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Board of Directors  
Commercial Bank of Ceylon PLC  
"Commercial House"  
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25 May 2018

## Accountants' Report Commercial Bank of Ceylon PLC

Dear Sirs/Mesdames

### Introduction

This report has been prepared for the purpose of prospectus issued in connection with the issuance of Rupees Five Billion (LKR 5,000,000,000/-) from Qualified Investors by an initial Issue of up to Fifty Million (50,000,000) Debentures, each with a par value of Rupees One Hundred (LKR 100/-) with the option to raise a further sum of Rupees Five Billion (LKR 5,000,000,000/-) by issuing a further Fifty Million (50,000,000) Debentures, in the event of an over subscription of the initial Issue.

We have examined the Financial Statements of the Commercial Bank of Ceylon PLC (the "Bank") and the Consolidated Financial Statements of the Bank and its Subsidiaries (the "Group") for the years ended 31 December 2013 to 31 December 2017, and report as follows.

### 1. Incorporation

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 shares of the bank have a primary listing on the Colombo Stock Exchange.

### 2. Financial Information

#### 2.1 Five-year Summary of Audited Financial Statements

A summary of Statements of Profit or Loss and Statements of Financial Position of the Bank and a summary of Consolidated Profit or Loss and Consolidated Financial Position of the Group for the financial years ended 31 December 2013 to 31 December 2017, based on the audited Financial Statements are out on Annexure 01 to 04 of the Accountants' Report.

## 2.2 Audited Financial Statements for the Year Ended 31 December 2017

Audit report on the Financial Statements of the Bank and the Consolidated Financial Statements of the Bank and its Subsidiaries for the year ended 31 December 2017 together with such Financial Statements comprising the Statement of Financial Position, Statement of Profit or Loss, Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flow along with the accounting policies and notes thereon is available on the websites of CSE, [www.cse.lk](http://www.cse.lk), where the management is responsible for the electronic presentation of the financial report and to ensure the electronic version of the audited financial report and the auditor's report on the website is identical to the final signed hard copy version.

## 2.3 Audit Reports

Messrs. KPMG have audited the Financial Statements of the Bank and the Consolidated Financial Statements of the Bank and its subsidiaries for the years ended 31 December 2013 to 31 December 2017. Unmodified audit opinions have been issued for the said financial years by their reports dated 24 February 2014, 23 February 2015, 24 February 2016, 22 February 2017 and 23 February 2018 respectively.

## 2.4 Accounting Policies

The Financial Statements of the Bank and the Consolidated Financial Statements of the Bank and its subsidiaries for the years ended 31 December 2013 to 31 December 2017 comply with Sri Lanka Accounting Standards.

The accounting policies of the Bank and its Subsidiaries are stated in detail in the audited Financial Statements of Commercial Bank of Ceylon PLC for the year ended 31 December 2017.

## 2.5 Dividends

Bank has paid dividend during the years ended 31 December 2013 to 31 December 2017 as follows.

Year	Dividend Per Share (Rs.)
2013	6.50
2014	6.50
2015	6.50
2016	6.50
2017	6.50

## Events after Reporting Date

There were no significant events occurred after the last audit report date.



### 3. Restriction on Use

This report is made solely for the purpose of the Board of Directors of Commercial Bank of Ceylon PLC in usage in the application for the purpose of issuance the issuance of Rupees Five Billion (LKR 5,000,000,000/-) from Qualified Investors by an initial Issue of up to Fifty Million (50,000,000) Debentures, each with a par value of Rupees One Hundred (LKR 100/-) with the option to raise a further sum of Rupees Five Billion (LKR 5,000,000,000/-) by issuing a further Fifty Million (50,000,000) Debentures, in the event of an over subscription of the initial Issue. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the addressee, for our audit work, for this report we have formed. This report should not to be used, circulated, quoted or otherwise referred to for any other purpose.

Yours faithfully



## COMMERCIAL BANK - FINANCIAL INFORMATION

## Statement of Profit or Loss

For the year ended 31st December	2013	2014	2015	2016	Group 2017
	Rs 000				
<b>Gross income</b>	<b>73,704,516</b>	<b>72,848,203</b>	<b>78,225,397</b>	<b>93,725,535</b>	<b>116,841,755</b>
Interest income	62,754,147	61,932,876	66,339,317	81,314,607	104,049,102
Less : Interest expense	36,855,204	34,613,052	35,771,967	48,186,331	64,481,804
<b>Net interest income</b>	<b>25,898,943</b>	<b>27,319,824</b>	<b>30,567,350</b>	<b>33,128,276</b>	<b>39,567,298</b>
Fee and commission income	4,880,093	5,613,684	6,329,900	8,230,131	10,510,800
Less : Fee and commission expense	627,235	764,322	919,590	1,140,954	1,586,334
<b>Net fee &amp; commission income</b>	<b>4,252,858</b>	<b>4,849,362</b>	<b>5,410,310</b>	<b>7,089,177</b>	<b>8,924,466</b>
Net trading gain / (loss)	(1,625,926)	(305,492)	813,376	(1,466,711)	233,956
Net gain from financial investments	1,349,517	2,272,575	693,987	110,759	129,210
Other operating income	6,346,685	3,334,560	4,048,817	5,536,749	1,918,687
<b>Total operating income</b>	<b>36,222,077</b>	<b>37,470,829</b>	<b>41,533,840</b>	<b>44,398,250</b>	<b>50,773,617</b>
Less : Net Impairment charge for loans & other losses	5,177,019	3,208,638	4,099,738	1,583,326	2,225,914
<b>Net operating income</b>	<b>31,045,058</b>	<b>34,262,191</b>	<b>37,434,102</b>	<b>42,814,924</b>	<b>48,547,703</b>
<b>Less: Operating expenses</b>					
Personnel expenses	8,221,265	8,956,323	10,260,750	10,913,088	11,338,517
Other operating expenses	6,169,206	6,763,963	7,160,655	8,077,765	9,035,920
<b>Total operating expenses</b>	<b>14,390,471</b>	<b>15,720,286</b>	<b>17,421,405</b>	<b>18,990,853</b>	<b>20,374,437</b>
<b>Operating profit before value added tax (VAT) and nation building tax on financial services</b>	<b>16,654,587</b>	<b>18,541,905</b>	<b>20,012,697</b>	<b>23,824,071</b>	<b>28,173,266</b>
Less: VAT & NBT on financial services	1,968,954	2,688,551	2,890,224	3,715,941	4,896,620
<b>Profit before income tax</b>	<b>14,685,633</b>	<b>15,853,354</b>	<b>17,122,473</b>	<b>20,108,130</b>	<b>23,276,646</b>
Share of profits of associates, net of tax	5,285	6,563	13,638	6,454	3,678
<b>Profit before tax</b>	<b>14,690,918</b>	<b>15,859,917</b>	<b>17,136,111</b>	<b>20,114,584</b>	<b>23,280,324</b>
Less : Income tax expense	4,117,461	4,617,124	5,276,851	5,648,160	6,653,817
<b>Profit for the year</b>	<b>10,573,457</b>	<b>11,242,793</b>	<b>11,859,260</b>	<b>14,466,424</b>	<b>16,626,507</b>
<b>Attributable to:</b>					
Equity holders of the Bank	10,563,378	11,238,892	11,855,172	14,510,333	16,605,963
Non - controlling interest	10,079	3,901	4,088	(43,909)	20,544.00
	<b>10,573,457</b>	<b>11,242,793</b>	<b>11,859,260</b>	<b>14,466,424</b>	<b>16,626,507</b>



## COMMERCIAL BANK - FINANCIAL INFORMATION

## Statement of Financial Position

As at 31st December	2013	2014	2015	2016	Group
	Rs 000	Rs 000	Rs 000	Rs 000	2017 Rs 000
<b>Assets</b>					
Cash & cash equivalents	14,263,533	20,621,778	20,107,076	32,924,227	34,673,424
Balances with Central Bank of Sri Lanka	18,431,936	19,633,746	28,221,017	43,935,258	45,546,349
Placements with banks	4,131,814	14,507,861	17,193,539	11,718,499	17,633,269
Reverse repurchase agreements		41,198,266	8,002,100	-	-
Derivative financial instruments	837,694	459,510	4,118,169	1,052,829	2,334,536
Financial assets - held for trading	6,379,058	6,326,636	7,656,349	4,987,798	4,410,913
Financial assets - held for trading pledged as collaterals					
Loans to & receivables from banks	546,270	551,066	601,106	624,458	640,512
Loans to & receivables from other customers	410,935,979	406,531,089	509,923,128	620,129,488	742,444,130
Other loans & receivables		50,436,064	57,724,369	51,824,026	48,712,477
Financial assets - available for sale	131,756,525	214,225,017	204,261,934	160,092,522	154,913,643
Financial assets - available for sale pledged as collaterals					
Financial assets - held to maturity			-	63,626,598	69,365,796
Investment in subsidiaries	94,173	106,287	104,503	108,859	109,844
Property, plant & equipment	9,175,225	11,134,861	11,181,433	11,569,666	16,317,044
Intangible assets	477,728	856,230	884,034	1,132,669	1,251,226
Current tax receivables					
Deferred tax assets			-	668,150	-
Other assets	9,534,572	10,669,302	12,204,437	16,588,527	17,467,493
<b>Total Assets</b>	<b>606,564,507</b>	<b>797,257,713</b>	<b>882,183,194</b>	<b>1,020,983,574</b>	<b>1,155,820,656</b>
<b>Liabilities</b>					
Due to banks	14,194,219	25,669,025	31,789,396	71,098,391	60,244,892
Derivative financial instruments	1,411,916	1,193,139	1,890,770	1,515,035	3,678,494
Securities sold under repurchase agreements		124,391,042	112,249,703	69,628,961	49,532,385
Due to other customers	451,098,946	529,266,588	624,021,217	743,310,613	857,269,981
Debt issued & other borrowed funds					
Dividend payable					
Current tax liabilities	1,780,867	2,037,388	3,025,662	3,464,682	4,202,850
Deferred tax liabilities	1,763,414	2,876,199	467,632	-	3,565,215
Other liabilities	74,827,730	40,569,059	37,723,093	52,148,595	68,460,133
Other provisions	2,409	1,874	1,874	1,874	-
<b>Total Liabilities</b>	<b>545,079,501</b>	<b>726,004,314</b>	<b>811,169,347</b>	<b>941,168,151</b>	<b>1,046,953,950</b>
<b>Equity</b>					
Stated capital	19,586,813	21,457,501	23,254,605	24,978,003	37,143,541
Reserves					
Statutory reserves	4,034,614	4,327,103	4,922,367	5,647,993	6,492,552
Other reserves	33,465,169	41,002,819	38,318,860	43,812,536	59,272,098
Retained Profit	4,359,632	4,418,412	4,467,807	4,553,778	5,086,609
<b>Total equity attributable to equity holders of the Bank</b>	<b>61,446,228</b>	<b>71,205,835</b>	<b>70,963,639</b>	<b>78,992,310</b>	<b>107,994,800</b>
Non controlling interest	38,778	47,564	50,208	823,113	871,906
<b>Total Equity</b>	<b>61,485,006</b>	<b>71,253,399</b>	<b>71,013,847</b>	<b>79,815,423</b>	<b>108,866,706</b>
<b>Total Liabilities &amp; Equity</b>	<b>606,564,507</b>	<b>797,257,713</b>	<b>882,183,194</b>	<b>1,020,983,574</b>	<b>1,155,820,656</b>
Commitments & contingencies	295,451,955	352,453,452	521,232,320	498,568,500	565,277,821



## COMMERCIAL BANK - FINANCIAL INFORMATION

## Statement of Profit or Loss

For the year ended 31st December	Bank				
	2013	2014	2015	2016	2017
	Rs 000				
<b>Gross income</b>	<b>73,736,267</b>	<b>72,752,229</b>	<b>77,867,952</b>	<b>93,142,610</b>	<b>115,593,948</b>
Interest income	62,763,644	61,832,018	66,030,456	80,738,176	103,034,386
Less : Interest expense	36,878,755	34,610,179	35,685,172	47,914,573	64,010,991
<b>Net interest income</b>	<b>25,884,889</b>	<b>27,221,839</b>	<b>30,345,284</b>	<b>32,823,603</b>	<b>39,023,395</b>
Fee and commission income	4,876,517	5,592,744	6,275,276	8,143,041	10,169,211
Less :Fee and commission expense	627,235	761,527	901,190	1,127,536	1,566,851
<b>Net fee &amp; commission income</b>	<b>4,249,282</b>	<b>4,831,217</b>	<b>5,374,086</b>	<b>7,015,505</b>	<b>8,602,360</b>
Net trading gain / (loss)	(1,625,926)	(305,492)	813,376	(1,466,711)	233,956
Net gain from financial investments	1,349,517	2,272,575	693,933	110,701	129,030
Other operating income	6,372,515	3,360,384	4,054,911	5,617,403	2,027,365
<b>Total operating income</b>	<b>36,230,277</b>	<b>37,380,523</b>	<b>41,281,590</b>	<b>44,100,501</b>	<b>50,016,106</b>
Less : Net Impairment charge for loans & other losses	5,204,012	3,229,144	3,943,196	1,529,814	1,914,241
<b>Net operating income</b>	<b>31,026,265</b>	<b>34,151,379</b>	<b>37,338,394</b>	<b>42,570,687</b>	<b>48,101,865</b>
<b>Less: Operating expenses</b>					
Personnel expenses	8,186,205	8,903,048	10,180,537	10,794,307	11,268,016
Other operating expenses	6,360,587	6,823,124	7,124,892	8,021,838	8,769,768
<b>Total operating expenses</b>	<b>14,546,792</b>	<b>15,726,172</b>	<b>17,305,429</b>	<b>18,816,145</b>	<b>20,037,784</b>
<b>Operating profit before value added tax (VAT) and nation building tax on financial services</b>	<b>16,479,473</b>	<b>18,425,207</b>	<b>20,032,965</b>	<b>23,754,542</b>	<b>28,064,081</b>
Less: VAT & NBT on financial services	1,968,954	2,688,991	2,889,355	3,703,359	4,881,137
<b>Profit before income tax</b>	<b>14,510,519</b>	<b>15,736,216</b>	<b>17,143,610</b>	<b>20,051,183</b>	<b>23,182,944</b>
Less : Income tax expense	4,065,008	4,556,035	5,240,386	5,538,672	6,601,700
<b>Profit for the year</b>	<b>10,445,511</b>	<b>11,180,181</b>	<b>11,903,224</b>	<b>14,512,511</b>	<b>16,581,244</b>
<b>Attributable to:</b>					
Equity holders of the Bank	10,445,511	11,180,181	11,903,224	14,512,511	16,581,244
Non - controlling interest	-	-	-	-	-
	<b>10,445,511</b>	<b>11,180,181</b>	<b>11,903,224</b>	<b>14,512,511</b>	<b>16,581,244</b>



## COMMERCIAL BANK - FINANCIAL INFORMATION

## Statement of Financial Position

As at 31st December	2013	2014	2015	2016	Bank 2017
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
<b>Assets</b>					
Cash & cash equivalents	14,261,549	20,591,867	20,043,512	30,193,589	33,224,619
Balances with Central Bank of Sri Lanka	18,431,936	19,633,746	28,221,017	43,873,205	44,801,446
Placements with banks	4,131,814	14,507,861	17,193,539	11,718,499	17,633,269
Reverse repurchase agreements		41,198,266	8,002,100	-	-
Derivative financial instruments	837,694	459,510	4,118,169	1,052,829	2,334,536
Financial assets - held for trading	6,379,058	6,326,636	7,656,349	4,987,798	4,410,913
Financial assets - held for trading pledged as collaterals					
Loans to & receivables from banks	546,270	551,066	601,106	624,458	640,512
Loans to & receivables from other customers	410,951,440	405,431,457	508,115,127	616,018,228	737,446,567
Other loans & receivables	-	50,436,064	57,724,369	51,824,026	48,712,477
Financial assets - available for sale	131,756,525	214,208,370	204,244,289	160,023,471	154,714,132
Financial assets - available for sale pledged as collaterals					
Financial assets - held to maturity	-	-	-	60,981,298	63,562,752
Investment in subsidiaries	333,277	1,255,331	1,281,477	2,479,723	3,110,266
Property, plant & equipment	8,387,344	9,953,091	9,968,985	10,307,825	14,634,710
Intangible assets	467,593	439,128	465,960	640,645	776,810
Current tax receivables					
Deferred tax assets		-	-	963,935	-
Other assets	9,503,092	10,617,237	12,169,069	16,511,702	17,370,756
<b>Total Assets</b>	<b>605,987,592</b>	<b>795,609,630</b>	<b>879,805,068</b>	<b>1,012,201,231</b>	<b>1,143,373,765</b>
<b>Liabilities</b>					
Due to banks	14,194,219	25,260,976	30,319,119	67,608,811	57,120,991
Derivative financial instruments	1,411,916	1,193,139	1,890,770	1,515,035	3,678,494
Securities sold under repurchase agreements		124,564,499	112,384,812	69,867,469	49,676,767
Due to other customers	451,152,923	529,361,484	624,101,810	739,563,494	850,127,511
Debt issued & other borrowed funds					
Dividend payable					
Current tax liabilities	1,758,574	1,997,990	3,001,984	3,440,736	4,143,911
Deferred tax liabilities	1,563,070	2,573,760	230,615	-	3,274,826
Other liabilities	74,960,482	40,144,178	37,533,280	51,850,148	68,251,905
Other provisions	2,409	1,874	1,874	1,874	-
<b>Total Liabilities</b>	<b>545,043,593</b>	<b>725,097,900</b>	<b>809,464,264</b>	<b>933,847,567</b>	<b>1,036,274,405</b>
<b>Equity</b>					
Stated capital	19,586,813	21,457,501	23,254,605	24,978,003	37,143,541
Reserves					
Statutory reserves	4,034,614	4,327,103	4,922,264	5,647,890	6,476,952
Other reserves	33,089,208	40,468,839	37,775,068	43,263,694	58,491,421
Retained Profit	4,233,364	4,258,287	4,388,867	4,464,077	4,987,446
<b>Total equity attributable to equity holders of the Bank</b>	<b>60,943,999</b>	<b>70,511,730</b>	<b>70,340,804</b>	<b>78,353,664</b>	<b>107,099,360</b>
Non controlling interest	-	-	-	-	-
<b>Total Equity</b>	<b>60,943,999</b>	<b>70,511,730</b>	<b>70,340,804</b>	<b>78,353,664</b>	<b>107,099,360</b>
<b>Total Liabilities &amp; Equity</b>	<b>605,987,592</b>	<b>795,609,630</b>	<b>879,805,068</b>	<b>1,012,201,231</b>	<b>1,143,373,765</b>
<b>Commitments &amp; contingencies</b>	<b>295,451,955</b>	<b>352,453,452</b>	<b>521,232,320</b>	<b>498,304,527</b>	<b>564,794,885</b>

