strategy, the Bank considers factors such as profits, profitability, stability of earnings, rate of growth and opportunities for investment. Gearing level and regulatory requirements are also considered. In support of this approach, the Bank distributed two interim dividends (for both voting

and non-voting shares) in November and December 2011, amounting to Rs. 1.50 per share and Rs. 1.00 per share respectively. The Directors have recommended a final dividend of Rs. 3.50 per share for year 2011, which consists of a cash dividend of Rs. 1.50 per share and the balance entitlement of Rs. 2.00 per share satisfied in the form of issue and allotment of new shares, subject to the approval of the shareholders at the forthcoming Annual General Meeting. The dividend payout ratio in the form of cash dividend amounted to 40.63% in 2011 from 34.20% in 2010. The total dividend including the dividend satisfied in the form of issue and allotment of new shares will result in a payout ratio of 60.94%, compared to 47.91% in 2010. The Bank remains mindful of the dividend structure's impact on capital and future growth rates, and therefore manages the entire process with great care.

Market Capitalisation

Commercial Bank's market capitalisation reached Rs. 76.50 Bn. in 2011, compared to Rs. 91.82 Bn. the previous year. This represented the largest capitalisation of all banks and financial institutions on the Colombo Stock Exchange as of December 31, 2011. The Bank ranked number 6th in this category among all listed companies, compared to a fourth-place ranking in 2010. After the rights issue and subdivision of shares implemented in 2011, the total number of voting and non-voting shares increased to 817,450,166 (as of December 31) compared to 377,486,582 shares for 2010 - more than a twofold increase. At year end the market price of a voting share and a non-voting share was Rs. 100.00 and Rs. 74.50, respectively. Accordingly, after the Colombo bourse's market correction, the price-to-book value of the Bank's voting share dropped to 1.85 times as of December 31, 2011 from 2.95 times recorded a year earlier.

Shareholders' Funds/ Gross Dividends Paid



FINANCIAL REVIEW

Summary of Quarterly Performance

Bank	3 Months ended March 31, 2011 Rs. Mn.	6 Months ended June 30, 2011 Rs. Mn.	9 Months ended September 30, 2011 Rs. Mn.	Year ended December 31, 2011 Rs. Mn.
Profit before Tax	2,959.8	5,749.6	8,716.9	10,987.3
Quarterly Profit before Tax	2,959.8	2,789.8	2,967.3	2,270.4
Profit after Tax	2,060.5	4,034.1	6,096.8	8,047.7
Quarterly Profit after Tax	2,060.5	1,973.6	2,062.7	1,950.9
Deposits	274,572.1	287,826.5	302,483.0	318,461.4
Quarterly Growth in Deposits	14,793.2	13,254.4	14,656.5	15,978.4
Net Advances	224,664.6	232,879.9	257,160.2	276,394.5
Quarterly Growth in Net Advances	7,626.1	8,215.3	24,280.3	19,234.5
ROA (before Tax) (%)	3.14	3.02	2.95	2.71
ROE (%)	24.66	23.37	21.31	20.76
Cost/Income (%)	51.38	51.50	51.56	51.66
Interest Margin (%)	4.59	4.64	4.53	4.44
NPA Ratio (Net) (%)	3.26	2.75	2.76	2.08
Capital Adequacy				
Tier I Capital (%)	10.31	11.63	12.02	12.11
Total Capital (%)	11.58	12.82	13.07	13.01
Liquid Assets Ratio				
DBU (%)	30.13	27.98	26.31	25.70
OBC (%)	27.49	27.51	29.97	27.77

QUARTERLY PERFORMANCE

As detailed earlier, the Bank recorded moderate growth in loans and advances in the first half of the year. This was largely attributable to the relatively high liquidity in most of the banks which carried over from 2010. As the table above illustrates, the liquid asset ratio of the DBU, which climbed as high as 30.13% on March 31, declined to 25.70% as of December 31. The 2.75% non-performing loans ratio recorded on June 30, 2011 was reduced to 2.08% by year-end, mainly due to the Bank's accelerated credit growth in the second half of the year. In spite of these challenges, deposits recorded steady growth throughout the year. Return on equity was 20.76% as of December 31, 2011, down from a high of 24.66% at the end of the first quarter. This was largely due to the rights issue of shares during the third quarter. As a consequence, the total

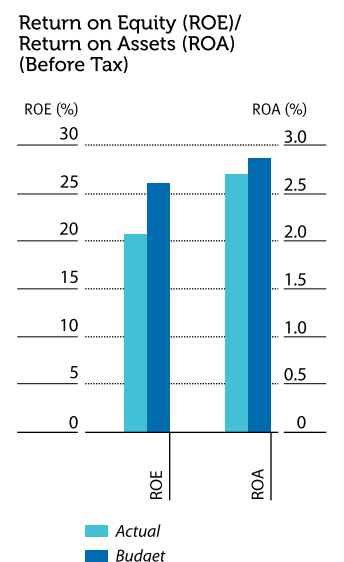
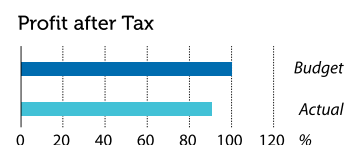
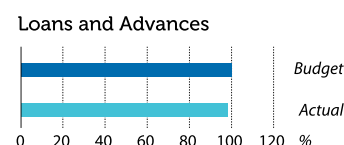
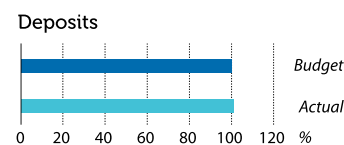
capital adequacy ratio had improved to 13.01% by year-end.

Summary of the Bank's Performance

BANK	2011		2010 Actual Rs. Mn.
	Actual Rs. Mn.	Budget Rs. Mn.	
Total Revenue	45,483.4	45,995.9	41,521.5
Profit before Tax	10,987.3	12,005.4	9,317.4
Profit after Tax	8,047.7	8,853.6	5,523.3
Deposits	318,461.4	318,825.3	259,778.9
Loans and Advances	283,343.6	287,548.8	224,020.2
ROA (before Tax) (%)	2.71	2.87	2.69
ROE (%)	20.76	25.99	17.87
Cost/Income (%)	51.66	51.11	54.69
NPA Ratio (Net) (%)	2.08	2.70	2.78
Capital Adequacy			
Tier I Capital (%)	12.11	10.01	10.87
Total capital (%)	13.01	11.10	12.27

The Bank achieved many of the ambitious targets set at the beginning of the year, despite additional specific provisions made on a prudential basis during the year.

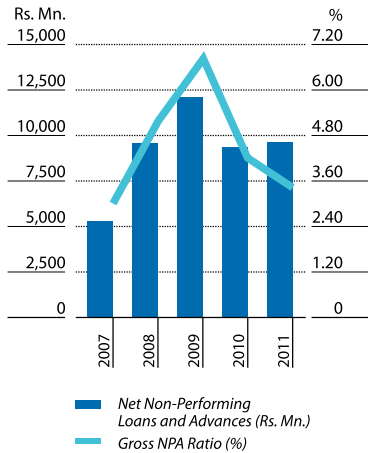
Percentage Achievement - 2011



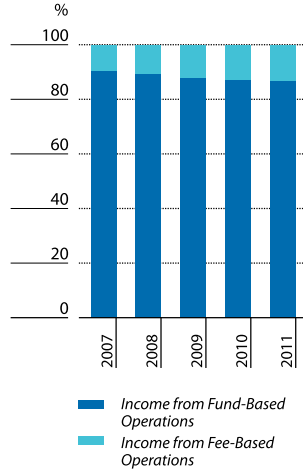
FINANCIAL REVIEW

GRAPHICAL REVIEW

Net Non-Performing Loans and Advances/Gross NPA Ratio



Income from Fund-Based/Fee-Based Operations

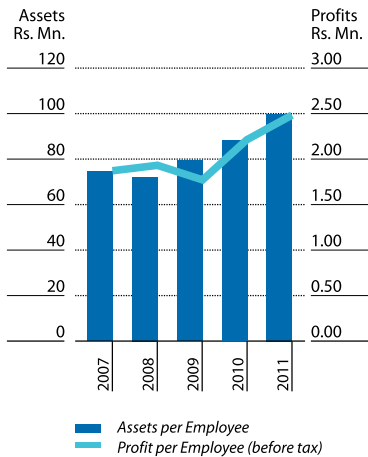


PERFORMANCE OF THE STRATEGIC BUSINESS UNITS OF THE BANK

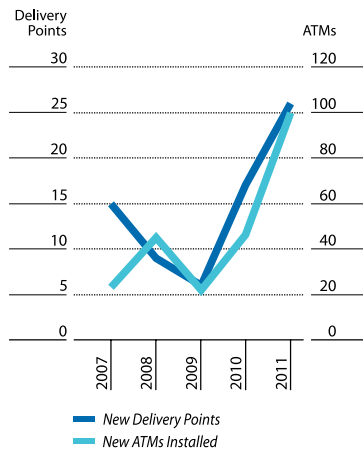
The Bank's income is derived from four main strategic business units: Personal Banking, Corporate Banking, Treasury and International Operations. The relative contributions of these business units in 2011 as compared to their performance in 2010 is tabulated below:

BANK	2011		2010	
	Rs. Mn.	%	Rs. Mn.	%
Profit before Tax				
Corporate Banking	3,435.3	31.27	2,618.9	28.11
Personal Banking	4,506.4	41.01	3,858.9	41.42
Treasury	1,636.0	14.89	1,344.2	14.43
International Operations	1,409.7	12.83	1,495.4	16.05
Total	10,987.4	100.00	9,317.4	100.00

Assets per Employee/ Profit per Employee



New Delivery Points/ATMs Installed



Loans & Advances

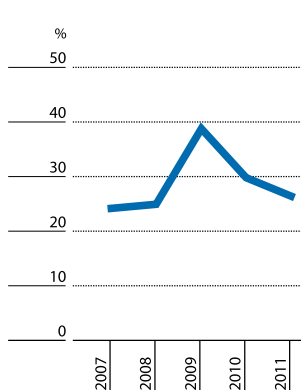
Corporate Banking	91,976.5	32.46	80,144.5	35.78
Personal Banking	168,763.3	59.56	118,874.6	53.06
International Operations	22,603.8	7.98	25,001.0	11.16
Total	283,343.6	100.00	224,020.1	100.00

Deposits

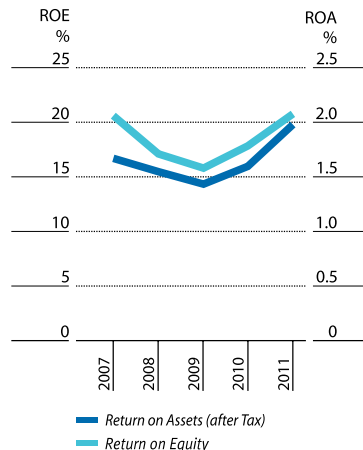
Corporate Banking	39,607.5	12.44	30,366.0	11.69
Personal Banking	253,179.3	79.50	204,958.8	78.90
International Operations	25,674.7	8.06	24,454.0	9.41
Total	318,461.5	100.00	259,778.8	100.00

A detailed discussion on each of the Strategic Business Units is given from pages 27 to 42.

Liquid Assets Ratio - Bank



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



PERFORMANCE BY DIVISION

PERSONAL BANKING

The Bank's Personal Banking Division is responsible for the successful operation of the island-wide network of delivery points and meets the needs of individual customers as well as Small and Medium Enterprises (SMEs) throughout Sri Lanka. The Bank aggressively continued its expansion of delivery points and added 26 new delivery points, the highest number of delivery points opened in a single year, with special emphasis on the Northern and Eastern Provinces where 05 new delivery points were opened. Thus the number of delivery points in Sri Lanka stood at 213 at the end of the year. The island-wide delivery points of Commercial Bank is illustrated on page 61 under the 'Sustainability Report'.

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.

Similarly, the Bank commissioned 100 new ATMs in 2011, the highest number of ATMs installed in a single year and with this, the ATM network of the Bank branded as 'CAT' reached the landmark number of 500 at the end of the year. Commercial Bank's ATM network is the single largest ATM network operated by a bank in the country today.

The division also manages the performance of 365-day banking, holiday banking, Saturday banking and priority banking. The Bank opened 'Elite' branch in Colombo 7 to serve the high networth customers in addition to the present priority banking customers who enjoy certain privileges throughout the branch network. The Bank operates 57 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 are also included under the Personal Banking division.

CORE COMPETENCIES

- Wide portfolio of innovative products and services
- 365-day service to customers
- All-island branch network
- ComNet links branches and ATMs nationwide - the largest ATM network of any Sri Lankan bank
- Largest and most popular network of weekend and holiday banking centres
- Visa, MasterCard and travel card products
- Market leader in shopping debit cards
- State-of-the-art information technology

- Speedy decision-making
- Target-oriented work culture
- Low cost/income ratio
- Recognised as the best bank in the country

PRODUCTS AND SERVICES

- Current accounts
- Savings (passbook and statement) and fixed deposit accounts
- Credit cards
- Shopping debit cards
- Minors' accounts
- 'Teen Saver' accounts
- High-interest savings accounts
- Certificates of deposit
- Tiered savings accounts
- Paymaster
- Housing loans: fixed and floating rates, privilege, foreign currency
- Personal loans: fixed and floating rates and top-up facility
- Pawning and factoring
- Leasing
- Development loans
- Agricultural and microfinance
- Senior citizens' deposit accounts
- Foreign currency deposit accounts
- Utility bill payment via ATM, internet or mobile phone
- Mobile phone reload
- SMS banking
- Bancassurance
- Mobile phone banking
- Priority banking
- Elite Banking

PERFORMANCE BY DIVISION

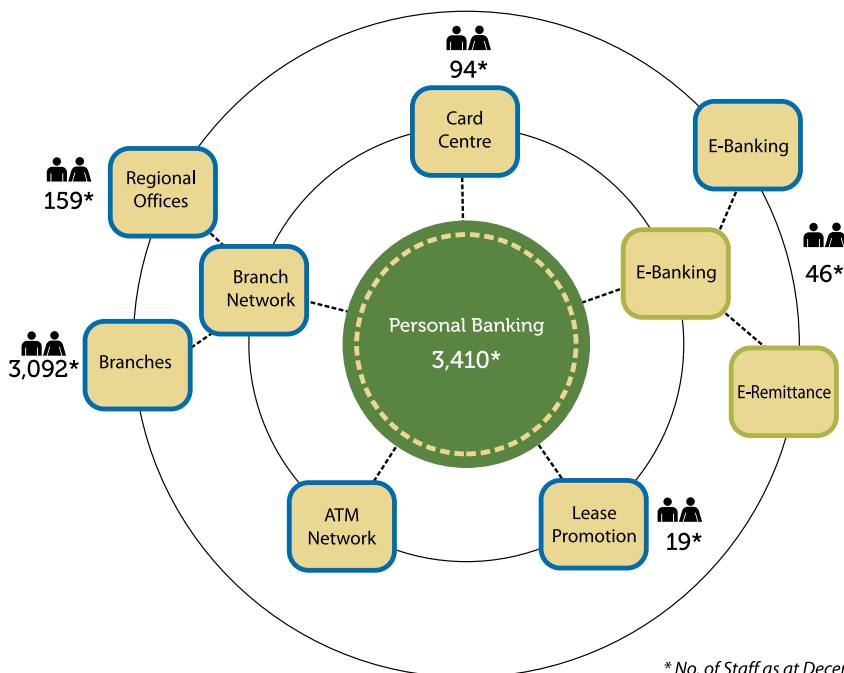
Personal Banking

	Actual 2011 Rs. Mn.	Budget 2011 Rs. Mn.	Actual 2010 Rs. Mn.	Achievement (Actual over Budget) (%)
Deposits as at December 31	253,179.3	253,280.1	204,958.8	100.0
Advances as at December 31 (Gross)	168,763.3	158,494.5	118,874.6	106.5
Profit before Tax	4,506.4	5,549.6	3,858.9	81.2
Cost Income Ratio (%)	51.4	50.2	57.5	
NPA Ratio (%) as at December 31	5.1	8.8	7.3	

Revenue Drivers

Personal Banking division in its endeavour to reach a desired level of performance is assisted by many sub-divisions of the Bank. These divisions which are administratively integrated to the Personal Banking Division with their staff strength as at December 31, 2011 are given below.

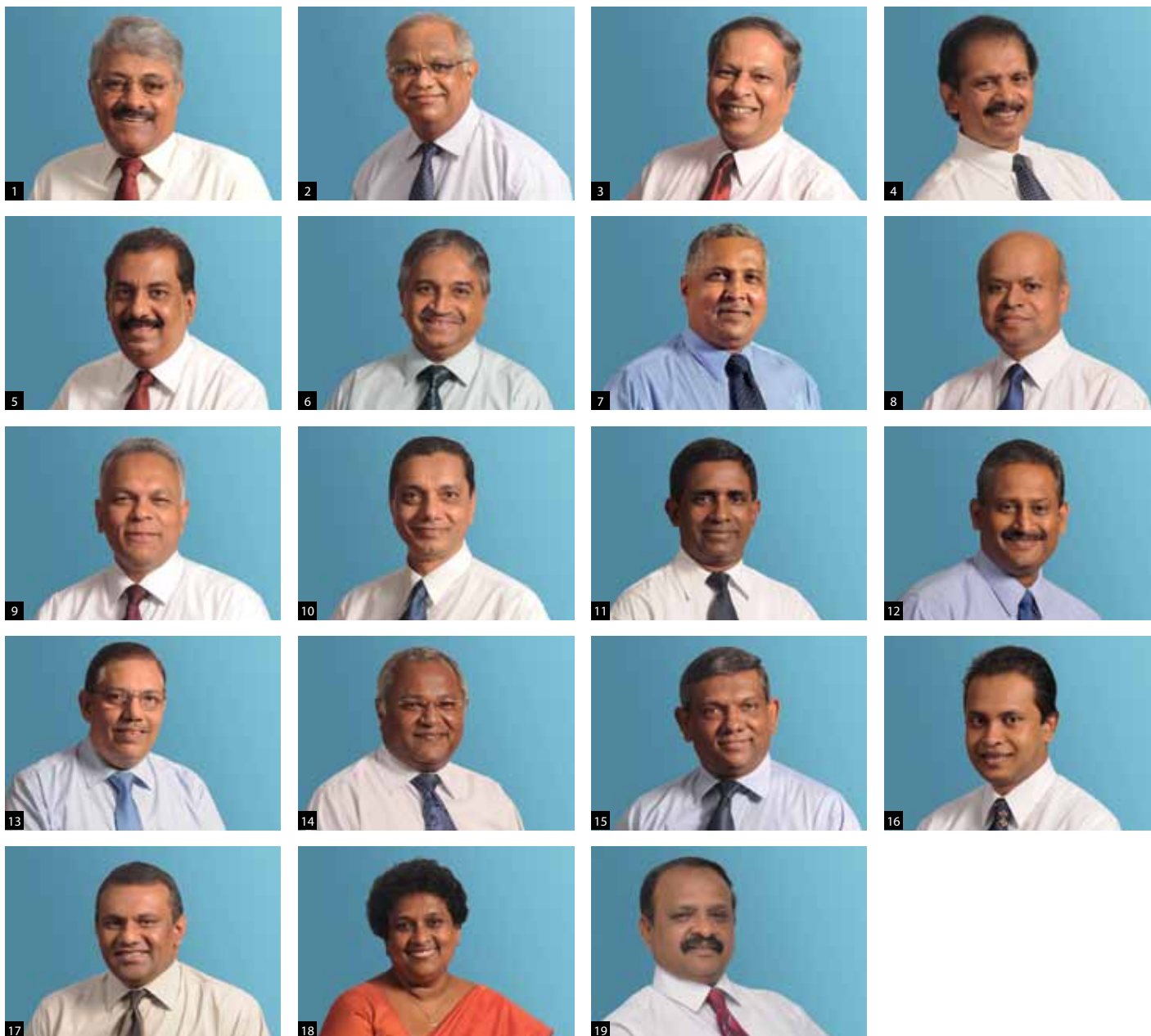
Personal Banking Division made an excellent contribution to the performance of the Bank during the year and achieved most of the targets set at the beginning of the year. Additional provisions made on prudential basis, a major portion of which comes under the Personal Banking, had a significant impact on the pre-tax profit of the division.



* No. of Staff as at December 31, 2011

PERFORMANCE BY DIVISION

Personal Banking



Senior Management Team - Personal Banking

- | | | | |
|--|--|--|---|
| 1. Nugent Kapuwatte
<i>Head of Lease Promotion/Personal Loans</i> | 6. Roshan Perera
<i>Senior Regional Manager - Greater Colombo</i> | 11. Priyantha De Silva
<i>Chief Manager - Branch Credit Monitoring</i> | 15. Delukshan Hettiarachchi
<i>Chief Manager - Development Credit</i> |
| 2. Risijaya Srikantha
<i>Senior Regional Manager - Colombo North</i> | 7. Ivan Fernando
<i>Regional Manager - Colombo Metro</i> | 12. Saman Kalansuriya
<i>Chief Manager - Leasing & Factoring</i> | 16. Thusitha Suraweera
<i>Chief Manager - Card Centre</i> |
| 3. Niran De Costa
<i>Senior Regional Manager - Colombo Inner</i> | 8. Leel Rodrigo
<i>Regional Manager - North Central Eastern</i> | 13. Siva Sivakumar
<i>Chief Manager - Business Promotion Unit</i> | 17. Athula Samarasinghe
<i>Regional Manager - Wayamba</i> |
| 4. Lakshman Perera
<i>Head of Card Centre</i> | 9. Ajith Naranpanawe
<i>Regional Manager - Central</i> | 14. Chirath Manukulasuriya
<i>Regional Manager - Southern</i> | 18. Mrs. Yasmin Weerasuriya
<i>Regional Manager - South Western</i> |
| 5. Selva Rajasooriyar
<i>Senior Regional Manager - Colombo South</i> | 10. Chanura Wijetilleke
<i>Regional Manager - Uva-Sabaragamuwa</i> | | 19. Sri Padmanathan Rajievan
<i>Regional Manager - Northern</i> |

PERFORMANCE BY DIVISION

Personal Banking

Mobilising Deposits

Favourable economic conditions enabled the Bank to pursue significant mobilisation of deposits in 2011. The Central Bank kept policy rates stable during most part of the year. Nevertheless, the confidence of loyal customers and the general public helped the Bank comfortably exceed growth targets, particularly with respect to the volume and product mix set for deposits. Consumers demonstrated that they valued reputation and stability over interest rates when choosing a bank. Commercial Bank's time, saving and demand deposits increased by 33.55%, 15.50% and 8.26% respectively. However, at certain large branches, deposit growth slowed in 2011.

Expansion of the branch network, including the opening of delivery points in the Northern and Eastern Provinces, greatly contributed to deposits growth, while the competitive rates offered during the latter part of the year helped the Bank retain existing deposits as well as garner new deposits.

The Bank's competitive position helped secure high liquidity and lower cost of funds in the first half of the year. This advantage eased the burden of implementing lending rate cuts, especially for commercial loans, personal loans, leasing, pawning and home loans, and allowed the Bank to record an overall growth in its loans business. However, the high volume of loans disbursed led to low liquidity levels in the fourth quarter - a situation the Bank addressed by, *inter alia*, increasing deposit rates which attracted substantial deposits. To supplement the deposit mobilisation efforts, the Bank was also able to

enter into an agreement to raise funds from an external source - notably through a loan from the IFC.

Future Outlook

Interest rates have slowly been increasing since the third quarter of 2011. In response, the Bank raised deposit rates twice in the closing months of 2011 - a trend likely to continue due to rising inflation and dwindling liquidity in the market.

Commercial Bank intends to introduce a few new deposit products in 2012, and to re-launch and repackage existing products for better market penetration. The Bank will also continue to capitalise on its brand image and record of financial stability while redefining service standards to further market penetration and pursuing aggressive marketing and business promotions. In line with the Strategic Plan, the Bank plans to maintain its position as the leading private commercial bank for deposits.

ATM Network

The strength of Commercial Bank's ATM network has long been a source of advantage in a highly competitive retail banking environment. The Bank continued to expand its electronic delivery channels especially through enhanced penetration of ATMs. With more than 500 machines at convenient locations across the country, which includes a total of 100 off-site ATMs. Uptime of ATM network continued to be high at over 99%.

The acceptance of other brand cards at Commercial Bank ATMs was further enhanced with the acceptance of 'Diners' and 'Discover' cards during the year.

The following chart summarises the continued growth of this vital part of the Bank's service infrastructure during 2011:

	2010	2011	Growth
Value of Cash dispensed during the year - Rs. Bn.	153	205	34%
Daily Average Value of Cash dispensed during the year - Rs. Mn.	419	561	34%
Number of Transactions during the Year in Millions	44	54	23%
Daily Average Number of Transactions during the Year in Thousands	121	149	23%

Future Outlook

The extensive ATM network plays a pivotal role in enhancing the Bank's visibility and improving its overall brand image as an institution that constantly invests in technology to meet customers' changing needs. This trend will continue with the deployment of additional ATM locations.

Pawning

Most of the domestic banks and even several non-banking financial institutions are engaged in the highly competitive pawning business. The Bank benefits from a two-way advantage on pawning advances, earning interest and zero risk weight in the capital adequacy computation.

The past year was engulfed by volatile gold prices, as the Euro Zone debt crisis sent spot gold prices to historic highs. When prices dropped later in the year, some players continued to offer unrealistic values for advances. Nevertheless the Bank adopted a conservative approach, monitoring advanced amounts against the market value of gold to mitigate risks.

The Bank's pawning portfolio grew to Rs. 11.70 Bn. in 2011, a fivefold increase over the previous year. Reduced rate of interest from

September to November helped the Bank to achieve a significant growth in the market share of pawning during the year. Ninety-nine pawning units were launched, and the service is now available at all branches. The Bank's NPA ratio for pawning is 0.38%, and the Bank has not conducted pawning auctions during last few years.

Future Outlook

The Bank intends to grow its pawning volumes and overall service in the coming year. New software with enhanced security features will be implemented during the first half of 2012 to help further speed-up customer transactions and improve security. The Bank is working to improve gold identification methods to meet a marked increase in fraudulent pawning practices. In addition, a few new products is in the pipeline and will be introduced during 2012.

Leasing

The Bank achieved an impressive growth in its leasing portfolio in 2011, extending an island-wide offering backed by strategic partnerships with reputable vendors. The speedy service offered by our branch network also helped in achieving this remarkable growth. A record 6,121 new leases totalling Rs. 15.4 Bn. were

PERFORMANCE BY DIVISION

Personal Banking

executed, driving the value of the portfolio to Rs. 20.8 Bn. - an increase of 85% over the previous year. The leasing business recorded a drop in NPAs in absolute terms to achieve an impressive infection ratio of 1.8% at the end of 2011.

Vehicle leases dominated the Bank's portfolio due to the high demand resulting from reduced import duties, a strong second-hand market and changing repossession practices.

Future Outlook

The Bank's focus on infrastructure development projects and the SME sector will help to boost demand for leasing in 2012. Moreover, the Government's decision to increase the tax depreciation rate to 33.33% from 12.50% should spark additional leasing of productive assets. Plans are in place to tie up many reputed dealers and appoint contract-based sales officers in 2012.

Personal Loans

The Bank placed greater emphasis on promoting personal loans to professionals, executives and other high-net-worth customers in 2011. The quick, hassle-free process of extending loans with a widely promoted 'Top-up Facility' proved very attractive to existing borrowers. In spite of increasing trend on interest rates towards the latter part of the year, the Bank's personal loans portfolio rose to Rs. 20.037 Bn. by the end of 2011, reflecting 24,468 new disbursements amounting to Rs. 11.7 Bn. and this was a 17.3% increase over 2010.

Future Outlook

The Bank's aim in 2012 is to offer 'Personal Loans from Commercial Bank' the highest top-of-mind recall in the market. In this respect, the Bank will pursue in identifying potential borrowers from the existing database of the Bank as well to promote the product among professionals in 2012. Plans are afoot to centralise the loan origination and approval process in 2012.

Domestic Factoring

The extension of domestic factoring - in which financing is backed by customers' outstanding receivables - to the Bank's branch customers was one of the most significant achievements in 2011 within the Personal Banking business. Total domestic factoring volumes hit an unprecedented Rs. 6.82 Bn. This represents an approximate 60% growth over 2010. Total factoring arrangements outstanding reached Rs. 819.5 Mn. by end December 2011, nearly 100% growth over 2010.

Future Outlook

Once directed exclusively at customers with cash flow difficulties, factoring is now viewed as a standard means of offering competitively priced finance to unpaid invoices. According to statistics gathered by Factors Chain International in 2010, global factoring turnover amounted to EUR 1,648,229 Mn. The Bank expects factoring and other asset-backed financing techniques to continue gaining momentum in all emerging markets, including Sri Lanka. Plans are in place to identify

potential customers in the branch network and to reduce the present minimum facility limit.

Home Loans

The Bank's housing loans portfolio is designed to meet diverse community needs as well as current socioeconomic realities: Thus, Bank will continue to focus its home financing initiatives on middle- and high-income households with special emphasis on low-income consumers.

Lower interest rates helped the housing loans portfolio record significant growth from the latter part of 2010 through to the third quarter of 2011 contrary to the growth experienced by the Bank from 2007 to early part of 2010 - although rising rates began slowing the growth momentum towards the end of the year. Other factors that contributed to overall growth in 2011 include the opening of a Home Loans business unit, a hotline, improved operational efficiencies and new programmes such as foreign currency home loans for Sri Lankans working abroad and privilege home loans.

The Bank introduced 'Fixed and Flexi' rate based housing loans which assist the borrowers to manage cash flows in the event of adverse movements of interest rates in the market.

Home Loans

As at December 31	2010	2011
Outstanding (Rs. Bn.)	15.84	20.47
Growth (%)	20.12	29.23

Future Outlook

Plans for the coming year include packaging home loans with an offset facility for high-net-worth individuals and offering current customers the option to switch (for a fee) from a floating rate to a fixed rate loan, or vice versa. The Bank will also work more closely with mortgage agents and high-end property developers to attract more home loans customers, and more online application forms will be introduced to help accelerate loan approvals.

Payment Cards

Commercial Bank is the only institution in Sri Lanka with the ability to issue locally personalised chip-based debit and credit cards. All card products issued by the Bank's state-of-the-art Card Centre are now chip-enabled. The island-wide branch network also represents a major advantage in marketing of cards.

The Bank aggressively marketed its debit card programme, boosting the popularity of this convenient payment mechanism. The turnover volumes of debit cards grew an impressive 60% over 2010 totals, resulting in substantial interchange income. Efforts to improve payment card acceptance outside the Western Province were augmented with local seasonal promotions in the Eastern Province.

PERFORMANCE BY DIVISION

Personal Banking

A buoyant economy and the drop in credit card interest rates to 24% greatly increased the demand for credit cards and the advances grew by 27% during the year 2011.

Future Outlook

The Bank will enhance transaction volumes by enabling debit cards for e-Commerce. Plans for the year ahead also include launching a credit card catering to the premier market segment. Plans are afoot to further expand credit card and acquiring market to consolidate its leadership in the debit card spend market.

E-Banking

In 2011, the online banking customer base grew by 27% over the previous year, with total income growing by 23%. Many new services and features were introduced, such as instant fund transfers to registered third party beneficiaries, 24/7 via online banking new menu driven, trilingual mobile banking platform that enables clients to use their mobiles to obtain account balances, make credit card inquiries, obtain statements, pay utility bills and transfer funds and to settle postpaid phone bills or top up their prepaid mobile phones.

Future Outlook

Future plans for e Banking include developing Decision Support and Management Information Systems, introducing a new iBanking solution with self-registration and multi level authorisation capabilities, launching a new mobile version of Internet banking, mobile to mobile fund transfers and eWallets and mWallets and linking ComBank Online with our Payment Gateway.

Paymaster

ComBank Paymaster is an online total payment solution that allows large corporate clients to execute their day-to-day-payments in cash, drafts or to bank accounts conveniently. This product performed well in 2011, growing its customer base by 15% over the previous year's total and achieving 19% income growth. In December, Commercial Bank became the first Sri Lankan bank to support clients with online EPF payments of their employees. These payments can be effected via Paymaster service year round, irrespective of their locations, even when payment counters at EPF and ETF departments are closed.

The following table summarises the performance of the e-Banking division for the year under review:

Product	Growth in Customer Base %	Growth in Income %
ComBank Online	27	23
SMS/MBanking	30	30
ComBank Paymaster	15	19

Future outlook

With a view to improve services offered, the Bank intends to enhance the product with a bulk cheque printing module enabling handling of dividends, bank account payments in foreign currency and payments to statutory institutions such as Customs and Inland Revenue Department. A payment processing module too will be incorporated to the Paymaster. These will develop Paymaster to the level of a total cash management solution.

Development Credit Department

Like many other Sri Lankan financial institutions, Commercial Bank draws on foreign and domestic development funds to offer credit at concessionary rates to small and medium enterprises (SMEs), agricultural businesses and microenterprises. Traditionally, NPA ratios are low in this line of business.

Agriculture and Microfinance Loans

The Bank offers 13 credit line products in this area, 04 of them self-funded. As with SME finance, many of these schemes (with the exception of the Bank's own Microfinance and agriculture loan schemes) are either refinanced or interest subsidised by the Central Bank or other sources and carry various eligibility limitations.

The portfolios experienced significant growth in 2011 (see chart on page 33) which was partly contributed by making loans available to farming communities and micro-scale entrepreneurs in the Northern and Eastern Provinces as they restart cultivation and business activities. The Bank also promoted credit lines by financing established companies that serve the agriculture and microfinance sectors.

Future Outlook

To help meet growth targets for these portfolios, the Bank has opened six Agriculture and Microfinance units and plans to open a further seven in the near future. Plans are in place to set up low cost small microfinance units, tie-up with microfinance agencies and explore the possibility of wholesale lending to reputed microfinance institutions during 2012.

Industrial Loans

Currently, the Bank draws on 05 sources of funding as well as its own capital resources to offer 06 lines of industrial-development credit.

Lower market rates and accelerated development activities across Sri Lanka increased overall credit demand in 2011 - especially in the Northern and Eastern Provinces, which offer many post-war investment opportunities.

The Bank's own *Diribala* credit line targets SMEs requiring longer repayment periods, as well as those ineligible for funding under other refinance schemes. Performance was satisfactory in 2011: a substantial sum of new advances was disbursed, and the interest rate was revised several times to meet customers' needs.

Under the Small & Medium Enterprise Development Facility (SMEDeF) scheme, a limited amount of refinance funds were pre-allocated to selected Participating Credit Institutions (PCI). In order to accommodate facilities that did not receive financing, a Bank-funded SMI scheme was introduced at a concessionary interest rate. In total, 183 facilities amounting to Rs. 2.0 Bn. were considered during the year.

Financing made available to SMEs in the Northern and Eastern Provinces under the KfW Line of Credit enabled the Bank to serve existing and new customers at concessionary terms. New facilities amounting to Rs. 447 Mn. were considered for SMEs under the KfW Scheme, which enabled the Bank to secure a 70% market share, the highest among all PCIs.

PERFORMANCE BY DIVISION

Personal Banking

The first stage of a Development Credit Department automation initiative was completed during 2011, reducing manual paperwork and eliminating manual filing and maintenance of ledgers. Data retrieval is now possible through the ICBS main server.

Commercial Bank launched an aggressive marketing and promotional campaign in the first quarter of 2011 to increase awareness of its unique development lending products and to increase market share. The successful campaign increased value of the portfolio to Rs. 16.14 Bn. - an increase of 30% or Rs. 3,744 Mn. over 2010.

The following table summarises the performance of the Development Credit Department for the year under review.

Portfolio Growth

Year	Industrial Rs. Bn.	Growth %	Agriculture Rs. Mn.	Growth %	Microfinance Rs. Mn.	Growth %
2009	11.30		501.8		157.8	
2010	12.40	10	832.7	66	328.5	108
2011	16.14	30	1,636.0	96	1,196.0	264

Future Outlook

Another aggressive marketing and promotional campaign will be launched in 2012 to raise awareness among entrepreneurs of the Bank's development lending products. Staff training and skills development programmes will continue throughout the year.

For SME sector, plans are in place to simplify the appraisal and approval process of Bank-funded schemes, repackage SME products and promote entrepreneurship and management skills with reputed organisations.

Steps have already been taken to automate the credit approval process and to improve the delivery of facilitates in the year 2012.

PERFORMANCE BY DIVISION

CORPORATE BANKING

The Corporate Banking Division is comprised of the Bank's Foreign Branch, Off-Shore Banking Centre, Islamic Banking Unit (IBU) and Corporate Finance Unit (CFU).

In addition to a specialised unit devoted to Islamic banking products and services, the Corporate Banking Division administers the Bank's operations in Bangladesh and over the past year has conducted selective lending in Maldives as international tourism continues to positively impact the Maldivian economy.

Over the years, the Foreign Branch has earned an excellent reputation for its trade finance operations while serving clients in diverse fields of business activity. Its customers are medium-sized and large Sri Lankan corporate

businesses, blue-chip companies and multinationals operating in Sri Lanka.

The Bank has a well-established and trusted network of correspondents covering every part of the world - relationships that provide a distinct advantage to corporate customers in their off-shore business dealings with global counterparts.

The network of correspondent banks of the Commercial Bank is given on pages 322 and 323 in this Report.

Core Competencies

- Financial stability and strength
- Strong brand name established through consistent superior performance
- Experienced, committed and competent staff with high level of integrity

- Fully-linked branch network locally and overseas, with a broad correspondent network
- In-house legal expertise
- High level of professionalism in supporting a core customer base that includes blue-chip companies and large corporates
- Cost-effective operations
- Effective risk assessment of exposures and processes
- Independence in credit decisions
- High delegated authority resulting in speedy approvals
- Proactive approach in identifying and mitigating risks associated with sectoral lending
- Comprehensive lending guidelines for most key sectors
- Flexible corporate finance and capital markets products
- Customised Treasury products
- Highest single-borrower limit among private sector banks
- Fully fledged IT module for domestic factoring
- Registration with CSE as a custodial service provider
- Registration with SEC as a margin provider and underwriter
- Appointment as a CDS settlement banker
- Commencement of Islamic Banking operations
- Successful operations in Bangladesh and lending relationships in Maldives
- Implementation of a social and environment policy in line with IFC standards



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Senior Management Team - Corporate Banking

1. **C.M. Abeysekera**
Head of Corporate Banking
2. **Naveen Sooriyarachchi**
Head of Corporate Finance
3. **Duminda Kurukulasuriya**
Head of Imports
4. **Colvin Karunaratne**
Chief Manager - Exports
5. **Ranjan Ediriweera**
Chief Manager - Corporate Banking
6. **B.A.H.S. Preena**
Chief Manager - Corporate Banking
7. **Mrs. G.R. Genevieve Liyanage**
Chief Manager - Off-Shore Banking Centre
8. **Eric Bastian**
Chief Manager - Exports

PERFORMANCE BY DIVISION

Corporate Banking

Products and Services

- Letters of credit
- Shipping and other guarantees
- Import and export finance
- Structured trade finance services
- Working capital financing
- Project financing
- Syndicated loans
- Structuring of corporate debt instruments
- Company valuation and restructuring
- Structuring, managing and underwriting of initial public offerings and private placements of equity
- Securitisations
- Leasing and factoring
- Off-shore banking facilities
- Payment solutions for corporate clients
- SWIFT facilities
- Internet banking
- Islamic banking
- Investment advice and evaluation
- Margin trading facilities
- Escrow accounts for software providers/users
- Custodial services
- Bullion Trading

	Actual 2011 Rs. Mn.	Budget 2011 Rs. Mn.	Actual 2010 Rs. Mn.	Achievement (Actual over Budget) (%)
Advances as at December 31 (Gross)	91,976.5	113,813.7	80,144.5	80.8
Profit before Tax	3,435.3	3,032.2	2,618.9	113.3
Import Turnover	298,831.3	169,518.6	226,569.9	176.3
Export Turnover	184,158.2	152,690.3	142,911.0	120.6
Cost/Income Ratio (%)	20.8	23.0	31.7	
NPA Ratio (%) as at December 31	2.7	3.5	2.7	

Corporate Banking Division recorded satisfactory results and achieved most of the targets set at the beginning of the year. This performance was achieved amidst shrinking interest margins in the industry. Despite the recent rise in market rates which has somewhat slowed down loan activities, the division recorded a reasonable growth in advances when compared to the last year.

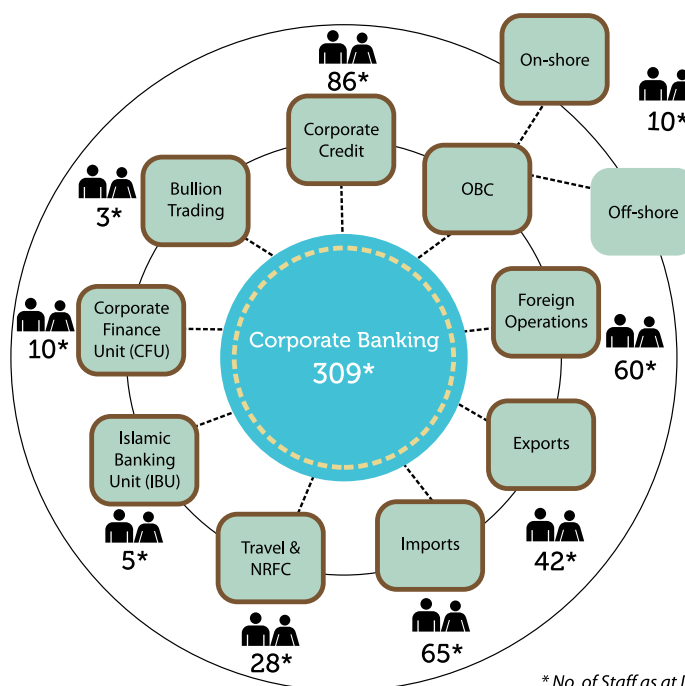
Revenue Drivers

Corporate Banking Division in its endeavour to reach the desired level of performance is supported by many other divisions of the Bank. These divisions which are administratively integrated to the Corporate Banking Division with their staff strength as at December 31, 2011 are given below:

Corporate Banking

In 2011, the Bank was recognised as the 'Best Trade Finance Bank in Sri Lanka' by *Trade Finance* magazine, published by *Euromoney*.

Since the end of Sri Lanka's long civil conflict, reconstruction in the Northern and Eastern parts of the country, along with major Government infrastructure projects, have helped revive the formerly stagnant economy. The war's end also brought hopes of a revival for the tourism industry - hopes that are slowly being realised. These developments have encouraged large corporate entities to expand their operations, leading to significant gains in the loan book of the Corporate Banking Unit (CBU), although the recent rise in market rates has somewhat slowed loan activities.



* No. of Staff as at December 31, 2011

PERFORMANCE BY DIVISION

Corporate Banking

The Foreign Branch saw reasonable growth in advances and profits during 2011, despite the increase in interest rates in the latter part of the year. Although the Off-Shore Banking Centre did not reach budgeted levels in advances, it did achieve targets for deposits and profits.

The non-performing loans ratio for 2011 was a low 2.72%, reflecting the prudent lending practices that have shaped the Corporate Banking Division's high-quality loan book. The unit provided a long term loan of Rs. 1.5 Bn., payable over 14½ years, to the Road Development Authority - the first ever disbursement from the Investment Fund Account, proposed in the National Budget. The loan funds to be utilised to restore/improve 21.5 km stretch of the A6 highway between Dambulla and Habarana.

After the relaxation of import duty on vehicles and electrical items, a significant increase in vehicles and other imports was seen and the turnover recorded 32% increase over the previous year. Opening up of markets in Northern and Eastern Provinces also helped to increase the turnover. Out of the total imports 51% related to vehicle imports.

Similarly, exports recorded an increase of 29% over the previous year. Despite the crisis situation in the Middle East and the Euro Zone, a significant volume of tea exports was made to such countries.

Future Outlook

The Bank will work to maintain its preferred status in trade finance while continuing to develop new Islamic banking products, expanding off-shore lending in the South Asian region and actively pursuing investment opportunities in listed equities. Plans are also in place to expand the rated customer base and further rationalise the operations of the unit.

The Government's strong support for exports augers well for the sector. Many entrepreneurs are keen on establishing the Sri Lankan brand overseas.

Corporate Finance Unit

The year began in a buoyant operating environment, with a vibrant stock market and low interest and inflation rates. However, the rise in interest rate levels and corresponding tightening of liquidity in the second half of 2011 sent lending rates higher, eroding business confidence and stock market performance. The weak market conditions adversely impacted trading volumes and reduced the margin trading customer base, as well as the size of the Bank's portfolio. However, the overall quality of returns within the portfolio was not adversely impacted in the course of the year.

The margin trading activities exhibited strong growth in facility approvals and disbursements in the early part of 2011 and earned satisfactory returns in its first full year of operations.

The two new equity funds, established in 2010, outperformed the 2011 market indices, although the funds underperformed in comparison to the previous year's numbers - a result that reflected the weakening overall stock market performance.

In 2011 the CFU was instrumental in helping the Bank launch software escrow services. This globally recognised practice balances the requirements of software vendors and the needs of users, with both employing the Bank as a neutral third party to safely store their source codes.

The CFU continued to fund renewable energy projects powered by hydro, wind and biomass, adding

several new hydro and wind power projects to the portfolio. The unit also structured and invested in many securitisation transactions, increasing this portfolio by a significant volume over the previous year. The CFU also participated in a USD 75 Mn. syndicated term loan arranged for Sri Lanka Telecom by subscribing for 37.5% of the total loan.

Future Outlook

The Bank will continue consolidating and growing its margin trading operations at rates that reflect prevailing market conditions; there is tremendous opportunity for growth in this portfolio if market conditions improve. As long as current conditions continue, equity fund performance is expected to remain low. The CFU's revenue gains may also be enhanced due to increased funding for large-scale infrastructure projects as a result of the ongoing rapid development taking place in the country.

Islamic Banking Unit

Commercial Bank opened Al Adalah, its first Islamic banking window, in June 2011, responding to consumer demands. The Bank has appointed three eminent scholars in Islamic jurisprudence to its Sharia Board to guide the operations of the IBU and conduct periodic audits to ensure that all transactions conform to Sharia parameters.

The IBU offers Sharia compliant banking products in the form of deposits and advances and provides a share of profit to depositors instead of the traditional fixed-percentage return. This profit-sharing process consists of identifying the gross income from all advances and then distributing them between depositors and the IBU.

The Islamic window is based in Colombo, however customers can

operate their accounts, through the Bank's wide-spread branch network.

Future outlook

The Bank intends to explore innovative ways of bringing more customers into the Islamic banking fold. This will be accomplished through a range of approaches, including targeting high-net-worth corporate and personal customers in Colombo, as well as established businesses; who are seeking Sharia compliant banking products and tailoring services such as foreign currency accounts, trade finance facilities, personal finance and eBanking solutions. The Bank is also working on a plan to open IBU counters at outstation branches, beginning in the Eastern Province, and to offer training sessions outside of Colombo. Although the Bank faces stiff competition in this emerging market, there is room for tremendous growth, especially as many of the tax-related hurdles to Islamic banking practices are being resolved by the Government. There are plans to expand further and offer IBU products in Bangladesh as well.

Bullion Trading

The relaxation of the Nation Building Tax in 2010 helped the Bank achieve a three-fold increase in profit in bullion trading for 2011 over the previous year. Commercial Bank now has a one-third share of the Sri Lankan gold market, according to customs statistics. In 2011, the Bank introduced a special pawning service for bullion customers.

Future Outlook

The Bank plans to become the gold bullion market leader in Sri Lanka by introducing new products and seeking additional partners to augment its single current supplier.

PERFORMANCE BY DIVISION

INTERNATIONAL OPERATIONS

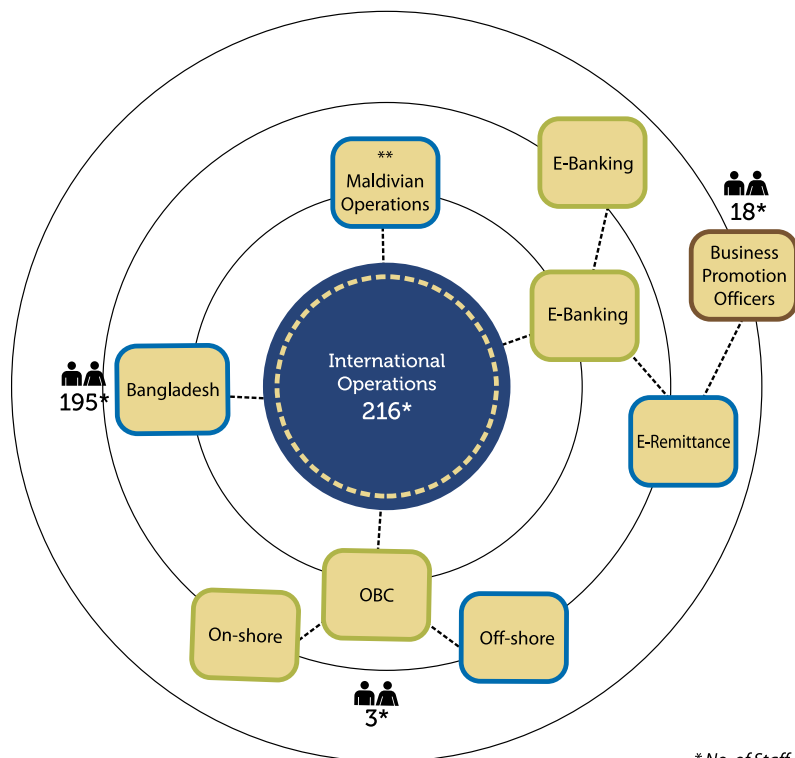
The International Operations discussed under this analysis encompasses Commercial Bank's growing business in Bangladesh, the activities of the Off-Shore Banking Centre in Maldives, and overseas remittance services supported by the e-Banking Centre.

	Actual 2011 Rs. Mn.	Budget 2011 Rs. Mn.	Actual 2010 Rs. Mn.	Achievement (Actual over Budget) (%)
Deposits as at December 31	25,674.7	28,531.6	24,454.0	90.0
Advances as at December 31 (Gross)	22,603.8	21,591.5	25,001.0	104.7
Profit before Tax	1,409.7	1,402.6	1,495.4	100.5
Cost/Income Ratio (%)	33.8	36.3	37.9	
NPA Ratio (%) as at December 31	1.0	0.3	0.2	

Bangladesh Operations has exceeded most of the targets set at the beginning of the year, resulting a substantial improvement in profitability ratios. Commission income on overseas remittances also recorded a strong growth during the year.

Revenue Drivers

The diagram below details the composition of our international operations.



* No. of Staff as at December 31, 2011

** On an off-shore basis from Sri Lanka

Bangladesh Operations

Core Competencies

- Strong international presence in corporate banking
- 24/7 call centre
- AAA rating by Credit Rating Information Services Limited (CRISL), Bangladesh
- Network of branches and ATMs
- Dedicated centres to serve the needs of SMEs

Products and Services

- Current, savings, fixed deposit, margin and money market accounts
- Bonus savings accounts
- Dream Planner savings accounts
- DotCom teen saver accounts

- Shamriddhi tiered savings accounts
- FC Plus savings accounts
- High 5 fixed deposits
- Dollarmart FC account
- Personal, term, SME, housing and auto loans
- Lease financing
- Import demand loans
- Packing credit loans
- Trust receipt loans
- Corporate privilege loans
- Prodriddhi loans

Maldivian Operations

Core Competency

- Well-established, long-standing relationships with Maldivian customers

Products and Services

- Project financing development
- Lender in syndicated facilities

Remittances

Core Competencies

- Strong global agent network
- Business promotion officers in main corridors for ground-level marketing
- State-of-the-art technology
- Well-established and trusted correspondent banks
- Recognition as the best bank in the country

Products and Services

- ComBank eExchange: web-based money transfer facility

PERFORMANCE BY DIVISION

International Operations

BANGLADESH ECONOMY

The political situation in Bangladesh appeared stable for most of 2011, though street protests and *hartals* continued to disrupt daily life throughout the country. Demonstrations by retail investors took place outside the Dhaka Stock Exchange after the equity market debacle in the latter part of 2010. The shortage of power, water, gas and weak infrastructure continued to disrupt the business environment

and discourage potential investors. Still, in spite of global economic shocks and natural calamities, Bangladesh has reduced poverty levels and improved living standards significantly in recent years.

In 2011, Bangladesh's sovereign debt was reaffirmed as BB- for long-term international credit and B for short-term credit by Standard & Poor's. The country earned an overall Ba3 rating from Moody's Investors

Service. The two leading international agencies assigned credit ratings to Bangladesh's sovereign debt for the first time in April 2010.

Remittances from Bangladeshis working overseas - mainly in the Middle East - remained the major source of foreign exchange earnings, along with exports of garments and textiles. Shipbuilding and jute cultivation have also begun to exert a positive impact on foreign exchange earnings.

Management Committee - Bangladesh Operations



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

PERFORMANCE BY DIVISION

International Operations

The country's estimated real GDP growth was 6.66% for 2011, up from 6.07% in the previous year, thanks to the strong performance of the manufacturing and construction sectors, along with contributions from the service sector. High growth rates in exports and imports helped the industrial sector realise an estimated growth rate of 8.16%, while the service sector recorded moderate growth. The agriculture sector experienced slower growth rates in 2011.

Point-to-point Consumer Price Index (CPI) inflation had increased to 11.97% as of September 2011, up from 7.61% a year earlier, while the annual average (headline) CPI inflation rose to 9.73%, compared to 8.12% in September 2010. This rise was largely due to high, volatile food and non-food commodity prices in global markets. Overall interest rates in the call money market remained volatile throughout the year trading in a range of 7%-20%. National currency, the Taka has depreciated at a higher rate compared to the previous year.

Future

It is anticipated that sustained export growth, especially in garment exports and wage remittances, will support strong economic performance in the next fiscal year. At the same time, the Bangladeshi Government is expected to reduce spending and may also hike

fuel and power tariffs to maintain macroeconomic stability. The real GDP growth of 7.0% targeted in the 2012 national budget continues to be a realistic goal. Domestic demand remains upbeat in the economy and is supported by declining poverty rates, as reported in the recent Household Income and Expenditure Survey produced by the Bangladesh Bureau of Statistics.

Short-term economic risks include rising food and fuel prices, deteriorating remittances (with a possible drawdown in reserves) and a growing fiscal deficit - as well as stock market volatility and its potential impact on the banking sector. Over the longer term, alleviating power shortages, raising public investment and removing bottlenecks for private investment will be critical to ensuring sustainable growth.

Bangladesh Operations

Commercial Bank launched its banking business in Bangladesh by acquiring the operations of Credit Agricole Indosuez, a French multinational bank, in November 2003. Over the past eight years, the Bank has expanded its Bangladesh network to 17 outlets: seven branches, two booths, two off-shore banking units and six SME centres. In addition, the Bank has 17 online ATMs across the country, including four at offsite locations.

Within the past 8 years of commencement of the business, Commercial Bank has established its position well above the other regional banks operating in Bangladesh and caters to a range of clientele which includes a healthy mix of corporate and retail customers and is backed by a wide product range.

Credit Rating Information Services Limited (CRISL) gave Commercial Bank's Bangladesh Operations an AAA rating in 2011.

During the past year, Commercial Bank launched a global dual-currency Visa credit card, giving Bangladeshi customers' access to more than 2,000 Visa ATMs nationwide. The Bank has also entered into agreements with Prime Bank and Islamic Bank of Bangladesh to carry out cash management services and remittances disbursement through their branch networks.

Future Outlook

The Bank has set ambitious growth targets for deposits, advances and profit levels. The current array of strategic initiatives in Bangladesh includes maintaining non-performing assets below 3%, increasing the number of branches, commencing gold lending, adding more ATMs to the existing network and partnering with another popular ATM network to increase the number of shared machines. There are also plans to introduce at least five more products to expand the Bank's asset and liability portfolios.

PERFORMANCE BY DIVISION

International Operations

Key financial ratios for the Bank's Bangladesh Operations over the past five years are as follows:

Ratio	2007 %	2008 %	2009 %	2010 %	2011 %
Non-Performing Advances Ratio	0	0.04	0.17	0.22	1.04
Cost/Income ratio	32	33	37.75	34.89	32.83
Return on Assets (gross)	4.19	3.90	3.49	4.3	4.81
Return on Capital Employed	15.05	15.57	14.46	15.22	15.69

Maldivian Operations

The easing of the global financial crisis in 2011 encouraged a revival in the Maldivian tourism industry, permitting the Bank to resume lending to existing Maldivian clients on a selective basis. ComBank e-Exchange, Bank's web-based money transfer facility, extends to the Maldivian marketplace.

e-Exchange

ComBank e-Exchange, a web-based money transfer system, allows Sri Lankans working abroad to make remittances through direct agents in 12 countries. In operation since 2003, e-Exchange assures Sri Lankans overseas a safe and efficient way to send money home. In 2011, the Bank launched an SMS alert service for all beneficiaries of e-Exchange remittances. Back office operations were extended to cover 24/7 support to remittance customers and agents overseas. Bank conducted several promotional campaigns locally as well as in selected overseas corridors during the year.

Over the past year e-Exchange entered new markets and expanded its reach in existing ones such as Saudi Arabia, Lebanon and Malaysia. To improve service to beneficiaries, and in particular to reduce turnaround time on collections, dedicated remittance counters were set up at 70 branches across Sri Lanka. The Bank also added eight e-Exchange partners, increasing the total to 66 overseas remittance agents. A dozen Business Promotion Officers work aggressively in foreign markets to promote remittances and cross-sell other products and services.

In 2011 e-Exchange recorded an overall growth of approximately 15%. This product recorded a 30% growth in remittances from the Middle East, a region that accounts for 60% of Sri Lankans working abroad. To better serve this key market, the Bank has launched a new partnership with Al Rajhi Bank, the remittance business leader in the Kingdom of Saudi Arabia. Al Rajhi Bank has integrated its ePay system with

ComBank e-Exchange, making it easier for expatriate workers to transfer remittances to their home accounts. Commercial Bank is the first Sri Lankan bank to enter into such an arrangement with Al Rajhi Bank.

Future Outlook

Bank intends in introducing a Remittance Card in order to divert counter traffic to ATMs and also to strategically retain cash customers who does not maintain accounts with the Bank enabling their remittance payments 24/7. e-Exchange platform will be developed as a payout solution enabling external entities to handle payments on behalf of the Bank. This will help the Bank to reach out to the customers in areas where we do not have our own presence, to build a good payment network in Bangladesh and to develop the product to global standards. Several other initiatives such as an electronic customer feedback system, web tracking facility and a SMS based solution for migrant workers have also been planned to improve the customer service standards.

PERFORMANCE BY DIVISION

TREASURY

Treasury operations are segregated under Forex and Corporate Sales, Fixed Income Securities and ALM operations, each headed by a chief dealer. Treasury is entrusted with managing the interest rate risk, liquidity risk and the foreign exchange risk of the Bank. Treasury carries out the inter bank operations of the Bank for management of above risk and also as part of its proprietary trading business. In addition, ALM function is also operationalised by treasury. Treasury also provides support to retail and corporate banking areas in providing its funding requirements and managing the FCY flows arising out of their business.

Core Competencies

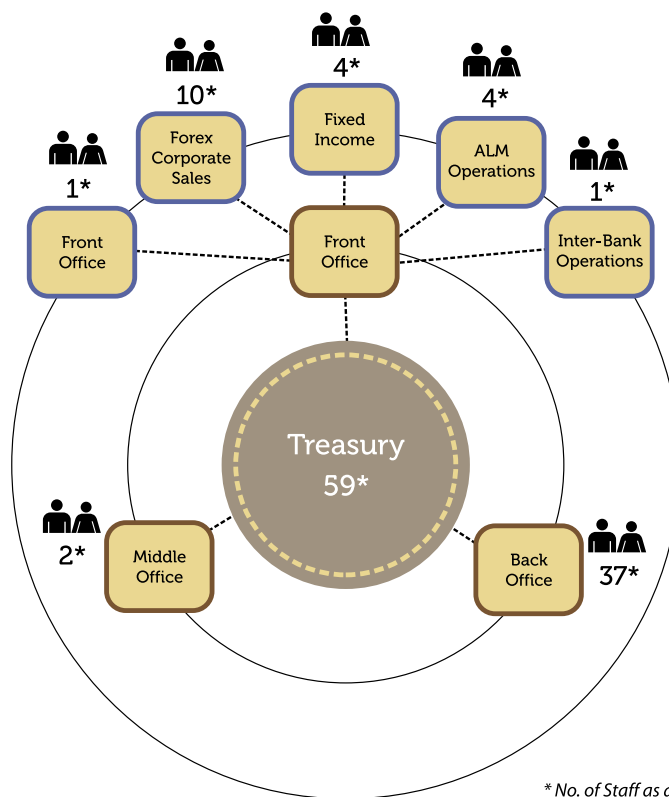
- Innovative, custom-tailored Treasury products
- Fully customised Treasury software application
- Competitive rates on the strength of FX resources
- Foreign currency funds from international operations
- Local currency funds from well-established branch network
- Target-oriented work culture
- State-of-the-art technology
- Established and reputable correspondent banks
- Recognised as the best bank in the country

Products and Services

- Foreign exchange dealing
- Forward interest rate swaps and futures trading
- Currency and interest rate swaps
- Forward rate agreements
- Caps
- Floors and collars
- G7 and LKR FX options
- Dual currency deposits and other yield-enhancing structures
- Hedging FX and interest rate risk
- Fixed-income securities trading

Revenue Drivers

The diagram below details the subdivisions which come under the Treasury operations.



* No. of Staff as at December 31, 2011

	Actual 2011 Rs. Mn.	Budget 2011 Rs. Mn.	Actual 2010 Rs. Mn.	Achievement (Actual over Budget) %
Interest Income	8,635.2	9,063.3	13,190.1	95.3
Foreign Exchange Profit	1,364.1	926.6	1,355.4	147.2
Profit before Tax	1,636.0	2,021.0	1,344.2	80.9
Interest earning Assets as at December 31	113,596.4	121,418.7	118,278.2	93.6
Cost Income Ratio (%)	24.8	18.1	29.3	

Treasury made a substantial contribution to the performance of the Bank during the year and recorded a substantial increase in pre-tax profit compared to the last year. However, its pre-tax profit is affected due to certain unbudgeted provisions made on prudential basis during the year.

PERFORMANCE BY DIVISION

Treasury

2011 in many ways was a year of challenges and opportunity for Sri Lanka and the Bank. The economy continued its healthy growth recording an estimated growth of 8.3% in GDP. The growth story was reflected in the business of the Bank as well with healthy growth in its business in a dynamic economic environment. In this environment treasury faced several challenges in managing the liquidity and interest rate risk of the Bank along with its exchange rate exposure.

The exchange rate of the country was strongly defended by CBSL prior to its official devaluation during the presentation of the 2012 Government Budget in November 2011. CBSL used its recently built up foreign currency reserves aggressively to maintain a stable and steadily appreciating exchange rate in the midst of all round depreciation of regional currencies. This led to low margin regime among the banks which affected the exchange profit of the Bank. However, the Bank was able to meet its budgeted exchange profit for the year even after discounting the exchange gain from reserves revaluation.

A greater challenge was posed by funding requirements of the Bank, in a situation of steadily diminishing liquidity in the market. Rapid credit growth by banking sector resulted in a tight competition for funding that pushed up interest rates on both deposits and Government Securities higher towards the last quarter of the year, this situation worsened by the reduction in liquidity as a result of intervention in the foreign exchange market by the CBSL.

The upward movement of interest rates in the market adversely impacted the operations in Government Securities which performed lower than expectations.

USD/LKR exchange rate depreciated by 2.82% during the year to close at Rs. 114.00. This was after the 3% depreciation announced by the Government in November 2011. The increased volatility in the local market in the latter part of the year enabled treasury to earn additional exchange profit during the last two months of the year.

Treasury also put in place the necessary framework to commence operations in derivative products by obtaining the required regulatory and internal approvals and introducing the operating mechanisms. Special effort was taken to develop the skill levels of the treasury staff throughout the year by providing training opportunities locally and overseas. Treasury also identified its future staff requirements and recruited management trainees to the dealing room with the objective of grooming them for the future.

In 2011 the Bank completed a Treasury system review aimed at acquiring new and necessary technological capabilities, identifying business needs for the next five years and evaluating proposals for upgrading infrastructure. The Bank also carried out a customer satisfaction survey to better ascertain Treasury's positioning among its key clients.

Treasury was very active in developing its client relationships. The dealers regularly visited the key clients of the Bank maintaining a constant and positive rapport and organised several events throughout the year aimed towards relationship enhancement.

Future Outlook

Treasury expects a challenging year ahead in 2012, where the Bank will be diversifying more into non-traditional funding mobilisation. The Bank is projected to meet nearly third of its funding requirements through foreign currency borrowing which will mainly finance the domestic LKR asset expansion. Management of the interest rate and exchange rate risks arising from these mismatches in the absence of efficient instruments in the market will pose several challenges.

Sri Lanka economy is expected to see increasing interest rate scenario in 2012, thus driving the Bank's cost of funds during the year upwards. Utilisation of funds profitably through advising ALCO of the Bank on the Balance Sheet management and correct product pricing will be the responsibility of Treasury. In addition, the exchange rate would expect to depreciate in 2012 with higher market volatility which would pose both challenges and opportunities to treasury.



Senior Management Team - Treasury and Back Office

1. **Hilary Fernando**
Head of Treasury Processing
2. **Asela Wijesiriwardena**
Chief Dealer - Assets & Liabilities Management

PERFORMANCE BY DIVISION

SUPPORT SERVICES

Several Commercial Bank divisions provide support services to help the Bank operate more efficiently and fulfill its mandate to customers and investors. The main such supporting divisions with the total number of staff attached to all divisions are shown in the following diagram.

Future Outlook

HR plans to further improve the Bank's high quality of staff intake by strengthening recruitment processes at schools and in the job market generally. The division will also continue addressing the issue of employee and executive retirements, which are expected to spike in the next few years. If not properly

basis the critical areas highlighted therein. This includes creating career prospects for all categories of staff; process efficiency by effecting transfers with minimum disruption to the business and improving the HR support services provided for employee convenience. HR also looks towards fostering greater communication amongst staff and further promoting the 'One Bank One Family Concept', thereby improving its image as an efficient internal service provider.

A major upgrade to the Bank's core network infrastructure improved the performance, quality, security and reliability of the network while converting branches to IP-VPN technology. A server consolidation and virtualisation project was also completed, providing a wide range of organisational benefits including higher reliability, lower operating costs, simpler management and a lower carbon footprint.

Microsoft Active Directory was installed across the branch network in Sri Lanka and Bangladesh, greatly enhancing IT security.

A recently completed upgrade of the core banking system will soon allow the Bank to provide combined statements, unitted deposits and other benefits to customers.

Commercial Bank was integrated into the Bangladesh Electronic Funds Transfer Network system, the online inter-bank payment system mandated by the Central Bank in that country. The successful integration was completed with the valued assistance of staff in Bangladesh.

As further proof of efforts to maintain the highest global standards, the Bank retained its prestigious ISO/IEC 27001:2005 Information Security certification in the e-banking, card centre and information technology functions.

Future Outlook

The 2012 Technology plan includes enhanced Internet banking; broader handset coverage for mobile banking; mobile-to-mobile payments; wider availability of 24-hour Kiosks for cash and cheque deposits, bill payments and mobile payments; and a migration to SWIFT Alliance 7.0 for inter-bank transactions. New systems for Treasury and Anti-money Laundering are also planned.

Information Technology

On December 30, 2011, Commercial Bank unveiled its 500th ATM at the Maradana Railway Station, as a culmination of a rollout of 100 ATMs over the course of the year. The Bank's ATM network accounts for approximately 25% of all ATMs deployed across the country.

As part of the Bank's ongoing commitment to customer convenience, 100 ATMs are located at offsite locations, including seven at railway stations. Round-the-clock branch banking with selected transactions was made available at the Katunayake Branch, further underlining our focus on customer convenience.

In support of our customer segmentation strategy, the Bank's core banking system was modified to meet the strict rules set by the Sharia Council of the Islamic Banking Unit.

A trilingual, menu-based mobile banking system was launched for customers with Java/MIDP2 enabled mobile handsets as part of technological innovation supporting social inclusion of under-banked customers.



* No. of Staff as at December 31, 2011

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

Human Resources

The activities of the Human Resource Management division during the year are discussed in detail under 'Labour Practices and Decent Work' on pages 86 to 96 in the Sustainability Supplement. Future outlook is detailed below.

monitored and creatively managed, the approaching demographic shift could lead to excessive vacancies in important staff and management positions - and even a possible leadership vacuum in some divisions. HR will continue launching initiatives that enhance managerial skills and fast-track high-potential employees.

Having considered the feedback received through the Employee Engagement Survey, another key strategy is to address on a planned

PERFORMANCE BY DIVISION

Support Services



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13



14

Senior Management Team - Support Services

1. **Mrs. R.R. Dunuwille**
Company Secretary
2. **Vajira Thotagammana**
Head of IT
3. **Sivam Yoganandasivam**
Chief Manager - IT R&D
4. **Amitha Munasinghe**
Chief Manager - Information Systems Audit & Business Continuity Planning
5. **S. Shunmugarajah**
Chief Manager - ICBS Unit
6. **M.Z. Careem**
Chief Manager - Inspection
7. **Stanley Fernando**
Chief Manager - AML Compliance
8. **Esala Silva**
Chief Manager - Central Clearing
9. **Bindu Perera**
Chief Manager - Premises & Engineering
10. **Thayalan Gnanapragasam**
Chief Manager - Central Administration
11. **Ms. Sujeeva Ranasinghe**
Chief Manager - Human Resource Management
12. **M.P. Dharmasiri**
Chief Manager - Finance
13. **Kapila Hettihamu**
Chief Manager - Risk
14. **John Premanath**
Chief Manager - Inspection

PERFORMANCE BY DIVISION

Support Services

Marketing

The Bank's Marketing team launched and activated a number of marketing campaigns targeting key consumer segments. The Bank has always put customers at the core of its business and in 2011 continued to explore ways to meet their expectations by launching a set of new products and services and marketing campaigns to support existing products. The Bank's new products and services in 2011 included Elite Banking, Islamic Banking, Paymaster for EPF & ETF payments, new tie ups with partner organisations for e Exchange Remittances, Bancassurance and Leasing and tie ups with mobile operators for Mobile Banking.

The Bank aggressively promoted Gold Loans, Leasing, *Arunalu* Children's Accounts, *Isuru* Children's Savings Scheme, e Exchange Remittances, Credit & Debit Cards, Super Saver Savings Accounts and Fixed Deposits in 2011. In addition the Bank also carried thematic corporate advertising campaign to announce the awards and accolades the Bank received in 2011.

One of the key marketing activities of the Bank in 2011 was the launch of a new refreshed logo which was very well received by all stakeholder groups. The Bank also launched new branding in new

branches and refreshed branding in main branches which included refreshing ATM's as well. It also ventured into an outdoor advertising campaign for main products. The Bank successfully used new advertising mediums such as social media, internet, email, viral, location based TV and mobile phones for its marketing campaigns.

The Bank also conducted many attractive promotions for e Exchange remittances, Personal Loans, Leasing, Gold Loans and Credit & Debit Cards in 2011. All above promotions were well received by the consumers resulting high product patronage.

The Bank continued to promote its *Arunalu* Scholarships programme during 2011 too. Over Rs. 3.5 Mn. worth of cash prizes was disbursed to Year 05 scholarship winners through the branch network.

The Bank also participated in many trade fairs and exhibitions increasing its' interaction with current customers as well as prospective customers.

Customer Satisfaction

In 2011, the Bank continued to measure brand equity, customer loyalty and service satisfaction levels using formal methodologies that compare performance to national and international benchmarks.

The results of these studies placed the Bank ahead or near the top of its peer group in all categories.

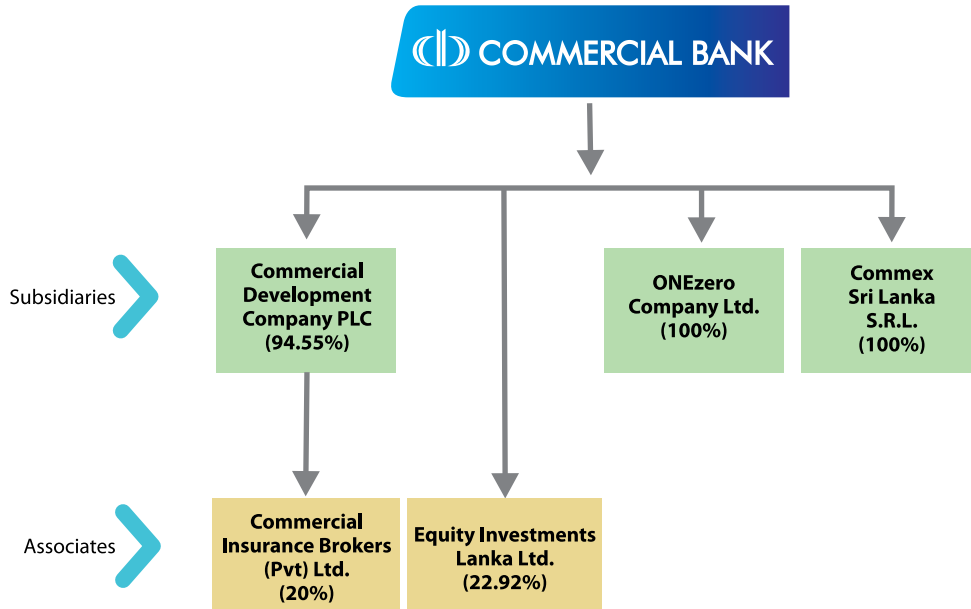
Commercial Bank ranked highest among all key Banks in Sri Lanka in the Customer Satisfaction Index spearheaded by Lanka Market Research Bureau (LMRB) and also achieved a very high benchmark within the Sri Lankan banking category of the Customer Loyalty Index also produced by LMRB. In the Brand Equity Index conducted by Nielsen, the Bank ranked highest among all private banks in Sri Lanka.

Future Outlook

The Sri Lankan economic landscape is on the cusp of a great transformation. Such fundamental change demands that the banking sector, which lies at the heart of the nation's economy, respond with corresponding changes to its size and structure. Commercial Bank is prepared to lead this change, and to maintain its leadership in the sector, by keeping the customer at the centre of every business decision - and reinforcing that message across the spectrum of marketing efforts.

SUBSIDIARIES AND ASSOCIATES

The structure of Commercial Bank, its Subsidiaries and Associates is diagrammatically shown below:



Commercial Development Company PLC (CDC)

Commercial Development Company (CDC) was formed in 1980 to construct the head office of the Commercial Bank. It now operates as the Bank's main utility services provider. CDC's principal sources of income are building rent, vehicle hire charges and maintenance fees. The Bank presently holds a 94.55% stake in the company.

CDC recorded a post-tax profit of Rs. 338.95 Mn. in 2011, largely due to fair-value gain on investment properties and increased rental income. Discounting the fair-value gain, the Company's post-tax profit from normal operations was Rs. 69.10 Mn. for the year 2011.

Future Outlook

CDC is in the initial stages of developing a new business line to provide premises maintenance services to Commercial Bank customers. And, as another potential avenue of growth, the Company is exploring the possibility of

constructing new branches for the Bank, and increasing the scope of utility services it provides.

ONEzero Company Ltd.

Incorporated in 2003 as a fully owned subsidiary of Commercial Bank, ONEzero Company provides information technology products and services to the Bank as well as outside customers. The company's offering consists of IT solutions, equipment, software and maintenance services delivered in partnership with many of the world's leading IT brands.

ONEzero's main revenue drivers in 2011 were IT solutions, hardware, software development and post-warranty maintenance. Several software development projects were completed on behalf of the Bank's IT group during the year, which yielded significant returns to the Company. The Company recorded a substantial improvement in their profit compared to last year. The Company also investigated adding a range of IT products to enhance its existing hardware and solutions business.

Future Outlook

ONEzero has begun implementing a three-year plan to build a stronger team, develop more IT solutions and serve a larger client base. To further its vision of becoming a leading IT solution provider in Sri Lanka, the company is working towards a divisional and management realignment that will transform its software development and IT solutions groups into separate, profit-generating entities.

Commex Sri Lanka S.R.L.

Having seen the potential in remittance business from Italy, Commercial Bank initially tied up with National Exchange Company, an Exchange House operating in Italy. With this arrangement many Sri Lankans who previously relied on various informal channels to remit money started utilizing our e-Exchange Money Transfer System. Realising the potential in this line of business, the Bank formed a fully owned Subsidiary by the name - Commex Sri Lanka S.R.L. in Italy.

Commex Sri Lanka S.R.L. received the Money Transfer License from the Bank of Italy in February 2010. However, the Company had to re-apply for the license due to the change of laws relating to money transfer business in the European Union.

Re-registration application of Commex has now been declined by the Bank of 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.

Future Outlook

Commex would re-apply for registration if Sri Lanka's position is cleared by FATF in future. Presently the Bank is exploring other alternate arrangements that would facilitate fund transfers from Italy.

ASSOCIATES OF COMMERCIAL BANK

Equity Investments Lanka Ltd. (EQUILL)

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

In 2011, EQUILL's principal activity continued to be project financing in the form of equity, quasi-equity and other corporate debt instruments - for both new and established ventures with high-growth potential. The company also provides performance monitoring, accounting and other management services to the companies in which it has invested.

The exceptional profit level realised in 2010 - which reflected the highly favourable market conditions that year - could not be sustained in 2011.

Future Outlook

EQUILL focuses increasingly on strengthening its investments in mini hydropower generation. This is a comparatively low-risk business, as the purchase price for power is guaranteed by an agreement signed with the Ceylon Electricity Board. The company also intends to begin investing in the hotel industry in 2012, as part of a broader strategy of selective investment aimed at maximising returns.

Commercial Insurance Brokers (Pvt) Ltd. (CIBL)

Initially known as Commercial Insurance Services (Pvt) Ltd, the Company was incorporated in 1987. The Bank presently has an indirect stake in the Company of 18.91% through its subsidiary, Commercial Development Company PLC.

As an insurance broker, the Company offers insurance products and services, both on life and general, at competitive premiums to individuals and businesses. The Company has an experienced team of professionals exceeding 100 who are deployed in an island-wide network of branches equipped with necessary infrastructure facilities.

The Company introduced and commissioned a new Accounting Package, viz "Pronto ERP" with the assistance of EWIS technology to have an online system of information pertaining to Accounting System, Underwriting of insurance of Fire, Motor, Life, Marine, Miscellaneous, etc, and access the branch network.

Overall the Company ranks as one of the top performers among the competitors. Profit of the Company also increased substantially during the year.

Future Outlook

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

THE FUTURE

A global economic slowdown appears likely in 2012. The primary focus for concern remains the Euro Zone (as large as that of the US), where the debt crisis threatens to disrupt some of the world's major economies and confidence in Governments and financial markets continue to weaken. Western Europe's combination of high inflation, economic stagnation and explicit sovereign defaults is especially troubling.

Despite this bleak scenario, a true global economic recession is not expected in 2012. The world economy will likely continue to expand, albeit at a growth rate in the 3% range, down from the 4% rate estimated for 2011. American banks are slowly being restructured, and the wheels of finance are starting to turn - factors that could help the US economy grow by about 2%, matching the 2011 rate. Economic prospects for the large emerging markets, especially China, provide greater cause for optimism in averting the prospect of a worldwide recession in the coming year.

A detailed examination of pricing behaviour in 2011 points to continuing volatility in global prices through the coming year. The IMF cites several factors: climate conditions disrupting supply chains; natural disasters; reduced demand for commodities because of slowing global economic growth; increased demand for bio-fuels impacting crop prices; and speculation in commodity markets. In addition, the ongoing social and political turmoil of the 'Arab Spring' continues to disrupt petroleum production and keeps oil prices elevated. In short, global commodity markets will be volatile in 2012.

THE SRI LANKAN ECONOMY

In this uncertain global scenario, can Sri Lanka maintain its growth momentum? The country's political stability will contribute to an estimated GDP growth rate of 7% to 8% in 2012. This would mark the third year in a row of growth above 7% - a historic achievement. The successful integration of the Northern and Eastern Provinces has opened up significant opportunities in the agricultural, industrial and service sectors.

The national Government, not facing a significant election for two more years, will also have ample opportunity to implement necessary economic reforms.

Sri Lanka can look forward to high potential foreign exchange earnings in a number of key areas, including information technology, business process outsourcing, tourism etc. All these areas of growth should help the country to achieve its economic goals.

The upgrading of Sri Lanka's sovereign credit rating in 2011 by three key agencies - Fitch, Moody's and Standard & Poor's - will allow the Government to borrow at a lower cost from overseas markets. The depreciation of the rupee against the US dollar is expected to encourage exports and reduce demand for imports, helping to ease pressure on the current account deficit. However, the current account deficit is expected to increase marginally in 2012, from the 5.6% figure estimated for 2011.

The country still faces several ongoing economic challenges, including a large public debt resulting from high servicing costs; global oil and commodity prices pushing up import expenditures and

causing a ballooning trade deficit; the fiscal burden from loss-making state-owned enterprises; and a sluggish, unstable world economy.

At present, nearly 60% of Sri Lanka's exports go to slow-moving markets in Europe and North America. Less than 10% go to India, China and Japan. Therefore, increasing exports to southern, southeastern and eastern Asia should be integral to the country's future growth strategy. Asian cross-border trade has become the most dynamic component in the international trading system. Located a mere 20 miles from India, Sri Lanka has an unrivalled opportunity to plug into rapidly growing supply chains in India, particularly in its southern region. Attracting Chinese foreign direct investments is another key strategy for the Government's serious consideration.

Inflation

Several factors are expected to push inflation upward in 2012: higher oil prices; rising household wealth (and correspondingly upbeat consumer sentiment); higher foreign capital inflows; and the devaluation of the rupee. However, it is expected that these inflationary pressures will be mitigated by improved domestic supply. An inflation rate of between 6% and 7% is expected to prevail by the end of 2012.

Exchange Rate

Increased imports of investment goods - required for ongoing development activities across Sri Lanka - along with higher expenditure on imported crude oil are expected to put pressure on the rupee in 2012. The rate of expansion of export income will be reduced by the ongoing recession in Sri Lanka's

major exports markets - the EU and the US. The collapse of Treasury Bond prices in several European economies has undermined Sri Lanka's foreign reserve position. The drain of foreign reserves will therefore continue, exerting further pressure on the exchange rate.

While the depreciation of the rupee is not expected to significantly curtail domestic demand for imports and any further depreciation or appreciation of the rupee will depend to a large extent on movements in the current account deficit as well as on the level of foreign fund inflows.

The Government's improved fiscal management is estimated to have reduced the budget deficit to 7.0% of GDP in 2011 (from a figure of 8.0% in the previous year) and it is expected to further reduce to 6.5% in 2012. If sustained, the Government's policies will help reduce its dependence on monetary policy for demand management, thereby easing the pressure on interest rates.

Investments

According to the Central Bank, investment activities are expected to grow at a higher rate in 2012, sustaining the country's growth momentum. The increased pace of investment will likely be driven by the private sector. A significant portion of private investment will be directed towards tourism and port activities, together with sectors such as manufacturing and infrastructure development.

Macroeconomic Outlook-2012

GDP Growth	7-8%
Rate of Inflation	6-7%
Budget Deficit as % GDP	6.5%
1 - year Treasury Bill Rate	9.2%

THE FUTURE

As part of its overall economic strategy, the Sri Lankan Government set out a series of policies in the 2012 budget to bring the banking industry in line with national measures aimed at stimulating economic growth.

The Government's vision can be made more concrete by projecting specific goals that the banking sector must realise by 2016, assuming a USD 100 Bn. economy, as detailed in the Central Bank's Road Map for 2012 and beyond. The highlights of the Road Map are given below:

- An increase in banking sector assets to Rs. 8,000 Bn. from the current total of approximately Rs. 4,100 Bn.
- Total lending to reach Rs. 5,000 Bn. from the current level of approximately Rs. 2,500 Bn.
- Lending to embrace a broader spectrum of corporates and households.
- Significant improvement in access to financing across the country.
- A projected decline of the net interest margin to approximately 3.3% from the current level of 4.2%.
- Market capitalisation of the Colombo Stock Exchange to reach 70% of GDP.
- Outstanding value of the corporate bond market to increase from its current level of just under Rs. 100 Bn. to a total of Rs. 1,000 Bn.

To achieve these proposed goals, banks will need to realign their business models and processes to match the economy's evolving needs. This can be accomplished by implementing the following measures:

- Diversify funding and sources of new business while pursuing better integration with regional and international financial markets.

- Upgrade banking systems and processes to facilitate increased business activity.
- Expand the range of products, services and delivery channels to keep pace with the economy's emerging needs.
- Concentrate on improving cost efficiency and resource utilisation in order to boost profitability.
- Address human capital issues, including increased staff requirements and the need for management expertise.

The Sri Lankan Government envisions the implementation of innovative and sophisticated financing solutions throughout the banking industry:

- Banks will be expected to better leverage their balance sheets.
- The financial services sector must adopt a more international perspective in order to meet the 'doubling of assets' goal prescribed above, bridging the gap mainly with foreign sources of financing.
- Banks must look for stable wholesale funding sources rather than relying solely on small-scale customer deposits.
- Instead of depending on fund-based conventional banking products, institutions must explore fee-based services and investment banking products.

As the Central Bank continues to fine-tune its regulatory regime, banks and other financial institutions will be required to further strengthen:

- the quantity and quality of capital needed to enhance their loss absorbency;
- the systems and processes that will enable migration to more advanced approaches within the Basel II capital framework

- the management of banking risks in an integrated manner
- the governance, fitness and propriety of directors and senior management to establish operational accountability.

Regulatory Changes

The financial services sector is fundamentally dependent upon public confidence. It is governed by a set of regulations that require frequent updating and amendment to mirror the evolving sophistication of financial products and services on offer.

The following regulatory changes will have a significant impact on the operations of Sri Lankan banks:

Following the convergence of the Sri Lanka Accounting Standards with the International Financial Reporting Standards, LKAS 32 on 'Financial Instruments: Presentation', LKAS 39 on 'Financial Instruments: Recognition and Measurement' and SLFRS 7 on 'Financial Instruments: Disclosures' effective from January 01, 2012, would bring significant changes in terms of measurement, recognition and disclosure requirements specially to the banking industry in Sri Lanka. With the introduction of these new standards on Financial Instruments, the existing provisioning method based on the expected loss model will be changed to an incurred loss model where the provisioning is based on existence of actual evidence of impairment. Some of the items recognised as Off-Balance Sheet items under the present accounting arena may sit on the Balance Sheet having met the definition of a financial instrument.

In term of implementation, the Bank has already prepared its opening Statement of Financial Positions incorporating the requirements of these new and revised accounting standards.

Steering Committee appointed for the implementation of these standards is assisted by a few working committees formed to look after each different applicable areas such as impairment, treasury products, disclosures etc. The Bank is well equipped with the adoption of these standards in its letter and spirit on their effective date.

One of the other areas affected is the share based payment transactions as per the requirements of SLFRS 2 on 'Share-Based Payment'. This will result in recognising such transactions including ESOPs to be recognised at the fair value of the equity instruments granted, instead of the actual sale proceeds being recognised under the present context.

Currently, the country's banks use a basic indicator approach to calculate the capital charge under operational risk. Beginning in January 2013, banks will be required to adopt a new Standardised Approach for calculating such risk-related charges.

Strategic Direction

Commercial Bank originally specialised in traditional trade finance on behalf of business elites. As the Bank has evolved through a long and rich history, it has transformed itself into a true national bank, firmly establishing its presence in every corner of the country. Today's extensive branch and ATM network testifies to the Bank's impact nationwide, as does its progress in the largely untapped Northern and Eastern Provinces over the last two years.

Commercial Bank follows a well-established procedure, dating back to the 1980s, for writing its Corporate Plan and Budget. The objectives, targets and key performance indicators enshrined in these

THE FUTURE

documents have helped lift the Bank to its present position and instilled a target-driven culture throughout its operations.

The Board of Directors and management critically reviewed the strategic direction of the Bank at the time the Corporate Plan and the Budget were prepared and approved. Well-articulated Vision and Mission statements act as the catalyst in its safe but uneven journey towards further heights in future.

The Corporate Plan and Budget for 2012 through 2016 present a rigorous medium-term view, detailing the Bank's present status and mapping out strategies to consolidate its niche position in the private sector banking market while capitalising on future opportunities. The plan also details 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, Information Technology, Human Resources, Integrated Risk Management and Marketing.

The Bank has drawn up plans to optimise its profitability, efficiency and productivity in 2012. To help ensure the success of these proposals, strategies have been devised to raise the bar further which could measure the improvement in ratios such as return on equity, return on assets and cost/income.

The Corporate Plan takes a dynamic yet disciplined approach to assessing long-term cost-optimisation strategies. Management

will concentrate on optimising the Bank's cost structure through various forms of re-engineering, including the centralisation of business processes, a channel migration programme and better utilisation of IT resources to develop cost-effective delivery options.

The efficient utilisation of capital is another important measure of organisational success, especially in the context of the Bank's aggressive expansion of its loan book. The Corporate Plan proposes maintaining the capital adequacy ratio - a symbol of stability of a financial services organisation well above the mandatory minimum level even while the Bank's asset base is expanding.

Commercial Bank will continue working to improve its already high customer satisfaction levels through process improvements, centralisation of services and automation. In addition, the Bank will maintain a cautious approach when launching media campaigns designed to clarify and enhance the brand image.

The Bank intends to expand its presence into untapped and underserved areas building on past efforts, the Bank will continue to improve the country's banking infrastructure and create opportunities for all prospective customers to enter formal banking streams and enjoy improved access to financial services.

The Corporate Plan and the Budget is prepared based on certain assumptions. Most of these assumptions relate to the economic environment. Given the facts that the Bank does not function in isolation, its performance depends on many variables in the environment - both internal and external and that it does

not have control over the external environment, the Bank conducted a sensitivity analysis on the projections to potential changes in key variables with a view to identify the probable impact to the Bank.

In addition to all of the points discussed above, the Corporate Plan outlines the following major initiatives for the planning period:

- Improve operational efficiency and rationalise the Bank's cost structure through a stronger commitment to IT solutions.
- Reduce the Bank's reliance on traditional bricks-and-mortar branch banking with a move to electronic banking solutions.
- Align the overall business strategy with the Government's core economic strategies.

These strategic priorities will amplify brand equity of the Bank and will enable it to record sizable and sustainable performance, thereby enabling the Bank to be solidly integrated into the country's economic development as the largest private bank.

Commercial Bank views itself as an integral component in the renewal and future development of an entire nation. It is an ambitious yet realistic vision that foresees the country becoming an economic hub in the region, with a consequent doubling of per capita income to US dollar 4,000 by 2016.

Commercial Bank embraces this challenge, believing wholeheartedly that its operations, its resources and, above all, its people are ideally positioned to lend a helping hand as Sri Lanka pursues the boldest of economic goals.

BANK'S READINESS TO IFRS CHANGEOVER PLAN

Transition to Sri Lanka Accounting Standards (SLFRS/LKAS)

Sri Lankan Specified Business Enterprises must effect transition to Sri Lanka Accounting Standards - SLFRSs and LKASs for financial years beginning on or after January 1, 2012. For the Bank, SLFRSs/LKASs will be effective for interim and annual periods commencing January 1, 2012 (adoption date), and will include the preparation and reporting of one year of comparative figures, including an opening balance sheet as at January 1, 2011 (transition date).

In order to prepare for the transition to SLFRSs/LKASs, the Bank set up a significant project, implemented a project governance structure and developed an implementation plan which consists of five phases: (i) Diagnostic; (ii) Design and planning (iii) Solution Development; (iv) Implementation; (v) Post-Implementation.

The diagnostic phase is now complete. The finalisation of accounting decisions by management and their review and approval by the Board Audit Committee is outstanding. The Bank has started the implementation phase for all critical areas and is focused on finalising implementation decisions regarding first-time adoption and ongoing accounting policy choices.

THE FUTURE



KEY ELEMENTS OF THE BANK'S IFRS CHANGEOVER PLAN

The following summarises the Bank's progress towards completion of selected key activities contained in its conversion plan, including significant milestones and anticipated timelines.

Key Elements and Milestones	Status
Identify differences between SLAS and SLFRS/LKAS accounting policies.	Detailed assessments of accounting differences applicable to LKAS 32 & 39 (Financial Instruments presentation, recognition and measurement) which is considered having a significant impact on the financials of the Bank have been identified. Detailed assessment of other SLFRSs/LKASs, expected to be completed by Q1 2012
Select and approve the Bank's SLFRS 1 first-time adoption and ongoing accounting policy choices	First-time adoption decisions will likely to be finalised by Q1 2012
Assess requirements and develop model Financial Statements, including note disclosures under SLFRSs/LKASs	Recommended format of Statement of Financial Position and Income Statement is expected to be completed by Q1 2012. Model Financial Statements is expected to be completed by Q2 2012
Prepare a SLFRS opening balance sheet, with significant Impacts	Preliminary quantification of differences and preparation of opening balance sheet was completed. However, this will likely to be an ongoing and iterative process throughout 2012, including tax impacts
Prepare fiscal 2011 comparative year information under SLFRS for disclosure in 2012.	Expected to be completed by Q1 2012
Training and Capacity Building	During the change over process several sessions of training and capacity building were conducted to: <ul style="list-style-type: none"> • Relationship Officers/Loan Officers • Credit Officers • Recovery Officers • Management

AREAS WITH SIGNIFICANT FINANCIAL STATEMENT IMPACT

Based on the preliminary estimation impact on work completed by the Bank on LKAS 32 and 39, the following areas have been identified as having significant Financial Statement impact. Such analysis with its estimated impact is made on a best effort basis and is subject to audit. The impact on other SLFRSs/LKASs which is considered to be not significant is yet to be finalised.

Area	Description	*Impact to Retained earnings as at Dec 31, 2011	*Impact to Retained earnings as at Jan 1, 2011	Impact to profits before tax for the year ended Dec 31, 2011
Impairment	Time-based CBSL provision will be replaced with collective and specific impairment. All individually significant loans with objective evidences will be individually tested while other loans will be tested collectively for impairment.	Increase by Rs. 118 Mn.	Decrease by Rs. 611 Mn.	Increase by Rs. 730 Mn.
Effective interest rate (EIR) application on longer maturity fixed deposits	Interest expenses will be recognised on effective interest basis rather than on straight line method.	Increase by Rs. 124 Mn.	Increase by Rs. 187 Mn.	Decrease by Rs. 62 Mn.
Staff loans at below market rate	All staff loans are to be recognised initially at fair value. Subsequent interest recognition should be on EIR. Day 1 difference is treated as pre-paid staff cost and to be amortised	No significant impact	No significant impact	No significant impact
Derivatives	All derivatives should be fair valued and brought in to the balance sheet	No significant impact	No significant impact	No significant impact
Investments	Investments to be classified either as Fair value through profit and loss (FVTPL), Held to maturity (HTM), Available for sale (AFS). Measurement should be either at fair value or amortised cost using effective interest rate, based on the classification.	No significant impact	No significant impact	No significant impact

* Excluding deferred tax adjustment



Rs. '000

1,000

800

600

400

200

0

80

90

00

05

06

07

08

09

10

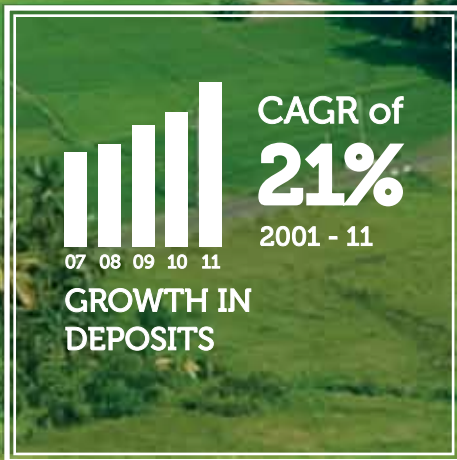
11

TOURIST
ARRIVALS



Leaving treacherous terrain behind...

On the expressway of development, there's no slippery road ahead...not a skid in sight! In fact there's nothing to slow momentum as we approach our targeted destination. Commercial Bank's 'growth signs' are moving in the right direction...at the right speed.





Sustainability Supplement

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OUR STRATEGY AND PROFILE

A MESSAGE FROM THE CHAIRMAN

Dear Stakeholder,

Corporate sustainability, in a broad sense, is about an organisation's capacity to endure and be endeared. It is not only about ensuring the long term survival and growth of the corporate entity itself, but is also about taking responsibility for the use of the earth's resources and engaging with local communities. By integrating the two, we at Commercial Bank adopt a responsible business approach that creates long term stakeholder value through sustainable environmental, social and governance practices. It is a systematic and dynamic process of analysing challenges, seizing opportunities and managing risks at both operational and strategic levels. They are discussed in the pages that follow.

Our corporate sustainability strategies hinge on innovation and technology, collaboration and networking, continuous process improvement and stakeholder engagement. This is our third Report on sustainability, and like in the previous year, it is a part of our Annual Report.

As an organisation enjoying a position of business leadership, our commitment to sustainable banking remains strong as ever. The Bank's governance and management systems are designed to assist in conducting business transparently and with accountability, particularly with regard to economic, environmental and social aspects. Sustainability principles are very much an integral part of our core business philosophy, and translated into action through our strategy.

The end of the near 3-decade war has presented Sri Lanka with an ideal opportunity to boost her investments and propel the country to achieve higher economic growth rates. Indeed the country achieved a GDP growth rate of 8% in 2010 and is expected to have achieved a similarly high growth rate for 2011. The Government will have to ensure that the dividends of these high GDP growth rates percolate to all sections of our society.

Equitable and inclusive development is a challenge that drives our social agenda. It is the Bank's policy to generate measurable and sustainable social dividends, particularly for those who are marginalised or less privileged. Our CSR Trust, which supports community-aligned projects, continues to be an effective vehicle for expanding reach and financial inclusion, developing small-scale enterprises and promoting sustainable livelihoods.

As a banking institution, we are mindful of taking precautions against any negative social and environmental impacts that may be caused by the projects that we finance. We manage this through an in-house Social and Environmental Management System, which inter alia lays down policies that provide guidance to our customers to ensure that their products, processes and business practices are based on sound sustainability principles. Further, as a signatory to the United Nations Global Compact's ten principles encompassing human rights, labour, environment and ethics as well as by adhering to the GRI G3.1 Reporting Framework, we continuously strive to develop our capabilities while embracing best practices.



D.S. Weerakkody
Chairman

Colombo
February 09, 2012

OUR STRATEGY AND PROFILE

INTRODUCTION: ABOUT THIS REPORT

This Sustainability Report, which is published for the third consecutive year covers the operations and activities of Commercial Bank of Ceylon PLC for the year ended December 31, 2011. Our previous report, published in the 2010 Annual Report, covered the year ended December 31, 2010. It is the intention of the Board of Directors of the Bank to publish such reports annually. The Bank commenced publishing its sustainability performance based on the Global Reporting Initiative (GRI) Guidelines in its 2009 Annual Report.

This Report has been compiled and presented in compliance with Version G3.1 of the Sustainability Reporting Guidelines published by the GRI. A Compliance Index appears at the end of the Report for easy reference on pages 108 to 115.

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

Report Outline

This Report largely conforms to its predecessor in terms of its scope, boundary and measurement methods. The aim has been to make possible a year-on-year assessment of the Bank's activities from the point of view of sustainability. Also facilitating comparison and general transparency is our decision to include reporting on

the broad categories proposed by the GRI Guidelines. These categories are:

- Strategy and Analysis
- Organisation Profile and Report Parameters
- Governance, Commitments and Engagement
- Management Approaches
- Economic Performance
- Environmental Performance
- Social Performance in terms of Labour Practices and Decent Work, Human Rights, Society and Product Responsibility

Information for compiling the Report is thus drawn from a number of different sources. Financial data presented are extracted from the Audited Financial Statements and the accompanying Notes, where applicable. Additional information was obtained from the various business units of the Bank, based on records on actual data maintained by them. In particular, information on sustainability-related activities and achievements was obtained from the Bank's Human Resources, Marketing and other core business units.

Man-hours in respect of training provided for employees of the Bank were computed on the basis of the scheduled duration of training sessions.

OUR STRATEGY AND PROFILE

BANK'S APPROACH TO SUSTAINABILITY

The principles of sustainability are increasingly getting integrated with the business practices of the Bank. We maintain close dialogue with all our stakeholders and target our social and environmental performance accordingly, while fulfilling our aspirations on the economic front. The purpose of this Sustainability Report, published annually as a supplement to the Annual Report, is to communicate the benefits that accrue to both the Bank and all its stakeholders through such an integrated business approach. The relationships established with our stakeholders and the feedback we receive on issues that are important to them will undoubtedly further improve our business practices and performance over the coming years, leading to a win-win situation for all.

The diagram below portrays the key challenges are opportunities to the Bank in its march towards doing sustainable business. These are addressed through our corporate planning process.

BANK'S SOCIAL AND ENVIRONMENTAL MANAGEMENT SYSTEM

One of the most important developments of sustainability at Commercial Bank is our 'Social and Environmental Management System' (SEMS), which spells out the social and environmental policy and procedures to be followed by the Bank. A senior officer designated as the 'Social and Environmental Coordinator' manages the implementation of the system. 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. The SEMS is currently being upgraded in consultation with the IFC to ensure full compliance.

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. The underlying principles of SEMS ensure that:

- Project lending by the Bank is consistent with IFC Performance Standards, the IFC Exclusion List and other applicable national laws on environment, health, safety and social issues;
- All projects are reviewed against the applicable requirements at the time a loan is granted and on an ongoing basis thereafter for the period of the Bank's association with that project;
- Only projects which we believe will be designated, operated and maintained according to these applicable requirements are financed;
- The Bank is transparent with respect to all its activities; and
- Customers and Bank staff understand the policy commitments made by the Bank in this area.



OUR STRATEGY AND PROFILE

Risks, Opportunities and our Response

Risks and Opportunities	Our Commitments and Targets
The state of the economy, i.e., macroeconomic stability and sustainable GDP growth; impact of the Euro Zone debt crisis and weak growth in Europe and the US which account for over 50% of our export market	Achieve medium term targets as per our Corporate Plan and Budget (Refer Section on 'Financial Goals and Achievements' on page 03)
Middle East tensions and rising oil prices; with upside prospects for further investments in renewable energy projects	Apply the Bank's SEMS for project financing, with 2012 targets that include: <ul style="list-style-type: none"> Enhanced lending for renewable energy and energy savings projects Training for Bank officers Awareness programmes for customers
Changes in laws and regulations in the countries in which the Bank operates, and the consequent new compliance requirements	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
Maintaining customer satisfaction in the face of stiff competition	Add satisfaction-enhancing products, features and practices by conducting periodic surveys. Follow innovations and developments in the industry, and adapt accordingly
Attracting and retaining the best of talent	Talent management, staff relation and welfare policies, productivity enhancement, business partnering, improved compensation and benefits. Periodically measure employee satisfaction through surveys; improve satisfaction level in 2012
Establishing closer linkages between the activities of the Bank's CSR Trust and national priorities	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: <ul style="list-style-type: none"> IT Labs for less-privileged schools to enhance IT literacy Support for English language education Support for improving health care and well-being of local communities

EXTERNAL VERIFICATION AND VALIDATION

Our inaugural report for 2009 carried a self-declared GRI Application Level 'C'. In our second report, we progressed to Application Level 'B' and the Report was also subjected to an independent assurance by Ernst & Young, Chartered Accountants. This year we are producing a Sustainability Report to Application Level 'B+', subject to external verification and assurance by Det Norske Veritas AS (DNV), in addition to assurance of Ernst & Young. Their Independent Assurance Reports appear on pages 105 to 107.

The Bank does not have any relationship with DNV or Ernst & Young apart from the latter's

function as an Independent Auditor to the Bank. The Bank expects to continue with the practice of seeking independent external assurance for its Sustainability Reports in the future as well.

SCOPE AND BOUNDARY OF THE REPORT

The Report covers all operations and activities of the Bank only. 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. - are therefore excluded.

We are of the opinion that the operations and results of these subsidiary and associate companies are not material in terms of their contribution to the profits and the assets of the Group, as evident from the Audited Financial Statements that appear in this Annual Report on pages 244 to 320. However, we intend including the operations of these entities in our future sustainability reports in the event the disclosure of such information becomes material to our stakeholders.

Further, we have not also considered the performance data and other disclosures concerning the Bank's operations in Bangladesh,

except for the economic performance indicators drawn from the Financial Statements of the Bank which includes the banking operation in Bangladesh as well, purely to facilitate the reconciliation of these data with the Audited Financial Statements of the Bank. However, it is our expectation to include full disclosure (including social and environmental performance indicators) in respect of activities of our Bangladesh Operation in our future Sustainability Reports.

OUR STRATEGY AND PROFILE

INQUIRIES AND SUGGESTIONS

The Bank is happy 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

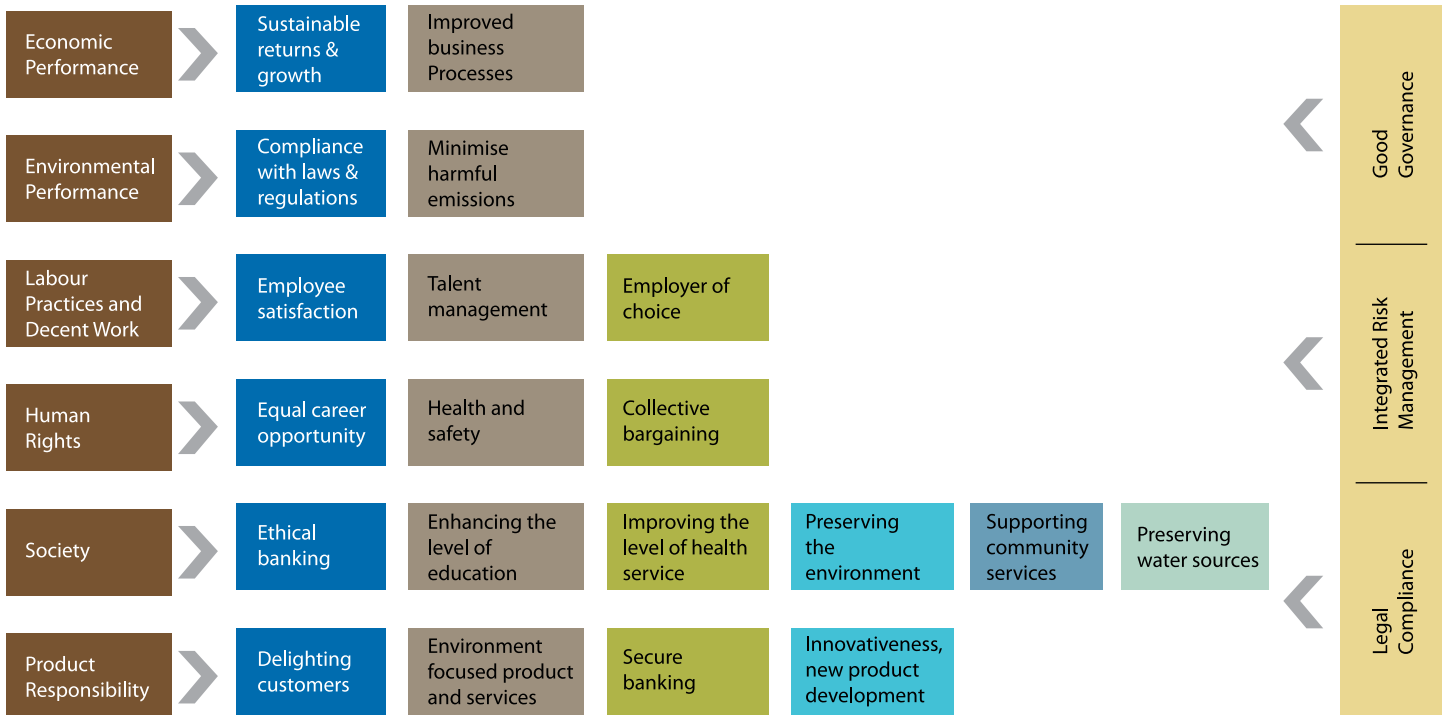
Commercial Bank of Ceylon PLC,
'Commercial House',
21, Sir Razik Fareed Mawatha
(formerly known as Bristol Street),
Colombo 01, Sri Lanka.

email@combank.net

DEFINING REPORT CONTENT

We present below the Bank's material issues identified by the Bank in relation to sustainability. These issues have been identified by considering the expectations and perceived opinions of stakeholders and in relation to the Bank's policies and practices.

In order to facilitate tracking these material and significant issues, they have been demonstrated in the grid shown below in a way that correspond to the main sections of this Sustainability Report.



The above diagram portrays the Bank's significant impact towards the people, planet and profit that would substantively influence the assessments and decisions of stakeholders.

OUR STRATEGY AND PROFILE

ORGANISATIONAL PROFILE

OWNERSHIP, LEGAL FORM AND OUR PRESENCE

Commercial Bank of Ceylon PLC is the largest private sector bank of domestic origin in Sri Lanka in terms of assets, deposits, loan book and profits. The Bank commenced its operation with a single branch way back in the 1920s, expanded its scale of operations in Sri Lanka in the ensuing years and extended its operations overseas in 2003 with the acquisition of Bangladesh operations of Credit Agricole Indosuez. In addition, Commercial Bank has placed Business Promotion Officers in Jordan, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates.

The Bank is a licensed commercial bank and a public limited liability company that is listed on the Main Board of the Colombo Stock Exchange. The Bank had the largest market capitalisation among all listed banking institutions in Sri Lanka and was ranked at No. 6 among all listed

entities as at end of 2011 (No. 4 as at end 2010). Commercial Bank is the only Sri Lankan bank represented in the Top 1000 Banks in the world based on the annual ranking by UK-based 'The Banker' magazine, based on strength of Tier 1 capital, assets size, soundness, performance and profitability.

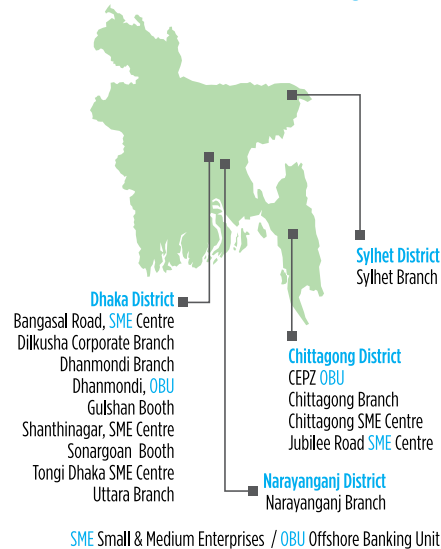
More information is available in the Section on 'Investor Relations' on pages 206 to 226.

SCALE OF OPERATIONS

The Bank conducts its operations from its Head Office at 'Commercial House', Sir Razik Fareed Mawatha, Colombo 01 and through its branches and other delivery channels. We continue to delight our customers through a network of 213 manned and 500 automated delivery points in Sri Lanka, 17 manned

and 14 unmanned delivery points in Bangladesh, and through the aforementioned Business Promotion Officers with a total staff strength of 4,329 in Sri Lanka and 195 in Bangladesh. The compounded annual growth rate (CAGR) of the Bank's total assets, loan book and profit after tax exceeded 20% over the past decade. The above statistics amply demonstrate the confidence placed by our customers on the stability of the Bank.

Network of Outlets in Bangladesh



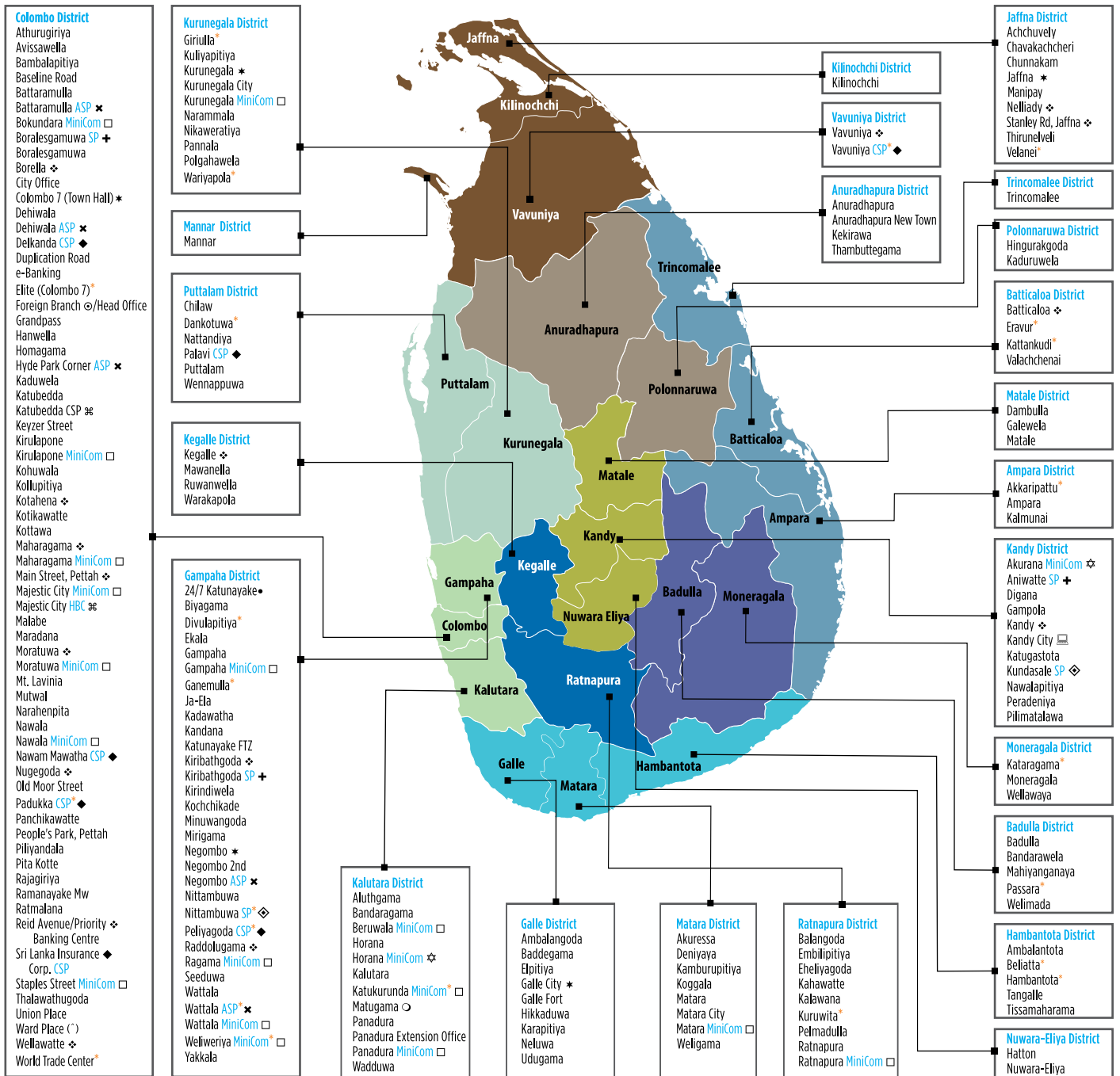
BANKING HOURS - SRI LANKA

Abb/Suffix	●	*	☐	❖	○	⊙	(*)	CSP ◆	MiniCom ☆	MiniCom □	ASP ✕	HBC ⌘	SP ◇	SP +	
Description	Branches							Customer Service Points	Banking Centres at Cargills Food City Supermarkets	Banking Centres at Arpico Supercentres	Holiday Banking Centres	Service Points			
Weekdays	9 to 3	24 Hrs	9 to 3	10 to 7	9 to 3	9 to 3	9 to 4	10 to 5	9 to 3	9.30 to 7	10 to 7.30	10 to 7.30	10 to 7.30	9.30 to 7	10 to 7.30
Saturday	-	24 Hrs	9 to 1.30	10 to 7	9 to 1.30	-	-	10 to 5	-	9.30 to 7	10 to 7.30	10 to 7.30	10 to 7.30	9.30 to 7	10 to 7.30
Sunday	-	24 Hrs	9 to 1.30	10 to 7	-	9 to 1.30	-	-	-	9.30 to 7	10 to 7.30	10 to 7.30	10 to 7.30	9.30 to 7	10 to 7.30
Bank Holidays	-	24 Hrs	9 to 1.30	10 to 7	-	-	-	-	-	9.30 to 7	10 to 7.30	10 to 7.30	10 to 7.30	9.30 to 7	10 to 7.30

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

OUR STRATEGY AND PROFILE

NETWORK OF DELIVERY POINTS IN SRI LANKA



* Opened in 2011

OUR STRATEGY AND PROFILE

The Bank serves over two million customers spread across corporate, institutional, public sector and retail including SMEs and individuals via an array of products, services and delivery channels. Details of the products and services offered and the delivery channels used to serve our customers, categorised under four main business divisions of the Bank namely, Corporate Banking, Personal Banking, Treasury and International Operations are given below:



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 microfinance 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 valuation, 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 specialised 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, futures trading, currency and interest rate swaps, forward rate agreements, caps, floors and collars, G7 and LKR FX options, hedging FX and interest rate risk, fixed income securities trading.

Delivery Channels
Branch network, ATM network, internet banking

OUR STRATEGY AND PROFILE

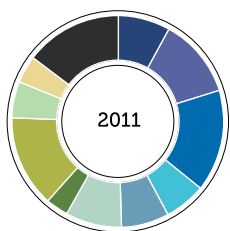
During the year under review, operations of the Bank generated a total income of Rs. 45.483 Bn. (Rs. 41.522 Bn. in 2010) and profit after tax of Rs. 8.048 Bn. (Rs. 5.523 Bn. in 2010). Total equity and debt by end-2011 stood at Rs. 44.227 Bn. and Rs. 0.973 Bn. respectively (Rs. 33.302 Bn. and Rs. 2.127 Bn., respectively at end-2010).

Details of the reporting by Business Segments and Geographical Segments, Sector-Wise Distribution of Loans and Advances and Deposit Mix are found in Notes 39.1, 39.2, 20.6 and 27 to the Financial Statements on pages 314, 315, 286 and 297, respectively.

More information on the Bank's income, profits, assets, business volumes, debt and equity together with ratio connected to key performance areas of the Bank is found in the Section on 'Decade at a Glance' on pages 224 and 225.

The Bank's performance in 2011 compared to 2010 is summarised in the Section on 'Financial Highlights' on page 03.

Sectoral Classification of Loans & Advances



Loans & Advances

■ Exports	8.19%
■ Imports	12.05%
■ Industrial	15.54%
■ Agriculture & Fishing	6.35%
■ Housing & Construction	7.20%
■ Commercial Trading	8.66%
■ Tourism & Allied	3.48%
■ Services	14.07%
■ Consumption	5.66%
■ Pawning	4.18%
■ Others	14.62%

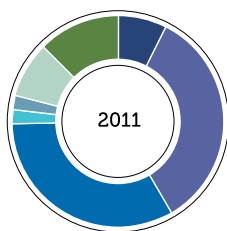
The principal business activities of Commercial Bank of Ceylon PLC and its subsidiaries and associates are found in the 'Annual Report of the Board of Directors' on page 230.

Details of corporate profiles, Directorates and summary of financial information of Group Companies are found in the Section on 'Group Structure' on page 226. Details of the business operations of the Bank during the year under review appear in the Section on 'Management Discussion and Analysis' on pages 17 to 51.

The Public Face of the Bank

Commercial Bank is best known to its customers and the general public by its corporate imagery, which appears in its advertising, publicity materials, official publications, corporate website etc.

Deposit Mix



Deposits

■ Current Accounts - LKR	7.58%
■ Savings Deposits - LKR	34.01%
■ Time Deposits - LKR	33.07%
■ Certificates of Deposit - LKR	2.04%
■ Current Accounts - FCY	2.13%
■ Savings Deposits - FCY	8.69%
■ Time Deposits - FCY	12.48%

Outsourcing

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 ready to outsource non-key functions if this 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 bank statements
- Courier services
- Maintenance of the share ledger and related secretarial work

Significant Profile Changes in the Year Under Review

One of the significant development in the operations of the Bank in 2011 was the setting-up of an Islamic Banking Unit offering a full range of services to this growing sector.

Another important new concept launched during the year was that of priority banking services for selected customers at a specially-dedicated Elite Branch at No. 7, Gregory's Road, Colombo 07. The service profile of the Elite Branch may be described as 'banking and beyond', broadening and extending the concept of what a bank is for.

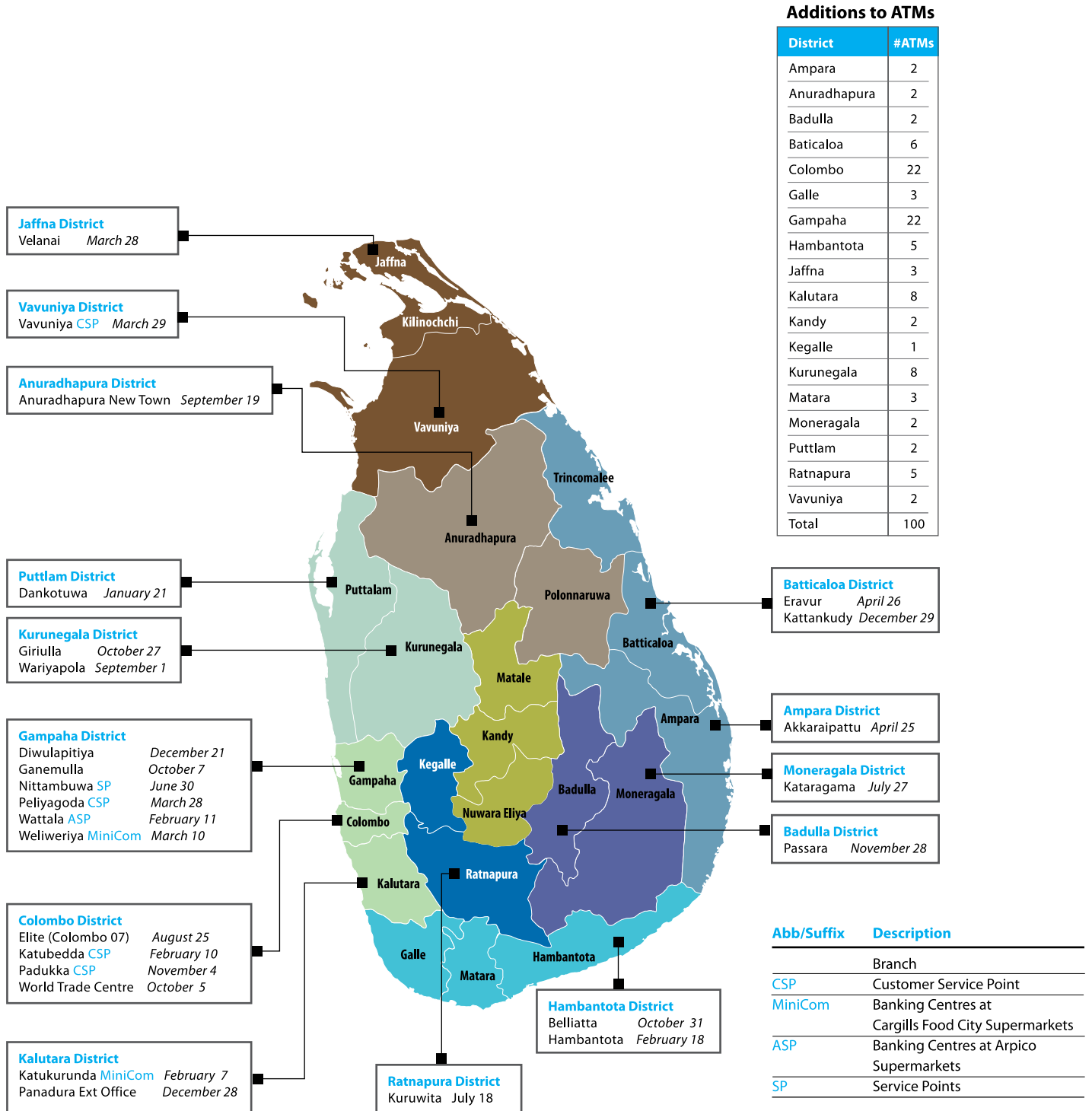
In addition to the Elite Branch, 25 new service-delivery points were opened this year. See map on 'New Delivery Points and ATMs added in 2011' on page 64.

Five existing branches - at Ambalantota, Chilaw, Matugama, Nawalapitiya and Batticaloa - were relocated with a view to enhancing customer convenience.

During the year, the Bank raised funds by way of a Rights Issue of Ordinary Shares in order to strengthen its Tier I Capital Base. More information regarding this is found on Note 32 to the Financial Statements on page 301.

OUR STRATEGY AND PROFILE

NEW DELIVERY POINTS AND ATMs ADDED IN 2011



OUR STRATEGY AND PROFILE

AWARDS AND ACCOLADES

The Bank continued to be recognised through an array of awards and accolades during the year. They are tabulated below, together with those won during the past decade.

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
• Ratings by Fitch Ratings Lanka Ltd. Senior Debt	AA (lka)	AA (lka)	AA+ (lka)	AA+ (lka)	AA+ (lka)	AA+ (lka)	AA+ (sri)	AA+ (sri)	SL AA +	SL AA +
• Ratings by Ram Ratings Lanka Ltd. Long term financial institution ratings	AA+									
• Ratings by Ram Ratings Lanka Ltd. Short term financial institution ratings	P1									
• Only Sri Lankan Bank amongst the Top 1000 Banks of the world – The Banker, UK	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	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					
• Award for Excellence by Trade Finance Magazine (UK) Best Local Trade Bank	Winner		Winner							
• Awards by Finance Asia Best Bank in Sri Lanka	Winner	Winner	Winner							
• Bracken Award by The Banker Magazine (UK) Sri Lanka's Bank of The Year					Winner					
• Annual Report Awards by The Institute of Chartered Accountants of Sri Lanka Overall		Winner	Joint 1st R. up		Joint Winner	1st R. up	Winner	Winner	Winner	Winner
Banking Sector		Winner	1st R. up	Joint 1st R. up	Winner	Winner	Winner	Winner	Winner	Winner
Corporate Governance Disclosure		1st R. up	2nd R. up	Joint 1st R. up				Winner	Joint 1st R. up	Winner
Corporate Social Responsibility			2nd R. up						Joint 1st R. up	Joint 2nd 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	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					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	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		
• Institute of Cost and Management Accountants of Bangladesh National Best Corporate Award	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								

OUR STRATEGY AND PROFILE

GOVERNANCE, COMMITMENTS AND ENGAGEMENT

Commercial Bank of Ceylon PLC is a business organisation in a position of national leadership. It is acutely conscious of its responsibilities and obligations to all stakeholders and to society at large. Among these it counts its environmental stewardship that is part of the present generation's responsibility towards the future. The Bank's systems of governance are designed to ensure that it discharges these responsibilities and obligations in full.

Management and control at Commercial Bank is based on the best contemporary principles and practices as well as on applicable laws and regulations. Policies are drafted, and plans and day-to-day operations undertaken, under the aegis 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. Detailed information on principles and practice is available in the Section on 'Corporate Governance' on pages 119 to 170.

GOVERNANCE STRUCTURE

The Board of Directors is the highest governance body of the Bank. Its Chairman is an Independent Non-Executive Director. As at December 31, 2011, the number of Directors on the Board stood at seven. They are persons drawn from a variety of industrial and financial backgrounds in which they have achieved eminence, and contribute to Board discussions and decisions through

their ability, experience and specialist knowledge. 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 closely taken into account during the assessment process. For more details, please see the 'Board Nomination Committee Report' on page 166 of this volume. Profiles of Board Members are given on pages 178 to 179.

The Bank has in place a number of 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 the decisions/recommendations are duly communicated to the main Board. These committees consist of Executive and Non-Executive Directors in varying proportions, as shown in the table below:

Composition of Main Board and Board Committees as at end 2011

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	05	03	04	07	Nil	01	06
Board Human Resources and Remuneration Committee	Nil	03	02	01	03	Nil	01	02
Board Integrated Risk Management Committee	Nil	04	02	02	04	Nil	Nil	04
Board Nomination Committee	Nil	03	02	01	03	Nil	01	02
Board Audit Committee	Nil	04	02	02	04	Nil	01	03
Board Credit Committee	02	02	01	03	04	Nil	Nil	04
Board Technology Committee	Nil	02	01	01	02	Nil	Nil	02

More information on the responsibilities, composition and activities of Board Sub-Committees are given in the Section on 'Corporate Governance' on pages 161 to 170.

SHAREHOLDER AND EMPLOYEE ENGAGEMENTS WITH THE BOARD

Communication 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 are forums to deliberate on matters which are relevant and of concern to the general membership.
- Investor comments through the Feedback Form found in the Annual Report.
- 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.
- Road shows and one-to-one discussion with key shareholders.

Communication 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.

OUR STRATEGY AND PROFILE

- The Bank's Board of Directors conducts effective dialogue with all members of Corporate Management on matters pertaining to the overall strategic direction of the Bank, particularly when the Corporate Plan and the Annual Budgets are reviewed, discussed and approved.
- 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 unions maintain close dialogue with the Board and the management of the Bank on matters of importance 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.

LINKING COMPENSATION TO PERFORMANCE AND BOARD EVALUATION

The Bank has a well-structured target-driven culture which is linked to its Corporate Plan. Members of the highest governance body, key management personnel and all executive officers are remunerated based on their level of achievement of the targets, which are set well in advance with mutual agreement. Specific 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 162 and 163.

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 members of the Board on their effectiveness of the Board's Governance Practices. The Board intends to expand the assessment areas to cover the contemporary topics as needed.

AVOIDING CONFLICTS OF INTEREST

Conflicts of interest among the members of the Board of Directors are avoided by excluding those who have an interest on a matter under discussion from participating in the decision-making process; and also by not counting the presence of the Board member who has an interest of any sort when counting the quorum for such decisions. Further information is found in the Section on 'Corporate Governance' on page 143.

In addition, the Bank actively seeks to avoid conflicts of interest among stakeholders and stakeholder groups. Measures include:

- Maintaining regular dialogue with employee unions;
- Agreeing performance targets and reward schemes in a transparent manner with every executive officer;
- Undertaking periodic pay surveys and adjustments to ensure that remuneration and compensation for employees remain in line with market best practice;
- Complying with the Codes of Best Practice on Corporate Governance issued jointly by The Institute of Chartered Accountants of

Sri Lanka, the Securities Exchange Commission of Sri Lanka, the Colombo Stock Exchange and the Central Bank of Sri Lanka; and

- Retaining a Compliance Officer 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 basis.

STATEMENTS OF COMMITMENT, AFFILIATIONS, CHARTERS AND CODES OF CONDUCT

The Bank operates according to well-defined and clearly articulated values, principles and rules, which define 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:

- The Vision and Mission statements of the Bank, which appear on page 07 as well as in the Bank's website: www.combank.net.
- The Social and Environmental Management System (SEMS) of the Bank, which is based on its social and environmental policy, as discussed previously.
- The Corporate Plan of the Bank, which sets out annual performance targets in terms of a number of indicators, including those relevant to sustainability.
- The Section on 'Managing Risk at Commercial Bank' that appears on pages 183 to 203 which elaborates on the activities of the Integrated Risk Management Department.

- The Oath of Secrecy and Code of Conduct that binds every Bank employee from the time of recruitment, and continuing right through their term of employment.
- The Whistle-Blower's Charter, which was adopted by the Bank based on the guidelines issued by the International Chamber of Commerce.

The Bank is already committed to a number of external charters, codes and standards regimes in which its operating values, principles and commitments to stakeholders and to society at large are embodied. These are:

- UNGC principles (See page 83 for UNGC principles).
- IFC guidelines and performance standards that spell the Bank's Social and Environmental Management System.
- Codes of Best Practice for Corporate Governance issued by the Colombo Stock Exchange, the Central Bank of Sri Lanka and issued jointly by The Institute of Chartered Accountants of Sri Lanka and the Securities Exchange Commission of Sri Lanka.
- ISO 27001 certification on information technology and operations of the Card Centre and e-banking centre (Commercial Bank was the first Sri Lankan bank to obtain this coveted international certification).
- The requirements of the Central Bank of Sri Lanka on single borrower limits, capital adequacy ratios, classification of non-performing advances and provisioning, liquid asset ratio, etc.

OUR STRATEGY AND PROFILE

The Bank sustains commitments to a number of sectoral, industrial and professional organisations and associations. By end 2011 these were:

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

MONITORING, EVALUATION AND RISK ASSESSMENT

During the preparation of the Corporate Plan, an analysis of strengths, weaknesses, opportunities and threats (SWOT) is carried out as a means of determining the Bank's strategic position. This analysis also takes into account important sustainability-related issues. In addition, analyses and presentations are made by each business unit and the functional heads of service units. The outcome is communicated to the Board of Directors for their consideration and strategy development.

As befits a financial institution, much attention is paid to risks of all kinds, which are categorised and described in the Section on 'Managing Risk at Commercial Bank' on pages 183 to 203.

The Chief Risk Officer is required to conduct presentations on the risk management strategies to the Board Integrated Risk Management Committee on a quarterly basis. The action plans arising from such presentations are communicated to the main Board of the Bank within a week.

Maintaining statutory and regulatory compliance is an important part of managing risk and ensuring sustainable business. The Board of Directors receives a quarterly paper on compliance in respect of both the Sri Lanka and Bangladesh operations of the Bank. The content of this Board paper is validated by the Internal Audit Department of the Bank.

Particular notice is taken of social and environmental issues, with a dedicated Social and Environmental Coordinator and team being tasked by the Board of Directors with identifying and managing the Bank's economic, environmental, and social performance, including relevant risks and opportunities, and compliance with internal circulars and regulatory requirements.

There are a number of procedures in place to monitor and evaluate the economic performance. The Bank works on an ongoing basis to identify possible bad debt provisions on loans and advances well ahead of them being classified as non-performing. A quarterly paper is submitted to the Board on suspense accounts balances, long outstanding balances and major debits. The Assets and Liabilities Management Committee (ALCO) assists the Board of Directors on how to realise the best yield on Bank assets and liabilities through timely re-pricing.

PRECAUTIONS

The Bank understands that the development of any socially responsible strategy necessarily demands corporate governance that goes beyond legal boundaries, guaranteeing 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. All critical processes and procedures of the Bank are well documented to ensure smooth functioning and to avoid multiple interpretations.

The Bank's Business Continuity Plan (BCP) prepared in 2006 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 BCP Committee has gathered wide knowledge in BCP documentation having attended training programmes conducted both locally and internationally. The Bank also has a Disaster Recovery Plan to supplement the BCP and to ensure the continuity and functionality of

the Information System. The Business Continuity Management plays a pivotal role in creating a culture within the Bank to be in readiness to improve the chances of survival, safeguard human life, assets and stakeholders' interest and to facilitate the continuation of essential services with minimum financial impact, loss of reputation, in the event of an interruption or disaster.

BCP includes a Staff Succession Policy, Crisis Communications Policy, Staff Travel Policy, Supply Chain Management Policy, Awareness and Training Policy.

STAKEHOLDER ENGAGEMENT

The Board is open to suggestions, recommendations or advice from any stakeholder and welcomes appropriate and constructive engagement from all those who have an interest in the Bank. Commercial Bank maintains regular engagement with key stakeholder groups. A number of avenues have been established to facilitate communications between the Board and shareholders, employees and other stakeholders. A 'stakeholder' is defined as any group or individual who can affect or be affected by the achievement or non-achievement of the objectives of the Bank.

The Bank's Corporate Social Responsibility begins with open dialogue with our stakeholders and hence steps have been taken to strengthen this dialogue by enabling closer connections with our stakeholders. The stakeholders identified on this basis together with topics of engagement, the method

OUR STRATEGY AND PROFILE

and the frequency of engagement are tabulated below.

Stakeholder Engagement

Stakeholder Group-Based Engagement and Dialogue Platforms	Topics of Engagement	Mode of Addressing Concerns Raised*
Shareholders, Investors, Analysts	<ul style="list-style-type: none"> • Annual Reports • Annual General Meeting • Extraordinary General Meeting • Interim Financial Statements • Press Conferences and Media Releases • Announcements made to the Colombo Stock Exchange • One-to-one Discussions • Road Shows • Corporate website: www.combank.net/ www.combank.lk 	<ul style="list-style-type: none"> • Plans to raise capital to improve capital adequacy ratio • Plans to improve provision cover • Plans to improve cost income ratio • Plans to improve liquidity • Maturity mismatches and plans to bridge the gaps • Plans to upgrade credit rating • Ways of minimising tax liability through effective tax planning • Branch expansion plans • Privilege cards to shareholders • Holding the Annual General Meetings at a time convenient to shareholders to facilitate maximum participation <p>At Commercial Bank, we have established a transparent and close communication with our shareholders, as well as with our existing and prospective investors. We make every effort to implement strategic plan aimed at achieving Vision and Mission of the Bank and to share the results. Principle of equality is our utmost consideration for us. We response to all concerns of shareholders provided they are not related to commercial secrets with a view to ensuring the management and shareholders maintain ongoing dialogue. We value the principles of transparency, accountability, and look for regular briefings.</p>
Customers	<ul style="list-style-type: none"> • Branches • Minicomms • Customer service points • Online feedback • Relationship and account managers who engage directly with corporate customers • Mobile banking • Complaint Resolution Officer appointed with the concurrence of 'Financial Ombudsman, Sri Lanka' • Customer-relations workshops • Customer Satisfaction Surveys • Call Centre • New products to be launched • Corporate website: www.combank.net/ www.combank.lk 	<p>Customer satisfaction is utmost importance to us. Opinions and expectations of our customers inspire us in developing new products and services. We take every effort to delight our customers which ranges from improving information security to responsible marketing communication, innovative and environment-friendly products, and supporting customers in business development.</p> <p>We conduct periodic surveys to learn about our customer satisfaction level and to get their views on improvements in level of services to delight them.</p> <p>A member of the Corporate Management functions as the Compliant Resolution Officer of the Bank with the objective of satisfactory settlement and resolution of complaints/disputes put forward by customers. This initiative was taken as a part of the voluntary scheme entitled 'Financial Ombudsman, Sri Lanka' set up by the banking and finance industry with the concurrence of the Central Bank of Sri Lanka.</p>

OUR STRATEGY AND PROFILE

Stakeholder Group-Based Engagement and Dialogue Platforms	Topics of Engagement	Mode of Addressing Concerns Raised*
Employees and Employee Associations		
<ul style="list-style-type: none"> • Annual relationship-building exercises with trade unions and executive association representing employees • Ad hoc meetings with employees and unions at need • Negotiations on collective agreements with unions and association • Annual Managers' Conference • Regional quarterly review meetings • Circular instruction on a needy basis • Daily operational updates to staff via email • Quarterly internal newsletter, <i>Com Pulse</i> • Intranet site of the HR Division • Feedback and brainstorming sessions as part of cross-functional training programmes • Special events such as quiz contests, staff children's party, art competition, sports competitions, etc. 	<ul style="list-style-type: none"> • Remuneration including performance-based compensation • Staff welfare • Environmental legislation • Compliance with national regulations • Implementing and managing the 'Social and Environmental Management System' (SEMS) at the Bank • Implementing anti-money laundering practices • Whistle-Blowing Mechanism • Basel II implementation • New accounting standards • Future plans of the Bank • Liquidity and funding strategy 	<p>Commercial Bank believes that high motivation and satisfaction levels of employees are of fundamental importance in ensuring sustainable business performance. Target driven culture of the Bank which rewards employees based on the degree of achievement of the pre-set targets for both the Bank and the individuals assure the accomplishment of the objectives of both, efficiently and effectively.</p> <p>In addition, the Bank organises training and awareness sessions and sends circular instructions with a view to increase awareness of our employees on various sustainability issues embedded in the SEMS.</p>
The Sri Lanka Banks' Association (Guarantee) Ltd.		
<ul style="list-style-type: none"> • Formal and informal interactions with the Sri Lanka Banks' Association • Industry-specific communications 	<ul style="list-style-type: none"> • Impact of new accounting standards and other regulatory requirements • Discussions with policymakers on industry-specific tax matters 	<p>The Bank as a key customer of the Sri Lanka Banks' Association, actively engages with this body with a view to bringing the matters of importance to the Banking sector before the regulators and other relevant parties. Engagement with the Association in the process of preparing for the adaptation of new and revised accounting standards from 2012 is one of the key involvements that the Bank encompassed during the year under review. Further, the Bank regularly provides feedback to this Association on matters of interest to the Banking Industry.</p>
Suppliers		
<ul style="list-style-type: none"> • Supplier relationship management • On-site visits and meetings 	<ul style="list-style-type: none"> • Procurement opportunities offered by the Bank • Engagement and registration on preferred supplier database • Contractual performance 	<p>The Bank maintains a list of registered suppliers with whom it engages in the ordinary course of business. Reliability and mutual trust place a vital role in building relationship with suppliers. Further, information transfer through continuous dialogue with them too ensures a high level of satisfaction to both the Bank and to the suppliers.</p>

OUR STRATEGY AND PROFILE

Stakeholder Group-Based Engagement and Dialogue Platforms	Topics of Engagement	Mode of Addressing Concerns Raised*
Communities and Youth		
<ul style="list-style-type: none"> ● Widespread network of delivery channels ● Corporate website: www.combank.net/ www.combank.lk ● Conferences ● Press release ● Scholarships ● Sponsorships ● Public events ● Call Centre 	<ul style="list-style-type: none"> ● Corporate social responsibility initiatives ● Cost-effectiveness of CSR initiatives ● Scholarships for university students ● Youth-targeted sponsorships ● International profiling of the brand through sports and the arts 	<p>The Bank contributes to local economic development through our widespread Branch, Minicom 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 including scholarships offered to underprivileged students the Bank aspires to reach local communities.</p>
Legislators and Regulatory Bodies**		
<ul style="list-style-type: none"> ● Stakeholder 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 ● Corporate website: www.combank.net/ www.combank.lk ● Press releases 	<ul style="list-style-type: none"> ● Central Bank of Sri Lanka regulations pertaining to the Licensed Commercial Banks ● Other Government regulations including taxes ● Compliance with Codes of Best Practice issued by The Institute of Chartered Accountants of Sri Lanka and the Securities Exchange Commission of Sri Lanka, the Colombo Stock Exchange and the Central Bank of Sri Lanka ● Banking license fees ● The role of business in society ● International financial developments ● SMEs' access to finance ● Implementation of SEMS in line with IFC guidelines ● Various issues that affect the well-being of Bank employees 	<p>We take utmost care in complying with all applicable laws and regulations to ensure the safety of the customers' investments. The Bank maintains regular dialogue with regulators with a view to assuring regulatory compliance and strengthening the relationship with other public and professional institutions.</p>
Media and General Public		
<ul style="list-style-type: none"> ● Press conferences ● Media briefings ● Press releases ● Informal briefings and communication 	<ul style="list-style-type: none"> ● 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 ● Communications to the General Public 	<p>The media acts as a most important tool which facilitate in building regular communication with our stakeholders. Having realised the value of continuous dialogue with the media, we take every endeavour to inform the media timely and accurately with our press releases and share opinions with opinion leaders at press conferences.</p>

* There were multiple ways of addressing concerns raised depending upon the nature of the issues and the urgency of the resolution solicited as detailed. The frequency of the resolution ranges from pre-determined deadlines including annual, quarterly, monthly, etc. to ad-hoc.

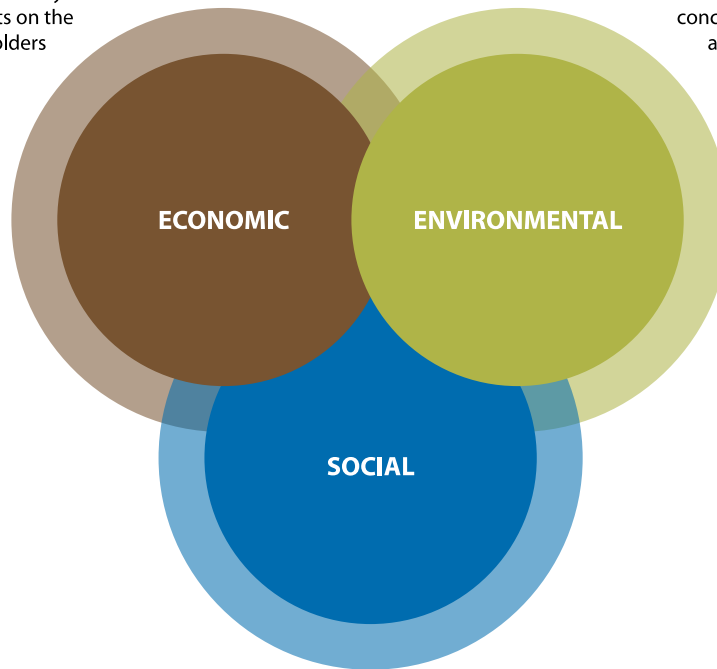
** Legislators and Regulatory Bodies include the Central Bank of Sri Lanka, the Department of Inland Revenue, Finance Ministry, Registrar of Companies, Colombo Stock Exchange, Securities and Exchange Commission of Sri Lanka, other Government organisations, Ceylon Chamber of Commerce, Donor Agencies, External Auditors, Sri Lanka Accounting and Auditing Standards Monitoring Board, Professional Organisations including The Institute of Chartered Accountants of Sri Lanka, International Finance Corporation, Financial Ombudsman, etc.

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.net.

MANAGEMENT APPROACH AND PERFORMANCE INDICATORS

This section of our Sustainability Report includes the performance indicators of the triple bottom line reporting approach. They have been categorised into Economic, Environmental, Labour Practices and Decent Work, Human Rights, Society and Product Responsibility for disclosure. A snapshot of these categories is demonstrated below:

The economic dimension of sustainability concerns the organisation's impacts on the economic conditions of its stakeholders and on economic systems at local, national and global levels. The Economic Indicators illustrate the flow of capital among different stakeholders and the main economic impacts of the organisation throughout society. (pages 73 to 80)



The environmental dimension of sustainability concerns an organisation's impacts on living and non-living natural systems, including ecosystems, land, air and water. The Environmental Indicators covered in this Section include the performance related to environmental compliances which form an integral part of our businesses and our social and environmental management policy. (pages 81 and 82)

The social dimension of sustainability concerns an organisation's impact on the social systems within which it operates. The GRI Social Performance Indicators identify Key Performance Aspects surrounding labour practices and decent work, human rights, society and product responsibility. (pages 83 to 104)

LABOUR PRACTICES AND DECENT WORK

The specific aspects under the category of Labour Practices and Decent Work are based on internationally recognised universal standards, such as principles of the United Nations Global Compact, Universal Declaration of Human Rights and the Conventions of the International Labour Organisation. (pages 86 to 96)

HUMAN RIGHTS

Human Rights dimension requires organisations to report on the extent to which human rights are considered in the process of the accomplishment of their goals to pushing ahead the organisation towards its strategic intent. In addition, the indicators cover employee and security awareness on human rights as well as non-discrimination, freedom of association, child labour, indigenous rights and forced and compulsory labour. (pages 97 and 98)

SOCIETY

Society performance dimension focuses on the impacts organisations have on the communities in which they operate, and disclosing how the risks that may arise from interactions with other social institutions are managed and mediated. Information is sought on the risks associated with bribery and corruption, undue influence in public policy-making and monopoly practices. (pages 99 to 102)

PRODUCT RESPONSIBILITY

Product Responsibility performance category addresses the aspects of a reporting organisation's products and services that directly affect customers, namely, health and safety, information and labelling, marketing and privacy. (pages 103 to 104)

ECONOMIC RESPONSIBILITY



OUR APPROACH TO ECONOMIC RESPONSIBILITY

As a leading financial institution that often sets the benchmark for the industry, we are well aware of our responsibility towards all our stakeholders. The economic policy of the Bank is developed and applied with due attention to stakeholder interests in a manner consonant with sustainable performance and growth.

OUR POLICY

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

Goals and Performance

The goals and objectives of the Bank are set out in a comprehensive Corporate Plan and Budget, which set directions and targets for all business units. Prepared annually, these two documents are based on a rolling five-year planning period. In addition to these core documents, monthly management accounts are prepared, in which variances are identified,

analysed and reported to the Board of Directors along with action plans to improve performance.

Core strategies are formulated and discussed at regular meetings of the Board and at various management committee meetings. Functional strategies and targets arising from them are communicated to the appropriate staff as needed. The functions of the Bank are thus closely linked to overarching strategy, the guiding principles of which are expressed in the 'Vision and Mission Statements' (see page 07).

All financial data presented in this Section have been extracted from the Audited Financial Statements of the Bank which have been prepared as per the provisions of the all applicable statutes.

The Board approved Corporate Plan provides the core strategies and direction for the Bank. There are six Board Sub-Committees functioning at the Bank of which four are mandatory. In addition, as depicted in the 'Governance Structure' on page 121, there are nine Management Committees headed by the Managing Director.

The strategic business units of the Bank consist of Corporate Banking, Personal Banking, Treasury and International Operations. Details on the performance of these units are discussed in detail in the 'Management Discussion and Analysis' on pages 27 to 42.

Information on the Bank's key financial goals and achievements in the year under review are found on page 03. More information is available in the following sections of the report:

- Operating and Financial Highlights on pages 02 and 03.
- Investor Relations on pages 206 to 226.

Detailed information will also be found in the Audited Financial Statements and the accompanying Notes on pages 244 to 320.

ECONOMIC RESPONSIBILITY

KEY PERFORMANCE INDICATORS OF ECONOMIC RESPONSIBILITY

Creation and Distribution of Economic Value

The economic performance of the Bank can be measured by a variety of indicators. We have selected the following as being most relevant in the context of a sustainability report. Data has been provided covering a five-year period to facilitate performance comparisons and assessment.

Economic Value Added (EVA)

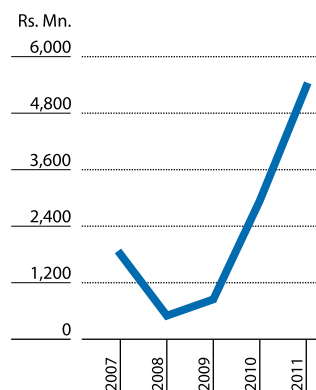
A measure of profitability that takes into consideration the cost of total invested equity and provides an accurate indication of true economic value generated by the Bank as opposed to accounting profits. Commercial Bank is deeply conscious of delivering optimum and consistent value to its shareholders. The Bank's economic value creation during 2011 amounted to Rs. 5.361 Bn., while the total over the past five years amounted to Rs. 11.458 Bn.

Economic Value Added

For the year

	2011 Rs. Mn.	2010 Rs. Mn.	2009 Rs. Mn.	2008 Rs. Mn.	2007 Rs. Mn.
Invested Equity					
Shareholders' Funds	44,227	33,302	28,499	25,891	22,936
Add: Cumulative Loan Loss Provision	5,021	4,900	5,015	4,955	3,557
Total	49,248	38,202	33,514	30,846	26,493
Earnings					
Profit after Tax and Dividends on Preference Shares	8,048	5,523	4,305	4,228	3,991
Add: Loan Losses and Provisions	1,503	1,192	1,534	2,278	1,777
Less: Loan Losses Written-Off	(23)	(6)	(23)	(5)	(2)
Total	9,528	6,709	5,816	6,501	5,766
Cost of Equity (based on 12 months Weighted Average Treasury Bill Rate plus 2% for the Risk Premium)	9.53%	10.49%	15.45%	20.92%	18.07%
Cost of Average Equity	4,167	3,761	4,972	5,998	3,964
Economic Value Added	5,361	2,948	844	503	1,802

Economic Value Added 2007-2011



ECONOMIC RESPONSIBILITY

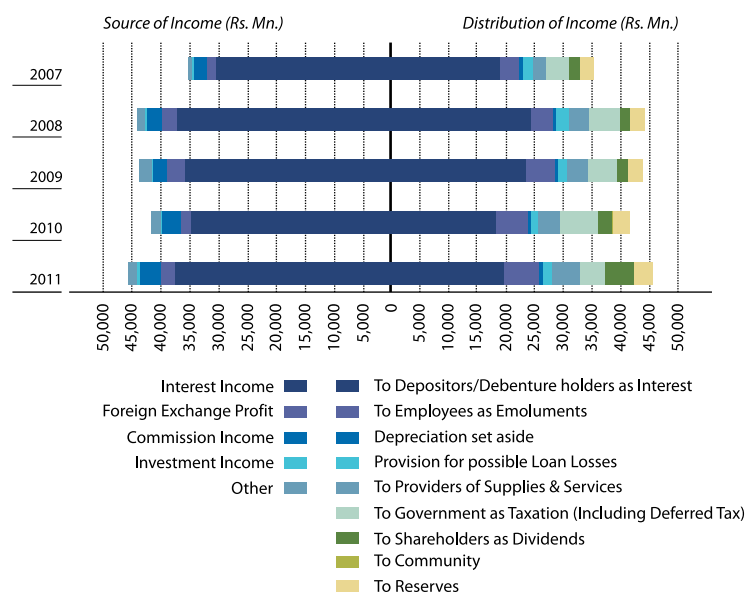
Sources and Distribution of Income

Portrays the principal sources of income of the Bank and how it was distributed amongst various stakeholders.

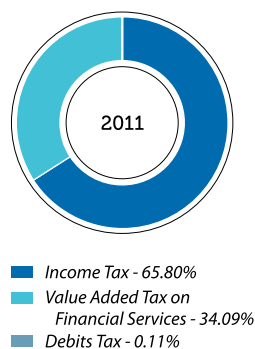
Statement of Sources and Distribution of Income

For the year	2011 Rs. Mn.	2010 Rs. Mn.	2009 Rs. Mn.	2008 Rs. Mn.	2007 Rs. Mn.
Source of Income					
Interest Income	37,639	34,740	35,925	37,188	30,503
Foreign Exchange Profit	2,322	1,741	2,962	2,633	1,545
Commission Income	3,800	3,220	2,530	2,715	2,383
Investment Income	389	207	219	359	310
Other	1,333	1,614	2,105	1,220	482
Total	45,483	41,522	43,741	44,115	35,223
Distribution of Income					
To Depositors and Debenture holders as Interest	19,643	18,328	23,515	24,336	18,951
To Employees as Emoluments	6,077	5,588	5,081	3,926	3,539
Depreciation set aside	748	539	506	421	411
Provision for Possible Loan Losses	1,503	1,192	1,534	2,278	1,777
To Providers of Supplies and Services	4,886	3,779	3,619	3,511	2,252
To Government as Taxation (Including Deferred Tax)	4,468	6,515	5,159	5,352	4,159
- Income Tax	2,940	3,794	2,887	3,252	2,601
- Value Added Tax on Financial Services	1,523	2,709	2,264	2,091	1,552
- Debits Tax	5	12	8	9	6
To Shareholders as Dividends	4,905	2,642	1,749	1,786	1,856
To Community	110	58	22	23	30
To Reserves	3,143	2,881	2,556	2,482	2,248
Total	45,483	41,522	43,741	44,115	35,223

Sources and Distribution of Income 2007-2011



Contribution to Government



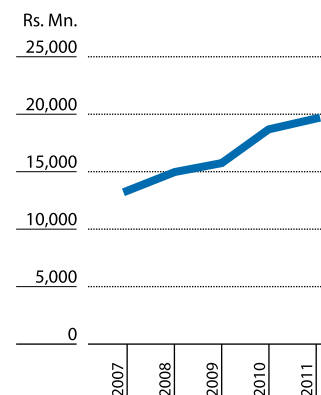
ECONOMIC RESPONSIBILITY

Value Addition and Distribution

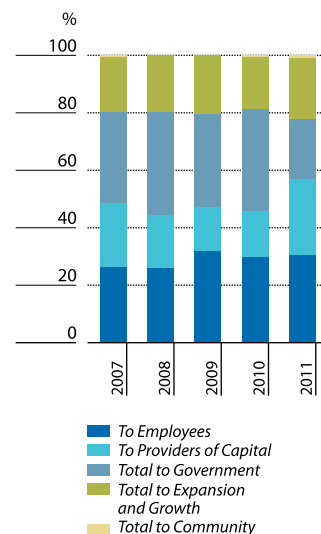
Shows how wealth was generated and distributed among the key stakeholders of the Bank, taking into account the amounts retained and reinvested for the replacement of assets and improvements to its operations.

	2011		2010		2009		2008		2007	
	Rs. Mn.	%	Rs. Mn.	%	Rs. Mn.	%	Rs. Mn.	%	Rs. Mn.	%
Value Added										
Income from Banking Services	45,029		40,809		42,736		43,236		34,782	
Cost of Services	(24,302)		(21,648)		(26,436)		(26,805)		(20,098)	
Value Added by										
Banking Services	20,727	105.33	19,161	102.56	16,300	103.35	16,431	109.30	14,684	110.02
Non-Banking Income	455	2.31	713	3.82	1,005	6.37	879	5.85	440	3.30
Loan Losses and Provisions	(1,503)	(7.64)	(1,192)	(6.38)	(1,534)	(9.72)	(2,278)	(15.15)	(1,777)	(13.32)
Total	19,679	100.00	18,682	100.00	15,771	100.00	15,032	100.00	13,347	100.00
Distribution of Value Added										
To Employees										
Salaries and Other Benefits	6,077	30.87	5,588	29.90	5,081	32.22	3,926	26.12	3,539	26.51
To Providers of Capital										
Dividends to Shareholders	4,905		2,642		1,749		1,786		1,855	
Interest to Debenture holders	228		374		626		978		1,105	
Total To Providers of Capital	5,133	26.09	3,016	16.15	2,375	15.06	2,764	18.39	2,960	22.18
To Government										
Income Tax	2,635		3,865		2,796		3,261		2,629	
Financial VAT	1,523		2,709		2,264		2,091		1,552	
Debits Tax	5		12		8		9		6	
Total to Government	4,163	21.16	6,586	35.26	5,068	32.14	5,361	35.67	4,187	31.37
To Expansion and Growth										
Retained Profit	3,143		2,881		2,556		2,482		2,248	
Depreciation	748		623		577		483		411	
Deferred Taxation	304		(71)		91		(9)		(28)	
Total to Expansion and Growth	4,195	21.32	3,433	18.38	3,224	20.44	2,956	19.67	2,631	19.71
To Community Investments										
Donations	110		59		23		25		30	
Total to Community	110	0.56	59	0.31	23	0.14	25	0.15	30	0.23
Total Distributed	19,679	100.00	18,682	100.00	15,771	100.00	15,032	100.00	13,347	100.00

Value Added 2007-2011



Distribution of Value Added 2007-2011



Note: Donations shown under 'community investments' include the contribution made by the Bank to its Corporate Social Responsibility Trust (CSR Trust), amounting to Rs. 80 Mn. (Rs. 55 Mn. in 2010). A summary of the activities of the CSR Trust appears in the Section on 'CSR in 2011' on page 100 of this Sustainability Supplement.

ECONOMIC RESPONSIBILITY

Impact on Performance Due to Climate Change

Generally banks are not directly exposed to risks arising from climate change. However, adverse climatic conditions could impact on the operations and profits of banks indirectly through its financial exposure to sectors to which they have provided financial assistance such as agriculture, fisheries and exports – all of which are vulnerable to climate change. To mitigate the impact of losses arising from such lending, our Bank has set up internal limits for various sectors. A summary of significant concentrations of credit risk by industry appears in Note 20.6 to the Financial Statements on page 286.

Despite its limited exposure, the Bank does pursue a defined climate change strategy that 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 2011 stood at Rs. 1.425 Bn. The Bank intends to support such industries in future as well as part of its sustainability effort.

- Encouraging customers to benefit from energy saving initiatives that make their operations more efficient while reducing their carbon footprint. Often, this involves financial support for green initiatives of various kinds.
- Updating the knowledge base of the Bank with regard to climate change and disseminating this knowledge to staff and customers through its designated Social and Environmental Coordinator.

Benefits and Contribution Plans

Defined Benefit Plans

Employees of the Bank benefit from three defined benefit plans, namely:

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

The Bank duly carried out actuarial valuations on these retirement benefit obligations at the end of 2011 with the assistance of a qualified actuary who used the Projected Unit Credit Method (as prescribed in Sri Lanka Accounting Standard No. 16 (Revised 2006) on 'Employee Benefits'). As the Bank is obliged to

make good any shortfall on these funds, arrangements were made to incorporate full provisions in respect of shortfall, if any in the respective funds in the Bank's Financial Statements for 2011. More details in this regard are found in Note M 9 under the Accounting Policies on Defined Benefit Plans on pages 263 and 264 in Notes 8, 31 and 38 to the Financial Statements on pages 270, 300 and 313, respectively.

Defined Contribution Plans

Employees are also eligible for one or the other of the Bank's three defined contribution plans, namely:

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

More details are found in Note M 10 under the Accounting Policies on Defined Contribution Plans on pages 264 & 265 and in Note 7 to the Financial Statements on page 269.

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 are in the permanent cadre of the Bank are eligible to participate in the gratuity, EPF and ETF plans only.

ECONOMIC RESPONSIBILITY

Financial Assistance from the State and Donor Agencies

The Bank has access to various lines of credit extended by the Government and donor agencies that target loans to selected sectors and beneficiary groups under refinance arrangements. Details of these refinance schemes are summarised below:

Financial Assistance from the State and Donor Agencies

Scheme, Donor and Loan Tenor	Sectors Eligible	No. of Loans Granted	Value Rs. Mn.
Agriculture and Microfinance Credit Lines			
New Comprehensive Rural Credit Scheme, Central Bank of Sri Lanka: 270 days	Cultivation of agricultural crops	4,737	654.38
Agro Livestock Development Loan Scheme, Central Bank of Sri Lanka and Development Finance Department of Ministry of Finance and Planning: maximum 5 years	Small farmers and dairy farmers	1,129	169.35
Tea Development Project Credit Scheme Revolving Fund, Central Bank of Sri Lanka: maximum 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)	46	78.81
Second Perennial Crop Development Project (Revolving): Central Bank of Sri Lanka, maximum 10 years	Farming, processing or marketing activities relating to perennial crops	88	40.79
Smallholder Plantation Development Loan Scheme, Central Bank of Sri Lanka, maximum 5 years	Settlers of the <i>Hadabima</i> or Mahaweli Resettlement Scheme (Kandy, Kegalle and Nuwara Eliya Districts) and low-income smallholders in the intermediate zone of Moneragala District	123	12.29
Awakening the North, Central Bank of Sri Lanka, maximum 5 years	Agriculture and related activities, livestock development, fisheries and related activities, trade, tourism and other self-employment projects	2,384	446.69

ECONOMIC RESPONSIBILITY

Scheme, Donor and Loan Tenor	Sectors Eligible	No. of Loans Granted	Value Rs. Mn.
Industrial Credit Lines			
KfW Credit Line, KfW, Frankfurt: repayment period 2-5 years, inclusive of a maximum 1 year grace period.	Existing enterprises or start-ups located in the Northern and Eastern districts, including farms, primary agricultural production and fisheries	252	447.24
Saubagya Credit Line, 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.	678	514.90
Environmentally-Friendly Solutions Fund (E-Friends I, E-Friends I Rev): Japan Bank for International Cooperation, maximum loan amount Rs. 20 Mn., repayment period 3-5 years including maximum grace period of 2 years.	<ul style="list-style-type: none"> • Equipment for end-of-pipe treatment and other equipment that will lead to reduced emissions or waste production by enterprises, enabling them to comply with national environmental standards. • Equipment that leads to substantial reduction in the use of resources by existing equipment and machinery, or the phasing out of hazardous substances. • Equipment that will substantially improve safety in workplaces. • Investments related to the relocation (excluding purchase or lease of land) of highly polluting industries to special estates equipped with waste-treatment plants • Investments by enterprises that set up and operate such treatment plants. • Equipment for pollutant monitoring in connection with the above. 	26	80.69
Smile II Revolving Fund, Japan Bank for International Cooperation: maximum loan amount Rs. 20 Mn., repayment period 5 years including maximum grace period of 2 years.	The following industries are eligible: food processing, beverage, textiles, garments, metal products, construction materials, rubber products, wood and wood products, leather and allied products, plastic products, printing and paper products, chemical and chemical products, agro industries, fisheries, animal husbandry, horticulture, aquarium, construction contracting, services	10	31.21
SMEDeF, World Bank: maximum loan amount Rs. 60 Mn., maximum repayment period 10 years including maximum grace period of 2 years.	Any privately owned enterprise (SME) with an annual turnover less than Rs. 300 Mn. may use this scheme for the purchase of plant, machinery, commercial vehicles and other fixed assets, permanent working capital requirements and the construction of factory buildings	183	2,005.60

ECONOMIC RESPONSIBILITY

Compensation and Benefit Strategy of the Bank

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

Consequent to a salary survey carried out in 2011, the Bank signed a Collective Agreement and an MOU with the Ceylon Bank Employees' Union covering the Non-Executive cadre of 1999 employees and 818 Junior Executive Officers, respectively for the period from January 2012 to December 2014.

The Bank, having a special interest in ensuring the economic well being of its employees, recognises the hardships that an employee might have to undergo as a result of certain work-related conditions. For instance, infrastructure facilities and amenities available at site are taken into consideration when carrying out feasibility studies prior to setting up branches.

The Bank seeks to present meaningful and compelling communication regarding salaries and benefits highlighting the Bank's areas of priority to employees with the intention of motivating them and catalysing behavioural changes where necessary, for mutual benefit. The Bank also provides clear and unambiguous information to all employees explaining the different components of their compensation and how their pay is determined. This includes sharing information on an employee's variable pay opportunity as well as the salary band, salary structure and merit guidelines, where applicable.

Our annual event calendar includes special gatherings, such as sports tournaments, children's parties, quiz programmes, staff conferences and other social and religious events that nurture labour-management relations.

Recruitment Methodology

All recruitments to corporate management and senior management are made from citizens of the respective country, Sri Lanka and Bangladesh. The staff members in Executive Grades IV and V are considered as senior management while members of the Corporate Management consist of staff members promoted from the aforesaid grades or hired from outside.

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

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

Recruitment is from a centralised location - our Head Offices situated in Colombo or Dhaka. Applicants from all over the country visit these locations for the examinations and/or interviews. With regard to entry level positions however, the Bank has begun its recruitment search on a regional basis.

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

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

ENVIRONMENTAL RESPONSIBILITY



OUR APPROACH TO ENVIRONMENTAL RESPONSIBILITY

Depending on one's perspective, a bank could be said to have relatively little impact on the environment (based on its direct activities such as energy consumed) or a potentially enormous one (through the environmental consequences of the commercial and other activities of its customers).

While Commercial Bank has in place a number of procedures aimed on minimising its already modest direct impact on the environment, the main thrust of its environmental policy is at mitigating indirect impacts through the business and industrial activities it finances. The Bank does its best to ensure that the financing 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.

The Social and Environmental Management System (SEMS), discussed earlier, provides the framework for policy, implementation and monitoring for all major activities undertaken not only by the Bank but also its customers.

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 conform to performance standards.

In particular, through SEMS we ensure that:

- All projects are reviewed against the stipulated environmental policy.
- All projects we finance are expected to be designed, built, operated and maintained in a manner consistent with the requirements of that policy.
- Decision makers at client firms understand and agree to operate within the policy commitments of the Bank.
- Transparency is maintained in all social and environment-related activities.

Organisational Responsibility, Training and Awareness

The designated Social and Environmental Coordinator assesses the social and environmental impacts and implications of the Bank's operations and ensures that resources are made available for the efficient management of such issues. The Coordinator reports to the Head of Corporate Finance who signs off on the Bank's annual Environmental Performance Report.

The Social and Environmental Coordinator ensures that all relevant procedures are implemented for every project undertaken, and that records of environmental reviews are maintained. This officer is trained and updated on a continuing basis on matters relevant to his or her 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.

Implementation, Monitoring and Follow-Up

Bank employees visit projects identified for financing, assess and evaluate their environmental impact and assume responsibility for the mitigation of any adverse effects over the project period. The officers selected for this task are those with the necessary aptitude and training. External specialised assistance is also obtained when required.

Pre-emptive mitigation is also carried out when evaluating and granting industrial loans. Financing decisions are based on an appraisal of the prospective project, which includes social and environmental impact. The Bank may require changes to the project to bring it in line with the desired standards before financing is approved; if this is not possible, the Bank will decline financing.

ENVIRONMENTAL RESPONSIBILITY

KEY PERFORMANCE INDICATORS OF ENVIRONMENTAL RESPONSIBILITY

A Greener Bank

In addition to the very important aspect of the social and environmental policy outlined above, Commercial Bank makes every effort to ensure that its own operations and activities are minimal in their environmental impact. The rules and procedures adopted in this regard are outlined below:

Waste Management

- Returning used IT equipments to its suppliers 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/recycled all e-waste returned by the Bank weighing approximately 150,218 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. Staff members have been advised to segregate waste, with separate colour-coded bins for paper, plastic and biodegradable materials.
- A paper-management system ensures that waste paper is recycled and reused wherever possible.
- Awareness programmes for staff promote the paperless office concept, discouraging the unnecessary printing of documents, e-mails, etc.

- Specific product lines are subsumed under a new system to reduce paper usage known as 'green eco-friendly banking'. The products and service on offer are: online banking, mobile banking, e-Exchange, Paymaster, Oracle e-Business Suite and the Bank's intranet.

Energy Management

- The Bank encourages 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.

Green IT Initiatives:

- Server virtualisation: During 2011, a total of 31 servers were merged into 2 servers by using server virtualisation. This resulted in more efficient use of floor space and reduction in materials due to the lesser number of servers used.
- 50 ATMs are procured from suppliers who comply with energy ratings and which are ROHS (Restrictions on Hazardous Substances) compliant.

Water Management

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 upset the equilibrium of the eco-sphere and its attendant biodiversity. Please refer the Section on 'Impact on Performance Due to Climate Change' on page 77 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 ensure that clients obtain necessary environmental clearances as and when required. Qualification for lending could include 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.

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 provides assurance in this regard:

	Page
Annual Report of the Board of Directors	238
Statement of Directors' Responsibility	239
Managing Director's and Chief Financial Officer's Responsibility Statement	242

However, there are pending legal actions initiated against the Bank, none of which are environmentally-related. The Bank did not make any provision for these actions filed against the Bank as we are of the view that the possibility of occurrence of a claim is remote as advised by our lawyers. The details on 'Litigation against the Bank' are given in Note 37 to the Financial Statements on page 311.

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 being made to increase the online conduct of transaction among staff members.
- Continue on server virtualisation and other green IT initiatives in order to accrue the desired benefits.
- Development of online loan approval to minimise paper work.
- Explore the possibilities of sending e-statement to customers.
- Energy rating to be included as a selection criterion when procuring IT equipment.
- Explore the possibilities of reporting the performance-related indicators on energy, water, carbon and waste in future reports.

OUR APPROACH TO SOCIAL PERFORMANCE AND SUSTAINABILITY

Since the industrial community may not always see itself as receiving any direct benefit from its expenditure on social and environmental safeguards and management practices, much work remains to be done to educate, publicise and promote 'sustainable behaviour' among members of this sector. Hence, we are of the view that both from regulatory as well as educational perspective action is required to promote socially and environmentally-friendly best practices.

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

In this section of the Report, we will review the impact and performance across the key areas of;

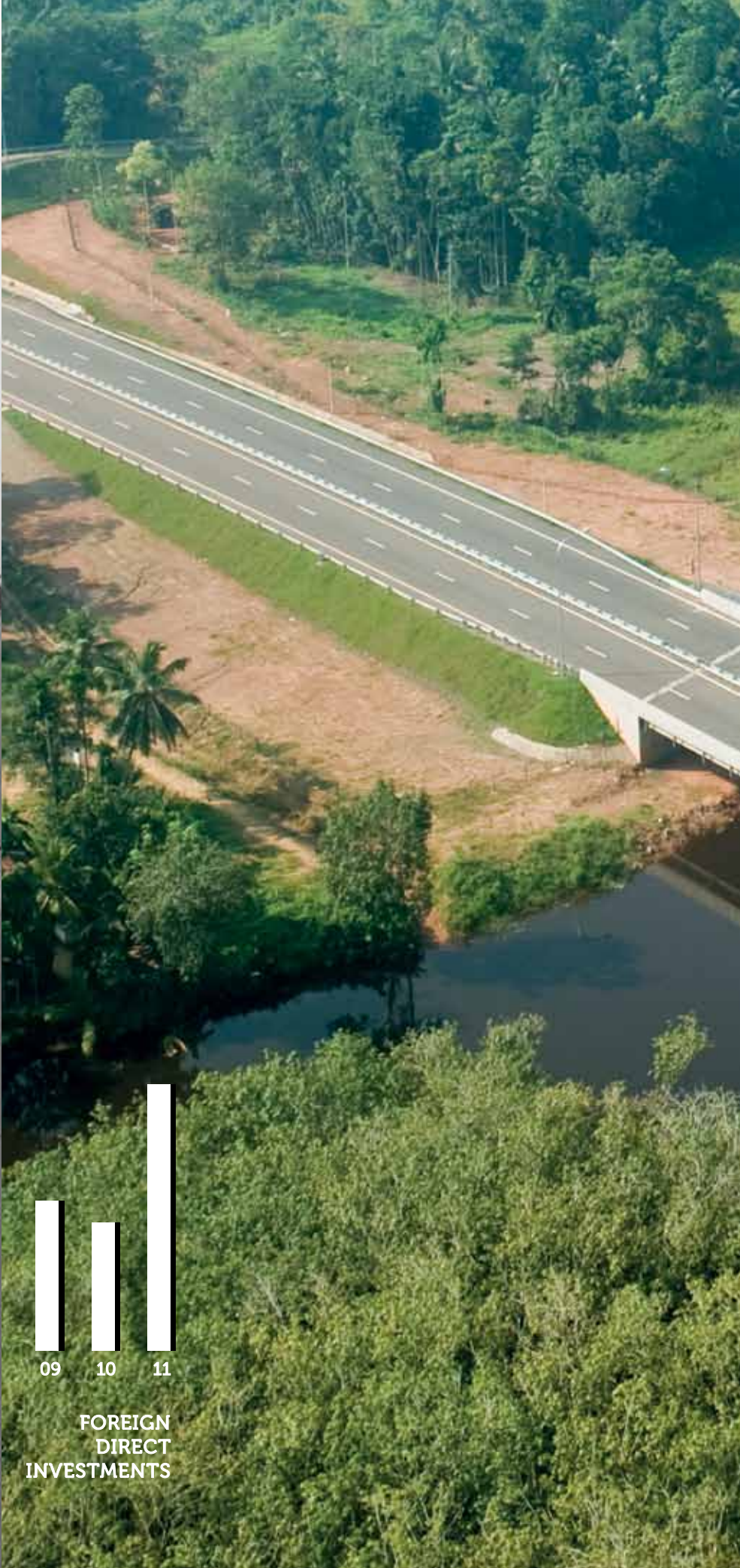
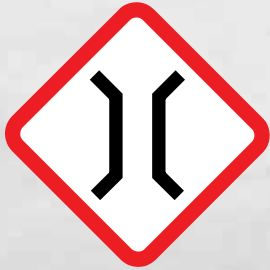
- Labour Practices and Decent Work,
- Human Rights,
- Society, and
- Product Responsibility.

The social and environmental policy of Commercial Bank is governed by ten principles articulated in the United Nations Global Compact initiative, to which the Bank a

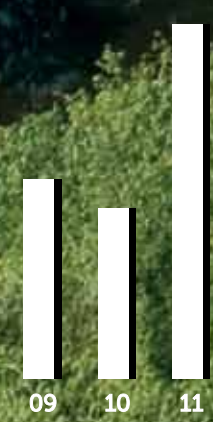
signatory. These principles are given below in order to provide further insight into the roots of our policy:

UN Global Compact: The Ten Principles

Human Rights	
Principle 1	Businesses should support and respect the protection of internationally proclaimed human rights.
Principle 2	Businesses should make sure that they are not complicit in human rights abuses.
Labour Standards	
Principle 3	Businesses should uphold freedom of association and the effective recognition of the right to collective bargaining.
Principle 4	Businesses should uphold the elimination of all forms of forced and compulsory labour.
Principle 5	Businesses should uphold the effective abolition of child labour.
Principle 6	Businesses should uphold the elimination of discrimination in respect of employment and occupation.
Environmental Standards	
Principle 7	Businesses should support a precautionary approach to environmental challenges.
Principle 8	Businesses should undertake initiatives to promote greater environmental responsibility.
Principle 9	Businesses should encourage the development and diffusion of environmentally-friendly technologies.
Ethical Standards	
Principle 10	Businesses should work against corruption in all its forms, including extortion and bribery.



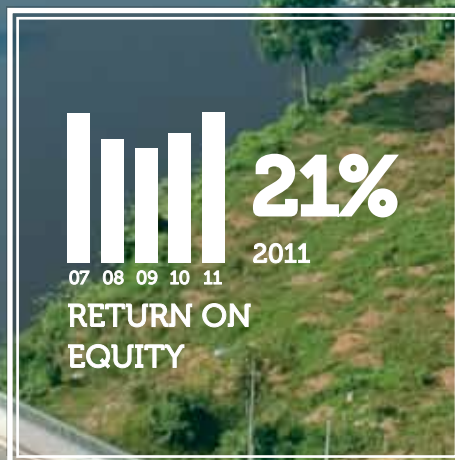
USD Mn.



FOREIGN
DIRECT
INVESTMENTS

No narrowing of the way ahead...only unfettered opportunity

There's no danger of our multi-laned way ahead ever narrowing; there's ample room to 'overtake' one's own goals and reach further down the road of opportunity. This growing confidence is apparent in Commercial Bank's pursuit and achievement in terms of key indicators.



LABOUR PRACTICES AND DECENT WORK RESPONSIBILITY



OUR APPROACH TO LABOUR PRACTICES AND DECENT WORK RESPONSIBILITY

The human capital policy of Commercial Bank of Ceylon PLC is based on the recognition that its people are its most valuable asset. Prudent development, deployment and management of its human resources have been a key contributor to the Bank's record of success. We have found that sensitivity to the needs and aspirations of individual employees is as conducive to successful human resources management as an accurate assessment of employee capabilities, potentials and attitudes.

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.

Recruitment and Assignments

As discussed before, recruitment to the staff of Commercial Bank occurs at two entry levels. Employees join either as Banking Trainees or as Management Trainees. Mid-career recruitment takes place only in relation to specialised job

positions. Please refer the Section on 'Recruitment Methodology' on page 80 for further details.

Wages Policy and Labour Management Relations

The policy and regime adopted by the Bank with regard to wages is based on collective bargaining agreements covering specific categories of employees, and on market surveys carried out from time to time. These were discussed in detail under 'Compensation and Benefit Strategy of the Bank' on page 80.

Occupational Health and Safety

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

Diversity and Equal Opportunity

The Bank's recruitment and career development policies provide equal opportunities for all citizens in the country, irrespective of their race, religion, caste or gender. Further, staff members are given an opportunity to join an employee association of their choice. These associations bring the voice of their members before the management at various forums.

Training and Education

All newly recruited employees are inducted through a comprehensive orientation programme prior to their placement. Further, they are provided with on the job training based on standard training modules in addition to customised training programmes as needed.

Gender and Wages

The Bank does not discriminate with regard to gender when remunerating employees. Basic salaries are dependent on the respective grade of the employee and performance, with no gender-based differentiation whatsoever.

Goals and Performance

Stemming from its Policy, the Bank's goal is to aspire at all times to be 'The Employer of First Choice'. The level of its achievement may be measured by

indicators such as employee turnover, average rates of promotion and absenteeism, employee satisfaction, self-reporting, 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 enacts the UNGC Principles on Labour Practice as a base from which we constantly explore further enhancement of our human capital. (See page 83 for UNGC Principles.)

Organisational Responsibility

The Bank's HR function is headed by the Deputy General Manager - Human Resources, 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

The Bank is committed at all times to ensure that its people develop to their utmost potential and to equip them to face challenges ahead effectively and with dignity.

LABOUR PRACTICES AND DECENT WORK RESPONSIBILITY

Towards this objective, the senior staff members of the Human Resource Management Department are regularly trained on current procedures relating to labour laws and regulations including training on diversity, equal opportunities and gender sensitisation. They guide the other members of staff who need their assistance.

Monitoring and Follow up

At the beginning of each calendar year, the Staff Development Centre (SDC) of the Bank carries out a training requirement analysis for staff at all levels on a need basis. The SDC subsequently monitors the participation of nominees and obtains feedback, which is used for future improvements and identification of new training needs to cater to the dynamic requirements of the business environment.

KEY PERFORMANCE INDICATORS OF LABOUR PRACTICES AND DECENT WORK RESPONSIBILITY

Employment

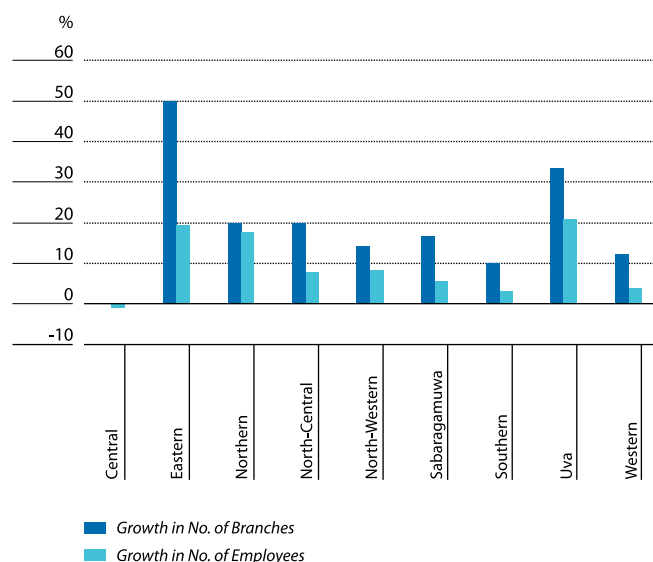
Total by Employee Type, Contract, Region and Gender

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

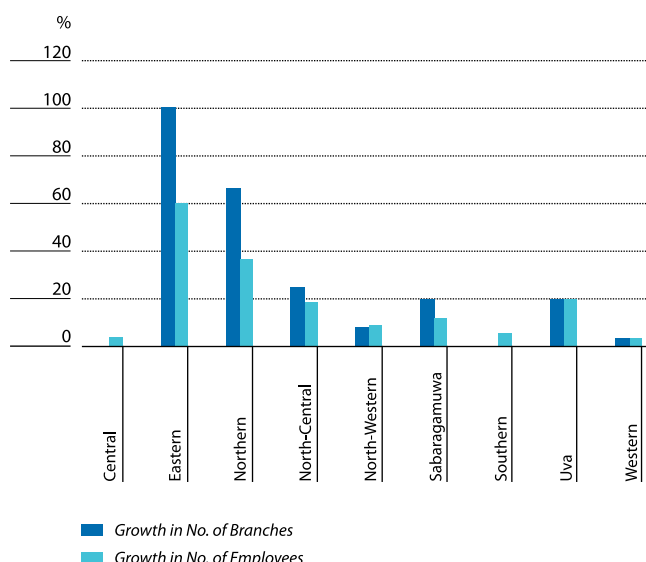
Provincial and Branch-Wise Breakdown of Human Capital as at December 31,

Province/Departments and other Business Units	2011				2010				2009			
	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	16	205	59	264	16	208	59	267	16	201	56	257
Eastern	9	80	19	99	6	66	17	83	3	50	2	52
Northern	12	113	61	174	10	91	57	148	6	77	31	108
North-Central	6	77	7	84	5	69	9	78	4	57	9	66
North-Western	16	197	41	238	14	188	32	220	13	172	30	202
Sabaragamuwa	14	147	14	161	12	140	13	153	10	123	14	137
Southern	22	251	64	315	20	245	62	307	20	235	56	291
Uva	8	74	13	87	6	65	7	72	5	55	5	60
Western	110	1,299	469	1,768	98	1,236	466	1,702	95	1,174	476	1,650
Departments and Other Business Units	-	862	277	1,139	-	822	271	1,093	-	772	267	1,039
Total	213	3,305	1,024	4,329	187	3,130	993	4,123	172	2,916	946	3,862

Growth in No. of Branches Vs Employees - 2011 Vs 2010



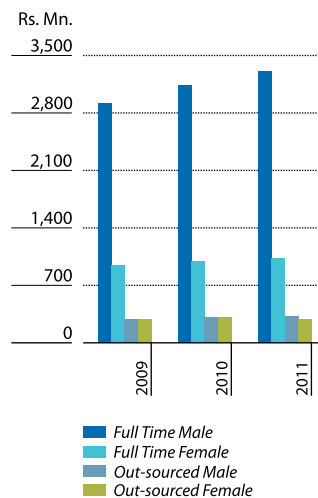
Growth in No. of Branches Vs Employees - 2010 Vs 2009



LABOUR PRACTICES AND DECENT WORK RESPONSIBILITY

The graph below depicts the growth in number of employees during 2009-2011 analysed by gender.

No. of Employee by Type and Gender 2009 - 2011



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

The Bank did not obtain the services of part-time employees during 2009 to 2011. The percentage of full-time employees and out-sourced employees remained unchanged over the three-year period 2009 to 2011, although the total numbers grew proportionately as shown below:

Employment Type	No. of Employees			Composition of Employees %		
	2011	2010	2009	2011	2010	2009
Full-Time Employees						
Male	3,305	3,130	2,916	76.35	75.92	75.50
Female	1,024	993	946	23.65	24.08	24.50
Total	4,329	4,123	3,862	100.00	100.00	100.00
Outsourced Employees						
Male	330	308	286	53.66	50.41	49.57
Female	285	303	291	46.34	49.59	50.43
Total	615	611	577	100.00	100.00	100.00

Age Analysis of Employees as at December 31

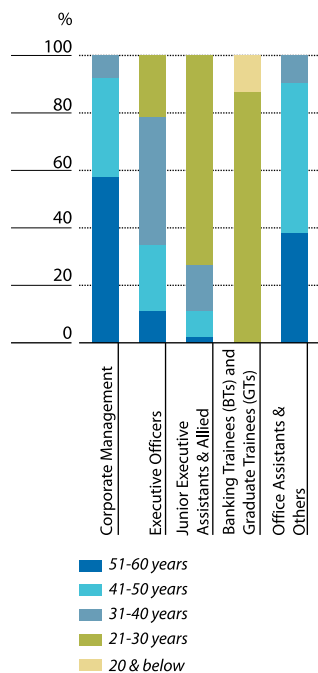
Category	Corporate Management		Executive Officers		Junior Executive Assistants & Allied		Banking Trainees (BTs) and Graduate Trainees (GTs)		Office Assistants & Others		Total 2011		Total 2010		Total 2009	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
	51-60 years	13	2	151	33	20	18	-	-	47	-	231	53	232	47	218
41-50 years	8	1	239	151	32	138	-	-	63	-	342	290	314	261	308	240
31-40 years	2	-	570	172	181	111	1	-	12	-	766	283	658	295	592	317
21-30 years	-	-	289	72	1,139	208	465	107	-	-	1,893	387	1,831	375	1,771	346
20 & below	-	-	-	-	-	-	73	11	-	-	73	11	95	15	27	5
Total	23	3	1,249	428	1,372	475	539	118	122	-	3,305	1,024	3,130	993	2,916	946

Service Analysis of Employees as at December 31

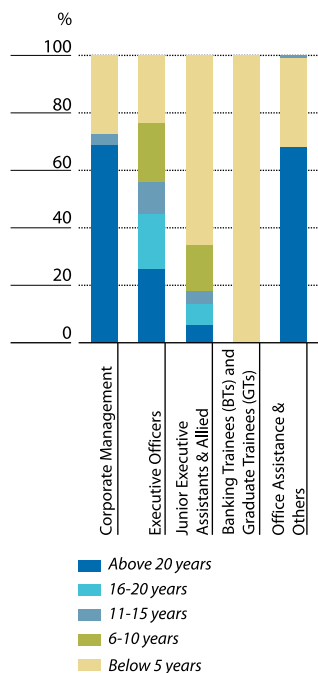
Category	Corporate Management		Executive Officers		Junior Executive Assistants & Allied		Banking Trainees (BTs) and Graduate Trainees (GTs)		Office Assistants & Others		Total 2011		Total 2010		Total 2009	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
	Above 20 years	15	3	294	135	40	76	-	-	83	-	432	214	400	181	388
16-20 years	-	-	209	108	32	100	-	-	38	-	279	208	310	233	284	245
11-15 years	1	-	153	37	34	47	-	-	1	-	189	84	211	96	258	110
6-10 years	-	-	289	64	234	72	-	-	-	-	523	136	397	127	128	40
Below 5 years	7	-	304	84	1,032	180	539	118	-	-	1,882	382	1,812	356	1,858	390
Total	23	3	1,249	428	1,372	475	539	118	122	-	3,305	1,024	3,130	993	2,916	946

LABOUR PRACTICES AND DECENT WORK RESPONSIBILITY

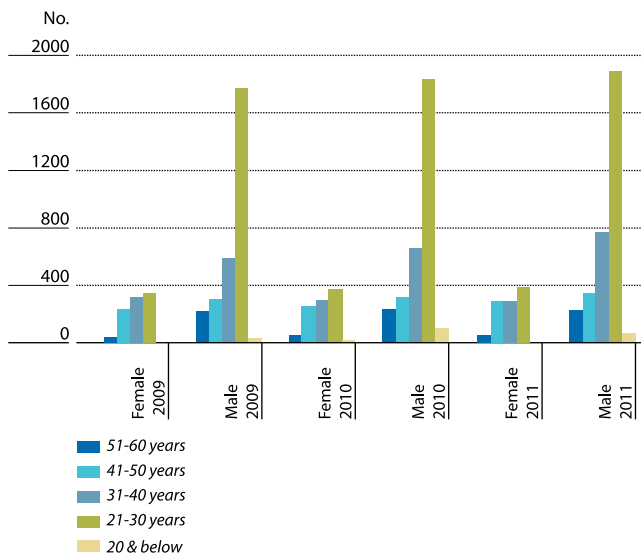
Age Analysis of Employees by Category 2011



Service Analysis of Employees by Category 2011



Age Analysis of Employees by Gender 2009 - 2011



Employment Status

Contract Employees confirmed in service in 2011 increased in number 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 (%)		
	2011	2010	2009	2011	2010	2009
Confirmed in Service	3,628	3,403	3,008	83.81	82.54	77.89
Undergoing Training or on Probation	701	720	854	16.19	17.46	22.11
Total	4,329	4,123	3,862	100.00	100.00	100.00

Employees by Grade

Corporate Management comprised 26 persons in 2011, accounting for less than 1% of the total staff strength. Executive Officers including senior management and Junior Executive Officers accounted for 38.74%, and the balance comprised junior executive assistants, banking trainees and those in office assistant grades. The number of employees of all grades, except office assistants and others, increased over the previous year with the expansion of branch operations.

LABOUR PRACTICES AND DECENT WORK RESPONSIBILITY

Category	2011		2010		2009	
	No. of Employees	Percentage	No. of Employees	Percentage	No. of Employees	Percentage
Corporate Management	26	0.60	24	0.58	21	0.54
Executive Officers	1,677	38.74	1,545	37.47	1,470	38.06
Junior Executive Assistants & Allied Grades	1,847	42.67	1,808	43.85	1,563	40.47
Banking Trainees	657	15.18	611	14.82	668	17.30
Office Assistants & Others	122	2.81	135	3.28	140	3.63
Total	4,329	100.00	4,123	100.00	3,862	100.00

New Employees Hired and Attrition

During the period 2009 to 2011, the Bank hired 871 new staff members, details of which by employee grade are given below:

Category	No. of Employees Hired		
	2011	2010	2009
Corporate Management	2	2	-
Executive Officers	8	9	6
Junior Executive Assistants & Allied	-	-	-
Banking Trainees	343	367	134
Office Assistants & Others	-	-	-
Total	353	378	140

There were 120 resignations from service during the year under review, while a further 18 employees retired, in the total turnover of 147 employees.

Details of staff attrition by age, gender and region are tabulated below:

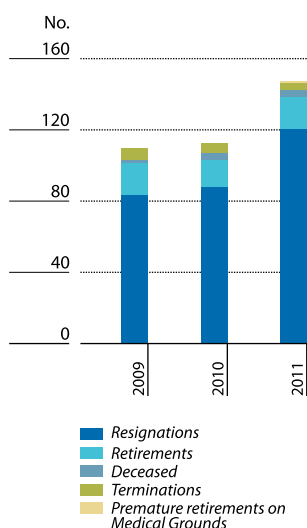
	No. of Employees			Percentage of Employees		
	2011	2010	2009	2011	2010	2009
Resignations	120	88	85	81.63	78.57	77.98
Retirements	18	15	18	12.24	13.39	16.52
Deceased	4	4	2	2.72	3.57	1.83
Terminations	4	5	4	2.72	4.47	3.67
Premature Retirement on Medical Grounds	1	0	0	0.69	0.00	0.00
Total	147	112	109	100.00	100.00	100.00

Employee attrition of the Sri Lankan Operation of the Bank increased marginally in comparison with the past two years due to improved employment opportunities present in the country.

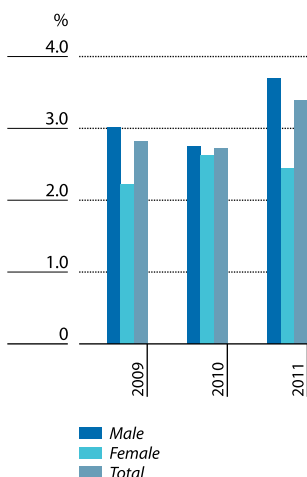
Gender-Wise Employee Turnover

Gender	Gender-Wise Turnover			Gender-Wise Percentage of Attrition (%)		
	2011	2010	2009	2011	2010	2009
Male	122	86	88	3.69	2.75	3.02
Female	55	26	21	2.44	2.62	2.22
Total	147	112	109	3.40	2.72	2.82

Employee Turnover by Category 2009 - 2011



Percentage of Employee Turnover by Gender 2009 - 2011



LABOUR PRACTICES AND DECENT WORK RESPONSIBILITY

Total Number and Percentage of Employee Attrition by Age Group

Age Group	No. of Employees Left			Percentage of Employee Attrition Rate (%)		
	2011	2010	2009	2011	2010	2009
51-60 years	29	25	23	10.21	8.96	8.98
41-50 years	8	9	8	1.27	1.57	1.46
31-40 years	18	23	16	1.72	2.41	1.76
21-30 years	87	54	61	3.82	2.45	2.88
20 years and below	5	1	1	5.95	0.91	3.13
Total	147	112	109	3.40	2.72	2.82

Province-Wise Employee Turnover

Province	Turnover (No.)			Turnover (%)		
	2011	2010	2009	2011	2010	2009
Central	9	6	14	3.41	2.25	5.45
Eastern	9	5	3	9.09	6.02	5.77
Northern	6	13	4	3.45	8.78	3.70
North-Central	2	2	2	2.38	2.74	3.03
North-Western	6	4	7	2.52	1.82	3.47
Sabaragamuwa	3	4	-	1.86	2.74	-
Southern	10	2	8	3.17	0.65	2.75
Uva	2	2	1	2.30	2.78	1.67
Western	100	74	70	5.65	2.64	2.60
Total	147	112	109	3.40	2.72	2.82

Benefits Policy and Regime

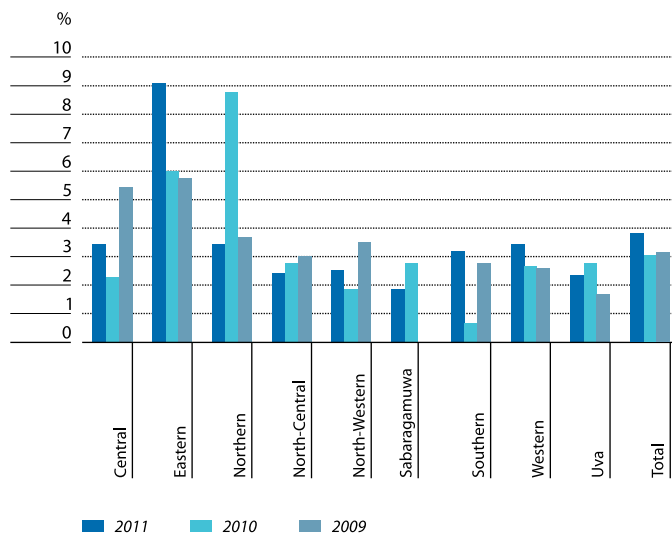
The Bank follows a policy of continuous improvement in respect of the working lives of its employees. In addition to the provisions regarding employee welfare and benefits under the Shop and Office Employees' Act, Commercial Bank has taken further steps to enhance the facilities and benefits afforded to its staff.

- Performance-related bonus or bonus under the collective bargaining agreement.
- Fuel allowance for executive cadre and transport allowance for non-executive cadre.
- Holiday bungalows.
- 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 two months' gross salary for each year of completed service (subject to a minimum of nine months' gross salary) in the event of his or her demise.

Employee Turnover by Province 2011



- 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 the 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.

All the above benefits are provided to permanent employees of the Bank. Further, the Bank ensures that all employees outsourced 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.

LABOUR PRACTICES AND DECENT WORK RESPONSIBILITY

Employees Covered by Collective Bargaining Agreements

The following table illustrates that 2,803 or 64.75% of the total cadre of the Bank's Sri Lankan operation as at December 31, 2011 were covered by Collective Agreements.

Name of Employee Association	2011		2010		2009	
	No. of Employees	Percentage	No. of Employees	Percentage	No. of Employees	Percentage
Ceylon Bank Employees' Union	2,803	64.75	2,608	63.25	2,317	59.99
Commercial Bank Executive Association	548	12.66	338	8.20	346	8.96
Total	3,351	77.41	2,946	71.45	2,663	68.95

Minimum Notice for Operational Change Implementation

There is no time frame specified under the Collective Agreements pertaining to advance notice on anticipated operational changes. Major operational changes are implemented only after consultation with employee focus groups, employees' representative organisations and shareholders. This policy helps promote mutual understanding and contributes to transparency.

Occupational Health and Safety Employee Representation on Health and Safety Committees

The Bank's Security Department has made arrangements to identify staff from each business or service unit of the Bank and provides them with comprehensive training as to how to act in an emergency such as fire, burglary, air raid, explosion, etc. In addition, fire drills are carried out annually at the Bank's Head Office and Union Place premises. Feedback is obtained, and all Bank staff are then informed through a formal e-mail communication on lapses observed, together with recommended action plans to remedy the situation. In addition, the intranet site of the

Security Department of the Bank has laid down procedures to be followed in case of emergencies. Staff at all levels have access to the intranet site of the Security Department.

All buildings of the Bank are provided with smoke detectors and fire extinguishers together with operating and evacuating instructions. Further, the Bank takes every effort to ensure that the working environment of the Bank is conducive and free from hazardous substances.

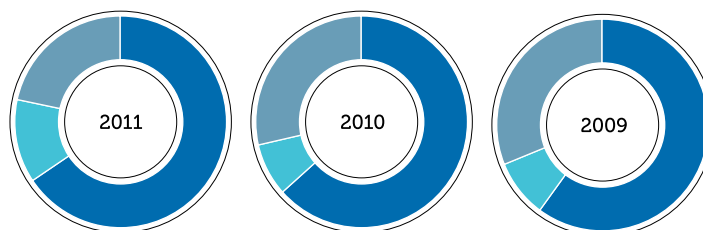
During the year 2.58% of the total workforce was trained on above mentioned health and safety arrangements.

Injuries, Occupational Diseases and Fatalities at Work

There were eight accidents reported during the period under review. 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	Total No. of Injuries		Injury Rate		Lost days (Calendar Days)	
	Male	Female	Male	Female	Male	Female
Western	5	1	0.001155	0.000231	175	14
Eastern	2	-	0.000462	-	23	-

Employees Covered by Unions



	2011 %	2010 %	2009 %
Covered by Ceylon Bank Employee's Union	64.75	63.25	59.99
Covered by Commercial Executive Association	12.66	8.20	8.96
Not covered by Unions	22.59	28.55	31.05

Education and Risk Control on Health Issues

The Bank keeps track of such risk commencing from the point of intake, where extensive medical screening of employees occurs. Thereafter, a regular medical regime facilitates the staff to maintain their health standards.

The Bank's training programmes for Executive Officers include subjects such as handling work-related stress. In instances generating high levels of stress and trauma, affected employees are provided counselling to support their rehabilitation. The Bank in association with the Human Resources Management Department conducts periodic dust and emission tests in relation to certain vulnerable locations across the network.

LABOUR PRACTICES AND DECENT WORK RESPONSIBILITY

Safety Training

Two fire-safety training programmes were held during the course of the year.

Safety Training

Programme	No. of Programmes	No. of Participants
Fire Awareness Programme for Group Leaders	1	87
Programme on F.A.F.A. and Practical Fire Demonstration	1	25

Health and Safety Topics Covered in Formal Agreements with Trade Unions

The Bank has no dedicated health and safety officers or department; this responsibility is mainly entrusted to the Human Resources Management Department. In order to effectively address concerns in this area, the Human Resources Management Department often works together with employees' representative organisations on proposals to senior management regarding measures to create a safer and healthier working environment.

The collective agreements between the Bank and employees' representative bodies cover several health and safety topics. The most prominent of those concerns VDU (computer monitor) operators. Under this agreement, the Bank allows employees operating VDUs to take short breaks to protect their eyesight. The Bank is also obliged to provide equipment with screens that give clear and stable images, have properly positioned keyboards and are quiet enough in their operation to ensure that ambient noise does not exceed an acceptable level.

Employees aged 40 years and above are entitled to reimbursement of expenses incurred on outpatient medical examinations, subject to a maximum of Rs. 10,000 per annum. This is a special benefit over and above employees' entitlements under the medical scheme of the Bank.

Training and Education

Training and Professional Development

The Bank is dedicated to improving the professional competencies and performance of all its employees. In the year under review, the Bank spent a total of Rs. 46.151 Mn. on training and education programmes for employees. All employees are subject to an annual performance review, at which they receive feedback on their performance and their development needs and potential as identified by the reviewers.

Since 2010, the Bank has followed a systematic approach to the identification of high performers among its senior management. This involves a process of 'talent discussions', which are 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.

A total of 446 training programmes involving 118,349 person-hours of training were executed during the year. These programmes were categorised as technical, soft skills, overseas training and outsourced training (that is, the attendance of Bank employees at externally-held training programmes).

LABOUR PRACTICES AND DECENT WORK RESPONSIBILITY

Average Training Hours per Employee by Grade

Employee Category	2011			2010			2009		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
Corporate Management	69.23	4.84	74.07	22.97	3.91	26.88	6.95	1.14	8.09
Executive Officers	18.54	5.73	24.27	18.04	6.95	24.99	14.12	3.03	17.15
Junior Executive Assistants & Allied Grades	18.58	4.68	23.26	16.39	2.46	18.85	12.79	2.85	15.64
Banking Trainees*	31.87	5.96	37.83	29.67	6.56	36.23	35.08	4.31	39.39
Total	20.36	5.15	25.51	20.58	4.76	25.34	17.39	3.06	20.45

* The training to Banking Trainees includes programmes conducted on induction too as detailed below.

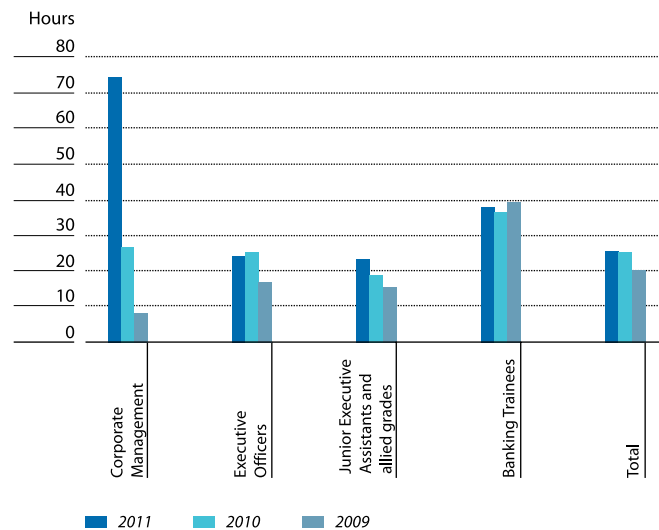
Programmes Conducted for Banking Trainees During 2011

Name of Programme	No. of Programmes	No. of Participants	Person - Hours
Banking Trainee Induction Training	16	341	10,816
Banking Trainee 06 months Induction Training	5	314	7,134
Banking Trainee 1 & 1/2 years Induction Training	3	124	2,976
BT - JEA Back-up Programme	2	102	816
Total	26	881	21,742

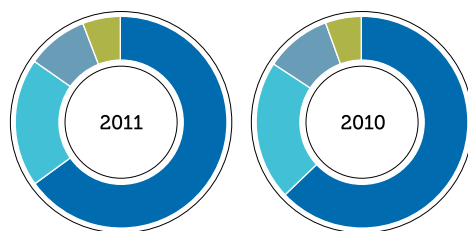
Training Analysis by Programme Type

Category	No. of Programmes	Training Hours
Technical	290	97,364
Soft Skills	88	10,416
Overseas	42	2,544
Outsourced	26	8,025
Total for 2011	446	118,349
Total for 2010	355	100,361
Total for 2009	297	84,039

Average Training Hours per Employee by Category 2009 - 2011



Training Analysis by Programme Type



	2011 %	2010 %
Technical	65.02	62.82
Soft Skills	19.73	21.41
Overseas	9.42	10.14
Outsourced	5.83	5.63

LABOUR PRACTICES AND DECENT WORK RESPONSIBILITY

Key Technical and Soft Skills Training 2011

Name of Programme	No. of Programmes	No. of Participants	Person - Hours
Technical Programmes			
ALCO Training	1	35	560
Management Development (Residential)	2	36	864
Operational Risk Management Policy & Fund Transfer Pricing	1	29	232
Soft Skills Programmes			
Workshop: Business Process Improvements by WNS	1	22	352
Management Development: Presentations	1	35	210
Building Interpersonal Relationships	1	17	136
Train the Trainer	3	42	1,520
Managing Key Clients & Building Relationships	1	29	232
Boot Camp	1	37	592
Minicom & Service Centre Managers' Programme	1	54	432
Customised Business Writing Workshop for Inspection Staff	2	30	480
Leading & Managing Others: Leadership Development Programme, Stage 2	2	47	752
Leading Business: Leadership Development Programme, Stage 3	2	48	768

Given the Bank's strong commitment towards developing a learning culture, it is pertinent to note that employees underwent a total of 118,349 man-hours of training during the year (2010: 100,361 man-hours) on various knowledge-building programmes. This works out to an average of 25.51 man-hours of training per employee (2010: 25.34 man-hours per employee).

Details of some of the important training initiatives during 2011 are summarised below:

Talent Discussions 2011

A series of Awareness Programmes on Performance Appraisal Management System were conducted by the Deputy General Manager - Human Resource Management for 189 Branch Managers and Unit Heads in specialised departments during the first quarter of the year prior.

Following this, talent discussions were held for 79 selected Senior Executive Officers in Grades III, IV and V, through which individual development plans were identified and implemented.

Cross Functional Teams (CFT) - Leadership Development Programme

The CFT programme was concluded with the final Leadership Development Session (conducted by Hewitt Associates) for 51 Senior Executives. The complete development cycle consisted of a series of leadership programmes, knowledge updates, out bound training and project development; all of which spanned a period of two years. This helped the Bank to introduce and implement new business lines and develop a pool of young leaders.

Training in Managerial and Leadership Skills

The Staff Development Centre conducted a series of Management Development Programmes and Executive Development Programmes for staff in Executive Officer grade 1A and 1B. Following this, selected employees were nominated to participate in external and overseas leadership and management courses as well.

	No. of Programmes	No. of Participants	Person - Hours
Overseas Training Programmes	8	13	1,184
External Training Programmes	21	83	688
In-House Training Programmes	16	411	5,200

Internship Programme

The Bank launched its first structured internship programme during the year. Interns are to facilitate for the 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.

Revamping the e-Learning Programme

The e-Learning roll out was further revamped during the year. The learning service was enabled for all staff and by year-end 46 courses had been installed on the system. A total of 491 staff members followed the online courses, and further efforts are being made to improve the system and cater to a wider pool.

Non-Training-Related HR Initiatives

The year also saw the Bank undertaking several important non-training-related initiatives, some ongoing, including the following:

- A '360 degree assessment' for Corporate Managers with more than 3 years of service remaining with the Bank, with each participant receiving an individual

report whose findings will feed into future personal development planning.

- 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.
- An 'employee engagement survey' polling 3,374 respondents; findings shared with top management and employee organisations, and to be acted upon during 2012.
- 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 an employer of choice, carrying out recruitment drives at selected schools, and revising our training processes.
- Building closer relationships with employee organisations.

LABOUR PRACTICES AND DECENT WORK RESPONSIBILITY

- Successful negotiation of collective agreements with representative employee unions, covering non-executive staff and junior executives for the period 2012-2014.
- Rewarding selected staff with seniority and attendance awards.
- Providing a 10% increase in pensions for all pensioners of the Bank.
- Organising a variety of social events for staff, including the very popular Combank Quiz.
- Publication of the Bank's HR Manual in compliance with a 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*.
- Developing the log book of Banking Trainees and work-based training guide.

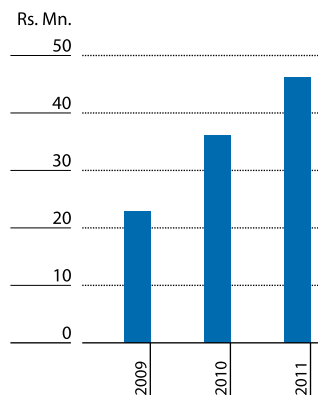
Our Investment on Training

To further strengthen the staff development process the Bank increased its investment on training from Rs. 36.032 Mn. in 2010 to Rs. 46.151 Mn. in 2011. This 28.08% increase will also support our intensive efforts to improve customer experience across all business units, with long term benefits accruing to the Bank.

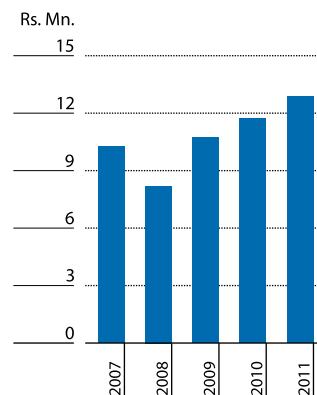
Career Development Review

All employees of the Bank irrespective of their gender received formal performance and career development reviews during 2011. Annual performance reviews and the reviews conducted upon completion of probationary periods, help the Bank in identifying and enhancing the salient skills and developing them as needed.

Investment on Training 2009 - 2011



Value of Human Capital per Employee 2007 - 2011



Equal Remuneration for Women and Men

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

Category	Ratio of Basic Salary Women to Men	
	2011	2010
Corporate Management	1:1.57	1:1.72
Executive Officers	1:1.00	1:1.04
Junior Executive Assistants and Allied	1:0.95	1:0.90
Banking Trainees	1:0.96	1:0.98
Office Assistants and Others	No female office assistants are employed by the Bank	

Outlook

In the coming year, steps will be taken to further enhance productivity, including a closer alignment of the workforce plan with the business plan. Personnel costs accounted for 37.44% of the Bank's total operating costs in 2011, and with a cost income ratio of 51.66%, this is an area that will continue to receive considerable attention in the years to come.

Feedback received during the employee engagement survey identified specific areas where action is needed. This includes devising viable career paths for all staff categories; improving process efficiency by effecting transfers with a minimum of disruption to the business; and improving the support

services available to employees. The Bank is also looking to improve communication among staff through the 'One Bank, One Family' concept.

An expected rise in retirements will cause several leadership positions to fall vacant in the years to come. We are working on creating an internal talent pool that is competent to fill these vacancies by enhancing managerial competencies through specific development interventions and by fast-tracking employees with high potential, as well as by maintaining transparency with respect to the career progression and mobility for all staff. We will also strive to improve engagement amongst less productive staff.

The Bank will continue to benchmark and provide a fair and attractive compensation package for all levels of staff, while improving the quality of the Bank's staff appraisal process.

HUMAN RESOURCE ACCOUNTING

The Value of Our Human Capital is estimated to be Rs. 58.341 Bn.*

The Lev and Schwartz model has been used to computer the value of the Bank's human capital as at December 31, 2011

The Human Resource Valuation is based on the following assumptions:

All the existing employees will continue in employment up to retirement.	Employee remuneration includes all direct and indirect benefits earned by them.	Annual increment is granted at 5% - 8% on average.	Total future remuneration of all the employees for each year is discounted to the present value at 9.53%, the 12 months weighted average Treasury Bill rate plus 2% for the risk
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* This value was computed by the Bank, based on the above assumptions.

HUMAN RIGHTS RESPONSIBILITY



OUR APPROACH TO HUMAN RIGHTS RESPONSIBILITY

Human Rights

The Bank is committed to uphold the human rights standards enshrined in the United Nation's Universal Declaration of Human Rights and the conventions of the International Labour Organisation (ILO). These cover:

- Freedom of association and the right to collective bargaining
- The elimination of all forms of compulsory labour
- The effective abolition of child labour
- 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 is also pledged to uphold the ten principles discussed on page 83.

OUR POLICY

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

Goals and Performance

The Bank enshrines human rights values and practices in all its operations. We shun aberrations such as forced/compulsory labour, discrimination and sexual harassment and abide by best practice governing aspects such as minimum working age limits, working hours, health and safety in the workplace and collective bargaining principles.

Organisational Risk Assessment and Impact Assessment

The Bank ensures that its human rights obligations and requirements are met through its management processes and regular dialogue with employees, as discussed in detail in the preceding sections of this Report.

Regarding outsourced staff, the Bank monitors the labour practices of the respective agencies. For instance, the Bank ensures that half-yearly EPF and ETF return statements are submitted for scrutiny.

The recently concluded Employee Engagement Survey supports in assessing the level of work satisfaction amongst permanent staff of the Bank. It is to be carried out once in every three years. Further, the periodic branch visits 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 in identifying probable risks and addressing human rights and welfare concerns of the employees.

The procedure of adopting collective bargaining pertaining to employee compensation and other human rights concerns help foster stronger ties with the trade unions and executive association.

Organisational Responsibility

Human rights issues are the responsibility of the Deputy General Manager - Human Resource Management, a member of the Corporate Management team. He is assisted by a Chief Manager and a Senior Manager on the implementation of Human Rights policies at the Bank. In addition, he is assisted by another Senior Manager on the Human Resources Development. These officers handle all matters connected to human rights as they may apply to or concern the Bank.

As discussed previously, collective bargaining is encouraged and due recognition is given to all employees' representative organisations within the Bank.

The Bank's variable bonus scheme is transparent. 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.

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 162 and 163.

Training and Awareness

Staff attached to the Human Resource Management Department undergo periodic training on matters related to human rights, grievance handling, etc. They guide other members of staff when the need arises. 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

HUMAN RIGHTS RESPONSIBILITY

Audit Department 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.

KEY PERFORMANCE INDICATORS OF HUMAN RIGHTS RESPONSIBILITY

Training Employees on Human Rights

During the year, the Bank provided 419 staff members with training on policies and procedures concerning various aspects of human rights that are relevant to the Bank's operations. The total investment amounted to 12,026 person-hours. Considering the impracticability of providing training to staff attached to branches and all departments of the Head Office, such training was only provided to the staff of the Human Resource Management Department, who are available to assist other staff members when they need assistance on matters connected to human rights.

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 the Bank has not recorded any incidents of discrimination.

Freedom of Association and Collective Bargaining

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

Child Labour and Forced & Compulsory Labour

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

Going further, the Bank's outsourcing agreements with labour contractors requires 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.

Security Practices

The Bank's policies and procedures concerning aspects of human rights have been communicated in writing to all the security service providers. They have also been advised to communicate the same to all security officers outsourced to the Bank. The Bank's Senior Manager - Security periodically verifies the awareness of these security officers on the above practices to ensure that they are fully aware of the requirements.

In addition, 5% of our employees received training on security aspects, including Information Technology security, during the year under review.

SOCIETAL RESPONSIBILITY



OUR APPROACH TO SOCIETAL RESPONSIBILITY

There are many responsibilities owed by a leading bank like ours to the society in which it operates. One of the most important of these is making a concerted effort to guard against and discourage moral hazard, corruption and anti-competitive behaviour. In this regard, Commercial Bank is in a strong position of influence, since it acts as financier to such a large segment of society and business.

Another clear responsibility of the Bank is, of course, to generate financial value on behalf of its shareholders.

Commercial Bank also recognises a third responsibility, that of generating *social* value, of being of benefit to the society and communities in which it operates. Our success makes it possible for us to give something back to the different segments of the society, especially to those most disadvantaged and vulnerable. We discharge this responsibility through a number of social initiatives. The Bank's Corporate Social Responsibility (CSR) activities date back to many decades. In 2004 the Bank founded the Commercial Bank Social Responsibility Trust with an initial capital of Rs. 25.0 Mn, and

showed its continued support by contributing sums of money every year since then. The Bank contributes up to 1% of its post-tax profits to the Trust. The contribution in 2011 amounted to Rs. 80.0 Mn. towards this worthy cause, the highest since the inception of the Trust, and making the total contribution to exceed Rs. 240.0 Mn. The deed of the Trust outlines the following objectives:

- To support and further 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

POLICY

The overall goal of the Bank's social policy is to generate measurable and sustainable social dividends for different segments of society, in particular those which require empowerment most urgently. In this regard, the CSR Trust, which finances all social projects of the Bank, continuously aligns its targets to fall in line with Bank's CSR policy.

Goals and Performance

The Bank's CSR strategy is developed within the objectives, Vision and Mission of the Bank. The Bank selected 'Education' as the primary sphere of activity as it is most crucial to ensuring growth and future of the Sri Lankan society. The Bank's education initiative supports 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. This was selected after careful consideration of the Bank's broad Vision and development road map of the Government of Sri Lanka.

The Bank commenced an IT lab project for schools with the assistance of its branch network in 2011 and also completed the groundwork for an 'English Language Education Programme for Rural Children' which will commence in 2012.

The Bank also extended assistance to secondary projects within the scope specified in the CSR Trust such as health care projects, scholarships to undergraduates and other selected projects. These projects were selected following an evaluation of their potential impact on the society and other stakeholders.

The positioning of the CSR strategies are formulated mainly to nurture the future of this country through IT and English education, and thereby empowering the future generations to be on par with other developed nations to face the challenges of the 21st century.

Organisational Responsibility

Commercial Bank's CSR Trust represents four members of the highest governance body, namely, the Board of Directors. The Chairman of the CSR Trust has overall responsibility for the Bank's commitments to society. This structure shows the commitment of

SOCIETAL RESPONSIBILITY

the Board of Directors of the Bank towards ensuring sustainability in its letter and spirit.

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 officer is responsible for carrying out programmes of actions decided upon by the Trustees with the responsibility of managing and reporting financial aspects of the Trust. Further, this officer is also responsible for coordinating the meetings of the Board of Trustees and proposing relevant programmes or actions in furtherance of the objectives of the Trust.

Training and Awareness

There is no formal training conducted on the subject. The Chairman of the CSR Trust communicates in writing with all Branch Managers of the activities the Trust has decided to undertake during the year under review, together with relevant guidelines for implementation.

Monitoring and Follow Up

The CSR Coordinator is responsible for keeping the Board of Trustees informed of the status of all CSR activities entrusted by the Trustees. The Trustees meet once a month and ensure that the proper follow up actions are being taken on all CSR projects under implementation.

KEY PERFORMANCE INDICATORS OF SOCIETAL RESPONSIBILITY

Overview of CSR Activities

The Bank's CSR activities during the year under review primarily concentrated on projects under three ongoing initiatives: IT education, undergraduate scholarships and healthcare. In all, a total of 35 projects were completed, of which 34 were undertaken in these three areas.

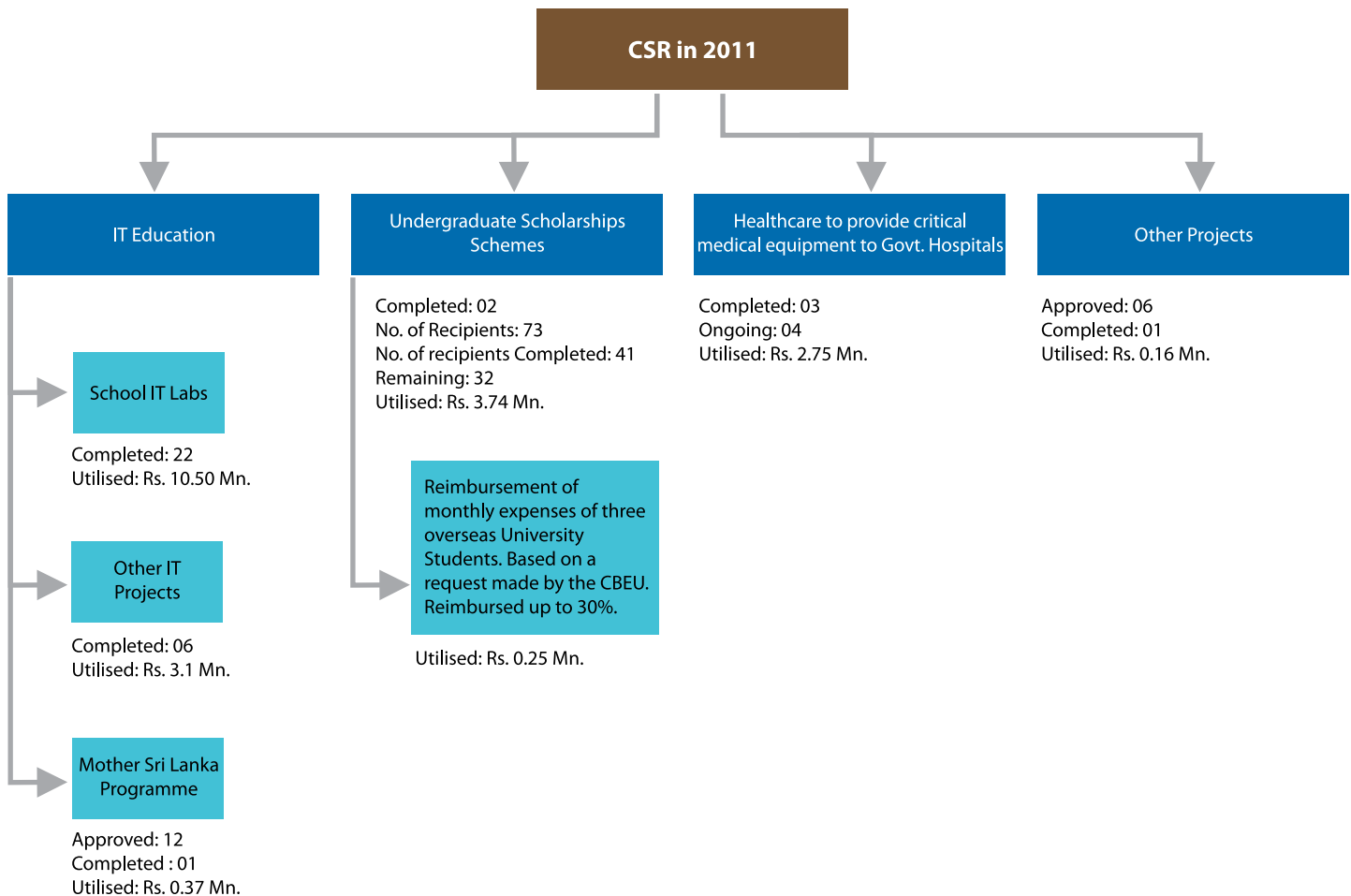
Branch Involvement

No. of CSR projects completed: 35
 No. of delivery points: 213
 Percentage of the Bank's branches or delivery points completing CSR projects: 16.4%.

Magnitude of CSR Projects Completed

Average cost of a CSR project completed amounted to Rs. 600,000/- per project.

The figure below gives a snapshot of CSR activities completed and under implementation in 2011.



SOCIETAL RESPONSIBILITY



A school in Wadduwa - One of the many to receive IT equipment from the Bank



Donation of Medical Equipment to the Lady Ridgeway Children's Hospital



Donation to construct a museum at Kirivehera, Kataragama: H.E. the President unveils the commemorative plaque

IT Education

This initiative originally began with the endowment of an IT training centre at Gothamigama Junior College, Kataragama, the centrepiece of local celebrations connected with the opening of the Bank's two-hundredth cash point, which was installed at Kataragama in 2011. The centre proved to be a great success. Inspired by this, Bank staff proposed to undertake a campaign of bringing IT education facilities to schoolchildren across the country. The initiative was approved and is being supported by the Bank's CSR Trust.

To date, a total of 22 IT labs and six other IT projects have been funded and implemented entirely by the Bank; while a further 13 projects are ongoing. Schools and other beneficiaries selected for assistance under this initiative are mostly rural. The decision which school to support is based on the grade to which education is offered by the school, the number of pupils and the availability of teachers to handle the subject of IT. A school for visually- and hearing-impaired children in Ratmalana, the HBE Children's Home in Jaffna and the SOS Children's Village in Jaffna have also received equipment and assistance under the scheme.

Undergraduate Scholarships and Other Funding for Education

During the year 73 undergraduates received scholarships worth Rs. 2,500 a month for ten academic months every year under *Sarasawiyata Nawa Saviyak*, a CSR programme supported by the CSR Trust. By the end of the year, a total of 41 scholarship holders had graduated from their respective universities, while another 32 students were continuing their studies.

This was the fourth concurrent programme year. In its first year, the programme disbursed one hundred scholarships, and announced it would award 25 every year thereafter. To date, the programme has given away 175 scholarships. Recipients are identified with the assistance of the University Grants Commission.

In addition, the Bank has undertaken to help meet the monthly expenses of three Sri Lankan students at universities overseas, based on a request made by The Ceylon Banks Employees' Union. The Bank reimburses up to 30% of these students' expenses.

The Bank also has a rewards scheme for deserving younger students. Holders of *Arunalu* minors' accounts who excel at the Year 5 scholarship examination every year are awarded cash prizes.

Health Care

Two major projects in this area were carried out in the year under review.

In April the Bank contributed Rs. 1.2 Mn. from the CSR Trust Fund to the Batticaloa Teaching Hospital, a key medical facility in the Eastern Province.

The Trust also donated medical equipment worth nearly Rs 1.5 Mn. to the Lady Ridgeway Children's Hospital, Colombo under a community programme to enhance medical facilities at hospitals.

Other Projects

The Trust recently pledged six million rupees to construct a museum within the precincts of the Kirivehera, the main Buddhist shrine in the pilgrimage city of Kataragama, for the benefit of the devotees who visit this sacred site. A commemorative plaque to mark the event was unveiled by His Excellency the President Mahinda Rajapaksa in November 2011. The proposed 2,160 sq.ft. building will house the museum as well as a bookshop. Exhibits will include ancient artefacts found in excavations on temple lands over the years.

Corruption

Business Units Analysed for Risk Related Corruption

The Bank's Integrated Risk Management Department has in place procedures to mitigate any form of corruption arising from financial fraud. Procedures and incidents are monitored as part of the Operational Risk Assessment. Incident reports submitted by the respective business units are reviewed and proper follow up actions are taken to avoid recurrence of similar incidents.

Training on Anti-corruption Policies and Procedures

The Bank's Anti-money Laundering Department conducts regular training programmes to educate the Bank's staff on the requirements of the Prevention of Money Laundering Act. The Bank conducted 8 such programmes and trained 396 staff members attached to various business units during 2011, covering 9.15% of the total staff strength of the Bank.

SOCIETAL RESPONSIBILITY

Programme/Session Title	No. of Programmes	No. of Participants	Person Hours
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

Actions Taken in Response to Incidents of Corruption

During the year 2011, there were two 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. In the event that the financial loss caused due to a fraud exceeds a pre determined threshold, details of such frauds are tabled at the quarterly meetings of the Board Integrated Risk Management Committee.

Lapses in the internal control system of the Bank which led to these two incidents were identified and steps were taken to avoid a recurrence. This was followed by an issue of circulars to all staff to educate them and to improve the effectiveness of existing internal control mechanism. In addition, disciplinary actions were initiated against the staff involved in the aforesaid incidents.

Public Policy

Public Policy Positions and Participation

The size and influence of the Bank allow it to lend weight to 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.

Contribution to Political Parties and Politicians

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

Anti-Competitive Behaviour

The Bank did not encounter any legal actions for anti-competitive behaviour, anti-trust and monopoly practices during the year 2011. Further, the Bank always obtains necessary local authority approvals and strictly adheres to the laid down rules and regulations on display materials, audio/video material, branding among other factors when conducting marketing 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. Certifications in this regard appear in the Section on 'Fines and Sanctions' on page 82.

PRODUCT RESPONSIBILITY



OUR APPROACH TO PRODUCT RESPONSIBILITY

The products of Commercial Bank are financial services of various kinds, from personal deposits and loans to credit cards, leasing, corporate-banking services, project financing, etc. Our products are adequately and clearly offered and explained, branded and defined and directed to sectors of the public, based on customer requirements and the Bank's own premise of exceeding customer expectations. In addition, the marketing, distribution and sale of these products are carried out in a manner that is legal, decent, honest and in keeping with social norms and sustainable business practices.

Being a financial-services provider, the Bank is not involved in marketing products and services which might pose a threat to the health and safety of its customers. The issue of appropriateness to customer needs is central to the profitability of our business and is thus one to which considerable attention is paid.

Of equal importance from a sustainable business point of view are the content, truthfulness and social acceptability of its communications, and the Bank takes strict measures to ensure that these are constantly maintained.

OUR POLICY

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

Goals and Performance

The Bank offers an extensive portfolio of products and services covering a wide spectrum of banking needs of a diverse customer base. We have pioneered several products and services consequent to identifying unique needs of customers 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 Bank invests heavily on its state-of-the-art technology in an effort to improve customer access to information and services; this is viewed as an element of product responsibility.

When developing products, product logos, trademarks, advertisements etc, the Bank takes steps to ensure that they are sufficiently distinguishable from those of the competitors.

The Bank takes pains to ensure that customers have access to all relevant product and service information through the following media:

- Product application forms with detailed terms and conditions
- Brochures, pamphlets and other non-mass-media advertising material
- Details of products and services published on the Bank's website
- A 24-hour 7-day call centre/ information service for customers.

Marketing and Communications

Commercial Bank always follows the guidelines laid down by the Central Bank of Sri Lanka and other authorities and media organisations governing the content and placement of advertisements. We ensure that all ethical standards of advertising are strictly followed to avoid over- promising or misleading customers.

When promotions and other marketing activities are being undertaken locally or regionally, the necessary approvals are first obtained from the relevant authorities. Rules and regulations concerning display materials, public-address systems, branding etc. are strictly followed.

In particular, the Bank suffered no incidents of non-compliance with regulations or codes concerning the health and safety impacts of products and services, product and service information and labelling or marketing communications (including advertising, promotion, and sponsorship). No complaints were received regarding breaches of customer privacy and losses of customer data, and no penalties or fines were incurred for failure to comply with any law, regulation or code of conduct regarding products and services.

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 Deputy General Managers in charge of the Corporate Banking, Personal Banking, Operations and Marketing.

PRODUCT RESPONSIBILITY

Training and Awareness

The Staff Development Centre conducts periodic training programmes to raise the awareness of front-line staff on product features and how to present them to customers. This training includes components relating to refinance schemes. Operational and administrative circulars also regularly carry information and directives relevant to this area. Such circulars are distributed via the Bank's intranet. Internal examinations and interviews test junior employees' product knowledge when they are being considered for promotion.

Monitoring and Follow-up

The Bank monitors the repayment patterns of customers - a safeguard over and above those detailed in directives of the Central Bank of Sri Lanka. The Bank also continuously monitors:

- The Central Bank requirements concerning the rescheduling of lending facilities for the relief of customers who are in difficulties,
- The number of customers who return to normal repayment pattern, and
- The affordability and practicality of terms and conditions attached to its products.

The Bank also provides guidance to customers who experience difficulties in the settlement of credit card debts, personal loans, etc.

KEY PERFORMANCE INDICATORS OF PRODUCT RESPONSIBILITY

Product and Service Information and Labelling

The Bank ensures that when designing products and labels such as logos, advertisements and other material, we do not infringe on

copyrights or mislead the customer. The Bank registers all product logos with National Intellectual Property Authority of Sri Lanka in order to retain the rights of such properties with the Bank.

All product information needed by the customer to make an informed judgment regarding the purchase or utilisation of a Bank product or service is provided to the customers through advertisements, information leaflets, terms and conditions and any other relevant document. The Bank also complies with the rulings of the Central Bank of Sri Lanka in this context.

There were no violations or incidents of non-compliance with regulations or voluntary codes pertaining to product/service information and/or labelling during the year.

Evaluating Customer Satisfaction

The Bank commissioned an independent research agency to conduct annual research on customer satisfaction covering key customer touch points, customer interaction areas and customer related processes and procedures to achieve the under mentioned objectives.

- Understand the needs, requirements and expectations of the customers
- Assess the current satisfaction levels against the key expectations
- Determine the relative impact of each of these expectations on overall loyalty of the customer
- Provide strategic direction for

improvement in critical areas and identify leverageable opportunities

- Provide a baseline to monitor future progress

The Bank bettered its 2011 customer satisfaction rating over the 2010 rating and recorded over 70% Truly Loyal customers in 2011. The Bank also managed to keep high risk (disloyal) customers below 5%, which is considered to be a remarkable achievement as per customer satisfaction standards.

Survey results also recorded over 80% in overall quality and value of experience parameters. In overall process areas, the Bank enjoyed over 80% satisfaction scores for account opening process, Bank employees, branch network, ATM network, internet banking, phone banking amongst customers who operate savings accounts.





INDEPENDENT ASSURANCE STATEMENT

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 assurance engagement on the Company's Sustainability Report 2011 ('the Report') as part of its Annual Report. This engagement focused on qualitative and quantitative information provided in the Report, and underlying management and reporting processes. The engagement was carried out against AA 1000 Assurance Standard 2008 (AA1000AS) and DNV Protocol for Verification of Sustainability Reporting (VeriSustain)¹.

This assurance statement is aimed at the readers of the Report. Commercial Bank is responsible for the collection, analysis, aggregation and presentation of information within the Report. DNV's responsibility in performing this work is to the management of Commercial Bank only and in accordance with terms of reference agreed with the Company. The assurance engagement is based on the assumption that the data and information provided to us is complete, sufficient and authentic. DNV disclaims any liability or responsibility to a third party for decisions, whether investment or otherwise, based on this assurance statement.

DNV'S INDEPENDENCE

DNV states its independence and impartiality with regards to this engagement. DNV confirms that throughout the reporting period there were no services

provided which could impair our independence and objectivity. DNV also maintained complete impartiality towards people interviewed during the assignment.

SCOPE OF ASSURANCE

The scope of DNV's assurance engagement, as agreed upon with Commercial Bank included the verification of the content of the Report, covering the period January 2011 to December 2011. In particular, this assurance engagement included:

- Review of the policies, initiatives, practices and performance described in the Report as well as references made in the Report to other sections of the Annual Report;
- Review of the Report against the requirements of AA1000AS (Type 2, Moderate level of assurance) and VeriSustain;
- Evaluation of the adherence to the principles set out in the Global Reporting Initiative Sustainability Reporting Guidelines 2011 (GRI G3.1), and confirmation of the Commercial Bank's declared Application Level;
- Review and assessment of the processes and tools for collecting, aggregating and reporting qualitative data inside the Report.

Our engagement did not include assessment of the adequacy or effectiveness of Commercial Bank strategy over sustainability-related issues.

VERIFICATION METHODOLOGY

This engagement was carried out during February 2012 by a team of suitably qualified and experienced DNV sustainability professionals in accordance with AA1000AS and VeriSustain. The Report has been evaluated against the principles of *Inclusivity*, *Materiality* and *Responsiveness*, as well as reliability of sustainability performance information, as set out in the AA1000AS. We also evaluated the Report against the additional principles of *Completeness* and *Neutrality*, as set out in VeriSustain and the GRI G3.1.

As part of verification we visited Commercial Bank head office in Colombo, Sri Lanka.

During the assurance engagement, DNV has taken a risk-based approach, meaning that we concentrated our verification efforts more on the issues of high material relevance to Commercial Bank's business and stakeholders. As part of the engagement we have challenged the sustainability-related statements and assertions made in the Report and assessed the robustness of the underlying data management system, information flow and controls. For example, we have:

- Examined and reviewed documents, data and other information made available to DNV by Commercial Bank;
- Conducted interview with Chairperson of the Board & Executive Director/Chief Operating Officer;

- Conducted in-person interviews with 18 Commercial Bank representatives, including data owners and decision-makers from different functions of the Company;
- Performed sample-based checks of the processes for generating, gathering and managing the quantitative and qualitative data included in the Report;
- Reviewed the data management processes for completeness and reliability. This including assessments of methods, practices, tools and competence used in collection, aggregation and reporting of data as it is transferred and managed at different levels of the organisation;
- Reviewed the process of acquiring information and economic-financial data from the Annual Report 2011.

CONCLUSIONS

In DNV's opinion, based on the work carried out, the Report is a fair communication of the Company's sustainability-related strategies, management systems and performance. The Report, along with the referenced information in the Annual Report and the commitments with timelines to report in full on some of the core indicators, meets the general content and quality requirements of the GRI G3.1, and DNV confirms that the GRI requirements for Application Level 'B+' have been met. We have evaluated the Report's adherence to

¹www.dnv.com/services/assessment/corporate_responsibility/services_solutions/sustainabilityreporting/order/

INDEPENDENT ASSURANCE STATEMENT

the following principles on a scale of 'Good', 'Acceptable' and 'Needs Improvement':

Inclusiveness: The Company demonstrates engagement with stakeholders through various channels. The engagement process can be further strengthened by standardising the process of collating the information related to the stakeholder interests, concerns and information needs regarding sustainability through different engagement channels. In our view, the level at which the Report adheres to the principle of Inclusivity is 'Acceptable'.

Materiality: The methodology of materiality determination used for the Report uses the perspectives of senior representatives from various functions of the Company. The outcome has not missed out any significant, known material issues, but the process should be strengthened by more specific framework to bring out material issues that reflect short, medium and long term impacts. In our view, the level at which the Report adheres to the principle of Materiality is 'Acceptable'.

Responsiveness: The Company has responded to stakeholder concerns through its policies and management systems, and this is reflected in the Report. The implementation of the policies needs to be strengthened by increased awareness and monitoring. In our view, the level at which the Report adheres to the principle of Responsiveness is 'Acceptable'.

In accordance with the AA1000AS requirements for a Type 2, Moderate level assurance engagement, we conclude that the data and information related to GRI G3.1 Core Indicators presented in the Report is generally reliable. Although no systematic or material errors have been detected, DNV has identified some manual discrepancies in data which have subsequently been corrected. More focus to develop clearer data protocols would help improve data consistency and accuracy.

Additional Principles as per VeriSustain:

Completeness: The Report limits its boundary to Sri Lanka operations in the environment and social aspects and the reason for this limitation is specified in the Report. It is evident that Commercial Bank acknowledges the need for continuous improvement and is committed to expanding the reporting scope and boundary. In our view, the level at which the Report adheres to the principle of Completeness is 'Acceptable'.

Neutrality: The information contained in the Report is presented in a balanced manner, in terms of content and tone. Limitations are fairly presented with commitments to future improvement. In our view, the level at which the Report adheres to the principle of Completeness is 'Good'.

OPPORTUNITIES FOR IMPROVEMENT

The following is an excerpt from the observations and opportunities reported back to the management of Commercial Bank. These do not, however, affect our conclusions regarding the Report, and they are indeed consistent with the management objectives already in place.

- Strengthening of the governance mechanisms to monitor environment and social performance.
- Improve the monitoring and disclosure of Commercial Bank's own environmental footprint.

For Det Norske Veritas AS,



Santhosh Jayaram
Lead Verifier
Head, Sustainability and Business Excellence (South Asia)
Det Norske Veritas AS, India



Antonio Astone
Reviewer
Global Manager, Sustainability Services
Det Norske Veritas AS, Italy

February 24, 2012
Bangalore, India



INDEPENDENT ASSURANCE STATEMENT



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INDEPENDENT ASSURANCE REPORT TO THE MANAGEMENT OF COMMERCIAL BANK OF CEYLON PLC ON THE SUSTAINABILITY REPORT-2011

INTRODUCTION AND SCOPE OF THE ENGAGEMENT

The management of Commercial Bank of Ceylon PLC ("Bank") engaged us to provide an independent assurance on the following elements of the Sustainability Report 2011 ("the Report")

- Reasonable assurance on the information on financial performance as specified on page 74, 75 and 76 of the Report and whether the Bank has obtained external independent assurance on the GRI application level.
- Limited assurance on other information presented in the Report.

MANAGEMENTS' RESPONSIBILITY FOR THE REPORT

The management of the Bank is responsible for the preparation and presentation of the Report in accordance with the Bank's sustainability practices and policies some of which are derived from Global Reporting Initiatives (GRI-G3.1) Sustainability Reporting Guidelines. The GRI-G3.1 guidelines are publicly available at GRI's global website at "www.globalreporting.org". These responsibilities include among other things, identification of stakeholders

and material issues, determining the sustainable performance criteria for reporting and establishing appropriate processes and internal control systems to measure and report the sustainability performance criteria.

ERNST & YOUNG'S RESPONSIBILITY

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

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

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

This Report is made solely by the Bank in accordance with our engagement letter dated February 13, 2012. We disclaim any assumption of responsibility for any reliance on this report to any person other than the Bank or for any purpose other than that for which it was prepared. In conducting

our engagement, we have complied with the independence requirements of the Code for Ethics for Professional Accountants issued by the ICASL.

KEY ASSURANCE PROCEDURES

Financial information

- We reconciled the information on financial performance as reported on pages 74, 75 and 76 of the Report with the audited financial statements of the Bank for the years ended December 31, 2007, 2008, 2009, 2010 and 2011.
- Check the other assurance reports, declarations provided by external assurance providers.

Other information

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

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

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

CONCLUSIONS

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

- The information on financial performance as specified on pages 74, 75 and 76 of the Report are properly derived from the audited financial statements of the Bank for the years ended December 31, 2007, 2008, 2009, 2010 and 2011 and the independent assurance statement provided by Det Norske Veritas AS (DNV) as specified on pages 105 and 106 confirmed that the Bank met the GRI application level 'B+'.
- Nothing has come to our attention that causes us to believe that other information presented in the Report are not presented, in all material respects, in accordance with the Bank's sustainability practices and policies some of which are derived from GRI (G3.1) Sustainability Reporting Guidelines.

Ernst & Young

Chartered Accountants
February 27, 2012
Colombo

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2.4	Location of Organisation's Headquarters	●	Sustainability Supplement	60
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3	Report Parameters			
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3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations and other entities that can affect comparability from period to period and/or between organisations	●	Sustainability Supplement	58
3.9	Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the report.	●	Sustainability Supplement	56
3.10	Explanation of the effect of any re-statement of information provided in earlier reports and the reason for such re-statement		There were no re-statement of information provided in earlier reports	
3.11	Significant changes from previous reporting periods in the scope, boundary or measurement methods applied in the Report	●	Sustainability Supplement	58
	GRI Content Index			
3.12	Table identifying the location of the Standard Disclosures in the report.	●	Sustainability Supplement	108-115
3.13	Policy and current practice with regard to seeking external assurance for the Report	●	Sustainability Supplement	58

● Disclosed △ Not applicable □ Not reported

GRI COMPLIANCE INDEX

Index No.	Description	Status	Report Section	Page/s
4	Governance, Commitments & Engagement			
	Governance			
4.1	Governance Structure of the Organisation, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organisational oversight	●	Sustainability Supplement	66
		●	Governance Structure of Commercial Bank	121
4.2	Indicate whether the Chair of the highest governance body is also an Executive Officer	●	Sustainability Supplement	66
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	●	Sustainability Supplement	66
		●	Annual Report of the Board of Directors	234
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body	●	Sustainability Supplement	66-67
4.5	Linkage between compensation for members of the highest governance body, senior managers, and Executives and the Organisation's performance	●	Sustainability Supplement	67
4.6	Processes in place for the highest governing body to ensure conflicts of interests are avoided	●	Sustainability Supplement	67
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	●	Sustainability Supplement	66
4.8	Internally developed statements of mission or values, Codes of Conduct, and Principles relevant to economic, environmental, and social performance and the status of their implementation	●	Sustainability Supplement	67
4.9	Procedures of the highest governance body for overseeing the Organisation's identification and management of economic, environmental, and social performance.	●	Sustainability Supplement	68
4.10	Processes for evaluating the highest governance body's own performance particularly with regard to economic, environmental, and social performance	●	Sustainability Supplement	67
	Commitments to External Initiatives			
4.11	Explanation of whether and how the precautionary approach or principle is addressed by the organisation	●	Sustainability Supplement	68
4.12	Externally developed economic, environmental and social Charters and principles, or other initiatives to which the organisation subscribes or endorses	●	Sustainability Supplement	67-68
4.13	Memberships in associations (such as industry associations) and/or national/international advocacy organisations in which the organisation: <ul style="list-style-type: none"> ● Has positions in governance bodies; ● Participates in projects or committees; ● Provides substantive funding beyond routine membership duties; or ● Views membership as strategic. 	●	Sustainability Supplement	67-68
	Stakeholder Engagement			
4.14	List of stakeholder groups engaged by the Organisation	●	Sustainability Supplement	68-71
4.15	Basis for identification and selection of stakeholders with whom to engage	●	Sustainability Supplement	68-71
4.16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group	●	Sustainability Supplement	68-71
4.17	Key topics and concerns raised through stakeholders engagement and how the Organisations responded to those key topics and concerns	●	Sustainability Supplement	68-71

● Disclosed △ Not applicable □ Not reported

GRI COMPLIANCE INDEX

Index No.	Description	Status	Report Section	Page/s
Economic Dimension of Sustainability				
	Management Approach	●	Sustainability Supplement	73
	Economic Performance Indicators			
	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	●	Sustainability Supplement	74-76
EC2	Financial implications and other risks and opportunities for the Organisation's activities due to climate change	●	Sustainability Supplement	77
EC3	Coverage of the Organisation's defined benefit plan obligations	●	Sustainability Supplement	77
EC4	Significant financial assistance received from Government	●	Sustainability Supplement	78-79
	Market Presence			
EC5	Range of ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation	●	Sustainability Supplement	80
EC6	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation	□		
EC7	Procedures for local hiring and proportion of senior management hired from the local community at locations of significant operation	●	Sustainability Supplement	80
	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	□		
EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts	□		
Environmental Dimension of Sustainability				
	Management Approach	●	Sustainability Supplement	81
	Environmental Performance Indicators			
	Materials			
EN1	Materials used by weight or volume	□		
EN2	Percentage of materials used that are recycled input materials	□		
	Energy			
EN3	Direct energy consumption by primary energy source	□		
EN4	Indirect energy consumption by primary source	□		
EN5	Energy saved due to conservation and efficiency improvements	□		
EN6	Initiatives to provide energy-efficient or renewable energy-based products and services, and reductions in energy requirements as a result of these initiatives	□		
EN7	Initiatives to reduce indirect energy consumption and reductions achieved	□		
	Water			
EN8	Total water withdrawal by source	□		
EN9	Water sources significantly affected by withdrawal of water	□		
EN10	Percentage and total volume of water recycled and reused	□		

● Disclosed △ Not applicable □ Not reported

GRI COMPLIANCE INDEX

Index No.	Description	Status	Report Section	Page/s
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	△		
EN12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas	△		
EN13	Habitats protected or restored	△		
EN14	Strategies, current action and future plans for managing biodiversity	△		
EN15	Number of IUCN Red List Species & National Conservation List Species with habitats in areas affected by operations, by level of extinction risk	△		
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	●	Sustainability Supplement	82
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	□		
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	△		
Compliance				
EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	●	Sustainability Supplement	82
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	□		
Overall				
EN30	Total environmental protection expenditures and investments by type	□		
Social dimension of sustainability		●	Sustainability Supplement	83
UN Global Compact: The Ten Principles		●	Sustainability Supplement	83

● Disclosed △ Not applicable □ Not reported

GRI COMPLIANCE INDEX

Index No.	Description	Status	Report Section	Page/s
Labour Practices and Decent Work Dimension				
	Management Approach	●	Sustainability Supplement	86-87
	Labour Practices and Decent Work Performance Indicators			
	Employment			
LA1	Total workforce by employment type, employment contract, and region, broken down by gender	●	Sustainability Supplement	87-90
LA2	Total number and rate of new employee hires and employee turnover by age group, gender, and region	●	Sustainability Supplement	90-91
LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operations	●	Sustainability Supplement	91
LA15	Return to work and retention rates after parental leave, by gender.	□		
	Labour/Management Relations			
LA4	Percentage of employees covered by collective bargaining agreements	●	Sustainability Supplement	92
LA5	Minimum notice period(s) regarding operational changes, including whether it is specified in collective agreements	●	Sustainability Supplement	92
	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	●	Sustainability Supplement	92
LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work related fatalities by region and by gender	●	Sustainability Supplement	92
LA8	Education, training, counselling, prevention of diseases, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases	□		
LA9	Health and safety topics covered in formal agreements with trade unions	●	Sustainability Supplement	93
	Training and Education			
LA10	Average hours of training per year per employee by gender, and by employee category	●	Sustainability Supplement	93-96
LA11	Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	□		
LA12	Percentage of employees receiving regular performance and career development reviews by gender	●	Sustainability Supplement	96
	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	□		
	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	●	Sustainability Supplement	96
Human Rights Dimension				
	Management Approach	●	Sustainability Supplement	97
	Human Rights Performance Indicators			
	Investment and Procurement Practices			
HR1	Percentage and total number of significant investment agreements and contracts that include clauses incorporating human rights concerns, or that have undergone human rights screening	□		

● Disclosed △ Not applicable □ Not reported

GRI COMPLIANCE INDEX

Index No.	Description	Status	Report Section	Page/s
HR2	Percentage of significant suppliers, contractors, and other business partners that have undergone human rights screening, and actions taken	<input type="checkbox"/>		
HR3	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained	●	Sustainability Supplement	98
Non-discrimination				
HR4	Total number of incidents of discrimination and actions taken	●	Sustainability Supplement	98
Freedom of Association and Collective Bargaining Core				
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	●	Sustainability Supplement	98
Child Labour				
HR6	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	●	Sustainability Supplement	98
Forced and Compulsory Labour				
HR7	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	●	Sustainability Supplement	98
Security Practices				
HR8	Percentage of security personnel trained in the organisation's policies or procedures concerning aspects of human rights that are relevant to operations	●	Sustainability Supplement	98
Indigenous Rights				
HR9	Total number of incidents of violations involving rights of indigenous people and actions taken	<input type="checkbox"/>		
Assessment				
HR10	Percentage and total number of operations that have been subject to human rights reviews and/or impact assessments.	<input type="checkbox"/>		
Remediation				
HR11	Number of grievances related to human rights filed, addressed and resolved through formal grievance mechanisms	<input type="checkbox"/>		
Society Dimension				
Management Approach		●	Sustainability Supplement	99-100
Society Performance Indicators				
Local Communities				
SO1	Percentage of operations with implemented local community engagement, impact assessments, and development programmes	●	Sustainability Supplement	100-101
SO9	Operations with significant potential or actual negative impacts on local communities	<input type="checkbox"/>		
SO10	Prevention and mitigation measures implemented in operations with significant potential or actual negative impacts on local communities	<input type="checkbox"/>		
Corruption				
SO2	Percentage and total number of business units analysed for risks related to corruption	●	Sustainability Supplement	101
SO3	Percentage of employees trained in organisation's anti-corruption policies and procedures	●	Sustainability Supplement	101-102
SO4	Actions taken in response to incidents of corruption	●	Sustainability Supplement	102

● Disclosed △ Not applicable □ Not reported

GRI COMPLIANCE INDEX

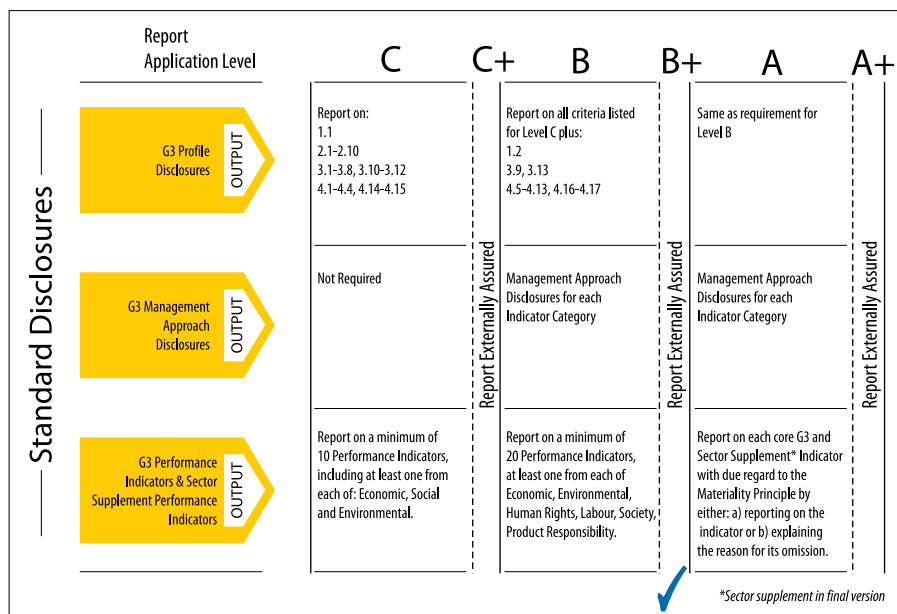
Index No.	Description	Status	Report Section	Page/s
Public Policy				
SO5	Public policy positions and participation in public policy development and lobbying	●	Sustainability Supplement	102
SO6	Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country	●	Sustainability Supplement	102
Anti-Competitive Behaviour				
SO7	Total number of legal actions for anti-competitive behaviour, anti-trust, and monopoly practices and their outcomes	●	Sustainability Supplement	102
Compliance				
SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	●	Sustainability Supplement	102
Product Responsibility Dimension				
Management Approach		●	Sustainability Supplement	103-104
Product Responsibility Performance Indicators				
Customer Health and Safety				
PR 1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures	□		
PR 2	Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services	□		
Products and Service Labelling				
PR3	Type of product & service Information required by procedures and percentage of significant products and services subject to such information requirements	□		
PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling by type of outcomes	●	Sustainability Supplement	104
PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction	●	Sustainability Supplement	104
Marketing Communications				
PR6	Programmes for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship	●	Sustainability Supplement	103
PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes	●	Sustainability Supplement	103
Customer Privacy				
PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	□		
PR9	Monetary value of significant fines for noncompliance with laws and regulations concerning the provision and use of products and services	□		

● Disclosed △ Not applicable □ Not reported

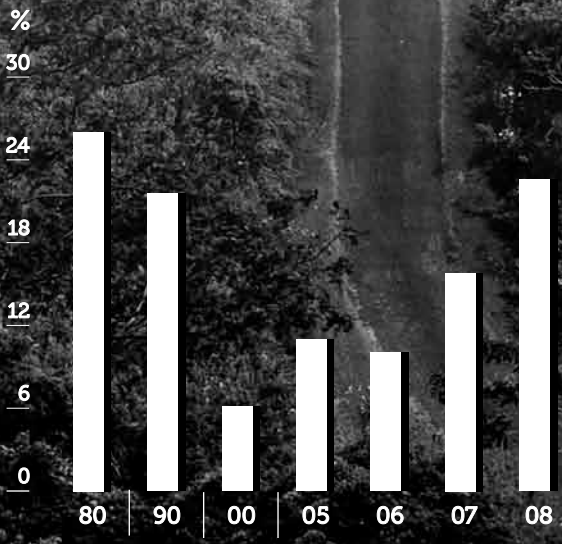
GRI COMPLIANCE INDEX

UNGC Principles - GRI Indicators Cross Reference

Issue Areas	GC Principles	Relevant GRI Indicators
Human Rights	Principle 1 Businesses should support and respect the protection of internationally-proclaimed human rights	EC 5, LA 4, LA 6-LA9, LA 14, HR 3-HR 8, SO 5
	Principle 2 Businesses should make sure that they are not complicit in human rights abuses	HR 3-HR 8, SO 5
Labour	Principle 3 Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining	LA 4, LA 5, HR 3, HR 5, SO 5
	Principle 4 Businesses should uphold the elimination of all forms of forced and compulsory labour	HR 3, HR 7, SO 5
	Principle 5 Businesses should uphold the effective abolition of child labour	HR 3, HR 6, SO 5
	Principle 6 Businesses should uphold the elimination of discrimination in respect of employment and occupation	EC 7, LA 2, LA 14, HR 3, HR 4, SO 5
	Principle 7 Businesses should support a precautionary approach to environmental challenges	EC 2, SO 5
Environment	Principle 8 Businesses should undertake initiatives to promote greater environmental responsibility	EN 22, EN 28
	Principle 9 Businesses should encourage the development and diffusion of environmentally-friendly technologies	EN 22, SO 5
Anti-Corruption	Principle 10 Businesses should work against corruption in all its forms, including extortion and bribery	SO 2-SO 4



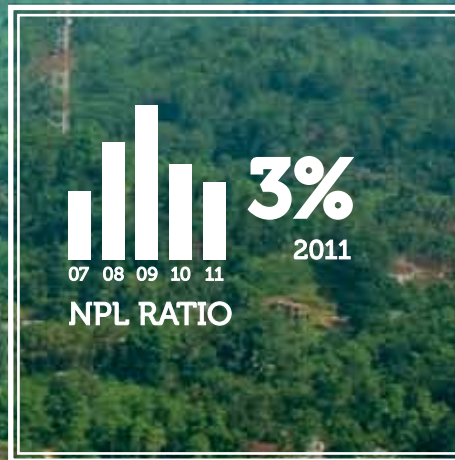
We have self-assessed our reporting to be Application Level 'B'!
Our Application Level has been checked by Det Norske Veritas AS (DNV) and Ernst & Young, Chartered Accountants and confirmed 'B+'!



RATE OF INFLATION (BASED ON CCPI)

No precipitous descent in sight...

If one is prudent... 'drives' enterprise within safe parameters... and maintains optimal speed, there should never be a free fall along this expressway. The Bank's 'dashboard signs' remained healthy this year.





Stewardship

<i>Corporate Governance</i>	119
<i>Directors' Interest in Contracts with the Company</i>	171
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<i>Management Teams</i>	180
<i>Managing Risk at Commercial Bank</i>	183
<i>Investor Relations</i>	206

CORPORATE GOVERNANCE

CHAIRMAN'S STATEMENT

Dear Stakeholder,

We at Commercial Bank continually strive to satisfy the legitimate claims of all stakeholders and to fulfil the Bank's economic, environmental and social responsibilities in an accountable and transparent manner. To achieve this goal the Board ensures that the right strategy and controls are in place in order to deliver value to shareholders, employees and the community. As a well-governed Bank we place a strong emphasis on corporate governance, striving to both align business practices with the best interests of all our stakeholders, and maximise transparency through timely information disclosure and financial reporting. As the Chairman of the Bank, I wish to state to all our stakeholders that your Board of Directors is committed to raise 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 demonstrates the Corporate Governance Mechanism in place at Commercial Bank and its adherence to the requirements of the Code of Best Practice on Corporate Governance issued jointly by The Institute of Chartered Accountants of Sri Lanka (ICASL) and the Securities and Exchange Commission of Sri Lanka (SEC) and the Banking Act Direction No. 11 of 2007 on 'Corporate Governance for Licensed Commercial Banks in Sri Lanka' issued by the Central Bank of Sri Lanka and subsequent amendments thereto.

While assuring you that we take every effort to improve our Corporate Governance Philosophy, we hope that this Report will be of value to you realising how the requirements of the aforesaid regulations are in place within the Bank. Your valuable feedback is most welcome to continue with our commitment to practice corporate governance at the highest levels at Commercial Bank.

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.

Yours Sincerely,



D.S. Weerakkody
Chairman
Colombo

February 09, 2012

Highlights

1. Mr. D.S. Weerakkody, a member of the Board since 2005 and the Deputy Chairman was appointed as the Chairman of the Bank effective from December 30, 2011, upon resignation of the long standing former Chairman of the Bank, Mr. M.J.C. Amarasuriya.
2. Mr. K.G.D.D. Dheerasinghe, an eminent economist and former Senior Deputy Governor of the Central Bank of Sri Lanka was appointed as the Deputy Chairman of the Bank effective from December 30, 2011, upon resignation of the former Deputy Chairman/Director, Mr. B.R.L. Fernando. Mr. Dheerasinghe is an Independent Non-Executive Director.
3. The Bank further refreshed its Board by appointing Mr. M.P. Jayawardena as a Non-Executive Director to fill a casual vacancy created due to Dr. H.S. Wanasinghe ceasing to be a Director effective from December 31, 2011.
4. The Board of Directors formed two more Board Sub-Committees, namely the Board Credit Committee and the Board Technology Committee, with the view to further strengthen the governance structure of the Bank.
5. During the year, the Bank engaged the services of Ernst & Young to seek an assurance on 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. 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 in 2010.

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 appear on pages 129 to 139 for the requirements of 'Corporate Governance Principles' and the response of the Bank on its adherence to the said requirements.

In addition, tables appearing on pages 140 to 160 demonstrate the 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 there to.

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

CORPORATE GOVERNANCE

Summary of Compliance

The compilation below summarises 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	√

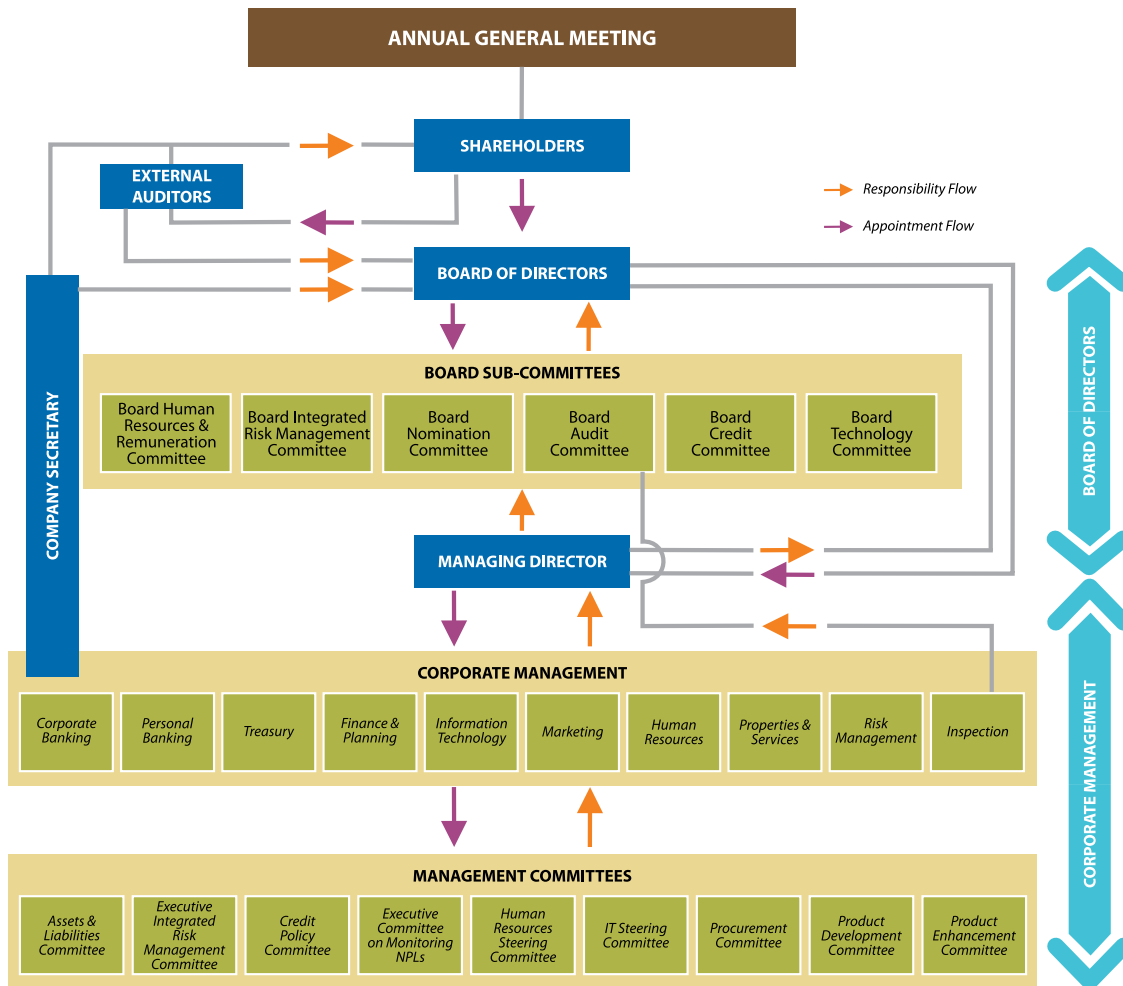
Governance of any institution should be aimed at protecting the interests of all stakeholders. For us at Commercial Bank, Corporate Governance is about effective, transparent and accountable governance of affairs by the management including the conduct of the Board, the highest governing body. Among many balancing acts that banks perform on a day-to-day basis such as managing liquidity vs profitability, risk vs return, capital vs growth, establishing and enacting a well-structured corporate governance regime too entails a balancing act. Corporate Governance is of paramount importance subsequent to a number of financial failures, frauds and questionable business practices that have adversely affected investor confidence around the globe.

The Bank conducts its business according to a clearly defined values and standards of conduct that go beyond the laws and regulations to deliver the promised highest standards of corporate governance embracing the best practices as enumerated in various Codes and guidelines applicable to the Bank. It is not the policies and decisions themselves, but how policies and decisions are implemented and practiced in its letter and spirit. The System of Governance at the Bank is built on the basic value of integrity encompassing our commercial principles and guidelines as well as internal and external control and monitoring mechanism which will be more fully described in the forthcoming sections of this Report on Stewardship.

CORPORATE GOVERNANCE

GOVERNANCE STRUCTURE OF COMMERCIAL BANK

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 owners, 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.



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)

Major Internal Steering Instruments on Governance

- Articles of Association of the Bank
- Board of Directors' working procedure
- Policy for secrecy of information, credit and other internal manuals
- Integrated risk management procedures
- Processes for anti-money laundering
- Processes for internal controls
- Bank's Code of Ethics

Reference Web Links for Further Information

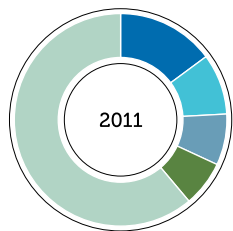
- Companies Act: [http://www.drc.gov.lk/App/ComReg.nsf/200392d5acdb66c246256b76001be7d8/\\$FILE/Act%207%20of%202007%20\(English\).pdf](http://www.drc.gov.lk/App/ComReg.nsf/200392d5acdb66c246256b76001be7d8/$FILE/Act%207%20of%202007%20(English).pdf)
- Banking Act: http://www.cbsl.gov.lk/pics_n_docs/09_lr/_docs/acts/BankingAct30_1988.pdf
- 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

CORPORATE GOVERNANCE

OWNERSHIP STRUCTURE

The right of shareholders to make decisions is exercised at the Annual General Meeting of the Bank and the Extraordinary General Meeting called upon as needed. According to the share register at year-end 2011, the Bank had a total of 9,299 voting shareholders. DFCC Bank PLC is the largest shareholder, with a stake of 14.90% of the Ordinary Voting Shares of the Bank. The Employees' Provident Fund has increased its voting shareholding to 9.37% in 2011 from 4.70% in the preceding year perking up its position to the second largest shareholder of the Bank.

Ownership Structure 2011

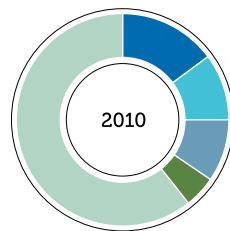


■	DFCC Bank PLC	14.90%
■	Employees' Provident Fund	9.37%
■	HSBC Intl. Nominees Ltd. - SSBT-International Finance Corporation GNA-C61V	7.57%
■	SBI Ven Holdings Pte Ltd.	7.09%
■	Other Shareholders	61.07%

For further information on the ownership structure, please refer to Item 3 of the Section on 'Investor Relations' on page 211 which deals with the Twenty Largest Shareholders of the Bank.

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>

Ownership Structure 2010



■	DFCC Bank PLC	14.96%
■	SBI Ven Holdings Pte Ltd.	9.95%
■	HSBC Intl. Nominees Ltd. - SSBT-International Finance Corporation GNA-C61V	9.57%
■	Sri Lanka Insurance Corporation Ltd. - Life Fund	5.10%
■	Other Shareholders	60.42%

ANNUAL GENERAL MEETING 2011

The Bank's 42nd Annual General Meeting (AGM) was held on March 30, 2011. At the AGM 332 shareholders were present by person or by proxy.

The resolutions passed at the AGM were as follows:

Approval of Annual Report of the Board of Directors on the affairs of the Company & Statement of Compliance and the Financial Statements for the year ended December 31, 2010.

Approval of a Final Dividend of Rs. 4/- to be made for 2010 (Satisfied by way of Rs. 2/- in Cash and Rs. 2/- in Shares)

Re-appointment /re-election of Directors in place of those vacating, retiring by rotation or otherwise.

Appointment of Ernst & Young, Chartered Accountants as the External Auditors of the Bank for 2011 and to authorise the Directors to approve their Remuneration.

Authorise the Board of Directors to determine donations for 2011.

CORPORATE GOVERNANCE

EXTRAORDINARY GENERAL MEETING 2011

There were two Extraordinary General Meetings (EGM) held during 2011 to deal with the matters noted below.

Date of EGM	Matters Tabled	Attendance (%)
March 30, 2011	<ul style="list-style-type: none"> Adoption of the Amended Articles of Association of the Bank 	251
July 26, 2011	<ul style="list-style-type: none"> Approval for the Rights Issue of Shares made in September 2011 Approval for the Sub-division of Shares immediately after the Rights Issue Adoption of the Amendment to the Articles of Association of the Bank 	234

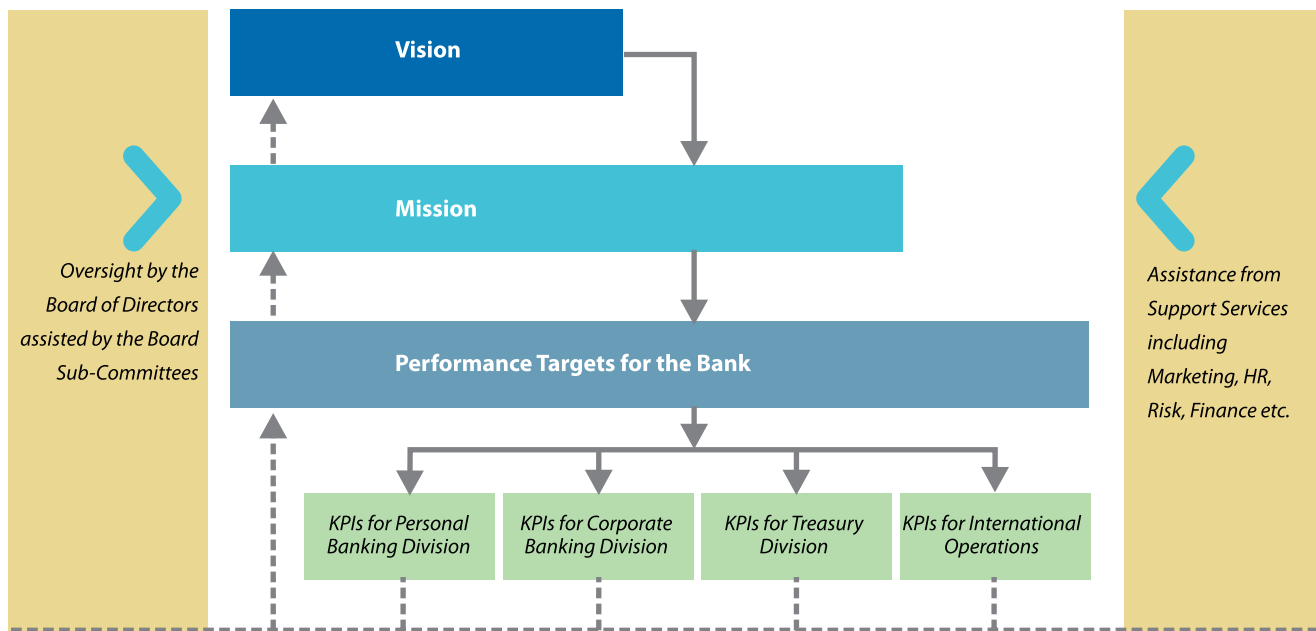
Our Performance Governance stemmed from the Strategic Direction drilled down to Corporate Objectives. By efficiently and methodically implanting the Performance Governance ethos, the Bank strives to develop a framework that delivers breakthrough corporate results while taking account of all stakeholders of the Bank.

The Chairman and the Managing Director together with their team review the strategic plan and budgets against the actual performance on a monthly basis and at more frequent intervals, as needed. Progress made by the four Key Strategic Business Units of the Bank in terms of the pre-set Key Performance Indicators (KPIs) are reviewed regularly to ensure the correct alignment with the overall strategy of the Bank, as depicted in the diagram below:

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



CORPORATE GOVERNANCE

The table below exemplifies the KPIs of each Strategic Business Unit for 2011 with their extent of achievement.

Strategic Business Unit	KPI in 2011	Extent of Achievement
Personal Banking	<ul style="list-style-type: none"> Aggressively engage in lending whilst emphasising on quality. Reduce NPA portfolio in absolute terms. Expand delivery points and increase accessibility Invigorate Priority Banking 	See the Section on 'Performance by Division - Personal Banking' on pages 27 to 33 of the Management Discussion and Analysis for detailed explanations.
Corporate Banking	<ul style="list-style-type: none"> Maximise profit while maintaining a substantial growth in the lending portfolio and also maintaining a quality loan book. To continue to maintain the most preferred Bank status for Trade Finance. To actively pursue investment opportunities in listed equities. To revisit and redefine the customer convenience and satisfaction in all operations. 	See the Section on 'Performance by Division - Corporate Banking' on pages 34 to 36 of the 'Management Discussion and Analysis' for detailed explanations.
Treasury	<ul style="list-style-type: none"> Maximise profitability and acquire new businesses. Marketing strategy to target retail business. Improve interest rate and exchange rate management of the Bank. To be the preferred treasury. 	See the Section on 'Performance by Division - Treasury Banking' on pages 41 and 42 of the 'Management Discussion and Analysis' for detailed explanations.
International Operations	<ul style="list-style-type: none"> To achieve the pre-eminent position of being the 3rd most profitable foreign bank amongst the foreign banks 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 37 to 40 of the 'Management Discussion and Analysis' for detailed explanations.

Moreover, the strategy adopted by the Bank provides an integrated and dynamic approach to its strategic issues and ensures that the strategy is discussed at Board level on a regular basis. Alignment of the performance targets of the individuals to the Key Performance Indicators of the Bank has been highly successful over the years.

The Bank strongly believes that good corporate governance on its own cannot make the Bank successful. Therefore, it always strives to strike a balance in conformance with performance. Four mandatory Board Sub-Committees and two other voluntary Board Sub-Committees

whose reports appear on pages 162 to 170 assist the Board in this regard.

IT GOVERNANCE

Information Technology has become the backbone of the present business environment with utmost exclusive reliance on the use of Information and Communication Technologies in businesses. Increasing complexities and criticalities in IT decision making demands the Bank to design and implement an effective IT Governance System.

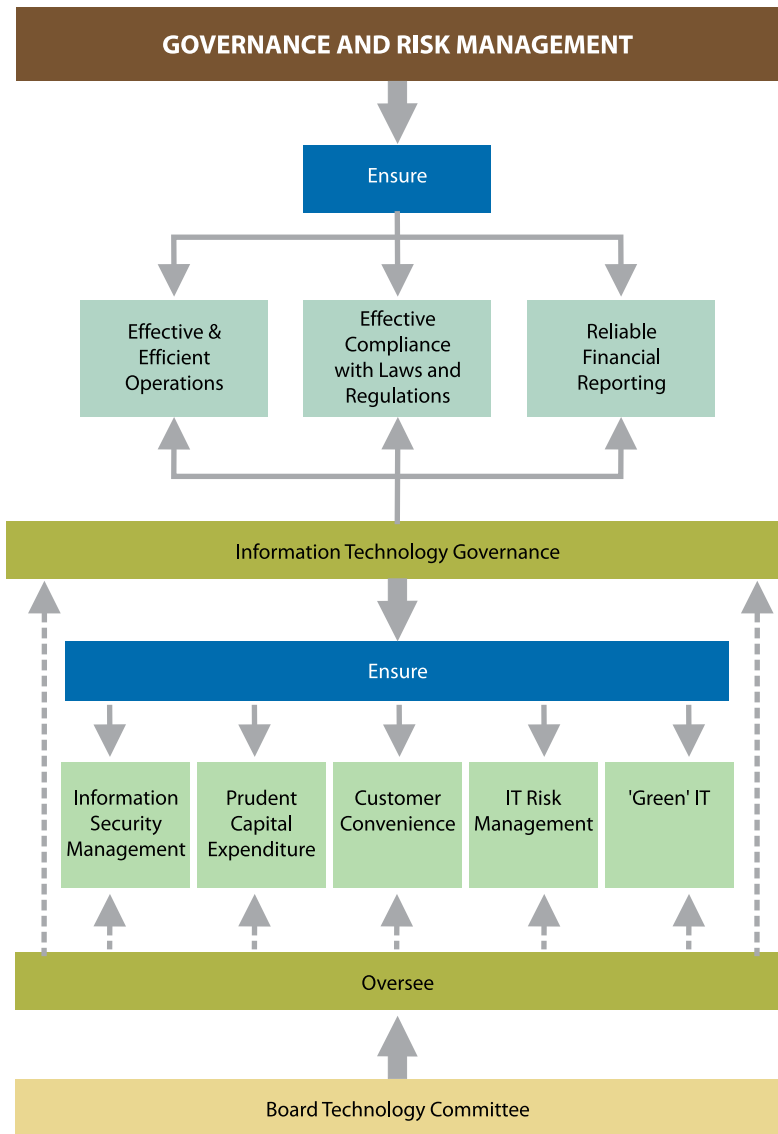
As such, the right alignment of IT objectives with those of the Bank defined in the business terms

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, implementation of the organisational structure with well-defined roles for those responsible for information, business processes, applications, infrastructure, etc., generates value for our stakeholders while mitigating the risks associated with incorrect deployment and use of Information Technology.

CORPORATE GOVERNANCE

In this avenue, formation of a Board Sub-Committee named 'Board Technology Committee' with a view to further strengthen the IT Governance Mechanism at Commercial Bank can be counted

as an important initiative. This Board Sub-Committee is primarily responsible for ensuring implementation of the IT Governance Mechanism illustrated below:



CORPORATE GOVERNANCE

The core objectives of the Bank's Strategic Information Technology Governance which impact the diverse functional areas of the Bank are set out below:

Objective	IT Governance Mechanism in place at Commercial Bank
Compliance	<ul style="list-style-type: none"> Investing in Licensed Software deployed in compliance with Intellectual Property Laws with a view to educate and mandate compliance to such laws throughout the Bank.
Operational Efficiency	<ul style="list-style-type: none"> Streamlining of payments process so that integrity is maintained across value chain through near real-time processing. Business Continuity Plan for IT that supports all other key functions of the Bank to ensure uninterrupted service to customers.
Reliable Financial Reporting	<ul style="list-style-type: none"> Close integration of the different IT systems used by the various functional areas of the Bank. Assuring effective IT controls leads to reliable financial reporting and streamlining the financial reporting process.
Information Security Management	<ul style="list-style-type: none"> Achieving the ISO/IEC 27001:2005 Information Security Management Systems certification in 2010 as the first Sri Lankan bank to do so to re-align our commitment to customer confidentiality. Ensuring that information security extends throughout the Bank and beyond as a means of proactive management of information security risks and controls.
Prudent Capital Expenditure	<ul style="list-style-type: none"> All major IT-related procurement to be reviewed by a Solutions Evaluation Committee prior to seeking approval from the Bank's Procurement Committee. Final approval of IT capital expenditure is sought from the Board of Directors of the Bank based on value and recommendations of Chief Information Officer, the Chief Operating Officer and the Managing Director.
Customer Convenience	<ul style="list-style-type: none"> A constant drive for improvement and a commitment to high quality uninterrupted service levels to ensure systems availability translating to customer convenience at each of our delivery channels. Ensuring process efficiencies and disciplines through certification to increase the contribution to customer convenience.
IT Risk Management	<ul style="list-style-type: none"> Integrated Risk Management Department of the Bank identifies IT-related risks as a part of its continuous risk assessment procedures Existing risk management processes are further strengthened and where appropriate new processes are designed to understand risks and implement controls to effectively manage them to mitigate the risk exposure
'Green' IT	<ul style="list-style-type: none"> Protecting the environment by reducing the carbon footprint through migration to e-Statements, Document Workflow and Soft Copy. Returning used IT equipment to re-cyclers who follow environmental friendly guidelines in disposing them as per international standards.

INTEGRATED RISK MANAGEMENT AT COMMERCIAL BANK

The primary responsibility of the Bank's Integrated Risk Management Team headed by the Chief Risk Officer encompasses the implementation of a comprehensive risk management strategy which embraces the accomplishment of the overall strategy of the Bank.

Board of Directors strives to strike a balance in the risk and return to the stakeholders with the backing of the Board Integrated Risk Management Committee formed in terms of the mandatory requirements of the Banking Act Direction No. 11 of 2007 on 'Corporate Governance for Licensed Commercial Banks in Sri Lanka' which establishes, co-ordinates and drives the risk management process throughout the Bank. The Integrated Risk Management System of the Bank steered by the aforesaid Board Sub-Committee with the assistance of the Integrated Risk Management Team ensures the timely identification and management of significant risks including exposure to Credit, Market and Operational Risks. Chief Risk Officer reports on the Risk Management Strategy regularly to the Board through the Board Integrated Risk Management Committee, the Report of which Committee is found on pages 164 and 165.

A full Report on the Bank's Risk Management Mechanism including the development took place in 2011 are found in the Section on 'Managing Risk at Commercial Bank' on pages 183 to 203 of this Stewardship Report.

CORPORATE GOVERNANCE

INTERNAL CONTROLS MECHANISM

The Bank makes every effort to ensure the effectiveness of the Internal Control Mechanism to assure the Bank's goals are met in terms of efficient operations, compliance with 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 of effective communication within the Bank on the Internal Control Mechanism 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 the periodic reporting to the Management and to the Board Audit Committee which reports to the Board.

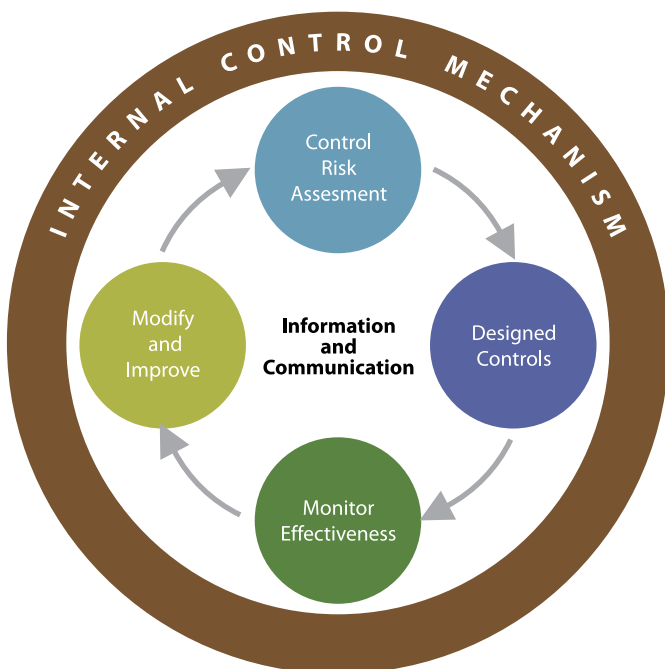
The Bank's internal audit function headed by the Deputy General Manager - Inspection is responsible for independent, objective assurance on internal control mechanism, in order to systematically evaluate and

propose improvements for more effective internal control processes and governance. Findings of these audits are tabled at the meetings of the Board Audit Committee of the Bank in furtherance of the effectiveness of control mechanism. Report of the Board Audit Committee appears on pages 167 to 169.

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 has been done in accordance with relevant accounting principles and regulatory requirements. Moreover, the External Auditors have reviewed this Report which forms a part of the Annual Report. Please see 'Directors' Statement on Internal Control' appears on page 240 for further information on internal control.

The Bank's External Auditors' Reports also provide the Board with the evidence that enables it to conclude whether the Bank's Internal Control Mechanism is appropriately designed and operating effectively.



Risk assessment includes identifying exposure due to failure to fulfil the fundamental assertion for significant accounts in the financial reporting for the Bank, including completeness, accuracy, valuation and disclosures, etc. These risks also include risk of loss or misappropriation of assets.

Control activities are designed to mitigate the identified risks and to ensure reliable financial reporting as well as process efficiency. These controls are aimed at preventing, detecting and correcting material misstatements and other irregularities.

Monitoring the effectiveness of controls is performed periodically to ensure that risks are properly mitigated. In the Bank's Control System, the controls relating to the financial reporting are implemented, documented, tested by the Bank and are certified by the Bank's External Auditors

Having identified the areas for improvement the Bank's Internal Audit function proactively proposes improvements to the control mechanism. In addition, the External Auditors' Management Letter and the Certification of the Internal Control Procedures put in place at the Bank provides information on control lapses together with the required improvements

CORPORATE GOVERNANCE

OUR CORPORATE BEHAVIOUR AND RESPONSIBILITY FOR SUSTAINABLE BUSINESS PERFORMANCE

Commercial Bank being a responsible corporate citizen, its strategies nurture and grow a sustainable business that reaches far beyond profit making or being the best, affirming that the Bank will engage in ethical business practices and thereby seek to create value for a variety of stakeholders, including shareholders, employees, customers, service providers, communities and the natural environment.

Our corporate behaviour further understands its promised commitment towards the society at large in creating a balance between economic and social goals and between individual and communal goals.

Social and Environmental Responsibility is regarded as a fundamental aspect of our strategy execution and decision-making process and is prominently placed in the Bank's corporate priorities and core values. The Bank ensures that it does not compromise this responsibility even at the expense of its economic performance. One of the most important developments of sustainability at Commercial Bank is our 'Social and Environmental Management System' (SEMS), which spells out the social and environmental policy and procedures to be followed by the Bank.

In addition, the Bank's Corporate Social Responsibility Trust which was formed in 2004 too plays a pivotal role in assisting various needy sectors

of the society. Four of the trustees being drawn from the members of the Board of Directors of the Bank amply demonstrate the Bank's commitment towards ensuring sustainability in its letter and spirit.

We take pride in presenting our Sustainability Supplement as an integral part of this Annual Report for the third consecutive year which is based on the Global Reporting Initiative (GRI) G3.1 Reporting Framework. See pages 55 to 115 for the 'Sustainability Supplement'.

OUR CODE OF ETHICS

The 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, one of the basic professional requirements for the Bank. We at Commercial Bank believe that the upholding of an ethical culture in banking is of critical interest to the customers, employees, regulators, alike and to the Bank itself as a secured, reliable and efficient banking system is one of the pillars of economic stability of any country. Hence, nurturing an ethical culture is of utmost importance for banks, 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 should ensure that the Bank at all times maintains

high ethical standards and adequate internal control measures are in place guarding against unethical practices and irregularities.

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". Strict compliance, confidentiality, avoidance of conflicts of interest, encouraging the reporting by the Officers of the Bank on illegal and unethical behaviour are also amongst the guiding principles of the Bank's Code of Ethics.

Please refer the web link for additional information on the Bank's Code of Ethics: <http://www.combank.net/newweb/info/104?oid=57>

RELATIONSHIP AND COMMUNICATION WITH STAKEHOLDERS

The Bank endeavours to maintain open dialogue with its stakeholders at all times and hence steps have been taken to strengthen this dialogue by enabling closer connections with them. The stakeholders identified on this basis together with topics of engagement, the method and the frequency of engagement are detailed in the Section on 'Stakeholder Engagement' on pages 68 to 71 in the 'Sustainability Supplement'.

CORPORATE GOVERNANCE

BANK'S ADHERENCE WITH THE CODE OF BEST PRACTICE ON CORPORATE GOVERNANCE ISSUED JOINTLY BY THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SRI LANKA AND THE SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA ('CODE')

"Corporate Governance is concerned with ensuring the Firm is run in the interests of Shareholders" (Franklin Allen, 2005). Hence, a good Corporate Governance Code needs to address the needs of both the Company (the Bank) and its Shareholders. In this regard, it is pertinent to mention that the Code of Best Practice on Corporate Governance issued jointly by The Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka focuses adequately on fulfilling the aspirations of both.

The extent of adherence by the Bank to the requirements of the six fundamental principles laid down in the aforesaid Code, which we have categorised into two Sections purely for the convenience of our stakeholders, namely Section 1 & 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 129 to 139)

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 139)

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 professionals and business leaders drawn from different backgrounds <i>inter alia</i> banking, accounting, management, marketing, human resources, law and international experience whose profiles are given on pages 178 and 179. Their leadership skills, direction provided and controls put in place ensure the achievement of the objectives of the Bank set out in the Corporate Plan and the Budget which aims to satisfy the expectations of all stakeholders.			
Board meetings	A.1.1	Complied with	Board meetings are held monthly mainly to review the Performance of the Bank and its subsidiaries and other routine matters referred to the Board by the Heads of respective divisions while Special Board meetings are convened whenever necessary. These meetings ensure that prompt actions are taken to align the business processes to achieve the expectations of all stakeholders. See 'Number of Meetings Held and Attendance' on page 161.
Responsibilities of the Board	A.1.2	Complied with	The Board is responsible for the formulation and implementation of a clear business strategy which is well-understood by all stakeholders including staff, customers and investors. The Board is assisted in this task by the Corporate Management headed by the Managing Director. The Board Nomination Committee helps the Board in setting the criteria and key attributes required for those aspiring for appointment or promotion to the post of Managing Director and the Key Management Personnel. It also ensures the succession arrangements for retiring Directors and Key Management Personnel. The Board takes necessary steps to fulfil the duties entrusted to it by securing the integrity of the information, managing risks and implementing an effective internal control system. In this process, compliance with all applicable laws and regulations and adherence to the Bank's ethical standards and corporate values are of utmost importance in order to ensure that the interests of all stakeholders are taken into consideration in the corporate decision-making process. See 'Directors' Statement on Internal Control' that appears on page 240 for details on compliance on above aspects.

CORPORATE GOVERNANCE

Corporate Governance Principle	Reference to Code	Compliance	Details of Compliance
Seeking independent professional advice	A.1.3	Complied with	<p>The Directors are permitted to seek independent professional advice as and when required, at the Bank's expense. The Company Secretary takes required initiatives in this connection.</p> <p>In addition, the Board is assisted by several Board Sub-Committees on various matters under their purview.</p> <p>See pages 162 to 170 for Reports of all Board appointed Sub-Committees for further details.</p>
Advice and services of the Company Secretary	A.1.4	Complied with	<p>All legal matters for which clarification is needed by the Board are referred to the Company Secretary who is an Attorney-at-Law. She provides all required information after obtaining necessary professional advice, whenever required to do so. All Board members have full access to the Company Secretary to ensure that proper Board procedures are followed and that all applicable rules and regulations are complied with.</p>
Independent judgment of Directors	A.1.5	Complied with	<p>All Directors are responsible for bringing independent judgment to the scrutiny of decisions taken by the Board on issues of strategy, performance, resources and standards of business conduct.</p>
Dedicating adequate time and effort by the Directors	A.1.6	Complied with	<p>All Directors of the Bank dedicate adequate time and effort to fulfil their duties as Directors of the Bank (both before and after the Board meetings), to ensure that the duties and responsibilities owed to the Bank are satisfactorily discharged.</p> <p>In addition, the Directors function as members of the one or more Board Sub-Committees (details of which are found on pages 162 to 170) and ensure that they allocate adequate time for the fulfilment of their duties as members of such Board Sub-Committees.</p> <p>See 'Number of Meetings Held and Attendance' on page 161.</p>
Training for new and existing Directors	A.1.7	Complied with	<p>Both new and existing Directors of the Bank are provided guidelines on general aspects of directorships and industry specific matters. In this connection the Directors have recognised the need for continuous training and expansion of knowledge and take part in such professional development as they consider necessary in assisting them to carry out their duties as Directors.</p>

A.2 Chairman and Chief Executive Officer (CEO)

There is a clear division of responsibilities between conducting the business of the Board and day-to-day operations of the Bank in order to ensure a balance of power and authority. The Chairman is responsible for leading the Board and for its effectiveness. The CEO's role is primarily to conduct the business operations of the Bank with the help of the Corporate Management. Hence, the roles of the Chairman and CEO are clearly distinct from one another. The Chairman is also the ultimate point of contact for shareholders, particularly on matters related to Corporate Governance.

Separation of the roles of Chairman & MD/CEO	A.2.1	Complied with	<p>As reported above the positions and functions of the Chairman and the CEO are separated, thereby preventing unfettered powers for decision-making being invested with a single autonomous entity.</p>
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CORPORATE GOVERNANCE

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.

Corporate Governance Principle	Reference to Code	Compliance	Details of Compliance
Role of the Chairman	A.3.1	Complied with	<p>The Chairman ensures proper conduct of Board proceedings to optimise the contribution from Board members through:</p> <ul style="list-style-type: none"> • 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 three Board members out of nine including the Managing Director are Qualified Accountants having professional qualifications and are equipped with sufficient financial acumen and knowledge to offer guidance on matters of finance.

Corporate Governance Principle	Reference to Code	Compliance	Details of Compliance
Financial acumen and knowledge	A.4	Complied with	<p>The Chairman is an Associate of the Chartered Institute of Management Accountants, United Kingdom and a Fellow of the Certified Management Accountants of Sri Lanka. The MD/CEO is a Fellow of The Institute of Chartered Accountants, England & Wales and a Fellow of The Institute of Chartered Accountants, Sri Lanka. In addition, the Board includes a Fellow of The Institute of Chartered Accountants, Sri Lanka. These members of the Board have the ability to offer guidance on matters of finance to the Board.</p>

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 is able to dominate the Board's decision-making.

Corporate Governance Principle	Reference to Code	Compliance	Details of Compliance
Presence of a strong team of NEDs	A.5.1	Complied with	<p>Five out of seven 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.</p>

CORPORATE GOVERNANCE

Corporate Governance Principle	Reference to Code	Compliance	Details of Compliance
Independence of NEDs	A.5.2 & A.5.3	Complied with	Three out of the five NEDs are Independent which is well above the minimum prescribed by this Code which is two NEDs or NEDs equivalent to one third of the total number of NEDs, whichever is higher. All three Independent Directors are independent of management and free of any business or other relationship that could impair his 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
Requirement to appoint a 'Senior Non-Executive Director' and making himself available for confidential discussions	A.5.6 & A.5.7	Not applicable	This does not arise as the positions of the Chairman and the CEO are separated and the Chairman is an Independent Director.
Conducting meetings with NEDs only	A.5.8	Complied with	Chairman meets with the NEDs without the presence of Executive Directors, whenever necessary.
Recording of concerns in Board minutes	A.5.9	Complied with	Concerns raised by the Directors during the year, if any, are recorded in the minutes of Board meetings with adequate details by the Company Secretary.

A.6 Supply of Information

The Code requires the Bank's management to submit timely information to the Board with sufficient information for making decisions which would enable it to discharge duties.

Obligation of the Management to provide appropriate and timely information to the Board	A.6.1	Complied with	The Bank ensures that the Directors receive adequate information in a timely manner. On urgent matters, every effort is made to provide the information, as early as possible. The Board Papers are prepared by the Heads of the respective business Units 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, where necessary. In addition, members of the Corporate Management made presentations on issues of importance. The Chairman ensured that all Directors were briefed adequately on issues arising at Board meetings.
Adequate time for Board meetings	A.6.2	Complied with	According to the Articles of Association of the Bank, all Board members are given a Notice of at least 7 days before the dates of meetings and all minutes of previous meetings, agenda and Board Papers are normally dispatched within the aforesaid deadlines. Further, adequate Notice is given to all Directors prior to emergency/special Board meetings. This ensures that the Board members have adequate time to study the related papers and prepare for a meaningful discussion at their Meetings.

CORPORATE GOVERNANCE

Corporate Governance Principle Reference to Code Compliance Details of Compliance

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. During the year, three Non-Executive Directors were appointed to the Board.

Presence of a Nomination Committee and annual assessment of composition of the Board	A.7.1 & A.7.2	Complied with	New appointments and re-elections of Directors to the Board are considered and recommended by the Nomination Committee and based on such recommendations, final decisions are made by the Board, in a formal and transparent manner. Further, this Committee annually assesses the composition of the Board to ensure that the combined knowledge and experience of the Board matches the strategic demand facing the Bank. See page 166 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 resume 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 and the Colombo Stock Exchange in addition to disclosing this information in the Annual Report. Further, the required information is published in a few selected newspapers for the information of interested parties. Any changes in the details provided by the Directors are disseminated to the Colombo Stock Exchange without delay.

A.8 Re-election

The Code requires all Directors to submit themselves for re-election, on regular intervals and at least once in every three years.

Re-election of Non-Executive Directors including Chairman and Directors	A.8.1 & A.8.2	Complied with	<p>According to the Articles of Association of the Bank, two directors who have been longest in office since their last selection or appointment are required to retire by rotation and are eligible for re-election at each Annual General Meeting. The proposed re-election of Directors is subject to prior review by the Board Nomination Committee.</p> <p>All Directors of the Bank during 2011 had held their office for less than three years since the last re-election/appointment except as disclosed below.</p> <ul style="list-style-type: none"> • Mr. D.S. Weerakkody was appointed to the Bank's Board in March 2011, under and in terms of Article 92 to fill a casual vacancy. Accordingly, he is required, in terms of the stated Article and of the Banking Act Direction No. 11 of 2007 on Corporate has offered himself for re-election at the forthcoming Annual General Meeting of the Bank and the Board has recommended the re-elections. • Messrs K.G.D.D. Dheerasinghe, L. Hulugalle and M.P. Jayawardena who joined the Board during the year are required to make themselves available for re-election at the forthcoming Annual General Meeting of the Bank and the Board has recommended their re-elections. • Prof. U.P. Liyanage and Mr. A.L. Gooneratne offer themselves to re-election by rotation.
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CORPORATE GOVERNANCE

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 Chairman with the Board's assistance. The Board Sub-Committees carry out a self-assessment process annually to ensure they function effectively and efficiently with the objective of facilitating continuous improvement.
Disclosure of criteria used for the performance evaluation	A.9.3	Complied with	See 'Board Human Resources and Remuneration Committee Report' on pages 162 and 163 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:	Page Reference
			Name, qualification and brief profile	178 - 179
			Nature of expertise in relevant functional area	178 - 179
			Directors' Interests in Contracts with the Company	171
			Number of Meetings (Main Board and Board Sub-Committees) held and attended during 2011	161
			Names of the Board Sub-Committees in which the Director serves as the Chairman or a member	161 - 170

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 met the pre-set financial and non-financial targets.

Setting annual targets and the appraisal of performance of the CEO	A.11.1 & A.11.2	Complied with	At the beginning of each financial year, the Board supported by the Board Human Resources and Remuneration Committee discusses with the CEO and sets long term, medium term and short term financial and non-financial goals for the Bank that are to be achieved by the CEO within the course of that year. Assessment of performance of the CEO is carried out by the Board at the end of each year to ensure that pre-agreed targets have been achieved or if not whether there are acceptable reasons for not achieving them.
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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 'Board Human Resources and Remuneration Committee Report' for the Terms of Reference on pages 162 and 163.
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CORPORATE GOVERNANCE

Corporate Governance Principle	Reference to Code	Compliance	Details of Compliance
Composition of the Remuneration Committee	B.1.2	Complied with	As prescribed in this Code, all members of the Board Human Resources and Remuneration Committee are Non-Executive Directors and the Chairman of the Committee is appointed by the Board.
Chairman and the Members of the Committee	B.1.3	Complied with	See pages 162 and 163 of the 'Board Human Resources and Remuneration Committee Report' for details of the Chairman and the Members of the Board Human Resources and Remuneration Committee.
Determination of the remuneration of Non-Executive Directors	B.1.4	Complied with	The Board as a whole decides the remuneration of the Non-Executive Directors. The Non-Executive Directors receive a fee for being a Director of the Board and an additional fee for either chairing or being a member of a Committee, working on Special Committees and/or serving on subsidiary Boards. They do not receive any performance/incentive payments.
Ability to consult the Chairman and/or CEO and to seek professional advice by the Committee	B.1.5	Complied with	The Committee has the authority to seek internal and external independent professional advice on matters falling within its purview, at the Bank's expense. Views of the Chairman and/or CEO are obtained as they too are members of the said Board Sub-Committee.

B.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 an attractive 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 size and scale of the Bank is not comparable with any other companies in the Commercial Bank Group.
Performance-based remuneration of Executive Directors	B.2.4	Complied with	Objectives for two Executive Directors are set at the beginning of the year and the remuneration including the performance bonus is decided based upon the degree of achievement of such pre-set targets.
Executive share options	B.2.5	Complied with	Share options were offered to Executive Directors, the details of which are given in Notes 32 (b) and (c) of the Financial Statements on pages 302 and 303.
Designing the remuneration of Executive Directors	B.2.6	Complied with	For details See 'Board Human Resources and Remuneration Committee Report' on pages 162 and 163.
Early termination of Executive Directors	B.2.7 & B.2.8	Not applicable	Not applicable to the Board except for the MD/CEO and Chief Operating Officer who are employees of the Bank, and their terms of employment are governed by the contract of service/employment.
Levels of Remuneration of Non-Executive Directors	B.2.9	Complied with	Non-Executive Directors of the Bank are paid a nominal fee commensurate with their time and role in the Bank. They are not entitled to receive shares under the existing Employee Share Option Schemes of the Bank.

CORPORATE GOVERNANCE

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.2.9	Complied with	See 'Board Human Resources and Remuneration Committee Report' on pages 162 and 163 for disclosures on the names of the Remuneration Committee members and the Remuneration Policy of the Bank. Also see Note 7 to the Financial Statements on page 269 for the aggregate remuneration paid to Executive and Non-Executive Directors.
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C Relations with Shareholders

C.1 Constructive Use of Annual General Meeting (AGM) and Conduct of General Meetings

The Code requires the Board to use the Annual General Meeting (AGM) which is a major event in the Bank's calendar to communicate with shareholders and encourage their active participation. In this regard, all shareholders of the Bank receive the Notice of meeting within the statutory due dates.

Use of Proxy Votes	C.1.1	Complied with	The Bank has in place an effective mechanism to count all proxy votes to indicate to the Chairman the level of proxies lodged on each resolution and the number of votes for and against 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 Recourses and Remuneration, Nomination, Integrated Risk Management and Credit 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 all shareholders of the Bank together with the Notice of Meeting detailing the summary of procedure as per legal requirements giving adequate notice to shareholders. This provides opportunity to all shareholders to attend the AGM irrespective of their voting status and obtain clarifications for the matters of interest to them.

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.
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CORPORATE GOVERNANCE

Corporate Governance Principle Reference to Code Compliance Details of Compliance

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	<p>The Board is well aware of its responsibility to present regulatory and statutory reporting in a balanced and understandable manner and a statement to this effect is given on page 239 confirming this position.</p> <p>The Bank had strictly complied with the requirements of the Companies Act No. 07 of 2007, the Banking Act No. 30 of 1988 and amendments thereto, in the preparation of 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 and the Colombo Stock Exchange.</p>												
Declarations by Directors in the Directors' Report	D.1.2	Complied with	<p>The Directors have made all required declarations in the 'Annual Report of the Board of Directors'.</p> <p>See the 'Annual Report of the Board of Directors' appear on pages 229 to 238 for the required declarations.</p> <table border="1"> <thead> <tr> <th>Declaration</th> <th>Page Reference</th> </tr> </thead> <tbody> <tr> <td>The Bank has not engaged in activities that contravene laws and regulations</td> <td>238</td> </tr> <tr> <td>Directors' Interests in Contracts with the Company</td> <td>171 -173</td> </tr> <tr> <td>Equitable treatment to shareholders</td> <td>233</td> </tr> <tr> <td>Going concern of the business of the Bank</td> <td>237</td> </tr> <tr> <td>Review of internal controls and reasonable assurance on their effectiveness</td> <td>240 - 241</td> </tr> </tbody> </table>	Declaration	Page Reference	The Bank has not engaged in activities that contravene laws and regulations	238	Directors' Interests in Contracts with the Company	171 -173	Equitable treatment to shareholders	233	Going concern of the business of the Bank	237	Review of internal controls and reasonable assurance on their effectiveness	240 - 241
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Review of internal controls and reasonable assurance on their effectiveness	240 - 241														
Statements by Directors and Auditors on responsibility for financial reporting	D.1.3	Complied with	<p>The 'Statement of Directors' Responsibility' is given on page 239</p> <p>See 'Auditors' Report' on page 243 for the reporting responsibility of Auditors.</p>												
Management Discussion and Analysis	D.1.4	Complied with	See 'Management Discussion and Analysis' on pages 17 to 51.												
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 237 and the 'Statement of Directors' Responsibility' on page 239 for the required declarations.												
Requirement to Summon an Extraordinary General Meeting (EGM) to notify serious loss in net assets (capital)	D.1.6	Not applicable	Likelihood of such occurrence is remote. However, should the situation arise, an EGM will be called for and shareholders will be notified.												

CORPORATE GOVERNANCE

Corporate Governance Principle	Reference to Code	Compliance	Details of Compliance
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 Auditor's certification on the effectiveness of the internal control mechanism on financial reporting.
Need for an internal audit function for companies with no such function	D.2.2	Not applicable	This is not applicable as the Bank already has its own in-house Internal Audit Department, which is responsible for internal audit function.
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 page 167 of the 'Board Audit Committee Report' under the heading 'Composition of the Committee.'
Duties of the Audit Committee	D.3.2	Complied with	As stated in the Report of the Board Audit Committee of the Bank it regularly reviews scope, results and effectiveness of the audit. It also ensures the balance among objectivity, independence and value for money of the services provided by the Bank's Auditors with special attention to provision of non-audit services by the Auditor.
Terms of Reference of the Audit Committee	D.3.3	Complied with	Terms of reference of the Board Audit Committee is clearly defined in the Charter of the Audit Committee approved by the Board of Directors, which was last revised in December 2011. This clearly explains the purpose of the Committee, its duties and responsibilities together with the scope and functions of the Committee. The Committee mainly deals with the matters pertaining to statutory and regulatory compliance in financial reporting, matters with regard to the External Auditors, internal audit and risk management procedures of the Bank.
Disclosure of names of the members of the Audit Committee	D.3.4	Complied with	Names of the members of the Audit Committee are given on page 167 under the heading on 'The Composition of the Committee' and disclosure on the independence of the Auditors is found on page 168 under the Section on 'External Audit' in the 'Board Audit Committee Report' on page 167 - 169 of this Report.
D.4 Code of Business Conduct and Ethics			
The Code requires the Bank to adopt an Internal Code of Conduct and Ethics to be adhered to by all Directors and members of the senior management of the Bank.			
Disclosures on presence of Code of Business Conduct and Ethics	D.4.1	Complied with	The Bank has an internally developed Codes of Conduct for its Directors and all 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 128 of this Report.

CORPORATE GOVERNANCE

Corporate Governance Principle	Reference to Code	Compliance	Details of Compliance
Affirmative Statement by the Chairman	D.4.2	Complied with	See the Letter from the Chairman on page 6 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 120 to 170 serves this requirement.
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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 and communicates the views and queries of the shareholders to Board and the senior management in order to ensure that the views are properly communicated to the Bank.
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E.2 Evaluation of Governance Disclosures

The Code requires the Bank to encourage institutional investors to give due weight to all relevant factors drawn to their attention.

Due weight by Institutional Investors	E.2.1	Complied with	The Institutional Investors are at liberty to give due weight on matters relating to the Board structure and composition, when they consider resolutions relating to Board structure and composition.
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F Other Investors

F.1 Investing/Divesting Decision

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.
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F.2 Shareholder Voting

Encourage voting by Individual Investors	F.2.1	Complied with	Individual shareholders are encouraged to participate in General Meetings of the Bank and exercise their voting rights. The Bank adequately communicates with all shareholders by ensuring that they are informed of this position by dispatching necessary Notices in time.
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CORPORATE GOVERNANCE

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 31st December 2011 is given below:-

Annual Corporate Governance Report – 2011 Licensed Commercial Bank

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, which are only for purposes of explaining and clarifying rationale for the mandatory rules set out in Direction 3 that follows. The Direction clearly states that strict compliance shall only be in respect of the rules that are set out in Direction 3. 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 2011 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 the safety and soundness of the Bank by ensuring the implementation of the following:	
	(a) Approve and oversee the Bank's strategic objectives and corporate values and ensure that these are communicated throughout the Bank;	Complied with Approving, overseeing, communicating and monitoring the strategic objectives, corporate values, overall business strategy and policy communicated to the Board of Directors mainly via the monthly and special Board meetings conducted.
	(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
	(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 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
	(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.
	(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

CORPORATE GOVERNANCE

Relevant Section	Rule	Degree of Compliance
	(g) Define the areas of authority and key responsibilities for the Board Directors themselves and for the Key Management Personnel;	Complied with
	(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
	(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
	(j) Ensure that the Bank has an appropriate succession plan for Key Management Personnel;	Complied with
	(k) Meet regularly, on a needs basis, with the Key Management Personnel to review policies, establish communication lines and monitor progress towards corporate objectives;	Complied with
	(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
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 146 - 148 of this Report for details.
3 (1) (iii)	The Board shall meet regularly and Board meetings shall be held at least twelve times a year at approximately monthly intervals. Such regular Board meetings shall normally involve active participation in person of a majority of Directors entitled to be present. Obtaining the Board's consent through the circulation of written resolutions/papers shall be avoided as far as possible.	Complied with Board meets regularly at least on monthly intervals. See 'Item A. 1.1' of the ICASL and SEC Code table on page 129 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 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 a notice of at least 7 days for regular Board meetings. In addition, adequate notice is given for Special Board meetings.

CORPORATE GOVERNANCE

Relevant Section	Rule	Degree of Compliance
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
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 130 for further details.
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.
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 maintains the minutes of Board meetings with sufficient details.
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.

CORPORATE GOVERNANCE

Relevant Section	Rule	Degree of Compliance
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.
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 situation has 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 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
3 (2) (ii)	<p>(A) The total period of service of a Director other than a Director who holds the position of Chief Executive Officer shall not exceed nine years, and such period in office shall be inclusive of the total period of service served by such Director up to January 1, 2008.</p> <p>(B) In this context, the following transitional provisions shall apply: A Director who has completed 9 years as at January 1, 2008, or who completes such term at any time prior to December 31, 2008, may continue for a further maximum period of 3 years commencing January 1, 2009.</p>	Complied with

CORPORATE GOVERNANCE

Relevant Section	Rule	Degree of Compliance
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 on the Board, the MD/CEO and the Chief Operating Officer. This number does not exceed one-third of the number of Directors of the Board.
3 (2) (iv)	The Board shall have at least three Independent Non-Executive Directors or one-third of the total number of Directors, whichever is higher. This sub-direction shall be applicable from January 1, 2010 onwards. A Non-Executive Director shall not be considered independent if he/she: (a) has direct and indirect shareholdings of more than 1% of the Bank; (b) currently has or had during the period of two years immediately preceding his/her appointment as Director, any business transactions with the Bank as described in Direction 3 (7) hereof, exceeding 10% of the regulatory capital of the Bank; (c) has been employed by the Bank during the two-year period immediately preceding the appointment as Director; (d) has a close relation who is a Director or Chief Executive Officer or a member of Key Management Personnel or a material shareholder of the Bank or another Bank. For this purpose, a 'close relation' shall mean the spouse or a financially dependant child; (e) represents a specific stakeholder of the Bank; (f) is an employee or a Director or a material shareholder in a company or business organisation: I. which currently has a transaction with the Bank as defined in Direction 3 (7) of these Directions, exceeding 10% of the regulatory capital of the Bank, or II. in which any of the other Directors of the Bank are employed or are Directors or are material shareholders; or III. in which any of the other Directors of the Bank has a transaction as defined in Direction 3 (7) of these Directions, exceeding 10% of regulatory capital in the Bank.	Complied with
3 (2) (v)	In the event an alternate Director is appointed to represent an Independent Director, the person so appointed shall also meet the criteria that applies to the Independent Director.	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 178 and 179.
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 2011 were duly constituted with more than one-half of the number of Directors present at such meetings being consist of Non-Executive Directors. See 'Number of Meetings Held and Attendance' on page 161.

CORPORATE GOVERNANCE

Relevant Section	Rule	Degree of Compliance
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 159 Profiles of the Non-Executive of Directors are given on pages 178 and 179.
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 166 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, other than the Nominee Directors are subject to re-election by shareholders at the first 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
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 178 and 179.
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
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 The age limit of Directors is within the maximum period permitted by this Direction and amendments thereto.

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Relevant Section	Rule	Degree of Compliance
3 (3) (ii)	<p>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.</p> <p>(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.</p>	Complied with, when considered together with the transitional provisions.
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 The Board is empowered by the Articles of Association to delegate to the MD/CEO any of the powers vested with the Board, upon such terms and conditions and with such restrictions as the Board may think fit.
3 (4) (ii)	The Board shall not delegate any matters to a Board Committee, Chief Executive Officer, Executive Directors or Key Management Personnel, to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions.	
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.
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 Positions of the Chairman and the CEO are separated, thereby preventing unfettered powers for decision-making in one person.
3 (5) (ii)	The Chairman shall be a Non-Executive Director and preferably an Independent Director as well. In the case where the Chairman is not an Independent Director, the Board shall designate an Independent Director as the Senior Director with suitably documented terms of reference to ensure a greater independent element. The designation of the Senior Director shall be disclosed in the Bank's Annual Report.	Complied with Chairman is an Independent Non-Executive Director.

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Relevant Section	Rule	Degree of Compliance
3 (5) (iii)	The Board shall disclose in its Corporate Governance Report, which shall be an integral part of its Annual Report, the identity of the Chairman and the Chief Executive Officer and the nature of any relationship [including financial, business, family or other material/relevant relationship(s)], if any, between the Chairman and the Chief Executive Officer and the relationships among members of the Board.	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 being common Directors of certain companies. See Note 2 appearing on page 160 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 Board' as a responsibility of Chairman. Bank is in the process of expanding the 'Areas of Appraisal' in Board Appraisal Form to include 'Leadership provided by Chairman' with effect from the year 2012. Ensuring that (a) the Board works effectively and discharges its responsibilities; and (b) all key and appropriate issues are discussed by the Board in a timely manner too are in the Board approved list of Functions and Responsibilities of Chairman. These two areas are also assessed by Directors, when conducting the Board Performance appraisal by them annually.
3 (5) (v)	The Chairman shall be primarily responsible for drawing up and approving the agenda for each Board meeting, taking into account where appropriate, any matters proposed by the other Directors for inclusion in the agenda. The Chairman may delegate the drawing up of the agenda to the Company Secretary.	Complied with
3 (5) (vi)	The Chairman shall ensure that all Directors are properly briefed on issues arising at Board meetings and also ensure that Directors receive adequate information in a timely manner.	Complied with
3 (5) (vii)	The Chairman shall encourage all Directors to make a full and active contribution to the Board's affairs and take the lead to ensure that the Board acts in the best interests of the Bank.	Complied with
3 (5) (viii)	The Chairman shall facilitate the effective contribution of Non-Executive Directors in particular and ensure constructive relations between executive and Non-Executive Directors.	Complied with
3 (5) (ix)	The Chairman, shall not engage in activities involving direct supervision of Key Management Personnel or any other executive duties whatsoever.	Complied with

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Relevant Section	Rule	Degree of Compliance
3 (5) (x)	The Chairman shall ensure that appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.	Complied with At general meetings, the shareholders are given the opportunity to take up matters for which clarification is needed. Further, matters are adequately clarified by the Chairman or CEO or any other officer.
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 requiring 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 162 to 169 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 167 to 169.
	(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
	(b) All members of the Committee shall be Non-Executive Directors.	Complied with
	(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
	(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

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Relevant Section	Rule	Degree of Compliance
	<p>(e) The Committee shall develop and implement a policy on the engagement of an External Auditor to provide non-audit services that are permitted under the relevant statutes, regulations, requirements and guidelines. In doing so, the Committee shall ensure that the provision by an External Auditor of non-audit services does not impair the External Auditor's independence or objectivity. When assessing the external auditor's independence or objectivity in relation to the provision of non-audit services, the Committee shall consider:</p> <ol style="list-style-type: none"> 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
	<p>(f) The Committee shall, before the audit commences, discuss and finalise with the External Auditors the nature and scope of the audit, including: (i) an assessment of the Bank's compliance with the relevant Directions in relation to corporate governance and the management's internal controls over financial reporting; (ii) the preparation of financial statements for external purposes in accordance with relevant accounting principles and reporting obligations; and (iii) the co-ordination between firms where more than one audit firm is involved.</p>	Complied with
	<p>(g) The Committee shall review the financial information of the Bank, in order to monitor the integrity of the financial statements of the Bank, its Annual Report, accounts and quarterly reports prepared for disclosure, and the significant financial reporting judgments contained therein. In reviewing the Bank's Annual Report and accounts and quarterly reports before submission to the Board, the Committee shall focus particularly on: (i) major judgmental areas; (ii) any changes in accounting policies and practices; (iii) significant adjustments arising from the audit; (iv) the going concern assumption; and (v) the compliance with relevant accounting standards and other legal requirements.</p>	Complied with
	<p>(h) The Committee shall discuss issues, problems and reservations arising from the interim and final audits, and any matters the Auditor may wish to discuss including those matters that may need to be discussed in the absence of Key Management Personnel, if necessary.</p>	Complied with
	<p>(i) The Committee shall review the External Auditor's management letter and the management's response thereto.</p>	Complied with

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Relevant Section	Rule	Degree of Compliance
	<p>(j) The Committee shall take the following steps with regard to the internal audit function of the Bank:</p> <ul style="list-style-type: none"> 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; iv. Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function; 	Complied with
	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, except for requirements applicable to senior staff members. Steps will be taken to comply fully with this requirement during the year 2012.
	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
	(k) The Committee shall consider the major findings of internal investigations and management's responses thereto;	Complied with
	(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
	(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
	(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
	(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
	(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

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Relevant Section	Rule	Degree of Compliance
	(q) The Committee shall review arrangements by which employees of the Bank may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. Accordingly, the Committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action and to act as the key representative body for overseeing the Bank's relations with the External Auditor.	Complied with
3 (6) (iii)	The following rules shall apply in relation to the Human Resources and Remuneration Committee:	See Sections of Composition, Charter, Meetings and the Methodology of the Board Human Resources and Remuneration Committee Report on pages 162 and 163.
	(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
	(b) The Committee shall set goals and targets for the Directors, CEO and the Key Management Personnel.	Complied with
	(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.	Complied with
	(d) The CEO shall be present at all meetings of the Committee, except when matters relating to the CEO are being discussed.	Complied with
3 (6) (iv)	The following rules shall apply in relation to the Board Nomination Committee:	See Sections of Composition, Charter, Meetings and the Methodology of the Board Nomination Committee Report on page 166.
	(a) The Committee shall implement a procedure to select/appoint new Directors, CEO and Key Management Personnel.	For Directors - Complied with For CEO and Key Management Personnel (KMPs) - This activity is under the purview of Board Human Resources and Remuneration Sub-Committee.
	(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.	Complied with
	(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.	For CEO - Complied with. For KMPs - This activity is under the purview of Board Human Resources and Remuneration Sub-Committee.
	(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.	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.

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Relevant Section	Rule	Degree of Compliance
	(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 KMPs - 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 two Independent Directors during the year. i.e Mr. M.J.C. Amarasuriya - 01.01.2011 to 29.12.2011 Mr. D.S. Weerakkody - 30.12.2011 to 31.12.2011 CEO was present at meetings by invitation and Chief Operating Officer represented the CEO, in his absence.
3 (6) (v)	The following rules shall apply in relation to the Integrated Risk Management Committee:	Please refer Sections of Composition, Charter, Meetings and the Methodology of the Board Integrated Risk Management Committee Report on pages 164 and 165.
	(a) The Committee shall consist of at least three Non-Executive Directors, Chief Executive Officer and Key Management Personnel supervising broad risk categories, i.e., credit, market, liquidity, operational and strategic risks. The Committee shall work with Key Management Personnel very closely and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the Committee.	Complied with
	(b) The Committee shall assess all risks, i.e., credit, market, liquidity, operational and strategic risks to the Bank on a monthly basis through appropriate risk indicators and management information. In the case of Subsidiary Companies and Associate Companies, risk management shall be done, both on a Bank basis and group basis.	Requirement for the Bank is complied with However, Committee will take action to comply with the requirements for all subsidiaries and associate companies, on a monthly basis, during the year 2012.
	(c) The Committee shall review the adequacy and effectiveness of all management level Committees such as the Credit Committee and the Asset-Liability Committee to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the Committee.	Complied with
	(d) The Committee shall take prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by the Committee on the basis of the Bank's policies and regulatory and supervisory requirements.	Complied with
	(e) The Committee shall meet at least quarterly to assess all aspects of risk management including updated business continuity plans.	Complied with
	(f) The Committee shall take appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the Committee, and/or as directed by the Director of Bank Supervision.	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.

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Relevant Section	Rule	Degree of Compliance
	(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
3 (7) - Related Party Transactions		
3 (7) (i)	<p>The Board shall take the necessary steps to avoid any conflicts of interest that may arise from any transaction of the Bank with any person, and particularly with the following categories of persons who shall be considered as "related parties" for the purposes of this Direction:</p> <ul style="list-style-type: none"> (a) Any of the Bank's subsidiary companies; (b) Any of the Bank's associate companies; (c) Any of the Directors of the Bank; (d) Any of the Bank's Key Management Personnel; (e) A close relation of any of the Bank's Directors or Key Management Personnel; (f) A shareholder owning a material interest in the Bank; (g) A concern in which any of the Bank's Directors or a close relation of any of the Bank's Directors or any of its material shareholders has a substantial interest. 	<p>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.</p> <p>The Bank is in the process of strengthening the monitoring mechanism in this regard, during the year 2012.</p> <p>Transactions carried out with Related Parties in the normal course of business are disclosed in Note 40 to the Financial Statements on 'Related Party Disclosures' on pages 316 to 320.</p>
3 (7) (ii)	<p>The type of transactions with related parties that shall be covered by this Direction shall include the following:</p> <ul style="list-style-type: none"> (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. 	<p>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.</p> <p>The Bank is in the process of strengthening the monitoring mechanism in this regard during the year 2012.</p>

CORPORATE GOVERNANCE

Relevant Section	Rule	Degree of Compliance
3 (7) (iii)	<p>The Board shall ensure that the Bank does not engage in transactions with related parties as defined in Direction 3(7)(i) above, in a manner that would grant such parties “more favourable treatment” than that accorded to other constituents of the Bank carrying on the same business. In this context, “more favourable treatment” shall mean and include treatment, including the:</p> <p>(a) Granting of “total net accommodation” to related parties, exceeding a prudent percentage of the Bank’s regulatory capital, as determined by the Board. For purposes of this sub-direction:</p> <p>I. “Accommodation” shall mean accommodation as defined in the Banking Act Direction No. 07 of 2007 on Maximum Amount of Accommodation.</p> <p>II. The “total net accommodation” shall be computed by deducting from the total accommodation, the cash collateral and investments made by such related parties in the Bank’s share capital and debt instruments with a maturity of 5 years or more.</p> <p>(b) Charging of a lower rate of interest than the Bank’s best lending rate or paying more than the Bank’s deposit rate for a comparable transaction with an unrelated comparable counterparty;</p> <p>(c) Providing of preferential treatment, such as favourable terms, covering trade losses and/or waiving fees/commissions, that extend beyond the terms granted in the normal course of business undertaken with unrelated parties;</p> <p>(d) Providing services to or receiving services from a related-party without an evaluation procedure;</p> <p>(e) Maintaining reporting lines and information flows that may lead to sharing potentially proprietary, confidential or otherwise sensitive information with related parties, except as required for the performance of legitimate duties and functions.</p>	<p>A Board approved process is in place to ensure that the Bank does not engage in transactions with related parties, as defined in the Direction.</p> <p>The Bank is in the process of strengthening the monitoring mechanism in this regard during the year 2012.</p>
3 (7) (iv)	<p>A Bank shall not grant any accommodation to any of its Directors or to a close relation of such Director, unless such accommodation is sanctioned at a meeting of its Board of Directors, with not less than two-thirds of the number of Directors other than the Director concerned, voting in favour of such accommodation. This accommodation shall be secured by such security as may from time to time be determined by the Monetary Board as well.</p>	Complied with

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Relevant Section	Rule	Degree of Compliance
3 (7) (v)	<p>(a) Where any accommodation has been granted by a Bank to a person or a close relation of a person or to any concern in which the person has a substantial interest, and such person is subsequently appointed as a Director of the Bank, steps shall be taken by the Bank to obtain the necessary security as may be approved for that purpose by the Monetary Board, within one year from the date of appointment of the person as a Director.</p> <p>(b) Where such security is not provided by the period as provided in Direction 3 (7)(v) (a) above, the Bank shall take steps to recover any amount due on account of any accommodation, together with interest, if any, within the period specified at the time of the grant of accommodation or at the expiry of a period of eighteen months from the date of appointment of such Director, whichever is earlier.</p> <p>(c) Any Director who fails to comply with the above sub-directions shall be deemed to have vacated the office of Director and the Bank shall disclose such fact to the public.</p> <p>(d) This sub-direction, however, shall not apply to a Director who at the time of the grant of the accommodation was an employee of the Bank and the accommodation was granted under a scheme applicable to all employees of such Bank.</p>	No such situation has arisen during the year.
3 (7) (vi)	A Bank shall not grant any accommodation or "more favourable treatment" relating to the waiver of fees and/or commissions to any employee or a close relation of such employee or to any concern in which the employee or close relation has a substantial interest other than on the basis of a scheme applicable to the employees of such Bank or when secured by security as may be approved by the Monetary Board in respect of accommodation granted as per Direction 3 (7) (v) above.	Accommodation specified in this Direction was granted to employees only under 'Staff Benefit Scheme' of the Bank. A monitoring mechanism will be implemented to strictly comply with the Direction during the year 2012.
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)
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.

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Relevant Section	Rule	Degree of Compliance
3 (8) (ii)	<p>The Board shall ensure that the following minimum disclosures are made in the Annual Report:</p> <p>(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.</p>	<p>Complied with</p> <p>Disclosures on the compliance with the applicable accounting standards and regulatory requirements in preparation of the annual Audited Financial Statements have been made in the 'Annual Report of the Board of Directors' on pages 229 to 238, 'Managing Director's and Chief Financial Officer's Responsibility Statement' on page 242 and the Note D on 'Statement of Compliance' in 'Notes to the Financial Statements' on page 250.</p>
	<p>(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.</p>	<p>Complied with</p> <p>Report by the Board on the effectiveness of the Bank's internal control mechanism to ensure that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of Financial Statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements is given on page 239 on 'Statement of Directors' Responsibility' of this Annual Report. In addition, all Directors have signed the 'Annual Report of Board of Directors' found on pages 229 to 238, wherein all Directors have collectively taken the responsibility for the above requirement.</p>
	<p>(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.</p>	<p>Complied with</p> <p>The Bank obtained the External Auditor's certification on the effectiveness of the internal control mechanism referred to in Direction 3 (8) (ii) (b) above. (See page 241)</p>
	<p>(d) Details of Directors, including names, fitness and propriety, transactions with the Bank and the total of fees/remuneration paid by the Bank.</p>	<p>Complied with</p> <p>Profiles of Directors are given on pages 178 and 179, transactions of the Directors with the Bank are given in the 'Directors Interest in Contracts with the Company' on pages 171 to 173 and the total of fees/remuneration paid to the Directors by the Bank is given in Note 7 to the Financial Statements on page 269.</p>

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Relevant Section	Rule	Degree of Compliance														
	(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.	<p>Complied with</p> <p>Total net accommodations granted to each category of related parties are given in Note 40 to the Financial Statements on pages 316 to 320.</p> <p>The net accommodations granted to each category of related parties as a percentage of the Bank's regulatory capital are given below:</p> <p>Direct and indirect accommodation to related parties:</p> <table border="1"> <thead> <tr> <th rowspan="2">Category of Related Party Transactions</th> <th colspan="2">% of the Regulatory Capital</th> </tr> <tr> <th>2011</th> <th>2010</th> </tr> </thead> <tbody> <tr> <td>Key Management Personnel</td> <td>0.30</td> <td>0.19</td> </tr> <tr> <td>Subsidiaries</td> <td>0.50</td> <td>0.82</td> </tr> <tr> <td>Associates</td> <td>0.06</td> <td>0.11</td> </tr> </tbody> </table>	Category of Related Party Transactions	% of the Regulatory Capital		2011	2010	Key Management Personnel	0.30	0.19	Subsidiaries	0.50	0.82	Associates	0.06	0.11
Category of Related Party Transactions	% of the Regulatory Capital															
	2011	2010														
Key Management Personnel	0.30	0.19														
Subsidiaries	0.50	0.82														
Associates	0.06	0.11														
	(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.	<p>Complied with</p> <p>The aggregate values of remuneration paid by the Bank to its Key Management Personnel are given in Note 40.2.1 to the Financial Statements on page 316 and the aggregate values of the transactions of the Bank with its Key Management Personnel are set out in Note 40.2.2 to the Financial Statements on pages 316 and 317.</p>														
	(g) The External Auditor's Certification of the compliance with these Directions in the Annual Corporate Governance Reports published after January 1, 2010.	<p>Complied with</p> <p>The External Auditor's Certification of the compliance with the requirements of these Directions was obtained.</p>														
	(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.	<p>Complied with</p> <p>See 'Statement of Directors' Responsibility' on page 239 for details of the compliance with prudential requirements, regulations, laws and internal controls.</p>														
	(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.	<p>Complied with</p> <p>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.</p>														

CORPORATE GOVERNANCE

Relevant Section	Rule	Degree of Compliance
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 Annual Reports. Position applicable to the year 2011 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

CORPORATE GOVERNANCE

NOTE 1

The following table lists out the composition of the Board, by category of directors for the year ended 31st December 2011.

Name of the Director	Independence /Non Independence Status
Chairman from 01.01.2011 to 29.12.2011 – Mr. M.J.C. Amarasuriya	
Chairman from 30.12.2011 to 31.12.2011 – Mr. D.S. Weerakkody	
Executive Directors:	
Mr. A.L. Gooneratne (Managing Director)	
Mr. W.M.R.S. Dias (Director/Chief Operating Officer)	
Non-Executive Director	Non-Independent
Mr. D.S. Weerakkody (Chairman)	up to 30.03.2011
(Appointed to the Board as a Board Member w.e.f. March 30, 2011, after Mr Weerakkody ceased to be a Director, subsequent to the amendment made to Articles of Association on 30.03.2011 & appointed as Chairman w.e.f. December 30, 2011)	Independent After appointment on 30.03.2011
Mr. K.G.D.D. Dheerasinghe (Deputy Chairman) (Appointed to the Board as a Board Member w.e.f. December 20, 2011 and appointed as Deputy Chairman w.e.f. December 30, 2011)	Independent
Prof. U.P. Liyanage	Non-Independent
Mr. L. Hulugalle (Appointed w.e.f. March 30, 2011)	Independent
Mr. M.P. Jayawardena (Appointed w.e.f. December 28, 2011)	Non-Independent
Mr. P.M. Martelli (Resigned w.e.f. January 27, 2011)	Non-Independent
Mr. R.M.S. Fernando (Ceased to be a Director w.e.f. March 30, 2011 with withdrawal from re-election by shareholders at AGM held on 30.03.2011)	Independent
Mr. M.J.C. Amarasuriya (Former Chairman) (Resigned w.e.f. December 30, 2011)	Independent
Mr. B.R.L. Fernando (Relinquished duties on December 31, 2011)	Non-Independent
Dr. H.S. Wanasinghe (Ceased to be a Director after December 31, 2011)	Independent

CORPORATE GOVERNANCE

NOTE 2

Disclosure under Section 3(5)(iii) of the Direction No. 11 of 2007 by the Board of Directors Commercial Bank of Ceylon PLC

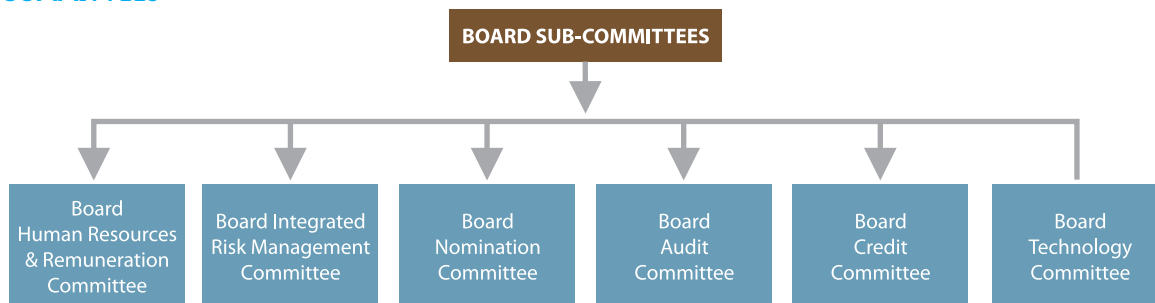
1.	Name of Chairman	:	Mr. Dinesh Stephen Weerakkody
2.	Name of Chief Executive Officer	:	Mr. Amitha Lal Gooneratne
3.	Any relationship including financial/business, family or other material/ relevant relationship between the Chairman and the Chief Executive Officer	}:	Nil
4.	Any relationship including 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

- (i) Mr. A.L. Gooneratne, Managing Director and Mr. W.M.R.S. Dias, Chief Operating Officer/Director were Directors of Commercial Development Company PLC as at December 31, 2011.
- (ii) Mr. A.L. Gooneratne, Managing Director was the Chairman of Commercial Insurance Brokers (Pvt) Ltd. and Mr. M.P. Jayawardena, a Director of the Bank was also a Director of Commercial Insurance Brokers (Pvt) Ltd. as at December 31, 2011.
- (iii) 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, 2011.

CORPORATE GOVERNANCE

BOARD SUB-COMMITTEES



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	20	18	7	7	3	1	0	0	9	8	N/A	N/A	N/A	N/A
Mr. K.G.D.D. Dheerasinghe (Appointed w.e.f. 20.12.2011)	02	02	0	0	0	0	0	0	N/A	N/A	0	0	N/A	N/A
Mr. A.L. Gooneratne	20	20	7**	7**	4	4	4**	3**	9**	9**	10	8	N/A	N/A
Prof. U.P. Liyanage	20	17	0	0	3	3	0	0	0	0	N/A	N/A	0	0
Mr. W.M.R.S. Dias	20	18	N/A	N/A	4	2	2***	2***	N/A	N/A	10	7	N/A	N/A
Mr. L. Hulugalle (Appointed w.e.f. 30.03.2011)	17	16	N/A	N/A	3	2	N/A	N/A	4	3	N/A	N/A	0	0
Mr. M.P. Jayawardena (Appointed w.e.f. 28.12.2011)	01	01	N/A	N/A	0	0	N/A	N/A	0	0	0	0	N/A	N/A
Mr. M.J.C. Amarasuriya (Resigned w.e.f. 30.12.2011)	19	19	7	7	4	4	4	4	N/A	N/A	10	9	N/A	N/A
Mr. B.R.L. Fernando (Relinquished duties w.e.f. 31.12.2011)	20	19	N/A	N/A	4	4	4	3	9	8	10	7	N/A	N/A
Dr. H.S. Wanasinghe (Ceased to be a Director w.e.f. 31.12.2011)	20	20	7	7	N/A	N/A	N/A	N/A	9	9	N/A	N/A	N/A	N/A
Mr. R.M.S. Fernando (Ceased to be a Director w.e.f. 30.03.2011)	04	04	N/A	N/A	1	1	N/A	N/A	2	2	1	1	N/A	N/A

* The Committee was formed on December 30, 2011 and hence, did not have meetings during the year 2011.

** Mr. A.L. Gooneratne attends Committee meetings by invitation.

*** Mr. W.M.R.S. Dias attends Committee meetings to represent the Managing Director.

Committee Composition as at December 31, 2011

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
Mr. D. S. Weerakkody	C	C	M	C	C		
Mr. K.G.D.D. Dheerasinghe (Appointed w.e.f. 20.12.2011)	M	M	C	M		C	
Mr. A. L. Gooneratne	M	Ω	M	Ω	Ω	M	
Prof. U.P. Liyanage	M	M	M	M	M		C
Mr. W.M.R.S. Dias	M	Δ	M	Δ	Δ	M	
Mr. L. Hulugalle (Appointed w.e.f. 30.03.2011)	M		M		M		M
Mr. M.P. Jayawardena (Appointed w.e.f. 28.12.2011)	M		M		M	M	
Mr. M.J.C. Amarasuriya (Resigned w.e.f. 30.12.2011)	C	C	C	C		C	
Mr. B. R. L. Fernando (Relinquished duties w.e.f. 31.12.2011)	M		M	M	M	M	
Dr. H.S. Wanasinghe (Ceased to be a Director w.e.f. 31.12.2011)	M	M			M		
Mr. R.M.S. Fernando (Ceased to be a Director w.e.f. 30.03.2011)	M		M		C	M	

C Chairman

M Member

Ω By invitation

Δ To represent the Managing Director

Reports of the Human Resources & Remuneration, Integrated Risk Management, Nomination, Audit and Credit Committees appear on pages 162 to 170.

CORPORATE GOVERNANCE

BOARD HUMAN RESOURCES AND REMUNERATION COMMITTEE REPORT



D.S. Weerakkody -
Chairman



K.G.D.D. Dheerasinghe



Prof. U.P. Liyanage



A.L. Gooneratne



W.M.R.S. Dias

Composition of the Board Human Resources and Remuneration Committee

The Board appointed Human Resources and Remuneration Committee as at the end of the year comprises following members, all of whom are Non-Executive Directors.

Mr. D.S. Weerakkody - *Chairman*
(appointed w.e.f. December 30, 2011)

Mr. K.G.D.D. Dheerasinghe -
(appointed w.e.f. December 30, 2011)

Prof. U.P. Liyanage -
(appointed w.e.f. December 30, 2011)

Mr. D.S. Weerakkody who was a member of the Committee, was appointed the Chairman of the Committee w.e.f. December 30, 2011, with the resignation of Mr. M.J.C. Amarasuriya, the former Chairman of the Bank and the Committee. Dr. H.S. Wanasinghe who was the other member of the Committee ceased to be a member upon ceasing to be a Director of the Bank w.e.f. December 31, 2011.

Brief profiles of each member are given on pages 178 and 179.

The Managing Director who is responsible for the overall management of the Bank provides information to the Committee and participates in its deliberations by invitation. The Managing Director took part in all deliberations except in relation to those matters where the outcome had an impact on him.

In addition, Mr. W.M.R.S. Dias - Executive Director/Chief Operating Officer of the Bank also attends Meetings by invitation.

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 Resource Management of the Bank and includes inter-alia the following:

- To 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.
- To determine the compensation and benefits of the Key Management Personnel and to establish performance parameters in setting their individual goals and targets.
- To lay down guidelines, policies and parameters for the compensation structures for all Executive Staff of the Bank and oversee the implementation thereof.
- To review information related to executive pay from time to time to ensure same is in par with the market/industry rates or as per the strategy of the Bank.
- To evaluate the performance of the Managing Director and the Key Management Personnel against the pre-agreed targets and goals.
- To make recommendations to the Board of Directors from time to time of the additional/new expertise required by the Bank.
- To 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.
- To 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.
- To make recommendations/decisions and provide directions pertaining to the statutory payments made by the Bank on behalf of its employees (EPF, ETF, Terminal Benefits, etc.), ensuring the effective fulfillment of all commitments arising as a result of the employer-employee relationship.
- To recommend, decide, are provide directions on disciplinary matters resulting in a significant financial loss to the Bank caused by the Key Management Personnel of the Bank.

- To formulate formal and transparent procedures for developing policy on remuneration for Executives and Directors.
- To 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 and the skills and competencies required, to be considered for appointment or promotion to the post of Managing Director and to key management positions.
- Setting guidelines and policies to ensure that the Bank upholds and adheres to the provisions of the laws of the land particularly those provisions of the Banking Act No. 30 of 1988, including the Directions issued by the Monetary Board/Director of Bank Supervision in accordance with the provisions of such Act.

CORPORATE GOVERNANCE

- Providing guidance and policy direction for relevant matters connected to general areas of Human Resource Management of the Bank.
- Ensuring that the performance related element of remuneration is designed and tailored to align employee interests with those of the Bank and its main stakeholders and support sustainable growth.
- Structuring remuneration packages to ensure that a significant portion of the remuneration is linked to performance, to promote a pay for performance culture.
- Promoting a culture of regular performance reviews to enable staff to obtain feedback from their superiors in furtherance of achieving their objectives and development goals.
- Developing a robust pipeline of raising talent capable and available to fill key management positions in the Bank.

Board Human Resources and Remuneration Committee Meetings

The Committee held seven Meetings during the year under review. The attendance of Committee Members at Meetings is stated in the table on page 161. 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 members.

Members of the Corporate Management were invited to participate at the sittings of the Committee Meetings as and when required by the Chairman, considering the topics for deliberation at such meeting.

The proceedings of the Committee Meetings were regularly reported to the Board of Directors.

Methodology Adopted by the Board Human Resources and Remuneration Committee

The Committee recognises rewards as one of the key drivers influencing employee behaviour, thereby impacting business results. Therefore, the reward programmes are designed to attract and retain and to motivate employees to perform by linking performance to demonstrable performance based criteria. In this regard, the Committee evaluates the performance of the Managing Director and the Key Management Personnel against the pre-agreed targets and goals that balance short term and long term financial and strategic objectives of the Bank. The Bank's variable pay plan is determined according to the overall achievements of the Bank and pre-agreed individual targets, which are based on various performance parameters. The level of variable pay is set to ensure that individual rewards reflect the performance of the Bank overall, the particular business unit and individual performance. The Committee makes appropriate adjustments to the bonus pool in the event of

over or under achievement against pre-agreed targets. In this regard, the Committee seeks external independent professional advice on matters falling within its purview. The Committee also provides oversight and support for the wider management succession process and reviews the results of the employee engagement survey.



D.S. Weerakkody
Chairman - Board Human Resources and Remuneration Committee

Colombo
February 09, 2012

CORPORATE GOVERNANCE

BOARD INTEGRATED RISK MANAGEMENT COMMITTEE REPORT



K.G.D.D. Dheerasinghe -
Chairman



Prof. U.P. Liyanage



L. Hulugalle



M.P. Jayawardena



A.L. Gooneratne



W.M.R.S. Dias

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

(appointed w.e.f. December 30, 2011)

Prof. U.P. Liyanage -
(appointed w.e.f. April 01, 2011)

Mr. L. Hulugalle* -
(appointed w.e.f. April 01, 2011)

Mr. M.P. Jayawardena -
(appointed w.e.f. December 30, 2011)

Mr. A.L. Gooneratne -
Managing Director/CEO

Mr. W.M.R.S. Dias -
(Executive Director/Chief Operating Officer)

Mr. K.D.N. Buddhipala -
(Chief Financial Officer & Secretary of the BIRMC)

Mr. S.C.U. Manatunga -
(Chief Risk Officer)

*Independent Non-Executive Director

Mr. K.G.D.D. Dheerasinghe, the Deputy Chairman of the Bank, was appointed the Chairman of the Committee w.e.f. December 30, 2011, with the resignation of Mr. M.J.C. Amarasuriya, the former Chairman of Bank and the Committee. Mr. R.M.S. Fernando and Mr. B.R.L. Fernando who were members of the Committee ceased to be members

upon relinquishing their services as Directors of the Bank, w.e.f. March 30, 2011 and December 31, 2011, respectively.

Brief profiles of each Member are given on pages 178 and 179.

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 2011. Functions of the BIRMC in the Bank's overall Risk management framework have been discussed in detail under 'Managing Risk at Commercial Bank' from pages 183 to 203.

Board Integrated Risk Management Committee Meetings

The Committee held four Meetings on a quarterly basis, during the year under review. The attendance of Committee Members at Meetings is stated in the table on page 161.

The BIRMC updates the Board on decisions made by the Committee in general and specifically of any risks which have or are likely to exceed prudential limits stipulated by the Board. The Committee submits a risk assessment report within a week of each meeting to the Board of Directors, seeking its views, concurrence and/or specific directions.

Methodology Adopted by the Board Integrated Risk Management Committee

The Committee continued to work very closely with the Key Management Personnel and the Board in fulfilling its statutory, fiduciary and regulatory responsibilities for Risk Management.

Duties and Responsibilities of the Committee

The primary responsibility of the Committee is to assist the Board of Directors in understanding and exercising regular oversight on risk management measures adopted by the Management in operating the Banking business. 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.

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.

CORPORATE GOVERNANCE

- 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.
 - 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.
 - 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 2011, 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 09, 2012

CORPORATE GOVERNANCE

BOARD NOMINATION COMMITTEE REPORT



D.S. Weerakkody -
Chairman



K.G.D.D. Dheerasinghe



Prof. U.P. Liyanage



A.L. Gooneratne

Composition of the Nomination Committee

The Nomination Committee of the Bank as at the end of the year comprised of the following Independent Non-Executive Directors of the Bank:

Mr. D.S. Weerakkody - *Chairman*
(appointed w.e.f. December 30, 2011)

Mr. K.G.D.D. Dheerasinghe (appointed
w.e.f. December 30, 2011)

Prof. U.P. Liyanage, a Non-Independent Non-Executive Director was appointed to the Committee w.e.f. December 14, 2011.

Mr. B.R.L. Fernando who was a Member of the Committee until December 31, 2011 relinquished his services upon relinquishing of duties as a Director of the Board w.e.f. December 31, 2011.

Mr. A.L. Gooneratne, Managing Director, attended Meetings by invitation. Mr. W.M.R.S. Dias, Chief Operating Officer of the Bank attended Meetings to represent the Managing Director, in his absence.

Mr. M.J.C. Amarasuriya, who functioned as the Chairman of the Committee during the year relinquished his services upon resignation from the Board of Directors w.e.f. December 30, 2011.

The Committee Members are appointed by the Board of Directors of the Bank. Brief profiles of each member of the Committee are given on pages 178 and 179.

Mrs. R.R. Dunuwille, the Company Secretary of the Bank, functions as the Secretary of the Committee.

Charter of the Nomination Committee

The mandate of the Committee includes *inter-alia* the following;

- To implement a procedure to select/appoint new Directors and Chief Executive Officer.
- 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.
- To ensure that Directors and Chief Executive Officer 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.
- To make recommendations on any other matter/s referred to it by the Board of Directors.

Nomination Committee Meetings

The Committee held four Meetings during the year under review to consider and recommend new Directors in place of those who resigned/relinquished their services and to assess the fitness and propriety of each of the Directors holding office in conformity with the Directions of the Monetary Board of the Central Bank of Sri Lanka relating to Corporate Governance and other relevant provisions of statutes. The attendance of Committee Members at Meetings is stated in the table on page 161. The proceedings of the Committee Meetings are regularly reported to the Board of Directors.

Methodology Adopted by the Nomination Committee

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

D.S. Weerakkody
Chairman - Board Nomination
Committee

Colombo
February 09, 2012

CORPORATE GOVERNANCE

BOARD AUDIT COMMITTEE REPORT



D.S. Weerakkody -
Chairman



L. Hulugalle



M.P. Jayawardena



Prof. U.P. Liyanage



A.L. Gooneratne



W.M.R.S. Dias

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. D.S. Weerakkody - *Chairman*
(appointed w.e.f. April 01, 2011)

Mr. L. Hulugalle
(appointed w.e.f. May 27, 2011)

Mr. M.P. Jayawardena
(appointed w.e.f. December 30, 2011)

Prof. U.P. Liyanage
(appointed w.e.f. December 30, 2011)

The Chairman of the Committee, Mr. D.S. Weerakkody and Mr. L. Hulugalle are Independent Directors.

Mr. D.S. Weerakkody who was a member of the Board Audit Committee, was appointed the Chairman of the Committee w.e.f. April 01, 2011, upon Mr. R.M.S. Fernando, the former Chairman of the Committee, ceasing to be a Director of the Bank w.e.f. March 30, 2011. Mr. B.R.L. Fernando and Dr. H.S. Wanasinghe who were members of the Committee ceased to be members upon relinquishing their services as Directors of the Bank w.e.f. December 31, 2011.

The Chairman of the Committee, an Independent Non-Executive Director, is an Associate of the Chartered Institute of Management Accountants, U.K. and a Fellow of the Certified Management Accountants, Sri Lanka and possesses considerable experience in the field of Finance and Management.

The profiles of the members are given on pages 178 and 179.

Mr. Reyaz Mihular, 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. The Bank's Deputy General Manager - Inspection functions as the Secretary of the Committee.

Purpose and Terms of Reference

The purpose of the Board Audit Committee is to assist the Board of Directors in its general oversight of financial reporting, internal controls and functions relating to internal and external audit. The Charter of the Board Audit Committee, which is periodically reviewed and revised with the concurrence of 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. 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.

Committee Meetings

During the financial year ended December 31, 2011, nine Committee Meetings were held. The proceedings of the Meetings are recorded with adequate details and reported regularly to the Board of Directors. The attendance of the Committee Members at the Meetings is given in the table on page 161. On the invitation of the Committee, the Engagement Partner of the Bank's External Auditors, Messrs Ernst & Young, attended 5 meetings during the year. In addition, the Managing Director, the Chief Operating Officer, the Chief Financial Officer, the Chief Risk Officer, the Deputy General Manager - Systems Audit and the Deputy General Manager - Inspection attend the Committee Meetings by invitation. Members of the Senior Management of the Bank were invited to participate in the Meetings as and when the necessity arose.

Mandate and Role of the Committee

The Board 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 in any manner, issues relating to the financial and other connected affairs of the Bank.
- Monitor all internal and external audit and inspection programmes, review internal and external audit/inspection reports and follow-up on their findings and recommendations.
- Analyse and review the risks faced by the Bank and examine the adequacy, efficiency and the effectiveness of internal control and procedures in place to avoid, mitigate or transfer such risks.
- Review the quality and the appropriateness of accounting policies and their adherence to statutory and regulatory compliance and applicable accounting standards.
- Review the Interim Financial Statements and the Bank's Annual Report and Accounts, prepared for publication before submission to the Board.

CORPORATE GOVERNANCE

- 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 the other Stakeholders.
- 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.
- The processes by which compliance with Sri Lanka Accounting Standards and other regulatory provisions relating to financial reporting and disclosures are ensured.
- The Annual Report and Accounts and the Interim Financial Statements prepared for publication prior to submission to the Board.

Having assessed the prevailing Internal Controls Systems and Procedures, the Committee is of the view that adequate controls and procedures are in place to provide reasonable assurance that the Bank's assets are safeguarded and that the financial position of the Bank is well-monitored and accurately reported.

The Bank has discharged the responsibilities and has complied with the requirements specified in the Section 3 (6) (ii) of the Direction.

Financial Reporting

The Committee assists the Board to discharge their responsibility in the preparation of Financial Statements that reflect a true and fair view on financial position and performance in accordance with the Bank's accounting records and as per the requirements of the Sri Lanka Accounting Standards. The Committee reviews:

- The adequacy and effectiveness of the Internal Control Systems and Procedures to provide reasonable assurance that all transactions are accurately and completely recorded in the books of account.
- The effectiveness of the Financial Reporting Systems in place to ensure reliability of the information provided to the stakeholders.
- The accounting policies and determines the most appropriate accounting policies after considering all choices available.

Regulatory Compliance

Compliance with Mandatory Banking and other statutory requirements and the Systems and Procedures in place to assess the compliance with such requirements, have been under close scrutiny. The Committee monitors compliance with all such legal and statutory requirements through the quarterly reports being submitted to the Committee by the Corporate Management. As a further monitoring measure, the Bank's inspection function has been mandated to conduct test checks covering all regulatory compliance requirements.

Risks and Controls

The Committee reviewed the effectiveness of the Internal Control Procedures in place to identify and manage all significant risks. A Risk Grading Matrix has been adopted for identifying, 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

With the concurrence of the Board of Directors, the Bank continued to engage the services of five firms of Chartered Accountants approved by the Central Bank of Sri Lanka to supplement the Bank's Inspection Department in carrying out branch inspections.

A programme of inspection has been formulated and the Committee regularly reviews the programme and its implementation and closely monitors the internal audit and the inspection functions. Over 340 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. Some of the Branches were visited by the Members of the Committee to get a better understanding of the branch operations. Major findings of internal investigations with recommendations of the management were considered and appropriate instructions issued. The representatives from the audit firms assisting in branch inspections were invited to make presentations to the Committee on their observations and findings.

External Audit

The Committee assists the Board of Directors to implement the processes of engaging External Auditors for the audit services in compliance with the provisions of the Direction and agree on their remuneration with the approval of the shareholders.

The Committee makes 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.

The Committee also reviewed the 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.

The Committee met with the External Auditors at the conclusion of the interim audit conducted as at June 30, 2011 to discuss their findings. Prior to commencement of the Annual Audit, the Auditors presented their audit plan, scope and the methodology proposed to be adopted in conducting the audit and discussed the audit plan with the Committee. At the conclusion, their findings and the significant issues arising out of the audit were discussed with the Committee. Non-Executive Directors had separate meetings with Auditors 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 all information and explanations requested by the Auditors have been provided by the management fully.

The Board Audit Committee also met the Auditors at the conclusion of the audit to review the Auditor's Management Letter before it is submitted to the Board of Directors and to the Central Bank of Sri Lanka.

CORPORATE GOVERNANCE

Internal Controls

The Committee with the assistance of the External Auditors closely monitored the procedures designed to maintain an effective internal control mechanism to provide reasonable assurance regarding reliability of the financial reporting system in place at the Bank and that the Bank has complied with the requirements stipulated in the Sections 3 (8) (ii) (b) and (c) of the Direction.

The Committee regularly examines the major decisions taken by the Assets and Liabilities Committee (ALCO), the Credit Policy Committee and the Executive Integrated Risk Management Committee. 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 are regularly monitored. The Internal Control Procedures in place have been reviewed bringing in newly identified risks with control and mitigating measures there against. The credit monitoring and follow-up procedures too were reviewed.

Good Governance

Through the Code of Ethics and Whistle-Blowers Charter, all staff have been educated and encouraged to resort to whistle-blow when 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. Whistle-Blowers Charter guarantees the maintenance of strict confidentiality of the identity of the whistle-blowers.

Audit Committee Charter

The Audit Committee Charter was last reviewed and revised in January 2011 with the concurrence of the Board.

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, as the present Auditors, Messrs Ernst & Young had provided their services since 2006, it has now become necessary to appoint a new Auditor. Having had several rounds of discussions evaluating the highest standards required to be maintained, the Board Audit Committee has recommended to the Board of Directors that Messrs KPMG Ford, Rhodes, Thornton & Co., be appointed as the Bank's Auditors for the financial year ending December 31, 2012 subject to the approval of the shareholders at the forthcoming Annual General Meeting.

Transition to New SLFRS

The Audit Committee reviewed presentations made to it, by the Consultants appointed by the Bank, to satisfy itself on the progress made by the Bank in its transition to the new Sri Lanka Financial Reporting Standards (SLFRS), which comes into effect from January 1, 2012.



D.S. Weerakkody

Chairman - Board Audit Committee

Colombo

February 09, 2012

CORPORATE GOVERNANCE

BOARD CREDIT COMMITTEE REPORT



K.G.D.D. Dheerasinghe -
Chairman



M.P. Jayawardena



A.L. Gooneratne



W.M.R.S. Dias

Composition of the Board Credit Committee

Board Credit Committee (BCC) consists of the following Members:

Mr. K.G.D.D. Dheerasinghe
(Appointed Chairman of BCC w.e.f. December 30, 2011)

Mr. M.P. Jayawardena
(appointed w.e.f. December 30, 2011)

Mr. A.L. Gooneratne

Mr. W.M.R.S. Dias

Mr. B.R.L. Fernando who was a member of the Committee until December 31, 2011 relinquished his services upon resignation from the Board of Directors w.e.f. December 31, 2011

Mr. M.J.C. Amarasuriya who was the Chairman of Committee resigned from the Board of Directors of the Company with effect from December 30, 2011.

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 178 and 179.

Charter of the Credit Committee

The Board Credit Committee assist the Board of Directors in effectively fulfilling its responsibilities relating to the credit Policy and Lending Guidelines of the Bank in order to ensure that regulations are complied with.

The committee has been empowered to:

1. Review and consider changes proposed from time to time to the credit policy document and the Lending Guidelines of the Bank.
2. 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 Central Bank regulations.
3. Evaluate, assess and make recommendations on credit proposals submitted.

Board Credit Committee Meetings

Ten BCC meetings were held during the year under review. Attendance of the Committee members at meetings of BCC is stated on page 161. 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 recommend credit proposals above a certain limit and other papers reviewed by them for the approval of the Board of Directors.

K.G.D.D. Dheerasinghe
Chairman - Board Credit Committee

Colombo
February 09, 2012

DIRECTORS' INTEREST IN CONTRACTS WITH THE COMPANY

Related party disclosures as required by the Sri Lanka Accounting Standard No. 30 on 'Related Party Disclosures' (Revised 2005), is detailed in Note 40 to the Financial Statements on pages 316 to 320 of this Annual Report. In addition, the Bank carries out transactions in the ordinary course of business in an arm's length basis with entities where the Chairman or a Director of the Bank is the Chairman or a Director of such entities, as detailed below:

Company	Relationship	Accommodation Granted/Deposits	Current Limit	Balance Outstanding	
			As at 31.12.2011 Rs. '000	As at 31.12. 2011 Rs. '000	As at 31.12.2010 Rs. '000
(a) Mr. D.S. Weerakkody					
Cornucopia Lanka Ltd.	Director	Deposits		150	150
(b) Prof. U.P. Liyanage					
Diesel & Motor Engineering Company PLC	Director	Loans & Advances	1,371,820	1,053,894	1,147,700
		Off-Balance Sheet Accommodations	2,200,000	1,711,025	1,837,767
		Deposits	-	-	433,300
Chemanex PLC	Director	Loans & Advances	80,000	8,368	-
		Off-Balance Sheet Accommodations	43,000	20,516	12,107
		Deposits	-	225	1,060
Ceylon Cold Stores PLC	Director	Loans & Advances	150,000	178	76,003
		Off-Balance Sheet Accommodations	100,958	-	-
Talawakelle Tea Estates PLC	Director	Loans & Advances	232,110	59,215	9,358
		Off-Balance Sheet Accommodations	-	314	1,520
(c) Mr. M.P. Jayawardena (Appointed to the Board w.e.f. 28.12.2011)					
The Finance Company PLC	Chairman	Loans & Advances	169,500	35,950	-
		Deposits	-	988	-
CIC Holdings PLC	Director	Loans & Advances	450,000	133,405	-
		Off-Balance Sheet Accommodations	250,000	-	-
		Deposits	-	11,931	-
CIC Vetcare (Pvt) Ltd.	Director	Loans & Advances	60,000	47,805	-
		Off-Balance Sheet Accommodations	100,000	40,058	-
		Deposits	-	1,881	-
CIC Poultry Farms	Director	Loans & Advances	153,281	62,352	-
		Off-Balance Sheet Accommodations	94,000	73,239	-
		Deposits	-	4,470	-
Cal Exports Lanka (Pvt) Ltd.	Director	Loans & Advances	40,410	795	-
		Off-Balance Sheet Accommodations	68,400	6,516	-
		Deposits	-	53,518	-
Yasui Lanka (Pvt) Ltd.	Director	Loans & Advances	36,594	34,314	-
		Off-Balance Sheet Accommodations	45,600	-	-
		Deposits	-	51,564	-
Chemanex Exports (Pvt) Ltd.	Director	Loans & Advances	13,800	132	-
		Off-Balance Sheet Accommodations	29,000	12,160	-
		Deposits	-	58,864	-

DIRECTORS' INTEREST IN CONTRACTS WITH THE COMPANY

Company	Relationship	Accommodation Granted/Deposits	Current Limit	Balance Outstanding	
			As at 31.12.2011 Rs. '000	As at 31.12. 2011 Rs. '000	As at 31.12.2010 Rs. '000
Chemcel (Pvt) Ltd.	Director	Off-Balance Sheet Accommodations	11,088	11,088	-
		Deposits	-	165	-
Chemanex PLC	Director	Loans & Advances	80,000	8,368	-
		Off-Balance Sheet Accommodations	43,000	20,516	-
		Deposits	-	225	-
(d) Mr. M.J.C. Amarasuriya (Resigned from the Board w.e.f. 30.12.2011)					
Serendib Flour Mills (Pvt) Ltd.	Chairman	Loans & Advances	1,550,000	831,840	1,123,704
		Off-Balance Sheet Accommodations	5,270,000	1,356,236	385,713
		Deposits	-	-	436,495
(e) Mr. B.R.L. Fernando (Relinquished the services upon his resignation from the Board w.e.f. 31.12.2011)					
CIC Holdings PLC	Director	Loans & Advances	450,000	133,405	-
		Off-Balance Sheet Accommodations	250,000	-	-
		Deposits	-	11,931	13,677
Chemanex PLC	Director	Loans & Advances	80,000	8,368	-
		Off-Balance Sheet Accommodations	43,000	20,516	12,107
		Deposits	-	225	1,060
CIC Agri Business (Pvt) Ltd.	Director	Loans & Advances	1,000,000	999,000	550,510
		Off-Balance Sheet Accommodations	325,000	276,205	4,586
		Deposits	-	43,941	78,548
CIC Feeds (Pvt) Ltd.	Director	Loans & Advances	461,100	129,102	199,734
		Off-Balance Sheet Accommodations	405,000	114,288	218,981
		Deposits	-	535	147
CIC North & East Agri. Dev. (Pvt) Ltd.	Director	Loans & Advances	2,000	-	-
		Deposits	-	1,864	760
Ceylon Tea Brokers PLC	Director	Loans & Advances	# 100,000	110,793	37,823
		Deposits	-	5,770	2,806
Akzo Nobel Paints Lanka (Pvt) Ltd.	Director	Deposits	-	9,181	9,666
CIC Agri Produce Export (Pvt) Ltd.	Director	Deposits	-	3,597	1,443
CIC Agri Produce Marketing (Pvt) Ltd.	Director	Deposits	-	6,457	1,496
Crop Management Services (Pvt) Ltd.	Director	Deposits	-	2,672	4,547
Link Natural Products (Pvt) Ltd.	Director	Deposits	-	2,023	1,231
First Guardian Equities (Pvt) Ltd.	Director	Deposits	-	-	2,906
Sunhill Tea Factory (Pvt) Ltd.	Director	Deposits	-	867	2,165

Since Regularised

DIRECTORS' INTEREST IN CONTRACTS WITH THE COMPANY

Company	Relationship	Accommodation Granted/Deposits	Current Limit	Balance Outstanding	
			As at 31.12.2011 Rs. '000	As at 31.12. 2011 Rs. '000	As at 31.12.2010 Rs. '000
(f) Mr. R.M.S. Fernando (Ceased to be a Director w.e.f. 30.03.2011)					
United Motors Lanka PLC	Chairman	Loans & Advances	200,000	25,167	-
		Off-Balance Sheet Accommodations	1,750,000	1,707,092	62,462
		Deposits	-	248	15,152
Seguwantivu Wind Power (Pvt) Ltd.	Chairman	Loans & Advances	540,000	504,793	500,000
		Off-Balance Sheet Accommodations	110,000	108,243	50,581
		Deposits	-	-	97,504
Vidatamunai Wind Power (Pvt) Ltd.	Chairman	Off-Balance Sheet Accommodations	54,760	54,752	1,814
Unimo Enterprises (Pvt) Ltd.	Chairman	Loans & Advances	25,000	-	159,696
		Off-Balance Sheet Accommodations	150,000	50,426	412,843
		Deposits	-	-	2
Orient Motor Company Ltd.	Chairman	Loans & Advances	15,000	-	-
		Deposits	-	1,238	6,151
Piramal Glass Ceylon PLC	Director	Loans & Advances	361,000	50,198	251,344
		Off-Balance Sheet Accommodations	200,000	164,193	18,938
		Deposits	-	31,598	87,234
Sierra Cables PLC	Director	Loans & Advances	1,073,980	701,888	583,015
		Off-Balance Sheet Accommodations	890,000	519,112	475,770
		Deposits	-	-	6,675
TVS Lanka (Pvt) Ltd.	Director	Loans & Advances	110,000	108,917	-
		Off-Balance Sheet Accommodations	190,000	189,595	-
UML Property Developments Ltd.	Director	Deposits	-	12	-

* Comparative figures for 2010 are disclosed only if outstandings are available as at 31.12.2011.



CREDIT TO PRIVATE SECTOR (YOY GROWTH)

No choking...not on THIS Expressway...

In the past, 'too many vehicles and not enough road' choked progress. The expressway ahead has no such narrowing of opportunity and progress. One has a clear run to a prosperous future.



BOARD OF DIRECTORS

Left to Right:

M.P. Jayawardena, L. Hulugalle, Dr. H.S. Wanasinghe (*Former Director*), A.L. Gooneratne (*Managing Director*),
D.S. Weerakkody (*Chairman*), M.J.C. Amarasuriya (*Former Chairman*), B.R.L. Fernando (*Former Deputy Chairman/Director*),
W.M.R.S. Dias, Prof. U.P. Liyanage, K.G.D.D. Dheerasinghe (*Deputy Chairman*), Mrs. R.R. Dunuwille (*Company Secretary*)





BOARD OF DIRECTORS - PROFILES

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. He is also the Chairman of the Board Audit Committee, Board Human Resource and Remuneration Committee and Board Nomination Committee.

Dinesh is a former Chairman/CEO of the Employees' Trust Fund Board of Sri Lanka and a Director of DFCC Bank PLC. He was also Advisor to the Prime Minister of Sri Lanka from 2002-2004. He has served in many Cabinet Sub-committees and national level committees on Economic Affairs, International Affairs and Labour Management. During his public sector career, he engaged pro-actively and innovatively in economic, trade, labour and cultural matters in both bilateral and multilateral contexts.

During 2005- 2009, he was a Council Member and during 2008-2009 he functioned as Chairman, Employer Relations, CIMA Sri Lanka Division.

He is an Associate of the Chartered Institute of Management Accountants, United Kingdom, a Fellow of the Certified Management Accountants of Sri Lanka, 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 since 2000 and is MD of Cornucopia Lanka Ltd. and Director/Advisor of Cornucopia Bangalore, India. He is a Director of Lanka Aluminum and ACME Printing and Packaging PLC and the International Chamber of Commerce Sri Lanka Chapter. He is a Vice-President of Sri Lanka Tennis Association.

Dinesh is an author of three books and many articles covering topics in International Politics, Financial Economics, Management, Human Resource Management and Leadership and 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 21,564 Voting Shares.

K.G.D.D. DHEERASINGHE

Deputy Chairman

Dharmasena Dheerasinghe, an eminent Economist with a distinguished career of over 37 years in the banking industry was 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 a Senior Deputy Governor of the Central Bank of Sri Lanka and was also the Chairman of the Monetary Policy Committee and Sovereign Ratings Committee. He was also the Alternate Executive Director for Bangladesh, Bhutan, India and Sri Lanka at the International Monetary Fund. 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.

A.L. GOONERATNE

Managing Director

Amitha Gooneratne was first appointed to the Board as the Managing Director on January 06, 1997. He joined the Bank in March 1983 and held several senior positions prior to his appointment as the General Manager/Chief Executive in March 1996.

Amitha is a Fellow of The Institute of Chartered Accountants, England and Wales and a Fellow of The Institute of Chartered Accountants, Sri Lanka. He was the Founder Chairman of the Financial Ombudsman Sri Lanka (Guarantee) Ltd. and is the current Vice-Chairman of the Sri Lanka Banks' Association (Guarantee) Ltd. He represents the Bank's interests on the Board of Commercial Development Company PLC. He is also a Committee Member of the National Payments Council, which is a Central Bank-structured committee and is the current Chairman of Commercial Insurance Brokers (Pvt) Ltd. He was a member of the National Task Force on Corporate Governance for the Banking Industry. He was also nominated to the Board of SriLankan Air Line during 2002-2004 by the Government of Sri Lanka.

He holds 3,008,860 Voting Shares and 125,190 Non-Voting Shares.

PROF. U.P. LIYANAGE

Prof. 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 he

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 Postgraduate Institute of Management (PIM). He possesses 18 years of teaching/research experience in Marketing/Management at postgraduate level. He has published widely on branding and strategic marketing and addressed numerous international conferences.

W.M.R.S. DIAS

Ravi Dias was first appointed to the Board on December 14, 2010. Since February 2008 he functions as the Chief Operating Officer of the Bank. He holds a Degree in Law (LL.B.) and is a Fellow of the Chartered Institute of Bankers (London). He is also a Hubert. H. Humphrey Fellow. He possesses substantial professional experience in Banking, out of which 16 years as a member of Corporate Management.

He holds 673,174 Voting Shares.

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 Defense, 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.

BOARD OF DIRECTORS - PROFILES

He has also served as Vice-Chairman of Ceylon Fisheries Corporation (2006-2010), Consultant to the Ministry of Youth Affairs, Sports and Rural Development (1995), Co-ordinating Secretary to Hon. Mahinda Rajapaksa, Minister of Labour and Vocational Training (1994), Co-ordinating Secretary of Hon. Gamini Dissanayake at the Ministry of Lands, Land Development and Ministry of Mahaweli Development (1978-1989) and Ministry of Plantations (1989-1990). 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.

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 (ICASL). 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.

M.J.C. AMARASURIYA

Former Chairman (Resigned with effect from December 30, 2011)

Mahendra Amarasuriya was first appointed to the Board on May 15, 1986 and appointed Chairman on January 01, 1995.

He is also the Chairman of Serendib Flour Mills (Pvt) Ltd., Equity Investments Lanka Ltd., He was the Chairman of ONEzero Company Ltd. and Commex Sri Lanka SRL during the financial year ended December 31, 2011. He is a Director of Mawubima Lanka Foundation. Former Chairman of Pelwatte Sugar Industries PLC and United Motors Lanka PLC, Deputy Chairman of Hayleys PLC, Director of DFCC Bank PLC and Haycarb PLC.

Past President of the International Association of Lions Clubs and Past Chairman of the Lions Clubs International Foundation, former Chairman of Employer's Federation of Ceylon, Planters' Association of Ceylon, International Chamber of Commerce Sri Lanka, Joint Business Forum of Chambers of Commerce and Industry (JBIZ), Employers' Organisation and Trade Associations of Sri Lanka, Institute of Management Sri Lanka, National Agribusiness Council of Sri Lanka, Institute of Plastics & Rubber Industry, Regional Industry Services Committee of the North-Western Province and former Faculty Member of the University of Colombo. Fellow of the Institute of Management Sri Lanka (FIMSL), Honorary Fellow of the Association of Business Executives (ABE - UK), Honorary Member of the Institute of Personnel Management Sri Lanka, Honorary Life Member of the Planters' Association of Ceylon, Recipient of Strategic Leadership Award at the World HRD Congress 2010. He has participated in many international Management Programmes including the Top Management Programme at the International Institute of Management at Luzanne, Switzerland.

He holds 1,451,208 Voting Shares and 497,614 Non-Voting Shares.

B.R.L. FERNANDO

Former Deputy Chairman (Relinquished duties with effect from December 31, 2011)

Lakshman Fernando was first appointed to the Board on January 01, 1995.

He is a Fellow of The Institute of Chartered Accountants of Sri Lanka. He possesses extensive experience in Finance and Commerce. He is the Chairman of Commercial Development Company PLC, Chemical Industries (Colombo) PLC, Akzo Nobel Paints Lanka (Pvt) Ltd., Chemanex PLC, CIC Agri Businesses (Pvt) Ltd., CIC Feeds (Pvt) Ltd., CIC Bio Security Breeder Farms Ltd., Crop Management Services (Pvt) Ltd. and First Guardian Capital (Private) Ltd. He is also the Past Chairman of CIC Seeds (Pvt) Ltd., CIC Agri Biotech (Pvt) Ltd., CIC Vetcare (Pvt) Ltd., CIC Poultry Farms Ltd., CISCO Speciality Packaging (Pvt) Ltd., CIC Environmental Management Liquid (Pvt) Ltd., CIC CropGuard (Pvt) Ltd., Kelani Valley Canneries Ltd., CIC Mahaweli Livestock Dairies (Pvt) Ltd. and Wayamba Agro Fertilizer Company Ltd. He is a Director of First Guardian Equities (Pvt) Ltd., Link Natural Products (Pvt) Ltd., CIC Agri Produce Export (Pvt) Ltd., CIC Agri Produce Marketing (Pvt) Ltd., CIC Tea Advisory Services (Pvt) Ltd., Sunhill Tea Factory (Pvt) Ltd., Ceylon Tea Brokers PLC. Catholic Business Persons and Professional Association and Ceylinco Pharmaceuticals Ltd. He is the Governor of Sri Lanka Business Development Centre and a cluster member National Council for Economic Development. He is also a Committee Member of the Japan-Sri Lanka Technical and Cultural Association.

He holds 27,530 Non-Voting Shares.

DR. H.S. WANASINGHE

(Ceased to be a Director after December 31, 2011)

Dr. Wanasinghe was first appointed to the Board on January 05, 1990.

He is a Member of Council of Fellows of the Marga Institute, a Member of the Board of Directors of the Centre for Policy Alternatives and Transparency International,

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

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 was also appointed as the Compliance Officer of the Bank on January 17, 2012. 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 Chairman, Mr. M.J.C. Amarasuriya as a member of the Board for more than 25 years, out of which over 16 years as the Chairman of the Bank. The inspirational leadership provided by him to the Board will always be remembered with much gratitude. The valuable contributions made by the former Deputy Chairman, Mr. B.R.L. Fernando and former Directors, Dr. H.S. Wanasinghe, Mr. R.M.S. Fernando and Mr. P.M. Martelli to the success of the Bank during their tenures are deeply appreciated by the Bank.

The Chairman and the Board of Directors warmly welcome Messrs K.G.D.D. Dheerasinghe, L. Hulugalle and M.P. Jayawardena to the Board.

CORPORATE MANAGEMENT TEAM



Amitha Gooneratne
Managing Director/Chief Executive Officer



Ravi Dias
Chief Operating Officer



Sanath Bandaranayake
Deputy General Manager - Operations



S. Renganathan
Deputy General Manager - Personal Banking



Marion Abeywardena
Deputy General Manager - Corporate Banking



Hasrath Munasinghe
Deputy General Manager - Marketing



Shantha Balasuriya
Head of Global Treasury



Sandra Walgama
Assistant General Manager - Personal Banking III



Noel Wickramasinghe
Assistant General Manager - Properties & Services



Delip Fernando
Deputy General Manager - Inspection



Nimal Luxshman
Deputy General Manager - Systems Audit



Jegan Durairatnam
Deputy General Manager - International



Vimal Fernando
Assistant General Manager - Personal Banking I



Chandana Gunasekera
Assistant General Manager - SME/Personal Banking II



Richard Rodrigo
Assistant General Manager - Plan Implementation



Krishan Gamage
Assistant General Manager - Information Technology/CEO ONEzero Co. Ltd.



Palitha Perera
Assistant General Manager - Operations



Sanath Manatunga
Chief Risk Officer



Nandika Buddhipala
Chief Financial Officer



Rohan Muttiah
Chief Information Officer



Isuru Thilakawardena
Deputy General Manager - Human Resource Management



Carmelita De Silva
Assistant General Manager - Corporate Banking



Felician Perera
Assistant General Manager - Recoveries



Prins Perera
Head of Global Markets



Prasanna Indrajith
Assistant General Manager - Finance



Chinthaka Dharmasena
Assistant General Manager - Procurement



CORPORATE MANAGEMENT TEAM

SENIOR MANAGEMENT TEAM

PERSONAL BANKING

1. **Nugent Kapuwatte**
Head of Lease Promotion/
Personal Loans
2. **Risijaya Srikantha**
Senior Regional Manager -
Colombo North
3. **Niran De Costa**
Senior Regional Manager -
Colombo Inner
4. **Lakshman Perera**
Head of Card Centre
5. **Selva Rajasooriyar**
Senior Regional Manager -
Colombo South
6. **Roshan Perera**
Senior Regional Manager -
Greater Colombo
7. **Ivan Fernando**
Regional Manager - Colombo Metro
8. **Leel Rodrigo**
Regional Manager -
North Central Eastern
9. **Ajith Naranpanawe**
Regional Manager - Central
10. **Chanura Wijetilleke**
Regional Manager -
Uva-Sabaragamuwa

11. **Priyantha De Silva**
Chief Manager - Branch Credit
Monitoring
12. **Saman Kalansuriya**
Chief Manager - Leasing & Factoring
13. **Siva Sivakumar**
Chief Manager -
Business Promotion Unit
14. **Chirath Manukulasuriya**
Regional Manager - Southern
15. **Delukshan Hettiarachchi**
Chief Manager - Development Credit
16. **Thusitha Suraweera**
Chief Manager - Card Centre
17. **Athula Samarasinghe**
Regional Manager - Wayamba
18. **Mrs. Yasmin Weerasuriya**
Regional Manager - South Western
19. **Sri Padmanathan Rajjevan**
Regional Manager - Northern

CORPORATE BANKING

20. **C.M. Abeysekera**
Head of Corporate Banking
21. **Naveen Sooriyarachchi**
Head of Corporate Finance
22. **Duminda Kurukulasuriya**
Head of Imports

23. **Colvin Karunaratne**
Chief Manager - Exports
24. **Ranjan Ediriweera**
Chief Manager - Corporate Banking
25. **B.A.H.S. Preena**
Chief Manager - Corporate Banking
26. **Mrs. G.R. Genevieve Liyanage**
Chief Manager -
Off-Shore Banking Centre
27. **Eric Bastian**
Chief Manager - Exports

TREASURY AND BACK OFFICE

28. **Hilary Fernando**
Head of Treasury Processing
29. **Asela Wijesiriwardena**
Chief Dealer - Assets & Liabilities
Management

SUPPORT SERVICES

30. **Mrs. R.R. Dunuwille**
Company Secretary
31. **Vajira Thotagammana**
Head of IT
32. **Sivam Yoganandasivam**
Chief Manager - IT R&D
33. **Amitha Munasinghe**
Chief Manager - Information Systems
Audit & Business Continuity Planning

34. **S. Shunmugarajah**
Chief Manager - ICBS Unit
35. **M.Z. Careem**
Chief Manager - Inspection
36. **Stanley Fernando**
Chief Manager - AML Compliance
37. **Esala Silva**
Chief Manager - Central Clearing
38. **Bindu Perera**
Chief Manager -
Premises & Engineering
39. **Thayalan Gnanapragasam**
Chief Manager - Central
Administration
40. **Ms. Sujeeva Ranasinghe**
Chief Manager -
Human Resource Management
41. **M.P. Dharmasiri**
Chief Manager - Finance
42. **Kapila Hettihamu**
Chief Manager - Risk
43. **John Premanath**
Chief Manager - Inspection

The division wise breakdown of the Senior Management Team is found on pages 29, 34, 42 and 44.

MANAGEMENT COMMITTEE - BANGLADESH

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

MANAGING RISK AT COMMERCIAL BANK

RISK OPTIMISATION AS A STRATEGY IN INCREASING SHAREHOLDER VALUE

Assuming calculated risks, accurately pricing them and prudent management of risk portfolios are the key components which continuously add value to the stakeholders in the business of Banking. The Bank firmly believes that a robust risk management infrastructure is critical in managing its business activities to support a sustainable growth strategy.

Risk management has traditionally been viewed as loss prevention or a controlling function that supports the organisation to minimise potential losses. However, we at Commercial Bank strive to use the risk management capabilities beyond these traditional boundaries. By employing risk management as a business tool, the Bank strategises to optimise its stakeholder value through proactive exposure management and determining the best trade-off between risk and reward in all key business decisions.

On the other hand, a well-defined risk management framework supports identification and seizing market opportunities in an efficient manner.

With a view to preserving and enhancing stakeholder value, the Bank continues to increase its risk management capabilities through investing in people, processes and IT infrastructure. In achieving the objective of risk optimisation in its overall business strategy, the Bank's decision-making process is reinforced by the following risk management framework.

Risk governance and policy framework constitute the foundations of the entire risk management function of the Bank. These are set into motion through utilisation of appropriate risk-related procedures, tools and techniques which support the entire risk management process to function in an effective manner.

All the key business decisions of the Bank are clearly filtered through several layers of risk assessment and the exposures are duly controlled by using predefined risk tolerance limits and risk appetite framework.

Having established a robust risk management framework through strengthening risk-related policies, procedures, processes control mechanisms and reporting during the last few years, during 2011, the Bank initiated acquiring software solutions to support risk based decision-making.

The Bank is also progressing towards implementation of Internal Capital Adequacy Assessment Process (ICAAP) and meeting Pillar - 3 disclosure requirements during 2012 to accomplish its aspirations to encompass a complete Integrated Risk Management framework which complies with the regulatory requirements and international best practices.

Risk Organisation and Risk Governance Framework

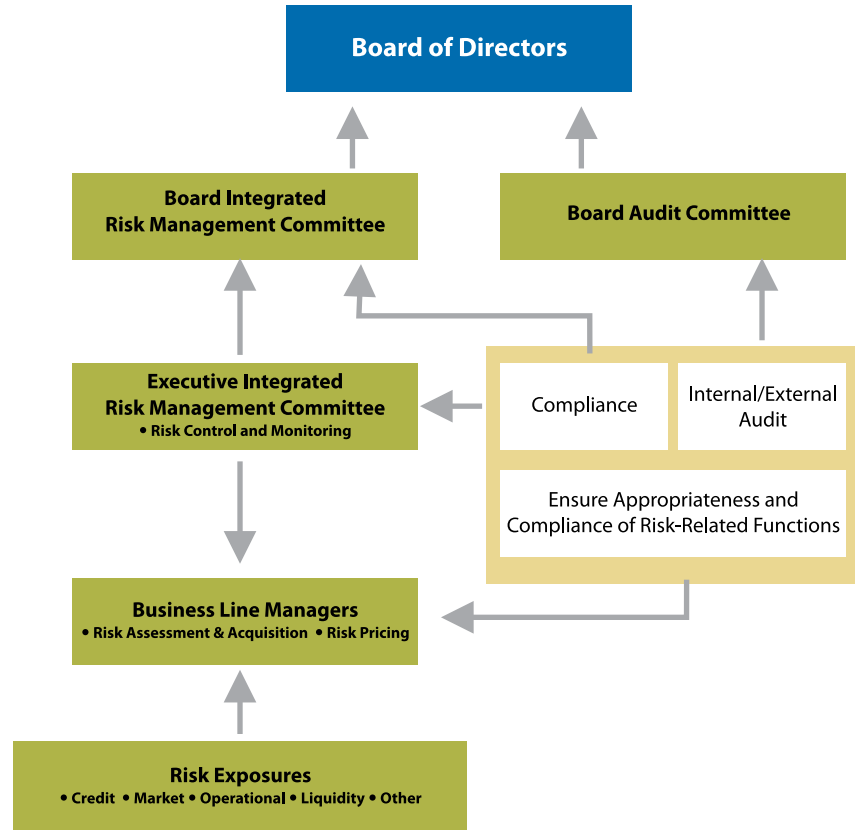
The Bank's overall risk management mechanism includes three components comprising of Business Lines, Integrated Risk Management and Audit/Compliance which are functioning under the supervision of the Board of Directors. These three functions operate as a filtering mechanism by providing proper controls over business processes/ decision-making thus defending the Bank against unacceptable risk exposures.



MANAGING RISK AT COMMERCIAL BANK

Preliminary risk analysis and acquisition of risk exposures at the correct price is the responsibility of the business line managers. Their decisions are complemented by the Integrated Risk Management team which monitors the exposures against the established risk-related policies/procedures including the risk appetite framework and tolerance level. Both business lines as well as Integrated Risk Management functions are subject to continuous scrutiny by the Audit and Compliance to ensure the integrity/appropriateness of the risk management mechanisms.

The above risk management organisational structure clearly segregates 'risk assuming' functions from 'risk control and monitoring' functions within the Bank. This principle has assisted the organisation to strengthen its robust risk management framework which reinforces the decision-making process from an independent risk perspective.



Risk-Related Committees

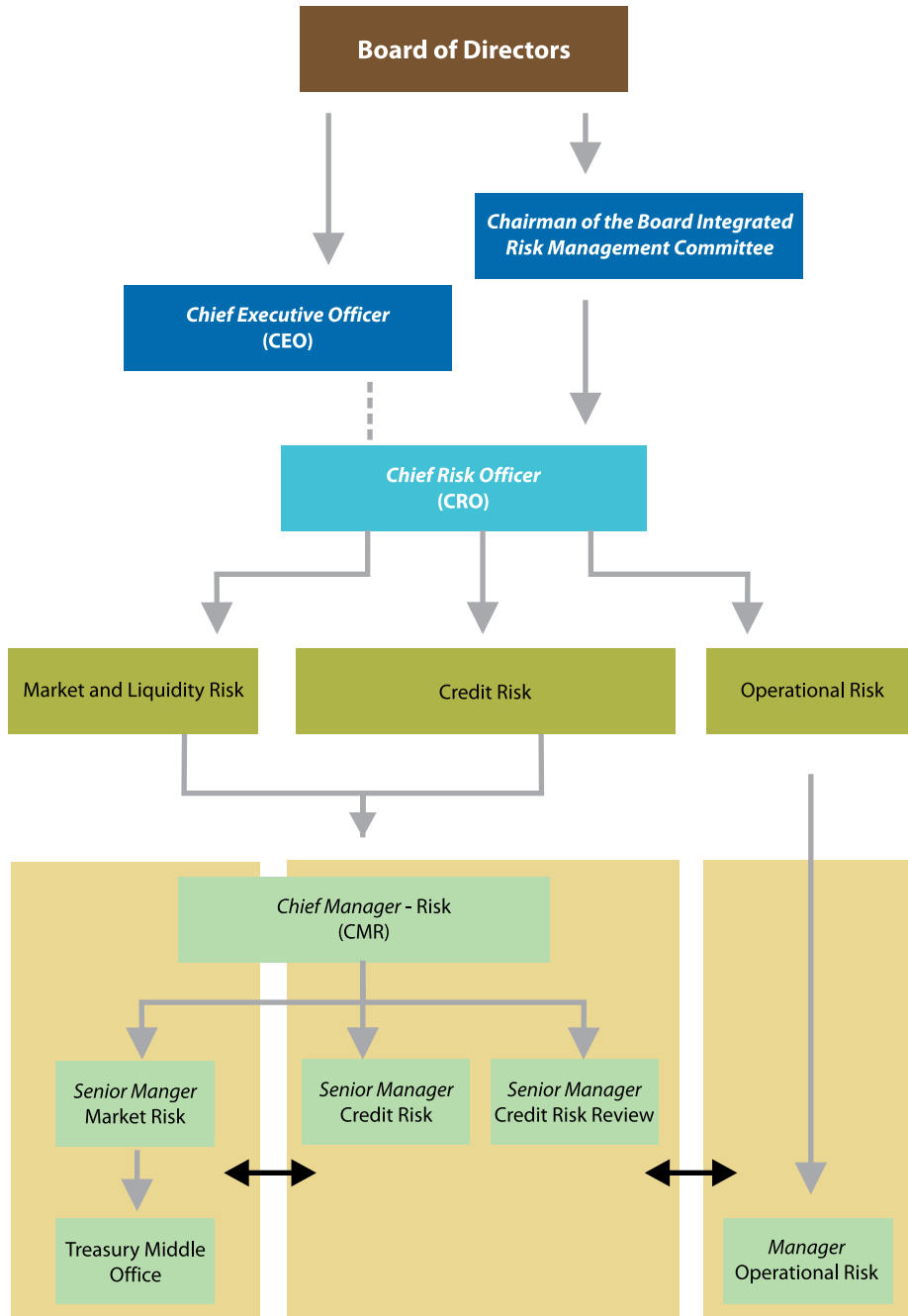
Within the Bank's Integrated Risk Management framework, the Board of Directors is assisted by five risk related Committees in its decision-making.

Committee	Key Objectives
Board Integrated Risk Management Committee (BIRMC)	To ensure that the Bank – wide risks are managed within the risk strategy and appetite established by the Board of Directors.
Executive Integrated Risk Management Committee (EIRMC)	To monitor and review all the risk exposures and risk-related policies/procedures affecting credit, market and operational areas in line with the directives from Board of Directors.
Assets and Liabilities (ALCO)	To optimise the Bank's financial goals, while maintaining market and liquidity risks at desired levels.
Credit Policy Committee	To approve and review credit policies/procedures to ensure that all the credit portfolios are properly managed within the lending strategies of the Bank.
Executive Committee on Monitoring NPAs.	To review and monitor the Bank's Non-Performing Advances (NPAs) above Rs. 10.0 Mn., classified within the preceding two-year period to initiate timely corrective actions to prevent/reduce credit losses.

MANAGING RISK AT COMMERCIAL BANK

Integrated Risk Management Department (IRMD)

IRMD is functionally divided into three main areas namely, Credit, Market & Liquidity and Operational Risk and the organisational chart of IRMD is as follows:



IRMD is headed by the Chief Risk Officer (CRO) who directly reports to the Chairman of the Board Integrated Risk Management Committee (BIRMC). IRMD is responsible for the establishment and proper functioning of the Bank's Risk Management framework to ensure that all the relevant risks are properly identified, assessed and mitigated on a continuous basis. IRMD therefore complements risk-based decision making of business line managers to optimise the risk-return trade off in their exposures by supporting them to seize market opportunities, at the correct price within the risk appetite of the Bank.

IRMD continues to monitor Bank-wide risk exposures through development and monitoring of a set of comprehensive Risk Indicators and reporting them to the EIRMC and BIRMC on a monthly basis to support proactive risk-based decision making.

In addition to the aforementioned regulatory measures, IRMD continues to enrich the organisational risk culture by sharing risk management knowledge and skills through training and development initiatives which will reap long term benefits for the Bank.

MANAGING RISK AT COMMERCIAL BANK

CREDIT RISK

Credit risk is the possibility of a loss being incurred as a result of the failure of a borrower or a counterparty of the Bank to honour their contractual obligations (*both on and off-Balance Sheet*). The Bank's business model entails assumption of multitude of credit risks ranging from Lending, International Trade, Treasury Functions, Leasing and Creation of Off-Balance Sheet Exposures such as Letters of Credit and Guarantees. The Bank considers the Credit Risk as the most material risk in the overall risk

management process in view of the fact that Lending is the main line of business of the Bank at present which accounts for over 63% its total assets.

Credit Risk Management Structure

The Bank strives to optimise a well-structured credit risk management process through assessing, quantifying, pricing, monitoring and managing credit risk on a consistent basis. The credit risk management structure of the **IRMD** comprises of the following two key functions:

All the credit risk exposures in the Bank are first evaluated by the business line managers who are considered to be the primary risk owners of the organisation. The Bank is managing the credit risk exposures of the borrowers through establishment of individual credit limits which are approved by various layers of Lending Officers/Credit Committees depending on the size of the credit exposure. Presently, all the high valued credit proposals and new lending products are referred to the Credit Risk Management Unit

(**CRMU**) of the **IRMD** for independent evaluation and comments prior to the approval.

The Credit Policy Committee (**CPC**), the Executive Integrated Risk Management Committee (**EIRMC**) and the Board Integrated Risk Management Committee (**BIRMC**) supervise and set various concentration limits under different criteria to support prudent portfolio management (*i.e. single borrower, industrial/service sectors, product and collateral*). These limits are continuously monitored and periodically reviewed to reflect factors such as the current market conditions, future trends, Bank's risk appetite, portfolio considerations etc. The Bank has devised a System to manage the credit risks on local/foreign counterparty banks and the cross border exposures through a comprehensive set of limits which are reviewed on a continuous basis depending on 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 Executive/Board Committees on a regular basis.

The Credit Risk Review (**CRR**) function of the **CRMU** independently identifies lending that is well managed and likely to perform well in adverse circumstances and separately identifies performing lending where emerging risks have not been identified and/or reflected in Rating Reviews. The **CRR** function focuses on monitoring the credit management

Credit Risk Management Function	<ul style="list-style-type: none"> • Independent evaluation of all high valued credit proposals to enable the relevant approving authorities to get an independent view of various risks associated with such lending proposals prior to the approval. • Independently evaluating all new lending products from a risk perspective. • Managing counterparty and cross border exposure risks. • Monitoring monthly Key Credit Risk Indicators and reporting them to the EIRMC & BIRMC. • Facilitating the follow-up of Non-Performing Loans and Advances by the NPA Monitoring Committee.
Credit Risk Review Function	<ul style="list-style-type: none"> • Ensures the quality of the Bank's advances portfolios and lending practices by independently evaluating the advances portfolios on a continuous basis. • Disseminates Credit Risk Review findings to Lending Officers. • Identifies and makes practical recommendations for improvement in credit risk management process. • Implements credit risk rating models, validates risk ratings and recommends changes. • Supports Credit Policy Committee in reviewing Credit Policies and Lending Guidelines.

MANAGING RISK AT COMMERCIAL BANK

processes, quality of portfolios and risk grading system, with the aim of ensuring the maintenance of high credit standards by the Lending Officers at all times.

Type of Credit Risk Exposures

The credit risk of the Bank can be broadly categorised into three types, i.e., (a) Loan Default Risk (b) Counterparty Risk and (c) Country Risk.

Loan Default Risk

This arises from the potential losses on lending operations mainly involving *corporate/retail* borrowers. The credit exposures on account of corporate and retail borrowers are mainly created from conventional on Balance Sheet lending products such as *Overdrafts, Term Loans, Short-Term Loans, Import Loans, Pre-Shipement Loans, Export Bill Purchasing etc.*, and off-Balance Sheet exposures such as *Letters of Guarantee, Letters of Credit, Usance Import Bills etc.*

Counterparty Risk

This risk arises from the potential losses on account of Forex Transactions, Money Market Placements, Nostro Transactions and Counter Guarantees involving the local and foreign counterparty banks. The Counterparty Risk is further segregated into three sub risk types: **Settlement Risk** (*the uncertainty that the counterparty will make the corresponding payment to match our advance payment*), **Replacement Risk** (*the risk that the Bank will have to replace a transaction at a less favourable market condition following a default by the counterparty*) and

Cash Risk (*the risk that the counterparty not paying the debt obligations*).

Country Risk

Country Risk arises when the Bank engages in cross border transactions denominated in foreign currencies. Country Risk generally comprises of the potential losses arising from sovereign transfer restrictions imposed in the counterparty's country for transferring of money in foreign currency. Country Risk could also arise due to other factors such as political instability or economic downturn of a country on which the Bank has credit exposures.

Credit Risk Appetite

The credit risk appetite of the Bank is set by the Board of Directors and contains a set of credit portfolio monitoring measures which include policies, sector caps, products and country limits 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 all the Lending Officers are expected to follow these guidelines in evaluating credit proposals/managing credit portfolios.

The Bank has classified the sectors which are of no/limited credit appetite into two main categories; i.e., 'Prohibited Appetite' and 'High Risk'. The sectors which will not be entertained for lending under any circumstances, either due to the very high risks involved or because of negative social/ethical considerations are listed under 'Prohibited Appetite' whereas the sectors which are

perceived to be exceptionally risky have been listed under the 'High Risk' category. The Lending Officers need to ensure that adequate risk mitigants and proper pricing are in place when entertaining proposals from such 'High Risk' sectors in exceptional circumstances.

Credit Risk Indicators and Monitoring

The Bank's credit portfolio is subject to continuous close monitoring against predefined key benchmarks and thresholds. This encompasses production and analysis of regular reports on significant risk exposures for review by various management committees (*Refer page 184 for the Relevant management Committees*). The Bank monitors the advances portfolio at the highest possible granularity to effectively counter the potential adverse impact of over concentration on single parties, industry sectors and loan products etc. This process enables the Bank to identify any emerging risks in the individual credit portfolios and to take suitable corrective action in a proactive manner. Another main focus of portfolio management process is to derive the maximum benefit associated with the diversification of the Bank's advances portfolio into multitude of thriving economic segments which are perceived to be acceptable risk in the Bank's lending strategy.

Further, the Bank tracks the quality of the loan book on a regular basis by analysing risk migration and trends in the Non-Performing ratios of different lending portfolios. Such

indicators prompt the relevant Risk Management Committees to take timely decisions in preserving the quality of loans and advances.

With the automation of the credit evaluation process during the 1st half of the year 2012, the Bank will improve its risk grading system with the capability of predicting the Probability of Default (PD), Loss Given Default (LGD) and the Exposure at Default (EAD) of a borrower. These indicators would help the Lending Officers to measure the risk profile of the credit portfolios in a more objective manner and will further strengthen the Bank's credit risk management capabilities.

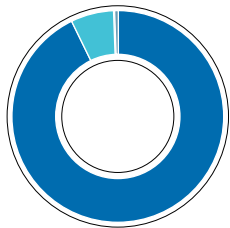
The provision cover of the Bank improved from 34.05% as at December 31, 2010 to 39.53% as at December 31, 2011. Further, the Bank has made provisions over and above the guide lines stipulated by the regulator.

The open credit exposure too strengthened from 18.6% in 2010 to 14.26% during the period under review signifying the Bank's resilience to absorb any credit losses even without considering the collateral values.

MANAGING RISK AT COMMERCIAL BANK

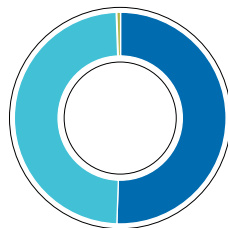
The graphical presentations below depict the analysis of the Bank's overall credit risk exposure as at December 31, 2011 based on different factors. Industry Sector distribution of the Advances Portfolio is given under Sustainability Supplement in page 63.

The Concentration of Exposures to Counterparty Bank's in Sri Lanka Fitch Rating-wise as at 31.12.2011



AAA to AA 92.86%
A to BBB 6.56%
BB to B 0.00%
CCC to Unrated 0.57%

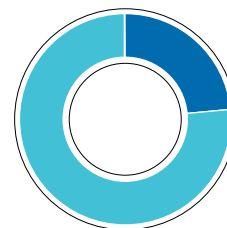
The Concentration of Foreign Counterparty Bank Exposure (Sri Lanka & Bangladesh Operations) Credit Rating-wise** as at 31.12.2011



AAA to AA 50.62%
A to BBB 48.87%
BB to B 0.04%
CCC to Unrated 0.48%

** S&P ratings or other equivalent international credit ratings are given where S&P ratings are unavailable.

The Concentration of Counterparty Bank Exposures in Bangladesh CRAB* Rating-wise as at 31.12.2011



AAA to AA 23.74%
A to BBB 76.26%
BB to B 0.00%
CCC to Unrated 0.00%

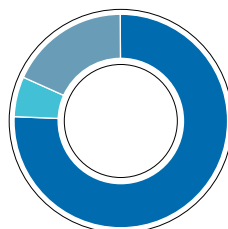
* Equal CRISL ratings are given where CRAB ratings are unavailable.

The Geographical Distribution of the Advances Portfolio as at 31.12.2011



Central 4.54%
Northern 3.52%
North-Western 5.06%
Sabaragamuwa 2.11%
Southern 5.05%
Western 67.88%
Other Local Provinces 4.00%
Bangladesh 6.05%
Maldives 1.55%
Other Foreign Geographies 0.24%

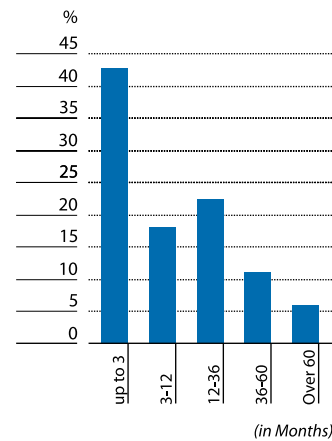
Concentration of Cross-Border Exposure* (Sri Lanka & Bangladesh Operations) - S & P Rating-wise as at 31.12.2011



AAA to BBB- 75.59%
Below BBB- 6.04%
Unrated 18.37%

* Excluding investment in Bangladesh Operations.

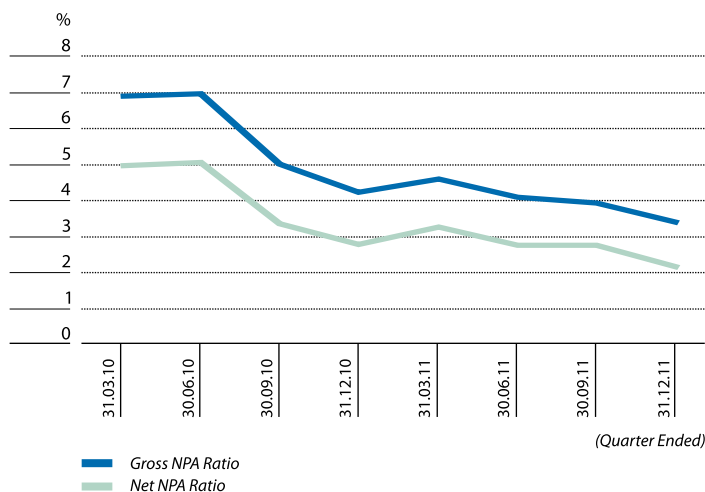
Tenor-wise Breakdown of Advances Portfolio as at 31.12.2011 (Sri Lanka Operations)



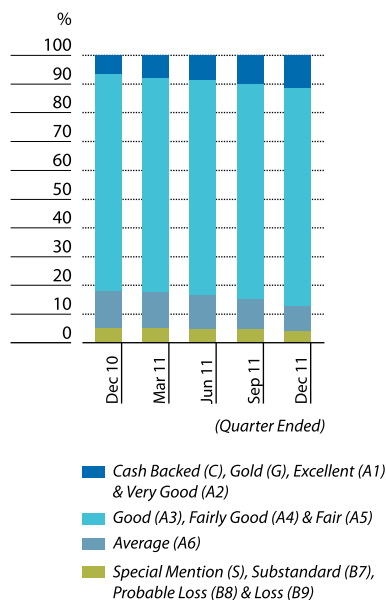
Although, 67.88% of the advances have been granted by the branches located in the Western Province, a sizable portion of these lending has been utilised to facilitate industries located throughout the country. For example, most of the large corporates which have island-wide operations have been accommodated by the Branches and Corporate Banking Division situated in the Western Province.

MANAGING RISK AT COMMERCIAL BANK

Movement of Gross & Net Non-Performing Advances Ratios during years 2010 & 2011



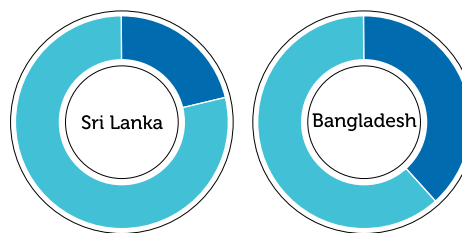
Risk Migration of Advances Portfolio during the Year 2011 (Sri Lanka & Bangladesh Operations)



Distribution of Specific Provision as at December 31, 2011

	Exposure (Net of Suspense and Security)	Minimum Provision Requirement as per CBSL Direction		Specific Provision Already Held	
	Rs. '000	Rs. '000	%	Rs. '000	%
Special Mention	1,263,868	-	-	-	-
Substandard	316,014	63,203	20	277,341	87.76
Doubtful	123,224	61,612	50	205,231	166.55
Loss	2,723,586	2,723,586	100	3,238,628	118.91
Total	4,426,692	2,848,401		3,721,200	

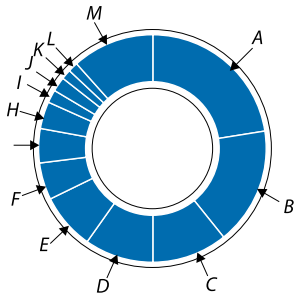
Top 15 Credit Exposures as a % of Advances Portfolio as at 31.12.2011



	Sri Lanka %	Bangladesh %
Top 15 Credit Exposures	21	38
Other Borrowers	79	62

MANAGING RISK AT COMMERCIAL BANK

Concentration of Cross-Border Exposures - Country-wise (Sri Lanka & Bangladesh Operations) as at 31.12.2011



A - Hong Kong 22.50%	H - Germany 3.83%
B - Maldives ** 16.71%	I - Bangladesh* 2.03%
C - USA 10.67%	J - Uganda** 1.80%
D - Singapore 9.76%	K - Russia 1.56%
E - UAE 8.17%	L - Tunisia 1.27%
F - UK 5.25%	M - Others 11.71%
G - India 4.74%	

* Excluding investment in Bangladesh Operations.

** Maldives & Uganda include Direct Lendings.

Credit Risk Mitigation and Control

The Bank believes 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. A sound credit approval and granting process;
- III. An appropriate credit administration, measurement and monitoring process; and
- IV. Adequate controls over credit risk on a continuous basis.

Comprehensive Credit Policy and Lending Guidelines of the Bank provide clear guidelines for the Lending Officers and always supports an effective credit risk management culture which promotes transparency of lending decisions at all times. A well-defined approval hierarchy enriched with high ethical standards, established procedures and credit risk limits function as the core credit risk mitigating mechanism in the overall credit culture of the Bank. The credit exposures to be assumed by the Bank are subjected to a thorough risk evaluation to ensure an optimum risk-reward pay off to the Bank. Further, 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 Bank's credit portfolio is also subjected to continuous review at various levels which provide an early warning on any impending deterioration of the Bank's credit quality. The overall credit risk exposure on certain risk categories (*i.e. single borrower, industrial/service sectors, special products etc.*) are monitored and controlled through establishment of prudential limits, within the risk appetite framework of the Bank.

At individual exposure level, most common traditional credit risk mitigant is the collaterals provided by the borrowers. These include Mortgage over properties, Lien over deposits, Guarantees etc. The Bank as a policy obtain professional valuations when fixed assets are taken as collateral and these values are periodically monitored by the Lending Officers.

MARKET RISK

The Bank encounters, risk of losses in 'On Balance-Sheet' and 'Off-Balance Sheet' positions arising from movements in market prices and this is defined as Market Risk as per Basel II. Banks are exposed to Market Risk not only due to trading activities, but also due to engaging in non-trading activities such as Lending, Corporate Investments and Equity Investments.

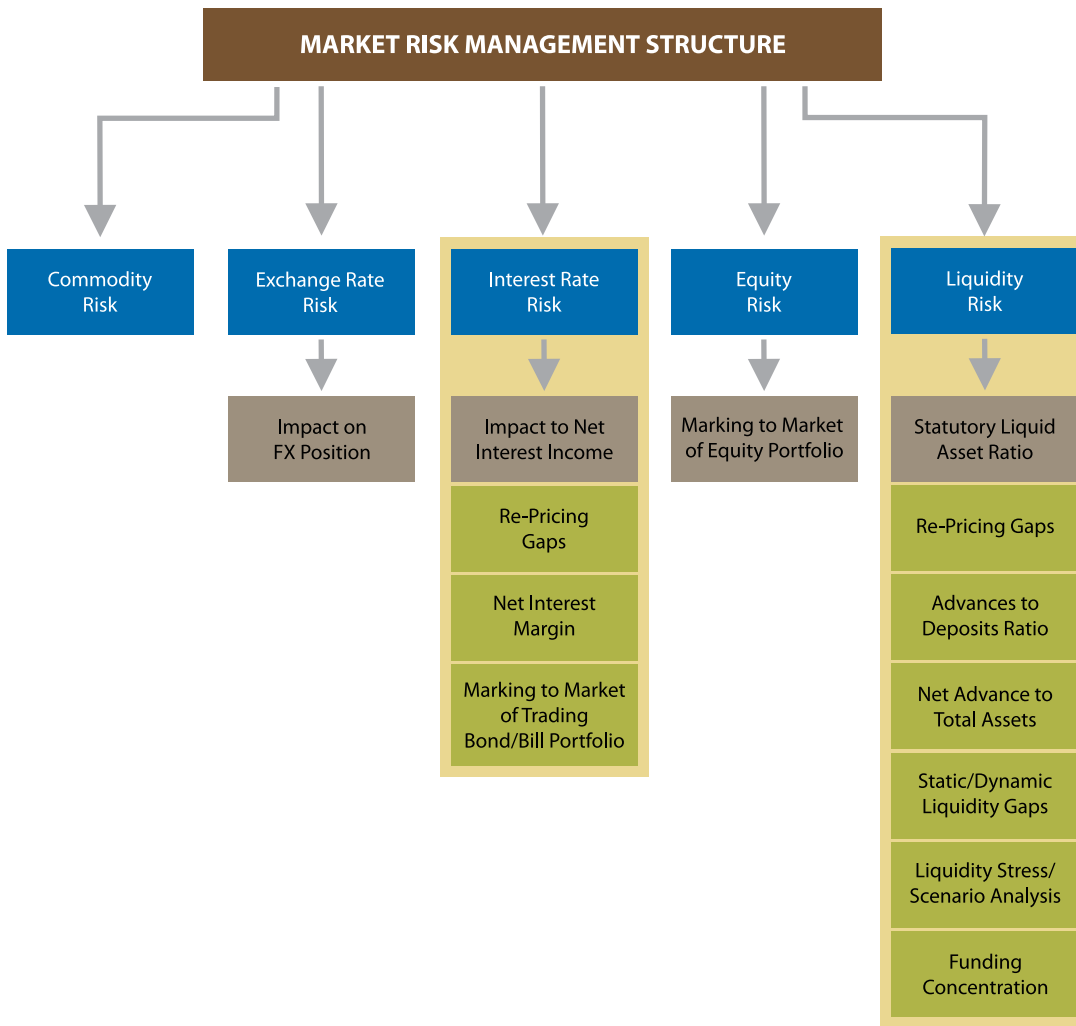
The primary objective of the Market Risk Management Unit (MRMU) of Integrated Risk Management Department (IRMD) is to ensure that the rewards are optimised in Bank's business transactions which are exposed to various market risks while maintaining the down side risks under control within approved policy limits/parameters and guidelines. In order to achieve this, MRMU constantly maintains a close working relationship with the risk assuming business lines and control/monitoring functions within the Bank.

Market Risk Management Structure

MRMU functions within the IRMD of the Bank and is responsible for risk identification, measurement, monitoring, control and management reporting in relation to Market Risk. Treasury Middle Office is an integral part of MRMU and independently evaluates and monitors the transactions carried out by the Bank's Treasury from a risk perspective. Overall market risk parameters and exposures of the Bank are monitored by MRMU and periodically reported to Assets and Liabilities Committee (ALCO), Executive Integrated Risk Management Committee (EIRMC) and Board Integrated Risk Management Committee (BIRMC) through the Chief Risk Officer. In addition, MRMU also monitors liquidity risk related exposures of the Bank, and reports to ALCO to manage the Bank's liquidity at the desired level.

MANAGING RISK AT COMMERCIAL BANK

Market Risk Quality, Exposures and Indicators



Quality of a portfolio from a market risk perspective is measured by working out Marked-to-Market (MTM) value at a given time, specifically in relation to Fixed Income Securities (FIS). MTM operation is independently carried out by the Treasury Middle Office. Market rates are obtained from independent sources such as Central Bank of Sri Lanka, Reuters or Bloomberg system in order to maintain transparency.

In view of the fact that the Bank did not have a major exposure to Commodity Risk and Equity Risk during 2011, Market Risk exposure of the Bank was measured mainly in terms of Interest Rate Risk (IRR) and Foreign Exchange (FX) Risk. These measures cover traditional banking related products which are exposed to IRR, FX Risk and Funding & Concentration Risk. Accordingly, the Bank has developed a sound and well-informed strategy to manage market risk through the establishment of policy parameters and guidelines within which the business units creating such exposures operate, in order to optimise the risk-return trade off. Few of the indicators listed here assist the Bank to objectively manage the market risk exposures at prudent levels. Indicators identified for measurement are assessed and periodically monitored at various management committees as discussed under Market Risk Management Structure.

MANAGING RISK AT COMMERCIAL BANK

1. Interest Rate Risk

- Interest Rate Risk (IRR) is the impact on interest income of the Bank due to possible changes in market interest rates as compared to current level. IRR constitutes the most significant component of market risk exposure of the Banking Book. Hence, the Bank monitors IRR on an ongoing basis giving due consideration to re-pricing characteristics of all assets and liabilities. Rate shocks of different magnitudes are applied to all assets and liabilities at regular intervals and the impact is monitored to ensure that the Bank's earnings are within internally set parameters. Decisions to exceed such parameters taken at ALCO after giving due cognisance to market factors in order to optimise risk-reward tradeoff. Accordingly, the Bank has been successful in managing the Net Interest Income (NII) favourably even amidst the rising interest rate scenario experienced during the latter part of year 2011.
- Basis Risk**, the risk that products with similar characteristics get re-priced differently, is also a factor contributing to the IRR of the Bank. In order to assess the potential contribution of basis risk towards IRR, ALCO monitors the movement of the Prime Lending Rate (PLR) and Government Securities rates to make informed decisions on pricing and portfolio rebalancing.
- Gap Analysis on Rate Sensitive Assets (RSA) and Rate Sensitive Liabilities (RSL) is monitored periodically to decide on suitable strategies to mitigate exposure to IRR based on future interest rate forecasts.

2. Foreign Exchange Risk

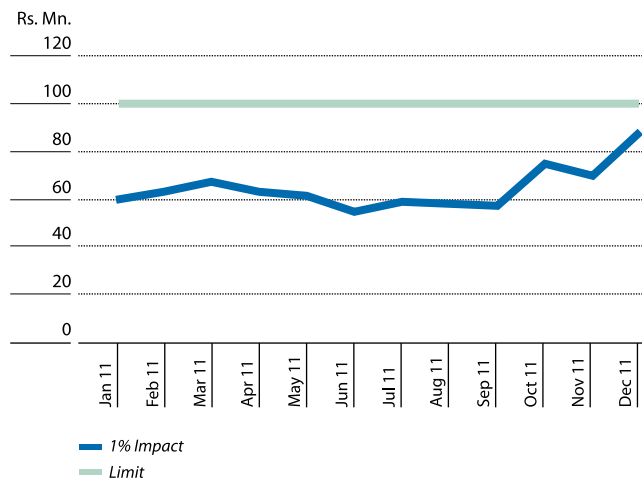
- Foreign Exchange Risk is the possible impact on earnings and capital due to fluctuations in exchange rates. This may arise as a result of existing maturity mismatches of foreign currency positions.
- The Bank is exposed to foreign exchange risk, whenever it undertakes transactions in any currency other than Bank's base currency, i.e. Sri Lankan Rupee (LKR).
- Risk tolerance limits for FX exposures set by the Bank, which

are more stringent compared to the regulatory limits of Central Bank of Sri Lanka (CBSL) parameters, ensure that the Bank maintains the un-hedged FX positions at an acceptable level to prevent potential losses from adverse fluctuations in FX rates.

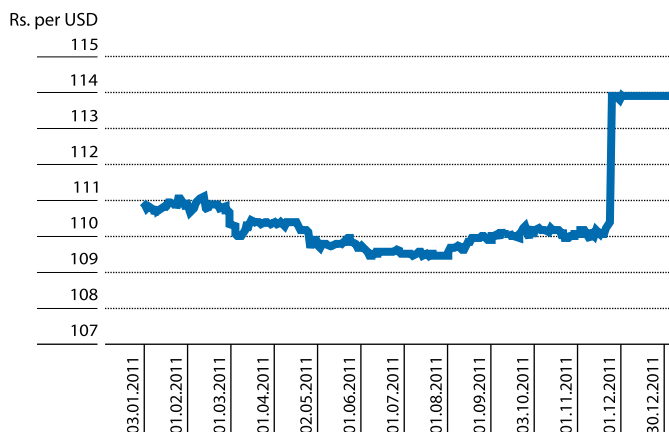
- The Bank is also exposed to FX Risk due to both FX transaction and translation risks. FX transaction risk, the possibility of incurring exchange loss/gain on transactions already entered into and denominated in a foreign currency,

is identified by providing suitable exchange rate shocks to capture historical rate movements on the Net Open Position of the Bank. FX translation risk arises from consolidation of Bank's foreign currency investments overseas into local currency, and any other reserves held in foreign currency. This is continuously monitored by carrying out scenario analysis on net overseas investments.

Impact on FX Position



Movement in USD/LKR Middle Rate



- The USD/LKR market experienced a sudden devaluation of LKR by 3% on 21st November 2011 effective 22nd and as a result the LKR started trading around Rs. 113.90 per USD, prior to which it was trading around Rs. 110.35 per USD as depicted in the graph.

(Source: Bloomberg)

MANAGING RISK AT COMMERCIAL BANK

Market Risk Appetite

The Bank, based on its business strategy has developed a sound strategy to manage market risk, taking into consideration the level of market risk the Bank is willing to assume. This is mainly carried out through identification of appropriate products/market sectors and setting up appropriate risk tolerance limits for all identified portfolios which are exposed to market risk factors. In certain instances, the Bank has set more stringent limits than the regulatory limits to ensure that the overall risk exposure is well within the risk appetite of the Bank.

Treasury related limits are periodically reviewed by the **ALCO** and sanctioned by the Board of Directors.

Market Risk Mitigation and Control

Board approved policies and guidelines act as the base on which risk mitigation and control mechanisms of the Bank are built on. Market risk related limits and guidelines are set out in the Assets and Liability Management Policy, Foreign Exchange Risk Management Policy and Derivative Policy. The limits in place may typically include Individual Dealer Limits, Portfolio Limits, Stop Loss Limits, Position Limits, Gap Limits, Tenor and Duration Limit. In addition to these risk management thresholds, various Management Action Triggers are also in place to notify the approving authorities of exposure levels reaching limits or of recurring loss events to facilitate prompt action to prevent adverse consequences well in advance.

It is mandatory that Dealers sign the ACI model code-based 'Code of Conduct' to ensure that all dealing related activities are carried out maintaining ethical standards and acceptable trade practices.

Regular review of limits by **ALCO** and **EIRMC** ensures that the market risk remains within the Bank's risk appetite as well as it works as a positive contributory factor in optimising risk-return trade off in the market portfolios to support business growth.

Market Risk Monitoring

Treasury Back Office is entrusted with the task of monitoring risk exposures created as a result of treasury related trading activities, against both the internally approved limits and regulatory limits. As an additional line of defence, Treasury Middle Office independently monitors market risk exposures, ensures that all Treasury transactions are carried out within the approved limits and reports any major observations to **MRMU** on a daily basis.

MRMU analyses Key Market Risk Indicators and carries out stress testing on various exposures vulnerable to fluctuations in market risk factors. These together with other market risk assessments are regularly reported for the perusal of the risk related management committees.

Market risk exposures created by non-trading activities such as retail and wholesale banking products and services are mainly managed through Assets and Liability Management (**ALM**) process of the Bank, within the Board approved **ALM** policy parameters.

LIQUIDITY RISK

Liquidity Risk is the inability to fulfil due payment obligations by a bank in a timely manner or not at all, or in case of liquidity crisis only be able to procure financing at unfavourable terms. The main objective of liquidity risk management and controlling is to ensure that the Bank maintains its ability to make payments and undertake refinancing activities at any point in time in a profitable manner.

Liquidity Risk Management Structure

Responsibility of managing and controlling liquidity of the entire Bank lies with the Assets and Liability Committee (**ALCO**) that meets at least on a fortnightly basis. Assets and Liability Management (**ALM**) desk of the Treasury reporting through Treasury Heads to **ALCO**, closely monitors and controls liquidity requirements on a daily basis to optimise the liquidity risk through proper coordination of funding activities.

Liquidity Risk Exposures and Indicators

Bank has identified several key Liquidity Risk indicators, namely Liquid Asset Ratio, Net Advances to Deposit Ratio, Net Advances to Total Assets Ratio, Dynamic Liquidity Gap Summary (for all major currencies), Static Liquidity Gap Summary, Core Funding Ratio and Concentration in funding sources which are monitored on a regular basis in order to ensure that the Bank, maintains a healthy liquidity position.

Static Liquidity Gap Reports (Refer Note 35) are prepared based on all contracted cash flows. Dynamic Liquidity Gap Reports use certain assumptions on asset and liability classifications incorporating anticipated inflows and outflows. These reports are discussed at **ALCO** to identify actual cash flow mismatches and to initiate appropriate timely action to maintain overall liquidity risk of the Bank within the Bank's risk appetite.

Tenor wise gap limits for short term time buckets and Management Action Triggers for MIS purposes are used for continuous monitoring of liquidity position of the Bank.

Core Funding Ratio, which provides an insight to the stability of funding sources that are used for onward lending purposes is another risk indicator that the Bank monitors for liquidity management and the Bank strives to maintain this ratio over and above 90% at all times.

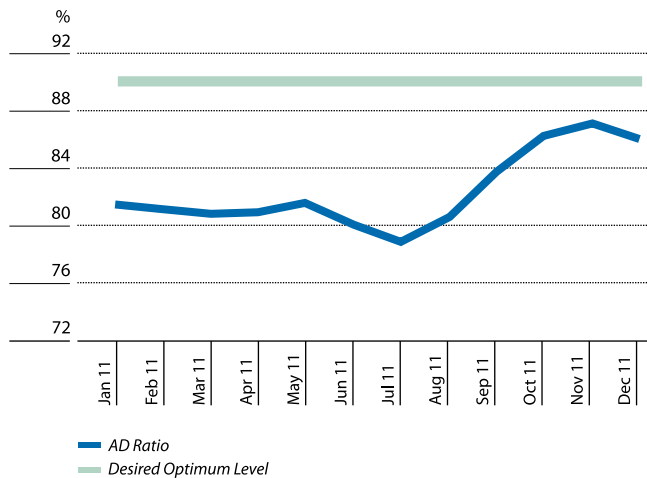
Adverse impact on concentrations in funding sources due to over reliance on single funding source/ wholesale depositors from liquidity perspective is another risk that the Bank is aware of. Strategies to reduce concentration on funding sources are long term in nature and the Bank's **ALCO** is entrusted to plan such moves wherever it is necessary, on an ongoing basis.

ALCO regularly monitors the Net Advances to Deposit Ratio of the Bank to ensure that the Bank maintains a healthy liquidity position in its main asset and liability portfolios. The Bank managed to

MANAGING RISK AT COMMERCIAL BANK

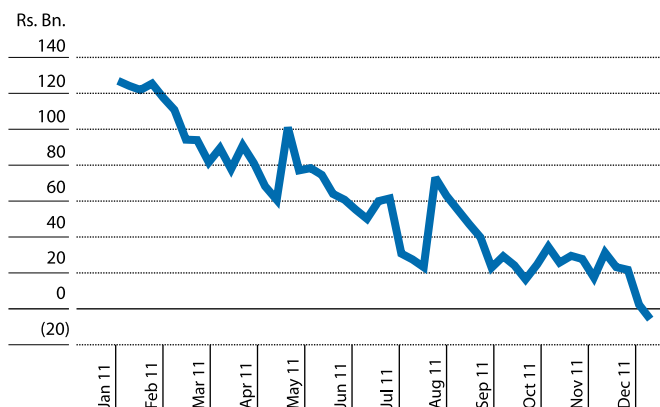
maintain the Advances to Deposits Ratio at a satisfactory level as depicted in the graph below.

Advances to Deposits Ratio



Banking industry in Sri Lanka experienced a dwindling liquidity position during the latter part of the year 2011, from an excess of about Rs. 121.18 Bn. as at the beginning of the year to a short fall of Rs. 5.38 Bn. recorded at year end as depicted in the graph below.

Market Liquidity



(Source: CBSL)

ALCO monitors the market liquidity which provides an insight into the ability of the Bank to fulfil its funding requirements from market sources at a reasonable price and decides on an alternative course of action if required.

Further, Bank also conducts regular liquidity stress tests based on certain assumed scenarios, which provides vital information to formulate contingency funding plans. Further, the Bank has also signed a reciprocal Contingency Funding Plan with a suitable counterparty to overcome any unforeseen tight liquidity situations.

Liquidity Risk Monitoring, Mitigation and Control

Regulatory framework of the Bank on liquidity has been formulated in compliance with CBSL guidelines and they include Statutory Reserve Ratio, which is managed by Bank's Treasury on a weekly basis ensuring that 8% of the average daily LKR deposits are maintained at CBSL and Statutory Liquid Asset Ratio maintained with a margin of safety above the stipulated regulatory level of 20.0%.

Bank has a Board approved Liquidity Funding Plan in place, which details out the contingency plans to overcome any funding crisis. Further, Bank monitors trends in Net Loans to Total Assets Ratio to ensure that the ratio remains within the internally approved threshold. Maturities of assets and liabilities too are monitored to identify any gaps that need to be addressed.

OPERATIONAL RISK

Operational Risk can be defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The definition includes the legal risk, which is the risk of loss resulting from failure to comply with laws and regulatory requirements.

OPERATIONAL RISK MANAGEMENT STRUCTURE



MANAGING RISK AT COMMERCIAL BANK

Objectives of the Operational Risk Management function of the Bank is to:

- Minimise the impact of losses incurred in the normal course of business (Expected Losses) and to avoid or reduce the likelihood of incurring large extreme (Unexpected) losses.
- To regularly review and improve the business processes and enhance the shareholder value.

The Bank is committed towards maintaining the quality of the Operational Risk Management function through implementing a robust Operational Risk Management framework. The Bank has continuously focused on process improvements through strengthening the regular risk mitigation and control measures relating to Operational Risk.

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 business operations are optimised to enhance business opportunities.

Comprehensive training and development programmes are conducted on an ongoing basis to enhance awareness on Operational Risk mechanisms among risk owners of the Bank. This continuous skill development programme facilitates to inculcate a robust risk culture in the Bank which will have long term benefits.

Further, a comprehensive Operational Risk Management Policy which addresses the governance structure for Operational Risk Management is in place to support the overall Operational Risk Strategy of the Bank.

Operational Risk Management responsibilities at the Corporate Management level are carried out by the Executive Integrated Risk Management Committee (EIRMC) which is represented by all senior Risk Owners and Risk Managers. EIRMC is responsible for monitoring regular Operational Risk Indicators in accordance with the established policies and procedures and taking corrective actions where deemed necessary.

Types of Operational Risk Exposures and Key Operational Risk Indicators (KORIs)

Operational Risk is inevitable in all the products and processes of the Bank. Operational Risk could emerge in various ways, including fraudulent acts, errors, business disruptions, inappropriate behaviours of employees or external factors. These events could result in financial losses and other damages to the Bank including possible reputational risks.

Operational Risk unit in the IRMD compiles all operational loss data and other information through various sources and prepare Key Operational Risk Indicators which are reviewed at EIRMC on a monthly basis and submitted to the BIRMC along with the mitigatory measures adopted in reducing such risks. Key Operational

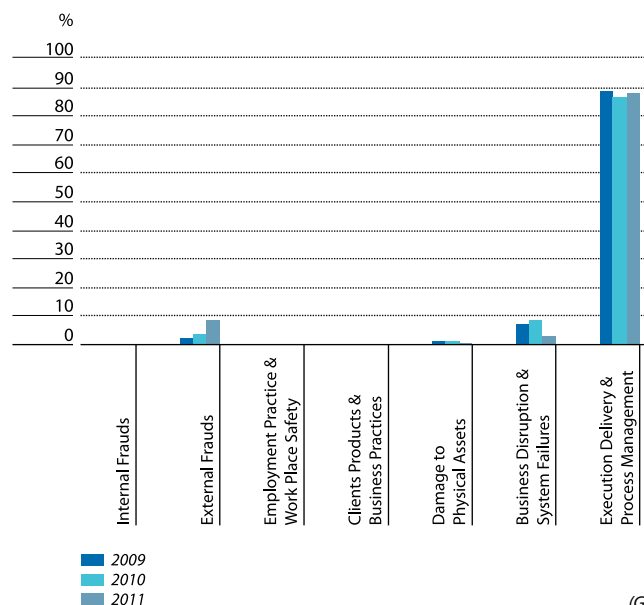
Risk Indicators are being improved continuously, where appropriate, to act as early warnings of increased risk of potential losses. Effective tracking of these indicators by the Operational Risk Management function allows the Bank to identify changing risks upon their occurrence and respond to them promptly in the best possible manner. Key Operational Risk Indicators are discussed further, under 'Operational Risk Monitoring and Reporting' in page 197.

The Bank has established a database of operational losses and is in the process of expanding the same with a view to migrate to more advance approaches of computing Operational Risk capital in future. The Bank maintains this database of Operational Risk losses as per Basel II requirements under event types and business lines, which is used to formulate Key Operational Risk Indicators of the Bank.

Event Type	Business Lines
Internal Fraud	Corporate Finance
External Fraud	Trading and Sales
Employment Practices and Workplace Safety	Retail Banking
Clients, Products and Business Practices	Commercial Banking
Damage to Physical Assets	Payment and Settlement
Business Disruptions and System Failures	Agency Services
Execution, Delivery and Process Management	Asset Management
	Retail Brokerage

Following two graphs depict the Operational Risk loss values and number of occurrences for the year 2011 under each event type, as a percentage of their respective totals with a comparison of previous two year figures.

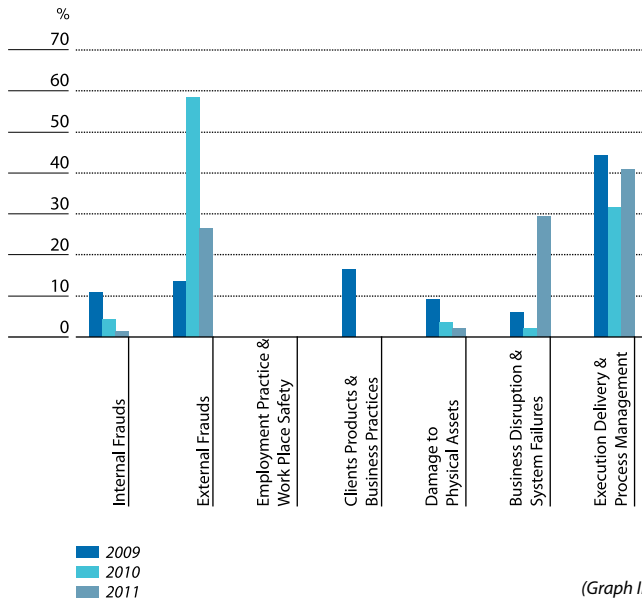
Operational Loss Events by Category - % of Total Losses by Events 2009-2011



(Graph I)

MANAGING RISK AT COMMERCIAL BANK

Operational Loss Events by Category - % Total Losses by Value 2009 - 2011



(Graph II)

As experienced in previous years, high frequency of loss events of the Bank is with low financial impact. Events with values less than Rs. 100,000 accounted for more than 99% of the total loss events. Execution, Delivery and Process Management which mainly consist of losses relating to cash operations taken place in over 230 delivery points accounted for the highest number of loss events (refer Graph I). Average Operational Loss Events for the year 2011 as a percentage of average number of transactions carried out in the year is negligible at 0.004%, which is comparable with that of previous years and it indicates the high level of controls maintained by the Bank to minimise Operational Losses.

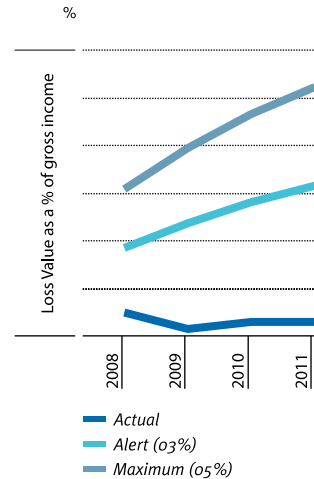
Meanwhile Execution, Delivery & Process Management also count for the highest percentage losses followed by business Disruptions and External Frauds (refer Graph II). However, gross value of the total

Operational Losses for the year 2011 (which includes near miss events) as a percentage of average gross income for the last three years (based on the income taken for the calculation of capital requirement for Operational Risk) is a mere 0.28%. The Bank maintains these figures at extremely lower levels compared to the mandatory capital allocation of 15% 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 Appetite

Risk appetite, or risk tolerance, is the quantum of risk that the Bank is willing to accept in its different businesses over a specified time horizon. Though Risk Appetite relating to credit and market risks could be associated with returns, Risk Appetite for Operational Risk is not aligned with any direct returns. Hence, ideal Risk Appetite level for Operational

Actual Operational Losses Against Internal Alert Levels For Year 2008 - 2011



(Graph III)

Risk is zero. However, zero level tolerance for Operational Risk could not be practically achieved since all banking products and processes are associated with Operational Risks where some of those could not be fully eliminated unless the product or process is withdrawn.

The Bank has a low appetite for material risks it is exposed to. Based on various factors such as historical loss data, budgets and forecasts, performances, existing systems and controls, observations of supervisory authorities on banking operations etc., the Bank has established tolerance levels for Operational Risk losses. Accordingly, alert level at 3% of the average audited gross income for the last three years and maximum level of 5% of the same has been established (refer Graph III). Further, these tolerance levels were segregated among types of Operational Losses to facilitate effective monitoring and control.

Operational Risk function 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 reflect an adverse trend, the Bank would take immediate action to review the processes and controls relating to the area where losses have incurred.

Actual Operational Risk losses for the current year as mentioned earlier is only 0.28% (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 Graph III. Further, the Bank has been able to maintain the Operational Risk losses well under control over a period. The position of previous three years is depicted in the Graph.

MANAGING RISK AT COMMERCIAL BANK

Operational Risk Monitoring and Reporting

As discussed earlier under the topics of Types of Operational Risk Exposures and Key Operational Risk Indicators (KORIs) and 'Operational Risk Appetite', KORIs and monitoring of tolerance levels are the major elements of the monitoring and reporting functions under the Operational Risk.

In addition to the above measures, a well-developed regulatory monitoring mechanism is adopted by the Bank to monitor reporting and compliance with all Mandatory Banking and other Statutory Requirements. A centralised monitoring unit has also been established to detect transactions relating to Anti Money Laundering (AML) and terrorist financing activities. An Incident Reporting mechanism is in place to streamline the loss reporting mechanism which also enriches the loss database covering all types of losses and near-miss incidents that have taken place in business lines.

Further, all high value Operational Losses are reported to the EIRMC and BIRMC along with the analysis of prevailing controls and corrective action taken to avoid repetition of similar losses. Operational Risk monitoring and reporting functions are also strengthened by Risk Assessments carried out by the Integrated Risk Management Department (IRMD), Risk Control Self-Assessment (RCSA) by business units and preparation and reviewing of the Operational Risk Register to capture the ever changing risks in business processes.

Operational Risk Mitigation

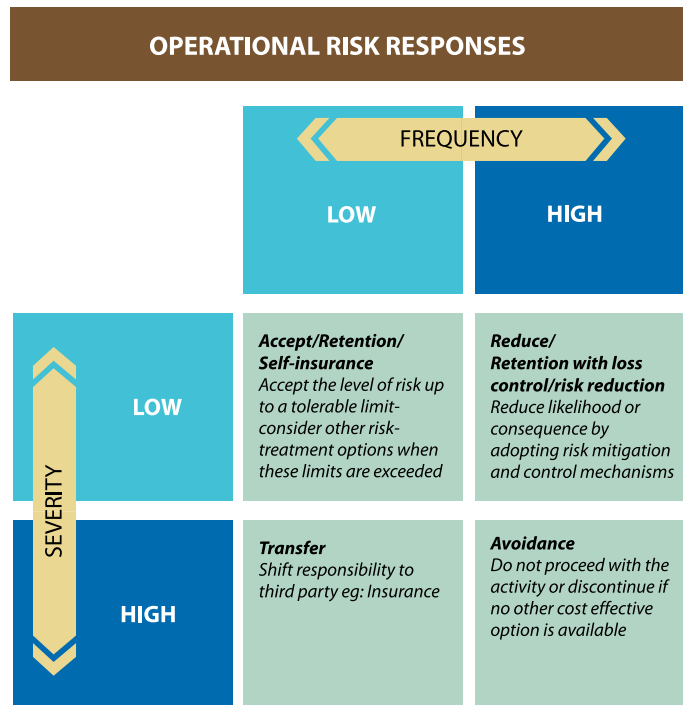
The Bank believes that the most cost effective and prudent way of managing operational risk in its business processes is to establish proper controls and monitoring mechanisms and regularly review such measures to update their effectiveness. Based on this principle, the Bank has developed a comprehensive Operational Risk Management Policy and a Risk Register covering a variety of operational risks and controls relating to key business lines. A robust risk reporting structure supports the IRMD and management committees to monitor the operational risk events closely and initiate corrective measures where necessary.

In addition to the above, accepted mitigation and control functions such as three lines of defense (i.e, initially at individual business unit level, secondly Risk Management function and finally Audit function), circular instructions, operating guidelines, operation manuals, policies, organisational charts, job descriptions, segregation of duties, dual controls, staff rotation, automation of processes etc. are in place to mitigate operational risks associated with all products and processes.

It is a prudent Operational Risk Measurement to adopt a 'risk transfer strategy' for low probability - high impact events such as damage to physical assets by natural disasters, fire etc. Accordingly, the Bank has transferred insurable risks by obtaining insurance policies from reputed insurance providers covering physical assets of the Bank against possible harm from natural causes and other hazards, potential high valued external and internal frauds etc. Possible losses exceeding certain limits due to errors and omissions, information security and losses incurred in facilitating electronic payment mechanisms have also been duly insured.

Certain banking functions have been outsourced after carefully evaluating the risk factors and carrying out cost-benefit analysis of such decisions. All these outsourced functions are covered through the agreements which are subject to regular reviews.

Upgrading of software solutions including the core-banking system are being carried out as and when required. All modifications to the systems are routed through proper approving channels with recommendations of the Information Systems Audit function which operates independently from the business lines to identify and mitigate potential risks.



MANAGING RISK AT COMMERCIAL BANK

Comprehensive disaster recovery process covering all business units of the Bank is laid down under the Business Continuity Plan (BCP) which is regularly reviewed with the approval of the Board of Directors. Further, independent risk assessments of the BCP are carried out by the IRMD as per requirement under the Corporate Governance of Central Bank of Sri Lanka on Integrated Risk Management Committee to review the adequacy and effectiveness of the BCP.

Computation of Operational Risk Requirement Under The Standardised Approach

Parallel computation of capital required for Operational Risk under The Standardised Approach (TSA) is being done along with the Basic Indicator Approach (BIA).

Capital required for Operational Risk of the Bank for the year 2011 as per TSA approach is computed as follows for information purpose.

Business Line	Weighted Average Rate (%)	Capital Requirement (Rs. Mn.)
Corporate Finance	18	4.7
Trading and Sales	18	810.6
Retail Banking	12	1,030.1
Commercial Banking	18	1,089.1
Payment and Settlement	18	100.1
Total Requirement		3,034.6

However, Operational Risk Requirement as per 'Basic Indicator Approach' for the year 2011 is Rs. 3,139.7 Mn.

COMPARISON OF EXPOSURES WITH RISK POLICY PARAMETERS

Risk Category and Parameter	Description	Policy Range	Actual Position as at 31.12.2011	Compliance
Credit Risk Criteria				
Quality of the Lending Portfolio	Gross NPA Ratio**	4% - 5%	3.43%	✓
	Net NPA Ratio**	2.5% - 3.5%	2.08%	✓
	Provision Cover	35% - 40%	39.53%	✓
	Aggregate Loans & Advances in the Risk Grades 'C - A5'	75% - 80%	87.03%	✓
	Weighted Average Rating of the overall lending portfolio to be better than 'A5'	40% - 45%	45.62%	✓
Concentration	Loans & Advances by Product*** (using HHI)	0.15 - 0.20	0.1746	✓
	Advances by Economic sub-sector (using SIC)*** (using HHI)	0.015 - 0.025	0.0159	✓
	Exposures exceeding 5% of the Eligible Capital*** (using HHI)	0.05 - 0.10	0.05247	✓
	Exposures exceeding 15% of the Eligible Capital*** (using HHI)	0.10 - 0.20	0.1322	✓
	Exposure to any sub-sector (SIC) to be maintained	4% - 5%	4.8%	✓
	Aggregate of Exposures exceeding 15% of the Eligible Capital	20% - 30%	19.11%	✓
	Lending in the Maldives	Maximum 20% of Net Worth	11.97%	✓
Lending to Bangladesh Branch	Maximum USD 15 Mn.	USD 4.84 Mn.	✓	
Cross boarder exposure	S & P: - AAA to BBB -	Over 75%	90.72%	✓
Exposure to the Government	FCY Investment	Maximum USD 250 Mn.	USD 201.0 Mn.	✓
	FCY Trading (S/L)	Maximum USD 50 Mn.	USD 49.0 Mn.	✓
	Cumulative stop loss for FCY trading portfolio	Maximum USD 3.75 Mn.	No loss	✓

MANAGING RISK AT COMMERCIAL BANK

Risk Category and Parameter	Description	Policy Range	Actual Position as at 31.12.2011	Compliance		
Market Risk Criteria						
Interest Rate Risk	Interest Rate Shock (Impact to NII as a result of parallel rate shock)	Maximum of 800 (Rs. Mn.)	Rs. 882.09 Mn.	<input type="checkbox"/>		
	Re-pricing Gaps (RSA/RSL in each maturity bucket)	1.5 (Times)	0.06-6.04	✓		
Liquidity Risk	Statutory Liquid Assets Ratio (CBSL Guidelines) - DBU	Minimum of 20%	25.70%	✓		
	Net Advances to Deposits Ratio	Below 90%	86.06%	✓		
	Structured Liquidity Gap Reports (1-7 days Bucket)	PG/CO	0.5 (Times)	-0.54	✓	
			(8-30 days Bucket)	0.5 (Times)	-0.09	✓
			(Up to 1 year Bucket)	Less than 1 (Times)	0.11	✓
	Dynamic Liquid Reports	(-) PG/CO	(1-3 Months Bucket)	50%	7.96	✓
			(4-6 Months Bucket)	15%	(+) PG	✓
(7-12 Months Bucket)			20%	(+) PG	✓	
(1-2 Years Bucket)			20%	(+) PG	✓	
FX Risk	Exchange Rate Shocks (Losses as a result of 1% change in FX Rate)	Maximum of 250 (Rs. Mn)	Rs. 88.09 Mn.	✓		
Concentration Risk	- Rupee Deposit Concentration					
	- Savings & Demand Deposits above LKR 5.0 Mn.	Below 5%	<4.00%	✓		
	- Fixed deposits above Rs. 10.0 Mn.	Below 5%	<4.00%	✓		
	- FCY Deposit Concentration (Above USD 100,000 or equivalent)	Below 60%	55.85%	✓		
Operational Risk Criteria						
Internal Fraud	Acts of a type intended to defraud, misappropriate property or circumvent regulations, etc.	0.30% - 0.50%#	0.0034%	✓		
External Fraud	Acts of a type intended to defraud, misappropriate property or circumvent the law, by a third party	1.5% - 2.5%#	0.0745%	✓		
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	0.06% - 0.1%#	-	✓		
Clients, Products & Business Practices	Unintentional or negligent failure to meet a professional obligation to specific clients, etc.	0.09% - 0.15%#	-	✓		
Damage to Physical Assets	Loss or damage to physical assets from natural disasters or other events	0.30% - 0.50%#	0.0061%	✓		
Business Disruption & System Failures	Disruption of business or system failures	0.15% - 0.25%#	0.0823%	✓		
Execution, Delivery & Process Management	Failed transactions processing or process management	0.60% - 1.00%#	0.1151%	✓		
Overall - Operational Risk	Operational Loss Tolerance Limit (Total Loss Value as a percentage of last three years' average gross income)	3% - 5%	0.2813%	✓		

** For the Total Bank *** (Using Herfindahl - Hirschman Index - HHI) RSA - Rate Sensitive Assets; RSL - Rate Sensitive Liabilities; PG - Period Gap; CO - Cash Outflows
Value as a percentage of maximum Operational Loss Tolerance Limit □ Explanations provided under the respective risk comments

MANAGING RISK AT COMMERCIAL BANK

CAPITAL ADEQUACY

Capital adequacy 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 equity capital to repay its depositors on demand and still have enough funds to increase the bank's assets through additional lending. At Commercial Bank too, we compute the Capital Adequacy Ratio (CAR) in accordance with the Basel II accord.

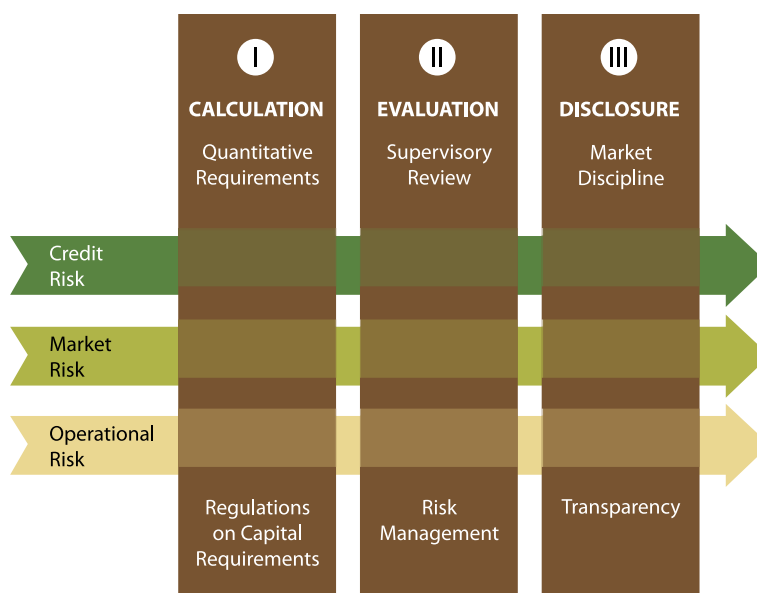
Basel Accord

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 losses and insolvency. Higher capital requirements constrain bank lending and 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 securitization 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 the 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%.

Credit Risk	Standardized 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.

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.

MANAGING RISK AT COMMERCIAL BANK

The computations as per the regulatory requirements specified by the Central Bank of Sri Lanka, in relation to Core Capital and Total Capital ratios are given below:

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	
	2011 Rs. '000	2010 Rs. '000		2011 Rs. '000	2010 Rs. '000
Assets					
Claims on Government of Sri Lanka and Central Bank of Sri Lanka	100,500,592	108,059,692	0	-	-
Claims on Foreign sovereigns and their Central Banks	7,589,925	7,288,779	0-150	7,589,925	7,288,779
Claims on Public Sector Entities (PSEs)	19,395	27,660	20-150	19,395	27,660
Claims on Official Entities and Multilateral Development Banks (MDBs)	-	-	20-150	-	-
Claims on Banks	18,417,892	5,836,513	0-150	6,833,718	3,178,266
Claims on Financial Institutions	2,644,000	1,126,800	20-150	1,729,350	777,750
Claims on Corporates	168,245,189	181,686,544	20-150	157,204,758	173,266,572
Retail Claims	69,487,773	18,413,845	75-100	57,519,874	18,413,845
Claims Secured by Residential Property	24,105,257	19,106,565	50-100	24,105,257	15,229,147
Claims Secured by Commercial Real Estate	-	-	100	-	-
Non-Performing Assets (NPAs)	6,197,613	6,191,125	50-150	8,389,062	8,334,882
Cash Items	8,576,710	6,192,757	0	7,572	1,758
Property, Plant & Equipment	8,616,445	6,703,918	100	8,616,445	6,703,918
Other Assets	8,059,096	6,183,157	100	8,059,096	6,183,157
Total	422,459,886	366,817,356		280,074,452	239,405,735

	2011 Rs. '000	2010 Rs. '000	Credit Conversion Factor %	Credit Equivalent	
				2011 Rs. '000	2010 Rs. '000
Instruments					
Direct Credit Substitutes	17,784,925	21,117,004	100	17,784,925	21,117,004
Transaction-Related Contingencies	7,703,979	6,207,068	50	3,851,990	3,103,534
Short Term Self-Liquidating Trade-Related Contingencies	39,736,030	33,960,523	20	7,947,206	6,792,105
Sale and Repurchase Agreements and Assets Sale with recourse where the credit risk remains with the Bank	-	-	100	-	-
Obligations under an on going Underwriting Agreement	-	-	50	-	-
Other Commitments with an original maturity of up to one year or which can be unconditionally cancelled at any time	59,691,611	49,001,044	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	104,398,912	80,486,733	0-5	2,087,978	1,609,735
Interest Rate Contracts	50,806	576,868	0-3	1,524	13,520
Total	229,366,263	191,349,240		31,673,623	32,635,898

MANAGING RISK AT COMMERCIAL BANK

Capital Charge for Market Risk

Item	2011 Rs. '000	2010 Rs. '000
Capital Charge for Interest Rate Risk	254,149	252,058
Capital Charge for Equity	41,119	32,639
Capital Charge for Foreign Exchange and Gold	68,269	57,004
Total Capital Charge for Market Risk	363,537	341,701
Total Risk Weighted Assets for Market Risk	3,635,371	3,417,009

Capital Charge for Operational Risk

Gross Income		
Year 1	19,236,720	16,226,822
Year 2	20,121,710	19,236,720
Year 3	23,166,112	20,121,710
Average Gross Income	20,841,514	18,528,417
Total Capital Charge for Operational Risk - (15%)	3,126,227	2,779,263
Total Risk-Weighted Assets for Operational Risk	31,262,271	27,792,626

Computation of Capital

Tier I: Core Capital		
Paid-up Ordinary Shares	17,945,271	11,566,166
Statutory Reserve Fund	2,740,902	2,338,511
Published Retained Profits/(Accumulated Losses)(+/-)	43,865	28,056
General and Other Reserves	17,856,434	15,866,038
Minority Interests (consistent with the above capital constituents)	29,615	24,980
Less:		
Other Intangible Assets	(475,038)	(425,255)
Advances granted to employees of the Bank for the purchase of shares of the Bank (ESOP)	(2,105)	(3,068)
50% Investments in the Capital of Other Banks and Financial Institutions	(402)	(5,402)
Total Eligible Core Capital (Tier I Capital)	38,138,542	29,390,025
Tier II : Supplementary Capital		
Revaluation Reserves (as approved by Central Bank of Sri Lanka)	651,037	651,037
General Provisions	1,201,991	1,709,481
Approved Subordinated Term Debt	972,880	1,426,154
Less:		
50% Investments in the Capital of Other Banks and Financial Institutions	(402)	(5,402)
Total Eligible Supplementary Capital (Tier II Capital)	2,825,506	3,781,270
Total Capital Base	40,964,048	33,171,295

MANAGING RISK AT COMMERCIAL BANK

Computation of Ratios

	2011 Rs. '000	2010 Rs. '000
Total Risk-Weighted Assets (RWA)		
Total Risk-Weighted Assets for Credit Risk	280,074,154	239,405,735
Total Risk-Weighted Assets Market Risk	3,635,371	3,417,009
Total Risk-Weighted Assets Operational Risk	31,262,271	27,792,626
Sub Total	314,971,795	270,615,370
Minimum Capital Charge		
Minimum Capital Charge for Credit Risk	28,007,415	23,940,573
Minimum Capital Charge for Market Risk	363,537	341,701
Minimum Capital Charge for Operational Risk	3,126,227	2,779,263
Sub Total	31,497,180	27,061,537
Total Capital available to meet the Capital Charge for Credit Risk		
Total Eligible Core Capital (Tier I Capital)	38,138,542	29,390,025
Total Eligible Supplementary Capital (Tier II Capital)	2,825,506	3,781,270
Total Capital Base	40,964,048	33,171,295
Core Capital Ratio (Minimum Requirement 5%)		
Total Eligible Core Capital (Tier I Capital)	38,138,542	29,390,025
Total Risk-Weighted Assets	314,971,795	270,615,370
	12.11%	10.86%
Total Capital Ratio (Minimum Requirement 10%)		
Total Capital Base	40,964,048	33,171,295
Total Risk-Weighted Assets	314,971,795	270,615,370
	13.01%	12.26%

EVENTS 2011

JANUARY ↓

187th Service Point was opened at Dankotuwa



CBC, LOLC Partner to Boost Customer Service



Lanka ORIX Finance Company and CBC signed an agreement to install CBC's ATM at identified branches of the LOLC Group.

FEBRUARY ↓

188th, 189th, 190th & 191st Service Points were opened at Katukurunda, Katubedda, Wattala and Hambantota



Hambantota opening.

CBC Bangladesh 7th Annual Staff Conference



The theme of the 2011 Staff Conference was 'Aim Excellence, Achieve Success'.

MARCH ↓

192nd, 193rd, 194th & 195th Service Points were opened at Weliveriya, Peliyagoda, Velanai and Vavuniya



Velanai opening.

CBC Bangladesh Launched Safe Deposit Locker Services for its Customers



APRIL ↓

196th & 197th Service Points were opened at Akkaraipattu and Eravur



Eravur opening.

CBC wins the 'Best Bank in Sri Lanka' Award for the 13th consecutive time from 'Global Finance', one of the world's most respected financial publications



MAY ↓



Opening Ceremony of relocated CDA Avenue SME Centre - Chittagong

Commercial Bank, Bangladesh relocated its CDA Avenue SME Centre from Sanmar Ocean City to CDA Avenue, Chittagong effective from May 29, 2011. The ceremonial opening of the new Office was held amidst a large gathering of customers and staff, which was presided over by the former Chairman, Mr. M.J.C. Amarasuriya in the presence of the corporate management of CBC in Bangladesh headed by Mr. S. Prabagar, the Country Manager.

JULY ↓

199th & 200th Service Points were opened at Kuruwita and Katharagama



Katharagama opening.

CBC 'Best Bank in Sri Lanka' by the world's leading financial markets magazine 'Euromoney'



CBC No. 2 in LMD's 'Most Respected 2011'



CBC was ranked at No. 2 in the 'LMD' magazine's 'Most Respected 2011' list amongst all corporates in Sri Lanka.

JUNE ↓

198th Service Point was opened at Nittambuwa



CBC was Adjudged the 'Best Sri Lankan Trade Bank' by the prestigious UK-based 'Trade Finance' magazine .



CBC Commences Sharia Compliant Banking



CBC Bangladesh Rating upgraded



CBC Bangladesh has been upgraded to 'AAA' (Triple A) from AA+ by CRISL for long term and was also reaffirmed 'ST-1' for short term based on the financials of 2010.

AUGUST ↓

CBC opens exclusive 'Elite' Branch at Colombo 7 (201st Service Point)



'FinanceAsia' ranks CBC as 'Best Bank in Sri Lanka'



CBC was adjudged 'Best Bank in Sri Lanka' by Hong Kong-based 'FinanceAsia' magazine for the 3rd consecutive year.

CBC Only Sri Lankan Bank in World's Top 1,000



Sri Lanka is once again represented in the 'Top 1,000 Banks in the World', with the inclusion of the Commercial Bank of Ceylon to this prestigious annual ranking by the UK-based 'The Banker' magazine.

CBC First to Support National Development with IFA Loan



CBC became the first bank in Sri Lanka to support national development initiatives with concessionary long term lending from its Investment Fund Account (IFA) set up in accordance with a proposal in the 2011 Government Budget.

SEPTEMBER ↓

202nd & 203rd Service Points were opened at Wariyapola and Anuradhapura New Town

CBC Number 3 in 'Business Today Top 20'



CBC climbed up the rank to number three in 2010-11 from number five of the preceding year in the 'Business Today' magazine's Top 20.

CBC Offers Transactions in Yuan



CBC has enabled customers to transact in Chinese Yuan for import and export dealings with counterparts in the People's Republic of China.

CBC Becomes First Bank to Offer Online EPF Payments



OCTOBER ↓

204th, 205th, 206th & 207th Service Points were opened at WTC, Ganemulla, Giriulla and Beliatta



WTC opening

CBC Launches Software Escrow Services

With the Bank's foray into the sphere to offer the service of providing Software Escrow Services, software vendors and users can now employ services of the Bank as the neutral third party holding in safe custody their source codes.

NOVEMBER ↓

208th, 209th, 210th Service Points were opened at Padukka, Passara and Katunayake (24/7)



Katunayake opening.

IFC and CBC Structure Landmark USD 65 Mn. Facility for SMEs in Sri Lanka



IFC has extended a 7-year, USD 65 Mn. financing facility to CBC to expand the Bank's lending to Small and Medium Enterprises (SME).

CBC Offers NRFC Accounts in Chinese Yuan

CBC is now offering Non-Resident Foreign Currency (NRFC) accounts in the Chinese Yuan following its inclusion as a Designated Currency in Sri Lanka by the Central Bank.

DECEMBER ↓

211th, 212th & 213th Service Points were opened at Divulapitiya, Panadura and Kattankudy



Divulapitiya opening.

CBC to open ATMs at Railway Stations



Opening of the first ATM machine under this programme at the Fort Railway Station, by Minister of Transport, Mr. Kumara Welgama.

Railway commuters will have instant access to Sri Lanka's single largest electronic cash dispensing facility following the commencement of an initiative by CBC to install ATM terminals at key railway stations in the country.

CBC Declared 'Sri Lanka's Bank of the Year' by 'The Banker' too



CBC was adjudged Sri Lanka's 'Bank of the Year' by the prestigious UK-based 'The Banker' magazine, in yet another international affirmation of its status as Sri Lanka's Best Bank.

CBC Wins Most Coveted Pinnacle Award for Best Annual Report of 2010



CBC won the Gold Award for overall winner for the Best Annual Report across all sectors of business in Sri Lanka for 2010, by The Institute of Chartered Accountants of Sri Lanka.

CBC also won the Gold Award for the Banking Sector, the Silver Award in the Corporate Governance Disclosure category and the Bronze Award in the Management Commentary category.

CBC Bangladesh receives 'ICAMB Best Corporate Performance Award - 2011'



CBC Expands Country's Largest ATM Network to 500



This landmark was reached with the opening of an ATM at Maradana Railway Station.

INVESTOR RELATIONS

Dear Shareholder,

We are pleased to present you with this supplement which is dedicated to you in appreciation of your continued support to the success of the Bank. This year, we are delighted to inform you that your Bank was able to achieve several milestones, the highest number of accolades won by the Bank during any single year.

- Only Sri Lankan Bank to be ranked among the Top 1000 Banks of the world for the second time on the basis of capital adequacy and soundness
- First Sri Lankan Bank to obtain FIVE prestigious awards during a year for the Best Bank in Sri Lanka
 - Awards by The Global Finance Magazine (USA) Best Bank in Sri Lanka
 - Awards by The Banker Magazine (UK) Bank of The Year in Sri Lanka
 - Award for Excellence by Euro Money 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
- Highest Market Capitalisation among the Banking institutions in Sri Lanka and the sixth largest among all listed companies in the Colombo Stock Exchange as at end 2011
- Only Sri Lankan Bank to pay a dividend of minimum Rs. 6 per share for five successive years since 2007
- First Indigenous Private Sector Bank to reach the Rs. 8 Bn. Mark in post-tax profits
- The largest Asset Base among Local Private Sector Banks
- Installing 100 ATMs in one year and bringing the total number of ATMs to 500 by end 2011

Crafting information in pleasing the interests of the shareholders is the foundation on which we build this Report.

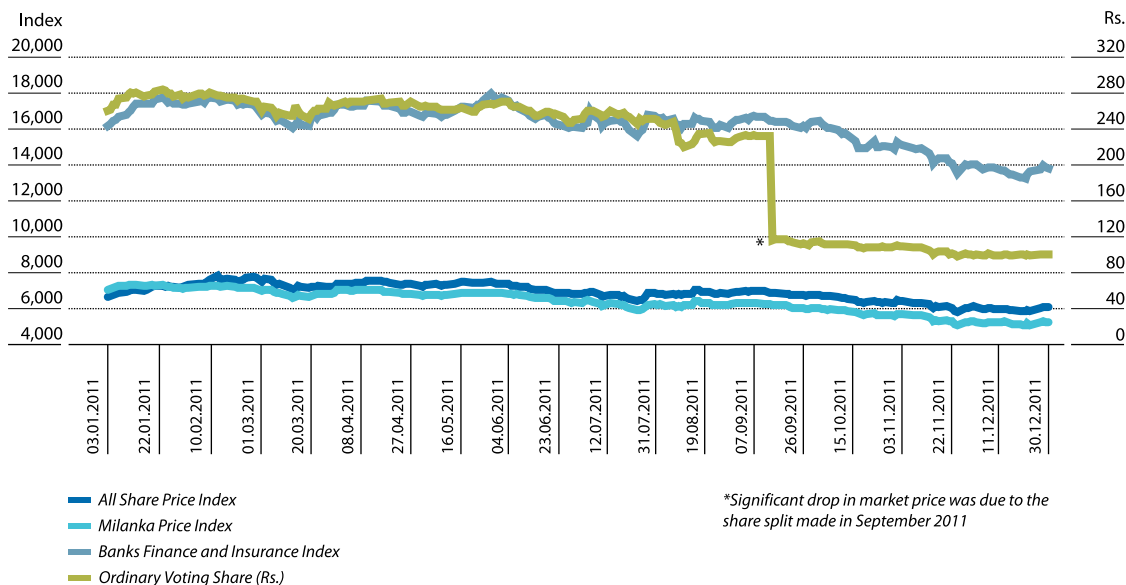
The full report and accounts and the interim reports are available on the Bank's website (<http://www.combank.lk/newweb/investor-relations>). Alternatively, shareholders are able to elect to receive a mailed copy of the Annual Report on request. The Company Secretary of the Bank responds to individual letters received from shareholders.

We at Commercial Bank believe that timely and frequent communication with shareholders ensures that they fully understand about the Bank which will enhance the transparency and thereby the mutual relationship. 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 Bank's shares are listed on the Main Board of the Colombo Stock Exchange. Daily share prices are found in newspapers including the Daily FT, Daily News, The Island and Daily Mirror.

Performance of the Commercial Bank's Ordinary Voting Share in 2011



INVESTOR RELATIONS

SPECIAL MOMENTS IN 2011

Commercial Bank only Sri Lankan Bank in World's Top 1000



Once again, your Bank has made Sri Lanka proud by being amongst the best banks in the world awarded by 'The Banker', UK's premier financial magazine. This prestigious ranking is a proud testament to Commercial Bank's stability and strength, as well as the Bank's leadership in Sri Lanka's financial sector.

Commercial Bank is the only Sri Lankan Bank in this ranking by the premier magazine serving the world's investment, retail and commercial banking sectors.

Commercial Bank has been ranked 52nd in the world in the Performance category (assessed on profits on average capital) and 986th on Tier 1 capital, the criterion widely accepted as the most important benchmark for assessing the financial stability of a bank, in the July 2011 issue of prestigious annual ranking by the UK-based 'The Banker' magazine.

The Top 1000 rankings are compiled from a database of over 5,000 banks worldwide and are widely recognised by the global financial community as the definitive guide to bank rankings and analysis.

Commercial Bank bags Best Bank award from Global Finance for the 13th consecutive year



The Commercial Bank of Ceylon PLC has been chosen as the Best Bank in Sri Lanka for the 13th successive year by the Global Finance magazine. The highly respected, US based financial publication's latest listing of the "Best Emerging Market Banks in Asia" is to be published in its May 2011 issue.

This is the 18th year in which the Global Finance Magazine has recognised the outstanding performances of Best Banks in emerging markets. The Commercial Bank and other winners were chosen through a broad-based assessment taking into account growth in assets, profitability, strategic relationships, customer service, competitive pricing and innovative products.

Commercial Bank's success in overcoming challenges enabled it to sustain its dominant position. This reflects the Bank's success in an important aspect - in adapting to changes in the financial world while meeting financial needs of consumers and businesses.

Euromoney Ranks Commercial Bank Sri Lanka's Best



The Commercial Bank of Ceylon has been adjudged 'Best Bank in Sri Lanka' by the world's leading financial markets magazine 'Euromoney'. Adding another award to the list of global awards won during the year by Commercial Bank, Euromoney has recognised the Bank for its strong strategy of attracting and serving customers, its innovative product development, asset growth and strategic relationships. 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 wins most coveted pinnacle award for the Best Annual Report of 2010



The Bank has emphatically reaffirmed its superiority in the sphere of financial reporting and corporate disclosures by winning the Gold award for overall winner for the Best Annual Report across all sectors of business in Sri Lanka for 2010 at the Annual Reports Awards of The Institute of Chartered Accountants of Sri Lanka. Commercial Bank also won the Gold award for the Best Annual Report in the Banking Sector with two other prestigious top awards.

These awards reflect the Bank's effectiveness in communication of financial and non-financial information to stakeholders and its strict compliance with legislative requirements and accepted accounting best practices. The evaluation criteria for the awards include the extent of objectivity in communicating to the most vital stakeholders, financial/ performance highlights, clarity of personnel management and business management, provision of a 360-degree view of operations and the effectiveness of corporate governance and risk management practices.

A summary of "Awards and Accolades" won by the Bank in the recent past is given on page 65 in the Section on "Sustainability Supplement" for information of the shareholders.

INVESTOR RELATIONS

COMPLIANCE REPORT ON THE CONTENTS OF ANNUAL REPORT IN TERMS OF THE LISTING RULES OF THE COLOMBO STOCK EXCHANGE

We are pleased to inform you that the Bank has complied with all the requirements of the Section 7.6 of the Listing Rules of the Colombo Stock Exchange on the contents of the Annual Report and Accounts of a Listed Entity. The table below provides 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	<ul style="list-style-type: none"> Annual Report of the Board of Directors 	233-234
7.6 (ii)	Principal activities of the Bank and its Subsidiaries during the year and any changes therein	<ul style="list-style-type: none"> Note B in Accounting Policies Annual Report of the Board of Directors Group Structure 	250 230 226
7.6 (iii)	The names and the number of shares held by the 20 largest holders of voting and non-voting shares and the percentage of such shares held	<ul style="list-style-type: none"> Item 03 of the Investor Relations 	211-212
7.6 (iv)	The public holding percentage	<ul style="list-style-type: none"> Item 03 of the Investor Relations 	211-212
7.6 (v)	Directors' and Chief Executive Officer's holding in shares at the beginning and at the end of the financial year	<ul style="list-style-type: none"> Item 11 of the Investor Relations Annual Report of the Board of Directors 	215 236
7.6 (vi)	Information pertaining to material foreseeable risk factors	<ul style="list-style-type: none"> Item 16 of the Investor Relations 	218
7.6 (vii)	Details of material issues pertaining to employees and industrial relations	<ul style="list-style-type: none"> Item 17 of the Investor Relations 	218
7.6 (viii)	Extents, locations, valuations and the number of buildings of the land holdings and investment properties	<ul style="list-style-type: none"> Note 23.3 and 23.4 to the Financial Statements on 'Property, Plant & Equipment' 	291-294
7.6 (ix)	Number of shares representing the stated capital	<ul style="list-style-type: none"> Note 32 (a) to the Financial Statements on 'Stated Capital' Item 14 of the Investor Relations 	301 217
7.6 (x)	A distribution schedule of the number of holders in each class of equity securities, and the percentage of their total holdings	<ul style="list-style-type: none"> Item 9 of the Investor Relations 	214
7.6 (xi)	Ratios and market price information: <ul style="list-style-type: none"> Equity - Dividend per share, dividend payout ratio, net asset value per share, market value per share Debt - Interest rate of comparable Government security, debt/equity ratio, interest cover and quick asset ratio, market prices and yields during the year Any changes in credit rating 	<ul style="list-style-type: none"> Items 5 (a) and 5 (b) of the Investor Relations Item 15 of the Investor Relations Item 5 (d) of the Investor Relations 	213 218 213
7.6 (xii)	Significant changes in the Bank or its Subsidiaries fixed assets and the market value of land, if the value differs substantially from the book value	<ul style="list-style-type: none"> Note 23 to the Financial Statements on 'Property, Plant & Equipment' 	289
7.6 (xiii)	Details of funds raised through Public Issues, Rights Issues, and Private Placements during the year	<ul style="list-style-type: none"> Note 32 (a) to the Financial Statements on 'Stated Capital' 	301
7.6 (xiv)	Information in respect of Employee Share Option Schemes <ul style="list-style-type: none"> Total number of shares allotted during the financial year, price at which shares were allotted and the details of funding granted to employees (if any) Highest, lowest & closing price of the share recorded during the financial year 	<ul style="list-style-type: none"> Note 32 (b) and 32 (c) to the Financial Statements on 'Employee Share Option Plan - 2002 and 2008', respectively Item 5 (b) of the Investor Relations 	302-303 213
7.6 (xv)	Disclosures pertaining to Corporate Governance practices in terms of Rules 7.10.3, 7.10.5 c. and 7.10.6 c. of Section 7 of the Listing Rules	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> The Bank did not have any related party transaction exceeding this threshold as at end 2011. 	-

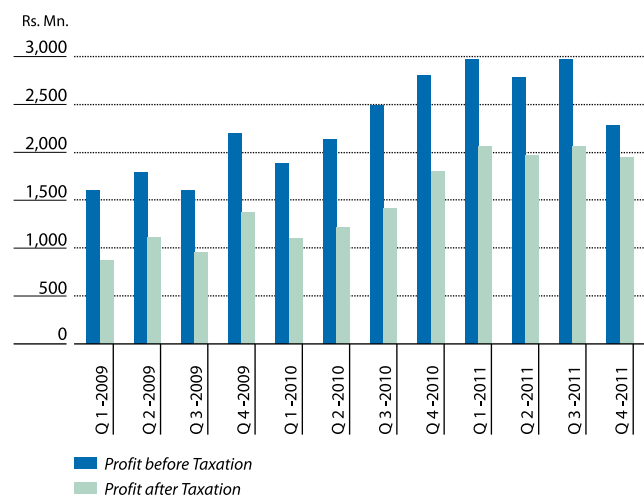
INVESTOR RELATIONS

1. QUARTERLY PERFORMANCE - 2011 COMPARED TO 2010

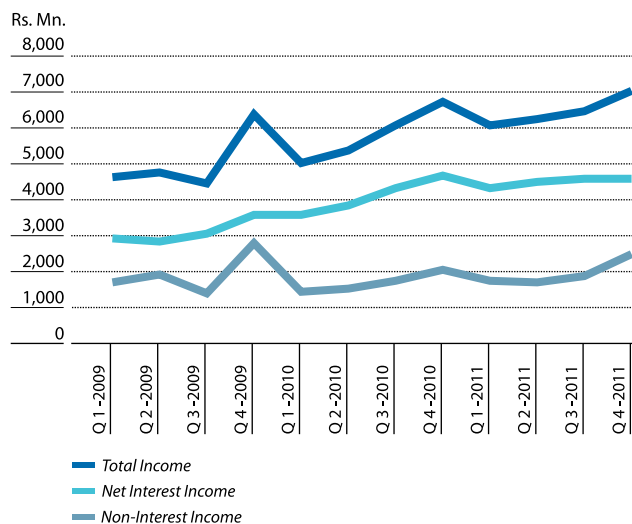
Summary of the Income Statements

Group	2011					2010				
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
	31-Mar. Rs. Mn.	30-Jun. Rs. Mn.	30-Sep. Rs. Mn.	31-Dec. Rs. Mn.	Total Rs. Mn.	31-Mar. Rs. Mn.	30-Jun. Rs. Mn.	30-Sep. Rs. Mn.	31-Dec. Rs. Mn.	Total Rs. Mn.
Net Interest Income	4,321.8	4,498.3	4,578.3	4,573.3	17,971.7	3,573.8	3,819.2	4,312.2	4,668.3	16,373.5
Non-Interest Income	1,771.5	1,735.1	1,883.6	2,475.5	7,865.7	1,443.7	1,534.1	1,761.2	2,053.6	6,792.6
Less: Operating Expenses	3,125.7	3,435.0	3,482.6	4,734.6	14,777.9	3,113.8	3,220.4	3,569.9	3,972.4	13,876.5
Profit from Operations	2,967.6	2,798.4	2,979.3	2,314.2	11,059.5	1,903.7	2,132.9	2,503.5	2,749.5	9,289.6
Add: Share of Profit of Associate Companies	5.7	2.6	1.1	(0.3)	9.1	1.2	0.7	5.3	3.6	10.8
Profit before Taxation	2,973.3	2,801.0	2,980.4	2,313.9	11,068.6	1,904.9	2,133.6	2,508.8	2,753.1	9,300.4
Less: Income Tax Expense	908.0	824.2	915.1	326.2	2,973.5	797.0	927.5	1,087.0	979.0	3,790.5
Profit after Taxation	2,065.3	1,976.8	2,065.3	1,987.7	8,095.1	1,107.9	1,206.1	1,421.8	1,774.1	5,509.9
Quarterly Profit as a % of the Profit after Tax	25.5	24.4	25.5	24.6	100.0	20.1	21.9	25.8	32.2	100.0
Cumulate Quarterly Profit as a % of the Profit after Tax	25.5	49.9	75.4	100.0		20.1	42.0	67.8	100.0	
Bank										
Net Interest Income	4,329.9	4,505.6	4,584.0	4,576.7	17,996.2	3,583.4	3,829.0	4,322.0	4,677.0	16,411.4
Non-Interest Income	1,763.6	1,725.3	1,873.0	2,482.3	7,844.2	1,436.5	1,535.9	1,753.4	2,055.8	6,781.6
Less: Operating Expenses	3,133.7	3,441.1	3,489.7	4,788.5	14,853.0	3,128.1	3,232.0	3,581.1	3,934.5	13,875.7
Profit before Taxation	2,959.8	2,789.8	2,967.3	2,270.5	10,987.4	1,891.8	2,132.9	2,494.3	2,798.3	9,317.3
Less: Income Tax Expense	899.3	816.2	904.6	319.5	2,939.6	790.4	920.7	1,080.4	1,002.6	3,794.1
Profit after Taxation	2,060.5	1,973.6	2,062.7	1,951.0	8,047.8	1,101.4	1,212.2	1,413.9	1,795.7	5,523.2
Quarterly Profit as a % of the Profit after Tax	25.6	24.5	25.6	24.2	100.0	19.9	21.9	25.6	32.6	100.0
Cumulate Quarterly Profit as a % of the Profit after Tax	25.6	50.1	75.8	100.0		19.9	41.9	67.5	100.0	

Profit before and after Taxation



Quarterly Income - Bank



INVESTOR RELATIONS

Summary of the Balance Sheets

	2011				2010			
	As at 31-March Rs. Mn.	As at 30-June Rs. Mn.	As at 30-Sep. Rs. Mn.	As at 31-Dec. Rs. Mn.	As at 31-March Rs. Mn.	As at 30-June Rs. Mn.	As at 30-Sep. Rs. Mn.	As at 31-Dec. Rs. Mn.
Group								
Net Loans & Advances	224,455.1	232,685.9	256,981.8	276,235.2	172,220.1	174,793.3	192,915.7	216,814.9
Investments	123,314.5	118,889.5	115,099.6	105,569.9	116,617.6	127,007.8	129,941.2	117,337.6
Other Assets	46,989.1	46,158.6	49,341.1	59,528.8	45,725.3	36,371.0	41,757.4	36,105.4
	394,758.7	397,734.0	421,422.5	441,333.9	334,563.0	338,172.1	364,614.3	370,257.9
Deposits	274,532.2	287,724.7	302,401.5	318,404.3	241,340.3	242,241.3	252,561.7	259,744.6
Other Liabilities	85,515.7	73,438.1	75,576.5	78,332.3	63,319.4	65,791.3	80,531.3	76,974.2
Shareholders' Funds	34,710.8	36,571.2	43,444.5	44,597.3	29,903.3	30,139.5	31,521.3	33,539.1
	394,758.7	397,734.0	421,422.5	441,333.9	334,563.0	338,172.1	364,614.3	370,257.9
Bank								
Net Loans & Advances	224,664.6	232,879.9	257,160.2	276,394.7	172,449.8	175,066.1	193,158.7	217,038.5
Investments	123,629.5	119,202.7	115,413.4	105,821.8	116,867.4	127,258.0	130,186.6	117,656.3
Other Assets	46,278.4	45,472.3	48,684.9	58,882.8	45,006.1	35,619.0	41,036.6	35,365.3
	394,572.5	397,554.9	421,258.5	441,099.3	334,323.3	337,943.1	364,381.9	370,060.1
Deposits	274,572.1	287,826.5	302,483.0	318,461.4	241,382.0	242,269.0	252,617.4	259,778.9
Other Liabilities	85,534.6	73,405.7	75,578.7	78,411.2	63,292.3	65,782.2	80,498.7	76,979.2
Shareholders' Funds	34,465.8	36,322.7	43,196.8	44,226.7	29,649.0	29,891.9	31,265.8	33,302.0
	394,572.5	397,554.9	421,258.5	441,099.3	334,323.3	337,943.1	364,381.9	370,060.1

2. STOCK EXCHANGE LISTING

The following securities of the Bank are listed on the main board of the Colombo Stock Exchange (CSE):

Shares	Debentures	
	Fixed Rate	Floating Rate
Ordinary Voting Shares	December 2006/13	December 2006/13
Ordinary Non-Voting Shares	December 2006/16	December 2006/16

The unaudited Interim Financial Statements for the first three quarters of 2011 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 2010).

The unaudited Interim Financial Statements for the fourth quarter of 2011 will be submitted to the CSE on or before February 29, 2012, 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 2010).

The Audited Income Statement for the year ended December 31, 2011 and the Audited Balance Sheet as at December 31, 2011 will be submitted to the Colombo Stock Exchange within three months from the Balance Sheet date, which is well with in 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 2010).

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

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

INVESTOR RELATIONS

3. THE NAMES, NUMBER AND PERCENTAGE OF SHARES HELD BY TWENTY LARGEST SHAREHOLDERS (AS PER RULE NO. 7.6 (III) OF THE LISTING RULES OF THE CSE)

As at December 31, Ordinary Voting Shares	2011		2010 (*)	
	No. of Shares	%	No. of Shares	%
1. DFCC Bank A/C 1	113,985,956	14.90	52,853,674	14.96
2. Employees' Provident Fund	71,714,288	9.37	16,605,950	4.70
3. HSBC Intl. Nominees Ltd. - SSBT - International Finance Corporation GNA-C61V	57,924,400	7.57	33,800,002	9.57
4. SBI Ven Holdings Pte Ltd.	54,257,040	7.09	35,147,227	9.95
5. Sri Lanka Insurance Corporation Ltd. - Life Fund	38,867,290	5.08	18,022,212	5.10
6. Sri Lanka Insurance Corporation Ltd. - General Fund	33,420,522	4.37	15,496,623	4.39
7. HSBC Intl. Nominees Ltd. - SSBT - Janus Overseas Fund	32,497,940	4.25	16,162,100	4.57
8. Mr. Y.S.H.I.K. Silva	23,935,294	3.13	11,078,063	3.14
9. Distilleries Company of Sri Lanka PLC	16,765,490	2.19	7,773,921	2.20
10. HSBC Intl. Nominees Ltd. - BPSS LUX - Aberdeen Global - Asian Smaller Companies Fund	15,788,166	2.06	7,520,750	2.13
11. HSBC Intl. Nominees Ltd. - SSBT - Janus Aspen Series Overseas Portfolio	14,734,068	1.93	7,323,050	2.07
12. HSBC Intl. Nominees Ltd. - SSBT - Aberdeen Institutional Commingled Fund, LLC	11,682,656	1.53	3,828,761	1.08
13. HSBC Intl. Nominees Ltd. - BPSS LUX - Aberdeen Global - Asia Pacific Equity Fund	10,375,310	1.36	5,331,280	1.51
14. HSBC Intl. Nominees Ltd. - BPSS LUX - Aberdeen Global - Emerging Markets Smaller Companies Fund	10,141,886	1.33	3,290,200	0.93
15. Mrs. L.E.M. Yaseen	9,999,600	1.31	1,000,000	0.28
16. Mercantile Investments PLC	9,900,066	1.29	3,900,000	1.10
17. HSBC Intl. Nominees Ltd. - SSBT - South Asia Portfolio	9,239,174	1.21	4,369,300	1.24
18. Mr. S.E. Captain	9,223,900	1.21	1,306,855	0.37
19. HSBC Intl. Nominees Ltd. - BP2S LONDON - Aberdeen Asia Smaller Companies Investment Trust	6,448,328	0.84	2,989,999	0.85
20. BNY - CF Ruffer Investment Fund : CF Ruffer Pacific Fund	5,963,086	0.78	2,765,000	0.78
Sub Total	556,864,460	72.80	250,564,967	70.92
Other Shareholders	208,220,860	27.20	102,740,420	29.08
Total	765,085,320	100.00	353,305,387	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, 2011 was **84.62%** (84.37% as at December 31, 2010).

* Comparative shareholdings as at December 31, 2010 of the twenty largest shareholders as at December 31, 2011.

INVESTOR RELATIONS

As at December 31,	2011		2010 (*)	
	No. of Shares	%	No. of Shares	%
Ordinary Non-Voting Shares				
1. Employees' Trust Fund Board	2,113,930	4.04	714,255	2.95
2. GF Capital Global Ltd.	1,334,930	2.55	616,449	2.55
3. HINL - JPMCB - Butterfield Trust (Bermuda) Ltd.	1,299,310	2.48	600,000	2.48
4. J.B. Cocoshell (Pvt) Ltd.	1,287,392	2.46	-	-
5. Deutsche Bank AG - National Equity Fund	1,095,752	2.09	593,300	2.45
6. Deutsche Bank AG as Trustee for Namal Aquity Value Fund	1,082,756	2.07	589,200	2.44
7. Mr. J.D. Bandaranayake	1,002,976	1.92	402,113	1.66
8. M.J.F. Exports Ltd.	895,796	1.71	413,665	1.71
9. Union Assurance PLC/NO - 01 A/C	824,846	1.58	206,050	0.85
10. Mr. S.E. Captain	701,514	1.34	750	-
11. Mr. M.A. Yaseen	600,054	1.15	-	-
12. Mr. M.F. Hashim	588,692	1.12	269,587	1.11
13. Mr J.G. De Mel	558,166	1.07	243,899	1.01
14. Dr. A.K.A. Jayawardene	500,972	0.96	272,031	1.12
15. Mr. M.J.C. Amarasuriya	497,614	0.95	227,821	0.94
16. Saboor Chatoor (Pvt) Ltd.	471,000	0.90	214,000	0.88
17. The Planters Association of Ceylon as Trustee of Ceylon Planters Provident Society	460,604	0.88	82,700	0.34
18. Bank of Ceylon A/C Ceybank Century Growth Fund	448,810	0.86	98,100	0.41
19. Akbar Brothers (Pvt) Ltd. A/C No 1	418,770	0.80	17,824	0.07
20. Mr. G.R. Mallawaarachy & Mrs. B.G.P. Mallawaarachy (Joint)	416,552	0.80	190,650	0.79
Sub Total	16,600,436	31.73	5,752,394	23.76
Other Shareholders	35,764,410	68.27	18,428,801	76.24
Total	52,364,846	100.00	24,181,195	100.00

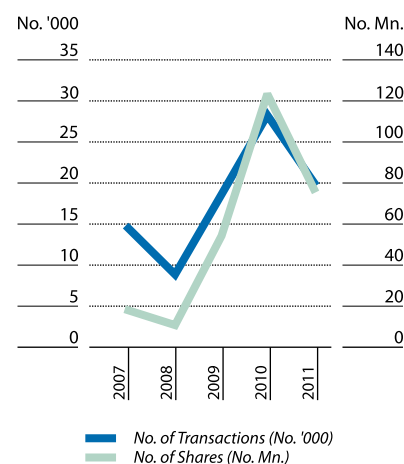
As per Rule No. 7.6 (iv) of the Listing Rules of the CSE, **percentage of public holding of non-voting shares** as at December 31, 2011 was **99.71%** (98.77% as at December 31, 2010).

* Comparative shareholdings as at December 31, 2010 of the twenty largest shareholders as at December 31, 2011.

4. INFORMATION ON SHARE TRADING

	Ordinary Shares - Voting Shares		Ordinary Shares - Non-Voting Shares	
	2011	2010	2011	2010
Number of Transactions	12,857	19,620	7,211	8,614
Number of Shares Traded	64,123,760	113,377,065	12,911,700	9,799,700
Value of Shares Traded (Rs. Bn.)	12.48	26.37	1.50	1.56

Share Trading



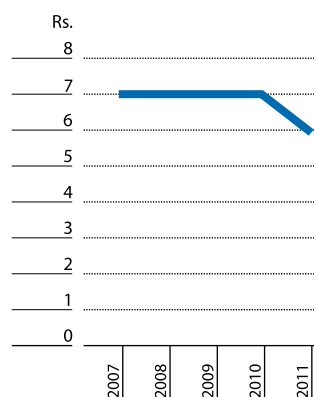
INVESTOR RELATIONS

5. INFORMATION ON RATIOS, MARKET PRICES AND CREDIT RATINGS (AS PER RULE NO. 7.6 (XI) OF THE COLOMBO STOCK EXCHANGE)

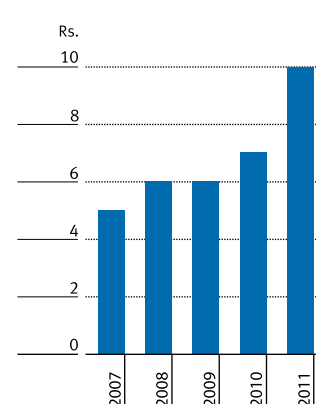
(a) Information on Ratios - Shares

	2011	2010
Dividend per Share (Rs.) - Cash	4.00	5.00
- Issue and Allotment of Shares	2.00	2.00
Dividend Payout Ratio (%) - Cash	41.45	34.33
- Total	64.48	47.90
Net Assets Value per Share (Rs.)	54.10	43.53

Dividend per Share



Earnings Per Share

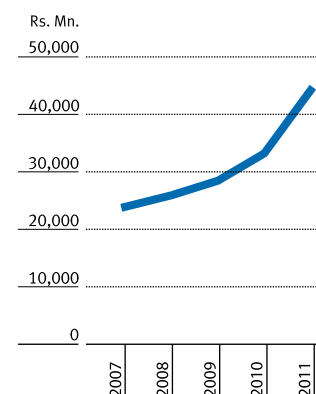


(b) Market Prices - Shares

	Ordinary Shares - Voting		Ordinary Shares - Non-Voting	
	2011 Rs.	2010 Rs.	2011 Rs.	2010 Rs.
Highest Price (*)	284.00	295.00	200.00	226.00
Date of the Highest Price	(25.01.2011)	(04.10.2010)	(15.08.2011)	(15.06.2010)
Lowest Price	97.00	175.00	69.10	75.00
Date of the Lowest Price	(25.11.2011)	(07.07.2010)	(16.12.2011)	(21.09.2010)
Year end Price	100.00	259.90	74.50	162.00

(*) 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.

Shareholders' Funds



(c) Information on Ratios, Market Prices and Interest Rates on Debentures

Please refer item No. 15 on page 218 and 219.

(d) Credit Ratings - Shares and Debentures

The Bank's credit rating, AA(lka) was reaffirmed by Fitch Ratings Lanka Ltd. in 2011.

Consequently, the credit rating of the Bank's subordinated debentures, AA-(lka) too reaffirmed in 2011.

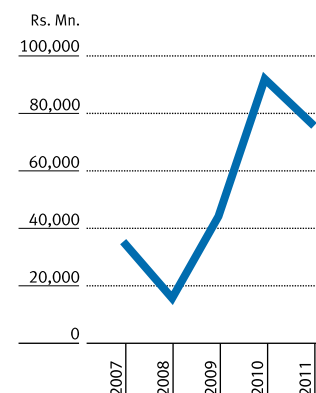
The Bank's Bangladesh Operation's credit rating was upgraded to AAA from AA+ by Credit Rating Information Services Ltd. in 2011.

6. INFORMATION ON SHAREHOLDERS' FUNDS AND MARKET CAPITALISATION

As at December 31,	Shareholders' Funds Rs. Mn.	Com Bank Market Capitalisation* Rs. Mn.	Total Market Capitalisation of the CSE Rs. Mn.	Com Bank's Market Capitalisation as a % of CSE Market Capitalisation	Com Bank's Market Capitalisation Ranking
2007	23,937	34,234	820,652	4.17	4
2008	25,891	15,630	488,813	3.20	4
2009	28,499	44,309	1,092,138	4.06	5
2010	33,302	91,824	2,280,874	4.03	4
2011	44,227	76,509	2,268,854	3.37	6

* Commercial Bank's Market Capitalisation includes only Voting Ordinary Shares.

Market capitalisation



INVESTOR RELATIONS

7. INFORMATION ON DIVIDENDS ON ORDINARY SHARES (FOR BOTH VOTING AND NON-VOTING SHARES)

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

		2011 Rs.	2010 Rs.
First Interim Dividend Paid - Cash		1.50	1.50
Second Interim Dividend Paid - Cash		1.00	1.50
Final Dividend Proposed*/Paid - Cash		1.50	2.00
	- Issue and allotment of shares	2.00	2.00
Total		6.00	7.00

* The Board of Directors of the Bank has recommended a final dividend of Rs. 3.50 per ordinary share, which consists of a cash dividend of Rs. 1.50 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, 2011 for approval by the shareholders at the 43rd Annual General Meeting (AGM), to be held on March 30, 2012. (The Bank declared a final dividend of Rs. 4.00 per share for the year ended December 31, 2010 which consists of a cash dividend of Rs. 2.00 per share and balance entitlement of Rs. 2.00 per share satisfied in the form of issue and allotment of new shares).

8. SHAREHOLDER BASE

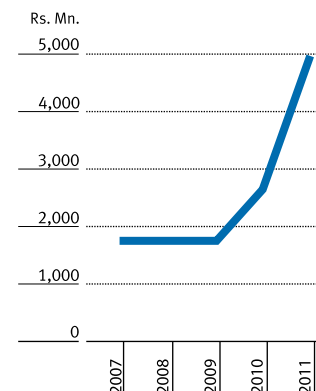
The total number of shareholders as at December 31, 2011 was **13,916** compared to the 12,040 as at December 31, 2010.

9. DISTRIBUTION SCHEDULE OF THE NUMBER OF HOLDERS AND PERCENTAGE OF HOLDING IN EACH CLASS OF EQUITY SECURITIES

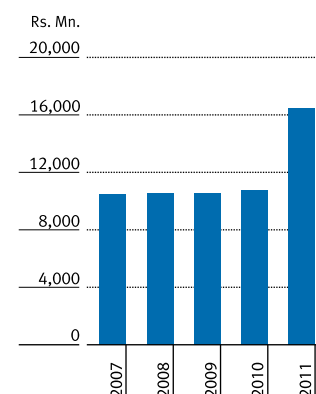
(AS PER RULE NO. 7.6 (X) OF THE LISTING RULES OF THE CSE)

As at December 31,	2011				2010				
	No. of Shareholders	%	No. of Shares	%	No. of Shareholders	%	No. of Shares	%	
Ordinary Voting Shares									
1	1,000	4.066	43.73	1,295,905	0.17	4,138	50.84	1,288,862	0.36
1,001	10,000	3.326	35.77	12,633,857	1.66	2,920	35.87	11,003,306	3.11
10,001	100,000	1.615	17.37	45,811,698	5.99	916	11.25	24,977,603	7.07
100,001	1,000,000	0.235	2.53	63,971,206	8.36	131	1.61	39,502,896	11.18
Over	1,000,000	0.057	0.60	641,372,654	83.82	35	0.43	276,532,720	78.28
		9,299	100.00	765,085,320	100.00	8,140	100.00	353,305,387	100.00
Ordinary Non-Voting Shares									
1	1,000	2.408	25.90	730,781	1.40	2,413	61.87	817,660	3.38
1,001	10,000	1.558	16.75	5,327,353	10.17	1,169	29.97	4,042,693	16.72
10,001	100,000	0.552	5.94	15,713,890	30.01	287	7.36	9,092,881	37.60
100,001	1,000,000	0.092	0.99	21,375,776	40.82	29	0.74	7,755,220	32.07
Over	1,000,000	0.007	0.08	9,217,046	17.60	2	0.06	2,472,741	10.23
		4,617	49.66	52,364,846	100.00	3,900	100.00	24,181,195	100.00

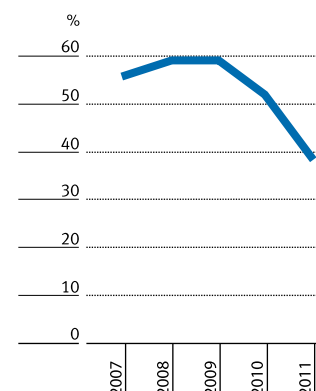
Gross Dividend to Ordinary Shareholders



Stated capital



Profit Retention Ratio



INVESTOR RELATIONS

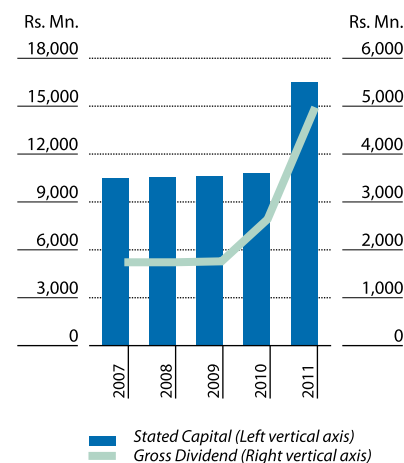
10. COMPOSITION OF SHAREHOLDERS

As at December 31,	2011				2010			
	No. of Shareholders	%	No. of Shares	%	No. of Shareholders	%	No. of Shares	%
Ordinary Voting Shares								
Resident	9,035	97.16	490,721,171	64.14	7,872	96.71	199,398,225	56.44
Non-Resident	264	2.84	274,364,149	35.86	268	3.29	153,907,162	43.56
Total	9,299	100.00	765,085,320	100.00	8,140	100.00	353,305,387	100.00
Individuals	8,729	93.87	146,849,692	19.19	7,598	93.34	63,140,217	17.87
Institutions	570	6.13	618,235,628	80.81	542	6.66	290,165,170	82.13
Total	9,299	100.00	765,085,320	100.00	8,140	100.00	353,305,387	100.00
Ordinary Non-Voting Shares								
Resident	4,527	98.05	48,040,440	91.74	3,826	98.10	21,450,715	88.71
Non-Resident	90	1.95	4,324,406	8.26	74	1.90	2,730,480	11.29
Total	4,617	100.00	52,364,846	100.00	3,900	100.00	24,181,195	100.00
Individuals	4,358	94.39	33,568,471	64.10	3,685	94.49	14,876,913	61.52
Institutions	259	5.61	18,796,375	35.90	215	5.51	9,304,282	38.48
Total	4,617	100.00	52,364,846	100.00	3,900	100.00	24,181,195	100.00

11. DIRECTORS' SHAREHOLDING INCLUDING THE CEO'S SHAREHOLDING (AS PER RULE NO. 7.6 (V) OF THE LISTING RULES OF THE COLOMBO STOCK EXCHANGE)

As at December 31,	Ordinary Shares - Voting		Ordinary Shares - Non-Voting	
	2011	2010	2011	2010
Name				
Mr. D.S. Weerakkody - <i>Chairman</i>	21,564	10,000	-	-
Mr. K.G.D.D. Dheerasinghe - <i>Deputy Chairman</i>	-	N/A	-	N/A
Mr. A.L. Gooneratne - <i>CEO/MD</i>	3,008,860	1,373,620	125,190	57,042
Prof. U.P. Liyanage	-	-	-	-
Mr. W.M.R.S. Dias	673,174	310,349	-	-
Mr. L. Hulugalle	-	N/A	-	N/A
Mr. M.P. Jayawardena	-	N/A	-	N/A
Mr. P.M. Martelli <i>(Resigned w.e.f. 27.01.2011)</i>	N/A	-	N/A	-
Mr. R.M.S. Fernando <i>(Ceased to be a Director w.e.f. 30.03.2011)</i>	N/A	-	N/A	-
Mr. M.J.C. Amarasuriya <i>(Resigned w.e.f. 30.12.2011)</i>	N/A	670,645	N/A	227,821
Mr. B.R.L. Fernando <i>(Relinquished duties w.e.f. 31.12.2011)</i>	N/A	-	N/A	12,621
Dr. H. S. Wanasinghe <i>(Ceased to be a Director w.e.f. 31.12.2011)</i>	N/A	-	N/A	-

Stated Capital and Gross Dividend on Ordinary Shares

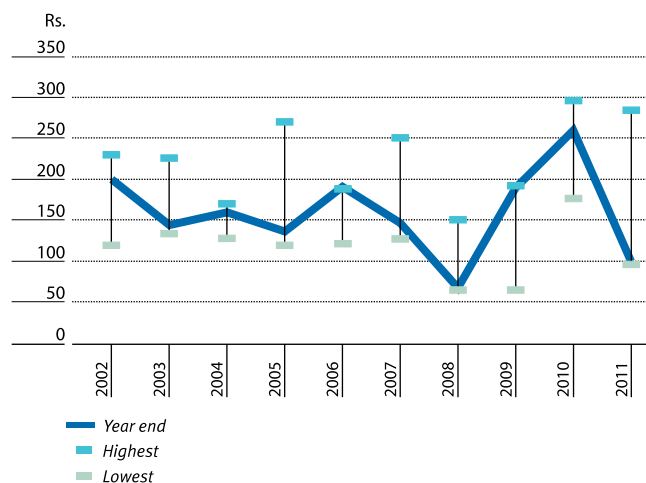


INVESTOR RELATIONS

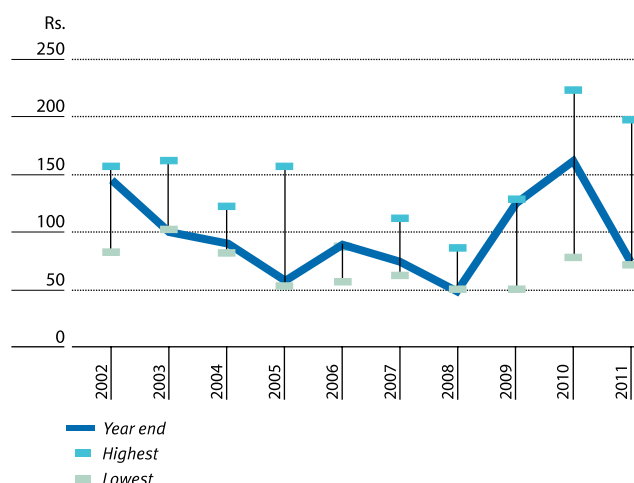
12. SHARE PRICE TREND OVER LAST TEN YEARS

Year	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Ordinary Voting Shares										
Highest Price (Rs.)	284.00	295.00	192.00	149.75	250.00	192.50	269.00	170.00	226.00	230.00
Lowest Price (Rs.)	97.00	178.00	66.00	66.25	128.00	123.00	120.00	130.00	130.00	120.00
Last Traded Price (Rs.)	100.00	259.90	189.50	67.00	147.00	190.00	135.50	159.75	144.00	200.00
Ordinary Non-Voting Shares										
Highest Price (Rs.)	200.00	226.00	131.25	89.50	114.50	90.00	160.00	126.00	165.00	160.00
Lowest Price (Rs.)	69.10	75.00	48.25	48.00	60.00	54.00	51.00	80.00	100.00	80.00
Last Traded Price (Rs.)	74.50	162.00	124.75	49.00	74.50	89.00	57.50	90.00	100.00	145.00

Share Price Trend over the Past Decade - Voting



Share Price Trend over the Past Decade - Non-Voting



13. INFORMATION ON SCRIP ISSUES, RIGHTS ISSUES AND SHARE SPLITS

Year/Month	Details
1998 June	Scrip issue of three ordinary shares for every ten ordinary shares held
2001 May	Scrip issue of one ordinary share for every five ordinary shares held
2003 May	Scrip issue of one ordinary share for every three ordinary shares held
2003 October	Right issue of one ordinary share for every four ordinary shares held
2005 June	Scrip issue of one ordinary share for every one ordinary share held
2007 April	Right issue of three ordinary shares for every ten ordinary shares held
2007 June	Scrip issue of one ordinary share for every three ordinary shares held
2010 June	Share split of one ordinary share for every two ordinary 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
2011 August	Right issue of one ordinary share for every fourteen ordinary shares held
2011 September	Share split of one ordinary share for every one ordinary share held immediately after the right issue

INVESTOR RELATIONS

14. 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)

Year	Details	Basis	No. of Shares Issued/ (Redeemed)	No. of Shares		
				Ordinary - Voting	Ordinary Non-Voting	Cumulative Redeemable Preference
1987	As at December 31, 1987			3,000,000	-	-
1988	Bonus Issue	Voting	2 for 3	2,000,000	5,000,000	-
1990	Bonus Issue	Voting	1 for 1	5,000,000	10,000,000	-
1993	Rights Issue	Voting	1 for 4	2,500,000	12,500,000	-
1996	Bonus Issue	Voting	3 for 5	7,500,000	20,000,000	-
	Rights Issue	Voting	1 for 4	5,000,000	25,000,000	-
	Share Swap	Non-Voting		894,275	25,000,000	894,275
	Bonus Issue	Non-Voting	3 for 5	536,565	25,000,000	1,430,840
	Rights Issue	Non-Voting	1 for 4	357,710	25,000,000	1,788,550
1998	Bonus Issue	Voting	3 for 10	7,500,000	32,500,000	1,788,550
	Bonus Issue	Non-Voting	3 for 10	536,565	32,500,000	2,325,115
2001	Bonus Issue	Voting	1 for 5	6,500,000	39,000,000	2,325,115
	Bonus Issue	Non-Voting	1 for 5	465,023	39,000,000	2,790,138
	Issue of Cumulative Redeemable Preference Shares			90,655,500	39,000,000	2,790,138
2003	Bonus Issue	Voting	1 for 3	13,000,000	52,000,000	2,790,138
	Rights Issue	Voting	1 for 4	13,000,000	65,000,000	2,790,138
	Bonus Issue	Non-Voting	1 for 3	930,046	65,000,000	3,720,184
	Rights Issue	Non-Voting	1 for 4	930,046	65,000,000	4,650,230
	Issue of Cumulative Redeemable Preference Shares			100,000,000	65,000,000	4,650,230
2004	ESOP	Voting		29,769	65,029,769	4,650,230
2005	ESOP			1,361,591	66,391,360	4,650,230
	Bonus Issue	Voting	1 for 1	66,389,162	132,780,522	4,650,230
	Bonus Issue	Non-Voting	1 for 1	4,650,230	132,780,522	9,300,460
2006	ESOP	Voting		737,742	133,518,264	9,300,460
	Redemption of Cumulative Redeemable Preference Shares			(90,655,500)	133,518,264	9,300,460
2007	Rights Issue	Voting	3 for 10	40,288,996	173,807,260	9,300,460
	Bonus Issue	Voting	1 for 3	58,204,268	232,011,528	9,300,460
	ESOP	Voting		919,649	232,931,177	9,300,460
	Rights Issue	Non-Voting	3 for 10	2,790,138	232,931,177	12,090,598
	Bonus Issue	Non-Voting	1 for 3	4,030,199	232,931,177	16,120,797
	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	Issue of shares to satisfy a part of final dividend for 2010	Voting		2,277,195	355,582,582	24,181,195
	Issue of shares to satisfy a part of final dividend for 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

ESOP - This denotes ordinary voting shares issued under the two employee share option plans to Bank's staff as explained in Note 32 (b) and 32 (c) to the Financial Statements on pages 302 and 303.

INVESTOR RELATIONS

15. INFORMATION ON DEBENTURES OF THE BANK (AS PER RULE NO. 7.6 (XI) OF THE LISTING RULES OF THE COLOMBO STOCK EXCHANGE)

Debenture Categories	CSE Listing	Interest Payable Frequency	Amount Rs. Mn.	Market Values		
				Highest Rs.	Lowest Rs.	Year End Rs.
Fixed Rate						
May 2006/May 2016 - 13.25% p.a.	Not-listed	Annually	505.000	Not Applicable		
				Not Applicable		
December 2006/December 2013 - 13.75% p.a.	Listed	Annually	0.250	Not traded during the year		
				Not traded during the year		
December 2006/December 2016 - 14.00% p.a.	Listed	Annually	467.260	Not traded during the year		
				Not traded during the year		
Floating Rate						
December 2006/December 2013 - 12 Months TB Rate (Gross) + 1% p.a.	Listed	Annually	0.300	Not traded during the year		
				Not traded during the year		
December 2006/December 2016 - 12 Months TB Rate (Gross) + 1% p.a.	Listed	Annually	0.400	Not traded during the year		
				Not traded during the year		
Total			973.210			

The comparative information for 2010 have been highlighted.

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

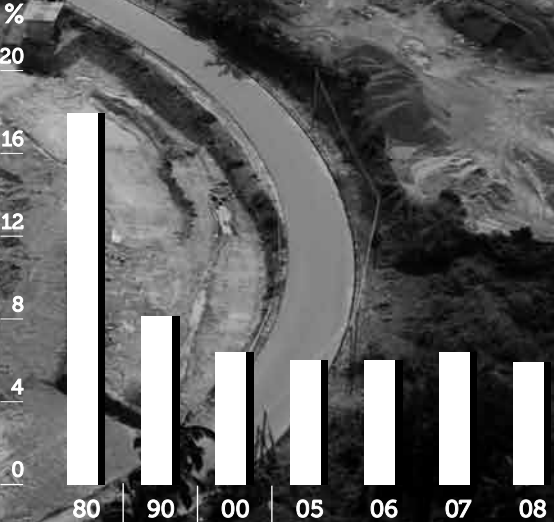
Other Ratios	2011	2010
Debt Equity Ratio (%)	2.35	6.69
Interest Cover (Times)	49.07	25.89
Liquid Assets Ratio (%) (Minimum 20%)	26.21	29.74

16. 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 183 to 203.

17. There were no material issues pertaining to employees and industrial relations pertaining to the Bank that occurred during the year under review which need to be discussed as per the Rule No. 7.6 (vii) of the Listing Rules of the CSE.

INVESTOR RELATIONS

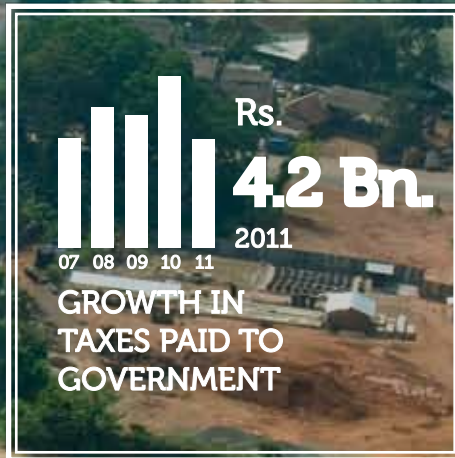
Interest Rates		Interest Rate of Comparable Government Security	Other Ratios as at Date of Last Trade	
Coupon Rate %	Effective Annual Yield %		Interest Yield %	Yield to Maturity %
13.25	13.25	8.40		
13.25	13.25	9.60		
13.75	13.75	8.00	Not traded during the year	
13.75	13.75	9.35	Not traded during the year	
14.00	14.00	8.50	Not traded during the year	
14.00	14.00	9.70	Not traded during the year	
9.15	9.15	9.15	Not traded during the year	
11.37	11.85	9.35	Not traded during the year	
9.15	9.15	9.15	Not traded during the year	
11.37	11.85	9.70	Not traded during the year	



PUBLIC INVESTMENT EXPENDITURE (% of GDP)

The dynamics of progress...

This isn't a finite journey we are on. For every kilometre of macadam laid in the cause of propelling progress and development - for people, Bank and Nation - there's more work to be done ahead...and so it goes. The real value is in being a stakeholder in the journey.



INVESTOR RELATIONS

US\$ INCOME STATEMENT

For the year ended December 31,	GROUP			BANK		
	2011 US\$ '000	2010 US\$ '000	Change %	2011 US\$ '000	2010 US\$ '000	Change %
Income	398,819	373,037	6.91	398,977	373,395	6.85
Interest income	329,822	311,953	5.73	330,168	312,409	5.68
Less: Interest expenses	172,175	164,709	4.53	172,306	164,824	4.54
Net interest income	157,647	147,244	7.07	157,862	147,585	6.96
Foreign exchange profit	20,365	15,656	30.08	20,365	15,656	30.08
Fees and commission income	33,329	28,956	15.10	33,330	28,957	15.10
Other income	15,303	16,472	(7.10)	15,114	16,373	(7.69)
Operating Income	226,644	208,328	8.79	226,671	208,571	8.68
Less: Operating Expenses						
Personnel expenses	49,259	46,321	6.34	48,787	45,958	6.16
Premises, equipment and establishment expenses	25,295	22,942	10.26	25,069	22,424	11.80
Fees and commission expenses	3,515	2,492	41.05	3,515	2,492	41.05
Provision for staff retirement benefits	4,545	4,305	5.57	4,519	4,290	5.34
Loan losses and provisions	13,186	10,721	22.99	13,186	10,721	22.99
Other overhead expenses	33,830	38,007	(10.99)	35,213	38,896	(9.47)
	129,630	124,788	3.88	130,289	124,781	4.41
Profit from operations	97,014	83,540	16.13	96,382	83,790	15.03
Add: Share of profit of Associates	80	97	(17.53)	-	-	-
Profit before taxation	97,094	83,637	16.09	96,382	83,790	15.03
Less: Income Tax Expense	26,083	34,087	(23.48)	25,786	34,120	(24.43)
Net Profit for the year	71,011	49,550	43.31	70,596	49,670	42.13
Attributable to:						
Equity holders of the Parent	71,009	49,528	43.37	70,596	49,670	42.13
Minority Interest	2	22	(90.91)	-	-	-
	71,011	49,550	43.31	70,596	49,670	42.13
Basic Earnings per Share (US\$)	0.09	0.06	50.00	0.09	0.06	50.00
Diluted Earnings per Share (US\$)	0.09	0.06	50.00	0.09	0.06	50.00
Dividend per Ordinary Share (US\$)	-	-	-	0.05	0.06	(16.67)

US DOLLAR ACCOUNTS

The Income Statement and the Balance Sheet given on pages 222 and 223 are solely for the convenience of shareholders, investors, bankers and other users of Financial Statements and do not form part of the Financial Statements.

INVESTOR RELATIONS

US\$ BALANCE SHEET

As at December 31,	GROUP			BANK		
	2011 US\$ '000	2010 US\$ '000	Change %	2011 US\$ '000	2010 US\$ '000	Change %
ASSETS						
Cash and short term funds	219,608	95,362	130.29	219,397	94,937	131.10
Balances with Central Banks	152,131	109,612	38.79	152,131	109,612	38.79
Government Treasury Bills and Bonds	878,197	1,030,041	(14.74)	878,197	1,030,041	(14.74)
Securities purchased under resale agreements	13,526	616	2,095.78	13,526	616	2,095.78
Dealing securities	2,818	2,548	10.60	2,818	2,548	10.60
Investment securities	30,764	21,273	44.62	30,764	21,273	44.62
Bills of exchange	66,145	47,585	39.00	66,145	47,585	39.00
Lease receivable	182,284	97,089	87.75	183,657	99,087	85.35
Loans and advances	2,174,686	1,805,100	20.47	2,174,712	1,805,113	20.48
	3,720,159	3,209,226	15.92	3,721,347	3,210,812	15.90
Investments in associates	747	716	4.33	389	399	(2.51)
Investments in subsidiaries	-	-	-	2,568	3,183	(19.32)
Interest and fees receivable	22,378	16,946	32.05	22,378	16,946	32.05
Property, plant & equipment	74,590	59,256	25.88	69,360	53,323	30.08
Leasehold property	993	1,031	(3.69)	686	712	(3.65)
Other assets	48,316	38,659	24.98	48,466	38,733	25.13
Intangible assets	4,167	3,824	8.97	4,097	3,771	8.64
Total Assets	3,871,350	3,329,658	16.27	3,869,291	3,327,879	16.27
LIABILITIES						
Deposits	2,793,020	2,335,832	19.57	2,793,521	2,336,141	19.58
Borrowings	174,536	129,235	35.05	174,536	129,235	35.05
Securities sold under repurchase agreements	360,452	410,602	(12.21)	361,714	411,641	(12.13)
Current tax liabilities	9,993	22,077	(54.74)	9,978	22,015	(54.68)
Deferred tax liabilities	12,014	8,927	34.58	11,645	8,026	45.09
Debentures	8,537	19,128	(55.37)	8,537	19,128	(55.37)
Other liabilities	121,592	102,246	18.92	121,405	102,214	18.78
Total Liabilities	3,480,144	3,028,047	14.93	3,481,336	3,028,400	14.96
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS' OF THE PARENT						
Stated capital	144,508	97,223	48.64	144,508	97,223	48.64
Statutory reserves	25,354	22,229	14.06	25,354	22,229	14.06
Other reserves	221,084	181,920	21.53	218,093	180,027	21.14
Shareholders' Funds	390,946	301,372	29.72	387,955	299,479	29.54
Minority interest	260	239	8.79	-	-	-
Total Equity	391,206	301,611	29.71	387,955	299,479	29.54
Total liabilities and equity	3,871,350	3,329,658	16.27	3,869,291	3,327,879	16.27
Commitments and contingencies	2,057,466	1,768,140	16.36	2,057,466	1,768,140	16.36
Net Assets value per ordinary share (US\$)	0.48	0.39	23.08	0.47	0.39	20.51

Exchange Rate of 1 US\$ was Rs. 114.0 as at 31.12.2011 (Rs. 111.20 as at 31.12.2010)

INVESTOR RELATIONS

DECADE AT A GLANCE

Bank

Year Ended December 31, Rs. Mn.	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	CAGR (%)
OPERATING RESULTS											
Income	8,364	10,059	12,290	16,100	24,470	35,223	44,115	43,741	41,522	45,484	18.68
Interest income	6,613	7,931	9,584	13,034	19,532	30,503	37,188	35,925	34,740	37,639	
Interest expenses	(3,747)	(4,218)	(4,878)	(7,226)	(11,955)	(18,951)	(24,336)	(23,515)	(18,328)	(19,643)	
Foreign exchange profit	464	397	874	587	1,439	1,545	2,633	2,962	1,741	2,322	
Commission & other income	1,097	1,731	1,832	2,479	3,499	3,175	4,294	4,854	5,041	5,523	
Operating expenses & provisions	(2,902)	(3,887)	(4,908)	(5,232)	(8,301)	(9,567)	(12,259)	(13,035)	(13,876)	(14,853)	
Profit before income tax	1,525	1,954	2,504	3,642	4,214	6,705	7,520	7,191	9,318	10,988	23.56
Income tax on profit	(321)	(477)	(819)	(1,278)	(2,201)	(2,601)	(3,252)	(2,887)	(3,794)	(2,940)	
Net profit for the year	1,204	1,477	1,685	2,364	2,013	4,104	4,268	4,304	5,524	8,048	23.07

As at December 31,

ASSETS											
Cash and short term funds	1,835	9,002	12,136	18,663	13,739	16,208	24,115	24,057	10,557	25,011	
Balances with Central Banks	3,244	5,233	6,320	9,045	12,574	11,576	10,322	11,795	12,189	17,343	
Government Treasury Bills and Bonds	9,436	16,530	19,900	21,218	32,065	49,863	51,633	96,671	114,541	100,114	
Commercial paper	1,080	546	560	408	423	-	-	-	-	-	
Securities purchased under re-sale agreements	832	6,184	399	808	4,593	3,804	3,400	5,203	68	1,542	
Dealing securities	-	-	110	182	145	207	58	81	283	321	
Investments held for sale	-	-	-	-	218	205	-	-	-	-	
Investments held to maturity	905	2,006	2,340	3,091	1,394	1,756	1,197	1,025	2,366	3,507	
Bills of Exchange	2,552	2,495	2,799	2,790	3,204	3,195	3,059	2,847	5,291	7,541	
Lease receivable	1,921	3,364	5,317	7,088	9,482	10,945	9,484	7,794	11,019	20,937	} 21.14
Loans and advances	47,350	60,585	82,605	108,884	137,846	160,184	167,858	161,329	200,729	247,917	
	69,155	105,945	132,486	172,177	215,683	257,943	271,126	310,802	357,043	424,233	
Investments in Associate Companies	78	78	109	107	44	44	44	44	44	44	
Investments in Subsidiary Companies	424	429	429	434	434	434	434	279	354	293	
Other assets	2,149	2,167	2,553	4,177	4,336	5,751	5,512	6,808	6,191	8,078	
Property, Plant & Equipment and Intangible Assets	1,546	1,661	2,896	3,182	3,477	3,768	4,098	4,382	6,428	8,452	
Total Assets	73,352	110,280	138,473	180,077	223,974	267,940	281,214	322,315	370,060	441,100	22.25

LIABILITIES

Deposits from customers	54,585	75,185	98,730	127,601	157,496	183,110	199,881	234,745	259,779	318,461	21.27
Dividends payable	118	190	230	230	113	113	-	-	-	-	
Borrowings	4,200	5,406	9,090	13,387	18,944	18,752	13,620	11,639	14,371	19,897	
Securities sold under re-purchase agreements	1,938	10,580	9,050	11,389	14,330	23,342	25,075	29,905	45,774	41,235	
Other liabilities	4,218	4,843	3,735	6,331	9,122	10,308	10,646	12,888	12,259	15,168	
Tax payable	39	148	483	818	1,446	1,698	1,665	1,203	2,448	1,138	
Debentures	500	2,244	3,244	4,553	6,680	6,680	4,436	3,436	2,127	973	
	65,598	98,596	124,562	164,309	208,131	244,003	255,323	293,816	336,758	396,872	

SHAREHOLDERS' FUNDS

Share/Stated capital	1,324	2,603	2,603	3,327	2,428	10,515	10,548	10,608	10,811	16,474	
Statutory Reserves	1,009	1,009	1,009	1,421	1,429	1,634	1,896	2,164	2,472	2,890	
Reserves	5,421	8,072	10,299	11,020	11,986	11,788	13,447	15,727	20,019	24,863	
Total Liabilities & Shareholders' Funds	73,352	110,280	138,473	180,077	223,974	267,940	281,214	322,315	370,060	441,099	22.25
Commitments and contingencies	24,082	38,158	43,942	47,154	56,418	116,212	115,809	146,072	196,617	234,551	

CAGR - Compounded Annual Growth Rate

INVESTOR RELATIONS

Bank	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	CAGR
RATIOS											
Return on average Shareholders' Funds (%)	16.61	15.20	13.16	15.93	12.73	20.63	17.13	15.83	17.87	20.76	
Income growth (%)	1.96	20.26	22.17	31.00	51.99	43.95	25.25	(0.85)	(5.07)	9.54	
Return on average assets (%)	1.82	1.61	1.35	1.48	1.00	1.67	1.55	1.43	1.60	1.98	
Rate of dividend (%)	50.00	50.00	60.00	45.00	50.00	-	-	-	-	-	
Dividend per share (Rs.)	-	-	-	-	-	7.00	7.00	7.00	7.00	6.00	
Ordinary share dividend cover (times)	5.20	3.70	3.48	3.34	2.54	2.29	2.42	2.46	2.09	1.64	
Gross dividends to ordinary shareholders (Rs. Mn.)	208.95	348.25	420.00	639.36	714.00	1,743.13	1,745.81	1,751.47	2,642.25	4,904.70	
Advances to deposits and refinance (%)	92.59	86.16	89.52	90.64	92.49	91.75	87.12	70.88	80.97	84.57	
Property, Plant & Equipment to Shareholders' Funds (%)	19.93	14.22	20.81	20.75	21.33	15.74	15.83	15.38	19.30	19.11	
Total assets to shareholders' funds (times)	9.46	9.44	9.95	11.42	14.14	11.19	10.86	11.31	11.11	9.97	
Capital funds to liabilities including contingent liabilities (%)	8.65	8.54	8.26	7.46	6.05	7.87	6.98	6.48	6.26	7.00	
Cost/Income Ratio (%)	55.46	55.87	56.78	54.28	61.10	47.87	50.46	56.86	54.69	51.66	
Liquid assets to liabilities (%)	27.88	23.95	23.17	24.51	22.64	24.24	24.83	38.80	29.74	26.21	
(As specified in the Banking Act No. 30 of 1988)											
Group Capital Adequacy (%) Tier I	14.94	13.43	10.78	9.68	7.62	10.60	10.55	11.92	10.86	12.11	
Tier I & II	15.07	15.46	13.16	12.08	11.58	13.71	13.13	13.93	12.26	13.01	
SHARE INFORMATION											
Market value of a share (Rs.)	200.00	144.00	159.75	135.50	190.00	147.00	67.00	189.50	259.90	100.00	
Earnings per share (Rs.)	2	2	2	3	3	5	6	6	7	10	
Price earnings ratio (times)	5	8	8	9	15	9	4	11	18	10	
Net assets value per share (Rs.)	13	16	19	22	24	30	34	38	44	54	
Earnings yield (%)	13	13	13	11	5	11	25	9	6	10	
Dividend payout ratio (%) - Cash	18	27	29	30	39	44	41	41	34	41	
Total dividend payout ratio (%)	-	-	-	-	-	-	-	-	48	61	
OTHER INFORMATION											
Number of employees	2,399	2,648	2,863	3,168	3,415	3,745	4,041	4,071	4,321	4,524	
Number of delivery points - Sri Lanka	109	116	125	134	150	163	170	172	187	213	} 8.69
Number of delivery points - Bangladesh	-	4	4	5	7	9	11	15	17	17	
Number of Automated Teller Machines	143	166	188	223	278	301	346	368	414	514	16.78

INVESTOR RELATIONS

GROUP STRUCTURE

		RELATIONSHIP TO BANK									
		SUBSIDIARIES			ASSOCIATES						
		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	Date of Incorporation/ Country	March 14, 1980 (Sri Lanka)	February 17, 2003 (Sri Lanka)	December 02, 2008 (Italy)	August 08, 1990 (Sri Lanka)	August 17, 1987 (Sri Lanka)					
	Bank's Holding	94.55%	100.00%	100.00%	22.92%	18.91%					
	Principal Business Activity	Property Development	Provision of IT- Related Services	Money transfers and money exchange	Venture Capital Financing	Insurance Brokering					
	Business Address	'Commercial House', No. 21, Sir Razik Fareed Mawatha (Formerly known as Bristol Street), Colombo 01.	'Commercial House', No. 21, Sir Razik Fareed Mawatha (Formerly known as Bristol Street), Colombo 01.	Via Venti Settembre, No. 98/G, Roma, Italy	108 A, 1st Floor, Maya Avenue, Colombo 06.	3-2/2, 2nd Floor, Galle Face Court 1, Colombo 03.					
	Contact Numbers	2447300	2430420	+390648905707	5373745, 2507605-6	2447297, 2447299					
BOARD OF DIRECTORS	Chairman	B.R.L. Fernando	M.J.C. Amarasuriya	M.J.C. Amarasuriya	M.J.C. Amarasuriya	A.L. Gooneratne					
	Directors	A.L. Gooneratne	S.D. Bandaranayake	S.D. Bandaranayake	H.D.S. Amarasuriya	M.P. Jayawardena					
		A.T.P. Edirisinghe	K.D.N. Buddhipala	J. Durairatnam	Deshabandu S.E. Captain	W.D.K. Jayawadana					
		L.D.A. Jayasinghe	A.R.M. Muttiah	S.M.R. Rodrigo	J.D. Peiris	D.M.D.K. Thilakaratne					
		D.M. de Silva Wijeyeratne	W.T.M.A.I.B. Wijayasundara		J.B. Abu Baker	R.A.M. Senevirathne					
		W.M.R.S. Dias			W. Indika Arambage						
		U.I.S. Tillakawardana			E.A.D. Perera (Alternate)						
	Company Secretary	L.W.P. Indrajith	M.P. Dharmasiri	Prof. Arturo Cafaro (Commercerlista)	Mrs. R.R. Dunuwille	Mrs. R.A.R.N. Ranasinghe					
SUMMARY OF FINANCIAL DATA		2011 Rs. Mn.	2010 Rs. Mn.	2011 Rs. Mn.	2010 Rs. Mn.	2011 Rs. Mn.	2010 Rs. Mn.	2011 Rs. Mn.	2010 Rs. Mn.		
	Total Assets	1,327.643	1,087.829	93.827	66.254	50.170	67.562	256.763	239.516	203.138	214.202
	Total Liabilities	246.535	386.088	27.824	17.788	36.819	21.434	27.245	9.070	49.458	81.782
	Net Assets	1,081.108	701.741	66.003	48.466	13.351	46.128	229.518	230.445	153.680	132.421
	Total Revenue	217.069	206.827	111.217	177.579	0.039	0.048	45.397	47.336	157.602	104.516
	Profit before Tax	361.378	62.323	21.364	7.469	(34.391)	(32.926)	29.648	36.095	27.357	10.880
	Profit after Tax	338.948	68.653	19.037	4.544	(34.391)	(32.926)	29.568	35.833	23.659	7.797
	Dividend per Share (Rs.)	4.00	3.00	3.00	3.00	-	-	1.20	1.00	6.00	6.00

Financial Reports

2011

Jan	
Feb	Consolidated Results, February 15
Mar	Annual Report Release, March 08 Annual General Meeting, March 30
Apr	Interim Report - Quarter 1, April 27
May	
Jun	
Jul	
Aug	Interim Report - Quarter 2, August 12
Sep	
Oct	
Nov	Interim Report - Quarter 3, November 11
Dec	

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Financial Calendar - 2011 and Proposed Financial Calendar 2012

	2011	2012
Final Dividend for the previous year paid/payable	on April 8, 2011	on April 11, 2012
Interim Dividend for the year paid/payable	on November 18, 2011 on December 15, 2011	in the second half 2012
Annual Report and Accounts for the year signed/to be signed	on February 09, 2012	in February 2013
Annual General Meeting to be held	on March 30, 2012	in March 2013
Final Dividend for the year to be proposed	on March 30, 2012	in March 2013
Final Dividend for the year to be paid	on April 11, 2012	in April 2013

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

	2011	2012
	Submitted on	To be submitted on or before
For the 3 months ended March 31, (unaudited)	April 27, 2011	May 15, 2012
For the 3 and 6 months ended June 30, (unaudited)	August 12, 2011	August 15, 2012
For the 3 and 9 months ended September 30, (unaudited)	November 11, 2011	November 15, 2012
For the 3 months and year ended December 31 (unaudited)	on or before February 29, 2012	February 28, 2013

ANNUAL REPORT OF THE BOARD OF DIRECTORS

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY AND STATEMENT OF COMPLIANCE OF THE CONTENTS OF THE ANNUAL REPORT AS REQUIRED BY SECTION 168 OF THE COMPANIES ACT NO. 07 OF 2007.

1. GENERAL

The Directors of Commercial Bank of Ceylon PLC have pleasure in presenting to the shareholders this Report together with the Audited Financial Statements and the Audited Consolidated Financial Statements for the year ended December 31, 2011 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. The Bank's implied long term unsecured senior debt has been assigned AA (Ika) by Fitch Ratings Lanka Ltd., while RAM Ratings Lanka Ltd. has assigned AA+ and P1 long term and short term financial institution ratings respectively to the Bank.

The registered office of the Bank is at No. 21, 'Commercial House', Sir Razik Fareed Mawatha (formerly known as Bristol Street), 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 23, 2012.

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, 2011):

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 230
(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 230
(iii) Auditors' Report on Financial Statements of the Group and the Bank	Section 168 (1) (c)	Refer Item 2.5 on page 230
(iv) Accounting Policies and any changes therein (Group also included)	Section 168 (1) (d)	Refer Item 2.6 on page 231
(v) Particulars of the entries made in the Interests Register during the accounting period	Section 168 (1) (e)	Refer Item 2.7 on page 231
(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 231
(vii) Amount of donations made by the Bank (Subsidiaries also included) during the accounting period	Section 168 (1) (g)	Refer Item 2.9 on page 231
(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 233
(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 20 on page 237
(x) Auditor's relationship or any interest with the Bank and its Subsidiaries - Audit Fee/Non-Audit Fee	Section 168 (1) (j)	Refer Item 20 on page 237
(xi) Acknowledgement of the Contents of this Report/Signatures on behalf of the Board	Section 168 (1) (k)	Refer Item 27 on page 238

ANNUAL REPORT OF THE BOARD OF DIRECTORS

2. REVIEW OF BUSINESS

2.1 Vision, Mission and Corporate Conduct

The Bank's Vision and Mission are given on page 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. The Bank issues a copy of its Code of Ethics to each and every staff member and all new staff absorbed to the permanent cadre of the Bank are briefed on the requirements of the Code of Ethics.

2.2 Review on Operations of the Group and the Bank

The 'Letter from the Chairman' on page 6 the 'Managing Director's Review' on pages 10 to 13, and the 'Management Discussion and Analysis' on pages 17 to 51, 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 table given below provides details on 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. There were no significant changes in the nature of the principal activities of the Group and the Bank during the financial year under review.

Entity	Principal Business Activities
Bank	The principal activities of the Bank continued to be banking and related activities such as accepting deposits, personal banking, trade financing, off-shore banking, resident and non-resident foreign currency operations, travel-related services, corporate and retail credit, syndicated financing, project financing, development banking, lease financing, rural credit, issuing of local and international debit and credit cards, tele-banking facilities, Internet banking, money remittance facilities, dealing in Government Securities and treasury-related products, salary remittance package, bullion trading, pawning, export and domestic factoring, margin trading, an array of e-banking services, Bancassurance, Islamic banking products and services etc.
Subsidiaries	
Commercial Development Company PLC	Property development and related ancillary services
ONEzero Company Ltd.	Providing IT - related services
Commex Sri Lanka S.R.L.	To act as an agent to the Bank and provide money transfer services, account opening, issuance and encashment of foreign currencies & 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

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 244 to 320.

2.4 Directors' Responsibility for Financial Reporting

The Directors are responsible for the preparation of the Financial Statements of the Group and the Bank, which reflect a true and fair view of the state of its affairs. The Directors are of the view that the Income Statement, Balance Sheet, Statement of Changes in Equity, Cash Flow Statement, Significant Accounting Policies and Notes thereto appearing on pages 244 to 320 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 239 form an integral part of this Report.

ANNUAL REPORT OF THE BOARD OF DIRECTORS

2.5 Auditors' Report

The Bank's Auditors, Messrs Ernst & Young performed the audit on the Consolidated Financial Statements for the year ended December 31, 2011, and the Auditors' Report issued thereon is given on page 243 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

During the year under review, there were no changes in the Accounting Policies adopted, which were consistent with those adopted in the previous financial year as required by the Sri Lanka Accounting Standard No. 03 (Revised 2005) on 'Presentation of Financial Statements'. The Significant Accounting Policies adopted in the preparation of the Financial Statements of the Group and the Bank are given on pages 250 to 267 of the Annual Report.

2.7 Entries in the Interests Register of the Bank

The Interests Register is maintained by the Bank, as required by the Companies Act No. 07 of 2007. All Directors have made declarations as provided for in the Sections 192 (1) & (2) of the Companies Act aforesaid. All related entries were made in the Interests Register during the year under review. The share ownership of Directors is disclosed on page 236. 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, 2011, are given in Note 7 to the Financial Statements on page 269 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. 109,963,728 /- (Rs. 58,289,666/- in 2010) 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. 3,032,000/- (Rs. 1,925,000/- in 2010). 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. & FUTURE DEVELOPMENTS

During the year, 26 new delivery points were opened, bringing the total number of delivery points in Sri Lanka to 213 at the end of 2011. In addition, the Bank installed 100 new ATMs during 2011 bringing the total number of ATMs in Sri Lanka to 500 by the end of 2011. This is the single largest ATM network in the country. In addition to above, the Bank has 17 delivery points and 14 ATMs in Bangladesh. 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 6, 'Managing Director's Review' on pages 10 to 13 and the 'Management Discussion & Analysis' on pages 17 to 51 for further information on future developments.

4. GROSS INCOME

The gross income of the Group for 2011 was Rs. 45,465.364 Mn. (Rs. 41,481.762 Mn. in 2010), while the Bank's gross income was Rs. 45,483.389 Mn. (Rs. 41,521.531 Mn. in 2010). A more descriptive analysis of the income is given in Note 2 to the Financial Statements on page 268.

The sources of external operating income, net operating profit and asset allocation of the Group among substantially different classes of business together with their proportions are given in Note 39 to the Financial Statements on page 314.

5. DIVIDENDS AND RESERVES

5.1 Profit and Appropriations

The net profit before tax of the Group and the Bank increased by 19.01% and 17.92%, respectively (in comparison to the growth of 30.44% and 29.56% respectively, in 2010). Further, net profit after tax of the Group and the Bank increased by 46.92% and 45.71% respectively (in comparison to the growth of 31.41% and 28.30% respectively, in 2010).

ANNUAL REPORT OF THE BOARD OF DIRECTORS

Details of appropriation of profit relating to the Bank are given below:

	2011 Rs.	2010 Rs.
Profit for the year after payment of all expenses of management and providing for depreciation, possible loan losses, Financial VAT and contingencies	10,987,397,344	9,317,388,816
Less: provision for taxation	(2,939,567,415)	(3,794,100,581)
Net profit after taxation	8,047,829,929	5,523,288,235
Balance brought forward from previous year	2,276,961	2,217,412
Profit available for appropriation	8,050,106,890	5,525,505,647
Less: Appropriations		
Transfer to the Statutory Reserve Fund	(402,391,496)	(276,164,412)
Transfer to Special Risk Reserve of Primary Dealer Unit	(16,084,240)	(31,528,615)
Transfer to the Special Reserve of Primary Dealer Unit	(48,252,720)	(94,585,845)
Transfer to the Investment Fund Account	(1,194,328,492)	Nil
Transfer to General Reserve	(1,480,000,000)	(2,475,000,000)
Dividends on Ordinary Shares		
1st Interim Dividend of Rs. 1.50 per share in cash (Rs. 1.50 in 2010)	(1,226,175,249)	(566,082,167)
2nd Interim Dividend of Rs. 1.00 per share in cash (Rs. 1.50 in 2010)	(817,450,166)	(566,220,723)
Final Dividend - Rs. 1.50 per share in cash (Rs. 2.00 in 2010)	(1,226,175,249)	(756,823,462)
- Rs. 2.00 per share in Shares (Rs. 2.00 in 2010)	(1,634,900,333)	(756,823,462)
Balance carried forward	4,348,945	2,276,961

On this basis, the cash dividend payout ratio amounts to 45.71% of the profit after tax of 2011, compared to 34.20% for 2010 while the total dividend payout ratio amounts to 60.94% for 2011, compared to 47.91% for 2010. This is well above the minimum dividend payout ratio of 25%, (25% in 2010) 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% (Profits of the Bank's Domestic Banking operation and on-shore profits of the Off-Shore Banking Centre were taxed at 35% while the profits of the off-shore profits of the Off-Shore Banking Centre were taxed at 20% in 2010). The profit of the Bank's Bangladesh Operation is taxed at 42.5% (42.5% in 2010). 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% (20% in 2010).

The Group has also provided deferred tax on all known temporary differences under the liability method, as permitted by the Sri Lanka Accounting Standard No. 14 on 'Income Taxes'.

Information on Income Tax Expense and Deferred Taxes of the Group and the Bank is given in Notes 11 and 29 to the Financial Statements on pages 271 and 298 respectively.

5.3 Dividends on Ordinary Shares

The Directors recommend a dividend of Rs. 3.50 per share as the final dividend for the year 2011 which consists of a cash dividend of Rs. 1.50 per share and the balance entitlement of Rs. 2.00 per share satisfied in

the form of issue and allotment of new shares. (The Bank paid a final dividend of Rs. 4.00 per share in 2010 and this was satisfied by way of Rs. 2.00 per share in the form of cash and the balance entitlement of Rs. 2.00 per share in the form of issue and allotment of new shares. The Bank paid two interim dividends i.e., Rs. 1.50 per share and Rs. 1.00 per share each in cash in November and December 2011, respectively (two interim dividends of Rs. 1.50 per share, each in cash were paid in November and December 2010). Details of Information on dividends are given in Note 13 to the Financial Statements on page 273.

The interim dividends were paid out of the profits of the Bank and hence were subjected to a 10% withholding tax.

The Directors have proposed to pay Rs. 1.50 out of the proposed final dividend of Rs. 3.50 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 that the Bank would meet the requirement of the Solvency Test in terms of the Section 31 (3) of the Companies Act No. 07 of 2007 immediately after the payment of interim dividends and would ensure the compliance of Solvency Test after the payment of aforesaid final dividend proposed to be paid in April 2012.

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.

ANNUAL REPORT OF THE BOARD OF DIRECTORS

5.4 Reserves

A summary of the Group's reserves is given below:

	2011 Rs. '000	2010 Rs. '000
Statutory Reserve Fund	2,740,901	2,338,510
Special Risk Reserve of Primary Dealer Unit	149,404	133,320
Special Reserve of Primary Dealer Unit	731,165	682,912
Revaluation Reserve	4,550,838	2,943,222
General Reserve	17,158,306	15,678,306
Foreign Currency Translation Reserve	(1,302,557)	(549,738)
Investment Fund Account	1,194,328	Nil
Retained Earnings	2,871,411	1,474,851
Total	28,093,796	22,701,383

Information on the movement of reserves is given in the Statement of Changes in Equity on pages 246 to 247 and in Note 34 to the Financial Statements on page 304.

6. PROPERTY, PLANT & EQUIPMENT, LEASEHOLD PROPERTY AND INTANGIBLE ASSETS

Capital expenditure incurred on Property, Plant & Equipment (including Capital Work-in-Progress), Leasehold Property and Intangible Assets of the Bank amounted to Rs. 1,379.607 Mn., Rs. Nil and Rs. 147.523 Mn., respectively (Rs. 862.678 Mn., Rs. Nil and Rs. 116.585 Mn., in 2010), details of which are given in Notes 23.2, 24 and 26 on pages 290, 295 and 296 to the Financial Statements. Capital expenditure approved and contracted for are given in Note 36.1 to the Financial Statements on page 310.

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. The Directors are of the opinion that the revalued amounts are not in excess of the current market values of such properties. The details of freehold properties owned by the Bank are given in Note 23.3 to the Financial Statements on page 291.

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. The Bank did not make any debenture issues during the year under review.

Reason for the Issue	Details of Share	2011		2010	
		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	1,457,645	N/A	2,081,508	N/A
	Consideration Received (Rs. '000)	121,869	N/A	203,401	N/A
Rights issue of ordinary shares	Number of Shares Issued	25,502,433	1,745,494	N/A	N/A
	Consideration Received (Rs. '000)	4,632,517	227,141	N/A	N/A

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 periods.

8.3 Stated Capital and Debentures

The Stated Capital as at December 31, 2011 was Rs. 16,473.861 Mn., comprising of 765,085,320 Ordinary Voting Shares and 52,364,846 Ordinary Non-Voting Shares (Rs. 10,811.193 Mn. as at December 31, 2010 comprising of 353,305,387 Ordinary Voting Shares and 24,181,195 Ordinary Non-Voting Shares). The details of the Stated Capital are given in Note 32 to the Financial Statements on page 301.

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, 2011 (2,127,030 debentures to the value of Rs. 2,127.030 Mn., as at December 31, 2010). The details of debentures redeemed during the year 2011 and those outstanding as at December 31, 2011 are given in Note 30 to the Financial Statements on page 299.

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 3. 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 206 to 226.

10. SUBSTANTIAL SHAREHOLDINGS

10.1 Information on the Top Twenty Shareholders

The list of the top twenty shareholders for both voting and non-voting ordinary shares, percentages of their respective holdings and percentage holding of the public are given in the Section on 'Investor Relations' on pages 206 to 226.

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 pages 206 to 226.

10.3 Equitable Treatment for Shareholders

All shareholders in each category have been treated equitably in accordance with the original Terms of Issue.

11. DIRECTORS

11.1 Information on Directors of the Group and the Bank

11.1.1 List of Directors

The Board of Directors of the Bank as at December 31, 2011 consisted of seven Directors (nine Directors as at December 31, 2010) 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 178 and 179.

ANNUAL REPORT OF THE BOARD OF DIRECTORS

Names of the persons holding office as Directors of the Bank as at the end of the year and the names of persons who ceased to hold office as Directors of the Bank any time during the year 2011, 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 - Chairman (Appointed to the Board as a Board Member w.e.f. March 30, 2011, after Mr. Weerakkody ceased to be a Director, subsequent to the amendment made to Articles of Association on March 30, 2011 and appointed as Chairman w.e.f. December 30, 2011)	Non-Executive	Non-Independent up to 30.03.2011 Independent after appointment on 30.03.2011
Mr. K.G.D.D. Dheerasinghe - Deputy Chairman (Appointed to the Board as a Board Member w.e.f. December 20, 2011 and appointed as Deputy Chairman w.e.f. December 30, 2011)	Non-Executive	Independent
Mr. A.L. Gooneratne - Managing Director	Executive	Non-independent
Prof. U.P. Liyanage	Non-Executive	Non-Independent
Mr. W.M.R.S. Dias	Executive	Non-independent
Mr. L. Hulugalle (Appointed w.e.f. March 30, 2011)	Non-Executive	Independent
Mr. M.P. Jayawardena (Appointed w.e.f. December 28, 2011)	Non-Executive	Non-Independent
Mr. P.M. Martelli (Resigned w.e.f. January 27, 2011)	Non-Executive	Non-Independent
Mr. R.M.S. Fernando (Ceased to be a Director w.e.f. March 30, 2011 with withdrawal from re-election by shareholders at AGM held on March 30, 2011)	Non-Executive	Independent
Mr. M.J.C. Amarasuriya - Former Chairman (Resigned w.e.f. December 30, 2011)	Non-Executive	Independent
Mr. B.R.L. Fernando (Relinquished duties w.e.f. December 31, 2011)	Non-Executive	Non-Independent
Dr. H.S. Wanasinghe (Ceased to be a Director after December 31, 2011)	Non-Executive	Independent

11.1.2 New Appointments and Resignations

The information on new appointments and resignations to and from the Board of Directors of the Bank given below forms an integral part of this 'Annual Report of the Board of Directors' in terms of the Section 168 (1) (h) of the Companies Act No. 07 of 2007.

New Appointments during 2011

Mr. D.S. Weerakkody

Mr. Weerakkody, who was a Nominee Director up to March 30, 2011, ceased to be a Board member, with the adoption of the Articles of Association on March 30, 2011 and was appointed to the Board on the same day under the newly adopted Articles of Association.

Mr. L. Hulugalle (Appointed w.e.f. March 30, 2011)

Mr. K.G.D.D. Dheerasinghe (Appointed w.e.f. December 20, 2011)

Mr. M.P. Jayawardena (Appointed w.e.f. December 28, 2011)

Resignations/Relinquishments/Cessations during 2011

Mr. D.S. Weerakkody

Mr. Weerakkody, who was a Nominee Director up to March 30, 2011, ceased to be a Board member, with the adoption of the Articles of Association on March 30, 2011.

Mr. P.M. Martelli (Resigned w.e.f. January 27, 2011)

Mr. R.M.S. Fernando (Ceased to be a Director w.e.f. March 30, 2011)

Mr. M.J.C. Amarasuriya (Resigned w.e.f. December 30, 2011)

Mr. B.R.L. Fernando (Relinquished duties on December 31, 2011)

Dr. H.S. Wanasinghe (Ceased to be a Director after December 31, 2011)

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 226.

ANNUAL REPORT OF THE BOARD OF DIRECTORS

11.1.4 Recommendations for Re-election

1. Mr. D.S. Weerakkody - *Chairman*

Mr. Weerakkody was appointed to the Bank's Board in March 2011, under and in terms of Article 92 to fill a casual vacancy. Accordingly, he is required, in terms of the stated Article and the Banking Act Direction No. 11 of 2007 on Corporate Governance, to retire from the Office of Director at the Annual General Meeting (AGM) to be held on March 30, 2012 (AGM to be held immediately following his appointment) and to be elected thereat by the Bank's shareholders.

Mr. Weerakkody will, in his capacity as a Non-Executive Director, be subject thereafter to retire by rotation as per provisions contained in the Bank's Articles of Association.

2. Mr. K.G.D.D. Dheerasinghe - *Deputy Chairman*

Mr. Dheerasinghe was appointed to the Bank's Board in December 2011, under and in terms of Article 92, to fill a casual vacancy. Accordingly, he is required, in terms of the stated Article and the Banking Act Direction No. 11 of 2007 on Corporate Governance, to retire from the Office of Director at the Annual General Meeting to be held on March 30, 2012, (AGM to be held immediately following his appointment) and to be elected thereat by the Bank's shareholders.

Mr. Dheerasinghe will, in his capacity as a Non-Executive Director, be subject thereafter to retire by rotation as per provisions contained in the Bank's Articles of Association.

3. Mr. L. Hulugalle - *Director*

Mr. Hulugalle was appointed to the Bank's Board in March 2011, under and in terms of Article 92 to fill a casual vacancy. Accordingly, he is required, in terms of the stated Article and the Banking Act Direction No. 11 of 2007 on Corporate Governance, to retire from the Office of Director at the Annual General Meeting to be held on March 30, 2012 (AGM to be held immediately following his appointment) and to be elected thereat by the Bank's shareholders.

Mr. Hulugalle will, in his capacity as a Non-Executive Director, be subject thereafter to retire by rotation as per provisions contained in the Bank's Articles of Association.

4. Mr. M.P. Jayawardena - *Director*

Mr. Jayawardena was appointed to the Bank's Board in December 2011, under and in terms of Article 92 to fill a casual vacancy. Accordingly, he is required, in terms of the stated Article and the Banking Act Direction No. 11 of 2007 on Corporate Governance, to retire from the Office of Director at the Annual General Meeting to be held on March 30, 2012 (AGM to be held immediately following his appointment) and to be elected thereat by the Bank's shareholders.

Mr. Jayawardena will, in his capacity as a Non-Executive Director, be subject thereafter to retire by rotation as per provisions contained in the Bank's Articles of Association.

5. Prof. U.P. Liyanage - *Director*

Prof. Liyanage, who is subject to retirement by rotation as per Articles 85 and 86 of the Articles of Association, is required to retire from the office of Director at the Annual General Meeting to be held on March 30, 2012 and to be re-elected thereat by the Bank's shareholders,

Prof. Liyanage will, in his capacity as a Non-Executive Director, be subject thereafter to retire by rotation as per provisions contained in the Bank's Articles of Association.

6. Mr. A L Gooneratne - *Managing Director*

Mr. Gooneratne, who is subject to retirement by rotation, as per Articles 85 and 86 of the current Articles of Association, is required to retire from the office of Director at the Annual General Meeting to be held on March 30, 2012 and to be re-elected thereat by the Bank's shareholders, until April 27, 2012 i.e., the date of his retirement as an employee of the Bank.

11.1.5 Directors' Meetings

Details of Directors' meetings which comprised Board meetings and Board Sub-Committee meetings of the Human Resources and Remuneration Committee, the Board Integrated Risk Management Committee, the Nomination Committee, the Board Audit Committee and the Credit Committee are presented on page 161.

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 the mandatory Sub-Committees as at December 31, 2011, was as follows:

Board Audit Committee Members:

Mr. D.S. Weerakkody - *Chairman*
(Appointed as Chairman w.e.f. April, 1, 2011)

Mr. L. Hulugalle (Appointed w.e.f. May 27, 2011)

Mr. M.P. Jayawardena (Appointed w.e.f. December 30, 2011)

Prof. U.P. Liyanage (Appointed w.e.f. December 30, 2011)

Mr. R. Mihular - *Consultant*

Mr. A.L. Gooneratne (By invitation)

The Report of the Board Audit Committee is given on page 167 to 169.

Board Human Resources and Remuneration Committee Members:

Mr. D.S. Weerakkody - *Chairman*
(Appointed as Chairman w.e.f. December 30, 2011)

Mr. K.G.D.D. Dheerasinghe (Appointed w.e.f. December 30, 2011)

Prof. U.P. Liyanage (Appointed w.e.f. December 30, 2011)

Mr. A.L. Gooneratne (By Invitation)

Mr. W.M.R.S. Dias (By Invitation)

The Report of the Board Human Resources and Remuneration Committee is given on pages 162 and 163.

ANNUAL REPORT OF THE BOARD OF DIRECTORS

Board Nomination Committee Members:

Mr. D.S. Weerakkody - *Chairman*

(Appointed w.e.f. December 30, 2011)

Mr. K.G.D.D. Dheerasinghe (Appointed w.e.f. December 30, 2011)

Prof. U.P. Liyanage (Appointed w.e.f. December 14, 2011)

Mr. A.L. Gooneratne (By Invitation)

The Report of the Board Nomination Committee is given on page 166.

Board Integrated Risk Management Committee Members:

Mr. K.G.D.D. Dheerasinghe - *Chairman*

(Appointed w.e.f. December 30, 2011)

Prof. U.P. Liyanage (Appointed w.e.f. April 1, 2011)

Mr. L. Hulugalle (Appointed w.e.f. December 30, 2011)

Mr. M.P. Jayawardena (Appointed w.e.f. December 30, 2011)

Mr. A.L. Gooneratne (By invitation)

Mr. W.M.R.S. Dias (By invitation)

Mr. K.D.N. Buddhipala (Chief Financial Officer/Secretary)

Mr. S.C.U. Manatunga (Chief Risk Officer)

The Report of the Board Integrated Risk Management Committee is given on pages 164 and 165.

In addition to above mandatory Board Sub-Committees, the Bank has set up the following Board Sub-Committees too.

Board Credit Committee

Mr. K.G.D.D. Dheerasinghe - *Chairman*

(Appointed w.e.f. December 30, 2011)

Mr. M.P. Jayawardena (Appointed w.e.f. December 30, 2011)

Mr. A.L. Gooneratne

Mr. W.M.R.S. Dias

Board Technology Committee

Prof. U.P. Liyanage - *Chairman*

(Appointed w.e.f. December 30, 2011)

Mr. L. Hulugalle (Appointed w.e.f. December 30, 2011)

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,	2011	2010
Mr. D.S. Weerakkody (<i>Chairman</i>)	21,564	10,000
Mr. K.G.D.D. Dheerasinghe (<i>Deputy Chairman</i>)	Nil	N/A
Mr. A.L. Gooneratne (<i>Managing Director</i>)	3,008,860	1,373,620
Prof. U.P. Liyanage	Nil	Nil
Mr. W.M.R.S. Dias	673,174	310,349
Mr. L. Hulugalle	Nil	N/A
Mr. M.P. Jayawardena	Nil	N/A
Mr. M.J.C. Amarasuriya*	1,451,208	670,645
Mr B.R.L. Fernando	Nil	Nil
Dr. H.S. Wanasinghe	Nil	Nil
Mr. R. M. S. Fernando	N/A	Nil
Mr. P.M. Martelli	N/A	Nil
Percentage Shareholding of the Directors		
Ordinary Voting Shares (%)	0.48	0.67

* Mr. M.J.C. Amarasuriya was not a Director as at December 31, 2011.

Directors' shareholdings in ordinary voting shares have not changed subsequently to the date of the Balance Sheet up to February 08, 2012, 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,	2011	2010
Mr. D.S. Weerakkody (<i>Chairman</i>)	Nil	Nil
Mr. K.G.D.D. Dheerasinghe (<i>Deputy Chairman</i>)	Nil	N/A
Mr. A.L. Gooneratne (<i>Managing Director</i>)	125,190	57,042
Prof. U.P. Liyanage	Nil	Nil
Mr. W.M.R.S. Dias	Nil	Nil
Mr. L. Hulugalle	Nil	N/A
Mr. M.P. Jayawardena	Nil	N/A
Mr. M.J.C. Amarasuriya**	497,614	227,821
Mr B.R.L. Fernando	27,530	12,621
Dr. H.S. Wanasinghe	Nil	Nil
Mr. R. M. S. Fernando	N/A	Nil
Mr. P.M. Martelli	N/A	Nil
Percentage Shareholding of the Directors		
Ordinary Non-Voting Shares (%)	0.24	1.23

** Mr. M.J.C. Amarasuriya was not a Director as at December 31, 2011.

ANNUAL REPORT OF THE BOARD OF DIRECTORS

Directors' shareholdings in Ordinary Non-Voting Shares have not changed subsequent to the date of the Balance Sheet and up to February 08, 2012, 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 predetermined 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. These share options could be exercised in a minimum of 3 or a maximum of 5 tranches, commencing March 31, 2009.

The details of the existing Employee Share Option Plans are given in Note 32 (b) and (c) to the Financial Statements on pages 302 and 303

The Group and the Bank do not have any employee profit sharing plan, except the Variable Bonus Scheme.

14. DIRECTORS' INTERESTS IN CONTRACTS OR PROPOSED CONTRACTS

Directors' interests in contracts or proposed contracts with the Company, both direct and indirect are disclosed on pages 171 to 173. 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, 2011 are given in Note 7 to the Financial Statements on page 269.

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 in the Section on 'Sustainability Supplement' on pages 55 to 115.

16. STATUTORY PAYMENTS

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

17. EVENTS AFTER THE BALANCE SHEET DATE

No event of material significance that require adjustments to the Financial Statements, other than those disclosed in Note 41 to the Financial Statements on page 320, has occurred subsequent to the date of the Balance Sheet.

18. GOING CONCERN

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.

19. APPOINTMENT OF AUDITORS

Prior to the appointment of present Auditors Messrs Ernst & Young in 2006, the Board of Directors 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 were due to be rotated in 2011. However, the Board decided to extend the period of service of the Auditors by an additional one year, since, they were in the process of implementing International Financial Reporting Standards (IFRS).

The Directors are now proposing to adopt Messrs KPMG Ford, Rhodes, Thornton & Co. (KPMG) as Auditors of the Bank, subject to the approval of shareholders, from the conclusion of the next Annual General Meeting of the Bank. KPMG, on their appointment, with shareholders' approval, will serve for a maximum period of 5 years consecutively, subject to them being re-elected by the shareholders, upon a recommendation of the Board of Directors, annually.

A resolution to appoint KPMG as Auditors and granting authority to the Directors to fix their remuneration will be proposed at the forthcoming Annual General Meeting.

The retiring Auditors, Messrs Ernst & Young have advised the Company that they would not offer themselves for re-election on conclusion of the next Annual General Meeting.

20. AUDITORS' REMUNERATION AND INTEREST IN CONTRACTS WITH THE COMPANY

The Auditors, Messrs Ernst & Young were paid Rs. 9.738 Mn. for the year ended December 31, 2011 (Rs. 7.587 Mn. in 2010) as audit fees by the Bank. In addition, they were paid Rs. 3.162 Mn. (Rs. 3.477 Mn. in 2010) 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.

ANNUAL REPORT OF THE BOARD OF DIRECTORS

21. RISK MANAGEMENT AND SYSTEM OF INTERNAL CONTROLS

21.1 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 183 to 203 and in the 'Board Integrated Risk Management Committee Report' that appears on pages 164 and 165.

21.2 System of Internal Controls

The Board of Directors has taken steps to oversee the implementation of an effective and comprehensive system of internal controls covering financial operations and compliance controls required to carry on the business of banking in an orderly manner, safeguard its assets and secure as far as possible the accuracy and reliability of the records. The Board of Directors is satisfied of the effectiveness of the internal controls over financial reporting during the year under review and up to the date of approval of the Annual Report and the Financial Statements to ensure the soundness in financial reporting process. The Directors have obtained the services of five audit firms from the Central Bank approved list of auditors to assist the Bank's Inspection Department in conducting branch inspections. More details in this regard are given in the 'Board Audit Committee Report' on pages 167 to 169.

22. CORPORATE GOVERNANCE

Systems and procedures are in place to ensure that Corporate Governance is adequately and practically enforced. The Board of Directors has provided the necessary resources and installed appropriate processes, to ensure that the Bank is compliant with the relevant Codes of Best Practices on Corporate Governance issued by regulatory and professional bodies. The measures taken and the extent to which the Bank has complied with the Codes of Best Practices on Corporate Governance issued jointly by The Institute of Chartered Accountants of Sri Lanka 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 119 to 170.

23. HUMAN RESOURCES

The Bank continues to invest in Human Capital Development and implement effective Human Resource Practices and Policies to develop and build an efficient and effective workforce aligned to the Bank's business priorities and to ensure that its employees are developing the skills and knowledge required to ensure the future success of the Bank. Specific measures taken in this regard are detailed in the 'Sustainability Supplement' on pages 55 to 115 and the 'Human Resources and Remuneration Committee Report' on pages 162 and 163.

24. COMPLIANCE WITH LAWS AND REGULATIONS

The Group and the Bank 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'.

25. OUTSTANDING LITIGATION

In the opinion of the Directors and in consultation with the Bank's lawyers, litigation currently pending against the Bank will not have a material impact on the reported financial results or future operations of the Bank. Details of litigation pending against the Bank are given on Note 37 to the Financial Statements on page 311.

26. NOTICE OF MEETING

Notice relating to the Forty-Third Annual General Meeting of the Bank is enclosed herewith.

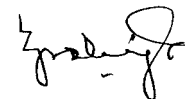
27. ACKNOWLEDGEMENT OF THE CONTENTS OF THE REPORT

As required by the Section 168 (1) (k) of the Companies Act No. 07 of 2007, the Board of Directors does hereby acknowledge the contents of this Annual Report.


Signed in accordance with a resolution adopted by the Directors.



D.S. Weerakkody
Chairman




K.G.D.D. Dheerasinghe
Deputy Chairman



A.L. Gooneratne
Managing Director



Prof. U.P. Liyanage
Director



W.M.R.S. Dias
Director



L. Hulugalle
Director



M.P. Jayawardena
Director



Mrs. R.R. Dunuwille
Company Secretary

Colombo
February 23, 2012

STATEMENT OF DIRECTORS' RESPONSIBILITY

The responsibility of the Directors, in relation to the Financial Statements of the Commercial Bank of Ceylon PLC (Bank) and the Consolidated Financial Statements of the Bank and its Subsidiaries (Group), is set out in this Statement. The responsibilities of the External Auditors in relation to the Financial Statements are set out in the 'Auditors' Report' given on page 243.

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 state of affairs of the Bank and the Group as at end of each financial year and of the profit & loss of the Bank and the Group for each financial year and place them before a general meeting. The Financial Statements comprise of the Balance Sheet as at December 31, 2011, the Income Statement, Statement of Changes in Equity, Cash Flow for the year then ended and Notes thereto.

Accordingly, the Directors confirm that the Financial Statements of the Bank and the Group give a true and fair view of:

- (a) the state of affairs of the Bank and the Group as at Balance Sheet date; and
- (b) the profit of the Bank and the Group for the financial year ended on the Balance Sheet date.

The Financial Statements of the Bank and the Group have been certified by the Bank's Chief Financial Officer, the officer responsible for their preparation, as required by the Sections 150 (1) (b) and 152 (1) (b) of the Companies Act. In addition, the Financial Statements of the Bank and the Group have been signed by three Directors and the Company Secretary of the Bank on February 09, 2012 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 the Financial Statements to be readily and properly audited.

The Board of Directors accepts responsibility for the integrity and objectivity of the Financial Statements presented in this Annual Report. The Directors confirm that in preparing the Financial Statements exhibited on pages 244 to 320 inclusive, appropriate Accounting Policies have been selected and applied on a consistent basis, while reasonable and prudent judgements have been made so that the form and substance of transactions are properly reflected.

The Financial Statements for the year 2011, prepared and presented in this Annual Report are consistent with the underlying books of account and are in conformity with the requirements of the Sri Lanka Accounting Standards, Companies Act No. 07 of 2007, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, Banking Act No. 30 of 1988 and amendments thereto, the Listing Rules of the Colombo Stock Exchange and the Code of Best Practice on Corporate Governance issued jointly by The Institute of Chartered Accountants of Sri Lanka (ICASL) and the Securities and Exchange Commission of Sri Lanka (SEC).

Accordingly, the Directors have taken appropriate steps to ensure that the Bank and the Group maintain proper books of account and review the financial reporting system directly by them at their regular meetings and also through the Board Audit Committee, the Report of which Committee is given on pages 167 to 169. The Board of Directors also approves the Interim Financial Statements prior to their release, following a review and recommendation by the Board Audit Committee.

The Directors also have taken reasonable measures to safeguard the assets of the Bank and the Group and to prevent and detect frauds and other irregularities. In this regard, the Directors have instituted an effective and comprehensive system of internal controls comprising of internal checks, internal audit and financial and other controls required to carry on the business

of banking in an orderly manner and safeguard its assets and secure as far as practicable, the accuracy and reliability of the records.

The Board of Directors 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 their desire to receive a hard copy or to other shareholders a soft copy in a CD containing the Annual Report within the stipulated period of time as required by 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 Ernst & Young who were reappointed in terms of the Section 158 of the Companies Act and in accordance with a resolution passed at the last Annual General Meeting, were provided with every opportunity to undertake the inspections they considered appropriate. They carried out reviews and sample checks on the system of internal controls as they considered appropriate and necessary for expressing their opinion on the Financial Statements and maintaining accounting records. They have examined the Financial Statements made available to them by the Board of Directors of the Bank together with all the financial records, related data and Minutes of shareholders' and Directors' Meetings and expressed their opinion which appears as reported by them on page 243.

COMPLIANCE REPORT

The Directors confirm that to the best of their knowledge, all taxes, duties and levies payable by the Bank and its Subsidiaries, all contributions, levies and taxes payable on behalf of and in respect of the employees of the Bank and its Subsidiaries, and all other known statutory dues as were due and payable by the Bank and its Subsidiaries as at the Balance Sheet date have been paid or, where relevant, provided for, except as specified in Note 37 to the Financial Statements on 'Litigation against the Bank' on page 311. 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 09, 2012

DIRECTORS' STATEMENT ON INTERNAL CONTROL

RESPONSIBILITY

In line with the Section 3 (8) (ii) (b) of the Banking Act Direction No. 11 of 2007 the Board of Directors presents this Report on Internal Control.

The Board of Directors (Board) is responsible for the adequacy and effectiveness of the Commercial Bank of Ceylon PLC's ('the Bank') system of internal controls. However, such a system is designed to manage the Bank's key areas of risk within an acceptable risk profile, rather than to eliminate the risk of failure to achieve the policies and business objectives of the Bank. Accordingly, the system of internal controls can only provide reasonable but not absolute assurance against material misstatement of management and financial information and records or against financial losses or fraud.

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Bank and this process includes enhancing the system of internal controls as and when there are changes to business environment or regulatory guidelines. The process is regularly reviewed by the Board and accords with the Guidance for Directors of Banks on the Directors' Statement on Internal Control issued by The Institute of Chartered Accountants of Sri Lanka. The Board has assessed the internal control system taking into account principles for the assessment of internal control system as given in that guidance.

The Board is of the view that the system of internal controls in place is sound and adequate to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of Financial Statements for external purposes and is in accordance with relevant accounting principles and regulatory requirements.

The management assists the Board in the implementation of the Board's policies and procedures on risk and control by identifying and assessing the risks faced, and in the design, operation and monitoring of suitable internal controls to mitigate and control these risks.

KEY FEATURES OF THE PROCESS ADOPTED IN APPLYING AND REVIEWING THE DESIGN AND EFFECTIVENESS OF THE INTERNAL CONTROL SYSTEM ON FINANCIAL REPORTING

The key processes that have been established in reviewing the adequacy and integrity of the system of internal controls with respect to financial reporting include the following:

- Various appointed committees are established by the Board to assist the Board in ensuring the effectiveness of Bank's daily operations and that the Bank's operations are in accordance with the corporate objectives, strategies and the annual budget as well as the policies and business directions that have been approved.
- The Internal Audit Division of the Bank checks for compliance with policies and procedures and the effectiveness of the internal control systems on an ongoing basis using samples and rotational procedures and highlight significant findings in respect of any non-compliance. Audits are carried out on all units and branches, 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 167 to 169.
- 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.
- The Report of the External Auditors in connection with internal control system is appearing on page 241.

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.

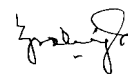
REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

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, 2011 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



A.L. Gooneratne
Managing Director

Colombo
February 09, 2012

ASSURANCE REPORT ON INTERNAL CONTROL



ERNST & YOUNG

Chartered Accountants

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P.O. Box 101
Colombo 10
Sri Lanka

Tel : (0) 11 2463500
Fax Gen : (0) 11 2697369
Tax : (0) 11 5578180
eysl@lk.ey.com

SPF/WDPL/PKD/DM

INDEPENDENT ASSURANCE REPORT TO THE BOARD OF DIRECTORS OF COMMERCIAL BANK OF CEYLON PLC

Introduction

We were engaged by the Board of Directors of Commercial Bank of Ceylon PLC ("Bank") to provide assurance on the Directors' Statement on Internal Control ("Statement") included in the Annual Report for the year ended December 31, 2011.

Management's Responsibility

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.

Our Responsibilities and 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

We conducted our engagement 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 Bank.

The procedures performed are limited primarily to inquiries of bank personnel and the existence of documentation on a sample basis that supports the process adopted by the Board of Directors.

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 Bank'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 the Annual Report is inconsistent with our understanding of the process the Board of Directors has adopted in the review of the design and effectiveness of internal control of the Bank.

February 27, 2012
Colombo

MANAGING DIRECTOR'S AND CHIEF FINANCIAL OFFICER'S STATEMENT OF RESPONSIBILITY

The Financial Statements of the Commercial Bank of Ceylon PLC (Bank) and the Consolidated Financial Statements of the Bank and its Subsidiaries (Group) as at December 31, 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 formats prescribed by the Central Bank of Sri Lanka which are also in compliance with the disclosure requirements of the Sri Lanka Accounting Standard No. 23 on 'Revenue Recognition and Disclosures in the Financial Statements of Banks'. The Group presents the financial results to its shareholders on a quarterly basis.

The Significant Accounting Policies have been consistently applied by the Group and are consistent with those used in 2010. Significant Accounting Policies and estimates that involve a high degree of judgement and complexity were discussed with the Bank's External Auditors and the Board Audit Committee. Comparative information has been reclassified wherever necessary to comply with the current presentation and material departures, if any, have been disclosed and explained. We confirm that to the best of our knowledge, the Financial Statements, Significant Accounting Policies and other financial information included in this Annual Report, fairly present in all material respects the financial condition, results of the operations and the Cash Flows of the Group during the period under review. We also confirm that the Group has adequate resources to continue in operation and have applied the Going Concern basis in preparing these Financial Statements.

We are responsible for establishing, implementing and maintaining Internal Controls and Procedures 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 is

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 effective from January 1, 2012. We are confident that we will be able to have all processes in place to address the requirements of these new/revised Accounting Standards smoothly while making necessary disclosures in time.

The Financial Statements of the Group were audited by Messrs Ernst & Young, Chartered Accountants and their Report is given on page 243 The Board Audit Committee pre-approves the audit and non-audit services provided by Messrs Ernst & Young, in order to ensure that the provision of such services does not contravene with the guidelines issued by the Central Bank of Sri Lanka on permitted non-audit services or impair Ernst & Young's independence and objectivity.

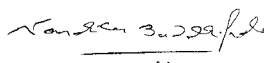
The Bank's Board Audit Committee, *inter alia*, reviewed all the Internal and External Audit and Inspection Programmes, the efficiency of Internal Control Systems and procedures and also reviewed the quality of Significant Accounting Policies and their adherence to Statutory and Regulatory requirements, the details of which are given in the 'Board Audit Committee Report' on pages 167 to 169 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 by the Auditor with the guidelines for the audit of listed companies where mandatory compliance is required.

We confirm that to the best of our knowledge:

- The 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 37 on page 311 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 Balance Sheet date have been paid, or where relevant provided for.


A.L. Gooneratne
 Managing Director


K.D.N. Buddhipala
 Chief Financial Officer

Colombo
 February 09, 2012

AUDITORS' REPORT



Chartered Accountants

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P.O. Box 101
Colombo 10
Sri Lanka

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eysl@lk.ey.com

SPF/WDPL/PKG/DM

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF COMMERCIAL BANK OF CEYLON PLC

Report on the Financial Statements

We have audited the accompanying financial statements of Commercial Bank of Ceylon PLC ("Bank"), the consolidated financial statements of the Bank and its subsidiaries, which comprise the Balance Sheets as at December 31, 2011 and the income statements, statements of changes in equity and cash flow statements for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Scope of Audit and Basis of Opinion

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting 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 Bank maintained proper accounting records for the year ended December 31, 2011 and the financial statements give a true and fair view of the Bank's state of affairs as at December 31, 2011 and its profit and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs as at December 31, 2011 and the profit and cash flows for the year then ended, in accordance with Sri Lanka Accounting Standards, of the Bank and its subsidiaries dealt with thereby, so far as concerns the members of the Bank.

Report on Other Legal and Regulatory Requirements

In our opinion, these financial statements also comply with the requirements of Section 151(2) and Sections 153 (2) to 153 (7) of the Companies Act No. 07 of 2007.

February 27, 2012
Colombo

INCOME STATEMENT

For the year ended December 31,	Note	GROUP			BANK		
		2011 Rs. '000	2010 Rs. '000	Change %	2011 Rs. '000	2010 Rs. '000	Change %
Income	2	45,465,364	41,481,762	9.60	45,483,389	41,521,531	9.54
Interest income	3	37,599,666	34,689,151	8.39	37,639,180	34,739,889	8.35
Less: Interest expenses	4	19,627,943	18,315,650	7.16	19,642,938	18,328,457	7.17
Net interest income		17,971,723	16,373,501	9.76	17,996,242	16,411,432	9.66
Foreign exchange profit		2,321,623	1,740,949	33.35	2,321,623	1,740,949	33.35
Fees and commission income	5	3,799,503	3,219,925	18.00	3,799,616	3,220,002	18.00
Other income	6	1,744,572	1,831,737	(4.76)	1,722,970	1,820,691	(5.37)
Operating income		25,837,421	23,166,112	11.53	25,840,451	23,193,074	11.41
Less: Operating expenses	7						
Personnel expenses		5,615,492	5,150,878	9.02	5,561,740	5,110,531	8.83
Premises, equipment and establishment expenses		2,883,659	2,551,201	13.03	2,857,911	2,493,594	14.61
Fees and commission expenses		400,756	277,146	44.60	400,756	277,146	44.60
Provision for staff retirement benefits	8	518,108	478,710	8.23	515,167	477,048	7.99
Loan losses and provisions	9	1,503,227	1,192,138	26.10	1,503,227	1,192,138	26.10
Other overhead expenses		3,856,672	4,226,381	(8.75)	4,014,255	4,325,224	(7.19)
		14,777,914	13,876,454	6.50	14,853,056	13,875,681	7.04
Profit from operations		11,059,507	9,289,658	19.05	10,987,395	9,317,393	17.92
Add: Share of profit of Associates	10	9,113	10,808	(15.68)	-	-	-
Profit before taxation		11,068,620	9,300,466	19.01	10,987,395	9,317,393	17.92
Less: Income tax expense	11	2,973,468	3,790,472	(21.55)	2,939,567	3,794,100	(22.52)
Net profit for the year		8,095,152	5,509,994	46.92	8,047,828	5,523,293	45.71
Attributable to:							
Equity holders of the parent		8,094,887	5,507,500	46.98	8,047,828	5,523,293	45.71
Minority interest		265	2,494	(89.37)	-	-	-
Net profit for the year		8,095,152	5,509,994	46.92	8,047,828	5,523,293	45.71
Basic earnings per share (Rs.)	12	10.09	7.20	40.14	10.04	7.22	39.06
Diluted earnings per share (Rs.)	12	9.97	7.15	39.44	9.91	7.17	38.21
Dividend per ordinary share (Rs.)	13				6.00	7.00	(14.29)

The Accounting Policies and the Notes appearing on pages 250 to 320 form an integral part of these Financial Statements.

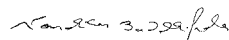
BALANCE SHEET

As at December 31,	Note	GROUP			BANK			Note	Page
		2011 Rs. '000	2010 Rs. '000	Change %	2011 Rs. '000	2010 Rs. '000	Change %		
ASSETS									
Cash and short-term funds	15	25,035,316	10,604,206	136.09	25,011,310	10,556,990	136.92	1. Accounting Policies	250
Balances with Central Banks	16	17,342,959	12,188,834	42.29	17,342,959	12,188,834	42.29	2. Income	268
Government Treasury Bills and Bonds	17	100,114,492	114,540,612	(12.59)	100,114,492	114,540,612	(12.59)	3. Interest Income	268
Securities purchased under resale agreements		1,541,909	68,453	2,152.51	1,541,909	68,453	2,152.51	4. Interest Expenses	268
Dealing Securities	18	321,267	283,391	13.37	321,267	283,391	13.37	5. Fees and Commission Income	268
Investment Securities	19	3,507,079	2,365,596	48.25	3,507,079	2,365,596	48.25	6. Other Income	269
Bills of Exchange	20.1	7,540,575	5,291,424	42.51	7,540,575	5,291,424	42.51	7. Operating Expenses	269
Lease receivable	20.2	20,780,405	10,796,324	92.48	20,936,900	11,018,519	90.02	8. Provision for Staff Retirement Benefits	270
Loans and advances	20.3	247,914,223	200,727,147	23.51	247,917,178	200,728,513	23.51	9. Loan Losses and Provisions	270
		424,098,225	356,865,987	18.84	424,233,669	357,042,332	18.82	10. Share of Profit of Associates	270
Investments in Associates	21	85,107	79,581	6.94	44,331	44,331	-	11. Income Tax Expense	271
Investments in Subsidiaries	22	-	-	-	292,745	353,898	(17.28)	12. Earnings Per Share	273
Interest and fees receivable		2,551,129	1,884,366	35.38	2,551,129	1,884,366	35.38	13. Dividends	273
Property, Plant & Equipment	23	8,503,211	6,589,228	29.05	7,907,030	5,929,561	33.35	14. Retained Earnings	274
Leasehold Property	24	113,228	114,680	(1.27)	78,246	79,188	(1.19)	15. Cash and Short Term Funds	274
Other assets	25	5,507,968	4,298,847	28.13	5,525,122	4,307,155	28.28	16. Balances with Central Banks	274
Intangible assets	26	475,038	425,255	11.71	467,014	419,311	11.38	17. Government Treasury Bills and Bonds	275
Total assets		441,333,906	370,257,944	19.20	441,099,286	370,060,142	19.20	18. Dealing Securities	276
LIABILITIES									
Deposits	27	318,404,310	259,744,567	22.58	318,461,431	259,778,911	22.59	19. Investment Securities	279
Borrowings	28	19,897,089	14,370,975	38.45	19,897,089	14,370,975	38.45	20. Bills of Exchange, Lease Receivable and Loans & Advances	281
Securities sold under repurchase agreements		41,091,501	45,658,890	(10.00)	41,235,445	45,774,453	(9.92)	21. Investments in Associates	287
Current tax liabilities		1,139,174	2,455,002	(53.60)	1,137,537	2,448,039	(53.53)	22. Investments in Subsidiaries	288
Deferred tax liabilities	29	1,369,570	992,710	37.96	1,327,580	892,441	48.76	23. Property, Plant & Equipment	289
Debentures	30	973,210	2,127,030	(54.25)	973,210	2,127,030	(54.25)	24. Leasehold Property	295
Other liabilities	31	13,861,780	11,369,593	21.92	13,840,267	11,366,241	21.77	25. Other Assets	296
Total liabilities		396,736,634	336,718,767	17.82	396,872,559	336,758,090	17.85	26. Intangible Assets	296
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT									
Stated capital	32	16,473,861	10,811,193	52.38	16,473,861	10,811,193	52.38	27. Deposits	297
Statutory reserves	33	2,890,305	2,471,830	16.93	2,890,305	2,471,830	16.93	28. Borrowings	297
Other reserves	34	25,203,491	20,229,553	24.59	24,862,561	20,019,029	24.19	29. Deferred Tax	298
Shareholders' Funds		44,567,657	33,512,576	32.99	44,226,727	33,302,052	32.80	30. Debentures	299
Minority interest		29,615	26,601	11.33	-	-	-	31. Other Liabilities	300
Total equity		44,597,272	33,539,177	32.97	44,226,727	33,302,052	32.80	32. Stated Capital	301
Total liabilities and equity		441,333,906	370,257,944	19.20	441,099,286	370,060,142	19.20	33. Statutory Reserves	303
Commitments and contingencies	36	234,551,169	196,617,166	19.29	234,551,169	196,617,166	19.29	34. Other Reserves	304
Net assets value per ordinary share (Rs.)		54.52	43.81	24.45	54.10	43.53	24.28	35. Maturity Analysis	306
								36. Commitments and Contingencies	310
								37. Litigation Against the Bank	311
								38. Employee Retirement Benefits	312
								39. Financial Reporting by Segment	314
								40. Related Party Disclosures	316
								41. Events after the Balance Sheet Date	320

The Accounting Policies and other Notes to the Financial Statements appearing on pages 250 to 320 form an integral part of these Financial Statements.

Certification

These Financial Statements have been prepared in compliance with requirements of the Companies Act No. 07 of 2007.



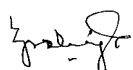
K.D.N. Buddhhipala
Chief Financial Officer

The Board of Directors is responsible for the preparation and the presentation of these Financial Statements.

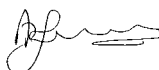
Approved and signed for and on behalf of the Board



D.S. Weerakkody
Chairman



K.G.D.D. Dheerasinghe
Deputy Chairman



A.L. Gooneratne
Managing Director



Mrs. R.R. Dunuwille
Company Secretary

Colombo
February 09, 2012

STATEMENT OF CHANGES IN EQUITY

Group	Statutory Reserves		
	Stated Capital Rs. '000	Statutory Reserve Fund Rs. '000	Primary Dealer Special Risk Reserve Rs. '000
Balance as at 31.12.2009	10,607,792	2,062,346	101,791
Final Dividend for 2009	-	-	-
Issue of Ordinary Voting Shares Under Employee Share Option Plans (Refer Note 32)	203,401	-	-
Surplus on Revaluation of Freehold Land & Buildings	-	-	-
Deferred Tax Effect on Revaluation Surplus on Freehold Buildings	-	-	-
Transfer of Translation Gains (Refer Note 34.3)	-	-	-
Net Unrealised Loss from Translation of Financial Statements of Foreign Operations (Refer Note 34.3)	-	-	-
Net Profit for 2010	-	-	-
Transfers During the Year (Refer Notes 33, 34.2 and 34.4)	-	276,164	31,529
Interim Dividends for 2010 (Refer Note 13)	-	-	-
Balance as at 31.12.2010	10,811,193	2,338,510	133,320
Final Dividend for 2010 satisfied in the form of Cash	-	-	-
Final Dividend for 2010 satisfied in the form of issue and allotment of new shares	681,141	-	-
Issue of Ordinary Voting Shares Under Employee Share Option Plans (Refer Note 32)	121,869	-	-
Rights Issue of Ordinary Shares	4,859,658	-	-
Surplus on Revaluation of Freehold Land & Buildings	-	-	-
Deferred Tax Effect on Revaluation Surplus on Freehold Buildings	-	-	-
Net Unrealised Loss from Translation of Financial Statements of Foreign Operations (Refer Note 34.3)	-	-	-
Net Profit for 2011	-	-	-
Transfers during the Year (Refer Notes 33, 34.2 and 34.4)	-	402,391	16,084
Interim Dividends for 2011 (Refer Note 13)	-	-	-
Balance as at 31.12.2011	16,473,861	2,740,901	149,404
Bank			
Balance as at 31.12.2009	10,607,792	2,062,346	101,791
Final Dividend for 2009	-	-	-
Issue of Ordinary Voting Shares Under Employee Share Option Plans (Refer Note 32)	203,401	-	-
Surplus on Revaluation of Freehold Land & Buildings	-	-	-
Deferred Tax Effect on Revaluation Surplus on Freehold Buildings	-	-	-
Transfer of Translation Gains (Refer Note 34.3)	-	-	-
Net Unrealised Loss from Translation of Financial Statements of Foreign Operations (Refer Note 34.3)	-	-	-
Net Profit for 2010	-	-	-
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Interim Dividends for 2010 (Refer Note 13)	-	-	-
Balance as at 31.12.2010	10,811,193	2,338,510	133,320
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Surplus on Revaluation of Freehold Land & Buildings	-	-	-
Deferred Tax Effect on Revaluation Surplus on Freehold Buildings	-	-	-
Net Unrealised Loss from Translation of Financial Statements of Foreign Operations (Refer Note 34.3)	-	-	-
Net Profit for 2011	-	-	-
Transfers During the Year (Refer Notes 33, 34.2 and 34.4)	-	402,391	16,084
Interim Dividends for 2011 (Refer Note 13)	-	-	-
Balance as at 31.12.2011	16,473,861	2,740,901	149,404

* Composition of the Retained Earnings is given in Note 14 to the Financial Statements.

Other Reserves								
Revaluation Reserve Rs. '000	Foreign Currency Translation Reserve Rs. '000	Investment Fund Rs. '000	General Reserve Rs. '000	Retained Earnings* Rs. '000	Shareholders' Funds Rs. '000	Minority Interest Rs. '000	Total Equity Rs. '000	
1,533,746	(371,527)	-	13,807,767	978,832	28,720,747	26,068	28,746,815	
-	-	-	-	(1,001,899)	(1,001,899)	-	(1,001,899)	
-	-	-	-	-	203,401	-	203,401	
1,738,877	-	-	-	-	1,738,877	-	1,738,877	
(329,401)	-	-	-	-	(329,401)	-	(329,401)	
-	16,135	-	(16,135)	-	-	-	-	
-	(194,346)	-	-	-	(194,346)	-	(194,346)	
-	-	-	-	5,507,500	5,507,500	2,494	5,509,994	
-	-	-	2,569,586	(2,877,279)	-	-	-	
-	-	-	-	(1,132,303)	(1,132,303)	(1,961)	(1,134,264)	
2,943,222	(549,738)	-	16,361,218	1,474,851	33,512,576	26,601	33,539,177	
-	-	-	-	(756,823)	(756,823)	(654)	(757,477)	
-	-	-	-	(756,823)	(75,682)	-	(75,682)	
-	-	-	-	-	121,869	-	121,869	
-	-	-	-	-	4,859,658	-	4,859,658	
1,668,372	-	-	-	-	1,668,372	809	1,669,181	
(60,756)	-	-	-	-	(60,756)	3,902	(56,854)	
-	(752,819)	-	-	-	(752,819)	-	(752,819)	
-	-	-	-	8,094,887	8,094,887	265	8,095,152	
-	-	1,194,328	1,528,253	(3,141,056)	-	-	-	
-	-	-	-	(2,043,625)	(2,043,625)	(1,308)	(2,044,933)	
4,550,838	(1,302,557)	1,194,328	17,889,471	2,871,411	44,567,657	29,615	44,597,272	
1,286,695	(371,527)	-	13,807,767	1,004,116	28,498,980	-	28,498,980	
-	-	-	-	(1,001,899)	(1,001,899)	-	(1,001,899)	
-	-	-	-	-	203,401	-	203,401	
1,738,877	-	-	-	-	1,738,877	-	1,738,877	
(329,401)	-	-	-	-	(329,401)	-	(329,401)	
-	16,135	-	(16,135)	-	-	-	-	
-	(198,896)	-	-	-	(198,896)	-	(198,896)	
-	-	-	-	5,523,293	5,523,293	-	5,523,293	
-	-	-	2,569,586	(2,877,279)	-	-	-	
-	-	-	-	(1,132,303)	(1,132,303)	-	(1,132,303)	
2,696,171	(554,288)	-	16,361,218	1,515,928	33,302,052	-	33,302,052	
-	-	-	-	(756,823)	(756,823)	-	(756,823)	
-	-	-	-	(756,823)	(75,682)	-	(75,682)	
-	-	-	-	-	121,869	-	121,869	
-	-	-	-	-	4,859,658	-	4,859,658	
1,654,327	-	-	-	-	1,654,327	-	1,654,327	
(128,444)	-	-	-	-	(128,444)	-	(128,444)	
-	(754,433)	-	-	-	(754,433)	-	(754,433)	
-	-	-	-	8,047,828	8,047,828	-	8,047,828	
-	-	1,194,328	1,528,253	(3,141,056)	-	-	-	
-	-	-	-	(2,043,625)	(2,043,625)	-	(2,043,625)	
4,222,054	(1,308,721)	1,194,328	17,889,471	2,865,429	44,226,727	-	44,226,727	

CASH FLOW STATEMENT

For the year ended December 31,	GROUP		BANK	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
Cash Flows from Operating Activities				
Interest received	36,581,216	34,014,950	36,622,391	34,065,688
Fees and commission receipts	3,799,503	3,219,925	3,799,616	3,220,002
Interest payments	(17,721,302)	(18,819,385)	(17,736,297)	(18,832,192)
Recoveries on loans previously provided/written-off	1,268,103	1,107,918	1,268,103	1,107,918
Foreign exchange profit and other receipts	2,585,148	1,869,645	2,530,745	1,824,322
Cash payments to employees and suppliers	(12,440,948)	(11,969,554)	(12,602,226)	(12,060,706)
Operating profit before changes in operating assets and liabilities [Refer Note (a)]	14,071,720	9,423,499	13,882,332	9,325,032
(Increase)/Decrease in operating assets:				
Balances with Central Banks	(5,154,125)	(394,277)	(5,154,125)	(394,277)
Funds advanced to customers	(60,923,535)	(46,279,953)	(60,859,424)	(46,260,782)
Other operating assets	(1,209,121)	719,442	(1,217,967)	717,368
Increase/(Decrease) in operating liabilities:				
Deposits	58,659,743	25,013,887	58,682,520	25,034,205
Other operating liabilities	913,878	86,058	895,718	68,813
Net cash inflow/(outflow) from operating activities before income tax	6,358,561	(11,431,344)	6,229,054	(11,509,641)
Income tax paid	(3,608,984)	(2,068,646)	(3,585,853)	(2,037,598)
Net cash inflow/(outflow) from operating activities	2,749,577	(13,499,990)	2,643,201	(13,547,239)
Cash Flows from Investing Activities				
Dividends received	53,475	68,123	91,112	106,889
Interest received	290,164	91,624	290,164	91,624
Government Treasury Bills and Bonds	14,286,169	(17,527,425)	14,286,169	(17,527,425)
Securities purchased under resale agreements	(1,473,456)	5,134,667	(1,473,456)	5,134,667
Securities sold under repurchase agreements	(4,567,389)	15,885,740	(4,539,008)	15,869,926
Net additions to Dealing Securities	(67,065)	(125,676)	(67,065)	(125,676)
Net additions to Investment Securities	(2,356,183)	(1,651,380)	(2,356,183)	(1,651,380)
Investment made in Foreign Subsidiary	-	-	61,153	(74,505)
Income from Associates	2,464	3,590	-	-
Proceeds from matured investments	1,214,700	311,077	1,214,700	311,077
Purchase of Property, Plant & Equipment	(967,997)	(903,870)	(956,675)	(845,112)
Purchase of Intangible Assets	(147,229)	(122,539)	(145,095)	(116,585)
Proceeds from sale of Property, Plant & Equipment	42,625	53,316	33,700	46,389
Net cash inflow/(outflow) from investing activities	6,310,278	1,217,247	6,439,516	1,219,889

CASH FLOW STATEMENT

For the year ended December 31,	GROUP		BANK	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
Cash Flows from Financing Activities				
Dividends paid to minority shareholders	(1,962)	(1,961)	–	–
Dividends paid to equity holders of the parent	(2,876,130)	(2,134,202)	(2,876,130)	(2,134,202)
Proceeds from issue of shares under ESOPs	121,869	203,401	121,869	203,401
Interest paid to Debentures	(328,333)	(454,616)	(328,333)	(454,616)
Redemption of Debentures	(1,153,820)	(1,309,000)	(1,153,820)	(1,309,000)
Proceeds from Rights Issue	4,859,658	–	4,859,658	–
Net increase/(decrease) in other borrowings	4,749,973	2,526,668	4,748,359	2,522,118
Net cash inflow/(outflow) from financing activities	5,371,255	(1,169,710)	5,371,603	(1,172,299)
Net increase in cash and cash equivalents	14,431,110	(13,452,453)	14,454,320	(13,499,649)
Cash and cash equivalents at beginning of the period	10,604,206	24,056,659	10,556,990	24,056,639
Cash and cash equivalents at end of the period (Refer Note 15)	25,035,316	10,604,206	25,011,310	10,556,990
Note (a): Reconciliation of Operating Profit before Changes in Operating Assets and Liabilities				
Profit before taxation	11,068,620	9,300,466	10,987,395	9,317,393
Add/(Less):				
Accrued interest on loans and advances	(666,763)	(101,271)	(666,763)	(101,271)
Accrued interest on deposits and borrowings	1,678,094	(878,054)	1,678,094	(878,054)
Interest paid to Debentures	228,547	374,319	228,547	374,319
Investment income	(353,598)	(171,819)	(388,771)	(206,995)
Share of profit of Associates	(9,113)	(10,808)	–	–
Notional tax credit on interest on Government Treasury Bills and Bonds	(351,687)	(572,930)	(350,026)	(572,930)
Capital (gain)/loss on sale of shares	(15,155)	(58,468)	(15,155)	(58,468)
(Profit)/Loss on sale of Property, Plant & Equipment	(30,950)	(7,559)	(26,114)	(3,070)
Depreciation of Property, Plant & Equipment	734,115	629,050	648,543	537,657
Amortisation of Intangible Assets	98,172	84,260	98,118	84,238
Amortisation of Leasehold Property	1,452	1,452	942	942
Loan losses and provisions	1,503,227	1,192,138	1,503,227	1,192,138
(Gain)/loss on Marked to Market Valuation on Treasury Bills and Bonds	166,080	(181,062)	166,080	(181,062)
(Gain)/loss on Marked to Market Valuation on shares	44,344	(18,342)	44,344	(18,342)
Capital (Gain)/loss on sale of Treasury Bills and Bonds	(26,129)	(161,463)	(26,129)	(161,463)
Dividends received from Associates	2,464	3,590	–	–
Operating profit before changes in operating assets and liabilities	14,071,720	9,423,499	13,882,332	9,325,032

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

A. Corporate Information

A 1 Reporting Entity

Commercial Bank of Ceylon PLC (the 'Bank') is a public limited liability company listed on the Colombo Stock Exchange, incorporated on June 25, 1969, (and domiciled) in Sri Lanka. It is a licensed commercial bank regulated under the Banking Act No. 30 of 1988 and amendments thereto. The Bank was re-registered under the Companies Act No. 07 of 2007. The registered office of the Bank is situated at 'Commercial House', No. 21, Sir Razik Fareed Mawatha (formerly known as Bristol Street), Colombo 01, Sri Lanka. The ordinary shares of the Bank have a primary listing on the Colombo Stock Exchange.

The staff strength of the Bank as at December 31, 2011 was 4,524 (4,321 as at December 31, 2010).

A 2 Consolidated Financial Statements

The Consolidated Financial Statements of the Bank for the year ended December 31, 2011, comprise the Bank (Parent Company) and its Subsidiaries (together referred to as the 'Group'), and the Group's interest in its Associates. The Financial Statements of all companies in the Group have a common financial year which ends on December 31.

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

A 3 Approval of Financial Statements by the Board of Directors

The Financial Statements for the year ended December 31, 2011 were authorised for issue on February 09, 2012.

B. Principal Activities and Nature of Operations

B 1 Bank

The Bank provides a comprehensive range of financial services encompassing accepting deposits, personal banking, trade financing, off-shore banking, resident and non-resident foreign currency operations, travel-related services, corporate and retail credit, syndicated financing, project financing, development banking, lease financing, rural credit, issuing of local and international credit cards, issuing of debit cards, 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, Bank Assurance and Islamic banking products and services, etc.

B 2 Subsidiaries

The principal activities of the Bank's Local Subsidiaries, namely, Commercial Development Company PLC and ONEzero Company Ltd. are property development & related ancillary services and providing IT-related services, respectively.

The Bank formed a subsidiary in the name of Commex Sri Lanka S.R.L. in Italy in order to engage in money transfer business, opening accounts, issuance and encashment of foreign currencies and travellers' cheques and collecting applications for credit facilities. However, the commercial operations of this company are yet to be commenced.

B 3 Associates

The principal activities of the Bank's Associates, namely, Equity Investments Lanka Ltd. and Commercial Insurance Brokers (Pvt) Ltd. are fund management and insurance brokering, respectively.

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

C. Responsibility for Financial Statements

The Board of Directors is responsible for the preparation and presentation of the Financial Statements of the Bank and its Subsidiaries as per the provisions of the Companies Act No. 07 of 2007 and the Sri Lanka Accounting Standards.

The Board of Directors acknowledges this responsibility as set out in the 'Annual Report of the Board of Directors', 'Statement of Directors' Responsibility' and in the statement following the Balance Sheet on pages 230, 239 and 245 respectively.

These Financial Statements include the following components:

- an Income Statement providing the information on the financial performance of the Group and the Bank for the year under review (Refer page 244),
- a Balance Sheet providing the information on the financial position of the Group and the Bank as at the year end (Refer page 245),
- 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 246 and 247),
- a Cash Flow Statement providing the information to the users, on the ability of the Group and the Bank to generate cash and cash equivalents and the needs to utilisation of those cash flows (Refer pages 248 and 249), and
- Notes to the Financial Statements comprising Accounting Policies used and other Notes (Refer pages 250 to 320).

D. Statement of Compliance

The Consolidated Financial Statements of the Group and the separate Financial Statements of the Bank, which comprise the components mentioned above have been prepared and presented in accordance with the Sri Lanka Accounting Standards laid down by The Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Companies Act No. 07 of 2007, and the Banking Act No. 30 of 1988 and amendments thereto, provide appropriate disclosures as required by the Listing Rules of the Colombo Stock Exchange.

The Group and the Bank did not adopt any inappropriate accounting treatments which are not complying with the requirements of the Sri Lanka Accounting Standards and other laws and regulations governing the preparation and presentation of Financial Statements.

E. Comparative Information

Comparative information including quantitative, narrative and descriptive information is disclosed in respect of the previous period for all amounts reported in the Financial Statements in order

NOTES TO THE FINANCIAL STATEMENTS

to enhance the understanding of the current period's Financial Statements and to enhance the inter-period comparability.

The Accounting Policies adopted by the Group are consistent with those of the previous financial year as permitted by the Sri Lanka Accounting Standard No. 3 (Revised 2005) on 'Presentation of Financial Statements'. However, when the presentation or classification of items in the Financial Statements is amended, comparative amounts are also reclassified to conform with the current year in order to provide a better presentation.

F. Changes to the Accounting Policies and Effect of Accounting Standards Issued but not yet Effective

F1 Changes to the Accounting Policies

There were no changes to the Accounting Policies adopted by the Group during the year under review.

F2 Effect of Accounting Standards Issued but not yet Effective:

Following the convergence of Sri Lanka Accounting Standards with the International Financial Reporting Standards, all existing Sri Lanka Accounting Standards have been prefixed as Sri Lanka Financial Reporting Standards (SLFRS) or Sri Lanka Accounting Standards (LKAS) which commonly refer to as 'Sri Lanka Accounting Standards corresponding to International Financial Reporting Standards (IFRS) or International Accounting Standards (IAS), respectively. The Council of The Institute of Chartered Accountants of Sri Lanka mandated all specified business enterprises to adopt these new Accounting Standards effective for financial periods beginning on or after January 1, 2012.

Accordingly, the Group and the Bank will be adopting the new Sri Lanka Accounting Standards (new SLFRS) comprising LKAS and SLFRS applicable for financial periods commencing from January 1, 2012 as issued by The Institute of Chartered Accountants of Sri Lanka. The Group and the Bank has commenced reviewing its accounting policies and financial reporting in readiness for the transition. As the Group and Bank has a December 31 year end, priority has been given to considering the preparation of an opening Balance Sheet in accordance with the new SLFRSs as at January 1, 2011. This will form the basis of accounting for the new SLFRSs in the future, and is required when the Group and the Bank prepares its first new SLFRS compliant Financial Statements for the year ending December 31, 2012. Set out below are the key areas where accounting policies will change and may have an impact on the Financial Statements of the Group and the Bank. The Group is in the process of quantifying the impact on the Financial Statements arising from such changes in accounting policies.

The Institute of Chartered Accountants of Sri Lanka has resolved an amendment to the Sri Lanka Accounting Standard 10 on 'Accounting Policies, Changes in Accounting Estimates and Errors', whereby the provisions contained in paragraphs 30 and 31 of SLAS 10, would not be applicable for Financial Statements prepared in respect of financial periods commencing before January 1, 2012.

However, the Bank has made preliminary impact quantification of the transition to new SLFRS as described in the Section on 'Management Discussion and Analysis' on pages 50 and 51. Such analysis together with estimated impact is made on a best effort basis and is subject to an audit.

- (a) SLFRS 1 on 'First Time Adoption of Sri Lanka Accounting Standards' will require the Group to prepare and present opening new SLFRS Financial Statements at the date of transition to new SLFRS. The Group shall use the same accounting policies in its opening new SLFRS Financial Statements and throughout all periods presented in its first new SLFRS Financial Statements. Those accounting policies should comply with each new SLFRS effective as at December 31, 2012.
- (b) LKAS 1 on 'Presentation of Financial Statements' will require an entity to present, in a Statement of Changes in Equity, all owner changes in Equity. All non-owner changes in Equity are required to be presented in one Statement of Comprehensive Income or in two Statements (a separate Income Statement and a Statement of Comprehensive Income). Components of comprehensive income are not permitted to be presented in the Statement of Changes in Equity. This standard also requires the Group to disclose information that enables users of its Financial Statements to evaluate the Group's objectives, policies and processes for managing capital.
- (c) LKAS 16 on 'Property Plant and Equipment' will require the Group to initially measure an item of Property, Plant and Equipment at cost, using the cash price equivalent at the recognition date. If payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognized as interest over the period, unless such interest is capitalized in accordance with LKAS 23 on 'Borrowing Costs'.

All site restoration costs including other environmental restoration and similar costs must be estimated and capitalised at initial recognition, in order that such costs can be depreciated over the useful life of the asset.

This standard requires depreciation of assets over their useful lives, where the residual value of assets is deducted to arrive at the depreciable value. It also requires that significant parts of an asset be evaluated separately for depreciation.
- (d) LKAS 32 on 'Financial Instruments: Presentation', LKAS 39 on 'Financial Instruments: Recognition and Measurement' and SLFRS 7 on 'Financial Instruments: Disclosures' will result in changes to the current method of recognising Financial Assets, Financial Liabilities and Equity instruments. These standards will require measurement of Financial Assets and Financial Liabilities at fair value at initial measurement. The subsequent measurement of Financial Assets classified as Fair Value through Profit or Loss and Available for Sale will be at fair value, with the gains and losses routed through the Statements of Comprehensive Income and Other Comprehensive Income respectively.

NOTES TO THE FINANCIAL STATEMENTS

Financial Assets classified as Held to Maturity and Loans and Receivables will be measured subsequently at amortised cost. These assets will need to be assessed for any objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the Financial Asset or Group of Financial Assets that can be reliably estimated. As such the current method of assessing for impairment will have to be based on the requirements of these new standards.

Financial Liabilities will be either classified as Fair Value through Profit or Loss or at amortised cost. At present, the Group does not identify, categorise and measure Financial Assets and Liabilities as per the requirements of the standard and certain derivative instruments are not recognised on the Balance Sheet, and hence would require a change in accounting policy.

- (e) SLFRS 2 on 'Share-based Payment', will require the Group to reflect in its Profit or Loss and Financial Position, the effects of share-based payment transactions, including expenses associated with share options granted to employees. An entity is required to recognise share-based payment transactions when goods are received or services obtained based on the fair value of goods or services or the fair value of equity instruments granted. Hence, the Group will be required to determine the fair value of options issued to employees as remuneration and recognise an expense in determining the profit or Loss for the period. This standard is not limited to options and extends to all forms of equity-based remuneration and payments.
- (f) SLFRS 3 on 'Business Combinations' will require the Group to apply this standard to transactions and other events that meet the new definition of a business i.e. an integrated set of assets (inputs) and activities (processes) which are capable of being conducted and managed to provide a return, as opposed to a mere asset acquisition. Under the new acquisition method of accounting, in addition to recognising and measuring in its Financial Statements the identifiable assets acquired and liabilities assumed, the standard also requires recognition and measurement of any non-controlling interest in the acquiree and re-measuring to fair value any previously held interests which could have an impact on the recognition of goodwill. Subsequent to the acquisition of control, any acquisitions or disposals of non-controlling interest without loss of control will be accounted for as equity transactions and cannot be recognised as profit or loss on disposal of investments in the Statement of Comprehensive Income.
- (g) LKAS 23 on 'Borrowing Costs', the Group must capitalize borrowing costs in relation to a qualifying asset. Since the current policy is to expense all borrowing costs, this will result in a change in accounting policy.
- (h) LKAS 12 on 'Income Taxes' will require deferred tax to be provided for in respect of temporary differences which will arise as a result of adjustments made to comply with the new SLFRS.

- (i) LKAS 18 on 'Revenue' will require the Group to measure revenue at fair value of the consideration received or receivable. It also specifies recognition criteria for revenue, and the Group needs to apply such recognition criteria to the separately identifiable components of a single transaction in order to reflect the substance of the transaction.

G. Basis of Preparation

G 1 Bases of Measurement

The balances reflected in the Financial Statements of the Group are measured under the historical cost convention, except Government Treasury Bills, Bonds and Other Securities, which are categorised under the Trading Portfolio, Dealing Securities and Land & Buildings which are stated at valuations as explained in Notes 17, 18 and 23 on pages 275, 276 and 289 respectively, to the Financial Statements. Assets and liabilities are grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern. Where appropriate, the Significant Accounting Policies are disclosed in the succeeding Notes. No adjustments have been made for inflationary factors affecting the Financial Statements.

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

G 2 Presentation and Functional Currency

Items included in the Consolidated Financial Statements are measured using the currency of the primary economic environment in which the Bank operates (the Functional Currency). The Consolidated Financial Statements are presented in Sri Lankan Rupees, the Group's Functional and Presentation Currency. Each entity in the Group determines its own functional currency and items included in the Financial Statements of these entity are measured using that Functional Currency. There was no change in the Group's Presentation and Functional Currency during the year under review.

The information presented in US Dollars in the Section on 'Stewardship' on pages 222 and 223 does not form part of the Financial Statements and is solely for the convenience of stakeholders.

G 3 Significant Accounting Judgments, Estimates and Assumptions

The preparation of Financial Statements in conformity with the Sri Lanka Accounting Standards requires management to make judgments, estimates and assumptions that affect the application of Accounting Policies and the reported amounts of assets, liabilities, income and expenses.

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

NOTES TO THE FINANCIAL STATEMENTS

estimate is revised and in any future periods affected. The respective carrying amounts of assets and liabilities are given in the related Notes to the Financial Statements.

The key items which involve these judgments, estimates and assumptions are discussed in Notes G 3.1 to G 3.4 on page 223.

G 3.1 Impairment Losses on Bills of Exchange, Lease Receivable and Loans & Advances

In addition to the provisions made for possible losses on Bills of Exchange, Lease Receivable and Loans & Advances based on the parameters in the Sri Lanka Accounting Standard No. 23 on 'Revenue Recognition and Disclosures in the Financial Statements of Banks' and Directives for specific and general provisions on Bills of Exchange, Lease Receivable and Loans & Advances by the Central Bank of Sri Lanka, the Bank reviews its Bills of Exchange, Lease Receivable and Loans & Advances portfolios at each Balance Sheet date or more frequently, if events or changes in circumstances necessitate to assess whether a further provision for impairment against exposures which, although not specifically identified as requiring specific provisions have a greater risk of default than when originally granted.

The judgments by the management are required in the estimation of these amounts and such estimations are based on assumptions involving a number of factors such as any adverse movement in country risk, industry and technological obsolescence, borrower's financial situation, strategies adopted, the net realisable value of any underlying collateral as well as identified structural weaknesses and deterioration in cash flows.

G 3.2 Review of Impairment Losses on Other Assets

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

Specific Accounting Policies on impairment of assets are discussed in Note L 10 on page 262.

G 3.3 Defined Benefit Plans

The cost of defined benefit plans, gratuity and pension obligations is determined using actuarial valuations as detailed in Note M 9 to the Financial Statements on page 263. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed at each Balance Sheet date.

G 3.4 Provisions for Liabilities and Charges

The Group receives legal claims against it in the normal course of business. Management has made judgments as to the likelihood of any claim succeeding in making provisions. The time of concluding legal claims is uncertain, as is the amount of possible outflow of economic benefits. Timing and cost ultimately depend on the due process in respective legal jurisdictions.

G 4 Materiality and Aggregation

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

G 5 Offsetting

Assets & liabilities and income & expenses are not set-off unless permitted by the Sri Lanka Accounting Standards.

G 6 Rounding

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

Significant Accounting Policies

The Significant Accounting Policies adopted in the preparation of these Consolidated Financial Statements are set out below:

H. Basis of Consolidation

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

H 1 Subsidiaries

Subsidiaries are those entities controlled by the Bank. Control is achieved where the Bank has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights currently exercisable are taken into account. The Bank's interests in all its Subsidiaries together with the summarised financial information including total assets, total liabilities, revenue, profit or loss and the dividend are given in the Section on 'Group Structure' on page 226.

NOTES TO THE FINANCIAL STATEMENTS

The Financial Statements of Subsidiaries are fully consolidated from the date on which control is effectively transferred to the Bank. The results of subsidiaries acquired or disposed off during the year are included in the Consolidated Income Statement from the date of obtaining control until the date that control effectively ceases.

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

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

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 22 and 36.2 (a) to the Financial Statements on pages 288 and 310.

H 2 Associates

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

Under the Equity Method, investments in Associates are carried at cost plus post-acquisition changes in the Group's share of net assets of the Associates and are reported as a separate line item in the Balance Sheet. Losses in excess of the cost of the investment in an Associate are recognised only when the Bank has incurred obligations on its behalf or has made payments on its behalf. Otherwise the investment is reported at nil value and the recognition of further losses is discontinued. If the Associate subsequently reports profits, the Bank resumes recognising its share of those profits only after its share of the profits equal the share of losses not recognised.

Goodwill relating to an Associate is included in the carrying amount of the investment and is not amortised.

The Income Statement reflects the Group's share of current year's profit or loss of the Associates.

Where there has been a change recognised directly in the equity of the Associate, the Bank recognises its share of any 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 the such Associate.

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

There are no significant restrictions on the ability of the Associates to transfer funds to the 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 21 and 36.2 (b) to the Financial Statements on pages 287 and 310 Summarised financial information of all Associates of the Bank which are accounted on Equity Method of Accounting together with the Bank's interests are given in the Section on 'Group Structure' on page 226.

H 3 Business Combinations and Goodwill

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

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

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

When Subsidiaries/Associates/Other Business Units are disposed 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 Income Statement in the year of disposal.

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

NOTES TO THE FINANCIAL STATEMENTS

H 4 Material Gains or Losses, Provisional Values or Error Corrections

There were no material gains or losses, provisional values or error corrections recognised during the year in respect of the business combinations that took place in previous periods.

H 5 Transactions Eliminated on Consolidation

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

I. Foreign Currency Transactions

Financial Statements of the Bank and the Group are presented in Sri Lankan Rupees, which is the Functional and Presentation Currency of the Bank and the Group.

I 1 Foreign Currency Transactions and Balances

Foreign currency transactions are translated into the Functional Currency, which is Sri Lankan Rupees, using the exchange rates prevailing at the dates of the transactions. In this regard, the Bank's practice is to use the middle rate of exchange ruling at the date of the transaction.

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

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

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

I 2 Transactions of the Off-Shore Banking Centre

These have been recorded in accordance with Note I 1 above, except the application of the annual weighted average exchange rate for translation of the Income Statement. Net gains and losses are dealt through the Income Statement.

I 3 Foreign Operations

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

- Assets and liabilities are translated at the rates of exchange ruling at the Balance Sheet date.
- Income and expenses are translated at the average exchange rate for the period, unless this average rate is not a reasonable approximation of the rate prevailing at the transaction date, in which case income and expenses are translated at the exchange rate ruling at the transaction date.
- All resulting exchange differences are recognised in the Foreign Currency Translation Reserve, which is a separate component of Equity.

When a foreign operation is disposed off, the deferred cumulative translation gain or loss recognised in Equity relating to that particular foreign operation is recognised in the Income Statement as part of the gain or loss on disposal.

I 4 Forward Exchange Contracts

Forward exchange contracts are valued at the forward market rates ruling on the date of the Balance Sheet. Resulting net unrealised gains and losses are dealt through the Income Statement.

J. Taxation

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

J 1 Current Taxation

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the taxation authorities in respect of the current as well as prior years. The tax rates and tax laws used to compute the amounts are those that are enacted or substantially enacted by the Balance Sheet date. Accordingly, provision for taxation is made on the basis of the 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 11 to the Financial Statements on page 271. This Note also includes the major components of tax expense, the effective tax rates and a reconciliation between the profit before tax and tax expense as required by the Sri Lanka Accounting Standard No. 14 (Revised 2005) on 'Income Taxes'.

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

NOTES TO THE FINANCIAL STATEMENTS

J 2 Deferred Taxation

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

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither the accounting profit 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 Balance Sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilised. Unrecognised deferred tax assets are reassessed at each Balance Sheet date and are recognised to the extent that it is probable that future taxable profits will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the assets are realised or the liabilities are settled, based on tax rates and tax laws that have been enacted or substantially enacted at the Balance Sheet date.

Current tax and deferred tax relating to items recognised directly in Equity are also recognised in Equity and not in the Income Statement.

Deferred tax assets and Deferred tax liabilities are set-off, if a legally enforceable right exists to set-off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Details of Deferred Tax Assets and Liabilities as at the Balance Sheet date are given in Note 29 to the Financial Statements on page 298.

J 3 Withholding Tax on Dividends, Distributed by the Bank, Subsidiaries and Associates

- *Withholding tax on dividends distributed by the Bank*
Withholding tax that arises from the distribution of dividends by the Bank is recognised at the time the liability to pay the related dividend is recognised.
- *Withholding tax on dividends distributed by the Subsidiaries and Associates*
Dividends received by the Bank from its Subsidiaries and Associates, have attracted a 10% deduction at source.

J 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 1% on 'Liable Turnover' and is deductible from the income tax payments. Unclaimed ESC, if any, can be carried forward and set-off against the income tax payable in the five subsequent years.

J 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 Note 7 to the Financial Statements on page 269.

K. Events After the Balance Sheet Date

Events After the Balance Sheet date are those events, favourable and unfavourable, that occur between the Balance Sheet date and the date when the Financial Statements are authorised for issue.

In this regard, all material and important events that occurred after the Balance Sheet date have been considered and appropriate disclosures are made in Note 41 to the Financial Statements on page 320 where necessary.

K 1 Approval of Financial Statements by the Board of Directors

The Financial Statements for the year ended December 31, 2011, were authorised for issue on February 09, 2012, in accordance with a resolution of the Board of Directors passed on February 09, 2012. (Financial Statements for the year ended December 31, 2010 were authorised for issue on February 15, 2011.

L. Assets and Bases of Their Valuation

L 1 Cash and Short Term Funds (Cash and Cash Equivalents)

Cash and Short-Term Funds include cash in hand, balances with banks, placements with banks and loans at call and at short notice. They are brought to Financial Statements at 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.

Details of the cash and short-term funds are given in Note 15 to the Financial Statements on page 274.

NOTES TO THE FINANCIAL STATEMENTS

L 2 Balances with Central Banks

The Monetary Law Act requires that all commercial banks operating in Sri Lanka to maintain a statutory reserve equal to 8% on all deposit liabilities denominated in Sri Lankan Rupees (7% in 2010). The Bank's Bangladesh operation is required to maintain the statutory liquidity requirement of 19% on time and demand liabilities, inclusive of 6% Cash Reserve Requirement and the balance 13% by way of foreign currency and/or in the form of unencumbered securities held with the Bangladesh Bank.

Details of the balances with Central Banks are given in Note 16 to the Financial Statements on page 274.

L 3 Government Treasury Bills, Bonds and Other Securities

L 3.1 Investments in Government Treasury Bills and Treasury Bonds Held for Trading

Investments in Government Treasury Bills and Treasury Bonds in the trading portfolio are those investments that the Group acquires principally for the purpose of selling or holds as part of a portfolio that is managed for short-term profit. These investments are initially recognised at prices that prevail at the date of acquisition and subsequently marked to market and carried at that market value in the Balance Sheet. Gains and losses on mark to market valuation are dealt through the Income Statement.

Details of the Investments in Government Treasury Bills and Treasury Bonds Held for Trading are given in Note 17 to the Financial Statements on page 275.

L 3.2 Investments in Government Treasury Bills and Treasury Bonds Held to Maturity

Investments in Government Treasury Bills and Bonds Held to Maturity are reflected at the value of the Bills/Bonds purchased and the discount/premium accrued thereon and carried at these values till their maturity in the Balance Sheet. Discount received/premium paid is taken to the Income Statement based on a pattern reflecting a constant periodic rate of return.

Details of the Investments in Government Treasury Bills and Treasury Bonds Held to Maturity are given in Note 17 to the Financial Statements on page 275.

L 4 Securities Purchased under Re-sale Agreements

These are advances collateralised by purchase of Government Treasury Bills and Treasury Bonds from the public, subject to an agreement to resell them at a predetermined price. Such Securities remain on the Balance Sheet of the Bank and the asset is recognised in respect of the consideration paid.

The difference between the aforesaid predetermined price and the purchase price represents interest income and is recognised in the Income Statement over the period of the Resale Agreement based on a pattern reflecting a constant periodic rate of return.

Value of the Securities Purchased under Resale Agreements is given on page 275 on the face of the Balance Sheet.

L 5 Investments

L 5.1 Dealing Securities

These are marketable securities acquired and held with the intention of re-sale over a short period of time. Such securities are initially measured at cost and are subsequently measured at the market value as at the Balance Sheet date. Changes in market values are dealt through the Income Statement.

Details of the Dealing Securities are given in Note 18 to the Financial Statements on page 276.

L 5.2 Investments Held for Sale

These are investments classified as held for sale as at the Balance Sheet date. The Bank intends to recover the value of these assets principally through a sale transaction rather than continuing to hold. These assets are available for immediate sale in its present condition subject only to terms that are usual and customary for sale of such assets and its sale is highly probable.

As per the Sri Lanka Accounting Standard No. 38 (Revised 2006) on 'Non-Current Assets Held for Sale and Discontinued Operations', these assets are measured at the lower of the carrying amount and fair value, less costs to sell. Thereafter, the Bank assesses at each Balance Sheet date or more frequently if events or changes in circumstances indicate that the investment or a group of investment is impaired. The Bank recognises an impairment loss for any initial or subsequent write down of the assets to fair value less costs to sell and also recognises a gain for any subsequent increase in fair value less costs to sell of an asset, only to the extent of the cumulative impairment losses that have been recognised previously. As a result, the Bank neither amortise nor depreciate the assets classified as held for sale.

L 5.3 Investment Securities

These are acquired and held for yield or capital growth in the medium to long term with the positive intent and ability to hold until maturity. Such securities are recorded at cost and any unpaid interest/dividend accrued thereon up to the date of purchase is reported under Interest and Fees Receivable. The subsequent receipt of interest/dividend is allocated between pre-acquisition and post-acquisition periods and the pre-acquisition portion is deducted from such interest and fees receivable and the post-acquisition component of interest/dividend is dealt through the Income Statement as required by the Sri Lanka Accounting Standard No. 22 on 'Accounting for Investments'. Changes in market values of these securities are not taken into account, unless it is considered to be a diminution in value, which is other than temporary.

Details of the Investment Securities are given in Note 19 to the Financial Statements on page 279.

L 5.4 Investments in Associates

Investments in Associates are accounted for under the Cost Method in the Bank's Financial Statements and under the Equity Method in the Consolidated Financial Statements in accordance with the Sri Lanka Accounting Standard No. 27 (Revised 2005) on 'Investments in Associates'.

NOTES TO THE FINANCIAL STATEMENTS

Under the Equity Method, the Investments in Associates are initially accounted for at cost and the carrying amount is adjusted for post-acquisition changes in the Bank's share of net assets of the Associates, less any impairment in the Bank's net investments in Associates as detailed in Note H 2 on page 254.

Details of the Investments in Associates are given in Note 21 to the Financial Statements on page 287.

L 5.5 Investments in Subsidiaries

Investments in Subsidiaries are stated at cost in the Bank's Financial Statements in accordance with the Sri Lanka Accounting Standard No. 26 (Revised 2005) on 'Consolidated and Separate Financial Statements'.

Details of the Investments in Subsidiaries are given in Note 22 to the Financial Statements on page 288.

L 5.6 Significant Restrictions on Investments

The Group or the Bank does not encounter any significant restrictions on the reliability of the investments or the remittance of income and proceeds of disposal.

L 5.7 Unquoted Investments and Directors' Assessments of Fair Values

Details on Unquoted Investments and Directors' assessments of fair values are given in Notes 19, 21 and 22 to the Financial Statements on pages 279, 281 and 288 respectively.

L 6 Loans and Advances to Customers

Loans and Advances to Customers which include Bills of Exchange, Lease Receivable and Loans & Advances are stated in the Balance Sheet net of provisions for possible loan losses (both specific and general) and net of interest in suspense, which is not accrued to revenue.

L 6.1 Non-Performing Loans and Advances

Loans and advances which are in arrears of due capital and/or interest are classified as non-performing as per the Direction No. 03 of 2008 on 'Classification of Loans and Advances, Income Recognition and Provisioning for Licensed Commercial Banks in Sri Lanka', of the Central Bank of Sri Lanka and subsequent amendments thereto.

Details of the Non-Performing Loans and Advances are given in Note 20.4 to the Financial Statements on page 284.

L 6.2 Provision for Loan Losses

Provision for possible loan losses is made on the basis of a continuous review of all loans and advances to customers in accordance with the Sri Lanka Accounting Standard No. 23 on 'Revenue Recognition and Disclosures in the Financial Statements of the Banks' and the Directions issued by the Central Bank of Sri Lanka as detailed below.

L 6.2.1 Specific Provisions

Specific provisions for possible loan losses are made in accordance with the aforesaid Directions issued by the Central Bank of Sri Lanka and disclosures are made as required by the Sri Lanka Accounting

Standard No. 23 on 'Revenue Recognition and Disclosures in the Financial Statements of Banks'. As per the above Directions, the Licensed Commercial Banks are required to make specific provisions as shown in the table below. However, the Bank's provisioning policy is more stringent than the minimum specific provisions required by the Central Bank of Sri Lanka, as the Bank makes a full provision, based on the exposure net of security value as per the regulatory guidelines upon classification of loans and advances as substandard.

Categories of Non-Performing Credit Facilities	Minimum Specific Provisioning Requirement (%)	Bank's Provisioning Policy
Substandard - Credit cards	25	Please refer Note L 6.4.1
Others	20	100%
Doubtful - Credit cards	50	Please refer Note L 6.4.1
Others	50	100%
Loss - Credit cards	100	Please refer Note L 6.4.1
Others	100	100%

In addition, the value of security is further discounted on the 'Hair Cut Rule' imposed by the Central Bank of Sri Lanka, i.e., the extent up to which the Forced Sale Value (FSV) of immovable property that can be considered (as is given below) to arrive at the value of security in determining the provisioning for non-performing advances.

Item	Percentage of FSV of Immovable Property that can be Considered as the Value of Security			
	Minimum Hair Cut Requirement (%)		Bank's Policy (%)	
	Freehold Property	Leasehold Property	Freehold Property	Leasehold Property
At the first time of provisioning	75	60	75	60
Period in the loss category -				
Less than 12 months	75	60	75	60
More than 12 but less than 24 months	60	50	60	50
More than 24 but less than 36 months	50	40	50	40
More than 36 but less than 48 months	40	30	Nil	Nil
More than 48 months	40 or less	Nil	Nil	Nil

Further, in certain instances the Bank disregards the value of the security and makes provisions on a case-by-case basis.

When a loan is uncollectible, it is written-off against the related provision after completion of all necessary procedures in determining the amount of the loss. Subsequent recoveries of the amounts previously written-off are recognised under the caption, 'Bad debts recovered' in Note 6 on 'Other Income' in the Income Statement on page 269.

L 6.2.2 Statutory General Provisions

General provision was reduced at the rate of 0.1% per quarter on the total of performing and special mention loans and advances portfolio net of interest in suspense and advances secured by cash

NOTES TO THE FINANCIAL STATEMENTS

deposits, gold or Government Securities with the Bank, over 5 quarters commencing from fourth quarter 2010, as per paragraph 6 (1) (l) of the Direction No. 03 of 2010, issued by the Central Bank of Sri Lanka. Hence, the Bank fulfilled the above requirement to reduce the general provision to 0.5% on total performing and special mention loans and advances portfolio by December 31, 2011. The Bank is required to maintain the general provision at the rate of 0.5% on the total of performing and special mention loans and advances portfolio in future.

Details of the Provision for Loan Losses are given in Note 20.3 (b) to the Financial Statements on page 283.

L 6.3 Finance Leases (Bank as a Lessor)

Assets leased to customers which transfer substantially all the risks and rewards incidental to the ownership other than legal title are classified as finance leases as defined in the Sri Lanka Accounting Standard No. 19 (Revised 2005) on 'Leases'.

Amounts receivable under finance leases net of initial rentals received, unearned lease income and provision for net rentals doubtful of recovery are classified as Lease Receivable in the Balance Sheet.

Details of Lease Receivable are given in Note 20.2 to the Financial Statements on page 282.

L 6.3.1 Provision for Lease Receivable

Specific provisions have been made in relation to possible losses on leases receivable as stated in Note L 6.2.1 on page 258.

In addition, a general provision for possible losses on lease receivable is made as specified in Note L 6.2.2 above.

L 6.4 Credit Card Receivable

Amounts receivable on Credit Cards are included in loans and advances at the amounts expected to be recovered.

L 6.4.1 Provision for Credit Card Receivable

Provision for credit card receivable is made as follows:

Period Outstanding (in days)	Per CBSL Direction	Bank's Provisioning Policy		
	Classification	Minimum provisioning requirement (%)	General Provision (%)	Specific Provision (%)
Less than 90	Regular	0.5	3	N/A
More than 90 but less than 120	Special mention	0.5	3	N/A
More than 120 but less than 180	Substandard	25	N/A	35
More than 180 but less than 240	Doubtful	50	N/A	100
More than 240	Loss	100	N/A	100

L 6.5 Pawning Receivable

The Bank provides pawning facilities with two different maturity periods, namely, 6 months and 12 months. Amounts receivable on Pawning are included in Loans and Advances at the amounts expected to be recovered.

L 6.5.1 Provision for Pawning Receivable

A 100% specific provision is made on Pawning Receivable after discounting the value of the security, where no payment is received within six months from the contractual maturity date.

L 6.6 Receivable and Provisioning in relation to Shari'ah Compliant Advances

L 6.6.1 Ijara Receivable

Ijara is a Shari'ah compliant product which allows the Bank to purchase an item on behalf of a customer, who then leases the item from the Bank by paying a rental over a specific period. The duration of the Ijara and the value of the rental are agreed in advance. Ownership of the asset will remain in the hands of the Bank till the end of the Ijara period while the customer has the right to use the item. Upon the satisfactory settlement of all required rentals, the ownership of the item is transferred to the customer.

Amounts receivable under Ijara transactions are recorded in the Balance Sheet at the aggregate of Ijara Rental Receivable net of unearned Ijara Income, provisions for possible loan losses and profit in suspense.

L 6.6.1.1 Ijara Rental Receivable

Ijara Rental Receivable represents the gross rentals receivable under Ijara transactions, which are not yet fallen due.

L 6.6.1.2 Unearned Ijara Income

Unearned Ijara Income represents the profits relating to the rentals that are not yet fallen due.

L 6.6.2 Diminishing Musharaka Receivable

Diminishing Musharaka is a Shari'ah compliant product where the Bank finances the customer by entering into an arrangement to acquire co-ownership of an asset with the customer. The ownership ratios will be decided by the parties at inception. Thereafter, the share of the Bank in the asset is divided into units. The customer agrees with the Bank to purchase the Bank's share in the property in instalments during the course of their partnership, until all the units of the financier are purchased by the customer so as to make him the sole owner of the asset. By a separate lease agreement the customer is allowed to use the Bank's share in this asset for the payment of rentals.

Amounts receivable under Diminishing Musharaka are recorded in the Balance Sheet at amounts expected to be receivable at the Balance Sheet date (i.e., Diminishing Musharaka receivable after netting off the provisions for possible loan losses and profit in suspense).

L 6.6.3 Murabaha Receivable

Murabaha is a Shari'ah compliant product made available to the customers of Murabaha when the customer needs to purchase some goods (products/commodities) for short and medium term financing. The Bank in effect purchases the goods from the supplier, as per specification and requirement of the customer and sells them to the customer at a price including a mark-up. The customer is given time to settle the sales proceeds, with a fixed credit period.

NOTES TO THE FINANCIAL STATEMENTS

Amounts receivable under Murabaha are recorded in the Balance Sheet at amounts expected to be receivable at the Balance Sheet date (i.e., gross amounts receivable under Murabaha after netting off prepaid rentals, unearned income, provisions for possible loan losses and profit in suspense).

L 6.7 Provision for Loan Losses in relation to Shari'ah Compliant Advances

Specific and general provisions are made in relation to bad and doubtful receivable from the advances granted by the Islamic Banking Unit of the Bank in accordance with the Sri Lanka Accounting Standard No. 23 on 'Revenue Recognition and Disclosures in the Financial Statements of the Banks' and the Direction No. 03 of 2008 on 'Classification of Loans and Advances, Income Recognition and Provisioning for Licensed Commercial Banks in Sri Lanka' of the Central Bank of Sri Lanka and subsequent amendments thereto as detailed in Notes L 6.2 Provision for Loan Losses.

Details of provisions made in respect of Bills of Exchange, Lease Receivable and Loans & Advances (including provisions for Pawning and Credit Card Receivable, Receivable from Shari'ah compliant advances) as at the Balance Sheet date are given in Note 20.4 (c) to the Financial Statements on page 284.

L 7 Property, Plant & Equipment

The Group applies the requirements of the Sri Lanka Accounting Standard No. 18 (Revised 2005) on 'Property, Plant & Equipment' in accounting for its owned assets which are held for and use in the provision of services, for rental to others or for administrative purposes and are expected to be used for more than one year.

L 7.1 Basis of Recognition

Property, Plant & Equipment are recognised if it is probable that future economic benefits associated with the asset will flow to the Group and cost of the asset can be reliably measured.

L 7.2 Basis of Measurement

An item of Property, Plant & Equipment that qualifies for recognition as an asset is initially measured at its cost. Cost includes expenditure that is directly attributable to the acquisition of the asset and subsequent costs as explained in Note L 7.3 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 old items and restoring the site on which they are located. Purchased software which is integral to the functionality of the related equipment is capitalised as part of Computer Equipment.

L 7.2.1 Cost Model

The Group applies the Cost Model to all Property, Plant & Equipment except freehold land and freehold and leasehold buildings and records at cost of purchase together with any incidental expenses thereon, less accumulated depreciation and any accumulated impairment losses.

L 7.2.2 Revaluation Model

The Group applies the Revaluation Model for the entire class of Freehold Land and Freehold and Leasehold Buildings for measurement after initial recognition. Such properties are carried at a revalued amount, being their fair value at the date of revaluation, less any subsequent accumulated depreciation on buildings and any accumulated impairment losses charged subsequent to the date of valuation. Freehold Land and Buildings of the Bank are revalued at least once in 7 years to ensure that the carrying amounts do not differ materially from the fair values at the Balance Sheet date.

On revaluation of an asset, any increase in the carrying amount is credited directly to Equity, under Revaluation Reserve or used to reverse a previous loss on revaluation of the same asset, which was debited to the Income Statement. In this circumstance, the increase is recognised as income only to the extent of the previous write down in value. Any decrease in the carrying amount is recognised as an expense in the Income Statement or debited directly to the Revaluation Reserve under equity only to the extent of any credit balance existing in 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 Bank revalued all its Freehold Land & Buildings as at December 31, 2011.

L 7.3 Subsequent Cost

These are costs that are recognised in the carrying amount of an item if it is probable that the future economic benefits embodied within that part of the cost will flow to the Group and it can be reliably measured.

L 7.4 Restoration Cost

Expenditure incurred on replacements, repairs or maintenance of Property, Plant & Equipment in order to restore or sustain the future economic benefits expected from the originally assessed standard of performance is recognised as an expense when incurred.

L 7.5 Derecognition

An item of Property, Plant & Equipment is derecognised upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognising of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset), is recognised in the Income Statement in the year the asset is derecognised.

When replacement costs are recognised in the carrying amount of an item of Property, Plant & Equipment, the remaining carrying amount of the replaced part is derecognised as required by the Sri Lanka Accounting Standard No. 18 (Revised 2005) on 'Property, Plant & Equipment'.

L 7.6 Capital Work-in-Progress

These are expenses of a capital nature directly incurred in the construction of buildings, major plant and machinery and system development, awaiting capitalisation. These are stated in the Balance Sheet at cost.

NOTES TO THE FINANCIAL STATEMENTS

L 7.7 Depreciation

The provision for depreciation is calculated by using the straight line method on the cost or revalued amount of Property, Plant & Equipment other than Freehold Land, in order to write-off such amounts over the estimated useful economic lives of these assets by equal instalments at the rates specified below:

Class of Asset	% Per Annum	Period
Freehold and Leasehold Buildings	2.5	40 years
Motor Vehicles	20	5 years
Computer Equipment	16.67- 20	5-6 years
Office Equipment	20	5 years
Furniture & Fittings	10	10 years
Office Interior Work	10	10 years
Machinery & Equipment	10	10 years

The above rates are compatible with the rates used by all Group entities.

The depreciation 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.

The asset's residual value, useful life and method of depreciation are reviewed at each Balance Sheet date and adjusted prospectively, as changes in accounting estimates.

All classes of Property, Plant & Equipment together with the reconciliation of carrying amounts and accumulated depreciation at the beginning and at the end of the year are given in Note 23 to the Financial Statements on page 289.

L 8 Leasehold Property

Leasehold Property is stated at recorded carrying amount. Such carrying amounts are amortised over the remaining lease term or useful life of the Leasehold Property whichever is shorter. No revaluations of these leasehold properties are carried out.

Details of the Leasehold Property are given in Note 24 to the Financial Statements on page 295.

L 9 Intangible Assets

L 9.1 Basis of Recognition

An Intangible Asset is recognised if it is probable that future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably in accordance with the Sri Lanka Accounting Standard No. 37 on 'Intangible Assets'. Accordingly, these assets are stated in the Balance Sheet at cost, less accumulated amortisation and accumulated impairment losses, if any.

L 9.2 Subsequent Expenditure

Subsequent Expenditure on Intangible Assets is capitalised only when it increases the future economic benefits embodied in these assets. All other expenditure is charged to the Income Statement when incurred.

L 9.3 Useful Economic Lives, Amortisation and Impairment

The useful 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:

L 9.3.1 Intangible Assets with Finite Lives and Amortisation

Intangible Assets with finite lives are amortised over the useful economic lives. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each Balance Sheet date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the Income Statement as an expense.

L 9.3.1.1 Computer Software

All computer software costs incurred, licensed for use by the Group, which are not integrally related to associated hardware, which can be clearly identified, reliably measured and it is probable that they will lead to future economic benefits, are included in the Balance Sheet under the category of Intangible Assets and carried at cost, less accumulated amortisation and accumulated impairment losses, if any.

L 9.3.1.2 Copyright

Copyrights purchased is stated at cost, less accumulated amortisation and accumulated impairment losses, if any.

L 9.3.1.3 Amortisation of Intangible Assets

Intangible Assets are amortised using the straight line method to write down the cost over its estimated useful economic lives at the rates specified below:

Class of Asset	% Per Annum	Period
Computer Software	16.67	6 years
Copyright	20	5 years

The unamortised balances of Intangible Assets with finite lives are reviewed for impairment whenever there is an indication for impairment and recognised as expenses in the Income Statement to the extent that they are no longer probable of being recovered from the expected future benefits.

NOTES TO THE FINANCIAL STATEMENTS

L 9.3.2 Intangible Assets with Indefinite Lives

Intangible Assets with indefinite useful lives are not amortised but are tested for impairment annually either individually or at the cash-generating unit level as appropriate, when circumstances indicate that the carrying value is impaired. The useful life of an Intangible Asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

L 9.4 Derecognition of Intangible Assets

Intangible Assets are derecognised on disposal or when no future economic benefits are expected from its use. Gains or losses arising from derecognition of an Intangible Asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the Income Statement.

The Group has only acquired Intangible Assets, a list of which with the reconciliation of carrying amounts, accumulated amortisation at the beginning and at the end of the year is given in Note 26 to the Financial Statements on page 296.

Amortisation recognised during the year in respect of Intangible Assets is included under the item of 'Premises, Equipment and Establishment Expenses' in the Income Statement.

L 10 Impairment of Assets

The policy for all assets including the selection of the cash-generating units to allocate the Group's assets and goodwill for the purpose of assessing such assets for impairment as required by the Sri Lanka Accounting Standard No. 41 on 'Impairment of Assets', is as follows:

The Group assesses at each Balance Sheet date or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. If any such indication exists at the time of an annual impairment testing, the Group makes an estimate of the asset's recoverable amount. When the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) is considered impaired and is written down to its recoverable amount.

Impairment losses of continuing operations are recognised in the Income Statement under those expense categories consistent with the function of the impaired asset, except for property previously revalued where the 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 Balance Sheet date to determine whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised and the carrying amount of the asset is increased to its recoverable amount.

M. Liabilities and Provisions

M 1 Deposits from Customers

M 1.1 Deposits from Customers (Excluding Shari'ah Compliant Deposit Products)

These include non-interest bearing deposits, savings deposits, term deposits, deposits payable at call and certificates of deposit. These are stated in the Balance Sheet at amounts payable. Interest paid/payable on these deposits is charged to the Income Statement.

M 1.2 Mudaraba Deposits

Mudaraba, a Shari'ah compliant deposit product is an investment partnership where one partner provides full capital and the other one manages the business. Funds provided by the customer (Mudaraba Investor) are used by the Bank (Mudarib) to provide various types of advances.

Profits earned by utilising the funds are divisible between the Mudaraba Investor and the Mudarib on a predetermined ratio, while the losses are borne by the providers of the investments, the Mudaraba Investors.

Mudaraba Deposits are stated in the Balance Sheet at amounts payable.

M 2 Dividends Payable

Provision for dividends payable is recognised at the time the dividend is recommended and declared by the Board of Directors and approved by the shareholders in accordance with the Sri Lanka Accounting Standard No. 36 on 'Provisions, Contingent Liabilities and Contingent Assets' and the Sri Lanka Accounting Standard No. 12 (Revised 2005) on 'Events After the Balance Sheet Date'.

M 3 Borrowings

Borrowings include refinance borrowings, call money borrowings, credit balances in Nostro Accounts and borrowings from financial institutions and are shown at the gross value of the outstanding balance. These too are stated in the Balance Sheet at amounts payable. Interest paid/payable on these borrowings is charged to the Income Statement.

Details of the Borrowings are given in Note 28 to the Financial Statements on page 297.

M 4 Securities Sold Under Repurchase Agreements

These are borrowings collateralised by sale of Treasury Bills and Treasury Bonds held by the Bank to the counterparty from whom the Bank borrowed, subject to an agreement to repurchase them at a predetermined price. Such securities remain on the Balance Sheet of the Bank and the liability is recorded in respect of the consideration received.

The difference between the aforesaid predetermined price and the sale price represents interest expense and is recognised in the Income Statement evenly over the period of the Re-purchase Agreement.

Value of the Securities Sold under Repurchase Agreements is given on page 245 on the face of the Balance Sheet.

NOTES TO THE FINANCIAL STATEMENTS

M 5 Debentures

These represent the funds borrowed by the Bank for long term funding requirements. These are recorded in the Balance Sheet at amounts expected to be payable at the Balance Sheet date.

Details of Debentures are given in Note 30 to the Financial Statements on page 299.

M 6 Other Liabilities

Other Liabilities include interest, fees and expenses and amounts payable for gratuity/pensions and other provisions. These liabilities are recorded at amounts expected to be payable at the Balance Sheet date.

Details of Other Liabilities are given in Note 31 to the Financial Statements on page 300.

M 7 Provisions

A provision is recognised in the Balance Sheet when the Group has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation and the amount of the provision can be measured reliably in accordance with the Sri Lanka Accounting Standard No. 36 on 'Provisions, Contingent Liabilities and Contingent Assets'. The amount recognised is the best estimate of the consideration required to settle the present obligation at the Balance Sheet date, taking into account the risks and uncertainties surrounding the obligation at that date. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is determined based on the present value of those cash flows.

M 8 Derivative Instruments

The Bank in its ordinary course of business enters into transactions such as interest rate and foreign exchange contracts and uses Derivative Instruments to manage exposure to interest rates, foreign currencies, commodity price volatility, including exposure arising from forecast transactions. In order to account for such transactions, the Bank applies hedge accounting principles based on best accounting practices which are discussed below:

M 8.1 Basis of Recognition

Forward contracts, swaps, options and futures are recognised as Off-Balance Sheet Assets and Liabilities. Upon maturity or crystallisation of related Assets or Liabilities, the gains or losses are recognised in the Income Statement in the period in which maturity or crystallisation takes place. In situations where the gains or losses are recognised periodically prior to crystallisation of related Assets or Liabilities, such gains or losses are incorporated in determining the profit or loss for the relevant period.

M 8.2 Basis of Measurement

Exposure on commodity hedges are measured by taking the price differential between the strike price agreed and the market price as per contract on the exposure for the remaining contracted period. Community hedges denominated in foreign currency are converted to Sri Lankan Rupees based on the exchange rate ruling at each Balance

Sheet date. Exposure on forward contracts, swaps, options and futures are stated at values at which they are expected to crystallise at the Balance Sheet date.

M 8.3 Accounting for Hedging Transactions

At inception of hedging transactions, the Bank formally documents the relationship between the underlying hedged item and the hedging instrument including the nature of the risk, the objective and the strategy for undertaking the hedge and the method used to assess the effectiveness of the hedging relationship.

In addition, at the inception and on an ongoing basis, formal assessments are undertaken to ensure that the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. In situations where the hedged item is a forecast transaction, the Bank assesses whether the transaction is a highly probable one and evaluates the exposure to variations in cash flows that could ultimately affect the profit or loss for the period. The ineffective portion of the profit or loss of the hedging instrument is recognised immediately in the Income Statement.

M 9 Defined Benefit Plans (DBPs)

A Defined Benefit Plan is a post-employment benefit plan other than a Defined Contribution Plan as defined in Sri Lanka Accounting Standard No. 16 (Revised 2006) on 'Employee Benefits'.

M 9.1 Defined Benefit Pension Plans

M 9.1.1 Description of the Plans and Employee Groups Covered

The Bank operates three types of Defined Benefit Pension Plans for its employees as described below:

- (a) The Bank has an approved Pension Fund, which was established in 1992. As per the Deed of Trust, only those employees who were less than 45 years of age as at January 01, 1992 were covered by the Pension Fund in order to leave a minimum contribution for a period of 10 years before they are eligible to draw pension from the Pension Fund. Further, only the employees who joined the Bank on or before December 31, 2001, were in pensionable service of the Bank.

As detailed in Note M 10.1 on page 258, 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

NOTES TO THE FINANCIAL STATEMENTS

pensionable service of the Bank under either the DBP or DCP. However, if any of these employees resigns before retirement, the Bank is liable to pay gratuity to such employees. This liability although not funded has been provided for in full in the Financial Statements.

The Subsidiaries of the Bank do not operate Pension Funds.

M 9.1.2 Principal Actuarial Assumptions

The principal assumptions used in the valuation were as follows:

M 9.1.2.1 Financial Assumptions

Parameter	2011 (%)	2010 (%)
Discount Rate	10	10
Rate of Salary Increase	9	9

M 9.1.2.2 Demographic Assumptions

The demographic assumptions underlying the valuation are early withdrawals from service, retirement on medical grounds, death before and after retirement, disability, retirement age, etc.

M 9.1.3 Actuarial Valuation and Actuarial Valuation Method

The cost of providing benefits under the DBPs is determined separately for each plan using the Projected Unit Credit Actuarial Valuation Method, as per the Sri Lanka Accounting Standard No. 16 (Revised 2006) on 'Employee Benefits'.

M 9.1.4 Recognition of Actuarial Gains or Losses

Actuarial gains or losses are recognised in the Income Statement in the period in which they arise. The past service cost is recognised as an expense on a straight line basis over the period until the benefits become vested. If the benefits are already vested following the introduction of, or changes to a pension plan, past service cost is recognised immediately.

M 9.1.5 Recognition of Retirement Benefit Obligation

The defined benefit asset or liability comprises the present value of the defined benefit obligation, less past service cost not yet recognised and less the fair value of plan assets out of which the obligations are to be settled directly. The value of any asset is restricted to the sum of any past service cost not yet recognised and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

M 9.1.6 Results of Actuarial Valuation

The results of the annual actuarial valuation carried out as at December 31, 2011, by Messrs Actuarial and Management Consultants (Pvt) Ltd., are summarised below:

- (a) The liability on account of employees who are covered by the pension fund referred to in Note M 9.1.1 (a) above and did not opt for the restructured pension scheme and those employees who retired before the restructured pension scheme came into effect revealed

that there was a shortfall of Rs. 6.091 Mn. (Rs. 12.505 Mn. in 2010), to meet the present value of the promised retirement benefits payable by the Bank. The Bank provided this shortfall in full in its Financial Statements as at December 31, 2011.

The assets of this Fund are held separately from those of the Bank and are independently administered by the Trustees as per the provisions of the Trust Deed.

- (b) The liability on account of the pensions payable to those employees referred to in Note M 9.1.1 (b) above who retired on or before December 31, 2001, and on whose behalf the Bank could not make contributions to the Pension Fund for more than 10 years by December 31, 2001, revealed that the provision kept in the Financial Statements was insufficient to meet the present value of the promised retirement benefits amounting to Rs. 141.072 Mn. by Rs. 31.718 Mn. (Rs. 129.309 Mn. and Rs. 29.382 Mn. respectively in 2010). The Bank provided this shortfall in full in its Financial Statements as at December 31, 2011.
- (c) The provision kept for the Gratuity Liability in the Financial Statements referred to in Note M 9.1.1 (c) above was insufficient to meet the present value of the promised retirement benefits amounting to Rs. 250.618 Mn. by Rs. 72.288 Mn. (Rs. 185.076 Mn. and Rs. 65.441 Mn. respectively in 2010). The Bank provided this shortfall too in full in its Financial Statements as at December 31, 2011.

Impact to the profit or loss for the year under review, the movement during the year in these liabilities and other information on actuarial assumptions used are given in Notes 8, 31 and 38 to the Financial Statements on pages 270, 300 and 312 respectively.

M 10 Defined Contribution Plans (DCPs)

A Defined Contribution Plan is a post-employment plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligations to pay a further amount. Obligations to DCPs are recognised as an expense in the Income Statement as incurred. The Group has three such plans as explained in Notes M 10.1, M 10.2 and M 10.3 below.

Amounts recognised in the Income Statement as expenses on DCPs are given in Note 8 to the Financial Statements on page 270.

M 10.1 Defined Contribution Pension Plans

As explained in Note M 9.1.1, during 2006, the Bank restructured its pension scheme which was a DBP to a DCP. This restructured plan was offered on a voluntary basis to the eligible employees of the Bank. The scheme provides for lump sum payments instead of commuted/monthly pensions to the eligible employees at the point of their separation, in return for surrendering their pension rights. The lump sum offered consisted of a past service package and a future service package. The shortfall on account of the past service package in excess of the funds available in the Pension Fund was borne by the Bank in 2006.

NOTES TO THE FINANCIAL STATEMENTS

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.

M 10.2 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.

M 10.3 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.

M 11 Commitments and Contingencies

All discernible risks are accounted for in determining the amount of other liabilities as explained in Note M 6 on page 263. 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 No. 36 on 'Provisions, Contingent Liabilities and Contingent Assets'. Contingent Liabilities are not recognised in the Balance Sheet but are disclosed unless its occurrence is remote.

Details of the Commitments and Contingencies are given in Note 36 to the Financial Statements on page 310.

N. Income Statement

N 1 Revenue Recognition

N 1.1 Interest Income on Loans and Advances

In terms of the provisions of the Sri Lanka Accounting Standard No. 23 on 'Revenue Recognition and Disclosures in the Financial Statements of Banks', the interest receivable on loans and advances is recognised on an accrual basis.

N 1.2 Lease Income

In terms of the provisions of the Sri Lanka Accounting Standard No. 19 (Revised 2005) on 'Leases', the recognition of finance income on leasing is accounted, based on a pattern reflecting a constant periodic rate of return on capital outstanding.

The excess of aggregate lease rentals receivable over the cost of the leased assets constitutes the total unearned finance income at the commencement of a lease. The unearned finance income included in the lease rentals receivable is taken into revenue over the term of the lease commencing from the month in which the lease is executed in proportion to capital outstanding.

Finance income in respect of lease rentals due ceases to be taken to revenue when the relevant lease facilities are classified as non-performing as explained in Note L 6.1 on page 284. Thereafter, such income is recognised on cash basis, until the facility is re-classified as performing or is settled in full. In addition, interest accrued up to the date of classification as non-performing leases is also reversed from the interest income and transferred to interest in suspense which is netted in the Balance Sheet against the relevant lease receivable.

N 1.3 Revenue Recognition on Non-Performing Loans

When Loans and Advances are classified as non-performing based on criteria as set out in Note L 6.1 on page 284, interest ceases to be recognised on such Loans and Advances. Thereafter, interest income on these Loans and Advances is recognised on a cash basis, until the facility is re-classified as performing or is settled in full. Interest falling due on non-performing Loans and Advances is credited to interest in suspense account which is netted in the Balance Sheet against the relevant Loans and Advances.

N 1.4 Income from Shari'ah Compliant Advances

N 1.4.1 Ijara Income

Profits arising from Ijara assets are recognised over the term of the Ijara, commencing from the month in which the Ijara is executed so as to yield a constant periodic rate return on these assets.

N 1.4.2 Murabaha Income

Profits arising from Murabaha transactions which will be paid by means of one payment on the maturity date due either within or after the current financial period is recognised so as to earn a constant periodic rate of return on these assets.

N 1.4.3 Diminishing Musharaka Income

Profits arising from Diminishing Musharaka assets are recognised over the term of the Diminishing Musharaka, commencing from the month in which the lease is executed so as to yield a constant periodic rate of return on these assets.

N 1.4.4 Revenue Recognition on Non-Performing Shari'ah Compliant Advances

Profits arising from Shari'ah Compliant Advances classified as non-performing are accounted for on a cash basis. Profits falling due on non-performing advances are credited to profit in suspense account.

N 1.5 Income from Government Securities and Securities Purchased under Resale Agreements

Discounts/premiums on Treasury Bills and Treasury Bonds are amortised over the period to reflect a constant periodic rate of return. The coupon interest on Treasury Bonds is recognised on an accrual

NOTES TO THE FINANCIAL STATEMENTS

basis. The interest income on Securities Purchased under Resale Agreements are recognised in the Income Statement on an accrual basis over the period of the Agreement.

N 1.6 Income on Discounting of Bills of Exchange

Income on Discounting of Bills of Exchange is recognised on a cash basis.

N 1.7 Fees and Commission Income

The Bank recognises Fees and Commission Income from a diverse range of services it provides to its customers on a cash basis. This includes fees and commission income arising on financial services provided by the Bank including Trade Finance, Travel, Investment Banking, e-Banking, Legal Services, Derivative Transactions, etc.

N 1.8 Dividend Income on Shares

Dividend Income on Shares is recognised on an accrual basis only when the Bank's right to receive the dividend is established.

N 1.9 Interest Income on Investments in Debentures and Trust Certificates

Interest Income on Investments in Debentures and Trust Certificates is recognised on an accrual basis.

N 1.10 Rental Income

Rental Income is recognised on an accrual basis.

N 1.11 Interest and Fees Receivable on Credit Cards

Interest and Fees Receivable on Credit Cards are recognised on an accrual basis. Interest and fees cease to be taken into revenue when the recovery of minimum payment is in arrears for over three months. Thereafter, interest and fees are accounted for on a cash basis.

N 1.12 Gains and/or Losses on Disposal of Property, Plant & Equipment, Non-Current Investments Held for Sale, Dealing Securities and Investment Securities

Gains and/or Losses resulting from the Disposal of Property, Plant & Equipment, Non-Current Investments Held for Sale, Dealing Securities and Investment Securities are accounted for on a cash basis in the Income Statement, in the period in which the sale occurs.

N 2 Interest on Deposits, Borrowings, Securities Sold under Repurchase Agreements and Other Fund-Based Operations

In terms of the provisions of the Sri Lanka Accounting Standard No. 23 on 'Revenue Recognition and Disclosures in the Financial Statements of Banks', the Interest on Deposits and Borrowings and other fund-based expenses payable are recognised on an accrual basis in the Income Statement. The interest expenses on Securities Sold under Repurchase Agreements are recognised in the Income Statement on an accrual basis over the period of the agreement to reflect a constant periodic rate of return.

N 3 Fees and Commission Expenses

The Bank recognises Fees and Commission Expenses on an accrual basis.

N 4 Borrowing Costs

Costs incurred in respect of funds specifically obtained for the acquisition of Property, Plant & Equipment are recognised as an expense in the Income Statement, in the period in which they are incurred in terms of the Sri Lanka Accounting Standard No. 20 on 'Borrowing Costs'.

N 5 Terminal Benefits

The amounts paid as pension to those employees who are not covered by the previous Pension Fund as per Note M 9 on page 263 and retiring gratuity paid, are treated as a reduction of the provisions created in this regard. Any shortfall between the actuarially valued liabilities and the balances outstanding in these provision accounts is recognised immediately as an expense in the Income Statement in the period of the valuation. The actual amounts paid as pension to those employees who are covered by the Pension Fund are borne by the Retirement Pension Fund.

N 6 Recognition of Expenses on Shari'ah Compliant Deposits

N 6.1 Profits Payable to the Mudaraba Investors

Profit payable is recognised on an accrual basis and credited to the Mudaraba Investor's account when the profit is due.

N 6.2 Mudarib's (Fund Manager's) Share of Profit

The Mudarib's Share of Profit is paid to the Fund Manager from the gross profit earned from the advances and such profits are apportioned between the Mudarib and the Mudaraba Investors as follows.

Mudaraba Investment Type	Mudarib's Share (%)	Mudaraba Investor's Share (%)
Savings	55	45
3 months	45	55
6 months	35	65
12 months	25	75

O. Cash Flow Statement

The Cash Flow Statement has been prepared by using the 'Direct Method' of preparing cash flows in accordance with the Sri Lanka Accounting Standard No. 09 on 'Cash Flow Statements', 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 Cash Flow Statement are comprised of those items as explained in Note L 1 on page 256.

The Cash Flow Statement is given on pages 248 and 249.

NOTES TO THE FINANCIAL STATEMENTS

P. Segment Reporting

A Segment is a distinguishable component of the Group that is engaged in providing services (Business Segment) or in providing services within a particular economic environment (Geographical Segment) which is subject to risks and rewards that are different from those of other segments.

In accordance with the Sri Lanka Accounting Standard No. 28 on 'Segment Reporting', segmental information is presented in respect of the Group based on the Group's management and internal reporting structure, as shown below:

Primary Segments	Business Segments	Banking, Leasing, Dealing and Investments
Secondary Segments	Geographical Segments	Sri Lanka Operations and International Operations

For the purpose of Segment Reporting disclosures, segment results, assets and liabilities include items directly attributable to a segment, as well as those that can be allocated on a reasonable basis. Unallocated items are comprised of mainly Head Office expenses.

Inter-segment transactions are accounted for at fair market prices charged to inter-bank counterparts for similar services on an arm's length basis. Such transfers are eliminated on consolidation.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one accounting period.

Details of financial reporting by segment as required by the Sri Lanka Accounting Standard No. 28 on 'Segment Reporting' are given in Note 39 to the Financial Statements on pages 314 and 315.

Q. Fiduciary Assets

Assets held in a fiduciary capacity are not reported in these Financial Statements as they do not belong to the Bank.

R. Dividends on Ordinary Shares

Dividends on Ordinary Shares are recognised as a liability and deducted from Equity when they are approved by the Bank's Shareholders. Interim dividends are deducted from Equity when they are declared and are no longer at the discretion of the Bank.

Dividends on Ordinary Shares for the year that are recommended by the Directors after the Balance Sheet date for approval of the Shareholders at the forthcoming Annual General Meeting are disclosed in Note 41 to the Financial Statements on page 320.

S. Equity Compensation Benefits

The details of Employee Share Option Plans are given in Notes 32 (b) and 32 (c) to the Financial Statements on pages 302 and 303.

T. 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 dividing the profit or loss attributable to the Ordinary Shareholders by the weighted average number of Ordinary Shares outstanding adjusted for the effects of all dilutive potential Ordinary Shares, which comprise share options granted to employees.

The details of Earnings per Share are given in Note 12 to the Financial Statements on page 273.

NOTES TO THE FINANCIAL STATEMENTS

	GROUP		BANK	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
2. INCOME				
Interest income [Refer Note 3]	37,599,666	34,689,151	37,639,180	34,739,889
Foreign exchange profit	2,321,623	1,740,949	2,321,623	1,740,949
Fees and commission income [Refer Note 5]	3,799,503	3,219,925	3,799,616	3,220,002
Other income [Refer Note 6]	1,744,572	1,831,737	1,722,970	1,820,691
Total	45,465,364	41,481,762	45,483,389	41,521,531
3. INTEREST INCOME				
Customer advances	28,657,714	23,551,507	28,697,304	23,602,293
Treasury Bills, Bonds and other Money Market instruments	8,673,095	10,867,268	8,673,110	10,867,268
Loans at call	176,192	55,026	176,192	55,026
Interest rate Swaps	4,320	45,841	4,320	45,841
Placements with banks	88,254	169,461	88,254	169,461
Other	91	48	-	-
Total	37,599,666	34,689,151	37,639,180	34,739,889

Since April 1, 2002, net interest income from Treasury Bills and Treasury Bonds has been grossed up by adding the notional tax credit, consequent to the interest income on Treasury Bills and Treasury Bonds being subjected to withholding tax as detailed in Note 11.3.

	GROUP		BANK	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
4. INTEREST EXPENSES				
Customer deposits	15,411,938	14,142,249	15,416,177	14,144,252
Repurchase agreements and other Money Market instruments	3,294,537	3,156,382	3,305,293	3,167,186
Deposits at call	98,981	59,808	98,981	59,808
Interest rate Swaps	4,281	43,301	4,281	43,301
Due to banks	111,828	68,020	111,828	68,020
Debentures	228,547	374,319	228,547	374,319
Refinance borrowings	477,831	471,571	477,831	471,571
Total	19,627,943	18,315,650	19,642,938	18,328,457
5. FEES AND COMMISSION INCOME				
Trade and other related activities	1,633,324	1,402,233	1,633,324	1,402,233
Personal banking	230,696	233,450	230,809	233,527
Foreign remittances	166,397	162,336	166,397	162,336
Electronic banking	892,093	666,177	892,093	666,177
Professional services	123,460	98,705	123,460	98,705
Other Fees and Commission Income	753,533	657,024	753,533	657,024
Total	3,799,503	3,219,925	3,799,616	3,220,002

NOTES TO THE FINANCIAL STATEMENTS

	GROUP		BANK	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
6. OTHER INCOME				
Income from investments [Refer Note 6 (a)]	140,710	367,633	178,347	406,399
Bad debts recovered/Reversal of excess provision	1,069,845	1,019,211	1,069,845	1,019,211
Recovery of loans written off in prior years	198,258	88,707	198,258	88,707
Other operating income [Refer Note 6 (b)]	335,759	356,186	276,520	306,374
Total	1,744,572	1,831,737	1,722,970	1,820,691
6 (a) Income from Investments				
Income from investment securities (quoted)	57,189	29,642	57,189	29,642
Income from investment securities (unquoted)	277,901	134,094	277,901	134,094
Income from investments in Associates (unquoted)	2,464	3,590	2,055	3,158
Income from investments in Subsidiaries (quoted)	-	-	34,082	34,108
Income from investments in Subsidiaries (unquoted)	-	-	1,500	1,500
Income from investments in Dealing Securities	16,044	4,493	16,044	4,493
Gain/(loss) on Marked to Market Valuation on shares/Debentures	(44,344)	18,342	(44,344)	18,342
Gain/(loss) on Marked to Market Valuation on Treasury Bills and Bonds	(166,080)	181,062	(166,080)	181,062
Less: Dividends received from Associate Companies transferred to the Investments in Associate Companies (Refer Note 21)	(2,464)	(3,590)	-	-
Total	140,710	367,633	178,347	406,399
6 (b) Other Operating Income				
Capital gain on sale of shares	15,155	58,468	15,155	58,468
Capital gain on sale of Treasury Bills and Bonds	26,129	161,463	26,129	161,463
Profit on sale of Property, Plant & Equipment	30,950	7,559	26,114	3,070
Bullion Trading	133,160	36,749	133,160	36,749
Rentals and other income	130,365	91,947	75,962	46,624
Total	335,759	356,186	276,520	306,374
7. OPERATING EXPENSES				
Operating expenses include the following:				
Directors' Remuneration	76,857	52,550	75,945	51,860
Auditors' Remuneration	14,053	12,301	10,551	7,587
Non-Audit fees to Auditors	3,817	3,724	3,162	3,477
Pensions provided o/a Past Employees	31,719	41,887	31,719	41,887
Depreciation of Property, Plant & Equipment	734,115	629,050	648,543	537,657
Amortisation of Leasehold Property	1,452	1,452	942	942
Amortisation of Intangible Assets	98,172	84,260	98,118	84,238
Professional and legal expenses	221,004	182,270	221,004	181,427
Advertising and marketing expenses	281,987	188,050	281,822	187,764
Donation to Corporate Social Responsibility (CSR) Trust	80,000	55,000	80,000	55,000
Donations to Approved and Unapproved Charities	29,964	3,290	29,964	3,290
Employer's contribution to Employees' Provident Fund	301,773	275,473	298,078	272,433
Employer's contribution to Employees' Trust Fund	72,409	66,091	71,486	65,331
Financial Value Added Tax (VAT) on profits	1,522,972	2,708,918	1,522,972	2,708,918

NOTES TO THE FINANCIAL STATEMENTS

	GROUP		BANK	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
8. PROVISION FOR STAFF RETIREMENT BENEFITS				
Gratuity expense [Refer Note 31 (a) (i)]	89,691	79,287	86,750	77,625
Contribution made to Unfunded Pension Scheme [Refer Note 31 (b) (i)]	31,719	29,382	31,719	29,382
Contribution made to Defined Pension Plans	396,665	370,011	396,665	370,011
Contribution made to Widows' & Orphans' Pension Fund	33	30	33	30
Total	518,108	478,710	515,167	477,048
9. LOAN LOSSES AND PROVISIONS				
Provision for Bad & Doubtful Debts:				
Specific provision on Bills of Exchange [Refer Note 20.1 (a)]	9,142	3,607	9,142	3,607
Specific provision on loans & advances [Refer Note 20.3 (b)]	1,880,004	877,776	1,880,004	877,776
Specific provision on lease receivable [Refer Note 20.2 (d)]	90,152	147,685	90,152	147,685
Total [Refer Note 20.4 (a)]	1,979,298	1,029,068	1,979,298	1,029,068
General provision/(reversal) on Bills of Exchange [Refer Note 20.1 (a)]	(9,000)	5,700	(9,000)	5,700
General provision/(reversal) on loans & advances [Refer Note 20.3 (b)]	(493,731)	128,499	(493,731)	128,499
General provision on lease receivable [Refer Note 20.2 (d)]	3,185	22,832	3,185	22,832
Total [Refer Note 20.4 (b)]	(499,546)	157,031	(499,546)	157,031
Total provisions made during the year	1,479,752	1,186,099	1,479,752	1,186,099
Direct write-offs	23,475	6,039	23,475	6,039
Total	1,503,227	1,192,138	1,503,227	1,192,138
10. SHARE OF PROFIT OF ASSOCIATES				
Equity Investments Lanka Ltd.	6,875	8,273	-	-
Commercial Insurance Brokers (Pvt) Ltd.	2,238	2,535	-	-
Total	9,113	10,808	-	-

NOTES TO THE FINANCIAL STATEMENTS

11. INCOME TAX EXPENSE

11.1 Entity-wise Breakup of the Income Tax Expense is as follows:

	GROUP		BANK	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
Bank				
Income tax expense of Domestic Banking Unit	2,008,749	3,007,452	2,008,749	3,007,452
Income tax expense of Off-Shore Banking Centre	253,690	228,617	253,690	228,617
Income tax expense of Bangladesh Operations	596,317	629,173	596,317	629,173
(Over)/Under provision for taxes in respect of prior years	(223,522)	-	(223,522)	-
Deferred Tax Charge/(Reversal)	304,333	(71,142)	304,333	(71,142)
	2,939,567	3,794,100	2,939,567	3,794,100
Subsidiaries				
Income tax expense of Commercial Development Company PLC	30,450	(6,946)	-	-
Income tax expense of ONEzero Company Ltd.	2,327	3,048	-	-
Associates				
Share of Income tax expense of Equity Investments Lanka Ltd.	18	60	-	-
Share of Income tax expense of Commercial Insurance Brokers (Pvt) Ltd.	1,106	210	-	-
Total	2,973,468	3,790,472	2,939,567	3,794,100
Effective tax rate (excluding deferred tax)			21.07%	41.48%

The Bank's and Subsidiaries, income tax for 2011 and 2010 have been provided on the taxable income at the rates shown below :

	2011 %	2010 %
Domestic operations of the Bank	28.0	35.0
On-shore banking operations of the Off-Shore Banking Centre of the Bank	28.0	35.0
Off-shore banking operations of the Off-Shore Banking Centre of the Bank	28.0	20.0
Banking operation in Bangladesh	42.5	42.5
Commercial Development Company PLC	10.0	35.0
ONEzero Company Ltd.	10.0	35.0

NOTES TO THE FINANCIAL STATEMENTS

11.2 A Reconciliation between Tax Expense and the Product of Accounting Profit Multiplied by the Statutory Tax Rate is as follows:

	Tax Rate		GROUP		BANK	
	2011 %	2010 %	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
Accounting profit before tax from operations			11,059,507	9,289,658	10,987,395	9,317,393
Tax effect at the statutory income tax rates-						
Domestic Operations of the Bank	28.0	35.0	2,870,910	2,553,399	2,870,910	2,553,399
Operations of the Off-Shore Banking Centre of the Bank (On-shore and Off-shore)	28.0	35.0 & 20.0	231,544	160,582	231,544	160,582
Bangladesh operation	42.5	42.5	606,106	680,707	606,106	680,707
Subsidiaries	10.0 - 35.0	35.0	18,090	24,085	-	-
			3,726,650	3,418,773	3,708,560	3,394,688
Tax effect of exempt income			(449,204)	(534,441)	(449,204)	(534,441)
Tax effect of non-deductible expenses			2,477,337	3,407,358	2,477,202	3,362,784
Tax effect of deductible expenses			(2,877,905)	(2,456,799)	(2,877,801)	(2,407,129)
Share of Income Tax expense of Associates			1,124	346	-	-
Social Responsibility Levy at 1.5% of Income tax			108	49,774	-	49,340
(Over)/Under provision of taxes in respect of prior years			(222,286)	98	(223,523)	-
Deferred tax charge/(reversal) [Refer Note 29]			317,644	(94,637)	304,333	(71,142)
Income Tax expense reported in the Income Statement at the effective income tax rate			2,973,468	3,790,472	2,939,567	3,794,100

11.3 Notional Tax Credit for withholding tax on Government Securities on Secondary Market Transactions

The Inland Revenue Act No. 10 of 2006 and the amendments thereto, provide that a company which derives interest income from the secondary market transactions 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. 351.687 Mn. and Rs. 350.026 Mn. respectively (Rs. 572.930 Mn. and Rs. 572.930 Mn. respectively in 2010).

NOTES TO THE FINANCIAL STATEMENTS

12. EARNINGS PER SHARE (EPS)

Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the parent by the weighted average number of ordinary shares in issue (both voting and non-voting) during the year, as required by the Sri Lanka Accounting Standard No. 34 (Revised 2005) on 'Earnings Per Share'. The weighted average number of ordinary shares outstanding during the year and the previous year were adjusted on account events that have changed the number of ordinary shares outstanding, without a corresponding change in the resources, such as share splits.

Diluted earnings per share is calculated by dividing the net profit attributable to equity holders of the parent by the weighted average number of ordinary shares outstanding during the year (both voting and non-voting) adjusted for the effects on potential dilution in the event that options issued under ESOPs being converted to ordinary shares.

The following table shows the earnings and number of shares used in the basic and dilutive earnings per share calculation.

	GROUP		BANK	
	2011	2010	2011	2010
Amounts used as the Numerator:				
Net Profit attributable to equity holders of the Parent (Rs. '000)	8,094,887	5,507,500	8,047,828	5,523,293
Net Profit attributable to equity holders of the Parent for basic and diluted earnings per share (Rs. '000)	8,094,887	5,507,500	8,047,828	5,523,293
Number of Ordinary Shares used as the Denominator:				
Weighted Average Number of Ordinary Shares	801,933,964	765,000,870	801,933,964	765,000,870
Weighted Average Number of Ordinary Shares used for basic EPS calculation	801,933,964	765,000,870	801,933,964	765,000,870
Effect of Dilution:				
Number of outstanding options under ESOP 2008, as at the year end [Refer Note 32 (b)]	10,360,082	4,360,746	10,360,082	4,360,746
Number of outstanding options under ESOP 2002, as at the year end [Refer Note 32 (c)]	-	762,171	-	762,171
Weighted Average Number of Ordinary Shares adjusted for the effect of dilution	812,294,046	770,123,787	812,294,046	770,123,787
Basic earnings per share (Rs.)	10.09	7.20	10.04	7.22
Diluted earnings per share (Rs.)	9.97	7.15	9.91	7.17

13. DIVIDENDS

	GROUP		BANK	
	2011 Interim Rs. 2.50 (Paid during 2011) Rs. '000	2010 Interim Rs. 3.00 (Paid during 2010) Rs. '000	2011 Interim Rs. 2.50 (Paid during 2011) Rs. '000	2010 Interim Rs. 3.00 (Paid during 2010) Rs. '000
On Ordinary Shares				
Net dividend paid to the Ordinary Shareholders	1,854,690	1,026,085	1,854,690	1,026,085
Withholding tax deducted at source	188,935	106,218	188,935	106,218
Gross ordinary dividend paid	2,043,625	1,132,303	2,043,625	1,132,303

Two interim dividends of Rs. 1.50 and Rs. 1.00 per share respectively, totalling to Rs. 2.50 per share was paid in November and December 2011 to both the voting and non-voting ordinary shareholders of the Bank. (Total interim dividends paid for the year 2010 was Rs. 3.00 per share).

The Board of Directors of the Bank has recommended the payment of a final dividend of Rs. 3.50 per share consisting of a cash dividend of Rs. 1.50 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 the voting and non-voting ordinary shareholders of the Bank for the year ended December 31, 2011 (Bank declared a final dividend of Rs. 4.00 per share in 2010 and this was satisfied by way of Rs. 2.00 per share in the form of cash and Rs. 2.00 per share in the form of shares) which will be declared at the forthcoming Annual General Meeting to be held on March 30, 2012. In accordance with the provisions of the Sri Lanka Accounting Standard 12 (Revised -2005) on 'Events After the Balance Sheet Date', this proposed final dividend has not been recognised as a liability as at the year end. Final dividends payable for the year 2011 amounts to Rs. 2,861.076 Mn. (Rs. 1,513.646 Mn. for 2010). (See Note 41 'Events After the Balance Sheet Date' on page 320).

NOTES TO THE FINANCIAL STATEMENTS

14. RETAINED EARNINGS

	GROUP		BANK	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
Commercial Bank of Ceylon PLC	2,791,218	1,441,717	2,865,429	1,515,928
Retained Earnings	2,865,429	1,515,928	-	-
Goodwill written-off on acquisition of Commercial Development Company PLC	(74,211)	(74,211)	-	-
Subsidiary Companies				
Commercial Development Company PLC	(15,321)	(11,098)	-	-
Retained Earnings	70,413	51,627	-	-
Depreciation/Amortisation on re-classification of Investment Property	(85,734)	(62,725)	-	-
ONEzero Company Ltd.	61,003	43,466	-	-
Commex - Sri Lanka S.R.L.	(6,165)	(32,927)	-	-
Associate Companies				
Equity Investments Lanka Ltd.	13,209	8,407	-	-
Commercial Insurance Brokers (Pvt) Ltd.	27,467	25,286	-	-
Total	2,871,411	1,474,851	2,865,429	1,515,928

15. CASH AND SHORT TERM FUNDS

Coins and notes held in local currency	7,926,727	5,610,040	7,902,721	5,562,824
Coins and notes held in foreign currency	612,124	573,927	612,124	573,927
Due from Banks	14,836,254	3,840,297	14,836,254	3,840,297
Money at call and at short notice	1,660,211	579,942	1,660,211	579,942
Total	25,035,316	10,604,206	25,011,310	10,556,990

The Bank did not make payments to counterparty banks for the oil hedging transactions with effect from June 02, 2009 in response to a Directive received from the Exchange Controller of the Central Bank of Sri Lanka. Consequently, one of the counterparty banks appropriated USD 4.172 Mn. (Rs. 475.380 Mn.) which was kept as a deposit with them. This action has been contested by the Bank. In view of the stance taken by the Bank in this regard, both the deposit and the amount due to the said counterparty bank were recorded in the Balance Sheet.

16. BALANCES WITH CENTRAL BANKS

	GROUP		BANK	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
Current Account with the Central Bank of Sri Lanka	15,354,543	10,110,850	15,354,543	10,110,850
Current Account with the Bangladesh Bank	1,988,416	2,077,984	1,988,416	2,077,984
Total	17,342,959	12,188,834	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, 2011 the minimum cash reserve requirement was 8.00% of the rupee deposit liabilities. (7.00% in 2010). 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 2010) on time and demand liabilities, which includes a 6.00% (6.00% in 2010) 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.

NOTES TO THE FINANCIAL STATEMENTS

17. GOVERNMENT TREASURY BILLS AND BONDS

	GROUP		BANK	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
17.1 Government Treasury Bills and Treasury Bonds held for Trading				
Government Treasury Bills and Bonds held for Trading (Gross)	11,708,548	14,564,615	11,708,548	14,564,615
Gain/(loss) on Marked to Market Valuation	(32,763)	232,207	(32,763)	232,207
Total	11,675,785	14,796,822	11,675,785	14,796,822

17.2 Government Treasury Bills and Treasury Bonds held to Maturity

Government Treasury Bills and Bonds held to Maturity	63,506,388	74,975,107	63,506,388	74,975,107
Treasury Bonds Maturing after one year	24,932,319	24,768,683	24,932,319	24,768,683
Total	88,438,707	99,743,790	88,438,707	99,743,790
Government Treasury Bills and Treasury Bonds - Total	100,114,492	114,540,612	100,114,492	114,540,612

17.3 Assets Pledged

Nature of Assets	Nature of Liability				
Government Treasury Bills and Bonds	Securities sold under repurchase agreements	42,580,875	46,788,861	42,580,875	46,788,861
		42,580,875	46,788,861	42,580,875	46,788,861

17.4 Details of Government Treasury Bills and Treasury Bonds held to Maturity - Bank

Year of Maturity	2011		2010	
	Face Value Rs. '000	Market Value Rs. '000	Face Value Rs. '000	Market Value Rs. '000
17.4 (a) Government Treasury Bills				
2010	-	-	63,782,214	61,805,599
2011	47,483,125	45,903,707	-	-
Sub Total	47,483,125	45,903,707	63,782,214	61,805,599
17.4 (b) Government Treasury Bonds				
2011	-	-	5,300,000	5,349,103
2012	6,800,000	6,774,788	2,000,000	2,055,632
2013	2,960,600	3,011,740	1,760,600	1,858,938
2014	2,150,000	2,171,798	2,050,000	2,144,017
2015	1,400,000	1,450,176	850,000	904,012
2016	812,777	185,026	812,777	785,561
2020	250,000	194,871	250,000	197,585
Sub Total	14,373,377	13,788,399	13,023,377	13,294,848

NOTES TO THE FINANCIAL STATEMENTS

Year of Maturity	2011		2010	
	Face Value Rs. '000	Market Value Rs. '000	Face Value Rs. '000	Market Value Rs. '000
17.4 (c) Sri Lanka Development Bonds/Sovereign Bonds				
2011	-	-	7,784,000	7,840,990
2012	2,964,000	2,977,389	9,229,600	9,375,660
2013	6,498,000	6,473,633	5,560,000	5,650,350
2014	7,410,000	7,305,975	-	-
2015	2,622,000	2,524,103	-	-
2016	3,420,000	3,274,650	-	-
Sub Total	22,914,000	22,555,750	22,573,600	22,867,000
Total of Note 17.4 (a)+ 17.4 (b)+ 17.4 (c)	84,770,502	82,247,856	99,379,191	97,967,447

18. DEALING SECURITIES

	GROUP				BANK			
	As at December 31, 2011		As at December 31, 2010		As at December 31, 2011		As at December 31, 2010	
	Cost Rs. '000	Market Value Rs. '000	Cost Rs. '000	Market Value Rs. '000	Cost Rs. '000	Market Value Rs. '000	Cost Rs. '000	Market Value Rs. '000
Quoted: SHARES								
Tokyo Cement Company (Lanka) PLC (364,050 Non-Voting Ordinary Shares) (470,450 Non-Voting Ordinary Shares as at Dec. 31, 2010)	11,490	11,104 (@ Rs. 30.50)	14,865	18,934 (@ Rs. 40.30)	11,490	11,104 (@ Rs. 30.50)	14,865	18,934 (@ Rs. 40.30)
Dipped Products PLC (200,000 Ordinary Shares) (87,100 Ordinary Shares as at Dec. 31, 2010)	24,239	21,300 (@ Rs. 106.50)	10,539	10,452 (@ Rs. 120.00)	24,239	21,300 (@ Rs. 106.50)	10,539	10,452 (@ Rs. 120.00)
Lanka IOC PLC (250,000 Ordinary Shares) (250,000 Ordinary Shares as at Dec. 31, 2010)	4,925	4,625 (@ Rs. 18.50)	4,925	4,725 (@ Rs. 18.90)	4,925	4,625 (@ Rs. 18.50)	4,925	4,725 (@ Rs. 18.90)
Dialog Axiata PLC (612,500 Ordinary Shares) (1,759,600 Ordinary Shares as at Dec. 31, 2010)	6,757	4,778 (@ Rs. 7.80)	20,930	20,796 (@ Rs. 11.80)	6,757	4,778 (@ Rs. 7.80)	20,930	20,796 (@ Rs. 11.80)
ACL Cables PLC (82,100 Ordinary Shares) (10,800 Ordinary Shares as at Dec. 31, 2010)	7,595	6,075 (@ Rs. 74.00)	983	919 (@ Rs. 85.10)	7,595	6,075 (@ Rs. 74.00)	983	919 (@ Rs. 85.10)
Pelwatte Sugar Industries PLC (12,300 Ordinary Shares) (12,300 Ordinary Shares as at Dec. 31, 2010)	351	289 (@ Rs. 23.50)	351	337 (@ Rs. 27.40)	351	289 (@ Rs. 23.50)	351	337 (@ Rs. 27.40)
Overseas Reality Ceylon PLC (174,000 Ordinary Shares) (500,000 Ordinary Shares as at Dec. 31, 2010)	2,512	2,436 (@ Rs. 14.00)	8,056	7,650 (@ Rs. 15.30)	2,512	2,436 (@ Rs. 14.00)	8,056	7,650 (@ Rs. 15.30)

NOTES TO THE FINANCIAL STATEMENTS

	GROUP				BANK			
	As at December 31, 2011		As at December 31, 2010		As at December 31, 2011		As at December 31, 2010	
	Cost Rs. '000	Market Value Rs. '000	Cost Rs. '000	Market Value Rs. '000	Cost Rs. '000	Market Value Rs. '000	Cost Rs. '000	Market Value Rs. '000
Distilleries Company of Sri Lanka PLC (305,000 Ordinary Shares) (151,800 Ordinary Shares as at Dec. 31, 2010)	49,488	44,866 (@ Rs. 147.10)	21,909	27,020 (@ Rs. 178.00)	49,488	44,866 (@ Rs. 147.10)	21,909	27,020 (@ Rs. 178.00)
Lanka Milk Foods (CWE) PLC (250,000 Ordinary Shares) (20,000 Ordinary Shares as at Dec. 31, 2010)	27,866	26,775 (@ Rs. 107.10)	27,866	28,250 (@ Rs. 113.00)	27,866	26,775 (@ Rs. 107.10)	27,866	28,250 (@ Rs. 113.00)
Chemical Industries Colombo PLC (201,400 Non-Voting Ordinary Shares) (201,400 Non-Voting Ordinary Shares as at Dec. 31, 2010)	14,590	15,508 (@ Rs. 77.00)	14,590	19,556 (@ Rs. 97.10)	14,590	15,508 (@ Rs. 77.00)	14,590	19,556 (@ Rs. 97.10)
Haycarb PLC (7,100 Ordinary Shares) (7,100 Ordinary Shares as at Dec. 31, 2010)	1,251	1,101 (@ Rs. 155.00)	1,251	1,196 (@ Rs. 168.50)	1,251	1,101 (@ Rs. 155.00)	1,251	1,196 (@ Rs. 168.50)
Ceylon Hospitals PLC (61,100 Non-Voting Ordinary Shares) (5,500 Non-Voting Ordinary Shares as at Dec. 31, 2010)	4,423	3,849 (@ Rs. 63.00)	411	456 (@ Rs. 82.90)	4,423	3,849 (@ Rs. 63.00)	411	456 (@ Rs. 82.90)
Lanka Walltile PLC (60 Ordinary Shares) (32,100 Ordinary Shares as at Dec. 31, 2010)	5	6 (@ Rs. 94.50)	3,431	4,234 (@ Rs. 131.90)	5	6 (@ Rs. 94.50)	3,431	4,234 (@ Rs. 131.90)
NDB Bank PLC (100,000 Ordinary Shares) (2010 - Nil)	18,884	13,810 (@ Rs. 138.10)	-	-	18,884	13,810 (@ Rs. 138.10)	-	-
Ceylon Hospitals PLC (156,900 Ordinary Shares) (2010 - Nil)	16,665	13,337 (@ Rs. 85.00)	-	-	16,665	13,337 (@ Rs. 85.00)	-	-
Tokyo Cement Company (Lanka) PLC (38,700 Ordinary Shares) (2010 - Nil)	1,603	1,703 (@ Rs. 44.00)	-	-	1,603	1,703 (@ Rs. 44.00)	-	-
Kotagala Plantations PLC (1,400 Ordinary Shares) (2010 - Nil)	156	90 (@ Rs. 64.30)	-	-	156	90 (@ Rs. 64.30)	-	-
Hatton National Bank PLC (224,200 Non-Voting Ordinary Shares) (2010 - Nil)	21,567	18,653 (@ Rs. 83.20)	-	-	21,567	18,653 (@ Rs. 83.20)	-	-

NOTES TO THE FINANCIAL STATEMENTS

	GROUP				BANK			
	As at December 31, 2011		As at December 31, 2010		As at December 31, 2011		As at December 31, 2010	
	Cost Rs. '000	Market Value Rs. '000	Cost Rs. '000	Market Value Rs. '000	Cost Rs. '000	Market Value Rs. '000	Cost Rs. '000	Market Value Rs. '000
DFCC Bank PLC (95,400 Ordinary Shares) (2010 - Nil)	11,141	10,771 (@ Rs. 112.90)	-	-	11,141	10,771 (@ Rs. 112.90)	-	-
Chevron Lubricants Lanka PLC (92,700 Ordinary Shares) (2010 - Nil)	15,391	15,759 (@ Rs. 170.00)	-	-	15,391	15,759 (@ Rs. 170.00)	-	-
Royal Ceramics Lanka PLC (55,000 Ordinary Shares) (2010 - Nil)	7,772	7,783 (@ Rs. 141.50)	-	-	7,772	7,783 (@ Rs. 141.50)	-	-
Hemas Holdings PLC (2011 - Nil) (91,500 Ordinary Shares as at Dec. 31, 2010)	-	-	3,642	4,072 (@ Rs. 44.50)	-	-	3,642	4,072 (@ Rs. 44.50)
Chemical Industries Colombo PLC (2011 - Nil) (41,140 Ordinary Shares as at Dec. 31, 2010)	-	-	5,102	5,723 (@ Rs. 139.10)	-	-	5,102	5,723 (@ Rs. 139.10)
Ceylinco Insurance PLC (2011 - Nil) (42,100 Non-Voting Ordinary Shares as at Dec. 31, 2010)	-	-	9,169	11,367 (@ Rs. 270.00)	-	-	9,169	11,367 (@ Rs. 270.00)
Citizen Development Bank PLC (2011 - Nil) (20,000 Ordinary Shares as at Dec. 31, 2010)	-	-	1,051	1,048 (@ Rs. 52.40)	-	-	1,051	1,048 (@ Rs. 52.40)
Sri Lanka Telecom PLC (2011 - Nil) (286,600 Ordinary Shares as at Dec. 31, 2010)	-	-	13,543	13,757 (@ Rs. 48.00)	-	-	13,543	13,757 (@ Rs. 48.00)
COCO Lanka PLC (2011 - Nil) (55,600 Ordinary Shares as at Dec. 31, 2010)	-	-	3,087	3,364 (@ Rs. 60.50)	-	-	3,087	3,364 (@ Rs. 60.50)
Laugfs Gas PLC (2011 - Nil) (50,000 Non-Voting Ordinary Shares as at Dec. 31, 2010)	-	-	750	935 (@ Rs. 18.70)	-	-	750	935 (@ Rs. 18.70)
	248,671	224,618	166,451	184,791	248,671	224,618	166,451	184,791
Mark to market gain/(loss)	(24,053)		18,340		(24,053)		18,340	
Sub Total	224,618		184,791		224,618		184,791	

NOTES TO THE FINANCIAL STATEMENTS

	GROUP				BANK			
	As at December 31, 2011		As at December 31, 2010		As at December 31, 2011		As at December 31, 2010	
	Cost Rs. '000	Market Value Rs. '000	Cost Rs. '000	Market Value Rs. '000	Cost Rs. '000	Market Value Rs. '000	Cost Rs. '000	Market Value Rs. '000
Quoted :								
DEBENTURES								
Urban Development Authority (1,000,000 Debentures)	100,000	96,649	100,000	98,600	100,000	96,649	100,000	98,600
(1,000,000 Debentures as at Dec. 31, 2010)		(@ Rs. 96.64)		(@ Rs. 98.60)		(@ Rs. 96.64)		(@ Rs. 98.60)
	100,000	96,649	100,000	98,600	100,000	96,649	100,000	98,600
Mark to market loss	(3,351)		(1,400)		(3,351)		(1,400)	
Sub Total	96,649		98,600		96,649		98,600	
Total	321,267		283,391		321,267		283,391	

19. INVESTMENT SECURITIES

	GROUP				BANK			
	As at December 31, 2011		As at December 31, 2010		As at December 31, 2011		As at December 31, 2010	
	Cost Rs. '000	Market Value/ Directors' Valuation Rs. '000	Cost Rs. '000	Market Value/ Directors' Valuation Rs. '000	Cost Rs. '000	Market Value/ Directors' Valuation Rs. '000	Cost Rs. '000	Market Value/ Directors' Valuation Rs. '000
Quoted:								
SHARES								
Hatton National Bank PLC (11,550 Ordinary Shares)	315	1,748	315	3,079	315	1,748	315	3,079
(7,700 Ordinary Shares as at Dec. 31, 2010)		(@ Rs. 151.30)		(@ Rs. 399.90)		(@ Rs. 151.30)		(@ Rs. 399.90)
Sampath Bank PLC (3,525 Ordinary Shares)	72	687	72	937	72	687	72	937
(3,446 Ordinary Shares as at Dec. 31, 2010)		(@ Rs. 195.00)		(@ Rs. 271.90)		(@ Rs. 195.00)		(@ Rs. 271.90)
Seylan Bank PLC (1,000 Ordinary Shares)	24	68	24	98	24	68	24	98
(1,000 Ordinary Shares as at Dec. 31, 2010)		(@ Rs. 67.60)		(@ Rs. 97.80)		(@ Rs. 67.60)		(@ Rs. 97.80)
DFCC Bank PLC (3,496 Ordinary Shares)	155	395	155	700	155	395	155	700
(3,496 Ordinary Shares as at Dec. 31, 2010)		(@ Rs. 112.90)		(@ Rs. 200.20)		(@ Rs. 112.90)		(@ Rs. 200.20)
Nations Trust Bank PLC (1,333 Ordinary Shares)	22	76	22	111	22	76	22	111
(1,333 Ordinary Shares as at Dec. 31, 2010)		(@ Rs. 57.00)		(@ Rs. 83.40)		(@ Rs. 57.00)		(@ Rs. 83.40)
NDB Bank PLC (5,424 Ordinary Shares)	215	749	215	948	215	749	215	948
(2,712 Ordinary Shares as at Dec. 31, 2010)		(@ Rs. 138.10)		(@ Rs. 349.50)		(@ Rs. 138.10)		(@ Rs. 349.50)

NOTES TO THE FINANCIAL STATEMENTS

	GROUP				BANK			
	As at December 31, 2011		As at December 31, 2010		As at December 31, 2011		As at December 31, 2010	
	Cost	Market Value/ Directors' Valuation	Cost	Market Value/ Directors' Valuation	Cost	Market Value/ Directors' Valuation	Cost	Market Value/ Directors' Valuation
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
DEBENTURES								
Nations Trust Bank PLC (20.53% - 2013) (95,000 Debentures of Rs. 1,000.00 each) (95,000 Debentures of Rs. 1,000.00 each as at Dec. 31, 2010)	95,000	95,000	95,000	95,000	95,000	95,000	95,000	95,000
		(@ Rs. 1,000.00)		(@ Rs. 1,000.00)		(@ Rs. 1,000.00)		(@ Rs. 1,000.00)
Urban Development Authority (11% - 2015) (3,357,400 Debentures of Rs. 100.00 each) (3,357,400 Debentures of Rs. 100.00 each as at Dec. 31, 2010)	335,740	335,740	335,740	335,740	335,740	335,740	335,740	335,740
		(@ Rs. 100.00)		(@ Rs. 100.00)		(@ Rs. 100.00)		(@ Rs. 100.00)
DFCC Bank PLC (Floating Rate - 2011) (2011 - Nil) (10,000 Debentures of Rs. 1,000.00 each as at Dec. 31, 2010)	-	-	10,000	10,000	-	-	10,000	10,000
		-		(@ Rs. 1,000.00)		-		(@ Rs. 1,000.00)
Sub Total	431,543	434,463	441,543	446,613	431,543	434,463	441,543	446,613
Unquoted: SHARES								
Credit Information Bureau of Sri Lanka (4,400 Ordinary Shares) (4,400 Ordinary Shares as at Dec. 31, 2010)	440	440	440	440	440	440	440	440
		(@ Rs. 100.00)		(@ Rs. 100.00)		(@ Rs. 100.00)		(@ Rs. 100.00)
Fitch Ratings Lanka Ltd. (62,500 Ordinary Shares) (62,500 Ordinary Shares as at Dec. 31, 2010)	625	625	625	625	625	625	625	625
		(@ Rs. 10.00)		(@ Rs. 10.00)		(@ Rs. 10.00)		(@ Rs. 10.00)
Lanka Clear (Pvt) Ltd. (1,000,000 Ordinary Shares) (1,000,000 Ordinary Shares as at Dec. 31, 2010)	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
		(@ Rs. 10.00)		(@ Rs. 10.00)		(@ Rs. 10.00)		(@ Rs. 10.00)
Lanka Financial Services Bureau Ltd. (225,000 Ordinary Shares) (225,000 Ordinary Shares as at Dec. 31, 2010)	2,250	2,250	2,250	2,250	2,250	2,250	2,250	2,250
		(@ Rs. 10.00)		(@ Rs. 10.00)		(@ Rs. 10.00)		(@ Rs. 10.00)
Dialog Telekom PLC (292,500,000 Preference Shares) (585,000,000 Preference Shares as at Dec. 31, 2010)	292,500	292,500	585,000	585,000	292,500	292,500	585,000	585,000
		(@ Rs. 1.00)		(@ Rs. 1.00)		(@ Rs. 1.00)		(@ Rs. 1.00)
Central Depository of Bangladesh Ltd. (342,782 Shares of Bangladesh Taka 27.47 each. Converted @ Rs. 1.39458 per Taka) (1,541,666 Shares of Bangladesh Taka 17.19 each. Converted @ Rs. 1.56741 per Taka as at Dec. 31, 2010)	13,132	13,132	41,536	41,536	13,132	13,132	41,536	41,536

NOTES TO THE FINANCIAL STATEMENTS

	GROUP				BANK			
	As at December 31, 2011		As at December 31, 2010		As at December 31, 2011		As at December 31, 2010	
	Cost	Market Value/ Directors' Valuation	Cost	Market Value/ Directors' Valuation	Cost	Market Value/ Directors' Valuation	Cost	Market Value/ Directors' Valuation
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
LEASE BACKED SECURITIES								
People's Leasing Company PLC	280,700	280,700	448,100	448,100	280,700	280,700	448,100	448,100
TRUST CERTIFICATES								
People's Leasing Company PLC	1,256,400	1,256,400	250,000	250,000	1,256,400	1,256,400	250,000	250,000
LB Finance PLC	615,300	615,300	428,700	428,700	615,300	615,300	428,700	428,700
Softlogic Finance PLC	199,400	199,400	-	-	199,400	199,400	-	-
Central Finance PLC	292,200	292,200	-	-	292,200	292,200	-	-
BONDS								
Government of Bangladesh Bonds	112,589	112,589	157,402	157,402	112,589	112,589	157,402	157,402
Sub Total	3,075,536	3,075,536	1,924,053	1,924,053	3,075,536	3,075,536	1,924,053	1,924,053
Total	3,507,079	3,509,999	2,365,596	2,370,666	3,507,079	3,509,999	2,365,596	2,370,666

20. BILLS OF EXCHANGE, LOANS & ADVANCES AND LEASE RECEIVABLE

	GROUP		BANK	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
20.1 Bills of Exchange				
Export bills	6,542,844	4,606,419	6,542,844	4,606,419
Import bills	1,101,761	789,074	1,101,761	789,074
	7,644,605	5,395,493	7,644,605	5,395,493
Less: Loan loss provision [Refer Note 20.1 (a)]	56,949	56,807	56,949	56,807
Interest in suspense [Refer Note 20.1 (b)]	47,081	47,262	47,081	47,262
Total	7,540,575	5,291,424	7,540,575	5,291,424

20.1 (a) Movement in the Provision for Bad & Doubtful Bills of Exchange

Specific Provision				
Opening balance	23,540	33,430	23,540	33,430
Amount provided	9,142	3,607	9,142	3,607
Amount reversed	-	(13,497)	-	(13,497)
Closing balance	32,682	23,540	32,682	23,540
General Provision				
Opening balance	33,267	27,567	33,267	27,567
Amount provided/(reversed)	(9,000)	5,700	(9,000)	5,700
Closing balance	24,267	33,267	24,267	33,267
Total provision	56,949	56,807	56,949	56,807

20.1 (b) Movement in the Interest in Suspense on Bills of Exchange

Opening balance	47,262	56,167	47,262	56,167
Interest suspended during the year	20,909	23,728	20,909	23,728
Amount reversed during the year	(21,090)	(32,633)	(21,090)	(32,633)
Closing balance	47,081	47,262	47,081	47,262

NOTES TO THE FINANCIAL STATEMENTS

	GROUP		BANK	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
20.2 Lease Receivable				
20.2 (a) Lease Receivable within one year				
Total lease rentals receivable within one year	9,039,286	5,796,767	9,126,022	5,897,027
Less: Unearned lease income	2,761,696	1,714,562	2,787,726	1,754,275
Loan loss provision	90,552	136,436	90,552	136,436
Interest in suspense [Refer Note 20.2 (e)]	107,437	268,408	107,437	268,408
Sub Total	6,079,601	3,677,361	6,140,307	3,737,908
20.2 (b) Lease Receivable from one to five years				
Total lease rentals receivable from one to five years	17,427,346	8,781,282	17,539,828	8,987,022
Less: Unearned lease income	2,516,142	1,417,705	2,532,835	1,461,797
Loan loss provision	214,398	246,642	214,398	246,642
Sub Total	14,696,806	7,116,935	14,792,595	7,278,583
20.2 (c) Lease Receivable after five years				
Total lease rentals receivable after five years	4,186	2,211	4,186	2,211
Less: Unearned lease income	130	114	130	114
Loan loss provision	58	69	58	69
Sub Total	3,998	2,028	3,998	2,028
Total Gross Lease Receivable	21,192,848	11,447,876	21,349,343	11,670,071
Total Net Lease Receivable	20,780,405	10,796,324	20,936,900	11,018,519
20.2 (d) Movement in the Provision for Bad and Doubtful Lease Receivable				
Specific Provision				
Opening balance	281,250	425,963	281,250	425,963
Amount provided	90,152	147,685	90,152	147,685
Amount reversed	(171,475)	(292,398)	(171,475)	(292,398)
Closing balance	199,927	281,250	199,927	281,250
General Provision				
Opening balance	101,894	79,062	101,894	79,062
Amount provided	3,185	22,832	3,185	22,832
Closing balance	105,079	101,894	105,079	101,894
Total provision	305,006	383,144	305,006	383,144
20.2 (e) Movement in the Interest in Suspense Account on Lease Receivable				
Opening balance	268,408	135,497	268,408	135,497
Interest suspended during the year	18,814	269,287	18,814	269,287
Amount reversed during the year	(179,785)	(136,376)	(179,785)	(136,376)
Closing balance	107,437	268,408	107,437	268,408

NOTES TO THE FINANCIAL STATEMENTS

	GROUP		BANK	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
20.3 Loans & Advances				
Sri Lankan Rupee and foreign currency loans & advances [Refer Note 20.3 (a)]	258,966,679	211,306,000	258,969,634	211,307,366
Less: Loan loss provision [Refer Note 20.3 (b)]	4,658,702	4,459,678	4,658,702	4,459,678
Interest in suspense [Refer Note 20.3 (c)]	6,393,754	6,119,175	6,393,754	6,119,175
Total	247,914,223	200,727,147	247,917,178	200,728,513

20.3 (a) Sri Lankan Rupee and Foreign Currency Loans & Advances

Sri Lankan Rupee Loans and Advances

Overdrafts	52,405,588	41,393,678	52,408,518	41,393,678
Loans	157,803,618	119,598,598	157,803,643	119,599,964
Pre-shipment loans	314,018	143,027	314,018	143,027
Staff loans	4,985,820	4,221,556	4,985,820	4,221,556
Local bills purchased	37,859	8,790	37,859	8,790
Interest receivable	4,452,494	4,154,264	4,452,494	4,154,264
Sub Total	219,999,397	169,519,913	220,002,352	169,521,279

Foreign Currency Loans & Advances

Overdrafts	7,077,717	7,500,784	7,077,717	7,500,784
Loans	22,606,451	27,171,066	22,606,451	27,171,066
Pre-shipment loans	9,115,670	6,915,659	9,115,670	6,915,659
Interest receivable	167,444	198,578	167,444	198,578
Sub Total	38,967,282	41,786,087	38,967,282	41,786,087
Total	258,966,679	211,306,000	258,969,634	211,307,366

20.3 (b) Movement in the Provision for Bad & Doubtful Loans & Advances

Specific Provision

Opening balance	2,885,360	2,994,659	2,885,360	2,994,659
Amount provided	1,880,005	877,776	1,880,005	877,776
Exchange rate variance on foreign currency provisions	1,853	(14,018)	1,853	(14,018)
Amount reversed	(1,181,160)	(973,057)	(1,181,160)	(973,057)
Closing balance	3,586,058	2,885,360	3,586,058	2,885,360

General Provision

Opening balance	1,574,318	1,453,923	1,574,318	1,453,923
Amount provided/(reversed)	(493,730)	128,498	(493,730)	128,498
Exchange rate variance on foreign currency provisions	(7,944)	(8,103)	(7,944)	(8,103)
Closing balance	1,072,644	1,574,318	1,072,644	1,574,318
Total provision	4,658,702	4,459,678	4,658,702	4,459,678

20.3 (c) Movement in the Interest in Suspense on Loans & Advances

Opening balance	6,119,175	5,808,525	6,119,175	5,808,525
Interest suspended during the year	1,720,395	2,110,392	1,741,485	2,119,297
Amount reversed during the year	(1,445,816)	(1,799,742)	(1,466,906)	(1,808,647)
Closing balance	6,393,754	6,119,175	6,393,754	6,119,175

The maturity analysis of Bills of Exchange, Lease Receivable and Loans & Advances is given in Note 35.

NOTES TO THE FINANCIAL STATEMENTS

20.4 Non-Performing Bills of Exchange, Lease Receivable and Loans & Advances

Net exposure on non-performing Loans & Advances as at December 31, before discounting the value of the securities obtained is given below:

	GROUP				BANK			
	2011 Rs. '000	%	2010 Rs. '000	%	2011 Rs. '000	%	2010 Rs. '000	%
Bills of Exchange	56,793		37,186		56,793		37,186	
Lease receivable	383,402		323,152		383,402		323,152	
Loans & advances	10,768,579		10,213,842		10,768,579		10,213,842	
Non-performing loans & advances	11,208,774	3.96	10,574,180	4.72	11,208,774	3.96	10,574,180	4.72
Add: Interest receivable on non-performing loans	4,619,937		4,352,842		4,619,937		4,352,842	
Gross non-performing loans & advances	15,828,711		14,927,022		15,828,711		14,927,022	
Less: Interest in suspense on loans and advances	6,168,706		5,557,298		6,168,706		5,557,298	
Net non-performing loans & advances	9,660,005	3.43	9,369,724	4.22	9,660,005	3.43	9,369,724	4.22
Less: Specific provision for bad & doubtful debts [Refer Note 20.4 (a)]	3,818,667		3,190,150		3,818,667		3,190,150	
Net exposure (*)	5,841,338	2.08	6,179,574	2.78	5,841,338	2.08	6,179,574	2.78

* The Net exposure of Rs. 5,841.338 Mn. (Rs. 6,179.574 Mn. as at December 31, 2010) is covered by Securities valued over Rs. 5,841.338 Mn. (Over Rs. 6,179.574 Mn. as at December 31, 2010) excluding machinery and stocks.

	GROUP		BANK	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
20.4 (a) Specific Provision for Bad & Doubtful Debts - Summary				
Specific Provision				
Opening balance	3,190,150	3,454,052	3,190,150	3,454,052
Amount provided (Refer Note 9)	1,979,299	1,029,068	1,979,299	1,029,068
Exchange rate variance on foreign currency provisions	1,853	(14,018)	1,853	(14,018)
Amount reversed	(1,352,635)	(1,278,952)	(1,352,635)	(1,278,952)
Closing balance	3,818,667	3,190,150	3,818,667	3,190,150

20.4 (b) General Provision for Bad & Doubtful Debts - Summary

	GROUP		BANK	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
General Provision				
Opening balance	1,709,479	1,560,552	1,709,479	1,560,552
Amount provided/(reversed) (Refer Note 9)	(499,545)	157,030	(499,545)	157,030
Exchange rate variance on foreign currency provisions	(7,944)	(8,103)	(7,944)	(8,103)
Closing balance	1,201,990	1,709,479	1,201,990	1,709,479
Total	5,020,657	4,899,629	5,020,657	4,899,629

20.4 (c) Provision for Bad & Doubtful Debts - Summary

	GROUP		BANK	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
Bills of Exchange [Refer Note 20.1 (a)]	56,949	56,807	56,949	56,807
Lease Receivable [Refer Note 20.2 (d)]	305,006	383,144	305,006	383,144
Loans & Advances [Refer Note 20.3 (b)]	4,658,702	4,459,678	4,658,702	4,459,678
Closing balance	5,020,657	4,899,629	5,020,657	4,899,629

NOTES TO THE FINANCIAL STATEMENTS

	GROUP		BANK	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
20.4 (d) Interest in Suspense - Summary				
Bills of Exchange [Refer Note 20.1 (b)]	47,081	47,262	47,081	47,262
Lease Receivable [Refer Note 20.2 (e)]	107,437	268,408	107,437	268,408
Loans & Advances [Refer Note 20.3 (c)]	6,393,754	6,119,175	6,393,754	6,119,175
Closing balance	6,548,272	6,434,845	6,548,272	6,434,845

	GROUP		BANK	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
20.4 (e) Provision Cover - (Gross)				
Specific provision to non-performing loans and advances	3,818,667	3,190,150	3,818,667	3,190,150
	11,208,774	10,574,180	11,208,774	10,574,180
Provision cover (Gross)	34.07%	30.17%	34.07%	30.17%

	GROUP		BANK	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
20.4 (f) Provision Cover - Net				
Specific provision to Net non-performing loans and advances	3,818,667	3,190,150	3,818,667	3,190,150
	9,660,005	9,369,724	9,660,005	9,369,724
Provision cover (Net)	39.53%	34.05%	39.53%	34.05%

	GROUP		BANK	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
20.4 (g) Open Credit Exposure Ratio				
Net Exposure to Capital Base (Regulatory Capital as per the Basel II Computation)	5,841,338	6,179,574	5,841,338	6,179,574
	40,964,048	33,171,295	40,970,987	33,204,392
Open Credit Exposure	14.26%	18.63%	14.26%	18.61%

NOTES TO THE FINANCIAL STATEMENTS

20.5 Bills of Exchange, Lease Receivable and Loans & Advances - Summary

	GROUP		BANK	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
Bills of Exchange (Refer Note 20.1)	7,644,605	5,395,493	7,644,605	5,395,493
Lease receivable [Refer Notes 20.2 (a), (b) and (c)]	21,192,848	11,447,876	21,349,343	11,670,071
Loans & advances (Refer Note 20.3)	258,966,679	211,306,000	258,969,634	211,307,366
Gross Bills of Exchange, lease receivable and loans & advances	287,804,132	228,149,369	287,963,582	228,372,930
Less: Total provision for bad & doubtful debts [Refer Note 20.4 (c)]	(5,020,657)	(4,899,629)	(5,020,657)	(4,899,629)
Total interest in suspense [Refer Note 20.4 (d)]	(6,548,272)	(6,434,845)	(6,548,272)	(6,434,845)
Net Bills of Exchange, lease receivable and loans & advances	276,235,203	216,814,895	276,394,653	217,038,456

20.6 Concentration of Credit Risk

Sector-wise analysis of loans & advances portfolio which reflects the concentration credit risk to various sectors is given below:

	GROUP				BANK			
	2011 Rs. '000	%	2010 Rs. '000	%	2011 Rs. '000	%	2010 Rs. '000	%
Exports	23,204,408	8.19	22,579,887	10.09	23,204,408	8.19	22,579,887	10.08
Imports	34,155,798	12.06	23,492,741	10.50	34,155,798	12.05	23,492,741	10.49
Industrial	44,044,463	15.55	31,881,878	14.25	44,044,463	15.54	31,881,878	14.23
Agriculture & fishing**	17,986,066	6.35	10,561,887	4.72	17,986,066	6.35	10,561,887	4.71
Housing & construction	20,396,971	7.20	17,248,312	7.71	20,396,971	7.20	17,248,312	7.70
Commercial trading	24,544,390	8.67	19,285,423	8.62	24,544,390	8.66	19,285,423	8.61
Tourism & allied	9,847,295	3.48	7,237,790	3.23	9,847,295	3.48	7,237,790	3.23
Services	39,707,108	14.02	28,374,640	12.68	39,863,603	14.07	28,596,837	12.77
Consumption	16,044,001	5.67	11,322,384	5.06	16,044,001	5.66	11,322,384	5.05
Pawning	11,846,291	4.18	2,148,205	0.96	11,846,291	4.18	2,148,205	0.96
Others	41,407,403	14.63	49,663,376	22.18	41,410,359	14.62	49,664,744	22.17
Total loans and advances	283,184,194	100.00	223,796,523	100.00	283,343,645	100.00	224,020,088	100.00

** Note: The Bank has complied with the Mandatory Lending of 10% to Agricultural sector stipulated by the Central Bank of Sri Lanka, as some of the export and industrial related agricultural lending were recorded under respective sectors in addition to agriculture and fishing as detailed above.

NOTES TO THE FINANCIAL STATEMENTS

21. INVESTMENTS IN ASSOCIATES

	Holding (%)	GROUP				BANK			
		December 31, 2011		December 31, 2010		December 31, 2011		December 31, 2010	
		Balance Rs. '000	Market Value/ Directors' Valuation Rs. '000	Balance Rs. '000	Market Value/ Directors' Valuation Rs. '000	Balance Rs. '000	Market Value/ Directors' Valuation Rs. '000	Balance Rs. '000	Market Value/ Directors' Valuation Rs. '000
Local Associates:									
Unquoted:									
Equity Investments Lanka Ltd.	22.92	44,331	57,540	44,331	52,738	44,331	57,540	44,331	52,738
(4,110,938 Ordinary Shares)									
(4,110,938 Ordinary Shares as at December 31, 2010)									
Add: Share of profit applicable to the Bank:									
Balance at the beginning of the year		8,407		3,352					
Current year's share of profit after tax		6,857		8,213					
Less: Dividend received during the year		(2,055)		(3,158)					
Current year's retained profit		4,802		5,055					
Balance at the end of year		13,209		8,407					
Total		57,540	57,540	52,738	52,738	44,331	57,540	44,331	52,738
Commercial Insurance Brokers (Pvt) Ltd.	18.91	100	27,567	100	26,843	-	-	-	-
(120,000 Ordinary Shares)									
(120,000 Ordinary Shares as at December 31, 2010)									
Add: Share of profit applicable to the Bank:									
Balance at the beginning of the year		26,743		24,850					
Current year's share of profit after tax		1,132		2,325					
Less: Dividend received during the year		(408)		(432)					
Current year's retained profit		724		1,893					
Balance at the end of the year		27,467		26,743					
Total		27,567	27,567	26,843	26,843	-	-	-	-
Total value of investments in unquoted Associates at carrying value on equity basis		85,107		79,581		44,331		44,331	
Total Market Value/Directors' Valuation of Investments in Associate Companies			85,107		79,581		57,540		52,738

NOTES TO THE FINANCIAL STATEMENTS

22. INVESTMENTS IN SUBSIDIARIES

	Holding (%)	GROUP				BANK			
		December 31, 2011		December 31, 2010		December 31, 2011		December 31, 2010	
		Balance Rs. '000	Market Value/ Directors' Valuation Rs. '000	Balance Rs. '000	Market Value/ Directors' Valuation Rs. '000	Balance Rs. '000	Market Value/ Directors' Valuation Rs. '000	Balance Rs. '000	Market Value/ Directors' Valuation Rs. '000
Local Subsidiaries:									
Quoted:									
Commercial Development Company PLC	94.55	-	-	-	-	274,393	1,249,162	274,393	612,668
(11,345,705 Ordinary Shares)						(@ Rs. 110.10)		(@ Rs. 54.00)	
(11,345,705 Ordinary Shares as at December 31, 2010)									
Unquoted:									
ONEzero Company Ltd.	100.00	-	-	-	-	5,000	5,000	5,000	5,000
(500,002 Ordinary Shares)						(@ Rs. 10.00)		(@ Rs. 10.00)	
(500,002 Ordinary Shares as at December 31, 2010)									
Foreign Subsidiary:									
Unquoted:									
Commex Sri Lanka S.R.L. (Incorporated in Italy)	100.00	-	-	-	-	74,505	74,505	74,505	74,505
Less: Provision for Fall in Value of Investment						(61,153)	(61,153)		
						13,352	13,352		
Total		-	-	-	-	292,745	1,267,514	353,898	692,173

NOTES TO THE FINANCIAL STATEMENTS

23. PROPERTY, PLANT & EQUIPMENT

23.1 Group

	Freehold Land Rs. '000	Freehold Buildings Rs. '000	Leasehold Buildings Rs. '000	Computer Equipment Rs. '000	Motor Vehicles Rs.'000	Office Equipment & Furniture Rs. '000	Capital Work-in-Progress Rs. '000	31.12.11 Total Rs. '000	31.12.10 Total Rs. '000
Cost/Valuation									
At the beginning of the year	2,151,957	1,544,529	621,745	2,656,294	422,826	2,562,847	317,603	10,277,801	7,897,416
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)
At the end of the year	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									
At the beginning of the year	-	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)
At the end of the year	-	-	111,792	2,087,949	259,938	1,756,424	-	4,216,103	3,688,573
Net Book Value as at 31.12.11	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 31.12.10	2,151,957	1,482,826	537,523	827,174	208,346	1,063,799	317,603		6,589,228

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	2011			2010		
	Cost Rs. '000	Accumulated Depreciation Rs. '000	Net Book Value Rs. '000	Cost Rs. '000	Accumulated Depreciation Rs. '000	Net Book Value Rs. '000
Land	390,132	-	390,132	397,314	-	397,314
Freehold buildings	711,966	229,202	482,764	645,422	209,861	435,561
Leasehold buildings	238,214	79,432	158,782	238,214	76,766	161,448
Total	1,340,312	308,634	1,031,678	1,280,950	286,627	994,323

NOTES TO THE FINANCIAL STATEMENTS

23.2 Bank

	Freehold Land Rs. '000	Freehold Buildings Rs. '000	Leasehold Buildings Rs. '000	Computer Equipment Rs. '000	Motor Vehicles Rs.'000	Office Equipment & Furniture Rs. '000	Capital Work-in-Progress Rs. '000	31.12.11 Total Rs. '000	31.12.10 Total Rs. '000
Cost/Valuation									
At the beginning of the year	2,151,957	1,544,529	104,625	2,653,279	88,771	2,505,072	302,896	9,351,129	7,008,176
Additions during the year	-	276,849	-	345,775	10,002	626,530	120,451	1,379,607	862,678
Transfer of accumulated depreciation on assets revalued	-	(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)
At the end of the year	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									
At the beginning of the year	-	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)
At the end of the year	-	-	23,571	2,086,344	68,923	1,707,304	-	3,886,142	3,421,568
Net Book Value as at 31.12.11	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 31.12.10	2,151,957	1,482,826	84,703	825,374	30,049	1,051,756	302,896		5,929,561

The carrying amount of Bank's revalued assets that would have been included in the Financial Statements had the assets been carried at cost less depreciation is as follows:

Class of Asset	2011			2010		
	Cost Rs. '000	Accumulated Depreciation Rs. '000	Net Book Value Rs. '000	Cost Rs. '000	Accumulated Depreciation Rs. '000	Net Book Value Rs. '000
Land	390,132	-	390,132	397,314	-	397,314
Freehold buildings	711,966	229,202	482,764	645,422	209,861	435,561
Leasehold buildings	102,995	33,861	69,134	102,995	31,195	71,800
Total	1,205,093	263,063	942,030	1,145,731	241,056	904,675

NOTES TO THE FINANCIAL STATEMENTS

23.3 Information on the Freehold Land & 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	41,000	0.75
Holiday Bungalow - Bandarawela Ambatenne Estate, Bandarawela	423	5,546	11,400	51,400	62,800	1.15
CEO's Bungalow No. 27, Queens Road, Colombo 3	64	5,616	8,350	416,650	425,000	7.79
Union Place No. 1, Union Place, Colombo 2	30	63,385	640,000	360,000	1,000,000	18.32
Kandy No. 120, Kotugodella Veediya, Kandy	45	44,500	231,000	342,000	573,000	10.50
Galle Fort No. 22, Church Street, Fort, Galle	100	11,625	50,000	100,000	150,000	2.75
Jaffna No. 474, Hospital Road, Jaffna	77	5,146	12,865	272,135	285,000	5.22
Matara No. 18, Station Road, Matara	37	8,137	23,595	28,155	51,750	0.95
Matale No. 70, King Street, Matale	51	9,950	62,000	60,000	122,000	2.23
Galewela No. 49/57, Matale Road, Galewela	99	6,380	13,200	19,800	33,000	0.60
Wellawatte No. 343, Galle Road, Colombo 6	45	15,050	35,900	204,100	240,000	4.40
Kollupitiya No. 285, Galle Road, Colombo 3	17	16,254	63,000	100,000	163,000	2.99
Kotahena No. 198, George R. De Silva Mawatha, Kotahena, Colombo 13	28	33,017	208,984	110,000	318,984	5.84
Negombo No. 24, 26, Fernando Avenue, Negombo	37	14,439	25,516	49,500	75,016	1.37
Hikkaduwa No. 217, Galle Road, Hikkaduwa	37	6,713	21,260	16,740	38,000	0.70
Kurunegala No. 4, Suratissa Mawatha, Kurunegala	15.5	8,916	85,000	140,000	225,000	4.12
Maharagama No. 154, High Level Road, Maharagama	18	8,000	43,200	62,125	105,325	1.93
Borella No. 92, D.S. Senanayake Mawatha, Borella, Colombo 8	16	12,566	62,202	70,335	132,537	2.43
Nugegoda No. 100, Stanley Thilakarathne Mawatha, Nugegoda	39	11,138	44,552	195,000	239,552	4.39
Kegalle No. 186, Main Street, Kegalle	85	-	-	122,000	122,000	2.23

NOTES TO THE FINANCIAL STATEMENTS

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
Narahenpita						
No. 201, Kirula Road, Narahenpita, Colombo 5	22	11,193	70,775	99,225	170,000	3.11
Mutwal						
No. 160, St. James Street, Colombo 15	17	-	-	22,300	22,300	0.41
Pettah						
People's Park Shopping Complex, Colombo 11	-	3,183	50,000	-	50,000	0.92
Pettah - Stores						
People's Park Shopping Complex, Colombo 11	-	218	4,000	-	4,000	0.07
Wennappuwa						
No. 262, 264, Colombo Road, Wennappuwa	36	8,852	22,500	37,500	60,000	1.10
Galle City						
No. 130, Main Street, Galle	7	3,675	7,250	33,750	41,000	0.75
Battaramulla						
No. 213, Kaduwela Road, Battaramulla	14	11,216	61,483	24,517	86,000	1.58
Minuwangoda						
No. 42, Siriwardena Mawatha, Minuwangoda	25	4,950	32,500	37,500	70,000	1.28
Nuwara Eliya						
No. 36/3, Buddha Jayanthi Mawatha, Nuwara Eliya	42	10,184	69,000	72,000	141,000	2.58
Trincomalee						
No. 474, Power House Road, Trincomalee	100	-	-	75,000	75,000	1.37
Keyzer Street						
No. 32, Keyzer Street, Colombo 11	7	5,608	25,000	45,000	70,000	1.28
Panadura						
No. 375, Galle Road, Panadura	12	6,168	19,735	18,450	38,185	0.70
Chilaw						
No. 44, Colombo Road, Chilaw	35	10,000	67,000	61,750	128,750	2.36
Narammala						
No. 55, Negombo Road, Narammala	42.5	5,760	15,450	44,550	60,000	1.10
Ja-Ela						
No. 140, Negombo Road, Ja-Ela	13	7,755	16,813	23,187	40,000	0.73
Total			2,118,829	3,340,369	5,459,198	100.00

NOTES TO THE FINANCIAL STATEMENTS

23.4 Revaluation

With the permission of the Monetary Board of the Central Bank of Sri Lanka, freehold land & buildings of the Bank were revalued by professionally qualified independent valuers as at December 31, 2011. The Bank carried out a similar revaluation on selected properties as at December 31, 2010 too.

Year of Valuation 2011

Location	Address	Name of the Valuer	Method of Valuation	Net Book Value before Revaluation as at December 31, 2011		Revalued Amount of		Revaluation Gain/(Loss) Recognised on	
				Buildings Rs. '000	Land Rs. '000	Buildings Rs. '000	Land Rs. '000	Buildings Rs. '000	Land 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

NOTES TO THE FINANCIAL STATEMENTS

Location	Address	Name of the Valuer	Method of Valuation	Net Book Value before Revaluation as at December 31, 2011		Revalued Amount of		Revaluation Gain/(Loss) Recognised on	
				Buildings Rs. '000	Land Rs. '000	Buildings Rs. '000	Land Rs. '000	Buildings Rs. '000	Land Rs. '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
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	11,023	16,813	23,187	1,431	12,164
Galewela	No. 49/57, Matala Road, Galewela	W.S. Pematne	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. Pematne	Investment Method	10,542	39,481	85,000	140,000	74,458	100,519
Narammala	No. 55, Negombo Road, Narammala	W.S. Pematne	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

23.5 Title Restriction on Property, Plant & Equipment

There were no restrictions that existed on the title of the Property, Plant & Equipment of the Group as at the Balance Sheet date.

23.6 Property, Plant & Equipment Pledged as Security for Liabilities

There were no items of Property, Plant & Equipment pledged as securities for liabilities.

NOTES TO THE FINANCIAL STATEMENTS

23.7 Compensation from Third Parties for Items of Property, Plant & Equipment

There were no compensation received/receivable from third parties for items of Property, Plant & Equipment that were impaired, lost or given up.

23.8 Fully-Depreciated Property, Plant & Equipment

The cost of fully-depreciated Property, Plant & Equipment of the Bank which are still in use as at the Balance Sheet date is as follows:

	2011 Rs. '000	2010 Rs. '000
Computer equipment	1,317,053	1,436,314
Motor vehicles	34,255	22,176
Equipment, furniture and fixtures	880,674	746,719

23.9 Temporarily Idle Property, Plant & Equipment

Following Property, Plant & Equipment of the Bank were temporarily idle as at the Balance Sheet date:

	2011 Rs. '000	2010 Rs. '000
Computer equipment	278,143	98,714
Equipment, furniture and fixtures	117,503	45,651

23.10 Property, Plant & Equipment Retired from Active Use

Following Property, Plant & Equipment of the Bank were retired from active use:

	2011 Rs. '000	2010 Rs. '000
Computer equipment	41,917	41,917
Equipment, furniture and fixtures	9,293	9,293

24. LEASEHOLD PROPERTY

	GROUP		BANK	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
Cost/Valuation				
At the beginning of the year	128,700	128,700	84,840	84,840
Additions during the year	-	-	-	-
At the end of the year	128,700	128,700	84,840	84,840
Accumulated Amortisation				
At the beginning of the year	14,020	12,568	5,652	4,710
Amortisation for the year	1,452	1,452	942	942
At the end of the year	15,472	14,020	6,594	5,652
Net book value	113,228	114,680	78,246	79,188

The leasehold rights to land which is disclosed under Leasehold Property, does not permit further revaluation as per a ruling issued by the revised Urgent Issue Task Force (UITF) of Leasehold Property. An amount of Rs. 62.662 Mn. is remaining in the equity under Revaluation Surplus relating to previous Revaluation of Leasehold rights to land.

NOTES TO THE FINANCIAL STATEMENTS

	GROUP		BANK	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
25. OTHER ASSETS				
Refundable deposits and prepayments	552,322	507,342	565,910	510,925
Clearing account balance	3,581,426	2,599,857	3,581,426	2,599,857
Receivables on oil hedging transactions	-	186,172	-	186,172
Other accounts	1,374,220	1,005,476	1,377,786	1,010,201
Total	5,507,968	4,298,847	5,525,122	4,307,155

26. INTANGIBLE ASSETS

26.1 Computer Software

Cost/Valuation

At the beginning of the year	956,478	796,289	956,152	796,243
Additions during the year	167,193	162,195	167,193	161,915
Disposals during the year	-	(1,973)	-	(1,973)
Exchange rate variance	(2,428)	(33)	(2,428)	(33)
Transfers/Adjustments	-	-	-	-
At the end of the year	1,121,243	956,478	1,120,917	956,152

Accumulated Amortisation

At the beginning of the year	633,880	551,042	633,824	551,041
Amortisation for the year	98,172	84,260	98,118	84,238
Disposals during the year	-	(1,290)	-	(1,290)
Exchange rate variance	(726)	(281)	(726)	(281)
Transfers/Adjustments	-	149	-	116
At the end of the year	731,326	633,880	731,216	633,824

Net book value

	389,917	322,598	389,701	322,328
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26.2 Software Under Development

Cost/Valuation

At the beginning of the year	102,657	142,313	96,983	142,313
Additions during the year	40,317	138,847	37,559	133,173
Transfers/Adjustments during the year	(57,229)	(178,503)	(57,229)	(178,503)
Exchange rate variance	(624)	-	-	-
Disposals during the year	-	-	-	-
At the end of the year	85,121	102,657	77,313	96,983

Total net book value

	475,038	425,255	467,014	419,311
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There were no restrictions that existed on the title of the intangible assets of the Group as at the Balance Sheet date. Further, there were no items pledged as securities for liabilities.

NOTES TO THE FINANCIAL STATEMENTS

27. DEPOSITS

	GROUP		BANK	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
Local Currency Deposits				
Current account deposits	24,138,518	22,434,884	24,138,543	22,434,909
Savings deposits	108,313,134	92,191,237	108,322,230	92,225,556
Time deposits	105,330,818	71,404,319	105,330,818	71,404,319
Certificates of deposit	6,491,165	4,859,237	6,491,165	4,859,237
Sub total	244,273,635	190,889,677	244,282,756	190,924,021
Foreign Currency Deposits				
Current account deposits	6,780,536	6,124,912	6,780,536	6,124,912
Savings deposits	27,675,614	25,522,035	27,675,614	25,522,035
Time deposits	39,674,525	37,207,943	39,722,525	37,207,943
Sub total	74,130,675	68,854,890	74,178,675	68,854,890
Total deposits	318,404,310	259,744,567	318,461,431	259,778,911

The Foreign Currency Deposits included a balance held by the Bank amounting to USD 15.0 Mn., a deposit from the People's Bank. People's Bank initiated legal action and obtained an enjoining order preventing the Bank from investing and/or setting off the sum of USD 15.0 Mn. held by the Bank in settlement of the outstanding due to the Bank on the oil hedging transaction. However, on January 15, 2010 the interim injunction sought by the People's Bank was not granted by the Commercial High Court, Colombo. As a result, the Bank duly set off USD 15.0 Mn. deposit against the amount due from the People's Bank.

27 (a) Analysis of Deposits

	GROUP		BANK	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
Deposits from banks	1,280,541	59,614	1,280,541	59,614
Deposits from finance companies	2,302,380	2,538,293	2,302,380	2,538,293
Deposits from other customers	314,821,389	257,146,660	314,878,510	257,181,004
Total	318,404,310	259,744,567	318,461,431	259,778,911

The maturity analysis of deposits is given in Note 35.

28. BORROWINGS

Call money borrowings	2,750,000	3,390,000	2,750,000	3,390,000
Borrowings from banks abroad	8,789,755	1,614,521	8,789,755	1,614,521
Re-finance borrowings	8,357,334	8,254,454	8,357,334	8,254,454
Other borrowings	-	1,112,000	-	1,112,000
Total	19,897,089	14,370,975	19,897,089	14,370,975

The maturity analysis of borrowings is given in Note 35.

NOTES TO THE FINANCIAL STATEMENTS

29. DEFERRED TAX LIABILITIES

29 (a) Summary of Net Deferred Tax Liability

	GROUP				BANK			
	2011		2010		2011		2010	
	Temporary Difference Rs. '000	Tax Effect Rs. '000	Temporary Difference Rs. '000	Tax Effect Rs. '000	Temporary Difference Rs. '000	Tax Effect Rs. '000	Temporary Difference Rs. '000	Tax Effect Rs. '000
As at the beginning of the year	3,575,420	992,710	2,384,452	767,117	3,203,581	892,441	2,002,354	633,382
Amount originating/(reversing) during the year (refer Note 11.2)	1,150,035	317,644	(356,981)	(94,637)	1,112,109	304,333	24,796	(71,142)
Deferred tax effect on revaluation surplus on property	473,583	56,854	1,547,949	319,354	458,730	128,444	1,176,431	329,401
Exchange rate variance	-	2,362	-	876	-	2,362	-	800
As at the end of the year	5,199,038	1,369,570	3,575,420	992,710	4,774,420	1,327,580	3,203,581	892,441

29 (b) Reconciliation of Net Deferred Tax Liability

	GROUP				BANK			
	Balance Sheet		Income Statement		Balance Sheet		Income Statement	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
Deferred Tax Liabilities on:								
Accelerated Depreciation for tax purposes - Own Assets	341,625	257,840	(83,785)	65,407	324,130	246,310	(77,820)	43,338
Accelerated Depreciation for tax purposes - Leased Assets	812,102	433,777	(378,325)	28,061	812,102	433,777	(378,325)	28,061
Revaluation surplus on freehold buildings	486,434	429,580	-	-	457,845	329,401	-	-
Deferred tax on re-classification of revaluation surplus to retained earnings	-	-	-	-	-	-	-	-
	1,640,161	1,121,197	(462,110)	93,468	1,594,077	1,009,488	(456,145)	71,399
Deferred Tax Assets on:								
Finance leases	2,208	9,152	(6,944)	1,625	-	-	-	-
Defined Benefit Plans	134,150	110,446	23,704	4,307	132,264	108,158	24,106	4,582
General provision on loans & advances	14,706	8,898	5,808	(5,637)	14,706	8,898	5,808	(5,637)
Specific provision on lease receivable	119,536	-	119,536	-	119,536	-	119,536	-
	270,600	128,496	142,104	295	266,506	117,056	149,450	(1,055)
Effect of exchange rate variance	9	9	2,362	874	9	9	2,362	798
Deferred income tax on income/(expenses)			(317,644)	94,637			(304,333)	71,142
Net deferred tax liability	1,369,570	992,710			1,327,580	892,441		

NOTES TO THE FINANCIAL STATEMENTS

30. DEBENTURES

	GROUP		BANK	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
As at the beginning of the year	2,127,030	3,436,030	2,127,030	3,436,030
Redemptions during the year	(1,153,820)	(1,309,000)	(1,153,820)	(1,309,000)
As at the end of the year	973,210	2,127,030	973,210	2,127,030

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:

Debenture Categories	BANK							
	Colombo Stock Exchange Listing	Interest Payable Frequency	Allotment Date	Maturity Date	Effective Annual Yield		Value as at December 31,	
					2011 %	2010 %	2011 Rs. '000	2010 Rs. '000
Fixed Rate Debentures								
2006/2016 - 13.25% p.a.	Not listed	Annually	16.05.2006	16.05.2016	13.25	13.25	505,000	505,000
2006/2013 - 13.75% p.a.	Listed	Annually	18.12.2006	18.12.2013	13.75	13.75	250	250
2006/2016 - 14.00% p.a.	Listed	Annually	18.12.2006	18.12.2016	14.00	14.00	467,260	467,260
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	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
2006/2016 - 12 months TB rate (Gross) + 1% p.a.	Listed	Annually	18.12.2006	18.12.2016	9.15	9.40	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	611,720
Total debentures							973,210	2,127,030

Notes

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.

NOTES TO THE FINANCIAL STATEMENTS

31. OTHER LIABILITIES

	GROUP		BANK	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
Accrued interest	5,756,779	4,178,471	5,756,779	4,178,471
Accrued expenditure	1,389,897	1,598,329	1,377,132	1,586,976
Cheques sent on clearing	3,528,970	2,490,740	3,528,970	2,490,740
Provision for gratuity payable [Refer Note 31 (a)]	317,115	242,841	303,774	232,441
Provision for un-funded pension scheme [Refer Note 31 (b)]	141,072	129,309	141,072	129,309
Payable on oil hedging transactions	707,252	689,881	707,252	689,881
Other accounts	2,020,695	2,040,022	2,025,288	2,058,423
Total	13,861,780	11,369,593	13,840,267	11,366,241

31 (a) Provision for Gratuity

At the beginning of the year	242,841	176,201	232,441	167,463
Expense recognised in the Income Statement [Refer Note 31 (a) (i)]	89,691	79,287	86,750	77,625
Exchange difference	(6,016)	(2,766)	(6,016)	(2,766)
Paid during the year	(9,401)	(9,881)	(9,401)	(9,881)
At the end of the year	317,115	242,841	303,774	232,441

31 (a) (i) Gratuity Expense Recognised in the Income Statement

Interest cost	19,325	14,446	18,508	13,640
Current service cost	41,765	34,360	40,672	33,397
Provision made during the year	15,296	12,999	14,461	12,184
Actuarial gain/(loss)	13,305	17,482	13,109	18,404
At the end of the year	89,691	79,287	86,750	77,625

31 (b) Provision for Un-funded Pension Scheme

At the beginning of the year	129,309	119,072	129,309	119,072
Expense recognised in the Income Statement [Refer Note 31 (b) (i)]	31,719	29,382	31,719	29,382
Paid during the year	(19,956)	(19,145)	(19,956)	(19,145)
At the end of the year	141,072	129,309	141,072	129,309

31 (b) (i) Pension Expense for Un-funded scheme recognised in the Income Statement

Interest cost	12,931	13,098	12,931	13,098
Current service cost	-	12,394	-	12,394
Provision made during the year	-	-	-	-
Actuarial gain/(loss)	18,788	3,890	18,788	3,890
At the end of the year	31,719	29,382	31,719	29,382

NOTES TO THE FINANCIAL STATEMENTS

32. STATED CAPITAL

As at December 31,	GROUP		BANK	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
Opening balance	10,811,193	10,607,792	10,811,193	10,607,792
Issue of ordinary voting Shares under Employee Share Option Plans	121,869	203,401	121,869	203,401
Issue of ordinary shares as part of the final dividend for 2010 satisfied in the form of issue and allotment of new shares	681,141	-	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	16,473,861	10,811,193	16,473,861	10,811,193

32 (a) Movement in Number of Ordinary Shares

	No. of Ordinary Voting Shares		No. of Ordinary Non-Voting Shares	
	2011	2010	2011	2010
Opening balance	353,305,387	233,821,271	24,181,195	16,120,797
Issue of ordinary shares under Employee Share Option Plans	1,457,645	2,081,508	-	-
Issue of ordinary shares as part of the final dividend for 2010 satisfied in the form of issue and allotment of new shares	2,277,195	-	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	765,085,320	353,305,387	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 September 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.

NOTES TO THE FINANCIAL STATEMENTS

32 (b) 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
	April 30, 2008	April 30, 2008	April 30, 2008	
Date granted				
Price (Rs.) - (*) & (**)	46.91	46.91	46.91	
	1/3 of Options	1/3 of Options	1/3 of Options	
Exercisable between	April 30, 2009 to April 29, 2013	April 30, 2010 to April 29, 2014	April 30, 2011 to April 29, 2015	
Original number of options - (***)	777,308	777,308	777,308	2,331,924
Additions consequent to 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	(4,520)	(4,514)	(40,011)	(49,045)
Number of options exercised up to December 31, 2011	(561,843)	(565,959)	(364,069)	(1,491,871)
Number of options outstanding as at December 31, 2011	808,156	912,146	1,359,476	3,079,778

(*) 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 are in line with the accepted market practices.

	Tranche II			Total
	April 30, 2011	April 30, 2011	April 30, 2011	
Date granted				
Price (Rs.) - (*)	132.33	132.33	132.33	
	1/3 of Options	1/3 of Options	1/3 of Options	
Exercisable between	April 30, 2012 to April 29, 2016	April 30, 2013 to April 29, 2017	April 30, 2014 to April 29, 2018	
Original number of options - (**)	1,213,384	1,213,384	1,213,384	3,640,152
Additions consequent to share split made in September 2011	1,213,384	1,213,384	1,213,384	3,640,152
Options to be vested as at December 31, 2011	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.

NOTES TO THE FINANCIAL STATEMENTS

32 (c) Employee Share Option Plan - 2002

The Bank obtained the approval of the shareholders at an Extra-ordinary General Meeting held in September 2002, to introduce an Employee Share Option Plan for the benefit of all the Executive Officers in Grade III and above by creating 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, 2011	-	-	-	-	-

(*) 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.

33. STATUTORY RESERVES

33.1 Statutory Reserve Fund

	GROUP		BANK	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
Opening balance	2,338,510	2,062,346	2,338,510	2,062,346
Add: Transfers during the year	402,391	276,164	402,391	276,164
Closing balance	2,740,901	2,338,510	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.

The Bank appropriated 5% of the post-tax profit of 2011, to fulfil the minimum requirement under Section 20 (1) of the Banking Act No. 30 of 1988.

33.2 Primary Dealer Special Risk Reserve

	GROUP		BANK	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
Opening balance	133,320	101,791	133,320	101,791
Transfer from the Income Statement	16,084	31,529	16,084	31,529
Closing balance	149,404	133,320	149,404	133,320
Total Statutory Reserves	2,890,305	2,471,830	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.

NOTES TO THE FINANCIAL STATEMENTS

34. OTHER RESERVES

	GROUP		BANK	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
Capital Reserves				
Revaluation Reserve [Refer Note 34.1]	4,550,838	2,943,222	4,222,054	2,696,171
Sub Total	4,550,838	2,943,222	4,222,054	2,696,171
Revenue Reserves				
General Reserve [Refer Note 34.2]	17,889,471	16,361,218	17,889,471	16,361,218
Foreign Currency Translation Reserve [Refer Note 34.3]	(1,302,557)	(549,738)	(1,308,721)	(554,288)
Investment Fund Account [Refer Note 34.4]	1,194,328	-	1,194,328	-
Retained Earnings [Refer Note 14]	2,871,411	1,474,851	2,865,429	1,515,928
Sub Total	20,652,653	17,286,331	20,640,507	17,322,858
Total	25,203,491	20,229,553	24,862,561	20,019,029

34.1 Revaluation Reserve

Opening balance	2,943,222	1,533,746	2,696,171	1,286,695
Surplus on revaluation of Freehold Land & Buildings	1,668,372	1,738,877	1,654,327	1,738,877
Deferred tax effect on revaluation surplus on Freehold Buildings	(60,756)	(329,401)	(128,444)	(329,401)
Closing balance	4,550,838	2,943,222	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.)

NOTES TO THE FINANCIAL STATEMENTS

34.2 General Reserve

	GROUP		BANK	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
Opening balance	16,361,218	13,807,767	16,361,218	13,807,767
Transfer of Translation Gains	-	(16,135)	-	(16,135)
Transfer from the Income Statement	1,528,253	2,569,586	1,528,253	2,569,586
Closing Balance	17,889,471	16,361,218	17,889,471	16,361,218

34.3 Foreign Currency Translation Reserve

Opening balance	(549,738)	(371,527)	(554,288)	(371,527)
Transfer of Translation Gains	-	16,135	-	16,135
Net unrealised losses from the translation of Financial Statements of the foreign operations	(752,819)	(194,346)	(754,433)	(198,896)
Closing balance	(1,302,557)	(549,738)	(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 part of Equity.

34.4 Investment Fund Account

	GROUP		BANK	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
Opening balance	-	-	-	-
Transfer from the Income Statement	1,194,328	-	1,194,328	-
Closing balance	1,194,328	-	1,194,328	-

As proposed in the Government Budget 2011, Banks were required to establish and operate an 'Investment Fund Account (IFA)' commencing from January 2011. According to the guidelines issued by the Central Bank of Sri Lanka, 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 payment of income tax.

The Bank entered into funding an infrastructure development project utilising the funds available in the IFA, initiated by the Road Development Authority for the purpose of rehabilitating and improving the Ambepussa-Kurunegala-Trincomalee Road (A6) from Dambulla to Habarana. The details of the loan are as follows:

Customer	Rate of Interest (%)	Tenure of Loan	Granted (Rs. Mn.)
Road Development Authority	9.00	14 ½ years	431.202

NOTES TO THE FINANCIAL STATEMENTS

35. MATURITY ANALYSIS

35 (a) Group

(i) Maturity analysis of assets of the Group as at December 31, 2011, based on the remaining period at the Balance Sheet date to the respective contractual maturity dates is given below:

	Up to 3 Months Rs. '000	3 to 12 Months Rs. '000	1 to 3 Years Rs. '000	3 to 5 Years Rs. '000	More than 5 Years Rs. '000	Total as at 31.12.2011 Rs. '000	Total as at 31.12.2010 Rs. '000
Interest Earning Assets:							
Cash and short term funds	10,240,831	3,349,630	-	-	-	13,590,461	2,631,589
Balances with Central Banks	579,044	10,374	-	-	-	589,418	662,466
Dealing Securities	96,649	-	-	-	-	96,649	98,600
Government Treasury Bills and Bonds	33,992,533	35,870,090	-	-	-	69,862,623	80,998,051
Securities purchased under resale agreements	1,541,909	-	-	-	-	1,541,909	68,453
Investment Securities	152,421	949,792	1,900,283	477,332	-	3,479,828	2,309,941
Treasury Bonds maturing after one year	-	-	20,848,967	9,042,196	360,706	30,251,869	33,542,561
Bills of Exchange, loans & advances and lease receivable	119,192,915	49,359,415	61,173,528	30,272,024	16,237,321	276,235,203	216,814,895
As at 31.12.2011	165,796,302	89,539,301	83,922,778	39,791,552	16,598,027	395,647,960	
As at 31.12.2010	117,343,324	101,744,454	72,639,245	29,447,682	15,951,851		337,126,556
Non-Interest Earning Assets:							
Cash and short term funds	11,444,855	-	-	-	-	11,444,855	7,972,617
Balances with Central Banks	11,746,139	3,968,585	381,748	288,648	368,421	16,753,541	11,526,368
Dealing Securities	224,618	-	-	-	-	224,618	184,791
Investment Securities	-	-	-	13,132	14,119	27,251	55,655
Investments in Associates	-	-	-	-	85,107	85,107	79,581
Interest and fees receivable	2,318,250	101,894	124,550	6,435	-	2,551,129	1,884,366
Property, Plant & Equipment	-	-	-	-	8,503,211	8,503,211	6,589,228
Leasehold Property	-	-	-	-	113,228	113,228	114,680
Other assets	4,663,974	165,855	103,685	65,098	509,356	5,507,968	4,298,847
Intangible assets	-	-	-	-	475,038	475,038	425,255
As at 31.12.2011	30,397,836	4,236,334	609,983	373,313	10,068,480	45,685,946	
As at 31.12.2010	22,607,374	2,414,029	382,512	167,506	7,559,967		33,131,388
Total Assets - As at 31.12.2011	196,194,138	93,775,635	84,532,761	40,164,865	26,666,507	441,333,906	
Total Assets - As at 31.12.2010	139,950,699	104,158,483	73,021,757	29,615,188	23,511,818		370,257,944
Percentage - As at 31.12.2011	44.46	21.25	19.15	9.10	6.04	100.00	
Percentage - As at 31.12.2010	37.80	28.13	19.72	8.00	6.35		100.00

NOTES TO THE FINANCIAL STATEMENTS

(ii) Maturity analysis of liabilities of the Group as at December 31, 2011, based on the remaining period at the Balance Sheet date to the respective contractual maturity dates is given below:

	Up to 3 Months Rs. '000	3 to 12 Months Rs. '000	1 to 3 Years Rs. '000	3 to 5 Years Rs. '000	More than 5 Years Rs. '000	Total as at 31.12.2011 Rs. '000	Total as at 31.12.2010 Rs. '000
Interest-Bearing Liabilities:							
Deposits	193,419,192	75,885,136	7,043,705	4,664,345	6,535,036	287,547,414	231,250,075
Borrowings	11,687,054	1,749,322	2,942,396	1,698,186	1,820,131	19,897,089	14,370,975
Securities sold under repurchase agreements	33,115,119	7,976,382	-	-	-	41,091,501	45,658,890
Debentures	-	-	550	972,660	-	973,210	2,127,030
As at 31.12.2011	238,221,365	85,610,840	9,986,651	7,335,191	8,355,167	349,509,214	-
As at 31.12.2010	198,820,757	71,057,287	9,806,020	5,203,616	8,519,290		293,406,970
Non-Interest Bearing Liabilities:							
Deposits	30,856,896	-	-	-	-	30,856,896	28,494,492
Current tax liabilities	457,998	679,539	1,637	-	-	1,139,174	2,455,002
Deferred tax liabilities	-	-	1,369,570	-	-	1,369,570	992,710
Other liabilities	9,190,822	3,072,245	1,149,254	436,324	13,135	13,861,780	11,369,593
Stated capital	-	-	-	-	16,473,861	16,473,861	10,811,193
Statutory reserves	-	-	-	-	2,890,305	2,890,305	2,471,830
Other reserves	-	-	-	-	25,203,491	25,203,491	20,229,553
Minority interest	-	-	-	-	29,615	29,615	26,601
As at 31.12.2011	40,505,716	3,751,784	2,520,461	436,324	44,610,407	91,824,692	
As at 31.12.2010	40,805,137	1,506,987	999,673	-	33,539,177	-	76,850,974
Total Liabilities and Equity - As at 31.12.2011	278,727,081	89,362,624	12,507,112	7,771,515	52,965,624	441,333,906	-
Total Liabilities and Equity - As at 31.12.2010	239,625,894	72,564,274	10,805,693	5,203,616	42,058,467	-	370,257,944
Percentage - As at 31.12.2011	63.16	20.25	2.83	1.76	12.00	100.00	
Percentage - As at 31.12.2010	64.71	19.60	2.92	1.41	11.36		100.00

NOTES TO THE FINANCIAL STATEMENTS

35 (b) Bank

(i) Maturity analysis of assets of the Bank as at December 31, 2011, based on the remaining period at the Balance Sheet date to the respective contractual maturity dates is given below:

	Up to 3 Months Rs. '000	3 to 12 Months Rs. '000	1 to 3 Years Rs. '000	3 to 5 Years Rs. '000	More than 5 Years Rs. '000	Total as at 31.12.2011 Rs. '000	Total as at 31.12.2010 Rs. '000
Interest-Earning Assets:							
Cash and short term funds	10,240,831	3,349,630	-	-	-	13,590,461	2,631,589
Balances with Central Banks	579,044	10,374	-	-	-	589,418	662,466
Dealing Securities	96,649	-	-	-	-	96,649	98,600
Government Treasury Bills and Bonds	33,992,533	35,870,090	-	-	-	69,862,623	80,998,051
Securities purchased under resale agreements	1,541,909	-	-	-	-	1,541,909	68,453
Investment Securities	152,421	949,792	1,900,283	477,332	-	3,479,828	2,309,941
Treasury Bonds maturing after one year	-	-	20,848,967	9,042,196	360,706	30,251,869	33,542,561
Bills of Exchange, Loans & Advances and Lease Receivable	119,211,273	49,404,823	61,265,381	30,275,855	16,237,321	276,394,653	217,038,456
As at 31.12.2011	165,814,660	89,584,709	84,014,631	39,795,383	16,598,027	395,807,410	
As at 31.12.2010	117,358,895	101,792,075	72,760,690	29,486,606	15,951,851		337,350,117
Non-Interest Earning Assets:							
Cash and short term funds	11,420,849	-	-	-	-	11,420,849	7,925,401
Balances with Central Banks	11,746,139	3,968,585	381,748	288,648	368,421	16,753,541	11,526,368
Dealing Securities	224,618	-	-	-	-	224,618	184,791
Investment Securities	-	-	-	13,132	14,119	27,251	55,655
Investments in Associates	-	-	-	-	44,331	44,331	44,331
Investments in Subsidiaries	-	-	-	-	292,745	292,745	353,898
Interest and fees receivable	2,318,250	101,894	124,550	6,435	-	2,551,129	1,884,366
Property, Plant & Equipment	-	-	-	-	7,907,030	7,907,030	5,929,561
Leasehold Property	-	-	-	-	78,246	78,246	79,188
Other assets	4,681,128	165,855	103,685	65,098	509,356	5,525,122	4,307,155
Intangible assets	-	-	-	-	467,014	467,014	419,311
As at 31.12.2011	30,390,984	4,236,334	609,983	373,313	9,681,262	45,291,876	
As at 31.12.2010	22,552,334	2,414,029	382,512	167,506	7,193,644		32,710,025
Total Assets - As at 31.12.2011	196,205,644	93,821,043	84,624,614	40,168,696	26,279,289	441,099,286	
Total Assets - As at 31.12.2010	139,911,229	104,206,104	73,143,202	29,654,112	23,145,495		370,060,142
Percentage - As at 31.12.2011	44.48	21.27	19.18	9.11	5.96	100.00	
Percentage - As at 31.12.2010	37.81	28.16	19.77	8.01	6.25		100.00

NOTES TO THE FINANCIAL STATEMENTS

(ii) Maturity analysis of liabilities of the Bank as at December 31, 2011, based on the remaining period at the Balance Sheet date to the respective contractual maturity dates is given below:

	Up to 3 Months Rs. '000	3 to 12 Months Rs. '000	1 to 3 Years Rs. '000	3 to 5 Years Rs. '000	More than 5 Years Rs. '000	Total as at 31.12.2011 Rs. '000	Total as at 31.12.2010 Rs. '000
Interest-Bearing Liabilities:							
Deposits	193,476,313	75,885,136	7,043,705	4,664,345	6,535,036	287,604,535	231,287,259
Borrowings	11,687,054	1,749,322	2,942,396	1,698,186	1,820,131	19,897,089	14,370,975
Securities sold under repurchase agreements	33,259,063	7,976,382	-	-	-	41,235,445	45,774,453
Debentures	-	-	550	972,660	-	973,210	2,127,030
As at 31.12.2011	238,422,430	85,610,840	9,986,651	7,335,191	8,355,167	349,710,279	
As at 31.12.2010	198,973,504	71,057,287	9,806,020	5,203,616	8,519,290		293,559,717
Non-Interest Bearing Liabilities:							
Deposits	30,856,896	-	-	-	-	30,856,896	28,491,652
Current tax liabilities	457,998	679,539	-	-	-	1,137,537	2,448,039
Deferred tax liabilities	-	-	1,327,580	-	-	1,327,580	892,441
Other liabilities	9,169,309	3,072,245	1,149,254	436,324	13,135	13,840,267	11,366,241
Stated capital	-	-	-	-	16,473,861	16,473,861	10,811,193
Statutory reserves	-	-	-	-	2,890,305	2,890,305	2,471,830
Other reserves	-	-	-	-	24,862,561	24,862,561	20,019,029
As at 31.12.2011	40,484,203	3,751,784	2,476,834	436,324	44,239,862	91,389,007	
As at 31.12.2010	40,798,945	1,506,987	892,441	-	33,302,052	76,500,425	76,500,425
Total Liabilities and Equity - As at 31.12.2011	278,906,633	89,362,624	12,463,485	7,771,515	52,595,029	441,099,286	
Total Liabilities and Equity - As at 31.12.2010	239,772,449	72,564,274	10,698,461	5,203,616	41,821,342		370,060,142
Percentage - As at 31.12.2011	63.23	20.26	2.83	1.76	11.92	100.00	
Percentage - As at 31.12.2010	64.79	19.61	2.89	1.41	11.30		100.00

Notes

- (i) Loans and advances are shown net of interest in suspense and provision for bad and doubtful debts.
- (ii) Balances with Central Banks have been apportioned into the maturity groups based on the maturities of respective deposits liabilities.
- (iii) Demand and savings deposits have been classified under 3 months category. However, the major part of these deposits represents core retail deposits with longer term maturity.
- (iv) Shareholders' funds is classified under more than 5 years category since it is perpetual in nature. However, these funds are invested for financing assets with lesser maturity periods.

NOTES TO THE FINANCIAL STATEMENTS

36. COMMITMENTS AND CONTINGENCIES

36.1 Capital Commitments

The Group has commitments for acquisition of Property, Plant & Equipment and intangible assets incidental to the ordinary course of business. Details as at December 31 are as follows:

	GROUP		BANK	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
36.1 (a) Capital Expenditure Commitments in Relation to Property, Plant & Equipment				
Approved and contracted for	1,169,775	787,992	1,169,775	787,992
Approved but not contracted for	76,150	41,100	76,150	41,100
Sub Total	1,245,925	829,092	1,245,925	829,092
36.1 (b) Capital Expenditure Commitments in Relation to Intangible Assets				
Approved and contracted for	141,625	142,570	141,625	142,570
Sub Total	141,625	142,570	141,625	142,570
Total	1,387,550	971,662	1,387,550	971,662

36.2 Contingencies

In the normal course of business the Bank makes various irrevocable commitments and incurs certain contingent liabilities with legal recourse to its customers. Even though these obligations may not be recognised on the Balance Sheet, they do contain credit risk and are therefore form part of the overall risk profile of the Bank.

	GROUP		BANK	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
Commitments on Direct Advances and Indirect Advances:				
Commitments for unutilised facilities	46,398,719	37,679,817	46,398,719	37,679,817
Total	46,398,719	37,679,817	46,398,719	37,679,817
Contingent Liabilities:				
Acceptances	15,978,277	11,171,282	15,978,277	11,171,282
Documentary credits	22,100,971	20,427,159	22,100,971	20,427,159
Guarantees	30,447,773	34,410,312	30,447,773	34,410,312
Bills for collection	13,287,393	11,321,227	13,287,393	11,321,227
Stock of Travellers' Cheques	551,443	522,906	551,443	522,906
Total	82,365,857	77,852,886	82,365,857	77,852,886
Forward Exchange Contracts:				
Forward exchange sales	52,785,302	41,774,845	52,785,302	41,774,845
Forward exchange purchases	51,613,610	38,335,745	51,613,610	38,335,745
Total	104,398,912	80,110,590	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 Commitments and Contingencies	234,551,169	196,617,166	234,551,169	196,617,166

36.2 (a) Contingencies of Subsidiaries

The Subsidiaries of the Group do not have any contingencies as at the year-end.

36.2 (b) Contingencies of Associates

The Associates of the Group do not have any contingencies as at the year-end.

NOTES TO THE FINANCIAL STATEMENTS

37. LITIGATION AGAINST THE BANK

Litigation is a common occurrence in the banking industry due to the nature of the business. The Bank has an established protocol for dealing with such legal claims. Once professional advice has been obtained on the certainty of the outcome and the amount of damages reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing. Set out below are unresolved legal claims against the Bank as at the year end for which adjustments to the Financial Statements have not been made due to the uncertainty of their 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 29, 2012.
- (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 Rs. 0.688 Mn. as damages for alleged unauthorised 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. Trial is fixed for March 29, 2012.
- (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 the action is Rs. 85.000 Mn. Answer of the added 4th Defendant is due on March 09, 2012.
- (iv) Court action has been initiated by a customer in proceedings No. 19/2011/MR to claim a sum of Rs. 10.000 Mn. as damages from the Bank with regard to a cheque deposit. Trial is fixed for February 23, 2012.
- (v) 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. Answer is due on April 20, 2012.
- (vi) 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. Steps to be taken with regard to the 1st Defendant on March 05, 2012.
- (vii) Court action has been initiated by a customer in proceedings No. 189/96 (1) claiming Rs. 20.000 Mn. as damages for loss of business together with interest at 28% per annum from 20th November 1992 which Case had been laid by. The Case is fixed for consideration of issues and admissions on March 8, 2012.
- (viii) 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. The 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 a Writ Pending Appeal. Inquiry of this application is fixed for March 15, 2012.
- (ix) 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. The case is pending to be listed in the Supreme Court.
- (x) 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 matter is at the stage of setting Admission and Issues of both parties. Settling of issues/further trial is fixed for February 17, 2012. In the meantime, the plaintiff filed an appeal in proceedings No. 04/2010 requesting the Court to grant Leave to Appeal and the case is fixed for Support on March 22, 2012.
- (xi) Court action has been initiated for BDT 9.153 Mn. (approx. Rs. 12.765 Mn.) in proceedings No. 149/05 against the Credit Agricole Indusuez and the Bank for the breach of contract due to alleged improper termination of a contract between Credit Agricole Indusuez and the plaintiff on network facility provided for Electronic Fund Transfer (EFT). As the Bank was not a party to the contract, the Bank has filed a statement to the court requesting for a dismissal. Next trial date is not yet fixed.
- (xii) Court action has been initiated by a third party in proceedings No. 52 to claim a sum of BDT 35.328 Mn. (approx. Rs. 49.267 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. Submission of the Written Statement is extended and fixed for June 03, 2012.

NOTES TO THE FINANCIAL STATEMENTS

38. EMPLOYEE RETIREMENT BENEFITS

38.1 Pension Fund - Defined Benefit Plan

An actuarial valuation of the retirement Pension Fund was carried out as at December 31, 2011, by Messrs Actuarial & Management Consultants (Pvt) Ltd., a firm of professional actuaries. The valuation method used by the actuaries to value the fund is the 'Projected Unit Credit Method (PUC)', the method recommended by the Sri Lanka Accounting Standard No. 16 (Revised 2006) on 'Employee Benefits'.

The assets of the fund, which are independently administered by the Trustees as per the provision of the Trust Deed are held separately from those of the Bank.

38.1 (a) Actuarial Assumptions - Demographic

Mortality

In service	A 67/70 Mortality Table issued by the Institute of Actuaries, London
After retirement	A (90) Annuities Table (Males & Females) issued by the Institute of Actuaries, London

Withdrawal

The withdrawal rate 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, 2010) to determine the liabilities of the active employees in the funded scheme, were used in the actuarial valuation as at December 31, 2011.

Disability

Assumptions similar to those used in other comparable schemes for disability were used as the data required to do a 'scheme specific' study was not available.

Normal Retirement Age

55 or 60 years as indicated in the data file of active employees.

38.1 (b) Actuarial Assumptions - Financial

Rate of Discount

In the absence of a deep market in long term Bonds in Sri Lanka, a long term rate of 10% p.a. has been used to discount future liabilities considering anticipated long term rate of inflation.

Salary Increases

A salary increment of 9.00% 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.

NOTES TO THE FINANCIAL STATEMENTS

38.1 (c) Movement in the Present Value of Defined Benefit Obligations

	2011 Rs. '000	2010 Rs. '000
Opening balance	84,394	72,209
Interest cost	8,439	7,943
Current service cost	1,928	1,805
Benefits paid during the year	(5,853)	(5,303)
Actuarial (gain)/loss	3,029	7,740
Closing balance	91,937	84,394

38.1 (d) Movement in the Fair Value of Plan Assets

Fair value as at the beginning of the year	72,290	61,800
Expected return on plan assets	7,229	4,697
Contribution paid into plan	1,446	1,298
Benefits paid by the plan	(5,853)	(5,303)
Actuarial gain/(loss) on plan assets	10,733	9,798
Fair value as at the end of the year	85,845	72,290

38.1 (e) Liability Recognised in the Balance Sheet

Present value of defined benefit obligations as at the end of the year	91,937	84,394
Fair value of plan assets as at the end of the year	(85,845)	(72,290)
Unrecognised actuarial gains/(losses)	-	-
Net liability recognised in the Balance Sheet	6,092	12,104

38.1 (f) Plan Assets Consist of the Following:

Government Treasury Bills	29,804	16,258
Deposits held with the Bank	56,041	56,032
Total	85,845	72,290

NOTES TO THE FINANCIAL STATEMENTS

39. FINANCIAL REPORTING BY SEGMENT AS PER THE PROVISIONS OF SRI LANKA ACCOUNTING STANDARD - 28

The primary segment reporting format is determined to be business segments as the Group's risks and return are affected predominantly by differences in the products and services offered. 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.

39.1 Primary Segment Information - Business Segments (Group)

The following table presents the income, profit and certain asset and liability information on the Group's business segments for the year ended December 31, 2011 and comparative figures for the year ended December 31, 2010.

For the year ended December 31,	Banking		Leasing		Dealing/Treasury		Investments		Total/ Consolidated	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
External Operating Income:										
Net interest income	15,435,331	14,487,089	643,550	290,270	1,892,842	1,596,142	-	-	17,971,723	16,373,501
Foreign Exchange profit	507,682	7,598	-	-	1,813,941	1,733,351	-	-	2,321,623	1,740,949
Fees and commission income	3,793,693	3,213,968	-	-	5,810	5,957	-	-	3,799,503	3,219,925
Other income	1,096,628	815,519	171,475	292,398	(93,969)	354,082	275,964	233,482	1,450,098	1,695,481
Eliminations/unallocated	-	-	-	-	-	-	-	-	294,474	136,256
Total Operating Income	20,833,334	18,524,174	815,025	582,668	3,618,624	3,689,532	275,964	233,482	25,837,421	23,166,112
Credit loss expenses	(1,409,890)	(1,021,621)	(93,337)	(170,517)	-	-	-	-	(1,503,227)	(1,192,138)
Net operating income	19,423,444	17,502,553	721,688	412,151	3,618,624	3,689,532	275,964	233,482	24,334,194	21,973,974
Segment result	11,652,895	10,026,257	721,688	412,151	2,062,778	1,824,253	246,408	186,785	14,683,769	12,449,446
Unallocated operating expenses									(3,624,262)	(3,159,788)
Profit from operations									11,059,507	9,289,658
Share of profit of Associates - (before tax)									9,113	10,808
Income tax expense									(2,973,468)	(3,790,472)
Minority interest									(265)	(2,494)
Net profit for the year, attributable to equity holders of the Parent									8,094,887	5,507,500

As at December 31,	Banking		Leasing		Dealing/Treasury		Investments		Total/ Consolidated	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
Other Information										
Segment assets	285,175,005	228,762,845	20,965,999	10,904,332	121,938,021	120,672,776	4,078,297	2,709,247	432,157,322	363,049,200
Investments in Associates	-	-	-	-	-	-	85,107	79,581	85,107	79,581
Unallocated assets	-	-	-	-	-	-	-	-	9,091,477	7,129,163
Total assets									441,333,906	370,257,944
Segment liabilities	247,160,466	198,905,119	20,965,999	10,904,332	121,938,021	120,672,776	4,163,404	2,788,828	394,227,890	333,271,055
Unallocated liabilities	-	-	-	-	-	-	-	-	2,508,744	3,447,712
Total liabilities									396,736,634	336,718,767

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31,	Banking		Leasing		Dealing/Treasury		Investments		Total/ Consolidated	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
Information on Cash Flows										
Cash flows from operating activities	15,585,895	(18,183,579)	(9,744,971)	3,253,613	(3,091,347)	1,429,976	-	-	2,749,577	(13,499,990)
Cash flows from investing activities	42,625	53,316	-	-	8,245,324	3,492,982	(862,445)	(1,302,642)	7,425,504	2,243,656
Cash flows from financing activities	102,880	368,287	-	-	8,024,598	394,765	-	-	8,127,478	763,052
Capital expenditure										
Property, Plant & Equipment									(967,997)	(903,870)
Intangible assets									(147,229)	(122,539)
Eliminations/unallocated									(2,756,223)	(1,932,762)
Net cash flow generated during the year									14,431,110	(13,452,453)

39.2 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 transactions and assets & liabilities are recorded for the year ended December 31, 2011 together with comparative figures for the year ended December 31, 2010.

	GROUP				BANK			
	2011 Rs. '000	%	2010 Rs. '000	%	2011 Rs. '000	%	2010 Rs. '000	%
Assets								
Sri Lanka operations	412,325,788	93.43	341,462,660	92.22	412,141,338	93.44	341,332,420	92.24
International operations	29,008,118	6.57	28,795,284	7.78	28,957,948	6.56	28,727,722	7.76
Total	441,333,906	100.00	370,257,944	100.00	441,099,286	100.00	370,060,142	100.00
Income								
Sri Lanka operations	41,970,802	92.31	38,123,775	91.90	41,988,866	92.32	38,163,592	91.91
International operations	3,494,562	7.69	3,357,987	8.10	3,494,523	7.68	3,357,939	8.09
Total	45,465,364	100.00	41,481,762	100.00	45,483,389	100.00	41,521,531	100.00
Profit before Tax								
Sri Lanka operations	9,672,834	87.39	7,731,733	83.13	9,557,218	86.98	7,715,728	82.81
International operations	1,395,786	12.61	1,568,733	16.87	1,430,177	13.02	1,601,665	17.19
Total	11,068,620	100.00	9,300,466	100.00	10,987,395	100.00	9,317,393	100.00
Profit after Tax								
Sri Lanka operations	7,279,557	89.92	4,571,489	82.97	7,197,842	89.44	4,551,861	82.41
International operations	815,595	10.08	938,505	17.03	849,986	10.56	971,432	17.59
Total	8,095,152	100.00	5,509,994	100.00	8,047,828	100.00	5,523,293	100.00

NOTES TO THE FINANCIAL STATEMENTS

40. RELATED PARTY DISCLOSURES

The Bank carries out transactions in the ordinary course of business on an arm's length basis at commercial rates with parties who are defined as Related Parties in Sri Lanka Accounting Standard No. 30 - 'Related Party Disclosures' (Revised 2005), except for the transactions that Key Management Personnel (KMPs) have availed under schemes uniformly applicable to all the staff at concessionary rates.

40.1 Parent and Ultimate Controlling Party

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

40.2 Transactions with Key Management Personnel (KMPs)

Related parties include KMPs defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Bank and its subsidiaries. Such KMPs include the Board of Directors of the Bank (including executive and non-executive Directors), key employees who are holding directorships in subsidiary companies of the Bank and other key executives who meet the criteria described above.

40.2.1 Compensation of KMPs

	2011 Rs. '000	2010 Rs. '000
Short-term employment benefits	258,103	196,311
Post-employment benefits	21,845	17,386
Other long-term benefits	1,012	920
Total	280,960	214,617

40.2.2 Transactions, Arrangements and Agreements Involving KMPs, and their Close Family Members (CFMs)

CFMs of a KMP are those family members who may be expected to influence, or be influenced by, that KMP in their dealings with the entity. They may include KMPs domestic partner and children, children of the KMPs domestic partner and dependents of the KMP or the KMPs domestic partner.

40.2.2.1 Balance Sheet Items

	Year-end Balance		Average Balance	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
Assets				
Loans and advances	92,959	35,549	72,616	30,030
Credit cards	1,651	276	154	24
Total	94,610	35,825	72,770	30,054
Liabilities				
Deposits	228,584	172,735	204,864	157,992
Securities sold under Re-purchase Agreements	264,063	342,968	330,217	311,028
Debentures	200	-	300	-
Total	492,847	515,703	535,381	469,020

40.2.2.2 Commitments and Contingencies

Letters of credit	-	-	550	3,065
Undrawn facilities	32,538	26,718	31,616	26,055
Total	32,538	26,718	32,166	29,120

40.2.2.3 Direct and Indirect Accommodation

Direct and indirect accommodation as a % of the Bank's Regulatory Capital	0.30%	0.19%
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NOTES TO THE FINANCIAL STATEMENTS

40.2.2.4 Income Statement Items

	During the Year	
	2011 Rs. '000	2010 Rs. '000
Interest income	6,615	2,715
Interest expenses	40,286	44,030
Other income	43	30
Compensation to KMPs (Refer Note 40.2.1)	280,960	214,617

40.2.2.5 Share Based Benefits to KMPs

	As at the Year End	
	2011	2010
Number of ordinary shares held	9,902,168	3,863,508
Dividends paid (In Rs. '000)	42,834	23,046
Number of cumulative exercisable options under the Employee Share Option Plan (ESOP) 2008 - Tranche I	817,581	278,458

40.2.3 Transactions, Arrangements and Agreements Involving Entities which are Controlled, and/or Significantly Influenced by the KMPs or their CFMs

40.2.3.1 Balance Sheet Items

	Year-end Balance		Average Balance	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
Assets				
Loans and advances	-	271	274	206
Total	-	271	274	206
Liabilities				
Deposits	-	503	8	6
Total	-	503	8	6

40.2.3.2 Commitments and Contingencies

Undrawn facilities	-	69	66	134
Total	-	69	66	134

40.2.3.3 Direct and Indirect Accommodation

Direct and indirect accommodation as a % of the Bank's Regulatory Capital	0.00%	0.00%
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40.2.3.4 Income Statement Items

	During the Year	
	2011 Rs. '000	2010 Rs. '000
Interest income	28	22

NOTES TO THE FINANCIAL STATEMENTS

40.3 Transactions with Group-Related Parties

The Group related parties include the Subsidiaries and Associates of the Bank.

40.3.1 Transactions with Subsidiary Companies of the Group/Bank.

40.3.1.1 Balance Sheet Items

	Year-end Balance		Average Balance	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
Assets				
Loans and advances	2,955	1,366	2,161	8,551
Lease receivables	156,494	222,194	183,884	232,928
Other	66,380	53,574	59,977	41,660
Total	225,829	277,134	246,022	283,139
Liabilities				
Deposits	57,120	34,344	62,171	33,383
Securities sold under Re-purchase Agreements	143,944	115,563	125,733	115,063
Other	14,999	15,302	15,150	27,119
Total	216,063	165,209	203,054	175,565

40.3.1.2 Commitments and Contingencies

Letters of credit	419	-	457	10,088
Guarantees	110	691	78	253
Undrawn facilities	50,000	49,309	20,897	40,488
Total	50,529	50,000	21,432	50,829

40.3.1.3 Direct and Indirect Accommodation

Direct and indirect accommodation as a % of the Bank's Regulatory Capital	0.50%	0.82%
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40.3.1.4 Income Statement Items

	During the Year	
	2011 Rs. '000	2010 Rs. '000
Interest income	39,591	50,786
Interest expenses	14,996	12,808
Other income	35,609	36,354
Expenses paid	287,187	201,492

40.3.1.5 Other Transactions

Computer hardware purchased from ONEzero Company Ltd.	114,290	169,143
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NOTES TO THE FINANCIAL STATEMENTS

40.3.2 Transactions with Associate Companies of the Group/Bank

40.3.2.1 Balance Sheet Items

	Year-end Balance		Average Balance	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
Assets				
Loans and advances	19,645	33,102	23,177	35,331
Lease receivables	4,465	-	4,962	64
Total	24,110	33,102	28,139	35,395
Liabilities				
Deposits	25,432	58,028	22,659	11,947
Securities sold under Re-purchase Agreements	23,236	-	24,395	19,064
Total	48,668	58,028	47,054	31,011

40.3.2.2 Commitments and Contingencies

Guarantees	-	2,525	-	2,525
Total	-	2,525	-	2,525

40.3.2.3 Direct and Indirect Accommodation

Direct and indirect accommodation as a % of the Bank's Regulatory Capital	0.06%	0.11%
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40.3.2.4 Income Statement Items

	During the Year	
	2011 Rs. '000	2010 Rs. '000
Interest income	4,239	4,965
Interest expenses	2,252	1,635
Other income	26,087	19,325

40.3.2.5 Other Transactions

	During the Year	
	2011	2010
Number of Ordinary Shares held as at the year end	4,246	1,966
Dividend paid (In Rs. '000)	18	11

NOTES TO THE FINANCIAL STATEMENTS

40.4 Transactions with Other Related Entities

Other related entities include significant investors (either entities or individuals) that have control, joint control or significant influence and post-employment benefit plans for the Bank's employees.

40.4.1 Transactions with the Post-Employment Benefit Plans for the Employees of the Bank

40.4.1.1 Balance Sheet Items

	Year-end Balance		Average Balance	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
Assets				
Loans and advances	-	-	-	242
Total	-	-	-	242
Liabilities				
Deposits	1,748,285	151,366	894,385	150,669
Securities sold under Re-purchase Agreements	123,937	617,581	1,046,281	284,603
Total	1,872,222	768,947	1,940,666	435,272

40.4.1.2 Income Statement Items

	During the Year	
	2011 Rs. '000	2010 Rs. '000
Interest income	-	153
Interest expenses	174,195	39,640
Contribution made/taxes paid by the Bank	683,904	618,619

41. EVENTS AFTER THE BALANCE SHEET DATE

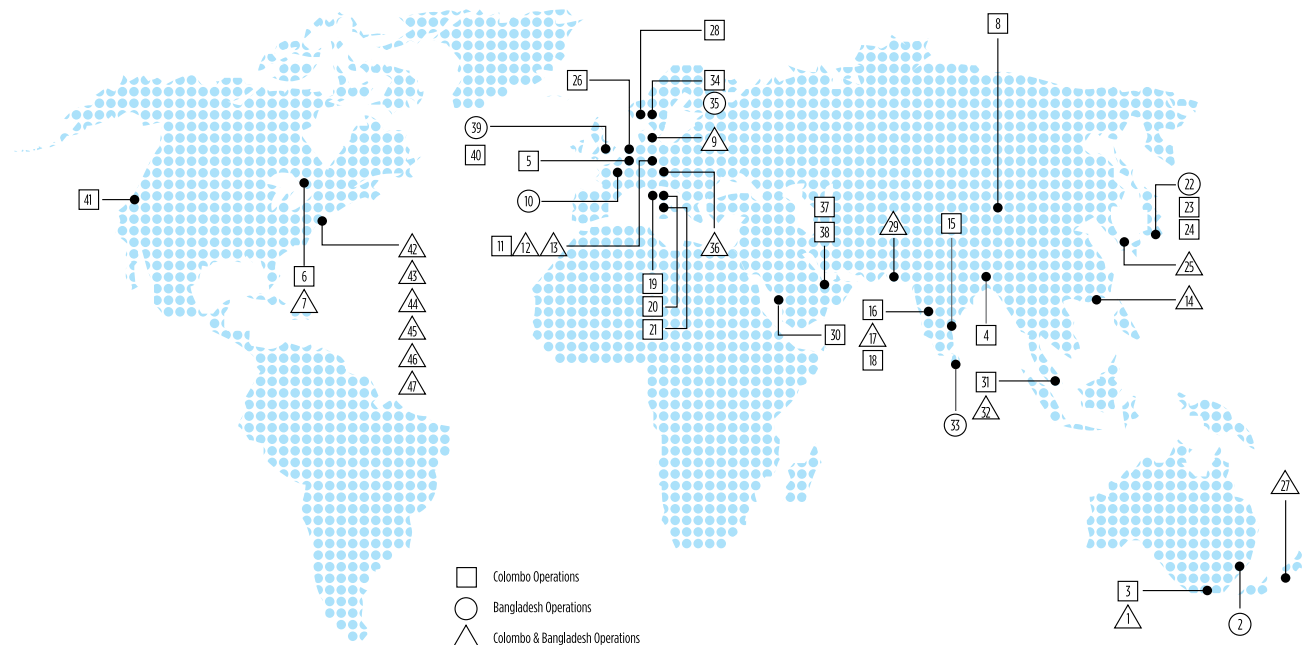
No circumstances have arisen since the Balance Sheet date which would require adjustments to or disclosure in the Financial Statements other than those disclosed below.

The Board of Directors of the Bank have recommended the payment of a final dividend of Rs. 3.50 per share consists of a cash dividend Rs. 1.50 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 ordinary shareholders of the Bank for the year ended December 31, 2011. This will be declared at the Forty-Third Annual General Meeting to be held on March 30, 2012, upon approval of the shareholders.

HISTORICAL LANDMARKS

- | | |
|--|---|
| <p>1920 The Eastern Bank Ltd. (EBL) opened a branch in Chatham Street.</p> <hr/> <p>1957 The share capital of EBL was acquired by the Chartered Bank.</p> <hr/> <p>1969 The Commercial Bank of Ceylon Ltd. was incorporated with EBL holding 40% of its equity.</p> <hr/> <p>1971 The business of the EBL was taken over by the Chartered Bank.</p> <hr/> <p>1973 The Galle, Jaffna and Kandy branches of the Mercantile Bank Ltd. were acquired by the Bank.</p> <hr/> <p>1979 The Foreign Currency Banking Unit (FCBU) was formed.</p> <hr/> <p>1980 Commercial Development Company Ltd. was incorporated to construct a Headquarters for the Bank with a 40% equity participation.</p> <hr/> <p>1984 The Headquarters of the Bank was shifted to 'Commercial House', No. 21, Bristol Street (now known as Sir Razik Fareed Mawatha), Colombo 01.</p> <hr/> <p>1987 EBL changed its name to Standard Chartered (UK) Holdings Ltd.</p> <hr/> <p>1988 An associate company, Commercial Leasing Company Ltd. was formed.</p> <hr/> <p>1990 Introduced ATM facilities to its customers.</p> <hr/> <p>1993 Introduced the Core Banking Software - International Comprehensive Banking System (ICBS).</p> <hr/> <p>1994 Bank celebrated its 25th Anniversary.</p> <hr/> <p>1996 Shareholdings in Commercial Development Company Ltd. increased to 94.55% through a share swap.</p> <hr/> <p>1997 Standard Chartered Bank sold its 40% stake in the Bank.</p> <hr/> <p>1998 365-day branch at Colombo 7 was opened. All branches except Jaffna were linked to the ICBS.</p> <hr/> <p>1999 Banking and supermarketing were combined by opening the first 'MiniCom'.</p> <hr/> <p>2000 Internet Banking was launched.</p> <hr/> <p>2001 Opened the 100th branch at Kaduruwela and the Gold Trading Unit at the Foreign Branch.</p> <hr/> <p>2003 The operations of Credit Agricole Indosuez in Bangladesh was taken over.</p> <hr/> <p>2004 Commercial Bank Social Responsibility Trust was set up.</p> <hr/> <p>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.</p> <hr/> <p>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.</p> | <p>2007 Linked up with 'MoneyGram' for fund transfers from around the world. Launched 'Pay Master' total payment solution.</p> <hr/> <p>2008 Bank disposed 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'.</p> <hr/> <p>2009 Became the first and only Bank in Sri Lanka to be CMMi certified. Selected as the 'Best Bank in Sri Lanka' for 2009 by 'Finance Asia'. Won an international accolade from the UK based 'Trade Finance' magazine (published by Euromoney PLC), which adjudged the Bank as the 'Best Local Trade Bank' in Sri Lanka. Bank installed its 350th ATM at the Piliyandala branch.</p> <hr/> <p>2010 Adjudged 'Best domestic bank in Sri Lanka in 2010' by 'Finance Asia'. Adjudged 'Best Agent- Corridor Collaboration' by 'MoneyGram'. Was adjudged Overall-Gold winner, and also received the Gold awards in the Banking & Finance category, the Business Excellence Award in the 'Extra Large' category and for Excellence in Performance Management Practices at the 2010 National Business Excellence Awards presented by the National Chamber of Commerce of Sri Lanka. Installed its 400th ATM at the Ruwanwella branch adding 50 ATMs during the year.</p> <hr/> <p>2011 Became the only Sri Lankan bank to be ranked among the 'Top 1,000 Banks in the World' for the 2nd time and 'the Bank of the year' for the 7th time by the UK - based 'the Banker Magazine'. Adjudged as Sri Lanka's 'Best Bank' for the 13th 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 3rd consecutive year. Adjudged for the 2nd time by UK based 'Trade Finance' magazine (published by Euromoney PLC) as the 'Best Local Trade Bank' in Sri Lanka. Opened the 200th delivery point at Kataragama and extended the number of delivery points in Sri Lanka to 213. 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. Islamic Banking unit was set up.</p> |
|--|---|

CORRESPONDENT BANKS



Country, Name and Address of the Bank	BIC/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	HKBAAU2S	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\$	2-802000017
Belgium			
5. Fortis Bank NV/SA Montagne DU PARC 3, B-1000, Brussels, Belgium www.fortis.com	GEBABEBB	EUR	291-1179210-78
Canada			
6. Bank of Nova Scotia Global Wholesale Services, 720, King Street West, Toronto www.scotiabank.com	NOSCCATT	CAD	0072214
7. Canadian Imperial Bank of Commerce Int'l Dept. Head Office, Commerce Court, Toronto, M5L 1H1, Canada www.cibc.com	CIBCCATT	CAD	1733117 CAD 1751514*
China			
8. Standard Chartered Bank 22nd Floor, Standard Chartered Tower, 201, Century Avenue, Pudong, Shanghai www.standardchartered.com	SCBLCNSX	CYN	501510533540
Denmark			
9. Nordea Bank Denmark A/S P.O. Box 850, DK-0900, Copenhagen, Denmark www.nordea.com	NDEADKKK	DKK	5000408909 DKK 5000017703*

* Accounts of Bangladesh Operations

Country, Name and Address of the Bank	BIC/Swift	CCY	Account No.
France			
10. Credit Agricole SA 75710 Paris Cedex 15, CCP, Paris 702 U 020 France www.credit-agricole.fr	AGRIFRPP	EUR	20533624000*
Germany			
11. Bayerische Hypo und Vereins Bank AG D-80311, Muenchen, Germany www.hypovereinsbank.de	HYVEDEMM	EUR	69101429
12. 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*
13. 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*
Hong Kong			
14. Standard Chartered Bank P.O. Box 21, 9th Floor, 4-4A, Des Voeux Road, Central Hong Kong www.standardchartered.com	SCBLHKHH	HKD	41109468048 HKD 44709419107*
India			
15. Bank of Ceylon Chennai 1090, Poonamallee High Road, Chennai 600 084, India www.boc.lk	BCEYIN5M	AC€	1-119
16. Deutsche Bank AG Ground Floor, CSD Area, Kodak House, 225, D.N. Road, Fort, Mumbai, India www.db.com	DEUTINBB	AC\$	0212878-05-0
17. ICICI Bank Ltd. ICICI Bank Towers, Bandra-Kurla Complex, Bandra (East), Mumbai 400 051, India www.icicibank.com	ICICINBB	AC\$	000406000181 AC\$ 000406000220*
18. Standard Chartered Bank 23-25, Mahatma Gandhi Road, P.O. Box 558, Mumbai 400 001, India www.standardchartered.com	SCBLINBB	AC\$	22205031885 AC€ 22205394120

CORRESPONDENT BANKS

Country, Name and Address of the Bank	BIC/Swift	CCY	Account No.
Italy			
19. Banca Intesa BCI #2612, Head Office, Int'l Money Transfer Dept., Piazza Della Scala 6, 20121 Milan, Italy www.bancaintesa.it	BCITITMM	EUR	100100003820
20. Banco Popolare Society Coporation Piazza Nogara 2, 37121, Verona, Vr, Italy www.bancopopolare.it	BAPPIT22	EUR	000400000082
21. Unicredito Italiano SPA Viale, Mberto, Tupini, 180, 1-00144, Rome, Italy www.unicreditgroup.eu	UNCRITMM	EUR	0995 4268
Japan			
22. Bank of Tokyo Mitsubishi Ltd. P.O. Box 191, Nihonbashi, Tokyo, Japan www.bk.mufg.jp	BOTKJPJT	JPY	653-0461318*
23. Standard Chartered Bank P.O. Box 9997, 21st Floor, Sanno Park, Tower 2-1-1, Nagata-cho, Chiyoda-ku, Tokyo 100-6155, Japan www.standardchartered.com	SCBLJPJT	JPY	2168531110
24. Sumitomo Mitsui Banking Corporation International Business Operations Dept., 1-5-3, Kudanminami, Chiyoda-ku, Tokyo, 102-0074 Japan www.smbc.co.jp	SMBCJPJT	JPY	4395
Korea			
25. Kookmin Bank 9-1, 2GA, Namdaemun - RO, Jung - GU, Seoul 100-703, Korea www.kbstar.com	CZNBKRSE	US\$	7598USD010 7618USD013*
Netherlands			
26. Ing Bank N.V. P.O. Box 1800, 1000 BV, Amsterdam, Netherlands www.ing.com	INGBNL2A	EUR	0050908928
New Zealand			
27. Bank of New Zealand P.O. Box 2392, 1, Willis Street, Wellington, New Zealand www.bnz.co.nz	BKNZNZ22985	NZD	2659680000 2690700000*
Norway			
28. Den Norske Bank Stranden 21, 0021, Oslo, Norway www.dnbnor.com	DNBANOKK	NOK	7002-02-04808
Pakistan			
29. Standard Chartered Bank 1.1, Chundrigar Road, Karachi 75600, Pakistan www.standardchartered.com	SCBLPKK	AC\$	15000297601 15000288701*
Saudi Arabia			
30. The National Commercial Bank International Banking Division, Banking Relations, 20th Floor, P.O. Box 3555, Jeddah 21481, Saudi Arabia www.alahli.com	NCBKSAJE	US\$	55535150090301
Singapore			
31. Citibank NA 3, Temasek Avenue, #14-00, Sennial Tower, Singapore 039190 www.citibank.com	CITISGSG	US\$	00851122001
32. Standard Chartered Bank P.O. Box 1901, 6, Battery Road, 7th Storey, Singapore 049909 www.standardchartered.com.sg	SCBLSGSG	SGD	0109344561 102318735*

* Accounts of Bangladesh Operations

Country, Name and Address of the Bank	BIC/Swift	CCY	Account No.
Sri Lanka			
33. Commercial Bank of Ceylon PLC Commercial House, 21, Sir Razik Fareed Mawatha, P.O. Box 856, Colombo 1, Sri Lanka www.combank.net	CCEYLK LX	AC\$	1420825031*
Sweden			
34. Skandinaviska Enskilda Banken Utlandsreskontran Stockholm S 106 40, Sweden www.seb.se/mb	ESSESESS	SEK	52018529803
35. Svenska Handelbanken Stockholm, Sweden www.handelsbanken.com	HANDESSA	SEK	40324079*
Switzerland			
36. UBS A.G. P.O. Box CH-8098, Zurich, Switzerland www.ubs.com	UBSWCHZH	CHF	0230-0000085408050000W 0230-000036535050000N*
United Arab Emirates			
37. Blom Bank France P.O. Box 4370, Al Maktoum Street, Deira, Dubai, UAE www.blombank.com	BLOMAEAD	AED	510035395784101000
38. Mashreq Bank P.O.Box 1250, Dubai, UAE www.mashreqbank.com	BOMLAEAD	AED	0195511268
United Kingdom			
39. HSBC Bank PLC 8, Canada Square, London - UK www.hsbc.co.uk	MIDLGB22	GBP	58335536* 59398188* 59448448*
40. Standard Chartered Bank City Office, Branch No. 37, Grace Church Street, London EC3V 0BX, UK www.standardchartered.com	SCBLGB2L	GBP	01804813401
United States of America			
41. Bank of America NT & SA International Deposit Services, 1850, Gateway BL VD, 6th Floor, Concord CA 94520, USA www.bankofamerica.com	BOFAUS6S	US\$	6290890098
42. Citi Bank 111, Wall Street, 19th Floor, New York 10043, USA www.citibank.com	CITIUS33	US\$	36141446 36241316* 36242538*
43. Deutsche Bank Trust Company Americas P.O. Box 318, Church Street Station, New York, NY 10008, USA www.db.com	BKTRUS33	US\$	04034566 4447395*
44. HSBC Bank USA 500, Stanton Christiana Road, New York, Delaware 19713, NY - USA www.hsbcusa.com	MRMDUS33	US\$	0000045829 000147605*
45. JP Morgan Chase Bank Head Office, 270, Park Avenue, New York, NY 10017, USA www.jpmorganchase.com	CHASUS33	US\$	400808625 400809176*
46. Standard Chartered Bank One Madison Avenue, New York, NY 10010-3603, USA www.standardchartered.com	SCBLUS33	US\$	3582052360001 3582052360002 3582052637001*
47. Wells Fargo Bank N.A. 11, Penn Plaza, 4th Floor, New York, NY 10038, USA www.wellsfargo.com	PNBPUS3NNYC	US\$	2000191002407 2000193003365*

GLOSSARY OF FINANCIAL AND BANKING TERMS

A

Acceptances

Promise to pay created when the drawee of a time draft stamps or writes the word 'accepted' above his signature and a designated payment date.

Accounting Policies

The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting Financial Statements.

Amortisation

The systematic allocation of the depreciable amount of an asset over its useful life.

Accrual Basis

Recognising the effects of transactions and other events when they occur without waiting for receipt or payment of cash or its equivalent.

Associate

An entity, including an unincorporated entity such as a partnership, over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

B

Bills for Collection

A bill of exchange drawn by an exporter usually at a term, on an importer overseas and brought by the exporter to his bank with a request to collect the proceeds.

Bonus Issue (Scrip Issue)

The issue of new shares to existing shareholders in proportion to their shareholdings. It is a process for converting a company's reserves (in whole or part) into 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.

Commitments

Credit facilities approved but not yet utilised by the clients as at the Balance Sheet date.

Compounded Annual Growth Rate (CAGR)

The rate at which it would have grown if it grew at an even rate compounded annually.

Contingencies

A condition or situation existing at Balance Sheet date where the outcome will be confirmed only by occurrence or non-occurrence of one or more future events.

Cost/Income Ratio

Operating expenses excluding Loan Loss Provision as a percentage of net income.

Cost Method

This is a method of accounting for an investment whereby the investment is initially recognised at cost. The investor recognises income from the investment only to the extent that the investor receives distributions from accumulated profits of the investee arising after the date of acquisition. Distributions

received in excess of such profits are regarded as a recovery of investment and are recognised as a reduction of the cost of the investment.

Corporate Governance

The process by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and direction of entity, the supervision of executive actions and accountability to owners and others.

Correspondent Bank

A bank in a foreign country that offers banking facilities to the customers of a bank in another country.

Cash Equivalents

Short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Credit Risk

Credit risk or default risk is most simply defined as the potential that a borrower or counterparty will fail to meet its obligations in accordance with agreed terms and conditions.

Credit Ratings

An evaluation of a corporate's ability to repay its obligations or the likelihood of not defaulting, carried out by an independent rating agency.

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

Dealing Securities

Marketable securities that are acquired and held with the intention of reselling them in the short term.

Deferred Taxation

Sum set aside for 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 contracts whose values are derived from the values of underlying.

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.

Finance Lease

A contract whereby a lessor conveys to the lessee the right to use an asset for rent over an agreed period of time which is sufficient to amortise the capital outlay of the lessor. The lessor retains ownership of the asset but transfers substantially all the risks and rewards of ownership to the lessee.

Foreign Exchange Profit

Profit earned on foreign currency transactions arising from the difference in foreign exchange rates between the transaction/last Balance Sheet date and the settlement/Balance Sheet date. Also arises from trading in foreign currencies.

Forward Exchange Contract

Agreement between two parties to exchange one currency for another at a future date at a rate agreed upon today.

Free Capital

Excess of equity capital over net book value of Property, Plant & Equipment, Intangible Assets and Investments.

G

General Provisions

These are provisions made on loans and advances for anticipated losses on aggregate exposures where credit losses cannot yet be determined on an individual facility basis.

Group

A group is a Parent and all its Subsidiaries.

Guarantees

Three party agreement involving a promise by one party (the guarantor) to fulfil the obligations of a person owing a debt if that person fails to perform.

H

Hedging

A strategy under which transactions are effected with the aim of providing cover against the risk of unfavourable price movements (Interest rate, Prices and Commodities, etc.).

Human Resource Accounting

Is a method of accounting under which the human resource is considered as an asset (although not brought into the Balance Sheet) and the value is thus computed to focus attention of the management on this valuable asset.

GLOSSARY OF FINANCIAL AND BANKING TERMS

I

Impairment

This occurs when recoverable amount of an asset is less than its carrying amount.

Intangible Asset

An intangible asset is an identifiable non-monetary asset without physical substance.

Interest in Suspense

Interest suspended on non-performing loans and advances.

Interest Margin

Net interest income expressed as a percentage of average interest earning assets.

Interest Spread

Represents the difference between the average interest rate earned on interest earning assets and the average interest rate paid on interest bearing liabilities.

Investment Securities

Securities acquired and held for yield or capital growth purposes and are usually held to maturity.

K

Key Management Personnel (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.

Loan Losses and Provisions

Amounts set aside against possible losses on loans, advances and other credit facilities as a result of such facilities becoming partly or wholly uncollectible.

M

Market Capitalisation

Number of ordinary shares in issue multiplied by the market value of a share as at a date.

Market Risk

This refers to the possibility of loss arising from changes in the value of a financial instrument as a result of changes in market variables such as interest rates, exchange rates, credit spreads and other asset prices.

Materiality

The relative significance of a transaction or an event, the omission or misstatement of which could influence the economic decisions of users of Financial Statements.

Minority Interest

The interest of individual shareholders, in a company more than 50% of which is owned by a holding company.

N

Net Assets Value per Ordinary Share

Shareholders' funds excluding preference shares, if any, divided by the number of ordinary shares in issue.

Net Interest Income (NII)

The difference between the amount a bank earns on assets such as loans and securities and the amount it pays on liabilities such as deposits, refinance funds and inter-bank borrowings.

Non-Performing Loans (NPLs)

A loan or an advance placed on cash basis (i.e. Interest income is only recognised when cash is received) because, in the opinion of management, there is a reasonable doubt regarding the collectability of principal and/or interest.

NPL Ratio

Total non-performing loans and advances (net of interest in suspense) expressed as a percentage of the total loans and advances portfolio (net of interest in suspense).

O

Off-Balance Sheet Transactions

A method of financing a company's activities so that some or all of the finance and the corresponding assets do not appear on the Balance Sheet of the Company. They would be recognised as an asset or liability, which give rise to contingencies and commitments.

Open Credit Exposure Ratio

Total net non-performing loans and advances expressed as a percentage of regulatory capital base.

Operational Risk

This refers to the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

P

Price Earnings Ratio (P/E Ratio)

Market price of a share divided by earnings per share.

Parent

A Parent is an entity that has one or more Subsidiaries.

Provision Cover

Total provisions for loan losses expressed as a percentage of net non-performing loans and advances before discounting for provisions on non-performing loans and advances.

Prudence

Inclusion of a degree of caution in the exercise of judgement needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated.

R

Related Parties

Parties where one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions, directly or indirectly.

Return on Average Assets (ROA)

Profit after tax expressed as a percentage of the average assets.

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.

Risk-Adjusted Assets

Used in the calculation of risk-based capital ratios. The face amount of lower risk assets is discounted using risk weighting factors in order to reflect a

comparable risk per-rupee among all types of assets. The risk inherent in Off-Balance Sheet instruments is also recognised, first by adjusting notional values to Balance Sheet (or credit) equivalents and then by applying appropriate risk weighting factors.

Repurchase Agreement

Contract to sell and subsequently repurchase securities at a specified date and price.

Reverse Repurchase Agreement

Transaction involving the purchase of securities by a bank or a dealer and resale back to the seller at a future date at a specified 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.

Rights Issue

Issue of shares to the existing shareholders at an agreed price, generally lower than market price.

S

Segment Reporting

Analysis of financial information by segments of an entity specifically, the different industries and the different geographical areas in which it operates.

Shareholders' Funds

Total of stated capital and capital and revenue reserves.

Single Borrower Limit (SBL)

33% of the regulatory capital base.

Statutory Reserve Fund

A capital reserve created as per the provisions of the Banking Act No. 30 of 1988.

Substance Over Form

The consideration that the accounting treatment and the presentation in Financial Statements of transactions and events should be governed by their substance and financial reality and not merely by legal form.

Subsidiary

An entity, including an unincorporated entity such as a partnership, which is controlled by another entity (known as the Parent).

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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NOTICE OF MEETING

Notice is hereby given that the Forty-Third Annual General Meeting (AGM) of the Commercial Bank of Ceylon PLC (the "Bank") will be held at the Galadari Hotel, "Grand Ballroom", No. 64, Lotus Road, Colombo 01, on March 30, 2012, at 3.00 p.m. for the following purposes:

1. To receive, consider and adopt the Annual Report of the Board of Directors on the affairs of the Company and Statement of Compliance and the Financial Statements for the year ended December 31, 2011, with the Report of the Auditors thereon.
2. To declare a dividend as recommended by the Directors and to consider and if thought fit, to pass the following resolution by way of an ordinary resolution:

THAT a final dividend of a total sum of Rs. 2,861,220,621 based on the issued ordinary (voting) and (non-voting) shares as at February 23, 2012 (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 Bank's ESOP schemes) constituting a dividend of Rs. 3/50 per issued and fully paid ordinary (voting) and (non-voting) share respectively, for the financial year ended December 31, 2011, be recommended to the Shareholders of the Bank by the Board of Directors of the Bank for due declaration at the AGM of the Bank to be held for the year 2012.

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 Bank 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 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 Bank, which balance would be liable to a Withholding Tax of ten percent (10%).

THAT the declared final dividend, at the rate of Rs. 3/50 per share, be distributed in accordance with the "distribution scheme" whereby a payment of Rs. 1/50 per share in cash (amounting to a total of Rs. 1,226,237,409/-) and the balance entitlement of Rs. 2/- per share be satisfied in the form of the allotment and issue of new shares (based on the share prices as at February 08, 2012 being the date on which the Board formally resolved to recommend the dividend to the Shareholders) (amounting to a total of Rs. 1,634,983,212/-) be made.

THAT the said distribution scheme be implemented in the following manner:

(i) By way of a cash distribution:

A cash distribution of a sum of Rs. 1,147,690,140/-, subject however to necessary amendments being made to such amount to include the options that may be exercised by the employees under the Bank's ESOP schemes, shall be made to the Shareholders holding ordinary (voting) shares; and a sum of Rs. 78,547,269/- shall be made to the Shareholders holding ordinary (non-voting) shares, on the basis as aforesaid of

Rs. 1/50 per ordinary (voting) and (non-voting) share respectively, registered in the Bank's books as at the end of trading on the date on which the related resolution is adopted by the Shareholders and also those Shareholder whose names appear on the Central Depository System (Pvt) Ltd. ("CDS") as at end of trading on the said date.

(ii) By way of the allotment and issue of new shares:

The balance sum of:

- Rs. 1,530,253,520/-, subject however to necessary amendments being made to such amount to include the options that may be exercised by employees under the Bank's ESOP schemes, to which the ordinary voting Shareholders are entitled; and
- Rs. 104,729,692/-, to which the ordinary (non-voting) Shareholders are entitled,

shall be satisfied by the issue and allotment of new ordinary voting and non-voting shares to the ordinary (voting) and (non-voting) Shareholders respectively, registered in the Bank's books as at the end of trading on the date on which the related resolution is adopted by the Shareholders. Such new shares shall be issued on the basis of the following ratios:

- (a) 01 new fully paid ordinary (voting) share for every 56.333333 existing issued and fully paid ordinary (voting) shares; and
- (b) 01 new fully paid ordinary (non-voting) share for every 47.222222 existing issued and fully paid ordinary (non-voting) shares.

THAT the ordinary (voting) share fractions arising in pursuance of the aforementioned allotment and issue of new ordinary (voting) shares be aggregated and the ordinary (non-voting) share fractions arising in pursuance of the aforementioned issue and allotment of new ordinary (non-voting) shares be aggregated, and ordinary (voting) shares and ordinary (non-voting) shares arising consequent to such aggregation, subject to the approval of the Shareholders, be allotted to a Trustee to be nominated by the Board of Directors of the Bank, and that the Trustee so nominated will hold the said shares in trust for the Shareholders entitled thereto until such shares are sold by the Trustee on the trading floor of the Colombo Stock Exchange ("CSE"), and that the sale proceeds thereof be distributed to the entitled Shareholders, according to their entitlement proportionately, in full and final satisfaction of their entitlement to such share fractions as aforementioned;

THAT the new shares to be issued in pursuance of the said distribution scheme constituting a total issue of 13,582,131 new ordinary (voting) shares, based on issued ordinary (voting) shares as at February 23, 2012, subject however to the necessary amendments being made to such number to include the dividend on the options that may be exercised by the employees under the Bank's ESOP schemes, and 1,108,902 new ordinary (non-voting) shares; and which new ordinary (voting) and (non-voting) shares to be so issued shall, immediately consequent to due allotment thereof to the entitled Shareholders rank equal and *pari passu* in all respects with the existing issued and fully paid ordinary (voting) shares and the existing issued and fully paid ordinary (non-voting) shares of the Bank respectively, be listed on the CSE;

NOTICE OF MEETING

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 only upon existing issued and fully-paid ordinary (voting) and (non-voting) shares.

3. To re-elect Directors in place of those vacating/retiring by rotation or otherwise, as given below:
 - (a) Mr. Dinesh Stephen Weerakkody
 - (b) Mr. Kankanam Gamage Don Dharmasena Dheerasinghe
 - (c) Mr. Amitha Lal Gooneratne
 - (d) Prof. Uditha Pilane Liyange
 - (e) Mr. Lakshman Hulugalle
 - (f) Mr. Mahinda Preethiraj Jayawardena
4. (a) To appoint Messrs KPMG Ford, Rhodes, Thornton & Co. 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 2012.

By Order of the Board,



Mrs. R.R. Dunuwille
Company Secretary

March 08, 2012
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 08, 2012

CIRCULAR TO SHAREHOLDERS

Dear Shareholder/s,

FINAL DIVIDEND FOR THE YEAR ENDED DECEMBER 31, 2011 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 the Shareholders that a final dividend distribution of Rs. 3/50 per every issued and fully-paid ordinary (voting) and (non-voting) share (to be satisfied partly in cash and partly by the allotment and issue of new shares as more fully set out below) is recommended for approval by Shareholders at the Annual General Meeting ("AGM") to be held on March 30, 2012. 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 payment of the said dividend will be satisfied partly by the distribution of cash, constituting a total cash distribution of Rs. 1,226,237,409/-¹, and partly by the allotment and issue of new ordinary (voting) and (non-voting) shares constituting a total sum of Rs. 1,634,983,212/-² ("distribution scheme"). Accordingly, and in pursuance of the aforesaid scheme the Company will issue 13,582,131 new ordinary (voting) shares³ and 1,108,902 new ordinary (non-voting) shares to those ordinary (voting) and ordinary (non-voting) Shareholders registered in the Company's books as at the end of trading on the date on which the requisite resolution of the Shareholders (the "entitled Shareholders") in this regard is passed. The said shares shall be issued in the following ratios to the entitled Shareholders:

- (a) 01 new fully-paid ordinary (voting) share for every 56.333333 existing issued and fully-paid ordinary (voting) shares; and
- (b) 01 new fully-paid ordinary (non-voting) share for every 47.222222 existing issued and fully-paid ordinary (non-voting) shares.

The share ratio is based on a value of Rs. 101/40 per ordinary (voting) share and Rs. 85/00 per ordinary (non-voting) share as at end of trading on February 08, 2012 (being the 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 issued is fair and reasonable to the Company and to all its existing Shareholders.

The new ordinary (voting) and ordinary (non-voting) shares to be so issued, 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) shares and the existing issued and fully-paid ordinary (non-voting) shares of the Company, respectively. Consequent to the issue and allotment of such new shares, the stated capital of the Company will increase from Rs. 16,475,804,491/10 to Rs. 17,947,289,244/50⁴.

The Company's profit for the year 2011 will be utilised for the issue and allotment of new shares, in the event the Shareholders' approval is obtained for the aforesaid distribution scheme.

1. Based on issued ordinary voting shares as at February 23, 2012, 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.
 2. *Ibid*.
 3. *Ibid*
 4. *Ibid*

Commercial Bank of Ceylon PLC (Reg No. PQ 116), Commercial House, No. 21, Sir Razik Fareed Mawatha, P.O. Box 856, Colombo 01, Sri Lanka.

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Information Centre : +94 (0) 11 2 353 333, 7 353 333 | Telebanking : 2 336 633 | Telex : 21520, 21898 | Web : www.combank.lk | SWIFT Code : CCEYLK LX

The residual fractions arising from the aforementioned issue and allotment of new shares 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 for and on behalf of the Shareholders who are entitled thereto until such shares are sold on the trading floor of the Colombo Stock Exchange ("CSE"). The sale proceeds arising therefrom shall be distributed amongst the Shareholders in the proportion of their entitlements thereto. The sale of such shares will be effected by the Company within a reasonable period of time, following the date on which such resolution is approved by the Shareholders.

In calculating the number of shares held by a Shareholder as at the relevant date for the proposed issue and allotment of new shares, the shareholding of the Shareholder as appearing in the Central Depository Systems (Pvt.) Ltd. ("CDS") and the Shareholders' Register maintained by the Company will not be aggregated. However, if a shareholder holds shares with multiple stock brokers, the shares held with multiple 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 Board of Directors hereby confirm that the issue and allotment 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. 7 of 2007.

The Board of Directors emphasises that the aforementioned issue and allotment of new shares is in part satisfaction of the final dividend for the year ended December 31, 2011 and shall be dependent and subject to the Shareholders passing the requisite resolution approving the 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 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, which will enable the Company to directly deposit the new shares.

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, deposit their existing Share Certificates at the CDS and inform the Registrars to the Company (SSP Corporate Services (Pvt) Ltd., No. 101, Inner Flower Road, Colombo 03) 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 30, 2012 and setting out in item (02) thereof, the relevant resolution to be passed by the Shareholders in the above regard.

Shareholders who are unable to attend the meeting in person are entitled to appoint a proxy to attend and 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 forty eight (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

FORM OF PROXY (VOTING SHAREHOLDERS)

I/We(NIC No.)
of being a member/s of Commercial Bank of Ceylon PLC hereby
appoint(NIC No.)
of whom failing:

Mr. Dinesh Stephen Weerakkody	whom failing
Mr. Kankanam Gamage Don Dharmasena Dheerasinghe	whom failing
Mr. Amitha Lal Gooneratne	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	

as my/our Proxyholder to represent me/us to speak at the meeting and to vote on a show of hands or on a poll for me/us on my/our behalf as indicated below at the Forty-Third Annual General Meeting (AGM) of the Bank to be held on March 30, 2012 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 Bank and Statement of Compliance and the Financial Statements for the year ended December 31, 2011 with the Report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2. To declare a dividend as recommended by the Directors. (A separate circular is attached)	<input type="checkbox"/>	<input type="checkbox"/>
3. To re-elect Directors in place of those vacating/retiring by rotation or otherwise, as given below:		
(a) Mr. Dinesh Stephen Weerakkody	<input type="checkbox"/>	<input type="checkbox"/>
(b) Mr. Kankanam Gamage Don Dharmasena Dheerasinghe	<input type="checkbox"/>	<input type="checkbox"/>
(c) Mr. Amitha Lal Gooneratne	<input type="checkbox"/>	<input type="checkbox"/>
(d) Prof. Uditha Pilane Liyanage	<input type="checkbox"/>	<input type="checkbox"/>
(e) Mr. Lakshman Hulugalle	<input type="checkbox"/>	<input type="checkbox"/>
(f) Mr. Mahinda Preethiraj Jayawardena	<input type="checkbox"/>	<input type="checkbox"/>
4. (a) To appoint Messrs KPMG Ford, Rhodes, Thornton & Co. as recommended by the Board of Directors, as Auditors to the Company for the ensuing year.	<input type="checkbox"/>	<input type="checkbox"/>
(b) To authorise the Board of Directors to determine the remuneration of the Auditors for the ensuing year.	<input type="checkbox"/>	<input type="checkbox"/>
5. To authorise the Board of Directors to determine donations for 2012.	<input type="checkbox"/>	<input type="checkbox"/>

Signed on this day of Two Thousand and Twelve.

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 Bank.
- (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 Proxy Form must be duly authenticated by the full signature of the Shareholder signing the Proxy. Such signature should as far as possible be placed in proximity to the alteration or addition intended to be authenticated.

FORM OF PROXY (VOTING SHAREHOLDERS)

Instructions as to Completion of Form of Proxy

- (a) Article 68 of the Articles of Association of the Bank 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 Bank:
"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 with the Company Secretary at the Registered Office of the Bank, 'Commercial House', No. 21, Sir Razik Fareed Mawatha (formerly known as Bristol Street), Colombo 1, not less than 48 hours before the time fixed for the holding of the AGM.
- (e) Articles 57 to 60 of the Articles of Association of the Bank, 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 to be Taken

If a poll is duly demanded (and the demand be not withdrawn), it shall be taken in such manner (including the use of ballot or voting papers or tickets) as the Chairman of the Meeting may direct, and the result of the poll shall be deemed to be the resolution of the Meeting at which the poll was demanded. The Chairman may (and if so requested shall), appoint scrutineers and may adjourn the Meeting to some place and time fixed by him for the purpose of taking and declaring the result of the poll.

59. Chairman's Casting Vote

In the case of an equality of votes, whether on a show of hands or poll, the Chairman of the Meeting at which the show of hands takes place or at which the poll is demanded shall be entitled to a second or casting vote.

60. Time for Taking a Poll

A poll demanded on the election of a Chairman of the Meeting or on a question of adjournment shall be taken forthwith. A poll demanded on any other question shall be taken either immediately or at such subsequent time (not being more than thirty days from the date of the Meeting) and place as the Chairman may direct. No notice need be given of a poll not taken immediately."

REQUEST TO SHAREHOLDERS

THE SHAREHOLDERS ARE KINDLY REQUESTED TO INDICATE THE FOLIO NUMBER APPEARING IN THE ADDRESS LABEL PASTED ON THE ENVELOPE CONTAINING THE ANNUAL REPORT, IN THE SPACE PROVIDED FOR 'FOLIO NUMBER' IN THE FORM OF PROXY, FOR THE CONVENIENCE OF THE REGISTRARS.

PLEASE NOTE THAT NON-INDICATION OF THE 'FOLIO NUMBER' WILL NOT INVALIDATE THE FORM OF PROXY, UNDER ANY CIRCUMSTANCES.

FORM OF PROXY (NON-VOTING SHAREHOLDERS)

I/We(NIC No.)

of being a member/s of Commercial Bank of Ceylon PLC hereby

appoint(NIC No.)

of whom failing:

Mr. Dinesh Stephen Weerakkody	whom failing
Mr. Kankanam Gamage Don Dharmasena Dheerasinghe	whom failing
Mr. Amitha Lal Gooneratne	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	

as my/our Proxyholder to represent me/us, and to speak at the Forty-Third Annual General Meeting (AGM) of the Bank which is scheduled to be held on March 30, 2012 and at any adjournment thereof.

Signed on this day of Two Thousand and Twelve.

.....
Folio Number

.....
Signature/s of Shareholders
(Please indicate with an 'X')

.....
NIC/PP/Co. Reg. No. of Shareholder/s

Notes

- (i) Instructions as to completion of this Form of Proxy are given below.
- (ii) Shareholders of non-voting shares are entitled only to attend and speak at the meeting.
- (iii) If the Form of Proxy is signed by an Attorney, the relative Power of Attorney (POA) should accompany the completed Form of Proxy for registration in the event such POA has not already been registered with the Bank.
- (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 Proxy Form must be duly authenticated by the full signature of the Shareholder signing the Proxy. Such signature should as far as possible be placed in proximity to the alteration or addition intended to be authenticated.

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FORM OF PROXY (NON-VOTING SHAREHOLDERS)

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"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 with the Company Secretary at the Registered Office of the Bank, 'Commercial House', No. 21, Sir Razik Fareed Mawatha (formerly known as Bristol Street), Colombo 01, not less than 48 hours before the time fixed for the holding of the AGM.

INVESTOR FEEDBACK FORM

To request information or submit a comment/query to the Company, please provide the following details and return this page to -

The Company Secretary
Commercial Bank of Ceylon PLC
'Commercial House'
21, Sir Razik Fareed Mawatha (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:

	Yes	No
Would you like to receive soft copies of the Commercial Bank's Interim Reports via e-mail?	<input type="checkbox"/>	<input type="checkbox"/>
Would you like to receive news and press releases of Commercial Bank via e-mail?	<input type="checkbox"/>	<input type="checkbox"/>
Would you like to receive any news on our products/services?	<input type="checkbox"/>	<input type="checkbox"/>

CORPORATE INFORMATION

Name of Company

Commercial Bank of Ceylon PLC

Legal Form

A public limited liability Company incorporated in Sri Lanka on June 25, 1969 under the Companies Ordinance No. 51 of 1938 and quoted in the Colombo Stock Exchange in March 1970. The Company was re-registered under the Companies Act No. 07 of 2007. 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 (formerly known as Bristol Street),
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 (formerly known as Bristol Street),
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 2011
- AA+ was affirmed by Ram Ratings Lanka Ltd. in 2011

Bangladesh Operation

- Upgraded to AAA from AA+ by Credit Rating Information Services Ltd. in 2011

Compliance Officer

Mrs. R.R. Dunuwille

Lawyers

Messrs Julius & Creasy,
No. 41, Janadhipathi Mawatha,
Colombo 01, Sri Lanka.

Auditors

M/s. Ernst & Young,
Chartered Accountants,
No. 201, De Saram Place,
P.O. Box 101,
Colombo 10, 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*
(Appointed as Chairman w.e.f. December 30, 2011)
Mr. K.G.D.D. Dheerasinghe - *Deputy Chairman* (Appointed to the Board w.e.f. December 20, 2011 and appointed as Deputy Chairman w.e.f. December 30, 2011)
Mr. A.L. Gooneratne (Managing Director)
Prof. U.P. Liyanage
Mr. W.M.R.S. Dias
Mr. L. Hulugalle
(Appointed w.e.f. March 30, 2011)
Mr. M.P. Jayawardena
(Appointed w.e.f. December 28, 2011)

Company Secretary

Mrs. R.R. Dunuwille

Board Subcommittees

Board Audit Committee

Mr. D.S. Weerakkody - *Chairman*
(Appointed as Chairman w.e.f. April 01, 2011)
Mr. L. Hulugalle
(Appointed w.e.f. May 27, 2011)
Mr. M.P. Jayawardena
(Appointed w.e.f. December 30, 2011)
Prof. U.P. Liyanage
(Appointed w.e.f. December 30, 2011)
Mr. A. L. Gooneratne (By invitation)

Board Human Resources & Remuneration Committee

Mr. D.S. Weerakkody - *Chairman*
(Appointed as Chairman w.e.f. December 30, 2011)
Mr. K.G.D.D. Dheerasinghe
(Appointed w.e.f. December 30, 2011)
Prof. U.P. Liyanage
(Appointed w.e.f. December 30, 2011)
Mr. A.L. Gooneratne (By Invitation)
Mr. W.M.R.S. Dias (By Invitation)

Board Nomination Committee

Mr. D.S. Weerakkody - *Chairman*
(Appointed w.e.f. December 30, 2011)
Mr. K.G.D.D. Dheerasinghe
(Appointed w.e.f. December 30, 2011)
Prof. U.P. Liyanage
(Appointed w.e.f. December 14, 2011)
Mr. A.L. Gooneratne (By Invitation)

Board Integrated Risk Management Committee

Mr. K.G.D.D. Dheerasinghe - *Chairman*
(Appointed w.e.f. December 30, 2011)
Prof. U.P. Liyanage
(Appointed w.e.f. April 01, 2011)
Mr. L. Hulugalle
(Appointed w.e.f. April 01, 2011)
Mr. M.P. Jayawardena
(Appointed w.e.f. December 30, 2011)
Mr. A.L. Gooneratne
Mr. W.M.R.S. Dias
Mr. K.D.N. Buddhipala -
Chief Financial Officer/Secretary
Mr. S.C.U. Manatunga -
Chief Risk Officer

Board Credit Committee

Mr. K.G.D.D. Dheerasinghe - *Chairman*
(Appointed w.e.f. December 30, 2011)
Mr. M.P. Jayawardena
(Appointed w.e.f. December 30, 2011)
Mr. A. L. Gooneratne
Mr. W. M. R. S. Dias

Board Technology Committee

Prof. U.P. Liyanage - *Chairman*
(Appointed w.e.f. December 30, 2011)
Mr. L. Hulugalle
(Appointed w.e.f. December 30, 2011)

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
(formerly known as Bristol Street),
P.O. Box 856, Colombo 01, Sri Lanka.
Telephone: 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.



www.combank.net



We acknowledge with thanks the cooperation of the Road Development Authority and the Sri Lanka Air Force for our photo shoot of Sri Lanka's first expressway, a day prior to the date of its opening on November 27, 2011.

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**This Annual Report is
Carbon Neutral**

This Commercial Bank of Ceylon PLC Annual Report has been produced by Smart Media - The Annual Report Company whose greenhouse gas emissions resulting from the writing, designing, photography, production, project management, usage of paper and other raw materials, printing and transportation are offset using verified carbon offsets.



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