



COMMERCIAL BANK

ANNUAL REPORT 2003



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'Sri Lankan-ness' into the Region

Commercial Bank is Sri Lanka's No. 1 private bank. The Bank's previous focus was on the corporate sector. Over the past few years this focus has changed and the Bank has captured a significant share of the retail market. Now our customers come from all walks of life: the big corporates, the rural industrialists, the public servant and the school child. The Bank has become the most technologically advanced bank in Sri Lanka. At the same time it has combined a world class standard of customer care with a customer focused product portfolio. It has developed a human resource training facility of international quality that trains both bank and non-bank staff. It has just entered the regional market and is poised to carry this same level of excellence into the South Asian region and beyond.

Financial Goals & Achievements

Financial Indicator	Goal	Achievements				
		2003	2002	2001	2000	1999
Return on Average Assets (%) (after tax)	Over 2	1.61	1.82	1.86	2.05	1.72
Return on Average Shareholders' Funds (%)	Over 20	15.49	17.12	17.95	20.09	16.21
Growth in Gross Income (%)	Over 20	20.26	1.96	34.56	28.49	19.25
Growth in Net Profit after Tax (%)	Over 20	22.71	19.21	7.91	42.14	11.33
Growth in Assets Employed (%)	Over 20	50.34	24.02	19.22	18.44	21.13
Dividend Rate (%)	Over 40	50.00	50.00	45.00	45.00	40.00
Capital Adequacy Ratios:						
Tier I (%)	Over 10	13.43	14.94	15.72	14.97	14.90
Tier I & II (%)	Over 15	14.83	15.07	16.20	16.62	17.14

Vision To be **The Leader** in the financial industry in Sri Lanka, having a visible presence in the region by the year 2010.

Mission To deliver optimum value to our customers, employees, shareholders and the nation.



The dance forms of South Asia and the Gulf reflect the region's diversity, its dynamism and dedication to skill. Often combining colourful costumes and headgear, these dance forms are steeped in the religion, the history and cultures of the region. They tell stories, instruct people on 'good living' and hold up the 'mirror of life'. Diversity is the essence of South Asia and the Gulf. This diversity is found in its peoples, landscape, religions, architecture, cuisine and art. It is this diversity that is the pulse of the region and makes the region such an awesome challenge to work in. The Commercial Bank has just taken on this challenge.



Sri Lanka has been blessed with everything but peace. Twenty years of conflict though have taken its toll at last there is more than a glimmer at the end of the tunnel. A strong culture of learning, a highly literate population of men and women, and a resilience in the face of tremendous adversity are some characteristics of Sri Lankan life. As Sri Lanka's leading private bank we are proud to take our 'Sri Lankan-ness' into the Region.

- >>> The Bank recorded a **pre-tax profit of Rs. 1,954.595 million for 2003**. This was an increase of Rs. 429.581 million over the previous year's pre-tax profit of Rs. 1,525.014 million and represents a 28.17% growth over the 2002 figure.
- >>> The Bank's **post-tax profit for 2003 was Rs. 1,477.487 million**. This represented a growth of 22.71% or Rs. 273.473 million over the previous year's figure of Rs. 1,204.014 million.
- >>> **Deposits grew by 37.74%** to reach Rs. 75,184.547 million.
- >>> **Advances grew by 28.31%** to reach Rs. 71,275.149 million.
- >>> **The growth rates of both deposits and advances are expected to be higher than the industry average.**
- >>> The Bank **acquired the Bangladesh operations of Credit Agricole Indosuez Bank** during the year.
- >>> The Bank continued to **grant new loan facilities to the Maldivian customers.**
- >>> **The Return on Total Average Assets (ROA) was 2.13% (before tax) and 1.61% (after tax).**
- >>> The Bank's **Cost/Income Ratio was 55.87%** in 2003 against 55.46% in 2002, despite the Bank paying Rs. 272.479 million o/a Special VAT on profits and contributing an additional Rs. 200.000 million to the Pension Fund.
- >>> **The Non-Performing Loan Ratio (NPL) improved to 7.47% from 8.42% in 2002.**
- >>> The Bank's **capital buffer (Shareholders' Funds in relation to total assets) was 9.44%**, expected to be the highest in the local banking industry.
- >>> The Bank had a **free capital of Rs. 4,900.674 million** at the end of 2003.
- >>> **Capital Adequacy Ratios stood at 13.43% and 14.83% respectively for Tier I and Tier I & II** as at December 31, 2003.
- >>> **All of the 116 local branches are linked on-line by a state-of-the-art information technology system.**
- >>> The Bank has decided to recommend a **final dividend of 32%** in addition to the interim dividend of 18% paid in December 2003.

	Bank			Group		
	2003 Rs. Mn.	2002 Rs. Mn.	Change %	2003 Rs. Mn.	2002 Rs. Mn.	Change %
Results for the year						
Gross Income	10,059.107	8,364.190	20.26	9,749.463	9,165.409	6.37
Net Profit before Income Tax	1,954.595	1,525.014	28.17	2,039.081	1,703.870	19.67
Income Tax on Profits	477.108	321.000	48.63	501.766	391.323	28.22
Net Profit after Taxation	1,477.487	1,204.014	22.71	1,537.315	1,312.547	17.12
Revenue to the Governments	753.156	579.647	29.93	793.023	649.970	22.01
Gross Dividends	537.918	326.802	64.60	537.918	326.802	64.60
Unappropriated Profit carried forward	0.854	0.778	9.74	223.310	165.120	35.24

At the year end

Shareholders' Funds (Capital and Reserves)	11,683.958	7,754.657	50.67	11,906.413	7,918.999	50.35
Deposits from Customers	75,184.547	54,584.518	37.74	75,097.022	54,480.305	37.84
Gross Loans & Advances to Customers	71,275.149	55,548.535	28.31	71,237.674	55,522.631	28.30
Capital Employed	110,279.926	73,351.715	50.34	112,822.239	81,384.619	38.63

Information per Ordinary Share

Earnings (Rs.)	22.17	18.70	18.56	23.17	20.53	12.86
Dividends (Rs.)	5.00	5.00	-	5.00	5.00	-
Net Assets Value (Rs.)	140.38	163.87	(14.33)	143.57	167.80	(14.44)
Market Value at the year end - voting (Rs.)	144.00	200.00	(28.00)	144.00	200.00	(28.00)
Market Value at the year end - non-voting (Rs.)	100.00	145.00	(31.03)	100.00	145.00	(31.03)

Ratios

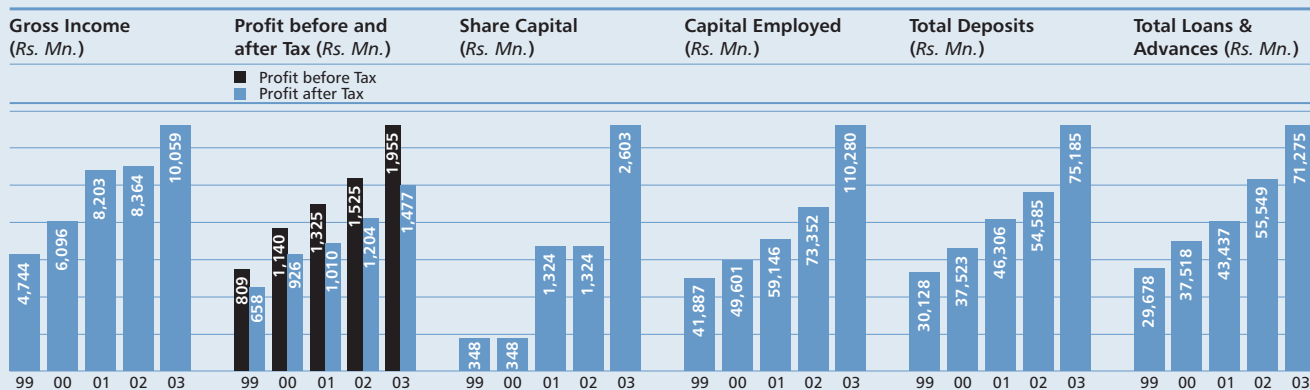
Return on Average Shareholders' Funds (%)	15.49	17.12	(9.52)	15.82	18.48	(14.39)
Return on Average Assets (%)	1.61	1.82	(11.54)	1.58	1.77	(10.73)
Price Earnings (times) - Ordinary voting shares	6.50	7.70	(15.58)	6.22	7.01	(11.27)
Price Earnings (times) - Ordinary non-voting shares	4.51	5.58	(19.18)	4.32	5.08	(14.96)
Year on year growth in Earnings (%)	22.71	19.21	18.22	17.17	25.39	(32.38)
Year on year growth in Dividends (%)	-	11.11	-	-	11.11	-
Dividend Yield (%) - Ordinary voting shares	3.47	2.50	38.80	3.47	2.50	38.80
Dividend Yield (%) - Ordinary non-voting shares	5.00	3.45	44.93	5.00	3.45	44.93
Dividend Cover on Ordinary shares (times)	3.70	5.20	(28.85)	3.87	5.71	(32.22)
Dividend Cover on Preference shares (times)	7.79	10.22	(23.78)	8.09	11.12	(27.25)

Statutory Ratios

Liquid Assets (%)	23.95	27.88	(14.10)	23.95	27.88	(14.10)
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Capital Adequacy Ratios

Tier I (%)	13.43	14.94	(10.11)	13.43	14.94	(10.11)
Tier I & II (%)	14.83	15.07	(1.59)	14.83	15.07	(1.59)



The Art of Winning

Leaping into Asia

For many years now **Commercial Bank** has been rated as the **No. 1 Sri Lankan Bank**. We are now on the threshold of another phase in our growth: **growing in the region**. Over the next seven years we intend **establishing a visible presence in the region**. We see the Bank moving from the **No. 1 Sri Lankan Bank** to the **first Sri Lankan Private Bank with a regional network in Asia**.

The benefits of a truly regional bank are obvious. While global players take their profits out of the region, a **regional bank would re-invest in the region fuelling further growth**.





According to the UN, South Asian per capita incomes grew by 3.3% in the 1990s and poverty levels dropped by close to 8.4%.

Maintaining Strong Fundamentals

In a year full of challenges, your Bank boldly went ahead with its plans that included the acquisition of Credit Agricole Indosuez's operations in Bangladesh. This is the first occasion on which a Sri Lankan bank has acquired the operations of a bank operating in a foreign country.

While recording increased profits, the Bank also retained the SL AA+ national rating, by Fitch Ratings, for its implied long-term unsecured senior debt.

Commercial Bank, its subsidiaries and associate companies recorded a pre-tax profit (before the Special VAT on profit) of Rs. 2,326.769 million for 2003. This is a growth of Rs. 622.899 million or 36.56% over the previous year. The special value added tax calculated on the basis of 10% of the pre-tax profit and staff emoluments amounted to Rs. 287.688 million or 14.11% of the pre-tax profit. After providing for this Special VAT, the profit before corporate tax amounted to Rs. 2,039.081 million, a growth of Rs. 335.211 million or 19.67% .

Provision for corporate tax on profit of Rs. 501.766 million for 2003, resulted in a post-tax profit of Rs. 1,537.315 million, a growth of Rs. 224.768 million or 17.12%. The corporate tax liability of the Group rose by Rs. 110.443 million mainly due to an increase in corporate tax rate applicable on on-shore operations of the Off-shore Banking Centre from 10% to 15% up to June 30 and to 30% from July 1, 2003. In addition, the changes in the taxation on interest income from government securities and the relatively high corporate tax rate of 45% on Bangladesh profits contributed to an increase in the Bank's tax liability.

A major challenge for the Bank is the ever-increasing funding gap in the Bank's Pension Fund and the Widows' & Orphans' Pension Scheme. The problem with these "Defined Benefit Plans" is that the funding gap continues to widen when the interest rate structure of the country declines, the composition of the staff cadre changes and their salaries go up. "Defined Benefit Plans" have been identified as a "time bomb" and most of the large corporates world over are saddled with mammoth funding gaps in their pension plans. Both governmental and corporate sector institutions are taking various steps to do away with them. We are mindful of the gravity of the ever-increasing funding gap of the Bank's Pension Fund and the Widows' & Orphans' Pension Scheme. While we have already taken some steps in this regard, we are currently exploring the possibility of implementing some more radical changes to address the issue.

The stable exchange rate for the US Dollar resulted in a decrease in exchange profit, which is the Bank's second largest single source of income, by Rs. 67.346 million.

Distributing the New Prosperity

It is not only social and cultural diversity that characterises South Asian life, but economic disparities as well. While South Asia has enjoyed unprecedented economic growth over the past 15 years, this growth has many regional variations. Some segments of the populations, some geographical regions and some ethnic communities have benefited more than others. While poverty fell by 8% through the 1990s, these benefits have had unequal effects across the region.

One of the immediate challenges for the region is to spread this new found economic prosperity to regions, population segments and communities that so far have had little benefit. Growth can only be sustained if it is equitable. Future development policies would need to focus on investments in health care, education, housing and infrastructure. The Commercial Bank, with its 83 years of banking experience is well equipped to be a partner in this economic revival.



Marrying
Tradition with
Technology

Modern IT is not half as complex as some of the rich traditions of the region. Here a bride from Kerala walks into the challenges of a new life. For the Bank too we see our step into Asia as the beginning of a new and challenging life.

Commission and other income recorded a growth of Rs. 666.654 million to record Rs. 1,722.539 million, up by 63.14% compared to the previous year.

Total deposits rose from Rs. 54.480 billion as at December 31, 2002, to Rs. 75.097 billion as at December 31, 2003, which represented a growth of Rs. 20.617 billion or 37.84%.

Despite the moderate demand for credit, which prevailed in the market, gross loans, advances and leases rose from Rs. 55.523 billion as at December 31, 2002 to Rs. 71.238 billion as at December 31, 2003, a growth of Rs. 15.715 billion or 28.30%.

The growth in the Group's total assets from Rs. 81.385 billion at end of 2002 to Rs. 112.822 billion at end of 2003 represented a growth of Rs. 31.438 billion or 38.63%. A higher growth in total assets, over and above the deposit growth, was facilitated mainly by a successful debenture and preference share issue and the acquisition of the Bangladesh operations of Credit Agricole Indosuez Bank.

Returns to Shareholders

The Bank rewarded its shareholders with a bonus issue in the ratio of 1 for 3 in respect of both categories of ordinary shares, in May 2003. By way of dividends, your Bank paid an interim dividend of 18% in December 2003 and a final dividend of 32% has been recommended.

Continuing to Grow

During 2003, Commercial Bank added three branches to its growing network including two in the Jaffna peninsula, i.e. at Nelliady and Chunnakam. The other branch was opened in Bambalapitiya. In addition to these branches, the Bank opened a MiniCom Centre at the Cargills Food City, Moratuwa and a service point at the Arpico Mall, Dehiwela. Two Customer Service Points were also opened at Ceylon Shipping Lines premises, Baseline Road and Katubedda. The Bank ended the year with 116 branches and 166 CAT (Commercial Automated Teller) machines locally and 4 branches/booths overseas.

Technology Made Accessible

Commercial Bank now has a separate e-Banking division to handle its Electronic Banking products. These products will cover the areas of Internet Banking, Mobile Phone Banking, Salary Remittance Package and SLIPS and Direct Debits.

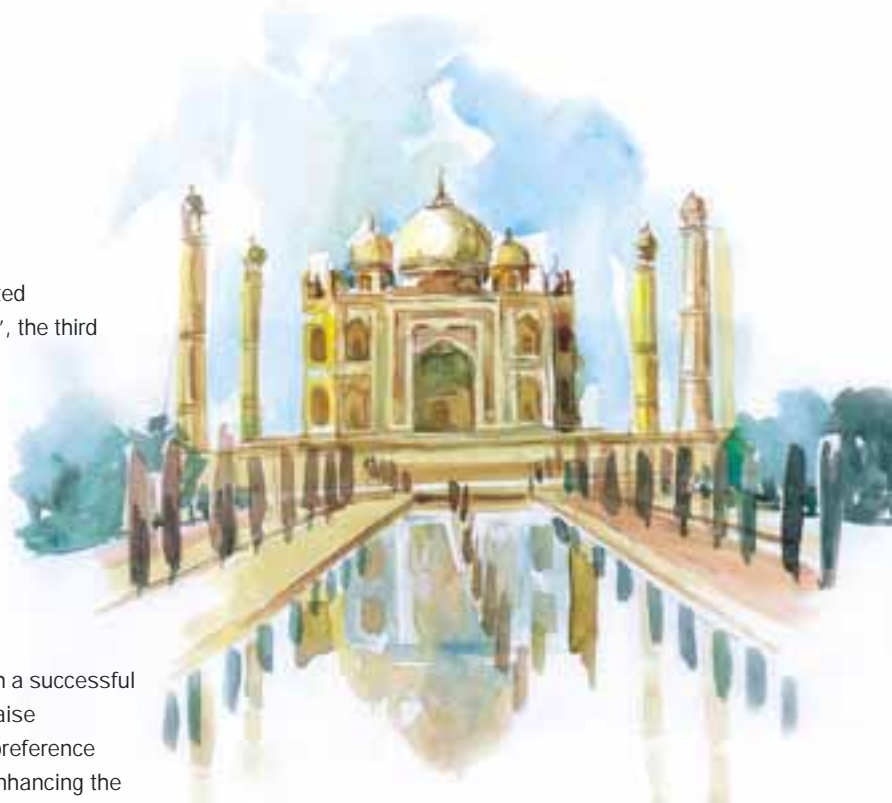
The Bank has also installed personal computer terminals for exclusive use of the public at selected branches. This new facility provides customers who visit these branches 24-hour access to an extensive range of e-banking transactions and information. This service will be extended to the Bank's other branches too. The facility allows customers to pay utility bills and Colombo Municipal Council rates, carry out wire transfers, obtain statements of their accounts, make standing orders, transfer funds and settle credit card outstandings.

The terminals also provide both customers and non-customers access to information on the Bank's interest and exchange rates, ATM and branch network, and holiday banking facilities.

The Art of Winning

Commercial Bank continues on a winning streak. Once again the Bank was selected as the 'Best Bank in the country' by the prestigious US based 'Global Finance' Magazine. This is the fifth consecutive year the Bank has won this accolade.

The UK based 'The Banker' Magazine also selected Commercial Bank as the 'Bank of the Year 2003', the third consecutive year the Bank bagged this accolade. Winning has now become a habit for the Bank. As in the case of the Bank's Annual Report for 2001, the Annual Report for 2002 was also adjudged as the 'Best Presented Accounts' (Financial Sector) by the South Asian Federation of Accountants (SAFA).



Well Capitalised

During the year, Commercial Bank came out with a successful issue of debentures which helped the Bank to raise Rs. 2.2 billion. Similarly, a successful issue of preference shares helped the Bank to raise Rs. 1 billion, enhancing the statutory capital funds.

The funds raised through the debenture issue and the preference share issue will be used to fund the Bank's business growth, and will also improve the maturity match between assets and liabilities. The funds raised through the debenture issue have contributed to increase the Bank's Tier-II capital, thereby strengthening its capital adequacy. The preference share capital, due to 'technical' reasons, is excluded in computing the Bank's capital adequacy ratio at present.

The Bank also raised over Rs. 1.9 billion through a rights issue during the last quarter of 2003, to further boost its equity capital and statutory capital funds.

Putting the Economy on Track

The Government's success in improving the economic fundamentals was reflected in the economic indicators in 2003. Despite severe floods in the second quarter of 2003, GDP growth in the first half of 2003 recorded 5.5% and a recovery in the industry sector was observed. The economy grew by 5.6% in the first three quarters of 2003, spurred mainly by the growth in the Services sector.

As a result of reduced defence expenditure and fiscal consolidation measures, the budget deficit as a percentage of GDP is estimated to have been reduced to around 7.8% in 2003. The budget deficit has been declining over the past few years: from 10.8% in 2001 to 8.9% in 2002. Fiscal and macro economic management has improved while governments now have to comply with the Fiscal Management Responsibility Act, which stipulates that the Government budget deficit has to be brought down to a level below 5% of the GDP by 2006 and to a level below 4% by 2013.

In addition to a reduced budget deficit, improvements in domestic supply conditions, a bumper paddy harvest and the cautious monetary policy stance, which prevented the emergence of demand pull inflation, have all been instrumental in keeping inflation under control. A stable rupee also helped keep inflation in check. The rate of inflation based on the 12-month moving average of the Colombo Consumers' Price Index (CCPI) recorded 6.3% at end 2003. This was a further drop from 14.2% at end 2001 and 9.6% at end 2002.

These achievements were complemented by favourable external sector developments which included increased capital inflows in the form of foreign grants, loans and enhanced Foreign Direct Investments (FDI) and portfolio inflows.

The Masterpiece of Marble

The Taj Mahal: Emperor Shah Jahan's gift to Mumtaz Mahal and the world.

In Asia, ancient masterpieces rub shoulders with modern miracles. That is the challenge of Asia: enjoying the past and creating new futures.

The reduction in both the budget deficit and the inflation combined with favourable external conditions enabled the Central Bank to reduce its "policy interest rates", i.e. the Repurchase rate (Repo) and the Reverse Repurchase rate (Reverse Repo), by 275 basis points and 325 basis points respectively during 2003, resulting in a consequential reduction in commercial interest rates. (1 basis point = 0.01)

The share market recorded a bullish performance during the year up to November 4, 2003. Thereafter, the political change which occurred had a reverse effect. The low interest rate scenario, a successful donor conference in Tokyo, and the continued support from the international community towards a peaceful solution to the ethnic conflict were some of the key factors which helped to drive the market indicators to record levels.

The political impasse which prevailed since early November resulted in uncertainty in the country which was reflected in a fluctuating share market and a slow down in economic activity. With the dissolution of Parliament, this has been further aggravated and will continue until the results of the general election to be held on April 2, 2004 are announced.

Banking Sector - Both Promising and Challenging

The increased consumer confidence created by the ongoing cease-fire between the Government and the LTTE, boosted the demand for services related activities in the economy. Of these activities, the Banking, Insurance and the Real Estate sector recorded the highest growth in terms of value added. The growth in activities of both commercial banks and specialised banks was responsible for this growth.

The Tier I and Tier I & II Capital Adequacy requirements of banks were increased to 5% and 10% respectively, commencing from January 1, 2003. The Central Bank extended Capital Adequacy requirements to cover the assets of the Off-shore Banking Centres (OBC) too at the rate of 2.5% for Tier I and 5% for Tier I & II with effect from January 1, 2003 and at the rate of 5% for Tier I and 10% for Tier I & II by December 31, 2003. In addition, OBCs were also brought under the Statutory Liquid Assets requirement in 2003.

With effect from January 1, 2004, Single Borrower Limit has been extended to cover lendings of the OBCs as well. The rate of Special VAT imposed on the Banks' profits plus employee costs has also been increased to 15% from 10%. Central Bank of Sri Lanka has tightened the provisioning requirements on non-performing loans of the banks by introducing a "hair-cut" whereby the extent up to which collaterals can be discounted in identifying the provisioning requirements has been reduced. With the enactment of the proposed new Banking Act, the banking industry will be further regulated.

Commercial Bank is ready and well prepared to meet these enhanced regulatory requirements.

Prospects for 2004

The prospects for 2004 will depend primarily on the degree of success achieved in the future rounds of negotiation between the Government which takes office after the elections and the LTTE. A political change may result in further uncertainty until the policies of a new Government are clearly enunciated and implemented.

The Shapes of Asia

Asia's Arts and Craft are legendary. Here an artisan from Gujarat creates another new shape. Like the potters of Gujarat our goal is to create legendary products and lasting value for the people of the region.



Further progress in fiscal consolidation combined with purposive and broad-based structural reforms will be necessary to sustain rapid growth in the economy. Another key variable that will affect growth will be the ability of the Government to effectively utilise external assistance to improve key infrastructure, particularly power and roads. It is important to note that in the Government Budget for 2004, Rs. 110 billion (7% of GDP) has been provided for capital expenditure. This is the largest amount allocated for capital expenditure for any one year over the last decade.

The Government will also have to do its best to obtain a favourable sovereign rating as quickly as possible since that will enhance the country's ability to mobilise foreign funds at favourable interest rates.

Apart from the responsibilities of the Government, the private sector too will have to play its part through active measures to increase investments with a view to expanding production capacity. Those companies in the private sector with required resources and capabilities should seriously consider investing in overseas ventures.

Banks will have to face new challenges in 2004. An area where banks will have to face a tough tax burden is in relation to OBC's off-shore profits. These profits which were hitherto exempted from income tax will be liable to tax at 20% with effect from April 1, 2004, as per the Government Budget proposals for 2004.

Chartering the Course

Amidst these opportunities and challenges, your Bank has identified priorities for implementation in the near future. These include, identifying new business lines, increasing the contribution from fee-based operations, reducing the over dependence on the Sri Lankan economy and making maximum use of the delivery channels of Commercial Bank. The Bank is also planning to expand its agency arrangements.

Having taken the first step towards being a regional player, Commercial Bank will further pursue these efforts and aims to become a major regional player by 2010. The Bank would also be on the look out for growth opportunities through further acquisitions.

Being a responsible corporate citizen, Commercial Bank is ever mindful of its responsibility towards its employees, the wider public and the physical environment. Accordingly, the Bank is actively involved in many projects that enhance the well-being of its stakeholders.

Tribute

It is undoubtedly the management team ably led by the Managing Director, and the staff that have shaped Commercial Bank's magnificent metamorphosis from a stable conservative bank to a dynamic one. The contribution made by my colleagues constituting an exceptional Board in guiding the destinies of your Bank, has added finesse to this process. My grateful appreciation is extended to them. I look forward to their continued efforts to add further value to our exceptional Bank.

I deeply appreciate the services rendered by Mr. P. Amarasinghe and Mr. S. Abeyasinghe who resigned from the Board and warmly welcome Mr. L.J.A. Fernando and Mr. D. Tsitsiragos who joined the Board.

While thanking all our stakeholders for their splendid efforts, I eagerly anticipate their continued support.



M.J.C. Amarasuriya
Chairman

February 17, 2004
Colombo.



M.J.C. Amarasuriya
Chairman

Joined the Board of Commercial Bank on May 15, 1986 and appointed Chairman on January 1, 1995. Former Deputy Chairman, Hayleys Ltd. Chairman, United Motors Lanka Ltd., Commercial Fund Management (Pvt.) Ltd., Equity Investments Lanka Ltd., Pelwatte Sugar Industries Ltd., and Serendib Flour Mills (Pvt) Ltd. Director, DFCC Bank, Commercial Leasing Company Ltd. Chairman, Joint Forum of Chambers of Commerce & Industry, Employers' Organizations & Trade Associations of Sri Lanka and Chairman, International Chamber of Commerce. Chairman of the Regional Industry Service Committee of the North Western Province. Past Chairman, Employers' Federation of Ceylon.



J.S. Mather
Deputy Chairman

Joined the Board of Commercial Bank on September 1, 1989. A Fellow of The Institute of Chartered Accountants, England & Wales, Partner of Ernst & Young from 1966 to 2001 and now a Consultant in the Firm. Non-Executive Director of a number of Public Quoted as well as Unlisted Companies, A Member of the Public Utilities Commission.



A. L. Gooneratne
Managing Director

Appointed to the Board of Commercial Bank as Managing Director on January 6, 1997. Joined the Bank in March 1983 and has held several senior positions prior to his appointment as General Manager/Chief Executive in March 1996. A Fellow of The Institute of Chartered Accountants, England & Wales. Represents the Bank's interests on the Boards of all its Associate and Subsidiary Companies. Serving as a Member, Sri Lanka Accounting & Auditing Standards Monitoring Board representing the Government on the Board of Sri Lankan Airlines Ltd. Chairman, The Sri Lanka Banks' Association (Guarantee) Ltd. Chairman, The Financial Ombudsman Sri Lanka (Guarantee) Ltd. and as a Member, Governing Council, National Institute of Business Management. Council Member of Sri Lanka Institute of Directors. Member of the National Task Force on Corporate Governance, representing The Sri Lanka Banks' Association as a Council Member on the National Task Force for Corporate Governance Sri Lanka.



Dr. H.S. Wanasinghe

Appointed to the Board of Commercial Bank on January 5, 1990. Currently, Senior Visiting Fellow of the Institute of Policy Studies, a Member of the Council of Fellows of the Marga Institute and a Member of the Board of Directors of the Centre for Policy Alternatives. Served the United Nations Economic and Social Commission for Asia and the Pacific for 15 years and on 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, served as a Member of the Ceylon Civil Service for 24 years.

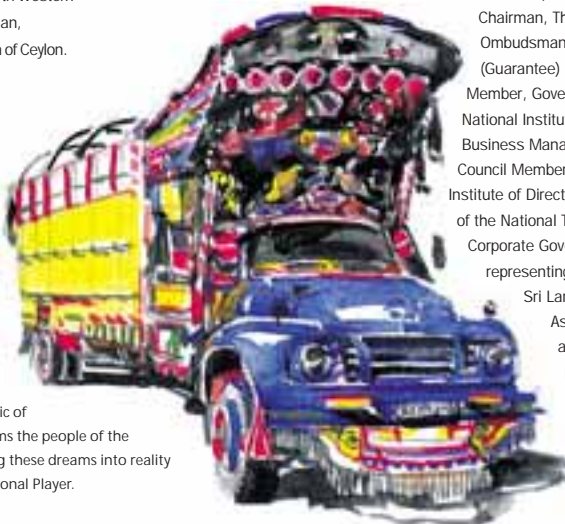


B.R.L. Fernando

Joined the Board on January 1, 1995. A Fellow of The Institute of Chartered Accountants of Sri Lanka. Executive Chairman of Chemical Industries (Colombo) Ltd., CIC Fertilizers (Pvt.) Ltd., CIC Seeds (Pvt.) Ltd., CIC Feeds (Pvt) Ltd., CIC Vetcare (Pvt) Ltd., CIC Agri-biotech (Pvt.) Ltd. and Non-Executive Chairman of Chemanex Ltd., CIC Paints (Pvt.) Ltd., CISCO Speciality Packaging (Pvt.) Ltd., Crop Management Services (Pvt.) Ltd. Aslo a Non-Executive Director of Paints & General Industries Ltd., Agro Enterprises Japan-Lanka (Pvt.) Ltd., Exchange & Finance Investments Ltd., Rainwear (Pvt.) Ltd. Trustee of The Employers' Federation of Ceylon Ltd. Possesses extensive experience of finance and commerce.

The Colours of Asia

Pakistan's roads are decked by these elaborately made out trucks that ferry people and goods across the country. The fantastic designs of these mobile art galleries are symbolic of the 'fantastic' dreams the people of the region carry. Turning these dreams into reality is our task as a Regional Player.



The Bank's goal in Asia: to embroider the tapestry of Asia with a presence that is solid, efficient and friendly.



M.L. Mack

Appointed to the Board of Commercial Bank on October 31, 1997. Currently, the Chairman of the DFCC Bank, Director of C F Venture Fund Ltd., Lanka Aluminium Industries Ltd., Lanka Galvanising Industries (Private) Ltd., Comark Lanka (Private) Ltd. and Acme Printing & Packaging Ltd. Previously Chairman & Managing Director of Aitken Spence & Co. Ltd.

A.N. Fonseka

Appointed to the Board of Commercial Bank on January 31, 2000. General Manager/Chief Executive/Director of DFCC Bank. Chairman of DFCC Stockbrokers (Pvt.) Ltd., Lanka Industrial Estates Ltd., Lanka Ventures Ltd. and National Asset Management Ltd. Director of Associated Battery Manufacturers (Ceylon) Ltd., Credit Information Bureau of Sri Lanka, Colombo Stock Exchange and Commercial Bank Primary Dealer Ltd. Member, Governing Board, National Institute of Business Management. Member, Deregulation Committee and Financial Sector Reforms Committee.

Lalin J.A. Fernando

Appointed to the Board of Commercial Bank on April 25, 2003. Founder, Managing Director of Standard Trading Company (Pvt) Ltd. Counts for over 34 years experience in the Tea Trade and Private Sector Management. Director of L F Holdings (Pvt) Ltd., Horana Plantations Ltd., Uni Dil Packaging (Pvt) Ltd., Ceytea Plantations Management Ltd., STC Logistics (Pvt) Ltd., L F Teas (Pvt) Ltd., STC Trading House (Pvt) Ltd., Classic International (Pvt) Ltd., Research International (Pvt) Ltd., Motor Marvels (Pvt) Ltd., Frontier Automotive (Pvt) Ltd. and Koboshu Corporation (Pvt) Ltd.

Currently, Co-converner of the Regain Sri Lanka - Tea Task Force, part of the Government's Regaining Sri Lanka initiative.

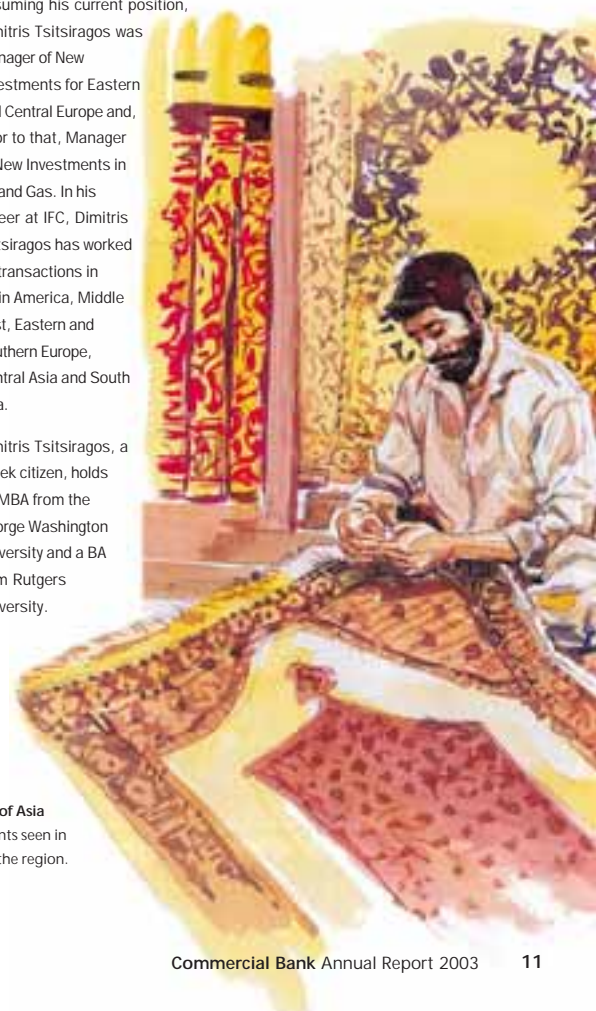
Dimitris Tsitsiragos

Joined the Board of Commercial Bank on April 25, 2003. Dimitris Tsitsiragos, Director for South Asia at the International Finance Corporation (IFC), joined the IFC in 1989. Prior to assuming his current position, Dimitris Tsitsiragos was Manager of New Investments for Eastern and Central Europe and, prior to that, Manager of New Investments in Oil and Gas. In his career at IFC, Dimitris Tsitsiragos has worked on transactions in Latin America, Middle East, Eastern and Southern Europe, Central Asia and South Asia.

Dimitris Tsitsiragos, a Greek citizen, holds an MBA from the George Washington University and a BA from Rutgers University.

Mrs. R.R. Dunuwille
(Company Secretary)

Attorney-at-Law, Chartered Secretary (UK)



The Rich Weaves of Asia

Pakistani handicrafts are inspired by magnificent architectural monuments seen in the Muslim world. Their colours, shapes and styles instantly evoke the region.

Fanning the Winds of Change

The Throb, the Thrust and the Technology of Asia

Asia has new identity today. Especially South Asia. **Asia was previously the dusty, dirty devil** of the global map.

Today it is throbbing, vibrant and a vast pool of hi-tech talent that produces the best products for its value globally. Millions of dollars of software are exported from the South Asian region to the rest of the world. **Over one fifth of Microsoft's engineers are of South Asian origin.**

Commercial Bank is poised to enter this pulsating world that geographers and explorers have for long called Asia.



The Din, the Diversity and the Destiny of Asia

For centuries, the geographer's Mona Lisa. Enigmatic, never understood, but forever captivating.

Asia, now stands on the edge of an economic revival of unparalleled proportions. A revival that is likely to fuel more than just the accumulation of tangible wealth.

Moving from Local to Regional

This year's Annual Report is dedicated to our vision of becoming a major regional player by 2010.

South Asia has emerged as the latest economic powerhouse. According to the World Bank, the economies of South Asia are projected to grow at above 5.5% over the next five years. With 21% of the world's population and with 20% of that population possessing incomes and purchasing power that match the developed world, South Asia's economic importance is likely to grow monumentally over the next decade. It is to capitalise on this huge opportunity that we have decided to invest significantly in the region over the next decade.

... South Asia's economic importance is likely to grow monumentally over the next decade.

We have had another staggeringly successful year, as documented elsewhere in this report and we think this is a particularly good moment to enter the regional market. Many of the South Asian countries have adopted liberal regulatory regimes making access to their markets easier. We also believe our 'Sri Lankan-ness' will make us a more acceptable player than some of the other foreign banks. 'Sri Lankan-ness' coupled with the personalised customer friendly service assisted by the state-of-the-art technology will enable us to be competitive with the other banks that operate in the region.

We have had another staggeringly successful year ...

Reducing our Risks

In today's globalizing world, exposure to a single economy and a single market is not only restrictive but unwise. Companies that are linked to a single market and economy are likely to be more affected by the downturns of that economy and the restrictions of that market. Not only is financial stability threatened but product development and business imagination are also stymied.

... exposure to a single economy and a single market is ... unwise. ... Not only is financial stability threatened but product development and business imagination are also stymied.



Drawing on Asia's Diversity
The diversity of Asia is illustrated by Kalash people, who live in the mountains of North Pakistan. They have their own language, religion and dress and are famous for their music and dancing. This group has preserved its identity over the centuries. Here a Kalash woman smiles in the early morning sun.

Your Bank has realised that it is imprudent to expose itself solely to the Sri Lankan economy. This thinking coupled with the huge potential that South Asia offers has seen us make perhaps our most important strategic shift in policy.

Regional Operations

As much as possible, we would endeavour to build a visible presence in the region by the year 2010 availing opportunities present.

By 2010, we hope to have a visible presence in the region.

Our acquisition of Credit Agricole Indosuez

In 2003, we took our first step towards becoming a regional player when we acquired the operations of Credit Agricole Indosuez (CAI) in Bangladesh. The acquisition consisted of the main office in Dhaka, its branch in Chittagong and two booths. CAI is now the largest bank in France and currently operates in over 50 countries. It was the second largest foreign bank in Bangladesh with a niche in corporate banking. When CAI decided to exit because of a shift in their global strategy, your Bank seized this opportunity to grab a slice of the rich Bengali market. Our acquisition of Credit Agricole Indosuez gives us instant access to their large corporate client base and banking infrastructure.

Our acquisition of Credit Agricole Indosuez gives us instant access to their large corporate client base and banking infrastructure.

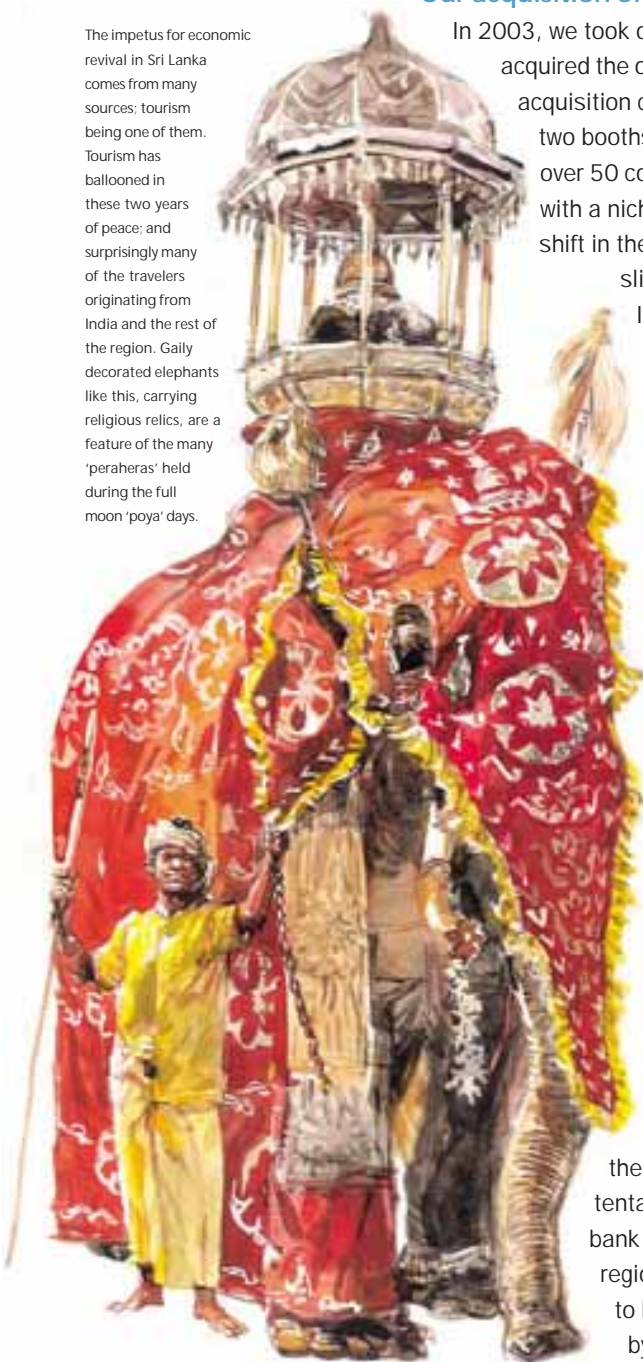
Providing an impetus for Sri Lankan companies to enter the region

Sri Lankan companies are realising more and more that focusing on the local market is not enough. Sitting on our doorstep is one of the world's biggest markets. We Sri Lankans are privileged because of the Free Trade Agreement with India, which gives us priority access in a number of sectors.

Sri Lankan companies are realising more and more that focusing on the local market is not enough. Sitting on our doorstep is one of the world's biggest markets.

We are confident that our entry into the regional market will provide a strong impetus for other Sri Lankan companies to enter these markets. Some local companies have already taken a few tentative steps in this direction. But we are the first private sector bank to enter the regional market so strongly and to make regionalisation an intrinsic part of the corporate strategy. Our goal is to have a strong regional presence in major cities across South Asia by 2010.

The impetus for economic revival in Sri Lanka comes from many sources; tourism being one of them. Tourism has ballooned in these two years of peace; and surprisingly many of the travelers originating from India and the rest of the region. Gaily decorated elephants like this, carrying religious relics, are a feature of the many 'peraheras' held during the full moon 'poya' days.



Those local companies that make this leap will find that their entry into these markets will boost the quality of their products, develop their competitive capabilities, sharpen human resource skills and lessen dependence of these companies on the vagaries of a single economy. Overall it is the path towards sustainable profits and long-term employee contentment.

The IFC Partnership

Last year we entered into a partnership with the International Finance Corporation (IFC), the private sector investment arm of the World Bank. The IFC invested 10 million US dollars to take a 15% stake of our equity. It was the first time that the IFC invested in the already existing share capital of a company. Previously its investments had been in the IPOs of new or existing companies.

IFC's mission is to promote sustainable private sector investment in developing countries with a view to improving the quality of life. It finances its own investments with its own resources and by raising capital in the international markets. It also provides technical assistance and advice to businesses and governments.

IFC's investment in Commercial Bank is linked to their regional investment strategy. South Asia houses the largest number of poor people. But it is also the venue of some of the fastest growing economies in the world. IFC sees this as a challenge and a site, in which its expertise and capital may have a long-term impact. The potential to influence the nascent regulatory regimes and emerging corporate sectors provide other exciting opportunities for the investment arm of the World Bank.

The IFC link will add value in a number of areas.

The IFC link will add value in a number of areas. We intend drawing on IFC's technical expertise in making investments in the region. The IFC's understanding of the region will help us in finding partners, assessing markets and developing new products. In this respect the IFC investment could not have come at a more strategic time.

The partnership with IFC will also strengthen our training capacities and our ability to deliver state-of-the-art human resource programmes for a broad range of corporate personnel. Here again the IFC investment could not have come at a better time since we are now moving from being a pure 'in house' training facility to becoming a major corporate training centre.

The other area in which we will benefit from the IFC link is with regard to the SME sector. IFC will not only enable us to access special lines of credit, but also strengthen our capacity to provide a range of supporting services to SME industries. As I mention elsewhere in this report our plan is to move from a mere provider of capital to provider of a range of supporting services that will help the small and medium scale industrialist. The IFC link will be important in enhancing our capacity in this respect.

Taking Retail Banking to the Region

One of our recent accomplishments has been the success we have had in the area of retail banking. We intend carrying our success in retail banking into the region. Our previous edge lay in corporate banking, but in the recent past Commercial Bank has developed a number of new products which have attracted the 'everyday client'.



"We were impressed by Commercial Bank's track record of overall excellence in delivering modern banking services, having been recognised as such by international business publications. We were also pleased to see the Bank's commitment to a broad range of stakeholders, including its customers, its employees and the larger public. Other aspects that we found commendable were Commercial Bank's focus on good corporate governance and its willingness to incorporate IFC's guidelines on good business practices and the environment.

Commercial Bank's profile fits well with IFC's objective to promote sustainable private enterprise in emerging markets and promote corporate initiatives that touch the lives of people. South Asia, with its large, relatively poor population but rapidly growing economies is of high priority for the IFC and Commercial Bank has the potential to expand its business in the region. This led to IFC promoting and assisting in the opening of the Bank's branches in Bangladesh.

These are the reasons why we invested 10 million dollars to purchase a 15% stake in the Bank. We believe that this investment will add value not just to the Bank, but also to the lives of all Sri Lankans through access to financial expertise, regional markets and a variety of other benefits, in addition to world-class banking services.

We look forward to a long and productive partnership."



One of our recent accomplishments has been the success we have had in the area of retail banking. We intend carrying our success in retail banking into the region.

We are proud of the broad spectrum of clients we have: from the big corporates and multi-nationals, to the rural industrialist and the school child. We will look at replicating our success in retail banking in the entire region. At the beginning we may focus on certain sectors, but our goal in the long term is to attract all South Asians in general, whether living in South Asia or in the developed world. This will necessarily entail the development of special products and our team has already begun to put its minds together to develop these new products.

The Path to the Top

It is not just the people who are diverse, but the landscape too. The challenges of the region are immense. But like Hilary and Tenzing fifty years ago, the Bank's got a path to take it to the very top.

Edging ahead with IT

Our customers have access to over one million ATMs all over the world. Our faith in IT has placed us far ahead of many local banks. We believe that human resource development and IT are the two major pillars of success over the next few years.

We believe that human resource development and IT are the two major pillars of success over the next few years.

At the Bank, we have been investing over 60% of the capital expenditure budget in IT. We have made it a point to keep abreast of changes in technology and to constantly upgrade our systems and products as technology develops. Last year we spent over Rs. 210 million for developing IT capabilities of the Bank.

The future of banking all over the world is so closely linked to developments in IT and we intend being second to none when it comes to IT.

We will always continue to update our systems and technology to be in line with internationally accepted best practices. The future of banking all over the world is so closely linked to developments in IT, that we intend being second to none in this regard. Our entry into the regional market makes it even more imperative that we keep abreast of the recent developments.

Creating a State-of-the-Art Training Centre

Our policy on human resources has gone through a revolution of sorts in the recent past. We always believed that investing in human resources was the way towards sustainable profits.

We always believed that investing in human resources was the way towards sustainable profits.

Two years ago we established a link with the Asian Institute of Technology (AIT) in Thailand to provide a range of courses for our staff. The Bank's Staff Development Centre has taken off in these last couple of years and evolved into a fully fledged training unit. A consequence of this is that we are able to train not just the Bank's staff but staff from other banks and other companies as well.

This is what we intend to do in the next few years. To convert our Human Resource Centre into a major state-of-the-art profit centre for the Bank offering a range of courses for a range of personnel from the corporate sector.

In the long term I think we would like to develop our own degree programme that will have an appeal in South Asia and the Gulf. As a first step we are already collaborating with the Indian Institute of Bankers to develop a banking qualification for the industry in the region.

To convert our Human Resource Centre into a major state-of-the-art profit centre for the Bank offering a range of courses for a range of personnel from the corporate sector.

Fuelling the SME Sector

Development of small and medium enterprises is vital for our economy. The economy cannot rely solely on the blue chips to drive it. A much larger spread both in terms of the range of economic activity and in terms of its geographical reach would need to be harnessed.

Your Bank is upgrading the range of products it can offer the SME industry. We are looking at not just developing appropriate packages, but also developing the supporting services like providing expertise and advice on how best to employ and manage the capital.

In many cases it is not just a question of providing capital, but also the expertise on how best to employ and manage the capital.

Our link with the IFC will enable us to access privileged credit lines for the SME sector and will also strengthen our capacity with regard to providing a range of accompanying services to this sector.

Industrial Relations reach a High Point

The management's relations with the unions are at a high point. As we have consistently done through the years, we have sought to create win-win scenarios for all and the results have been positive all round.

The icing on the cake was the new collective agreement we negotiated with the Bank's Branch of the Ceylon Banks' Employees Union. This is the first time in recent history that we had a 'one to one' agreement with the Union. This has allowed the Bank and Union to take into account the special need of the Bank's staff and to negotiate a deal that is sensitive to the demands, the roles and the profiles of the Bank's staff.



A Fusion of Religions
Asia is home to the world's major religions. Here a Tantric Priest dramatizes Buddha's life story against a blue Nepalese sky.



The icing on the cake was the new collective agreement we negotiated with the Bank's Branch of the Ceylon Banks' Employees Union.

All the employees of the Bank were offered through another Employee Share Ownership Scheme, a further 5% of the share capital of the Bank, being part of the stake divested by the Sri Lanka Insurance Corporation prior to its privatisation. Employees in the grades of Senior Manager and above were also allocated with share options under the first tranche of the Employee Share Option Scheme, approved by the shareholders at an Extraordinary General Meeting in 2002.

Pension Reforms

As the Chairman has already mentioned in his Review, the ever-increasing funding gap in the Bank's Pension Fund and the Widows' & Orphans' Pension Scheme has drawn our serious attention. The Pension Fund is non-contributory to the employees while employees contribute 75% of the recommended contribution rate to the Widows' & Orphans' Pension Scheme. As you would see from the Section 3.2.1.5 of the Significant Accounting Policies on page 77 of this Report, the funding gap has widened to Rs. 888.911 million as at December 31, 2003 from Rs. 378.128 million a year ago, despite the Bank contributing an additional Rs. 200.000 million to the Pension Fund during the year, over and above the contribution rate recommended by the Actuary. We have already taken some steps to mitigate the situation such as new recruitments being made on a non-pensionable basis since January 1, 2003. We are however of the view that certain radical changes may be necessary to address the issue altogether.

The Low Interest Regime will continue

The low interest regime will continue in the short term. We know this causes hardship to those who depend on interest income from fixed deposits and savings but we do not foresee a major change in monetary policy. At the Bank, we will continue to strengthen our ability to generate enhanced profits from our fee-based activities.

We will also strengthen our presence in the North and the East if the conditions allow this. We already have 7 branches in the North and East and are looking forward to increasing this number further by the end of 2004.

Housing finance is another area we hope to develop in the short term. There is a huge housing requirement that needs to be met and developing appropriate products for this sector is a challenge for the entire banking industry.

Creating Profits that are socially acceptable

While we aim to generate profits for our shareholders and to constantly add value to their share, we know that we must do this in a way that is socially acceptable. We are conscious of our obligations not just to our shareholders but also to the other stakeholders: the employees, their families, our customers and the larger public. We are also conscious of our obligations to the less fortunate and disadvantaged and have a number of projects with these segments of the population in mind.

While we aim to generate profits for our shareholders and to constantly add value to their share, we know that we must do this in a way that is socially acceptable.

We are now in the process of integrating international environmental practices into our standard procedures and our partnership with the IFC will move this process forward.

At our branches we are making every effort to provide workspaces that are sensitive to the needs of the 'differently-abled'.

UN "Global Compact"

Commercial Bank subscribed to the "Global Compact" programme initiated by the United Nations. "Global Compact" is an initiative to safeguard sustainable growth within the context of globalization by promoting a core set of universal values which are fundamental to meeting the socio-economic needs of the world's people, by encouraging the private sector to embrace, support and enact a core set of values in the areas of human rights, labour standards and environmental practices.

In order to assess the overall progress of the "Global Compact", the Secretary General of the United Nations has convened a Global Compact Leaders Summit at the UN Headquarters, New York to be held on June 24, 2004. Commercial Bank has been invited to participate at this summit.

At a Turning Point

We know we are at a turning point where the Bank is concerned. Over the past 10 years we have built a solid foundation and created an institution that is now the No. 1 bank in this country. We are now ready to take this institution into the South Asian Region and beyond and to create a regional bank that all Sri Lankans can take pride in.

I would like to thank the Board of Directors for their support and inspiration. My thanks are also due to our committed and dynamic staff. The success of any institution is linked so intimately to the performance of its staff and we are proud that we have one of the best human resource pools in the country. My appreciation to the Governor of the Central Bank of Sri Lanka and the Governor of the Bangladesh Bank and their respective staff for their cooperation at all times.

Finally, I thank M/S KPMG Ford, Rhodes, Thornton & Co. for their professional role in carrying out the external audit and issuing the report on a timely basis enabling the Bank to publish this Annual Report early.

I look forward to a challenging and rewarding year.



A.L. Gooneratne
Managing Director

February 17, 2004
Colombo.

Sri Lanka's rock art is legendary. Exquisite 'guardstones' like this, dot many of its places of worship. Like the Bank, Sri Lanka is also at a turning point. Never has this resplendent isle been closer to ending its civil conflict than it is now. Twenty years of conflict has devastated its social fabric. Yet even during the conflict the economy demonstrated remarkable resilience. If peace returns, Sri Lanka is likely to lead the South Asian economic revival.

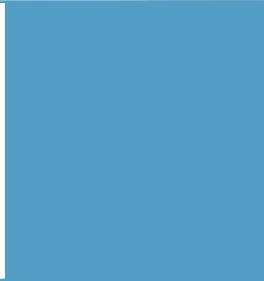
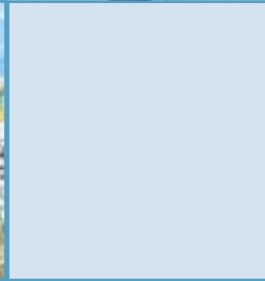
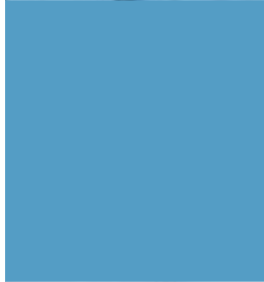


Corporate Management

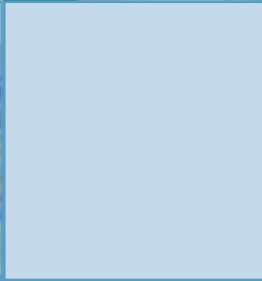
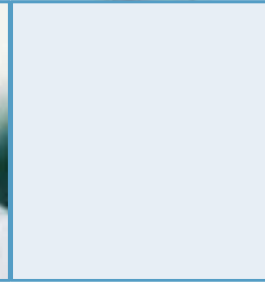
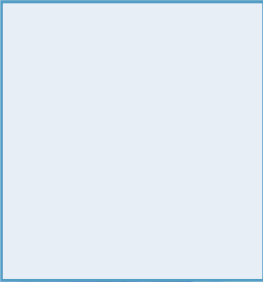
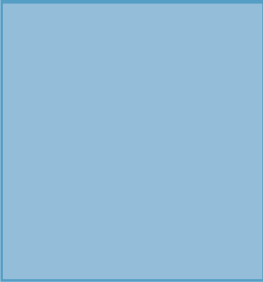
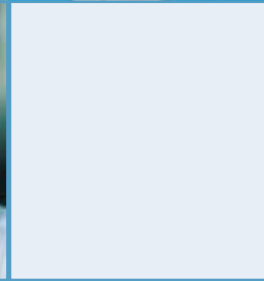
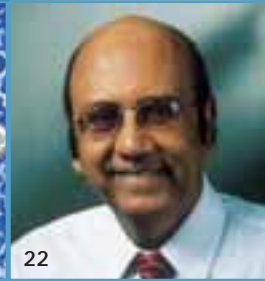
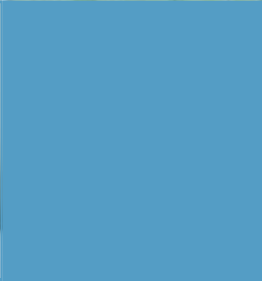
- 1 A.L. Gooneratne
(Managing Director)
- 2 G.L.H. Premaratne
(Deputy General Manager - Corporate Banking)
- 3 R. Samaranayake
(Deputy General Manager - Finance & Planning)
- 4 W.M.R.S. Dias
(Deputy General Manager - Personal Banking)
- 5 M.N.J. Jayaratne
(Deputy General Manager - Human Resource Management)
- 6 M.D.A. Peiris
(Deputy General Manager - Information Technology)
- 7 B.H.M.G. Dharmasiri
(Asst. General Manager - Corporate Banking)
- 8 M.A.Pemasiri
(Asst. General Manager - Services)
- 9 H.W.J.P. Peiris
(Asst. General Manager - International)
- 10 S.D. Bandaranayake
(Asst. General Manager - Operations)
- 11 Delip Fernando
(Asst. General Manager - Inspection)
- 12 P.V. Ratnapala
(Asst. General Manager - Personal Banking I)
- 13 D.S. Weeratunga
(Asst. General Manager -Treasury)
- 14 V. Sirinivasan
(Asst. General Manager - Personal Banking II)

Senior Management

- 15 K.D. Nimal Luxshman
(Senior Regional Manager - Colombo Inner)
- 16 Raja Senanayake
(Head of Finance & Planning)
- 17 Jegan Durairatnam
(Head of Imports)
- 18 S. Raghavan
(Head of Exports)
- 19 Vimal Fernando
(Senior Regional Manager - Colombo South)
- 20 Mrs. Marion Abeywardena
(Head of Corporate Banking)
- 21 Ajith Wijayasundare
(Head of Information Technology)
- 22 Claude Perera
(Chief Manager - Human Resource Management)
- 23 Mrs. Carmelita De Silva
(Chief Manager - Corporate Banking I)
- 24 Palitha Narangoda
(Chief Manager - Treasury)
- 25 Chandana Gunasekera
(Regional Manager - Colombo North)
- 26 Felician Perera
(Chief Manager - Recoveries)
- 27 Palitha Perera
(Chief Manager - Operations)
- 28 Richard Rodrigo
(Chief Manager - Marketing)
- 29 Gamini Wijesinghe
(Chief Manager - Lease Promotion)
- 30 Mrs. Sandra Walgama
(Regional Manager - North Western)
- 31 C.M. Abeysekera
(Chief Manager - Corporate Banking II)
- 32 Mrs. Sarojini Dunuwille
(Chief Manager - Legal)



Senior Management





Management Committee - Bangladesh

- 1 **S. Renganathan**
(Country Manager)
- 2 **D. Das Gupta**
(General Manager)
- 3 **B.A.H.S. Preena**
(Chief Operating Officer)
- 4 **S. Kutubuddin Ahmed**
(Deputy General Manager - Risk, Compliance and Corporate Affairs)
- 5 **Golam Mortuza**
(Deputy General Manager - International Trade)
- 6 **Mehboobur Rehman**
(Deputy General Manager - Human Resources)

The Commercial Bank's first step as a regional player is in Bangladesh. It was an opportunity that the Bank seized with both hands. With its 133 million people, Bangladesh presents a sizable and under-explored market.

It is a land steeped in history, culture and the arts and with more similarities than differences with Sri Lanka. A land with which Sri Lanka has had historical links. It has made quiet progress in its bid to reduce poverty and improve the quality of life. According to the UN, "income poverty" dropped from 48% in 1989 to 34% in 2000. Maternal and child health care has also made significant progress.

Its predominantly agrarian economy is being transformed as industrial activity picks up. The manufacturing sector has grown significantly over the years: its garment exports leaped from \$867 million in 1991 to \$4.6 billion in 2002 (UN).

The Bank looks forward to a long and sustainable relationship with its people.

Our first step as a Regional Player - Commercial Bank in Bangladesh

December 10, 2003, Commercial Bank begins operations in Dhaka.



Head Office in Motijheel.



The soft opening of the Head Office in Motijheel.



Commercial Bank in Chittagong, location of the country's biggest port.



December 11, 2003, our operations commence in Chittagong.



Gulshan Booth



Signing of a Master Repurchase Agreement with Janatha Bank.

Corporate Banking

Products

- >> Letters of Credit
- >> Shipping and other guarantees
- >> Import and export finance
- >> SWIFT facilities
- >> Syndicated loans
- >> Project financing
- >> Securitisations
- >> Initial Public Offerings and Private Placement of Equity
- >> Company valuations and restructuring
- >> Investment advice and evaluation
- >> Leasing

- >> Working capital financing
- >> Internet banking
- >> Bullion trading
- >> Factoring
- >> Off-Shore banking facilities

Core Competencies

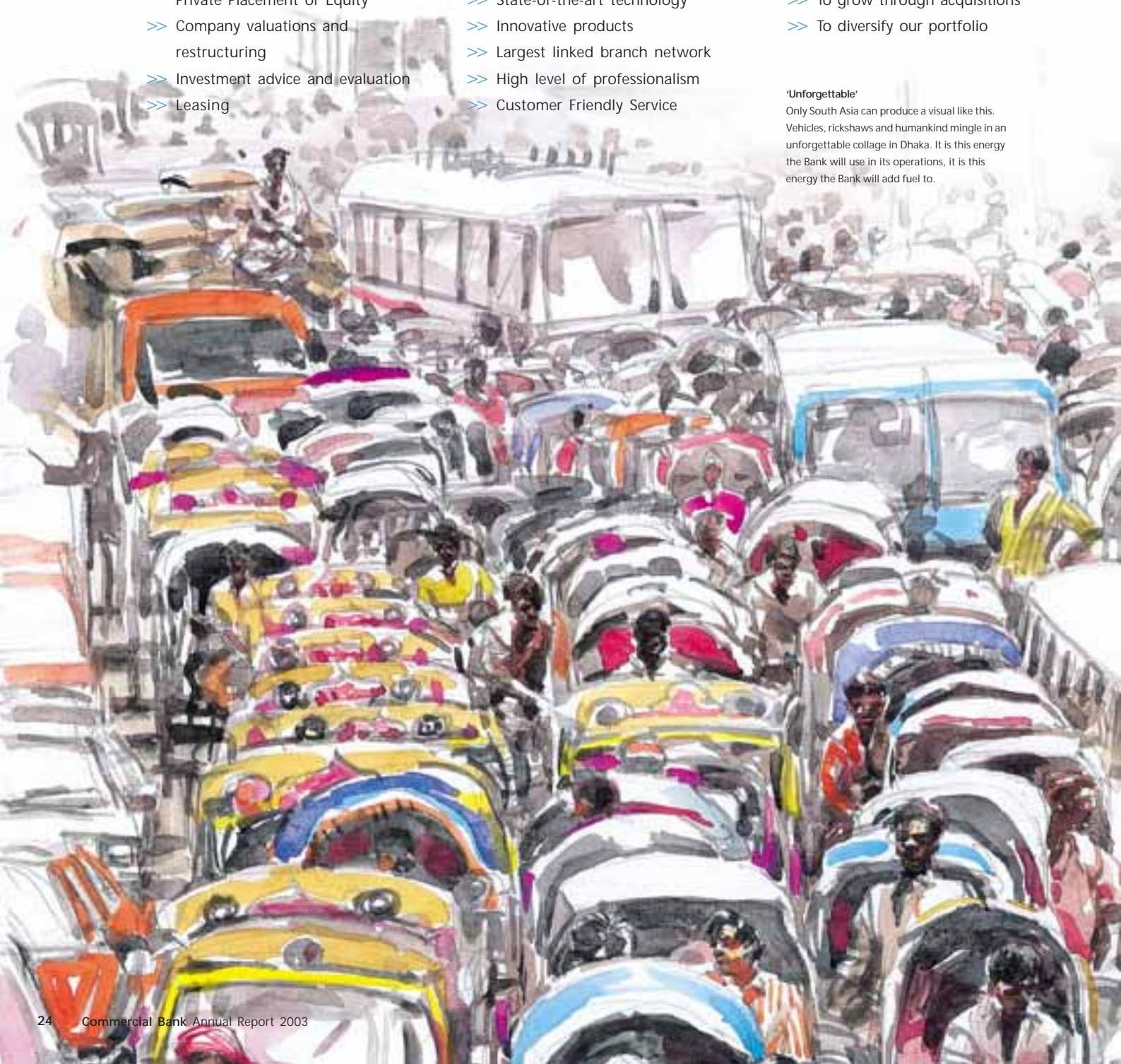
- >> Expertise in trade finance and corporate credit
- >> State-of-the-art technology
- >> Innovative products
- >> Largest linked branch network
- >> High level of professionalism
- >> Customer Friendly Service

Future Strategies

- >> To strengthen our presence in Bangladesh
- >> To expand relationships with Maldivian clients
- >> To simplify operations and ensure speedy delivery
- >> To offer the most competitive terms backed by state-of-the-art IT
- >> To grow through acquisitions
- >> To diversify our portfolio

'Unforgettable'

Only South Asia can produce a visual like this. Vehicles, rickshaws and humankind mingle in an unforgettable collage in Dhaka. It is this energy the Bank will use in its operations, it is this energy the Bank will add fuel to.



Corporate Banking

The Corporate Banking Division comprises of the Foreign Branch, the Off-Shore Banking Centre and the Bangladesh operations. This division caters mainly to the banking needs of the large to medium size corporate customers with its expertise in Trade Finance, Project Financing, Leasing, Factoring and Working Capital Financing and related services.

The Corporate Banking Division continued to make a strong contribution to the Bank's profitability. The division accounted for 61.75% of the Bank's gross loans and advances and 29.70% of its deposit base.

	2003		2002	
	Rs. Mn	%	Rs. Mn	%
Profit before Tax	689.698	35.29	653.025	42.82
Loans and Advances (Gross)	44,015.641	61.75	34,264.268	61.68
Deposits	22,331.949	29.70	12,429.518	22.77

Loans and advances portfolio of the Corporate Banking Division increased by 28.46% during the year 2003. This was due mainly to acquisition of the Bangladesh operations of Credit Agricole Indosuez Bank and enhanced facilities granted to existing large corporate clients. Significant borrowers included companies operating in the Maldives. Advances to Maldivian based companies increased during the second half of 2003.

The overall optimism in the country as a result of the peace process which correspondingly led to an increased level of economic activity resulted in an increased demand for credit by the business community.

Leasing operations exceeded all expectations in the year 2003 recording a growth of 75% to reach Rs. 3.4 billion for the year under review. Domestic factoring outstanding too saw a significant increase of 94% over the 2002 figure.

The Corporate Finance Division (CFD) was established as a separate unit in 2003 to handle Investment Banking assignments and large scale projects including infrastructure projects. This division managed the Bank's first Initial Public Offering of shares for a customer.

During 2003, CFD arranged a syndicated debt of Rs. 3.850 billion, as joint lead arrangers/bankers for a 100 MW thermal power plant and also participated in syndications for financing of several thermal and hydro power projects. Structuring and investing in securitisations arranged by CFD stood at Rs. 349 million, by the end of the year.

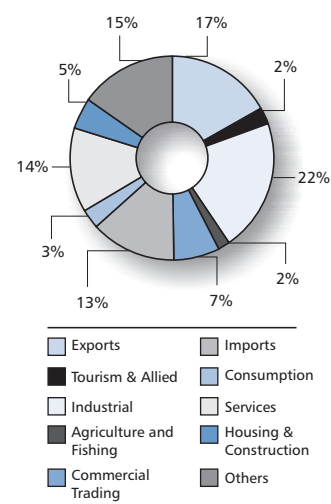
The Bullion Trading business consolidated itself and the Bank emerged as a market leader in this field. Bullion Trading continued to make a significant contribution towards the turnover and profits of the Bank.

The Bank took its first step towards becoming a regional player by acquiring Credit Agricole Indosuez (CAI) in Bangladesh in November 2003. CAI Bangladesh is a well-capitalised and profitable bank having a large corporate customer base comprising mainly of multinationals and large business organisations.

The lending activities in Maldives saw a steady growth during 2003. Facilities were extended to finance several new resort projects and an infrastructure development project during the year under review.

The non-performing loan ratio of the Bank was brought down to 7.47% as at December 31, 2003 from 8.42% a year earlier. This indicated that we were on the right track with our credit appraisal procedures and our post sanction monitoring mechanisms. A total provision of Rs. 541.619 million was made during the year to enhance the provision cover to 37.82% of the total non-performing loans.

Sectoral Classification of Loans & Advances - 2003



Personal Banking

Products

- >> Current, Savings (Passbook and Statement) and Fixed Deposit Accounts
- >> CAT Card
- >> Priority Banking Card
- >> Credit Cards
- >> "Arunalu" and "Isuru" Minors' Accounts
- >> "DotCom" and "DotCom Spin" Teen Saver Accounts
- >> Progressive Saver Accounts
- >> Certificates of Deposit
- >> Salary Remittance Packages

- >> "Nivahana" Housing Loans with Fixed and Floating Rates
- >> "Pahan" Personal Loans
- >> "ComShakthi" Leasing facility
- >> "Diribala" Development Loans
- >> ComServ - Intranet Banking
- >> e-Exchange - Money transfer facility
- >> Holiday Banking Centre
- >> Saturday Banking
- >> Priority Banking
- >> ComBank Online-Internet Banking
- >> Telephone/SMS Banking

Core Competencies

- >> State-of-the-art technology
- >> "ComNet" computer linked branch and ATM network
- >> Wide range of products
- >> "One Stop" facilities
- >> Speedy and friendly service

Future Strategies

- >> To develop new low cost delivery channels
- >> To adopt new customer relationship and segmentation techniques
- >> To expand cross-selling
- >> To develop new products tailor-made to specific market segments



The Maldives has become one of Asia's most popular tourist destinations. Its economy is diversifying and it is set to join the other South Asian tigers.

Personal Banking

The Personal Banking Division is responsible for the successful operation of the extensive islandwide network of delivery channels which caters mainly to the banking needs of personal customers and small and medium enterprises.

The traditional brick and mortar branches continue to play an important role in Sri Lankan banking. During 2003, seven new delivery points were opened and 23 ATMs were installed including many at off site locations widening the network and making Commercial Bank a truly National Bank. The Delivery Points opened during the year consisted of 3 branches: Bambalapitiya, Nelliady and Chunnakam; 2 CSPs: Baseline Road and Katubedda, a MiniCom: Cargills Food City, Moratuwa and a service point: Arpico Mall, Dehiwela.

The Chunnakam and Nelliady branches further strengthened our presence in the Jaffna peninsula. The CSPs at Ekala, Thalawathugoda, Bandaragama, Mount Lavinia, Kohuwela, Baddegama and Malabe were upgraded to fully-fledged branches. The branches at Anuradhapura, Grandpass, Seeduwa and Horana were relocated in more convenient locations.

ComNet is one of the strongest assets of the Bank with tremendous potential and opportunities for future growth. By the end of 2003, the total network of Delivery Channels of the Bank consisted of 99 fully-fledged Branches, 8 CSPs, 9 MiniComs and 166 ATMs.

The Bank will continue to expand the number of Delivery Points and the ATMs. The substantial increase in the number of transactions through the ATMs, which dispense on the average Rs. 90 million each day, bears testimony to the increasing popularity of our ATM network.

The seven Regional Offices immensely contributed to the excellent performance of the Division by decentralising their operations and expediting the process of decision making.

The issue of Credit Cards under franchise from MasterCard International too comes under this Division. The Bank commenced the issue of the MasterCard Electronic permitting the Bank to reach a larger section of the community. The Division handles the issue of CAT Cards too.

The services offered by the Priority Banking Centre has been further enhanced, attracting a larger number of high net-worth customers. Priority Customers are now issued with a specially designed Cheque Book and an Identity Card, the 'Priority Circle' which also serves as a high value Debit Card. This Centre offers a preferential and expeditious service to its customers with exclusive benefits and privileges befitting their special status and standing.

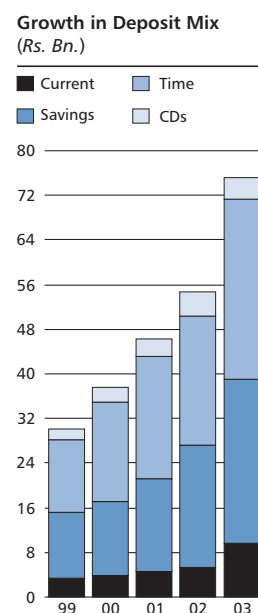
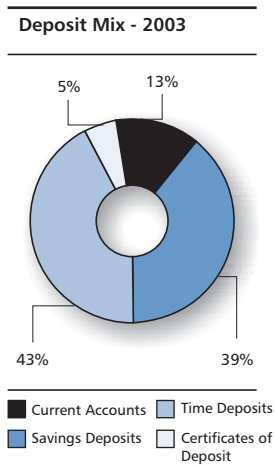
Recognising the importance of low cost deposits, the Bank initiated a highly successful campaign to attract greater numbers of Current Account holders from specially selected segments.

The Bank re-packaged the "Pahan" Personal Loan Scheme targeting employees of large corporate clients. A significant growth was seen in the area of Development Lending as a result of the Bank's participation in all major Credit Lines and also through direct lending under our own Medium/Long Term Credit Facility "Diribala".

The contribution of the Personal Banking Division can be summarised below:

	2003		2002	
	Rs. Mn	%	Rs. Mn	%
Profit before Tax	1,060.883	54.27	791.511	51.90
Loans and Advances (Gross)	27,259.508	38.25	21,284.270	38.32
Deposits	52,852.598	70.30	42,155.000	77.23

The Personal Banking Division channelled its excess funds to the Corporate Banking Division and the Treasury, making low cost funds available for their lending and investments.



Treasury

Products

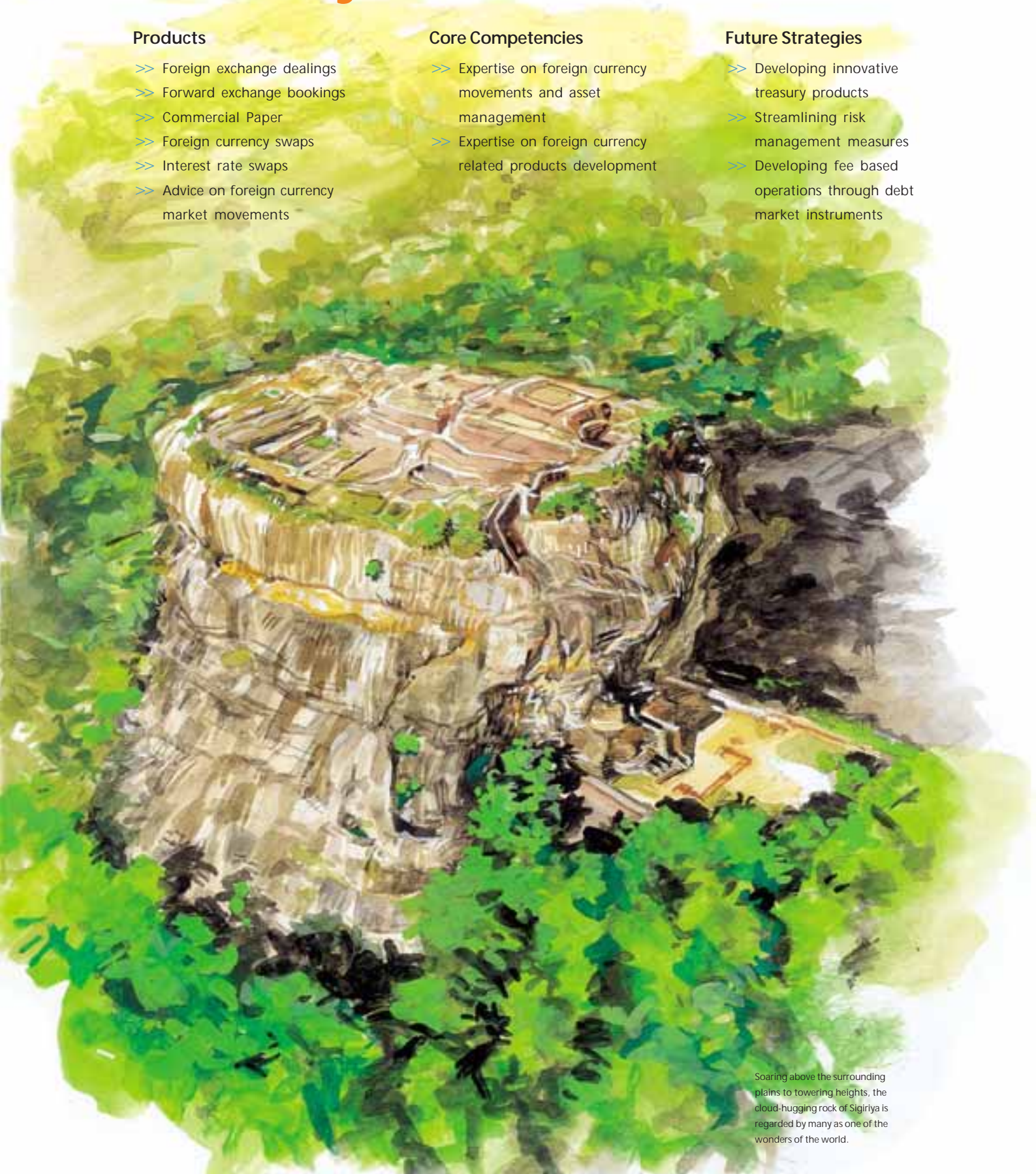
- >> Foreign exchange dealings
- >> Forward exchange bookings
- >> Commercial Paper
- >> Foreign currency swaps
- >> Interest rate swaps
- >> Advice on foreign currency market movements

Core Competencies

- >> Expertise on foreign currency movements and asset management
- >> Expertise on foreign currency related products development

Future Strategies

- >> Developing innovative treasury products
- >> Streamlining risk management measures
- >> Developing fee based operations through debt market instruments



Soaring above the surrounding plains to towering heights, the cloud-hugging rock of Sigiriya is regarded by many as one of the wonders of the world.

Treasury

Treasury operations include Foreign Exchange positions, funding operations and Primary Dealer operations. Commercial Bank is a leading participant in the Sri Lanka Foreign Exchange Market acting as a “Market Maker” in the segment of standard forex and interest rate dealings. The Bank also participates in the open market operations conducted by the Central Bank of Sri Lanka (CBSL) and in the money market.

The contribution of the Treasury Division can be summarised as follows:

	2003		2002	
	Rs. Mn	%	Rs. Mn	%
Profit before Tax	204.014	10.44	80.479	5.28
Asset Portfolio	31,779.799	28.82	15,740.377	21.46

The Treasury made this strong contribution while maintaining a substantially good transfer price to the branches.

As a result of the reduction of inflationary pressures and the good economic growth in 2003, the CBSL continued its policy of easing the interest rates. Basic interest rates were reduced four times during the year under review. The total reduction in Repo and Reverse Repo rates were 275 basis points and 325 basis points respectively. The Overnight Repo and Reverse Repo rates stood at 7.00% and 8.50% respectively as at December 31, 2003.

As in 2002, the relatively high levels of real interest rates and expectation that interest rates would drop further, increased the demand for medium to long term Treasury Bonds.

The Foreign Exchange Market was shaped by the influx of portfolio capital to equity markets and capital funds from multilateral agencies and donor countries. For the year as a whole, the rupee depreciated marginally against the US Dollar by 0.2% but significantly against other major international currencies: Euro 16.8%, Japanese Yen 9.8% and Sterling Pound 10.0%. This coupled with the decline in domestic inflation resulted in the depreciation of the 24 currency basket of the Real Effective Exchange Rate by 5.7% in 2003 thereby creating an external competitiveness for the Sri Lankan rupee.

The activities of the Treasury centred around mostly on Foreign Exchange Spot, Forward and Swap transactions. Dealers actively participated in the Dollar/Rupee transactions in the interbank market. Cross currency transactions were confined to trade related transactions and funding operations.

The Dealers took time to interact with customers to advise them on Foreign Currency Exchange rate movements and on money market activities to help them reduce the adverse effects of cross currency movements and enhance their capacity to reap better profits on the Forex and Money Market activities.

Commercial Bank Primary Dealer Limited (CBPDL), continued its activities in the Treasury Bills and Treasury Bonds Market, taking part aggressively in the Secondary Market trading. CBPDL is considered a key player and a “market maker” in these products in the inter Dealer Market, with the introduction of Bloomberg Trading Platform in November, 2003.

CBPDL continued to popularise the Government Securities among the masses. It also took the initiative to create awareness among staff and customers on the new developments in the market, such as the Real Time Gross Settlement (RTGS) and the Scripless Securities Settlement System (SSSS) which will eventually eliminate the settlement risks between counterparties and investors.

These measures enabled CBPDL to record a substantial increase in the portfolio, income and profitability. Profit before tax and special VAT for 2003 was Rs. 308.273 million as against Rs. 229.834 million recorded in 2002.

In 2004, the Treasury will implement a computer system with straight through processing of all transactions, linking the Front, Middle and Back Office operations to the Core Banking System on an on-line real time basis thereby reducing the process time and providing information on a real time basis through the Branch network. Introduction of the Middle Office concept will enable us to upgrade our risk management system and to refine risk management and compliance.

A goldmine of expatriates

Today the United Arab Emirates and Oman are bustling modern states. Almost seventy five per cent of their populations are expatriates and a big slice of this, South Asian.

This expatriate population, with its close financial and other links with South Asia, is what the Bank hopes to tap.



Information Technology

The major achievement with respect to IT during 2003 was the upgrading of the Bank's Core Banking application system, ICBS, to its latest version 7.2.

The upgrade was successfully completed on the back-end host (IBM eserver - i series) and the corresponding upgrade to the front-end at the branches would continue throughout this year and would be completed in 2005.

The new front-end is Microsoft Windows based and the migration to the new front-end software would enable the integration of all desktop applications and services thereby enhancing the capabilities of the teller at the branches. The new version of the software has many new features which would directly benefit customers.

The Bank continued with its exercise of upgrading the speed of the communication links between the branches and the Head Office and now out of 116 branches, 86 are on high speed. The rest of the branches would be upgraded to high speed during 2004. Converting to high speed would significantly improve the response time experienced at the branches which again would directly improve customer service.

The major challenges for 2004 would be the linking of the Bangladesh branches to Colombo via satellite and the implementation of the ICBS system in Bangladesh. An ATM network would also be set up in Bangladesh. The contingency arrangements would be significantly strengthened during 2004 to enable the Bank to provide uninterrupted computing services to local and overseas branches. A separate IT Security division would be set up within the IT department to ensure that all systems and networks are secured to international standards.

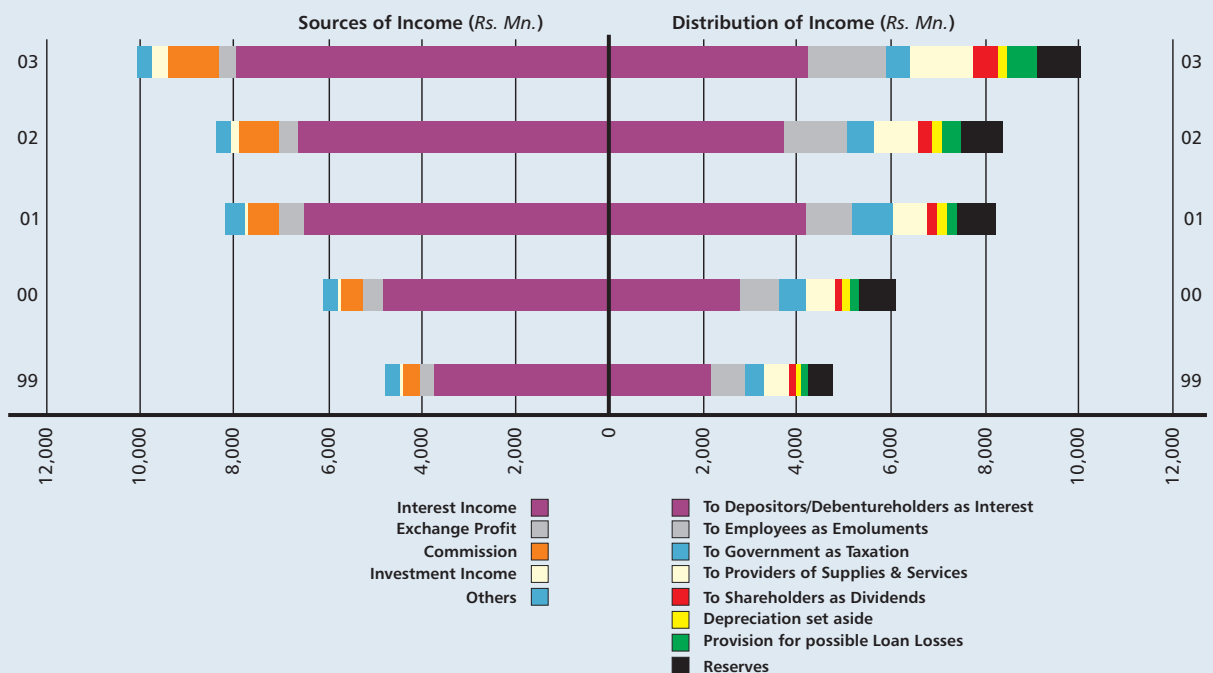
The Bank continues to operate the largest single computer network in the country with all of its 116 branches and 166 ATMs connected online to the main computer at the Head Office.



Banking in the Roof of the World

Tibet: the roof of the world. Shrouded in mist and secrecy, it possesses some of the most astounding scenery in the world. Our goal: to take state-of-the-art commercial banking to the roof of the world.

Sources and Distribution of Income



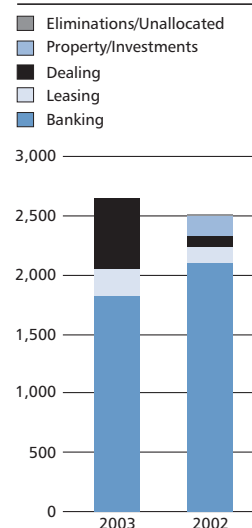
Sources and Distribution of Income					
For the year ended December 31,	2003	2002	2001	2000	1999
	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.
Sources of Income					
Interest Income	7,931	6,613	6,510	4,796	3,762
Exchange Profit	397	464	563	421	274
Commission Income	1,051	824	636	505	359
Investment Income	401	179	55	41	57
Others	279	284	439	333	292
	10,059	8,364	8,203	6,096	4,744
Distribution of Income					
To Depositors/ Debtentureholders as Interest	4,218	3,747	4,174	2,776	2,158
To Employees as Emoluments	1,697	1,312	1,022	819	728
To Government as Taxation	753	579	853	583	406
- Income Tax	477	321	315	214	151
- Turnover Tax	-	-	52	50	39
- National Security Levy	-	257	486	319	216
- Debits Tax	4	1	-	-	-
- Special VAT on profits	272	-	-	-	-
To Providers of Supplies & Services	1,069	920	726	640	557
To Shareholders as Dividends	538	327	221	157	139
Depreciation set aside	222	200	181	162	121
Provision for possible Loan Losses	623	402	237	180	116
Reserves	939	877	789	779	519
	10,059	8,364	8,203	6,096	4,744

Strategic Direction

In keeping with the new Vision and the Mission of the Bank, the strategic direction for the Bank has been clearly identified and laid down in the Corporate Plan and the Budget, which has received the approval of the Board after deliberating on it in depth. The Corporate Plan and the Budget of the Bank, prepared each year on a rolling basis, spell out the goals and objectives for each major strategic business unit of the Bank such as Corporate Banking, Personal Banking, Treasury etc. and the detailed action plans for the achievement thereof along with the specific time frames. Over the years, the Corporate Plan and the Budget has immensely contributed in building up the target driven culture across the Bank leading to superior performance, the Bank is proud of today.

Priorities identified in the Corporate Plan to be implemented in the medium term include deepening the customer focus, consolidating the operations in Bangladesh, expanding our overseas operations in the other countries in the SAARC Region thereby reducing the over dependence on the Sri Lankan economy further, establishing a niche market in the exchange remittances from the Middle East, Europe and the Far East, expanding credit and support services to the SME sector, increasing the contribution from fee based operations, identifying the ways to maximise the synergies and the shareholder value by working in close association with the major shareholders, making the maximum use of the distribution network spanning over 116 Delivery Points and 166 ATMs, growth through business acquisitions, pension reforms etc.

Graphical Illustration of Segment Performance
(Rs. '000)



Penetrating the Bamboo Curtain
Burma's beauty is legendary, so are its natural resources. It counts over 135 nationalities and boast of some of the finest natural resources. To many it symbolises Asia, with its diversity, its rich heritage and ample resources. One day we hope we can penetrate the Bamboo Curtain with our state-of-the-art network.

Social Impact Report



Building Value for our Stakeholders

Last year we pioneered Triple Bottom Line Corporate Reporting in this country. We did this because we believe that as a major corporate we must provide information in some detail on the impact of our activities on the larger society. Triple Bottom Line Reporting provides all our stakeholders with an integrated assessment of the Bank in a financial, social and environmental context.

Corporate entities do not function in a vacuum. While they add value to the lives of the larger public, they also depend on their interactions with the larger public to add value to their entities. This two-way dynamic constantly changing relationship between a corporate entity, its customers and the larger public is a vital aspect of modern commerce.

We respect and value this relationship and believe that it should be nourished. Corporate interests are as important as corporate responsibilities and that is why this year again we report on social and environmental indicators as well, apart from the Bank's financial bottom line.

As part of its larger responsibilities, the Bank has got closely involved in UN Secretary General Kofi Annan's 'Global Compact' initiative. The initiative was launched by Secretary General Annan in January 1999, at the World Economic Forum held in Davos, Switzerland in an attempt to develop a wider social responsibility among all corporate entities around the world.

The 'Global Compact' involves a commitment to integrate labour standards, human rights and environmental practices into workplaces and corporate business environments. We have been collaborating closely with the Employers' Federation of Ceylon (EFC) in this regard.

Our Growing Stakeholders

Companies have traditionally reported to their shareholders. Shareholders as contributors to a company's capital have the right to have the first bite at the cherry so to speak. But in today's globalized commercial world, shareholders are not the only stakeholders in a company. Customers, employees, their families, public interest groups, regulators and ordinary members of the public also have an interest in seeing how a company performs.

Their interest is heightened in an area like the banking industry since a bank's activities tend to have more of an impact on people's lives than some other corporate activity. The failure of a few financial institutions in this country has resulted in the public being even more watchful of financial institutions. As the No. 1 Private Bank in this country we know that we have an obligation to converse with our diverse stakeholders and tell them how the Bank's activities are adding value to their lives.

Shareholders have also come to realize that shareholder value is dependent on how society and groups within society perceive the Bank. Shareholder value is dependent on how employees and their families perceive the Bank. A healthy relationship between the Bank and its diverse stakeholders builds value to all the stakeholders in general, while generating direct monetary benefits to the shareholders.



Dexterity, Design and Dedication

South Asia's human resources are among the world's most skillful. This skill is evident in their art, their ceremonies of worship and now in their industry. It is in South Asia that centuries of learning are beginning to combine with modern scientific advancement and technological accomplishment.

Work and Family

The Bank sincerely acknowledges the invaluable contribution made by our staff in its quest to reach the top in the business world, "The Best Bank" and "The Best Corporate - 2002" in Sri Lanka. Our Bank as a model employer has always endeavoured to harmonise the goals of the business with the aspirations of our staff.

The relationship between a person's work and his or her family sometimes tends to be a relationship of conflict. Family often believes that work is taking priority and work tends to see family as an intrusion. This however, need not always be the case. Work and family are two aspects of a person's life and should be seen as mutually reinforcing aspects of any individual's lifestyle.

This year we would like to draw your attention to two aspects of the Bank's policy on work and the

family. The first is our attempt to create a sense of family and community among our employees. Our 'One Bank One Family' policy has tried to do this by encouraging employees to communicate with each other across units and management divisions. We have encouraged our community of employees to converse with each other to learn about the others' tasks and roles and to develop an understanding and empathy about fellow employees.

The second part of our policy is an attempt to develop a healthy balance between a person's professional obligations and his or her personal commitments. These are both so closely linked to each other and a high performance in one can only bolster or fuel the other.

An employee's productivity is linked very closely with his or her sense of personal fulfilment. A secure and harmonious family life can only enhance productivity. Similarly a sense of well being and professional satisfaction can potentially also lead to closer and deeper personal and family relationships. The Bank has tried to encourage employees to develop this balance and we have tried to promote this in many things we do. We do not want to encourage a sense of 'workaholism' but rather a sense of satisfaction, a sense of esteem in oneself, and personal fulfilment for every employee.

We are also conscious that the modern employee is a different sort of animal to his or her predecessor. Technology and the luxuries of modern living have changed employee values and aspirations significantly. We have to respond and be sensitive

to groups of people whose attitudes to work and career are quite different to those that their parents exhibited for example. It is a challenge for the Bank and we have accepted this challenge, nourishing and motivating our 2,648 employees.

We know that while employee attitude has changed radically we also need

We had a number of specific activities to foster a spirit of community among our family of Bank employees during 2003. This included the Inter Branch and Department Quiz Competition held in November 2003 for the third successive year. As is usual the competition was followed by entertainment and fellowship.

In addition to these specific activities, our publications 'Comlink', 'Comnews' and 'Cominfo' also help forge a spirit of community among our 'employee family' and keep them all informed of events and activities within the Bank. Apart from the sharing of information, these publications also contain a number of concise pieces on leadership and personal development. Staff from around the country are regular contributors.



Our 'Central Library' at the Head Office has undergone a significant transformation in recent

to instill in the employee a capacity to continuously change. The current era is an era of change: constant and incessant change. Unless the Bank as an institution and employees as stakeholders in the Bank, have the capacity to absorb this change, we will be left far behind. The capacity and the willingness to unlearn, learn and adapt are vital in today's deeply competitive world.

An essay competition for the children of our staff was held in July 2003. Children between the ages of 10 and 15 participated and theme was 'Peace in Sri Lanka'.

For the older children of our employees we held a career guidance seminar that gave them a flavour of the career options available to them and paths to those careers.

years. The library now boasts of a collection of over 5,000 books on a wide range of topics. In 2003, 669 new acquisitions were made. Apart from books, the library also subscribes to a variety of journals and periodicals.

The Central Library is helping regional libraries develop their collection and our goal is to have well stocked libraries in every major region in the country. Monthly video screenings are

held at the Head Office. Screenings took place on a variety of topics including managing time more effectively and TQM (Total Quality Management).

Workplace Co-operation

In 2002, the Bank adopted the concept of "Workplace Co-operation" initiated by International Labour Organisation (ILO), in that the Management and the Employee Organisations (Trade Unions) are encouraged to co-operate with each other through a process of dialogue. In pursuance of this participatory approach, our Human Resources Division initially arranged an update of this concept for the Corporate Management in April 2003. This was preceded by the nomination of representatives from the Management and three Trade Unions to a workshop organised by ILO and EFC to agree upon a mechanism to implement this concept in February 2003. This was followed by meetings of this group which identified common issues for resolution and a follow up workshop by ILO in October 2003. This approach is being pursued vigorously towards ensuring that common issues are resolved on this basis.

Continuation of Cordial Industrial Relations

The year 2003 signifies another important achievement in the sphere of industrial relations for the Bank. The Bank successfully negotiated three Collective Agreements pertaining to the categories of: a) Banking Assistants/allied grades and minor staff, b) Executive Assistants and c) Junior Executive Assistants for a period of 3 years commencing April 1, 2003.

Accordingly, these categories of staff received a 15% salary increase for the first year of the Agreement and would receive further salary increases of 7.5% and 5% respectively for each of the following two years, in addition to enhancement of welfare facilities.

Through the process of Collective Bargaining, whilst granting salary enhancements and improvement of other conditions, the Bank was able to agree with the Trade Unions on certain important measures which would benefit the Bank in the long-run. The enrichment of the job of Junior Executive Assistant (formerly Banking Assistant) making it a part of the Executive cadre, introduction of the non-pensionable service, amalgamation of COLA with the salary and linking the annual salary enhancement to the level of performance were some of the significant changes that would benefit the Bank and the employees in the long-run.

Both parties were able to arrive at a mutually satisfying settlement within a comparatively short period of negotiations. The success of the bargaining process was mainly due to the adoption of an interest based bargaining strategy where both parties understood the interest behind the respective positions and made every effort to reconcile opposing interest instead of experiencing a deadlock.

Staff Loyalty and Productivity

With the aim of improving the staff loyalty and productivity further, the Bank has so far offered 10% of the share capital to its staff under two



A Passion for Work

Despite the grinding poverty, South Asia's people have shown a passion for work that few other continents can match. Their willingness to be trained and to give 'more than their best' is now attracting the big names in global commerce.

different Employee Share Ownership Plans. The first one was offered in 1997 by acquiring 5% of the Bank's issued ordinary voting share capital from the Standard Chartered Bank (SCB) through a share trust, when SCB decided to divest its historically owned 40% stake in the Bank. The second one was offered in 2003 by acquiring another 5% of the Bank's issued ordinary voting share capital from the Sri Lanka Insurance Corporation Ltd. (SLIC) through a share trust, when SLIC decided to divest a 20% stake in the Bank, prior to its privatisation. In addition, in terms of an Employee Share Option Plan set up in 2002, employees in Executive Officer Grade III and above are given share options for 5% of the issued ordinary voting share capital of the Bank in four equal tranches, provided certain pre-defined performance targets are met. The options under the first tranche for 1.25% of the shares were offered in April 2003.

During the year, the Research & Development Unit of the Bank in collaboration with the Bank's SDC conducted a comprehensive "Staff Satisfaction Survey". This Survey

which was based on a representative sample of 500 employees of the Bank was carried out with a view to ascertain the current levels of employee satisfaction and morale and thereby identify the areas that need to be addressed.

Being mindful of the high levels of stress prevalent among the employees in the banking industry, the Bank set up a gymnasium for the benefit of its senior executives to help them exercise, unwind and relax after work.

Staff Development Centre

From Local to Regional

Our SDC has undergone a radical transformation in a matter of two years. Previously our focus for many years had been on training the Bank's staff and on producing the 'winning combination' year after year. In 2003 we conducted 169 programmes that involved 7,305 participants.

We have now equipped our SDC with skills and resources that few other centres can match. We have decided to set our horizons wider, and to look at transforming the Centre into a Strategic Business Unit and extend its activity beyond the parameters of the Bank and to provide its products and services to other corporate entities as well.

There are two trends that we have taken note of. The first is the change that our customers are going through. Customers are increasingly demanding in relation to our products and the standard of care they receive. They demand products that cater to their individual lifestyles and aspirations.

Coupled with this trend is the increasing competition as the idea of 'universal banking' gathers momentum. Standards of products, internal systems and customer care have to be on par with the world's best. Our training facility is gearing its programmes to meet these global trends.

As an integral part of the strategy to realise the Vision of the SDC, "To become the Centre of Learning Excellence in Sri Lanka", the Bank has forged synergistic alliances with prestigious centres of training such as the Asian Institute of Technology (AIT), Bangkok, Thailand, in order to bring high quality training programmes at affordable costs within easy reach of Sri Lankan corporates. The partnership with AIT, which began in November 2002, has unleashed a new wave of energy and has helped us to become a truly world-class training facility.

Management Development Programmes in Bangkok

The highlight of the past year was the two programmes on 'Business Leadership in an Uncertain Environment' conducted in collaboration with AIT in Bangkok. This was the first time the Centre had conducted training programmes in a foreign location and the response was overwhelming.

Twenty-seven middle and senior level managers from a number of companies in the banking, leasing, insurance, manufacturing and service sector participated in the first programme held in early November.

Encouraged by the positive feedback we had, we did a similar programme for another 30 managers in early December, also in Bangkok. The training programme was developed, based on identified training needs among middle level managers in the corporate world in this country.

Earlier in the year the Centre conducted eight programmes in Sri Lanka for a variety of staff from leading private sector companies. Seven of these involved resource persons from overseas. In all, 10 major programmes were held for staff from outside the Bank during 2003.

Developing our Regional Training Centres

In the year 2003, we established our first two regional training offices. These two offices, located in Galle and Kandy, will provide us with an opportunity of devising more flexible training opportunities for our regional staff. We envisage a close collaboration between the Regional Offices and the SDC in Colombo in designing relevant programmes. Our objective is to create a learning culture that encompasses every aspect of our institution and every branch.

Training our 'Outsourced' Staff

Over the years we have progressively begun to outsource a number of functions. The rewards have been hugely satisfying. We are now moving to the next phase of developing specially tailored programmes for our outsourced staff enabling them to take their skills and expertise to a higher level.

The benefits are mutual: while the 'outsourced' staff enhance their knowledge and capabilities, they in turn enrich the Bank by beginning to provide a higher level of service.

Going Global

The first step in becoming a global training facility has already been taken. The SDC has begun to develop programmes for our Bangladeshi operations and we expect to train staff from all over South Asia over the next few years.

Human Resource Accounting

The non-human capital is recognised as an asset in the books of account whereas the human capital is totally ignored. However, the definition of wealth as a source of income inevitably leads to the recognition of human capital as one of several forms of wealth such as money, securities and physical capital. It is encouraging to note that more and more firms are gradually moving towards recognising their human resource as a form of wealth.

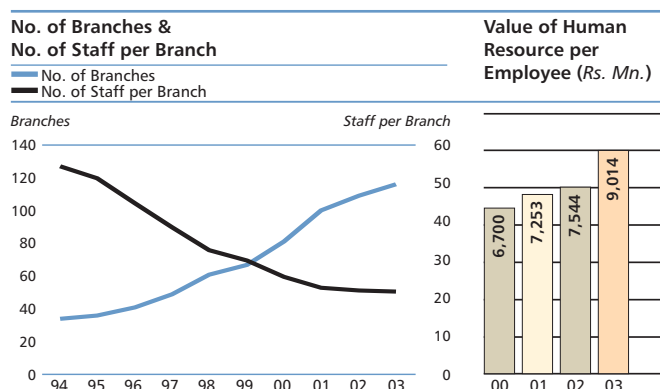
The Lev & Schwartz model has been used to compute the value of the Bank's human resource as at December 31, 2003.

The Human Resource Valuation is based on the following assumptions:

1. All the existing employees will continue in employment up to retirement.
2. Employee remuneration includes all direct and indirect benefits earned by them.
3. Annual increment is granted at 8% - 10% p.a. on average.
4. Total future remuneration of all the employees for each year is discounted to the present value at 10%.

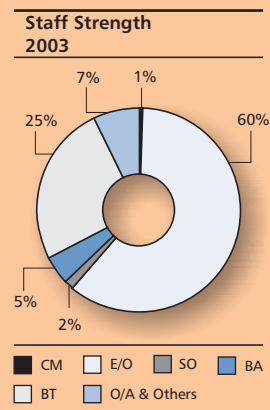
Commercial Bank continues to maintain the leading position in terms of people productivity. This is confirmed by the following indicators:

	2000	2001	2002	2003
Employees per branch	24	23	22	22
Income per employee (Rs. '000)	2,949	3,631	3,486	3,799
Profit before tax per employee - (Rs.'000)	556	587	636	739
Assets per employee (Rs. '000)	24,001	26,160	30,576	41,646

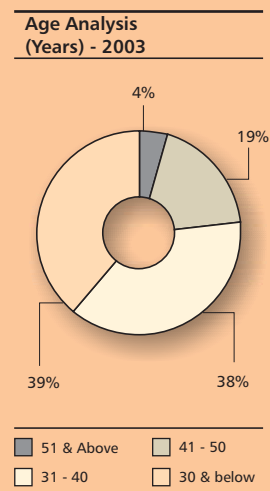


Year	No. of Employees	Total Value of Human Resource	Value of Human Resource per Employee
		Rs. '000	Rs. '000
2003	2,648	23,867,760	9,014
2002	2,399	18,098,299	7,544
2001	2,259	16,383,868	7,253
2000	2,067	13,849,053	6,700

Staff Strength					
As at December 31,	2003	2002	2001	2000	1999
Corporate Management (CM)	14	14	14	15	12
Executive Officers (E/O)	1,606	787	715	564	389
Staff Officers and Allied (SO)	42	23	30	89	235
Banking Assistants and Allied (BA)	120	813	905	1,017	1,155
Banking Trainees (BT)	672	574	402	183	-
Office Assistants and Others (OA)	194	188	193	199	205
Total	2,648	2,399	2,259	2,067	1,996

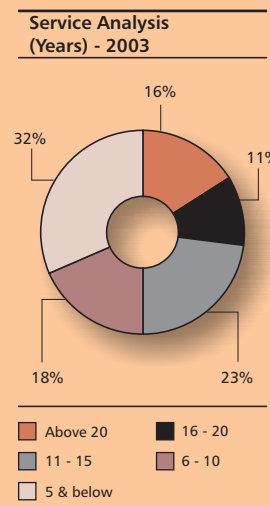


Age Analysis of the Staff as at December 31								
Age Group (Years)	Corporate Mgt.	Executive Officers	Staff Officers & Allied	Banking Asst. & Allied	Banking Trainees	Office Asst. & Others	2003 Total	2002 Total
Above 60	-	3	-	-	-	-	3	1
51 - 60	12	74	2	2	-	24	114	71
41 - 50	2	363	12	30	-	87	494	440
31 - 40	-	841	18	79	4	62	1,004	918
21 - 30	-	325	10	9	667	21	1,032	969
20 & below	-	-	-	-	1	-	1	-
	14	1,606	42	120	672	194	2,648	2,399



Average age of the employees as at December 31, 2003 was 33.9 years (2002 - 33.9 years)

Service Analysis of the Staff as at December 31								
Age Group (Years)	Corporate Mgt.	*Executive Officers	Staff Officers & Allied	Banking Asst. & Allied	Banking Trainees	Office Asst. & Others	2003 Total	2002 Total
Above 20	10	320	4	12	-	84	430	418
16 - 20	1	223	13	20	-	25	282	248
11 - 15	1	523	8	36	-	46	614	602
6 - 10	1	411	4	44	-	22	482	470
5 & below	1	129	13	8	672	17	840	661
	14	1,606	42	120	672	194	2,648	2,399



Average service of the employees as at December 31, 2003 was 11.7 years (2002 - 11.6 years)

The service of the employees absorbed from Eastern Bank Ltd. and Mercantile Bank Ltd. is also included.

* Inclusive of Management Trainees, Confidential Secretaries, Executive Assistants, Junior Executive Assistants and Employees on Contract.

Sustainability as Solid as our History



Innovation is second nature
The ability to innovate is a feature of South Asian life. Amidst the 'hard life' is the capacity to smile and to make 'small things' go a long way. Here Rajasthani women carry water for the cleaning of a 15th century Jain temple in Ranakpur.

The Bank's policy has been to observe the highest levels of ethics and fairness in its relations with both customers and competitors. For the Bank it has not been a case of building shareholder value at any cost, but rather participating in a process of creating value through fair and ethical means. Sustainability is a vital cog in our machine.

Our new products have all conformed to the highest standards of fairness. Holiday Banking and Supermarket Banking pioneered by the Bank have brought in new segments of customers and have enabled us to offer more customer friendly banking facilities.

Through the DotCom and DotCom Spin Saver accounts the Commercial Bank is giving teenagers the opportunity of operating an ATM facility, with all the advantages it brings. The introduction of several off-site ATMs and additional ATMs to branches where usage is heavy has made 24 hour banking available to a bigger group of customers than before.

Liquidity

The liquidity policy of the Bank has always been to carry a positive mismatch in the interest earning assets and interest bearing liabilities in the 1 to 30 day category. Our liquidity remained at optimum levels during the year. The Liquid Assets Ratio stood at 23.95% in December 2003.

The Assets and Liabilities Committee (ALCO) of the Bank monitored the situation on an ongoing basis and took appropriate decisions to maintain a satisfactory trade-off between liquidity and profitability. The profitability of the Bank as reflected in the Financial Statements bears testimony to the success of the ALCO measures.

Dividends

The dividend policy of the Bank has always been to pay a decent dividend to its shareholders while ploughing back sufficient profits for funding the expansion of operations and services. The profits so ploughed back undoubtedly help the Bank in performing even better and in

increasing the Net Assets Value of the shares. As a result of this prudent dividend policy, the Bank has been able to build up its shareholder fund base to satisfactory levels. In fact, the Commercial Bank has the highest amount of free capital among the peer banks in the country today.

Considering the excellent performance achieved by the Bank in the year under review, the Board of Directors recommend a total dividend of 50% for the year (of which 18% was paid in December 2003 as an interim dividend), which is at the same rate as last year.

Risk Management

A well-structured Risk Management System is in place within the Bank to address all types of risks relating to Market, Credit and Operations. The Commercial Bank employs a Committee approach to Risk Management. The Assets and Liabilities Committee and the Credit Committee regularly meet to review the market and credit related

factors and recommend and implement suitable measures to counter associated risks.

Appropriate internal control measures and contingency plans are in place to address operational risks. The Board of Directors too reviews the progress of the Risk Management measures half yearly through a paper submitted to them.

Detailed risk management measures in place are given in the article on Risk Management on page 53 of this Report.

Resource Efficiency

Deposits and Shareholders' Funds represented the two biggest resources of funds for the Bank, accounting for 68.18% and 10.59% respectively of the total liabilities and shareholders' funds as at December 31, 2003. Hence, mobilising deposits from stable and low cost sources and the prudent investment of the funds available to earn the optimum return is imperative for improving the profitability of the Bank.

Through careful planning and application of prudent policies in relation to the payment of dividends and expenditure on capital items and investments the Bank ensured that the Shareholders' Funds, the Free Capital and the Single Borrower Limit continued to grow. Total Shareholders' Funds, Free Capital and the Single Borrower Limit were Rs. 11,683.957 million, Rs. 4,900.674 million and Rs. 3,438.323 million respectively as at December 31, 2003.

Capital Adequacy

Capital Adequacy as a measure of prudence seeks to limit the extent to which banks can expand their business in terms of *risk weighted assets*.

Given the positive relationship between the risks and rewards and the fact that the banks are profit-oriented organisations, they like to expand their operations by acquiring property, plant and equipment, opening branches, mobilising more deposits, providing more loan facilities and investing in various other assets, in order to maximise the profits and thereby enhance shareholder value.

Regulatory capital requirements are therefore necessary to prevent banks from expanding beyond their ability to manage (over trading), to improve the quality of banks' assets, to control the ability of the banks to leverage their growth and to lead to higher earnings on assets. The Bank is always mindful of these purposes for which Capital Adequacy Ratios have been introduced and maintain the ratios at comfortable levels.

Up to December 2002, Capital Adequacy Ratios were in force only on the business operations of the Domestic Banking Units. This led to an overstatement of the Capital Adequacy Ratios of the banks since the assets base of their Off-shore banking business operations were completely excluded. The Capital Adequacy Requirement was extended to the Off-shore Banking Units as well from 2003 at half the DBU rates and

with effect from December 2004 at the DBU rates. As we noted above, though not statutorily required, Commercial Bank has in fact been computing and monitoring this requirement on both units as well as on a consolidated basis for sometime. As a result, the Bank is in a position to fall in line with this new requirement comfortably.



A Market of Millions

With a fifth of the world's population, South Asia is today one of the most challenging markets for all industries. While change is like an electric current in many senses, in others senses, many things remain static. Here a young Pakistani waits for change in the country's mountain regions.

COMPUTATION OF CAPITAL ADEQUACY RATIOS

Computation of Risk-Weighted Assets

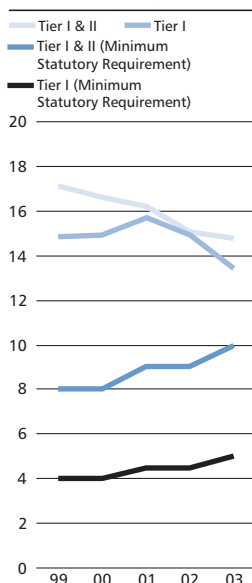
As at December 31,

On-Balance Sheet Items

Balance

ASSETS	Balance		Risk-Weight Factor (%)	Risk-Weighted Balance	
	2003 Rs.'000	2002 Rs.'000		2003 Rs.'000	2002 Rs.'000
Cash, Statutory Deposit with Central Banks, Treasury Bills, Government and other Securities	19,830,312	19,867,278	-	-	-
Loans secured by Cash and guaranteed by Central Bank of Sri Lanka	8,086,963	6,014,848	-	-	-
Loans guaranteed by SLECIC	17,801	8,307	50	8,901	4,154
Loans secured by Primary Mortgages over Residential Property	3,338,231	2,733,843	50	1,669,116	1,366,922
Other Loans and Advances	55,496,582	32,053,028	100	55,496,582	32,053,028
Credit Equivalent of Off-Balance Sheet Items (as shown below)	7,236,234	4,465,929	100	7,236,234	4,465,929
Due from Banks Abroad	6,766,676	690,155	20	1,353,335	138,031
Due from Local Banks including Development Financial Institutions	10,000	-	20	2,000	-
Due from Off-shore Banking Centre	-	2,413,167	10	-	241,317
Cash Items in the process of collection	27,711	35,204	20	5,542	7,041
Investments excluding Investments in Financial Associates	1,103,998	825,941	100	1,103,998	825,941
Property, Plant and Equipment	1,876,881	1,753,125	100	1,876,881	1,753,125
Other Assets	2,261,855	4,706,565	100	2,261,855	4,706,565
TOTAL	106,053,244	75,567,390		71,014,444	45,562,053

Capital Adequacy Ratio (%)



Credit Equivalent of Off-Balance Sheet Items

INSTRUMENTS	Balance		Credit Conversion Factor (%)	Risk-Weighted Balance	
	2003 Rs.'000	2002 Rs.'000		2003 Rs.'000	2002 Rs.'000
General Guarantees of Indebtedness (Credit Guarantees and Advance Payment Guarantees)	3,343,850	2,581,025	100	3,343,850	2,581,025
Performance Bonds, Bid Bonds and Warranties	1,854,904	911,212	50	927,452	455,606
Shipping Guarantees	5,665,226	1,342,381	20	1,133,045	268,476
Documentary Letters of Credit	6,272,812	4,380,611	20	1,254,562	876,122
Usance Bills	2,613,569	1,290,226	20	522,714	258,045
Bills for Collection	4,887,788	3,050,595	-	-	-
Foreign Exchange and Interest Rate related Contracts:					
Customers	55,615	11,300	50	27,808	5,650
Banks	134,014	105,025	20	26,803	21,005
TOTAL	24,827,778	13,672,375		7,236,234	4,465,929

Computation of Capital

	2003 Rs.'000	2002 Rs.'000
TIER I : CORE CAPITAL		
Paid-up Ordinary Shares	696,502	417,901
Share Premium	2,182,881	560,902
Statutory Reserve Fund	1,009,000	1,009,000
Published Retained Profit	204,494	310,722
General and other Reserves	5,433,789	4,494,296
Minority Interest	13,303	12,830
Less: Goodwill	-	-
Total Tier I Capital	9,539,969	6,805,651
TIER II : SUPPLEMENTARY CAPITAL		
Revaluation Reserve (as approved by the Central Bank of Sri Lanka)	157,286	157,286
General Provisions	117,039	71,125
Approved Subordinated Term Debt	1,795,528	100,000
Total Tier II Capital	2,069,853	328,411
Total Capital	11,609,822	7,134,062
Deductions		
Investments in Banks and Financial Associates	1,078,726	268,101
Capital Base	10,531,096	6,865,961

Computation of Ratios

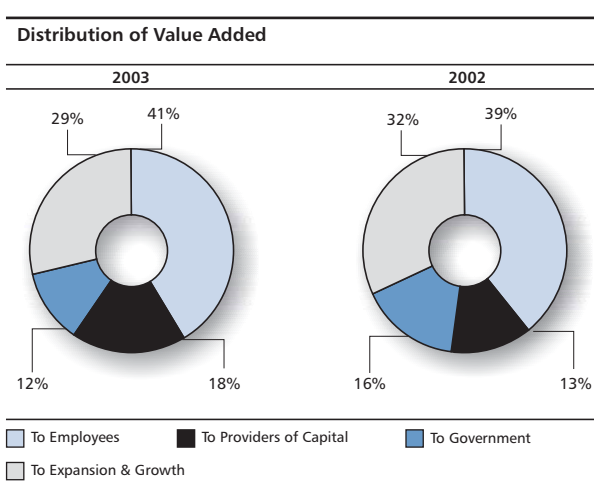
	2003 Rs.'000	2002 Rs.'000
Total Tier I: Core capital	9,539,969	6,805,651
Capital Base	10,531,096	6,865,961
Total Risk Weighted Assets	71,014,444	45,562,053
	%	%
Core Capital Ratio - Tier I (Minimum required Ratio is 5%) (4.5% in 2002)		
$\frac{\text{Core Capital}}{\text{Risk-Weighted Assets}} \times 100$	13.43	14.94
Total Risk Weighted Capital Ratio - Tier I & II (Minimum required Ratio is 10%) (9% in 2002)		
$\frac{\text{Capital Base}}{\text{Risk-Weighted Assets}} \times 100$	14.83	15.07

Risk-Weighted Assets

- Loans and Advances are net of specific provisions and interest in suspense.
- Total assets do not tally with the Balance Sheet mainly due to differences in treatment on securities sold under re-purchase agreements and investments in capital of other banks/financial institutions in the capital adequacy computation.

Value Addition

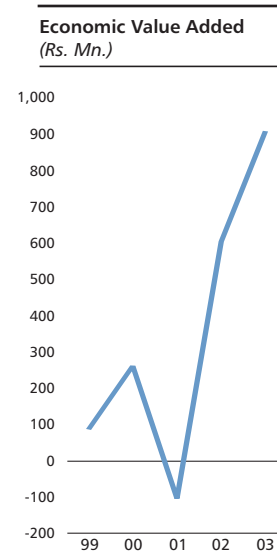
	2003		2002	
	Rs.'000	%	Rs.'000	%
Value Added				
Income from Banking Services	9,455,253		8,135,538	
Cost of Services	(5,371,991)		(4,599,704)	
Value Added by Banking Services	4,083,262		3,535,834	
Non-Banking Income	603,854		228,652	
Loan Losses and Provisions	(623,207)		(401,972)	
	4,063,908		3,362,514	
Distribution of Value Added				
To Employees				
Salaries and other benefits	1,697,451	41.77	1,311,564	39.01
To Providers of Capital				
Dividends to Shareholders	537,918		326,803	
Interest to Debentureholders	186,288		67,627	
	724,206	17.82	394,430	11.73
To Government				
Income Tax	472,808		243,000	
Turnover Tax	-		-	
National Security Levy	-		257,190	
Debits Tax	3,569		1,457	
	476,377	11.72	501,647	14.92
To Expansion and Growth				
Retained profit	939,568		877,212	
Depreciation	222,006		199,661	
Deferred Taxation	4,300		78,000	
	1,165,874	28.69	1,154,873	34.35
	4,063,908	100.00	3,362,514	100.00



Economic Value Added

Economic Value Added (EVA) is a measure of profitability which takes into consideration the cost of total invested equity.

	2003 Rs. '000	2002 Rs. '000	2001 Rs. '000	2000 Rs. '000	1999 Rs. '000
Invested Equity					
Shareholders' Funds	11,683,957	7,754,657	6,744,881	5,047,529	4,268,287
Add: Cumulative Loan Loss Provision	1,653,751	1,084,155	765,681	596,234	548,993
	13,337,708	8,838,812	7,510,562	5,643,763	4,817,280
Earnings					
Profit after Taxation	1,477,486	1,204,014	1,009,967	935,955	658,479
Add: Loan Losses and Provisions	623,207	401,972	236,677	180,178	116,456
Less: Loan Losses Written Off	(81,588)	(19,550)	(7,913)	(3,805)	(36,750)
	2,019,105	1,586,436	1,238,731	1,112,328	738,185
Cost of Equity based on the 12 months weighted average Treasury Bill rate plus 2% for the Risk Premium	10.00%	12.00%	20.40%	16.25%	14.00%
Cost of average equity	1,108,826	980,962	1,341,741	849,960	652,886
Economic Value Added	910,279	605,474	(103,010)	262,368	85,299



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

In EVA terms, we have created Rs. 910.279 million during the year 2003 and over Rs. 1.700 billion over the past 5 years.

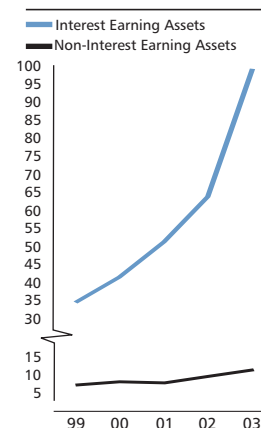
Maturity Analysis

The Assets and Liabilities Committee of the Bank closely monitors the maturities of assets and liabilities of the Bank.

A summary of the maturity pattern of the respective assets and liabilities is as follows:

Item	Maturity Period					Rs. '000	
	Up to 3 months	3 - 12 months	1 - 3 years	3 - 5 years	Over 5 years	Total 2003	Total 2002
Interest Earning Assets	55,561,288	18,006,667	14,004,937	7,388,496	3,862,046	98,823,434	63,709,811
Non-Interest Earning Assets	6,822,692	757,769	191,691	83,519	3,600,821	11,456,492	9,641,904
Total Assets	62,383,980	18,764,436	14,196,628	7,472,015	7,462,867	110,279,926	73,351,715
Interest Bearing Liabilities	55,086,867	17,022,287	3,276,490	3,849,724	2,454,777	81,690,145	52,237,504
Non-Interest Bearing Liabilities	16,551,687	106,836	906,555	1,247,300	9,777,403	28,589,781	21,114,211
Total Liabilities	71,638,554	17,129,123	4,183,045	5,097,024	12,232,180	110,279,926	73,351,715

Asset Mix (Rs. Bn.)



Corporate Governance

Its about the quality of life

Corporate activities have a tremendous impact on the quality of life of the people. Today, corporates determine the quality of air they breath, quality of water they drink, quality of food they eat and so on. Hence, corporates are accountable to the society at large. The role of a bank in this regard is perhaps wider than that of any other corporate.

The importance of corporate governance practices is amply demonstrated by the devastating impact the Asian financial crisis and the recent failures of corporate giants in the US and Europe had on the lives of millions and millions of people around the world. All these crises and failures are finally attributed to the absence of good corporate governance practices. Each corporate failure renews the focus on the importance of good corporate governance practices, bringing the topic closer to the heart to a broader audience world over. Corporates have to be alive to the lessons that these failures teach them and they should

wholeheartedly commit themselves to good corporate governance practices. Gradually, all the stakeholders are becoming more and more concerned with the direction and control of the corporates.

What has emerged as a result of this awakening is that the core principles of fairness, transparency, accountability and responsibility reflect minimum standards for acceptable corporate behaviour and provide legitimacy to the corporates, reduce vulnerability to financial crises and broaden and deepen access to capital. The expectations are therefore clear. The practical challenge for corporates is to work out how to fulfil these expectations in the wake of wide variety of legal, economic, ownership, social systems and uncertainties.

At Commercial Bank, corporate governance in essence is the enhancement of shareholder value whilst being ethical and accountable to



The Arrows of Change
Even Bhutan is being hit by the arrows of change. For many years it remained one of those impenetrable countries. Still closed to the modern world it treasures its history and traditions. Yet change is coming slowly as the country realises it must open its borders to reap the benefits of modern civilization.

the society and the environment - the Triple Bottom Lines.

As your representatives,

the Board of Directors ensures that the activities of the Bank are always conducted with the highest ethical standards and in the best interests of all its stakeholders.

2003 - A Special Year

Year 2003 was special to the Bank in terms of corporate governance. In order to further strengthen the good corporate governance practices already in place in the Bank by identifying the latest best practices around the world and implementing them wherever gaps were found, we evaluated our practices vis a vis the OECD Principles of corporate governance, which is acknowledged world over as an important initiative in this sphere, the Code of Best Practice

on corporate governance issued by The Institute of Chartered Accountants of Sri Lanka and the Code of Corporate Governance for Banks and Financial Institutions issued by the Central Bank of Sri Lanka.

We are happy to note that the majority of the principles and practices recommended in these codes are already in place in the Bank. Some of the practices not found to be in place in the Bank have been identified and corrective actions are being taken. We also believe that the amendments proposed to the Companies Act and the Banking Act will improve the legal infrastructure and the regulatory framework relating to corporate governance thereby enhancing the quality of governance practices both at the corporate as well as at the country level.

Enhancing Shareholder Value

Good corporate governance permeates all activities at the Commercial Bank. Enhancing shareholder value is one of the key objectives of good corporate governance. The current market capitalisation of Commercial Bank's shares, the Bank's track record on dividends and scrip issues bear ample testimony to our concerted efforts at enhancing shareholder value.

Ownership Structure

Ownership structure of the Bank underwent a major change during 2003 when the Sri Lanka Insurance Corporation Ltd., the largest shareholder of the Bank till then with 29.91% of the issued voting share capital divested 20% before its privatisation. The International Finance Corporation (IFC) acquired 15% thereof becoming the second largest shareholder of the Bank next to the DFCC Bank while the balance 5% was offered to the staff of the Bank under an Employee Share Ownership Scheme

through a share trust. This broadened the share ownership structure of the Bank.

The twenty largest shareholders of the Bank as at December 31, 2003 are given on page 115.

Board of Directors

The Board of Directors is in full control of the Bank's affairs and is also fully accountable to the shareholders. They firmly believe that the success of the Bank largely depends on the credible corporate governance practices adopted by the Bank. Statement of Directors' Responsibility for Financial Reporting is given on page 63.

Commercial Bank's Board of Directors comprise of nine Directors with one Executive Director who is the CEO and eight Non-Executive Directors. The profiles of the Directors are given on page 10 of this Report. Of these eight Non-Executive Directors, three are nominated Directors representing the two major shareholders, namely the DFCC Bank and the IFC. Bank's Articles of Association empowers a shareholder, to nominate one Non-Executive Director for each block of shares held which represent 12% of the issued voting share capital, subject to a maximum of two Non-Executive Directors, provided that the shareholder has obtained prior approval of the Monetary Board of the Central Bank of Sri Lanka for the shareholding and consent of the Board of Directors of the Bank for nominating rights, which may or may not be given at the sole discretion of the Board.

Though such nominated Directors are not subject to retire by rotation, the Board is entitled to remove any such Director, if they are of the opinion that such removal is in the best interest of the Bank, provided that the shareholder concerned is entitled to nominate another person as the nominated Director.

The remaining five Directors which include both the current Chairman and the Deputy Chairman are appointed by the shareholders at the Annual General Meeting. These five Directors retire by rotation but are entitled to be re-appointed by the shareholders at the Annual General Meeting.

The Directors of Commercial Bank are all professionals drawn from different disciplines and they have no material interest in shares or other business relationships with the Bank. They do not have vested interests and are therefore, in a position to add value and bring independent judgement to bear on the decision making process of the Company, free from any



Diversity at its best

Falconry is a huge sport in the Gulf. Large sums of money are paid for the best birds and the birds live lives of luxury. Here a wealthy Sheikh is about to hood a bird.

undue influence or control of other parties. The Board has implemented a self-assessment exercise covering the key functions under seven activities to assess the performance of the Board. Further, Non Audit Committee Board members assess the performance of the Board Audit Committee. On the advice of the Board, a separate Code of Ethics for Lending Officers is being developed.

A well-streamlined Management Information System (MIS) backed by the superior networked computer system is in place at the Bank enabling the Board of Directors to have timely access to financial and other information in relation to the functions and performance of the Bank. The Board has also established effective arrangements to ensure compliance with all applicable statutory and regulatory requirements. In addition, the Board also receives regular updates on the economic and business activities in the country with special emphasis on the banking and financial services sector. These inputs help them to arrive at well-informed decisions in the best interests of all the stakeholders of the Bank.

The Board regularly meets at their monthly meetings. In addition, special meetings are also arranged as required such as for deliberating on the Corporate Plan and the Budget etc.

The Board of Directors of Commercial Bank gives utmost priority to safeguard the interests of the Bank without leaving room for any conflict between their personal interests and those of the Bank. The Board also ensures that there is no such conflict of interests between the Bank and its stakeholders such as shareholders, customers and employees.

Commercial Bank - Model Corporate Citizen

Commercial Bank's Board of Directors continues to ensure that the Bank conducts itself as a model corporate citizen. Towards this end, they have specified corporate values for the Bank and stipulated a code of conduct/ethics for the employees ensuring that the employees maintain their dignity and integrity, building customer confidence in the Bank.

The Board has formulated proper checks and balances and controls. It also ensures that adequate technology, systems, procedures, and strategic planning are in place. The effectiveness of these systems is periodically reviewed by the Board and it also ensures that effective internal and external audit procedures are in place and these functions are carried out by independent and competent persons. The Board also reviews the reports arising from the internal and external audit and also monitors the progress of the Bank by evaluating the results against the budget and the industry performance.

The Directors have also put in place an effective risk management and compliance system so that no legal, banking, company, stock exchange and other regulations are violated.

The Role of the Management

Even though the Board of Directors is ultimately responsible for the operations and financial soundness of the Bank, the day to day management of the Bank, is entrusted with the Corporate Management of the Bank headed by the Chief Executive Officer. In this connection, the Board:

>> Appoints the Chief Executive Officer and Corporate Management,

defines their job responsibilities and plans for their succession.

>> Sets goals and objectives to the Chief Executive Officer and the Corporate Management and periodically assesses their performance. The Managing Director/CEO is entrusted with the management of the Bank's operations and he is fully accountable to the Board. The main corporate goals and objectives emanating from the Bank's Corporate Plan and the Budget are incorporated as personal goals of the CEO, whose performance is assessed by the Board.

>> Ensures that a proper decision making and accountability structure is established throughout the Bank so that the staff down the line is fully accountable to the Corporate Management.

The Board has delegated appropriate authority to the Management to implement policies and other strategic objectives of the Bank. The Management exercises this authority within the policy framework stipulated by the Board and in line with the ethical, professional and statutory standards applicable to the banking industry. In short, the Management strives to preserve and nurture the unique corporate culture that has enabled the Bank to earn the goodwill of all its stakeholders.

Transparency and Information Disclosure

We at Commercial Bank, attach high priority to timely publication of quarterly and annual results with comprehensive details far in excess of the statutory requirements, enabling both existing and prospective shareholders to make a

timely and fair assessment of the Bank's performance and informed decisions. Mediums of publication include printed materials, newspapers and the website of the Bank. We strictly adhere to the accounting formats and other procedures laid down by the regulatory authorities in the submission of all periodic returns and other information. The financial statements are prepared in accordance with the Sri Lanka Accounting Standards, which are based on the International Accounting Standards. Therefore, the Bank's financial statements comply with the International Accounting Standards in all material respects. The financial statements included in this Annual Report have been audited by M/s. KPMG Ford, Rhodes, Thornton & Co., Chartered Accountants.

Commercial Bank has always welcomed active participation of the shareholders at the General Meetings and solicited their views at all times, thereby promoting a healthy dialogue. Whenever possible, the Bank has also implemented their suggestions.

Through these publications, meetings and other forms of correspondence, the Board of Directors and the Corporate

Management constantly interact with the various stakeholders of the Bank.

Committees

There are several Board Sub-Committees, each with a defined scope of work and terms of reference. These Committees are responsible for providing independent and expert advice to the Board on the subjects assigned.

Audit Committee

The Audit Committee is headed by the Deputy Chairman and represented by four Non-Executive Directors. The Managing Director attends the meetings by invitation. The full report of this Committee is given on page 64 of this report.

Credit Committee

The Credit Committee formulates the Bank's Credit Policy and monitors the management of credit risk. Facilities over and above the delegated authority of the management are also referred to this Committee for approval. The Credit Committee comprises of the Chairman, Managing Director, and a Non-Executive Director.

Personnel and Remuneration Committee

This Committee maintains a market oriented remuneration policy for the Bank's management and the executive staff. This enables the Bank to attract the best personnel in the market while maintaining a contended staff. The Personnel and Remuneration Committee also makes recommendations to the Board on appointments to the corporate management and their succession planning. This Committee comprises of the Chairman, Managing Director and two other Non-Executive Directors.

Corporate Planning Committee

This Committee ensures that a proper planning procedure is in place and also strives to promote a target driven culture within the Bank. The Committee is headed by the Chairman and also comprises of the Managing Director and three other Non-Executive Directors.

In addition to the advice offered by the above Committees, the Board obtains independent professional advice from external sources whenever the Board deems it necessary.

The Composition of each Board Sub-Committee is given in the table below:

Name of the Director	Audit	Credit	Personnel & Remuneration	Corporate Planning
A.L. Gooneratne	√	√	√	√
M.J.C. Amarasuriya		*√	*√	*√
J.S. Mather	*√			√
Dr. H.S. Wanasinghe	√		√	
B.R.L. Fernando	√	√		
A.N. Fonseka	√			√
M.L. Mack			√	√
<i>*Chairman of the Committee</i>				



Community Care

A prosperous and content community is an important market. Communities are content when there is a powerful and mutually beneficial relationship between the wider community and the corporate community. This relationship is dependent on many factors including the perception that society is getting 'value for money' from corporate entities. The relationship is also nourished by what companies plough into those communities that generate their profits.

Profits and social responsibilities need not clash: they can fuel each other. The more the business community ploughs back to the community to boost social capital, the stronger society will become. Stronger societies are fertile markets and a source of nourishment for the corporate sector.

Over the years the Bank initiated a number of community based initiatives to nourish the 'Sri Lankan Community' and to build strong urban and rural societies.

Last year two career guidance seminars were held for a total of 900 students at Anuradhapura Central College and at Trinity College. This was organised by the SDC with the assistance from our Anuradhapura and Kandy Branches. An external resource person provided an overview of a variety of careers and shared personal experiences and anecdotes. Both seminars concluded with a lively question and answer sessions.

At the request of the Commissioner of Labour the SDC organised a seminar on Banking and Industrial relations in the Banking Industry. This was specially designed for 31 labour officers of the Department of Labour. As a result of the good feedback the SDC received, an advanced programme was conducted for 30 newly promoted Assistant Labour Commissioners in December 2003.

With a view to rationalising and making maximum use of Government expenditure, the Hon. Prime Minister

had requested leading private sector firms to review the budgets prepared for various Government Ministries. In keeping with this request, a team from our Bank together with some other personnel drawn from a few other private sector institutions thoroughly examined the Ministries that come under the Civil Administration sector. The findings of the study were presented to the Government in the form of a report.

Focusing on the 'Differently-abled'

The Bank is creating workplaces that are sensitive to disabled persons and making a conscious effort to recruit and train persons with disabilities. The Bank showed its commitment to social responsibility by employing 6 differently-abled persons on a contract basis on work areas of the Bank. The Bank is represented in the 'Employer Disability Network' set up by the EFC which aims to find employment and training opportunities for the disabled in the

private sector. The SDC helped the Network organise a 'Job Fair' and provided training opportunities for a number of persons with disabilities. Among the training programmes conducted were those that have helped them 'face interviews'.

'Shuttling Excellence' for six years now

For the sixth consecutive year, the Bank continues to be the official sponsor of Badminton in Sri Lanka. Last year, the Bank contributed Rs. 1.5 million to the Sri Lanka Badminton Association (SLBA) for the promotion of the sport in the country. The money was used by the SLBA for a number of initiatives, including the conducting of islandwide ranking tournaments and training camps for the national pool. The funds were also used to identify and foster rising national players.

Safe Lighting

In an attempt to reduce the number of accidents caused by lamps in rural homes, the Bank has promoted the 'safe bottle lamp' concept. Almost 43% of Sri Lanka's households do not have access to electricity and therefore have to depend on alternative sources of light such as kerosene. Between 25 - 30 persons suffer bottle lamp injuries everyday in Sri Lanka. One person succumbs to his or her injuries every two days. This is a little known aspect of rural life in Sri Lanka.



It is estimated that as much as 44% of the bottle lamp injuries are caused by poorly made bottle lamps. The Safe Bottle Lamp Foundation of Sri Lanka has a cheap, safe and effective bottle lamp that is designed to reduce the number of such accidents. It has also engaged in a number of promotional activities to promote this concept. The Bank has supported the Foundation and has provided a number of these lamps free of charge to rural households. At the time the lamps are distributed, a skit is performed demonstrating the safety features of the lamp and educating people on how lamp related accidents could be reduced. During 2003, lamps were distributed in areas from which bottle lamps related accidents are frequently reported, such as those in Galewela, Hingurakgoda Kaduruwela, Embilipitiya, Amapara, Vavunia and Batticaloa. Our target this year is to further distribute lamps in affected areas coming under the Southern Region.

How Green is the Bank?

Sustainability is a key aspect of modern profit generation. Value addition and profit generation imply that such value and profits are sustainable in the long term. Modern corporates today are less concerned with short term gains than with long term sustainability.

Sustainability of our physical environment is an important aspect of long term financial sustainability. Natural resources should be exploited, but they should be nourished and nursed so that their riches can be shared by our children and theirs. The sustainability and preservation of the physical environment is an important aspect of any modern corporate entity's strategic plan.

Our lending policies have previously highlighted the need for supporting and nourishing the environment. The Bank has its own 'environmental impact assessment' when it assesses the viability of projects. Projects are assessed not purely on their capacity to generate profits to repay capital and interest but also on their social and environmental impact. Building value means building value for all our stakeholders.

Our partnership with the IFC has encouraged us to strengthen our capabilities in this regard. Over the next year we are planning a number of important steps to strengthen our procedures in this regard. This includes the establishment of a comprehensive environmental management system to monitor the impact of the Bank's activities on the environment.

Adequate policies and procedures will be adopted to ensure that the Bank's activities, whether they be in the form of project finance, corporate finance, equipment finance or other investment, comply with all the applicable environmental and occupational, health and safety requirements of the country.

Never daunted by a challenge

The Bengal Tiger: rare, rich in spirit and never daunted by a challenge. The Bank will carry these values into the Region.

Risk Management

By the nature of their business, the Return On Assets (ROA) of banks hover around 2% on average whereas it can be as high as 10% to 15% for any other corporate. As a result, in order to report acceptable levels of Return On Equity (ROE), banks have to operate at high levels of gearing¹. Partly due to the positive relationship between risk and return and also due to the highly volatile political, economic, social and technological environment, high gearing invariably results in an increase in the risk profile of the banks.

With the increasing levels of gearing, banks are exposed to a multitude of risks which can broadly be classified into market, credit and operational risks, which, if carefully managed, should not only prevent any potential losses but also should provide opportunities for new or greater business which could turn in huge rewards, or if poorly managed, bankrupt the institutions completely. Banks, as corporate bodies are exposed to other non-banking risks as well, such as liquidity risks, legal risks, reputation risks, hazard risks etc., which are common to most corporates. In fact, the magnitude of risks is high in the business of banking compared to non-banking sectors. It is due to this reason that the banking industry is highly regulated world over. This risk of failure coupled with the stringent regulatory requirements is pushing the banks and financial institutions to have a more systematic approach in identifying, measuring and monitoring the risks today.

Commercial Bank's ROA, level of gearing and ROE over the past five years have been as follows:

	2003	2002	2001	2000	1999
ROA (%)	1.61	1.82	1.95	2.05	1.72
Level of Gearing (Times)	9.62	9.41	9.31	9.80	9.42
ROE ² (%)	15.49	17.12	17.95	20.09	16.21

Commercial Bank is aware that creating an awareness of risk within the Bank, a uniform interpretation of risk, identifying the types of risks and quantifying the potential impact on the Bank are imperative to the success of an overall risk management system.

Risk at Commercial Bank is defined as the possibility of losses, financial or otherwise or serious negative deviations from forecast performance and/or financial position.

The design of the risk management system at Commercial Bank is bank specific; dictated by the size, complexity of functions, level of technical expertise, quality of MIS etc. and is structured to address the total risk, i.e. both banking as well as non-banking risks. The prime objective of this risk management system is to ensure that the Bank takes well-calculated business risks while safeguarding the Bank's capital, its financial resources and profitability from various risks. While trying to eliminate, if possible, certain risks altogether, such as legal and operational risks, the Bank is also mindful of the correlation between

risk and reward in certain other areas. It is the Bank's policy to manage such risks effectively so as to mitigate or minimize such risks and maximise the return.

In order to realise this objective, the management has implemented systems, policies and procedures in all dimensions of operations and periodically reviews them to ensure that they are comprehensive enough and are being adhered to. Our Bank continues to maintain and update a wide-ranging list of possible risks and has also formulated suitable risk management measures against each identified risk. Members of the



Artistic Balance

Stilt fishermen on the south coast of Sri Lanka. The Bank will make sure it finds the right balance in the region: state-of-the-art technology, super efficiency and cultural sensitivity.

1. Total Average Assets divided by Average Shareholders' Funds

2. ROE = ROA x Level of Gearing

High Flyers

Our customers come from 'all walks of life': toddy tappers, technicians and technologists.

transactions such as guarantees, acceptances etc.

Failure to perform according to the contractual arrangements with the Bank by a counterparty may arise as a result of inability of the counterparty resulting from a decline in his repayment capacity or unwillingness of the counterparty (willful default) or both. In addition, credit risk may arise due to non-availability of foreign currency for the counterparty due to whatever reason, when the repayment is denominated in foreign currency.

Credit risk of a bank may be aggravated by various other associated risks such as country risk, sectoral risk, related party risk and collateral risk. Hence, the Bank's risk management systems have been designed to address all these associated risks as well.

If credit risk is not properly managed, banks have to face severe consequences such as drop in asset quality, rise in non-performing assets, loss of revenue on the non-performing assets, loan loss provisioning, erosion of public confidence, downgrading of credit rating etc.

Though accepting collateral is widely practiced by banks as a credit risk management measure, this is only a "credit risk mitigation measure" and not a "credit risk prevention measure". In other words, acceptance of collateral in whatever form or asset will not guarantee that the loan will not become delinquent or even minimise the probability of the loan becoming delinquent. Collateral can only mitigate or reduce the credit risk once the loan becomes actually delinquent.

Our Bank's credit policy has therefore been designed without overly depending on collateral. Instead, the Bank places more emphasis on credit risk prevention measures such as proper evaluation of credit worthiness of the borrowers, adherence to proper credit policies and loan disbursement procedures etc., in

Corporate Management are required to periodically assess and report to the Board through the Board Audit Committee, the extent of implementation of these risk management measures and evaluate the adequacy and effectiveness of these measures, in the context of the changing business environment.

To ensure the effectiveness of the Bank's risk management measures, strict audits are conducted by the Bank's Inspection Department, whose autonomy is assured by the Bank's organisation structure.

The major risks that are addressed in the Bank's Risk Management System are as follows:

Credit Risk Management

Credit risk is one of the major risks faced by banks. This can be defined as the potential loss arising from the failure of a counterparty to perform according to the contractual arrangements with the Bank, which includes non-repayment of capital and/or interest in full within the agreed time frame, at the agreed rate of interest and in the agreed currency. Hence, this risk could arise not only in respect of Balance Sheet transactions such as loans and investment securities, but also in respect of off-Balance Sheet

managing the credit risk. In addition, the Bank has developed an internal rating system, in which credit risk of all customers is periodically assessed based on their business results from a quantitative perspective and their standing in the industry from a qualitative perspective, facilitating the lending officers to take timely action. The Bank updates these ratings on a regular basis and reviews promptly whenever the Bank becomes aware of any change that influences their performance and financial position.

The Board of Directors approve and periodically review the credit risk strategy, significant credit risk policies, tolerance levels of risk and the profitability expectations for a given level of risk.

The Credit Committee, under delegated authority from the Board of Directors implement credit risk strategy and the credit policies, guidelines and procedures to control and monitor such risks, as approved by the Board. It has day-to day responsibility for identifying and managing portfolio and risk concentration issues, including country exposure and industry sector exposure. The Bank's current emphasis on venturing into regional markets will undoubtedly reduce its over-exposure risk to the Sri Lankan economy. The risk parameters for accepting credit risk are clearly defined and complemented by



policies and processes to ensure that the Bank maintains a well-diversified and high quality credit portfolio. The decisions of the Credit Committee and its quarterly risk management reports are reviewed by the Credit Committee of the Board.

Bank also has its own system of managing problematic credit and other workout situations.

Prudential limits have been set on Single Borrower Limit at 30% of the Shareholders' Funds as prescribed by the Central Bank of Sri Lanka under the provisions of the Banking Act and they are strictly adhered to in order to prevent over exposures to single borrowers or groups of connected counterparties.

Balance Sheet Risk Management

Balance Sheet risk is defined as the potential change in earnings arising from the effect of movements in interest rates and foreign exchange rates on the structural banking books of the Bank that is not of a trading nature.

The Balance Sheet risk in the banking book arises from customers' preferences and characteristics in the booking of assets and liabilities, which result in a mismatch in the interest re-pricing and maturity dates of these assets and liabilities. The Group assesses the impact of changes in interest rates and yield curves over time on the banking book by projecting the corresponding changes in Net Interest Income (NII) of the Bank. The primary objective of balance sheet risk management, therefore, is to monitor and avert significant volatility in NII. For instance, when there are significant changes in interest rates, the Bank will adjust its lending and deposit rates to the extent necessary to stabilise its NII.

The Asset and Liability Committee (ALCO), approves the policies and limits for balance sheet risk. This risk is monitored and managed within a

framework of approved policies and limits, and is reported regularly to ALCO. The decisions of ALCO and its quarterly risk management reports are reviewed by the Executive Committee of the Board.

The table on page 45 represents the Bank's maturity analysis mismatches as at December 31, 2003. Interest rate risk will arise when more assets/liabilities than liabilities/assets are re-priced in a given time band. A positive interest rate sensitivity gap exists where more interest sensitive assets than interest sensitive liabilities are re-priced during a given time period. Conversely, a negative interest rate sensitivity gap exists where more interest sensitive liabilities than interest sensitive assets are re-priced during a given time period. As at December 31, 2003, the Bank had an overall positive interest rate sensitivity, excluding non-interest sensitive items. This being a static position, the actual effect on NII will depend on a number of factors, including variations in interest rates within the re-pricing periods, and the extent to which repayments are made earlier or later than the contracted dates of deposits and advances.

Market Risk Management

Market risk is defined as the potential loss in market value of a given portfolio that can be expected to be incurred arising from changes in market prices, namely, foreign exchange rates, interest rates and equity prices.

The Bank is exposed to market risk in its trading portfolio because the values of its trading positions are sensitive to changes in market prices and rates. Similarly, it is also exposed to market risk in its investment portfolio.

Market risk is managed using a framework of market risk management policies and risk control procedures, as well as risk and loss limits. Risk and loss limits in place for Forex and Fixed Income Securities Trading portfolios are reviewed by the Management and

approved by ALCO. ALCO also reviews and approves new limits or changes to existing limits as and when these are proposed. The powers of ALCO are delegated by the Managing Director. The monitoring of

market risk trading limits and the reporting of any limit excess are carried out independently by the Treasury Processing Unit.

The level of foreign exchange risk of the Bank is moderate, mainly due to the fact that there are no large scale of operations transacted and there are no derivative transactions. Open foreign exchange positions do not generally exceed the statutory limit of 7% of the capital base.

There is no single risk statistic that can reflect all aspects of market risk. The most common approaches are Value-at-Risk (VaR) and stress testing. These risk measures, taken together, provide a more comprehensive view of market risk exposure than any one of them individually. VaR is a measure of the currency amount of potential loss from adverse market movements under a normal market environment. Statistical models of risk measurement, such as VaR, provide an objective and independent assessment of how much risk is being taken. They also allow consistent and comparable measurement of risk across financial products and portfolios.

The Bank is in the process of introducing in the near future, a more comprehensive method, such as 'Value-at-Risk' to measure market risk exposure of its trading portfolios.

Liquidity Risk Management

Liquidity risk is defined as the potential loss arising from the Bank's inability to meet its contractual obligations when due. Liquidity risk arises in the general funding of the Bank's activities and in the management of its assets. Bank maintains sufficient liquidity to fund its day to day operations, meet customer deposit withdrawals either on demand or at contractual maturity, meet customers' demand for new loans, participate in new investments when opportunities arise and repay borrowing as they mature. Hence, liquidity is managed to meet known as well as unanticipated cash funding needs.

Liquidity risk is managed in accordance with a framework of liquidity policies, controls and limits approved by ALCO. These policies, controls and limits ensure that Bank maintains well-diversified sources of funding, as well as sufficient liquidity to meet all its contractual obligations when due. The distribution of sources and maturities of deposits is managed actively, in order to ensure cost effective and continued access to funds and to avoid a concentration of funding needs from any one source. Important factors in assuring liquidity is founded on the Bank's good reputation, the strength of its earnings, and its strong financial position and credit rating.

The management of liquidity risk is carried out throughout the year by a combination of cash flow management, maintenance of marketable securities and other short-term investments that can be readily converted to cash, diversification of the funding base, and proactive management of the Bank's 'core deposits'. 'Core deposits' are a major source of liquidity for the Bank. These 'core deposits' are generally stable non-bank deposits, like current

accounts, savings accounts and fixed deposits. Bank monitors the stability of its 'core deposits' by analysing their volatility over time. In addition to the 'business as usual' scenario, this analysis also includes various stress scenarios. Bank has also identified certain early warning indicators and established the trigger points for possible contingency situations. These early warning indicators are monitored closely so that immediate action can be taken when necessary.

The table in the Financial Statements shows the maturity mismatch analysis of the Bank's nearer and longer-term time bands relating to the cash inflows and outflows based on contractual classifications arising from business activities. The projected net cash outflow in the 'Up to 7 Days' time band comprises mainly customers' current accounts and savings accounts that are repayable on demand. However, when these customer deposits are adjusted for behavioural characteristics, the projected net cash outflow in the 'Up to 7 Days' time band is very much reduced as they are adjusted out to the longer-term time bands due to the stable nature of these customer deposits.

The Bank's deposit base is stable, diversified and trending upwards. In addition, Bank has good access to interbank funds, both locally and overseas. Furthermore, the Bank has easy access to the country's capital market, mainly due to its financial strength, good credit rating and backing of the major shareholders, who themselves are financially sound. The level of liquidity risk is thus low.

Operational Risk Management

Operational risk is defined as the potential loss arising from a breakdown in the Bank's internal control or corporate governance that results in error, fraud, failure/delay to perform, or compromise of the Bank's interests by employees. Operational risk also includes the potential loss arising from a major failure of computer systems and from both

natural and man-made disasters. Potential loss may be in the form of financial loss or other damages, for example, loss of reputation and public confidence that will impact the Bank's credibility and ability to transact, maintain liquidity and obtain new business.

Operational risk is managed through a framework of policies, techniques and procedures as approved by the Management Committee. The decisions of the Management Committee and its quarterly risk management reports are reviewed by the Executive Committee of the Board.

Risk transfer mechanisms, such as insurance, also form part of this framework. Identified operational risks with relatively high risk assessments and new risks that are beyond the control of the Bank are scrutinised for insurability.

Legal Risk

Legal risk is part of operational risk. Legal risk arises from inadequate documentation, legal or regulatory incapacity or insufficient authority of customers and uncertainty in the enforcement of contracts. This is managed through consultation with the Bank's Legal Counsel and External Counsel to ensure that legal advice is appropriately taken where necessary.

The Bank's Compliance Officer and Inspection Department play a key role in monitoring adherence by business and support units to the operational risk management policies. All compliance functions report directly to the Managing Director, who has the necessary independence to monitor and carry out compliance reviews of the business operations. Compliance Officer also spearheads the Bank's efforts on anti-money laundering activities.

Risks relating to changes in the regulatory requirements are proactively managed as was done, for example, for the introduction of prudential statutory requirements of liquid assets and capital adequacy on the Off-shore Banking Centre.

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Financial Reports

Financial Calendar - 2003/04

Final Dividend for 2002 paid on March 28, 2003

Interim Dividend for 2003 paid on December 23, 2003

Final Dividend for 2003 proposed to be paid on March 26, 2004

Annual Report and Accounts for 2003 signed on February 17, 2004

Thirty-Fifth Annual General Meeting to be held on March 26, 2004

Quarterly Reports in terms of Rule 8.3 of the Colombo Stock Exchange

For the three months ended March 31, 2003 (unaudited) April 25, 2003

For the six months ended June 30, 2003 (unaudited) August 21, 2003

For the nine months ended September 30, 2003 (unaudited) October 31, 2003

Annual Report and Accounts for 2003 (audited) February 17, 2004

Proposed Financial Calendar - 2004/05

Interim Dividend for 2004 in November 2004

Final Dividend for 2004 in March 2005

Annual Report and Accounts for 2004 to be signed in February 2005

Thirty-Sixth Annual General Meeting to be held in March 2005

Quarterly Reports in terms of Rule 8.3 of the Colombo Stock Exchange

For the three months ending March 31, 2004 (unaudited) in April 2004

For the six months ending June 30, 2004 (unaudited) in August 2004

For the nine months ending September 30, 2004 (unaudited) in October 2004

Annual Report and Accounts for 2004 (audited) in February 2005

Directors' Report

General

The Directors have pleasure in presenting to the members their Report together with the audited Financial Statements of the Commercial Bank of Ceylon Ltd., a public limited liability company incorporated in Sri Lanka on June 25, 1969 under the Companies Ordinance No. 51 of 1938, quoted in the Colombo Stock Exchange in March 1970 and a licensed commercial bank under the Banking Act No. 30 of 1988, for the year ended December 31, 2003.

These were approved by the Directors on February 17, 2004.

Principal 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, project financing, lease financing, rural credit, issuing of local and international credit cards, telebanking facilities, internet banking, dealing in Government securities, bullion trading, factoring etc.

Subsidiaries

The principal activities of Commercial Development Co. Ltd., Commercial Bank Primary Dealer Ltd. and ONEzero Co. Ltd. are property development, dealing in Government securities as a Primary Dealer and provision of IT related services respectively.

Associates

The principal activities of Commercial Leasing Company Ltd., Equity Investments Lanka Ltd. and Commercial Fund Management (Pvt.) Ltd. are leasing and factoring, venture capital and fund management respectively.

There were no significant changes in the nature of principal activities of the Bank and the Group during the financial year under review.

Review of Business

The Chairman's Review on page 4 and the Managing Director's Report on page 12 describe in detail the Company's affairs and important events of the year. These reports form an integral part of the Directors' Report.

Future Developments/Branch Expansion

The Bank acquired the operations of Credit Agricole Indosuez in Bangladesh comprising of 2 fully fledged branches and 2 booths. The Bank intends to set up an ATM network in Bangladesh.

The branch expansion policy continued during the year and the Bank opened 3 Branches, 2 Customer Service Points, a MiniCom and a service point in Sri Lanka. Bank intends to expand its branch network further.

System of Internal Controls

The Board of Directors has instituted an effective and comprehensive system of Internal 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.

Corporate Governance

Systems and procedures are in place to ensure that corporate governance is properly practiced. Specific measures taken in this regard are elaborated on page 46 of this Report.

Human Resources

The Bank continued to implement appropriate Human Resource Management policies and practices to develop its employees and also to ensure their optimum contribution towards the achievement of corporate goals. Specific measures taken in this regard are detailed in the Social Impact Report on page 34.

Audit Committee

The following non-executive Directors of the Board served as members of the Board Audit Committee:

Mr. J.S. Mather (Chairman of the Committee)

Dr. H.S. Wanasinghe

Mr. B.R.L. Fernando

Mr. A.N. Fonseka

Mr. A.L. Gooneratne attends the meetings by invitation.

The report of the Audit Committee is given on page 64 of this Report.

Directors' Report

Vision, Mission and Corporate Conduct

The Bank's new Vision and Mission are given on page 1 of this Report. The business activities of the Bank are conducted with the highest level of ethical standards in achieving its Vision and Mission.

Risk Management

Specific steps taken by the Bank in managing both banking and non-banking risks are detailed on page 53 of this Report.

Turnover/Gross Income

The Turnover/Gross Income of the Group for 2003 was Rs. 9,749.463 million (Rs. 9,165.409 million in 2002).

Profit

The profit before tax of the Group and the Bank were up by 19.67% and 28.17% respectively (19.86% and 15.10% in 2002) and the profit after tax were up by 17.12% and 22.71% respectively (25.40% and 19.21% in 2002).

Details of profit relating to the Bank are given below:

	2003 Rs.	2002 Rs.
Profit for the year after payment of all expenses of management and providing for depreciation, possible loan losses and contingencies	1,954,595,108	1,525,014,377
Provision for taxation	477,107,755	321,000,000
Net profit after taxation	1,477,487,353	1,204,014,377
Unappropriated profit brought forward from previous year	777,956	1,566,419
Profit available for appropriation	1,478,265,309	1,205,580,796
Appropriations		
Dividend paid on 13% & 11.25% Cumulative Redeemable Preference Shares	189,667,218	117,852,150
18% Interim Dividend paid	125,370,414	75,222,248
32% Final Dividend proposed	222,880,736	133,728,442
Transfer to General Reserve	939,493,488	878,000,000
Unappropriated profit to be carried forward	853,453	777,956

Dividends

The Directors recommend the payment of 32% final dividend for the year 2003 (32% in 2002 too). An interim dividend of 18% was paid in December 2003 (18% in 2002 too).

Interim dividend was paid out of exempt dividends received and hence was exempt from the withholding tax. Part of the final dividend too will be paid out of exempt dividends received and hence be exempt from the withholding tax.

Provision for Taxation

Provision for taxation has been computed at the rates given in Note 9.1 to the Financial Statements.

It is the Bank's policy to provide for deferred taxation on timing differences, except on assets leased to customers on the liability method.

Corporate Donations

During the year the Bank made donations amounting to Rs. 3,777,120/- (Rs. 1,113,423/- in 2002) in terms of the resolution passed at the last Annual General Meeting. The donations made to Government approved charities from the above amounted to Rs. 3,535,150/- (Rs. 930,000/- in 2002).

Property, Plant and Equipment

Capital expenditure on Property, Plant and Equipment and Capital Work-in-Progress amounted to Rs. 348.159 million (Rs. 338.644 million in 2002), details of which are given in Note 22 to the Financial Statements. Capital expenditure approved and contracted for after the year-end is included in Note 33 to the Financial Statements.

Directors' Report

Market Value of Freehold Properties

With the permission of the Monetary Board of the Central Bank of Sri Lanka, all freehold land and buildings of the Bank were revalued by professionally qualified independent valuers as at December 31, 1993. Properties acquired after December 31, 1993 are reflected at book-values as their appreciation in value is insignificant. The Directors are of the opinion that this value is not in excess of the current market value. Arrangements are being made to carry out a revaluation as at December 31, 2004.

Reserves

The total reserves of the Group stood at Rs. 9,303.357 million as at December 31, 2003 (Rs. 6,594.543 million as at December 31, 2002) details of which are given in Notes 29 and 30 to the Financial Statements.

Share Capital

The total issued and paid up capital as at December 31, 2003 was Rs. 696.502 million consisting of 65,000,000 ordinary voting shares of Rs.10/- each and 4,650,230 ordinary non-voting shares of Rs.10/- each.

In addition, the Company has Rs. 1,906.555 million worth 13% and 11.25% Cumulative Redeemable Preference Shares of Rs. 10/- each in issue. These funds have been used to expand the leasing and other long-term credit facilities.

Share Information

Information relating to earnings, dividends, net assets and market value per share is given in Operating Highlights & Performance on page 3 of this Report. Information on share trading is given on page 118 of this Report.

Shareholdings

There were 6,275 registered shareholders holding ordinary voting shares and 1,342 registered shareholders holding ordinary non-voting shares of the Bank as at December 31, 2003. The distribution of shareholding is given on page 114 of this Report.

Directors

List of Directors

The Board of Directors of Commercial Bank of Ceylon Ltd. consists of 9 Directors with wide financial knowledge and experience. The qualifications and experience of the Directors are given on pages 10 and 11.

The following were the Directors of the Bank during the year.

Mr. M.J.C. Amarasuriya (*Chairman*)

Mr. J.S. Mather (*Deputy Chairman*)

Mr. A.L. Gooneratne (*Managing Director*)

Dr. H.S. Wanasinghe

Mr. B.R.L. Fernando

Mr. M.L. Mack

Mr. A.N. Fonseka

Mr. L.J.A. Fernando (Appointed on April 25, 2003)

Mr. D. Tsitsiragos (Appointed on April 25, 2003)

Mr. P. Amarasinghe (Resigned on March 29, 2003)

Mr. S. Abeysinghe (Resigned on March 21, 2003)

Appointments and Resignations

Appointments

Mr. L.J.A. Fernando - April 25, 2003

Mr. D. Tsitsiragos - April 25, 2003

Resignations

Mr. P. Amarasinghe - March 29, 2003

Mr. S. Abeysinghe - March 21, 2003

Mr. L.J.A. Fernando who was appointed to the Board on April 25, 2003, to fill the casual vacancy existing at that time, retires in terms of Article 92 of the Articles of Association of the Company and being eligible for re-election is recommended for re-election.

Directors' Report

In accordance with Articles 85 & 86 of the Articles of Association of the Company Mr. J.S. Mather and Dr. H.S. Wanasinghe retire by rotation and being eligible for re-election are recommended for re-election.

Reference has already been made to the special resolutions indicated in the two Special Notices received by the Company from a shareholder, with regard to the re-election of Mr. J.S. Mather and Dr. H.S. Wanasinghe, who have already passed the age of 70 years.

Mr. Dimitris Tsitsiragos was appointed to the Board on April 25, 2003, in terms of Article 92 of the Articles of Association of the Company, pending the amendments to the Articles of Association of the Company, as required under the Memorandum of Understanding executed by the Company with IFC.

Following the amendments made to Article 74 and other related Articles Mr. Dimitris Tsitsiragos has become a Nominee Director and as a result he is not subject to retirement by rotation.

As a result of the said amendments the following Directors too are not subject to retirement by rotation:

Mr. M.L. Mack
Mr. A.N. Fonseka

Directors' Responsibility for Financial Reporting

The Directors are responsible for the preparation of Financial Statements of the Bank to reflect a true and fair view of the state of its affairs. The Directors are of the view that these Financial Statements have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards, Companies Act No. 17 of 1982, the Banking Act No. 30 of 1988 and the Listing Rules of the Colombo Stock Exchange.

Directors' Interests in Ordinary Shares

Shareholdings of Directors at the beginning and at the end of the year were as follows:

	As at 31.12.03	As at 01.01.03
Mr. M.J.C. Amarasuriya	151,932	100,580
	48,466	36,580
	(non-voting)	(non-voting)
Mr. J.S. Mather	-	-
Mr. A.L. Gooneratne	138,703	23,151
	8,662	5,198
	(non-voting)	(non-voting)
Dr. H.S. Wanasinghe	-	-
Mr. B.R.L. Fernando	2,389	1,412
	(non-voting)	(non-voting)
Mr. M.L. Mack	-	-
Mr. A.N. Fonseka	311	178
	(non-voting)	(non-voting)
Mr. L.J.A. Fernando	-	-
Mr. D. Tsitsiragos	-	-

Directors' shareholdings have not changed subsequent from the date of the Balance Sheet up to January 17, 2004 being one month prior to the date of Notice of the Annual General Meeting.

Directors' Interests in Cumulative Redeemable Preference Shares

There were no Cumulative Redeemable Preference Shares registered in the names of the Directors as at the beginning and at the end of the year.

Directors' Report

Directors' Interests in Debentures

There were no debentures registered in the names of the Directors as at the beginning and at the end of the year.

Employee Share Ownership/Option Plans

The details of an Employee Share Option Plan are given in Note 28 to the Financial Statements.

Directors' Interests in Contracts

Directors' interests in contracts or proposed contracts with the Company, both direct and indirect are disclosed in Note 35 to the Financial Statements. These interests have been declared at Directors' Meetings. Directors have no direct or indirect interest in any other contract or proposed contract with the Company.

Environmental Protection

The Bank/Group has not engaged in any activity, which is harmful to the environment. Specific measures taken to protect the environment are given in the Social Impact Report on page 32 of this Report.

Statutory Payments

The Directors, to the best of their knowledge and belief are satisfied that all statutory payments due to the Government and in relation to the employees have been made in time.

Events After the Balance Sheet Date

There have not been any material events that occurred subsequent to the date of the Balance Sheet that require adjustments to the Financial Statements, other than those disclosed, if any, in Note 37 to the Financial Statements.

Going Concern

The Board of Directors is satisfied that the Bank has adequate resources to continue its operations in the foreseeable future. Accordingly, the Financial Statements are prepared based on the going concern concept.

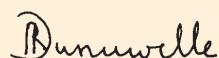
Appointment of Auditors

The retiring Auditors, Messrs. KPMG Ford, Rhodes, Thornton & Company have signified their willingness to continue in office and a resolution to re-appoint them as Auditors, and authorising the Directors to fix their remuneration will be proposed at the Annual General Meeting.

Notice of Meeting

Notice of Meeting relating to Thirty Fifth Annual General Meeting is given on page 127.

By Order of the Board,



Mrs. R.R. Dunuwille
Company Secretary

February 17, 2004
Colombo.

Directors' Responsibility for Financial Reporting

Under Section 143 of the Companies Act No. 17 of 1982, Directors of the Company have responsibility for ensuring that the Company keeps proper books of account of all the transactions and prepares Financial Statements that give a true and fair view of the state of affairs and of the profit/loss for the year.

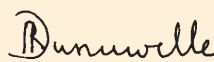
Accordingly, the Directors have caused the Company to maintain proper books of account and review the financial reporting system at their regular meetings and through the Audit Committee. The Audit Committee Report is given on page 64 of this Report. The Financial Statements for the year 2003 prepared and presented in this Report are consistent with the underlying books of account and are in conformity with the requirements of the Companies Act, Sri Lanka Accounting Standards, the Banking Act No. 30 of 1988 and the Listing Rules of the Colombo Stock Exchange. The Directors consider that, in preparing the Financial Statements exhibited on pages 66 to 107 inclusive, they have adopted appropriate accounting policies on a consistent basis and supported by reasonable and prudent judgements and estimates.

The Directors also have taken such steps as are reasonably open to them to safeguard the assets of the Company 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 check, internal audit and financial and other controls required to carry on the business of banking in an orderly manner, safeguard its assets and secure as far as practicable the accuracy and reliability of the records.

The Bank's Auditors, M/s. KPMG Ford, Rhodes, Thornton & Company carry out reviews and sample checks on the system of internal controls as they consider appropriate and necessary for expressing their opinion on the Financial Statements.

M/s. KPMG Ford, Rhodes, Thornton & Company, the Auditors of the Company have examined the Financial Statements made available by the Board of Directors together with all the financial records, related data, minutes of shareholders and Directors meetings and express their opinion which appears as reported by them on page 65 of this Report.

By Order of the Board,


Mrs. R.R. Dunuwille
Company Secretary

February 17, 2004
Colombo.

Audit Committee Report

The Audit Committee comprises of four Non-Executive Directors of the Bank, with the Managing Director attending the Meetings by invitation. The Bank's Assistant General Manager - Inspection, functions as the Secretary of the Committee.

The Committee is empowered, amongst other things, to examine any matter relating to the financial affairs of the Bank, to review all audit and inspection programmes, internal control systems and procedures, accounting policies, adherence to compliance requirements etc., thus ensuring that a sound financial reporting system is in place, which is well managed, providing accurate, appropriate and timely information to the Board of Directors, Management, Regulatory Authorities and Shareholders. Thereby, the Audit Committee ensures that the Bank's operations conform to rules, regulations and accepted ethical guidelines to meet the Bank's policies.

During the year under review, the Committee met four times and carried out the following tasks:

1. Examined over 150 Audit and Inspection Reports on Branches and Head Office Departments and followed up where operational deficiencies had been observed. Members of the Committee also visited some of the Branches.
2. Met the External Auditors before commencement and at the conclusion of the Annual Audit and reviewed the Auditors' Management Letter, together with the Management's response thereto. The annual financial statements were also reviewed with the External Auditors.
3. Regularly, monitored the effectiveness of the internal financial controls and procedures established for identifying, effectively assessing and managing risks. The Corporate Management was invited to make presentations on "Risk Management measures adopted in their areas of responsibility".
4. Revisited the charter of the Audit Committee and the updated charter was approved by the Board.
5. Reviewed quarterly the Bank's compliance with mandatory banking and other statutory requirements and bi-annually, the Bank's adherence to the risk management measures approved by the Board.
6. Reviewed major decisions taken by the "Assets and Liabilities Committee" and "Credit Policy and Portfolio Review Committee" of the Bank.
7. With the concurrence of the Board, enlisted 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.
8. Commencing 2003, an evaluation process on the effectiveness of the Audit Committee was introduced. This evaluation was done by the non Audit Committee Members of the Board of Directors. The overall outcome was satisfactory. The Committee will address itself to the areas that require strengthening as highlighted by this assessment.

The Committee is of the view that adequate controls and procedures are in place to provide reasonable assurance that the financial position of the Bank is well monitored.

The Audit Committee has recommended to the Board of Directors that Messrs. KPMG Ford, Rhodes, Thornton & Company be re-appointed as Auditors for the financial year ending December 31, 2004 at the next Annual General Meeting.

J.S. Mather
Chairman - Audit Committee

February 19, 2004

Auditors' Report



KPMG Ford, Rhodes, Thornton & Co.

(Chartered Accountants)

32A, Sir Mohamed Macan Markar Mawatha,
P. O. Box 186,
Colombo 00300,
Sri Lanka.

Telephone : + (94-11) 242 6426
Telefax : + (94-11) 244 5872,
244 6058, 254 1249
e-Mail : frt@kpmg.lk

REPORT OF THE AUDITORS

TO THE MEMBERS OF COMMERCIAL BANK OF CEYLON LTD.

We have audited the balance sheet of Commercial Bank of Ceylon Ltd. as at December 31, 2003, the consolidated balance sheet of the Company and its subsidiaries as at that date and the related statements of income, changes in equity and cash flows for the year then ended, together with the accounting policies and notes exhibited on pages 66 to 107 of the annual report.

Respective Responsibilities of Directors and Auditors

The directors are responsible for preparing and presenting these financial statements in accordance with the Sri Lanka Accounting Standards. Our responsibility is to express an opinion on these financial statements, based on our audit.

Basis of Opinion

We conducted our audit in accordance with the Sri Lanka Auditing Standards, which require that we plan and perform the audit to obtain reasonable assurance about whether the said financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the said financial statements, assessing the accounting principles used and significant estimates made by the Directors, evaluating the overall presentation of the financial statements, and determining whether the said financial statements are prepared and presented in accordance with the Sri Lanka Accounting Standards. We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, so far as appears from our examination, the Company maintained proper books of account for the year ended December 31, 2003, and to the best of

our information and according to the explanations given to us, the said balance sheet, and related statements of income, changes in equity and cash flows and the accounting policies and notes thereto, which are in agreement with the said books and have been prepared and presented in accordance with the Sri Lanka Accounting Standards, provide the information required by the Companies Act No. 17 of 1982, and the Banking Act No.30 of 1988 and give a true and fair view of the Bank's state of affairs as at December 31, 2003, and of its profit and cash flow for the year then ended.

In our opinion, the consolidated balance sheet and related statements of income, changes in equity and cash flows and the accounting policies and notes thereto have been properly prepared and presented in accordance with the Companies Act No.17 of 1982, the Banking Act No.30 of 1988 and the Sri Lanka Accounting Standards, and give a true and fair view of the state of affairs as at December 31, 2003, and of its profit and cash flow for the year then ended of the Company and its subsidiaries dealt with thereby, so far as concerns the members of the Company.

Directors' Interests in Contracts with the Company

According to information made available to us, the directors of the Company were not directly or indirectly interested in contracts with the Company during the year ended December 31, 2003, except as stated in Note 35 to these financial statements.

Chartered Accountants

Colombo.

February 17, 2004



KPMG Ford, Rhodes, Thornton & Co.,
a Sri Lankan partnership, is the Sri Lankan member
firm of KPMG International, a Swiss cooperative

R.N. Asirwatham FCA
M.R. Mihular FCA

A.N. Fernando FCA
Ms. M.P. Perera FCA
T.J.S. Rajakarier FCA

R. Seevaratnam FCA
P.Y.S. Perera FCA
W.W.J.C. Perera FCA

S. Sirikananathan FCA
C.P. Jayatilake. FCA

Income Statement

For the year ended December 31,	Note	Bank			Group		
		2003	2002	Change	2003	2002	Change
		Rs. '000	Rs. '000	%	Rs. '000	Rs. '000	%
Net income	1	10,059,107	8,107,000	24.08	9,749,463	8,900,221	9.54
Interest income	2	7,931,460	6,525,204	21.55	7,629,963	7,455,616	2.34
Less: Interest expenses	3	4,218,016	3,746,804	12.58	3,879,452	4,434,859	(12.52)
Net interest income		3,713,444	2,778,400	33.65	3,750,511	3,020,757	24.16
Foreign exchange profit		396,961	464,307	(14.50)	396,961	464,307	(14.50)
Fee and commission income		1,051,205	824,066	27.56	1,051,074	824,066	27.55
Other income	4	679,481	361,012	88.22	671,465	231,819	189.65
		5,841,091	4,427,785	31.92	5,870,011	4,540,949	29.27
Less: National Security Levy		-	67,589	-	-	75,587	-
		5,841,091	4,360,196	33.96	5,870,011	4,465,362	31.46
Less: Operating expenses	5						
Personnel costs		1,386,318	1,115,752	24.25	1,398,203	1,121,382	24.69
Premises, equipment and establishment expenses		860,618	739,949	16.31	832,891	684,043	21.76
Provision for staff retirement benefits	6	311,133	195,812	58.89	311,133	195,812	58.89
Other overhead expenses		705,220	366,697	92.32	708,149	375,485	88.60
		3,263,289	2,418,210	34.95	3,250,376	2,376,722	36.76
Profit before loan losses & provisions and provision for fall in value of investments/foreclosed properties		2,577,802	1,941,986	32.74	2,619,635	2,088,640	25.42
Less: Loan losses & provisions	7	623,207	401,972	55.04	623,207	401,972	55.04
Fall in value of investments/foreclosed properties		-	15,000	-	-	11,275	-
Profit from operations		1,954,595	1,525,014	28.17	1,996,428	1,675,393	19.16
Add/(Less): Share of profit/(loss) before tax of Associate Companies	8	-	-	-	42,653	28,477	49.78
Profit before taxation		1,954,595	1,525,014	28.17	2,039,081	1,703,870	19.67
Less: Provision for taxation	9	477,108	321,000	48.63	501,766	391,323	28.22
Profit after taxation		1,477,487	1,204,014	22.71	1,537,315	1,312,547	17.12
Less: Minority interest		-	-	-	1,715	1,924	(10.86)
Profit attributable to shareholders		1,477,487	1,204,014	22.71	1,535,600	1,310,623	17.17
Earnings per Ordinary Share	10	Rs. 22.17	Rs. 18.70	18.56	Rs. 23.17	Rs. 20.53	12.86
Dividend per Ordinary Share		Rs. 5.00	Rs. 5.00	-	Rs. 5.00	Rs. 5.00	-

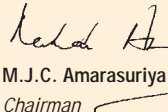
The Accounting Policies and the Notes from pages 71 to 107 form an integral part of these Financial Statements.

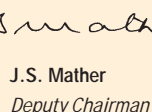
Balance Sheet

As at December 31,		Bank			Group		
		Note	2003 Rs.'000	2002 Rs.'000	Change %	2003 Rs.'000	2002 Rs.'000
ASSETS							
Cash and short-term funds	13	9,001,891	1,835,141	390.53	9,001,991	1,837,038	390.03
Balances with Central Banks	14	5,232,814	3,244,112	61.30	5,232,814	3,244,112	61.30
Government Treasury Bills and Bonds		15,929,715	9,435,800	68.82	20,747,916	16,777,861	23.66
Commercial paper		546,360	1,079,500	(49.39)	546,360	1,079,500	(49.39)
Securities purchased under re-sale agreements		6,183,596	832,296	642.96	3,971,034	1,448,505	174.15
Dealing securities	15	-	200,000	-	-	200,000	-
Investment securities	16	2,605,523	704,898	269.63	2,605,623	704,998	269.59
Treasury Bonds maturing after one year		-	-	-	-	148,249	-
Bills of Exchange	17.1	2,494,806	2,552,264	(2.25)	2,494,806	2,552,264	(2.25)
Loans & advances	17.2	60,482,153	47,239,346	28.03	60,482,153	47,239,346	28.03
Lease receivable within one year	17.3	1,290,733	710,653	81.63	1,276,860	698,310	82.85
Lease receivable from one to five years	17.4	2,073,672	1,210,187	71.35	2,050,070	1,196,626	71.32
		<u>105,841,263</u>	<u>69,044,197</u>	53.29	<u>108,409,627</u>	<u>77,126,809</u>	40.56
Foreclosed properties	18	102,522	110,713	(7.40)	102,522	110,713	(7.40)
Investments in Associate Companies	19	78,331	78,331	-	171,356	140,668	21.82
Investments in Subsidiary Companies	20	429,393	424,393	1.18	-	-	-
Interest and fees receivable		389,738	295,368	31.95	389,738	295,368	31.95
Other assets	21	1,777,719	1,852,936	(4.06)	1,872,115	1,957,936	(4.38)
Property, Plant and Equipment	22	1,660,960	1,545,777	7.45	1,876,881	1,753,125	7.06
		<u>110,279,926</u>	<u>73,351,715</u>	50.34	<u>112,822,239</u>	<u>81,384,619</u>	38.63
FINANCED BY LIABILITIES							
Deposits from customers	23	75,184,547	54,584,518	37.74	75,097,022	54,480,305	37.84
Dividends payable		189,667	117,852	60.94	189,667	121,183	56.51
Borrowings	24	5,405,635	4,200,236	28.70	5,405,635	4,200,236	28.70
Securities sold under re-purchase agreements		10,580,202	1,938,246	445.86	12,950,519	9,921,979	30.52
Other liabilities	25	4,596,283	3,974,456	15.65	4,595,589	3,912,210	17.47
Tax payable		147,924	38,750	281.74	160,903	63,980	151.49
Deferred taxation	26	247,300	243,000	1.77	258,778	252,897	2.33
Debentures	27	2,244,410	500,000	348.88	2,244,410	500,000	348.88
		<u>98,595,968</u>	<u>65,597,058</u>	50.31	<u>100,902,523</u>	<u>73,452,790</u>	37.37
MINORITY INTEREST		-	-	-	13,303	12,830	3.69
SHAREHOLDERS' FUNDS							
Share capital	28	2,603,056	1,324,456	96.54	2,603,056	1,324,456	96.54
Statutory Reserve Fund	29	1,009,000	1,009,000	-	1,009,000	1,009,000	-
Reserves	30	8,071,902	5,421,201	48.90	8,294,357	5,585,543	48.50
Shareholders' funds		<u>11,683,958</u>	<u>7,754,657</u>	50.67	<u>11,906,413</u>	<u>7,918,999</u>	50.35
Total liabilities, minority interest and shareholders' funds		<u>110,279,926</u>	<u>73,351,715</u>	50.34	<u>112,822,239</u>	<u>81,384,619</u>	38.63
Commitments and contingencies	32	38,144,501	24,082,053	58.39	38,144,501	24,082,053	58.39

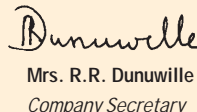
The Accounting Policies and the Notes from pages 71 to 107 form an integral part of these Financial Statements.

Approved and signed for and on behalf of the Board


M.J.C. Amarasinghe
Chairman


J.S. Mather
Deputy Chairman


A.L. Gooneratne
Managing Director


Mrs. R.R. Dunuwille
Company Secretary

February 17, 2004
Colombo.

Cash Flow Statement

<i>For the year ended December 31,</i>	Bank		Group	
	2003 Rs.'000	2002 Rs.'000	2003 Rs.'000	2002 Rs.'000
Cash Flows from Operating Activities				
Interest and commission receipts	8,915,324	7,406,877	8,609,726	8,337,289
Interest payments	(4,218,016)	(3,746,803)	(3,879,452)	(4,434,859)
Recoveries on loans previously provided/written-off	75,627	37,167	75,627	37,167
Foreign exchange profit and other receipts	513,600	492,316	515,964	494,253
Cash payments to employees and suppliers	(3,041,283)	(2,286,138)	(3,008,626)	(2,237,562)
Operating profit before changes in operating assets	2,245,252	1,903,419	2,313,239	2,196,288
(Increase)/Decrease in operating assets:				
Balances with Central Banks	2,160,587	(153,410)	2,160,587	(153,410)
Funds advanced to customers	(8,612,489)	(11,645,995)	(8,600,918)	(11,642,260)
Increase/(Decrease) in operating liabilities:				
Deposits from customers	8,449,375	7,087,843	8,466,063	7,102,777
Negotiable certificates of deposit	(496,859)	1,190,906	(496,859)	1,190,906
Net cash from operating activities before income tax	3,745,866	(1,617,237)	3,842,112	(1,305,699)
Income tax paid	(513,816)	(253,491)	(543,524)	(299,488)
Net cash inflow/(outflow) from operating activities	3,232,050	(1,870,728)	3,298,588	(1,605,187)
Cash Flows from Investing Activities				
Dividends received	337,707	163,814	40,156	32,685
Interest received	63,292	15,653	63,292	15,653
Government Treasury Bills and Bonds	(3,996,187)	(4,128,300)	(1,324,078)	(3,207,835)
Securities purchased under re-sale agreements	(5,272,892)	231,507	(2,156,950)	(519,028)
Securities sold under re-purchase agreements	8,641,956	1,710,552	3,028,540	2,233,812
Commercial paper	533,140	90,500	533,140	90,500
Treasury Bonds	-	-	-	(782,000)
Disposal of Dealing Securities	200,000	-	200,000	-
Additions to investments	(1,948,848)	(445,013)	(1,943,848)	(445,013)
Income from Associate Companies	-	-	10,317	11,580
Proceeds from matured investments	50,000	2,500	50,000	2,500
Purchase consideration on acquisition of Bangladesh operations	(1,933,765)	-	(1,933,765)	-
Purchase of Property, Plant and Equipment	(348,156)	(338,644)	(376,473)	(354,435)
Proceeds from sale of foreclosed properties	-	49,900	-	49,900
Proceeds from sale of Property, Plant and Equipment	30,384	3,630	30,384	3,630
Net cash inflow/(outflow) from investing activities	(3,643,369)	(2,643,901)	(3,779,285)	(2,868,051)
Cash Flows from Financing Activities				
Minority interest	-	-	(1,242)	(1,701)
Proceeds from issue of Preference Shares	1,000,000	-	1,000,000	-
Proceeds from Rights issue of Ordinary Shares	1,908,354	-	1,908,354	-
Proceeds from issue of Debentures	2,244,410	-	2,244,410	-
Redemption of Debentures	(500,000)	-	(500,000)	-
Share issue expenses incurred	(7,775)	(1,164)	(7,775)	(1,164)
Net increase in other borrowings	729,647	2,317,078	801,801	2,262,110
Dividends paid	(376,950)	(237,705)	(380,281)	(234,854)
Net cash inflow/(outflow) from financing activities	4,997,686	2,078,209	5,065,267	2,024,391

Cash Flow Statement (Contd.)

For the year ended December 31,	Bank		Group	
	2003 Rs.'000	2002 Rs.'000	2003 Rs.'000	2002 Rs.'000
Net increase in cash and cash equivalents	4,586,367	(2,436,420)	4,584,570	(2,448,847)
Cash and cash equivalents at beginning of the period	1,835,141	4,271,561	1,837,038	4,285,885
Cash and cash equivalents at end of the period (Refer to Note 13)	6,421,508	1,835,141	6,421,608	1,837,038
Cash and cash equivalents at end of the period Cash balances in Bangladesh branches as at date of acquisition	9,001,891	1,835,141	9,001,991	1,837,038
	(2,580,383)	–	(2,580,383)	–
	6,421,508	1,835,141	6,421,608	1,837,038
Reconciliation of Operating Profit				
Profit before tax	1,954,595	1,525,014	2,039,081	1,703,870
Add/(Less):				
Investment income	(400,999)	(179,467)	(113,765)	(59,919)
Share of (profit)/loss of Associate Companies	–	–	(42,653)	(28,477)
Notional tax credit on interest on Treasury Bills and Bonds	(67,341)	(30,086)	(71,311)	(30,086)
(Profit)/Loss on sale of Property, Plant and Equipment	(361)	(915)	(361)	(915)
(Profit)/Loss on sale of foreclosed properties	–	(20,260)	–	(20,260)
Recoveries not involving movements of funds	–	(7,500)	–	(7,500)
Depreciation	222,006	199,661	241,750	214,747
Loan losses & provisions	623,207	401,972	623,207	401,972
Provision for fall in value of investments/ foreclosed properties	–	15,000	–	11,275
Negative goodwill on acquisition of Bangladesh operations	(7,447)	–	(7,447)	–
Gain on Mark to Market Valuation	(78,408)	–	(365,579)	–
Dividends received from Associate Companies	–	–	10,317	11,581
Operating profit before changes in operating assets	2,245,252	1,903,419	2,313,239	2,196,288

Acquisition of the operations of Credit Agricole Indosuez in Bangladesh.

During the year, the Bank acquired the operations of Credit Agricole Indosuez in Bangladesh. The fair value of assets acquired and liabilities assumed were as follows:

	Rs. '000
Monetary items	1,922,156
Non-Monetary items	19,056
Negative goodwill	(7,447)
Total purchase consideration	1,933,765
Less: Cash balances in Bangladesh branches as at date of acquisition	2,580,383
Cash flow on acquisition net of cash acquired	(646,618)

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Statement of Changes in Equity

	Note	Share Capital							Income Statement	Total
		Ordinary Voting Shares	Ordinary Non-voting Shares	Cum. Red. Preference Shares	Reserve Fund	Share Premium	Revaluation Reserve	General Reserve		
		Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000		
BANK										
Balance as at 31.12.2001		390,000	27,901	906,555	1,009,000	562,066	157,286	3,690,507	1,566	6,744,881
Share issue expenses written-off		-	-	-	-	(1,164)	-	-	-	(1,164)
Profit after tax for the year 2002		-	-	-	-	-	-	-	1,204,014	1,204,014
Transfers during the year 2002		-	-	-	-	-	-	878,000	(878,000)	-
Dividends	11	-	-	-	-	-	-	-	(193,074)	(193,074)
Balance as at 31.12.2002		390,000	27,901	906,555	1,009,000	560,902	157,286	4,568,507	134,506	7,754,657
Final Dividend paid for 2002		-	-	-	-	-	-	-	(133,728)	(133,728)
Issue of Preference Shares		-	-	1,000,000	-	-	-	-	-	1,000,000
Bonus issue of Ordinary Shares		130,000	9,300	-	-	(139,300)	-	-	-	-
Rights issue of Ordinary Shares		130,000	9,300	-	-	1,769,054	-	-	-	1,908,354
Share issue expenses written-off		-	-	-	-	(7,775)	-	-	-	(7,775)
Profit after tax for the year 2003		-	-	-	-	-	-	-	1,477,487	1,477,487
Transfers during the year 2003		-	-	-	-	-	-	939,493	(939,493)	-
Dividends	11	-	-	-	-	-	-	-	(315,037)	(315,037)
Balance as at 31.12.2003		650,000	46,501	1,906,555	1,009,000	2,182,881	157,286	5,508,000	223,735	11,683,958
GROUP										
Balance as at 31.12.2001		390,000	27,901	906,555	1,009,000	562,066	157,286	3,690,507	59,299	6,802,614
Share issue expenses written-off		-	-	-	-	(1,164)	-	-	-	(1,164)
Profit after tax for the year 2002		-	-	-	-	-	-	-	1,310,623	1,310,623
Transfers during the year 2002		-	-	-	-	-	-	878,000	(878,000)	-
Dividends	11	-	-	-	-	-	-	-	(193,074)	(193,074)
Balance as at 31.12.2002		390,000	27,901	906,555	1,009,000	560,902	157,286	4,568,507	298,848	7,918,999
Final Dividend paid for 2002		-	-	-	-	-	-	-	(133,728)	(133,728)
Issue of Preference Shares		-	-	1,000,000	-	-	-	-	-	1,000,000
Bonus issue of Ordinary Shares		130,000	9,300	-	-	(139,300)	-	-	-	-
Rights issue of Ordinary Shares		130,000	9,300	-	-	1,769,054	-	-	-	1,908,354
Share issue expenses written-off		-	-	-	-	(7,775)	-	-	-	(7,775)
Profit after tax for the year 2003		-	-	-	-	-	-	-	1,535,600	1,535,600
Transfers during the year 2003		-	-	-	-	-	-	939,493	(939,493)	-
Dividends	11	-	-	-	-	-	-	-	(315,037)	(315,037)
Balance as at 31.12.2003		650,000	46,501	1,906,555	1,009,000	2,182,881	157,286	5,508,000	446,190	11,906,413

Composition of the unappropriated profit carried forward is given in Note 12 to the Financial Statements.

Significant Accounting Policies

1. General

Commercial Bank is a public quoted company incorporated on June 25, 1969 and domiciled in Sri Lanka. The Consolidated Financial Statements of the Bank for the year ended December 31, 2003 comprise the Bank (parent company) and its Subsidiaries (together referred to as the "Group") and the Group's interest in its Associate Companies.

The Financial Statements were authorised for issue on February 17, 2004.

1.1 Principal Activities

Bank

The principal activities of the Bank are 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, project financing, lease financing, rural credit, issuing of local and international credit cards, telebanking facilities, Internet banking, dealing in Government Securities, bullion trading, factoring, etc.

Subsidiaries

The principal activities of the Bank's Subsidiaries, namely, Commercial Development Co. Ltd., Commercial Bank Primary Dealer Ltd. and ONEzero Company Ltd. are property development, dealing in Government Securities as a Primary Dealer and providing IT related services respectively.

Associates

The principal activities of the Bank's Associates, namely, Commercial Leasing Company Ltd., Equity Investments Lanka Ltd. and Commercial Fund Management (Pvt.) Ltd. are leasing and factoring, venture capital and fund management respectively.

1.2 Basis of Preparation

The Financial Statements of the Bank are prepared under the historical cost convention. No adjustment has been made for inflationary factors affecting the Financial Statements except that certain dealing securities, investment securities, foreclosed properties, land and buildings and Government securities are stated at valuation as explained in Notes 15, 16, 18 and 22 to the Financial Statements. Assets and liabilities are grouped by nature and listed in an order that reflects their relative liquidity. These Financial Statements are prepared in Sri Lanka Rupees unless otherwise stated. Where appropriate the accounting policies are disclosed in the succeeding notes.

1.3 Statement of Compliance

The Financial Statements of the Bank are prepared in accordance with the Sri Lanka Accounting Standards and therefore present fairly the financial position, financial performance and cash flows of the Company.

1.4 Basis of Consolidation

The Bank's Financial Statements comprise the consolidation of the Financial Statements of the Domestic Banking Unit, the Off-shore Banking Centre and the foreign operations that are integral to the Bank. The Group Financial Statements comprise consolidation of the Financial Statements of the Bank, its Subsidiaries in terms of Sri Lanka Accounting Standard No. 26 on Consolidated Financial Statements and Accounting for Investments in Subsidiaries and the proportionate share of the profit/loss of its associate companies in terms of Sri Lanka Accounting Standard No. 27 on Accounting for Investments in Associates.

Significant Accounting Policies

1.4.1 Subsidiaries

Subsidiaries are those enterprises controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The Financial Statements of Subsidiaries are included in the Consolidated Financial Statements from the date that control commences until the date that control ceases. The Consolidated Financial Statements are prepared to a common financial year ending December 31. All Subsidiaries in the Group have a common financial year ending December 31.

A listing of the Group's Subsidiaries is set out in Note No. 20 to the Financial Statements.

The interest of the outside shareholders of the Group is disclosed separately under the heading "Minority Interest".

1.4.2 Associates

Associates are those enterprises in which the Group has significant influence, but no control, over the financial and operating policies. Consolidated Financial Statements include the Group's share of the total recognised gains and losses of the Associates on the Equity Method, from the date that significant influence commences until the date that significant influence ceases.

A listing of the Associate Companies are set out in Note No.19 to the Financial Statements.

1.4.3 Goodwill/Negative Goodwill on acquisition of Subsidiaries and Associates

Goodwill represents the excess of the cost of acquisition over the fair value of the Group's share of the net identifiable assets acquired. Acquired goodwill is recognised in the Consolidated Balance Sheet and amortised on the straight-line basis over a period of 5 years. In respect of Associates the amount of goodwill included in the carrying amount, if any, is amortised over a period of 5 years.

Negative Goodwill arising on an acquisition represents the excess of fair value of the net identifiable assets acquired over the cost of acquisition.

No Goodwill/Negative Goodwill arose from the treatment of Associates under the Equity Method since Commercial Bank had the respective percentages of ownership in Associates from the commencement of those Associates.

1.4.4 Goodwill/Negative Goodwill on acquisition of Foreign operations that are integral to the operations of the Bank

Goodwill represents the excess of the cost of acquisition over the fair value of the net identifiable assets acquired. Acquired goodwill 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.

Negative Goodwill arising on an acquisition represents the excess of the fair value of the net identifiable assets acquired over the cost of acquisition. Negative goodwill is used to reduce proportionately the value of non-monetary assets acquired until such excess is completely eliminated.

1.4.5 Transactions Eliminated on Consolidation

Inter-company transactions and balances and any unrealised gains arising from such inter-company transactions and balances have been eliminated 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 unless there is evidence of impairment in value.

Significant Accounting Policies

1.5 Foreign Currency Translation

1.5.1 Transactions in foreign currencies are translated to Sri Lanka Rupees at the middle rate of exchange ruling at the date of the transaction. Monetary items denominated in foreign currencies at the Balance Sheet date are translated to Sri Lanka Rupees at the middle rate of exchange ruling at that date. Foreign exchange differences arising on the settlement or reporting of the Bank's monetary items at rates different from those which were initially recorded are dealt in the Income Statement. Non-monetary Items denominated in foreign currencies that are stated at fair value are translated to Sri Lankan Rupees at foreign exchange rates ruling at the dates the values were determined.

1.5.2 Forward exchange contracts are valued at the forward market rates ruling on the date of the Balance Sheet. Unrealised gains and losses are dealt with through the Income Statement.

1.5.3 Transactions of the Off-shore Banking Center and the overseas branches have been recorded in accordance with the paragraph 1.5.1 above except for the application of yearly average rate for the Income Statement.

1.6 Taxation

Provision for taxation is made on the basis of the profit for the year as adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No. 38 of 2000 at the rates specified in Note No. 9 to the Financial Statements. Provision for taxation on the overseas branches is made on the basis of the profit for the year as adjusted for taxation purposes in accordance with the provisions of the relevant statutes.

1.7 Deferred Taxation

Deferred taxation is provided on the liability method and the balance of the Deferred Taxation Account represents income tax applicable to the difference between the written down values for tax purposes of the assets on which depreciation allowances are claimed and the net book value of such assets. Provision has not been made for deferred taxation on assets leased to customers since timing differences on these assets are not expected to reverse for the next three years and is unlikely to reverse within a reasonable period thereafter either, in view of the Bank maintaining the current scale of leasing activity.

1.8 Comparative Figures

Amounts shown for the previous year in respect of Treasury Bills and Bonds, Securities purchased under re-sale agreements and Securities sold under re-purchase agreements have been reclassified to facilitate comparison.

1.9 Events After the Balance Sheet Date

All the material events after the Balance Sheet date have been considered and appropriate adjustments/disclosures have been made in the Financial Statements, where necessary.

2. Assets and Bases of their Valuation

2.1 Advances to Customers

Advances to customers are stated in the Balance Sheet net of provisions for possible loan losses and net of interest, which is not accrued to revenue.

Significant Accounting Policies

2.1.1 Provision for Loan Losses

Specific provisions for possible loan losses are based on a continuous review of the loans and advances portfolio in accordance with the Sri Lanka Accounting Standard No. 23 on Revenue Recognition and Disclosures in the Financial Statements of Banks and the parameters set by the Central Bank of Sri Lanka. Accordingly, specific provisions have been made as follows:

Period outstanding	Classification	Provision made net of realisable value of security
6 to 12 months	Sub-standard	20%
12 to 18 months	Doubtful	50%
18 months and over	Loss	100%

Where necessary provisions have been made over and above the minimum percentages on a case by case basis.

2.2 Finance Leases

Assets leased to customers which transfer substantially all the risks and rewards associated with ownership other than legal title are accounted for as finance leases.

Amounts receivable under finance leases net of initial rentals received, unearned lease income and provision for rentals doubtful of recovery are classified as Lease Receivable in the Balance Sheet.

2.2.1 Provision for Lease Receivable

Specific provision has been made in relation to identified bad and doubtful leases.

In addition, a general provision for possible losses on Lease Receivable is made at 3% of the total Lease Receivable, in conformity with the industry practice.

2.3 Credit Card Receivable

Amounts receivable on Credit Cards are included in advances to customers at the amounts expected to be recovered.

2.3.1 Provision for Credit Card Receivable

100% specific provision is made on Credit Card Receivable outstanding for 6 months and over.

In addition, a general provision is made at 3% on the capital included in Credit Card Receivable up to 6 months.

2.4 Government of Sri Lanka Treasury Bills and Bonds

2.4.1 Investments in Treasury Bills and Treasury Bonds

Investment in Treasury Bills and Treasury Bonds in the trading portfolio are marked to market and carried at that value in the Balance Sheet. Gains and losses on mark to market valuation are dealt with through the Income Statement.

2.4.2 Long Term Investments in Treasury Bonds

Long-term investments in Treasury Bonds are reflected at the value of the Bonds purchased and the discount/premium accrued thereon. Discount received/premium paid is taken to the Income Statement based on a pattern reflecting a constant periodic rate of return.

2.4.3 Securities Purchased under Re-sale Agreements.

These are advances collateralised by purchase of treasury bills and treasury bonds from the public subject to a commitment to re-sale them at a predetermined price. Such securities remain on the Balance Sheet of the Bank and the asset is recorded in respect of the consideration paid and interest accrued thereon.

Significant Accounting Policies

2.5 Investments

2.5.1 *Dealing Securities*

These are marketable securities acquired and held with the intention of resale over a short period of time. Such securities are marked to market at the Balance Sheet date.

2.5.2 *Investment Securities*

These are acquired and held for yield or capital growth in the medium to long term. Such securities are generally recorded at cost. Changes in market values of those securities are not taken into account, unless there is considered to be a diminution in value which is other than temporary.

2.5.3 *Foreclosed Properties*

Foreclosed properties acquired in full or partial satisfaction of debts, are accounted for at the lower of cost or market value on an individual property basis. The shortfall between the prevailing market value of the foreclosed asset and the related loan outstanding is recognised as a provision for loan losses in the Income Statement in the year of taking over the foreclosed properties in satisfaction of the debt. Foreclosed properties are marked to market at least once during the financial year. Any shortfall is taken to the Income Statement.

Subsequent gains and losses on the disposal of the foreclosed assets are treated as provisions written back or charged to Income Statement respectively.

2.5.4 *Investments in Associates*

Investments in Associates are accounted for under the Cost Method in the Bank's Financial Statements in accordance with the Sri Lanka Accounting Standard No. 27 on Accounting for Investments in Associates.

2.5.5 *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 on Consolidated Financial Statements and Accounting for Investments in Subsidiaries.

2.6 Property, Plant and Equipment

2.6.1 Property, Plant and Equipment are recorded at cost of purchase or construction or valuation together with any incidental expenses thereon. These assets are stated at cost/valuation less accumulated depreciation which is provided for on the basis specified in 2.6.2 below.

2.6.2 Depreciation is provided at the following rates on straight-line basis over the periods appropriate to the estimated useful lives of the different types of assets:

Leasehold properties	over the period of lease
Freehold buildings	2.5% per annum
Motor vehicles	20% per annum
Computer equipment	16.67% per annum
Office equipment	20% per annum
Furniture & fittings	10% per annum
Interior decorations	10% per annum

Depreciation is provided on a pro-rata basis on the assets purchased/constructed/disposed of during the year. Depreciation is not provided for freehold land.

Significant Accounting Policies

2.6.3 Depreciation is provided in the Financial Statements of the Bank's Subsidiary, Commercial Development Co. Ltd. at the following rates on straight-line basis over the periods appropriate to the estimated useful lives of the different types of assets:

Leasehold properties	over the period of lease (99 years)
Freehold buildings	2.5% per annum
Motor vehicles	20% per annum
Computer equipment	20% per annum
Office equipment	10% per annum
Machinery & equipment	10% per annum

Full depreciation is provided on the assets purchased and used during the year. Depreciation is not provided on the assets disposed of during the year.

2.6.4 The revaluation surplus included in equity will be transferred to retained earnings if the underlying assets are sold.

3. Liabilities and Provisions

3.1 Commitments and Contingencies

All discernible risks are accounted for in determining the amount of other liabilities. 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.

3.2 Defined Benefit Plans

3.2.1 Pensions and Retirement Benefits

3.2.1.1 Description of the Plan and Employee Groups Covered

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 or 50 years of age depending on the retirement age applicable to the respective employees (55 years or 60 years) as at January 1, 1992 are covered by the Pension Fund in order to leave a minimum contribution for a period of 10 years before they are eligible for pension. Only the employees who joined the Bank on or before December 31, 2002 are in pensionable service of the Bank.

3.2.1.2 Funding Arrangements

The Bank contributes to the Pension Fund and the Widows' & Orphans' Pension Scheme monthly based on a percentage of gross emoluments excluding certain allowances and bonus. The percentages of contribution are as recommended by the Actuary. The Pension Fund is non-contributory while employees contribute 75% of the recommended contribution rate to the Widows' & Orphans' Pension Scheme.

3.2.1.3 Actuarial Valuation and Actuarial Valuation Method

An actuarial valuation is undertaken at least every three years to ascertain the full liability. The liability is calculated on ongoing basis.

An Actuarial Valuation of the Pension Fund and the Widows' & Orphans' Pension Scheme was carried out as at December 31, 2003 by M/s. Piyal S. Goonetilleke & Associates. The valuation has been carried out based on the Projected Unit Credit method, the benchmark treatment recommended by the Sri Lanka Accounting Standard No. 16 on Retirement Benefits Costs.

Significant Accounting Policies

3.2.1.4 Principal Actuarial Assumptions

The principal financial assumptions used in the valuation are as follows:

Long-term Rate of interest	7.50%	p.a.
Salary increases	8% - 10%	p.a.

The demographic assumptions underlying the valuation are retirement age (55 or 60 years), early withdrawals from service, retirement on medical grounds, death before and after retirement, etc.

3.2.1.5 Unfunded Pension Liability

The results revealed that the actuarial present value of the promised retirement benefits is Rs. 2,376.791 million and that the fair value of the fund assets is Rs. 1,487.880 million resulting in a past service deficit totalling to Rs. 888.911 million (Rs. 478.128 million in 2002) in the Pension Fund and the Widows' & Orphans' Pension Scheme due to the changes in actuarial assumptions (i.e. interest rate, salary increases, etc.) that took place since the previous actuarial valuation as at December 31, 2002. In addition to the monthly contributions, the Bank provided a further Rs. 200.000 million (Rs. 100.000 million in 2002) to the Pension Fund and the Widows' & Orphans' Pension Scheme, resulting in the past service deficit being reduced to Rs. 688.911 million as at December 31, 2003 (Rs. 378.128 million in 2002).

However, since both the Pension Fund and the Widows' & Orphans' Pension Scheme are solvent on discontinuance basis (i.e. assuming that these funds are terminated on the valuation date) the Actuary recommended the amortisation of the past service deficit by regular contributions over the full working lifetime of the current employees by incorporating it into the ongoing contribution rate. Commencing January 2004, contributions are made to the Pension Fund and to the Widows' & Orphans' Pension Scheme by the Bank and the employees as recommended by the Actuary.

3.2.1.6 Management of the Fund's Assets

The assets of the Pension Fund and the Widows' & Orphans' Pension Scheme are held separately from those of the Bank and independently administered by the Trustees as per the provisions of the Trust Deed.

3.2.2 *Gratuity*

Provision has not been made in these Financial Statements for gratuity payable under the Payment of Gratuity Act No. 12 of 1983 to those employees who joined the Bank on or before December 31, 2002, as they are in pensionable service of the Bank and that the Bank has its own non-contributory retirement pension scheme in force. However, if any of these employees who is eligible for gratuity resigns before retirement the Bank is liable to pay gratuity to such employees.

Provision has been made in these Financial Statements for retirement gratuities from the first year of service for all the employees who joined the Bank on or after January 1, 2003, as they are not in pensionable service of the Bank, in conformity with the Sri Lanka Accounting Standard No.16 on Retirement Benefits Costs. However, under the Payment of Gratuity Act No.12 of 1983, the liability to an employee arises only on completion of 5 years of continued service.

3.3 Defined Contribution Plans

Contributions to defined contribution pension plans are recognised as an expense in the Income Statement as incurred.

3.3.1 *Employees' Provident Fund*

The Bank and employees contribute to the approved private Provident Fund at 12% and 8% respectively.

Significant Accounting Policies

3.3.2 Employees' Trust Fund

The Bank contributes to the Employees' Trust Fund at 3%.

3.4 Securities sold under Re-purchase 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 a commitment to repurchase them at a pre-determined price. Such securities remain on the Balance Sheet of the Bank and the liability is recorded in respect of the consideration received and interest accrued thereon.

3.5 Provisions for Liabilities

A provision is recognised in the Balance Sheet when the Bank 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 obligations, in accordance with the Sri Lanka Accounting Standard No. 36 on Provisions, Contingent Liabilities and Contingent Assets.

4. Income Statement

4.1 Revenue Recognition

4.1.1 Interest Income

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 is recognised on accrual basis. Interest ceases to be taken into revenue when the recovery of interest or principal is in arrears for over three months. Interest on advances classified as non-performing is accounted for on a cash basis. Interest falling due on non-performing advances is credited to Interest in Suspense Account. In addition, interest accrued up to three months on such non-performing advances is also eliminated from the interest income and transferred to interest in suspense.

4.1.2 Lease Income

In terms of the provisions of the Sri Lanka Accounting Standard No. 19 on Leases, the recognition of finance income on leasing is done 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 the capital outstanding.

Finance income in respect of lease rentals due ceases to be taken to revenue when they are in arrears for three months. Thereafter such income is recognised on a cash basis. Interest accrued up to three months on such non-performing leases is also eliminated from the interest income and transferred to interest in suspense.

4.1.3 Income on Discounting of Bills of Exchange

Income on discounting of Bills of Exchange is recognised proportionately over the period of the instrument.

4.1.4 Fees and Commission Income

Fees and commission income arises on financial services provided by the Group including Trade Finance, Travel, Investment Banking, e-banking, Credit Cards, Legal, etc. Fees and commission income other than fees receivable on Credit Cards are recognised on a cash basis.

4.1.5 Dividend Income on Shares and Units

Dividend income from shares and units is recognised in the period in which they are declared and approved.

Significant Accounting Policies

4.1.6 Interest Income on Investments in Debentures and Trust Certificates

Interest income on investments in Debentures and Trust Certificates is recognised on accrual basis.

4.1.7 Rental Income

Rental income is recognised on accrual basis.

4.1.8 Credit Card Receivable

Interest and fees receivable on Credit Cards is recognised on accrual basis. Interest and fees ceases to be taken into revenue when the recovery of interest or fees is in arrears for over three months. Thereafter interest and fees are accounted for on cash basis.

4.1.9 Gains or Losses on Disposal of Property, Plant and Equipment and Foreclosed Properties

Net gains and losses resulting from the disposal of Property, Plant and Equipment and Foreclosed Properties have been accounted for on a cash basis in the Income Statement.

4.2 Interest and other Expenses

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 and other expenses payable are recognised on accrual basis in the Income Statement.

4.3 Borrowing Costs

Costs incurred in respect of funds specifically obtained for the acquisition of the Property, Plant and Equipment have been recognised as an expense in the Income Statement, in the period in which they are incurred in terms of Sri Lanka Accounting Standard No. 20 on Borrowing Costs.

4.4 Terminal Benefits

The actual amounts paid as pension and retirement gratuities to those employees, who are not covered by the Pension Fund as per 3.2.1 above, are charged to the Income Statement. The actual amounts paid as pension to those employees who are covered by the Pension Fund are borne by the Retirement Pension Fund.

4.5 Off-Balance Sheet Transactions

The Bank enters into off-balance sheet transactions such as currency swaps. At the year end unrealised gains and losses are dealt with through the Income Statement.

5. Cash Flow Statement

The Cash Flow Statement has been prepared by using the "Direct Method" of preparing cash flows in accordance with the Sri Lanka Accounting Standard No. 9 on Cash Flow Statements. Cash and cash equivalents comprise mainly of cash balances, loans at call and short-term placements/balances with foreign banks.

6. Segmental 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 Accounts. The segments comprise of banking, leasing, dealing and property/ investment.

7. Directors' Responsibility Statement

The Board of Directors takes the responsibility for the preparation and presentation of these Financial Statements. Please refer page 63 for the Statement of Directors' Responsibility.

Notes to the Accounts

1. Net Income

	Bank		Group	
	2003 Rs. '000	2002 Rs. '000	2003 Rs. '000	2002 Rs. '000
Gross income	10,059,107	8,364,190	9,749,463	9,165,409
Less: Turnover based taxes:				
National Security Levy recovered from customers	-	189,601	-	189,601
National Security Levy paid by the Bank/Group	-	67,589	-	75,587
Net income	<u>10,059,107</u>	<u>8,107,000</u>	<u>9,749,463</u>	<u>8,900,221</u>

Income of the Bank resulted mainly from the business of banking and related activities.

2. Interest Income

Customer advances	6,246,573	5,601,989	6,240,325	5,601,989
Treasury bills, Treasury bonds, Placements with other Banks and other Money market instruments	1,684,887	923,215	1,389,638	1,853,627
	<u>7,931,460</u>	<u>6,525,204</u>	<u>7,629,963</u>	<u>7,455,616</u>

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 9.

3. Interest Expenses

Customer deposits	3,256,406	3,451,588	3,252,909	3,447,630
Debentures	186,288	67,627	186,288	67,627
Short-term borrowings and refinance	746,567	214,019	411,500	906,032
Other interest expenses	28,755	13,570	28,755	13,570
	<u>4,218,016</u>	<u>3,746,804</u>	<u>3,879,452</u>	<u>4,434,859</u>

4. Other Income

Income from investment securities (quoted)	36,793	21,924	36,793	21,924
Income from investment securities (unquoted)	57,068	10,654	57,735	10,654
Income from investments in Associates (quoted)	8,716	10,553	8,716	10,553
Income from investments in Associates (unquoted)	1,601	1,028	1,601	1,028
Income from investments in Subsidiaries (quoted)	19,401	26,549	-	-
Income from investments in Subsidiaries (unquoted)	268,500	93,000	-	-
Income from Unit Trust Company	8,920	15,759	8,920	15,759
Bad debts recovered (including recovery of debts written-off)	75,627	44,667	75,627	44,667
Profit/(Loss) on sale of Property, Plant and Equipment and Foreclosed Properties	361	21,175	361	21,175
Rental and other income	116,639	28,010	119,003	29,947
Gain on Mark to Market Valuation / Realised Capital Gains	78,408	87,693	365,579	87,693
Negative Goodwill on acquisition of Bangladesh operations	7,447	-	7,447	-
	<u>679,481</u>	<u>361,012</u>	<u>681,782</u>	<u>243,400</u>
Less: Dividends received from Associate Companies transferred to investments in Associate Companies Account	-	-	10,317	11,581
	<u>679,481</u>	<u>361,012</u>	<u>671,465</u>	<u>231,819</u>

Notes to the Accounts

5. Operating Expenses

	Bank		Group	
	2003 Rs.'000	2002 Rs.'000	2003 Rs.'000	2002 Rs.'000
Operating expenses include the following:				
Executive Director's emoluments	13,467	10,962	13,467	10,962
Directors' fees	2,620	2,580	2,746	2,706
Auditors' remuneration	2,699	1,736	2,781	1,761
Non-Audit fees	2,839	474	3,142	474
Terminal benefits	25,392	21,015	25,730	21,660
Pensions paid to past Directors	1,712	1,622	1,712	1,622
Depreciation/amortisation	222,006	199,661	241,750	214,747
Professional and legal expenses	30,456	17,905	30,857	18,059
Donations	3,777	1,113	3,782	1,155
Employer's contribution to Employees' Provident Fund	83,718	71,850	84,125	72,354
Employer's contribution to Employees' Trust Fund	20,248	17,819	20,350	17,947
Gratuity provision	1,609	-	1,947	640
Special VAT on profits	272,479	-	287,688	-

6. Provision for Staff Retirement Benefits

A sum of Rs. 311.133 million (Rs. 195.812 million in 2002) has been charged against profits being the total contributions for the year to the approved Pension Fund and Widows' & Orphans' Pension Scheme.

7. Loan Losses and Provisions

	Bank		Group	
	2003 Rs.'000	2002 Rs.'000	2003 Rs.'000	2002 Rs.'000
Provision for bad & doubtful debts :				
Specific provision on loans and advances	480,891	332,627	480,891	332,627
General provision on credit card receivables	1,163	649	1,163	649
Specific provision on credit card receivables	5,659	15,202	5,659	15,202
General provision on lease receivable	44,750	20,000	44,750	20,000
Specific provision on lease receivable	9,156	13,944	9,156	13,944
Total provision made during the year	541,619	382,422	541,619	382,422
Direct write-offs	81,588	19,550	81,588	19,550
	623,207	401,972	623,207	401,972

8. Share of Profit/(Loss) before tax of Associate Companies

Commercial Leasing Co. Ltd.	-	-	36,951	18,790
Equity Investments Lanka Ltd.	-	-	1,932	867
Commercial Fund Management (Pvt) Ltd.	-	-	3,770	1,286
Net adjustment arising on equity accounting	-	-	-	7,534
	-	-	42,653	28,477

Notes to the Accounts

	Bank		Group	
	2003 Rs.'000	2002 Rs.'000	2003 Rs.'000	2002 Rs.'000
9. Provision for Taxation				
9.1 Charge to taxation is as follows:				
Bank				
Income tax on profits for the year	503,525	243,000	505,681	243,000
Over provision for taxation in previous years	(30,717)	-	(30,717)	-
Transfer to deferred taxation	4,300	78,000	4,300	78,000
	477,108	321,000	479,264	321,000
Subsidiary Companies				
Income tax on profits of Commercial Development Co. Ltd.	-	-	15,229	19,329
Income tax on profits of Commercial Bank Primary Dealer Ltd.	-	-	5,623	48,983
Income tax on profits of ONEzero Co. Ltd.	-	-	-	-
Associate Companies				
Income tax on profits of Commercial Leasing Co. Ltd.	-	-	1,514	2,228
Income tax on profits of Equity Investments Lanka Ltd.	-	-	41	(217)
Income tax on profits of Commercial Fund Management (Pvt) Ltd.	-	-	95	-
	477,108	321,000	501,766	391,323

Income tax has been provided on the taxable income at the following rates:

	2003	2002
Domestic operations of the Bank	30.00%	30.00%
On-shore banking operations of the Off-shore Banking Centre of the Bank (From January 1, 2003 to June 30, 2003)	15.00%	10.00%
On-shore banking operations of the Off-shore Banking Centre of the Bank (From July 1, 2003 to December 31, 2003)	30.00%	10.00%
Off-shore banking operations of the Off-shore Banking Centre of the Bank	-	-
Operations of the Bangladesh branches	45.00%	-
Commercial Development Co. Ltd.	30.00%	30.00%
Commercial Bank Primary Dealer Ltd.	32.50%	35.00%
ONEzero Co. Ltd.	-	-

Notional credit for withholding tax on Government Securities on Secondary Market Transactions

The Inland Revenue (Amendment) bill passed by the Parliament on January 21, 2004 (pending certification), provides that a company which derives interest income from the secondary market transactions in Government Securities (on or after April 1, 2002) would be entitled to a notional credit (being one ninth of the net interest income) provided such interest income forms part of the statutory income of the Company for that year of assessment.

Accordingly, the net income earned by the Bank and Commercial Bank Primary Dealer Ltd. from the secondary market transactions in Government Securities for the year, has been grossed up in the Financial Statements and the resulting notional tax credit amounts to Rs. 67.341 million (Rs. 30.086 million in 2002) and Rs. 3.982 million (Nil in 2002) respectively.

9.2 Reconciliation of Accounting Profit and Taxable Income

	Bank	
	2003 Rs.'000	2002 Rs.'000
Net profit as per the Income Statement	1,954,595	1,525,014
Add: Disallowable expenses	721,378	326,499
	2,675,973	1,851,513
Less: Allowable expenses	731,313	355,560
Assessable income	1,944,660	1,495,953
Less: Exempt Dividends and Interest income	551,418	479,783
	1,393,242	1,016,170
Less: Qualifying payments	3,535	930
Taxable income	1,389,707	1,015,240

Notes to the Accounts

	Bank	
	2003 Rs.'000	2002 Rs.'000
Income tax provision for the year is made up as follows:		
Income tax on profit of the Domestic Banking Unit	280,182	207,569
Income tax on profit of the Off-shore Banking Centre	48,691	35,431
Income tax on profit of the operations of Bangladesh branches	174,652	-
Over provision for taxation in previous years	(30,717)	-
Provision for deferred tax	4,300	78,000
	<u>477,108</u>	<u>321,000</u>
Effective tax rate	<u>24.41%</u>	<u>21.05%</u>

10. Earnings per Ordinary Share

Earnings per ordinary share has been calculated by dividing the profit after taxation attributable to the ordinary shareholders by the average number of ordinary shares in issue (both voting and non-voting) during the year determined by weighting the shares in issue on a time basis as required by the Sri Lanka Accounting Standard No. 34 on Earnings per Share. The corresponding figures for the previous years have been adjusted accordingly.

	Bank		Group	
	2003 Rs.'000	2002 Rs.'000	2003 Rs.'000	2002 Rs.'000
Profit after taxation and Minority Interest	1,477,487	1,204,014	1,535,600	1,310,623
Less: Dividends on Cumulative Redeemable Preference Shares	189,667	117,852	189,667	117,852
Profit attributable to Ordinary Shareholders	<u>1,287,820</u>	<u>1,086,162</u>	<u>1,345,933</u>	<u>1,192,771</u>
Ordinary Shares used as Denominator (No.)	<u>58,086,384</u>	<u>58,086,384</u>	<u>58,086,384</u>	<u>58,086,384</u>
Earnings per Ordinary Share (Rs.)	<u>22.17</u>	<u>18.70</u>	<u>23.17</u>	<u>20.53</u>

11. Dividends

	Bank		Group	
	2003 Interim 18% (Paid on Dec. 23, '03) Rs.'000	2002 Interim 18% (Paid on Dec. 23, '02) Rs.'000	2003 Interim 18% (Paid on Dec. 23, '03) Rs.'000	2002 Interim 18% (Paid on Dec. 23, '02) Rs.'000
On Ordinary Shares				
Net dividend paid to the Shareholders	125,370	75,222	125,370	75,222
Withholding tax deducted at source	-	-	-	-
Gross dividend	<u>125,370</u>	<u>75,222</u>	<u>125,370</u>	<u>75,222</u>
On Preference Shares				
Dividend payable on Cumulative Redeemable Preference Shares of Rs. 10/- each for the year/period				
Net dividend payable/paid	170,700	106,067	170,700	106,067
Withholding tax to be deducted/deducted at source	18,967	11,785	18,967	11,785
Gross dividend	<u>189,667</u>	<u>117,852</u>	<u>189,667</u>	<u>117,852</u>
Total dividend	<u>315,037</u>	<u>193,074</u>	<u>315,037</u>	<u>193,074</u>

Notes to the Accounts

18% interim dividend paid in December 2003 to the Ordinary Shareholders was paid out of the exempt dividends received by the Bank (Rs. 10.383 million in 2002). The effective interim dividend rate was 20% for the year (15.34% for 2002).

Directors have recommended the payment of a final dividend of 32% for the year ended December 31, 2003 (32% in 2002), which will be declared at the Annual General Meeting to be held on March 26, 2004. In accordance with Sri Lanka Accounting Standard No. 12 (Revised) on Events After the Balance Sheet Date, this proposed final dividends have not been recognised as a liability as at the year end.

12. Unappropriated Profit/(Loss) carried forward

	Bank		Group	
	2003 Rs.'000	2002 Rs.'000	2003 Rs.'000	2002 Rs.'000
Commercial Bank of Ceylon Ltd.	223,735	134,506	149,524	60,295
Subsidiary Companies				
Commercial Development Co. Ltd.	-	-	30,604	22,408
Commercial Bank Primary Dealer Ltd.	-	-	172,753	153,808
ONEzero Co. Ltd.	-	-	284	-
Associate Companies				
Commercial Leasing Co. Ltd.	-	-	97,363	70,641
Equity Investments Lanka Ltd.	-	-	(5,732)	(6,022)
Commercial Fund Management (Pvt) Ltd.	-	-	1,394	(2,282)
	<u>223,735</u>	<u>134,506</u>	<u>446,190</u>	<u>298,848</u>

13. Cash and Short-Term Funds

Coins and notes held in local currency	1,110,090	758,286	1,110,090	758,286
Coins and notes held in foreign currency	239,823	258,219	239,823	258,219
Current Account with Central Bank of Sri Lanka	-	-	100	1,897
Placements/balances with foreign banks	7,641,978	818,636	7,641,978	818,636
Loans at call and short notice	10,000	-	10,000	-
	<u>9,001,891</u>	<u>1,835,141</u>	<u>9,001,991</u>	<u>1,837,038</u>

14. Balances with Central Banks

Bank's Current Account with Central Bank of Sri Lanka	3,737,993	3,244,112	3,737,993	3,244,112
Bank's Current Account with Bangladesh Bank	1,494,821	-	1,494,821	-
	<u>5,232,814</u>	<u>3,244,112</u>	<u>5,232,814</u>	<u>3,244,112</u>

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, 2003 the minimum cash reserve requirement was 10% of the rupee deposit liabilities. 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.

15. Dealing Securities

	Bank				Group			
	As at 31.12.03		As at 31.12.02		As at 31.12.03		As at 31.12.02	
	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								
Sri Lanka Telecom Ltd. (13,333,300 Ordinary Shares of Rs. 10/- each)	-	-	200,000	200,000	-	-	200,000	200,000
			(@ Rs. 15/-)*				(@ Rs. 15/-)*	
	<u>-</u>	<u>-</u>	<u>200,000</u>	<u>200,000</u>	<u>-</u>	<u>-</u>	<u>200,000</u>	<u>200,000</u>

* The market value of the shares of Sri Lanka Telecom Ltd. has been arrived at based on the issue price of Rs. 15/- per share, since these shares commenced trading after December 31, 2002.

Notes to the Accounts

16. Investment Securities

	Bank							
	As at 31.12.03		As at 31.12.02		As at 31.12.03		As at 31.12.02	
	Cost	Market Value/ Manager's Buying Price	Cost	Market Value/ Manager's Buying Price	Cost	Market Value/ Manager's Buying Price	Cost	Market Value/ Manager's Buying Price
Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	
Quoted								
SHARES								
Hatton National Bank Ltd. (2,750 Ordinary Shares of Rs. 10/- each)	254	191 (@ Rs. 69.50)	254	217 (@ Rs. 79/-)	254	191 (@ Rs. 69.50)	254	217 (@ Rs. 79/-)
Sampath Bank Ltd. (1,000 Ordinary Shares of Rs. 10/- each)	49	84 (@ Rs. 83.50)	49	72 (@ Rs. 72/-)	49	84 (@ Rs. 83.50)	49	72 (@ Rs. 72/-)
Seylan Bank Ltd. (1,000 Ordinary Shares of Rs. 10/- each)	24	47 (@ Rs. 47/-)	24	52 (@ Rs. 52/-)	24	47 (@ Rs. 47/-)	24	52 (@ Rs. 52/-)
National Development Bank (1,500 Ordinary Shares of Rs. 10/- each)	198	213 (@ Rs. 142.25)	198	136 (@ Rs. 90.75)	198	213 (@ Rs. 142.25)	198	136 (@ Rs. 90.75)
DFCC Bank (5,905,259 Ordinary Shares of Rs. 10/- each) (3,368,359 Ordinary Shares of Rs. 10/- each as at December 31, 2002)	1,052,170	1,594,420 (@ Rs. 270/-)	251,545	522,096 (@ Rs. 155/-)	1,052,170	1,594,420 (@ Rs. 270/-)	251,545	522,096 (@ Rs. 155/-)
Mercantile Leasing Ltd. (325,000 Ordinary Shares of Rs. 10/- each)	6,500	7,638 (@ Rs. 23.50)	6,500	7,638 (@ Rs. 23.50)	6,500	7,638 (@ Rs. 23.50)	6,500	7,638 (@ Rs. 23.50)
Nations Trust Bank (1,000 Ordinary Shares of Rs. 10/- each)	14	29 (@ Rs. 28.50)	14	17 (@ Rs. 16.75)	14	29 (@ Rs. 28.50)	14	17 (@ Rs. 16.75)
NDB Bank (1,725 Ordinary Shares of Rs. 10/- each)	17	35 (@ Rs. 20/-)	17	25 (@ Rs. 14.75)	17	35 (@ Rs. 20/-)	17	25 (@ Rs. 14.75)
DEBENTURES								
National Development Bank (12.5% - 2004) (10,000 Debentures of Rs. 1,000/- each)	10,000	10,200 (@ Rs. 1,020/-)	10,000	10,000 (@ Rs. 1,000/-)	10,000	10,200 (@ Rs. 1,020/-)	10,000	10,000 (@ Rs. 1,000/-)
Sri Lanka Telecom Ltd. (13% - 2005) (5,000 Debentures of Rs. 1,000/- each) (7,500 Debentures of Rs. 1,000/- each as at December 31, 2002)	5,000	2,625 (@ Rs. 525/-)	7,500	5,625 (@ Rs. 750/-)	5,000	2,625 (@ Rs. 525/-)	7,500	5,625 (@ Rs. 750/-)
Aitken Spence & Company Ltd. (15.25% - 2004) (237,718 Debentures of Rs. 100/- each)	23,772	23,772 (@ Rs. 100/-)	23,772	23,772 (@ Rs. 100/-)	23,772	23,772 (@ Rs. 100/-)	23,772	23,772 (@ Rs. 100/-)
Hatton National Bank Ltd. (12% - 2007) (60,000 Debentures of Rs. 100/- each)	6,000	6,210 (@ Rs. 103.50)	6,000	5,970 (@ Rs. 99.50)	6,000	6,210 (@ Rs. 103.50)	6,000	5,970 (@ Rs. 99.50)
UNITS								
Comtrust Equity Fund (25,281,998 Units of Rs.10/-each)	132,730 *	205,290 (@ Rs. 8.12)	132,730 *	165,850 (@ Rs. 6.56)	132,730 *	205,290 (@ Rs. 8.12)	132,730 *	165,850 (@ Rs. 6.56)
Namal Optima Fund (5,000,000 Units of Rs.10/-each)	-	-	50,000	57,600 (@ Rs. 11.52)	-	-	50,000	57,600 (@ Rs. 11.52)
	<u>1,236,728</u>	<u>1,850,754</u>	<u>488,603</u>	<u>799,070</u>	<u>1,236,728</u>	<u>1,850,754</u>	<u>488,603</u>	<u>799,070</u>
Unquoted								
SHARES								
Credit Information Bureau of Sri Lanka (4,400 Ordinary Shares of Rs. 10/- each)	440	440 (@ Rs. 100/-)	440	440 (@ Rs. 100/-)	440	440 (@ Rs. 100/-)	440	440 (@ Rs. 100/-)
Fitch Ratings Lanka Ltd. (62,500 Ordinary Shares of Rs. 10/- each)	625	625 (@ Rs. 10/-)	625	625 (@ Rs. 10/-)	625	625 (@ Rs. 10/-)	625	625 (@ Rs. 10/-)
Lanka Clear (Pvt) Ltd. (1,000,000 Ordinary Shares Rs.10/- each)	10,000	10,000 (@ Rs. 10/-)	10,000	10,000 (@ Rs. 10/-)	10,000	10,000 (@ Rs. 10/-)	10,000	10,000 (@ Rs. 10/-)
Central Depository of Bangladesh Ltd. (6 shares of Bangladesh Taka 1,000,000 each. Called up 30% only. Converted at Rs. 1.65358 per Taka)	2,976	2,976	-	-	2,976	2,976	-	-
Commercial Insurance Brokers (Pvt) Ltd. (120,000 Ordinary Shares of Rs. 10/- each)	-	-	-	-	100	1,200 (@ Rs. 10/-)	100	1,200 (@ Rs. 10/-)
DEBENTURES								
Singer Sri Lanka Ltd. (12% to 17% - 2005) (250,000 Debentures of Rs. 100/- each)	25,000	25,000 (@ Rs. 100/-)	25,000	25,000 (@ Rs. 100/-)	25,000	25,000 (@ Rs. 100/-)	25,000	25,000 (@ Rs. 100/-)
Hatton National Bank Ltd. (10% - 2008) (100,000 Debentures of Rs. 100/- each)	10,000	10,000 (@ Rs. 100/-)	-	-	10,000	10,000 (@ Rs. 100/-)	-	-
TRUST CERTIFICATES/BONDS								
Housing Development Finance Corporation of Sri Lanka	105,916	105,916	137,357	137,357	105,916	105,916	137,357	137,357
Peoples Leasing Co. Ltd.	175,619	175,619	42,873	42,873	175,619	175,619	42,873	42,873
Commercial Leasing Co. Ltd.	134,465	134,465	-	-	134,465	134,465	-	-
Lanka Orix Leasing Co. Ltd.	300,000	300,000	-	-	300,000	300,000	-	-
Government Bond o/a CWE	600,000	600,000	-	-	600,000	600,000	-	-
Government of Bangladesh Prize Bonds	3,754	3,754	-	-	3,754	3,754	-	-
	<u>1,368,795</u>	<u>1,368,795</u>	<u>216,295</u>	<u>216,295</u>	<u>1,368,895</u>	<u>1,369,995</u>	<u>216,395</u>	<u>217,495</u>
	<u>2,605,523</u>	<u>3,219,549</u>	<u>704,898</u>	<u>1,015,365</u>	<u>2,605,623</u>	<u>3,220,749</u>	<u>704,998</u>	<u>1,016,565</u>

* At written down value

Notes to the Accounts

17. Loans & Advances

	Bank		Group	
	2003 Rs. '000	2002 Rs. '000	2003 Rs. '000	2002 Rs. '000
17.1 Bills of Exchange				
Export bills	2,137,774	2,008,189	2,137,774	2,008,189
Import bills	428,481	613,057	428,481	613,057
	<u>2,566,255</u>	<u>2,621,246</u>	<u>2,566,255</u>	<u>2,621,246</u>
Less: Loan loss provision [Note 17.1 (a)]	71,449	68,982	71,449	68,982
Interest in suspense	-	-	-	-
	<u>2,494,806</u>	<u>2,552,264</u>	<u>2,494,806</u>	<u>2,552,264</u>

The maturity analysis of Bills of Exchange is given in Note 31.

17.1 (a) Movement in the provision for bad & doubtful Bills of Exchange

Specific

Opening balance	68,982	43,717	68,982	43,717
Amount provided	4,340	27,272	4,340	27,272
Amount reversed	(1,873)	(2,007)	(1,873)	(2,007)
Closing balance	<u>71,449</u>	<u>68,982</u>	<u>71,449</u>	<u>68,982</u>

17.2 Loans & Advances

Sri Lanka Rupee and Foreign Currency loans & advances [Note 17.2 (a)]	65,213,651	50,925,540	65,213,651	50,925,540
Less: Loan loss provision [Note 17.2 (b)]	1,451,464	934,264	1,451,464	934,264
Interest in suspense [Note 17.2 (c)]	3,280,034	2,751,930	3,280,034	2,751,930
	<u>60,482,153</u>	<u>47,239,346</u>	<u>60,482,153</u>	<u>47,239,346</u>

The maturity analysis of Loans and Advances is given in Note 31.

17.2 (a) Sri Lanka Rupee and Foreign Currency Loans & Advances

Sri Lanka Rupee loans & advances

Overdrafts	13,637,480	11,366,705	13,637,480	11,366,705
Loans	30,853,912	23,728,595	30,853,912	23,728,595
Packing credit	321,634	405,242	321,634	405,242
Trust receipts	-	13,425	-	13,425
Staff loans	1,453,876	1,009,813	1,453,876	1,009,813
Other accounts	2,017,598	1,580,300	2,017,598	1,580,300
	<u>48,284,500</u>	<u>38,104,080</u>	<u>48,284,500</u>	<u>38,104,080</u>

Foreign Currency loans & advances

Overdrafts	2,769,018	1,505,929	2,769,018	1,505,929
Loans	8,910,398	6,826,855	8,910,398	6,826,855
Packing credit	5,108,240	4,405,123	5,108,240	4,405,123
Other accounts	141,495	83,553	141,495	83,553
	<u>16,929,151</u>	<u>12,821,460</u>	<u>16,929,151</u>	<u>12,821,460</u>
Total	<u>65,213,651</u>	<u>50,925,540</u>	<u>65,213,651</u>	<u>50,925,540</u>

Notes to the Accounts

	Bank		Group	
	2003	2002	2003	2002
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
17.2 (b) Movement in the provision for bad & doubtful loans & advances				
Specific				
Opening balance	923,207	644,711	923,207	644,711
Balance as at date of acquisition of				
Bangladesh operations	120,096	–	120,096	–
Amount provided	482,211	339,988	482,211	339,988
Exchange rate variance on				
foreign currency provisions	2,010	2,485	2,010	2,485
Amount reversed	(88,280)	(63,977)	(88,280)	(63,977)
Closing balance	<u>1,439,244</u>	<u>923,207</u>	<u>1,439,244</u>	<u>923,207</u>
General				
Opening balance	11,057	29,839	11,057	29,839
Amount provided	1,163	210,649	1,163	210,649
Amount made specific	–	(229,431)	–	(229,431)
Closing balance	<u>12,220</u>	<u>11,057</u>	<u>12,220</u>	<u>11,057</u>
Total provision	<u>1,451,464</u>	<u>934,264</u>	<u>1,451,464</u>	<u>934,264</u>
17.2 (c) Movement in the Interest in Suspense Account				
Opening balance	2,751,930	2,202,722	2,751,930	2,202,722
Balance as at date of acquisition of				
Bangladesh operations	2,592	–	2,592	–
Interest suspended during the year	835,825	695,692	835,825	695,692
Amount recovered during the year	(310,313)	(146,484)	(310,313)	(146,484)
Closing balance	<u>3,280,034</u>	<u>2,751,930</u>	<u>3,280,034</u>	<u>2,751,930</u>
17.3 Lease receivable within one year				
Total lease rentals receivable	4,741,560	2,787,820	4,692,233	2,761,916
Less: Lease rentals receivable from one to five years from Balance Sheet date	2,922,490	1,593,254	2,891,583	1,579,693
Lease rentals receivable within one year from Balance Sheet date	1,819,070	1,194,566	1,800,650	1,182,223
Less: Unearned lease income	314,221	309,600	310,981	309,600
VAT recoverable	163,921	139,644	162,614	139,644
Loan loss provision	50,195	34,669	50,195	34,669
	<u>1,290,733</u>	<u>710,653</u>	<u>1,276,860</u>	<u>698,310</u>

Notes to the Accounts

	Bank		Group	
	2003 Rs.'000	2002 Rs.'000	2003 Rs.'000	2002 Rs.'000
17.4 Lease receivable from one to five years				
Lease rentals receivable from one to five years				
from Balance Sheet date	2,922,490	1,593,254	2,891,583	1,579,693
Less: Unearned lease income	504,822	232,127	499,617	232,127
VAT recoverable	263,353	104,700	261,253	104,700
Loan loss provision	80,643	46,240	80,643	46,240
	<u>2,073,672</u>	<u>1,210,187</u>	<u>2,050,070</u>	<u>1,196,626</u>

The maturity analysis of Lease Receivable is given in Note 31.

There were no lease rentals receivable beyond 5 years.

Movement in the provision for bad & doubtful lease receivable

Specific

Opening balance	20,842	7,346	20,842	7,346
Amount provided	9,156	13,944	9,156	13,944
Amount reversed	(3,977)	(448)	(3,977)	(448)
Closing balance	<u>26,021</u>	<u>20,842</u>	<u>26,021</u>	<u>20,842</u>

General

Opening balance	60,067	40,067	60,067	40,067
Amount provided	44,750	20,000	44,750	20,000
Amount made specific	-	-	-	-
Closing balance	<u>104,817</u>	<u>60,067</u>	<u>104,817</u>	<u>60,067</u>
Total provision	<u>130,838</u>	<u>80,909</u>	<u>130,838</u>	<u>80,909</u>

17.5 Non-Performing Loans & Advances

Net exposure on non-performing loans & advances as at December 31, before discounting the value of the securities obtained is given below:

	Bank				Group			
	2003		2002		2003		2002	
	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%
Non-performing loans & advances	5,154,674	7.47	4,518,660	8.42	5,154,674	7.47	4,518,660	8.42
Less: Interest in suspense included in overdrafts **	974,063		878,755		974,063		878,755	
Net non-performing loans & advances	4,180,611	6.15	3,639,905	6.89	4,180,611	6.15	3,639,905	6.90
Less: Prov. for bad & doubtful debts [Note 17.5 (a)]	1,653,752		1,084,155		1,653,752		1,084,155	
Net exposure	<u>2,526,859</u>	3.81	<u>2,555,750</u>	4.94	<u>2,526,859</u>	3.81	<u>2,555,750</u>	4.94

** This does not tally with the total interest in suspense included in Note 17.2 (c) above due to the interest receivable on non-performing loans not being included.

Notes to the Accounts

Net exposure of Rs. 2,526.859 million (Rs. 2,555.750 million as at December 31, 2002) is covered by securities valued at Rs. 2,526.859 million (Rs. 2,555.750 million as at December 31, 2002) excluding machinery and stocks.

All loans and advances where the recovery of capital or interest is in arrears for over three months have been classified into the non-performing category in accordance with the guidelines issued by the Central Bank of Sri Lanka. The Bank's computer system has been programmed to classify the loans in accordance with these guidelines. In instances where the recovery of capital or interest is in arrears for over three months interest credited to the Income Statement on such loans and advances for the first three months too is transferred to interest in suspense.

17.5 (a) Provision for bad & doubtful debts - Summary

	Bank		Group	
	2003 Rs.'000	2002 Rs.'000	2003 Rs.'000	2002 Rs.'000
Opening balance	1,084,155	765,681	1,084,155	765,681
Balance as at date of acquisition of Bangladesh operations	120,096	-	120,096	-
Provision made during the year	541,619	382,422	541,619	382,422
Exchange rate variance on foreign currency provisions	2,010	2,485	2,010	2,485
Recoveries/Reversals during the year	(94,128)	(66,433)	(94,128)	(66,433)
Closing balance	1,653,752	1,084,155	1,653,752	1,084,155

17.6 Concentration of Credit Risk

Sectorwise analysis of Bank's loans and advances portfolio reflecting the exposure to credit risk in the various sectors is given below:

	Bank				Group			
	2003 Rs.'000	%	2002 Rs.'000	%	2003 Rs.'000	%	2002 Rs.'000	%
Exports	13,011,386	18.26	11,470,344	20.65	13,011,386	18.26	11,470,344	20.66
Tourism & allied	1,760,707	2.47	1,343,456	2.42	1,760,707	2.47	1,343,456	2.42
Industrial	13,313,807	18.68	9,156,950	16.48	13,313,807	18.69	9,156,950	16.49
Agriculture & fishing	1,633,301	2.29	1,373,407	2.47	1,633,301	2.29	1,373,407	2.47
Commercial trading	5,155,825	7.23	4,675,471	8.42	5,155,825	7.24	4,675,471	8.42
Imports	9,999,562	14.03	9,883,371	17.79	9,999,562	14.05	9,883,371	17.80
Consumption	2,196,238	3.08	1,786,084	3.22	2,196,238	3.08	1,786,084	3.22
Services	9,168,029	12.86	6,546,520	11.79	9,130,554	12.82	6,520,616	11.74
Housing & construction	3,436,383	4.82	3,030,766	5.46	3,436,383	4.82	3,030,766	5.46
Others	11,599,911	16.28	6,282,166	11.30	11,599,911	16.28	6,282,166	11.32
Gross loans & advances	71,275,149	100.00	55,548,535	100.00	71,237,674	100.00	55,522,631	100.00

18. Foreclosed Properties

	Bank		Group	
	2003 Rs.'000	2002 Rs.'000	2003 Rs.'000	2002 Rs.'000
Opening balance	110,713	147,550	110,713	147,550
Additions during the year	9	7,803	9	7,803
	110,722	155,353	110,722	155,353
Disposals during the year	(8,200)	(29,640)	(8,200)	(29,640)
	102,522	125,713	102,522	125,713
Provision for fall in value	-	(15,000)	-	(15,000)
Closing balance	102,522	110,713	102,522	110,713

Notes to the Accounts

Foreclosed Properties as at December 31, included the following:

	Extent			2003		2002		Bank
	A.	R.	P.	Cost/W.D.V.	Forced Sale Value	Cost/W.D.V.	Forced Sale Value	2002
				Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
1. Land and Building at Kochchikade, Negombo (*)	2	2	36.91	66,613	125,000	66,613	89,002	
2. Land at Katuwapitiya Road, Negombo	1	0	5.00	4,283	4,884	4,283	4,884	
3. Land at Thaladena, Pamunugama	11	1	5.60	20,717	27,168	20,717	27,168	
4. Land and Building at Negombo Road, Narammala	0	1	2.50	-	-	8,200	16,500	
5. Land at Colombo Road, Kurunegala	0	0	30.00	3,409	3,400	3,400	3,400	
6. Land and Building at Old Airport Road, Ratmalana	0	1	26.00	7,500	7,500	7,500	7,500	
Total as above				<u>102,522</u>	<u>167,952</u>	<u>110,713</u>	<u>148,454</u>	

A = Acres, R = Roods, P = Perches

* Bank acquired this hotel property in 1999 in settlement of a debt due to the Bank. With the approval of the Central Bank of Sri Lanka, Bank entered into a management agreement with Serendib Leisure Management (Pvt) Ltd. which agreement expired in December 2002. Currently, this hotel is closed for operations pending the disposal of the property at the earliest opportunity.

19. Investments in Associate Companies

	% Holding	Bank				Group			
		31.12.03		31.12.02		31.12.03		31.12.02	
		Balance	Market Value/ Directors' Valuation	Balance	Market Value/ Directors' Valuation	Balance	Market Value/ Directors' Valuation	Balance	Market Value/ Directors' Valuation
		Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Quoted									
Commercial Leasing Co. Ltd. (incorporated in Sri Lanka) (2,420,001 Ordinary Shares of Rs. 10/- each fully paid)									
	30.00	20,000	194,205	20,000	100,430	20,000	194,205	20,000	100,430
			(@ Rs. 80.25)		(@ Rs. 41.50)		(@ Rs. 80.25)		(@ Rs. 41.50)
Add: Share Premium held by the Bank		-		-		26,146		26,146	
Less: Capitalisation of Share Premium		-		-		-		(2,200)	
Add: Bank's share of Bonus Issue		-		-		-		2,200	
						26,146		26,146	
Add: Share of profit/(loss) applicable to the Bank:									
Balance at the beginning of the year		-		-		44,495		33,219	
Current year's share of profit/(loss) after tax		-		-		35,438		21,829	
Less: Dividend received during the year		-		-		(8,716)		(10,553)	
Current year's retained profit/(loss)		-		-		26,722		11,276	
		-		-		71,217		44,495	
Balance at the end of the year		<u>20,000</u>	<u>194,205</u>	<u>20,000</u>	<u>100,430</u>	<u>117,363</u>	<u>194,205</u>	<u>90,641</u>	<u>100,430</u>
Unquoted									
Equity Investments Lanka Ltd. (incorporated in Sri Lanka) (4,110,938 Ordinary Shares of Rs. 10/- each fully paid)									
	22.92	44,331	38,599	44,331	38,309	44,331	38,599	44,331	38,309
Add: Share of profit/(loss) applicable to the Bank:									
Balance at the beginning of the year		-		-		(6,022)		(8,038)	
Current year's share of profit/(loss) after tax		-		-		1,891		3,044	
Less: Dividend received during the year		-		-		(1,601)		(1,028)	
Current year's retained profit/(loss)		-		-		290		2,016	
		-		-		(5,732)		(6,022)	
Balance at the end of the year		<u>44,331</u>	<u>38,599</u>	<u>44,331</u>	<u>38,309</u>	<u>38,599</u>	<u>38,599</u>	<u>38,309</u>	<u>38,309</u>

Notes to the Accounts

	% Holding	Bank				Group			
		31.12.03		31.12.02		31.12.03		31.12.02	
		Balance	Market Value/ Directors' Valuation	Balance	Market Value/ Directors' Valuation	Balance	Market Value/ Directors' Valuation	Balance	Market Value/ Directors' Valuation
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	
Commercial Fund Management (Pvt) Ltd. (incorporated in Sri Lanka) (125,000 Ordinary Shares of Rs.100/- each fully paid) 50.00									
		12,500	13,894	12,500	10,218	12,500	13,894	12,500	10,218
		1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500
Add: Share of profit/(loss) applicable to the Bank:									
						(2,282)		(3,875)	
						3,676		1,593	
						-		-	
						3,676		1,593	
						1,394		(2,282)	
		14,000	15,394	14,000	11,718	15,394	15,394	11,718	11,718
		58,331	53,993	58,331	50,027	53,993	53,993	50,027	50,027
Total Value of Investments in Quoted & Unquoted Associate Companies									
		78,331		78,331		171,356		140,668	
Total Market Value/Directors' Valuation of Investments in Associate Companies									
			248,198		150,457		248,198		150,457

20. Investments in Subsidiary Companies

Quoted

Commercial Development Co. Ltd.
(incorporated in Sri Lanka)
(11,345,705 Ordinary Shares of Rs.10/- each fully paid) 94.55

		274,393	249,606	274,393	249,606	-	-	-	-
			(@ Rs. 22/-)		(@ Rs. 22/-)				

Unquoted

Commercial Bank Primary Dealer Ltd.
(incorporated in Sri Lanka)
(15,000,001 Ordinary Shares of Rs.10/- each fully paid) 100.00

		150,000	150,000	150,000	150,000	-	-	-	-
			(@ Rs. 10/-)		(@ Rs. 10/-)				

ONEzero Co. Ltd.
(incorporated in Sri Lanka)
(500,000 Ordinary Shares of Rs.10/- each fully paid) 100.00

		5,000	5,000	-	-	-	-	-	-
			(@ Rs. 10/-)						
		429,393	404,606	424,393	399,606	-	-	-	-

21. Other Assets

	Bank		Group	
	2003 Rs.'000	2002 Rs.'000	2003 Rs.'000	2002 Rs.'000
Deposits & prepayments	127,802	84,435	115,379	70,553
Clearing account balance	664,655	565,726	664,655	565,726
Others	985,262	1,202,775	1,092,081	1,321,657
	1,777,719	1,852,936	1,872,115	1,957,936

Notes to the Accounts

22. Property, Plant and Equipment

	Freehold Land	Freehold Buildings	Leasehold Land & Buildings	Computer Equipment	Motor Vehicles	Office Equipment & Furniture	Capital Work-in-Progress	31.12.03 Total	31.12.02 Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Bank									
Cost / Valuation									
as at beginning of the year	201,707	654,272	23,425	1,244,859	41,668	726,009	7,848	2,899,788	2,572,517
Balance as at date of acquisition of Bangladesh Operations	-	-	-	33,969	-	84,551	-	118,520	-
Additions for the year	392	15,512	-	206,323	1,691	95,940	28,301	348,159	338,644
Disposals for the year	-	-	-	(2,404)	(3,060)	(9,059)	-	(14,523)	(9,701)
Transfers/Adjustments	10,688	(10,282)	-	(10,481)	-	(17,858)	(1,487)	(29,420)	(1,672)
As at end of the year	<u>212,787</u>	<u>659,502</u>	<u>23,425</u>	<u>1,472,266</u>	<u>40,299</u>	<u>879,583</u>	<u>34,662</u>	<u>3,322,524</u>	<u>2,899,788</u>
Accumulated depreciation									
as at beginning of the year	-	110,697	2,754	787,078	34,685	418,797	-	1,354,011	1,163,008
Balance as at date of acquisition of Bangladesh Operations	-	-	-	23,489	-	75,978	-	99,467	-
Charge for the year	-	12,911	274	122,909	2,977	82,935	-	222,006	199,661
Disposals	-	-	-	(1,921)	(3,060)	(7,705)	-	(12,686)	(7,614)
Transfers/Adjustments	-	-	-	(1,349)	-	115	-	(1,234)	(1,044)
As at end of the year	<u>-</u>	<u>123,608</u>	<u>3,028</u>	<u>930,206</u>	<u>34,602</u>	<u>570,120</u>	<u>-</u>	<u>1,661,564</u>	<u>1,354,011</u>
Net book value as at 31.12.03	212,787	535,894	20,397	542,060	5,697	309,463	34,662	1,660,960	
Net book value as at 31.12.02	201,707	543,575	20,671	457,781	6,983	307,212	7,848		1,545,777
Group									
Cost / Valuation									
as at beginning of the year	201,707	830,043	67,285	1,245,184	88,597	755,217	7,848	3,195,881	2,852,819
Balance as at date of acquisition of Bangladesh Operations	-	-	-	33,969	-	84,551	-	118,520	-
Additions for the year	392	16,378	-	206,427	12,804	112,174	28,301	376,476	354,435
Disposals for the year	-	-	-	(2,404)	(3,060)	(11,766)	-	(17,230)	(9,701)
Transfers/Adjustments	10,688	(10,282)	-	(10,481)	-	(17,858)	(1,487)	(29,420)	(1,672)
As at end of the year	<u>212,787</u>	<u>836,139</u>	<u>67,285</u>	<u>1,472,695</u>	<u>98,341</u>	<u>922,318</u>	<u>34,662</u>	<u>3,644,227</u>	<u>3,195,881</u>
Accumulated depreciation									
as at beginning of the year	-	149,620	7,042	787,304	56,211	442,579	-	1,442,756	1,236,667
Balance as at date of acquisition of Bangladesh Operations	-	-	-	23,489	-	75,978	-	99,467	-
Charge for the year	-	17,327	784	122,972	14,586	86,081	-	241,750	214,747
Disposals	-	-	-	(1,921)	(3,060)	(10,412)	-	(15,393)	(7,614)
Transfers/Adjustments	-	-	-	(1,349)	-	115	-	(1,234)	(1,044)
As at end of the year	<u>-</u>	<u>166,947</u>	<u>7,826</u>	<u>930,495</u>	<u>67,737</u>	<u>594,341</u>	<u>-</u>	<u>1,767,346</u>	<u>1,442,756</u>
Net book value as at 31.12.03	212,787	669,192	59,459	542,200	30,604	327,977	34,662	1,876,881	
Net book value as at 31.12.02	201,707	680,423	60,243	457,880	32,386	312,638	7,848		1,753,125

With the permission of the Monetary Board of the Central Bank of Sri Lanka, all freehold land & buildings of the Bank were revalued by professionally qualified independent valuers as at December 31, 1993. 50% of the surplus on the revaluation amounting to Rs. 157.286 million has been credited to the Revaluation Reserve Account. Bank is making necessary arrangements to revalue all freehold land & buildings as at December 31, 2004.

The carrying amount of these freehold land & buildings if they were carried at cost less accumulated depreciation is as follows:

	2003			2002		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Land	23,374	-	23,374	23,374	-	23,374
Buildings	94,639	44,844	49,795	94,639	42,478	52,161
Total	118,013	44,844	73,169	118,013	42,478	75,535

Notes to the Accounts

There were no significant changes in the Bank's or Group's Property, Plant and Equipment during the year. The market value of land does not differ substantially from the book values.

If Commercial Development Co. Ltd. provided for depreciation on the assets purchased/disposed of during the year on a pro-rata basis as is done by the Bank the depreciation charge for the year 2003 in Group accounts would have been lower by 1.693 million. (In 2002, profit would have been higher by Rs. 0.535 million).

23. Deposits from Customers

	Bank		Group	
	2003 Rs. '000	2002 Rs. '000	2003 Rs. '000	2002 Rs. '000
Local Currency Deposits				
Current account deposits	6,777,540	4,863,702	6,690,015	4,759,489
Savings deposits	21,329,527	15,204,907	21,329,527	15,204,907
Time deposits	16,860,904	15,058,969	16,860,904	15,058,969
Certificates of deposit	3,812,520	4,309,379	3,812,520	4,309,379
	<u>48,780,491</u>	<u>39,436,957</u>	<u>48,692,966</u>	<u>39,332,744</u>
Foreign Currency Deposits				
Current account deposits	2,741,535	525,748	2,741,535	525,748
Savings deposits	8,162,810	6,651,235	8,162,810	6,651,235
Time deposits	15,499,711	7,970,578	15,499,711	7,970,578
	<u>26,404,056</u>	<u>15,147,561</u>	<u>26,404,056</u>	<u>15,147,561</u>
Total Deposits	<u>75,184,547</u>	<u>54,584,518</u>	<u>75,097,022</u>	<u>54,480,305</u>
23 (a) Analysis of Deposits				
Deposits from Banks	41,418	177,179	41,418	177,179
Deposits from Finance Companies	18,634	94,078	18,634	94,078
Deposits from other Customers	75,124,495	54,313,261	75,036,970	54,209,048
	<u>75,184,547</u>	<u>54,584,518</u>	<u>75,097,022</u>	<u>54,480,305</u>

The maturity analysis of deposits is given in Note 31.

24. Borrowings

Foreign bank balances	3,469,418	2,933,862	3,469,418	2,933,862
Refinance borrowings	1,936,217	1,266,374	1,936,217	1,266,374
	<u>5,405,635</u>	<u>4,200,236</u>	<u>5,405,635</u>	<u>4,200,236</u>

25. Other Liabilities

Accrued expenditure and interest	2,136,560	1,947,815	2,128,976	1,947,815
Provision for Gratuity	1,609	-	4,027	2,079
Others	2,458,114	2,026,641	2,462,586	1,962,316
	<u>4,596,283</u>	<u>3,974,456</u>	<u>4,595,589</u>	<u>3,912,210</u>

Notes to the Accounts

26. Deferred Taxation

	Bank				Group			
	As at 31.12.03		As at 31.12.02		As at 31.12.03		As at 31.12.02	
	Timing	Tax	Timing	Tax	Timing	Tax	Timing	Tax
	Difference	Effect	Difference	Effect	Difference	Effect	Difference	Effect
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
As at beginning of the year	810,000	243,000	550,566	165,000	842,990	252,897	579,616	173,714
Amount originating/(reversing) during the year	14,333	4,300	259,434	78,000	19,603	5,881	263,374	79,183
As at end of the year	<u>824,333</u>	<u>247,300</u>	<u>810,000</u>	<u>243,000</u>	<u>862,593</u>	<u>258,778</u>	<u>842,990</u>	<u>252,897</u>

Provision has not been made for deferred taxation on assets leased to customers as explained in the Accounting Policies.

Tax effect on timing differences of assets leased to customers is given below:

	Bank				Group			
	As at 31.12.03		As at 31.12.02		As at 31.12.03		As at 31.12.02	
	Timing	Tax	Timing	Tax	Timing	Tax	Timing	Tax
	Difference	Effect	Difference	Effect	Difference	Effect	Difference	Effect
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
As at beginning of the year	1,248,109	374,433	938,228	281,468	1,248,109	374,433	938,228	281,468
Amount originating/(reversing) during the year	1,225,822	367,747	309,881	92,965	1,225,822	367,747	309,881	92,965
As at end of the year	<u>2,473,931</u>	<u>742,180</u>	<u>1,248,109</u>	<u>374,433</u>	<u>2,473,931</u>	<u>742,180</u>	<u>1,248,109</u>	<u>374,433</u>

27. Debentures

As at December 31, 2003, consists of 2,244,410 Unsecured Subordinated Redeemable 5-year debentures of Rs. 1,000/- each issued by the Bank in 2003. As at December 31, 2002, consists of 500,000 Unsecured Subordinated Redeemable 5-year debentures of Rs. 1,000/- each issued by the Bank in 1998 in two tranches of 250,000 debentures each.

No. of Debentures	2003 Value Rs. '000	2002 Value Rs. '000	Allotment Date	Maturity Date	Rate of Interest
115,890	115,890	-	12.05.2003	12.05.2008	Fixed - 10% p.a. payable quarterly (Effective Annual Yield 10.38% p.a.)
2,128,520	2,128,520	-	12.05.2003	12.05.2008	Floating Interest Rate equivalent to the three months G.O.S.L. Treasury Bills after 10% withholding Tax Rate as published by the Central Bank of Sri Lanka immediately prior to the commencement of each interest period plus 2% p.a. payable quarterly.
<u>2,244,410</u>	<u>2,244,410</u>	<u>-</u>			
250,000	-	250,000	20.07.1998	20.07.2003	Fixed - 13.5% p.a. payable quarterly (Effective Annual Yield 14.2% p.a.)
250,000	-	250,000	08.10.1998	08.10.2003	Floating Coupon Rate equivalent to the Weighted Average Yield of the three months G.O.S.L. Treasury Bills plus 1% p.a. payable quarterly subject to a maximum of 16% p.a. and a minimum of 12% p.a.
<u>500,000</u>	<u>-</u>	<u>500,000</u>			

Bank redeemed these debentures on the maturity dates given above.

These debentures are quoted on the Colombo Stock Exchange.

These debentures were issued mainly to raise long-term funds to expand on long-term credit facilities.

There were no material changes in the use of funds raised through debentures.

Notes to the Accounts

28. Share Capital

	Bank		Group	
	2003 Rs.'000	2002 Rs.'000	2003 Rs.'000	2002 Rs.'000
Authorised				
250,000,000 Ordinary Voting Shares of Rs. 10/- each	2,500,000	2,500,000	2,500,000	2,500,000
50,000,000 Ordinary Non-voting Shares of Rs. 10/- each	500,000	500,000	500,000	500,000
200,000,000 Cumulative Redeemable Preference Shares of Rs. 10/- each	2,000,000	2,000,000	2,000,000	2,000,000
	<u>5,000,000</u>	<u>5,000,000</u>	<u>5,000,000</u>	<u>5,000,000</u>
Issued & Fully Paid				
Ordinary Shares - Voting				
Opening balance - 39,000,000 Shares of Rs. 10/- each	390,000	390,000	390,000	390,000
Bonus Issue of 13,000,000 Shares of Rs. 10/- each	130,000	-	130,000	-
Rights Issue of 13,000,000 Shares of Rs. 10/- each	130,000	-	130,000	-
Closing balance - 65,000,000 Shares of Rs. 10/- each (39,000,000 Shares in 2002)	<u>650,000</u>	<u>390,000</u>	<u>650,000</u>	<u>390,000</u>
Ordinary Shares - Non-voting				
Opening balance - 2,790,138 Shares of Rs. 10/- each	27,901	27,901	27,901	27,901
Bonus Issue of 930,046 Shares of Rs. 10/- each	9,300	-	9,300	-
Rights Issue of 930,046 Shares of Rs. 10/- each	9,300	-	9,300	-
Closing balance - 4,650,230 Shares of Rs. 10/- each (2,790,138 Shares in 2002)	<u>46,501</u>	<u>27,901</u>	<u>46,501</u>	<u>27,901</u>
13% Cumulative Redeemable Preference Shares				
Opening balance - 90,655,500 Shares of Rs. 10/- each	906,555	906,555	906,555	906,555
Issued during the year	-	-	-	-
Closing balance - 90,655,500 Shares of Rs. 10/- each	<u>906,555</u>	<u>906,555</u>	<u>906,555</u>	<u>906,555</u>
11.25% Cumulative Redeemable Preference Shares				
Opening balance	-	-	-	-
Issue of 100,000,000 Shares of Rs. 10/- each	1,000,000	-	1,000,000	-
Closing balance - 100,000,000 Shares of Rs. 10/- each	<u>1,000,000</u>	<u>-</u>	<u>1,000,000</u>	<u>-</u>
Total	<u>2,603,056</u>	<u>1,324,456</u>	<u>2,603,056</u>	<u>1,324,456</u>

These shares are quoted on the Colombo Stock Exchange.

The 13% Cumulative Redeemable Preference Shares were allotted on September 21, 2001 and will be redeemed on September 20, 2006. The 11.25% Cumulative Redeemable Preference Shares were allotted on May 13, 2003 and will be redeemed on May 12, 2008. Bank intends to build up a Capital Redemption Reserve Fund out of the profits otherwise available for dividends in order to redeem the Preference Shares at maturity.

Employee Share Option Plan

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% shares each year over a period of four years, upon the Bank achieving specified performance targets.

Notes to the Accounts

29. Statutory Reserve Fund

	Bank		Group	
	2003 Rs.'000	2002 Rs.'000	2003 Rs.'000	2002 Rs.'000
Opening balance	1,009,000	1,009,000	1,009,000	1,009,000
Add: Transfers during the year	-	-	-	-
Closing balance	<u>1,009,000</u>	<u>1,009,000</u>	<u>1,009,000</u>	<u>1,009,000</u>

Since the balance in the Statutory Reserve Fund is far in excess of the paid up ordinary share capital of the Bank, no further appropriations were made to it.

The balance in the Reserve Fund Account will be used only for the purposes specified in the Section 20(2) of the Banking Act No. 30 of 1988.

30. Reserves

	Bank		Group	
	2003 Rs.'000	2002 Rs.'000	2003 Rs.'000	2002 Rs.'000
Capital Reserves				
Share Premium Account [Refer Note 30 (a)]	2,182,881	560,902	2,182,881	560,902
Revaluation Reserve [Refer Notes 22 and 30 (b)]	157,286	157,286	157,286	157,286
	<u>2,340,167</u>	<u>718,188</u>	<u>2,340,167</u>	<u>718,188</u>
Revenue Reserves				
General Reserve [Refer Note 30 (c)]	5,508,000	4,568,507	5,508,000	4,568,507
Unappropriated profit carried forward [Refer Note 12]	223,735	134,506	446,190	298,848
	<u>5,731,735</u>	<u>4,703,013</u>	<u>5,954,190</u>	<u>4,867,355</u>
Total	<u>8,071,902</u>	<u>5,421,201</u>	<u>8,294,357</u>	<u>5,585,543</u>
30 (a) Share Premium Account				
Opening balance	560,902	562,066	560,902	562,066
Proceeds of rights issue of shares	1,769,054	-	1,769,054	-
Utilised for the bonus issue of shares	(139,300)	-	(139,300)	-
Writing-off of share issue expenses	(7,775)	(1,164)	(7,775)	(1,164)
Closing balance	<u>2,182,881</u>	<u>560,902</u>	<u>2,182,881</u>	<u>560,902</u>

Share Premium account is generally used for bonus issue of ordinary shares and writing-off of share and debenture issue expenses.

30 (b) Revaluation Reserve

The Revaluation Reserve relates to revaluation of Land and Buildings and comprises of 50% of the increase in the fair value of the property at the date of revaluation.

The Licensed Commercial Banks are allowed to carry out revaluation of their Land and Buildings every seven years and treat 50% of the surplus as supplementary capital in the Tier II of their Capital Base in the computation of Risk-weighted Capital Ratio.

Notes to the Accounts

30 (c) General Reserve

	Bank		Group	
	2003 Rs.'000	2002 Rs.'000	2003 Rs.'000	2002 Rs.'000
Opening balance	4,568,507	3,690,507	4,568,507	3,690,507
Add: Transfer from the Income Statement	939,493	878,000	939,493	878,000
Closing balance	<u>5,508,000</u>	<u>4,568,507</u>	<u>5,508,000</u>	<u>4,568,507</u>

This comprises amounts appropriated by the Management for the general banking reserve.

31. Maturity Analysis

31 (a) Bank

(i) An analysis of the total assets employed of the Bank as at December 31, based on the remaining period at the Balance Sheet date to the respective contractual maturity dates is given below:

	Up to 3 months Rs.'000	3 to 12 months Rs.'000	1 to 3 years Rs.'000	3 to 5 years Rs.'000	More than 5 years Rs.'000	Total as at 31.12.03 Rs.'000	Total as at 31.12.02 Rs.'000
Interest earning assets							
Cash and short-term funds	7,205,185	-	-	-	-	7,205,185	397,264
Balances with Central Banks	938,093	199,599	79,997	-	-	1,217,689	-
Government Treasury Bills and Bonds	2,945,161	8,668,521	3,814,635	501,398	-	15,929,715	9,435,800
Commercial paper	322,804	223,556	-	-	-	546,360	1,079,500
Securities purchased under re-sale agreements	6,183,596	-	-	-	-	6,183,596	832,296
Investment securities	69,356	210,522	198,093	321,554	600,000	1,399,525	252,501
Treasury Bonds maturing after one year	-	-	-	-	-	-	-
Bills of Exchange	2,494,806	-	-	-	-	2,494,806	2,552,264
Loans and advances	35,050,562	7,765,461	7,993,223	6,410,861	3,262,046	60,482,153	47,239,346
Lease receivable within one year	351,725	939,008	-	-	-	1,290,733	710,653
Lease receivable from one to five years	-	-	1,918,989	154,683	-	2,073,672	1,210,187
	<u>55,561,288</u>	<u>18,006,667</u>	<u>14,004,937</u>	<u>7,388,496</u>	<u>3,862,046</u>	<u>98,823,434</u>	<u>63,709,811</u>
Non-interest earning assets							
Cash and short-term funds	1,796,706	-	-	-	-	1,796,706	1,437,877
Balances with Central Banks	2,855,553	757,769	191,691	83,519	126,593	4,015,125	3,244,112
Dealing securities	-	-	-	-	-	-	200,000
Investment securities	2,976	-	-	-	1,203,022	1,205,998	452,397
Foreclosed properties	-	-	-	-	102,522	102,522	110,713
Investments in Associate Companies	-	-	-	-	78,331	78,331	78,331
Investments in Subsidiary Companies	-	-	-	-	429,393	429,393	424,393
Interest and fees receivable	389,738	-	-	-	-	389,738	295,368
Other assets	1,777,719	-	-	-	-	1,777,719	1,852,936
Property, Plant and Equipment	-	-	-	-	1,660,960	1,660,960	1,545,777
	<u>6,822,692</u>	<u>757,769</u>	<u>191,691</u>	<u>83,519</u>	<u>3,600,821</u>	<u>11,456,492</u>	<u>9,641,904</u>
Total Assets	<u>62,383,980</u>	<u>18,764,436</u>	<u>14,196,628</u>	<u>7,472,015</u>	<u>7,462,867</u>	<u>110,279,926</u>	<u>73,351,715</u>
Percentage - 31.12.03	<u>56.57</u>	<u>17.02</u>	<u>12.87</u>	<u>6.78</u>	<u>6.76</u>	<u>100.00</u>	
Percentage - 31.12.02	53.72	19.56	12.83	5.57	8.32		100.00

Notes to the Accounts

(ii) An analysis of the total capital employed of the Bank as at December 31, based on the remaining period at the Balance Sheet date to the respective contractual maturity dates is given below:

	Up to 3 months Rs.'000	3 to 12 months Rs.'000	1 to 3 years Rs.'000	3 to 5 years Rs.'000	More than 5 years Rs.'000	Total as at 31.12.03 Rs.'000	Total as at 31.12.02 Rs.'000
Interest bearing liabilities							
Deposits from customers	43,454,195	14,588,024	2,768,383	1,202,360	2,383,444	64,396,406	48,532,884
Borrowings	3,373,711	113,022	508,107	402,954	71,333	4,469,127	1,266,374
Securities sold under re-purchase agreements	8,258,961	2,321,241	-	-	-	10,580,202	1,938,246
Debentures	-	-	-	2,244,410	-	2,244,410	500,000
	<u>55,086,867</u>	<u>17,022,287</u>	<u>3,276,490</u>	<u>3,849,724</u>	<u>2,454,777</u>	<u>81,690,145</u>	<u>52,237,504</u>
Non-interest bearing liabilities							
Deposits from customers	10,788,141	-	-	-	-	10,788,141	6,051,634
Dividends payable	189,667	-	-	-	-	189,667	117,852
Borrowings	936,508	-	-	-	-	936,508	2,933,862
Other liabilities	4,596,283	-	-	-	-	4,596,283	3,974,456
Tax payable	41,088	106,836	-	-	-	147,924	38,750
Deferred taxation	-	-	-	247,300	-	247,300	243,000
Minority Interest	-	-	-	-	-	-	-
Share capital	-	-	906,555	1,000,000	696,501	2,603,056	1,324,456
Statutory Reserve Fund	-	-	-	-	1,009,000	1,009,000	1,009,000
Reserves	-	-	-	-	8,071,902	8,071,902	5,421,201
	<u>16,551,687</u>	<u>106,836</u>	<u>906,555</u>	<u>1,247,300</u>	<u>9,777,403</u>	<u>28,589,781</u>	<u>21,114,211</u>
Total Liabilities	<u>71,638,554</u>	<u>17,129,123</u>	<u>4,183,045</u>	<u>5,097,024</u>	<u>12,232,180</u>	<u>110,279,926</u>	<u>73,351,715</u>
Percentage - 31.12.03	<u>64.96</u>	<u>15.53</u>	<u>3.79</u>	<u>4.62</u>	<u>11.09</u>	<u>100.00</u>	
Percentage - 31.12.02	<u>62.79</u>	<u>17.85</u>	<u>2.94</u>	<u>4.29</u>	<u>12.13</u>		<u>100.00</u>

31 (b) Group

(i) An analysis of the total assets employed of the Group as at December 31, based on the remaining period at the Balance Sheet date to the respective contractual maturity dates is given below:

	Up to 3 months Rs.'000	3 to 12 months Rs.'000	1 to 3 years Rs.'000	3 to 5 years Rs.'000	More than 5 years Rs.'000	Total as at 31.12.03 Rs.'000	Total as at 31.12.02 Rs.'000
Interest earning assets							
Cash and short-term funds	7,205,185	-	-	-	-	7,205,185	397,264
Balances with Central Banks	938,093	199,599	79,997	-	-	1,217,689	-
Government Treasury Bills and Bonds	3,885,560	9,912,508	5,270,610	1,389,303	289,935	20,747,916	16,777,861
Commercial paper	322,804	223,556	-	-	-	546,360	1,079,500
Securities purchased under re-sale agreements	3,971,034	-	-	-	-	3,971,034	1,448,505
Investment securities	69,356	210,522	198,093	321,554	600,000	1,399,525	252,501
Treasury Bonds maturing after one year	-	-	-	-	-	-	148,249
Bills of Exchange	2,494,806	-	-	-	-	2,494,806	2,552,264
Loans and advances	35,050,562	7,765,461	7,993,223	6,410,861	3,262,046	60,482,153	47,239,346
Lease receivable within one year	337,852	939,008	-	-	-	1,276,860	698,310
Lease receivable from one to five years	-	-	1,895,387	154,683	-	2,050,070	1,196,626
	<u>54,275,252</u>	<u>19,250,654</u>	<u>15,437,310</u>	<u>8,276,401</u>	<u>4,151,981</u>	<u>101,391,598</u>	<u>71,790,426</u>

Notes to the Accounts

	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 31.12.03 Rs.'000	Total as at 31.12.02 Rs.'000
Non-interest earning assets							
Cash and short-term funds	1,796,806	-	-	-	-	1,796,806	1,439,774
Balances with Central Banks	2,855,553	757,769	191,691	83,519	126,593	4,015,125	3,244,112
Dealing securities	-	-	-	-	-	-	200,000
Investment securities	2,976	-	-	-	1,203,122	1,206,098	452,497
Foreclosed properties	-	-	-	-	102,522	102,522	110,713
Investments in Associate Companies	-	-	-	-	171,356	171,356	140,668
Investments in Subsidiary Companies	-	-	-	-	-	-	-
Interest and fees receivable	389,738	-	-	-	-	389,738	295,368
Other assets	1,872,115	-	-	-	-	1,872,115	1,957,936
Property, Plant and Equipment	-	-	-	-	1,876,881	1,876,881	1,753,125
	<u>6,917,188</u>	<u>757,769</u>	<u>191,691</u>	<u>83,519</u>	<u>3,480,474</u>	<u>11,430,641</u>	<u>9,594,193</u>
Total Assets	61,192,440	20,008,423	15,629,001	8,359,920	7,632,455	112,822,239	81,384,619
Percentage - 31.12.03	54.24	17.73	13.85	7.41	6.77	100.00	
Percentage - 31.12.02	51.89	21.52	13.69	5.53	7.37		100.00

(ii) An analysis of the total capital employed of the Group as at December 31, based on the remaining period at the Balance Sheet date to the respective contractual maturity dates is given below:

	Up to 3 months Rs.'000	3 to 12 months Rs.'000	1 to 3 years Rs.'000	3 to 5 years Rs.'000	More than 5 years Rs.'000	Total as at 31.12.03 Rs.'000	Total as at 31.12.02 Rs.'000
Interest bearing liabilities							
Deposits from customers	43,366,670	14,588,024	2,768,383	1,202,360	2,383,444	64,308,881	48,532,884
Borrowings	3,373,711	113,022	508,107	402,954	71,333	4,469,127	1,266,374
Securities sold under re-purchase agreements	10,484,232	2,387,893	72,805	5,589	-	12,950,519	9,921,979
Debentures	-	-	-	2,244,410	-	2,244,410	500,000
	<u>57,224,613</u>	<u>17,088,939</u>	<u>3,349,295</u>	<u>3,855,313</u>	<u>2,454,777</u>	<u>83,972,937</u>	<u>60,221,237</u>
Non-interest bearing liabilities							
Deposits from customers	10,788,141	-	-	-	-	10,788,141	5,947,421
Dividends payable	189,667	-	-	-	-	189,667	121,183
Borrowings	936,508	-	-	-	-	936,508	2,933,862
Other liabilities	4,595,589	-	-	-	-	4,595,589	3,912,210
Tax payable	54,067	106,836	-	-	-	160,903	63,980
Deferred taxation	-	-	-	258,778	-	258,778	252,897
Minority Interest	-	-	-	-	13,303	13,303	12,830
Share capital	-	-	906,555	1,000,000	696,501	2,603,056	1,324,456
Statutory Reserve Fund	-	-	-	-	1,009,000	1,009,000	1,009,000
Reserves	-	-	-	-	8,294,357	8,294,357	5,585,543
	<u>16,563,972</u>	<u>106,836</u>	<u>906,555</u>	<u>1,258,778</u>	<u>10,013,161</u>	<u>28,849,302</u>	<u>21,163,382</u>
Total Liabilities	73,788,585	17,195,775	4,255,850	5,114,091	12,467,938	112,822,239	81,384,619
Percentage - 31.12.03	65.41	15.24	3.77	4.53	11.05	100.00	
Percentage - 31.12.02	63.00	19.07	2.89	3.89	11.15		100.00

Notes (i) Bills of Exchange, loans and advances and lease receivable are shown net of interest in suspense and provision for bad & doubtful debts.

(ii) Balances with Central Banks has been apportioned into the maturity groups based on the maturity pattern of the deposits liable for Statutory Reserve Requirements

(iii) Demand and savings deposits have been classified into the up to 3 months category. However, the major part of these deposits represents core retail deposits with longer term maturity.

(iv) Shareholders' funds excluding Cumulative Redeemable Preference Shares are classified into the more than 5 years category since no contractual date of maturity can be identified. However, these funds are available and have in fact been used for financing assets with lesser maturity periods.

Notes to the Accounts

32. Commitments and Contingencies

32 (a) In the normal course of business the Bank makes various commitments and incurs certain contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions.

	Bank		Group	
	2003 Rs. '000	2002 Rs. '000	2003 Rs. '000	2002 Rs. '000
Commitments				
Commitments for unutilised facilities (direct advances)	10,947,437	4,072,741	10,947,437	4,072,741
Contingent Liabilities				
Acceptances	2,613,569	1,600,325	2,613,569	1,600,325
Documentary credits	6,272,812	5,478,970	6,272,812	5,478,970
Guarantees	11,657,109	7,773,740	11,657,109	7,773,740
Bills for collection	4,887,788	4,441,719	4,887,788	4,441,719
	25,431,278	19,294,754	25,431,278	19,294,754
Forward exchange contracts (net)	1,765,786	714,558	1,765,786	714,558
	27,197,064	20,009,312	27,197,064	20,009,312
Total commitments and contingencies	38,144,501	24,082,053	38,144,501	24,082,053

32 (b) Litigation against the Bank

- (i) Court action has been initiated by a customer in proceedings Number 36/96 (i) to claim a sum of Rs.183.050 million on account of a forward exchange contract. Legal opinion has been obtained by the Bank and the Bank is defending the action.
- (ii) Judgement was delivered on September 21, 1995 on the Court action initiated by a customer in proceedings Number 93650/M to claim a sum of approximately Rs. 6.000 million relating to a dispute over the payment by the Bank of several cheques alleged to have been forged. The Bank has appealed against the judgement.
- (iii) Five Labour Tribunal cases filed by five ex-employees on termination of employment are pending against the Bank. In addition, the Bank has appealed against the orders of the Labour Tribunal in two other cases.
- (iv) Labour Tribunal ordered in favour of the Bank in respect of an application filled by an ex-employee. The applicant has filed an appeal against this order in the High Court of Colombo.
- (v) Court action has been initiated by a customer in proceedings Number 25831/MR to claim a sum of Rs. 2.880 million together with interest o/a an interest refund claimed on a Current Account.
- (vi) Court action has been initiated by an insurance company in proceedings Number 26783/MR claiming a sum of Rs. 25.000 million in damages. This is sequel to the Bank filing action against this insurance company claiming a sum of approximately Rs. 106.012 million together with legal interest on an insurance claim.

Notes to the Accounts

- (vii) Court action has been initiated by a customer in proceedings Number 282/2002(1) restraining the Bank from paying a sum of Rs. 13.350 million on a bank guarantee. The case has been referred to Commercial High Court and is yet to be called up. The Bank has obtained a counter guarantee from an insurance company.
- (viii) Court action has been initiated by a customer in proceedings Number 3357/01/M to recover a sum of Rs. 0.085 million which has allegedly been withdrawn by using the lost Commercial Automated Teller (CAT) card of the customer. Legal opinion has been obtained by the Bank and the Bank is defending the action.
- (ix) Court action has been initiated by a customer in proceedings Number 27485/MR to recover a sum of Rs. 15.204 million in damages in relation to alleged wrongful payment of a cheque for Rs. 0.024 million and alleged incorrect remark on two other cheques for values of Rs. 0.500 million and Rs. 0.180 million that have been returned.
- (x) Court action has been initiated by a customer in proceedings Number 138/2002(1) demanding interest amounting to Rs. 148.298 million and legal interest thereon on an account in which the funds were frozen for a considerable length of time on the instructions of the Central Bank of Sri Lanka.
- (xi) Court action has been initiated by a customer in proceedings Number 25085/MR to recover a sum of US\$ 27,500 alleged to have been paid by the Bank by debiting the account without authority of the customer. Bank has paid this amount in pursuance of a counter guarantee issued by the Bank.
- (xii) Court action has been initiated by a customer in proceedings Number 36542/MR to recover a sum of Rs. 0.400 million and interest thereon on an alleged breach of contract. Legal opinion has been obtained by the Bank and the Bank is defending the action.

33. Capital Commitments

Capital expenditure approved by the Board of Directors for which provision has not been made in these Financial Statements amounted to approximately:

	Bank		Group	
	2003 Rs. '000	2002 Rs. '000	2003 Rs. '000	2002 Rs. '000
Approved and contracted for	10,301	25,015	10,301	44,015
Approved but not contracted for	19,500	12,000	19,500	12,000
	29,801	37,015	29,801	56,015

Notes to the Accounts

34. Financial Reporting by Segment as per the provisions of Sri Lanka Accounting Standard No. 28

34 (a) Business Segments

	Banking		Leasing		Dealing		Property/ Investments		Eliminations/ Unallocated		Total	
	2003 Rs. '000	2002 Rs. '000	2003 Rs. '000	2002 Rs. '000	2003 Rs. '000	2002 Rs. '000	2003 Rs. '000	2002 Rs. '000	2003 Rs. '000	2002 Rs. '000	2003 Rs. '000	2002 Rs. '000
Revenue from external customers												
Interest	4,079,446	4,569,487	-	-	3,106,238	2,518,556	-	-	-	-	7,185,684	7,088,043
Exchange	190,849	214,379	-	-	206,112	231,894	-	-	-	-	396,961	446,273
Lease income	-	-	444,279	310,020	-	-	-	-	-	-	444,279	310,020
Commissions	1,038,411	823,885	-	-	12,663	181	-	-	-	-	1,051,074	824,066
Other	75,627	44,667	-	-	-	-	595,477	165,977	361	21,175	671,465	231,819
Total revenue from external customers	5,384,333	5,652,418	444,279	310,020	3,325,013	2,750,631	595,477	165,977	361	21,175	9,749,463	8,900,221
Inter-segment revenue	-	-	-	-	-	-	-	-	-	-	-	-
Total revenue	5,384,333	5,652,418	444,279	310,020	3,325,013	2,750,631	595,477	165,977	361	21,175	9,749,463	8,900,221
Segment result	1,833,786	2,094,777	228,418	150,264	224,674	80,479	595,477	165,977	361	21,175	2,882,716	2,512,672
Unallocated expenses											(886,288)	(837,279)
Profit from operations											1,996,428	1,675,393
Net financing costs											-	-
Income from Associates											42,653	28,477
Income tax expense											(501,766)	(391,323)
Minority interest											(1,715)	(1,924)
Net profit for the year											1,535,600	1,310,623
Segment assets	70,237,223	58,586,498	3,326,930	1,894,936	32,239,851	15,740,377	2,708,145	1,015,711	4,138,734	4,006,429	112,650,883	81,243,951
Investments in Associates	-	-	-	-	-	-	171,356	140,668	-	-	171,356	140,668
Unallocated assets	-	-	-	-	-	-	-	-	-	-	-	-
Total assets											112,822,239	81,384,619
Segment liabilities	57,133,769	50,242,749	3,457,768	1,975,845	32,239,851	15,740,377	2,879,501	1,156,379	5,204,937	4,350,270	100,915,826	73,465,620
Unallocated liabilities	-	-	-	-	-	-	-	-	-	-	-	-
Total liabilities											100,915,826	73,465,620
Cash flows from operating activities	749,352	(3,007,010)	1,850,121	662,881	728,823	784,939	-	-	(29,708)	(45,997)	3,298,588	(1,605,187)
Cash flows from investing activities	(1,653,381)	56,030	-	-	80,652	(2,184,551)	(1,830,083)	(385,095)	-	-	(3,402,812)	(2,513,616)
Cash flows from financing activities	1,820,857	2,024,391	-	-	-	-	-	-	3,244,410	-	5,065,267	2,024,391
Capital expenditure	(359,703)	(352,450)	-	-	-	-	(16,770)	(1,985)	-	-	(376,473)	(354,435)

Notes to the Accounts

34 (b) Geographical Segments

	2003		Bank		2003		Group	
			2002				2002	
	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%
Assets								
Domestic operations	88,200,476	79.98	63,616,852	86.73	90,742,789	80.43	71,649,756	88.04
Overseas operations	9,203,558	8.35	-	-	9,203,558	8.16	-	-
Off-shore Banking Centre	12,875,892	11.67	9,734,863	13.27	12,875,892	11.41	9,734,863	11.96
	<u>110,279,926</u>	<u>100.00</u>	<u>73,351,715</u>	<u>100.00</u>	<u>112,822,239</u>	<u>100.00</u>	<u>81,384,619</u>	<u>100.00</u>
Gross Income								
Domestic operations	8,904,249	88.52	7,770,610	92.90	8,594,605	88.15	8,571,829	93.52
Overseas operations	589,429	5.86	-	-	589,429	6.05	-	-
Off-shore Banking Centre	565,429	5.62	593,580	7.10	565,429	5.80	593,580	6.48
	<u>10,059,107</u>	<u>100.00</u>	<u>8,364,190</u>	<u>100.00</u>	<u>9,749,463</u>	<u>100.00</u>	<u>9,165,409</u>	<u>100.00</u>
Profit before Tax								
Domestic operations	1,436,481	73.49	1,150,594	75.45	1,520,967	74.59	1,329,450	78.03
Overseas operations	264,458	13.53	-	-	264,458	12.97	-	-
Off-shore Banking Centre	253,656	12.98	374,420	24.55	253,656	12.44	374,420	21.97
	<u>1,954,595</u>	<u>100.00</u>	<u>1,525,014</u>	<u>100.00</u>	<u>2,039,081</u>	<u>100.00</u>	<u>1,703,870</u>	<u>100.00</u>
Profit after Tax								
Domestic operations	1,182,716	80.05	865,024	71.85	1,242,544	80.83	973,557	74.17
Overseas operations	89,806	6.08	-	-	89,806	5.84	-	-
Off-shore Banking Centre	204,965	13.87	338,990	28.15	204,965	13.33	338,990	25.83
	<u>1,477,487</u>	<u>100.00</u>	<u>1,204,014</u>	<u>100.00</u>	<u>1,537,315</u>	<u>100.00</u>	<u>1,312,547</u>	<u>100.00</u>

35. Directors' Interests in Contracts with the Company

- 35 (a)** Mr. A. L. Gooneratne, Mr. J.S. Mather and Dr. H.S. Wanasinghe who were Directors of the Company as at December 31, 2003 were also Directors of Commercial Development Co. Ltd. (CDC) which Company has leased part of its premises to the Bank at an annual rental of Rs. 58,188,300/- excluding VAT and has hired motor vehicles to the Bank for which a hiring charge of Rs. 25,560,294/- was charged. Further, CDC has paid Rs. 11,952,092/- to the Bank as lease rentals for the motor vehicles leased from the Bank.
- 35 (b)** Banking facilities amounting to Rs. 216,000/- were made available against the security of fixed deposits totalling to Rs. 358,630/- to Clodagh Western Estate in which Mr. M.J.C. Amarasuriya is a co-partner. The balance outstanding as at December 31, 2003 was Rs. 127,870/-. The provisions of Section 47 of the Banking Act No. 30 of 1988 have been complied with.
- 35 (c)** Banking facilities amounting to Rs. 300,000/- in the form of an International MasterCard were made available to Dr. H.S. Wanasinghe during the year. The balance outstanding as at December 31, 2003 was Rs. 50,440/-. The provisions of Section 47 of the Banking Act No. 30 of 1988 have been complied with.

Notes to the Accounts

35 (d) Banking facilities amounting to Rs. 600,000/- in the form of an International MasterCard were made available to Mr. A.L. Gooneratne during the year. The balance outstanding as at December 31, 2003 was nil. The provisions of Section 47 of the Banking Act No. 30 of 1988 have been complied with.

36. Related Party Transactions

The Bank carried out transactions in the ordinary course of its business on an arm's length basis at commercial rates with related parties. These related parties, names of Directors, their relationships, accommodation granted and the balances outstanding as at December 31, 2003 are listed below:

Name of Related Party	Name of Director	Relationship	Accommodation Granted	Limit Rs.	Balance Outstanding Rs.
Subsidiary Companies					
Commercial Development Co. Ltd.	Mr. J.S. Mather	Director	Leasing Facilities	73,294,937	37,704,646
	Dr. H.S. Wanasinghe	Director			
	Mr. A.L. Gooneratne	Director			
Associate Companies					
Commercial Fund Management (Pvt.) Ltd.	Mr. M.J.C. Amarasuriya	Chairman	Leasing Facilities	600,000	16,795
	Mr. A.L. Gooneratne	Director			
Commercial Leasing Co. Ltd.	Mr. M.J.C. Amarasuriya	Director	Overdraft	10,000,000	181,788,640
		Director	Temporary Overdraft	185,000,000	
	Mr. A.L. Gooneratne		Short-Term Loan	65,000,000	63,000,000
			Term Loans	400,000,000	367,576,000
			Letters of Credit	30,000,000	5,213,091
			D/A	2,000,000	6,791,063
			Letters of Guarantee	5,000,000	500,000
			Trust Certificates 1	11,264,535	11,264,535
	Trust Certificates 2	123,200,000	123,200,000		
Other Related Parties					
Acme Printing & Packaging Ltd.	Mr. J.S. Mather	Director	Overdraft	10,000,000	10,016,680
		Director	Letters of Credit	7,500,000	5,977,389
	Mr.M.L. Mack		Import Demand Loans (Sub Limit of L/C)	(5,000,000)	417,560
			D/A (Sub Limit of L/C)	(5,000,000)	Nil
			Term Loan	7,500,000	4,420,000
Associated Battery Mfg. (Ceylon) Ltd.	Mr. A.N. Fonseka	Director	Overdraft	20,000,000	12,517,008
			Letters of Credit	5,000,000	18,284,000
			Import Demand Loans	5,000,000	Nil
Chemanex Ltd.	Mr. B.R.L. Fernando	Chairman	Overdraft (Combined Limit)	30,000,000	3,760,807
			Letters of Credit (Combined Limit)	(30,000,000)	1,132,677
			D/A (Combined Limit)	(30,000,000)	4,821,921
			Bills Receivable	-	1,250,304
			Shipping Guarantees	-	15,830,000
			Letters of Guarantee	5,000,000	540,000

Notes to the Accounts

Name of Related Party	Name of Director	Relationship	Accommodation Granted	Limit Rs.	Balance Outstanding Rs.	
Chemical Industries (Colombo) Ltd.	Mr. B.R.L. Fernando	Chairman	Overdraft (Combined Limit)	290,000,000	7,800 Cr.	
			Mr. J.S. Mather	Director	Short-Term Loans (Combined Limit)	(290,000,000)
			Letters of Credit (Combined Limit)	(290,000,000)	19,371,974	
			D/A (Combined Limit)	(290,000,000)	39,580,217	
			Shipping Guarantee	-	16,921,000	
CIC Agri Biotech (Pvt) Ltd.	Mr. B.R.L. Fernando	Chairman	Current Account	-	658,338	
CIC Feeds (Pvt) Ltd.	Mr. B.R.L. Fernando	Chairman	Overdraft (Combined Limit)	250,000,000	11,171,255	
			Short-Term Loans (Combined Limit)	(250,000,000)	50,000,000	
			D/A (Combined Limit)	(250,000,000)	4,839,900	
			Term Loans	217,300,000	202,331,000	
			Letters of Credit	-	66,048,898	
			Shipping Guarantee	-	163,289,000	
			Letters of Guarantee	3,000,000	3,389,539	
CIC Fertilizers (Pvt) Ltd.	Mr. B.R.L. Fernando	Chairman	Overdraft (Combined Limit)	890,000,000	63,423,563 Cr.	
			Short-Term Loans (Combined Limit)	(890,000,000)	520,000,000	
			Letters of Credit (Combined Limit)	(890,000,000)	32,801,745	
			D/A (Combined Limit)	(890,000,000)	283,086,300	
			Letters of Guarantee	5,000,000	4,665,920	
			Term Loans	8,000,000	3,050,000	
CIC Seeds (Pvt.) Ltd.	Mr. B.R.L. Fernando	Chairman	Letters of Guarantee	-	1,425,000	
CIC Vetcare (Pvt.) Ltd.	Mr. B.R.L. Fernando	Chairman	Overdraft (Combined Limit)	50,000,000	9,190,578	
			Short-Term Loans (Combined Limit)	(50,000,000)	30,000,000	
			Letters of Credit (Combined Limit)	(50,000,000)	15,785,914	
			D/A (Combined Limit)	(50,000,000)	1,732,863	
			Shipping Guarantees	-	3,788,000	
			Letters of Guarantee	3,000,000	251,080	
Cisco Speciality Packaging (Pvt.) Ltd.	Mr. B.R.L. Fernando	Chairman	Overdraft	15,000,000	1,476,078	
			Letters of Credit	20,000,000	5,298,201	
			Import Demand Loans (Sub Limit of L/C)	(10,000,000)	Nil	
			D/A (Sub Limit of L/C)	(10,000,000)	4,940,121	
			Letters of Guarantee	5,000,000	Nil	
			Shipping Guarantees	-	13,817,000	
Coates (Lanka) Ltd.	Mr. J.S. Mather	Alternate	Overdraft	6,000,000	254,804	
			Director	Short-Term Loan	6,000,000	6,000,000
				Letters of Credit	10,000,000	Nil
				Import Loans (Sub Limit of L/C)	(8,000,000)	Nil
				Import D/A (Sub Limit of L/C)	(8,000,000)	Nil
				Shipping Guarantee	5,000,000	Nil
Commercial Insurance Brokers (Pvt.) Ltd.	Mr. A.L. Gooneratne	Director	Letters of Guarantee	25,000	25,000	

Notes to the Accounts

Name of Related Party	Name of Director	Relationship	Accommodation Granted	Limit Rs.	Balance Outstanding Rs.			
David Pieris Motor Company Ltd.	Mr. J.S. Mather	Director	Overdraft	30,000,000	23,148,082 Cr.			
			Letters of Credit	150,000,000	67,171,593			
			Import Loans (Sub Limit of L/C)	(50,000,000)	Nil			
			Shipping Guarantees	90,000,000	Nil			
DFCC Bank	Mr. M.L. Mack Mr. A.N. Fonseka Mr. M.J.C. Amarasuriya	Chairman Director Director	Overdraft	500,000,000	20,099,619 Cr.			
			Money Market Placements	600,000,000	Nil			
			Government Security Re-purchase Transaction Limit (Sub Limit of MM Placements Limit)	(500,000,000)	Nil			
			Letters of Credit	800,000,000	26,296,032			
			D/A (Sub Limit of L/C)	(500,000,000)	118,817,692			
			Shipping Guarantees (Sub Limit of L/C)	(500,000,000)	63,155,000			
			Leasing Facilities	1,048,888	729,155			
Lak Jaya Thrift and Credit Foundation Ltd.	Mr. M.J.C. Amarasuriya	Founder Promoter	Leasing Facilities	1,048,888	729,155			
			Orient Motor Company Ltd.	Mr. M.J.C. Amarasuriya	Director	Overdraft	15,000,000	6,113,264
						Leasing Facilities	50,000,000	37,973,660
Term Loan	260,000,000	185,311,171						
Pelawatte Sugar Industries (Pvt.) Ltd.	Mr. M.J.C. Amarasuriya	Chairman	Letters of Credit	-	1,315,000			
Rainwear (Pvt.) Ltd.	Mr. B.R.L. Fernando	Director	Overdraft	US\$ 112,000	US\$ 115,529			
			Letters of Credit	US\$ 183,000	US\$ 13,327			
			Import Loans (Sub Limit of L/C)	(US\$ 183,000)	US\$ 171,886			
The Lighthouse Hotel Ltd.	Mr. B.R.L. Fernando	Director	Overdraft	5,000,000	3,231,579 Cr.			
UML Agencies & Distributors Ltd.	Mr. M.J.C. Amarasuriya	Director	Overdraft	5,000,000	4,466,173			
			Letters of Credit	35,000,000	Nil			
			D/A (Sub Limit of L/C)	(25,000,000)	24,161,820			
United Motors Lanka Ltd.	Mr. M.J.C. Amarasuriya	Chairman	Short-Term Loan	150,000,000	131,500,000			
			Letters of Credit	75,000,000	5,826,000			
			D/A (Sub Limit of L/C)	(50,000,000)	46,979,777			
			Letters of Guarantee	15,000,000	2,548,066			

During the year, the Bank purchased 2,536,900 ordinary shares of DFCC Bank costing Rs. 800.625 million.

Notes to the Accounts

37. 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 except as stated below:

As per an amendment to the Directions issued by the Central Bank of Sri Lanka under Section 46(A) of the Banking Act No. 30 of 1988, the extent up to which securities can be discounted for provisioning purposes has been reduced as follows:

Category	% of Forced Sale Value of immovable property that can be considered as the value of Security
At the time of first provisioning	75
1 to 2 years in the loss category	60
2 to 3 years in the loss category	50
3 to 4 years in the loss category	40
Over 4 years in the loss category	At the discretion of the management

Additional provision required to be made in 2004 as a result of the above amendment based on existing valuations held by the Bank is Rs. 348.100 million.

Income Statement

For the year ended December 31,	Bank			Group		
	2003 US\$'000	2002 US\$'000	Change %	2003 US\$'000	2002 US\$'000	Change %
Net income	103,809	83,810	23.86	100,614	92,011	9.35
Interest income	81,852	68,364	19.73	78,741	77,983	0.97
Less: Interest expenses	43,530	38,735	12.38	40,036	45,848	(12.68)
Net interest income	38,322	29,629	29.34	38,705	32,135	20.44
Foreign exchange profit	4,097	4,800	(14.65)	4,097	4,800	(14.65)
Fee and commission income	10,848	8,519	27.34	10,847	8,519	27.33
Other income	7,012	2,826	148.12	6,929	1,490	365.03
	60,279	45,774	31.69	60,578	46,944	29.04
Less: National Security Levy	-	699	-	-	781	-
	60,279	45,075	33.73	60,578	46,163	31.23
Less: Operating expenses						
Personnel costs	14,307	11,535	24.03	14,429	11,593	24.46
Premises, equipment and establishment expenses	8,882	7,650	16.10	8,595	7,072	21.54
Provision for staff retirement benefits	3,211	2,024	58.65	3,211	2,024	58.65
Other overhead expenses	7,278	3,791	91.98	7,308	3,882	88.25
	33,678	25,000	34.71	33,543	24,571	36.51
Profit before loan losses and provisions and provision for fall in value of investments/foreclosed properties	26,601	20,075	32.51	27,035	21,592	25.21
Less: Loan losses & provisions	6,431	4,156	54.74	6,431	4,156	54.74
Fall in value of investments/foreclosed properties	-	155	-	-	117	-
Profit from operations	20,170	15,764	27.95	20,604	17,319	18.97
Add/(Less): Share of profit/(loss) before tax of Associate Companies	-	-	-	440	294	49.66
Profit before taxation	20,170	15,764	27.95	21,044	17,613	19.48
Less: Provision for taxation	4,924	3,319	48.36	5,178	4,046	27.98
Profit after taxation	15,246	12,445	22.51	15,866	13,567	16.95
Less: Minority interest	-	-	-	18	20	(10.00)
Profit attributable to shareholders	15,246	12,445	22.51	15,848	13,547	16.99
Earnings per Ordinary Share	0.23	0.19	21.05	0.24	0.21	14.29
Dividend per Ordinary Share	0.05	0.05	-	0.05	0.05	-

Exchange Rate of 1 US\$ was Rs. 96.90 as at 31.12.2003 (Rs. 96.73 as at 31.12.2002).

US DOLLAR ACCOUNTS

The Income Statement and the Balance Sheet given on pages 108 and 109 are solely for the convenience of shareholders, investors, bankers and other users of Financial Statements and do not form part of the Financial Statements.

Balance Sheet

As at December 31,	Bank			Group		
	2003 US\$'000	2002 US\$'000	Change %	2003 US\$'000	2002 US\$'000	Change %
ASSETS						
Cash and short-term funds	92,899	18,972	389.66	92,900	18,991	389.18
Balances with Central Banks	54,002	33,538	61.02	54,002	33,538	61.02
Government Treasury Bills and Bonds	164,393	89,463	83.76	214,117	144,103	48.59
Commercial paper	5,638	11,160	(49.48)	5,638	11,160	(49.48)
Securities purchased under						
re-sale agreements	63,814	8,604	641.68	40,981	14,975	173.66
Dealing securities	–	2,068	–	–	2,068	–
Investment securities	26,889	7,287	269.00	26,890	7,287	269.01
Treasury Bonds maturing after one year	–	8,084	–	–	30,880	–
Bills of Exchange	25,746	26,385	(2.42)	25,746	26,385	(2.42)
Loans & advances	624,171	488,363	27.81	624,171	488,363	27.81
Lease receivable within one year	13,320	7,347	81.30	13,177	7,219	82.53
Lease receivable from one to five years	21,400	12,511	71.05	21,157	12,371	71.02
	<u>1,092,272</u>	<u>713,782</u>	53.03	<u>1,118,779</u>	<u>797,340</u>	40.31
Foreclosed properties	1,058	1,145	(7.60)	1,058	1,145	(7.60)
Investments in Associate Companies	808	810	(0.25)	1,768	1,454	21.60
Investments in Subsidiary Companies	4,431	4,387	1.00	–	–	–
Interest and fees receivable	4,022	3,054	31.70	4,022	3,054	31.70
Other assets	18,347	19,156	(4.22)	19,320	20,242	(4.55)
Property, Plant and Equipment	17,141	15,980	7.27	19,369	18,124	6.87
	<u>1,138,079</u>	<u>758,314</u>	50.08	<u>1,164,316</u>	<u>841,359</u>	38.39
FINANCED BY						
LIABILITIES						
Deposits from customers	775,898	564,298	37.50	774,995	563,220	37.60
Dividends payable	1,957	1,218	60.67	1,957	1,253	56.19
Borrowings	55,786	43,422	28.47	55,786	43,422	28.47
Securities sold under						
re-purchase agreements	109,187	20,038	444.90	133,648	102,574	30.29
Other liabilities	47,433	41,088	15.44	47,426	40,446	17.26
Tax payable	1,527	401	280.80	1,661	661	151.29
Deferred taxation	2,552	2,512	1.59	2,671	2,614	2.18
Debentures	23,162	5,169	348.09	23,162	5,169	348.09
	<u>1,017,502</u>	<u>678,146</u>	50.04	<u>1,041,306</u>	<u>759,359</u>	37.13
MINORITY INTEREST	–	–	–	137	133	3.01
SHAREHOLDERS' FUNDS						
Share capital	26,863	13,692	96.19	26,863	13,692	96.19
Statutory Reserve Fund	10,413	10,431	(0.17)	10,413	10,431	(0.17)
Reserves	83,301	56,045	48.63	85,597	57,744	48.24
Shareholders' funds	<u>120,577</u>	<u>80,168</u>	50.41	<u>122,873</u>	<u>81,867</u>	50.09
Total liabilities, minority interest and shareholders' funds	<u>1,138,079</u>	<u>758,314</u>	50.08	<u>1,164,316</u>	<u>841,359</u>	38.39
Commitments and contingencies	393,648	248,962	58.12	393,648	248,962	58.12

Exchange Rate of 1 US\$ was Rs. 96.90 as at 31.12.2003 (Rs. 96.73 as at 31.12.2002).

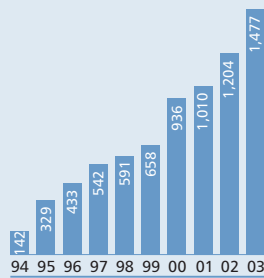
Subsidiary/Associate Companies

	BANK'S INTEREST	PRINCIPAL ACTIVITY	DIRECTORS	PRE-TAX PROFIT/(LOSS) Rs. Mn.		DIVIDEND RATE %	
				2003	2002	2003	2002
Subsidiary Companies							
Commercial Bank Primary Dealer Ltd. "Commercial House", 21, Bristol Street, Colombo 1. Tel: 2445010-15, 2336700, 2328193-5, 2332319 Incorporated on October 18, 1999	100.0%	Primary Dealer for Government Securities	M.J.C. Amarasuriya (<i>Chairman</i>) J.S. Mather A.L. Gooneratne B.R.L. Fernando A.N. Fonseka G.L.H. Premaratne R. Samaranayake W.M.R.S. Dias D.S. Weeratunge L.W.P. Indrajith (<i>Company Secretary</i>)	293.064	229.834	179	62.0
ONEzero Co. Ltd. "Commercial House", 21, Bristol Street, Colombo 1. Tel: 2430420 Incorporated on February 17, 2003	100.0%	Provision of IT Related Services	M.J.C. Amarasuriya J.S. Mather A.N. Fonseka A.L. Gooneratne G.L.H. Premaratne R. Samaranayake W.M.R.S. Dias M.D.A. Peiris S.D. Bandaranayake S.R. Pushpakumara (<i>Company Secretary</i>)	0.284	-	-	-
Commercial Development Co. Ltd. "Commercial House", 21, Bristol Street, Colombo 1. Tel: 2447300 Incorporated on March 14, 1980	94.55%	Property Development	M.T.L. Fernando (<i>Chairman</i>) A.L. Gooneratne Deshabandu S.E. Captain J.S. Mather Dr. H.S. Wanasinghe M.A. Pemasiri G.L.H. Premaratne S.R. Pushpakumara (<i>Company Secretary</i>)	46.699	51.673	-	29.0
Associate Companies							
Commercial Fund Management (Pvt) Ltd. 108 A, 1/1, Maya Avenue, Colombo 6. Tel: 4515262, 5373747 Incorporated on January 20, 1992	50.0%	Fund Management	M.J.C. Amarasuriya (<i>Chairman</i>) H.D.S. Amarasuriya A.L. Gooneratne R.C. Melville R. Hill E. Perera Mrs. R.R. Dunuwille (<i>Company Secretary</i>)	7.351	2.571	-	-
Commercial Leasing Co. Ltd. 68, Baudhaloka Mawatha, Colombo 4. Tel: 4526526 Incorporated on April 22, 1988	30.0%	Leasing and Factoring	H.D.S. Amarasuriya (<i>Chairman</i>) M.J.C. Amarasuriya A.L. Gooneratne M.P. Jayawardena K.K. Shah P.R. Saldin H.A. Peiris (<i>Alternate</i>) Nihal A. Rodrigo (<i>Company Secretary</i>)	122.450	62.634	-	15.0
Equity Investments Lanka Ltd. 108 A, 1st Floor, Maya Avenue, Colombo 6. Tel: 5373745, 2507605-6 Incorporated on August 08, 1990	22.92%	Venture Capital	M.J.C. Amarasuriya (<i>Chairman</i>) H.D.S. Amarasuriya S.T. Nagendra A.L. Gooneratne Deshabandu S.E. Captain E.A.D. Perera Mrs. R.R. Dunuwille (<i>Company Secretary</i>)	8.430	3.778	-	-

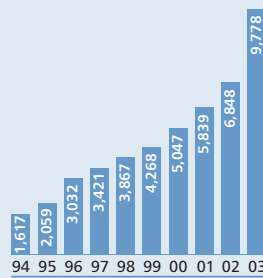
The Dividend rates shown above for 2003 are Interim Dividends paid by the respective companies.

Graphical Review of a Decade

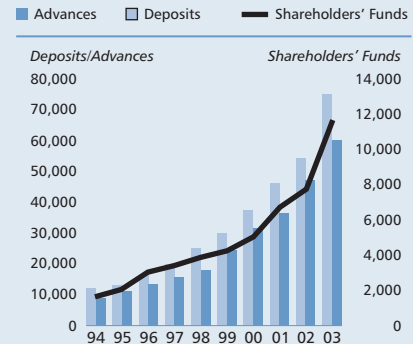
Profit after Taxation
(Rs. Mn.)



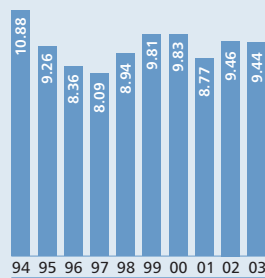
Ordinary Shareholders' Funds
(Rs. Mn.)



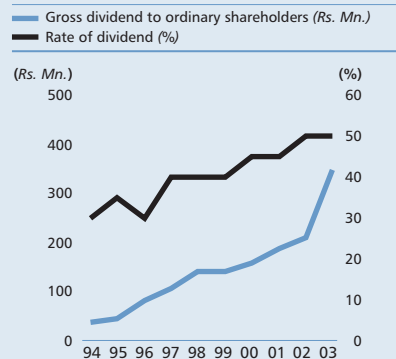
Balance Sheet Growth
(Rs. Mn.)



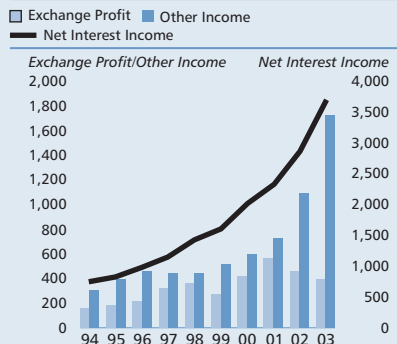
Total Assets to Shareholders' Funds (Times)



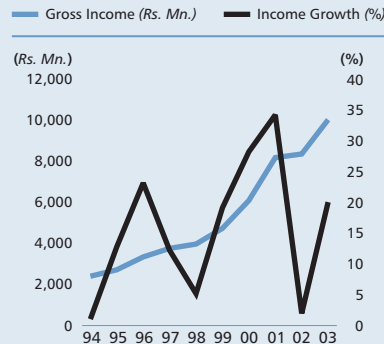
Gross Dividend to Ordinary Shareholders & Rate of Dividend



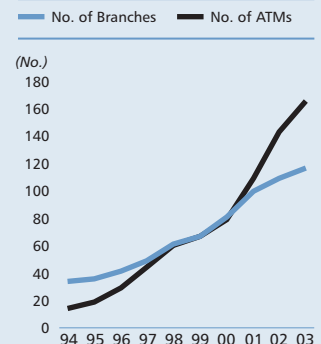
Net Interest Income, Exchange Profit & Other Income (Rs. Mn.)



Gross Income & Income Growth



Branches & ATM Expansion



Decade at a Glance

(Rs. Mn.)	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
<i>Year ended December 31,</i>										
OPERATING RESULTS										
Gross income	2,416	2,727	3,365	3,781	3,979	4,744	6,096	8,203	8,364	10,059
Interest income	1,875	2,038	2,553	2,876	3,031	3,762	4,796	6,510	6,613	7,931
Interest expenses	(1,124)	(1,213)	(1,572)	(1,723)	(1,605)	(2,158)	(2,776)	(4,174)	(3,747)	(4,218)
Exchange profit	156	187	219	320	362	274	421	563	464	397
Commission & other income	299	393	461	440	440	517	600	732	1,097	1,731
Operating expenses & provisions	(966)	(916)	(1,081)	(1,261)	(1,459)	(1,586)	(1,891)	(2,306)	(2,902)	(3,887)
Profit before income tax	240	489	580	652	769	809	1,150	1,325	1,525	1,954
Income tax on profits	(98)	(160)	(147)	(110)	(178)	(151)	(214)	(315)	(321)	(477)
Profit after taxation	142	329	433	542	591	658	936	1,010	1,204	1,477
<i>As at December 31,</i>										
ASSETS										
Cash and short-term funds	2,971	3,066	4,363	4,639	8,440	3,761	5,456	4,272	1,835	9,002
Statutory deposit with Central Banks	1,456	1,804	2,274	1,938	1,840	2,644	2,583	3,091	3,244	5,233
Tresury Bills and Treasury Bonds	-	-	-	-	409	3,573	1,449	5,307	9,436	15,930
Commercial paper	-	-	-	-	-	745	331	1,170	1,080	546
Investment Securities	94	86	308	658	409	300	208	462	905	2,606
Securities purchased under re-sale agreements	-	26	20	-	70	-	-	1,064	832	6,184
Placements with banks maturing after one year	-	-	-	-	-	289	-	-	-	-
Bills of Exchange	1,598	1,564	2,135	2,074	1,597	1,873	2,331	2,368	2,552	2,494
Loans and advances	9,161	11,269	13,414	15,690	18,312	24,692	31,570	36,582	47,239	60,482
Lease receivable	-	-	177	489	730	1,047	1,263	1,519	1,921	3,364
	15,280	17,815	22,691	25,488	31,807	38,924	45,191	55,835	69,044	105,841
Foreclosed properties	-	-	-	-	-	95	133	148	111	103
Investments in Associate Companies	329	414	128	128	78	78	78	78	78	78
Investments in Subsidiary Companies	-	-	274	274	274	274	424	424	424	429
Other assets	1,430	1,445	1,571	972	1,368	1,253	2,478	1,251	2,149	2,168
Property, Plant and Equipment	549	604	671	797	1,059	1,263	1,306	1,410	1,546	1,661
ASSETS	17,588	20,278	25,335	27,659	34,586	41,887	49,610	59,146	73,352	110,280
LIABILITIES										
Deposits from customers	12,261	13,048	16,611	20,156	25,274	30,128	37,523	46,306	54,585	75,185
Borrowings	1,952	2,150	2,601	1,321	1,124	1,350	2,317	1,862	4,200	5,405
Securities sold under re-purchase agreements	-	1,213	1,030	1,468	2,130	3,371	1,430	228	1,938	10,580
Other liabilities	1,698	1,706	1,975	1,226	1,594	2,168	2,643	3,263	4,218	4,844
Taxation	37	75	38	(8)	(1)	4	42	79	39	148
Dividends Payable	23	27	48	75	98	98	108	163	118	190
Debentures	-	-	-	-	500	500	500	500	500	2,244
	15,971	18,219	22,303	24,238	30,719	37,619	44,563	52,401	65,598	98,596
SHAREHOLDERS' FUNDS										
Share capital	125	125	268@#!	268	348 ⁺	348	348	1,324 ^{-^}	1,324	2,603 ^{*▲}
Reserve fund	1,009	1,009	1,009	1,009	1,009	1,009	1,009	1,009	1,009	1,009
Reserves	483	925	1,755	2,144	2,510	2,911	3,690	4,412	5,421	8,072
CAPITAL EMPLOYED	17,588	20,278	25,335	27,659	34,586	41,887	49,610	59,146	73,352	110,280
Commitments and contingencies	13,222	11,027	10,517	13,768	14,612	15,445	17,880	19,749	24,082	28,623

Decade at a Glance

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
RATIOS										
Return on average -										
shareholders' funds (%)	9.00	18.00	17.00	16.80	16.20	16.21	20.09	17.95	17.12	15.49
Income growth (%)	1.06	12.88	23.40	15.71	5.24	19.25	28.49	34.56	1.96	20.26
Return on average assets (%)	0.86	1.74	1.90	2.05	1.90	1.72	2.05	1.86	1.82	1.61
Rate of dividend (%)	30.00	35.00	30.00	40.00	40.00	40.00	45.00	45.00	50.00	50.00
Ordinary share dividend cover (times)	3.78	7.25	5.39	3.90	4.24	4.73	5.91	5.20	5.20	3.70
Gross dividends										
to ordinary shareholders (Rs. Mn.)	37.50	45.37	80.40	107.10	139.30	139.30	156.71	188.06	208.95	348.25
Advances to deposits and										
refinance (%)	84.80	95.30	92.50	88.95	80.42	89.75	91.81	85.51	92.59	86.02
Property, Plant and Equipment to										
shareholders' funds (%)	33.99	29.12	22.14	23.29	27.37	29.72	25.87	20.90	19.93	14.22
Total assets to shareholders'										
funds (times)	10.88	9.26	8.36	8.09	8.94	9.81	9.83	8.77	9.46	9.44
Capital Funds to Liabilities including										
Contingent Liabilities (%)	5.54	7.04	9.24	9.00	8.53	8.04	8.08	9.35	8.65	8.54
Liquid assets to liabilities (%)	27.12	20.74	28.17	25.36	24.97	22.19	27.22	27.72	27.88	23.95
(As specified in the Banking Act										
No. 30 of 1988)										
Capital adequacy (%)										
Tier I	11.04	13.56	17.13	16.71	15.53	14.90	14.97	15.72	14.94	13.43
Tier I & II	11.67	13.94	17.47	17.63	18.45	17.14	16.62	16.20	15.07	14.83
INFORMATION ON ORDINARY SHARES										
Market value of a share (Rs.)	288	200	124	150	120	115	93	127	200	144
Earnings per share (Rs.)	2	6	7	9	10	11	16	17	19	22
Price earnings ratio (times)	25	8	7	10	7	6	4	5	8	7
Net assets value per share (Rs.)	129	165	113	128	111	123	121	140	164	140
Earnings yield (%)	4	13	15	11	14	16	29	18	13	15
Dividend payout ratio (%)	27	13	17	25	24	21	17	22	19	27
OTHER INFORMATION										
No. of employees	1,849	1,845	1,837	1,889	1,985	1,996	2,067	2,259	2,399	2,521
No. of branches / CSPs / MiniComs	34	36	41	49	61	67	81	100	109	116
No. of branches / booths - Bangladesh	-	-	-	-	-	-	-	-	-	4
No. of Automated										
Teller Machines	14	19	29	44	60	67	79	109	143	166

@ Scrip issue of three bonus shares for every five ordinary shares held was made in April 1996.

Rights issue of one ordinary share for every four shares held was made in October 1996.

! Issue of 894,275 non-voting ordinary shares to the shareholders of Commercial Development Co. Ltd. was made during the year 1996 on the offer for share swap.

+ Scrip issue of three bonus shares for every ten ordinary shares held was made in June 1998.

- Scrip issue of one bonus share for every five ordinary shares held was made in May 2001.

^ Issue of 13% Cumulative Redeemable Preference Shares of Rs. 10/- each for Rs. 906.555 Mn. was made in August 2001.

* Scrip issue of one bonus share for every three ordinary shares held was made in May 2003.

▲ Rights issue of one ordinary share for every four ordinary shares held was made in October 2003.

● Issue of 11.25% Cumulative Redeemable Preference Shares of Rs. 10/- each for Rs. 1,000.000 million. was made in May 2003.

Share and Debenture Information

1. Stock Exchange listing

The ordinary shares, both voting and non-voting, preference shares and debentures, both fixed and floating interest rate, of the Bank are all listed in the Colombo Stock Exchange. The audited Income Statement for the year ended December 31, 2003 and the audited Balance Sheet of the Bank as at date will be submitted to the Colombo Stock Exchange within three months of the Balance Sheet date.

2. Ordinary Shareholders

As at December 31, 2003

2.1 Voting

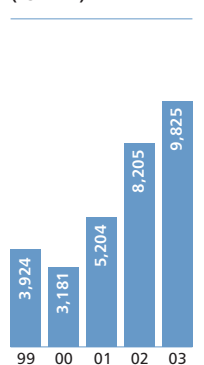
Range of Shareholdings	Resident		Non-Resident		Total		
	No. of Shareholders	No. of Shares	No. of Shareholders	No. of Shares	No. of Shareholders	No. of Shares	%
Less than 500 shares	2,584	520,556	33	8,064	2,617	528,620	0.81
501 - 5,000	2,959	5,098,892	69	133,524	3,028	5,232,416	8.05
5,001 - 10,000	319	2,226,483	6	45,809	325	2,272,292	3.50
10,001 - 20,000	160	2,183,978	6	99,098	166	2,283,076	3.51
20,001 - 30,000	41	988,007	4	106,459	45	1,094,466	1.68
30,001 - 40,000	19	659,735	-	-	19	659,735	1.01
40,001 - 50,000	10	462,871	-	-	10	462,871	0.71
50,001 - 100,000	26	1,735,260	5	368,416	31	2,103,676	3.24
100,001 - 1,000,000	21	5,270,700	5	2,045,851	26	7,316,551	11.26
over 1,000,000 shares	6	30,047,581	2	12,998,716	8	43,046,297	66.23
	6,145	49,194,063	130	15,805,937	6,275	65,000,000	100.00

There were 4,248 resident and 88 non-resident shareholders as at December 31, 2002.

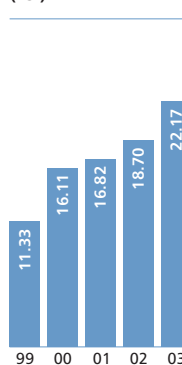
Analysis of Shareholders	December 31, 2003			December 31, 2002		
	No. of Shareholders	Total Holdings	%	No. of Shareholders	Total Holdings	%
Individuals	5,976	16,803,861	25.85	4,076	8,560,514	21.95
Institutions	299	48,196,139	74.15	260	30,439,486	78.05
	6,275	65,000,000	100.00	4,336	39,000,000	100.00

As per the Rule No. 8.7 (h) of the Colombo Stock Exchange, percentage of public holding as at December 31, 2003 was 44.86% (39.99% as at December 31, 2002).

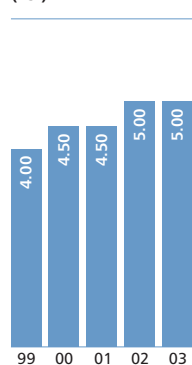
Market Capitalisation (Rs. Mn.)



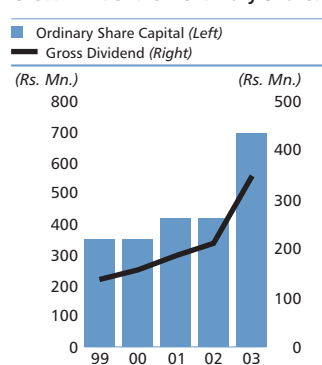
Earnings per Share (Rs.)



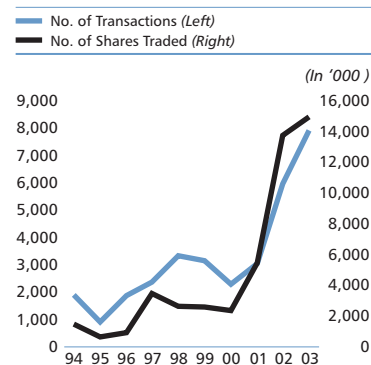
Dividends per Share (Rs.)



Ordinary Share Capital & Gross Dividend on Ordinary Shares



Share Trading



Share and Debenture Information

2.2 Non-Voting

Range of Shareholdings	Resident		Non-Resident		Total		
	No. of Shareholders	No. of Shares	No. of Shareholders	No. of Shares	No. of Shareholders	No. of Shares	%
Less than 500 shares	713	115,621	15	3,149	728	118,770	2.55
501 - 5,000	482	747,796	9	11,900	491	759,696	16.34
5,001 - 10,000	50	338,779	3	27,500	53	366,279	7.88
10,001 - 20,000	30	389,500	4	53,368	34	442,868	9.52
20,001 - 30,000	12	288,205	2	52,000	14	340,205	7.32
30,001 - 40,000	4	133,645	-	-	4	133,645	2.87
40,001 - 50,000	3	131,331	-	-	3	131,331	2.82
50,001 - 100,000	6	380,735	1	100,000	7	480,735	10.34
100,001 - 1,000,000	8	1,876,701	-	-	8	1,876,701	40.36
over 1,000,000 shares	-	-	-	-	-	-	-
	1,308	4,402,313	34	247,917	1,342	4,650,230	100.00

There were 1,043 resident and 11 non-resident shareholders as at December 31, 2002.

Analysis of Shareholders	December 31, 2003			December 31, 2002		
	No. of Shareholders	Total Holdings	%	No. of Shareholders	Total Holdings	%
Individuals	1,227	2,488,449	53.51	966	1,632,016	58.49
Institutions	115	2,161,781	46.49	88	1,158,122	41.51
	1,342	4,650,230	100.00	1,054	2,790,138	100.00

As per the Rule No. 8.7 (h) of the Colombo Stock Exchange, percentage of public holding as at December 31, 2003 was 88.04% (87.83% as at December 31, 2002).

3. Twenty largest Shareholders as at December 31, 2003

Ordinary Voting Shares

Name of the Shareholder	2003		2002*	
	No. of Shares	%	No. of Shares	%
DFCC Bank	19,353,135	29.77	11,611,881	29.77
HSBC Intl. Nominees Ltd. - SSBT - International Finance Corporation	9,750,000	15.00	-	-
Sri Lanka Insurance Corporation Ltd. - Life Fund	3,465,810	5.33	2,079,486	5.33
Raj Rajaratnam	3,248,716	5.00	2,200,000	5.64
Sri Lanka Insurance Corporation Ltd. - General Fund	2,980,120	4.58	9,588,072	24.58
National Savings Bank	1,553,691	2.39	40	-
Distilleries Company of Sri Lanka Ltd.	1,494,985	2.30	896,991	2.30
Bank of Ceylon	1,199,840	1.85	294,284	0.75
HSBC Ltd. (National Equity Fund)	918,256	1.41	550,954	1.41
Sholi Edulji Captain	727,097	1.12	636,910	1.63
HSBC Intl. Nominees Ltd. - SSBTL - Aberdeen Asian Smaller Companies Investment Trust XC.	575,000	0.88	345,000	0.88
HSBC Intl. Nominees Ltd. - JPMCB - Scottish ORL SML TR GTI 6018	545,000	0.84	327,000	0.84
Hatton National Bank Ltd. A/C No. 1	412,666	0.63	388,000	0.99
HSBC Intl. Nominees Ltd. - SSBT - Aberdeen Global Asia Pacific Fund QM11	400,000	0.62	-	-
Explorer Capital (International) Services Ltd. A/C No. 1	328,451	0.51	118,000	0.30
Employee Trust Fund Board	290,316	0.45	36,100	0.09
Freudenberg Shipping Agencies Ltd.	248,932	0.38	131,360	0.34
Bank of Ceylon A/c - CeyBank Unit Trust	228,567	0.35	317,711	0.81
Yonnerrenge Simon Hewage Indra Kumar Silva	232,272	0.36	34,320	0.09
Tivoli Lanka Ltd.	198,900	0.31	119,340	0.31
	48,151,754	74.08	29,675,449	76.06
Others	16,848,246	25.92	9,324,551	23.94
Total	65,000,000	100.00	39,000,000	100.00

* Comparative shareholdings as at December 31, 2002 of the twenty largest shareholders as at December 31, 2003.

Share and Debenture Information

Ordinary Non-voting Shares

Name of the Shareholder	2003		2002*	
	No. of Shares	%	No. of Shares	%
Sri Lanka Insurance Corporation Ltd. - General Fund	493,835	10.62	296,301	10.62
Akbar Brothers Ltd. A/C No. 1	323,066	6.95	-	-
Ajith Anthony Neville De Fonseka	231,557	4.98	121,700	4.36
Sohli Edulji Captain	221,073	4.75	67,500	2.42
Leesha Anne Captain	209,425	4.50	385,200	13.81
Sino Lanka (Pvt) Ltd.	147,582	3.17	-	-
Seylan Bank Limited/Raja Mahinda Nanayakkara	146,032	3.14	-	-
The Associated Newspapers of Ceylon Ltd.	104,131	2.24	62,479	2.24
The Gilpin Fund Ltd.	100,000	2.15	-	-
Seylan Bank Limited/Shankar Veradananda Somasundaram	82,450	1.77	-	-
MJF Exports Ltd.	77,400	1.66	37,440	1.34
HSBC Ltd. - National Equity Fund	61,681	1.33	-	-
Joseph Rosary Philip Manicus Paiva	56,166	1.21	33,700	1.21
Lambert Maasiri Maalyn Dias	52,138	1.12	31,279	1.12
Paints and General Industries (Exports) Ltd.	50,900	1.09	343,500	12.31
Mahendra Jayanthipal Chandima Amarasuriya	48,466	1.04	36,580	1.31
Renuka Holdings Ltd.	42,307	0.91	17,660	0.63
Rusi Sohli Captain	40,558	0.87	4,800	0.17
Paints and General Industries Ltd.	36,833	0.79	26,600	0.95
DPMC Financial Services (Pvt.) Ltd. A/C No. 1	34,250	0.74	20,100	0.72
	<u>2,559,850</u>	<u>55.03</u>	<u>1,484,839</u>	<u>53.22</u>
Others	<u>2,090,380</u>	<u>44.97</u>	<u>1,305,299</u>	<u>46.78</u>
Total	<u>4,650,230</u>	<u>100.00</u>	<u>2,790,138</u>	<u>100.00</u>

* Comparative shareholdings as at December 31, 2002 of the twenty largest shareholders as at December 31, 2003.

4. Market Value of Shares

	2003 Rs.	2002 Rs.
Ordinary Shares		
Voting		
Highest	226.00	230.00
Lowest	130.00	120.00
Year end	144.00	200.00
Non-Voting		
Highest	165.00	160.00
Lowest	100.00	80.00
Year end	100.00	145.00
13% Cumulative Redeemable Preference Shares		
Highest	11.25	9.75
Lowest	11.00	9.75
Year end	11.25	9.75
11.25% Cumulative Redeemable Preference Shares		
Highest	11.00	-
Lowest	10.00	-
Year end	11.00	-

Share and Debenture Information

5. Information on Debentures

5.1 Debentures - 1998/2003 Series

5.1.1 Market Values

	Fixed Interest Rate		Floating Interest Rate	
	2003 Rs.	2002 Rs.	2003 Rs.	2002 Rs.
Highest	(Not traded	1,000.00	1,050.00	1,000.25
Lowest	during	900.00	1,050.00	900.00
Year end (matured on 20.07.2003)	the year)	990.00	1,050.00	1,000.25
		(As at 26.12.02)	(As at 13.01.03)	(As at 27.11.02)

5.1.2 Interest Rates

Coupon Rate	13.50%	13.50%	12.00%*	13.42%*
Effective Annual Yield	14.20%	14.20%	12.55%	14.11%

* Floating coupon rate equivalent to the weighted average yield of the three months Government of Sri Lanka Treasury Bills plus 1% p.a. is payable quarterly subject to a maximum of 16% p.a. and a minimum of 12% p.a.

5.1.3 Interest Rate of Comparable Government Security

Interest Rate of Comparable Government Security	8.85%	9.90%	9.10%	9.95%
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5.1.4 Other Ratios

Interest yield as at date of last trade	-	11.24%	8.57%	10.00%
		(As at 26.12.02)	(As at 13.01.03)	(As at 27.11.02)
Yield to Maturity of last trade	-	14.94%	5.43%	11.74%
		(As at 26.12.02)	(As at 13.01.03)	(As at 27.11.02)

5.2 Debentures - 2003/2008 Series

5.2.1 Market Values

	Fixed Interest Rate		Floating Interest Rate	
	2003 Rs.	2002 Rs.	2003 Rs.	2002 Rs.
Highest	1,000.00	-	(Not	-
Lowest	1,000.00	-	traded	-
Year end	1,000.00	-	during	-
	(As at 18.07.03)		the year)	

5.2.2 Interest Rates

Coupon Rate	10.00%	-	10.05%*	-
Effective Annual Yield	10.38%	-	10.44%	-

* Floating coupon rate equivalent to the weighted average yield of the three months Government of Sri Lanka Treasury Bills plus 2% p.a. is payable quarterly.

5.2.3 Interest Rate of Comparable Government Security

Interest Rate of Comparable Government Security	7.90%	-	8.15%	-
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5.2.4 Other Ratios

Interest yield as at date of last trade	10.00%	-	-	-
	(As at 18.07.03)			
Yield to Maturity of last trade	10.38%	-	-	-
	(As at 18.07.03)			

Share and Debenture Information

5.3 Other Ratios

	Fixed Interest Rate	
	2003	2002
	Rs.	Rs.
Debt Equity Ratio (%)	22.96	7.30
Interest Cover (Times)	11.49	23.55
Quick Assets Ratio (%)	23.95	27.88

6. Market Capitalisation

Market capitalisation of the Bank which is the number of ordinary shares in issue multiplied by the market value of a share was Rs. 9,825 million as at December 31, 2003 (Rs. 8,205 million in 2002). This accounted for 3.70% (5.05% in 2002) of the total Market Capitalisation of the Colombo Stock Exchange and ranked number 4 (number 03 in 2002) among the listed public companies. Commercial Bank ranked No. 7 in terms of the value of the shares traded on the Colombo Stock Exchange.

7. Dividends

On Ordinary Shares	2003	2002
Interim paid	18.00%	18.00%
Final proposed/paid	32.00%	32.00%
	<u>50.00%</u>	<u>50.00%</u>

On 13% and 11.25% Cumulative Redeemable Preference Shares - dividends were paid on January 3, 2004 for the year ended December 31, 2003.

8. Share Trading

Ordinary Shares	2003	2002
No. of transactions	7,943	5,984
No. of shares traded	14,976,211	13,754,300
Value of shares traded (Rs.)	2,676,416,506	2,295,604,975
13% Cumulative Redeemable Preference Shares		
No. of transactions	3	1
No. of shares traded	14,000	3,000
Value of shares traded (Rs.)	154,750	29,250
11.25% Cumulative Redeemable Preference Shares		
No. of transactions	16	-
No. of shares traded	392,000	-
Value of shares traded (Rs.)	4,187,000	-

9. Financial Ratios

Key financial ratios are given in the "Decade at a Glance" on page 113.

10. Investments

The details of investments in shares of Subsidiary/Associate companies are given on page 110.

Eighty Three Years Tradition

- 1920** The Eastern Bank Ltd. opens a branch in Chatham Street.
- 1957** The share capital of Eastern Bank Ltd. is acquired by Chartered Bank.
- 1969** The Commercial Bank of Ceylon Ltd. is incorporated with Eastern Bank holding 40% of its equity.
- 1971** The business of the Eastern Bank Ltd. is taken over by the Chartered Bank.
- 1973** The Galle, Jaffna and Kandy branches of the Mercantile Bank Ltd. are acquired by the Bank.
- 1979** The Foreign Currency Banking Unit is formed.
- 1980** The Bank promotes a property development company, Commercial Development Company Ltd., to construct a Headquarters for the Bank. The Bank enjoys 40% equity participation in this company.
- 1984** The Headquarters of the Bank is shifted to "Commercial House", 21, Bristol Street, Colombo 1.
- 1985** The Foreign Department of the Bank is elevated to the status of a fully-fledged branch. This move completed the reorganisation process whereby three independent offices representing the City Office, the Foreign Branch and the Head Office were created by segregating the different operations.
- 1987** The Eastern Bank Ltd. changes its name to Standard Chartered (UK) Holdings Ltd.
- 1988** An associate company, Commercial Leasing Company Ltd. is formed.
- 1992** The Bank sponsors a Fund Management Company, Commercial Fund Management (Pvt) Ltd. for the purpose of operating unit trusts. The first unit trust launched in March 1992. The Bank enjoys a 50% equity participation in this company.
- 1993** Introduction of the International Comprehensive Banking System (ICBS) linking nine metropolitan branches.
- 1997** Standard Chartered Bank sells its 40% stake in the Bank.
- 1998** 365 day branch at Colombo 7 Branch was opened. Sophisticated on line banking system which permits clients to conduct a variety of banking transactions through their personal telephone, personal computer or laptop installed. All branches except Jaffna are linked to the ICBS.
- 1999** Banking and supermarketing are combined by opening the first "MiniCom" at the Staples Street Cargills Food City outlet. Rated as the Best Bank in Sri Lanka by Global Finance.
- 2000** Internet Banking is launched. Rated as the Best Bank in Sri Lanka by Global Finance for the second consecutive year.
- 2001** Receives SL AA+ rating from Fitch Ratings Lanka Ltd. Rated as the Best Bank in Sri Lanka by Global Finance for the third consecutive year. Selected as the Bank of the Year by The Banker Magazine.
- 2002** Selected as the No. 1 Corporate in Sri Lanka by "Business Today" Magazine. Rated as the best Bank in Sri Lanka by "Global Finance" for the fourth consecutive year. Selected as the Bank of the Year by "The Banker Magazine" for the second consecutive year. Fitch Ratings Lanka Ltd. upholds the SL AA+ rating in their annual review. Winner of the overall National Award for HRM-2002. South Asian Federation of Accountants (SAFA) ranks the Bank's Annual Report for 2001 to be the first in the Financial Sector.
- 2003** Rated as the Best Bank in Sri Lanka by "Global Finance" for the fifth consecutive year. Selected as the Bank of the year by "The Banker" Magazine for the third consecutive year. Fitch Ratings Lanka Ltd. upholds the SL AA+ rating in their annual review. South Asian Federation of Accountants (SAFA) rates Annual Report 2002 as the Best Presented Accounts of the Financial Sector. The Institute of Chartered Accountants of Sri Lanka ranks the Annual Report 2001 of the Bank as the Overall winner, the Winner of the Financial Sector and winner of Corporate Governance Disclosure Award. The operations of Credit Agricole Indosuez in Bangladesh is taken over. A service point was opened at Arpico Super Centre, Dehiwela.

Branch Network

Airport Counter

Tel: 2256449

Akuressa

No. 119, Deniyaya Road.
Tel: 041-2283144-6
Fax: 041-2283145

Aluthgama

No. 335, Galle Road.
Tel: 034-2275272
Fax: 034-2275394

Ambalangoda

No. 26, Galle Road.
Tel: 091-5456768-9
Fax: 091-5456770

Ambalantota

No. 129, Tissa Road.
Tel: 047-2223818-9
Fax: 047-2223817

Ampara

No. 15, D.S. Senanayake Veediya.
Tel: 063-2224773-4
Fax: 063-2224772

Anuradhapura

No. 271, Maitripala Senanayake Mawatha.
Tel: 025-2223597
Fax: 025-2223596

Avissawella

No. 56, Yatiyantota Road.
Tel: 036-2231303-4
Fax: 036-2231302

Baddegama (CSP)

No. 115/1, Galle Road.
Tel: 091-2292152-3
Fax: 091-2292154

Badulla

No. 225, Modern Complex, Lower Street.
Tel: 055-2230583-4
Fax: 055-2230582

Balangoda

No. 27, Haputale Road.
Tel: 045-2286697
Fax: 045-2286700

Bambalapitiya

No. 232, Galle Road, Colombo 4.
Tel: 2591438, 2591439
Fax: 2591440

Bandaragama

No. 38/1, Panadura Road.
Tel: 038-2290363-4
Fax: 038-2290362

Bandarawela

No. 260/2, Dharmavijaya Mawatha.
Tel: 057-2232655-6
Fax: 057-2232654

Baseline (CSP)

760, Dr. Danister De Silva Mawatha, Colombo 9.
Tel: 5354836-7
Fax: 5354838

Battaramulla

No. 213, Kaduwela Road.
Tel: 2867917, 2874558
Fax: 2867521

Batticaloa

No. 27, Bar Road.
Tel: 065-2226402-3
Fax: 065-2226404

Borella

No. 92, D.S. Senanayake Mawatha Colombo 8.
Tel: 2687051/3-4, 2670984-5
Fax: 2687052

Chilaw

No. 52, Colombo Road.
Tel: 032-2222966-7
Fax: 032-2222957

Chunnakam

No. 87, K. K. S. Road.
Tel: 021-2226521-2
Fax: 021-2226523

City Office

No. 98, York Street, Colombo 1.
Tel: 2430420, 2328193-5, 2445010, 2336700
Fax: 5372379, 2326442

Colombo 7

No. 209, Dharmapala Mawatha.
Tel: 2698201-2
Fax: 2698199

Dambulla

No. 642, Anuradhapura Road.
Tel: 066-2284934-5
Fax: 066-2284950

Dehiwela

No. 85, Galle Road.
Tel: 2722312
Fax: 2722311

DFCC Bank (CSP)

No. 73, DFCC Building W.A.D. Ramanayake Mawatha, Colombo 2.
Tel: 2305560-77(Ext. 208)
Fax: 2381351

Duplication Road

No. 405, R.A. De Mel Mawatha, Colombo 3.
Tel: 5376343/5-6
Fax: 5376344

Ekala

Regents Court,
No. 218, Minuwangoda Road.
Tel: 5355572
Fax: 2240050

Elpitiya

No. 51A, Ambalangoda Road.
Tel: 091-2290284-5
Fax: 091-2290286

Embilipitiya

No. 7, 71/1, Middeniya Road.
Tel: 047-2230259
Fax: 047-2230258

Galewela

No. 49/57, Matale Road.
Tel: 066-2289351,
Fax: 066-2289265

Galle Fort

No. 22, Church Street.
Tel: 091-2232223, 091-2234377
Fax: 091-2242770

Galle City

No. 130, Main Street, Galle.
Tel: 091-2234356, 091-2225786
Fax: 091-2234467,

Gampaha

No. 19, Queen Mary's Road.
Tel: 033-2224136-7
Fax: 033-2224135

Gampola

No. 121, Kandy Road.
Tel: 081-2354132-3
Fax: 081-2354134

Grandpass

No. 99, St. Joseph's Street, Colombo 14.
Tel: 2451601 - 2
Fax: 2451603

Hikkaduwa

No. 217, Galle Road.
Tel: 091-2277397,
091-2276533
Fax: 091-2277397

Hingurakgoda

No. 44 & 45, Air Port Road.
Tel: 027-2246395, 027-2247643
Fax: 027-2246022

Homagama

No. 100, High Level Road.
Tel: 2895128-9
Fax: 2895127

Horana

No. 100, Sri Somananda Mawatha.
Tel: 034-2261900-1
Fax: 034-2261902

Ja-Ela

No. 140, Negombo Road.
Tel: 2243615
Fax: 2243613

Jaffna

No. 474, Hospital Road.
Tel: 021-2222176, 021-2223807
Fax: 021-2223148

Kadawatha

No. 143/B, Kandy Road.
Tel: 2921456-7
Fax: 2921455

Kaduruwela

No. 411, Main Street.
Tel: 027-2225731-2
Fax: 027-2225733

Kaduwela

No. 50 B/C, Avissawella Road.
Tel: 2571090
Fax: 2571091

Kalutara

No. 302, Galle Road.
Tel: 034-2221601-2
Fax: 034-2221603

Kamburupitiya

No. 151, Matara Road.
Tel: 041-2292995-6
Fax: 041-2292997

Kandana

No. 54, Negombo Road.
Tel: 2232081-2
Fax: 2236013

Kandy

No. 120, Kotugodella Veediya.
Tel: 081-2223217, 2234392-3
Fax: 081-2222440

Katubedda (CSP)

No. 162, Galle Road, Soysapura, Moratuwa.
Tel: 2626971
Fax: 2626972

Katugastota

No. 184, Madawela Road.
Tel: 081-2499836
Fax: 081-2498476

Katunayake FTZ

Unit No. 15, GCEC Plaza Complex, Phase 1, E.P.Z.
Tel: 2253256-8
Fax: 2253253

Kegalle

No. 186, Kandy Road.
Tel: 035-2230232, 035-2222034
Fax: 035-2230231

Keyzer Street

No. 32, Keyzer Street, Colombo 11.
Tel: 2336773-4, 23366770
Fax: 2336772

Kiribathgoda

No. 137, Kandy Road.
Tel: 2909956-7
Fax: 2909955

Kirulapone

No. 94-A, Pamankada Road, Colombo 5.
Tel: 4511170, 2599731,
Fax: 4511171

Kochchikade

No. 42, Main Street.
Tel: 031-2276087
Fax: 031-2276088

Koggala

No. H/8, E.P.Z., Galle Road.
Tel: 091-2283388, 091-2283485,
Fax: 091-2283388

Kohuwela

No. 14, Sunethradevi Road.
Tel: 2769601-2
Fax: 2769603

Kollupitiya

No. 285, Galle Road, Colombo 3.
Tel: 2573546, 2577281,
2577620
Fax: 2575448

Kotahena

No. 198, George R. De Silva Mawatha, Colombo 13.
Tel: 2323471, 2341171
Fax: 2431613

Kotahena Savings Centre

No. 190, George R. De Silva Mawatha, Colombo 13.
Tel: 2472960
Fax: 5359258

Kuliyapitiya

No. 74, Hettipola Road.
Tel: 037-2281644
Fax: 037-2281643

Branch Network

Kurunegala

No. 4, Suratissa Mawatha.
Tel: 037-2224092, 2224556-8
Fax: 037-2222749

Maharagama

No. 108A, High Level Road.
Tel: 2850505, 2844915
Fax: 2851232

Main Street

No. 280, Main Street, Colombo 11.
Tel: 2380491-2
Fax: 2380493

Malabe

No. 838, Kaduwela Road.
Tel: 2762816, 2762818
Fax: 2762817

Maradana

No. 524, Maradana Road,
Colombo 10.
Tel: 2699195
Fax: 2676204

Matale

No. 70, King Street.
Tel: 066-2222485, 2231880,
Fax: 066-2222204

Matara

No. 18, Station Road.
Tel: 041-2224444, 041-2225665
Fax: 041-2224445

Matugama

No. 38, Kalutara Road.
Tel: 034-2249471-2
Fax: 034-2249473

Mawanella

No. 51, Kandy Road.
Tel: 035-2247886-7
Fax: 035-2247885

Minicom Centre - Gampaha

C/o. Cargills Food City,
No. 45, Baudhaloka Mawatha.
Tel: 033-2231730
Fax: 033-2231731

Minicom Centre - Kirulapone

C/o. Cargills Food City,
No. 240, High Level Road,
Colombo 6.
Tel: 2817039
Fax: 2817039

Minicom Centre - Kurunegala

C/o. Cargills Food City,
No. 44, Negombo Road.
Tel: 037-2220254
Fax: 037-2220255

Minicom Centre - Maharagama

C/o. Cargills Food City,
No. 75, Dehiwela Road.
Tel: 5556918
Fax: 5556919

Minicom Centre - Majestic City

C/o. Cargills Food City,
No. 10, Station Road, Colombo 4.
Tel: 2507865
Fax: 2507865

Minicom Centre - Moratuwa

C/o. Cargills Food City,
No. 272, Galle Road,
Rawathawatta
Tel: 5550694
Fax: 5550695

Minicom Centre - Ratnapura

C/o. Cargills Food City,
Commercial Complex, Old Bus
Stand Site.
Tel: 045-2225050
Fax: 045-2225051

Minicom Centre - Staples Street

C/o. Cargills Food City,
No. 21, Staples Street, Colombo 2.
Tel: 2307388
Fax: 2307388

Minuwangoda

No. 42, Samarakkody Mawatha.
Tel: 2296220, 2296223
Fax: 2295309

Mirigama

No. 93, Giriulla Road.
Tel: 033-2274312-3
Fax: 033-2274314

Moratuwa

No. 116, Galle Road.
Tel: 2643085-6
Fax: 2643087

Mount Lavinia

No. 295, Galle Road.
Tel: 2737074-5
Fax: 2737067

Mutwal

No. 677, Aluthmawatha Road,
Colombo 15.
Tel: 2522559, 2525276
Fax: 2522557

Narahenpita

No. 201, Kirula Road, Colombo 5.
Tel: 2500305, 2502425
Fax: 2502490

Narammala

No. 77, Kuliyaipitiya Road.
Tel: 037-2249917
Fax: 037-2248550

Nattandiya

No. 62, Marawila Road.
Tel: 032-2255173
Fax: 032-2255172

Nawala (CSP)

No. 157A, Nawala Road,
Nugegoda.
Tel: 2815158
Fax: 2815157

Nawalapitiya

No. 91/92, Gampola Road.
Tel: 054-2223961
Fax: 054-2223963

Negombo

No. 24-26, Fernando Avenue.
Tel: 031-2222217, 2231813-4
Fax: 031-2233403

Nelliady

No. 333, Ponniah Building,
MMV Road.
Tel: 021-2263786-7
Fax: 021-2263788

Nikaweratiya

No. 48 E, Heelogama Road.
Tel: 037-2260705
Fax: 037-2260707

Nittambuwa

No. 127/B, Kandy Road.
Tel: 033-2290549-50
Fax: 033-2290551

Nugegoda

No. 100, Stanley Tillekaratne
Mawatha.
Tel: 2810942-3
Fax: 2827772, 2810944

Nuwara Eliya

No. 36, Park Road.
Tel: 052-2223763
Fax: 052-2223762

Old Moor Street

No. 442/A, Old Moor Street,
Colombo 12.
Tel: 2345554, 2345595
Fax: 2345575

Palavi (CSP)

C/o. Holcim (Lanka) Ltd.
Tel: 032-2269268
Fax: 032-2269269

Panadura

No. 383, Galle Road.
Tel: 038-2234169
Fax: 038-2234167

Panchikawatte

No. 240, Panchikawatte Road,
Colombo 10.
Tel: 2542185-6
Fax: 2542187

Peradeniya

No. 935, Peradeniya Road, Kandy.
Tel: 081-2386447
Fax: 081-2386446

Pettah

No. 180/1/31,
People's Park Shopping
Complex, Colombo 11.
Tel: 4712643, 2446290,
Fax: 2449594

Piliyandala

No. 7, Old Road.
Tel: 2604267-8
Fax: 2604266

Priority Banking Centre

No. 1, Union Place, Colombo 2.
Tel: 2314160-1
Fax: 2314162

Rajagiriya

No. 1444/A, Kotte Road.
Tel: 2884024-5
Fax: 2884023

Ratmalana

No. 381, Galle Road.
Tel: 2738125, 2715513
Fax: 2715514

Ratnapura

No. 408 & 410, Main Street.
Tel: 045-2230354-5,
Fax: 045-2230356

Seeduwa

No. 465, Negombo Road.
Tel: 2256571-2
Fax: 2256573

Service Point - Dehiwela

C/o. Arpico Super Centre
147, Galle Road, Dehiwela
Tel: 2730938
Fax: 2730915

Sri Lanka Ins. Corp. (CSP)

1st Floor, "Rakshana Mandiraya"
No. 21, Vauxhall Street, Colombo 2.
Tel: 5338884
Fax: 5338884

Thalawathugoda

No. 7, Suramya Building,
Kottawa Road.
Tel: 2773551
Fax: 2773553

Trincomalee

No. 191, Central Road.
Tel: 026-2224421-2
Fax: 026-2224423

Union Place

No. 1, Union Place, Colombo 2.
Tel: 4710536-7
Fax: 2300382

Vavuniya

No. 14, 2nd Cross Street.
Tel: 024-2222956, 024-2220655
Fax: 024-2222955

Wattala

No. 503, Negombo Road.
Tel: 2938751-2
Fax: 2938750

Wellawatte

No. 343, Galle Road, Colombo 6.
Tel: 2361379, 2586097,
Fax: 2589437

Wenappuwa

No. 262 & 264, Colombo Road.
Tel: 031-2255552-3
Fax: 031-2255551

Yakkala

No. 182, Kandy Road.
Tel: 033-2231108
Fax: 033-2231107

OVERSEAS BRANCHES

Bangladesh

Dhaka

No. 47, Motijheel Commercial Area,
P.O. Box: 3490, Dhaka 1000.
Tel: (88 02) 9566566
Fax: (88 02) 9565707

Chittagong

71, Agrabad Commercial Area,
P.O. Box: 787-Chittagong.
Tel: (88 031) 713325-27
Fax: (88 031) 710978

Gulshan Booth

House No. 73/A, Plot 11,
Gulshan Avenue, Dhaka.
Tel: (88 02) 8824275
Fax: (88 02) 8824147

Sonargaon Booth

Room No. L-264,
Sonargaon Hotel, Dhaka.
Tel: (88 02) 8111959
Fax: (88 02) 8111959

Correspondent Banks

COUNTRY	NAME & ADDRESS OF THE BANK
Australia	National Australia Bank 11/120 Spencer Street, Melbourne Victoria 3000 - Australia.
Belgium	Fortis Bank S.A./N.V. Montagne DU PARC3 B-1000, Brussels, Belgium.
Canada	Canadian Imperial Bank of Commerce Int'l Dept: Head Office Commerce Court, Toronto M5L 1H1, Canada.
Denmark	Nordea Bank Denmark A/S P.O. Box 850, DK-0900, Copenhagen C, Denmark.
Germany	American Express Bank GmbH Theodor - Heuss - Allee 112, 60486 Frankfurt am Main, Germany. Bayerische Hypo Und Vereins Bank A.G. D-80311 Muenchen, Germany. Commerz Bank A.G. ZTB BC Mitte 6.4, Mainzer Landstrasse 277-293, 60261, Frankfurt AM Main, Germany. Vereins Und West Bank A.G. Alter Wall 22, 20454 Hamburg 11, Germany. West Deutsche Landes Bank Girozentrale-P.O. Box D40199 Duesseldorf, Germany.
Hong Kong	Standard Chartered Bank 9th Floor, 4/4A, Des Voeux Road, Central, Hong Kong.

COUNTRY	NAME & ADDRESS OF THE BANK
Italy	Intesabci S.P.A. Int'l Money Transfer Dept. Piazza Della Scala 6, 20121 Milano, Italy.
Japan	Standard Chartered Bank 21st Floor, Sanno Park Tower, 2-11-1, Nagata-cho, Chiyoda-ku, Tokyo 100-6155 Japan
Netherlands	ABN Amro Bank N.V. 32, Vijzelstraat, P.O. Box 669, Amsterdam, Netherlands. ING Bank N.V. P.O. Box 1800 1000 BV, Amsterdam, Netherlands.
New Zealand	Bank of New Zealand P.O. Box 2392, 1, Willis Street, Wellington, New Zealand.
Norway	Den Norske Bank Stranden 21 0021, Oslo, Norway.
Saudi Arabia	The National Commercial Bank International Banking Division, Banking Relations, 20th Floor, P.O. Box 3555, Jeddah, 21481 Saudi Arabia.
Singapore	Standard Chartered Bank 6, Battery Road, 7th Storey, Singapore 049909.
Sweden	Skandinaviska Enskilda Banken Utlandsreskontran Stockholm-S 106 40, Sweden.
Switzerland	UBS - A.G. P.O. Box CH-8098, Zurich, Switzerland.

Correspondent Banks

COUNTRY	NAME & ADDRESS OF THE BANK
United States of America	American Express Bank Limited 300, Boulevard East, Weehawken, NJ 7086, U.S.A.
	Deutsche Bank Trust Company Americas P.O. Box 318, Church Street Station, New York NY 10008, U.S.A.
	Bank of America NT & SA International Deposit Services, 1850 Gateway BL VD 6th Floor, Concord CA 94520, U.S.A.
	HSBC Bank U.S.A. 500, Stanton Christiana Road, Newark Delaware 19713 NY-U.S.A.
	Standard Chartered Bank One Madison Avenue, New York NY 10010-3603 U.S.A.
	Citi Bank N.A. 111, Wall Street, 19th Floor, New York 10043 U.S.A.
	Wachovia Bank 11, Penn Plaza 4th Floor, New York, NY 10038 U.S.A.
United Kingdom	Standard Chartered Bank City Office, Branch No. 37, Grace Church Street, London EC3V OBX UK.

COUNTRY	NAME & ADDRESS OF THE BANK
ACU DOLLAR "NOSTRO" Accounts	
Iran	Bank Melli Iran Int'l Dept Corres. Banking, P.O. Box 11365-171 Ferdowzi Avenue, Teheran, Iran.
India	American Express Bank Ltd. 187, Mount Road Chennai 600 006, India.
	ICICI Bank Ltd. ICICI Bank Towers, Bandra - Kurla Complex, Bandra East, Mumbai 400051, India.
	Standard Chartered Bank 23-25, Mahatma Gandhi Road, P.O. Box 558, Mumbai 400 001, India.
Pakistan	Habib Bank AG ZURICH Hirani Centre, 1-1, Chundrigar Road, Karachi 74200, Pakistan.

Glossary of Financial & Banking Terms

Acceptances

Promise to pay created when the drawee of a time draft stamps or writes the words "accepted" above his signature and a designated payment date.

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 Company

A company other than a subsidiary in which a holding company has a participating interest and exercises a significant influence over its operating and financial policies.

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 issued capital and hence does not involve an infusion of cash.

Capital Adequacy Ratios

The relationship between capital and risk weighted assets as defined in the framework developed by the Bank for International Settlements and as modified by the Central Bank of Sri Lanka to suit local requirements.

Capital Employed

Sum total of liabilities and shareholders' funds.

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.

Commitments

Credit facilities approved but not yet utilised by the clients as at the Balance Sheet date.

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 as a percentage of net income.

Cost Method

A method of accounting whereby the investment is record at cost. The Income Statement reflects income from the investment only to the extent that the investor receives distributions from accumulated net profits of the investee arising subsequent to the date of acquisition.

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.

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 tax in the Financial Statements that will become payable in a financial year other than the current financial year.

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.

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.

Earnings per Ordinary Share (EPS)

Profit after taxation and after dividend on Preference Shares divided by the number of ordinary shares in issue.

Economic Value Added

A measure of productivity which takes into consideration cost of total invested equity.

Effective Tax Rate

Provision for taxation divided by the profit before taxation.

Equity Method

A method of accounting whereby the investment is initially recorded at cost and adjusted thereafter for the post acquisition change in the investor's share of net assets of the investee. The Income Statement reflects the investor's share of the results of operations of the investee.

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 and Equipment and Investments.

Gross Dividends

The portion of profits distributed to the shareholders including the tax withheld.

Guarantees

Three party agreement involving a promise by one party (the guarantor) to fulfil the obligations of a person owning a debt if that person fails to perform.

Historical Cost Convention

Recording transactions at the actual value received or paid.

Human Resource Accounting

The Human Resource is considered as an asset (although not brought into the balance sheet) and the value is computed to focus attention on the management of this valuable asset.

Interest in Suspense

Interest suspended on non-performing loans and advances.

Interest Margin

The difference between the average interest rate earned and the average interest rate paid.

Foreclosed Properties

Properties acquired in full or partial satisfaction of debts.

Glossary of Financial & Banking Terms

Investment Securities

Securities acquired and held for yield or capital growth purposes and are usually held to maturity.

Interest Spread

Represents the difference between the average interest rate earned and the average interest rate paid on funds.

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, treasury bills.

Loan Losses and Provisions

Amounts set aside against possible losses on loans, advances and other credit facilities as a result of their becoming partly or wholly uncollectable.

Market Capitalisation

Number of ordinary shares in issue multiplied by the market value of a share as at the year end.

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.

Net Assets Value per Ordinary Share

Shareholders' funds excluding Preference Shares divided by the number of ordinary shares in issue.

Net Dividends

Dividends net of withholding tax.

Net Interest Income

The difference between what a bank earns on assets such as loans and securities and what it pays on liabilities such as deposits, refinance funds and inter-bank borrowings.

Non-Performing Loans

A loan placed on a cash basis (i.e. Interest income is only recognised when cash is received) because, in the opinion of management, there is reasonable doubt regarding the collectability of principal or interest.

Loans are automatically placed on cash basis when a payment is 3 months past due. All loans are classified as non-performing when a payment is 3 months in arrears.

Off-Balance Sheet Transactions

Transactions that are not recognised as assets or liabilities in the balance sheet but which give rise to contingencies and commitments.

Price Earnings Ratio (P/E Ratio)

Market price of a share divided by earnings per share.

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.

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.

Return on Average Assets (ROA)

Profit after tax divided by the average assets.

Risk Weighted Assets

On balance sheet assets and the credit equivalent of off balance sheet assets multiplied by the relevant risk weighting factors.

Segmental Analysis

Analysis of financial information by segments of an enterprise specifically, the different industries and the different geographical areas in which it operates.

Repurchase Agreement

Contract to sell and subsequently repurchase securities at a specified date and price.

Reverse Repurchase Agreement

Transaction involving the purchase of securities by a bank or dealer and resale back to the seller at a future date and specified price.

Return on Average Equity (ROE)

Net income, less preference share dividends if any, expressed as a percentage of average ordinary shareholders' equity.

Revenue Reserve

Reserves set aside for future distribution and investment.

Shareholders' Funds

Total of issued and fully paid share capital and capital and revenue reserves.

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 presenting in financial statements of transactions and the events should be governed by their substance and financial reality and not merely by legal form.

Subsidiary Company

A company is a subsidiary of another company if the parent company holds more than 50% of the nominal value of its equity capital or holds some shares in it and controls the composition of its Board of Directors.

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.

Triple Bottom Line Reporting

Reporting on the efforts of a corporate to enhance Shareholder value while being ethical and accountable to the society and environment.

Unit Trust

An undertaking formed to invest in securities under the terms of a trust deed.

Value Added

Value of wealth created by providing banking and other related services less the cost of providing such services.

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Notice of Meeting

Notice is hereby given that the **Thirty-Fifth Annual General Meeting** of Commercial Bank of Ceylon Ltd. will be held at the 9th Floor of the Union Place Branch of the Bank, No.1, Union Place, Colombo 2, on Friday, March 26, 2004 at 10.00 a.m. for the following purposes:

1. To receive, consider and adopt the Report of the Directors and the Financial Statements for the year ended December 31, 2003 with the Report of the Auditors thereon.
2. To declare a dividend as recommended by the Directors.
3. To re-elect Directors in place of those retiring by rotation or otherwise. (*)
4. To re-appoint Messrs. KPMG Ford, Rhodes, Thornton & Company as Auditors and authorise the Board of Directors to determine their remuneration.
5. To authorise the Board of Directors to determine donations for 2004.

By Order of the Board,



Mrs. R.R. Dunuwille
Company Secretary

February 17, 2004
Colombo.

Notes

1. A member entitled to attend/vote at the Meeting is entitled to appoint a Proxy to attend/vote in his/her stead and a Proxy Holder need not be a member of the Company.
2. A Form of Proxy is found at the end of this Report. The completed Form of Proxy should be deposited at the Registered Office of the Company, "Commercial House", No. 21, Bristol Street, Colombo 1, not less than 48 hours before the time appointed for the holding of the Meeting.
3. It is proposed to post the Dividend Warrants on March 26, 2004.

(*) SPECIAL NOTICE

Two special notices have been received by the Company from DFCC Bank, a Shareholder of the Bank informing their intention to move the following resolutions:

Re-Election of Mr. J. S. Mather

We, DFCC Bank of 73/5, Galle Road, Colombo 03, a shareholder of the Company hereby give Special Notice of our intention to move the following resolution, as an ordinary resolution, at the forthcoming Annual General Meeting of the Company.

That the age limit stipulated in Section 181 of the Companies Act No. 17 of 1982 shall not be applicable to Mr. James Selvanathan Mather, who has already passed the age of 70 years and that he be re-elected a Director of the Company.

Re-Election of Dr. H. S. Wanasinghe

We, DFCC Bank of 73/5, Galle Road, Colombo 03, a shareholder of the Company hereby give Special Notice of our intention to move the following resolution, as an ordinary resolution, at the forthcoming Annual General Meeting of the Company.

That the age limit stipulated in Section 181 of the Companies Act No. 17 of 1982 shall not be applicable to Dr. Henry Shelton Wanasinghe, who has already passed the age of 70 years and that he be re-elected a Director of the Company.

ACM On March 26
at 10.00 am
No 01, Union Place
Colombo 02

Form of Proxy

I/We
of
being a member/s of the above-mentioned Company hereby appoint:

- | | |
|---|--------------|
| Mr. Mahendra Jayanthipal Chandima Amarasuriya | whom failing |
| Mr. James Selvanathan Mather | whom failing |
| Mr. Amitha Lal Gooneratne | whom failing |
| Dr. Henry Shelton Wanasinghe | whom failing |
| Mr. Bentotage Robert Lakshman Fernando | whom failing |
| Mr. Michael Lloyd Mack | whom failing |
| Mr. Anthony Nihal Fonseka | whom failing |
| Mr. Lalin Joseph Ainsley Fernando | whom failing |

..... of.....
as my/our Proxy Holder to represent me/us and *
to vote for me/us on my/our behalf as indicated below at the Thirty-Fifth Annual General Meeting of the Company to be held on March 26, 2004 and any adjournment thereof and at every poll which may be taken in consequence thereof.

	For	Against
1. To receive, consider and adopt the Report of the Directors and the Financial Statements for the year ended December 31, 2003 with the Report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2. To declare a Dividend as recommended by the Directors.	<input type="checkbox"/>	<input type="checkbox"/>
3. To re-elect Directors in place of those retiring by rotation or otherwise:		
(a) Mr. J.S. Mather	<input type="checkbox"/>	<input type="checkbox"/>
(b) Dr. H.S. Wanasinghe	<input type="checkbox"/>	<input type="checkbox"/>
(c) Mr. L.J.A. Fernando	<input type="checkbox"/>	<input type="checkbox"/>
4. To reappoint Messrs. KPMG Ford, Rhodes, Thornton & Company as Auditors and authorise the Board of Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>
5. To authorise the Board of Directors to determine donations for 2004.	<input type="checkbox"/>	<input type="checkbox"/>

In witness my/our hand/seal given on this day of March, Two Thousand and Four.

.....
Signature/s

(Please indicate with an 'X')

* If you wish your Proxy Holder to speak at the meeting you should insert the words "to speak and" in the space indicated with the asterisk and initial such insertion.

- Notes**
- i. Instructions as to completion of this Form of Proxy are given overleaf.
 - ii. Shareholders of non-voting shares are entitled only to speak.
 - iii. As regards voting on the above Resolutions if no words are struck out or there is in the view of the Proxy Holder 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 Proxy Holder should vote, the Proxy Holder will vote as he thinks fit.
 - iv. If the Form of Proxy is signed by an Attorney, the relative Power of Attorney (POA) should accompany the completed Form of Proxy for registration, if such POA has not already been registered with the Company.
 - v. If the shareholder is a company or a corporate body, the Form of Proxy should be executed under its common seal in accordance with its Articles of Association/Statute.

Form of Proxy

Instructions as to Completion of Form of Proxy

(i) Article 67 of the Articles of Association of the Company provides that:

“ The instruments appointing a Proxy shall be in writing, and

(a) in the case of an individual shall be signed by the Appointor or by his Attorney; and

(b) in the case of a corporation shall be signed either under its common seal or shall be signed by its Attorney or by an Officer on behalf of the corporation.

A Proxy Holder need not be a member of the Company.”

(ii) The full name(s) and address(es) of the Proxy Holder and of the Shareholder appointing the Proxy Holder should be entered legibly in the Form of Proxy.

(iii) The completed Form of Proxy should be deposited with the Company Secretary at the Registered Office of the Company, No. 21, Bristol Street, Colombo 1, not less than 48 hours before the time fixed for the holding of the meeting.

Corporate Information

Name of Company

Commercial Bank of Ceylon Ltd.

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.

A licensed commercial bank under the Banking Act No. 30 of 1988.

Company Registration Number

PBS 600

Tax Payer Identification Number (TIN)

124006007

Stock Exchange Listing

The Ordinary Shares, the 13% and 11.25% Cumulative Redeemable Preference Shares and the Unsecured Subordinated Redeemable Debentures of the Company are listed on the Colombo Stock Exchange.

Registered Office

"Commercial House",
No. 21, Bristol Street, P.O. Box 856,
Colombo 1, Sri Lanka.

Telephone : 2445010-15 (6 lines), 2328193-5 (3 lines)
2430420, 2336700

Telegraphic Address : COMBANK

Telex : 21520 COMEX CE; 21274 COMBANK CE;
21898 COMFEX CE; 22384 COMFX CE;
23375 COMTLX CE.

Facsimile : 941-2449889

SWIFT Code - Sri Lanka : CCEYLKX

SWIFT Code - Bangladesh : CCEYBDDH

E-mail : email@combank.net

Website : www.combank.net

Head Office

"Commercial House", No. 21, Bristol Street,
P.O. Box 856, Colombo 1, Sri Lanka.

For any clarifications on this Report please write to

*The Company Secretary,
Commercial Bank of Ceylon Ltd.,
"Commercial House",
21, Bristol Street,
Colombo 1*

or e-mail to email@combank.net

*Minimise waste by informing the Commercial Bank
Company Secretary to update the mailing list if you are
receiving more than one copy of the Annual Report.*

Board of Directors

Mr. M.J.C. Amarasuriya (*Chairman*)

Mr. J.S. Mather (*Deputy Chairman*)

Mr. A.L. Gooneratne

Dr. H.S. Wanasinghe

Mr. B.R.L. Fernando

Mr. M.L. Mack

Mr. A.N. Fonseka

Mr. L.J.A. Fernando

Mr. D. Tsitsiragos

Company Secretary

Mrs. R.R. Dunuwille

Audit Committee

Mr. J.S. Mather (*Chairman*)

Dr. H.S. Wanasinghe

Mr. B.R.L. Fernando

Mr. A.N. Fonseka

Auditors

KPMG Ford, Rhodes, Thornton & Company,
Chartered Accountants,
No. 32A, Sir Mohamed Macan Markar Mawatha,
P.O. Box 186,
Colombo 3, Sri Lanka.

Lawyers

Julius & Creasy,

No. 41, Janadhipathi Mawatha,
Colombo 1, Sri Lanka.

Credit Rating

The Bank has received SL AA+ credit rating from
Fitch Ratings Lanka Ltd.

Subsidiary Companies

<i>Name of the Company</i>	<i>Holding</i>	<i>Principal Activity</i>
Commercial Bank Primary Dealer Ltd.	100.00%	Primary Dealer for Government Securities
ONEzero Company Ltd.	100.00%	Provision of IT related Services
Commercial Development Company Ltd.	94.55%	Property Development

Associate Companies

<i>Name of the Company</i>	<i>Holding</i>	<i>Principal Activity</i>
Commercial Fund Management (Pvt.) Ltd.	50.00%	Fund Management
Commercial Leasing Company Ltd.	30.00%	Leasing and Factoring
Equity Investments Lanka Ltd.	22.92%	Venture Capital

