

Future of Banking

$$F = f\left(\frac{c+t+m+h}{r}\right)$$

Predicting the future of banking is something we cannot accomplish with certainty today. However, there should not be any dispute in asserting that the future of banking will be a function of such variables as understanding customer aspirations, application of appropriate technology, harnessing mind power and tempering it with a good dose of heart. This will happen within a solid supervisory framework provided by the regulator. This process will colour and shape banking of the future and expedite its arrival.

Welcome to the Future of Banking.

A Functional Equation to help understand the Future of Banking...

$$F = f\left(\frac{c + t + m + h}{r}\right)$$

The diagram illustrates a functional equation where the Future of Banking (F) is a function of four variables (c, t, m, h) divided by the Regulatory Framework (r). The variables are defined as follows:

- c**: Evolving Customer Aspirations
- t**: State-of-the-Art in Technology
- m**: Power of the Human Mind
- h**: A Good Dose of Heart

The denominator **r** is labeled as the Regulatory Framework.

Our Vision

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

Our Mission

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

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Form of Proxy (Non-Voting Shareholders)
Annual General Meeting – Enclosed
Stakeholder Feedback Form – Enclosed

Corporate Information – Inner Back Cover

INTRODUCTION TO THE 48TH ANNUAL REPORT

Basis of Preparation

This is the 48th Annual Report of Commercial Bank of Ceylon PLC, which covers the financial year ended December 31, 2016 and this Integrated Annual Report sets out a balanced review of our financial, social and environmental performance.

This is also our 8th Report presenting information in accordance with the GRI Guidelines and the third Report based on GRI G4 Guidelines, with the most recent Report being for the year ended December 31, 2015 for which comparatives are given in this Report.

There were no restatements of previously reported financial, social or environmental information.

The guiding principles, regulations, codes and Acts used for financial and narrative reporting, reporting on sustainability goals and practices and for reporting on how the Bank is governed is depicted pictorially as shown below. Further, we also followed the guidelines given in the 'Preparer's Guide to Integrated Corporate Reporting', a publication by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) in the preparation of this Report.

Commercial Bank of Ceylon PLC, the parent entity of the Group, accounts for over 95% of Group's revenue, assets, borrowings and employees and therefore, is the main entity for which social and environment information is presented in the narrative sections of this Report unless otherwise referred to as Group or Consolidated. Thus, although the Bank's five subsidiaries, Commercial Development Company PLC, ONEzero Company Ltd., Serendib Finance Ltd., Commex Sri Lanka S.R.L. Italy and Commercial Bank of Maldives Private Limited together with two associate companies, Equity Investments Lanka Ltd., and Commercial Insurance Brokers (Pvt) Ltd. are consolidated in the preparation of Group Financial Statements, but are excluded from the social and environment reporting process.

Material aspects boundaries are based on both internal and external assessments carried out covering the Bank's operations in Sri Lanka and where specified, Bangladesh, where the Bank has 19 branches.

Both quantitative and qualitative data are provided and it has been our intention to provide reliable external benchmarks where possible to facilitate comparison and further analysis for convenience of readers of this Report.

Quality Assurance

We have taken every effort to ensure that our Report reflect a balance review that is complete and accurate. It is our intention to provide credible information with the aid of visual elements such as graphs and tables in a consistent manner facilitating clarity and comparability.

External Assurance

The Bank seeks independent opinion on the Financial Statements from its External Auditors who are rotated every five (5) years to ensure their independence and objectivity as required by the guidelines issued by the regulators. Assurance is also obtained on our social and environmental processes from Messrs DNV GL Business Assurance Lanka (Pvt) Ltd. who represent DNV GL and performance indicators from Messrs KPMG.

Commercial Bank of Ceylon PLC, the Board of Directors and Management does not have any relationship with Messrs DNV GL or KPMG, apart from latter's engagement as the Independent External Auditor of the Group. The Bank's Managing Director, who is an Executive Director of the Board and members of the Corporate Management of the Bank are responsible for sustainability practices and disclosures made in this Report, worked with the external assurance providers on the report content.



This Annual Report has been structured as depicted below into six sections, namely Strategic Report, Management Discussion and Analysis, Governance, Financial Reports, followed by Annexes and Supplementary Information.

Strategic Report

An introduction to the Bank and a highlevel view of how we formulate strategy and deliver results

Page 5

Management Discussion and Analysis

A concise and balanced review of our operating environment, business verticals and how we utilised the capitals to deliver value to stakeholders

Page 37

Governance

Overview of how we maintain balance between stakeholder interests and exercise oversight of affairs of the Bank, including management of risks

Page 123

Financial Reports

Our Financial Statements and supporting notes together with the Auditors' opinion presented in accordance with regulatory requirements

Page 177

Annexes

Detailed information supporting Management Discussion and Analysis, Governance and Risk & Capital Management Reports

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Supplementary Information

Additional information for the detail oriented

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Contact Person

For any inquiries and feedback with reference to this Report please contact



K.D.N. Buddhipala

Chief Financial Officer

Commercial Bank of Ceylon PLC

'Commercial House'

21, Sir Razik Fareed Mawatha

Colombo 1

Sri Lanka



This Annual Report is published within three months of the date of the Statement of Financial Position. The web version is also published online on the same date as the date of issue of this Annual Report at www.combank16.annualreports.lk

Strategic Report

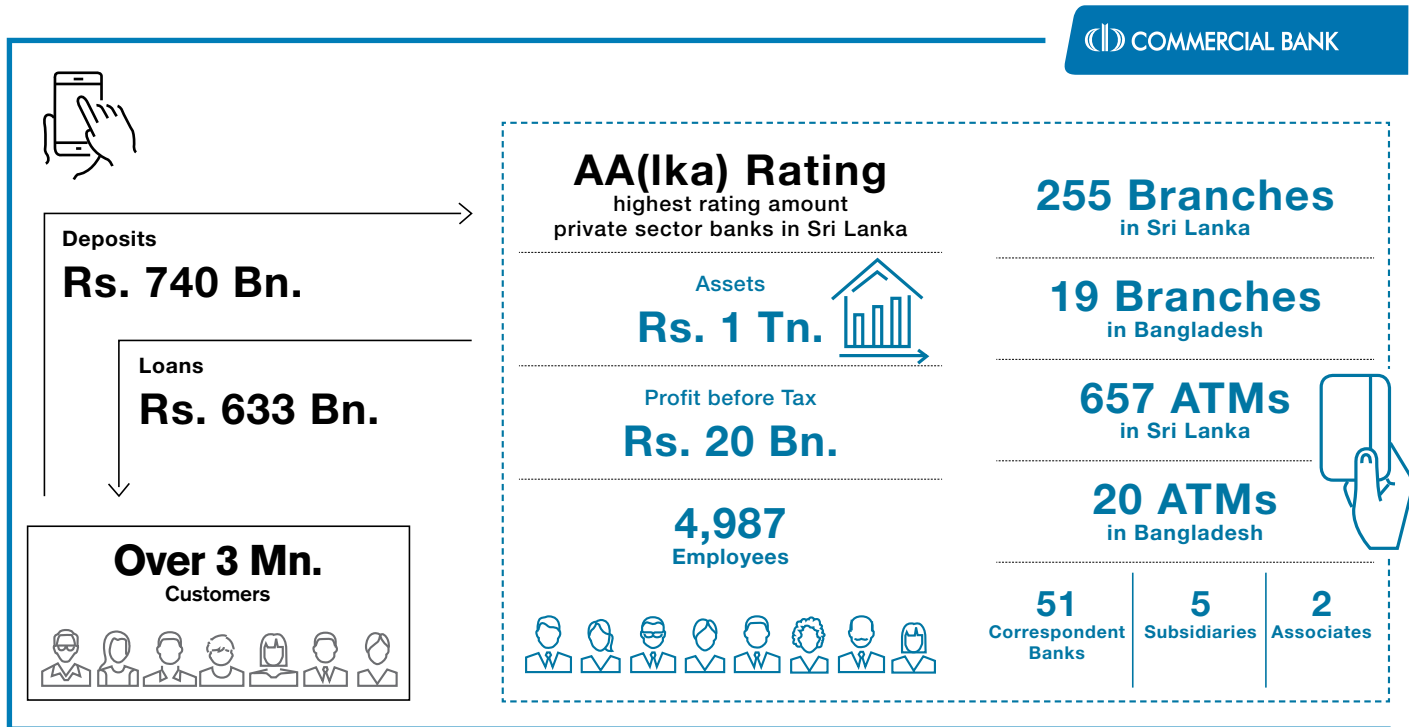
Understand our business model and how we delivered value to stakeholders through an inclusive strategy formulating process. Glance through our financial and non-financial highlights to understand how we transformed our capitals during the year. Read the Chairman's and Managing Director's Reviews to gain a highlevel view of key changes to governance, strategy and a review of our performance in 2016.

| | |
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ABOUT US – WHO WE ARE

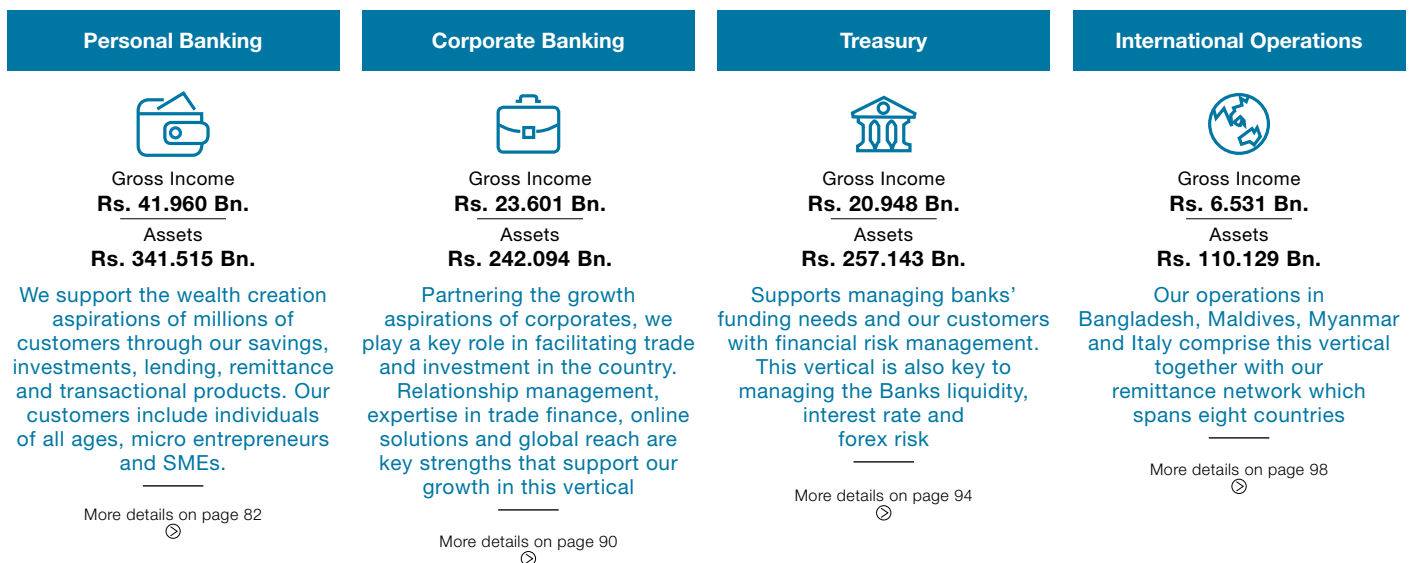
We are the largest private sector financial services institution in Sri Lanka serving over three million customers with a team of 4,987 employees driving performance. Our network spans 12 countries connecting communities to global markets and opportunities playing a key role in the development of villages, towns and countries we operate in. The first Sri Lankan bank to be listed amongst the 'Top 1000 Banks in the World' in 2008, we are the only Sri Lankan bank to have been included in that prestigious group of banks consecutively for the past six years. We aspire to become a regional player in South Asia as we expand our overseas operations leveraging our expertise honed over 48 years in banking.

A Snapshot of Our Key Strengths



Our Business

Four business verticals facilitate our earnings and growth.



Our Impact on the Sri Lankan Economy

Largest private Bank in Sri Lanka with total assets of over

Rs. 1 Tn.

Market capitalisation of

US \$ 790 Mn.

accounting for 4.31% of total market capitalisation of the Colombo Stock Exchange

Total value distributed to the Government

Rs. 9.368 Bn.

in 2016

Channels **8.36%** of Import volumes and

17.82%

of Export volumes of the country

Largest lender in Sri Lanka to SMEs for the past five years with a total disbursement of

Rs. 952 Bn.

A key player for Inward Remittances in the country



2016 Highlights

Assets

Reaching One Trillion Assets Base

1st private bank to Exceed **Rs. 100 Bn. Regulatory Capital**

1st Sri Lankan bank to be included in Top 1000 Banks in the world and maintained its position over the past 6 consecutive years

Highest Market Capitalisation

in Banking and Financial Sector

10

International Banking Awards

A Foreign Subsidiary incorporated in Maldives

Commenced commercial operations of Italian Subsidiary Commex Sri Lanka S.R.L.

Value Created for employees

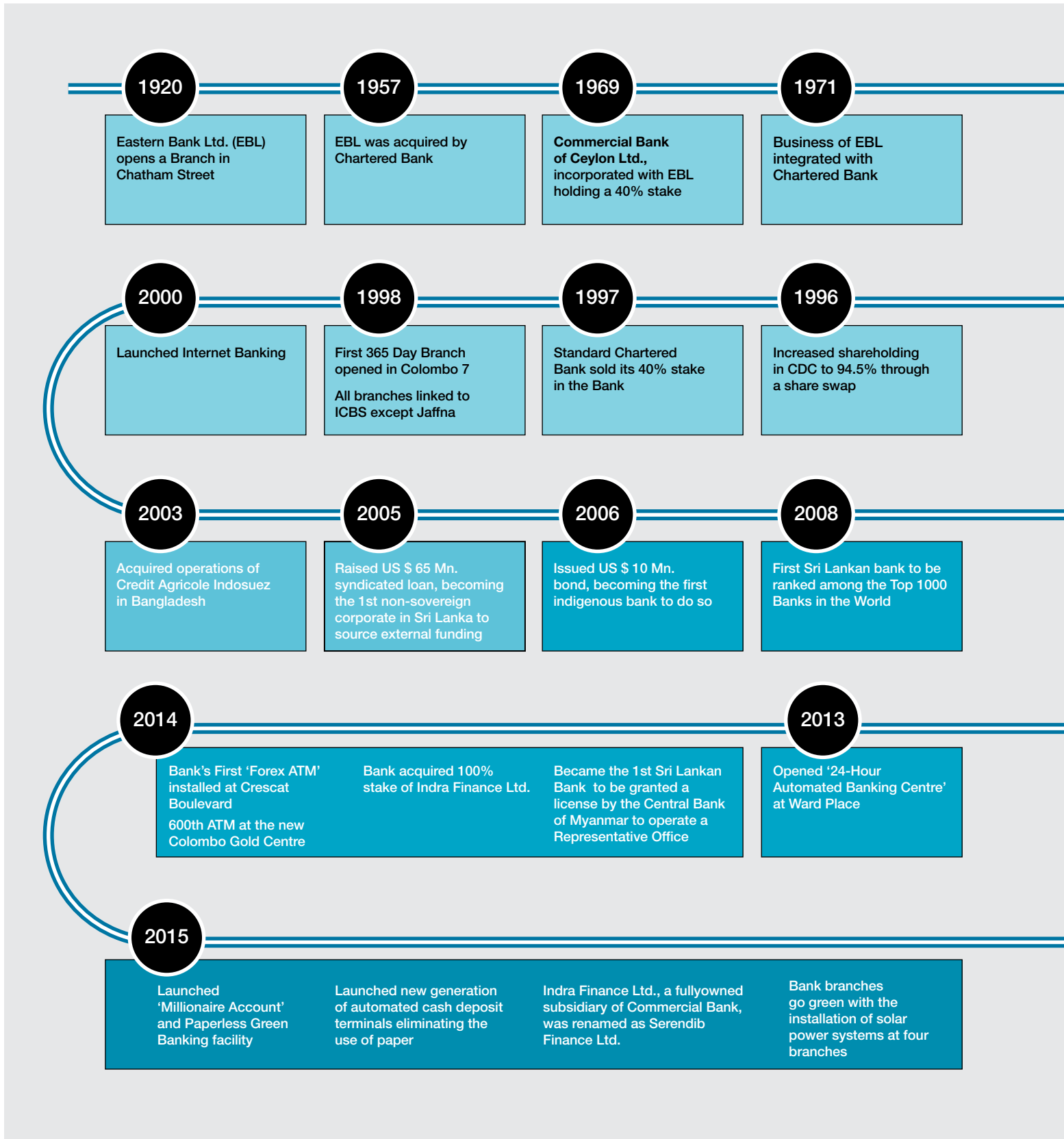
Rs. 10.794 Bn.

Employee productivity improved by

Rs. 0.540 Mn.

Per Employee

OUR JOURNEY



1972

First two branches opened in Galewela and Matale

1973

Acquired Galle, Jaffna & Kandy branches of Mercantile Bank Ltd.

1979

Offshore Banking Centre formed

1980

Commercial Development Company (CDC) formed to construct Head Office Building with 40% equity participation

1993

Introduced core banking software-International Comprehensive Banking System (ICBS)

1990

Introduced ATM facilities to customers

1987

EBL changed its name to Standard Chartered (UK) Holdings Ltd.

1984

Head Office moved to new premises at No. 21, Sir Razik Fareed Mawatha, (formally Bristol Street), Colombo 1

2009

First Sri Lankan Bank to be certified CMMi

2011

Commenced 'Sharia' compliant Islamic Banking

Opened 200th branch in Kataragama

ATM network expanded to 500

2012

Raised US \$ 75 Mn., 10 Year Subordinated Debt from IFC
Launched Internet Banking service in Bangladesh

Became the First Sri Lankan Bank to link it's ATMs to China UnionPay

Raised US \$ 65 Mn., from the International Finance Corporation (IFC)

Launched Anagi Savings Account for Women

2016

Only Sri Lankan bank to be ranked among the 'Top 1000 Banks in the World' for the 7th time, the 6th consecutive year

Most awarded Bank in Sri Lanka securing ten prestigious international awards

Launched Sri Lanka's first Remittance Card

Commenced operations of Commex, our fully owned Italian subsidiary

Opened Commercial Bank of Maldives Private Limited, 2nd foreign subsidiary with a 55% stake

The Bank became a Trillion Rupee Asset Company

OUR BOARD OF DIRECTORS



Seated Left to Right:

Mr. M.P. Jayawardena –
Deputy Chairman

Mr. K.G.D.D. Dheerasinghe –
Chairman

Mr. J. Durairatnam –
Managing Director/CEO

Standing Left to Right:

Mrs. J. R. Gamage –
Company Secretary

Mr. L.D. Niyangoda

Ms. N.T.M.S. Cooray

Prof. A. K. W. Jayawardane

Mr. S.Swarnajothi

Mr. S.Renganathan –
Chief Operating Officer

Mr. G.S. Jadeja

Mr. K. Dharmasiri

Board Profiles

| Director | Skills and Experience | Other Current Appointments | Previous Appointments | Shareholding of Bank |
|--|--|---|---|--------------------------------------|
| <p>K.G.D.D. Dheerasinghe <i>Chairman</i></p> <p>Chairman of the Board since July 2014</p> <p>Chairman of the BHRRC, BNC, BCC, BIC and BRPTRC</p> <p>Independent Non-Executive Director since December 2011</p> | <p>An eminent economist with a distinguished career of over 40 years in the banking industry. Published widely and presented papers on many aspects of economics including debt capital markets and financial globalisation in Sri Lanka and overseas.</p> <p>Holds a B.Phil (Econ) and B.Com with first class honours from the University of Colombo and M.A. (Econ) from the University of Leeds UK. Honorary Fellow of the Institute of Bankers of Sri Lanka and Honorary ACI Diploma holder.</p> | <p>Chairman, Commex Sri Lanka S.R.L. Italy, Chairman, Serendib Finance Ltd. (The above companies are subsidiaries of the Bank).</p> | <p>Senior Deputy Governor of CBSL. Chairman of the Monetary Policy Committee and the Sovereign Ratings Committee. Secretary to the Monetary Board. Alternate Executive Director for Bangladesh, Bhutan, India and Sri Lanka at the International Monetary Fund. Chairman, Bartleet Finance PLC.</p> | <p>Holds 21,159 Voting Shares</p> |
| <p>M.P. Jayawardena <i>Deputy Chairman</i></p> <p>Deputy Chairman since July 2014</p> <p>Chairman of the BIRMC</p> <p>Independent Non-Executive Director since December 2011</p> | <p>A senior finance professional with wide experience in the corporate sector, both in Sri Lanka and overseas.</p> <p>Fellow member of CA of Sri Lanka.</p> | <p>Senior Deputy Chairman, Sri Lanka Institute of Directors, Group Director, CIC Holdings PLC, Chairman, Commercial Insurance Brokers (Pvt) Ltd., Chairman of a few subsidiaries of Chemanex PLC. Serves on the Boards of many other private companies. Group Consultant to Chemanex PLC.</p> | <p>Head of Treasury, Zambia Consolidated Copper Mines</p> | <p>Nil</p> |
| <p>J. Durairatnam <i>Managing Director/ Chief Executive Officer</i></p> <p>Managing Director/ Chief Executive Officer since July 2014</p> <p>Executive Director since April 2012 and former Chief Operating Officer</p> | <p>Substantial professional experience in Banking, covering all aspects of International Trade, Off shore Banking, Credit, Operations and Information Technology. He has served the Bank in several management positions, including, Chief Operating Officer, Deputy General Manager, Assistant General Manager – International Division and Head of Imports counting nine years as a member of Corporate Management.</p> <p>Holds a Bachelor's Degree from the University of Peradeniya.</p> | <p>Managing Director, Commercial Development Company PLC, The above company is a subsidiary of the Bank), Director, Lanka Financial Services Bureau Ltd, Sri Lanka Banks' Association (Guarantee) Ltd., The Financial Ombudsman Sri Lanka (Guarantee) Ltd.</p> | <p>None</p> | <p>Holds 470,770 Voting Shares</p> |
| <p>S. Swarnajothi</p> <p>Chairman of the BAC</p> <p>Independent Non-Executive Director since August 2012</p> | <p>A senior finance professional with experience in both private and public sectors.</p> <p>Fellow of the CA Sri Lanka and CMA Sri Lanka, a member of CMA Australia. Holds a B.Sc. Degree in Management from the University of Sri Jayewardenepura and a M.Sc. in Project Management from the University of Moratuwa.</p> | <p>Member of the Tax Appeals Commission, which position he had held since May 2014.</p> | <p>Auditor General of Sri Lanka from January 2008 to August 2010.</p> | <p>Holds 8,738 Non-Voting Shares</p> |

Board Profiles

| Director | Skills and Experience | Other Current Appointments | Previous Appointments | Shareholding of Bank |
|---|--|--|---|--|
| <p>S. Renganathan</p> <p>Executive Director and Chief Operating Officer since July 2014</p> | <p>A senior banker counting over 35 years, he led the Bank's acquisition of the Bangladesh operations of Credit Agricole Indosuez (CAI), Commercial Bank's first ever acquisition of a banking operation, subsequently building up the same as Country Manager. He has also held several other key positions at the Bank including Deputy General Manager – Personal Banking and the first Chief Risk Officer of the Bank.</p> <p>Fellow of the Chartered Institute of Management Accountants, UK (FCMA), CGMA, Fellow of the IFS School of Finance, UK (Fifs) and a Fellow of the Institute of Bankers of Sri Lanka (FIB).</p> | <p>Director of Commercial Bank of Maldives Private Limited</p> | <p>Member of the General Council of the Institute of Bankers of Bangladesh, Founder President Bangladesh Chamber of Commerce & Industry, Executive Member, Foreign Investor Chamber of Commerce and Industry, Bangladesh.</p> | <p>Holds 197,647 Voting and 10,488 Non-Voting shares</p> |
| <p>Prof. A.K.W. Jayawardane</p> <p>Chairman of the BTC Independent Non-Executive Director since April 2015</p> | <p>An academic of high repute, he brings considerable knowledge and experience of IT to the Board.</p> <p>Holds a PhD in Construction Management and a Master of Science Degree in Construction from the Loughborough University of Technology, UK and a B.Sc. Eng. in Civil Engineering Degree with first class honours from the University of Moratuwa.</p> <p>Also a Corporate Member, a Fellow and an International Professional Engineer of the Institution of Engineers, Sri Lanka (IESL), CEng, FIE(SL), IntPE(SL), Fellow of the National Academy of Sciences of Sri Lanka, FNAS(SL), Founder Member of the Society of Structural Engineers Sri Lanka MSSE(SL), Fellow of the Institute of Project Managers, Sri Lanka, FIPM (SL).</p> | <p>Vice-Chancellor of the University of Moratuwa and a Senior Professor in Civil Engineering, Director of Sierra Cables PLC, Chairman of ONEzero Company Ltd. (The above company is a subsidiary of the Bank) and a member of the Board of the Management of several other institutions.</p> | <p>Dean, Faculty of Engineering for six years, First NDB Bank Endowed Professor in Entrepreneurship at the University of Moratuwa, President of the Institute of Engineers, Sri Lanka (IESL).</p> | <p>Nil</p> |
| <p>K. Dharmasiri</p> <p>Independent Non-Executive Director since July 2015</p> | <p>A senior banker counting over 37 years at Bank of Ceylon and retiring as its General Manager/Chief Executive Officer. He has diversified experience both within and outside Sri Lanka.</p> <p>Holds a First Class Honours in Commerce and a Bachelor of Philosophy in Economics. Also an Associate Member of the Institute of Bankers of Sri Lanka.</p> | <p>None</p> | <p>Non-Executive Nominee Director on the Boards of Janashakthi Insurance Ltd., Sabaragamuwa Development Bank, Merchant Bank of Sri Lanka PLC, BOC Travels (Pvt) Ltd., BOC Property Development & Management (Pvt) Ltd., Ceybank Holiday Homes (Pvt) Ltd., Hotels Colombo (1963) Ltd., Ceybank Asset Management Ltd., Lanka Securities (Pvt) Ltd., Institute of Bankers of Sri Lanka, Lanka Financial Services (Bureau) Ltd., LankaClear (Pvt) Ltd. and Bank of Ceylon (UK) Ltd.</p> | <p>Nil</p> |

Board Profiles

| Director | Skills and Experience | Other Current Appointments | Previous Appointments | Shareholding of Bank |
|--|--|--|--|-----------------------------|
| <p>L.D. Niyangoda</p> <p>Independent Non-Executive Director since August 2016</p> | <p>He has a proven track record of over 30 years in the corporate environment and is qualified in various management fields both locally as well as internationally.</p> <p>Consultant Business and Administration experience for a period of 35 years.</p> <p>Holds a Bachelor's Degree from the University of Peradeniya.</p> <p>Member of numerous professional bodies, including the Council for Agricultural Research Policy of Sri Lanka, Standing Committee of Agriculture and Veterinary Studies, University Grants Commission and Faculty of Agriculture, University of Peradeniya.</p> | <p>Managing Director/Chief Executive Officer of A Baur & Co. (Pvt) Ltd., Director of Baur Asia (Pte) Ltd., Singapore, Serves on the Boards of many other Companies.</p> | <p>Chief Operating Officer, A Baur & Company (Pvt) Ltd.</p> | <p>Nil</p> |
| <p>Ms. N.T.M.S. Cooray</p> <p>Independent Non-Executive Director since September 2016</p> | <p>A senior finance professional with wide experience in the private sector.</p> <p>Holds a Master's of Business Administration from the University of Colombo, Fellow Member of the Chartered Institute of Management Accountants UK (FCMA).</p> | <p>Managing Director of Jetwing Travels (Pvt) Ltd., Chairperson of the Sri Lanka Institute of Directors, Advisory Council for Tourism and a member of the Board of the Management of several other institutions.</p> | <p>Director, Finance and Administration on the Board of J Walter Thompson, Non-Executive Director on the Boards of Capital Alliance Finance PLC, Trade Finance and Investments PLC and served on the Boards of many other private and public companies.</p> | <p>Nil</p> |
| <p>G.S. Jadeja</p> <p>A Non-Executive Director since September 2016</p> | <p>A senior finance professional with wide experience in the private sector.</p> <p>Holds an MBA in Finance from Baruch College CUNY, a Master's Degree in Hotel Management from Oberoi School of Hotel Management (A Cornell University Affiliate Programme) and B.A. (honors) from St. Stephen's College, University of Delhi.</p> | <p>Global Head, Financial Innovation at the International Finance Corporation.</p> | <p>Held several key positions as Regional Industry Head, Asia, Senior Manager-Latin America and The Caribbean Region, Mexico/Bogota, Manager, East Asia and The Pacific Region, Hong Kong, Senior/Principal Investment Officer – Financial Markets Division, Washington D.C. at The International Finance Corporation.</p> <p>Also served as a Director Acquisition/Integration and Business Development, New York, NY, Director Finance and Assistant to the CFO, Manager/Senior Manager Finance at American Express Travel Related Services Inc.</p> | <p>Nil</p> |
| <p>Mrs. J.R. Gamage</p> <p>Company Secretary since May 2014</p> | <p>An Attorney-at-Law who counts over 18 years experience at the Bank.</p> <p>She holds a Diploma in Company Secretarial Practice from the Institute of Chartered Corporate Secretaries of Sri Lanka and a Post Attorney Diploma in Banking and Insurance Laws from the Incorporated Council of Legal Education of Sri Lanka.</p> <p>She has received extensive training on Secretarial and Legal fields at a leading Law Firm prior to joining the Bank.</p> | <p>None</p> | <p>None</p> | <p>64,029 Voting Shares</p> |

HIGHLIGHTS – FINANCIAL AND NON-FINANCIAL

Financial Highlights

| | GROUP | | | BANK | | |
|---|-----------|---------|----------|-----------|---------|----------|
| | 2016 | 2015 | Change % | 2016 | 2015 | Change % |
| Results for the year (Rs. Bn.) | | | | | | |
| Gross income | 93.726 | 78.225 | 19.82 | 93.143 | 77.868 | 19.62 |
| Profit before Financial VAT and Taxation | 23.824 | 20.013 | 19.04 | 23.755 | 20.033 | 18.58 |
| Profit Before Taxation (PBT) | 20.115 | 17.136 | 17.38 | 20.051 | 17.144 | 16.96 |
| Income Tax Expenses | 5.648 | 5.277 | 7.03 | 5.539 | 5.240 | 5.71 |
| Profit After Taxation (PAT) | 14.466 | 11.859 | 21.98 | 14.513 | 11.903 | 21.93 |
| Revenue to the Governments | 9.436 | 10.772 | (12.40) | 9.385 | 10.682 | (12.14) |
| Gross Dividends | 5.794 | 5.700 | 1.65 | 5.794 | 5.700 | 1.65 |
| Position at the year end (Rs. Bn.) | | | | | | |
| Shareholders' funds (Stated capital and reserves) | 78.992 | 70.964 | 11.31 | 78.354 | 70.341 | 11.39 |
| Due to other customers/deposits from customers | 743.311 | 624.021 | 19.12 | 739.563 | 624.102 | 18.50 |
| Gross loans and advances | 637.983 | 528.383 | 20.74 | 633.391 | 526.167 | 20.38 |
| Total assets | 1,020.984 | 882.183 | 15.73 | 1,012.201 | 879.805 | 15.05 |
| Information per Ordinary Share (Rs.) | | | | | | |
| Earnings (Basic) | 16.30 | 13.34 | 22.19 | 16.31 | 13.39 | 21.81 |
| Earnings (Diluted) | 16.27 | 13.32 | 22.07 | 16.27 | 13.37 | 21.69 |
| Dividends – Cash | - | - | - | 4.50 | 4.50 | - |
| Dividends – Shares | - | - | - | 2.00 | 2.00 | - |
| Net assets value | 88.68 | 80.93 | 9.58 | 87.97 | 80.22 | 9.66 |
| Market value at the year-end – Voting | N/A | N/A | - | 145.00 | 140.20 | 3.42 |
| Market value at the year-end – Non-Voting | N/A | N/A | - | 115.00 | 123.00 | (6.50) |
| Ratios | | | | | | |
| Return on average shareholders' funds (%) | 19.29 | 16.68 | 2.61 | 19.52 | 16.90 | 2.62 |
| Return on average assets (%) | 1.52 | 1.41 | 0.11 | 1.53 | 1.42 | 0.11 |
| Price earnings (times) – Ordinary Voting Shares | N/A | N/A | - | 8.90 | 10.33 | (13.84) |
| Price earnings (times) – Ordinary Non-Voting Shares | N/A | N/A | - | 7.06 | 9.06 | (22.08) |
| Year-on-year growth in earnings (%) | 21.98 | 5.48 | 16.50 | 21.92 | 6.47 | 15.45 |
| Dividend yield (%) – Ordinary Voting Shares | N/A | N/A | - | 4.48 | 4.64 | (0.16) |
| Dividend yield (%) – Ordinary Non-Voting Shares | N/A | N/A | - | 5.65 | 5.28 | 0.37 |
| Dividend cover on Ordinary Shares (times) | N/A | N/A | - | 2.20 | 2.09 | 19.62 |
| Statutory Ratios: | | | | | | |
| Liquid assets (%) – Minimum requirement 20% | N/A | N/A | - | 27.41 | 27.72 | (0.31) |
| Capital adequacy ratios: (Under Basel II) | | | | | | |
| Tier I (%) – Minimum requirement 5% | 11.59 | 11.55 | 0.04 | 11.56 | 11.60 | (0.04) |
| Tier I & II (%) – Minimum requirement 10% | 16.01 | 14.28 | 1.73 | 15.89 | 14.26 | 1.63 |

Financial Goals and Achievements – Bank

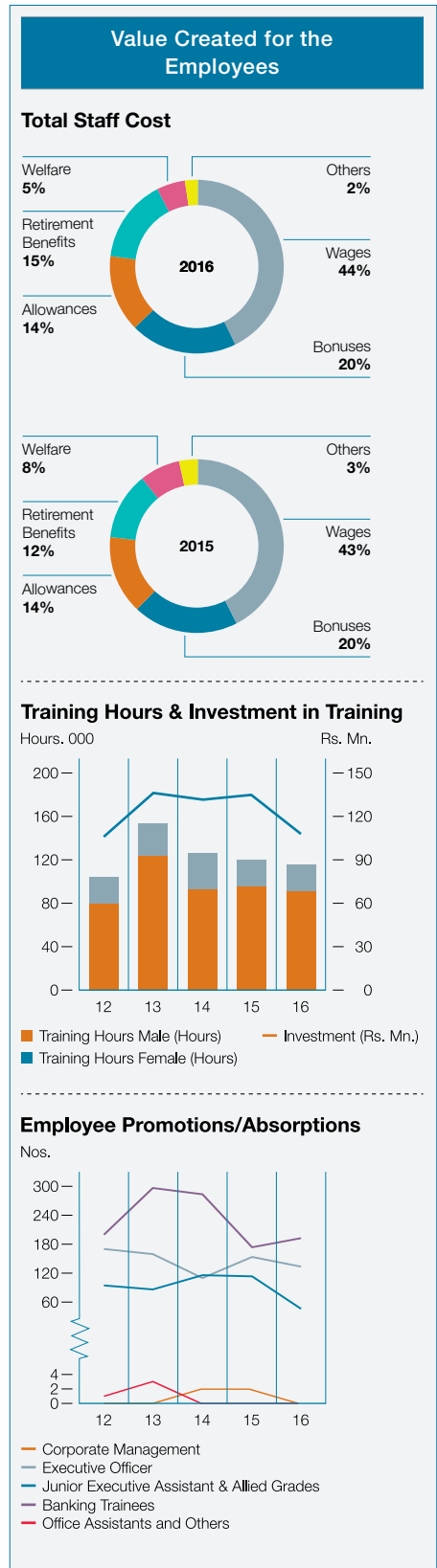
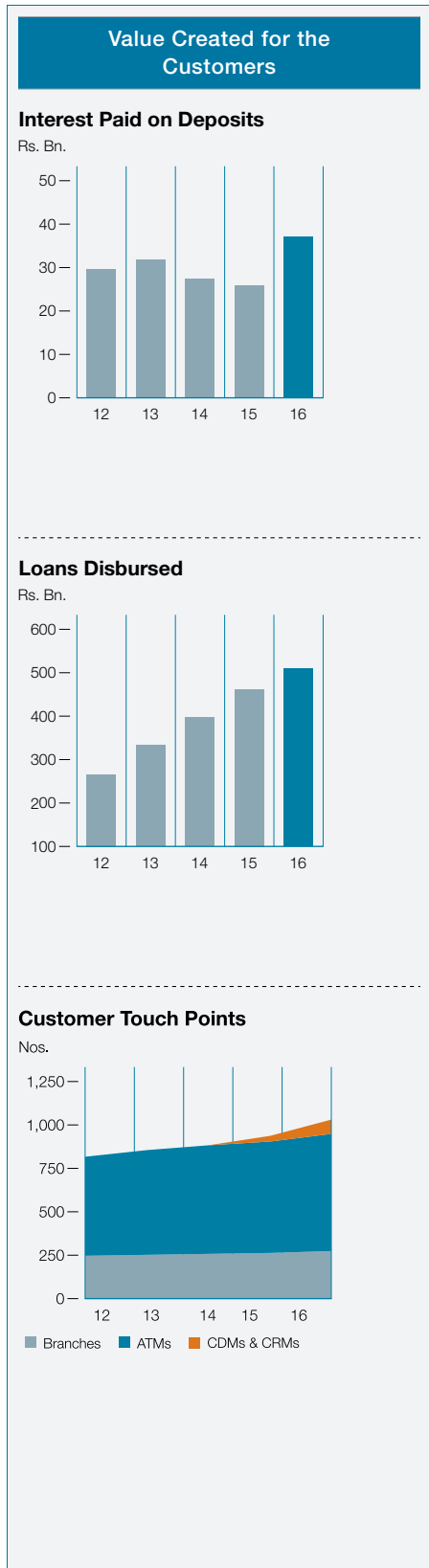
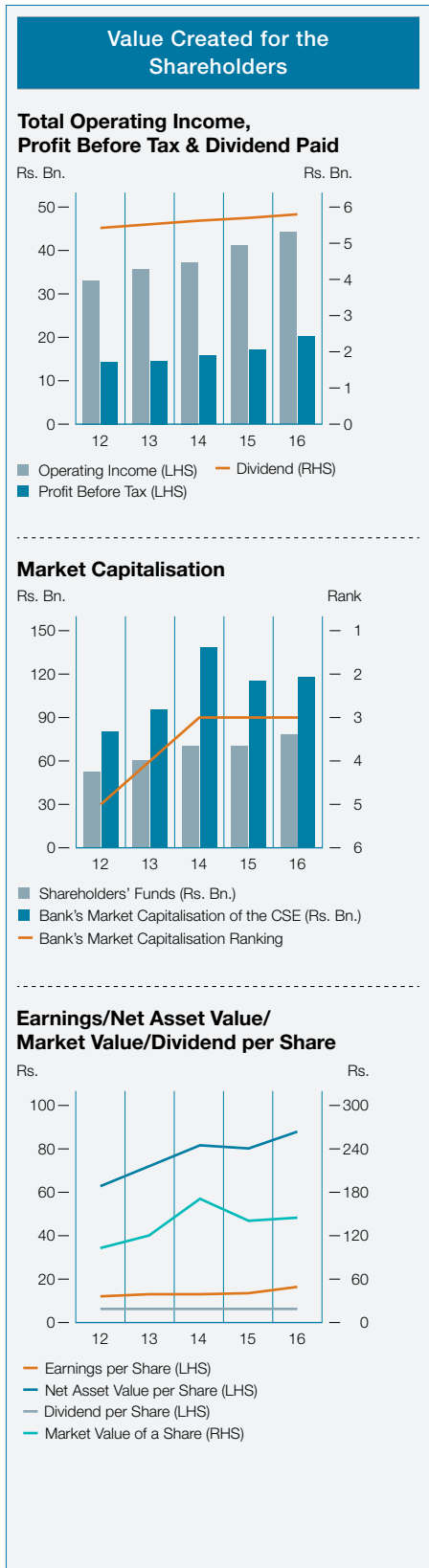
| Financial Indicator | Goal | Achievement | | | | |
|--|--------------|-------------|-------|-------|-------|-------|
| | | 2016 | 2015 | 2014 | 2013 | 2012 |
| Return on average assets (ROA) (%) | Over 2% | 1.53 | 1.42 | 1.60 | 1.87 | 2.12 |
| Return on average shareholders' funds (%) | Over 20% | 19.52 | 16.90 | 17.01 | 18.40 | 20.96 |
| Growth in income (%) | Over 20% | 19.62 | 7.03 | 0.96 | 15.40 | 38.25 |
| Growth in profit for the year | Over 20% | 21.92 | 6.47 | 7.03 | 3.44 | 28.10 |
| Growth in total assets (%) | Over 20% | 15.05 | 10.58 | 31.29 | 18.54 | 15.95 |
| Dividend per share (DPS) (Rs.) | Over Rs.5.00 | 6.50 | 6.50 | 6.50 | 6.50 | 6.50 |
| Capital Adequacy Ratios: (Under Basel II) | | | | | | |
| Tier I (%) – Minimum requirement 5% | Over 10% | 11.56 | 11.60 | 12.93 | 13.27 | 12.64 |
| Tier I & II (%) – Minimum requirement 10% | Over 14% | 15.89 | 14.26 | 15.97 | 16.91 | 13.85 |

Non-Financial Highlights

| GRI Indicator | | 2016 | 2015 | Unit of Measure | Page Reference |
|---|---|----------|----------|-----------------|----------------|
| Financial and Manufactured Capital | | | | | |
| EC1 | Direct economic value: | | | | |
| | Generated | 93,143 | 77,868 | Rs. Mn. | |
| | Distributed to: | 81,705 | 66,580 | Rs. Mn. | |
| | - Depositors | 47,915 | 35,685 | Rs. Mn. | |
| | - Employees | 10,794 | 10,181 | Rs. Mn. | |
| | - Business Partners | 7,772 | 4,127 | Rs. Mn. | |
| | - Government | 9,368 | 10,824 | Rs. Mn. | |
| | - Shareholders | 5,794 | 5,700 | Rs. Mn. | |
| | - Community | 62 | 63 | Rs. Mn. | |
| | Depreciation/Impairment charge | 2,719 | 5,085 | Rs. Mn. | |
| | Retained | 8,719 | 6,203 | Rs. Mn. | |
| | Economic Value Added | 5,130 | 8,256 | Rs. Mn. | |
| Social and Network Capital | | | | | |
| FS7 | Funds disbursed to SMEs, Agri businesses, Micro financing | 272,914 | 260,407 | Rs. Mn. | 85 |
| EC8 | Financial literacy and Capacity building programmes | | | | 85 |
| | - No. of programmes | 7 | 15 | Nos. | |
| | - No. of participants | 873 | 1,822 | Nos. | |
| | Penetration rate outside principle province | 12 | 13 | % | |
| FS9 | Coverage and frequency of audits | | | | 55 |
| | - Onsite audits | 363 | 265 | Nos. | |
| | - Online audits | 157 | 216 | Nos. | |
| SO5 | Number of alerts reported to FIU of the CBSL | 15 | 21 | Nos. | 55 |
| SO8 | Non-compliance with laws and regulations | | | | |
| | - Monetary value | - | - | Rs. '000s | |
| | - No. of monetary sanctions | Nil | Nil | Nos. | |
| LA14/HR10/ EN32 | Percentage of new suppliers screened for social and environmental impacts | 100 | 100 | % | 59 |
| Intellectual Capital | | | | | |
| | Brand Value | 24,027 | 26,878 | Rs. Mn. | |
| | Employees with a period of service over 15 years | 22.08 | 23.85 | % | |
| Human Capital | | | | | |
| G4-10 | Total Employees | 4,987 | 4,951 | Nos. | 70 |
| LA1 | New employee hires | 5.43 | 4.97 | % | 71 |
| | Attrition Rate | 4.61 | 4.67 | % | 73 |
| LA3 | Return to work after maternity leave | 95.38 | 100.00 | % | 74 |
| LA9 | Average training hours | | | | 72 |
| | - Male | 24.79 | 25.82 | Hours | |
| | - Female | 19.74 | 19.59 | Hours | |
| LA10 | Skill development programmes | 14,650 | 10,581 | Hours | 72 |
| LA11 | Percentage of employees receiving performance evaluations | 100 | 100 | % | 74 |
| LA13 | Remuneration ratio women to men | | | | 74 |
| | - Corporate Management | 1 : 0.95 | 1 : 0.94 | X:Y | |
| | - Executive Officers | 1 : 1.10 | 1 : 1.09 | X:Y | |
| | - Junior Executive Assistants and Allied Grades | 1 : 1.08 | 1 : 1.10 | X:Y | |
| | - Banking and Graduate Trainees | 1 : 1.01 | 1 : 1.04 | X:Y | |
| | - Office Assistants and Other | 1 : N/A | 1 : N/A | X:Y | |
| Natural Capital | | | | | |
| EN6 | Energy Consumption | 56,359 | 55,877 | Gigajoules | 79 |
| EN23 | Waste Disposal | | | | 79 |
| | - e-waste (CO ₂ emission offset) | 163,708 | Nil | Kg | |
| | - Paper | 98,155 | 130,334 | Kg | |
| FS8 | Loan disbursements for renewable energy projects | | | | |
| | - Wind | - | 1,835 | Rs. Mn. | 78 |
| | - Solar | 495 | - | Rs. Mn. | |
| | - Hydro | 428 | 876 | Rs. Mn. | |
| | - Bio-mass | 126 | 131 | Rs. Mn. | |

PERFORMANCE HIGHLIGHTS

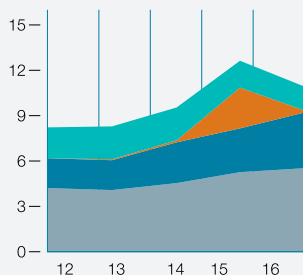
A strong commitment to delivering value to stakeholders



Value Created for the Governments

Government Taxes Paid and Collected on Behalf

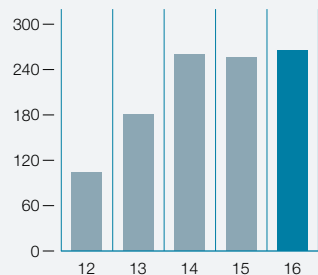
Rs. Bn.



- Borne by the Bank-Income Tax
- Borne by the Bank - VAT
- Borne by the Bank - Other Taxes
- Collected on Behalf of the Government

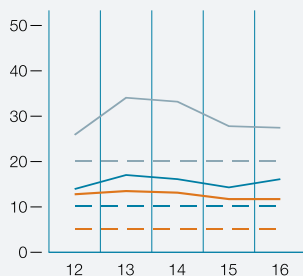
Total Investment in Government Securities

Rs. Bn.



Capital Adequacy & Liquid Assets

%

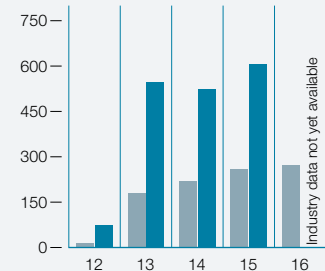


- Capital Adequacy Ratio - Tier I
 - Capital Adequacy Ratio - Tier II
 - Statutory Liquid Assets Ratio
 - Capital Adequacy Ratio - Tier I (R)
 - Capital Adequacy Ratio - Tier II (R)
 - Statutory Liquid Assets Ratio (R)
- (R) Minimum Requirement

Value Created for the Community

Disbursement to SME Sector

Rs. Bn.

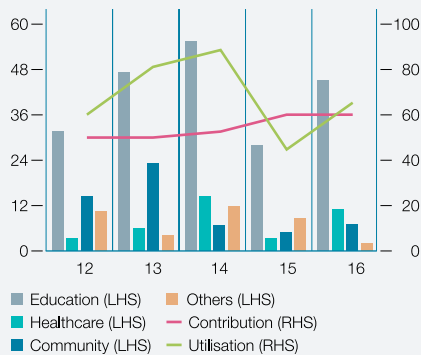


- Commercial Bank
- Total Disbursement of Commercial & Development Banks

CSR Trust Fund Contribution and Utilisation

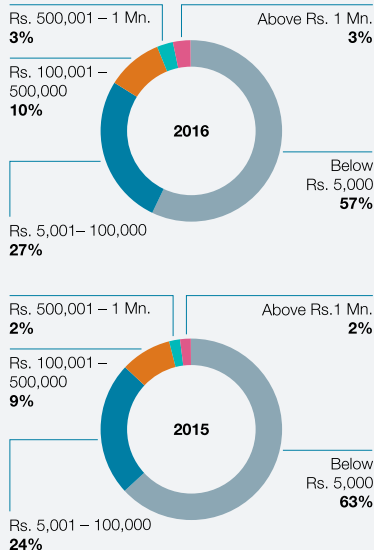
Rs. Mn.

Rs. Mn.



- Education (LHS)
- Healthcare (LHS)
- Community (LHS)
- Others (LHS)
- Contribution (RHS)
- Utilisation (RHS)

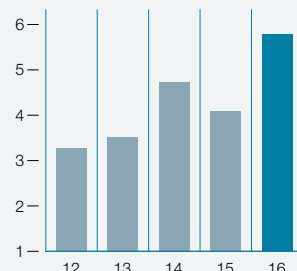
Deposits Distribution



Value Created for the Business Partners

Payments to Business Partners

Rs. Bn.

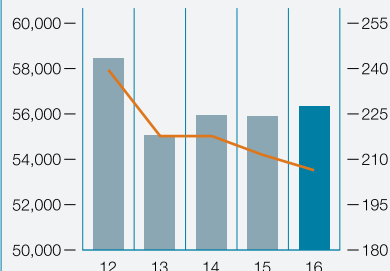


Commitment to the Environment

Electricity Consumption

Gigajoules

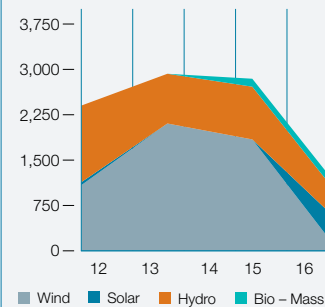
Gigajoules



- Total Consumption (LHS)
- Consumption per Branch (RHS)

Loans Disbursed for Renewable Energy Projects

Rs. Mn.



- Wind
- Solar
- Hydro
- Bio - Mass



CHAIRMAN'S REVIEW



STRENGTH OF THE BALANCE SHEET, COMPLIANCE WITH REGULATORY REQUIREMENTS, HIGH STANDARDS OF CORPORATE GOVERNANCE, TRANSPARENCY AND COMMITMENT TO INTERNATIONAL BEST BUSINESS PRACTICES WERE THE KEY TO OUR SUCCESS AND TO EARN THE REPUTATION OF BEING THE MOST AWARDED BANK IN SRI LANKA.

Dear Friends,

The Bank has performed exceptionally well in all key areas of business activities during 2016 and maintained its growth trajectory in an extremely challenging environment. Moreover, 2016 is a landmark year in the annals of the Bank as its total assets surpassed one trillion Rupee milestone. This achievement reminds me of my last year's review which I concluded with a prediction that the Bank will reach 'One Trillion Rupees' in assets by end of 2016. Today, this has become a reality and therefore, at the outset I wish to congratulate and extend my sincere appreciations to the Board and the dedicated team spearheaded by our energetic MD/CEO.

Steady growth inclusive of deposits, advances and annual profits has ensured long term sustainability and better future prospects for further expansion, as the largest private bank in the country. Strength of the Balance Sheet, compliance with regulatory requirements, high standards of corporate governance, transparency and commitment to international best business practices were the key to our success and to earn the reputation of being the Most Awarded Bank in Sri Lanka.

Strategies and policy initiatives are discussed at length by the Board with the management and are incorporated into the Corporate Plan and Annual Budget. Targets set for each operational unit and individual member of staff are effectively communicated and feedback from periphery to centre is encouraged at all times. Internal management information system in place ensures that the Board and Board Subcommittees receive adequate and timely reports from the management for effective functioning of such committees and the Board. During the year the Board Subcommittees were further strengthened

by adding new Board members who were newly appointed to fill casual vacancies that existed.

The year as a whole was challenging. To face the challenges and to guide the Bank in the direction for further growth and stability was an uphill task to the Board and the management. Macroeconomic challenges faced by the country in the sphere of growth, inflationary pressures, upward movement on interest rates and issues related to credit growth had their impact on the performance of the banks in the industry. Developments in the global front during the past couple of years have been generally unfavourable for emerging economies in the world. Relatively slower growth in advanced economies and reversal of foreign capital flows affected the emerging markets adversely, thereby hindering their growth prospects. The Board in its deliberations regularly drew its attention on both domestic and global developments and as part of this process, the Research and Development Unit of the Bank was directed to study and make presentations to the Board on contemporary issues particularly those in view of the Board on sectors for which the Bank has high credit exposure. Information based on such internal research was also shared with the management so as to build capacity and to strengthen the decision making process at all levels of the Bank.

Upward adjustment in interest rates and rising cost of funds did impact net interest margin (NIM) and negativity through market-to-market losses.

Growth in deposits and advances was notable during the year amidst general slowdown in business volumes, liquidity constraints and high risk associated with uncertainties that prevailed. Growth in trade finance, both in imports and exports remained a challenge for the Bank requiring

strategic realignment to be in line with the challenges faced by the economy and the banking industry.

The Bank recognizes the small and medium enterprises (SMEs) as an important sector in its business strategy. In view of this, it is imperative to operate with the ideal mix of corporate and personal banking in the portfolio composition with optimum size to maximize the returns to scale from these two key areas of core business activities of the Bank.

In its lending policies, the Bank recognizes the SME sector as the solid back bone of the economy and expansion of banking and other financial services to this sector would not only contribute to growth but also would positively result in reducing the regional disparities in income distribution. Lending activities of the Bank towards this sector are in line with the SME policy framework of the Government. The Bank is mindful of its responsibilities as a key stakeholder of the economy and has implemented several programs on entrepreneurship development with a view to improving financial literacy, access to finance and entrepreneurship skills amongst SMEs with particular emphasis on Agri-micro Entrepreneurs supported by expanded delivery of service to SMEs and micro entrepreneurs. In order for the Bank to be able to improve credit quality and to harness the full potential of this sector, the Bank in its awareness programs also focused on improving financial and general management skills, adoption of modern technology and the value of resorting to green initiatives.

As part of the strategy in diversifying business activities and income sources and as a risk mitigation measure, greater emphasis was laid on fee based activities and such sources of income. Revenue from bancassurance and activities of the

Investment Banking Unit grew appreciably during the year, due to extra efforts in pursuing this objective.

Relying on investment made on and potential returns from adoption of advanced technology, conventional branch banking has been traded off for increasingly popularizing internet and mobile banking. Conforming to the trend observed during the past few years the Bank's internet banking system witnessed a significant growth.

Prospects for rapid growth for the Bank appear to be limited in the domestic market and hence, the Bank has been exploring opportunities for overseas expansion. With the initiative taken by the Bank in 2003 for overseas operations in Bangladesh, during the past 13 years, the Bank has established itself as a leading regional foreign bank in that country. Our success story in Bangladesh is reflected in the rapid expansion of branch network and business volumes over the years. Bangladesh was followed by our entering into Myanmar in June 2015, another country in the region which has a potential for growth with the implementation of its reforms agenda. Bank's fully owned subsidiary, Commex Sri Lanka S.R.L. – Italy commenced its own business under the Authorized Payments Institute (API) License issued by the Bank of Italy in February 2016, and was able to achieve an operational breakeven in December 2016. During the year the Bank set up a subsidiary namely Commercial Bank of Maldives Private Limited as a fully fledged Tier I bank under the license issued by the Maldives Monetary Authority, and its operation in the first few months has been encouraging.

As part of our marketing strategy, key campaigns and several brand building exercises were undertaken in 2016. The merchant base and promotional discount offers were further expanded on both credit and debit cards and in terms of growth the

Bank became the fastest growing Card issuer in Sri Lanka signifying its potential. Making a formal entry into social media, the Bank launched its Facebook page in 2016. The corporate website was re-launched with a new look and face during the year.

Several new and innovative e-banking products were launched by the Bank during the year under review. In keeping with the vision of the Bank, to become the most technologically advanced, innovative and customer friendly financial services organization in Sri Lanka, Commercial Bank launched 'e passbook, a mobile phone and 'Tab based' account passbook app for the first time in South Asia. With a view to provide maximum security and convenience to credit and debit cardholders, the Bank became the first bank in Sri Lanka to launch a Near Field Communication (NFC) enabled Premium Credit Cards for both Visa and MasterCard. In other areas of key initiatives the Bank launched the country's first loyalty scheme to reward both credit and debit card holders, first Remittance Card to facilitate direct transfer of funds from overseas to local beneficiary accounts, over the air pin (OTAP) for credit and debit cards for the first time in Sri Lanka.

Risk Management landscape of the Bank underwent changes in tandem with the changes in global markets and regulatory frontiers. Banks would emphasise on Liquidity Coverage Ratio guidelines as an offshoot of Basel III Compliance and begin the journey in Basel III Compliance in total focusing on strengthening the capital base improvements.

Recent cyber attacks on global financial institutions have highlighted the need for organizations to increase vigilance and remain agile in the face of this continually evolving threat. In this backdrop the emerging risk category of cyber threat

has moved up the agenda of the Bank where cyber security is considered a core component of the overall operational risk profile with dedicated focus on cyber security strategies by the IT risk function.

It goes without saying that the biggest strength of the Bank is our staff. HR Policies, as in previous years, focused on aligning the work force plan to the business plan and keeping the staff cost within a desirable level. It is noteworthy that the staff increase during the year was kept at a minimum while ensuring that staff budgets and turnover are maintained at an acceptable level. It is encouraging to note that in the annual HR Policies, it was observed that labour productivity of the Bank has been constantly on the rise and higher investment on technology and IT based systems is justifiable as explicit by the tradeoff between Labour and Capital and improved productivity. The Compensation Policy is related to productivity and more importantly, thanks to age old HR culture in the Bank. Our staff is extremely loyal to the Bank and their commitment and dedication is demonstrated by their performance in discharging their duties to the utmost satisfaction of the management. Our Branch of CBEU and Executives' Association of the Bank and the Management have been maintaining an excellent rapport in the past several years. At this stage, I will be failing in my duty if I do not recognize and appreciate their collective efforts in the progress of the Bank.

I am extremely pleased to note that all Board decisions that were made have been unanimous. Our Board constitutes a group of mature professionals representing different backgrounds, knowledge and expertise that are relevant to the Bank. We receive adequate, timely and relevant information from the management on a regular basis and all issues, policies and strategies are deliberated in a most cordial atmosphere respecting each other's points of view, leading to unanimous decisions.

Mr. H.J. Wilson resigned from the Board during the year due to his professional commitments and higher responsibilities assigned to him with the elevation of his position at IFC. He was a tower of strength to the Board and the Bank. His professional contribution to Board and Board's Committees was of immense value. I can only call to my mind my pleasant memories with him as my colleague at the Board. Mr. G.S. Jadeja who replaced him brings in much needed expertise with a wealth of experience and knowledge from his international exposure. Mr. L.D. Niyangoda and Ms. N.T.M.S. Cooray joined our Board to fill the casual vacancies during the year. They bring in much needed expertise in their own professions and a wealth of experience as two business leaders in the country, while providing diversity to the composition of the Board. We welcome them to the Board and look forward to their contribution for the progress of this great banking institution.

All Board Subcommittees have functioned effectively during the year and they have been further strengthened by addition of the three new members who joined the Board. I take this opportunity to place on record my appreciation to all Board Committee Chairpersons particularly to Mr. M.P. Jayawardena, Mr. S. Swarnajothi and Professor A.K.W. Jayawardena who chair the Board Integrated Risk Management Committee, Board Audit

Committee and Board Technology Committee respectively for their professional contribution. Mr. K. Dharmasiri, a career banker serves on several Board Committees and his contribution to our deliberations at both the Board and Committee level discussions and decision process deserves a special mention. Guiding the staff in the path to success during the year was under the able leadership of the two Executive Directors namely, Mr. Jegan Durairatnam MD/CEO and Mr. S. Renganathan COO and all accomplishments in operational areas of the Bank are attributable to their efficiency and effectiveness of discharging their duties and responsibilities.

The Bank completed a remarkable year in 2016 by winning all major global and domestic banking awards, re-affirming its superiority as the Most Awarded Bank in Sri Lanka. All credit goes to the team for this accomplishment which was not sought after but has come on our way in recognition of our efforts. The team is geared up to serve customers and end users of our services with renewed vigor and utmost commitment to take the Bank to greater heights while achieving targets and KPIs set for them for the coming year. In anticipation of more success I wish you all the very best!



Dharma Dheerasinghe
Chairman

Colombo
February 22, 2017

MANAGING DIRECTOR'S REVIEW



OUR JOURNEY HAS BEEN REMARKABLE, TOUCHING MANY LIVES AND BEING PART OF THEIR GROWTH AS A TRUSTED PARTNER. COMMERCIAL BANK IS ACKNOWLEDGED AS ONE OF THE WORLD'S TOP 1000 BANKS AND IS THE LARGEST PRIVATE SECTOR FINANCIAL SERVICES ORGANISATION IN SRI LANKA. WE SEEK TO BUILD ON THIS HERITAGE, MAINTAINING STAKEHOLDER COVENANTS TO SHAPE THE FUTURE OF BANKING.

Delivering Growth

Commercial Bank of Ceylon PLC maintained its growth trajectory in 2016 with increased penetration in Sri Lanka and Bangladesh while venturing into new geographies, having obtained necessary regulatory approvals in the previous year. Commercial Bank of Maldives Private Limited commenced operations as a Tier I Bank in September 2016 with the Bank owning a controlling stake with the vision of becoming the most technologically advanced, innovative, customer friendly and most sought-after financial services organisation in Maldives. Commex, our fully-owned Italian Subsidiary located in Rome, commenced money transfer operations in 2016 under the supervision of the Bank of Italy expanding our horizons and strengthening our remittance operations in Sri Lanka and Bangladesh. Both new ventures were built on expertise gained in our home market to realise opportunities for growth in new geographies, using tested technology platforms and processes.

Our product portfolio and delivery channels continue to grow supporting customers throughout their life cycle. Convenience and security have been key areas of focus in design and delivery of products which has resonated in the market, facilitating onboarding of customers to electronic channels and positioning the Bank for scalable growth.

Delivering 42 years of growth in the five years to 2016, we doubled Total Assets, Loans and Advances and Deposits building on investments in people, networks, technology and processes. Improvement in asset quality and a stable rating are testimony to balanced growth while overall performance stands testimony to the

direction of growth in our 48th year.

A commitment to responsible banking has been key to building our strong customer franchise and is a core value maintained when charting our course. It has enabled us to differentiate our products and services in markets offering sound customer value propositions to a diverse clientele. Inclusive policies allowed for early identification and management of risks, increasing our relevance to customers and driving growth. Sound governance and prudent risk management underpin our growth, enabling us to remain resilient amidst multiple macroeconomic challenges.

The Bank has been an early champion of sustainability principles, taking a holistic view of our outputs and impacts from an economic, social and environmental perspective. Product responsibility, financial inclusion, employee relations and concern for the environment have been part of our DNA and implementing a comprehensive sustainability agenda has given structure to embed the principles throughout the Bank in a consistent manner. Our sustainability agenda has been formulated using the GRI G4 Guidelines for Sustainability Reporting and the UN Global Compact Principles. Establishment of the CSR Trust Fund, screening loans for social and environmental compliance, introducing green loans and installation of solar panels at branches are a few initiatives that underline our commitment to sustainability. This year we also undertook a mapping of the Bank's impact on Sustainable Development Goals, as stated on page 62. Extending the broader sustainability agenda to other countries will commence starting with Bangladesh.

A Resilient Performance

Commercial Bank recorded Rs. 14.513 Bn. in profit after tax in 2016, delivering profit growth of 21.92%. We also became the first private bank to reach Rs. 1 Trillion in assets with an asset growth of 15.05% marking yet another milestone in our journey. NII growth of 8.17% in 2016 was supported by strong loan growth of 20.38% which compensated for narrowing net interest margins. Interest rates increased sharply during the year as liquidity tightened and policy rates increased resulting in intense price competition for both deposits and loans. The CASA ratio also declined across the industry as funds shifted to higher yielding term deposits. NII continues to be the main contributor to operating profit, accounting for 74.43% of operating income. Net Fee and Commission income growth of 30.54% was driven by strong growth in credit cards, remittances and trade finance as we increased market share in all three business lines. Impairment charges declined by 61.20% from Rs. 3.943 Bn. in 2015 to Rs. 1.530 Bn. in 2016 as asset quality improved due to increased rigour of credit processes significantly improving profitability. Operating cost increases were curtailed to 8.73% necessary to support growth. The cost to income ratio increased to 51.06% reflecting increased rates for VAT on financial services.

Deposit growth of 18.50% was particularly gratifying as it is attributable to a strong customer covenant built up over decades of prudent banking and deep relationships. Commercial Bank maintained a calming presence in an intensely competitive market as customers remained loyal reflected in high customer retention rates. Our focus on customer convenience also played a key role in customer retention as many customers retained balances in savings accounts for easy access.

Improvements in asset quality was key to improving profitability and reflect strong credit processes and an improved risk culture, particularly in our front lines which are responsible for accepting risk. Non-performing loans declined from Rs. 16.370 Bn. in 2015 to Rs. 15.999 Bn. in 2016 for the second consecutive year despite portfolio growth of 24.57% and 20.38% in 2015 and 2016 supporting the reduced impairment charge. While a turning of the credit cycle is imminent, exerting pressure on the non-performing loans, we are confident that the Bank is well positioned to manage this vital aspect with the sound progress made during the year.

Tier II capital was strengthened during the year with two debenture issues which facilitated high levels of liquidity as well. Maintaining stability, strength and liquidity required balancing potential short-term gains with long-term outcomes, strengthening our customer covenant for responsible banking. Capital adequacy ratios (Tier I and Tier I & II) and the Statutory Liquid Assets Ratio were maintained well above regulatory requirements at 11.56%, 15.90% and 27.41% respectively in line with the Bank's Risk Appetite which is 3% higher than regulatory thresholds.

Business Line Review

Retail Banking operations were the highest contributor to earnings and growth accounting for 56.87% of profits from operations, 34.10% of asset growth and 63.86% of liability growth. Growth in this key segment was delivered through focused efforts to grow the SME sector by providing access to finance, consolidating the learnings gained as the largest lender for over the past several years to this underbanked sector. Deposit growth was particularly gratifying as we maintained high levels of customer retention and attracted deposits although competition in this segment intensified with tightening liquidity.

Corporate Banking delivered solid growth of 23.72% on assets and 16.80% on liabilities by Investing in active sectors of the economy such as trading, tourism, apparel and construction, as we focused on delivering customised solutions through a deeper understanding of client growth aspirations and needs. NII and fee-based income came under pressure from intensifying competition resulting in a marginal decline in total operating income. Corporate Banking earnings declined by 0.68% and as a result its contribution accounted for only 27.22% of profits from operations compared to 32.19% in 2015.

Contribution to earnings from International operations kept pace with growth increasing marginally to 15.66% during the year from 14.86% in 2015. Results comprise operations in Bangladesh and remittances as new ventures in Italy and Maldives commenced operations during the year. It is noteworthy that asset and liability growth for this segment was encouraging at 11.01% and 9.16% respectively reflecting stability in operations in the two key areas. Operations in Myanmar are yet to realise their potential and will be a key focus area in 2017 together with the new strategies.

Investment Banking maintained a low profile as equity market conditions were not conducive to high levels of activity but increased its presence in debt market to enhance earnings during the year. Managing two debenture issues for the Bank this year, this division raised Rs. 13.179 Bn. for the Bank. A pipeline of projects is being built up awaiting a favourable turn in equity markets.

Our treasury focused continuously on maintaining liquidity in a market that was struggling to stay afloat. Prudential policies were prioritised with a conscious decision to pay the price of doing what is right for the time, maintaining a calm presence in an otherwise turbulent financial market. Treasury portfolios account for 25.19% of assets and 9.87% of liabilities and the direction of movement will be determined principally by the Bank's Asset and Liability Management strategy.

Digitisation and Operational Excellence

With 4,987 employees located in 274 branches, branch automation is pivotal to achieving overall operational excellence, realising our investments in people and technology. Consequently, branch automation has started taking form which includes streamlining branch processes and extending efficiencies gained through centralised processes. Technology at the branch plays a key role and solutions include installation of CDMs, CRMs and kiosks. The launch of e-passbook for savings customers is one that is expected to transform how they interact with the Bank, putting banking literally at their fingertips. As the vast majority of banking customers are savings account holders, this innovation is key to transforming banking and is the only such product in South Asia. As customer migration to technology is a key component of realising our goal, we have commenced pilots for assisted customer migration to familiarise customers with operating the machines. Our digitalisation has also considered the need for trilingual customer interfaces ensuring that all customers benefit from our progress. We see this as part of our customer covenant and aspire to share our digital journey with them, sharing the benefits of our investments.

We have also invested in shoring up security of our technology platforms in response to the global escalation of cyber threats. As part of these initiatives, Commercial Bank became the first bank in Sri Lanka to become EMV compliant, a prerequisite for ATMs to accept internationally issued cards. This supports tourism enabling cash withdrawals from our network of 657 ATMs using their credit or debit cards.

A highly motivated team drives our growth and together they are the advocates, architects, builders and movers in our transformation as a technology driven regional player. We continue to invest in facilitating the transition to a new era of banking and grooming the next generation

of leaders, using a combination of well-established curricular, innovative tools and a mentoring culture. Our growth continues to offer career progression opportunities to our people, maintaining high levels of satisfaction and motivation.

Our cost to income ratio remains one of the lowest in the industry, testimony to our employee productivity and integration of technology. Improving customer satisfaction scores clearly demonstrate that operational efficiency has not been at the expense of customers and that they are beneficiaries of our investments. Customer growth has also been high during this period in accordance with our inclusive banking principles and improving customer satisfaction during this high growth phase is the result of an unwavering commitment to responsible banking. The indicators combine to affirm that value created is shared across multiple stakeholder segments in keeping with our commitment to sustainable development.

Our Prospects

Our transformation as Sri Lanka's leading international bank will continue as we seek to grow the markets we have entered, in to profitable concerns and realise their potential. The Bank's positioning in the industry as the largest private sector bank, a strong Balance Sheet, liquidity, a relatively lean operational model, global and local networks that connect people to markets gives us a strong foundation for future growth. We will focus on profitable growth as affordability is key to market leadership, increasing penetration in established markets and driving financial inclusion. Automation will play a key role in driving operational excellence and cost savings in the future as we look to further enhance our customer value proposition. We are re-thinking the role of branches in our business model and branch processes to ensure these vital front lines are future ready. Assisted customer migration will play a key role in driving operational excellence and customer convenience for sustained customer satisfaction.

We are encouraged by the credit growth witnessed in 2016 as demand for credit came from more development oriented sectors such as import substitution industries and is a trend expected to continue in to the coming year. The Bank will continue to invest in SME and the private sector partnering their growth while supporting responsible lending to individuals for wealth creation rather than consumption-based lending.

Fiscal policy direction of the Government raises some concerns, even apprehensions, about future taxation. Further taxation of financial services will deter credit growth, increase transaction costs and decelerate progress on financial inclusion as affordability of formal financial services decreases. Banks will need to balance affordability and high capital requirements as we commence our transition to compliance with Basel III requirements in July 2017 with full compliance set for January 2019. While Commercial Bank is well positioned for compliance, we are cognisant of the fact that a combination of increased taxes and increased regulation is likely to impact overall profitability and growth.

Acknowledgements

Building our brand, maintaining high standards and driving growth has been a collective effort. We are deeply appreciative of the loyalty shown by our customers and look to strengthen our relationships in the coming years. The Board has directed the affairs of the Bank with visionary leadership and sound principles, carefully balancing stakeholder interests and I wish to thank them for their guidance. I also wish to acknowledge the co-operation extended by officials of the Central Bank of Sri Lanka, the Bangladesh Bank, the Bank of Italy and the Maldives Monetary Authority in management of regulatory matters critical to our operations.

It has been my privilege to lead a high performing team of talented individuals who come together to work towards a common goal. The results set out in this 48th Annual Report stand testimony to their achievements and I extend my sincere appreciation of their efforts.

Our journey has been remarkable, touching many lives and being part of their growth as a trusted partner. Commercial Bank is acknowledged as one of the World's Top 1000 Banks and is the largest private sector financial services organisation in Sri Lanka. We seek to build on this heritage, maintaining stakeholder covenants to shape the future of banking.

Jegan Durairatnam
Managing Director/CEO

Colombo
February 22, 2017

Customer Aspirations

One precept held dear by banks today, that will carry forward almost unchanged to the future is – ‘The Customer is King’. As it does today and perhaps to a greater degree than ever in the future, evolving customer aspirations will illumine the path that banks must tread in evolving solutions for the customer of tomorrow. Indeed, the Bank’s own evolutionary path will position it to predict and be ready to fulfill needs of the future with a typically premium suite of products and services, thus delighting the customer.

As the heart is to life, the customer is to the Bank

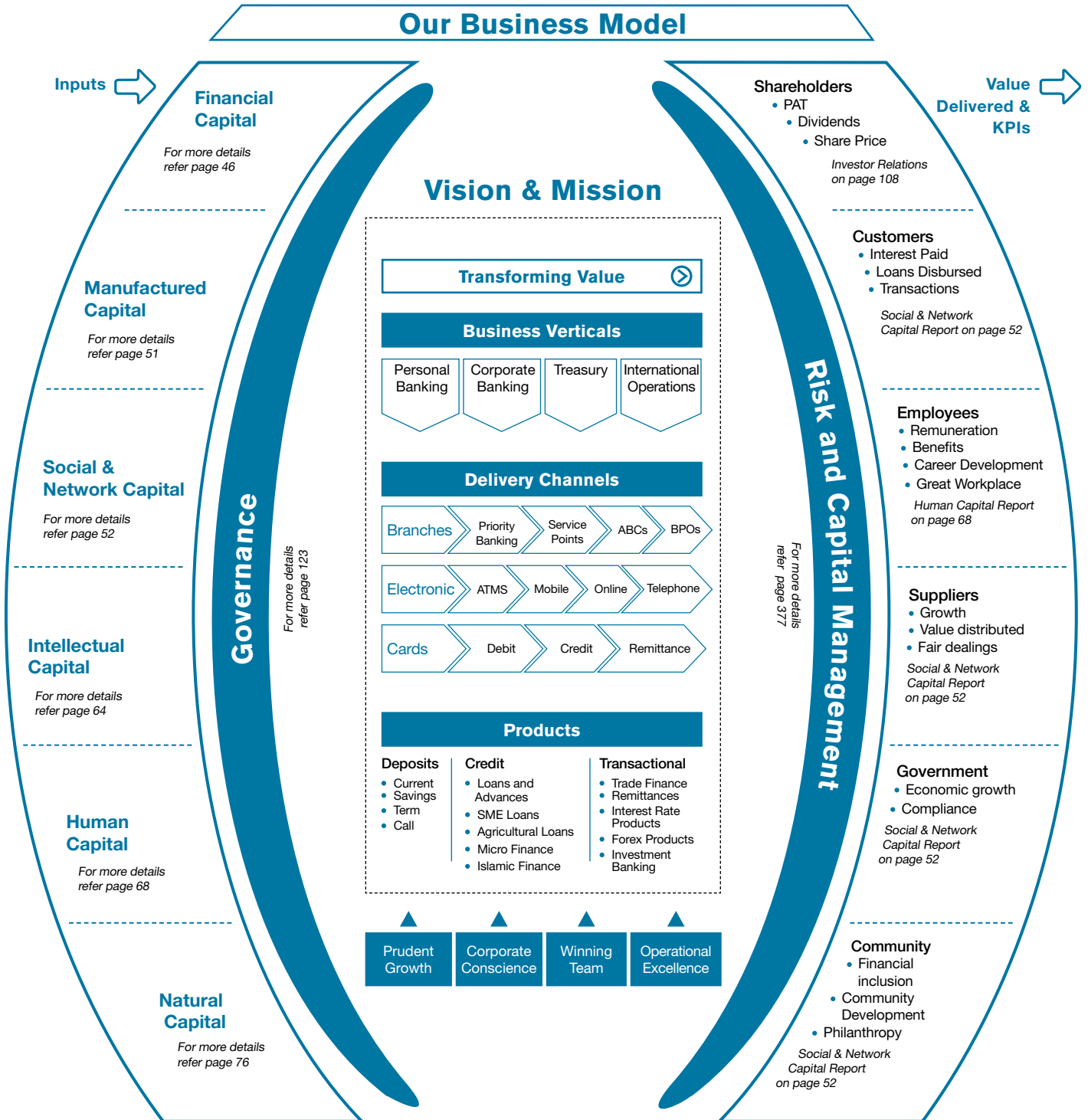




CHARTING OUR COURSE – HOW WE CREATE VALUE

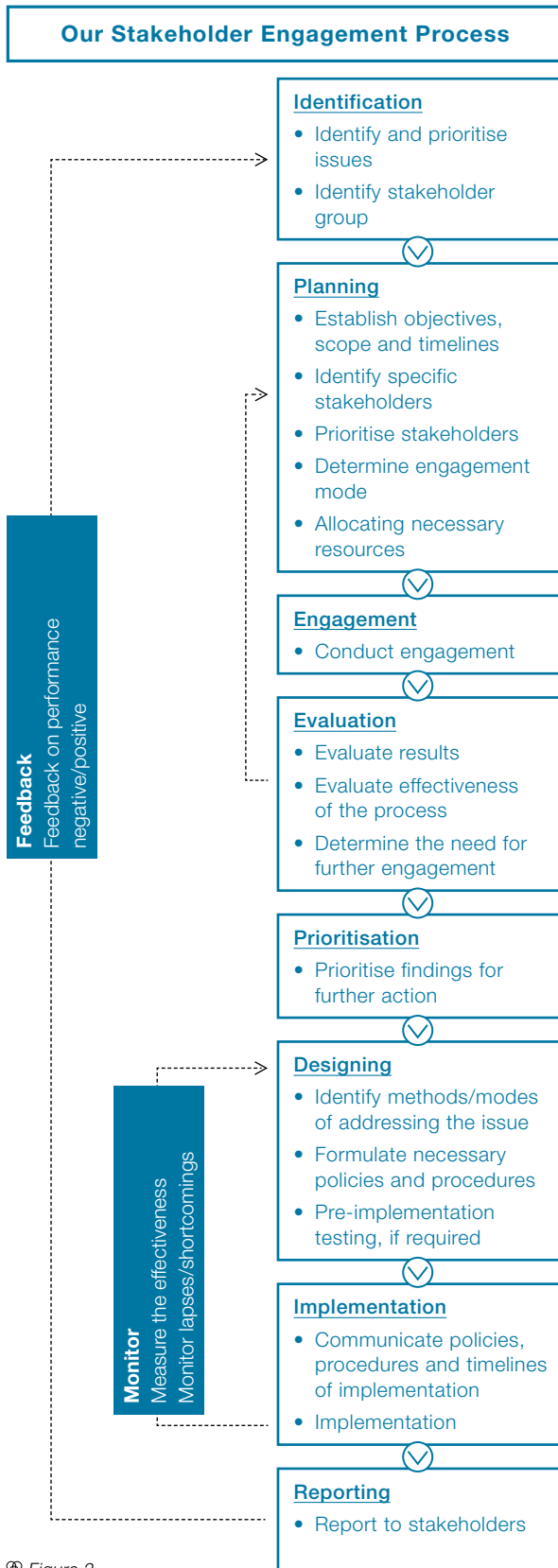
Our business model has evolved over 48 years of connecting with stakeholders, refined by experiences, aspirations and resilience to a dynamic operating environment. It seeks to deliver value to stakeholders, partnering their socio economic progress while balancing our economic, social and environmental impacts.

Our strategy, 'The Commercial Bank Way', focuses on our readiness to meet challenges of the future, balancing earnings, strength, stability and trust.



◉ Figure 1

CONNECTING WITH STAKEHOLDERS



We connect with our stakeholders to identify and address their legitimate concerns (Figure 2) to maintain a desired balance in the distribution of value created. Formal mechanisms are in place for engaging with each group of stakeholders (Figure 3) for which responsibility is shared across the organisation. This is key to our future, enabling us to identify opportunities for improving our business model, driving innovation and providing key inputs to our strategic planning process.

| | Customers | Shareholders and Investors | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|--|---|--|-----------|------------------------------|----------|-----------|-------------|---|-------------|--------------|-------------|----------------------|-------------|-------------------|------------|--------------------|-------------|--|---------------------|-----------|--|----------|--------------------------------|-------------|------------------------------|-----------|------------------------|-------------|--------------------------------|-------------|---|-------------|------------------------|-------------|-------------------|------------|--------------------------|-------------|
| Stakeholder Aspirations | <ul style="list-style-type: none"> Customer service Customer security and privacy Service quality Financial inclusion Affordability of services and convenience Dispute resolution Financial education and literacy | <ul style="list-style-type: none"> Financial performance Governance Transparency and disclosure Business expansion plans Risk management Sustainable growth Corporate Announcements | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Mode and Frequency | <table border="1"> <thead> <tr> <th>Engagement Activity</th> <th>Frequency</th> </tr> </thead> <tbody> <tr> <td>Customer satisfaction survey</td> <td>Annually</td> </tr> <tr> <td>Complaint</td> <td>As required</td> </tr> <tr> <td>Resolution Officer, Relationship managers</td> <td>As required</td> </tr> <tr> <td>Touch points</td> <td>As required</td> </tr> <tr> <td>Media advertisements</td> <td>As required</td> </tr> <tr> <td>Corporate website</td> <td>Continuous</td> </tr> <tr> <td>Customer workshops</td> <td>As required</td> </tr> </tbody> </table> | Engagement Activity | Frequency | Customer satisfaction survey | Annually | Complaint | As required | Resolution Officer, Relationship managers | As required | Touch points | As required | Media advertisements | As required | Corporate website | Continuous | Customer workshops | As required | <table border="1"> <thead> <tr> <th>Engagement Activity</th> <th>Frequency</th> </tr> </thead> <tbody> <tr> <td>Annual Reports and Annual General Meetings</td> <td>Annually</td> </tr> <tr> <td>Extraordinary general meetings</td> <td>As required</td> </tr> <tr> <td>Interim financial statements</td> <td>Quarterly</td> </tr> <tr> <td>Investor presentations</td> <td>As required</td> </tr> <tr> <td>Press conferences and releases</td> <td>As required</td> </tr> <tr> <td>Announcements to Colombo Stock Exchange</td> <td>As required</td> </tr> <tr> <td>One-to-one discussions</td> <td>As required</td> </tr> <tr> <td>Corporate website</td> <td>Continuous</td> </tr> <tr> <td>Corporate Communications</td> <td>As required</td> </tr> </tbody> </table> | Engagement Activity | Frequency | Annual Reports and Annual General Meetings | Annually | Extraordinary general meetings | As required | Interim financial statements | Quarterly | Investor presentations | As required | Press conferences and releases | As required | Announcements to Colombo Stock Exchange | As required | One-to-one discussions | As required | Corporate website | Continuous | Corporate Communications | As required |
| Engagement Activity | Frequency | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Customer satisfaction survey | Annually | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Complaint | As required | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Resolution Officer, Relationship managers | As required | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Touch points | As required | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Media advertisements | As required | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Corporate website | Continuous | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Customer workshops | As required | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Engagement Activity | Frequency | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Annual Reports and Annual General Meetings | Annually | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Extraordinary general meetings | As required | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Interim financial statements | Quarterly | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Investor presentations | As required | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Press conferences and releases | As required | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Announcements to Colombo Stock Exchange | As required | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| One-to-one discussions | As required | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Corporate website | Continuous | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Corporate Communications | As required | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

Figure 2

Figure 2

How We Connect with Stakeholder Groups



Employees and Employee Associations

Performance and reward management
 Investment in HR
 Work life balance
 Recruitment, retention and turnover
 Value driven corporate culture
 Diversity and inclusion
 Future plans



Government Institutions

Compliance with regulations
 Directives and codes
 Local & Overseas expansion
 Microfinance and SME development
 Consolidation of the financial sector



Suppliers and Business Partners

Contractual performance
 Responsible sourcing
 Future business opportunities



Society and Environment

Responsible financing
 Community investments
 Financial inclusion, Recruitment
 Microfinance and SME
 Ethics and business conduct
 Environmental performance

| Engagement Activity | Frequency | Engagement Activity | Frequency | Engagement Activity | Frequency | Engagement Activity | Frequency |
|----------------------------|--------------|----------------------------|--------------|----------------------------------|-------------|---|-------------|
| On-site surveillance | Annually | On-site surveillance | Annually | Supplier relationship management | As required | Delivery channels | Continuous |
| Directives and circulars | As required | Directives and circulars | As required | On-site visits and meetings | As required | Press releases, conferences and media briefings | As required |
| Meetings and consultations | As required | Meetings and consultations | As required | | | Informal briefings and communications | As required |
| Press releases | As required | Press releases | As required | | | Public events | As required |
| Periodic returns | As specified | Periodic returns | As specified | | | Call centre | Continuous |
| | | | | | | Corporate website | Continuous |

MATERIALITY MATTERS

The four pillars of Prudent Growth, Corporate Conscience, Winning Team and Operational Excellence build on our foundations, sound Corporate Governance and Risk Management. (Figure 4) Our plans for growth are ambitious and carefully crafted on principles of inclusive and responsible banking. Corporate conscience reflects our values and determines how we conduct business and engage with communities, shaping our culture and impacting the brand. Our team is the key differentiator, enabling us to compete effectively and seek new heights in performance. Operational excellence in all areas is key to delivering value to our stakeholders and ensuring that we are fit for the future.

Material Issues for 2016

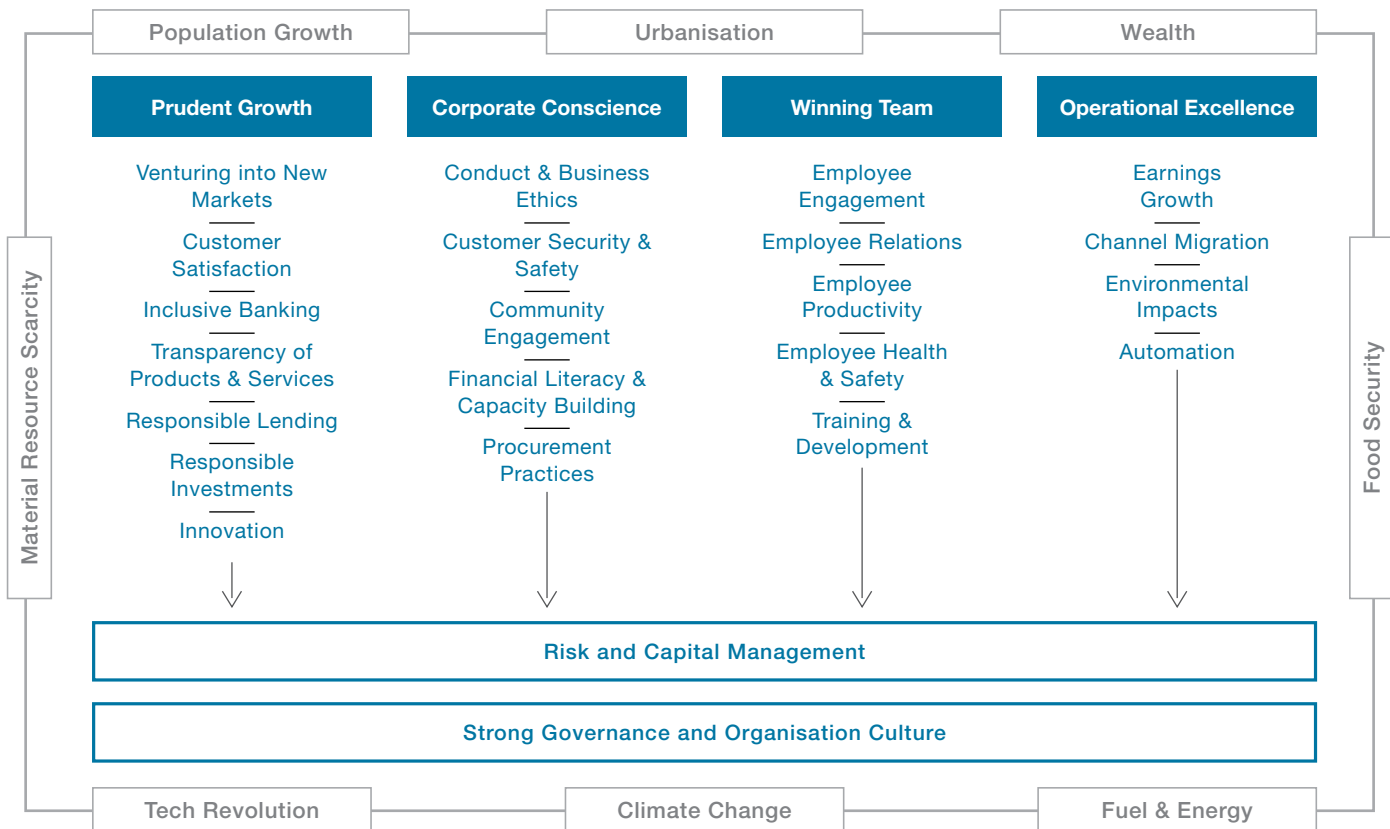


Figure 4

Our growth strategies are based on principles of sustainable growth and are primarily focused on understanding the customer aspirations and delivering value in a responsible manner through technologies that drive the lifestyles. Towards this end our lending and investment products are developed and marketed to support financial needs of our customers for their socio-economic progress.

Good governance, ethical practices and sound risk management policies,

applied across all four business verticals, make up the DNA of our success story. We are committed to adopting the best practices in these evolving areas to secure the sustainability of our business and safeguard our reputation.

In a service organisation the power of human mind will drive the organisation to new heights. We have a winning team functioning in a conducive environment that has aligned their aspirations with those of the organisation. Indeed, the organisation's strategies for growth rely on the motivation,

innovation, hard work and commitment of our people whom we seek to develop to increase our capacity for creating value.

Operational excellence is necessary to optimise our capacity to create value for our stakeholders forming the Fourth Pillar of our strategy. We continue to explore avenues for eliminating waste thereby streamlining operations to ensure that costs of services are curtailed and processes made more robust and efficient.

Our strategic planning process takes in to account the mega trends, (such as population growth, urbanisation etc.) as depicted in Figure 4 on page 32 shaping the industry which are monitored to identify new opportunities and emerging threats to sharpen focus on our future.

Material matters are identified through a critical evaluation of the Bank's value creation processes based on a structured corporate planning exercise and also through the issues identified via our stakeholder engagement processes (Figure 2 on page 30). Identified issues were then prioritised and matters for inclusion in this Report were determined bearing in mind their materiality as depicted in the following grid (Figure 5).

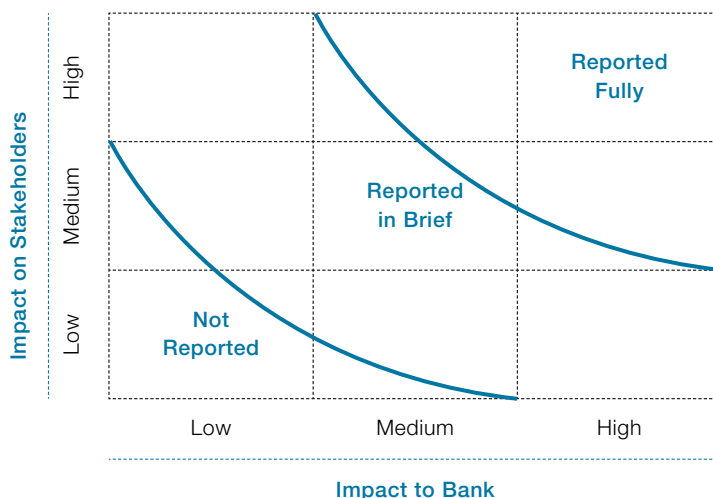
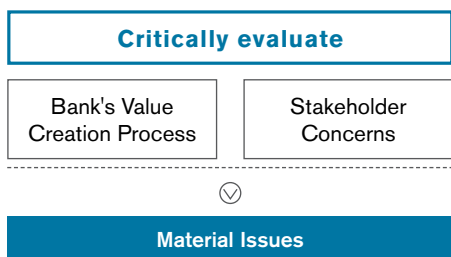


Figure 5



Material Issues identified are framed in terminology relevant to the Bank (Figure 4 on page 32) and mapped to the aspects of the GRI-G4 Guidelines and the UNGC Principles (Figure 6). Consequent to this reconciliation, there are issues that are not specifically included in the GRI G4 Guidelines which we have included as

material aspects. We also considered the mega trends impacting businesses globally and locally to appraise both the opportunities and risks they present to the Bank and these have been mapped around the material issues to complete the picture. The boundaries for material aspects and GRI Content Index are detailed in Annex III on page 414.

Mapping Material Issues to GRI Indicators and UNGC Principles

| | Material Issues | Relevant GRI Indicator/Other Regulations | UNGC Principles |
|--|--|--|--|
| Prudent Growth | Venturing into New Markets | HR1 | Principles 7-9 |
| | Customer Satisfaction | PR5, SO11 | |
| | Inclusive Banking | EC7, FS13, FS14 | |
| | Transparency of Products and Services | PR3 | |
| | Responsible Lending | FS1-5, FS7, FS8 CBSL Requirements | |
| | Responsible Investment | HR1 | |
| Corporate Conscience | Innovation | Not covered in GRI | Principles 1,4-5,8 |
| | Conduct & Business Ethics | PR9, SO4-5, SO7-8, HR7, EN27 | |
| | Customer Security and Safety | PR1-3, PR6-9 | |
| | Community Engagement | EC6, SO1-2, SO11 | |
| | Financial Literacy & Capacity Building | EC8 | |
| Winning Team | Procurement Practices | EC9, EN32-33, LA14, SO9-10, HR5-6, HR10-11 | Principles 1-5 Principles 4-6 Principles 1-2 |
| | Employee Engagement | HR4 | |
| | Employee Relations | LA4, LA16, HR4 | |
| | Employee Productivity | LA1-3, LA12-13, HR3, HR5-6 | |
| Operational Excellence | Employee Health & Safety | LA8 | Principles 7,9 |
| | Training & Development | LA9-11 | |
| | Earnings Growth | EC1 | |
| | Channel Migration | Not covered in GRI | |
| Risk & Capital Management | Environmental Impacts | EN6, EN23, EN27, EN32, FS9 | Principles 10 |
| | Automation | Not covered in GRI | |
| Strong Governance and Organisation Culture | | FS6 | |
| | | SO3, SO5, SO8, PR9 | |

Figure 6



State-of-the-Art Technology

We are already experiencing the impact of technology and its meteoric evolution which has radically changed the face of banking today. The transition from 'brick and mortar' banking to 'feet on the street' and then to 24/7 web and mobile-based solutions has already taken place. The almost limitless nature of technological change makes one thing certain – technology will evolve further and continue to underpin the functioning of the bank of tomorrow.

As process is to the present, technology is to the future



A WINNING STRATEGY

Our strategic planning processes continues to evolve each year building on the learnings of each planning cycle. The perimeter represents the global forces and trends shaping our business, determined through a review of our operating environment. Corporate governance and risk management provide a framework within which we will conduct our business.

We use feedback gained from our stakeholder engagement processes to establish our stakeholder value propositions, maintaining an equitable balance between stakeholder interests. Our strategy and KPIs are formulated considering these two key inputs and the capitals available which are then arranged in to themed pillars facilitating communication within the organisation, unifying our team to a common goal.

Management Discussion and Analysis

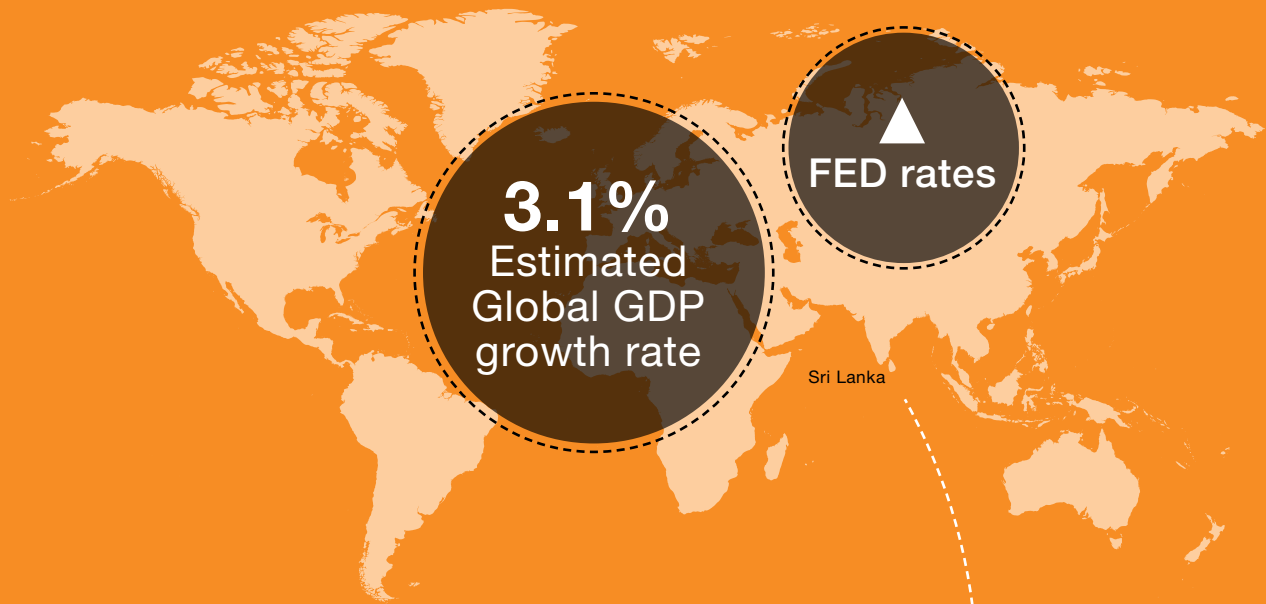
Gain insights in to the dynamics of the operating environment and its impact on our operations. Read our capital management reports to understand how we transformed the capitals to deliver value in a responsible manner. Understand the impact of each business vertical on our overall performance and how each was managed within the constraints and opportunities presented by the operating environment.

| | |
|-----|--------------------------------------|
| 038 | Our Operating Environment |
| 046 | Capital Management |
| 046 | – Financial and Manufactured Capital |
| 052 | – Social and Network Capital |
| 064 | – Intellectual Capital |
| 068 | – Human Capital |
| 076 | – Natural Capital |
| 082 | Key Business Line Review |
| 082 | – Personal Banking |
| 090 | – Corporate Banking |
| 094 | – Treasury |
| 098 | – International Operations |
| 104 | Subsidiaries and Associates |
| 104 | What the Future Holds |
| 108 | Investor Relations |

OUR OPERATING ENVIRONMENT

THE BANK HAS PERFORMED EXCEPTIONALLY WELL IN ALL KEY AREAS OF BUSINESS ACTIVITIES DURING 2016 AND MAINTAINED ITS GROWTH TRAJECTORY IN AN EXTREMELY CHALLENGING ENVIRONMENT





GDP growth slowed in the first nine months of 2016 to 4% compared to 5.7% in the first nine months of 2015.

Sri Lanka

▲ Interest Rates

3.8%
Depreciation of SLR against US \$

▲ Banking Sector Profit

▼ Industry NPL ratio

Overview of Global Economic and Business Environment

The global output is estimated to have grown by a lower pace of 3.1% in 2016 reflecting weaker than expected US activity, reduction in trade and financial flows between the UK and the rest of the EU with the Brexit, and lower commodity prices etc. Stagnant global trade, subdued investment, and heightened policy uncertainty marked another difficult year for the world economy. Meanwhile global events such as Brexit, US elections in late 2016 and changing policies especially in China and US increased uncertainty in trade policies. Activities in Russia was slightly better than expected, in part reflecting firmer oil prices.

Regional Performance of Major Economies in the World

United States

| Percentage of | | | |
|------------------|---------------|-------------------|--------------------|
| Global GDP* | Global Trade* | Global FDI Stock* | Share of SL Trade* |
| 24% ¹ | 23% | 17 % | 27% of exports |

*2015

Source: IMF & CBSL

☐ Table 1

US continued its dominating role in global markets resulting in its slow-paced growth, trade activity and trade policies to have spillover effects on global growth and trade (Table 1). US GDP growth declined to 1.6% in 2016 compared to 2.6% in 2015 reflecting weakened demand conditions and lowering investments especially in the 1st quarter of 2016. However, signs of recovery were seen in the latter half of 2016 with a rebound of manufacturing activities and fiscal stimulus policies proposed to support future demand and investment growth.

Meanwhile Federal (FED) increased its target for short-term interest rates by 0.25% points to a range of 0.50% and 0.75% on December 14, 2016. Bond yields have been increasing reflective of both rate hike and uncertain policies, exerting pressure on global financial markets with higher borrowing costs. Risks relating to cross border agreements especially with China and Mexico persist and pose a significant threat to global investor confidence and trade under Trump government.

Euro Area

Challenging global environments, weakening demand and spillover effects of the Euro debt crisis, slowed growth to 1.7% in 2016. Banks continued to suffer with weak profitability levels (Table 2). Despite the bleak outlook, overall investor confidence showed some recovery in 2016 while Brexit in June 2016 and continued low investments in highly debt affected countries such as Greece, posed a risk. Easing of borrowing costs supported by the adoption of negative interest rate policy in June 2014 further supported investor confidence.

China – 15% of Global GDP², 20% of Sri Lanka Imports³

GDP growth slowed to 6.7% in 2016 (6.9% in 2015), as the economy shifts from industry to services in line with government policies. Consumption growth remained strong while investment growth slowed and focused on policy induced infrastructure spending. Thus, import demand especially capital goods contracted impacting global trade activity significantly.

World Economic Outlook Projections

| | 2015 % | 2016 (Estimated) % | 2017 (Projected) % |
|--|-----------|--------------------------|--------------------------|
| World Output | 3.2 | 3.1 | 3.4 |
| Advanced Economies | | | |
| United States | 2.1 | 1.6 | 1.9 |
| Euro Area | 2.6 | 1.6 | 2.3 |
| Japan | 2.0 | 1.7 | 1.6 |
| United Kingdom | 1.2 | 0.9 | 0.8 |
| Emerging Markets and Developing Economies | | | |
| Russia | 4.1 | 4.1 | 4.5 |
| China | -3.7 | -0.6 | 1.1 |
| India | 6.9 | 6.7 | 6.5 |
| ASEAN 6 | 7.6 | 6.6 | 7.2 |
| | 4.8 | 4.8 | 4.9 |

Source: IMF January 2017

☐ Table 2

¹World Bank data

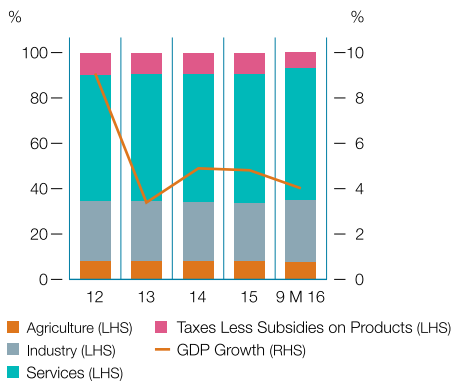
²Trading economics (<http://www.tradingeconomics.com/china/gdp>)

³Central Bank report 2015

Sri Lanka

GDP growth slowed in the first nine months of 2016 to 4.0% compared to 5.7% in the first nine months of 2015, impacted by negative growth in agriculture and declining growth in transportation and real estate segments (Graph 1). Adverse global environments, higher taxes on motor vehicles imports, increase in interest rates and supply disruptions in agricultural output negatively impacted the sectoral growth rates. The credit growth slowed in the latter part of 2016 in response to monetary tightening measures adopted by the Central Bank of Sri Lanka (the CBSL).

Share of GDP by Economic Activity & Growth Rate



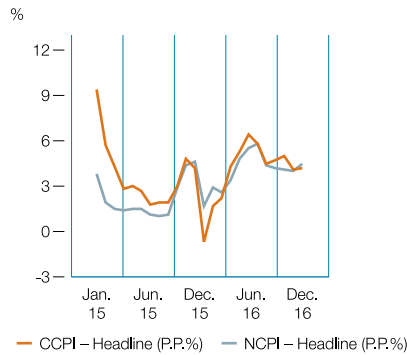
Source: Statistics Department

Graph 1

Inflation, measured by the NCPI (Base year 2013) reflected an upward trend of 4.2% in December 2016 (Graph 2). The increase in inflation in latter part of the year was mainly attributed to the impact of tax adjustments and the supply disruptions due to adverse weather conditions. However, the inflation has been within the CBSL mid-single digit targets of 4%-6%.⁴

⁴Road Map 2017 (Dated Jan 2017), CBSL press releases

Inflation (Base: 2013=100)



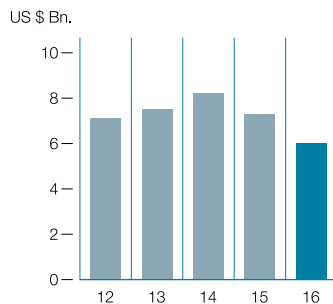
Source: Statistics Department

Graph 2

External trade activities recorded a modest performance in the first eleven months of 2016 with deterioration in the trade deficit as a result of increased import expenditure, amidst the contraction in export earnings due to adverse global conditions especially in core trading partners such as US, EU and China. However, the earnings from tourism and workers' remittances continued to dampen the adverse impact of the trade deficit on the overall balance of payment.

The Sri Lankan Rupee continued to depreciate against the US \$ in 2016 given the widening trade deficit, increase in outflows of foreign investments from the Rupee denominated Government Securities market and lower FDI etc. Meanwhile, the Government entered into a three-year programme of US \$ 1.5 Bn. with the International Monetary Fund (IMF), under the Extended Fund Facility (EFF) in June 2016 to support the Balance of Payments (BOP) position and the Government's economic reform agenda. The gross official reserves were US \$ 6.0 Bn. by end 2016.

Gross Official Reserves



Source: CBSL

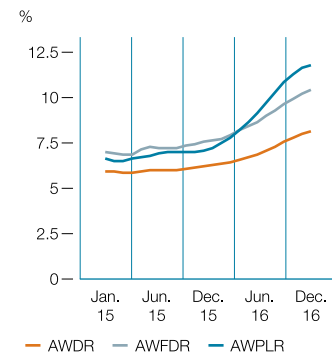
Graph 3

Sri Lankan Economic Overview with Relevance to Banking Sector

Sri Lanka's financial sector, accounting for 6.4% of GDP, recorded a strong growth of 14.3% in the first nine months of 2016, above the five-year historical average of 12%, and among the top growth sectors in the country in 2016.

Interest rates continuously increased in 2016 in line with the adjustments in the monetary policy of the CBSL (Graph 4). Loan demand weakened with hike in interest rates, uncertainty in policies, adverse global conditions and tighter control on imports especially vehicles and consumer goods.

Benchmark Interest Rates

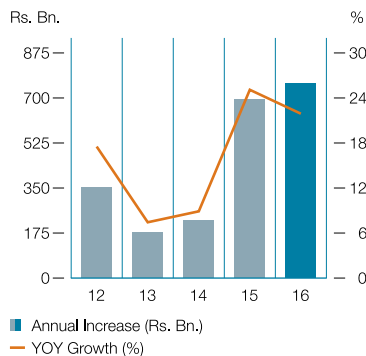


Source: CBSL

Graph 4

Private sector credit growth eased to 21.9% by December, 2016 compared to higher credit growth rates in the first nine months of 2016 (Graph 5). However, the credit disbursements in absolute terms remained high in 2016. Increase in VAT rate adversely impacted the banking sector profits.

Private Sector Credit



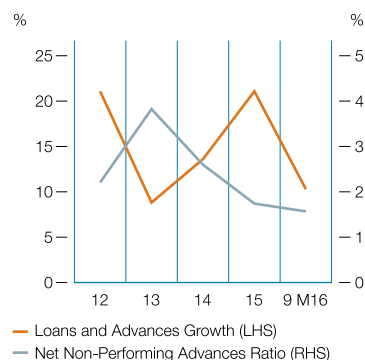
Source: CBSL
Graph 5

Banking sector continued its growth trajectory to 2016 with a profit growth of 19% YoY in the first nine months of 2016, higher than five-year average of 11%, despite continued pressures from global markets and increasing local tax rates. Sector ROE remained attractive at 17% in the third quarter 2016.

- Interest income grew by 21% YoY in the first nine months of 2016 due to the increase in interest rates following the increase in policy rates by the CBSL.
- Asset quality improved with declining non-performing loans. Net NPL ratios of 1.6% in the first nine months of 2016 were significantly lower than historical average of 2.6% (Graph 6).

Asset growth moderated in the first nine months of 2016 with declining loan demand reflective of higher interest rates, lower imports and declining private consumption. Despite the slowdown, loans continued to account for 59% of assets.

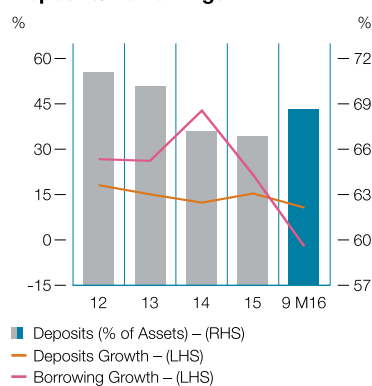
Growth in Loans & Advances/NPA Ratio



Source: CBSL
Graph 6

Deposits, predominantly time and savings deposits, continued to fund asset growth, with 18% YoY growth in the first nine months of 2016 (Graph 7). Capital adequacy ratios (CAR) remained above regulatory minimum rates despite the core CAR declined to 11.6% in the first nine months of 2016.

Deposits/Borrowings



Source: CBSL
Graph 7

Key Banking Industry Indicators

| Industry | First nine months of 2016 | CAGR* 2010-15 |
|----------------------------------|---------------------------|---------------|
| Business Volumes | | |
| Assets (YoY) | 13% | 18% |
| Loans (YoY) | 16% | 19% |
| Asset funding | | |
| Deposits (YoY) | 17% | 16% |
| Borrowings (YoY) | 3% | 28% |
| Profitability | | |
| Interest income (YoY) | 21% | 12% |
| Return on equity | 17% | 18% |
| Net interest margin | 3.5% | 3.9% |
| Net NPL ratio | 1.6% | 2.6% |
| Capital adequacy | | |
| Core capital ratio (Minimum 5%) | 11.6% | 14.2% |
| Liquidity | | |
| Liquid asset ratio (Minimum 20%) | 28.3% | 35.2% |

*Compound Annual Growth Rate

Source: CBSL

Table 4

Movement of Key Economic Indicators and their Impact on the Banking Industry

| Parameter | Movement during 2016 | Cause of movement | Impact to sector |
|----------------|---|---|---|
| GDP | GDP growth declined to 4.0% in the first nine months of 2016 compared to 5.7% in the first nine months of 2015. Private consumption and investment growth slowed in 2016. | Lower agricultural output and decline in transportation and real estate activities weighed on growth despite the recovery of construction activity and continued growth in financial services and wholesale trade. | Declining demand conditions impacted on low growth in banking sector credit. |
| External trade | External trade activity contracted due to decline in global trade activities and adjustments in interest rates and Government taxes. | Growth in textile exports and imports of investment goods, building materials and machinery despite a decline in consumer goods including vehicles and intermediate goods imports. Vehicle imports declined by 42.8% during the first ten months of 2016. | Significant drop in vehicle registrations impacted leasing demand. |
| Investments | Foreign direct investments slowed. | Weakening global environment and lack of investor friendly policies. | Lower demand for industrial loans. |
| Exchange rate | Depreciation of the Sri Lankan Rupee against US \$ by 3.8% in 2016. | Trade deficit widened in the first eleven months of 2016. FDIs were below expectations. Outflows of foreign investments from the Rupee denominated Government Securities market. | Lower demand for trade related facilities. |
| Regulations | Stricter control on vehicle leasing business to curb imports. Increased taxes such as VAT on banking operations. | Government reduced the loan to value (LTV) ratio for vehicle leasing to 70%. | Profits impacted by higher taxes and lower demand for leasing. |
| Interest rates | Increasing trend in interest rates during 2016. | Curb inflationary pressures due to rising private consumption and imports since 2015. | Had a positive impact on interest income and deposit growth. However, adversely impacted the credit growth. |

Table 3



The Power of the Human Mind

It is the power of the human mind that will define the “shape and colour” of the future of banking and set the stage to expedite its arrival. Cutting edge inventions to evolving customer needs – all things stem from the power of the human mind. We can be certain that the mind, operating in a stimulating environment will continue to drive invention and revolutionise the future of banking.

As structure is to business, the mind is to innovation



CAPITAL MANAGEMENT – FINANCIAL AND MANUFACTURED CAPITAL

OUR FINANCIAL CAPITAL COMPRISES OF FUNDS THAT WE USE TO INVEST IN OUR BUSINESS WHILST MANUFACTURED CAPITAL COMPRISES THE CAPITAL GOODS STOCK BUILT BY THE BANK.

2016 IS A LANDMARK YEAR AS WE WERE THE FIRST PRIVATE BANK TO EXCEED MILESTONES OF RS. 1 TN. ASSETS AND RS. 100 BN. REGULATORY CAPITAL.

A CLEAR TESTIMONY OF HOW PRUDENTLY WE HAVE UTILISED OUR RESOURCES TO DELIVER VALUE TO SHAREHOLDERS.



Over 10%

market share of the
Banking Sector Assets,
Loans and Deposits



Rs. 1 Tn.

Assets

YoY ▲ 15.05%

Rs. 14.5 Bn.

PAT

YoY ▲ 21.92%



Rs. 739.6 Bn.

Deposits

YoY ▲ 18.50%



19.52%

ROE

▲ 262 bps

1.09%
Net NPL Ratio

Rs. 616.0 Bn.

Net Loans & Advances

YoY 21.24%



1.53%

ROA

▲ 11 bps

Financial Review

2016 has been a spectacular year for the Bank in which we witnessed doubling of the total Assets, Loans & Advances and Deposits of the Bank over past five years, outpacing industry growth...

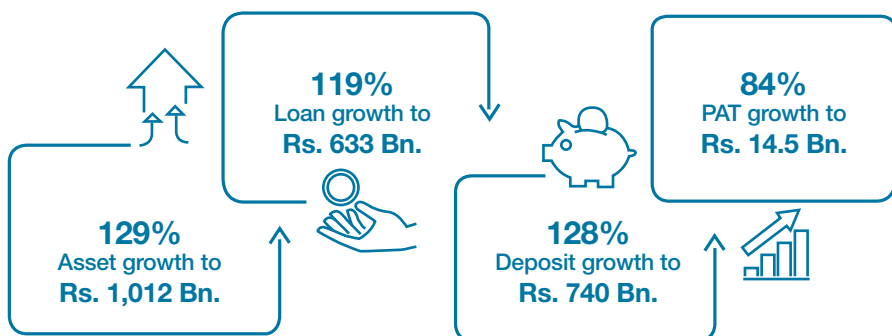


Figure 7

Our journey for 2016 began with a strategy focussed on volume growth and target marketing to lucrative segments within the Sri Lankan economy, such as SME, industrial and housing sectors, whilst also leveraging on the growth of convenience and online banking concepts. Despite highly volatile margins, the hike in interest rates and dampened credit demand towards the latter part in 2016, we witnessed our net loan portfolio growing by 21.24% YoY, higher than the five year CAGR of 16.56%, whilst improving the loan quality through lower NPLs with actual NPLs recording a negative growth in absolute terms for the second consecutive year.

ROE increased to 19.52% in 2016, from 16.90% a year ago, which is higher than the five year average of 18.56%. Growth in loan portfolio, higher interest and non-interest income and lower impairment charges supported growth albeit declining NIMs consequent to increased cost of funds driven by strong growth witnessed in time deposits.

Income Statement Analysis

Net Interest Income

The Gross income of the Bank improved by a noteworthy Rs. 15.275 Bn. or 19.62% to Rs. 93.143 Bn. helped by a strong contribution from core banking activities with increased business volumes, which boosted the interest income to Rs. 80.738 Bn. with a commendable YoY growth of 22.27%.

NII growth was supported by growth in loans and advances, rising interest rates and strategic rebalancing of the asset portfolio, despite the narrowing net interest margins. The ceiling imposed by the CBSL on credit card business and personal lending tempered the overall impact of rising interest rates, together with increased price competition. NIM and the CASA ratio declined from 3.62% and 49.70% in 2015 to 3.47% and 41.67% in 2016 respectively as customers moved from savings to high yielding term deposits as the interest difference between the two products increased.

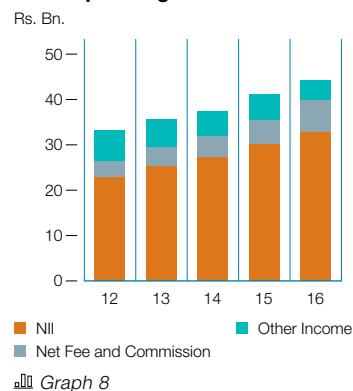
Fee and Commission Income

Net Fee and Commission Income was Rs. 7.016 Bn., reflecting an increase of 30.54%, as we strengthened our leading market share in trade finance through strategic initiatives to increase customer convenience. Rapid growth in credit and debit cards issued and utilised, also supported fee and commission income growth broad basing our sources of fee based income. Leveraging networks for growth in our card portfolio is also expected to further strengthen earnings from Fee and Commission Income, while plans by the CBSL for issuing a local card are expected to stabilise margins while increasing penetration of the product.

Total Operating Income

Operating income of Rs. 44.101 Bn. reflects healthy growth of fund based and fee-based income, moderated mainly by mark to market losses on FX swaps transactions during the year (Graph 8). Other Income of Rs. 5.617 Bn., comprises recoveries of loans written off and provision reversals amounting to Rs. 1.590 Bn. and exchange profit including gains on revaluation on foreign exchange of Rs. 3.755 Bn. Composition of total operating income reflects stability in earnings with NII and Net Fees and Commission Income accounting for 74.43% and 15.91% respectively, with volatile elements curtailed to a relatively narrow band consistently over the long-term.

Total Operating Income

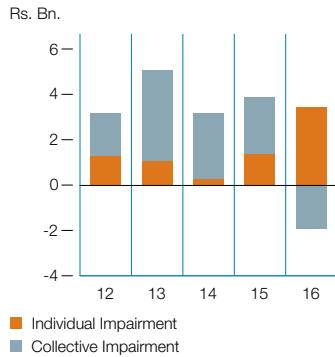


Graph 8

Impairment Charges

Impairment charges were Rs. 1.530 Bn., reflecting a decrease of 61.20% with collective impairment charges recording a reversal of Rs. 1.932 Bn. Collective impairment charges, which considers the Probability of Default (PD) and the Loss Given Default (LGD) of each product portfolio, also reflect improved market conditions, improved risk acceptance and monitoring processes. Individual impairment charge is computed based on predetermined threshold levels and loans above the threshold limits are subject to individual impairment. The Bank revisited these threshold levels, which resulted in increasing the YoY Individual impairment charges by Rs. 2.053 Bn., or 148.10%. (Graph 9)

Impairment Charges



Graph 9

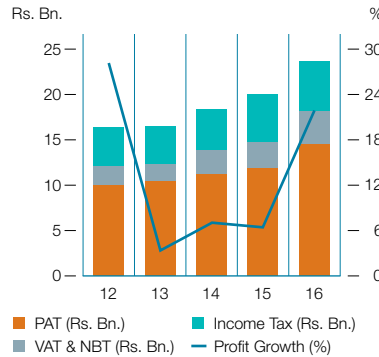
Operating Expenses

All components of operating expenses increased during the year due to efforts taken in supporting growth of the Bank, resulting in an overall increase of 8.73% over the previous year. The Bank's Cost to Income ratio, which stood at 51.06% as at end 2016, is one of the lowest in the industry, reflects the focus on delivering operational excellence and the initiatives implemented. Personnel costs increased by 6.03% as head count, remuneration and staff development activities increased during the year, driving employee productivity as evinced by the improvement in all staff related ratios. Other expenses reflect a similar trend linked to growth and supported by productivity.

Profitability

PAT growth of 21.92% in 2016 to Rs. 14.513 Bn. was supported by higher net interest income, Net Fees and Commission Income, lower impairment provisions owing to declining NPLs, amidst unstable currency rates posed by external market volatilities. Personal Banking remains the key contributor to profitability, accounting for 56.87% of profit after tax, with Corporate Banking and International Operations contributing 27.22% and 15.66% respectively (Graph 10).

Profit Growth

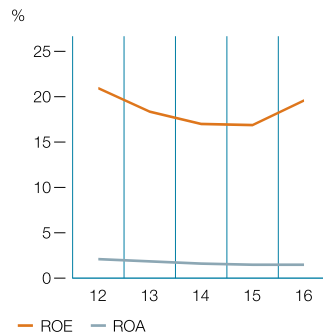


Graph 10

ROA and ROE

The increase in the net profit to Rs. 14.513 Bn. helped the Bank to record an improved Return on Assets (ROA) of 1.53% and Return on Equity (ROE) of 19.52%, significantly higher than 1.42% and 16.90% reported in 2015 (Graph 11 and Table 5).

ROA & ROE



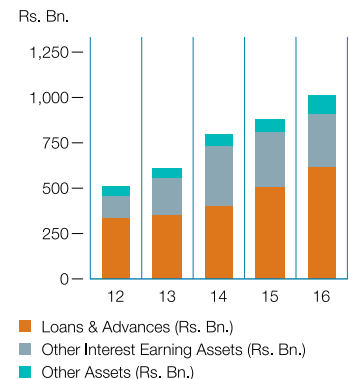
Graph 11

Balance Sheet Analysis

Assets

2016 was a year of accomplishment as the Bank's asset base crossed Rupees One Trillion mark and ended at Rs. 1,012.201 Bn., signifying a twofold increase over past 5 years supported by sustained growth of fund based operations of the Bank. **We are the first private bank to reach this milestone in the country** (Graph 12). Our market share in term of asset size improved to 12% in 2016 from 10% in 2012. Despite sluggish industry credit growth due to a number of macro-economic factors, *inter alia* increasing interest rates, tightening liquidity and subdued global growth outlook, our loan growth gathered momentum into 2016 with a substantial growth higher than both historical average and industry growth. Key contributors to loan growth were SME, construction, tourism and other industrial sectors reflecting the growth sectors in the economy.

Composition of Total Assets



Graph 12

Decomposition of ROE

| | 2016 | 2015 | 2014 | 2013 | 2012 |
|---------------------------|-------|-------|-------|-------|-------|
| ROA (%) | 1.53 | 1.42 | 1.60 | 1.87 | 2.12 |
| PAT margin (%) | 32.91 | 28.83 | 28.62 | 28.83 | 30.59 |
| Asset utilisation (%) | 4.66 | 4.93 | 5.58 | 6.48 | 6.93 |
| Equity multiplier (Times) | 12.72 | 11.89 | 10.66 | 9.85 | 9.89 |
| ROE (%) | 19.52 | 16.90 | 17.01 | 18.40 | 20.96 |

Table 5

ROE = Equity Multiplier x ROA (PAT Margin x Asset Utilisation)

The Reverse Repurchase and Available-for-Sale Investment portfolio, declined by 24.60% in 2016, due to strategic rebalancing to fund loan growth. This was also impacted by the decline in market values of Government Securities and Bonds as interest rates increased and liquidity tightened, consequent to both Government and foreign investors exiting the Government Securities market. This portfolio now accounts for 15.81% of assets, compared to 24.12% exposure a year ago.

| Assets | 2016 (Rs. Bn.) | 2015 (Rs. Bn.) | Growth (YOY) | CAGR 2011-16 |
|----------------------|-------------------|-------------------|-----------------|-----------------|
| Total assets | 1,012.201 | 879.805 | 15.05% | 18.06% |
| Net loans & advances | 616.018 | 508.115 | 21.24% | 16.56% |
| Reverse REPO | – | 8.002 | N/A | |
| AFS Portfolio | 160.023 | 204.244 | -21.65% | 21.11% |
| Held-to-Maturity | 60.981 | – | N/A | |

Table 6

Loan Growth and Asset Quality

Gross loans grew by Rs. 107.224 Bn. or 20.38% over 2015 to stand at Rs. 633.391 Bn. as at end 2016. This was the second successive year that the Bank increased its loan book by over Rs. 100 Bn. in a year. Our net loans and advances increased at a higher 21.24% to Rs. 616.018 Bn. due to a reduction in impairment provision consequent to improvement in the quality of loan portfolio and also due to rigorous recovery efforts carried out by the Bank.

Targetted marketing to lucrative segments within the economy, helped us grow our loan portfolio outperforming the industry growth rates. Loan disbursements to SME sector grew approximately by 30% in 2016, while the corporate loan book grew by 18.73% supported by lending to agriculture, tourism and construction sectors. Relaunching of the branded industrial loan 'Diribala' too supported loan growth. However, vehicle leasing loans declined due to higher cross border tariffs and stricter limits brought in by the CBSL on LTV Ratio, while pawning advances declined by 33.73%, owing to the responsible lending practices adopted.

Loan quality improved, supported by increased rigour in loan approvals and disbursements. Consequently, gross NPL ratio declined to 2.18% in 2016 by 56 bps from 2.74% in 2015, while net NPL ratio declined to 1.09% in 2016 by 32 bps from 1.41% in 2015, the reduction enabling the Bank to improve its provision cover to 50.11% from 48.49% a year ago.

Liabilities

Interest-bearing liabilities grew by 16.27%, with the growth in deposits and borrowings, despite a decline in repo liabilities. Our deposits portfolio recorded a growth of 18.50% or Rs. 115.462 Bn. to Rs. 739.563 Bn. as at end of 2016. We were able to improve our deposits significantly, despite the aggressive rates offered by our competitors, owing to our widespread network of branches and confidence placed by our customers in us. Within the deposit mix, a higher growth was seen in the term deposits compared to current and saving deposits products which brought the CASA ratio to 41.67% in 2016 compared to 49.70% a year ago. (Table 7)

| Liabilities | 2016 Rs. Bn. | 2015 Rs. Bn. | Growth (YOY) % | CAGR (2011-16) % |
|-------------------|-----------------|-----------------|----------------------|------------------------|
| Total liabilities | 933.848 | 809.464 | 15.37 | 18.62 |
| Deposits | 739.563 | 624.102 | 18.50 | 17.96 |
| Repo | 69.867 | 112.385 | -37.83 | 11.12 |
| Borrowings | 34.120 | 21.959 | 55.38 | 29.21 |

Table 7

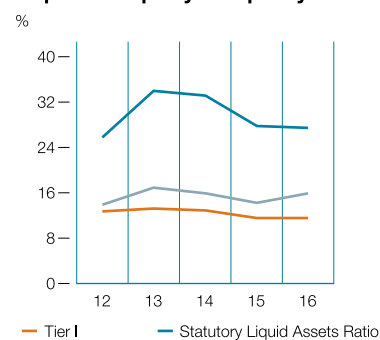
Capital, Funding and Liquidity

Managing capital, funding and liquidity is key to optimising returns to shareholders while ensuring sufficient liquidity to meet foreseeable demands. Market liquidity, remained tight throughout most parts of the year, as credit growth picked up, resulting in increased cost of funds. Liability growth of 15.37% was driven by strong growth in deposits, which accounted for 92.83%. To supplement deposit growth, the Bank raised Rs. 13.179 Bn. in two debenture offerings in March and October, strengthening Tier II capital. Both these debenture issues were oversubscribed within hours of opening such issues, depicting strong confidence placed in us by our valued investors.

Equity improved by 11.39% in 2016 supported by growth in profits, enhancing the Bank's single borrower limits to Rs. 24.674 Bn. for individual customers and Rs. 27.240 Bn. for group customers, making it one of the highest in the country.

Capital adequacy ratios of 11.56% for Tier I and 15.89% for Tier I & II, remain well above the regulatory requirements of 5% for Tier I and 10% for Tier I & II Capital. The year end Statutory Liquid Assets Ratio of 27.41% was well above the regulatory minimum of 20% (Graph 13).

Capital Adequacy & Liquidity Ratios



Graph 13

Group Performance

The Commercial Bank Group consists of five subsidiaries, namely, Commercial Development Company PLC (CDC), ONEzero Company Ltd., Serendib Finance Company Ltd., Commex Sri Lanka S.R.L. located in Italy and Commercial Bank of Maldives Private Limited and two Associates, namely, Equity Investments Lanka Ltd. and Commercial Insurance Brokers (Pvt) Ltd. However, given the scale of operations of the Bank, the results of these entities are not material to the Bank and hence a brief review of their operations is presented in the sections on 'Subsidiaries and Associates' and 'Group Structure' on page 102 and page 442.

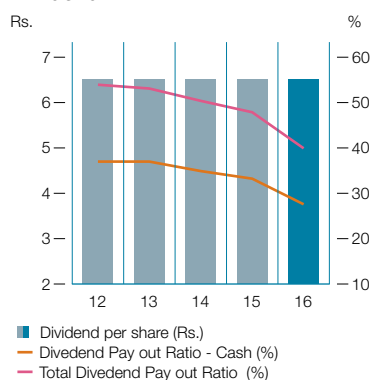
Creating Value to Shareholders

The Bank creates value to shareholders through the payment of dividend and increased value of shares. The Bank's dividend policy seeks to maximise shareholder wealth, maintain a consistent stream of dividend to shareholders and increase market capitalisation, whilst ensuring that there is sufficient capital for planned business expansion.

The Bank paid two interim dividends of Rs. 1.50 per share and Rs. 3.00 per share in December 2016 and February 2017.

The Board of Directors of the Bank has now proposed a final dividend of Rs. 2.00 per share which will be satisfied in the form of scrip dividend. Dividend per share has been maintained at a consistent Rs. 6.50 per share since 2012, to ensure a balance between retaining capital for business expansion and recognition of shareholder expectations (Graph 14).

Dividend



Graph 14

Snapshot: Financial Results 2016

| | Absolute Growth Rs. Mn. | Growth 2016 (YoY) % | CAGR (2011-16) % | Explanation |
|-------------------------------------|-------------------------|---------------------|------------------|---|
| Financial Performance | | | | |
| Net interest income | 2,478 | 8.17 | 11.90 | Growth supported by growth in the loan portfolio. |
| Net fee & commission income | 1,641 | 30.54 | 16.10 | Growth supported by increased contribution from trade finance activities and usage of credit and debit cards. |
| Losses from Trading | -2,280 | -280.32 | -26.01 | Mark to market losses especially on FX SWAPs. |
| Other income | 1,562 | 38.53 | 6.18 | Higher loan recoveries and investment income from equity portfolio. |
| Total Operating Income | 2,819 | 6.83 | 11.34 | Despite trading losses, higher interest income, fees and commission income and other income sustained growth though slow paced. |
| Impairment charges | -2,413 | -61.20 | -3.29 | Reversal on collective impairment driven by an improvement in the loan portfolio and improving credit scoring. |
| Profit before VAT, NBT & Income Tax | 3,722 | 18.58 | 13.85 | Benefited from higher net interest income, fees and commission income and lower impairment albeit the mark to market loss on FX SWAPs. |
| VAT, NBT & Income Tax | 1,112 | 13.68 | 15.29 | Impacted by the rise in VAT for the banking sector. However, effective income tax rate declined due to tax planning measures. |
| Profit after Tax | 2,609 | 21.92 | 12.98 | Recorded a noteworthy growth due to the combination of all above mentioned reasons. |
| Financial Position | | | | |
| Assets | 132,396 | 15.05 | 18.06 | Loans continued to be the core contributor to asset growth. |
| Net loans & receivables | 107,903 | 21.24 | 16.56 | Despite the subdued credit demand in 2016, Bank managed to grow its loans by adopting a strategy of maintaining interest rates despite the rate hike. |
| Liabilities | 124,383 | 15.37 | 18.62 | Deposits and borrowings supported the liability growth. |
| Deposits | 115,462 | 18.50 | 17.96 | Increasing interest rates encouraged deposits in line with the industry trend. A shift to time from savings deposits was noticed. |
| Borrowings | 12,161 | 55.38 | 29.21 | Growth supported by the two debenture issues in 2016. |

Table 8

Manufactured Capital

This refers to capital goods stock build by the Bank over past to deliver customer expectations. Having identified the importance of this important capital, which is easily identifiable due to its nature, the Bank focuses in developing infrastructure in order to support current business activities and also to meet future challenges given the importance of this capital in the value creation process.

The Bank has already been able to reap benefits of moneys spent on strengthening infrastructure of the Bank. The Bank will continuously invest in ICT with the

objective of delivering unmatched customer experience through technology.

Further, the Bank is mindful of the requirement to maintain the state of art work environment within the Bank premises and continuously invest sufficiently in upbringing the existing premises to be line with industry standards.

Consequent to the above initiatives the total amount invested in the Manufactured Capital of the Bank which are represented in the form of Property, Plant and Equipment, Intangible Assets and Leasehold properties stood at Rs. 11.022 Bn. as at end of 2016.

SOCIAL & NETWORK CAPITAL

A BANK PLAYS A KEY ROLE IN COMMUNITIES, FACILITATING ECONOMIC ACTIVITY AND CONTRIBUTING TO THE SOCIOECONOMIC PROGRESS OF THE PEOPLE. MUTUALLY DEPENDENT ON EACH OTHER FOR PROGRESS AND GROWTH, WE SEEK TO CREATE VALUE AND REMAIN RELEVANT TO THE PEOPLE, CONNECTING COMMUNITIES TO OPPORTUNITIES IN OTHER LOCAL AND GLOBAL MARKETS.



Rs. 47.9 Bn.

Value Distributed for Customers

Rs. 272.9 Bn.

Loans disbursed to SME's

91%

Of total payments made to local suppliers

500+

More young ones will be able to live a normal life

12%

Customer penetration outside Western Province

200+

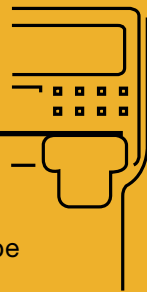
Countries connected

Rs. 5.8 Bn.

Total payments to suppliers

1st

ATM network in Sri Lanka to be secure with EMV capability



5,200+

beneficiaries under

Divibala Viyapara Pubuduwa

Programme since 2011



Inquisitive minds learning and empowering themselves to face a tech-savvy future



A group of students attending a session of online learning programme initiated by the Bank's CSR Trust.

Creating Value to Customers

We have created value to our customers by providing investment opportunities and supporting their growth aspirations through financing as depicted in graphs 15 to 16. A strong franchise supported customer growth is testimony to our ability to create value. It is noteworthy that we retained over 90% of our term deposit customers despite intense price competition from other banks and non-banking financial institutions. Migrant workers continue to trust us with remittances to their families as we add value to them through innovative product enhancements.

Customer convenience was a key focus which has been supported through increased investment in digitalisation and branch automation, expansion of our customer touchpoints, card operations, online banking, mobile banking and collaborative networks. Our customer satisfaction surveys and brand health surveys keep us connected to our customers in addition to active dialogues with our staff. Results in recent years have shown positive trends in customer satisfaction with Commercial Bank emerging a clear leader across all key banks in the Truly Loyal customer segment percentage scores.

Our customer value proposition is graphically depicted below:

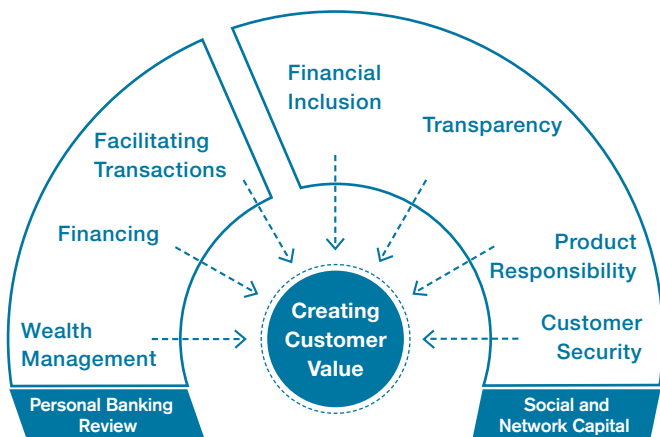
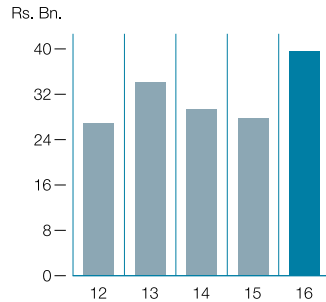


Figure 8

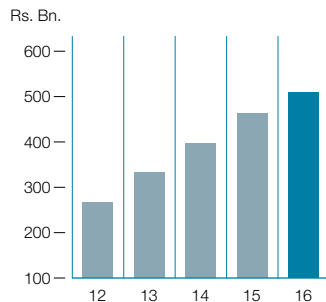
As the 'Personal Banking' and 'Corporate Banking' reviews (Pages 82 to 93) provides sufficient insights into how we support the wealth management and financing needs of customers, this segment covers other aspects.

Interest Paid to Depositors



Graph 15

Loans Disbursed



Graph 16

Financial Inclusion

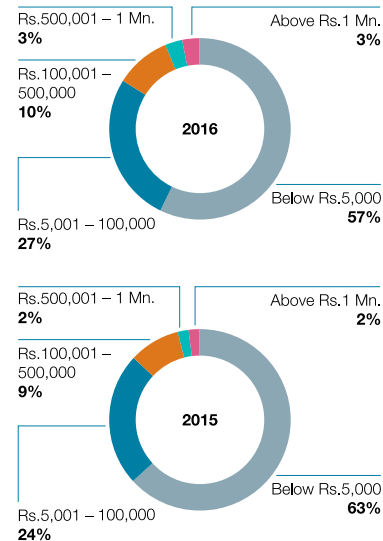
Our Customer penetration rate of 12% outside the principle province is testimony to the progress made in financial inclusion, supported by a growing network of touchpoints comprising 255 branches and

657 ATMs in Sri Lanka. The distribution of our deposits portfolio (Graph 17) and the growth of our targeted deposit products for women (*Anagi* savings accounts), micro entrepreneurs and small scale farmers (*Divsuru* savings accounts) and senior citizens (*Udara* savings/fixed deposit accounts) (Graph 18) provide testimony to our efforts to engage them in the country's socio-economic progress.

Some of our other efforts in empowering customers to conduct their own banking transactions include:

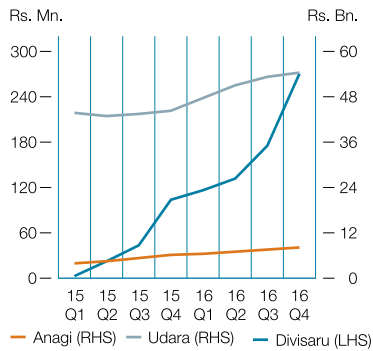
- Expanding the number of branches equipped with wheel-chair ramps by 31 during the year – bringing the total of such branches to 161 (58% of our branches);
- Facilitating customers with the choice of operating our ATMs in their preferred choice of language (Sinhala/Tamil/English/Bengali in the case of ATMs in Bangladesh); and
- Facilitating the visually impaired customers to enlarge text on our online banking platform.

Deposits Distribution



Graph 17

Growth of Specialised Deposit Products



Graph 18

Transparency of Product and Services

Our policies and procedures are developed and monitored to ensure that there is transparency in our fees and charges and customers clearly understand the terms and conditions of the financial products used by them. The staff is trained to explain the products to our customers in their preferred choice of language, using flyers that can be retained by customers, which contain information regarding features of the products and their terms and conditions. Additionally, our corporate website publishes deposit rates, lending rates, exchange rates and tariffs and charges and customers can obtain further clarifications from our Information Centre or any branch. A Complaints and Grievances procedure is also set out on the website and also displayed at branches including contact details of officials of the Bank and the Financial Ombudsman who can also be applied to in the event efforts made by the Bank prove unsatisfactory to the client.

Product Responsibility

Product Development Committee comprising Key Management Personnel from various disciplines of the Bank ensures that all new products and services along with any changes to our current offerings conform to the applicable laws and regulations and reflect ethical practices.

Responsible Lending

In keeping with our values, we encourage customers to be conservative in managing their wealth while catering to a wide range of risk appetites suited to their unique circumstances. In keeping with this philosophy, we focus marketing efforts on products that create wealth for our customers such as home loans and business loans and discourage consumption based lending. Our front line employees are trained to understand customer needs and proffer advice accordingly in keeping with our Code of Ethics.

We also screen 100% of business loans and industrial loans to ensure compliance with the Bank's Social & Environmental Management Systems (SEMS) policy facilitating compliance with the country's environmental and labour regulations and educating customers on the benefits of compliance. SEMS framework is more fully explained on page 78.

Securing Customer Information

Security and privacy are key concerns of customers and consequently are priorities for the Bank. While it is regulated by the Banking Act and subsequent directions issued by CBSL in this regard, the Bank seeks to ensure that measures taken go well beyond mere compliance to meet the foreseeable threats in this rapidly evolving aspect.

Commercial Bank has been the industry leader in customer protection in compliance with the ISO 27001:2013 certifications for the past six years and we go beyond these requirements in ensuring the robustness and security of our technology platforms, through continued research and investment.

The Bank upgraded its ATM network in Sri Lanka to EMV chip capability, significantly enhancing security against fraud by conforming to the EMV standards of various card brands that are accepted by the Bank's ATMs, becoming the first ATM network in the country to be secured with the EMV capability.

The disaster recovery data centre akin to the live data centre is tested on regular basis through well structured and co-ordinated drills to warrant its reliance in the event of a disaster thereby ensuring the continuity of our services to the customers. Outcome of the drills is reported to the CBSL and where shortcomings are observed necessary corrective action is taken to avoid repetition of such lapses.

Other measures taken by the Bank in this regard include:

- All employees take an oath of secrecy
- Specific restrictions on disclosure of account information to third parties
- Investments in securing customers online privacy and protection
- Regular compliance reviews and audits
- Certification on specific aspects benchmarking international best practice

Safeguarding Customer Confidence

The Bank's Code of Ethics specifies the Bank's zero tolerance policy on corruption, safeguarding customer confidence in the Bank. Provisions of the Code are reinforced by the Inspection Department which carries out onsite audits and online surveillance, adopting a risk based approach to determine the scope and frequency of audits for strategic business units.

The Bank's Know Your Customer policies and processes are designed to prevent and detect unlawful activity including money laundering. Additionally, transactions are centrally monitored by the Bank's Anti Money Laundering Unit headed by the Compliance Officer and alerts are promptly reported to the Finance Intelligence Unit of the CBSL.

Financial Literacy and Capacity Building

We support the growth of our SME customers by identifying their needs and potential and providing services such as capacity building programmes and building their financial literacy to enrich their knowledge. Commenced in the latter part of 2011, the capacity building programmes conducted by the Bank for the benefit of the SME's known as 'Diribala Viyapara Pubuduwa' is intended for continuous training of SMEs. External bodies that provide specialised skills are identified by the Bank using our substantial social networks to partner in delivery of these programmes. The Bank has conducted 59 programmes benefiting over 5,200 entrepreneurs since the commencement of conducting capacity building programmes. During the year, the Bank conducted its first dedicated programme targeting women entrepreneurs, with over 100 women attending the programme.

The Bank also carries out a series of entrepreneurship development programmes to improve financial literacy and entrepreneurship development amongst entrepreneurs of SMEs and Micro enterprises. We pioneered in initiating these programmes in collaboration with the Central Bank.

During the year, seven programmes under these initiatives were conducted benefiting 873 entrepreneurs.



The first Diribala Viyapara Pubuduwa programme held targeting the women entrepreneurs in Matara District

Creating Value to Business Partners

Our business partners facilitate the smooth operations of our business, providing technology platforms, market access and necessary materials and other services. Our approach is to develop win-win relationships that enable us to grow together based on a common understanding of values that underpin our transactions. During the year, we have made payments of Rs. 5.776 Bn. to our business partners and engaged in a constructive manner, facilitating their growth, with over 90% of value created for local suppliers.

The level of dependency on our business partners to support our operations varies significantly from being critical to ad hoc and can be broadly categorised as depicted below:



Figure 9

Our Approach

Established processes in place to ensure dealings with business partners are fair and apparent to meet our business needs without compromising agreed deliverables and the Bank’s Code of Ethics. The review processes include a thorough technical review including social and environment aspects and a detail financial review. Areas of concern on social and environment aspects are addressed in ongoing dialogues and reviews. Commencing with the issue of a Request for Proposal (RFP) on internal approval of the business case, the procurement process ensure ongoing evaluation of our business partners to maintain standards in line with our evolving business needs as set in Figure 10.

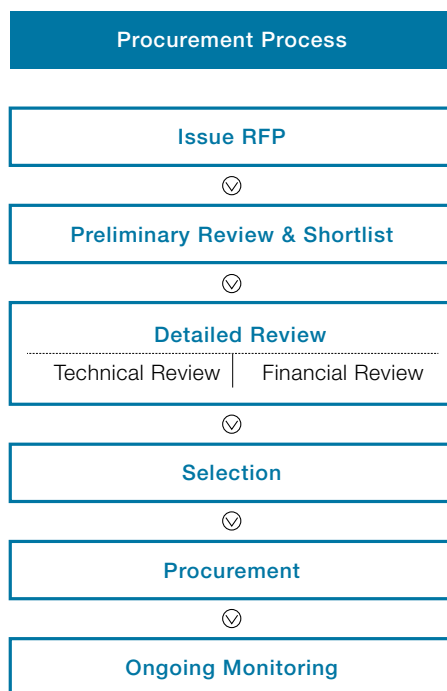


Figure 10

The RFP issued to potential suppliers include the following requirements:

- Compliance with Environmental Standards
 - Restriction of Hazardous Substances (RoHS) directive
 - Energy star rating
- Adherence to software piracy regulations
- Adherence to the 10th Principle of the UNGC
- Adoption of health and safety standards for suppliers with workers at risk of injury or disease
- Supplier Human Rights Assessment

Non-adherence to these requirements results in disqualification from the selection process and lead to the supplier being removed from the registered suppliers’ list. Regular dialogue ensures that areas of concern are identified and resolved wherever possible. Exit clauses in contracts ensure that the Bank is able to terminate the relationships in extreme cases where material issues remain unresolved.

Extending Our Reach

Our network of correspondent banks comprises some of the world’s largest financial institutions with some relationships spanning over 25 years. (See page 440 for a complete list of our correspondent banks). It is supplemented by our Franchise partners include MasterCard, Visa, China UnionPay and Discover who provide connectivity to global payment platforms facilitating trade, tourism and overseas travel. A growing network of Exchange houses and agents facilitate remittances to and from Sri Lankans and Bangladeshi citizens working overseas enabling us to be among market leaders in this business segment.

All partners are subject to due diligence reviews in accordance with defined criteria. Additionally, relationships are formalised with detailed agreements defining mutual obligations and performance is monitored by both parties to ensure compliance with agreed terms and conditions.

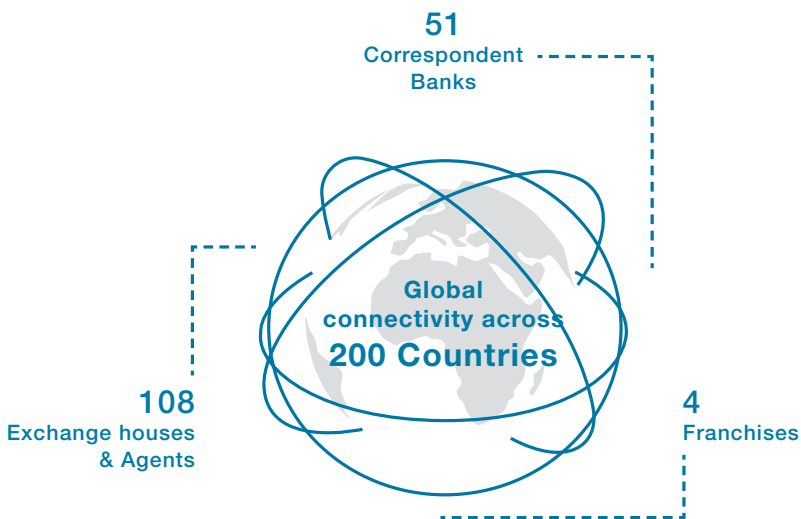


Figure 11

Critical to Operations

These are suppliers whose services are used frequently and are required for business continuity. They include electricity, telecommunication, transport and materials suppliers including those for standby arrangements with whom we have long relationships with. When acquiring these services we look to ensure that our ethics are adhered to such as emissions and health and safety of their workers and compliance with relevant regulatory requirements in this regard.

Ongoing Support

We engage with these suppliers frequently as they provide services that are necessary for the smooth running of our day-to-day business covering a wide range of services. They also range from large corporates to SME's and individuals. Sustainability challenges identified in this segment are given below:

| Business Partner/Material Aspect |
|---|
| Maintenance Labour Practices Health & Safety of Workers Effluents & Waste |
| Human Resource Providers Labour Practices Human Rights Health & Safety of Workers |
| Waste Management Effluents and Waste |

Figure 12

Registered suppliers in this segment are subject to ongoing monitoring with a regular dialogue enabling discussion on areas of concern. We work with them to resolve identified issues and to encourage adoption of best practices. Compliance with all applicable regulation is strictly enforced requirement across all supplier segments.

Ensuring the well-being of Our Outsourced Staff

Identified non-critical functions are outsourced to reputable agencies that meet our rigorous selection criteria. A well-documented screening process that is fully compliant with CBSL directions ensures that areas of concern identified by the Bank are subject to high levels of scrutiny. Concerns common to all outsourced firms include:

- compliance with labour laws,
- ensuring preservation of human rights,
- minimum pay,
- timely payments, and
- payment of statutory levies
- payment of social security contributions
- sufficient leave,
- reasonable working hours and
- that there is no forced or child labour.

The Human Resources Department of the Bank is responsible for screening outsourced agencies for logistical reasons and the specialised knowledge enabling guidance towards adopting increasingly higher standards in this regard. The Bank's Internal Audit provides assurance on the functioning of processes in this regard.

Non-Routine Engagements

These suppliers range from large scale corporates to micro entrepreneurs. Suppliers in this category are less rigorously monitored for social and environmental concerns except for contractors where we work together with them to ensure the health and safety of their workers engaged in working in our premises.

Supporting Policy Formulation

The Bank is a member of the following organisations that support policy formulation by identifying areas of concern for the economy and undertaking studies and analysis to support recommendations made to policy makers

- Sri Lanka Bank's Association
- Institute of Bankers, Sri Lanka
- Ceylon Chamber of Commerce
- National Chamber of Commerce
- Association of Banking Sector Risk Professionals, Sri Lanka
- The Association of Compliance Officers of Banks, Sri Lanka

Building Sustainable Communities

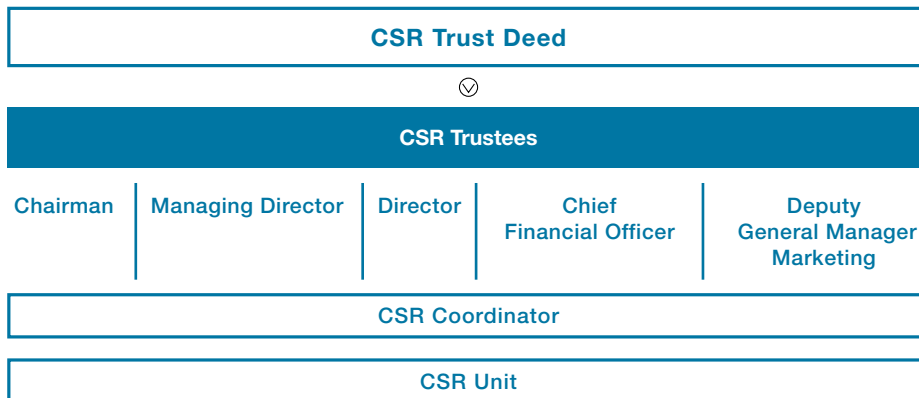
The Bank invests in the communities we operate in, to empower people and support their development as part of our normal business and also through targeted CSR projects. A CSR Trust Fund has been set-up for the purpose with allocations of up to 1% of the Bank’s post tax profits to engage in activities which are completely altruistic and have no expectation of a financial return to the Bank.



◉ Figure 13

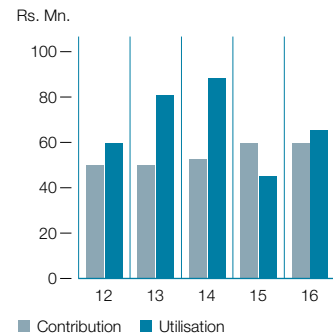
CSR Trust Fund

The Bank’s CSR projects are streamlined to bring meaningful outcomes by the establishment of the CSR Trust in 2004. The Trust Deed clearly sets out the objectives, powers of the Trustees, eligibility criteria and the Bank pledges to transfer up to 1% of its post tax profit annually for identified projects. Formal structures and processes are in place for governance of CSR Trust activities and a combination of cross departmental teams and dedicated resources are responsible for operationalising its vision (Figure 14). Strong commitment from the top management is a key driving force giving impetus for positive action. Formal communication lines have also been established facilitating participation by all strategic business units and maximising impact. The Bank’s contributions to the CSR Trust fund and their utilisation over the past decade totals to Rs. 453.86 Mn. and Rs. 369.07 Mn. respectively (Graph 19).



◉ Figure 14

CSR Trust Fund – Contribution and Utilisation



◉ Graph 19

We strongly believe that in order to develop societies, facilitating access to knowledge for all is key and accordingly our CSR initiatives are focused on education. Over 69% of funds is utilised in this segment which reflects our passion for empowering people through education. Our initiatives mainly focuses on IT knowledge amongst the younger school-going generation of the country whilst secondarily we focus on developing their English and Maths skills to capacitate them to face a tech-savvy and competitive workforce and entrepreneurs in the future.

Healthcare received 17% of funds supplementing facilities at Government hospitals and other healthcare institutions.

Disaster relief and preservation of cultural heritage also received regular contributions. Apart from the key focus areas of the Trust each region has been allocated budgets to engage in projects that are relevant to their localities.

Our staff volunteer their service to benefit the causes championed by the Bank. Costs of the CSR unit staff who are engaged solely on CSR Trust activities are not included in the cost of the contributions.

Spending of CSR Trust Fund in 2016

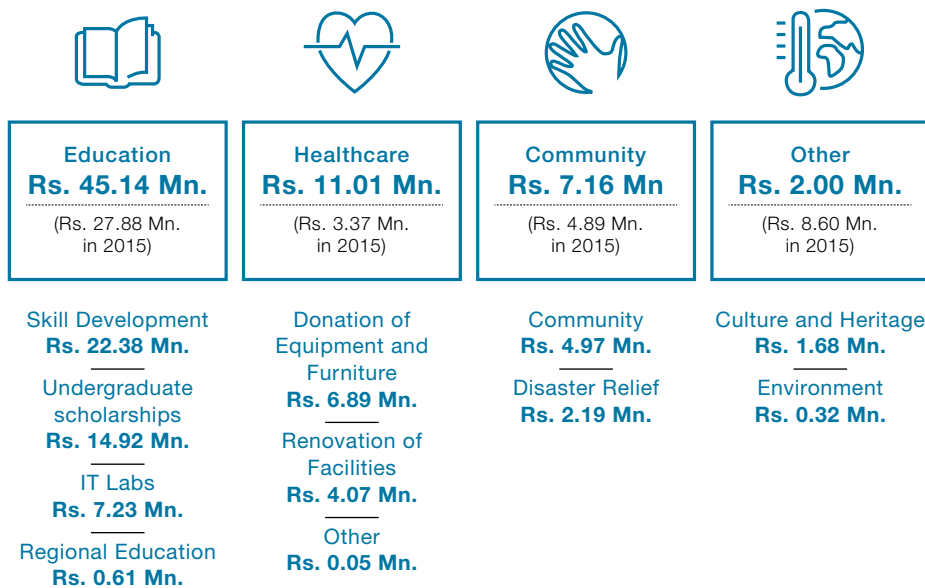
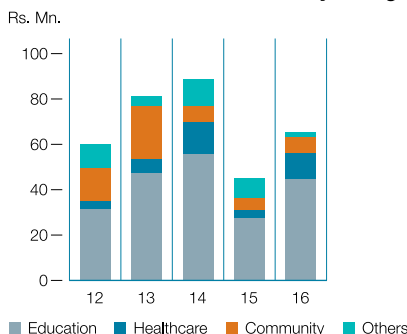


Figure 15

Utilisation of CSR Trust Fund by Category



Graph 20

Education

In 2016, 69% of the funds amounting to Rs. 45.14 Mn. were utilised in ICT – online education, scholarships and other worthy educational projects.

ICT – Online Education

The focus of the initial phase of IT labs programme was to raise computer literacy levels among students on a mass scale as it enhances their employability and access to knowledge. To date we have donated 172 fully equipped computer labs to schools across the country as part of this initiative. During the year Rs. 7.23 Mn. was invested in six IT labs.

As part of the Bank’s extensive commitments to promote education, a new initiative to raise averages for pass levels in key subjects in the GCE (A/L) and GCE (O/L) was introduced under the ‘Sipnena’ educational web platform of the CSR Trust with a view to promote online education.

‘Sipnena’ e-learning Platform

The CSR Trust in collaboration with Headstart (Pvt) Ltd., the company that owns the Guru.lk educational website, commenced the development of web based curricular in four GCE (A/L) subjects: Physics, Chemistry, Biology and Combined Math and three GCE (O/L) – Grade 10 subjects: Maths, Science and English in early 2016 with a view to make an improvement in the pass rates at the respective examinations and thereby promoting the job oriented education in Sri Lanka. By the end of the year all four GCE (A/L) subjects and approximately 80% of GCE (O/L) – Grade 10 subjects were completed and hosted in the ‘Sipnena’ website. In addition to the said contents, many other subjects including GCE (O/L) – Grade 11 Maths, Science and English and a few special learning video clips developed by Guru.lk also could be accessed by any ‘sipnena’ users free of

charge. Four Training Programmes were carried out for GCE (A/L) Maths and Science teachers in the Western Province by resource persons from Headstart (Pvt) Ltd. with the supervision of Director of Education – Western Province and its respective Directors for Maths and Science subjects with a view to familiarising the teachers as to how they could use e-content of ‘Sipnena’ in their day-to-day lessons at the class room. A total of 244 teachers participated in the above training programmes. As at end of the year, over 44,000 users have been registered for Sipnena e-content. Total expenditure of the project is Rs. 30.29 Mn. Total spent during the year Rs. 18.73 Mn.

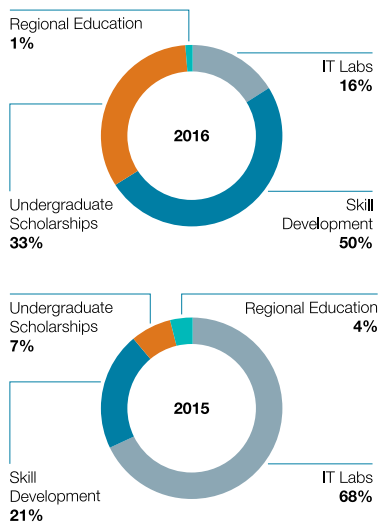
‘Smart Schools’ initiative

In addition to the installation of ‘Sipnena’ e-learning platform, a comprehensive Learning Management System (LMS) was introduced in 15 schools in the Western Province as a pilot project in collaboration with our partners; Headstart (Pvt) Ltd., Microsoft – Sri Lanka and Dialog Axiata under the supervision of the Department of Education – Western Province. The aim of the project was to transform the selected schools into Smart Schools to facilitate the teaching process smart and align with the global trend and standard by boosting teachers’ skills of using innovative teaching methods in teaching process at classrooms.

The teachers and students are provided with login credentials to access the web based curricular in the ‘Sipnena’ site via different login levels and they also be able to contribute innovative ideas and interact with each other to seek solutions to subject-related issues through a forum where other students and teachers are present. Teachers would have a login level that enables them to access resource materials and teaching guides as well as chat with their peers in other schools about teaching methods and subject matter.

The Headstart (Pvt) Ltd. provides needful resources, training, support and guidance to all these schools throughout the project to make this ongoing deployment a success. Total budgeted contribution for the project is Rs. 5.29 Mn.

Investment Mix in Education



Graph 21

Scholarships

Fifty more undergraduates from seven universities received their scholarships this year under the Bank's 'Sarasaviyata Nawa Saviyak' programme at a ceremony held at the Bank's Auditorium in Union Place. With this year's presentation, the total number of undergraduate scholarships granted by Commercial Bank has increased to 350. In addition, 175 laptops have been gifted to scholarship recipients since 2012. With this latest batch 100 undergraduates are presently receiving the scholarship grant as the rest have already completed their degree. From 2016 onwards each scholarship recipient is in receipt of Rs. 50,000 a year, an increase of Rs. 20,000, for the duration of their degree.

Recipients of Commercial Bank's undergraduate scholarships are chosen with the assistance of the University Grants Commission (UGC). Being ineligible for Mahapola or any other scholarship programme, the number of attempts made at the GCE A/L examination, the number of school-going children in the family, parental income and the distance between the university and the student's home are some of the factors that are taken into consideration in identifying recipients.

Laptops for Visually Handicapped Undergraduates

At the request of 'Centre for Sight' unit of the Ophthalmology Department of Teaching Hospital Kandy, the CSR Trust donated 20 laptops to visually handicapped undergraduates from state universities to pursue their tertiary education. Selection of these students was done by the specialist doctors who work in the centre. With the installation of specialised software these students can use the laptops to take down notes and study lecture materials with enlarged e-texts. The CSR Trust has spent Rs. 1.55 Mn. on this project.

Healthcare

An anesthesia workstation with ventilator was donated to the newly constructed 3rd cardiac theatre in the Children's Heart Centre at the Lady Ridgeway Hospital, the only heart centre that provides cardiac surgery for children in Sri Lanka, free of charge. Around 3,000 babies are born each year with heart defects of whom about 2,000-2,500 babies need cardiac surgery during their early years of life. Earlier, only about 1,000 surgeries could be performed per annum and with this new theatre 2-3 more surgeries could be done each day thereby reducing the surgery waiting list by one-third and minimum of 500 more young ones will be able to lead a normal productive life and enjoy their childhood. Rs. 5.21 Mn. was invested on this project.

We also provided financial assistance to renovate and expand the Surgical Intensive Care Unit (SICU) of the General Hospital (Teaching) Kandy. Rs. 3.24 Mn. was invested on this project. The patient turnout is over 350,000 in the Out Patients Department and around 700 to 900 in the surgical intensive care unit annually. The number of beds increased from 7 to 12.

Community

Professors Oliver Illeperuma and C.B. Dissanayake were among the first scientists to report a close connection between the quality of drinking water and Chronic Kidney Disease of an unknown origin (CKDu). Observations of a study

conducted by late Mr. Ranjith Mulleriyawa (an agronomist) at a rural agricultural village that has been adversely affected by CKDu points in the same direction. The CSR Trust supported the research by providing the necessary financial support. Research objective was to ascertain the feasibility of preventing or mitigating CKDu by providing clean drinking water through rainwater harvesting to 25 CKDu households. We financed the provision of 5,000 litre capacity water tanks to the target group of 25 families. A full tank is sufficient for a period of 11 months to fulfil the water requirement (drinking and cooking purposes only) of a family of four people. Medical staff attached to Government hospitals monitored the kidney functioning of the focus group with a 'control' group of 25 families drawn from the same village, who consume the well water. The results were encouraging with no new cases of affection recording from the families of the focus group by 11 new cases reporting in the control group. After the demise of Mr. Mulleriyawa the cause is now supported by researchers of Wayamba University. The CSR Trust allocated Rs. 7.52 Mn. for the project and Rs. 4.13 Mn. has been disbursed as of the year end.

Other Projects

Reconstruction of flight of steps to Sri Pada via Hatton route from 'Rathu Palama up to Golutenna', which commenced in May 2014, was completed in January 2016. Cost of materials and daily wages were borne by the CSR Trust. Labour for the project provided by the Civil Security Department attached to Sri Pada at a concessionary rate. Total investment of the project is Rs. 8.56 Mn. and Rs. 1.61 Mn. was disbursed in 2016.

Financial assistance provided to the BioDiversity and Elephant Conservation Trust for the translation and publishing of the book on biodiversity of Sri Lanka which was published in Sinhala medium in 2015 in collaboration with the CSR Trust to be distributed amongst Government schools.

Our Contribution towards the Sustainable Development Goals



How we do it

Micro loans product helps finance income generation activities and supports upgrading of living conditions, while the *Divisar* savings account is targeted at inculcating the savings habit and financial inclusion.

Enhancing our footprint outside the principle province supporting financial inclusion and alongside a digital banking experience.

As the largest financier of the country's SME sector, we also invest in capacity building through our *Diribala Viyapara Pubuduwa* programme, to support the growth of the sector.

In addition, we participate in three loans schemes operated by the CBSL to enable our customers to benefit from favourable interest rates from these specialised loan schemes.

(More details on pages 82 to 93 and 54).

What we did in 2016

- Rs. 272.914 Bn. disbursements to SME Sector.
- Rs. 6.426 Bn. and Rs. 1.534 Bn. disbursements for agricultural and microfinance sectors, respectively.
- Seven capacity building workshops conducted benefiting 873 participants.
- Customer penetration rate of 12% outside principle province.
- Added two new agriculture and micro finance units.
- Loans to agriculture and fishing sector comprise 10% of our total loans portfolio.
- Launched a dedicated card product to facilitate payments between tea factories and tea small holders.

How we do it

The Bank has a dedicated unit to monitor illicit financial flows and report to regulatory authorities.

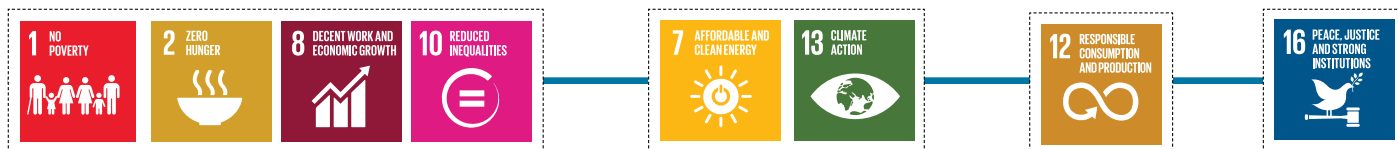
Adopting a policy of 'Know Your Customer'.

Gradually expanding our presence in the post conflict provinces, Northern and Eastern Provinces providing finance to SMEs and facilitating transactions for economic revival.

What we did in 2016

- A new branch opened in the Eastern Province.
- 15 cases of suspicious transactions reported to the CBSL.

(More details on page 55).



How we do it

The Bank is rolling out a comprehensive programme investing in solar power at its own buildings.

Finances large scale renewable energy generation projects through the Investment Banking Unit and supports SMEs and corporate institutions to invest in renewable energy, waste management and pollution control systems thereby help increase environmental sustainability of those organisations.

What we did in 2016

- Invested Rs. 23.540 Mn. in solar panels in four branches taking the total investment to Rs. 33.703 Mn. in eight branches.
- Disbursed Rs. 1.049 Bn. for renewable energy projects.
- Reduced energy consumption per branch by 2.83%.

(More details on page 78).

How we do it

Encouraging customers to migrate to paperless transacting channels such as online banking, mobile banking, e-statements and e-passbook reducing paper consumption.

Migrating paper-based processes to digital mediums and where ever possible eliminating unproductive process that rely on paper.

What we did in 2016

- Launch of e-passbook, with over 250,000 registrations.
- 34% and 70% growth in registered users in online banking and mobile banking, respectively.

(More details on page 78).

How we do it

Supporting secondary education through developing online solutions for education and providing information technology infrastructure for schools, empowering our next generation through education.

What we did in 2016

- Invested Rs. 45 Mn. in education through the Bank’s CSR Trust.
- A comprehensive learning management system was introduced in 15 schools.
- Web content development of the GCE (O/L) selected subject completed.
- 50 more undergraduates received scholarships.

(More details on page 59).

How we do it

Apart from its primary focus on education, the CSR Trust engages in activities that supports treatment facilities in Government healthcare institution by donating necessary medical equipment. Our efforts under the healthcare pillar of the CSR Trust have benefited thousands of patients and number adds on each day. The CSR Trust also supports provision of clean water and sanitation facilities on selective basis.

What we did in 2016

- Donated an anaesthesia workstation with ventilator to the Children’s Heart Centre at the Lady Ridgeway Hospital.
- Provided financial support to renovate and expand the Surgical Intensive Care Unit of the Kandy General Hospital.
- Financed 5,000 litre water tanks for 25 families in a rural village tormented by the Chronic Kidney Decease supposedly linked with drinking water.

(More details on page 59).

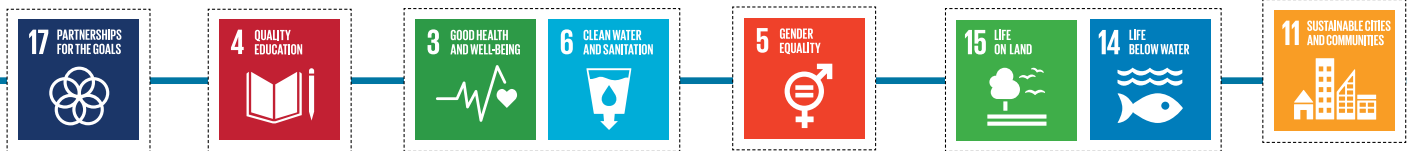
How we do it

The Bank’s CSR Trust, on a selective basis engages in activities in conservation of wild life and marine life.

All business loans are screened for SEMS compliance, which ensures the projects finance by us are built and operated in manner that is not harmful to the environment.

What we did in 2016

- 7,606 loan proposals were screened for SEMS compliance.



How we do it

Bank is a pioneer in adopting sustainable practices in the industry and plays an active role in promoting sustainability practices in the country by contributing to the efforts of the Sri Lanka Banks’ Association to formulate a Sustainable Finance Initiative in Sri Lanka in collaboration with 16 other member banks.

Partnering with organisations and Government authorities to rollout initiatives implemented/supported by the Bank’s CSR Trust.

What we did in 2016

- A comprehensive learning management system was introduced at 15 schools.
- Web content development of the GCE (O/L) selected subject completed.

(More details on page 59).

How we do it

Anagi savings account is a targeted product designed to support women and encourage women entrepreneurship. Holders of the Anagi savings accounts are entitled to other benefits such as lower interest rates on loans and special discounts on health packages offered by selected group of hospitals.

What we did in 2016

- Held the first capacity building programme with a participation over 100 women entrepreneurs.
- Special discount on health packages was added to list of benefits.

How we do it

At present the Bank does not have a dedicated product or process aligned with this goal.

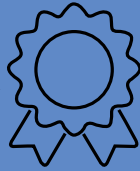
INTELLECTUAL CAPITAL

OUR INTELLECTUAL CAPITAL COMPRISES OUR KNOWLEDGE-BASED INTANGIBLES AND THE ORGANISATIONAL CAPITAL WHICH INCLUDES THE TACIT KNOWLEDGE, SYSTEMS, PROCESSES AND PROTOCOLS IN PLACE. BUILT UP AND NURTURED OVER DECADES. OUR INTELLECTUAL CAPITAL DIFFERENTIATES OUR SERVICE OFFERING AND PROVIDE US A SIGNIFICANT COMPETITIVE EDGE. RATINGS, RANKINGS, AWARDS AND ACCOLADES BEAR TESTIMONY TO GROWTH OF OUR INTELLECTUAL CAPITAL ENHANCING OUR BRAND VALUE.



12

International Accolades
in 2016



6th

Running year in Top 1000
World Banks list

17th

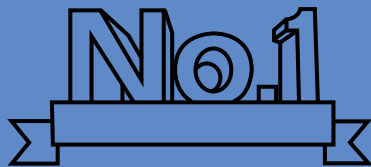
Emphatic year Global Finance
(USA) reaffirming us as the best

60%

Of our staff has experience
over 20 years

73

Employees completing
25 years of service



Bank of the year – 2016,
The Banker (UK)

The most awarded bank in Sri Lanka.



Managing Director Mr. Jegan Durairatnam receiving
10th 'Bank of the Year' award in London



Chairman Mr. Dharama Dheerasinghe and Managing
Director Mr. Jegan Durairatnam receiving the 'Global
Finance' for the best bank in Sri Lanka, in Washington, DC.

Customer Confidence

For a bank, customer confidence is a pre-requisite for growth. While financial stability is key, our intellectual capital plays a key role in inspiring customer confidence. Sound corporate governance, risk management frameworks, business ethics and values are the foundation for sustaining customer confidence which needs continuous attention and nurturing.

Tacit Knowledge

Commercial Bank emphasises the need to adhere to structures, systems and processes built over decades of prudent operations. Our diverse employee pool coupled together with a culture of mentoring has facilitated the passing on of wisdom through the years. Learning from stories is a daily occurrence in the workplace, reinforcing lessons learned in a spirit of camaraderie. All this ensures that the Bank operates its business with entrepreneurial spirit tempered by wise counsel driving our business forward.

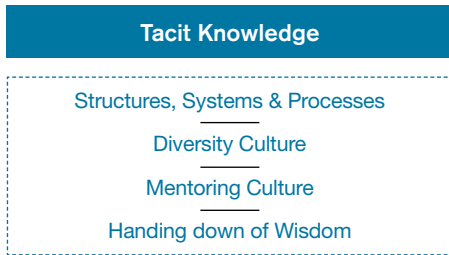
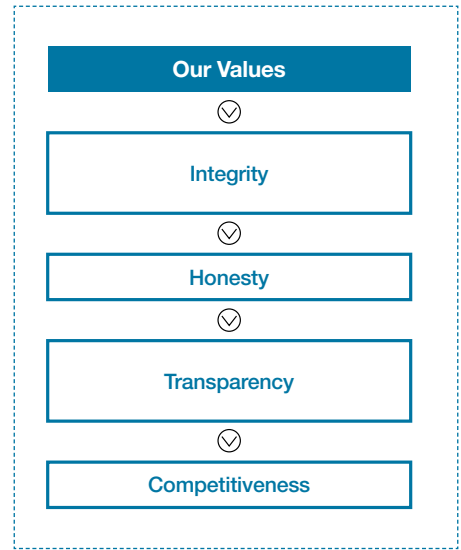


Figure 16

Our Governance Structures are considered fundamental in building intellectual capital providing strategic direction and ensuring rigorous consistent review of performance against agreed goals. The Corporate Governance Report on page 124 to 133 and page 354 to 371, provides a comprehensive outline of the Bank's governance structures. Evolving over time and fit for purpose, they safeguard the Bank's reputation and risk profile, providing guidance on conduct of business throughout the organisation.

Brand Building

Commercial Bank is ranked one of the top banks in Sri Lanka and in the world and has been recognised over the years for its excellence. Our rating of AA(lka) awarded by Fitch Ratings Lanka Ltd., is the highest rating awarded to any private sector bank in the country. Consistently included in the World's Top 1000 Banks, our brand is gaining recognition beyond our shores as we increase our off-shore banking operations. Awards, Ratings and Accolades are given below are testimonial to, supporting our brand building.



Top 1000 World Banks – 2016

- The only Sri Lankan bank to be ranked among the Top 1000 Banks of the World published annually by 'The Banker' in UK for the sixth-year running.

Bank of the Year – 2016

- The global banking fraternity's most coveted award – the 'Bank of the Year' – presented by The Banker of the UK, ending 2016 with the industry's 'Oscar' in respect of Sri Lanka.
- This is the tenth occasion that the Bank has won this award, making it the only Sri Lankan bank to achieve this feat in the history of the awards.

Best Bank Award – 2016

- Global Finance (USA), reaffirming the Bank's status as the leader in its field for an emphatic 17th year.
- Global Finance's 2016 list of the World's 25 Best Emerging Markets Banks in Africa, Asia-Pacific, Central and Eastern Europe, Latin America and the Middle East, names Commercial Bank alongside some of the leading banks in these regions.

Best Bank in Sri Lanka 2016

- Adjudged the 'Best Bank in Sri Lanka' in 2016 by the Hong Kong-based 'FinanceAsia' magazine, one of the most respected financial publications in the region. The Bank was also presented with a Platinum Award for 20 years of excellence
- This is the sixth 'FinanceAsia Country Banking Achievement Award' received by the Bank.

Best SME Bank – 2016

- Awarded 'Best SME Bank' in Sri Lanka in 2016 by International Finance Magazine (IFM) of the UK, for 'making a significant difference and adding value, and achieving the highest standards of innovation and performance' for Small and Medium Enterprise clients.

Best Internet Bank in Sri Lanka – 2016

- Recognised as the 'Best Internet Bank in Sri Lanka' by the prestigious Global Banking and Finance Review of UK.

The Most Respected Bank in Sri Lanka – 2016

- Topped the LMD 100 ranking of Sri Lanka's leading listed companies in terms of Assets, placed second overall on Profit After Tax (PAT) and fifth place overall on Turnover in the magazine's published rankings for 2014-15.
- The Bank also won the Sector Award for Banking at the ceremony.

Strongest Bank in Sri Lanka – 2016

- Adjudged 'The Strongest Bank in Sri Lanka 2016' by the Asian Banker, Singapore.

Global Brand Excellence Awards – 2016

- Awarded 'The Marketing Campaign of the Year' for the 3rd successive year at the 2016 CMO Awards for Excellence in Branding and Marketing.

Annual Report Awards – 2016

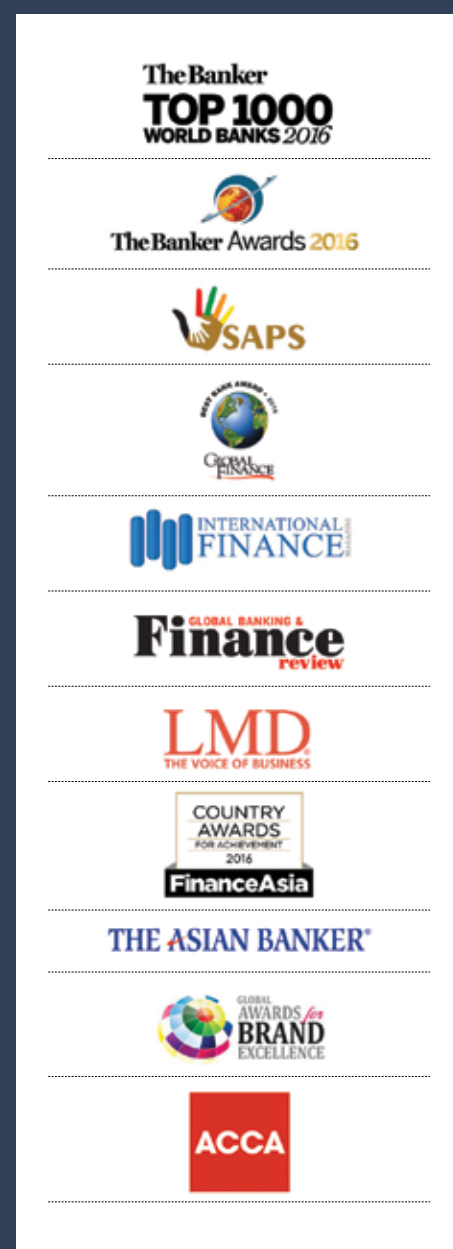
- Six awards including the Edmund J. Cooray Memorial Trophy for the Best Annual Report among banking institutions.
- Bank's Annual Report 2015 was adjudged the Gold Award winner in the Banking Sector by the country's apex professional body in the sphere of accounting for the 13th occasion.
- Bank's Annual Report 2015 was also placed third overall and won three Silver Awards for Corporate Governance Disclosure; Corporate Social Responsibility Reporting and Integrated Reporting; Best Disclosure on Capital Management; as well as the Bronze Award for Integrated Reporting.
- With these six awards, Commercial Bank became the most-awarded Corporate of the Event.

Best Private Bank in Sri Lanka – 2016

- Recipient of the 'Best Private Sector Bank in Sri Lanka' award at the 2016 South Asian Partnership Summit and Business Awards presented by World HRD Congress and endorsed by the Asian Confederation of Businesses.
- Awarded the 'Best in CSR Practices', 'Best in Brand Excellence in Banking and Financial Services and Insurance Industry' and, 'Best Sustainable Bank' in addition to being named the 'Best Private Sector Bank'.
- Commercial Bank was the most-awarded bank at the event.

Asia's Best Integrated Report – 2015

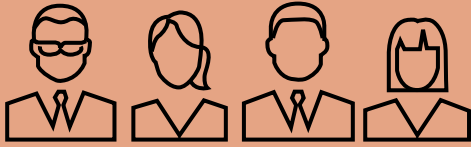
- Bank won the Asia's 'Best Integrated Report' award for its Annual Report 2014 in the banking sector presented by the Association of Chartered Certified Accountants (ACCA) Sri Lanka.



HUMAN CAPITAL

OUR HUMAN CAPITAL IS PIVOTAL TO OUR SUCCESS MAKING TALENT MANAGEMENT A BUSINESS PRIORITY. WE HAVE HONED OUR ABILITIES TO ATTRACT, NURTURE AND RETAIN TALENT THROUGH POLICIES AND GOVERNANCE STRUCTURES THAT BALANCE DIVERGENT INTEREST OF EMPLOYEES AND OTHER STAKEHOLDERS AS EVINCED BY A 95% RETENTION RATE AND EMPLOYEE PRODUCTIVITY RATES THAT ARE THE HIGHEST IN THE INDUSTRY. THIS IS HOW WE DO IT.





4,987

Total Employees

371

Promotions and absorptions

<5%

Attrition rate

95.4%

Return to work ratio

89.0%

In employee associations

100%

Employees receive performance evaluations

Rs. 107.9 Mn.

Investment in training

Rs. 4.0 Mn.

Profit per employee

A strong team comprising a diverse mix of individuals are the primary value creators of the Bank



ComBank Super Talent: winner in the vocal category receiving the award from Managing Director Mr. Jegan Durairatnam



Continuous development is key to building a competent workforce equipped to serve customers with care and professionalism

Strong HR Governance

The Board recognises its responsibility for our People Strategy and the BHRRC assist them in discharge of their duties. A comprehensive policy framework clearly outlines the Bank's approach to managing Human Capital while a Code of Ethics clearly defines expectations of employees. The HR Department is responsible for implementing the people strategy and continuously improves its processes and procedures to strengthen employee value creation processes. The Board, BHRRC and the CEO receive regular reports on key performance indicators to assess the progress and effectiveness of the HR function. Compliance with all regulatory requirements at all locations is a *sine qua non* and we seek to go well beyond this base requirement in managing our considerable talent pool.

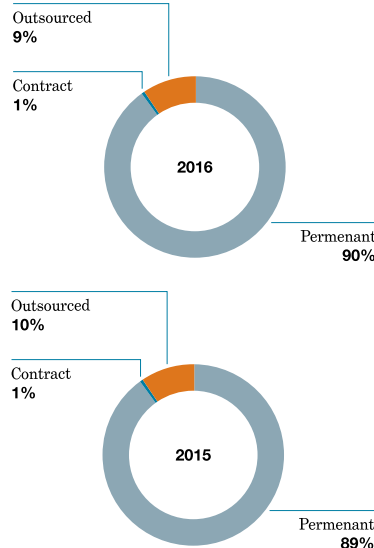
Our Team

A 4,987 strong-team comprising a diverse mix of individuals are the primary value creators for the Bank. As an equal opportunity employer, our team represents both genders, all major ethnic groups in the country and generations X, Y and Z who work together in a conducive environment with dignity and mutual respect. Our retention rates and employee satisfactions scores are testimony to the high levels of engagement within the team. Overseas employees now number 279, an increase of 2.95% over 2015 as we grow our international operations. During the year, we promoted 371 employees, helping them realise their career goals. We recruited 271 new employees to the talent pool with responses affirming our ability to attract talent. Long service awards given to 73 employees who completed 25 years of service at a special ceremony, which is now an annual event. Their careers serve to inspire younger employees as it is the most eloquent testimony to how we create value for employees.

Employees are typically engaged on full-time employment contracts with a few on contracts where the need is likely be for a specific time. We also use outsourced employees for specific functions which are non-critical.

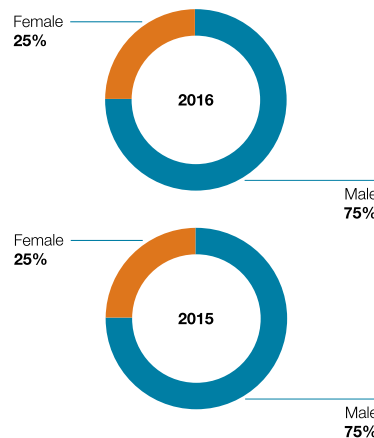
The following graphs provides testimony to our teams diversity and strength. (Graph 22 to 25).

Analysis of Full Time Employees by Type



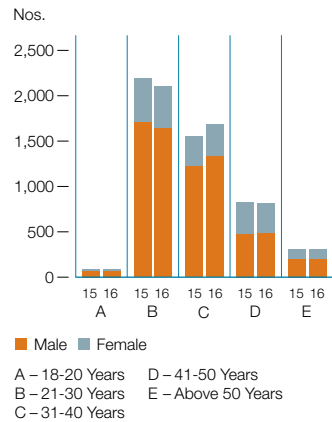
Graph 22

Analysis by Gender



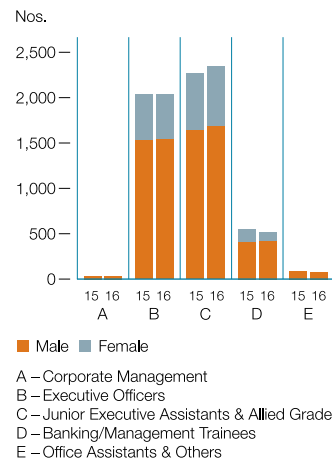
Graph 23

Analysis of Employees by Age and Gender



Graph 24

Employee Turnover by Employment Category and Gender



Graph 25

Creating Value for Employees

Building human and intellectual capital is intrinsically linked to employee retention and attraction. To attract and retain employees, we have to deliver value in numerous ways and create a great place to work where employees are inspired and motivated to perform at their optimum. HR policies are carefully framed to create a conducive environment that inspires high levels of performance and motivates employees to realise their potential. High levels of employee engagement and regular dialogue with the employee associations and grievance mechanisms enable us to identify employee concerns and address them effectively.

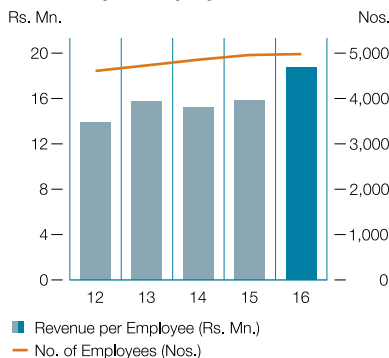


Figure 17

Employee Productivity

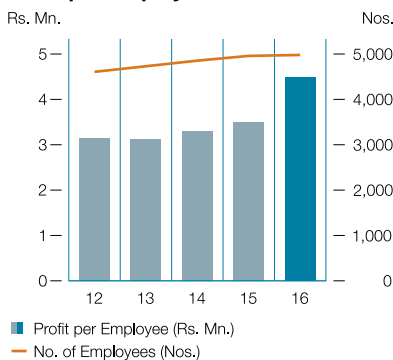
As evinced from the charts below (Graphs 26 and 27), employee productivity has consistently increased both in terms of revenue per employee and profit per employee due to initiatives on lean management and increasing digitisation. It is a key strength of the Bank and a tribute to the effectiveness of the training and development programmes and high levels of engagement.

Revenue per Employee



Graph 26

Profit per Employee



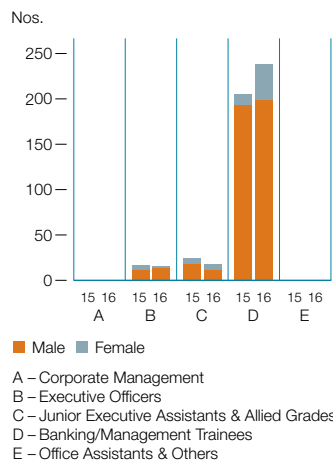
Graph 27

Talent Acquisition

We recruit employees based on objective criteria applied in a consistent manner to select the candidate best suited for the Bank's business needs in accordance with our equal opportunity policy. Preference is given to local talent in the countries we operate in, facilitating integration in to the local communities. Most employees are recruited as Banking Trainees many of whom reach positions of leadership through training, development and other career progression initiatives. Preference is given to internal talent pools whenever vacancies occur although specialised skills are brought in at required levels if internal talent is not available. A policy of secondment to other countries ensures that the Commercial Bank culture and values are integrated in to our overseas operations as well, supplementing local recruitment. Orientation programmes for all new recruits also serve to ensure familiarisation with the organisations values, policies and procedures.

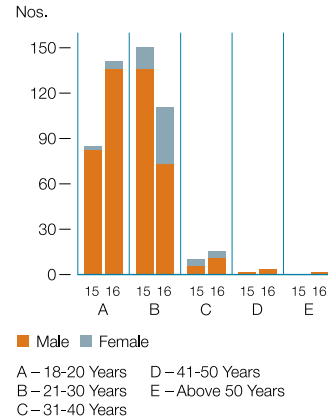
During the year, we recruited 271 employees of which 17% were females. Analysis of new hires by employment category, geography and age are provided in the graphs 28, 29 and 30.

New Hires by Employment Category and Gender



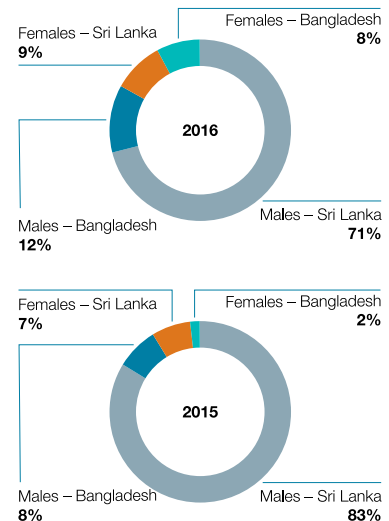
Graph 28

New Hires by Age and Gender



Graph 29

New Hires by Geography and Gender



Graph 30

Training and Development

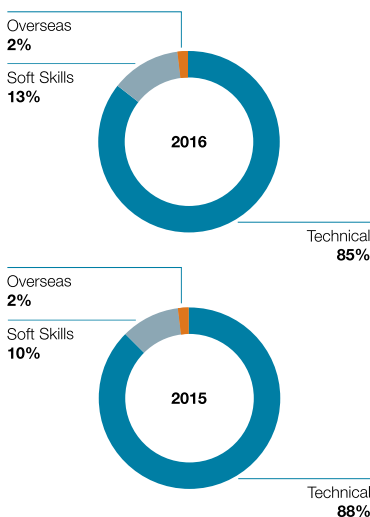
Training and Development is a key priority for the Bank enhancing knowledge, competencies, skills, attitudes and performance. A policy of giving preference to promote internal candidates and a transparent promotions process encourage both performance and self-development within the Bank. The Bank has a history of producing its own leaders who have progressed in their careers from trainees positions and serve as testimony to our Training and Development function. A learning culture where people are encouraged to continuously acquire knowledge, competencies and develop skills under the guidance of experienced mentors serves as the foundation for talent development at the Bank.

The Bank's Staff Development Centre (SDC) offers a wide range of courses with internal and external resource persons catering to technical, leadership and soft skills training on a regular basis. Training needs identified alongside the performance evaluation process are considered when determining the internal course schedules which are supplemented with external courses where deemed necessary. Employee assessments based on written and oral examinations for promotions within non-executive and executive grades reinforces the need for continuous self-development and structured career development.

Employees have the opportunity to participate in a wide range of activities (Figure 18). The Bank also supports the mentoring and supervision requirements of professional bodies and is an approved employer for The Institute of Chartered Accountants of Sri Lanka and Institute of Bankers of Sri Lanka an acknowledgement of high standards of training and development.

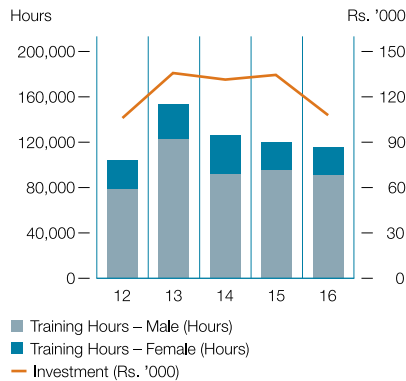
Lifelong learning is supported by the Bank through payment of honorarium for completion of Banking studies at the Institute of Bankers of Sri Lanka, and reimbursement of membership fees of professional bodies.

Training Hours by Type of Training



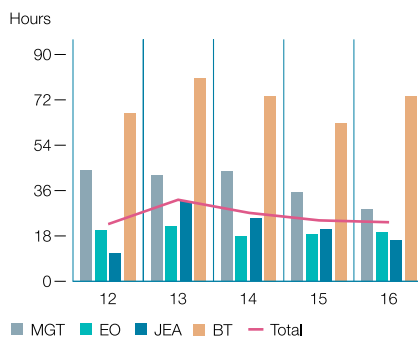
Graph 31

Training Hours by Gender and Investment in Training



Graph 32

Average Training Hours by Employee Category



Graph 33

Employee Remuneration and Benefits

The Bank maintains an unbiased remuneration structure designed to compensate employees' contributions and reward performance facilitating high levels of motivation and retention. Remuneration is made up of guaranteed pay and performance-based variable pay to encourage high levels of productivity.

Guaranteed pay and benefits are determined with reference to periodic market surveys conducted in Sri Lanka and Bangladesh to identify trends in the banking and mercantile sectors. Further, in Sri Lanka, collective agreements that cover specific employee categories are taken into consideration. Executive officers including Executive Directors receive incentives for performance vis-a-vis mutually agreed benchmarks which is linked to the performance appraisal system and a defined reward matrix. Employees

Professional & Skills Development Programmes

303

In-house programmes

Rs. 6.785 Mn.

Invested in external training

1,649 hours

Of e-learning undertaken by 194 employees

Rs. 290,000

In prize money for quiz competition

Rs. 1.360 Mn.

For support in professional examination and subscriptions

Library facilities at 190 Branches

Rs. 21.875 Mn.

Invested in overseas training

Figure 18

who serve overseas as Business Promotion Officers and Bank's Representative Officers seconded to the countries we operate in receive remuneration linked to comparable roles in Sri Lanka supplemented by an allowance to cover expenses incurred abroad. The ratio of basic salary and remuneration of women and men at all locations of operation and across all employee categories is 1:1.

The out-sourced labour is contracted through reputed labour supplying companies and the Bank ensures that they are remunerated according to regulatory requirements including remittance of Employees' Provident Fund and Employees' Trust Fund contributions.

Full-time employees receive the following benefits:

- Bonuses based on performance or decided on the collective bargaining agreement.
- Employee share option scheme for executive staff.
- Over time for work hours beyond stipulated work hours for non-executive staff
- Fuel allowance, transport allowances, entertainment allowance and for certain staff categories the reimbursement of expenses incurred in performing official duties.
- Accommodation/house rent and/or subsidised transportation or special allowances for employees working at remote locations.
- Medical benefits including a special coverage for surgical and hospitalisation, spectacles, dentures, hearing aid for staff and immediate family, annual health check-up for staff and spouse.
- Financial support for employees who are having disabled children, in order to cover their routine medical expenses.
- Group life cover extended for permanent employees who are not eligible for pension.
- Retirement benefits and commuted pension.
- Honorarium payment for employees who successfully complete the Diploma in Banking at the Institute of Bankers of Sri Lanka and reimbursement of annual

subscription of professional bodies.

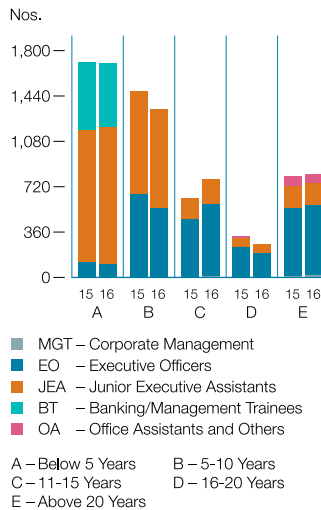
- Staff loans at below-market interest rates.
- Holiday bungalows and holiday allowances.
- Critical illnesses and personal accident insurance scheme.

Employee Retention

The Bank's non-discriminative culture, remuneration and benefits, training and development, high levels of employee engagement and numerous other factors have proven to be successful for its track record of employee retention as shown in the graphs 34 to 38.

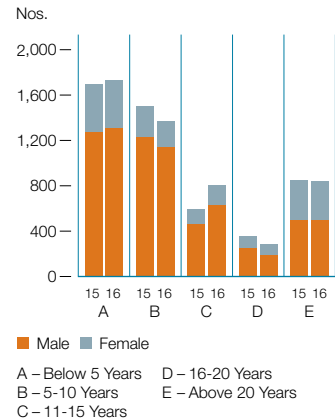
Employment separation processes are fully compliant with applicable labour laws of the countries that we operate in and reasons for exit are tracked and monitored. During the year the Bank bid farewell to 191 (4%) and 38 (15%) employees in Sri Lanka and Bangladesh respectively. An analysis of employee exits during the year is given below. Relatively high attrition rates in employees below 30 years of age are attributable to economic migration as they seek employment overseas and other opportunities according to feedback from exit interviews conducted with all employees who resigned.

Service Analysis of Employees Term of Service and Category



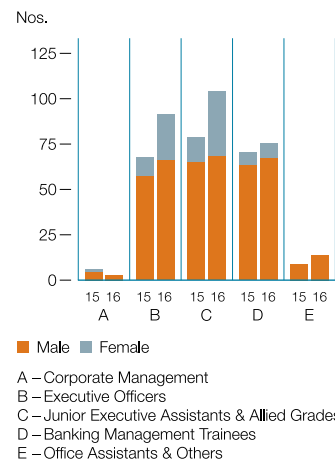
Graph 34

Service Analysis of Employees by Gender



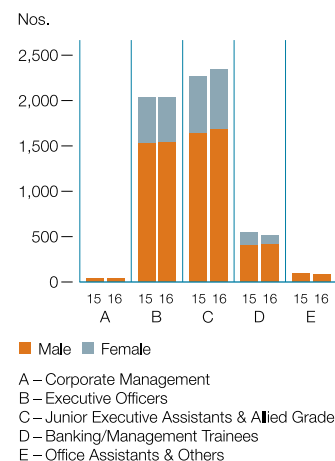
Graph 35

Employee Turnover by Age and Gender



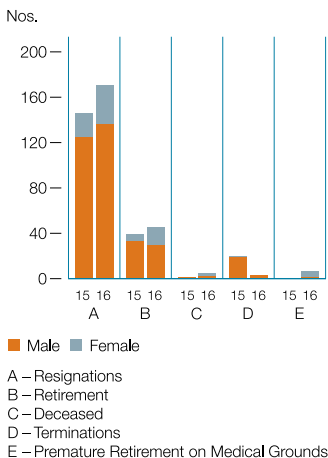
Graph 36

Employee Turnover by Employment Category and Gender



Graph 37

Employee Turnover by Reason and Gender



Graph 38

Equal Opportunity and Diversity

Equal opportunity policies ensure that objective criteria irrespective of gender, age, race or religion for recruitment and career progression openings. We monitor several key indicators to track progress towards our diversity goals set out in the Team Profile on page 70.

- Gender** – Female representation on our team is lower than in the national labour force despite our commitment to gender diversity. Transferability within our wide network of branches deter females at recruitment and later, in career progression. Cultural conventions present significant impediments to women and while we wish to provide every opportunity, business needs of the Bank remain paramount in selecting appropriate candidates for vacancies. We are encouraged by the 98% (average of five years to 2016) of employees returning from maternity leave and those who remain in employment one year after returning to work and continue to make every effort to provide opportunities for women.
- Age** – As we seek to nurture leaders from within, it is predictable that we have fewer recruits at senior management levels and that leadership positions are held by seasoned professionals who have a well-rounded experience in numerous aspects of banking.

- Ethnicity** – We have representation from all major ethnic groups in the country in our Corporate Management team and as we do not discriminate to maintain ethnicity ratios, the result is a natural progression from Bank’s talent pools.

Ratio of the Basic Salary*

| Employment Category | 2016 | 2015 | 2014 | 2013 | 2012 |
|------------------------------------|--------|--------|--------|--------|--------|
| Corporate management | 1:0.95 | 1:0.94 | 1:0.84 | 1:0.87 | 1:0.97 |
| Executive officers | 1:1.10 | 1:1.09 | 1:0.93 | 1:0.98 | 1:0.96 |
| Junior executive and allied grades | 1:1.08 | 1:1.10 | 1:0.91 | 1:0.85 | 1:0.88 |
| Office assistants and others | 1:1.01 | 1:1.04 | 1:1.00 | 1:0.98 | 1:1.06 |

* Based on the average salary per person for each category.

Table 9

Return to Work and Retention Rate after Maternity Leave

| | 2016 | 2015 | 2014 | 2013 | 2012 |
|------------------------------|--------|--------|--------|--------|--------|
| No. of employees | | | | | |
| - Entitled for leave | 1,227 | 1,240 | 1,226 | 1,180 | 1,088 |
| - Availed leave | 65 | 53 | 54 | 65 | 58 |
| - Due to return | 65 | 53 | 54 | 64 | 64 |
| - Returned after leave | 62 | 53 | 54 | 63 | 64 |
| - Still remain in employment | 53 | 54 | 63 | 64 | 70 |
| Return to work (%) | 95.38 | 100.00 | 100.00 | 98.44 | 100.00 |
| Return to rate (%) | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |

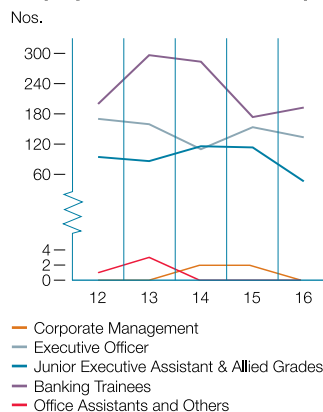
Table 10

Performance Evaluation and Rewards

The Bank’s performance evaluation process covers all permanent employees and uses a combination of objective and subjective criteria which are mutually agreed by both the line manager and employee at the beginning of the year. It is a critical tool for effective employee engagement, development, and building a target driven culture that is fully aligned to the business goals of the Bank. Achievement of KPIs, job knowledge and experience, customer orientation, communication and interpersonal skills, creative thinking and special contributions made are some of the key aspects encapsulated into the performance evaluation. Training needs are also identified in the process and rewards are determined with reference to the grading achieved. During the year, we identified 371 persons for promotion through the process for vacancies that occurred during the year.

Percentage of employees who received a formal performance review is 100% of males and females

Employee Promotions/Absorptions



Graph 39

An Engaged Team

The Bank engages with its employees through formal (hard copy, email etc.) and informal communication channels. Key information communicated through formal channels mainly relate to the Bank’s vision, strategic goals, values and significant changes in policies or governance structures. All manuals including the Code of Ethics are available on the intranet site of the Bank and also in hard copy for reference when required. Regular meetings within strategic business units also form a vital link in formal channels of communication. Notice boards at key locations also serve to reinforce key messages.

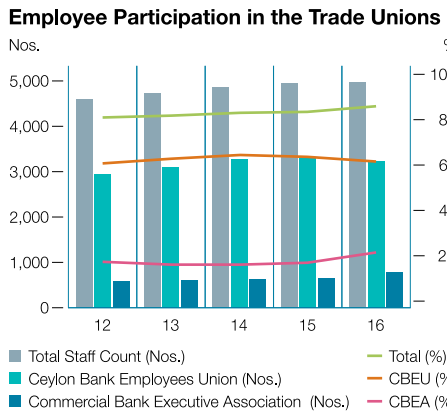
Informal engagement is encouraged through recreational events organised at strategic business unit level, regional level and for the country. These events include annual trips for employees and their families, celebration of festivals and sports tournaments where employees compete with friendly camaraderie. Employee participation levels at these events are high and the Bank makes a substantial contribution to subsidise the cost of these events.

Freedom of Association and Collective Bargaining

The Bank recognises its employees’ rights to freedom of association and collective bargaining and maintains healthy relationships with its employee associations, the Commercial Bank Executive Association (CBEA) and the Ceylon Bank Employees Union (CBEU) having regular dialogue and giving due consideration when formulating the relevant policies and procedures (graph 40). A collective agreement is in place with the Ceylon Bank Employees Union including salaries and other prerequisites, staff loans and provision of accommodation for staff who are placed in locations away from their home stations etc. Minimum notice periods are observed for changes (Table 11) in any of the terms set out in the collective agreements as inset.

| Type of Change | Minimum Notice Period |
|-------------------------------|------------------------|
| Collective Bargaining | 36 weeks |
| Transfers | 2 weeks |
| Terminations | 4-12 weeks |
| Retirements | 3-4 weeks |
| Dismissals | Immediate |
| Voluntary Resignation Schemes | As specified in scheme |

Table 11



Graph 40

Dignity, Health and Safety Human Rights

The Bank’s Code of Ethics and a comprehensive policy framework seek to nurture a culture of respect for human rights and values and are based on the UN Global Compact principles and the Universal Declaration of Human Rights proclaimed by the UN. Our Human Resource Department, business line heads, departmental heads and branch managers are trained and held responsible for upholding human rights. The Bank’s Inspection Department also verifies compliance with the policy framework on a regular basis. Consequently, 89% of employees are members of trade unions with whom the Bank has good relations and there is zero tolerance for child labour, compulsory labour, harassment or discrimination in the workplace.

The Whistle-Blower Charter empowers employees to report on potential human rights violations which are investigated promptly with disciplinary action taken on violators which may include dismissal.

There have been no incidents of Human Rights violation reported during the year under review.

Health and Safety

All permanent employees are covered under a comprehensive medical insurance scheme for both in-house medical treatment and reimbursement of outpatient medical costs. The collective agreements provide for the Bank to reimburse expense of a full medical check-up upon reaching the age of 35 years.

Our Bank branches are equipped with alarm systems, CCTV cameras and trained security personnel have been deployed to ensure the safety of our people and our clients. The Bank’s Security Department conduct training programmes for our people including fire drills and responding to various threats and have identified dedicated teams within each business/ service units of the Bank to supplement its work. These champions are provided comprehensive training on how to respond to emergencies such as fire, robberies and natural disasters. No significant health and safety issues were reported during the year.

Grievances

The Bank has a ‘Speak Out’ web portal where employees are encouraged to air their concerns regarding working conditions, labour practices or potential violations of human rights. This is monitored by the HR Department and legitimate concerns raised are investigated and action taken accordingly. An open door policy initiates more immediate discussions enabling early identification and resolution of issues. This proactive approach has ensured that there were no grievances relating to labour practices filed at the Bank.

NATURAL CAPITAL

OUR IMPACT ON THE ENVIRONMENT IS MULTI-FACETED, EXTENDING BEYOND OUR ORGANISATIONAL BOUNDARIES TO OUR CLIENTS. FIRMLY COMMITTED TO RESPONSIBLE BANKING, WE EMBRACE A ROLE WIDER THAN MERE GREENING OF OUR OPERATIONS, EXTENDING OUR INFLUENCE AND RESOURCES TO OUR CLIENTS, REGARDLESS OF SIZE. THE BANK'S SEMS POLICY IS A KEY PILLAR OF OUR ENVIRONMENT MANAGEMENT FRAMEWORK AND FACILITATES DISCHARGE OF OUR ENVIRONMENTAL RESPONSIBILITIES.





163,708 kg

CO₂ emissions offset

111,405 kg

Paper recycled

Rs. 1.05 Bn.

Loans disbursed for renewable energy projects

7,606

Loan proposals screened under SEMS

250,000+

New enrollments for e-passbook



34%

Growth in Online Banking users

70%

Growth in Mobile Banking users

Rs. 23.540 Mn.

Invested in solar panel installations at four more branches increasing our clean energy usage



The newly build eight storied building at Wellawatta, conforms with the green agenda of the Bank, utilising natural light to the maximum. The building also has a rain water harvesting facility



Launch of e-passbook is another initiative under the Bank's green banking efforts, reducing its environmental footprint

The Bank's environment management framework clarifies our role and boundaries in managing our impact on the environment.

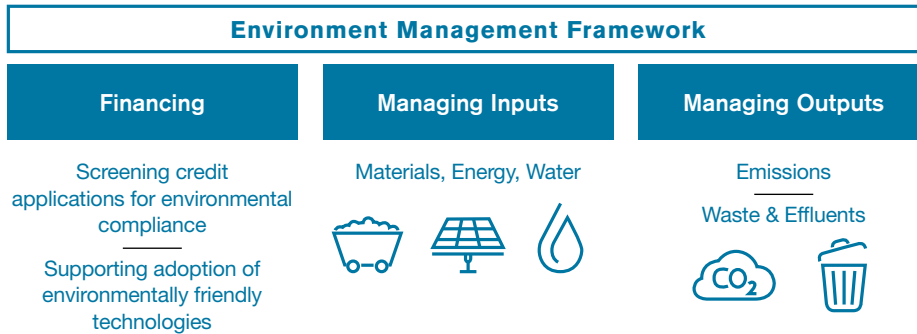


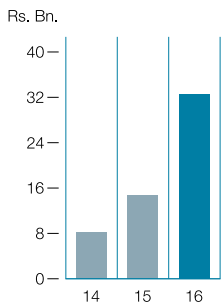
Figure 19

Environmentally Responsible Financing

Lending responsibly is perhaps the Bank's most significant contribution to sustainability which is done through a structured process with dedicated resources for the purpose. All loans are screened using the Social and Environmental Management System (SEMS) policy to ensure compliance with environment regulations and we engage with customers to resolve any issues identified through this process (Graph 41). The monitoring extends from the approval through implementation to ongoing monitoring. Suppliers are also screened using the same policy framework to ensure environmental compliance.

The Bank also actively supports and encourages customers to adopt technologies that support minimising their footprint through loan schemes specifically designed for the purpose with attractive rates, making a positive change.

Number of Loans and Advances under went SEMS Screening



Graph 41

Screening of Projects for Environmental Compliance

Policies and procedures are in place under the Social and Environmental Management System (SEMS) to ensure all lending decision are made giving due consideration to environmental impacts and as well as applicable national laws and regulations on environmental and social issues. Credit Officers are trained on evaluating clients on compliance with the SEMS policy and influence customer behaviours by upholding the policy to encourage compliance. Consequently, financing is only extended to projects that are designed, built, operated and maintained in a manner consistent with the Bank's SEMS policy.

SEMS Co-ordinator who reports to the Chief Risk Officer, validates SEMS compliance on credit proposals above a predetermined threshold.

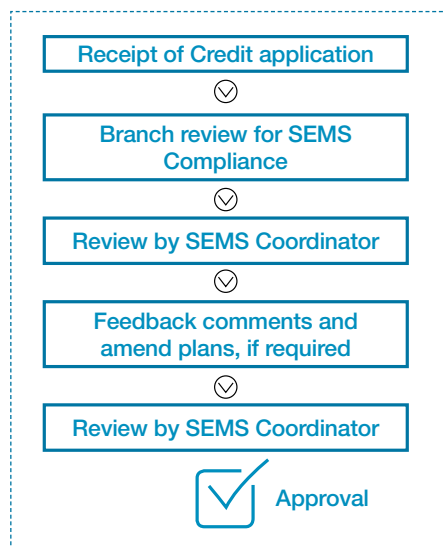


Figure 20

In addition, periodical visits of the Bank lending officers to the financed sites ensure compliance with the environment regulations. The SEMS co-ordinator who receives upto date skills intern ensures that the lending officers are kept abreast with the SEMS policy of the Bank.

Supporting Adoption of Environmentally Friendly Technology

The Bank supports investments in renewable energy and adoption of eco-friendly technologies through Green Development Loans at concessionary interest rate for Small and Medium Enterprises (SMEs) and corporates. These loans support for investment in energy saving, energy efficiency or off-grid renewable energy projects, including investments in solar power, waste management systems, air pollution control systems, recycling or sound pollution control systems.

Managing Our Inputs

We recognise the need to manage our inputs for the betterment of the environment and our organisation. Stringent procedures are in place to manage consumption and eliminate waste.

- Managing inputs is key to managing our cost income ratio with identified goals for materials and energy which are significant.
- Water is less significant for our operations but awareness created over the years ensures inclusion of the same in to our processes.
- Bank's Procurement Department plays a fundamental role in the day-to-day procurement of goods and services by way of third party suppliers.

The Bank's Supplier Code of Conduct is applicable to all suppliers supporting ethical business ranging from the environmentally accredited materials that the suppliers use to transparent, fair and honest dealings in finances and employees in their respective companies, ensuring that environmental and social standards are adhered to, across their value chain.

Materials

Material consumption comprises mainly paper and toner for printers. We continue our efforts to reduce consumption and wastage and the following initiatives contributed towards achieving this:

- Engaging with customers through our branch network and create awareness about the support provided for greening of operations. The response has been encouraging and we continue to promote Green Banking to reduce our environmental footprint.
- Launch of the e-passbook to migrate savings customers to paperless mediums while facilitating convenience. Given that savings accounts constitute 86% of total accounts, e-passbook has the potential to save a significant amount of our stationery consumption.
- During the year we have invested Rs. 36.717 Mn. on 30 ATM machines and Rs. 52.108 Mn. on 22 units of a new generation automated cash deposit machines (CDM) that minimise the use of paper under the green banking programme. Dispensing with deposit slips and envelopes, the new machine has a stacker that can accept and count up to 200 notes at a go, enabling customers to make deposits of up to Rs. 200,000 per deposit at a time into savings or current accounts, 24 hours of the day. The same machine can also be used to pay dues on Commercial Bank Credit Cards.

Ongoing initiatives for migrating customers to paperless banking include:

- Staff-assisted customer migration to automated machines.
- The Banks' ATM system being programmed to asked whether or not a paper transaction receipt is required from the customer.
- Directing customers to more towards on-line banking and mobile banking platforms.
- Directing customers to choose e-statements over paper based statements.

Programmes to reduce the amount of paper used in bank operations are in place to reduce consumption and recycle paper and choosing post-consumer recycled paper more often.

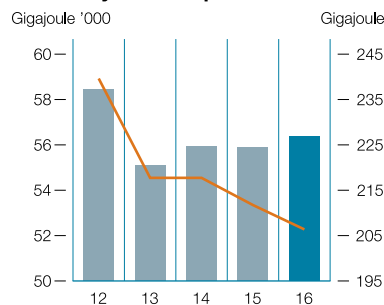
Energy

We continued the programme commenced in 2015 to convert branches to solar power, adding four more branches to the four that were operational at the beginning of the year. These branches generate 190 kWh of power which is utilised mainly to provide lighting and charge the uninterrupted power supply units of the branch. The designs of our branches also use more natural lighting and are equipped with energy efficient lighting and equipment. Branch interior and exterior signage use phot-cell technology as well. These initiatives inspire our customers to invest in renewable energy in addition to minimising our carbon footprint.

Our ATMs and IT equipment are energy efficient and only procure equipment with 'Energy Star 5' ratings which are compliant with the RoHS standards. We also give preference to ATM machines that function without air conditioning. As mentioned above, we are increasingly looking beyond energy requirements to ensure that equipment procured will also eliminate use of paper increasing the rigour of our procurement standards for equipment.

Expansion in customer touch points, increased reliance on digital platforms and growth in transaction volumes have contributed to a marginal increase in our electricity consumption by 482 gigajoules year-on-year. However, the positive impact of our efforts towards reduction of energy consumption is evinced as the energy consumption per branch has reduced to 206 gigajoules in 2016, from 212 gigajoules in 2015.

Electricity Consumption



■ Total Consumption (LHS)
— Consumption per Branch (RHS)

Graph 42

Water

Banks' water consumption is mainly limited to drinking water and water used for sanitary purposes. Our employees are continuously encouraged to preserve these natural resources. On-going awareness programmes and notices are displayed for this purpose.

Managing Our Outputs

Eliminating waste in processes is a key strategic initiative supporting our long-term sustainability and social responsibility. As we have minimal effluents our policies and efforts are centred on controlling inputs and the management of emissions and waste.

Emissions

- Direct emissions (Scope 1) generated by the Bank are negligible and comprising mainly of emissions from motor vehicles owned by the Bank used by a few senior executives.
- Scope 2 emissions comprise emissions generated from purchased electricity for which the inputs are reported above together with the initiatives taken to reduce the consumption.
- Scope 3 emissions are not reported as it is not material to our operations.

Effluents and Waste

Areas of concern in managing outputs are disposal of e-waste and paper. and are managed through agreements with waste management companies who follow internationally recognised disposal practices which are monitored by the Logistics/Procurement and Information Technology Departments. During the year Bank managed to offset 163,708 kg of CO₂ emission by recycling 3,843 units of e-waste and 89,124 kg of CO₂ emission by recycling 111,405 kg of used paper.

Awareness programmes ensure that employees are environmentally responsible and uphold these principles in their engagements with suppliers and customers.

A Good Dose of Heart

There is a good reason why 'heart' is often associated with 'warmth'.

The mind, tempered with a good dose of heart will ensure that tomorrow is infused with ethics and empathy built on a solid moral base. In the bank of the future, the guiding effect of the heart will be required more than ever, as we deal with the growing risk associated with the temptation thrown up by the 'possibilities' of an 'unfettered' tomorrow.

As reason is to strategy, the heart is to ethics





KEY BUSINESS LINE REVIEW – PERSONAL BANKING

PERSONAL BANKING SERVES OVER 3.2 MN. CUSTOMERS , FACILITATING SOCIO-ECONOMIC PROGRESS OF ALL COMMUNITIES IN THE COUNTRY PROCESSING OVER 600,000 TRANSACTIONS EACH DAY. CORE ACTIVITIES INCLUDE PROVIDING ACCESS TO BANKING SERVICES AND SUPPORTING WEALTH CREATION FOR OUR CUSTOMERS THROUGH AN EVOLVING PORTFOLIO OF INVESTMENT, CREDIT AND TRANSACTIONAL PRODUCTS.



912

Customer touch points

Lead Investor
SME

Accelerated growth
Online & Mobile Banking



Exponential growth
Credit cards

Launched Premium Cards, Visa Infinite/Signature/Master Card world

Market Leader
Debit Card



A strong customer franchise supported by over 900 touch points provides our customers an unparalleled reach and convenience



Makes statement for technology enabled green banking with sophisticated outlet "The Automated Banking Centre" at Orion City, the 250th branch of the Bank



The Bank has become the first bank in Sri Lanka to offer Near Field Communication (NFC) enabled credit cards under the leading brands in the sphere, namely, Commercial Bank's Visa Infinite, World Mastercard and Visa Signature

Inclusive Growth

A key driver of growth for the Bank with business strategy closely aligned to the country’s development goals, Retail Banking plays an important role facilitating access to banking. A strong customer franchise supported by a network of 255 branches, 657 ATMs and over 912 customer touch points provides our customers unparalleled reach while increasing digitisation and simplification of processes provide customer convenience and a platform for scalable growth.

Personal Banking contributed 34.10% to the Bank’s asset growth and 63.86% to liability growth while improving asset quality due to targeted marketing. Rigorous monitoring processes are reflected in the reduced impairment charge and the NPL ratio of 2.9%, an improvement of 3.5% in 2015. NII increased despite narrowing spreads due to volume growth as we maintained our commitment to discourage consumption-based lending, focussing on responsible lending that would create long-term value for our customers. Fee-based income increased during the year driven by growths recorded in trade finance and card-related operations. Client acquisition during the year also augurs well for future growth prospects of Personal Banking as these relationships typically deepen over time.

Focus on Customer Needs

A wide-ranging product portfolio catering to every segment of the population throughout the customer lifecycle has been a core strength for Personal Banking (Figure 21).

| Wealth Management | Access Finance | Channel Products |
|---------------------------|------------------------------------|----------------------|
| Current Accounts | Term Loans | Branches |
| Savings Accounts | Personal Loans | ATMs and ADMs |
| Foreign Currency Accounts | Home Loans | Debit & Credit Cards |
| Call Deposits | Agriculture and Microfinance Loans | Online Banking |
| Fixed Deposits | Industrial Loans | Mobile Banking |
| Treasury Bills | Leasing | Trade Finance |

Figure 21

Reaching Out

The branch network expanded by nine new branches in Western, Southern and Eastern Provinces as they are vital to maintaining the customer relationships supporting our growth strategy. We also opened an automated banking centre in 2016 taking the total of our branch network to 255 (Graph 43). Two new Agriculture and Microfinance units were opened in Matara and Pottuvil taking the total of these specialised units to 15. An overall penetration rate of approximately 18% in Sri Lanka is a testimony to our inclusive approach of banking.

We grew the network of ATMs to 657 in 2016 which continues to be one of the largest ATM networks in the country (Figure 22). Key upgrades to these 24-hour sentinels during the year include:

- Security: We have upgraded the entire ATM network to EMV Chip capability to enhance security against fraud which has been identified as a key risk for the industry.
- Convenience: Expanding the ATM network and enhancing their capability by facilitating deposits and cardless transactions
- Efficiency: Launching of the Over the Air Pin (OTAP) for debit and credit cards, enabling customers to obtain PIN numbers via registered mobile phones.

Bank introduced channel products such as Easy POS – smart phone linked mobile POS system for card transactions, and online real time cash deposit and

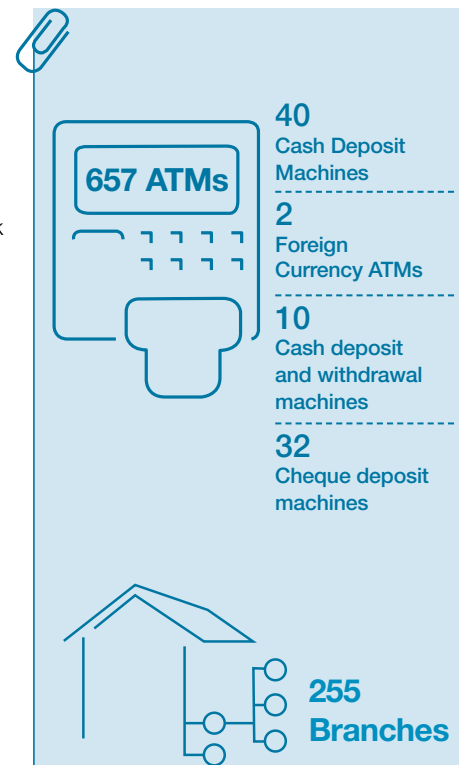
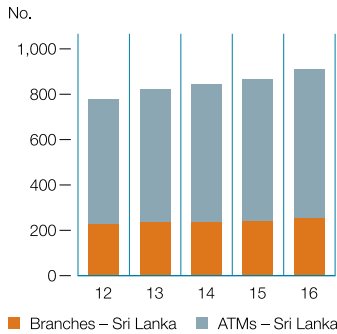


Figure 22

withdrawal machine to improve the customer convenience during the year.

Reaching Out



Graph 43

Customer Centric

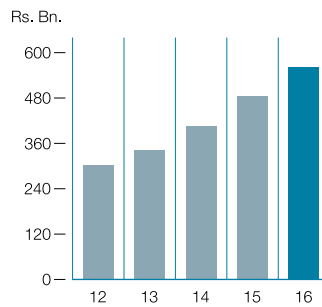
The product portfolio was reviewed to meet changing customer expectations resulting in the modification and relaunch of two products and the launch of several new products. 'Isuru', the minor savings product was re-launched with enhanced features reflecting customer expectations, contributing to growth of our deposit base. *Diribala*, a term loan product for SMEs introduced in 2015 gained traction during the year due to extended repayment periods and grace period matching cash flows. This product was extended to *Diribala* Green Development Loans to support investment in renewable energy solutions and effluent and waste treatment plants for SMEs. *Diribala* Foreign currency products also enable SMEs to borrow in three major currencies to hedge their foreign currency risks. A new microfinance product was launched during the year to finance micro-entrepreneurs based on cash flows sans guarantees is gaining traction.

Growing Our Deposit Base

Personal Banking deposit growth was over 16% during the year reaching Rs. 565 Bn. despite a challenging operating environment. The difference between rates for savings and fixed deposits increased in 2016 resulting in a declining proportion of current and savings deposits in the deposit mix. Despite this, the Bank's CASA ratio of 41.67% remains higher than the industry.

A strong customer franchise coupled with aggressive marketing campaigns enabled us to acquire over 400,000 savings customers which is the typical commencement of a Personal Banking relationship and are confident of our ability to cater to their varying needs as we deepen the relationships. It is noteworthy that we retained majority of fixed deposits due to strong relationships, reputation and financial stability despite intense competition from competitors.

Deposits

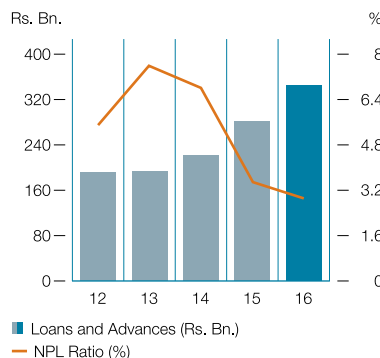


Graph 44

Responsible Lending

Growth in retail loan portfolios was driven by the Bank's continued commitment to the SME sector in alignment with the Government's vision, focussed on value creation for individuals through home loans and Microfinance. The Bank worked with reputed developers to provide financing for purchase of condominiums during the year catering to the demand for urban housing. A commitment to responsible lending resulted in diminished pawning activity while increases in border tariffs dampened leasing activity.

Loans & Advances



Graph 45

Focus on SMEs

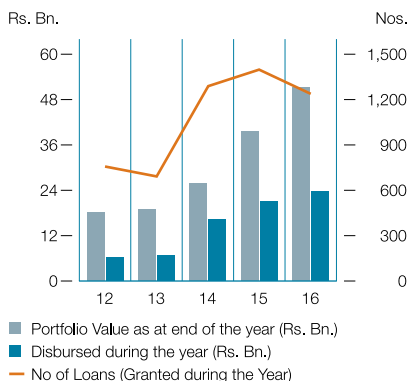
Building on our track record as the lead investor in SMEs, we have committed more resources to expanding our role in this vital engine of growth for the country. Accordingly, we have structured a specialised Development Credit Department to focus on developing solutions for SMEs through specialised knowledge and insights in to the challenges faced by the sector. Our core strengths have been strong relationships, targeted marketing, flexibility and efficient service.

Key initiatives implemented during the year include:

- **Capacity building programmes for entrepreneurs** – As the first private bank to collaborate with Central Bank we conducted seven programmes including dedicated programme exclusively targeting women entrepreneurs benefiting over 850 entrepreneurs in 2016, extending the *Diribala Vyapara Pubuduwa* programme which commenced in 2011. Since inception, we have completed a total of 59 programmes benefiting 5,229 entrepreneurs.
- **Employee capacity building** – We conducted intensive training to ensure a continuous pipeline of talent for SME operations. Each branch now has an SME specialist trained to assess and monitor SME customer needs and offer appropriate solutions. They are supported through the intranet which contains up to date information on developments in the sector and industries relevant to the sector. The main beneficiary of this initiative is the client who receives a more informed and efficient service.
- **Simplification of loan documentation** – Application forms and other documentation were simplified to reduce processing time while ensuring a sufficiency of information for evaluation and regulatory requirements. This initiative was undertaken to reduce the customer burden and further ease their access to finance.
- **Collaborative partnerships** – We maintained a close rapport with external organisations including Government Agencies to provide technical support for SME's.

Diribala, the Bank's branded SME industrial loan is the unmatched market leader in the segment with repayment periods matched to cash flows and attractive interest rates. From the Bank's perspective, a robust evaluation process facilitated managing asset quality. The loan portfolio is now over Rs. 50 Bn. with NPL's amounting to less than 1.6% as at the year end. Despite increasing interest rates and non-availability of donor funds which dampened the potential for growth, the Bank was able to grow this portfolio by 30% (Graph 46).

Diribala Industrial Loans



Graph 46

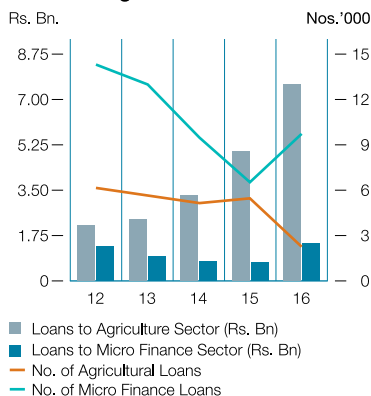
The agriculture loan portfolio was segregated to agri SMEs and agri Microfinance to facilitate better solutions to new segments resulting in a transfer of approximately Rs. 500 Mn. to the microfinance portfolio. The sector witnessed renewed interest from entrepreneurs as Government credit lines spurred activity particularly in dairy farming. Commodities exporters and agristockists also grew their businesses. Large scale investments in the sector have also spurred activity in the SME segment. These factors enabled the growth over 65% of the streamlined agriculture portfolio. The Bank's activities in this segment are supported by 15 Agriculture and Microfinance Units and a centralised Agricultural Loans unit with highly specialised teams with an understanding of the industry contributing to enhanced the scope of assessment, monitoring and customer service. It has also served to maintain asset quality with less than one percent NPL ratio.

Focus on Microfinance

The microfinance portfolio comprising loans below Rs. 500,000/- which now includes agro loans demonstrated a strong growth of nearly 20% in 2016. Learning from our past experiences, our current microfinance products are linked to supply chains rather than groups which has enabled us to significantly improve the asset quality in this portfolio (Graph 47).

Adopting a holistic approach, the Bank introduced a micro savings product *DiviSaru* to support the customer life cycle approach to building our microfinance customer base. This also resulted in increasing the customer base by nearly 20,000 in 2016 supporting deposit mobilisation efforts of the Bank with a portfolio growth of over 15%. The above changes will facilitate building a microfinance customer-base within the Bank.

Loans to Agriculture & Micro Finance



Graph 47

Enhancing Our Customer Experience

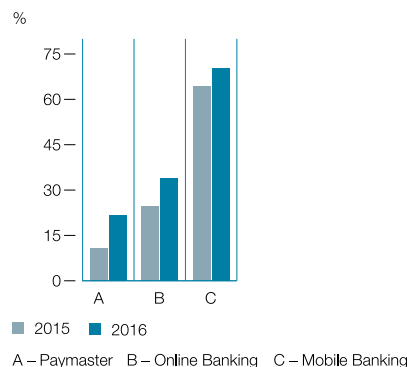
Customers increased their usage of the electronic banking channels during the year resulting in high growth rates for online banking, mobile banking and the Bank's flagship product for corporates and SMEs, Paymaster. Key trends supporting growth in this area included the declining trend in prices of tablets, smartphones and computers resulting in higher penetration levels.

Online Banking, the Bank's internet-based payment system witnessed a positive growth of around 10% in the value of transactions and around 30% in the number of transactions evincing growing customer

confidence and familiarity with this channel. Developed on the Microsoft. Net platform, it consists of the Personal and Corporate Banking solutions (Graph 48).

The focus in 2016 was to enhance the corporate payments platform such as bringing in the bulk payment options to online banking platform, thus enabling the corporate clients to automate all of their single entry payments and also to avail themselves with payment limits according to their signature rules. Coupled with the features such as Multilevel Authorisation, Administrator User, Single User ID for several company accounts – shared ID etc., enhanced an already robust product.

Product Growth – Customer Base



Graph 48

Island wide product awareness campaigns to promote the features of Corporate and Personal Banking solutions to encourage usage, were a key factor in driving growth in Online Banking. Furthermore, free registration campaigns through the branch network, User activation campaigns with cash/iPhone rewards and continuous text/EDM circulations on product features propelled usage as well the new registrations. Unique features such as the ability to view the images of the deposited cheques (single or bulk) and paid cheques along with scheduling of bill payments for future dates (on the actual due date) provide a competitive advantage to our product. At present, Commercial Bank is the only Sri Lankan Bank to provide online cheque viewing facilities to customers.

The Bank's performance in the mobile banking segment is noteworthy, especially taking in to consideration the unprecedented growth achieved in 2015.

The launch of yet another unique feature titled 'e passbook' was a contributory factor towards the mobile banking growth in 2016. Progress in this segment is vital for the remittance business of the Bank as mobile banking provides the required connectivity.

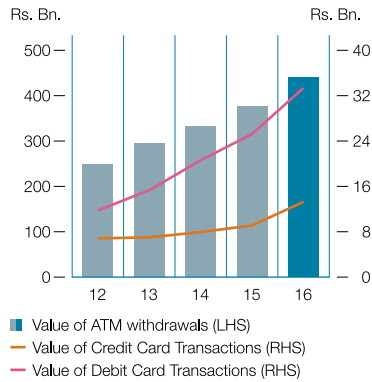
Performance of PayMaster, has been particularly pleasing with a growth of 22% during the year and this was driven by increased customer migration and usage. Planned enhancements for 2017 are expected to empower corporate customers to initiate and complete more transactions with enhanced security features and analytical capability.

Cashless Payments

Cashless payments using debit cards and credit cards in Sri Lanka increased by over 16% and 13% supported by growths in POS terminals and customer acquisition. Card usage measured by the number of debit and credit card transactions increased around 25% each respectively while the value of transactions grew by 25% and 22% by the 3rd quarter of 2016 reflecting the increased popularity of debit cards. POS terminals in the country increased by 7% to 41,283 by the 3rd quarter of 2016 supporting the increased use of cards. ATM transactions in the country also increased by 9% in volume and 18% in value up to September 2016 supporting the overall infrastructure in the country for card based transactions.

Card operations at the Bank gained a new vibrancy as we set out to aggressively grow our credit and debit card portfolios. The Bank continues to be the market leader in debit card spending recording over 30% growth in 2016 supported by approximately 30% increase in cards issued during the year. We focussed on aggressive expansion of our credit card business achieving exponential growth in the cards issued and a substantial growth in credit card spend in 2016. The credit card portfolio also grew by approximately 40% and the total credit card outstanding to reach Rs. 6.7 Bn. at the year end as we captured market share (Graph 49).

Cards



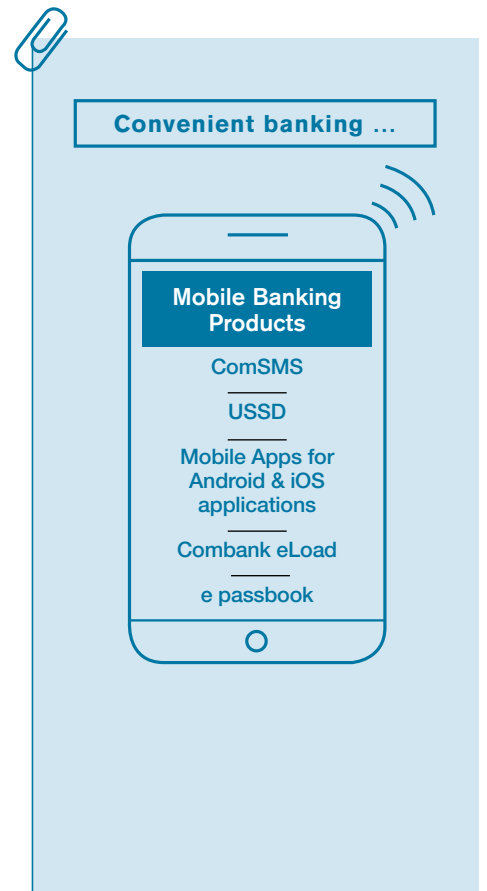
Graph 49

Growth in card operations was supported by the launch of premium cards such as Visa Infinite, Signature and Master Card World which were launched to address the lifestyle requirements of the affluent customers. Customer convenience was facilitated through the issuance of Near Field Communication (NFC) enabled cards for all credit cards and new debit cards reducing transaction times for the mutual benefit of the customer and the merchant. Introduction of OTAP for credit and debit cards expediting the dispatch and receipt of the PIN by the cardholder in a secure manner was an innovation in the entire industry.

Issue of the *Ransalu* privilege card for the apparel sector employees jointly with the Joint Apparel Association Forum and Channel 17 enabled them to access discounts for essential items, hospitalisation, pharmaceutical products, clothing and other products. The Bank also issued the Smart Tea Card facilitating automation of the procurement of tea leaves and settlement for bought leaf using Sony 'FeliCa' Near Field Communication (NFC) technology in the market, enabling its promoter Smart Metro (Pvt) Ltd. to deploy a Debit Card cum Identification Card for tea leaf suppliers.

Bancassurance

Growth in Bancassurance fee income and number of policies were over 12% and 25% respectively reflecting challenging market conditions. The Bank worked with eight partners for Life Insurance and eight partners for General Insurance following the recent segregation of activities. Offering unmatched reach to partners through our network of branches, it enables the Bank to provide a seamless service to its customers for their entire range of financial needs. Internal competitions and the issue of DTAP for pensioners supported the growth of the product. Pressure from Brokers associations and possible changes in legislation are key threats to the growth of this business line together with intense competition from both insurance brokers and other banks.

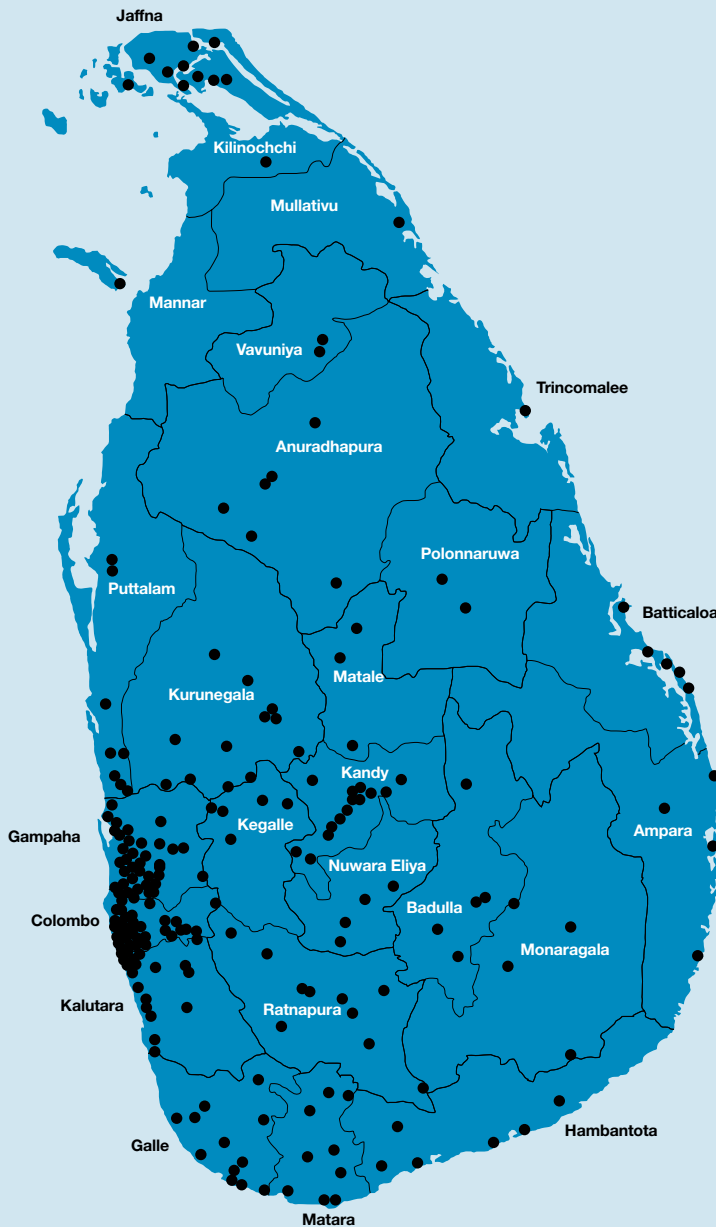


NETWORK OF DELIVERY POINTS IN SRI LANKA

| | | | | | | | | | | | | |
|--|---|--|---|--|--|---|---|--|--|--|--|--|
| Western Province Colombo ABC* M Athurugiriya Attidiya Avissawella Bambalapitiya Bambalapitiya (Majestic City) K Baseline Road Battaramulla Battaramulla (Arpico Super) K Bokundara (Minicom) K Boralessgamuwa Boralessgamuwa (Laugfs Super) K Borella A City Office Colombo 07 G Colombo Gold Centre Dehiwela Dehiwela (Arpico Super) K Delkanda Duplication Road eBanking Elite A Foreign D Grandpass Hanwella Homagama Hulftsdorp Hyde Park Corner (Arpico Super) K Kaduwela Katubedda Katubedda (Minicom) Keyzer Street Kirulapone Second Kirullapone Kohuwala Kohuwala (Keells Super) K Kollupitiya Kollupitiya (Liberty Plaza) K Kotahena A Kotikawatte A Kottawa Maharagama A Maharagama (Laugfs Super) K Malabe Maradana Mattegoda (Laugfs Super) K Moratuwa A Moratuwa (Laugfs Super) K Mount Lavinia Mutwal Narahenpita Narahenpita (Ronan Inter'l) K Nawala Nawam Mawatha Nawinna (Arpico Super) K Nugegoda A Old Moor Street Padukka Panchikawatte Pelawatte (Laugfs Super) K Pettah Pettah Main Street E Piliyandala Pita Kotte Rajagiriya Rajagiriya (Keells Super) K Ramanayake Mawatha Ratmalana Reid Avenue J Thalawathugoda Union Place Union Place (Keells Super) K Vauxhall Street (SLIC) Ward Place L Wellawatte I Wellawatte Second World Trade Centre | Gampaha Bandarawatte (Laugfs Super) K Biyagama Delgoda (Laugfs Super)* Divulapitiya Ekala Gampaha A Gampaha (Keells Super) K Ganemulla Hendala (Keells Super) K Ja-Ela Ja-Ela (K-Zone) K Kadawatha Kadawatha (Arpico Super) K Kandana A Katunayake BIA Arrival Lounge M Katunayake BIA Departure Lounge* Katunayake FTZ Kelaniya* Kiribathgoda J Kiribathgoda (Laugfs Super) K Kirindiwela Kochchikade Makola Minuwangoda Mirigama Negombo B Negombo (Arpico Super) K Negombo Second Nittambuwa Nittambuwa (Nihal Super) H Peliyagoda Raddolugama A Ragama A Seeduwa J Veyangoda* Wattala Wattala (Arpico Super) K Weliveriya Yakkala Kalutara Aluthgama Bandaragama Beruwala (Minicom) K Horana Horana (Wijemanna Super) K Kalutara Kalutara (Arpico Super) K Katukurunda (Minicom) K Matugama C Panadura Panadura (Keells Super) K Panadura Second Wadduwa | Southern Province Galle Ambalangoda Baddegama Batapola Elpitiya Galle City Galle City (Minicom) * Galle Fort Hikkaduwa Karapitiya Koggala Neluwa Udugama Hambantota Ambalantota Beliatta Hambantota Middeniya Tangalle Tissamaharama Matara Akuressa Deiyandara* Deniyaya Kamburupitiya Matara B Matara (Keells Super) K Matara City Office Morawaka* Urubokka Weligama | Eastern Province Ampara Akkaraipattu Ampara Kalmunai Pottuvil Batticaloa Batticaloa A Batticaloa (Minicom) * E Chenkalady Kattankudy Valaichchenai Trincomalee Trincomalee | North Central Province Anuradhapura Anuradhapura Anuradhapura New Town Kekirawa Medawachchiya Nochchiyagama Thambuttegama Polonnaruwa Hingurakgoda Kaduruwela | North Western Province Kurunegala Alawwa Giriulla Kuliypitiya Kurunegala B Kurunegala (Minicom) K Kurunegala City Office Mawathagama Narammala Nikaweratiya Pannala Polgahwela Wariyapola Puttalam Chilaw Dankotuwa Marawila Nattandiya Palavi Puttlam Wennappuwa (Arpico Super) K Wennappuwa | Central Province Kandy Akurana (Minicom) K Anniwatte (Nihals Super) K Yakkala Gampola Gelioya (Arpico Super) K Kandy A Kandy (City Centre) K Katugastota Katugastota (Minicom) K Kundasale (Dumbara Super) K Nawalapitiya Peradeniya Pilimalawa Wattagama Ext. Office Matale Dambulla Galewela Matale | Nuware Eliya Hatten Maskeiya Nuwara Eliya Thalawakelle | Uva Province Badulla Badulla Badulla (Minicom) F Bandarawela Mahiyanganaya Passara Welimada Monaragala Kataragama Monaragala Wellawaya | Notthern Province Jaffna Chankanai Chavakachcheri Chunnakam Jaffna G Jaffna Stanley Road A Kodikamam Manipay Nelliady A Thiruneively Velanai Kilinochchi Kilinochchi Kilinochchi (Minicom)* Mannar Mannar Mulativu Mulliyawalai Vavuniya Vavuniya Vavuniya Second | | | |
| * Branches opened in 2016 | | | | | | | | | | | | |

Banking Hours

| | A | B | C | D | E | F | G | H | I | J | K | L | M | |
|---------------------|-----|--------|--------|--------|-----|--------|--------|--------|--------|-----|-----|--------|------|------|
| Weekdays | 9-3 | 9-3 | 9-3 | 9-3 | 9-4 | 9-6 | 9-6 | 9-6 | 9-6.30 | 9-8 | 9-9 | 9.30-7 | 10-5 | 24*7 |
| Saturday | - | 9-1.30 | 9-1.30 | - | - | 9-1.30 | - | 9-1.30 | 9-6.30 | 9-3 | 9-9 | 9.30-7 | 10-5 | 24*7 |
| Sunday | - | - | 9-1.30 | 9-1.30 | - | - | 9-1.30 | 9-1.30 | 9-6.30 | - | 9-9 | 9.30-7 | - | 24*7 |
| Bank Holidays/Poya* | - | - | 9-1.30 | - | - | - | - | 9-1.30 | 9-6.30 | - | 9-9 | 9.30-7 | - | 24*7 |



| | No. of Branches | No. of ATMs |
|-------------------------------|-----------------|-------------|
| Kandy District | 14 | 30 |
| Matale District | 3 | 10 |
| Nuwara Eliya District | 4 | 9 |
| Central Province | 21 | 49 |
| Ampara District | 4 | 7 |
| Batticaloa District | 5 | 11 |
| Trincomalee District | 1 | 3 |
| Eastern Province | 10 | 21 |
| Anuradhapura District | 6 | 12 |
| Pollonnaruwa District | 2 | 8 |
| North Central Province | 8 | 20 |
| Kurunegala District | 12 | 38 |
| Puttalam District | 8 | 17 |
| North Western Province | 20 | 55 |
| Jaffna District | 11 | 24 |
| Kilinochchi District | 2 | 4 |
| Mannar District | 1 | 2 |
| Mullative District | 1 | 2 |
| Vavuniya District | 2 | 6 |
| Northern Province | 17 | 38 |
| Kegalle District | 4 | 10 |
| Ratnapura District | 10 | 21 |
| Sabaragamuwa Province | 14 | 31 |
| Galle District | 12 | 30 |
| Hambantota District | 6 | 13 |
| Matara District | 10 | 21 |
| Southern Province | 28 | 64 |
| Badulla District | 6 | 11 |
| Monaragala District | 3 | 6 |
| Uva Province | 9 | 17 |
| Colombo District | 77 | 205 |
| Gampaha District | 39 | 125 |
| Kalutara District | 13 | 32 |
| Western Province | 129 | 362 |
| | 256 | 657 |

CORPORATE BANKING

PARTNERING WITH CORPORATES IN ACHIEVING THEIR GROWTH ASPIRATIONS, WE SEEK TO BE THE MOST CUSTOMER CENTRIC CORPORATE BANKER WITH THE BEST TECHNOLOGICAL SUPPORT, POISED FOR GROWTH. DRAWING ON OUR EXPERTISE, GLOBAL AND LOCAL REACH, INDUSTRY INSIGHTS AND ROBUST DIGITAL PLATFORM, WE OFFER CUSTOMISED SOLUTIONS TO A LOYAL AND GROWING CORPORATE CLIENTELE IN SRI LANKA AND MALDIVES.



Over 19%

YoY ▲

corporate loan book

Rs. 19 Bn.

funds raised by
Investment
Banking Unit



Less than

1%

NPL ratio

**Sustained market share
in Trade Finance**

Accounting nearly one-fourth
of the Bank's asset base,
the Corporate Banking Division
facilitates large scale
economic activities



*Milaidhoo Island Maldives, another 5 star luxury resort completed in 2016
financed by the Bank for a longstanding Maldivian Corporate*



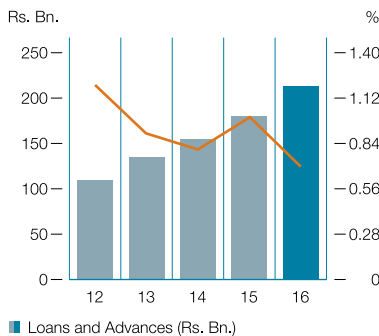
*Commercial Bank financed along with a consortium of banks, the first utility scale
solar power plant in the country, further emphasising its commitment to renewable
energy and green financing.*

Driving Growth

Corporate banking facilitates large scale economic activities supporting the highly specialised requirements of corporate customers in Sri Lanka and Maldives. Accounting for over 8% and over 17% of Sri Lanka's imports and exports, we play a key role in facilitating trade drawing on carefully nurtured expertise in trade finance. Our network of 51 correspondent banks and 255 branches enables us to connect supply chains from rural villages to global markets, providing clients with seamless banking solutions. In 2016, we continued to focus on our key areas of innovation, professionalism and service quality and optimising earnings. This resulted in deepening client relationships, increased targeted marketing and enhancing customer experience while maintaining asset quality.

The Corporate Banking Division accounts for 23.72% of the Bank's assets portfolio and 27.22% of the Bank's Profits before Tax. Rising interest rates during the year inevitably led to moderation of credit demand by the corporate sector in the country, intensifying competition for Corporate Banking. Despite this, loan growth in the Corporate Banking was satisfactory at approximately 19%, as we strived to maintain a balance between growth, asset quality and pricing. Key growth sectors were health care, trading, apparel, education and leisure reflecting the areas of growth for the economy.

Loans & Advances

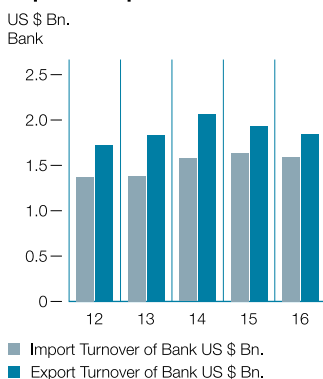


Graph 50

Gross return on advances increased from 7.75% in 2015 to 10.24% in 2016 in the Corporate Banking unit, in spite of interest margins narrowing in line with expectations. A customised pricing strategy was adopted which enabled loan growth and increase in overall return on advances.

Import and Export volumes remained stable (Graph 51) while commission income from trade contributed over 50% of the commission income of the Bank. Maintaining asset quality was a strategic priority and risk acceptance processes were strengthened accordingly.

Import & Export Turnover



Graph 51

Our Products

Using the Bank's entire range of products (Figure 23), the Corporate Banking Team customised solutions ranging from project lending, packaged facilities for Non-banking financial institutions, plantations sector and health services sector.

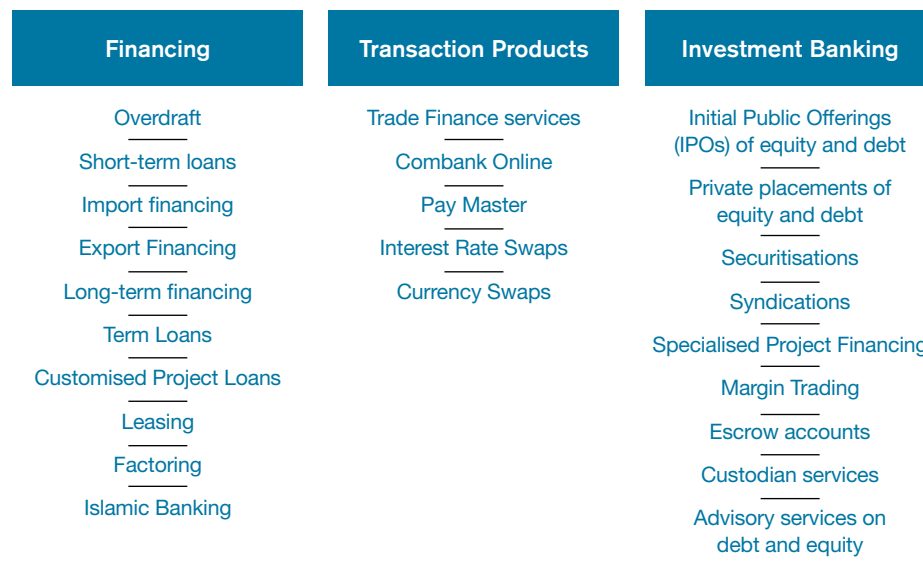


Figure 23

23.72%
Contribution to the Assets

27.22%
Contribution to PBT

Supporting Client Growth

Structural changes in 2015 which brought the Trade Finance Department under the umbrella of Corporate Banking enabled higher levels of customer service and efficient delivery of products. Our clients access the specialised knowledge of the Trade Finance Team who work together with Relationship Managers to structure optimal solutions for customers. We continue to design and customise products and services with innovative features while engaging in continuous product development to suit changing market demand.

Digitisation

Bank’s user friendly technology, product responsibility and focus on system security has enabled corporate customers to simplify their own operations. Many processes were automated during the year to enhance customer service at Corporate Banking. On-boarding of customers to online banking solutions continues to grow. ComBank online corporate platform was relaunched to suit the clients’ needs, whilst facilitating trade finance transactions. ComBank PayMaster is well accepted as a corporate payment solution and enables our institutional clients to manage their EPF/ETF payments in a hassle free environment.

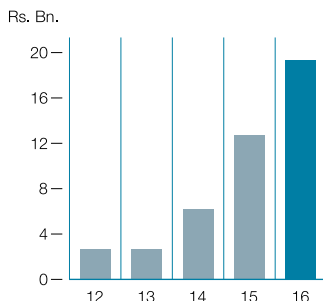
We continue to invest in ensuring our online solutions are fit for the future and constantly review the need to update or enhance the services provided through customer engagement and review of emerging technologies. Many IT projects which are in the pipeline will therefore enable us to further improve our digital offering, in support of our vision ‘to be the most customer centric Corporate Banker with the best technological support, poised for growth’.

Investment Banking

The Investment Banking Unit offers a range of services to customers, including structuring and management of equity and debt issues, syndicated loans, margin trading, custodian services, and escrow services. It complements the extensive range of services offered by the Bank and the integration of investment banking services with commercial banking facilities positions Commercial Bank of Ceylon PLC as a universal bank, catering to a diverse range of customer requirements.

The Investment Banking Unit raised funds amounting to Rs.19 Bn. during the year (Graph 50). Other fund raising assignments included securitisations, syndicated loans and project loans. It was also involved in financing the first commercial scale grid connected solar power project in Sri Lanka during the year, along with two other banks.

Funds Raised



Graph 50

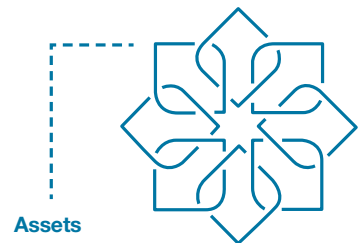
Increasing interest rates and the lacklustre performance of the Colombo bourse dampened the performance of structuring and managing equity issues and margin trading operations. However, a pipeline is being built for an appropriate time when markets show signs of increased appetite for equity.

Islamic Banking

Our Islamic Banking Unit Al Adalah has been in operation since June 2011 based on the concept of ‘profit and loss sharing’ as an alternative to conventional interest based financial transactions as Islamic Sharia law prohibits the charging of interest. It is under the purview of a Sharia Supervisory Board comprising Sharia scholars who carry out periodic reviews and audits to ensure that all transactions conform to the principles of Islamic banking, while being subject to the ongoing supervision of the Central Bank of Sri Lanka. Accessible through the Bank’s branch network, it offers products for both investment and financing, including Off-shore Banking (Figure 24).

Deposits

- Mudaraba Savings
- Mudaraba Investments



Assets

- Murabaha
- Musawamah
- Wakala
- Musharaka
- Diminishing Musharaka
- Ijara

Figure 24

The Islamic Banking Unit is in the process of expanding its product range to include Islamic banking products to match services offered in conventional banking platforms.

TREASURY

OUR ROLE ENCOMPASSES MANAGEMENT OF THE BANK'S INTEREST RATE RISK, LIQUIDITY RISK AND FOREX RISK, PLAYING A KEY ROLE IN MANAGING MARGINS. A MARKET LEADER IN INTERBANK FX AND FIXED INCOME SECURITIES MARKET, OUR OPERATIONS COMPRISE TREASURY SALES, FIXED INCOME TRADING, INTERBANK & ALM WITH OVERSIGHT RESPONSIBILITY FOR TREASURY FUNCTIONS OF THE BANGLADESH OPERATIONS.



Over 25%

Bank's assets
comprise fixed
income securities

US \$ 200 Mn.

mobilised by way
of foreign currency
borrowings

Strategic rebalancing
of fixed income
securities portfolio

Treasury remains the market leader in Interbank FX Operations



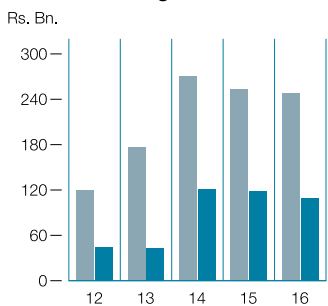
Treasury Symposium 2016 held in Kandy with the participation of the Bank's top corporate clients and the Management of CBC under the theme 'Recent Global Market Developments and Impact on Emerging Markets'

Treasury operations comprise three specialised areas, Forex & Corporate Sales, Fixed Income Securities trading and ALM Operations, each of which are headed by a Chief Dealer, who reports to the Head of Global Markets and Head of Global Treasury.

Fixed Income Securities

The Fixed Income Securities portfolio is managed to support liquidity of the Bank, while optimising earnings. Our portfolio is one of the largest in the country, making this a key component of our balance sheet, accounting for over 25% of total assets and over 7% of total liabilities.

Interest Earning Assets and Interest Bearing Liabilities



■ Interest Earning Assets (Rs. Bn.)
■ Interest Bearing Liabilities (Rs. Bn.)

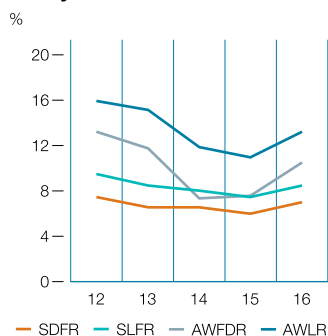
Graph 51

CBSL tightened monetary policy during 2016 to curb inflation, monetary and credit expansion and the expected shortfall in tax revenue collections. Accordingly, the Statutory Reserve Ratio was increased by 150bps in January 2016 and policy interest rates twice by 50 bps on each occasion. Statutory Reserve Ratio (SRR), the Standing Deposit Facility Rate and the Standing Lending Facility Rate, stood at 7.50%, 7% and 8.5% respectively as at end 2016.

Market liquidity remained tight during the year, due to strong private sector credit growth and movement to higher yielding deposits. Liquidity remained tight throughout the year, exerting pressure on interbank rates, AWDR and AWPLR, moved up (Graph 52). Consequently, both lending and deposit rates moved up, although a lag in re-pricing and intense competition, gave rise to a marginal decline in NIM.

Upward movement of interest rates gave rise to fair value losses on re-measuring financial instruments available-for-sale, although interest income flows remain unaffected.

Policy & Market Interest Rates



Graph 52

2016 also saw outflow of foreign investments from the bond market that added further pressure on treasury rates to move higher. In addition, CBSL also reduced their involvement in USD/LKR swap market, which also reduced rupee liquidity in the market.

Treasury also raised Rs.13 Bn. through two debenture issues, which were both oversubscribed on the opening day. This strengthened the Tier II capital requirements of the Bank, ensuring that we remain well above the regulatory requirements.



Treasury Products

Investment Products

- Sri Lanka Development Bonds
- Special Foreign Currency Investment Deposit Accounts

Foreign Exchange

- Forward Contract
- SPOT Contract

Fixed Income Products

- Treasury Bills
- Treasury Bonds
- REPOs
- Reverse REPOs

Financial Derivatives

- Interest Rates Derivatives
- Currency Options

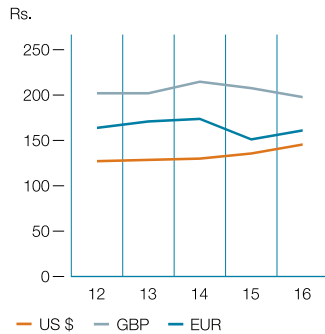
Foreign Exchange and Corporate Sales

This desk carried out FX trading operations, while supporting the Personal, Corporate Banking and Trade Finance businesses, managing the foreign exchange requirements of their customers and the Bank’s forex risk. Operations of this division are impacted mainly by movements in the exchange rate, the volume of import and export business and remittances channelled through the Bank.

The Sri Lankan Rupee devalued by 3.8% from Rs. 144.15 at the beginning of the year, to Rs.149.75 by the close of the year, a relatively stable performance compared to the 9% devaluation experienced in 2015. CBSL allowed greater flexibility in the determination of the exchange rate, opting to strengthen the country’s foreign exchange reserves. Higher imports and debt service payments, reversal of foreign investments in the Government Rupee Securities market and moderate growth of workers’ remittances, resulted in pressure on the exchange rate (Graph 53).

The Bank’s forex profit of Rs. 2.3 Bn reflects increased volumes of trade finance business and remittances. The Bank’s Treasury remains the market leader in Interbank FX Operations, providing liquidity in spot, forward and swap transactions.

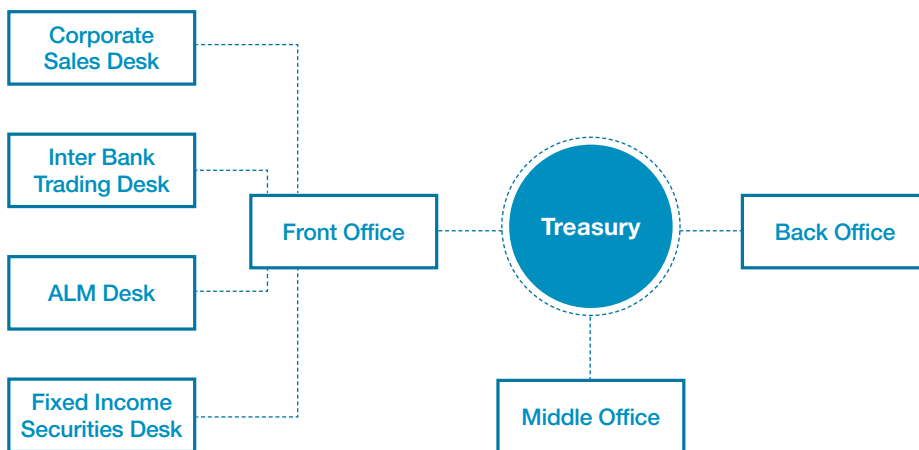
Exchange Rate – Annual Average



Graph 53

ALM Operations

The Treasury was actively engaged in assets and liabilities management of the Bank’s balance sheet. The key objective is to ensure adequate liquidity for the Bank’s operations, while ensuring optimal pricing mechanism for its assets and liabilities. The Treasury was actively engaged in ALCO activities and regularly provided strategic direction for banking operations given the liquidity constraints and pricing challenges faced. The Treasury was successful in mobilising foreign currency borrowings over US \$ 200 Mn. in 2016, to support lending and investment activities of the Bank.



INTERNATIONAL OPERATIONS

STRONG FOUNDATIONS LAID IN 2015 PROVED A SOUND PLATFORM FOR GROWTH IN MALDIVES, MYANMAR AND ITALY, EXPANDING OUR FOOTPRINT BEYOND OUR FIRST OVERSEAS VENTURE IN BANGLADESH. WE STRENGTHENED OUR MARKET LEADERSHIP POSITION IN INWARD REMITTANCES AS WE COMMENCED OPERATIONS IN ITALY THROUGH OUR SUBSIDIARY COMMEEX, PAVING THE WAY FOR A NEW ERA OF GROWTH. WE ALSO EXPANDED OUR HORIZONS WITH THE OPENING OF A FULLY FLEDGED TIER I BANK IN MALDIVES.



**Setup Tier I Bank
in Maldives** with
55% stake

Commex
commenced money
transfer operations
in Italy

**Bangladesh Head
Office** moved to a
new premises

Accelerated growth
Offshore lending

**A significant contribution for
the financial performance of
the Bank from International
Operations**



Commercial Bank of Maldives Private Limited, the second foreign subsidiary of the Bank, formally inaugurated its banking operations in the Maldives on September 26, 2016



Bangladesh Head Office moved to a new building at Gulshan, Dhaka

Bangladesh

Commencing operations in 2003 with the acquisition of the Bangladesh operations of Credit Agricole Indosuez comprising five own customer touchpoints, CBC Bangladesh has grown to 39 own customer touchpoints by 2016. Rated AAA by Credit Rating Information and Services Ltd., for the seventh successive year, we are positioned for further growth in Bangladesh leveraging a wide range of products and services, technology and expertise in SME and Corporate Banking.

Economy

Bangladesh experienced a strong economic growth of 7.05% during 2016 supported by impressive private sector credit growth, foreign direct investment inflows, revived exports and increased domestic consumption. Accordingly, per capita income increased from US \$ 1,314 in 2015 to US \$ 1,466 in 2016 supporting improvement in social indicators. Inflation dipped from 6.1% in 2015 to 5.52% in 2016 as both food and non-food prices declined during the first half of the year although it commenced an upward trend in the fourth quarter. The Bangladeshi Taka depreciated marginally against the US \$ by 0.2574% to 78.70 by the close of 2016 as the trade deficit increased by 6.13% (January to October 2016) due to growth in imports. Foreign exchange reserves stood at an all-time high of US \$ 32.09 Bn, equivalent of 8 months imports. Foreign worker remittances, a key source of foreign exchange for the country declined by 11.14% during the year. Bangladesh has maintained a Ba3 stable rating by Moody's and BB- from Standard & Poor sovereign rating with stable outlook for six consecutive years.

Banking Sector Performance

The country's banking sector comprises 57 banks and 31 non-bank financial institutions which are regulated by Bangladesh Bank. Year on year growth in deposits and advances in November 2016¹ amounted to 12.78% and 13.18% respectively. A low interest rate scenario

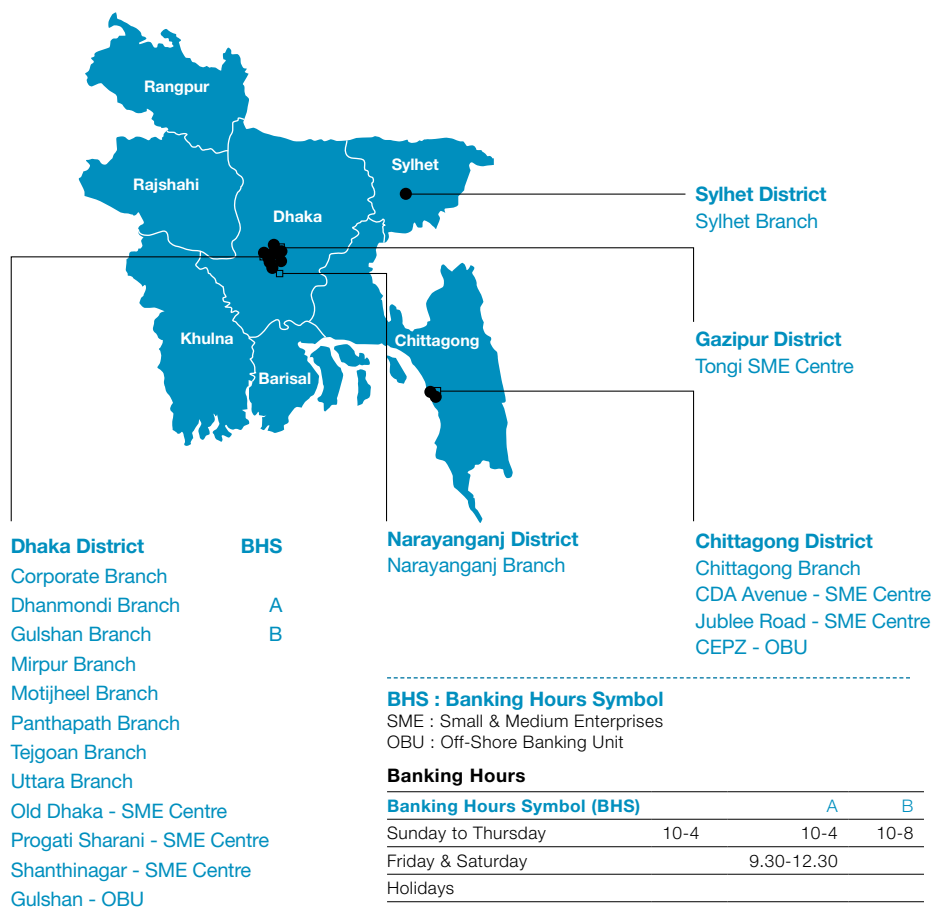
prevailed during the year resulting in interest spreads narrowing from 4.84% in January 2016 to 4.65% in November 2016. The sector was further challenged by excess liquidity with consequent impact on earnings.

Performance

CBC Bangladesh Head Office was moved to a new premises in Gulshan 2 in November 2016 and the former Head Office was converted to a Corporate Branch enhancing the proximity to its corporate clientele and visibility in the market. We also launched the latest corporate online solution enabling customers to set-up rule based payments with latest digital security features offering corporate customers the ability

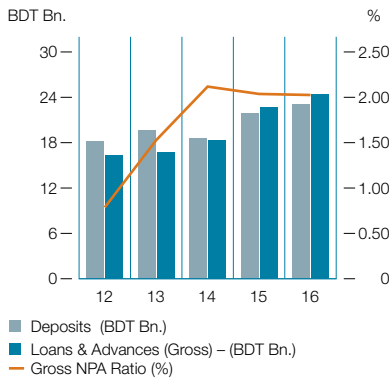
to streamline their payment processes. Savings customers now have access to their accounts with the launch of the epassbook which has proved popular in Sri Lanka. Performance during the year was mixed as Bangladesh operations exceeded growth targets nevertheless falling short of profit targets due to unfavourable market movements.

The number of accounts grew by 10% during the year, setting a platform for future growth. Deposit and advances grew by 5% and 8% respectively on a year on year basis although average growth was more encouraging at 12% and 11% respectively. (Graph 54)



¹Source: Statistics Department, Bangladesh Bank

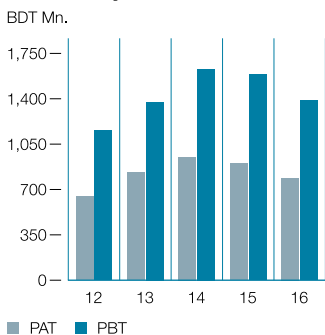
Deposits & Advances



Graph 54

Earnings were impacted by reducing interest spreads with the Net Interest Margin declining from 6.44% to 5.11%. This was exacerbated by the lack of capital gains due to restrictions imposed by Government on long and medium-term bonds, lack of fluctuations in interest rates, increase of general provisioning due to growth in both funded and non-funded advances towards end of the year, and drop in commission and exchange income due to reduction in exports. Deteriorating credit quality remains a concern which is managed by increasing the rigour and probity of approval and monitoring processes. Inevitably, both cost to income ratio and return on assets declined to 32.76% and 3.74% in line with earnings.

Profitability



Graph 55

CBC Bangladesh is launching several initiatives to improve performance in 2017, pursuing a strategy of growth with increased focus on SME, fee-based revenue sources and asset quality. Planned activities to support strategy include

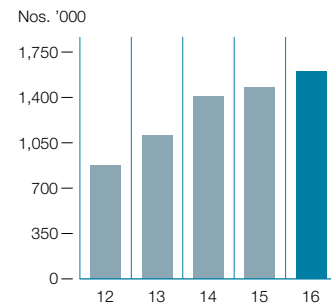
expanding the product portfolio, targeted marketing, streamlining processes and retaining experienced and motivated employees. We continue to align strategy to opportunities in the market whilst clearing monitoring developments in Bangladesh and with a view to realising our strategic goals.

Remittances

Inward remittances from migrant workers is a key source of foreign exchange for the country which amounted to US \$ 6,557 Mn. by end November 2016, an increase of 3.07% over the corresponding period in 2015. The moderation in growth from 2015 attributed to declining oil prices which impacted key migrant worker markets in the Middle East and the decline in migration in skilled, semi-skilled and unskilled categories by 10.5%. Policy measures implemented to discourage unskilled female workers has also contributed to the decline in the number of migrant workers. Migration in the professional category increased by 7.6% during the first half of the year.

The Bank strengthened its position as a key player in remittances in an increasingly competitive environment by structuring products that address the concerns of both the workers and the beneficiaries. Launch of the Visa branded remittance card for beneficiaries in 2016 enables them to access a wide range of benefits which were previously available only to credit card holders, improving the lifestyle of an underbanked segment. Additional value added features include withdrawals through own or other ATMs and over the counter loans of up to Rs. 50,000. Market acceptance for the product has been encouraging with over 15,000 cards issued during the first six months from launch. As the first bank to launch a web based solution enabling access to funds in real time, we have been able to increase our market share in remittances, leveraging our branch network and technology.

Remittances to Account



Graph 56

We continued to expand our remittance channels focusing on customer convenience. Moving away from brick and mortar channels, we expanded with our partner in the Sultanate of Oman to facilitate mobile to account remittances in real time while in the Kingdom of Saudi Arabia we worked with our partner National Commercial Bank to facilitate real time transfers through the ATM network and online banking channels. In Europe, we commenced operations of Commex Sri Lanka S.R.L., our fully-owned Subsidiary in Italy, to facilitate remittances from the Sri Lankan expatriates to their families, further enumerated below under Offshore Banking.

Offshore Banking

2016 was a year to build on the regulatory approvals obtained during 2015 in Italy and Maldives and to grow in Myanmar where we have a representative office since June 2015, thus becoming first Sri Lankan bank to be granted a licence by the Central Bank of Myanmar. We have operated an advisory services model to Sri Lankan and Bangladeshi businesses looking to invest or trade in Myanmar. Aspiring to be a catalyst in increase bilateral trade between Myanmar, Sri Lanka and Bangladesh, we have received encouraging responses during the year. Although there is significant potential to play a wider role which would require a more comprehensive license.

We have discussed about the operational details of Maldivian and Italian operation under the section of 'Subsidiaries and Associates' on pages 102 and 103.

SUBSIDIARIES AND ASSOCIATES

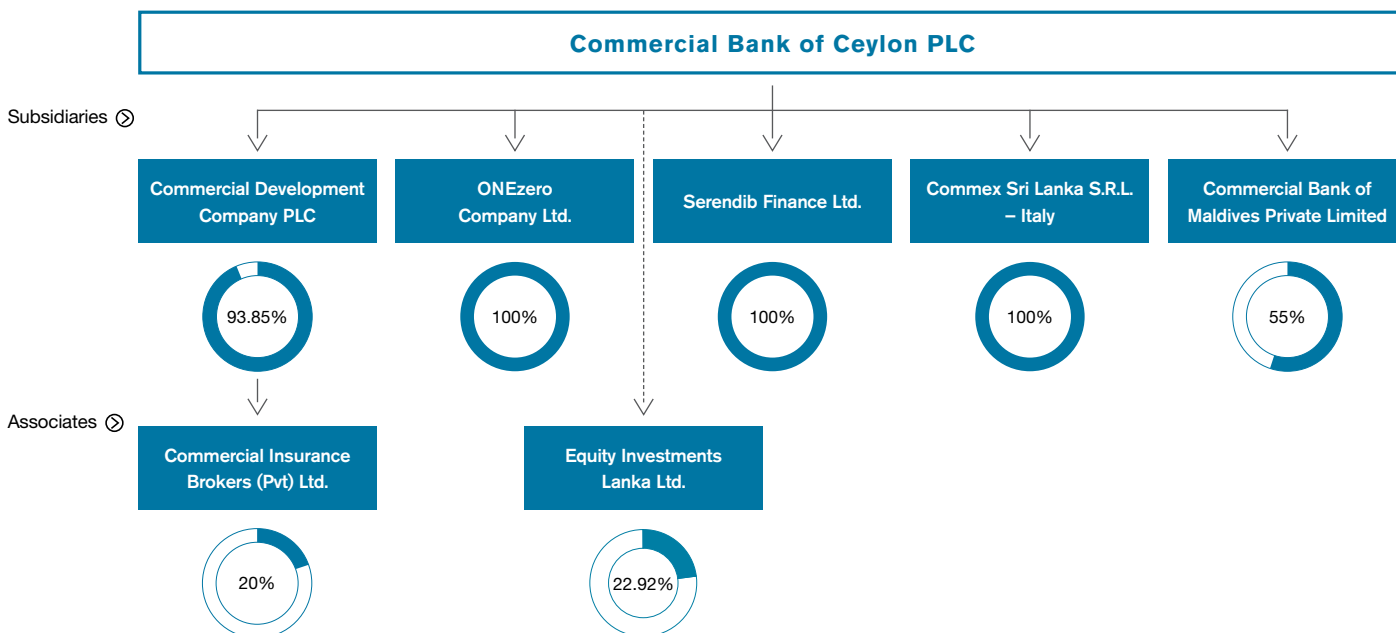


Figure 25

Commercial Development Company PLC (CDC)

Commercial Development Company PLC (CDC) was formed in 1980 as the first subsidiary of the Bank to build the present Head Office building of Commercial Bank. At present, the Bank holds 93.85% of stake of the CDC. Today CDC is one of the principal utility service providers of the Bank. The Company derives most of its income from renting space in the 'Commercial House' building and outsourcing staff.

CDC recorded a post-tax profit of Rs. 326.441 Mn. for the year ended December 31, 2016 compared to Rs. 259.794 Mn. recorded in the previous year, an increase of 25.65%, which was mainly due to the increase in fair value gain recognised o/a fair valuation of the investment properties.

The Company has already drawn up plans to enhance its profitability further during 2017.

ONEzero Company Ltd.

ONEzero Company Ltd., a wholly-owned Subsidiary of Commercial Bank, provides Information Technology Services and Solutions to the Bank. The Company has four main lines of business: providing

hardware and software related support services, supply of computer hardware and licensed software, software development and the outsourcing of professional and skilled manpower to the Bank.

The Company provides technical support to nine regions of the Bank. In 2016, an extended support centre was set-up in the Southern region to uplift the service level. It further started In-house software development to generate more income to the bottom line.

ONEzero Company, recorded a post-tax profit of Rs. 33.209 Mn. for the year ended December 31, 2016, compared to Rs. 27.523 Mn. recorded in the previous year, a growth of 20.65%. The Company expects to improve its bottom line substantially with enhanced operations in 2017.

Serendib Finance Ltd. (SFL)

Commercial Bank acquired Indra Finance Ltd., a licensed specialised leasing company, under the consolidation road map of the CBSL in 2014. The Company currently operates under the name of Serendib Finance Ltd., which focuses mainly on leasing, hire purchase etc. SFL currently has a network of 11 branches.

The re-launching of the Company under the new name is expected to benefit the Bank by enabling it to further extend its leasing operations and penetrate new customer segments to enhance its strengths in leasing through its ability to offer lower priced finance options to customers who finance vehicles through SFL.

The Bank had identified leasing as an area for development as part of its strategic expansion to reach out to untapped market segments and business lines, thus identifying the potentials for SFL in this context. Accordingly, SFL has formulated strategies to make a remarkable turnaround of its performance during 2017. SFL is now well-equipped and geared to face the stiff competition through personalised services.

SFL recorded a profit of Rs. 29.056 Mn. for the year 2016 as against the loss recorded in the previous year, reflecting clear turnaround strategies adopted by the Company during the year 2016. The Company has increased its advances volumes by five times since the acquisition and the total Assets of the SFL stood at Rs. 5.243 Bn. as at December 31, 2016.

Commercial Bank of Maldives Private Limited (CBM)

Commercial Bank of Maldives, the newest member of the Commercial Bank Group formally inaugurated its banking operations in the latter part of 2016 with the opening of its Head Office and the first branch in the Archipelago's Capital, Malé.

Bank holds a stake of 55%, while the balance 45% is held by the Maldivian partner, Tree Top Investments, who brings the much needed in depth local market knowledge to the CBM.

Tree Top Investments, was founded in May 2013 by a group of successful shareholders in the Maldives, each with years of experience and success stories from diverse business sectors.

CBM follows a strategy of providing access to its services through the integration of modern technology and infrastructure to serve the growing consumer and business needs in the market. It aims to be the most technologically advanced, innovative, customer friendly and most sought-after financial service organisation in Maldives while offering an extensive range of financial services.

CBM recorded a loss of Rs. 107.730 Mn. mainly due to pre-operational expenses incurred in 2016 and its total assets stood at Rs. 5.683 Bn. as at December 31, 2016.

Commex Sri Lanka S.R.L. – Italy

Commercial Bank is one of the first Sri Lankan banks to establish money transfer facilities in Italy, which led to many Sri Lankans who had previously used informal channels to remit money to Sri Lanka using the Bank's e-Exchange remittance service. This prompted the Bank's decision to incorporate its own subsidiary for money transfer services.

Commex Sri Lanka, a fully-owned subsidiary of the Bank, was incorporated in Rome to serve the fund transfer needs of Sri Lankan expatriates in Italy. Upon receipt of necessary regulatory approvals from both countries to engage in fund transfers on its own, Commex has inaugurated its money transfer operation in Italy in 2016.

Italy is one of the biggest markets for migrants with an estimated population of 150,000 Sri Lankans. The monthly value of fund inflows to the country from Italy is in the region of about Rs. 3 Bn.

Commex operation was able to break-even in January 2017 by recording an operating profit. Company recorded a cumulative loss of Rs. 19.086 Mn. for the year ended, mainly due to the pre-operational expenses incurred prior to 2016.

Commercial Insurance Brokers (Pvt) Ltd. (CIBL)

The Bank has an indirect stake of 18.77% in Commercial Insurance Brokers (Pvt) Ltd., through its Subsidiary Commercial Development Company PLC.

CIBL offers wide range of products including Motor Insurance, Fire Insurance, Engineering Insurance, Marine Insurance, Life Insurance and Miscellaneous Insurance.

CIBL recorded a growth of Rs. 5.580 Mn. in post tax profit to reach Rs. 25.614 Mn. for the year 2016 mainly due to the increase in its revenue from commission income. Total assets of the CIBL stood at Rs. 295.848 Mn. as at December 31, 2016.

The Company is well-equipped and geared to face the stiff competition faced by the industry through the personalised services.

Equity Investments Lanka Ltd. (EQUILL)

Equity Investments Lanka Ltd. (EQUILL) is a venture capital company, has been in business for over 26 years. EQUILL invest in Equity and Equity featured Debt Instruments in prospective business units. The Bank owns 22.92% stake in EQUILL.

Due to the tough market conditions, the overall performance of the Company was not satisfactory in comparison to the previous year. Drop in dividend income and shortfall in capital gains due to delays in listing of portfolio companies was observed during the year. However the increase in interest rates and the increased

investments in Money Market Instruments had a favourable impact on the Company's interest income during the year.

Presently, the Company is in search of new Investments. However, due to the limited financial resources available, Company is restricted to invest only in a few new projects.

Company's Revenue decreased to Rs. 28.000 Mn. from Rs. 55.536 Mn. in 2015, and the Post-Tax Profit decreased to Rs. 11.949 Mn. from Rs. 37.640 Mn. in 2015.

WHAT THE FUTURE HOLDS

This is how we plan to deliver value to our stakeholders during the period 2017 to 2020. We also provide information from credible sources on the forecast operating environment to provide context to our plans. While considerable efforts were made ensure the reliability of information presented here, we request you to bear in mind that these statements relate to the future and that opinions, forecasts and consequently plans are all subject to change as the future unfolds, changing both opportunities and risks.

Global Economy

The global economy is forecast to grow at 3.4% in 2017 with developing and emerging economies estimated to increase its pace of growth from 4.1% in 2016 to 4.5% in 2017¹. At time of writing, there is significant uncertainty attached to forecasts as the new US Administration reveals and shapes its policy with possible global ramifications. Key assumptions such as near term fiscal stimulus package and increased pace in normalisation of monetary policy need to be monitored as US policy becomes clearer. The forecast also factors in the recent agreement amongst OPEC members and other oil producing countries to limit supply which also warrants monitoring given its impact on the global economy.

Growth in Emerging and Developing Asia is expected to pick up its pace of growth from 6.3% to 6.4% reflecting the normalisation of conditions in a number of countries currently experiencing macroeconomic strains. The forecast for China has been revised up in the expectation of continued policy support while the forecast for India has been revised down on the temporary negative consumption shock stemming from the currency note withdrawal and exchange initiative.

Downside risks to the forecast include a growing debate about the benefits of cross border economic integrations after the Brexit and US elections, shortfall in private demand and inadequate progress on reforms in advanced countries with impaired balance sheets, underlying economic vulnerabilities and geopolitical risks.

Sri Lankan Economy

Sri Lankan economy is projected to grow at 5.5-6% in 2017 with expected rebound in agriculture activities and the improvement in construction activities, international trade and SME sectors. Downside risks to the forecast include the continuation of the ongoing drought, the developments in the global economy after Brexit and the US election and the increasing trend in global oil prices. Price stability will be a key pillar for sustainable long term economic growth. Strengthening of macroeconomic fundamentals, implementing structural reforms, and improving the business environment is essential for sustained economic growth. Central Bank of Sri Lanka (CBSL) will migrate towards flexible inflation targeting framework to focus on stabilising inflation in the mid-single digits over the medium term, while supporting growth objectives and flexibility in exchange rate management.

Financial Sector

A broader, deeper and more liquid financial system is vital for efficient allocation of resources and to facilitate strong economic performance of the country.

Major regulatory provisions that will come into force in coming years *inter alia* include;

- Amendments to the Banking Act and a review of the key Banking Act Directions in areas such as share ownership, foreign borrowings and corporate governance.
- Bank Sustainability Risk Index is proposed with pilot run for large banks being conducted in the first quarter of 2017 which will focus on the efficiency, effectiveness and sustainability of individual banks and the banking sector.

- Capital positions will be strengthened in line with minimum requirements and the Basel III capital and liquidity standards. The Direction on Basel III Minimum Capital Requirements will commence implementation in July 01, 2017 with completion set for January 01, 2019 in line with the international timeline.
- CBSL will also focus on strengthening payment and settlement infrastructure moving towards a less cash dependent society which includes development of a payment platform to effect government payments, particularly the payments to Sri Lanka Customs, through the Common Electronic Fund Transfer Switch in real time.
- A national card scheme and a Common Point of Sales Switch and a Common Mobile Switch are being developed to facilitate clearing and payments.
- Further relaxing of foreign exchange transactions is also on the agenda with a new Foreign Exchange Act to be presented to Parliament in 2017.
- Regional development will be a key focus with the allocation of a Rs. 4 Bn. concessionary development credit scheme through participating financial institutions targeted at supporting Micro, Small and Medium Scale Enterprises (MSMEs).
- Formulation of a national strategy for financial inclusion, promoting commercial scale agriculture and dairy enterprise, a loan scheme for promoting rooftop solar power generation and green financing.

¹World Economic Outlook Update, January 2017

Our Plans

The Bank's strategy is primarily focussed on creating stakeholder value in the long term while balancing the exigencies of the short and medium term. Our strategic priorities to deliver value as depicted below is our blue print for resource allocation in driving earnings and growth:

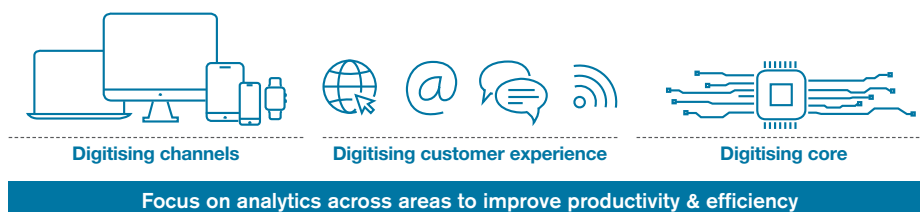


Figure 27

| Performance Indicator | Goal |
|-------------------------------------|--------------|
| Return on average assets | Over 2% |
| Return on average shareholder funds | Over 20% |
| Growth in income | Over 20% |
| Growth in profit | Over 20% |
| Growth in total assets | Over 20% |
| Dividends per share | Over Rs. 5.0 |
| Capital adequacy | |
| Tier I – Minimum 5% | 10% |
| Tier I & Tier II – Minimum 10% | 14% |

Table 12

We are committed to financial inclusion and have gained considerable experience and insights in to this through our Personal banking operations, consistently emerging as the largest provider of financing to the SME sector. Specialised units dedicated to driving MSME growth and 15 Microfinance and Agricultural units connected to branches gives us greater focus and agility to increase penetration in this segment. Our remittance network also serve to connect rural households to the banking system and we continue to enhance our value added services to these customers supporting customer satisfaction and acquisition.

Digitisation paves the way for scalable growth, customer convenience and global connectivity. Our strategy is threefold, digitising processes, customer experience and the core. From a perspective of adding value to customers, we will continue to build on the considerable progress achieved in 2016 by enhancing our online banking solutions, remittance channels and mobile banking products through collaborative partnerships, using appropriate technology. Our core banking systems will also be upgraded and security strengthened through planned initiatives providing a robust platform for growth.

Growth in international operations is based on using our expertise to address perceived opportunities in selected markets. 2016 was an exciting year as we tested waters in two new markets where the response has been encouraging. There is more work to be done in these markets and 2017 will be a year for driving growth in established territories through customised solutions.

International operations provides a new direction of growth for the Bank which is expected to provide stability in earnings in the future as we increase our geographical diversity. Bangladesh is a market that is projected to increase its pace of growth in

2017 and presents an exciting opportunity. Bank will expand operations in Maldives & Italy where we started operations in 2016 and also will continue to explore new markets in the coming year. Our expertise in SME and remittance are expected to play a key role in developing these markets.

Talent management has been a core strength of the Bank and we are able to attract talent to facilitate a robust pipeline. Our structured programmes combining internal and external training together with support for professional qualifications and a mentoring culture carefully nurtured at the Bank are core strengths. We remain committed to investing in grooming our future leaders and the talent necessary to support our growth aspirations.

Our brand reflects our values, capabilities and our promise. Sound corporate governance, disciplined risk management and a track record of industry benchmark earnings have contributed to building our brand. A performance culture drives excellence in all areas of operations supporting a growing number of awards and accolades which add lustre to the brand. These attributes will be the common thread that connects all our strategic initiatives as we look to our future.



Figure 26



Regulatory Framework

The variables in the numerator of our 'equation to the future' will heighten the complexity of the Bank of the future. This will invariably lead to new challenges for the regulators to tackle and may even call for a major overhaul of the regulatory framework. As such, global regulatory reform agenda will continue unabated. It is this stringent regulatory framework that will enhance the "trust" in the players among the stakeholders.

As the heart is to the mind, regulation is to banking.





INVESTOR RELATIONS

Constructive dialogue with investors is key to good governance, providing inputs to strategy formulation for long-term value creation. We are proud of our track record of active engagement with our shareholders and seek to provide relevant and sufficient information within this report to facilitate informed and constructive dialogue at the forthcoming Annual General Meeting.

This segment of the report provides information on the performance of the Bank's listed securities.

1. Our Listed Securities

The ordinary shares of the Bank are listed on the Main Board of the Colombo Stock Exchange (CSE) under the ticker symbol 'COMB'. All debentures issued are also listed on the CSE.

Summary of trading activity and daily prices of shares and debentures are published in most daily newspapers, including the Daily News, Daily FT, The Island and Daily Mirror under the abbreviation of Commercial Bank or COMB (Table 13).

| Security Type | Number in Issue as at | | Ticker Symbol |
|--|-----------------------|-------------|------------------------------------|
| | 31.12.2016 | 31.12.2015 | |
| Equity | | | |
| Ordinary Shares – Voting | 833,521,887 | 820,567,115 | COMB.N0000 |
| Ordinary Shares – Non-Voting | 57,212,653 | 56,299,686 | COMB.X0000 |
| Debt | | | |
| Fixed Rate Debentures March 2016/21 | 44,303,400 | – | COMB-BD- 08/03/21- C2341-10.75% |
| Fixed Rate Debentures March 2016/26 | 17,490,900 | – | COMB-BD- 08/03/26- C2342-11.25% |
| Fixed Rate Debentures October 2016/21 | 50,718,000 | – | COMB-BD- 27/10/21- C2360-12.00% |
| Fixed Rate Debentures October 2016/26 | 19,282,000 | – | COMB-BD- 27/10/26- C2359-12.25% |
| Newsire Codes | | | |
| Bloomberg | | | |
| Dow Jones | | | |
| Reuters | | | |

Table 13

Share Price Trend Over Last Five Years

| | 2016 | 2015 | 2014 | 2013 | 2012 |
|-----------------------------------|--------|--------|--------|--------|--------|
| Ordinary Shares Voting | | | | | |
| Highest price (Rs.) | 151.90 | 194.00 | 179.90 | 126.00 | 119.50 |
| Lowest price (Rs.) | 115.00 | 139.90 | 113.50 | 103.20 | 96.80 |
| Last traded price (Rs.) | 145.00 | 140.20 | 171.00 | 120.40 | 103.00 |
| Ordinary Shares Non-Voting | | | | | |
| Highest price (Rs.) | 123.00 | 149.00 | 125.50 | 102.00 | 99.50 |
| Lowest price (Rs.) | 101.50 | 122.10 | 91.30 | 87.00 | 73.00 |
| Last traded price (Rs.) | 115.00 | 123.00 | 125.10 | 93.00 | 91.10 |

Rs. 118.360 Bn.

Market Capitalisation

| | Rs. Bn. | US \$ Mn. |
|------|---------|-----------|
| 2016 | 118.360 | 790.384 |
| 2015 | 115.033 | 798.009 |

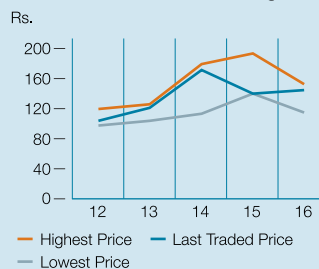
Table 14

Sustainable Value for Investors Ordinary Shares: Voting

| | 2016 Rs. | 2015 Rs. |
|--|-------------|-------------|
| Highest Price (07.11.2016) (12.01.2015) | 151.90 | 194.00 |
| Lowest Price (09.03.2016) (31.12.2015) | 115.00 | 139.90 |
| Year end Price | 145.00 | 140.20 |

Table 15

Share Price Trend – Voting



Graph 57

Ordinary Shares: Non-Voting

| | 2016 Rs. | 2015 Rs. |
|--|-------------|-------------|
| Highest Price (04.01.2016) (12.01.2015) | 123.00 | 149.00 |
| Lowest Price (09.03.2016) (28.12.2015) | 101.50 | 122.10 |
| Year end Price | 115.00 | 123.00 |

Table 16

Share Price Trend – Non-Voting



Graph 58

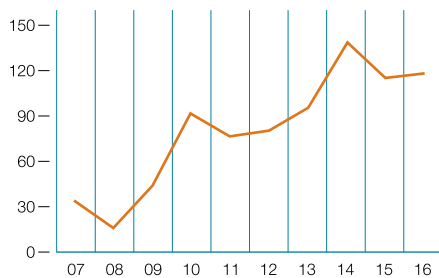
2. Performance of Securities and Return to Shareholders

Market performance moderated during the year reflecting the weak investor appetite, moderating economic growth, rising interest rates and inflation during the year. The All Share Price Index and the S&P SL 20 Index remained in the doldrums as domestic and foreign activity declined sharply by 38.28% and 14.59% respectively. Foreign and local companies were net purchasers albeit at reduced volumes while foreign and local individuals were net sellers. The Banking, Finance and Insurance sectors also reflected a downward trend during the year.

Despite the bleak market performance, the ordinary voting shares of the Bank performed creditably, increasing by 3.42% from Rs. 140.20 at the end of 2015 to Rs.145.00 as at the end of 2016 (Table 15). The number of shares in both categories increased during the year as the Bank continued with its policy of issuing scrip dividends and operationalised the ESOP (Section 3.1). Accordingly, market capitalisation increased from Rs.115 Bn. in 2015 to Rs.118 Bn. in 2016 accounting for 4.31% of the total market capitalisation. Movement of the non-voting share price followed the trend of the voting shares during most part of 2016.

Commercial Bank's Market Capitalisation

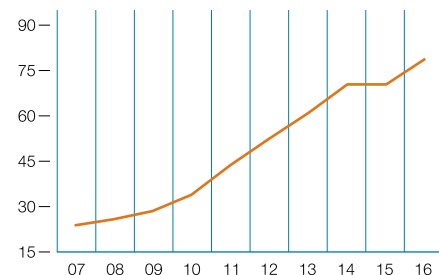
Rs. Bn.



Graph 59

Shareholders' Funds

Rs. Bn.



Graph 60

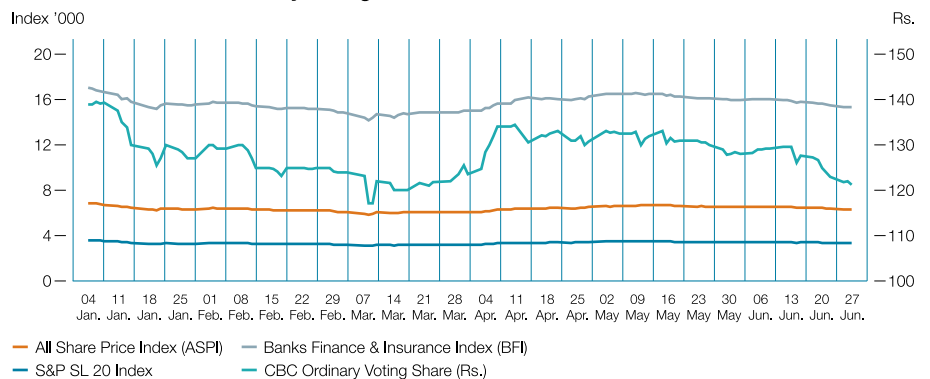
Information on Shareholders' funds and Market Capitalisation

| As at December 31, | Shareholders' Funds | Commercial Bank's Market Capitalisation(*) | Total Market Capitalisation of the CSE | Commercial Bank's Market Capitalisation as a % of CSE Market Capitalisation | Commercial Bank's Market Capitalisation Ranking |
|--------------------|---------------------|--|--|---|---|
| | Rs. Bn. | Rs. Bn. | Rs. Bn. | % | Rank |
| 2016 | 78 | 118 | 2,745 | 4.31 | 3 |
| 2015 | 70 | 115 | 2,938 | 3.92 | 3 |
| 2014 | 71 | 139 | 3,105 | 4.46 | 3 |
| 2013 | 61 | 96 | 2,286 | 4.18 | 4 |
| 2012 | 53 | 80 | 2,168 | 3.71 | 5 |
| 2011 | 44 | 77 | 2,269 | 3.37 | 6 |
| 2010 | 34 | 92 | 2,281 | 4.03 | 4 |
| 2009 | 28 | 44 | 1,092 | 4.06 | 5 |
| 2008 | 26 | 16 | 489 | 3.20 | 4 |
| 2007 | 24 | 34 | 821 | 4.17 | 4 |

*Commercial Bank's market capitalisation includes only Ordinary Voting Shares

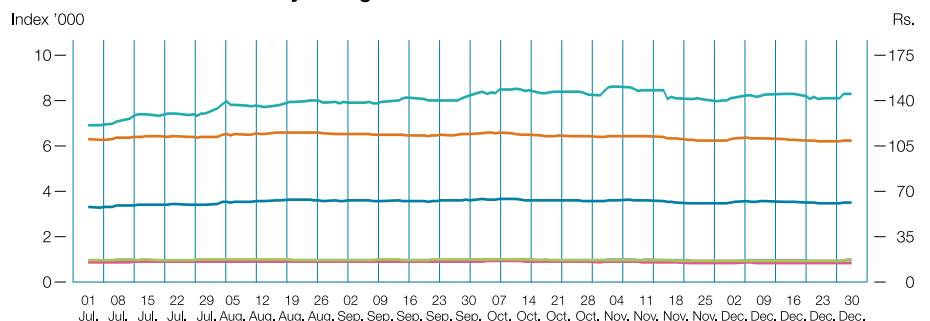
Table 17

Performance of the Ordinary Voting Share – 1st Half of 2016



Graph 61

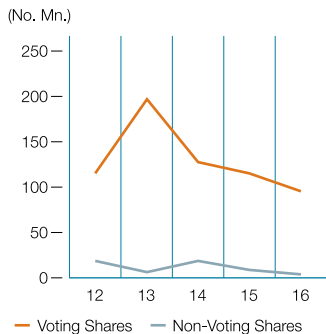
Performance of the Ordinary Voting Share – 2nd Half of 2016



Graph 62

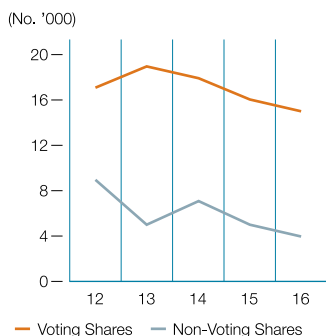
Market indices for Banks, Finance and Insurance were available only from the second half of 2016.

Number of Shares Traded



Graph 63

Number of Transactions



Graph 64

The number of shares traded in both voting and non-voting shares declined during the year (Graph 63) as many investors adopted a holding strategy on the stock in view of its performance. Interestingly, the number of transactions in ordinary voting shares (Graph 64) was similar to 2015 pointing to sustained interest in the shares (Table 18).

| | Ordinary Voting Shares | | Ordinary Non-Voting Shares | |
|----------------------------------|------------------------|-------------|----------------------------|-----------|
| | 2016 | 2015 | 2016 | 2015 |
| Number of transactions | 15,189 | 15,575 | 3,721 | 5,073 |
| Number of shares traded | 96,145,515 | 117,372,662 | 5,395,928 | 9,552,654 |
| Value of shares traded (Rs. Bn.) | 12.86 | 19.39 | 0.62 | 1.28 |

Table 18

The total return to shareholders during the year amounted to Rs. 11.30 per share comprising cash and scrip dividends of Rs. 6.50 and capital gains of Rs. 4.80. This amounts to a return to shareholders of 11.25% for the year. Total return over the last five years is approximately 10.14% on the same basis.

3. Stated Capital

The Bank continued with its policy of issuing scrip dividends and the movement in our issued capital over the past three decades is given below in accordance with Rule 7.6 (ix) of the Listing Rules of the CSE. Accordingly, 11,818,040 voting shares and 912,967 non-voting shares were issued during the year as approved by shareholders at the Annual General Meeting (AGM) held in March 2016. The ESOP approved by shareholders in 2016 was operationalised during the year which together with ESOP introduced in 2008 contributed to increase the number of shares in issue by 1,136,732.

3.1 Information on Movement in Number of Shares Represented by the Stated Capital (As per Rule No. 7.6 (ix) of the Listing Rules of the CSE)

| Year | Details | Basis | No. of Shares Issued/ (Redeemed) | No. of Shares | | |
|------|--|------------|----------------------------------|------------------------|----------------------------|---|
| | | | | Ordinary Shares Voting | Ordinary Shares Non-voting | Cumulative Redeemable Preference Shares |
| 1987 | As at December 31, 1987 | | | 3,000,000 | - | - |
| 1988 | Bonus Issue | Voting | 2,000,000 | 5,000,000 | - | - |
| 1990 | Bonus Issue | Voting | 5,000,000 | 10,000,000 | - | - |
| 1993 | Rights Issue | Voting | 2,500,000 | 12,500,000 | - | - |
| 1996 | Bonus Issue | Voting | 7,500,000 | 20,000,000 | - | - |
| | Rights Issue | Voting | 5,000,000 | 25,000,000 | - | - |
| | Share Swap | Non-voting | 894,275 | 25,000,000 | 894,275 | - |
| | Bonus Issue | Non-voting | 536,565 | 25,000,000 | 1,430,840 | - |
| | Rights Issue | Non-voting | 357,710 | 25,000,000 | 1,788,550 | - |
| 1998 | Bonus Issue | Voting | 7,500,000 | 32,500,000 | 1,788,550 | - |
| | Bonus Issue | Non-voting | 536,565 | 32,500,000 | 2,325,115 | - |
| 2001 | Bonus Issue | Voting | 6,500,000 | 39,000,000 | 2,325,115 | - |
| | Bonus Issue | Non-voting | 465,023 | 39,000,000 | 2,790,138 | - |
| | Issue of Cumulative Redeemable Preference Shares | | 90,655,500 | 39,000,000 | 2,790,138 | 90,655,500 |

| Year | Details | | Basis | No. of Shares Issued/ (Redeemed) | No. of Shares | | |
|------|---|------------|----------|----------------------------------|------------------------|----------------------------|---|
| | | | | | Ordinary Shares Voting | Ordinary Shares Non-voting | Cumulative Redeemable Preference Shares |
| 2003 | Bonus Issue | Voting | 1 for 3 | 13,000,000 | 52,000,000 | 2,790,138 | 90,655,500 |
| | Rights Issue | Voting | 1 for 4 | 13,000,000 | 65,000,000 | 2,790,138 | 90,655,500 |
| | Bonus Issue | Non-voting | 1 for 3 | 930,046 | 65,000,000 | 3,720,184 | 90,655,500 |
| | Rights Issue | Non-voting | 1 for 4 | 930,046 | 65,000,000 | 4,650,230 | 90,655,500 |
| | Issue of Cumulative Redeemable Preference Shares | | | | 100,000,000 | 65,000,000 | 4,650,230 |
| 2004 | ESOP | Voting | | 29,769 | 65,029,769 | 4,650,230 | 190,655,500 |
| 2005 | ESOP | Voting | | 1,361,591 | 66,391,360 | 4,650,230 | 190,655,500 |
| | Bonus Issue | Voting | 1 for 1 | 66,389,162 | 132,780,522 | 4,650,230 | 190,655,500 |
| | Bonus Issue | Non-voting | 1 for 1 | 4,650,230 | 132,780,522 | 9,300,460 | 190,655,500 |
| 2006 | ESOP | Voting | | 737,742 | 133,518,264 | 9,300,460 | 190,655,500 |
| | Redemption of Cumulative Redeemable Preference Shares | | | (90,655,500) | 133,518,264 | 9,300,460 | 100,000,000 |
| 2007 | Rights Issue | Voting | 3 for 10 | 40,288,996 | 173,807,260 | 9,300,460 | 100,000,000 |
| | Bonus Issue | Voting | 1 for 3 | 58,204,268 | 232,011,528 | 9,300,460 | 100,000,000 |
| | ESOP | Voting | | 919,649 | 232,931,177 | 9,300,460 | 100,000,000 |
| | Rights Issue | Non-voting | 3 for 10 | 2,790,138 | 232,931,177 | 12,090,598 | 100,000,000 |
| | Bonus Issue | Non-voting | 1 for 3 | 4,030,199 | 232,931,177 | 16,120,797 | 100,000,000 |
| 2008 | Redemption of Cumulative Redeemable Preference Shares | | | (100,000,000) | 232,931,177 | 16,120,797 | – |
| | ESOP | Voting | | 350,049 | 233,281,226 | 16,120,797 | – |
| 2009 | ESOP | Voting | | 540,045 | 233,821,271 | 16,120,797 | – |
| 2010 | Share Split | Voting | 1 for 2 | 117,402,608 | 351,223,879 | 16,120,797 | – |
| | Share Split | Non-voting | 1 for 2 | 8,060,398 | 351,223,879 | 24,181,195 | – |
| | ESOP | Voting | | 2,081,508 | 353,305,387 | 24,181,195 | – |
| 2011 | Scrip issue for final dividend 2010 | Voting | | 2,277,195 | 355,582,582 | 24,181,195 | – |
| | Scrip issue for final dividend 2010 | Non-voting | | 255,734 | 355,582,582 | 24,436,929 | – |
| | ESOP | Voting | | 1,457,645 | 357,040,227 | 24,436,929 | – |
| | Rights Issue | Voting | 1 for 14 | 25,502,433 | 382,542,660 | 24,436,929 | – |
| | Rights Issue | Non-voting | 1 for 14 | 1,745,494 | 382,542,660 | 26,182,423 | – |
| | Share Split | Voting | 1 for 1 | 382,542,660 | 765,085,320 | 26,182,423 | – |
| | Share Split | Non-voting | 1 for 1 | 26,182,423 | 765,085,320 | 52,364,846 | – |
| 2012 | Scrip issue for final dividend 2011 | Voting | | 13,587,144 | 778,672,464 | 52,364,846 | – |
| | Scrip issue for final dividend 2011 | Non-voting | | 1,108,902 | 778,672,464 | 53,473,748 | – |
| | ESOP | Voting | | 1,341,768 | 780,014,232 | 53,473,748 | – |
| 2013 | Scrip issue for final dividend 2012 | Voting | | 13,076,189 | 793,090,421 | 53,473,748 | – |
| | Scrip issue for final dividend 2012 | Non-voting | | 1,069,474 | 793,090,421 | 54,543,222 | – |
| | ESOP | Voting | | 1,445,398 | 794,535,819 | 54,543,222 | – |
| 2014 | Scrip issue for final dividend 2013 | Voting | | 12,504,344 | 807,040,163 | 54,543,222 | – |
| | Scrip issue for final dividend 2013 | Non-voting | | 1,036,724 | 807,040,163 | 55,579,946 | – |
| | ESOP | Voting | | 3,237,566 | 810,277,729 | 55,579,946 | – |

| Year | Details | Basis | No. of Shares Issued/ (Redeemed) | No. of Shares | | |
|------|-------------------------------------|------------|----------------------------------|------------------------|----------------------------|---|
| | | | | Ordinary Shares Voting | Ordinary Shares Non-voting | Cumulative Redeemable Preference Shares |
| 2015 | Scrip issue for final dividend 2014 | Voting | 8,118,773 | 818,396,502 | 55,579,946 | – |
| | Scrip issue for final dividend 2014 | Non-voting | 719,740 | 818,396,502 | 56,299,686 | – |
| | ESOP | Voting | 2,170,613 | 820,567,115 | 56,299,686 | – |
| 2016 | Scrip issue for final dividend 2015 | Voting | 11,818,040 | 832,385,155 | 56,299,686 | – |
| | Scrip issue for final dividend 2015 | Non-voting | 912,967 | 832,385,155 | 57,212,653 | – |
| | ESOP | Voting | 1,136,732 | 833,521,887 | 57,212,653 | – |

3.2 Information on Share Splits and Scrip Issues

| Year/Month | Details |
|----------------|--|
| 2016 April | Issue of ordinary shares to satisfy a part of the final dividend for 2015 of Rs. 2.00 per ordinary share |
| 2015 April | Issue of ordinary shares to satisfy a part of the final dividend for 2014 of Rs. 2.00 per ordinary share |
| 2014 April | Issue of ordinary shares to satisfy a part of the final dividend for 2013 of Rs. 2.00 per ordinary share |
| 2013 April | Issue of ordinary shares to satisfy a part of the final dividend for 2012 of Rs. 2.00 per ordinary share |
| 2012 April | Issue of ordinary shares to satisfy a part of the final dividend for 2011 of Rs. 2.00 per ordinary share |
| 2011 September | Share split of one ordinary share for every one ordinary share held immediately after the right issue |
| 2011 August | Rights issue of one ordinary share for every fourteen ordinary shares held |
| 2011 April | Issue of ordinary shares to satisfy a part of the final dividend for 2010 of Rs. 2.00 per ordinary share |
| 2010 June | Share split of one ordinary share for every two ordinary shares held |
| 2007 June | Bonus issue of one ordinary share for every three ordinary shares held |
| 2007 April | Rights issue of three ordinary shares for every ten ordinary shares held |
| 2005 June | Bonus issue of one ordinary share for every one ordinary share held |
| 2003 October | Rights issue of one ordinary share for every four ordinary shares held |
| 2003 May | Bonus issue of one ordinary share for every three ordinary shares held |

4. Dividends

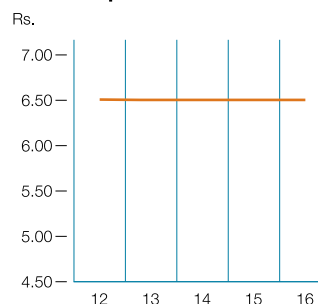
Dividends are declared balancing the needs of shareholders for a return on investment and the business needs of the Bank. The Bank paid two interim dividends totalling to Rs. 4.50 per share in cash for the year 2016. The Board of Directors of the Bank has now recommended a final dividend of Rs. 2.00 per ordinary share, to be satisfied in the form of issue and allotment of new shares for both voting and non-voting shareholders of the Bank for the year ended December 31, 2016 for approval by the shareholders at the 48th AGM, to be held on March 30, 2017. (The Bank declared a final dividend of Rs. 5.00 per share for the year ended December 31, 2015 which consists of a cash dividend of Rs. 3.00 per share and balance entitlement

of Rs. 2.00 per share satisfied in the form of issue and allotment of new shares).

| Dividends | 2016 | 2015 |
|----------------------------------|--------------|--------------|
| Cash – Rs. per share | | |
| First interim paid | 1.50 | 1.50 |
| Second interim paid | 3.00 | – |
| Final proposed/paid | – | 3.00 |
| Total | 4.50 | 4.50 |
| Scrip – Rs. per share | | |
| Final proposed/allotted | 2.00 | 2.00 |
| Total | 6.50 | 6.50 |
| Dividend payout ratio (%) | | |
| Cash | 27.64 | 33.15 |
| Total (Cash and Shares) | 39.92 | 47.89 |

Table 19

Dividend per Share



Graph 65

5. Shareholders

Commercial Bank has a total of 9,610 Ordinary voting shareholders as at December 31, 2016, an increase of 2.10% over 2015, expanding our shareholder base (Table 20). The percentage of ordinary voting shares held by the 20 largest shareholders has increased from 66.77% in 2015 to 69.01% in 2016 with four new investors joining its ranks. Non-voting ordinary shares held by the 20 largest shareholders have increased even more sharply from 38.45% in 2015 to 42.90% in 2016 with three new investors making significant purchases during 2016 of which two were foreign investors (Section 5.3). However, the total number of foreign shareholders declined during the year primarily due to weak market performance that prevailed during 2016.

Number of Ordinary Shareholders

| | 2016 | 2015 |
|-------------------------|---------------|---------------|
| Voting shareholders | 9,610 | 9,412 |
| Non-voting shareholders | 4,191 | 4,216 |
| Total | 13,801 | 13,628 |

Table 20

5.1 Composition of Shareholders

| | As at December 31, 2016 | | | | As at December 31, 2015 | | | |
|-------------------------------------|-------------------------|---------------|--------------------|---------------|-------------------------|---------------|--------------------|---------------|
| | No. of Shareholders | % | No. of Shares | % | No. of Shareholders | % | No. of Shares | % |
| Ordinary Shares – Voting | | | | | | | | |
| Resident | 9,314 | 96.92 | 587,487,079 | 70.48 | 9,094 | 96.62 | 558,973,595 | 68.12 |
| Non-resident | 296 | 3.08 | 246,034,808 | 29.52 | 318 | 3.38 | 261,593,520 | 31.88 |
| Total | 9,610 | 100.00 | 833,521,887 | 100.00 | 9,412 | 100.00 | 820,567,115 | 100.00 |
| Ordinary Shares – Non-Voting | | | | | | | | |
| Resident | 4,107 | 98.00 | 43,843,846 | 76.63 | 4,128 | 97.91 | 44,666,354 | 79.34 |
| Non-resident | 84 | 2.00 | 13,368,807 | 23.37 | 88 | 2.09 | 11,633,332 | 20.66 |
| Total | 4,191 | 100.00 | 57,212,653 | 100.00 | 4,216 | 100.00 | 56,299,686 | 100.00 |
| Individuals | 3,970 | 94.73 | 32,320,757 | 56.49 | 3,997 | 94.81 | 32,174,283 | 57.15 |
| Institutions | 221 | 5.27 | 24,891,896 | 43.51 | 219 | 5.19 | 24,125,403 | 42.85 |
| Total | 4,191 | 100.00 | 57,212,653 | 100.00 | 4,216 | 100.00 | 56,299,686 | 100.00 |

5.2 Distribution Schedule of the Number of Holders and Percentage of Holding in each Class of Equity Securities (As per Rule No. 7.6 (x) of the Listing Rules of the CSE)

| | As at December 31, 2016 | | | | As at December 31, 2015 | | | |
|-----------------------------------|-------------------------|---------------|--------------------|---------------|-------------------------|---------------|--------------------|---------------|
| | No. of Shareholders | % | No. of Shares | % | No. of Shareholders | % | No. of Shares | % |
| Ordinary Shares Voting | | | | | | | | |
| 1 – 1,000 | 4,827 | 50.23 | 1,107,910 | 0.13 | 4,683 | 49.77 | 1,187,812 | 0.14 |
| 1,001 – 10,000 | 3,081 | 32.06 | 11,064,002 | 1.33 | 3,014 | 32.02 | 11,163,309 | 1.36 |
| 10,001 – 100,000 | 1,406 | 14.63 | 40,096,730 | 4.81 | 1,432 | 15.21 | 41,917,942 | 5.11 |
| 100,001 – 1,000,000 | 227 | 2.36 | 63,821,779 | 7.66 | 211 | 2.24 | 59,390,754 | 7.24 |
| Over 1,000,000 | 69 | 0.72 | 717,431,466 | 86.07 | 72 | 0.76 | 706,907,298 | 86.15 |
| Total | 9,610 | 100.00 | 833,521,887 | 100.00 | 9,412 | 100.00 | 820,567,115 | 100.00 |
| Ordinary Shares Non-Voting | | | | | | | | |
| 1 – 1,000 | 2,248 | 53.64 | 544,686 | 0.94 | 2,235 | 53.01 | 567,113 | 1.00 |
| 1,001 – 10,000 | 1,354 | 32.30 | 4,513,800 | 7.89 | 1,370 | 32.50 | 4,474,887 | 7.95 |
| 10,001 – 100,000 | 492 | 11.74 | 13,932,010 | 24.35 | 506 | 12.00 | 13,724,725 | 24.38 |
| 100,001 – 1,000,000 | 90 | 2.15 | 21,600,494 | 37.77 | 98 | 2.32 | 23,079,473 | 41.00 |
| Over 1,000,000 | 7 | 0.17 | 16,621,663 | 29.05 | 7 | 0.17 | 14,453,488 | 25.67 |
| Total | 4,191 | 100.00 | 57,212,653 | 100.00 | 4,216 | 100.00 | 56,299,686 | 100.00 |

5.3 The Names, Number and Percentage of Shares Held by Twenty Largest Shareholders (As per Rule No. 7.6 (iii) of the Listing Rules of the CSE)

| As at December 31, Ordinary Shares-Voting | 2016 | | 2015 (*) | |
|---|--------------------|---------------|--------------------|---------------|
| | No. of Shares | % | No. of Shares | % |
| 1. DFCC Bank A/C 1 | 122,747,994 | 14.73 | 121,005,515 | 14.75 |
| 2. Mr. Y.S.H.I. Silva | 82,635,230 | 9.91 | 81,388,992 | 9.92 |
| 3. Employees' Provident Fund | 80,741,135 | 9.69 | 79,594,968 | 9.70 |
| 4. Sri Lanka Insurance Corporation Ltd. – Life Fund | 41,854,996 | 5.02 | 41,260,840 | 5.03 |
| 5. CB NY S/A International Finance Corporation | 37,206,040 | 4.46 | 36,677,879 | 4.47 |
| 6. Sri Lanka Insurance Corporation Ltd. – General Fund | 35,989,537 | 4.32 | 35,478,645 | 4.32 |
| 7. Melstacorp Ltd. | 28,295,305 | 3.39 | 19,879,375 | 2.42 |
| 8. Mrs. L.E.M. Yaseen | 16,603,339 | 1.99 | 15,380,000 | 1.87 |
| 9. HSBC International Nominees Ltd. – JPMLU – Franklin Templeton Investment Fund | 14,791,566 | 1.77 | 24,352,909 | 2.97 |
| 10. HSBC International Nominees Ltd. – SNFE – NT Asian Discovery Master Fund | 13,929,632 | 1.67 | – | – |
| 11. HSBC International Nominees Ltd. – SSBT – Morgan Stanley Institutional Fund, Inc. Frontier Emerging Markets Portfolio | 12,998,068 | 1.56 | 13,434,182 | 1.64 |
| 12. HSBC International Nominees Ltd. – SSBT – Morgan Stanley Asset Management SA Acting on behalf of Morgan Stanley Galaxy Fund | 12,732,186 | 1.53 | 11,731,336 | 1.43 |
| 13. HSBC International Nominees Ltd. – BPSS – LUX – Aberdeen Global Asia Pacific Equity Fund | 11,172,854 | 1.34 | 11,014,249 | 1.34 |
| 14. Employee's Trust Fund Board | 10,723,987 | 1.29 | 6,475,327 | 0.79 |
| 15. Mercantile Investments & Finance PLC | 10,661,077 | 1.28 | 10,509,737 | 1.28 |
| 16. HSBC International Nominees Ltd. – BPSS – LUX – Aberdeen Global – Asian Smaller Companies Fund | 9,368,066 | 1.12 | 10,319,466 | 1.26 |
| 17. HSBC International Nominees Ltd. – SSBT – First State Investments ICVC-Stewart Investors Indian Subcontinent Fund | 8,886,230 | 1.07 | 7,037,883 | 0.86 |
| 18. HSBC International Nominees Ltd. – SSBT – BMO Investments II (Ireland) Public Limited Company | 8,522,701 | 1.02 | 7,208,955 | 0.88 |
| 19. BNYMSANV RE-CF Ruffer Total Return Fund | 8,399,814 | 1.01 | 8,280,574 | 1.01 |
| 20. HSBC International Nominees Ltd. – BP2S – London – Aberdeen Asia Smaller Companies Investment Trust | 6,944,006 | 0.83 | 6,845,432 | 0.83 |
| Sub total | 575,203,763 | 69.01 | 547,876,264 | 66.77 |
| Other shareholders | 258,318,124 | 30.99 | 272,690,851 | 33.23 |
| Total | 833,521,887 | 100.00 | 820,567,115 | 100.00 |

As per Rule No. 7.6 (iv) of the Listing Rules of the CSE, percentage of public holding of voting shares as at December 31, 2016 was 99.73% (99.64% as at December 31, 2015).

As per Rule No. 7.13.1 of the Listing Rules of the CSE, number of shareholders representing public holding as at December 31, 2016 – 9,578 (9,383 as at December 31, 2015).

* Comparative shareholdings as at December 31, 2015 of the twenty largest shareholders as at December 31, 2016.

| As at December 31, Ordinary Shares – Non-Voting | 2016 | | 2015 (*) | |
|--|-------------------|---------------|-------------------|---------------|
| | No. of Shares | % | No. of Shares | % |
| 1. Employees' Trust Fund Board | 4,167,636 | 7.28 | 4,101,132 | 7.28 |
| 2. HSBC International Nominees Ltd. – JPMLU – Franklin Templeton Investment Fund | 3,309,627 | 5.78 | 3,256,814 | 5.78 |
| 3. Citi Bank NY S/A Norges Bank Accounts 2 | 3,228,072 | 5.64 | 1,265,623 | 2.25 |
| 4. CB NY S/A Salient International Dividend Signal Fund | 1,802,572 | 3.15 | 1,781,807 | 3.16 |
| 5. GF Capital Global Ltd. | 1,591,203 | 2.78 | 1,565,812 | 2.78 |
| 6. BNYMSANV RE-Butterfield Trust (Bermuda) Ltd. | 1,419,594 | 2.48 | 1,396,941 | 2.48 |
| 7. Mr. J.D. Bandaranayake | 1,102,959 | 1.93 | 1,085,359 | 1.93 |
| 8. M.J.F. Exports Ltd. | 978,724 | 1.71 | 963,107 | 1.71 |
| 9. Mr. M.F. Hashim | 800,417 | 1.40 | 767,339 | 1.36 |
| 10. Saboor Chatoor (Pvt) Ltd. | 781,100 | 1.37 | 763,000 | 1.36 |
| 11. Beta Holdings Ltd. | 765,030 | 1.34 | 727,971 | 1.29 |
| 12. Mrs. L.V.C. Samarasinha | 650,000 | 1.14 | 607,769 | 1.08 |
| 13. Union Assurance PLC – No – 01A/C | 581,706 | 1.02 | 572,424 | 1.02 |
| 14. Akbar Brothers (Pvt) Ltd. A/C No 1 | 576,809 | 1.01 | 567,605 | 1.01 |
| 15. Dr. A.K.A. Jayawardene | 505,035 | 0.88 | 496,976 | 0.88 |
| 16. Mr. J.G. De Mel | 485,284 | 0.85 | 420,000 | 0.75 |
| 17. Mr. G.R. Mallawaarachy/Mrs. B.G.P. Mallawaarachy | 479,764 | 0.84 | 462,309 | 0.82 |
| 18. Mr. W.R.H.Perera | 452,051 | 0.79 | 444,838 | 0.79 |
| 19. Mr. T.W.A. Wickamasinghe | 436,759 | 0.76 | 335,000 | 0.60 |
| 20. Alpex Marine (Pvt) Ltd. | 430,605 | 0.75 | 423,734 | 0.75 |
| Sub total | 24,544,947 | 42.90 | 22,005,560 | 39.08 |
| Other shareholders | 32,667,706 | 57.10 | 34,294,126 | 60.92 |
| Total | 57,212,653 | 100.00 | 56,299,686 | 100.00 |

As per Rule No. 7.6 (iv) of the Listing Rules of the CSE, percentage of public holding of non-voting shares as at December 31, 2016 was 99.79% (99.79% as at December 31, 2015).

As per Rule No. 7.13.1 of the Listing Rules of the CSE, number of shareholders representing public holding as at December 31, 2016 – 4,182 (4,207 as at December 31, 2015).

* Comparative shareholdings as at December 31, 2015 of the twenty largest shareholders as at December 31, 2016.

5.4 Directors' Shareholding Including the Chief Executive Officer's Shareholding (As per Rule No. 7.6 (v) of the Listing Rules of the CSE)

| As at December 31, | Ordinary Shares-Voting | | Ordinary Shares-Non-Voting | |
|--|------------------------|---------|----------------------------|--------|
| | 2016 | 2015 | 2016 | 2015 |
| Mr. K.G.D.D. Dheerasinghe – <i>Chairman</i> | 21,159 | 20,859 | Nil | Nil |
| Mr. M.P. Jayawardena – <i>Deputy Chairman</i> | Nil | Nil | Nil | Nil |
| Mr. J. Durairatnam – <i>MD/CEO</i> | 470,770 | 412,056 | Nil | Nil |
| Mr. S. Swarnajothi | Nil | Nil | 8,738 | 8,599 |
| Mr. S. Renganathan | 197,647 | 191,936 | 10,488 | 10,321 |
| Prof. A.K.W. Jayawardane | Nil | Nil | Nil | Nil |
| Mr. K. Dharmasiri | Nil | Nil | Nil | Nil |
| Mr. L.D. Niyangoda (<i>appointed w.e.f. August 26, 2016</i>) | Nil | N/A | Nil | N/A |
| Ms. N.T.M.S. Cooray (<i>appointed w.e.f. September 19, 2016</i>) | Nil | N/A | Nil | N/A |
| Mr. G.S. Jadeja (<i>appointed w.e.f. September 19, 2016</i>) | Nil | N/A | Nil | N/A |
| Mr. H.J. Wilson (<i>resigned w.e.f. August 29, 2016</i>) | N/A | Nil | N/A | Nil |

6. Engaging with Shareholders

The Bank has a shareholder communication policy enumerating formal channels for engagement with shareholders which has been complied with during the year. This covers the timely communication of quarterly performance set out from page 117 to 119 and significant events that are reasonably expected to impact the share price. Please refer to the Financial Calendar set out on page 179 for more details.

7. Material Foreseeable Risk Factors

(As per Rule No. 7.6 (VI) of the Listing Rules of the CSE)

Information pertaining to the material foreseeable risk factors, that require disclosures as per the Rule No. 7.6 (vi) of the Listing Rules of the CSE are discussed in the Section on 'Managing Risk: An Overview' on pages 172 to 175.

8. Material Issues Pertaining to Employees and Industrial Relations Pertaining to the Bank

(As per Rule No. 7.6 (VII) of the Listing Rules of the CSE)

There were no material issues pertaining to employees and industrial relations pertaining to the Bank that occurred during the year under review which require disclosure.

9. Quarterly Performance – 2016 Compared to 2015

The Bank duly submitted the Interim Financial Statements for the year 2016 to the CSE within applicable statutory deadlines as required by the Rule No. 7.4 (a) (i) of the Listing Rules of the CSE. (The Bank duly complied with this requirement for 2015).

The Audited Income Statement for the year ended December 31, 2016 and the Audited Statement of Financial Position as at December 31, 2016 will be submitted to the CSE within three months from the year end, which is well within the required deadline as required by the Rule No. 7.5 (a) of the Listing Rules of the CSE (The Bank duly complied with this requirement for 2015).

The full Annual Report together with Audited Financial Statements and the Interim Financial Statements are available on the Bank's website (<http://www.combank.lk/newweb/investor-relations>). Alternatively, shareholders are able to elect to receive a mailed hard copy of the Annual Report on request. The Company Secretary of the Bank will respond to individual letters received from shareholders.

Summary of the Income Statement

| | 2016 | | | | | 2015 | | | | |
|--|-----------------|----------------|-----------------|-----------------|-----------------|----------------|----------------|----------------|-----------------|-----------------|
| | 1st Quarter | 2nd Quarter | 3rd Quarter | 4th Quarter | Total | 1st Quarter | 2nd Quarter | 3rd Quarter | 4th Quarter | Total |
| | Mar. 31 | Jun. 30 | Sep. 30 | Dec. 31 | | Mar. 31 | Jun. 30 | Sep. 30 | Dec. 31 | |
| | Rs. Mn. | Rs. Mn. | Rs. Mn. | Rs. Mn. | Rs. Mn. | Rs. Mn. | Rs. Mn. | Rs. Mn. | Rs. Mn. | Rs. Mn. |
| Group | | | | | | | | | | |
| Net interest income | 8,173.1 | 8,065.6 | 8,223.6 | 8,665.9 | 33,128.2 | 7,286.0 | 7,588.9 | 7,681.0 | 8,011.5 | 30,567.4 |
| Net fee and commission income | 1,463.0 | 1,515.6 | 1,805.5 | 2,305.1 | 7,089.2 | 1,258.1 | 1,219.5 | 1,335.4 | 1,597.3 | 5,410.3 |
| Other operating income (Net) | 1,429.1 | 496.7 | 1,080.1 | 1,174.9 | 4,180.8 | 1,213.2 | 527.1 | 1,889.4 | 1,926.5 | 5,556.2 |
| Less: Impairment charges for loans and other losses | 1,000.3 | 567.7 | 252.8 | (237.5) | 1,583.3 | 1,334.2 | 753.7 | 1,097.0 | 914.9 | 4,099.8 |
| Net operating income | 10,064.9 | 9,510.2 | 10,856.4 | 12,383.4 | 42,814.9 | 8,423.1 | 8,581.8 | 9,808.8 | 10,620.4 | 37,434.1 |
| Less: Expenses | 5,425.7 | 5,174.7 | 5,830.6 | 6,275.8 | 22,706.8 | 4,792.8 | 4,724.3 | 5,071.4 | 5,723.2 | 20,311.7 |
| Operating profit | 4,639.2 | 4,335.5 | 5,025.8 | 6,107.6 | 20,108.1 | 3,630.3 | 3,857.5 | 4,737.4 | 4,897.2 | 17,122.4 |
| Add: Share of profits/ (losses) of associates | 0.8 | 1.2 | 3.8 | 0.7 | 6.5 | 2.3 | 2.8 | 4.8 | 3.7 | 13.6 |
| Profit before income tax | 4,640.0 | 4,336.7 | 5,029.6 | 6,108.3 | 20,114.6 | 3,632.6 | 3,860.3 | 4,742.2 | 4,900.9 | 17,136.0 |
| Less: Income tax expense | 1,376.5 | 1,083.3 | 1,351.5 | 1,836.9 | 5,648.2 | 1,095.7 | 1,213.3 | 1,491.4 | 1,476.4 | 5,276.8 |
| Profit for the period | 3,263.5 | 3,253.4 | 3,678.1 | 4,271.4 | 14,466.4 | 2,536.9 | 2,647.0 | 3,250.8 | 3,424.5 | 11,859.2 |
| Quarterly profit as a % of the profit after tax | 22.6 | 22.5 | 25.4 | 29.5 | 100.0 | 21.4 | 22.3 | 27.4 | 28.9 | 100.0 |
| Cumulative quarterly profit as a % of the profit after tax | 22.6 | 45.0 | 70.5 | 100.0 | | 21.4 | 43.7 | 71.1 | 100.0 | |
| Bank | | | | | | | | | | |
| Net interest income | 8,112.9 | 7,997.9 | 8,144.3 | 8,568.5 | 32,823.6 | 7,232.7 | 7,534.9 | 7,630.2 | 7,947.8 | 30,345.6 |
| Net fee and commission income | 1,460.0 | 1,508.9 | 1,798.1 | 2,248.5 | 7,015.5 | 1,256.4 | 1,217.5 | 1,333.3 | 1,566.8 | 5,374.0 |
| Other operating income (Net) | 1,405.8 | 496.6 | 1,077.6 | 1,281.4 | 4,261.4 | 1,192.6 | 543.2 | 1,889.2 | 1,937.2 | 5,562.2 |
| Less: Impairment charges for loans and other losses | 995.0 | 551.2 | 257.4 | (273.8) | 1,529.8 | 1,329.7 | 729.9 | 1,055.6 | 828.0 | 3,943.2 |
| Net operating income | 9,983.7 | 9,452.2 | 10,762.6 | 12,372.2 | 42,570.7 | 8,352.0 | 8,565.7 | 9,797.1 | 10,623.8 | 37,338.6 |
| Less: Expenses | 5,404.0 | 5,136.4 | 5,770.9 | 6,208.2 | 22,519.5 | 4,772.8 | 4,701.8 | 5,049.7 | 5,670.7 | 20,195.0 |
| Profit before income tax | 4,579.7 | 4,315.8 | 4,991.7 | 6,164.0 | 20,051.2 | 3,579.2 | 3,863.9 | 4,747.4 | 4,953.1 | 17,143.6 |
| Less: Income tax expense | 1,345.2 | 1,062.1 | 1,328.5 | 1,802.9 | 5,538.7 | 1,070.5 | 1,204.6 | 1,489.4 | 1,475.9 | 5,240.4 |
| Profit for the period | 3,234.5 | 3,253.7 | 3,663.2 | 4,361.1 | 14,512.5 | 2,508.7 | 2,659.3 | 3,258.0 | 3,477.2 | 11,903.2 |
| Quarterly profit as a % of the profit after tax | 22.3 | 22.4 | 25.2 | 30.1 | 100.0 | 21.1 | 22.3 | 27.4 | 29.2 | 100.0 |
| Cumulative quarterly profit as a % of the profit after tax | 22.3 | 44.7 | 69.9 | 100.0 | | 21.1 | 43.4 | 70.8 | 100.0 | |

Summary of Statements of Financial Position

| As at | 2016 | | | | 2015 | | | |
|--|-----------|-----------|-----------|-------------|-----------|-----------|-----------|-----------|
| | Mar. 31 | Jun. 30 | Sep. 30 | Dec. 31 | Mar. 31 | Jun. 30 | Sep. 30 | Dec. 31 |
| | Rs. Mn. | Rs. Mn. | Rs. Mn. | Rs. Mn. | Rs. Mn. | Rs. Mn. | Rs. Mn. | Rs. Mn. |
| Group | | | | | | | | |
| Cash and cash equivalents | 26,041.8 | 33,510.9 | 26,332.8 | 32,924.2 | 25,668.2 | 26,117.8 | 19,311.9 | 20,107.1 |
| Placements with banks | 4,301.3 | 8,426.8 | 14,061.6 | 11,718.5 | 13,275.0 | 6,149.5 | 10,362.5 | 17,193.5 |
| Securities purchased under resale agreements | 9,002.0 | 80.0 | 350.1 | – | 10,266.1 | 6,001.0 | 1,944.4 | 8,002.1 |
| Other financial assets – Held-for-trading | 10,539.6 | 8,670.5 | 12,085.4 | 4,987.8 | 9,501.5 | 12,392.0 | 12,624.0 | 7,656.3 |
| Loans and receivables to banks and other customers | 539,906.8 | 554,878.6 | 578,642.4 | 620,753.9 | 439,122.3 | 456,915.4 | 484,416.1 | 509,923.1 |
| Financial investments – Available-for-sale | 168,306.5 | 168,810.7 | 171,516.3 | 160,092.5 | 215,671.3 | 206,166.1 | 236,351.0 | 204,262.0 |
| Financial investments – Held-to-maturity | 35,911.1 | 36,124.7 | 37,001.2 | 63,626.6 | – | – | – | – |
| Financial investments – Loans and receivables | 66,464.2 | 61,741.8 | 52,060.8 | 51,824.0 | 50,249.3 | 50,684.2 | 58,030.1 | 57,724.4 |
| Other assets | 66,641.6 | 61,250.5 | 65,741.8 | 75,056.1 | 45,719.8 | 51,481.1 | 52,391.1 | 57,314.7 |
| | 927,114.9 | 933,494.5 | 957,792.4 | 1,020,983.6 | 809,473.5 | 815,907.1 | 875,431.1 | 882,183.2 |
| Due to banks | 39,095.2 | 36,937.4 | 33,417.8 | 71,098.4 | 30,445.8 | 16,008.3 | 34,661.1 | 31,789.4 |
| Securities sold under resale agreements | 115,628.0 | 95,083.4 | 87,040.9 | 69,629.0 | 115,936.1 | 119,539.1 | 137,403.1 | 112,249.7 |
| Due to other customers/deposits from customers | 652,934.5 | 679,948.2 | 710,389.5 | 743,310.6 | 549,003.3 | 568,954.3 | 588,803.5 | 624,021.2 |
| Other borrowings | 9,881.9 | 9,603.9 | 9,578.5 | 9,270.2 | 11,359.3 | 10,116.4 | 10,045.9 | 9,985.6 |
| Subordinated liabilities | 18,541.0 | 17,957.8 | 17,979.1 | 24,849.5 | 11,415.0 | 11,324.1 | 12,106.1 | 11,988.3 |
| Other liabilities | 25,475.6 | 23,169.4 | 22,093.6 | 23,010.5 | 24,734.5 | 18,943.3 | 21,078.3 | 21,135.2 |
| Shareholders' funds | 65,558.7 | 70,794.4 | 77,293.0 | 79,815.4 | 66,579.5 | 71,021.6 | 71,333.1 | 71,013.8 |
| | 927,114.9 | 933,494.5 | 957,792.4 | 1,020,983.6 | 809,473.5 | 815,907.1 | 875,431.1 | 882,183.2 |
| Quarterly Growth (%) | | | | | | | | |
| Loans and receivables to banks and other customers | 5.88 | 2.77 | 4.28 | 7.28 | 8.02 | 4.05 | 6.02 | 5.27 |
| Due to other customers/deposits from customers | 4.63 | 4.14 | 4.48 | 4.63 | 3.73 | 3.63 | 3.49 | 5.98 |
| Total assets | 5.09 | 0.69 | 2.60 | 6.60 | 1.53 | 0.79 | 7.30 | 0.77 |

| As at | 2016 | | | | 2015 | | | |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| | Mar. 31 Rs. Mn. | Jun. 30 Rs. Mn. | Sep. 30 Rs. Mn. | Dec. 31 Rs. Mn. | Mar. 31 Rs. Mn. | Jun. 30 Rs. Mn. | Sep. 30 Rs. Mn. | Dec. 31 Rs. Mn. |
| Bank | | | | | | | | |
| Cash and cash equivalents | 25,995.1 | 33,475.1 | 24,647.9 | 30,193.6 | 25,640.4 | 26,097.7 | 19,286.7 | 20,043.5 |
| Placements with banks | 4,301.3 | 8,426.8 | 14,061.6 | 11,718.5 | 13,275.0 | 6,149.5 | 10,362.5 | 17,193.5 |
| Securities purchased under resale agreements | 9,002.0 | 80.0 | 350.1 | - | 10,266.1 | 6,001.0 | 1,944.4 | 8,002.1 |
| Other financial assets – Held-for-trading | 10,539.6 | 8,670.5 | 12,085.4 | 4,987.8 | 9,501.5 | 12,392.0 | 12,624.0 | 7,656.3 |
| Loans and receivables to banks and other customers | 537,473.3 | 551,891.7 | 575,081.6 | 616,642.7 | 438,037.6 | 455,430.4 | 482,511.5 | 508,716.2 |
| Financial investments – Available-for-sale | 168,288.5 | 168,741.5 | 171,446.0 | 160,023.5 | 215,654.5 | 206,149.1 | 236,333.6 | 204,244.3 |
| Financial investments – Held-to-maturity | 35,911.1 | 36,124.7 | 37,001.2 | 60,981.3 | - | - | - | - |
| Financial investments – Loans and receivables | 66,464.2 | 61,741.8 | 52,060.8 | 51,824.0 | 50,249.3 | 50,684.2 | 58,030.1 | 57,724.4 |
| Other assets | 66,599.5 | 61,222.2 | 66,564 | 75,829.8 | 45,227.5 | 50,937.1 | 51,830.2 | 56,224.8 |
| | 924,574.6 | 930,374.3 | 953,298.6 | 1,012,201.2 | 807,851.9 | 813,841.0 | 872,923.0 | 879,805.1 |
| Due to banks | 37,185.2 | 34,401.0 | 30,419.2 | 67,608.8 | 30,069.9 | 15,174.1 | 33,373.7 | 30,319.1 |
| Securities sold under resale agreements | 115,831.1 | 95,288.0 | 87,275.7 | 69,867.5 | 116,096.1 | 119,679.7 | 137,535.5 | 112,384.8 |
| Due to other customers | 653,039.5 | 680,057.5 | 710,457.9 | 739,563.5 | 549,111.2 | 569,082.1 | 588,917.5 | 624,101.8 |
| Other borrowings | 9,881.9 | 9,603.9 | 9,578.5 | 9,270.2 | 11,346.3 | 10,104.4 | 10,045.9 | 9,985.6 |
| Subordinated liabilities | 18,526.0 | 17,942.8 | 17,979.1 | 24,849.5 | 11,197.2 | 11,106.3 | 11,888.3 | 11,973.3 |
| Other liabilities | 25,256.2 | 22,989.7 | 21,824.8 | 22,688.0 | 24,215.3 | 18,432.7 | 20,579.4 | 20,699.7 |
| Shareholders' funds | 64,854.7 | 70,091.4 | 75,763.4 | 78,353.7 | 65,815.9 | 70,261.7 | 70,582.7 | 70,340.8 |
| | 924,574.6 | 930,374.3 | 953,298.6 | 1,012,201.2 | 807,851.9 | 813,841.0 | 872,923.0 | 879,805.1 |
| Quarterly Growth (%) | | | | | | | | |
| Loans and receivables to banks and other customers | 5.65 | 2.68 | 4.20 | 7.23 | 8.04 | 3.97 | 5.95 | 5.43 |
| Due to other customers/Deposits from customers | 4.64 | 4.14 | 4.47 | 4.10 | 3.73 | 3.64 | 3.49 | 5.97 |
| Total assets | 5.09 | 0.63 | 2.46 | 6.18 | 1.54 | 0.74 | 7.26 | 0.79 |

10. Debt Securities

The Bank had two debenture issues during the year to strengthen its Tier II capital which were over-subscribed. Trading on debentures is minimal with many debenture holders opting to hold on to the instruments until maturity. Market activity on debentures in issue are as follows:

The price of debentures issued in March 2016 have declined as market interest rates moved up during the year. Debentures issued in October 2016 have maintained their par value as at the close of the year.

(a) Debenture Composition

| | Fixed Interest Rate | | | | | | Floating Interest Rate | |
|---|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|------------------------|-------------------------------------|
| | 2016 | | | 2015 | | | 2016 | 2015 |
| Type of issue | Public | Public | Public | Public | Private | Public | - | Public |
| Debenture type | Type 'A' | Type 'B' | Type 'A' | Type 'B' | N/A | Type 'A' | - | Type 'D' |
| CSE listing | Listed | Listed | Listed | Listed | Not listed | Listed | - | Listed |
| Issue date | Mar. 2016 | Mar. 2016 | Oct. 2016 | Oct. 2016 | May 2006 | Dec. 2006 | - | Dec 2006 |
| Maturity date | Mar. 2021 | Mar. 2026 | Oct. 2021 | Oct. 2026 | May 2016 | Dec. 2016 | - | Dec 2016 |
| Interest payable frequency | Biannually | Biannually | Biannually | Biannually | Annually | Annually | - | Annually |
| Offered interest rate | 10.75% p.a. | 11.25% p.a. | 12.00% p.a. | 12.25% p.a. | 13.25% p.a. | 14.00% p.a. | - | 12 Months TB Rate (Gross) + 1% p.a. |
| Amount (Rs. Mn.) | 4,430.340 | 1,749.090 | 5,071.800 | 1,928.200 | 505.000 | 467.260 | - | 0.400 |
| Market Values | | | | | | | | |
| - Highest (Rs.) | | | | | | | | |
| - Lowest (Rs.) | Not traded during the year | Not traded during the year | Not traded during the year | Not traded during the year | Not traded during the year | Not traded during the year | | Not traded during the year |
| - Year-end (Rs.) | | | | | | | - | |
| Interest Rates | | | | | | | | |
| - Coupon rate (%) | 10.75 | 11.25 | 12.00 | 12.25 | 13.25 | 14.00 | - | 7.68 |
| - Effective annual yield (%) | 11.04 | 11.57 | 12.36 | 12.63 | 13.25 | 14.00 | - | 7.68 |
| Interest rate of comparable Government security | 12.05 | 12.45 | 12.15 | 12.50 | 6.65 | 7.60 | - | 9.10 |
| Other Ratios as at Date of Last Trade | | | | | | | | |
| - Interest yield (%) | N/A | N/A | N/A | N/A | N/A | Not traded during the year | | Not traded during the year |
| - Yield to maturity (%) | N/A | N/A | N/A | N/A | N/A | | - | |

(b) Other Ratios

| | 2016 | 2015 |
|---------------------------------------|-------|-------|
| Debt equity ratio (%) | 37.92 | 23.20 |
| Net assets value per share (Rs.) | 87.97 | 80.22 |
| Interest cover (Times) | 12.77 | 27.87 |
| Liquid assets ratio (%) (Minimum 20%) | 27.41 | 27.72 |

(c) Credit Ratings

- The Bank's credit rating, AA (Ika) was reaffirmed by Fitch Ratings Lanka Ltd. in 2016
- The Bank's Bangladesh Operation's credit rating was reaffirmed as AAA by Credit Rating Information Services Ltd. in 2016

(d) Credit Ratings – Debentures

- The credit rating of the Bank's Subordinated Debentures affirmed in 2016 as AA (Ika) by Fitch Ratings Lanka Ltd.

Compliance Report on the Contents of Annual Report in Terms of the Listing Rules of the CSE

We are happy to inform you that the Bank has fully complied with all applicable requirements of the Section 7.6 of the Listing Rules of the CSE on the contents of the Annual Report and Accounts of a listed entity.

The table below provides reference to the relevant sections of this Annual Report where specified information is disclosed together with page references for the convenience of the readers of the Annual Report.

| Rule No. | Disclosure Requirement | Section/Reference | Page/s |
|------------|--|---|----------------------|
| 7.6 (i) | Names of persons who held the position of Directors during the financial year | • Annual Report of the Board of Directors | 159 |
| 7.6 (ii) | Principal activities of the Bank and its Subsidiaries during the year and any changes therein | • Note 1.3 of the Accounting Policies • Group Structure | 191 & 192 442 |
| 7.6 (iii) | The names and the number of shares held by the 20 largest holders of voting and non-voting shares and the percentage of such shares held as at the end of the year | • Item 5.3 of the 'Investor Relations' | 114 & 115 |
| 7.6 (iv) | The public holding percentage | • Item 5.3 of the 'Investor Relations' | 114 & 115 |
| 7.6 (v) | Directors' and Chief Executive Officer's holding in shares at the beginning and at the end of the financial year | • Item 5.4 of the 'Investor Relations' • Annual Report of the Board of Directors | 116 153-163 |
| 7.6 (vi) | Information pertaining to material foreseeable risk factors | • Item 7 of the 'Investor Relations' | 116 |
| 7.6 (vii) | Details of material issues pertaining to employees and industrial relations | • Item 8 of the 'Investor Relations' | 116 |
| 7.6 (viii) | Extents, locations, valuations and the number of buildings of the land holdings and investment properties as at the end of the year | • Note 39.5 (a) & (b) to the Financial Statements on 'Property, Plant & Equipment' | 270-275 |
| 7.6 (ix) | Number of shares representing the stated capital as at the end of the year | • Note 53 to the Financial Statements on 'Stated Capital' • Item 3 of the 'Investor Relations' | 296 & 297 110-112 |
| 7.6 (x) | A distribution schedule of the number of holders in each class of equity securities and the percentage of their total holdings as at the end of the year | • Item 5.2 of the 'Investor Relations' | 113 |

| Rule No. | Disclosure Requirement | Section/Reference | Page/s |
|------------|---|---|---|
| 7.6 (xi) | Ratios and market price information: <ul style="list-style-type: none"> • Equity – Dividend per share, dividend payout ratio, net asset value per share, market value per share • Debt – Interest rate of comparable Government Securities, debt/equity ratio, interest cover and quick asset ratio, market prices and yields during the year • Any changes in credit rating | <ul style="list-style-type: none"> • Items 4 and 10 (b) and highlights of the 'Investor Relations' • Items 10 (a) and 10 (b) of the 'Investor Relations' • Items 10 (c) and 10 (d) of the 'Investor Relations' | 108, 112 & 120 120 121 |
| 7.6 (xii) | Significant changes in the Bank or its Subsidiaries fixed assets and the market value of land, if the value differs substantially from the book value as at the end of the year | <ul style="list-style-type: none"> • Note 39.5 (b) to the Financial Statements on 'Property, Plant & Equipment' | 271-275 |
| 7.6 (xiii) | Details of funds raised through Public Issues, Rights Issues and Private Placements during the year | <ul style="list-style-type: none"> • Note 53 to the Financial Statements on 'Stated Capital' | 296 & 297 |
| 7.6 (xiv) | Information in respect of Employee Share Option Schemes <ul style="list-style-type: none"> • Total number of shares allotted during the financial year, price at which shares were allotted and the details of funding granted to employees (if any) • Highest, lowest and closing price of the share recorded during the financial year | <ul style="list-style-type: none"> • Notes 53.2 and 54 to the Financial Statements on 'Employee Share Option Plans' • 'Highlights' under the 'Investor Relations' | 297 & 298-300 108 |
| 7.6 (xv) | Disclosures pertaining to Corporate Governance practices in terms of Rules 7.10.3, 7.10.5 (c) and 7.10.6 (c) of Section 7 of the Listing Rules | <ul style="list-style-type: none"> • Not applicable since the Bank received an exemption in terms of Section 7.10 (c) of the Listing Rules | |
| 7.6 (xvi) | Disclosures on Related Party Transactions exceeding 10% of the Equity or 5% of the total assets of the Entity as per Audited Financial Statements, whichever is lower | <ul style="list-style-type: none"> • The Bank did not have any related party transactions exceeding this threshold as at end 2016 | |

Governance

Understand how we conduct business as a responsible corporate, managing stakeholder concerns and shaping our organisation culture. Read the reports of the Directors and the Board Subcommittees to comprehend how they shape policy and exercise oversight of key areas, assisting the Board in discharge of its duties. The Risk & Capital Management Report provides an overview of how we maintain financial stability and build resilience in our operations

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HOW WE GOVERN

The Bank's Corporate Governance framework which includes governance structures and policy frameworks explicitly define how the Bank will conduct business in responding to the myriad opportunities and threats presented by our business environment whilst maintaining the right balance between rights and obligations of stakeholders. It defines how we conduct business, shaping the Bank's culture to ensure that we are competitive and future ready whilst maintaining our core values of integrity, accountability and equity for key stakeholders. This is reinforced by sound processes for measuring and monitoring key areas of concern including performance, providing objective information to support policy formulation and strategic decision making.

The structures, frameworks and processes are reviewed regularly to identify areas for improvement to ensure that all elements of our governance framework are fit for the purpose, enabling value creation and growth.

As we are operating in a highly regulated industry, perhaps the most regulated among all industries world over, with increasing regulation to strengthen stability of financial markets, sound Corporate Governance is key to sustainable value creation, compliance and managing business and reputational risk of the Bank.

Key regulatory requirements and voluntary codes relevant to the Bank and elements of the Corporate Governance Framework of the Bank are depicted below:

Banking Act No. 30 of 1988 and amendments thereto which contain provisions for preserving the rights of depositors and rights and responsibilities of regulators

All Directions issued for Licensed Commercial Banks by the Central Bank of Sri Lanka (CBSL), particularly the Direction No. 11 of 2007 on Corporate Governance and other Directions issued by the Central Banks of the countries that we operate in

Inland Revenue Act No. 10 of 2006 and amendments thereto and other regulatory Acts which are applicable as a collecting agent for regulatory bodies

Shop & Office Employees Act No. 19 of 1954 and amendments thereto addressing the rights and responsibilities of employees

- Articles of Association of the Bank
- Board Charter
- Organisational Structure
- Terms of Reference and Charters of Board and Management Committees
- Integrated Risk Management Framework
- Code of Ethics for all employees
- Corporate Directors' Hand Book
- Board approved policies on all major operational aspects

Continuing Listing Requirements of the Colombo Stock Exchange (CSE) which addresses, inter alia, the rights of investors

Companies Act No. 07 of 2007 which includes provisions for preserving rights of investors

Code of Best Practice on Corporate Governance issued jointly by the The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and Securities & Exchange Commission of Sri Lanka (SEC) – the Governance Code – which seeks to address how corporates operate while fulfilling the rights of key stakeholder groups

Code of Best Practice on Related Party Transactions (RPTs) issued by the SEC and the CSE, which stipulates procedures and processes required for identifying, capturing, monitoring and disclosing RPTs



Compliance with the Banking Act Direction No.11 of 2007 and the Code of Best Practice on Corporate Governance of the CA Sri Lanka and the SEC are given in Annex I and II on pages 354 to 371, respectively.

As Commercial Bank is fully compliant with all requirements of the Banking Act Direction No. 11 of 2007 set out on pages 354 to 366, the CSE has exempted the Bank from disclosure of compliance with the Directions stipulated in Section 7.10 of the Continuing Listing Requirements on Corporate Governance.

In this segment we introduce our Board of Directors and provide an insight to our governance structures, policy frameworks and how we measure up against external benchmarks for governance.

The Bank's compliance with the aforesaid Direction has been reviewed by Messrs KPMG, our External Auditors and they have provided Assurance Statement to the CBSL on same.

A Proficient Board

The Board of Directors is the highest decision making authority of the Bank and is responsible for leading, directing and controlling the Bank. It comprises ten Directors of whom seven are Independent Non-Executive Directors (NEDs) who are eminent professionals in their respective fields with the skills and expertise necessary to constructively challenge management and enrich deliberations on matters set before the Board. Directors' profiles are given on page 11 to 13 together with their membership of Board Subcommittees and other significant appointments. The Board is

assisted by the Company Secretary, Mrs. Ranjani Gamage, Attorney-at-law, whose profile is also given on page 13. Collectively they combine expertise in economics, banking and finance, accounting, law, information technology, engineering and, having risen to the highest echelons of Government institutions or commercial organisations, bring their independent judgment to bear on matters reserved for the Board. Bringing together regulatory, banking, investor and entrepreneurs' perspectives, our Board is able to explore matters from diverse points of view to facilitate long-term value creation.

Governance Structure

An organisational structure must facilitate efficient operations while ensuring sufficient checks and balances to safeguard the assets of the Bank and ensure compliance with regulatory requirements and internal policies. Figure 28 provides an overview of the organisation structure of the Bank.

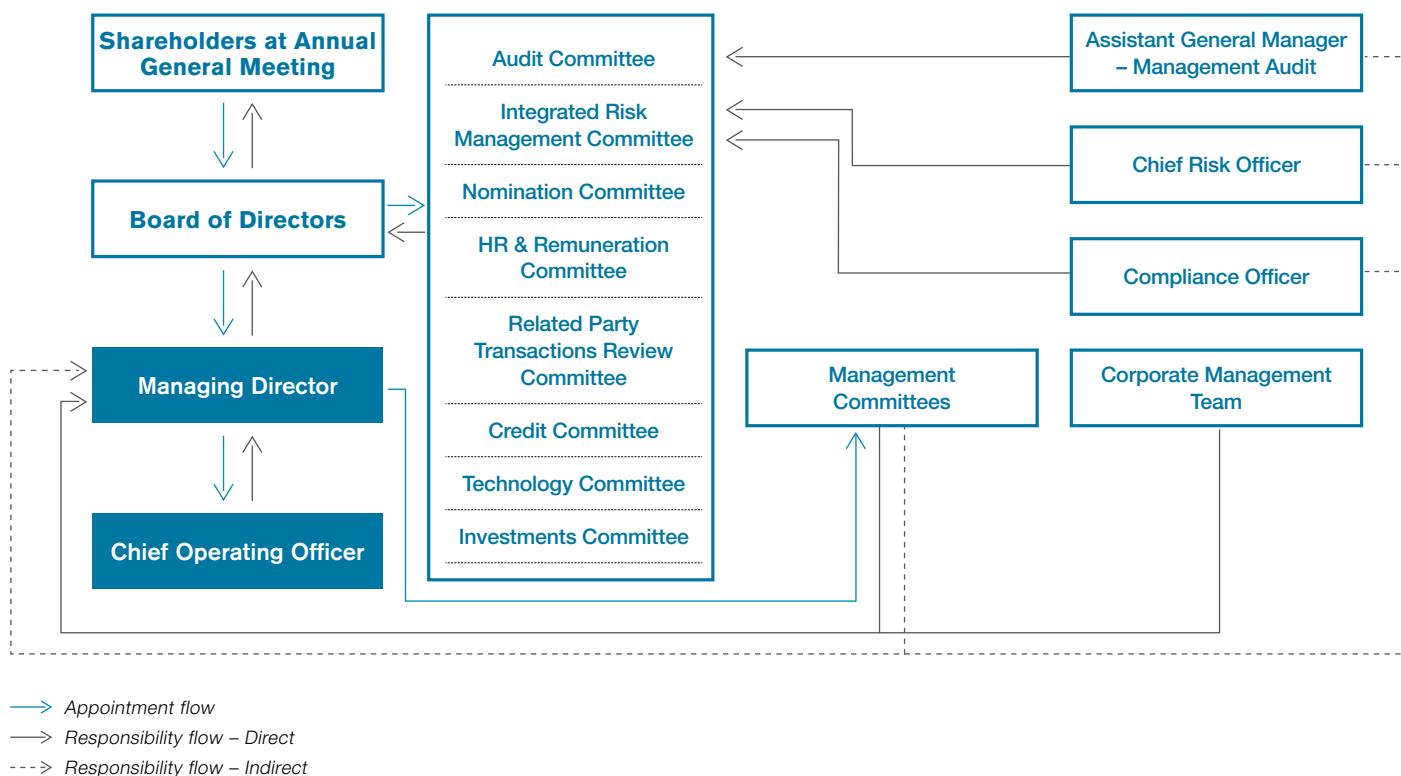


Figure 28

The Board has established eight Board Subcommittees of which five are mandatory while the others have been established considering the business, governance and risk management needs of the Bank. Their areas of oversight and executive support together with composition and attendance at meetings are summarised in the Table 21 and Table 22 on pages 126 to 129.

Board and Board Subcommittees – Areas of Oversight and Executive Support

| Board Subcommittee | Areas of Oversight | Executive Support |
|--|--|--|
| Mandatory Subcommittees | | |
| Board Audit Committee (BAC) | Financial Reporting, Internal Controls, Internal Audit and External Audit. <i>BAC Report is given on pages 140 to 142</i> | The Managing Director/CEO, Chief Operating Officer (COO), Chief Financial Officer, Chief Risk Officer, Compliance Officer and the Assistant General Manager – Management Audit attend the meetings by invitation together with other relevant Key Management Personnel (KMPs). The Committee is supported by the Inspection Department and the Assistant General Manager – Management Audit serves as the Secretary to the Committee. |
| Board Integrated Risk Management Committee (BIRMC) | Risk appetite, risk governance, risk policy frameworks, risk monitoring and compliance, risk management. <i>BIRMC Report is given on pages 143 & 144</i> | Chief Risk Officer attends meetings by invitation. The Committee is supported by the senior staff of the department handling credit, market and operational risks. The Chief Financial Officer serves as the Secretary to the Committee. |
| Board Nomination Committee (BNC) | Selection and appointment of Directors and KMPs, Succession planning, evaluating the effectiveness of the Board and its Committees. <i>BNC Report is given on pages 145 & 146</i> | Executive support is provided by the Human Resources Department whenever required. The Company Secretary serves as the Secretary to the Committee. |
| Board Human Resources and Remuneration Committee (BHRRC) | Remuneration of Managing Director and KMPs, HR Policies including Remuneration Policy, Organisational structure, HR systems including performance evaluation. <i>BHRRC Report is given on pages 147 & 148</i> | Executive support is provided by the Human Resources Department whenever required. The Deputy General Manager – Human Resource Management serves as the Secretary to the Committee. |
| Board Related Party Transactions Review Committee (BRPTRP) | Related Party Transactions Policy and processes, market disclosures on Related Party Transactions to the Securities and Exchange Commission (SEC), quarterly and annual disclosures of Related Party Transactions. BRPTRC Report is given on page 149 | The Assistant General Manager – Finance serves as the Secretary to the Committee. |
| Voluntary Subcommittees | | |
| Board Credit Committee (BCC) | Credit policy and lending guidelines, credit risk control measures including pricing of credit risk, performance of credit risk indicators. BCC Report is given on page 150 | The Committee is supported by the Credit Risk Unit of the Risk Management Division. The Assistant Company Secretary of the Bank serves as the Secretary to the Committee. |

| Board Subcommittee | Areas of Oversight | Executive Support |
|----------------------------------|--|---|
| Board Investment Committee (BIC) | Review of economic climate, capital markets activity and economic and monetary policy direction, Bank's investment policy, Review Bank's investment portfolios and their performance. BIC Report is given on page 151 | Head of Global Treasury, Chief Financial Officer, Head of Global Markets, Assistant General Manager – Corporate & Investment Banking and Chief Risk Officer attend meetings by invitation. The Committee is supported by the Head of Global Treasury who serves as the Secretary to the Committee. |
| Board Technology Committee (BTC) | Bank's technology strategy, significant procurements of technology, emerging trends and their potential BTC Report is given on page 152 | Deputy General Manager – Marketing and Assistant General Manager – Information Technology attend meetings by invitation. The Committee is also supported by the IT Department of the Bank. Assistant General Manager – Information Technology serves as the Secretary to the Committee. |

Table 21

Board and Board Subcommittees: Composition and Attendance at Meetings

| Composition of Board/Board Subcommittee | Name of Director | Membership | | | | | Meeting Attendance | |
|---|-----------------------------|------------|-----|--------------------|------------|----|--------------------|--|
| | | Status | DOA | Eligible to Attend | Attended | | | |
| Main Board | | | | | | | | |
| Executive Directors | 2 Mr. K.G.D.D. Dheerasinghe | C | NED | ID | 20.12.2011 | 15 | 15 | |
| Non-Executive Directors | 8 Mr. M.P. Jayawardena | M | NED | ID | 28.12.2011 | 15 | 15 | |
| Independent Directors | 7 Mr. J. Durairatnam | M | ED | NID | 28.04.2012 | 15 | 15 | |
| Non-Independent Directors | 3 Mr. S. Swarnajothi | M | NED | ID | 20.08.2012 | 15 | 15 | |
| Male | 9 Mr. S. Renganathan | M | ED | NID | 17.07.2014 | 15 | 14 | |
| Female | 1 Prof. A.K.W. Jayawardane | M | NED | ID | 21.04.2015 | 15 | 15 | |
| Age below 50 years | Nil Mr. K. Dharmasiri | M | NED | ID | 21.07.2015 | 15 | 15 | |
| Age above 50 years | 10 Mr. L.D. Niyangoda | M | NED | ID | 26.08.2016 | 6 | 6 | |
| | Ms. N.T.M.S. Cooray | M | NED | ID | 19.09.2016 | 5 | 5 | |
| | Mr. G.S. Jadeja | M | NED | NID | 19.09.2016 | 5 | 3 | |
| | Mr. H.J. Wilson(*) | M | NED | ID | 03.07.2014 | 10 | 8 | |
| Mandatory Subcommittees | | | | | | | | |
| Board Audit Committee (the BAC) | | | | | | | | |
| Executive Members | Nil Mr. S. Swarnajothi | C | NED | ID | 24.08.2012 | 11 | 11 | |
| Non-Executive Members | 4 Prof. A.K.W. Jayawardane | M | NED | ID | 29.04.2015 | 11 | 9 | |
| Independent Members | 4 Mr. K. Dharmasiri | M | NED | ID | 28.08.2015 | 11 | 11 | |
| Non-Independent Members | Nil Ms. N.T.M.S. Cooray | M | NED | ID | 30.09.2016 | 3 | 1 | |
| Male | 3 | | | | | | | |
| Female | 1 | | | | | | | |
| Age below 50 years | Nil | | | | | | | |
| Age above 50 years | 4 | | | | | | | |

| Composition of Board/Board Subcommittee | | Name of Director | Membership | | | | Meeting Attendance | |
|---|-----|---------------------------|------------|-----|-----|--------------------|--------------------|-----|
| | | | Status | | DOA | Eligible to Attend | Attended | |
| Board Integrated Risk Management Committee (the BIRMC) | | | | | | | | |
| Executive Members | 1 | Mr. M.P. Jayawardena | C | NED | ID | 30.12.2011 | 5 | 5 |
| Non-Executive Members | 4 | Mr. J. Durairatnam | M | ED | NID | 28.04.2012 | 5 | 5 |
| Independent Members | 4 | Mr. S. Swarnajothi | M | NED | ID | 24.08.2012 | 5 | 4 |
| Non-Independent Members | 1 | Mr. K. Dharmasiri | M | NED | ID | 21.07.2015 | 5 | 5 |
| Male | 5 | Mr. L.D. Niyangoda | M | NED | ID | 30.09.2016 | 1 | 1 |
| Female | Nil | | | | | | | |
| Age below 50 years | Nil | | | | | | | |
| Age above 50 years | 5 | | | | | | | |
| Board Nomination Committee (the BNC) | | | | | | | | |
| Executive Members | 1 | Mr. K.G.D.D. Dheerasinghe | C | NED | ID | 30.12.2011 | 3 | 3 |
| Non-Executive Members | 4 | Mr. M.P. Jayawardena | M | NED | ID | 29.08.2014 | 3 | 3 |
| Independent Members | 3 | Mr. J. Durairatnam | I | ED | NID | 29.08.2014 | 3 | 3 |
| Non-Independent Members | 2 | Mr. S. Swarnajothi | M | NED | ID | 29.04.2015 | 3 | 3 |
| Male | 5 | Mr. G.S. Jadeja | M | NED | NID | 30.09.2016 | N/A | N/A |
| Female | Nil | Mr. H.J. Wilson (*) | M | NED | ID | 31.03.2016 | 2 | 2 |
| Age below 50 years | Nil | | | | | | | |
| Age above 50 years | 5 | | | | | | | |
| Board Human Resources and Remuneration Committee (the BHRRC) | | | | | | | | |
| Executive Members | 1 | Mr. K.G.D.D. Dheerasinghe | C | NED | ID | 30.12.2011 | 5 | 5 |
| Non-Executive Members | 3 | Mr. M.P. Jayawardena | M | NED | ID | 29.08.2014 | 5 | 5 |
| Independent Members | 3 | Mr. J. Durairatnam | I | ED | NID | 29.08.2014 | 5 | 5 |
| Non-Independent Members | 1 | Mr. S. Swarnajothi | M | NED | ID | 29.04.2015 | 5 | 5 |
| Male | 4 | | | | | | | |
| Female | Nil | | | | | | | |
| Age below 50 years | Nil | | | | | | | |
| Age above 50 years | 4 | | | | | | | |
| Board Related Party Transactions Review Committee (the BRPTRC) | | | | | | | | |
| Executive Members | 2 | Mr. K.G.D.D. Dheerasinghe | C | NED | ID | 26.12.2014 | 4 | 4 |
| Non-Executive Members | 3 | Mr. J. Durairatnam | M | ED | NID | 26.12.2014 | 4 | 4 |
| Independent Members | 3 | Mr. S. Swarnajothi | M | NED | ID | 26.12.2014 | 4 | 4 |
| Non-Independent Members | 2 | Mr. S. Renganathan | M | ED | NID | 26.12.2014 | 4 | 4 |
| Male | 5 | Mr. L.D. Niyangoda | M | NED | ID | 30.09.2016 | 2 | 2 |
| Female | Nil | | | | | | | |
| Age below 50 years | Nil | | | | | | | |
| Age above 50 years | 5 | | | | | | | |
| Voluntary Subcommittees | | | | | | | | |

| Composition of Board/Board Subcommittee | | Name of Director | Membership | | | | Meeting Attendance | |
|---|-----|---------------------------|------------|-----|-----|--------------------|--------------------|----|
| | | | Status | | DOA | Eligible to Attend | Attended | |
| Board Credit Committee (the BCC) | | | | | | | | |
| Executive Members | 2 | Mr. K.G.D.D. Dheerasinghe | C | NED | ID | 30.12.2011 | 12 | 12 |
| Non-Executive Members | 2 | Mr. J. Durairatnam | M | ED | NID | 29.08.2014 | 12 | 9 |
| Independent Members | 2 | Mr. S. Renganathan | M | ED | NID | 25.11.2014 | 12 | 9 |
| Non-Independent Members | 2 | Prof. A.K.W. Jayawardane | M | NED | ID | 29.04.2015 | 12 | 12 |
| Male | 4 | | | | | | | |
| Female | Nil | | | | | | | |
| Age below 50 years | Nil | | | | | | | |
| Age above 50 years | 4 | | | | | | | |
| Board Investment Committee (the BIC) | | | | | | | | |
| Executive Members | 2 | Mr. K.G.D.D. Dheerasinghe | C | NED | ID | 13.03.2013 | 12 | 12 |
| Non-Executive Members | 3 | Mr. J. Durairatnam | M | ED | NID | 13.03.2013 | 12 | 12 |
| Independent Members | 2 | Mr. S. Renganathan | M | ED | NID | 29.08.2014 | 12 | 11 |
| Non-Independent Members | 3 | Mr. K. Dharmasiri | M | NED | ID | 28.08.2015 | 12 | 12 |
| Male | 5 | Mr. G.S. Jadeja | M | NED | NID | 30.09.2016 | 3 | 2 |
| Female | Nil | Mr. H.J. Wilson (*) | M | NED | ID | 29.08.2014 | 8 | 6 |
| Age below 50 years | Nil | | | | | | | |
| Age above 50 years | 5 | | | | | | | |
| Board Technology Committee (the BTC) | | | | | | | | |
| Executive Members | 2 | Mr. J. Durairatnam | M | ED | NID | 18.06.2012 | 3 | 3 |
| Non-Executive Members | 2 | Mr. S. Renganathan | M | ED | NID | 29.08.2014 | 3 | 3 |
| Independent Members | 2 | Prof. A.K.W. Jayawardane | C | NED | ID | 29.04.2015 | 3 | 3 |
| Non-Independent Members | 2 | Ms. N.T.M.S. Cooray | M | NED | ID | 30.09.2016 | 1 | 1 |
| Male | 3 | | | | | | | |
| Female | 1 | | | | | | | |
| Age below 50 years | Nil | | | | | | | |
| Age above 50 years | 4 | | | | | | | |

Table 22

(*) Resigned w.e.f. 29.08.2016

(**) Attended by invitation

Status

C – Chairman, M – Member, I – By Invitation

ED – Executive Director, NED – Non-Executive Director

ID – Independent Director, NID – Non-Independent Director

DOA – Date of Appointment

Notes:

Mr. S.M.A. Jayasinghe (Consultant to BAC) attended 8 out of the 11 meetings held during the year.

Mr. D.B. Saparamadu (Consultant to BTC) attended 2 out of the 3 meetings held during the year.

Management Committees

Several Executive Committees also have been established to facilitate sufficient deliberation, co-operation across departments and healthy debate on matters considered critical for the Bank's operations as described in the Table 23 below:

| Management Committee | Purpose and tasks | Composition |
|---|--|--|
| Executive Integrated Risk Management Committee (EIRMC) | Monitors and reviews all risk exposures and risk related policies and procedures affecting credit, market and operational areas in line with the directives from the BIRMC. | CEO, COO and key members of the Risk Management, Personal Banking, Corporate Banking, Treasury, Inspection/Internal Audit, Compliance and Finance Departments. |
| Assets and Liabilities Committee (ALCO) | Optimises the Bank's economic goals whilst maintaining liquidity and market risk within the Bank's pre-determined risk appetite. | CEO, COO and key members of the Treasury, Corporate Banking, Personal Banking, Risk Management and Finance Departments. |
| Credit Policy Committee (CPC) | Reviews and approves credit policies and procedures pertaining to the effective management of all credit portfolios within the lending strategy of the Bank. | CEO, COO and key members of the Corporate Banking, Personal Banking, Risk Management, Inspection, Recoveries, and Branch Credit Monitoring Departments. |
| Executive Committee on Monitoring NPAs (ECMN) | Reviews and monitors the Bank's Non-Performing Advances (NPAs) above a pre-determined threshold to initiate timely corrective actions to prevent/reduce credit losses to the Bank. | CEO, COO and key members of the Corporate Banking, Personal Banking, Credit Supervision & Recoveries and Risk Management Departments. |
| Business Continuity Management Steering Committee (BCMSC) | Directs, guides and oversees the activities of the Business Continuity Plan of the Bank in accordance with the Bank's strategy. | Key members of the Bank's Corporate Management covering all business lines. |
| Information Security Council (ISC) | Focuses continuously on meeting the information security objectives and requirements of the Bank. | Key members of the Risk Management, Information Systems Audit, Operations and IT Departments. |
| Investment Committee | Oversees investment activities by providing guidance to the management. | CEO, COO and key members of the Investment Banking, Treasury and Finance Departments. |
| Human Resources Steering Committee (HRSC) | Makes recommendations to the BHRRC on policy matters covering formulation of compensation packages, changes to the organisational structure, developing talent pipelines and effecting staff promotions. | CEO, COO and key members of the HR, Corporate Banking, Personal Banking and Finance Departments. |

Table 23

Effective Meetings

Effective meetings are key to good governance and driving strategy. The Board held 15 scheduled meetings which included two meetings devoted exclusively to strategy with all members of Corporate Management whilst 12 meetings were devoted to matters including large and material transactions, review of performance, review of policy frameworks and strategy. The Chairman is responsible for determining the agenda for the meetings which is prepared with the assistance of the Company Secretary and the CEO. All Board Papers are sent out at least one week prior to the meetings allowing reasonable time for Board members to study, facilitating room for sound deliberations with urgent Board papers included on an exceptional basis. Board members typically spend at least 7 days on matters relating to the Board.

Annual Strategy meeting with Corporate Management Team

Appointment of Directors to fill casual vacancies

Review of all major policy documents

Approval/recommendation of final dividend for 2015 amounting to Rs. 4.385 Bn. inclusive of a scrip dividend of Rs. 2.00 per share



Approval of two interim dividends for 2016 of Rs. 1.50 and Rs. 3.00 per share totalling to Rs. 4.010 Bn.

Review of Board and Subcommittee Charters

Market visit to Strategic business locations

Board Responsibilities & Roles

The Role of the Board and its responsibilities are set out in the Board Charter which includes a schedule of Powers Reserved for the Board (Figure 29).

Roles, Responsibilities & Powers of the Board

| Role of the Board | Key Responsibilities | Powers reserved for the Board |
|--|--|---|
| <p>Represent and serve interests of shareholders by overseeing and appraising the Bank's strategies, policies and performance</p> <p>Optimise performance and build sustainable value for shareholders in accordance with the regulatory framework and internal policies</p> <p>Establish an appropriate governance framework</p> <p>Ensure regulators are apprised of the Bank's Performance and any major developments</p> | <p>Selection, appointment and evaluation of the performance of the Chief Executive Officer</p> <p>Setting strategic direction and monitoring its effective implementation</p> <p>Establishing systems of risk management, internal control and compliance</p> <p>Integrity of financial reporting process</p> <p>Developing a suitable corporate governance structures, policies and framework</p> <p>Strengthening the safety and soundness of the Bank</p> <p>Appointment and oversight of External Auditors</p> | <p>Approving major capital expenditure, acquisitions and divestitures and monitoring capital management</p> <p>Appointment of Board Secretary in accordance with the Section 43 of the Banking Act No. 30 of 1988</p> <p>Power to seek professional advice in appropriate circumstances at the Bank's expense</p> <p>Review, amend and approve governance structures and policies</p> |

Figure 29

The Board takes an active role in strategy formulation providing clear directions to management for the preparation of the Bank's five year strategic plan which is then reviewed and approved at a meeting convened for the purpose. Alternative strategies are explored and evaluated by the Board prior to approval and allocation of resources for execution of the same. Performance review vis a vis the strategic plan is a regular agenda item on the monthly Board meetings with significant attention and time devoted to reviewing progress and identifying areas of concern requiring further attention of the Board. Specialised areas identified for oversight by Board Subcommittees are monitored by the respective Committees who report on progress made and concerns to the Board as outlined in Table 21 on pages 126 & 127.

Positions of Chairman and CEO are separate in line with best practice in Corporate Governance facilitating a balance of power and authority. The Chairman is a Non-Executive Director while the CEO is an Executive Director appointed by the Board and their roles are clearly set out in the Board Charter.

Role of Chairman

The Role of the Chairman is clearly set out and approved by the Board. The Chairman provides leadership to the Board, preserving order and facilitating the effective discharge of the duties of the Board. He is also responsible for ensuring the effective participation of all Directors and maintaining open lines of communication with KMPs, acting as a

sound Board on strategic and operational matters. The agenda for Board meetings are determined by the Chairman in consultation with the Company Secretary. The Directors wishing to include items on the agenda may request the Chairman to discuss the same.

Role of the CEO

The Role of the CEO is set out in the Board Charter and requires the CEO to conduct the management functions directed by the Board. Corporate objectives for the CEO are set by the Board who also develop his duties and responsibilities jointly with him. The CEO is responsible for implementing strategic objectives, plans and budgets approved by the Board.

Role of Non-Executive Independent Directors

Non-Executive Independent Directors are expected to bring an objective and independent view on matters, challenge the Board and Management constructively using their expertise and assist in providing guidance on strategy.

Role of Company Secretary

The Company Secretary plays a critical role in facilitating good Corporate Governance and the responsibilities are summarised below:

- Ensure conduct of Board and General Meetings in accordance with the Articles of Association, Board Charter and relevant legislation;
- Maintaining statutory registers;
- Prompt communications to regulators and shareholders and filing statutory returns;
- Facilitating best practice on Corporate Governance including assisting the Directors with respect to their duties and responsibilities;
- Facilitating access to legal advice in consultation with the Board, where necessary.

Appointment and removal of the Company Secretary is a matter for the Board as a whole.

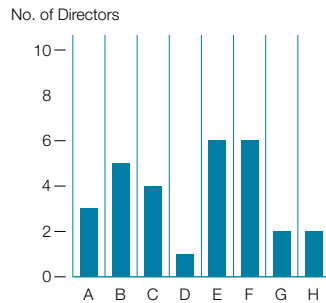
Appointment of Directors

The BNC has set in place a formal and transparent procedure for the appointment of new Directors. They receive resumes of the potential candidates recommended by the Board in the event of a vacancy of a Non-Executive Director and review same in order to make recommendations to the Board which may include an interview with the candidate.

The process for appointment of Executive Directors is similar with the exception being that candidates are selected from amongst the KMPs of the Bank. The BNC also assesses annually the combined knowledge, experience and diversity of the Board in relation to the Bank's strategic plans to identify additional requirements

which are addressed when incumbent Directors come up for re-election as evinced by the appointments during the year.

Skills & Expertise of the Board of Directors*



A – Economic
 B – Banking
 C – Accounting
 D – Information Technology
 E – Financial Services
 F – Corporate & Management
 G – Business/Public Administration
 H – Other Sectors

*Other Sectors – Agriculture, Engineering, Taxation, Tourism, Hotel Management

Graph 66

Appointments of new Directors are communicated to the CSE and shareholders through press releases subsequent to obtaining approval from the CBSL. The communications typically includes a brief resume of the Director, relevant expertise, key appointments, shareholding and whether he is independent.

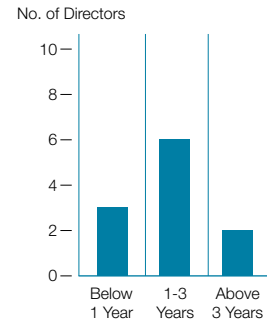
Re-election

Two Directors will offer themselves for re-election at each AGM. The two longest serving NEDs offer themselves for re-election at each AGM in rotation with the period of service being considered from the last date of re-election or appointment. If there are more than two Directors who qualify for re-election, the Directors may decide amongst themselves or draw lots to determine the Directors who will offer themselves for re-election. If a Director has been appointed as a result of a casual vacancy that has arisen since the previous AGM, that Director will offer himself for re-election at the next AGM.

Mr. L.D. Niyangoda, Ms. N.T.M.S. Cooray and Mr. G.S. Jadeja were appointed during the year to fill casual vacancies and are offering themselves for re-election at the

AGM to be held on March 30, 2017. The appointment of Ms. Cooray brought much needed gender diversity to the Board.

Tenure of Directors in the Board



Graph 67

Induction and Training of Directors

On appointment, Directors are provided with access to the electronic support system for Directors which archives minutes for the past two years and an induction pack which comprises the Articles of Association, Banking Act Directions, Corporate Directors' Handbook published by the Sri Lanka Institute of Directors, Code of Best Practice on Corporate Governance, the Bank's organisational structure, Board Charter and the most recent Annual Report of the Bank. All Directors are encouraged to obtain membership of the Sri Lanka Institute of Directors which has a robust programme to support Directors. It is mandatory for the Directors to attend Director Forums organised by the Central Bank of Sri Lanka. Members of the Corporate Management and external experts make regular presentations with regard to the business environment in relation to the operations of the Bank.

Directors' and Executive Remuneration

The BHRRC is responsible for making recommendations to the Board regarding the remuneration of Executive Directors. This vital committee comprises entirely of NEDs who also meet the criteria for independence as set out in the Code. They consult the Chairman and the CEO regarding the same and also seek professional advice whenever deemed necessary. Remuneration for NEDs is set by the Board as a whole. Remuneration for

Executive Directors is set with reference to the Remuneration and Benefit Policy. These processes ensure that no individual director is involved in determining his or her own remuneration. The Board and the BHRRC engage the services of HR professionals on a regular basis to assist in the discharge of their duties in this regard.

Remuneration and Benefits Policy
The Remuneration and Benefit Policy seeks to provide a distinctive value proposition to current and prospective employees that attracts and retains people with capabilities and values in line with the business needs of the Bank. It must also provide a framework for the employer to design, administer and evaluate effective reward programmes to inspire and motivate desired behaviours and results.

The Level and Make Up of Remuneration

It is the responsibility of the BHRRC to ensure that the remuneration of both Executive Directors and NEDs is sufficient to attract eminent professionals to the Board and retain them as contributing members in driving the performance of the Bank. Remuneration and benefits of the Executive Directors and KMPs are determined in accordance with the remuneration policies of the Bank which are designed to be attractive, motivating and capable of retaining high performing, qualified and experienced employees in the Bank.

Total remuneration of KMPs is made up of three components, guaranteed remuneration being the fixed component and annual performance bonus & Employee Share Option Plan (ESOP), being the variable components. The BHRRC seeks the assistance of professionals in structuring the remuneration and benchmarking with market on a regular basis to ensure that total remuneration levels remain competitive in order to attract and retain key talent whilst balancing the interests of the shareholders. It also takes into consideration the views of the Bank's two employee associations – the Executive Association and the Ceylon Bank Employees Union (CBEU) with whom they maintain a regular dialogue.

Guaranteed pay includes the monthly salary and allowances which are determined with reference to the qualifications, experience, levels of competencies, skills, roles and responsibilities of each employee. These are reviewed on an annual basis and adjusted for promotions, performance and inflation. The annual performance bonus is determined with reference to a multi-layered performance criteria matrix which is clearly communicated to the relevant categories of employees.

The ESOP approved by the shareholders at the AGM held on March 31, 2015 is also part of the performance related remuneration for Executive Officers in Grade 1A or above. NEDs are not eligible for ESOPs of the Bank.

Refer Note 53.1 and 54 to the Financial Statements on 'Share-based Payment' on pages 297 to 300 for details of the ESOPs and the eligibility criteria.

There are no compensation commitments in employment contracts for early terminations and there were no instances of early termination during the year that required compensation.

Board and Subcommittee Evaluations

The Board and its Subcommittees annually appraise their own performance to ensure that they are discharging their responsibilities satisfactorily in accordance with the Board Charter which includes the responsibilities set out in the Governance Code and the Banking Act Direction No.11 of 2007. This process requires each Director to fill a Board Performance Evaluation Form which incorporates all criteria specified in the Board Performance Evaluation Checklist of the Governance Code. The responses are collated by the Company Secretary and submitted to the BNC and discussed at a Board Meeting. Board evaluations for 2015 were discussed during 2016 and evaluations for 2016 at the January 2017 Board Meeting.

Appraisal of the CEO

The Board assesses the performance of the CEO on an annual basis and this is a matter reserved for the Board as a whole.

Assessment criteria are agreed with the CEO at the beginning of the year and performance is reviewed formally based on same at the end of the financial year taking into account the operating environment. The Chairman discusses the evaluation with the CEO and responses received are given due consideration prior to approval of the same which is finalised within 4 months of the close of the financial year. The Board is supported by the BHRRC in this process.

Shareholder Relations

The Bank has 9,610 shareholders of which 5.74% are institutional shareholders holding 76.77% voting ordinary shares and the balance 94.26% are retail investors. They play a key role in re-election of Directors, External Auditor and vote on material matters including adoption of the Annual Report and Accounts. The Bank recognises that the engagement with shareholders and potential investors is part and parcel of good corporate governance and has a structured process in place to facilitate same.

All Shareholders are encouraged to participate at the AGMs and exercise their votes. Consequently, a total of 155 (Voting) and 112 (Non-Voting) shareholders attended the Annual General Meeting held on March 31, 2016 while a further 498 Voting shareholders exercised their right to vote through proxy.

A Shareholder Communication Policy is in place to ensure that there is effective and timely communication of material matters to shareholders. Accordingly, shareholders were notified of quarterly results, dividend declarations, resignation and appointment of Directors through announcements in the CSE and the media. The Bank's website also has an area dedicated to investors which includes Interim Financial Statements and Annual Reports with the most recent report being offered in both a PDF format as well as an interactive format to facilitate readability. The Interactive Report also has a tab for investor feedback. In addition to financial information, the Bank also provides Risk Management information to address the concerns of investors.

CORPORATE MANAGEMENT AND PROFILES



01. Jegan Durairatnam

Managing Director/CEO
BSc. (University of Peradeniya)
 35 years in Banking

02. S. Renganathan

Chief Operating Officer
FCMA (UK)/CGMA/Fellow of the IFS School of Finance (UK)/FIB (SL)/Associate of the Financial Services Institute of Australia
 36 years of Banking

03. Nandika Buddhipala

Chief Financial Officer
FCA/FCCA (UK)/FCMA/CMA (Aus)/MCISI (UK)/SA Fin (Aus)/IMA (USA)/BSc. B.Ad. (Special) (University of Sri Jayewardenepura)/PG Dip in Management (University of Sri Jayewardenepura)/MBA (University of Colombo)/MA in Financial Economics (University of Colombo)/MSc in Financial Mathematics (University of Colombo)
 26 years post qualifying experience including 9 years in Banking

04. Isuru Tillakawardana

Deputy General Manager – Human Resource Management
LLB(Colombo)/MBA (University of Sri Jayewardenepura)/Diploma in International Affairs (BCIS)/Fellow of the Association of HR Professionals and Graduate Sri Lanka Institute of Directors
 26 years of experience including 7 years in Banking

05. Hasrath Munasinghe

Deputy General Manager – Marketing
MSc in IT (University of Moratuwa)/MBA (USQ Aus)/Dip in Mktg CIM (UK)/CMA/ICMA (Aus)/AIB (SL)/PGDBFA (CA Sri Lanka)/CPM (APMF Sing), Certificate in Risk (CISI UK)/FCIM/FSLIM
 22 years in Marketing, Sales & Communication including 5 years in Banking

06. Sanath Manatunge

Deputy General Manager – Corporate Banking
FCMA (UK)/CGMA/FCMA (SL)/FIB (SL)/MBA (University of Sri Jayewardenepura) Merit
 27 years in Banking

07. Felician Perera

Deputy General Manager – Credit Supervision & Recoveries
Bachelor of Philosophy (Rome)/FIB (SL)/Diploma in Bank Management (IBSL)
 36 years in Banking

08. Ms. Sandra Walgama

Deputy General Manager – Personal Banking
AIB(SL)/Associate of the Institute of Administrative Accounting (UK)/Level 3 Certificate in Wealth Management (Chartered Institute for Securities & Investment – London)
 37 years in Banking

09. Prins Perera

Head of Global Markets
AIB (SL)/ACMA(UK)/CGMA
 27 years in Banking

10. Krishan Gamage

Assistant General Manager – Information Technology
BSc. (Eng.) in Electronic & Telecommunication (University of Moratuwa)
 18 years experience in Information Technology including 10 years in Banking



11. Prasanna Indrajith

Assistant General Manager – Finance

FCA/FCCA (UK)/FCMA (SL)/AIB(SL)/BSc. B.Ad. (Special) (University of Sri Jayawardenepura)

22 years post qualifying experience including 20 years in Banking

12. Chinthaka Dharmasena

Assistant General Manager – Services

BSc. (Eng) Hons in Mechanical Engineering (University of Moratuwa)/MBA (USJ)/ISO Lead Auditor Certificate/Visiting lecturer at University of Moratuwa

16 years of Experience in Manufacturing and supply chain Management and 5 years in Banking

13. Naveen Sooriyaarchchi

Assistant General Manager – Corporate & Investment Banking

MBA (University of Colombo)/AIB (SL)/Humphrey Fellowship in Investment Banking (Boston University, USA)

36 years in Banking

14. Selva Rajasooriyar

Assistant General Manager – Personal Banking I

FCMA(UK)/CGMA/ACMA(SL)/AIB(SL)

36 years in Banking

15. S. Prabagar

Assistant General Manager – Operations

MBA (University of London), AIB (SL), B.Com. (Bharathidasan University, India), DISSCA (Diploma in System Security and Control Audit – CA Sri Lanka)

21 years in Banking

16. Asela Wijesiriwardena

Head of Global Treasury

BSc. (University of Colombo)/MA-Econ/ACMA

20 years in Banking

17. Niran De Costa

Assistant General Manager – Personal Banking II

BCom. (Hons) (University of Peradeniya)

35 years in Banking

18. Priyantha De Silva

Assistant General Manager – Credit Supervision & Recoveries

AIB (SL), CIMA-Finalist

36 years in Banking

19. B.A.H.S. Preena

Assistant General Manager – Corporate & Trade Services

MBA (University of Colombo)/AIB (SL)

29 years in Banking

20. Delakshan Hettiarachchi

Assistant General Manager – Personal Banking III/SME

MBA/AIB (SL)

33 years in Banking

21. Chanura Wijetillake

Assistant General Manager – Compliance

FIB (SL)/Post Gr. Diploma in Business Management ICFAI (India)

37 years in Banking

22. Kapila Hettihamu

Chief Risk Officer

BSc. (University of Colombo)/MBA/ACI

21 years in Banking

23. John Premanath

Assistant General Manager – Management Audit

ACCA (UK)/BSc. Applied Accounting (Oxford Brookes – UK)/AIB (SL)/CISA (Certified Information Systems Auditor – USA)/DISSCA (Diploma in Information Systems Security and Control Audit – CA Sri Lanka)/ISO 27001:2013 ISMS Lead Auditor

26 years in Banking

SENIOR MANAGEMENT

Personal Banking



Roshan Perera

Senior Regional Manager –
Colombo Metro



Leel Rodrigo

Senior Regional Manager –
Colombo South



Saman Kalansuriya

Head of Leasing, Factoring
and Personal Loans



Thusitha Suraweera

Head of Card Centre



Yasmin Weerasuriya

Senior Regional Manager –
Greater Colombo



Darshanie Perera

Senior Regional Manager –
Colombo North



Mithila Shamini

Senior Regional Manager –
Colombo Inner



Pradeep Banduwansa

Chief Manager - eBanking Division

Corporate Banking



Sidath Pananwala

Chief Manager – Corporate Banking



Kelum Amarasinghe

Chief Manager – Travels and NRFC



Anura Wickramarachchi

Chief Manager – Foreign Operations



Mahinda Wijeratne

Chief Manager –
Off-shore Banking Centre



Feroza Ameen

Chief Manager – Islamic Banking



C. P. Fernando

Chief Manager – Treasury Processing



Dilrukshi Nanayakkara

Chief Manager – Corporate Banking



Sushara Vidyasagara

Chief Manager – Investment Banking



Palitha Jagoda

Chief Manager - Super Market Banking



Saneth Jayasundara

Regional Manager – North Central



Amal Alles

Regional Manager – Central



S. Ganeshan

Regional Manager - Eastern



K. P. Nandasiri

Chief Manager – Retail Credit Approval Unit



S.B. Wasala

Regional Manager – Southern



Sanath Perera

Regional Manager – Uwa-Sabaragamuwa



Roy Nicholas

Regional Manager – Northern



Tamara Bernard

Chief Manager – Corporate Banking



Prasad Fernando

Chief Manager – Imports

Bangladesh Operation



Ajith Naranpanawe
Country Manager



D. Das Gupta
Senior General Manager



Najith Meewanage
Chief Operating Officer



A.K. Nandy
Senior Deputy General Manager –
Chittagong



Binoy Gopal Roy
Deputy General Manager –
Finance and Accounts



Mostafa Anowar Sohel
Senior Assistant General Manager –
Human Resources



Shakir Khusru
Assistant General Manager –
Personal Banking



Shakeel Imdadul Islam
Assistant General Manager –
Corporate Banking

Support Services



Vajira Thotagammana
Head of Information
Technology Operations



Amitha Munasinghe
Head of Information System Audit



M. P. Dharmasiri
Head of Finance



Sujeeva Ranasinghe
Head of Human Resource
Management



Esala Silva
Chief Manager – Central Clearing



Thayalan Gnanapragasam
Chief Manager – Central
Administration and Staff Advances



Priyanthi Perera
Chief Manager – Operations



Udayakanth Fernando
Chief Manager –
Staff Development Centre

Maldivian Operation



Dilan Rajapakse
Country Manager



Namal Gamage
Chief Manager – Legal



Dr. Shanthikumar Fernando
Chief Manager –
Research and Development



Sampath Weerasuriya
Chief Manager –
Security and Safety



Ranjani Gamage
Company Secretary



Nalin Samaranayake
Chief Manager – Recoveries



Tilak Wakista
Chief Manager – Premises

BOARD SUBCOMMITTEE REPORTS

Board Audit Committee Report



This year we have introduced a mechanism to evaluate the effectiveness of external auditors strengthening our assurance pillar'



Charter of the Committee

The Charter of the BAC approved by the Board, clearly defines the Terms of Reference of the Committee and is annually reviewed to ensure that new developments relating to the Committee's functions are addressed. The Charter of the Committee was last reviewed and approved by the Board in September, 2016.

The Committee assists the Board in discharging its responsibilities and exercises oversight over financial reporting, internal audit, internal controls and external audit.

The Banking Act Direction No. 11 of 2007 on 'Corporate Governance for Licensed Commercial Banks in Sri Lanka' and its subsequent amendments (hereinafter referred to as the Direction), 'Rules on Corporate Governance under Listing Rules of the Colombo Stock Exchange' and 'Code of Best Practice on Corporate Governance', issued jointly by The Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka, further regulate the composition, roles and functions of the BAC.

The Committee is empowered by the Board to:

- Ensure that financial reporting systems in place are effective and well managed in order to provide accurate, appropriate and timely information to the Board, Regulatory Authorities, the Management and other stakeholders.
- Review the appropriateness of accounting policies and ensure adherence to statutory and regulatory compliance requirements and applicable Accounting Standards.
- Ensure that the Bank adopts and adheres to high standards of Corporate Governance practices, conforming to the highest ethical standards and good industry practices in the best interests of all stakeholders.

Evaluate the adequacy, efficiency and effectiveness of Risk Management measures, Internal Controls and Governance Processes in place to avoid, mitigate or transfer current and evolving risks.

- Monitor all aspects of Internal and External Audit and Inspection programmes of the Bank and review Internal and External Audit Reports for follow up with the Management on their findings and recommendations.
- Review the Interim Financial Statements and Annual Financial Statements of the Bank in order to monitor the integrity of such statements prepared for disclosure, prior to submission to the Board.

Activities in 2016

Reporting of Financial Position and Performance:

The Committee assisted the Board in its oversight on the preparation of Financial Statements to evidence a true and fair view on financial position and performance. This process is based on the Bank's accounting records and in accordance with the stipulated requirements of the Sri Lanka Accounting Standards.

The prevailing Internal Controls, systems and procedures were assessed by the Committee and it expressed the view that adequate controls and procedures were in place to provide reasonable assurance to the effect that the Bank's assets are safeguarded and the financial position of the Bank is well monitored and accurately reported.



Composition of the Committee

Board Audit Committee (the BAC) consist of following members whose profiles are given on pages 11 to 13.

Mr. S. Swarnajothi* (*Chairman*)
 Prof. A.K.W. Jayawardane* (*Director*)
 Mr. K. Dharmasiri* (*Director*)
 Ms. N.T.M.S. Cooray* (*Director*)
Appointed w.e.f. September 30, 2016
 *Independent Non-Executive Director

Regular Attendees by Invitation:

J. Durairatnam (*Managing Director/CEO*)
 S. Renganathan (*Director/Chief Operating Officer*)
 K.D.N. Buddhipala (*Chief Financial Officer*)
 S.K.K. Hettihamu (*Chief Risk Officer*)
 C. Wijetillake (*Assistant General Manager – Compliance*)
 J. Premanath (*Assistant General Manager – Management Audit*)

Secretary to the Committee:

Mr J Premanath – *Assistant General Manager – Management Audit*

Mr. Manil Jayasinghe, a senior practicing Chartered Accountant, serves the BAC in the capacity of a Consultant and is invited to attend its meetings.

Meetings

| Name | Eligible to attend | Attended |
|--------------------------|--------------------|----------|
| Mr. S. Swarnajothi | 11 | 11 |
| Prof. A.K.W. Jayawardane | 11 | 9 |
| Mr. K. Dharmasiri | 11 | 11 |
| Mrs. N.T.M.S.Cooray | 3 | 1 |

The committee held eleven (11) meetings during the financial year ended December 31, 2016. Proceedings of these meetings with adequate details of matters discussed are regularly reported to the Board.

Representatives of the Bank's External Auditors Messrs KPMG also participated in five (5) meetings during the year by invitation. The Committee also invited members of the Senior Management of the Bank to participate in the meetings from time to time on a needs basis.

Oversight on Regulatory Compliance:

The Committee closely scrutinised compliance with mandatory banking and other statutory requirements and the systems and procedures that are in place to ensure compliance with such requirements. The quarterly reports submitted by the Compliance Officer were used by the Committee to monitor compliance with all such legal and statutory requirements. The Bank's Inspection Department has been mandated to conduct independent test checks covering all regulatory compliance requirements, as a further monitoring measure.

Identification of Risks and Control Measures:

The Bank has adopted a risk-based audit approach and the effectiveness of the internal control procedures in place to identify and manage all significant risks are being reviewed by the Committee. A Risk Grading Matrix has been adopted for assessing and measuring the risks identified during audit assignments carried out by the Inspection Function. The Committee seeks and obtains the required assurances from Business Units on the remedial action in respect of the identified risks to maintain the effectiveness of internal control procedures.

Internal Audit and Inspection: The Committee ensures that the Internal Audit Function is independent of the activities it audited and that it was performed with impartiality, proficiency and due professional care.

The Bank's Inspection Department carries out, online and onsite inspections of local business units including Subsidiaries and overseas operations namely Bangladesh and Maldives. With the concurrence of the Board, the Bank continues to engage the services of five (5) firms of Chartered Accountants approved by the Central Bank of Sri Lanka (CBSL) in order to supplement Bank's Inspection Department in carrying out inspection assignments.

The Committee approved the Programme of Inspection formulated by Inspection Department and reviewed its implementation regularly. Five hundred and twenty (520) inspection reports on Business Units and Departments received the attention of the Committee and the operational deficiencies, risks highlighted and the recommendations were given due attention.

Major findings of internal investigations with recommendations of the management were considered and appropriate instructions issued. The Committee also invited representatives from the audit firms assisting in inspections to make presentations on their observations and findings.

Members of the Committee visited some of the branches to get a better understanding of branch operations.

External Audit: In regard to the External Audit function of the Bank, the role played by the Committee is as follows:

- Assisting the Board in engaging External Auditors for audit services, in compliance with the provisions of the Direction and agree on their remuneration with the approval of the shareholders.
- Monitoring and evaluating the independence, objectivity and effectiveness of External Auditor.
- Reviewing non-audit services provided by the Auditors, with a view to ensuring that such functions do not fall within the restricted services and provision of such services will not impair the External Auditors' independence and objectivity.
- Discussing the audit plan, scope and the methodology proposed to be adopted in conducting the audit with the Auditors prior to commencement of the annual audit.
- Discussing all relevant matters arising from the interim and final audits, and any matters the Auditor may wish to discuss, including matters that may need to be discussed in the absence of Key Management Personnel.

- Reviewing the External Auditors' Management Letter and the management's responses thereto.

The Auditors were provided with the opportunity of meeting Non-Executive Directors separately, without any Executive being present, to ensure that the Auditors had the independence to discuss and express their opinions on any matter. It provided the assurance to the Committee that the Management has fully provided all information and explanations requested by the Auditors.

At the conclusion of the audit, the Committee also met the Auditors to review the Auditors' Management Letter before it was submitted to the Board and CBSL.

Mechanism of Internal Controls: Sections 3(8)(ii) (b) and (c) of the Banking Act Direction No. 11 of 2007, stipulates the requirements to be complied with by the Bank to ensure reliability of the financial reporting system in place at the Bank. The Committee is assisted by the External Auditor and Inspection Department to closely monitor the procedures designed to maintain an effective internal control mechanism to provide reasonable assurance that this requirement is being complied with.

In addition, the Committee regularly monitored all exceptional items charged to the Income Statement, long outstanding items in the Bank's Chart of Accounts, Credit Quality, Risk Management procedures and adherence to classification of non-performing loans and provisioning requirements specified by the CBSL. The Committee also reviewed the credit monitoring and follow up procedures and the Internal Control Procedures in place to ensure that necessary control and mitigating measures are available in respect of newly identified risks.

Ethics and Good Governance : The Committee continuously emphasised on upholding ethical values of the staff members. In this regard, a Code of Ethics and Whistle-Blowers Charter was put in place and followed for educating and encouraging all members of staff to resort to whistle-blowing if they suspect wrong doings or other improprieties. Highest standards of Corporate Governance and adherence to the Bank's Code of Ethics were ensured. All appropriate procedures were in place to conduct independent investigations into incidents reported through whistle-blowing or identified through other means. The Whistle-Blowers Charter guarantees the maintenance of strict confidentiality of the identity of the whistle-blowers.

Sri Lanka Accounting Standards:

Committee reviewed the revised policy decisions relating to adoption of new and revised Sri Lanka Accounting Standards (SLFRS/LKAS) applicable to the Bank and made recommendation to the Board. The Committee would continue to monitor the compliance with relevant Accounting Standards and keep the Board informed at regular intervals.

Evaluation of the Committee: An independent evaluation of the effectiveness of the Committee was carried out by the other Members of the Board during the year. Considering the overall conduct of the Committee and its contribution on the overall performance of the Bank, the Committee has been rated as highly effective.



S. Swarnajothi
Chairman – Board Audit Committee

Colombo
February 22, 2017

Board Integrated Risk Management Committee Report



‘We monitor our risk radar closely to identify emerging areas of concern that require deeper study. This enables us to formulate action plans for managing potential impacts from emerging risks.’



Charter of the Committee

The BIRMC was established by the Board of Directors, in compliance with the Section 3 (6) of the Direction No. 11 of 2007, on ‘Corporate Governance for Licensed Commercial Banks in Sri Lanka’, issued by the Monetary Board of the CBSL under powers vested in the Monetary Board, in terms of the Banking Act No. 30 of 1988. The composition and the scope of work of the Committee conforms to the same as set out in the BIRMC Charter which clearly sets out the membership, source of authority, duties and responsibilities of the BIRMC as described in the ‘Managing Risk: An Overview’ Section of this report on page 172 to 175.

BIRMC assists Board of Directors in performing its oversight function in relation to different types of risks faced by the Bank in its business operations and ensures adequacy and effectiveness of the risk management framework of the Bank. The Committee submits a risk assessment report within a week of each meeting to the Board of Directors. Duties of the BIRMC include determining the adequacy and effectiveness of such measures, and to ensure that the actual overall risk profile of the Bank conforms to the desirable risk profile of the Bank, as defined by the Board.

Activities in 2016

The Committee assess all key risks such as Credit, Operational, Market, Liquidity, Information Technology, etc., which are tracked on a monthly basis through a set of risk indicators. It works very closely with the Key Management Personnel and the Board in fulfilling its statutory, fiduciary and regulatory responsibilities for risk management.

The Charter of the BIRMC was reviewed by the Board of Directors in December 2016. In order to discharge the above duties and responsibilities, the Committee carried out the following activities:

- Reviewed and revised the Terms of Reference of all Management Committees dealing with specific risks or some aspects of risk, such as the Executive Integrated Risk Management Committee, the Executive Committee on Monitoring NPLs, the Credit Policy Committee and the Assets and Liabilities Committee.
- Monitored actions initiated by Senior Management to test the effectiveness of the measures taken by the respective Committees referred to above.
- Reviewed the annual work plans, related strategies, policies and frameworks of the above Committees, to ensure that these Committees have a good understanding of their mandates and adequate mechanisms to identify, measure, avoid, mitigate, transfer or manage the risks within the qualitative and quantitative parameters set by the BIRMC.
- Maintained a continuous dialogue with Management Committees directly or indirectly dealing with specific risks, so that the BIRMC is immediately informed of any hindrance, obstacle, discouragement or constraint in the performance of their functions and/or the implementation of their decisions.
- Periodically reviewed and approving the ICAAP framework and ensuring that ICAAP is subject to comprehensive internal audit oversight.
- Reviewed and improved the effectiveness of the risk related policy framework of the Bank.



Composition

Board Integrated Risk Management Committee (the BIRMC) consists of following members whose profiles are given on pages 11 to 13:

Mr. M.P. Jayawardena* (*Chairman*)

Mr. J. Durairatnam
(*Managing Director/CEO*)

Mr. S. Swarnajothi* (*Director*)

Mr. K. Dharmasiri* (*Director*)

Mr. L.D. Niyangoda* (*Director*)
Appointed w.e.f. September 30, 2016

**Independent Non-Executive Director*

Regular Attendees by Invitation:

Mr. S.K.K. Hettihamu (*Chief Risk Officer*)

Secretary: Mr. K.D.N. Buddhipala
(*Chief Financial Officer*)

Meetings

| Name | Eligible to attend | Attended |
|----------------------|--------------------|----------|
| Mr. M.P. Jayawardena | 5 | 5 |
| Mr. J. Durairatnam | 5 | 5 |
| Mr. S. Swarnajothi | 5 | 4 |
| Mr. K. Dharmasiri | 5 | 5 |
| Mr. L.D. Niyangoda | 1 | 1 |

BIRMC held four (4) meetings on a quarterly basis and one additional meeting specifically to discuss and recommend Internal Capital Adequacy Assessment process (ICAAP) for the year 2016/17, during the year under review.

- Considered proposed material changes to the Bank's risk profile or Risk Appetite arising from planned, new or increased business.
- Reviewed risk profiles of subsidiaries of the Bank.
- Reviewed key risk indicators in use for risk monitoring and results of stress tests to evaluate resilience and compliance with internal benchmarks.
- Reviewed the risk indicators designed to monitor the level of specific risks at any given time, with a view of determining the adequacy of such indicators to serve the intended risk management objectives and take proactive measures to control risk exposures.
- Reviewed the actual results computed monthly against each risk indicator and take prompt corrective action/s to mitigate the effects of specific risks, in case such risks are exceeding the prudent thresholds defined by the Board of Directors.
- Reviewed and approved the parameters and limits set by the management against various categories of risk and ascertain whether they are in accordance with the relevant laws and regulations as well as the desired policy levels stipulated by the Board of Directors.
- Initiated appropriate actions against the failures of the officers responsible for risk management functionality to improve the overall effectiveness of risk management at the Bank.
- Monitored the effectiveness and the independence of the risk management function within the Bank and ensure that adequate resources are deployed for this purpose.
- Reviewed the effectiveness of the compliance function, to assess the Bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies in all areas of business operations.
- Reviewed Risk Control Self Assessment (RCSA) findings of the Bank on half yearly basis.
- Reviewed the updated Business Continuity and Disaster Recovery Plans annually.

During the year 2016, the BIRMC supported execution of the overall business strategy within a set of prudent risk parameters that are reinforced by an effective risk management framework.



M.P. Jayawardena
Chairman – Board Integrated Risk Management Committee

Colombo
February 22, 2017

Board Nomination Committee Report



‘Board composition is key to sound corporate governance and careful attention is given to selection of candidates, ensuring diversity of the Board’



Terms of Reference of the Committee

The Terms of Reference clearly states the purpose of establishing the Committee, its composition, authority and conduct and scheduling of meetings. The BNC was established by the Board in compliance with sub-direction 3 (6) (iv) of Banking Act Direction No. 11 of 2007 (subsequently amended) on Corporate Governance for Licensed Commercial Banks in Sri Lanka issued by the Monetary Board of the Central Bank of Sri Lanka under Section 46 (1) of the Banking Act No. 30 of 1988, as amended, to ensure Board’s oversight and control over ‘Selection of Directors, Chief Executive Officer and Key Management Personnel’. It also states that matters relating to Key Management Personnel (KMP) may be dealt with the Human Resources Subcommittee.

Authority of the Committee

- The Committee has the authority to discuss issues under its purview and report back to the Board with recommendations, enabling the Board to take a final decision on the matter.
- If a need arises, professionals from outside may be invited for advice on specific issues.
- Bank staff may be present at Committee meetings for advice or special assignments, by invitation.

Charter of the Committee

The mandate of the Committee includes *inter alia* the following:

- To implement a procedure to select/ appoint new Directors, Chief Executive Officer and KMP.
- To consider and recommend (or not recommend) the re-election of current Directors, taking into account the performance and contribution made by them towards the overall discharge of the Board’s responsibilities.
- To set the criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of Chief Executive Officer and key management positions.
- To ensure that Directors, Chief Executive Officer and KMP are fit and proper persons to hold office as per the criteria set out in the Direction issued by the Central Bank of Sri Lanka and relevant statutes.
- To consider and recommend from time to time, the requirements of additional/new expertise and the succession arrangements for retiring Directors and KMP.
- To make recommendations on any other matter/s referred to the Committee by the Board of Directors.



Composition

Board Nomination Committee (the BNC) consists of following members whose profiles are given on pages 11 to 13:

Mr. K.G.D.D. Dheerasinghe* (*Chairman*)

Mr. M.P. Jayawardena* (*Director*)

Mr. S. Swarnajothi* (*Director*)

Mr. G.S. Jadeja (*Director*)

(*Appointed w.e.f. September 30, 2016*)

**Independent Non-Executive Directors*

The Committee shall be chaired by an Independent Director who has adequate experience in the relevant subject and be constituted with a majority of Independent Directors from the Board to ensure that the responsibilities of the Committee are discharged effectively.

Regular Attendees by Invitation:

Mr. J. Durairatnam
(*Managing Director/CEO*)

Secretary: Mrs. Ranjani Gamage,
(*Company Secretary*)

Meetings

| Name | Eligible to attend | Attended |
|---------------------------|--------------------|----------|
| Mr. K.G.D.D. Dheerasinghe | 3 | 3 |
| Mr. M.P. Jayawardena | 3 | 3 |
| Mr. S. Swarnajothi | 3 | 3 |
| Mr. G.S. Jadeja | N/A | N/A |
| Mr. H.J. Wilson | 2 | 2 |
| Mr. J. Durairatnam | 3 | 3 |

There shall be a quorum of two-thirds of the members of the Committee to hold a meeting. The Committee shall meet as and when need arises. Three (03) Committee meetings were held during the year under review. Proceedings of the Committee meetings are regularly reported to the Board of Directors.

Activities in 2016

During the year the Committee selected and recommended to the Board three candidates considering their skills and diverse experience to fill casual vacancies on the Board including recommendation of a lady Director after considering the recommendations made by the Board last year.

The Committee also recommended the re-election of Directors, taking into account the performance and contribution made by them towards the overall discharge of the Board's responsibilities.

The Committee continued to work closely with the Board of Directors on matters assigned to the Committee and reported back to the Board of Directors with its recommendations.



K.G.D.D. Dheerasinghe

Chairman – Board Nomination Committee

Colombo
February 22, 2017

Board Human Resources and Remuneration Committee Report



‘This year we focussed on succession planning and variable pay planning to strengthen structures already in place.’



Guiding Principles

The Overall focus of the Committee:

- Setting guidelines and policies to formulate compensation packages, which are attractive, motivating and capable of retaining qualified and experienced employees in the Bank. In this regard, the Committee sets the criteria such as qualifications, experience and the skills and competencies required, to be considered for appointment or promotion to the post of Managing Director and to Key Management positions.
- Setting guidelines and policies to ensure that the Bank upholds and adheres to the provisions of the Laws of the Lands, particularly those provisions of the Banking Act No. 30 of 1988, including the Directions issued by the Monetary Board/Director of Bank Supervision in accordance of the provisions of such Act.
- Providing guidance and policy direction for relevant matters connected to general areas of Human Resources Management of the Bank.
- Ensuring that the performance related element of remuneration is designed and tailored to align employee interests with those of the Bank and its main stakeholders and support sustainable growth.
- Structuring remuneration packages to ensure that a significant portion of the remuneration is linked to performance, to promote a pay for performance culture.
- Promoting a culture of regular performance reviews to enable staff to obtain feedback from their superiors in furtherance of achieving their objectives and development goals.

- Developing a robust pipeline of raising talent capable and available to fill key positions in the Bank.

Methodology

The Committee recognised rewards as one of the key drivers influencing employee behaviour, thereby impacting business results. Therefore, the reward programmes are designed to attract and retain and to motivate employees to perform by linking performance to demonstrable performance based criteria. In this regard, the Committee evaluates the performance of the Managing Director and Key Management Personnel (KMP) against the pre-agreed targets and goals that balance short-term and long-term financial and strategic objectives.

The Bank’s variable (bonus) pay plan is determined according to the overall achievements of the Bank and pre-agreed individual targets, which are based on various performance parameters. The level of variable pay is set to ensure that individual rewards reflect the performance of the Bank overall, the particular business unit and individual performance. The Committee makes appropriate adjustments to the bonus pool in the event of over or under achievement against predetermined targets. In this regard, the Committee can seek external independent professional advice on matters falling within its purview.

Further, the Committee may seek external agencies to carry out salary surveys to determine the salaries paid to staff vis-à-vis the market position, enabling the Committee to make informed decisions regarding the salaries in the Bank.



Composition

Board Human Resources and Remuneration Committee (the BHRRC) consist of following members whose profiles are given on pages 11 to 13:

Mr. K.G.D.D. Dheerasinghe* (*Chairman*)
 Mr. M.P. Jayawardena* (*Director*)
 Mr. S. Swarnajothi* (*Director*)

*Independent Non-Executive Director

Regular Attendees by Invitation:

Managing Director/CEO participates in all deliberations, except those matters impacting his own terms and conditions of employment.

Secretary: Mr. U.I.S. Tillakawardana (*Deputy General Manager – Human Resource Management*)

Meetings

| Name | Eligible to attend | Attended |
|---------------------------|--------------------|----------|
| Mr. K.G.D.D. Dheerasinghe | 5 | 5 |
| Mr. M.P. Jayawardena | 5 | 5 |
| Mr. S. Swarnajothi | 5 | 5 |
| Mr. J. Durairatnam | 5 | 5 |

The Chairman of the Committee can convene a special meeting in the event a requirement arises, provided all members are given sufficient notice of such special meeting. The quorum for a meeting is two (2) members. Members of the Corporate Management were invited to participate at the sittings of the Committee meetings as and when required by the Chairman, considering the topics for deliberation at such meeting. The proceedings of the Committee meetings were regularly reported to the Board of Directors.

Charter of the Committee

- Evaluate, assess, decide and recommend to the Board, matters that may affect the Human Resources Management of the Bank specifically including:
- Determine compensation of the Chairman, Deputy Chairman, Managing Director and other members of the Board of Directors of the Bank, while ensuring that no Director is involved in setting his or her own remuneration.
- Determine compensation and benefits of the KMP and establish performance parameters in setting their individual goals and targets.
- Formulate guidelines, policies and parameters for the compensation structures for all executive staff of the Bank and oversee its implementation.
- Review information related to executive pay from time to time to ensure same is in par with the market/industry rates or as per the strategy of the Bank.
- Evaluate the performance of Managing Director and KMP against the pre-agreed targets and goals.
- Make recommendations to Board of additional/new expertise required by the Bank.
- Assess and recommend to the Board, promotions of KMP, address succession planning and issues relating to organisational structure.
- Evaluate, assess and make recommendations and provide directions pertaining to the Board of Trustees and the management of the Private Provident Fund of the Bank.
- Ensure that all regulatory and contractual commitments relating to employees are fulfilled in a timely manner.
- Recommend/decide/give directions on disciplinary matters resulting in a significant financial loss to the Bank, caused by KMP of the Bank.

- Formulating formal and transparent procedures for developing policy on remuneration for Executives and Directors.
- Approving annual increments, bonuses, changes in perquisites and incentives.

Activities in 2016

During the year, the Committee interviewed, based on the succession plan, suitable candidates to fill the vacancies in the Corporate Management and such recommendations were accordingly approved by the Board of Directors. Some of these appointments were effected and others will be effected in 2017. The recent changes which continue in the key management positions and the ability of the Bank to ensure a smooth transition in each of these cases, signify the importance of and the attention paid to the talent management and succession planning process of the Bank. In all promotions to the Corporate Management grade, the Committee applied the Bank's leadership competency framework to judge the suitability of the candidates.

Further, the Committee determined the bonus payable for 2015 performance, according to the Variable Pay Plan (VPP) for Executive staff, the increments to be granted also based on the above VPP and the performance of the members of the Corporate Management, Chief Operating Officer and Managing Director/CEO were reviewed and performance gradings were agreed upon. With the conclusion of the review process for 2015, the Key Performance Areas of the Corporate Management, Chief Operating Officer and Managing Director/CEO for 2016 were carefully perused by the Committee and agreed on.

Pension for the retired staff members of the Bank, who are entitled to pension under the system which prevailed before the year 2000, were also reviewed by the Committee and proposed revision was recommended for the approval of the Board.

The Committee also reviewed, suggested changes and approved the revision of the Bank's HR Policy manual.

K.G.D.D. Dheerasinghe
Chairman – Board Human Resources and Remuneration Committee

Colombo
February 22, 2017

Board Related Party Transactions Review Committee Report



'This year's focus has been on ensuring that the Related Party Transactions Policy is relevant to the times, is properly communicated and implemented throughout the Bank.'



Charter of the Committee

This Committee was formed by the Board at the end of 2014 to assist the Board in reviewing all related party transactions carried out by the Bank and its listed companies in the Group by early adopting the Code of Best Practice on Related Party Transactions (RPTs) as issued by the Securities and Exchange Commission of Sri Lanka (SEC) which became mandatory from January 01, 2016.

The mandate of the Committee includes inter-alia the following:

- Developing, updating and recommending for adoption by the Board of Directors of the Bank and its listed subsidiaries, a RPTs Policy consistent with that proposed by the SEC.
- Updating the Board of Directors on the RPTs of each of the listed companies of the Group on a quarterly basis.
- Advising the Board in making immediate market disclosures on applicable RPTs as required by Section 9 of the Continuing Listing Requirements of the CSE.
- Advising the Board in making appropriate disclosures on RPTs in the Annual Report as required by Section 9 of the Continuing Listing Requirements of the CSE.

Methodology Adopted by the Committee

- Monitoring the systems in place to obtain declarations from all Directors (at the time of joining the Board and annually thereafter) informing the Company Secretary, the primary contact point for Directors, of any existing or potential RPTs carried out by them or their Close Family Members (CFMs) or any changes to the position already disclosed.

- Monitoring the systems in place to obtain confirmations on any new appointments accepted by Directors of the Bank in other entities as Key Management Personnel (KMPs) informing the Company Secretary to identify and capture such transactions carried out by the Bank with such entities which need to be disclosed under 'Directors Interest in Contracts with the Bank' in the Annual Report.

- Monitoring the systems in place to capture and feed relevant information on RPTs which also includes information on KMPs and CFMs into the Bank's data collection system and the accuracy of such information.

Activities in 2016

During 2016, the RPTs Policy was further reviewed, updated and the amended Policy was disseminated among relevant stakeholders after obtaining the approval of the Board of Directors. All officers concerned are kept informed and updated on the applicable regulatory requirements relating to the reporting of RPTs.

K.G.D.D. Dheerasinghe
Chairman – Board-Related Party Transactions Review Committee

Colombo
February 22, 2017



Composition

Board Related Party Transactions Review Committee (the BRPTRC) comprised following Executive and Independent Non-Executive Directors (as stipulated by the Code of Best Practices on related party transactions issued by the Securities and Exchange Commission of Sri Lanka), whose profiles are given on pages 11 to 13:

Mr. K.G.D.D. Dheerasinghe* (*Chairman*)

Mr. J. Durairatnam
(*Managing Director/CEO*)

Mr. S. Swarnajothi* (*Director*)

Mr. S. Renganathan
(*Director/Chief Operating Officer*)

Mr L.D. Niyangoda* (*Director*)
Appointed w.e.f. September 30, 2016

**Independent Non-Executive Director*

Secretary: Mr. L.W.P. Indrajith
(*Assistant General Manager – Finance*)

Meetings

| Name | Eligible to attend | Attended |
|---------------------------|--------------------|----------|
| Mr. K.G.D.D. Dheerasinghe | 4 | 4 |
| Mr. J. Durairatnam | 4 | 4 |
| Mr. S Swarnajothi | 4 | 4 |
| Mr. S. Renganathan | 4 | 4 |
| Mr. L.D. Niyangoda | 2 | 2 |

The Committee held four (4) meetings during the year under review. The proceedings of the Committee meetings which mainly included activities under its Terms of Reference were regularly reported to the Board of Directors.

Board Credit Committee Report



‘Significant attention was given frameworks were updated and fit for purpose, driving improvement of asset quality and adequacy of provisions.’



Charter of the Committee

The Board Credit Committee assists the Board of Directors in effectively fulfilling its responsibilities relating to the Credit Direction, Credit Policy and Lending Guidelines of the Bank in order to inculcate healthy lending standards and practices and ensure that relevant regulations are complied with.

The Committee is empowered to:

- Review and consider changes proposed from time to time to the Credit Policy and the Lending Guidelines of the Bank.
- Analyse and review the credit risk control measures in the lending areas, the pricing of lending proposals and ensure that credit proposals are within relevant regulatory frameworks.
- Evaluate, assess and make recommendations on credit propositions which will be submitted to the Board of Directors.
- Evaluate and recommend sector exposures and cross boarder exposures.
- Monitor and evaluate special reports called for by the Board of Directors.
- Set lending directions based on the current economic climate and risk appetite of the Bank.

Activities in 2016

The Committee approved credit proposals above a predetermined limit, scrutinised and/or recommended credit proposals and other credit reports intended for approval/perusal by the Board of Directors. These tasks were carried out by the Committee in line with the Bank’s lending policies and credit risk appetite to ensure that the lending portfolios were managed in line with the stipulated credit risk parameters set by the Board of Directors.

K.G.D.D. Dheerasinghe
Chairman – Board Credit Committee

Colombo
February 22, 2017



Composition

Board Credit Committee (the BCC) consists of following members whose profiles are given on pages 11 to 13:

Mr. K.G.D.D. Dheerasinghe* (*Chairman*)

Mr. J. Durairatnam
(*Managing Director/CEO*)

Mr. S Renganathan
(*Director/Chief Operating Officer*)

Prof. A.K.W. Jayawardane* (*Director*)

**Independent Non-Executive Director*

Secretary: Mr. R.A.P. Rajapaksha
(*Assistant Company Secretary*)

Meetings

| Name | Eligible to attend | Attended |
|---------------------------|--------------------|----------|
| Mr. K.G.D.D. Dheerasinghe | 12 | 12 |
| Mr. J. Durairatnam | 12 | 9 |
| Mr. S. Renganathan | 12 | 9 |
| Prof. A.K.W. Jayawardane | 12 | 12 |

Proceedings of the Committee meetings were regularly reported to the Board of Directors.

Board Investment Committee Report



“Our investments have mainly been in Government Securities and debt markets with strategy focussed on maintaining liquidity”



Charter of the Committee

The Committee is responsible for the investment related decisions of the Bank. Hence the Committee will oversee investment activities by providing assistance and guidance, evaluate strategic relevance and financial viability of various investment proposals, monitoring, the Bank’s various investment activities, in accordance with investment policies of the Bank.

Within this framework, the committee performs the following duties.

1. Approve investment proposals, borrowings and execution of agreements.
2. Review existing investment portfolio performance, monitor adherence to investment policies and decisions of the Investment Committee
3. Review and recommend significant investment decisions to be undertaken by the Bank to the Board of Directors
4. Review, amend and approve investment policies and operational parameters relating to investments of the Bank

Methodology Adopted by the Committee

The Committee meets monthly and reviews progress of strategic and significant investments, liquidity situation of the Bank, market developments and the country’s economic outlook. The Committee also reviews the monthly performance of Treasury and Investment Banking Division, where the interest rate risk, repricing risk and other market risks are discussed.

The Committee also from time to time would issue instructions to executive officers of the Bank on investment related activities.

Activities in 2016

The Committee reviewed and approved the Debt Issuances by the Bank in 2016 to strengthen the Tier II capital of the Bank raising Rs. 13.1 Bn.

K.G.D.D. Dheerasinghe
Chairman – Board investment Committee

Colombo
February 22, 2017



Composition

Board Investment Committee (the BIC) consists of the following Members whose profiles are given on pages 11 to 13:

Mr. K.G.D.D. Dheerasinghe* (*Chairman*)

Mr. J. Durairatnam
(*Managing Director/CEO*)

Mr. S. Renganathan
(*Director/Chief Operating Officer*)

Mr. K. Dharmasiri* (*Director*)

Mr. G.S. Jadeja (*Director*)
appointed w.e.f. September 30, 2016

**Independent Non-Executive Director*

Mr. H.J. Wilson, ceased to be a member of the BIC from August 2016 subsequent to his resignation from the Board of Directors of the Bank.

Regular Attendees by Invitation:

Mr. K.D.N. Buddhipala
(*Chief Financial officer*)

Mr. K.A.P. Perera
(*Head of Global Markets*)

Mr. A.N.P. Sooriyaarachchi
(*Assistant General Manager-Corporate and Investment Banking*)

Mr. S.K.K. Hettihamu (*Chief Risk Officer*)

Secretary: Mr. A. Wijesiriwardane
(*Head of Global Treasury*)

Meetings

| Eligible to attend | Eligible to attend | Attended |
|---------------------------|--------------------|----------|
| Mr. K.G.D.D. Dheerasinghe | 12 | 12 |
| Mr. J. Durairatnam | 12 | 12 |
| Mr. S. Renganathan | 12 | 11 |
| Mr. H.J. Wilson | 8 | 6 |
| Mr. K. Dharmasiri | 12 | 12 |
| Mr. G.S. Jadeja | 3 | 2 |

The Committee meets once a month.

Board Technology Committee Report



“Technology is increasingly the key to differentiating ourselves in the market. The Committee has focussed significant attention on exploring new avenues for growth as well as monitoring potential threats in this key area.”



Charter of the Committee

The Committee was established by the Board of Directors in recognition of the degree of reliance of the Bank on technology and the growing demands of IT Governance.

The Committee has been empowered to:

- Set the overall technology strategy and track progress of the objectives to meet this strategy.
- Review significant technology procurements, prior to them being sent to the Board of Directors for approval.
- Analyse emerging technology and its potential use.

Activities in 2016

The committee reviewed and approved the IT strategy of the Bank and reviewed progress of strategic objectives. The Committee also reviewed significant items for procurement and recommends them for approval by the Board of Directors.

Prof. A.K.W. Jayawardane
Chairman – Board Technology Committee

Colombo
February 22, 2017



Composition

The Board Technology Committee (the BTC) consists following members whose profiles are given on pages 11 to 13:

Prof. A.K.W. Jayawardane* (*Chairman*)

Mr. J. Durairatnam*
(*Managing Director/CEO*)

Mr. S. Renganathan*
(*Executive Director/Chief Operating Officer*)

Ms. N.T.M.S. Cooray* (*Director*)
Appointed w.e.f. September 30, 2016

Regular Attendees by Invitation:

Mr. L.H. Munasinghe
(*Deputy General Manager – Marketing*)

Mr. D.B. Saparamadu (*Consultant*)

Secretary: Mr. K.S.A. Gamage
(*Assistant General Manager – Information Technology*)

Meetings

| Name | Eligible to attend | Attended |
|--------------------------|--------------------|----------|
| Prof. A.K.W. Jayawardane | 3 | 3 |
| Mr. J. Durairatnam | 3 | 3 |
| Mr. S. Renganathan | 3 | 3 |
| Ms. N.T.M.S. Cooray | 1 | 1 |

Periodic updates are given to the Board of Directors on the progress of the objectives of the Committee.

ANNUAL REPORT OF THE BOARD OF DIRECTORS

Annual Report of the Board of Directors on the Affairs of the Company and Statement of Compliance of the Contents of the Annual Report as Required by Section 168 of the Companies Act No. 07 of 2007

1. General

The Directors have pleasure in presenting to the shareholders 48th Annual Report of your Company together with the Audited Financial Statements of the Group and the Bank for the year ended December 31, 2016 and the Auditors' Report on those Financial Statements conforming to all relevant statutory requirements. This Report provides the information as required by the Companies Act No. 07 of 2007, Banking Act No. 30 of 1988 & amendments thereto and the

Directions issued thereunder including the Banking Act Direction No. 11 of 2007 on 'Corporate Governance for Licensed Commercial Banks in Sri Lanka' and subsequent amendments thereto, the Listing Rules of the Colombo Stock Exchange (the CSE) and the recommended best practices.

This Report was approved by the Board of Directors on February 22, 2017. The appropriate number of copies of the Annual Report will be submitted to the CSE and to the Sri Lanka Accounting and Auditing Standards Monitoring Board within the statutory deadlines.

Commercial Bank of Ceylon PLC (the Bank) is a licensed commercial bank registered under the Banking Act No. 30 of 1988 and was incorporated as a public limited

liability company in Sri Lanka on June 25, 1969 under the Companies Ordinance No. 51 of 1938 and was re-registered as per the requirements of the Companies Act No. 07 of 2007 on January 23, 2008, under Registration No. PQ 116. The registered office of the Bank is at No. 21, 'Commercial House', Sir Razik Fareed Mawatha, Colombo 01, Sri Lanka, where the Bank's Head Office too is situated.

The ordinary shares (both voting and non-voting) of the Bank are quoted on the Main Board of the CSE since March 1970. The unsecured subordinated redeemable debentures issued by the Bank are also listed on the CSE. Fitch Ratings Lanka Ltd. has re-affirmed the Bank's National long-term rating at 'AA(lka)' with a stable outlook and subordinated debentures at 'AA-(lka)'.

As required by the Section 168 of the Companies Act No. 07 of 2007, the following information is disclosed in this Report prepared for the year ended December 31, 2016:

| Information Required to be Disclosed as per the Companies Act No. 07 of 2007 | Reference to the Companies Act | Annual Report Page Reference for Compliance and Necessary Disclosures |
|--|--------------------------------|--|
| (i) The nature of the business of the Group and the Bank together with any changes thereof during the accounting period. | Section 168 (1) (a) | Refer Section 1.3 on 'Principal Business Activities, Nature of Operations of the Group and Ownership by the Bank in its Subsidiaries and Associates' on pages 191 and 192. |
| (ii) Signed Financial Statements of the Group and the Bank for the accounting period completed in accordance with Section 152. | Section 168 (1) (b) | The Financial Statements of the Group and the Bank for the year ended December 31, 2016 have been prepared in accordance with the requirements of the Sri Lanka Accounting Standards (SLFRSs and LKASs) and comply with the requirements of the Companies Act No. 07 of 2007 and the Banking Act No. 30 of 1988 and which were duly certified by the Chief Financial Officer (the person responsible for the preparation of the Financial Statements) and were approved by three members of the Board and the Company Secretary as appearing on pages 183 to 352 form an integral part of this Report. |
| (iii) Auditors' Report on the Financial Statements of the Group and the Bank. | Section 168 (1) (c) | Refer page 180 for the Independent Auditors' Report. |
| (iv) Accounting Policies of the Group and the Bank and any changes therein. | Section 168 (1) (d) | Significant Accounting Policies adopted in the preparation of the Financial Statements of the Group and the Bank are given on pages 200 to 211. There were no changes to the Accounting Policies used by the Group and the Bank during the year. |

| Information Required to be Disclosed as per the Companies Act No. 07 of 2007 | Reference to the Companies Act | Annual Report Page Reference for Compliance and Necessary Disclosures |
|---|--------------------------------|--|
| (v) Particulars of the entries made in the Interests Registers of the Bank and its Subsidiaries during the accounting period. | Section 168 (1) (e) | <p>The Bank and all its Subsidiaries maintain Interests Registers.</p> <p>All Directors have made declarations as required by the Sections 192 (1) and (2) of the Companies Act aforesaid and all related entries were made in the Interests Registers during the year under review.</p> <p>The Interests Registers are available for inspection by shareholders or their authorised representatives as required by the Section 119 (1) (d) of the Companies Act No. 07 of 2007.</p> |
| (vi) Remuneration and other benefits paid to Directors of the Bank and its Subsidiaries during the accounting period. | Section 168 (1) (f) | <p>Refer Note 21 to the Financial Statements on page 224.</p> <p>Also refer the 'Board Human Resources and Remuneration Committee Report' on pages 147 and 148.</p> |
| (vii) Total amount of donations made by the Bank and its Subsidiaries during the accounting period. | Section 168 (1) (g) | <p>Refer Note 21 to the Financial Statements on page 224.</p> |
| (viii) Information on Directorate of the Bank and its Subsidiaries during and at the end of the accounting period. | Section 168 (1) (h) | <p>Refer Items 12.1 and 12.2 on page 159.</p> |
| (ix) Separate disclosure on amounts payable to the Auditors as Audit Fees and Fees for other services rendered during the accounting period by the Bank and its Subsidiaries. | Section 168 (1) (i) | <p>Refer Note 21 to the Financial Statements on page 224.</p> |
| (x) Auditors' relationship or any interest with the Bank and its Subsidiaries. | Section 168 (1) (j) | <p>Auditors do not have any other relationship or interest in contracts with the Bank, or any of its Subsidiaries or Associates other than being the Auditors for the Bank, Subsidiaries and Associates.</p> <p>Refer Item 22 on page 162.</p> |
| (xi) Acknowledgement of the Contents of this Report/Signatures on behalf of the Board of Directors. | Section 168 (1) (k) | <p>Refer Item 32 on page 163.</p> |

2. Review of Business

2.1 Vision, Mission and Corporate Conduct

The Bank's Vision and Mission Statements are exhibited on page 1 of the Annual Report.

The business activities of the Group and the Bank are conducted maintaining the highest level of ethical standards in achieving our Vision and Mission, which reflects our commitment to high standards of business conduct and ethics.

The Bank issues a copy of its Code of Ethics to each and every staff member and all employees are required to abide by the Bank's Code of Conduct.

2.2 Review of Operations of the Group and the Bank

The Bank has established delivery points across all districts of the country. During the year under review, nine (9) new delivery points were added (seven [7] in 2015), bringing the total number of delivery points in Sri Lanka to 255 at the end of 2016 (246 at the end of 2015).

The Bank's ATM network is the single largest ATM network in the country. During 2016, the Bank installed 36 new ATMs (15 in 2015) bringing the total number of ATMs in Sri Lanka to 657 by the end of 2016 (621 at the end of 2015). The Bank also had 19 delivery points and 20 ATMs at the end of 2016 (18 and 19 respectively, in 2015), in Bangladesh.

Having received a license from the Maldives Monetary Authority (the MMA) and the approval from the Central Bank of Sri Lanka (the CBSL) during 2015, the Bank commenced commercial operations of its second foreign subsidiary in September 2016, namely, Commercial Bank of Maldives (Private) Limited, a fully-fledged Tier I Bank in the Republic of Maldives, in which the Bank holds a stake of 55% and the remaining stake of 45% being held by a leading Maldivian group of companies.

In November 2016, the Bank launched its own money transfer service in Italy with the commencement of commercial operations of Commex Sri Lanka S.R.L., a fully-owned subsidiary of Commercial Bank of Ceylon PLC. Commex Sri Lanka S.R.L. was incorporated and registered in Italy under the supervision of the Bank of Italy, received the necessary regulatory approvals from both countries to engage in fund transfers on its own market. The Bank expects overtime, to open branches in other Italian cities with high potential for money transfer services to both Sri Lanka and Bangladesh.

The Bank also has a Representative Office in Yangon, Myanmar.

Besides Bangladesh, Maldives, Italy and Myanmar, the Bank also has placed its own Business Promotion Officers (BPOs) in key markets around the world where a significant number of Sri Lankans are employed to provide money transfer facilities via the Bank's e-Exchange remittance service.

Further, local operations of the Bank have been segmented in to Personal Banking, Corporate Banking and Treasury Operations in order to provide personalised customer experience and for better strategy formulation, implementation as well as performance evaluation.

The 'Chairman's Review' on pages 18 to 21 the 'Managing Director's Review' on pages 22 to 27, and the 'Management Discussion and Analysis' on pages 37 to 122, together with the Audited Financial Statements provide an overall review of business performance and the state of affairs of the Group and the Bank together with important events that took place during the year as required by the Section 168 of the Companies Act No. 07 of 2007 and the recommended best accounting practices.

Segment-wise contribution to the Group's revenue, results, assets and liabilities is disclosed in Note 63 to the Financial Statements on page 310.

2.3 Directors' Responsibility for Financial Reporting

The Directors are responsible for the preparation of the Financial Statements of the Group and the Bank, which reflect a true and fair view of the financial position and performance of the Group and the Bank. The Directors are of the view that the Income Statement, Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows, Significant Accounting Policies and Notes thereto appearing on pages 183 to 352 have been prepared in conformity with the requirements of the SLFRSs and LKASs as mandated by the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 and the Companies Act No. 07 of 2007. Further, these Financial Statements also comply with the requirements of the Banking Act No. 30 of 1988 and amendments thereto and the Listing Rules of the Colombo Stock Exchange. The 'Statement of Directors' Responsibility' appearing on pages 164 and 165 forms an integral part of this Report.

3. Future Developments

The Bank intends expanding its network of delivery channels both in Sri Lanka and in overseas by employing client-focused strategy with effective management of capital, liquidity and risks. The Bank will continue to develop its customer-centric model for doing business with the objective of delighting its customers. Please refer Sections on 'Chairman's Review', 'Managing Director's Review' on pages 18 to 27 and 'Management Discussion and Analysis' on pages 37 to 122 for initiatives taken in this regard.

The Bank endeavours to capitalise online and Mobile banking facilities enabling customers to easily access to most banking services 24/7.

In line with our theme 'Future of Banking', we will continue to focus on evolving customer aspirations and invest of state-of-the art technology to serve our customers with a 'good dose' of heart while strengthening our risk and compliance framework.

4. Gross Income

The gross income of the Group for 2016 was Rs. 93.726 Bn. (Rs. 78.225 Bn. in 2015) while the Bank's gross income was Rs. 93.143 Bn. (Rs. 77.868 Bn. in 2015).

The sources of external operating income, net operating profit and asset allocation of the Group among different business segments together with their proportions are given in Note 63 to the Financial Statements on page 310.

5. Results and Appropriations

5.1 Performance of the Group and the Bank and Transfers to Reserves

The net profit before tax of the Group and the Bank amounted to Rs. 20.115 Bn. and Rs. 20.051 Bn., respectively in 2016 (Rs. 17.136 Bn. and Rs. 17.144 Bn. in 2015) and this was an increase of 17.38% and 16.96%, (8.05% and 8.94% respectively in 2015). Further, the net profit after tax of the Group and the Bank amounted to Rs. 14.466 Bn. and Rs. 14.513 Bn., respectively in 2016 (Rs. 11.859 Bn., and Rs. 11.903 Bn. respectively in 2015) and this was an increase of 21.98% and 21.92% (5.48% and 6.47% respectively, in 2015).

On this basis, the cash dividend payout ratio amounts to 27.64% of the profit after tax of 2016, compared to 33.15% for 2015, while total dividend payout ratio amounts to 39.92% for 2016, compared to 47.89% for 2015. This is well above the minimum dividend payout ratio of 10% (10% in 2015) stipulated in the Deemed Dividend Tax Rule.

5.2 Dividends on Ordinary Shares

Details of Information on dividends are given in Note 24 to the Financial Statements on page 228.

Two interim dividends of Rs. 1.50 and Rs. 3.00 per share were paid out of the profits of the Bank, hence, were subjected to a 10% withholding tax.

The Directors recommend to pay a final dividend of Rs. 2/- per share which will be paid partly out of dividends received and partly out of exempt/taxable profits of the Bank. Further, the aforesaid final dividend is proposed to be satisfied by issue and allotment of new shares, subject to a 10% withholding tax.

The Board of Directors provided the Statement of Solvency to the Auditors and obtained Certificates of Solvency from the Auditors in respect of each dividend payment in terms of Section 56 (2) of the Companies Act No. 07 of 2007.

The Board of Directors also fulfilled the requirement of the Solvency Test in terms of Section 56 (3) of the Companies Act No. 07 of 2007 immediately after the payment of interim dividends and will ensure the compliance of Solvency Test after the payment of aforesaid final dividend proposed to be paid in April 2017.

Details of appropriation of Profit of the Bank are given below:

| | 2016 Rs. '000 | 2015 Rs. '000 |
|--|------------------|------------------|
| Profit for the year after payment of all expenses of management, provision for depreciation, impairment on loans and advances, VAT on financial services and contingencies | 20,051,183 | 17,143,610 |
| Less: Provision for taxation | (5,538,672) | (5,240,386) |
| Net profit after taxation | 14,512,511 | 11,903,224 |
| Balance brought forward from previous year | 3,883 | 7,459 |
| Net actuarial gains/(losses) on defined benefit plans | 139,762 | (150,048) |
| Super gains tax paid on profit after tax of 2013 | - | (2,576,355) |
| Profit available for appropriation | 14,656,156 | 9,184,280 |
| Less: Appropriations | | |
| Transfer to the statutory reserve fund | (725,626) | (595,161) |
| Transfer to the general reserve | (8,130,525) | (2,885,000) |
| Dividends on Ordinary Shares | | |
| 1st interim dividend paid – Rs. 1.50 per share in cash (Rs. 1.50 in 2015) | (1,335,928) | (1,315,251) |
| 2nd interim dividend paid – Rs. 3.00 per share in cash (Nil in 2015) | (2,674,799) | - |
| Final dividend proposed/paid – Rs. 3.00 per share in cash in 2015 | - | (2,630,991) |
| Rs. 2.00 per share in shares (Rs. 2.00 in 2015) | (1,783,199) | (1,753,994) |
| Balance carried forward | 6,079 | 3,883 |

5.3 Reserves

A summary of the Group's reserves is given below:

| | 2016 Rs. '000 | 2015 Rs. '000 |
|--------------------------------------|-------------------|-------------------|
| Statutory reserve fund | 5,647,993 | 4,922,367 |
| Revaluation reserve | 6,250,554 | 6,258,939 |
| General reserve | 43,490,003 | 35,359,478 |
| Foreign currency translation reserve | 860,502 | 432,489 |
| Available-for-sale reserve | (7,208,805) | (3,955,376) |
| Employee share option reserve | 420,282 | 223,330 |
| Retained earnings | 4,553,778 | 4,467,807 |
| Total | 54,014,307 | 47,709,034 |

Information on the movement of reserves is given in the Statement of Changes in Equity on pages 188 and 189 and in Notes 55 to 57 to the Financial Statements on pages 300 to 303.

6. Corporate Social Responsibility

The CSR Trust established in 2004, which is funded by the Bank, undertakes most of the Bank's CSR initiatives and activities. The trust manages a range of initiatives that strengthen one of the Bank's key principle of acting responsibly towards its stakeholders while generating measurable and sustainable social dividends for different segments of society, in particular those which require empowerment. The CSR initiatives of the Bank are detailed under 'Social and Network Capital' in the section on 'Management Discussion and Analysis' in the Annual Report on pages 52 to 63.

7. Property, Plant & Equipment, Intangible Assets and Leasehold Property

Information on Property, Plant & Equipment, Intangible Assets and Leasehold Property of the Group and the Bank are given in Notes 39, 40 and 41 to the Financial Statements on pages 265, 277 and 279, respectively.

Investment properties of any Group companies when significantly occupied by the other companies in the Group are classified under Property, Plant & Equipment in the Consolidated Financial Statements in accordance with the Sri Lanka Accounting Standard – LKAS 40 on 'Investment Property'.

Specific information on extent, location, valuations of the land and buildings held by the Bank are given in Notes 39.5 (a) and (b) to the Financial Statements on pages 270 to 275.

The details of capital expenditure approved and contracted for are given in Note 59.3 to the Financial Statements on page 306.

8. Market Value of Properties

The Bank carried out a revaluation of all its freehold land and buildings as at December 31, 2014 as required by Section 7.1 (b) of the Central Bank Direction No. 01 of 2014 on 'Valuation of Immovable Property of Licensed Commercial Banks' and recognised the surplus on revaluation in the Financial Statements.

The revaluation of the land and buildings of the Bank was carried out by professionally-qualified independent valuers as per the aforesaid Direction and the Board of Directors of the Bank is of the opinion that the revalued amounts are not in excess of the current market values of such properties.

Details of market value (revalued amounts) of freehold properties of the Bank are given in Note 39.5 (b) to the Financial Statements on pages 271 to 275.

The next revaluation exercise on the freehold land and buildings of the Bank will be carried out as at December 31, 2017.

9. Issue of Shares and Debentures

9.1 Issue of Shares and Debentures by the Bank

Details of the shares issued by the Bank are given in the table below:

| Reason for the Issue | Details of the Share Issue | 2016 | | 2015 | |
|---|-----------------------------------|------------------------|----------------------------|------------------------|----------------------------|
| | | Voting Ordinary Shares | Non-Voting Ordinary Shares | Voting Ordinary Shares | Non-Voting Ordinary Shares |
| Part of final dividend for 2015 amounting to Rs. 2/- per share (Rs. 2/- per share in 2014) satisfied in the form of issue and allotment of new shares | Number of shares issued | 11,818,040 | 912,967 | 8,118,773 | 719,740 |
| | Consideration (Rs. '000) | 1,477,179 | 101,415 | 1,459,666 | 100,134 |
| Exercise of options by employees under the employee share option plans | Number of shares issued | 1,136,732 | N/A | 2,170,613 | N/A |
| | Consideration received (Rs. '000) | 144,804 | N/A | 237,304 | N/A |

The Bank made two debenture issues during the year on March 09, 2016 and October 28, 2016, respectively. All debentures are listed on the CSE. The summarised details on both these debenture issues are given below:

| | 1st Issue | 2nd Issue |
|------------------------------------|---|--|
| Issue Date | March 09, 2016 | October 28, 2016 |
| Par Value | Rs. 100/- | Rs. 100/- |
| Number of debentures issued ('000) | Total – 61,794,300 Type A – 44,303,400 Type B – 17,490,900 | Total – 70,000,000 Type A – 50,718,000 Type B – 19,282,000 |
| Consideration received (Rs. '000) | 6,179,430 | 7,000,000 |
| Tenure | Type A – 5 Years Type B – 10 Years | Type A – 5 years Type B – 10 years |
| Interest rate and payment | Type A Fixed interest rate of 10.75% p.a. (AER* 11.04%) payable semi-annually Type B Fixed interest rate of 11.25% p.a. (AER 11.57%) payable semi-annually | Type A Fixed interest rate of 12.00% p.a. (AER 12.36%) payable semi-annually Type B Fixed interest rate of 12.25% p.a. (AER 12.63%) payable semi-annually |
| Instrument rating | AA- (Ika) by Fitch Ratings Lanka Ltd. | AA- (Ika) by Fitch Ratings Lanka Ltd. |

*AER – Annual Effective Rate

9.2 Issue of Shares and Debentures by the Subsidiaries and Associates

During the year 2016 Serendib Finance Ltd. issued 9,128,252 shares at Rs. 21.91 per share for a total consideration of Rs. 200 Mn. to the Bank in order to raise required funds for the expansion of lending activities.

Except for the above share issue, the other Subsidiaries and Associates of the Bank did not make any share or debenture issues during the year.

9.3 Stated Capital and Debentures

The details of the Stated Capital are given in Note 53 to the Financial Statements on page 296. The details of debentures including the redemptions during the year are given in Note 52 to the Financial Statements on pages 294 and 295.

10. Share Information

10.1 Distribution Schedule of Shareholdings

Information on the distribution of shareholding and the respective percentages are given in the Section on 'Investor Relations' on pages 108 to 122.

10.2 Information on Earnings, Dividend, Net Assets and Market Value

Information relating to earnings, dividend, net assets and market value per share is given in 'Financial Highlights' on page 14. Information on the trading of the shares and movement in the number of shares represented by the Stated Capital of the Bank is given in the Section on 'Investor Relations' on pages 108 and 122.

10.3 Substantial Shareholdings

Names of the twenty largest shareholders for both voting and non-voting ordinary shares, percentages of their respective holdings and percentage holding of the public, etc. are given in the Section on 'Investor Relations' on pages 114 and 115.

11. Equitable Treatment to Shareholders

The Bank has at all times ensured that all shareholders are treated equitably.

12. Information on the Directors of the Group and the Bank

12.1 Information on Directors as at December 31, 2016

The Board of Directors of the Bank as at December 31, 2016 consisted of Ten (10) Directors [Eight (8) Directors as at December 31, 2015] with wide knowledge and experience on economic, banking, financial, commercial and engineering as detailed in the 'Board Profiles' on pages 11 to 13.

Names of the Directors of the Bank during and as at the end of 2016, as required by the Section 168 (1) (h) of the Companies Act No. 07 of 2007 are given below:

| Name of the Director | Executive/ Non-Executive Status | Independent/ Non-Independent Status |
|---|------------------------------------|--|
| Mr. K.G.D.D. Dheerasinghe (<i>Chairman</i>) | Non-Executive | Independent |
| Mr. M.P. Jayawardena (<i>Deputy Chairman</i>) | Non-Executive | Independent |
| Mr. J. Durairatnam (<i>Managing Director/CEO</i>) | Executive | Non-Independent |
| Mr. S. Swarnajothi | Non-Executive | Independent |
| Mr. S. Renganathan | Executive | Non-Independent |
| Prof. A.K.W. Jayawardane | Non-Executive | Independent |
| Mr. K. Dharmasiri | Non-Executive | Independent |
| New Appointments made during 2016 | | |
| Mr. L.D. Niyangoda (<i>Appointed w.e.f. August 26, 2016</i>) | Non-Executive | Independent |
| Ms. N.T.M.S. Cooray (<i>Appointed w.e.f. September 19, 2016</i>) | Non-Executive | Independent |
| Mr. G.S. Jadeja (<i>Appointed w.e.f. September 19, 2016</i>) | Non-Executive | Non-Independent |
| Resignations/Cessations during 2016 | | |
| Mr. H.J. Wilson (<i>Resigned w.e.f. August 29, 2016</i>) | Non-Executive | Independent |

Names of the Directors of all Subsidiaries and Associates are given in 'Group Structure' on page 442.

12.2 Recommendations for Re-election

- (i) In terms of Article 85 of the Articles of Association, two Directors are required to retire by rotation at each AGM. Article 86 provides that the Directors to retire by rotation at an AGM shall be those who (being subject to retirement by rotation), have been longest in office, since their last election or appointment.
- (ii) The Board recommended the re-election of the following Directors, after considering the contents of the Affidavits and Declarations submitted by them and all other related issues:
 - (a) Directors to retire by rotation
Mr. M.P. Jayawardena
Prof. A.K.W. Jayawardane

(b) Directors appointed to fill casual vacancies

Mr. L.D. Niyangoda
Ms. N.T.M.S. Cooray
Mr. G.S. Jadeja

(iii) Directors who served on the Board for over nine years

(In terms of the Banking Act Direction No. 11 of 2007 (Corporate Governance for Licensed Commercial Banks in Sri Lanka), the total period of service of a Director (other than a Director who holds the position of Chief Executive Officer) shall not exceed nine years).

None

12.3 Directors' Meetings

Details of the meetings of the Board of Directors are presented on page 127.

12.4 Board Subcommittees

The Board of Directors of the Bank formed four mandatory Board Subcommittees namely, Nomination Committee, Remuneration Committee, Integrated Risk Management Committee and Audit Committee as required by the Banking Act Direction No. 11 of 2007 on 'Corporate Governance for Licensed Commercial Banks in Sri Lanka' issued by the CBSL.

The Board formed a Related Party Transactions Review Committee in 2014 to assist the Board in reviewing all related party transactions carried out by the Bank and its listed subsidiaries in the Group by early adopting the Code of Best Practice on Related Party Transactions as issued by the Securities and Exchange Commission of Sri Lanka (the SEC) which became mandatory from January 01, 2016.

The Board of Directors also has formed three other voluntary Board Subcommittees to assist the Board.

These committees play a critical role in order to ensure that the activities of the Bank at all times are conducted with the

highest ethical standards and in the best interest of all its stakeholders. The Terms of Reference of these Subcommittees conform to the recommendations made by various regulatory bodies, such as the CBSL, The Institute of Chartered Accountants of Sri Lanka (the CA Sri Lanka), the SEC, and the CSE.

The composition of both mandatory and voluntary Board Subcommittees, as at December 31, 2016 and the details of the attendance by Directors at Meetings are tabulated on pages 127 to 129 while the reports of these Subcommittees are found on pages 140 to 152.

13. Disclosure of Directors' Dealing in Shares and Debentures

13.1 Directors' Interests in Ordinary Voting and Non-Voting Shares of the Bank

Individual ordinary voting and non-voting shareholdings of persons who were Directors of the Bank at any time during the financial year are as follows:

Directors' shareholdings in ordinary voting shares and ordinary non-voting shares have not changed subsequently to the date of the Statement of Financial Position up to February 08, 2017, the date being one month prior to the date of Notice of the Annual General Meeting.

13.2 Directors' Interests in Debentures

During the year, Mr. S. Renganathan purchased 20,000 debentures of the Bank and as at December 31, 2016, he held 20,000 debentures. Except Mr. S. Renganathan there were no debentures registered in the name of any other Director as at the beginning and at the end of the year.

| | Ordinary Voting Shares | | Ordinary Non-Voting Shares | |
|---|------------------------|---------|----------------------------|--------|
| | 2016 | 2015 | 2016 | 2015 |
| <i>As at December 31,</i> | | | | |
| Mr. K.G.D.D. Dheerasinghe (<i>Chairman</i>) | 21,159 | 20,859 | Nil | Nil |
| Mr. M.P. Jayawardena (<i>Deputy Chairman</i>) | Nil | Nil | Nil | Nil |
| Mr. J. Durairatnam (<i>Managing Director/CEO</i>) | 470,770 | 412,056 | Nil | Nil |
| Mr. S. Swarnajothi | Nil | Nil | 8,738 | 8,599 |
| Mr. S. Renganathan | 197,647 | 191,936 | 10,488 | 10,321 |
| Prof. A.K.W. Jayawardane | Nil | Nil | Nil | Nil |
| Mr. K. Dharmasiri | Nil | Nil | Nil | Nil |
| Mr. L.D. Niyangoda (<i>Appointed w.e.f. August 26, 2016</i>) | Nil | N/A | Nil | N/A |
| Ms. N.T.M.S. Cooray (<i>Appointed w.e.f. September 19, 2016</i>) | Nil | N/A | Nil | N/A |
| Mr. G.S. Jadeja (<i>Appointed w.e.f. September 19, 2016</i>) | Nil | N/A | Nil | N/A |
| Mr. H.J. Wilson (<i>Resigned w.e.f. August 29, 2016</i>) | Nil | Nil | Nil | Nil |

14. Employee Share Option Plans and Profit Sharing Plans

The Bank implemented an Employee Share Option Plan (ESOP) for the Corporate Management and the Executive Officers in Grade III and above in 2008, based on the Bank achieving certain pre-determined performance criteria. The approval of the shareholders was obtained for this scheme to offer share options up to 3% of the ordinary voting shares of the Bank.

The Bank also obtained the approval of the shareholders to introduce another ESOP for all Executive Officers in Grade 1A and above in 2015, based on the Bank achieving certain pre-determined performance criteria. The approval of the shareholders was obtained for this scheme to offer share options up to 2% of the ordinary voting shares of the Bank. 1st Tranche of this ESOP was vested on September 30, 2016.

The details of the ESOPs are given in Notes 53.2 and 54 to the Financial Statements on pages 297 to 300.

The Group and the Bank do not have any employee profit sharing plan, except the Variable Bonus Scheme.

15. Directors' Interests in Contracts or Proposed Contracts

Directors' interests in contracts or proposed contracts with the Bank, both direct and indirect are disclosed on pages 170 and 171. The Directors have also disclosed transactions, if any, that could be classified as Related Party Transactions in terms of the Sri Lanka Accounting Standard – LKAS 24 on 'Related Party Disclosures'. Please refer Note 64 to the Financial Statements on page 313 for those transactions disclosed by the Directors. These interests have been declared quarterly at Directors' meetings.

As a practice, Directors have refrained from voting on matters in which they were materially interested. Directors have no direct or indirect interest in any other contract or proposed contract with the Bank.

There are no arrangements enabling the Non-Executive Directors of the Group and the Bank to acquire shares or debentures of the Bank or its subsidiaries, other than via the market.

Tabulated below are the details of Options Available/Exercised by the Executive Directors under the ESOPs:

| | 2016 | | 2015 | |
|--|--------------------|--------------------|--------------------|--------------------|
| | Mr. J. Durairatnam | Mr. S. Renganathan | Mr. J. Durairatnam | Mr. S. Renganathan |
| Total options available to exercise as at January 01, | 163,457 | 140,162 | 164,247 | 116,389 |
| Options vested during the year | 45,721 | 36,148 | 28,095 | 23,773 |
| Options exercised during the year | 52,781 | 22,948 | 28,885 | Nil |
| Options expired during the year | Nil | Nil | Nil | Nil |
| Total options available to exercise as at December 31, | 156,397 | 153,362 | 163,457 | 140,162 |

Directors' remuneration and other benefits in respect of the Group and the Bank for the financial year ended December 31, 2016 are given in Note 21 to the Financial Statements on page 224.

As per Section 217 of the Companies Act No. 07 of 2007, there are no restrictions on the approval of loans to Directors in the Bank's ordinary course of business, subject to compliance with all applicable regulations.

16. Directors' and Officers' Insurance

The Bank has, during the financial year, paid an insurance premium in respect of an insurance policy for the benefit of the Bank and the Directors, secretaries, officers and certain employees of the Bank and related body corporates as defined in the insurance policy. In accordance with commercial practice, the insurance policy prohibits disclosure of the terms of the policy, including the nature of the liability insured against and the amount of the premium.

17. Environmental Protection

The Group and the Bank have not, to the best of their knowledge, engaged in any activity, which was detrimental to the environment. Specific measures taken to protect the environment are given on pages 76 to 81.

18. Statutory Payments

The Directors, to the best of their knowledge and belief are satisfied that all statutory payments (including all taxes, duties and levies payable by the Bank and its subsidiaries) due to the Government, other regulatory institutions and related to the employees have been made on time or where relevant provided for.

19. Events after the Reporting Period

No event of material significance that require adjustments to the Financial Statements, has occurred subsequent to the Reporting period, other than those disclosed in Note 70 to the Financial Statements on page 352.

20. Going Concern

The Directors have made an assessment of the Bank's ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, the Directors are not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern, such as restrictions or plans to curtail operations.

21. Appointment of Auditors and their Remuneration

The Board of Directors of the Bank resolved to adopt a Policy of Rotation of Auditors, once in every five years, in keeping with the principles of good Corporate Governance, although the mandatory requirement is only partner rotation once in every five years. Accordingly, the present auditors, Messrs KPMG were appointed as Auditors of the Bank at the Annual General Meeting held in March 2012 to carry out the audit of the Bank for the year ended December 31, 2012. Thereafter, they were reappointed as Auditors of the Bank at the Annual General Meetings held in March 2013, 2014, 2015 and 2016 to carry out the audits of the Bank for the years ended December 31, 2013, 2014, 2015 and 2016 and due to be rotated in 2017. However, the Board with the recommendation of the Board Audit Committee resolved to extend the period of service of the Auditors by an additional one year, subject to terms and conditions of the Banking Act Directions, since the Bank has sought the services of Messrs KPMG to assist in carrying out a gap analysis and provide guidance in implementation of the requirements under the Sri Lanka Accounting Standard – SLFRS 9 on 'Financial Instruments'.

The retiring Auditors, Messrs KPMG have signified their willingness to continue to function as the Auditor to the Bank.

A resolution to reappoint KPMG as Auditors and granting authority to the Directors to fix their remuneration will be proposed at the forthcoming Annual General Meeting to be held on March 30, 2017 for Shareholder approval.

Expenses incurred in respect of Audit Fees and Fees for other services rendered during the accounting period are given in Note 21 to the Financial Statements on page 224.

22. Lead Auditor's Independence

Independence Confirmation has been provided by Messrs KPMG as required by the Section 163 (3) of the Companies Act No. 07 of 2007, in connection with the audit for the year ended December 31, 2016 confirming that KPMG is not aware of any relationship with or interest in the Bank or any subsidiaries audited by KPMG that in their judgement, may reasonably be thought to have a bearing on their independence within the meaning of the Code of Professional Conduct and Ethics issued by The CA Sri Lanka, applicable as at the Reporting date.

No prohibited non-audit services have been provided by Messrs KPMG as per the Direction issued by the Central Bank of Sri Lanka on 'Guidelines for External Auditors relating to their statutory duties. The Directors are satisfied because the Board Audit Committee has assessed each service, having regard to auditor independence requirements of applicable laws, rules and regulations, and concluded in respect of each non-audit service or type of non-audit service that the provision of that service or type of service would not impair the independence of Messrs KPMG.

23. Information on Ratios, Market Prices of Shares and Credit Ratings

Information that requires disclosures as per Rule 7.6 (xi) of the Listing Rule of the CSE are given in the Section on 'Investor Relations' on pages 108 and 120.

24. Risk Management and System of Internal Controls

The Bank has an ongoing process in place to identify, evaluate and manage the risks that are faced by the Bank. The Directors continuously review this process through the Board Integrated Risk Management Committee. Specific steps taken by the Bank in managing both banking and non-banking risks are detailed in the Section

on 'Managing Risk: An Overview' on pages 172 to 175, in the 'Board Integrated Risk Management Committee Report' on pages 143 and 144 and in Note 69 to the Financial Statements on 'Financial Risk Review' on pages 321 to 352.

An effective and comprehensive system of internal controls is in place in the Bank comprising of internal checks, internal audit and financial and other controls required to carry out the business of banking in an orderly manner and to safeguard the assets. The Directors' Statement on Internal Control and the Auditors' Report thereon are given on pages 166 to 168.

25. Corporate Governance Directors' Declarations

The Directors declare that –

- (a) the Bank complied with all applicable laws and regulations in conducting its business and have not engaged in any activity contravening the relevant laws and regulations. Officers responsible for ensuring compliance with the provisions in various laws and regulations, confirm compliance in each quarter to the Board Integrated Risk Management Committee.
- (b) the Directors have declared all material interests in contracts involving the Bank and refrained from voting on matters in which they were materially interested.
- (c) all endeavours have been made to ensure that shareholders in each category have been treated equitably in accordance with the original Terms of Issue.
- (d) the business is a Going Concern with supporting assumptions or qualifications as necessary, and that the Board of Directors has reviewed the Bank's Corporate/Business plans and is satisfied that the Bank has adequate resources to continue its operations in the foreseeable future. Accordingly, the Financial Statements of the Bank, its Subsidiaries and Associates are prepared based on the Going Concern assumption, and

(e) they have conducted a review of internal controls covering financial, operational and compliance controls, risk management and have obtained a reasonable assurance of their effectiveness and proper adherence.

The measures taken and the extent to which the Bank has complied with the Code of Best Practice on Corporate Governance issued by The CA Sri Lanka and the SEC, the CSE and the CBSL are given in on pages 354 to 371.

26. Sustainability

The Bank is an early champion of adopting sustainability practices and sustainability reporting. The Bank has considered the sustainability aspects when formulating its business strategies and details of which are presented on pages 414 to 419.

27. Human Resources

The Bank continues to invest in Human Capital Development and implement effective Human Resource Practices and Policies to improve workforce efficiency, effectiveness and productivity and also to foster collaborative partnerships that enrich the work and learning environment for our staff.

Specific measures taken in this regard are detailed in the 'Board Human Resources and Remuneration Committee Report' appearing on pages 147 and 148.

28. Technology

As encapsulated in the Vision and the Mission, our business processes are underpinned by technology. All of our processes involve information technology, and we use technology to deliver superior products and services to our customers. Correspondingly, the nature of the business is more heavily intertwined with technology than ever before.

Key achievements for the year are detailed in the 'Board Technology Committee Report' appearing on page 152.

29. Operational Excellence

To increase efficiency and reduce operating cost the Bank has ongoing initiatives to drive policy and process standardisation and to optimise the use of existing technology platforms.

30. Outstanding Litigation

In the opinion of the Directors and in consultation with the Bank's lawyers, litigation currently pending against the Group and the Bank will not have a material impact on the reported financial results or future operations. Details of Litigation Pending against the Group and the Bank are given in Note 61 to the Financial Statements on pages 306 and 307.

31. Annual General Meeting and the Notice of Meeting

The 48th Annual General Meeting of the Bank will be held at Cinnamon Grand Hotel, 'Oak Room', No. 77, Galle Road, Colombo 03, on Thursday, March 30, 2017 at 2.00 p.m.

Notice relating to the 48th Annual General Meeting of the Bank is enclosed at the end of the Annual Report.

32. Acknowledgement of the Contents of the Report

As required by the Section 168 (1) (k) of the Companies Act No. 07 of 2007, the Board of Directors does hereby acknowledge the contents of this Annual Report.

Signed in accordance with a resolution adopted by the Directors.



K.G.D.D. Dheerasinghe
Chairman



M.P. Jayawardena
Deputy Chairman



J. Durairatnam
Managing Director/CEO



S. Swarnajothi
Director



S. Renganathan
Director



Prof. A.K.W. Jayawardane
Director



K. Dharmasiri
Director



L.D. Niyangoda
Director



Ms. N.T.M.S. Cooray
Director



G.S. Jadeja
Director



Mrs. J.R. Gamage
Company Secretary

Colombo
February 22, 2017

STATEMENT OF DIRECTORS' RESPONSIBILITY

The Statement sets out the responsibility of the Board of Directors, in relation to the Financial Statements of the Commercial Bank of Ceylon PLC (the Bank) and the Consolidated Financial Statements of the Bank and its Subsidiaries (the Group). The responsibilities of the External Auditors in relation to the Financial Statements are set out in the 'Independent Auditors' Report given on page 180.

In terms of Sections 150 (1), 151, 152 and 153 (1) & (2) of the Companies Act No. 07 of 2007, the Board of Directors of the Bank are responsible for ensuring that the Group and the Bank keep proper books of account of all the transactions and prepare Financial Statements that give a true and fair view of the financial position of the Group and the Bank as at end of each financial year and of the financial performance of the Group and the Bank for each financial year and place them before a general meeting. The Financial Statements comprise of the Statement of Financial Position as at December 31, 2016, the Income Statement and Statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows for the year then ended and Notes thereto.

Accordingly, the Board of Directors confirm that the Financial Statements of the Group and the Bank give a true and fair view of the

- financial position of the Group and the Bank as at December 31, 2016; and
- financial performance of the Group and the Bank for the financial year then ended.

Compliance Report

The Board of Directors also wishes to confirm that:

- (a) appropriate Accounting Policies have been selected and applied in preparing the Financial Statements exhibited on pages 200 to 211 based on the latest financial reporting framework on a consistent basis, while reasonable and prudent judgments have been made so that the form and substance of transactions are properly reflected and material departures, if any, have been disclosed and explained;
- (b) the Financial Statements for the year 2016, prepared and presented in this Annual Report are in agreement with the underlying books of account and are in conformity with the requirements of the following:
 - Sri Lanka Accounting Standards;
 - Companies Act No. 07 of 2007;
 - Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995;
 - Banking Act No. 30 of 1988 and amendments thereto;
 - Listing Rules of the Colombo Stock Exchange (CSE); and
 - Code of Best Practice on Corporate Governance issued jointly by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and the Securities and Exchange Commission of Sri Lanka (SEC);
- (c) these Financial Statements comply with the prescribed format issued by the Central Bank of Sri Lanka for the preparation of annual Financial Statements of licensed commercial banks;
- (d) proper accounting records which correctly record and explain the Bank's transactions have been maintained as required by the Section 148 (1) of the Companies Act to determine at any point of time the Bank's financial position, with reasonable accuracy, enabling preparation of the Financial Statements, in accordance with the Companies Act to facilitate proper audit of the Financial Statements;
- (e) they have taken appropriate steps to ensure that the Group and the Bank maintain proper books of account and review the financial reporting system directly by them at their regular meetings and also through the Board Audit Committee, the Report of the said Committee is given on pages 140 to 142. The Board of Directors also approves the Interim Financial Statements prior to their release, following a review and recommendation by the Board Audit Committee;
- (f) they accept responsibility for the integrity and objectivity of the Financial Statements presented in this Annual Report;
- (g) they have taken reasonable measures to safeguard the assets of the Group and the Bank and to prevent and detect frauds and other irregularities. In this regard, the Board of Directors have instituted an effective and comprehensive system of internal controls comprising of internal checks, internal audit and financial and other controls required to carry on the business of banking in an orderly manner and safeguard its assets and secure as far as practicable, the accuracy and reliability of the records. The 'Directors' Statement on Internal Control' is given on pages 166 and 167;
- (h) to the best of their knowledge, all taxes, duties and levies payable by the Bank and its Subsidiaries, all contributions, levies and taxes payable on behalf of and in respect of the employees of the Bank and its Subsidiaries, and all other known statutory dues as were due and payable by the Bank and its Subsidiaries as at the Reporting date have been paid or, where relevant, provided for, except as specified in Note 61 to the Financial Statements on 'Litigation against the Bank' on pages 306 and 307.
- (i) as required by the Section 56 (2) of the Companies Act No. 07 of 2007, they have authorised distribution of the dividends paid and proposed upon being satisfied that the Bank and all its Subsidiaries would satisfy the solvency test after such distributions are made in accordance with the Section 57 of the Companies Act No. 07 of 2007 and have obtained in respect of dividends paid and proposed, and also for which approval is now sought, necessary certificates of solvency from the External Auditors;

- (j) as required by the Sections 166 (1) and 167 (1) of the Companies Act No. 07 of 2007, they have prepared this Annual Report in time and ensured that a copy thereof is sent to every shareholder of the Bank, who have expressed desire to receive a hard copy or to other shareholders a soft copy each in a CD containing the Annual Report within the stipulated period of time as required by the Rule Nos. 7.5 (a) and (b) on Continuing Listing Requirements of the Listing Rules of the CSE;
- (k) that all shareholders in each category have been treated equitably in accordance with the original terms of issue;
- (l) that the Bank and its quoted Subsidiary have met all the requirements under the Section 07 on Continuing Listing Requirements of the Listing Rules of the CSE, where applicable;
- (m) that after considering the financial position, operating conditions, regulatory and other factors and such matters required to be addressed in the 'Code of Best Practice on Corporate Governance' issued jointly by the CA Sri Lanka and the SEC, the Board of Directors have a reasonable expectation that the Bank and its Subsidiaries possess adequate resources to continue in operation for the foreseeable future. For this reason, we continue to adopt the Going Concern basis in preparing the Financial Statements;
- (n) the Financial Statements of the Group and the Bank have been certified by the Bank's Chief Financial Officer, the officer responsible for their preparation, as required by the Sections 150 (1) (b) and 152 (1) (b) of the Companies Act No. 07 of 2007 and also have been signed by three Directors and the Company Secretary of the Bank on February 22, 2017 as required by the Sections 150 (1) (c) and 152 (1) (c) of the Companies Act No. 07 of 2007 and other regulatory requirements; and
- (o) the Bank's External Auditors, Messrs KPMG who were appointed in terms of the Section 158 of the Companies Act No. 07 of 2007 and in accordance with a resolution passed at the last Annual General Meeting, were provided with every opportunity to undertake the inspections they considered appropriate. They carried out reviews and sample checks on the system of internal controls as they considered appropriate and necessary for expressing their opinion on the Financial Statements and maintaining accounting records. They have examined the Financial Statements made available to them by the Board of Directors of the Bank together with all the financial records, related data and minutes of shareholders' and Directors' meetings and expressed their opinion which appears as reported by them on page 180.

Accordingly, the Board of Directors are of the view that they have discharged their responsibilities as set out in this Statement.

By Order of the Board,



Mrs. J.R. Gamage
Company Secretary

Colombo
February 22, 2017

DIRECTORS' STATEMENT ON INTERNAL CONTROL

RESPONSIBILITY

In line with the Section 3 (8) (ii) (b) of the Banking Act Direction No. 11 of 2007, the Board of Directors presents this Report on Internal Control.

The Board of Directors (the Board) is responsible for the adequacy and effectiveness of the system of internal controls in place at Commercial Bank of Ceylon PLC (the Bank). However, such a system is designed to manage the Bank's key areas of risk within an acceptable risk profile, rather than to eliminate the risk of failure to achieve the policies and business objectives of the Bank. Accordingly, the system of internal controls can only provide reasonable but not absolute assurance against material misstatement of management and financial information and records or against financial losses or fraud.

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Bank and this process includes enhancing the system of internal controls as and when there are changes to business environment or regulatory guidelines. The process is regularly reviewed by the Board and accords with the 'Guidance for Directors of Banks on the Directors' Statement on Internal Control' issued by The Institute of Chartered Accountants of Sri Lanka. The Board has assessed the internal control taking into account principles for the assessment of internal control system as given in that guidance.

The Board is of the view that the system of internal controls in place over financial reporting is sound and adequate to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of Financial Statements for external purposes is in accordance with relevant accounting principles and regulatory requirements.

The management assists the Board in the implementation of the Board's policies and procedures on risk and control by identifying and assessing the risks faced, and in the design, operation and monitoring of suitable internal controls to mitigate and control these risks.

Key Features of the Process Adopted in Applying and Reviewing the Design and Effectiveness of the Internal Control System on Financial Reporting

The key processes that have been established in reviewing the adequacy and integrity of the system of internal controls with respect to financial reporting include the following:

- Various appointed committees are established by the Board to assist the Board in ensuring the effectiveness of the Bank's daily operations and that the Bank's operations are in accordance with the corporate objectives, strategies and the annual budget as well as the policies and business directions that have been approved.
- The Inspection/Internal Audit Department of the Bank checks for compliance with policies and procedures and the effectiveness of the internal control systems on an ongoing basis using samples and rotational procedures and highlight significant findings in respect of any non-compliance. Audits are carried out on all departments and branches, in accordance with the annual audit plan reviewed and approved by the Board Audit Committee (BAC). The frequency of audits of branches is determined by the level of risk assessed, to provide an independent and objective report. Findings of the internal audit are submitted to the BAC for review at their periodic meetings. During 2016, the Internal Audit Department has initiated 'online' auditing process for selected areas enabling the monitoring process to be more effective and timely. This initiative will be further strengthened during the next financial year.

- The BAC of the Bank reviews internal control issues identified by the Internal Audit Department, regulatory authorities and management, and evaluates the adequacy and effectiveness of the risk management and internal control systems. The BAC also reviews the internal audit functions with particular emphasis on the scope of audits and quality of internal audits. The minutes of the BAC meetings are tabled at the meetings of the Board of Directors of the Bank on a periodic basis. Details of the activities undertaken by the BAC of the Bank are set out in the 'Board Audit Committee Report' which appears on pages 140 to 142.

- In assessing the internal control system over financial reporting, identified officers of the Bank continued to review and update all procedures and controls that are connected with significant accounts and disclosures of the Financial Statements of the Bank. The Internal Audit Department of the Bank continued to verify the suitability of design and effectiveness of these procedures and controls on an ongoing basis. The assessment included Subsidiaries of the Bank as well.

Since the adoption of new Sri Lanka Accounting Standards comprising SLFRSs and LKASs in 2012, processes that are required to comply with new requirements of recognition, measurement, presentation and disclosures were introduced and implemented in 2013. Continuous monitoring is in progress and steps are being taken to make improvements to the processes where required, to enhance effectiveness and efficiency. The Bank has documented procedures relating to these new requirements and updates the procedure manuals as and when necessary and also obtained approval of the Board Audit Committee and the Board for changes made to the documented procedures. The Bank's Internal Audit Department commenced testing these processes since first quarter 2013 and continued to do so in 2016 as well.

The Bank commenced automating the processes relating to various computation required under SLFRSs and LKASs, referred to above, including loan impairments and completed all of the activities required to 'Go live' by end 2016 and is taking all required steps to use the automated system from 2017 onwards.

The Board also has taken into consideration the requirements of the Sri Lanka Accounting Standard – SLFRS 9 on 'Financial Instruments' that has been issued with effective date being January 01, 2018, as it is expected to have a significant impact on the calculation of impairment of financial instruments on an 'expected credit loss model' compared to the 'incurred credit loss model' currently being applied under the Sri Lanka Accounting Standard – LKAS 39 on 'Financial Instruments: Recognition and Measurement'. The Bank is currently working with an external consultant to carryout a gap analysis and implement the processes required to comply with SLFRS 9 on a timely manner.

The comments made by the External Auditors in connection with the internal control system during the financial year 2015 were taken into consideration and appropriate steps have been taken to incorporate them where appropriate.

The Assurance Report of the External Auditors in connection with internal control over financial reporting is appearing on page 168.

Confirmation

Based on the above processes, the Board of Directors confirms that the financial reporting system of the Bank has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes has been done in accordance with the Sri Lanka Accounting Standards and regulatory requirements of the Central Bank of Sri Lanka.

Review of the Statement By External Auditors

The External Auditors, Messrs KPMG, have reviewed the above Directors' Statement on Internal Control included in this Annual Report of the Bank for the year ended December 31, 2016 and reported to the Board that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the internal control system over financial reporting of the Bank. Their independent assurance report on the Directors' Statement on Internal Control is given on page 168 of this Annual Report.

By Order of the Board,

K.G.D.D. Dheerasinghe
Chairman

M.P. Jayawardena
Deputy Chairman

J. Durairatnam
Managing Director/CEO

Colombo
February 22, 2017

ASSURANCE REPORT ON INTERNAL CONTROL



KPMG
(Chartered Accountants)
32A, Sir Mohamed Macan Markar Mawatha,
P. O. Box 186,
Colombo 00300,
Sri Lanka.

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Fax : +94 - 11 244 5872
+94 - 11 244 6058
+94 - 11 254 1249
+94 - 11 230 7345
Internet : www.lk.kpmg.com

To the Board of Directors of Commercial Bank of Ceylon PLC

We were engaged by the Board of Directors of Commercial Bank of Ceylon PLC ('the Bank') to provide assurance on the Directors' Statement on Internal Control ('Statement') included in the Annual Report for the year ended December 31, 2016.

Management's Responsibility for the Statement on Internal Control

Management is responsible for the preparation and presentation of the Statement in accordance with the "Guidance for Directors of Banks on the Directors' Statement on Internal Control" issued in compliance with the Section 3 (8) (ii) (b) of the Banking Act Direction No. 11 of 2007, by The Institute of Chartered Accountants of Sri Lanka.

Scope of the Engagement in Compliance with SLSAE 3050

Our responsibility is to issue a report to the Board on the Statement based on the work performed. We conducted our engagement in accordance with Sri Lanka Standard on Assurance Engagements SLSAE 3050 – Assurance Report for Banks on Directors' Statement on Internal Control issued by The Institute of Chartered Accountants of Sri Lanka.

Summary of Work Performed

Our engagement has been conducted to assess whether the Statement is both supported by the documentation prepared

by or for the Directors and appropriately reflects the process the Directors have adopted in reviewing the system of internal control for the Bank.

To achieve this objective, appropriate evidence has been obtained by performing the following procedures:

- Enquired the Directors to obtain an understanding of the process defined by the Board of Directors for their review of the design and effectiveness of internal control and compared their understanding to the Statement made by the Directors in the Annual Report.
- Reviewed the documentation prepared by the Directors to support their Statement made.
- Related the Statement made by the Directors to our knowledge of the Company obtained during the audit of the Financial Statements.
- Reviewed the minutes of the meetings of the Board of Directors and of relevant Board Committees.
- Attended meetings of the Audit Committee at which the Annual Report, including the Statement on Internal Control is considered and approved for submission to the Board of Directors.
- Considered whether the Directors' Statement on Internal Control covers the year under review and that adequate processes are in place to identify any significant matters arising.

- Obtained written representations from Directors on matters material to the Statement on Internal Control where other sufficient appropriate audit evidence cannot reasonably be expected to exist.

SLSAE 3050 does not require us to consider whether the Statement covers all risks and controls, or to form an opinion on the effectiveness of the Bank's risk and control procedures. SLSAE 3050 also does not require us to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the Annual Report will, in fact, remedy the problems.

Our Conclusion

Based on the procedures performed, nothing has come to our attention, that causes us to believe that the Statement included in this Annual Report on pages 166 and 167 is inconsistent with our understanding of the process the Board of Directors have adopted in the review of the design and effectiveness of internal control system over the financial reporting of the Bank.

Chartered Accountants

Colombo
February 22, 2017

KPMG, a Sri Lankan partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

M.R. Mihular FCA
T.J.S. Rajakarier FCA
Ms. S.M.B. Jayasekara ACA
G.A.U. Karunaratne FCA
R.H. Rajan ACA
P.Y.S. Perera FCA
W.W.J.C. Perera FCA
W.K.D.C. Abeyratne FCA
R.M.D.B. Rajapakse FCA
C.P. Jayatilake FCA
Ms. S. Joseph FCA
S.T.D.L. Perera FCA
Ms. B.K.D.T.N. Rodrigo FCA

Principals - S.R.I. Perera FCMA(UK), LLB, Attorney-at-Law, H.S. Goonewardene ACA

MANAGING DIRECTOR'S AND CHIEF FINANCIAL OFFICER'S STATEMENT OF RESPONSIBILITY

The Financial Statements of the Commercial Bank of Ceylon PLC (the Bank) and the Consolidated Financial Statements of the Bank and its Subsidiaries (the Group) as at December 31, 2016 are prepared and presented in conformity with the requirements of the following:

- Sri Lanka Accounting Standards issued by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka),
- Companies Act No. 07 of 2007,
- Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995,
- Banking Act No. 30 of 1988 and amendments thereto and the Directions, Determinations and Guidelines issued by the Central Bank of Sri Lanka (CBSL),
- Listing Rules of the Colombo Stock Exchange (CSE), and
- Code of Best Practice on Corporate Governance issued jointly by The CA Sri Lanka and the Securities and Exchange Commission of Sri Lanka (SEC).

The formats used in the preparation of the Financial Statements and disclosures made comply with the specified formats prescribed by the CBSL. The Group presents the financial results to its shareholders on a quarterly basis.

The significant accounting policies have been consistently applied by the Group. Application of Significant Accounting Policies and Estimates that involve a high degree of judgement and complexity were discussed with the Board Audit Committee (BAC) and the Bank's External Auditors. Comparative information has been amended to comply with the current presentation, where applicable. We confirm that to the best of our knowledge, the Financial Statements, Significant Accounting Policies and other financial information included in this Annual Report, fairly present in all material respects the financial condition, results of the operations and the cash flows of the Group during the year under review. We also confirm that the Group has adequate resources to continue in operation and have applied the Going Concern basis in preparing these Financial Statements.

We are responsible for establishing, implementing and maintaining Internal Controls and Procedures within the Bank and all of its Subsidiaries. We ensure that effective Internal Controls and Procedures are in place, ensuring material information relating to the Group are made known to us for safeguarding assets, preventing and detecting fraud and/or error as well as other irregularities, which is reviewed, evaluated and updated on an ongoing basis. We have evaluated the Internal Controls and Procedures of the Group for the financial period under review and are satisfied that there were no significant deficiencies and weaknesses in the design or operation of the Internal Controls and Procedures, to the best of our knowledge. We confirm, based on our evaluations that there were no significant deficiencies and material weaknesses in the design or operation of internal controls and fraud that involves management or other employees. The Bank's Internal Audit Department also conducts periodic reviews to ensure that the Internal Controls and Procedures are consistently followed.

The Financial Statements of the Group were audited by Messrs KPMG, Chartered Accountants and their Report is given on page 180. The BAC pre-approves the audit and non-audit services provided by Messrs KPMG, in order to ensure that the provision of such services does not contravene with the guidelines issued by the CBSL on permitted non-audit services or impair KPMG's independence and objectivity.

The BAC, *inter alia*, reviewed all the Internal and External Audit and Inspection Programmes, the efficiency of Internal Control Systems and procedures and also reviewed the quality of Significant Accounting Policies and their adherence to Statutory and Regulatory Requirements, the details of which are given in the 'Board Audit Committee Report' appearing on pages 140 to 142. The Bank engaged the services of five firms of Chartered Accountants approved by the CBSL to strengthen the audit and inspection functions. The continuous inspection

and audit functions, engagement of firms of Chartered Accountants and effective functioning of the BAC, ensure that the Internal Controls and Procedures are followed consistently. To ensure complete independence, the External Auditors and the Internal Auditors have full and free access to the members of the BAC to discuss any matter of substance. However, there are inherent limitations that should be recognised in weighing the assurances provided by any system of internal control and accounting.

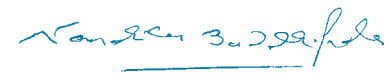
It is also declared and confirmed that the Group and the Bank have complied with and ensured compliance with the guidelines for the audit of listed companies where mandatory compliance is required.

We confirm that to the best of our knowledge:

- The Group has complied with all applicable laws and regulations and guidelines and there is no material litigation against the Group other than those disclosed in Note 61 on page 306 and 307 of the Financial Statements.
- All taxes, duties, levies and all statutory payments by the Group and all contributions, levies and taxes payable on behalf of and in respect of the employees of the Group as at December 31, 2016 have been paid, or where relevant provided for.



J. Durairatnam
Managing Director/CEO



K.D.N. Buddhipala
Chief Financial Officer

Colombo
February 22, 2017

DIRECTORS' INTEREST IN CONTRACTS WITH THE BANK

Related party disclosures as per the Sri Lanka Accounting Standard – LKRS 24 on 'Related Party Disclosures' is disclosed in Note 64 to the Financial Statements on page 313 of this Annual Report. In addition, the Bank carries out transactions in the ordinary course of business on an arm's length basis with entities where the Chairman or a Director of the Bank is the Chairman or a Director of such entities.

The results of such transactions at the Reporting date is given below:

| Director/Company | Accommodation Granted/Deposits | | Current Limit | Balance/Outstanding | |
|--------------------------------------|----------------------------------|----------------------|------------------------|------------------------|------------------------|
| | | | 31.12.2016 Rs. '000 | 31.12.2016 Rs. '000 | 31.12.2015 Rs. '000 |
| (a) Mr. M.P. Jayawardena | | | | | |
| Cal Exports Lanka (Pvt) Ltd. | Loans & Advances | | 9,734 | - | - |
| | Off-Balance Sheet Accommodations | | 89,850 | 2,246 | - |
| | Deposits | | - | 68,525 | 11,187 |
| Chemanex Exports (Pvt) Ltd. | Loans & Advances | | 10,000 | - | - |
| | Off-Balance Sheet Accommodations | | 29,000 | 6,828 | 5,000 |
| | Deposits | | - | 19,327 | 777 |
| CIC Holdings PLC | Loans & Advances | } Combined Limits | 831,390 | 831,804 | 640,601 |
| | Off-Balance Sheet Accommodations | | 900,000 | 303,124 | 82,505 |
| | Deposits | | - | 16,584 | 11,541 |
| CIC Vetcare (Pvt) Ltd. | Loans & Advances | | 100,000 | 102,107 | 46,159 |
| | Off-Balance Sheet Accommodations | | 152,000 | 51,903 | 30,268 |
| | Deposits | | - | 465 | 217 |
| CIC Poultry Farms Ltd. | Loans & Advances | | 759,264 | 734,945 | 820,019 |
| | Off-Balance Sheet Accommodations | | 50,000 | 3,304 | 7,202 |
| | Deposits | | - | 25 | 524 |
| EAP Films & Theatres (Pvt) Ltd. | Loans & Advances | | 212,500 | 140,214 | - |
| | Off-Balance Sheet Accommodations | | - | 800 | - |
| | Deposits | | - | 1,154 | 1,065 |
| (b) Prof. A.K.W. Jayawardane | | | | | |
| Sierra Cables PLC | Loans & Advances | } Combined Limits | 1,170,000 | 950,702 | 824,039 |
| | Off-Balance Sheet Accommodations | | 650,000 | 811,597 | 312,988 |
| | Deposits | | - | 48,135 | 18,754 |
| (c) Mr. J. Durairatnam | | | | | |
| Lanka Financial Services Bureau Ltd. | Deposits | | - | 10,533 | - |

| Director/Company | Accommodation Granted/Deposits | | Current Limit | Balance/Outstanding | |
|--|--|-------------------|------------------------|------------------------|------------------------|
| | | | 31.12.2016 Rs. '000 | 31.12.2016 Rs. '000 | 31.12.2015 Rs. '000 |
| (d) Ms. N.T.M.S. Cooray | (Appointed to the Board w.e.f. September 19, 2016) | | | | |
| The Solutions Group (Pvt) Ltd. | Loans & Advances | | 10,800 | - | N/A |
| | Off-Balance Sheet Accommodations | | - | 1,759 | N/A |
| | Deposits | | - | 27,798 | N/A |
| Ceylon Tea Brokers PLC | Loans & Advances | | 200,000 | 189,617 | N/A |
| | Deposits | | - | 1,786 | N/A |
| Jetwing Hotels Ltd. | Loans & Advances | | 50,390 | 14,154 | N/A |
| | Deposits | | - | 1,581 | N/A |
| Negombo Hotels Ltd. | Loans & Advances | | 50,000 | 49,553 | N/A |
| | Deposits | | - | 2,067 | N/A |
| The Lighthouse Hotel PLC | Loans & Advances | | 124,790 | 129,487 | N/A |
| | Deposits | | - | 1,996 | N/A |
| Jetwing Travels (Pvt) Ltd. | Loans & Advances | | 65,090 | 23,334 | N/A |
| | Off-Balance Sheet Accommodations | | 50,640 | 31,100 | N/A |
| | Deposits | | - | 893,499 | N/A |
| Jetwing Air (Pvt) Ltd. | Loans & Advances | | 20,000 | - | N/A |
| | Off-Balance Sheet Accommodations | | 38,193 | 38,193 | N/A |
| | Deposits | | - | 52,824 | N/A |
| Jetwing Hotel Management Services (Pvt) Ltd. | Loans & Advances | | 2,000 | - | N/A |
| | Deposits | | - | 130 | N/A |
| Jetwing Real Estate (Pvt) Ltd. | Loans & Advances | | 189,580 | 169,253 | N/A |
| Jetwing Events (Pvt) Ltd. | Off-Balance Sheet Accommodations | | 1,511 | 1,511 | N/A |
| | Deposits | | - | 18,304 | N/A |
| Go Vacation Lanka Co. (Pvt) Ltd. | Off-Balance Sheet Accommodations | | 8,090 | 600 | N/A |
| | Deposits | | - | 4,697 | N/A |
| N.J. Cooray Builders (Pvt) Ltd. | Deposits | | - | 498 | N/A |
| Yarl Hotels (Pvt) Ltd. | Deposits | | - | 1,809 | N/A |
| Capital Alliance Holdings Ltd. | Deposits | | - | 100 | N/A |
| (e) Mr. L.D. Niyangoda | (Appointed to the Board w.e.f. August 26, 2016) | | | | |
| A Baur & Company (Pvt) Ltd. | Loans & Advances | } Combined Limits | 2,264,519 | 5,806,404 | N/A |
| | Off-Balance Sheet Accommodations | | 4,390,000 | 957,824 | N/A |
| | Deposits | | - | 16,470 | N/A |
| Baur Life Science (Pvt) Ltd. | Loans & Advances | | - | 257 | N/A |
| | Off-Balance Sheet Accommodations | | - | 29,497 | N/A |
| | Deposits | | - | 7,829 | N/A |

MANAGING RISK: AN OVERVIEW

Managing Risk

Effective risk management is at the core of the Bank's value creation model as we accept risk in the normal course of business. Our stability and profitability are determined by how we manage risk. Significant resources are devoted to this critical function to ensure that it is well articulated, communicated and understood by all employees of the Bank as it is a shared responsibility. It is a dynamic and disciplined function increasing in sophistication and subject to stringent oversight by regulators and other stakeholders. The overarching objectives are to ensure that risks accepted are in line with the Bank's risk appetite and strategic priorities and that there is an appropriate trade-off between risk and reward enabling delivery of value to key stakeholders.

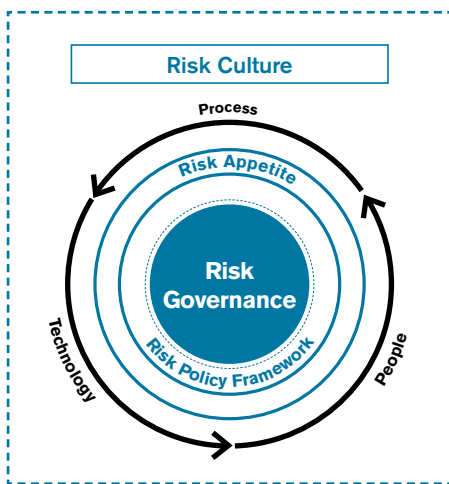


Figure 30

Risk Management Framework

An organisation-wide risk management framework ensures that responsibility for managing risk is shared across the Bank for identifying, measuring, monitoring and managing risk at all levels across all types of risks. A strong risk management culture reinforces the key elements of the risk management framework which comprise risk governance, risk appetite and risk management tools.

The Bank's risk management framework is based on the three lines of defence model which is the industry standard.



Figure 31

Risk Governance

A disciplined risk management culture and framework facilitates oversight of and accountability for risk at all levels of the organisation and across all risk types. The Board of Directors exercises oversight and provides guidance to an experienced Senior Management team who works closely with their teams in managing risk. Understanding the highly specialised nature of managing risk, decision-making is highly centralised through a structure of senior and executive risk management committees.

The rich risk culture, which seamlessly flows through not only within the Bank, but across the Group accentuates more on two financial subsidiaries, Serendib Finance Ltd (SFL) and Commercial Bank of Maldives (CBM).

A Group risk assessment, with a view to pass on best practices across all institutions, is being carried out on a continuous basis to replicate and embrace the same.

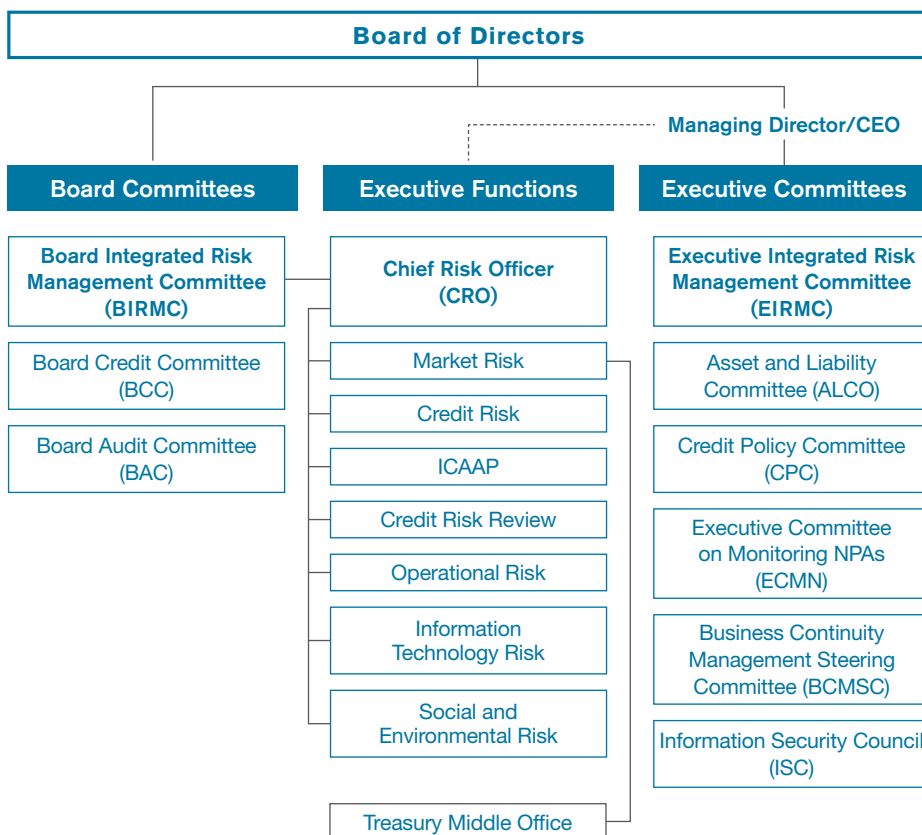


Figure 32

Board of Directors

Responsibility for oversight of risk management rests with the Board of Directors which determines the risk appetite, review governance structures, policy frameworks, risk management processes and other matters related to the effective management of risk on a regular basis. Consequently, the Board evaluates the Bank’s risk management framework, policies, processes and positions on a regular basis. The BIRMC, comprising four Independent Directors and one Executive Director, has oversight responsibility for the risk management function of the Bank and reports to the Board on its activities. Both the Board and the BIRMC receive reports, explanations, clarifications and presentations

from Management in this regard. They are empowered to commission investigations and initiate appropriate remedial action in instances where the Bank has incurred significant losses, breached risk appetite or fines imposed by regulators. The Board Committees with oversight responsibility for risk management or specific aspects are given below and their composition and objectives are given in the Corporate Governance Report on pages 126 to 129.

- Board Integrated Risk Management Committee
- Board Credit Committee
- Board Audit Committee

Executive Committees

Executive management responsibility for managing risk is spearheaded by the EIRMC and the composition and objectives of the Management Committees with responsibility for risk management or specified aspects of risk management are given on page 130 of the Corporate Governance Report.

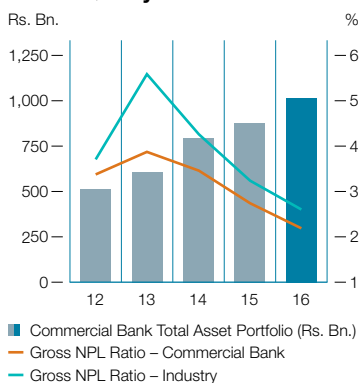
- Asset and Liability Committee
- Credit Policy Committee
- Executive Committee on Monitoring NPAs
- Business Continuity Management Steering Committee
- Information Security Council

These committees carry out independent risk evaluations using both quantitative and qualitative criteria with the assistance of the Integrated Risk Management Department (IRMD) of the Bank. Decisions and discussion points arising from review of regular and ad hoc reports received by these committees are shared with Line Managers and Senior Management to ensure effective communication of material issues and initiate deliberation and necessary action. The EIRMC co-ordinates communication with the BIRMC and ensures that risk is managed within the defined risk appetite in accordance with the risk management policies and procedures approved by the Board.

Risk Appetite

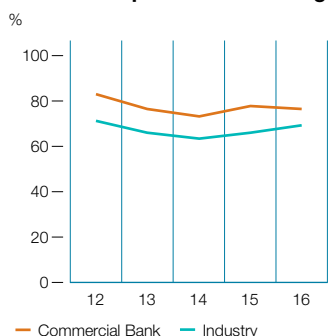
A Risk Appetite Statement (RAS) is in place clearly defining the aggregate quantum of risk the Bank is willing to assume in different aspects of business in achieving its strategic objectives. Regulatory requirements, strategic goals, capital adequacy and other prudential factors are incorporated into the RAS to facilitate sustainable value creation to stakeholders whilst ensuring compliance in an efficient manner. The RAS is reviewed and approved by the Board annually.

Assets Quality of the Bank



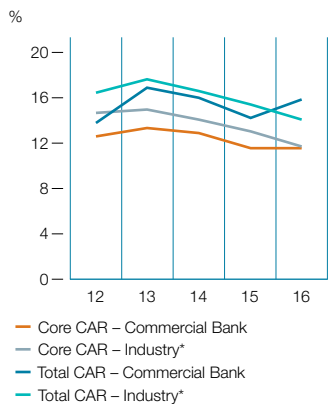
Graph 68

Loans to Deposits & Borrowing Ratio



Graph 69

Capital Adequacy Ratios of the Bank



*Industry figures only upto September 2016

Graph 70

Our risk appetite remains unchanged from the previous year reflecting our commitment to commensurate pricing of risk and rewards and maintaining financial stability.

| Aspect | Measure | Risk Appetite 2016 | Risk Appetite 2015 |
|---------------------------------------|----------------------------------|------------------------|------------------------|
| Credit risk – Asset quality downgrade | Gross NPA ratio | 4% – 5% | 4% – 5% |
| Operational risk | Operational loss tolerance limit | 3% – 5% | 3% – 5% |
| Foreign exchange risk | Exchange rate shock of | Maximum of Rs. 150 Mn. | Maximum of Rs. 150 Mn. |
| Liquidity risk | Statutory Liquid Asset Ratio | 22% | 22% |
| Interest rate risk | Repricing gaps | 1.5 times | 1.5 times |

Table 24

Risk Profile

Overall risk profile of the Bank remained stable evinced by Fitch Ratings Lanka Ltd. (Fitch) affirming a long-term national rating of AA(lka) with a stable outlook which is the highest rating given to a domestic bank in Sri Lanka without sovereign support. Enhanced resilience to a forecast volatile operating environment would have a positive impact on our rating as cited in the 2016 Bank Peer Review issued by Fitch while sensitivities include ability to withstand cyclical asset quality deterioration, changes in deposit franchise and measured risk appetite.

Asset quality improved significantly during the year with the gross NPL ratio improving from 2.74% in 2015 to 2.18% in 2016 amidst growth in the advances portfolio as we continued to focus on maintaining a conducive risk culture and well-honed credit approval processes to manage credit risk acceptance. This was supported by disciplined credit monitoring processes with early warning communications to relationship owners facilitating timely action. Impairment charges declining from Rs. 3.91 Bn. in 2015 to Rs. 1.51 Bn. in 2016 reflects the improvements in asset quality. We remain confident regarding our ability to continue to manage asset quality within the Bank's risk appetite of 4% to 5%.

Capital Management

As a Bank, managing capital is a key priority to ensure availability of funds to act as a buffer sufficient to absorb negative outcomes arising out of stressed scenarios. The Internal Capital Adequacy Assessment Process (ICAAP) Framework which complies with Basel requirements sets out the process for assessing total overall capital adequacy in relation to its risk profile. Internal limits which are more stringent than the regulatory requirement provide early warnings with regard to capital adequacy. Thus the ICAAP ensures that the Bank possesses adequate capital resources in the long run to cover its material risks.

Whilst maintaining the highest standards in risk management in compliance with regulatory requirements, the Bank is vigorously exercising inward focused self-assessment in risk management through ICAAP. Frequent deliberations at Management and Board Subcommittee levels and Risk Control Self Assessment (RCSA) processes adopted by the Bank provide a clear overview of the risk management controls in place.

| Bank Capital Ratios | Regulatory Requirement | Goal (Internal Limit) | 2016 | 2015 |
|--------------------------|------------------------|--------------------------|--------|--------|
| | (%) | (%) | (%) | (%) |
| Tier I | 5 | > 8 | 11.56 | 11.60 |
| Total capital | 10 | > 13.5 | 15.89 | 14.26 |
| Liquidity coverage ratio | 60 -100 | > 100 | 241.35 | 187.62 |

Table 25

The Bank's total capital ratio has improved from 14.26% in 2015 to 15.89% in 2016. However, Tier I ratio has shown a slight decline from 11.60% in 2015 to 11.56% in 2016 during what is believed to be a challenging year. Asset growth was 15.05% and returns grew by 21.92% reflecting our resilience, agility and ability to deliver performance.

As per the Banking Act Direction No. 01 of 2016 on Capital requirements under Basel III for Licensed Commercial Banks, the banks are required to implement the specified capital planning on a staggered basis commencing July 01, 2017 and to be fully implemented by January 01, 2019. Whilst appreciating the challenges associated with increasing the capital base in line with the CBSL Roadmap, a comparison of the Bank's capital base as at December 31, 2016 as against expected capital levels by July 01, 2017 is given in page 403 which shows that the Bank is on a comfortable footing in the present context.

Stress Testing

Going a step further beyond the regulatory requirements and the inward looking self-assessments of risks, stress tests conducted by the Bank encompassing plausible scenarios identify and evaluate vulnerability to potential effects of an exceptional risk event and/or movement in a set of fixed variables that could have negative impact on the Bank's financial position. The adverse unexpected losses

simulated through scenario analysis assist the Bank to visualise additional capital that is required to absorb such losses in an event such shock is to materialise and proactively work towards mitigation of such risk events. The portfolio based credit risk stress scenarios such as deterioration of credit quality, portfolio concentration, adverse macroeconomic factors, large borrower defaults etc. at varying severity levels indicated that the Bank can remain steadfast even at severe stress levels to withstand a negative shock arising from such events.

Financial Reports

Read our Financial Statements together with accounting policies, supporting notes and the Auditors' Report on the same to understand the balance between profitability, growth and stability.

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FINANCIAL CALENDAR – 2016

Dividend Calendar

| | 2016 | 2017 |
|---|--|-------------------------|
| Final Dividend for the previous year paid/payable | On April 08, 2016 | On April 11, 2017 |
| Interim Dividends for the year paid/payable | On November 18, 2016 On February 17, 2017 | In the second half 2017 |
| Final Dividend for the year to be proposed | On March 30, 2017 | In March 2018 |
| Final Dividend for the year to be paid | On April 11, 2017 | In April 2018 |

Annual General Meeting (AGM) Calendar

| | 2016 | 2017 |
|---|----------------------|------------------|
| Annual Report and Accounts for the year signed/to be signed | On February 22, 2017 | in February 2018 |
| Annual General Meeting to be held | On March 30, 2017 | in March 2018 |

Interim Financial Statements Calendar – Submission to the Colombo Stock Exchange (CSE)

(In terms of Rule 7.4 of the CSE and as per the requirements of the Central Bank of Sri Lanka)

| | 2016 Submitted on | 2017 To be submitted on or before |
|---|----------------------|--------------------------------------|
| For the three months ended/ending March 31 (unaudited) | May 11, 2016 | May 15, 2017 |
| For the six months ended/ending June 30 (audited) | August 12, 2016 | August 15, 2017 |
| For the nine months ended/ending September 30 (unaudited) | November 10, 2016 | November 15, 2017 |
| For the year ended/ending December 31 (audited) | February 22, 2017 | February 28, 2018 |

Interim Financial Statements Calendar – Publication in the Newspapers

(As per the Direction Ref. No. 02/04/003/0401/001 dated January 26, 2006 and the Direction Ref. No. 02/04/003/0401/001 dated February 21, 2006 of the Central Bank of Sri Lanka)

| | 2016 Published on/To be published on or before | | | 2017 To be published on or before |
|---|---|-------------------|-------------------|--------------------------------------|
| | English | Sinhala | Tamil | In all three Languages |
| For the three months ended/ending March 31 (unaudited) | May 21, 2016 | May 28, 2016 | May 28, 2016 | May 31, 2017 |
| For the six months ended/ending June 30 (audited) | August 25, 2016 | August 27, 2016 | August 27, 2016 | August 31, 2017 |
| For the nine months ended/ending September 30 (unaudited) | November 24, 2016 | November 30, 2016 | November 30, 2016 | November 30, 2017 |
| For the year ended/ending December 31 (audited) | March 31, 2017 | March 31, 2017 | March 31, 2017 | March 30, 2018 |

INDEPENDENT AUDITORS' REPORT



KPMG
(Chartered Accountants)
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Colombo 00300,
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To the Shareholders of COMMERCIAL BANK OF CEYLON PLC

Report on the Financial Statements

We have audited the accompanying Financial Statements of Commercial Bank of Ceylon PLC, ('the Company'), and the Consolidated Financial Statements of the Company and its subsidiaries ('Group'), which comprise the statement of financial position as at December 31, 2016, and the income statement, statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information set out on pages 183 to 352 of the Annual Report.

Board's Responsibility for the Financial Statements

The Board of Directors ('Board') is responsible for the preparation of these Financial Statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as Board determines is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these Financial Statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Financial Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Statements. The procedures selected depend on the Auditors' judgment, including the assessment of the risks of material misstatement of the Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the Financial Statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of Accounting Policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the Financial Statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Consolidated Financial Statements give a true and fair view of the financial position of the Group as at December 31, 2016, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

As required by Section 163 (2) of the Companies Act No. 07 of 2007, we state the following:

- (a) The basis of opinion and scope and limitations of the audit are as stated above
- (b) In our opinion:
 - We have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company,
 - The Financial Statements of the Company give a true and fair view of its financial position as at December 31, 2016, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.
 - The Financial Statements of the Company, and the Group comply with the requirements of Sections 151 and 153 of the Companies Act No. 07 of 2007.

Chartered Accountants

Colombo
February 22, 2017

KPMG, a Sri Lankan partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

M.R. Mihular FCA
T.J.S. Rajakarier FCA
Ms. S.M.B. Jayasekara ACA
G.A.U. Karunaratne FCA
R.H. Rajan ACA

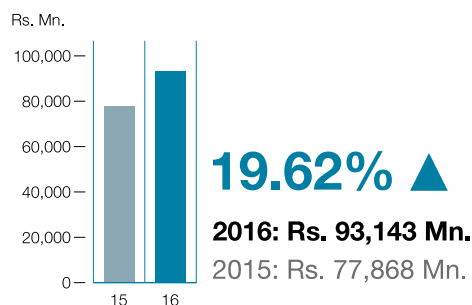
P.Y.S. Perera FCA
W.W.J.C. Perera FCA
W.K.D.C. Abeyratne FCA
R.M.D.B. Rajapakse FCA

C.P. Jayatilake FCA
Ms. S. Joseph FCA
S.T.D.L. Perera FCA
Ms. B.K.D.T.N. Rodrigo FCA

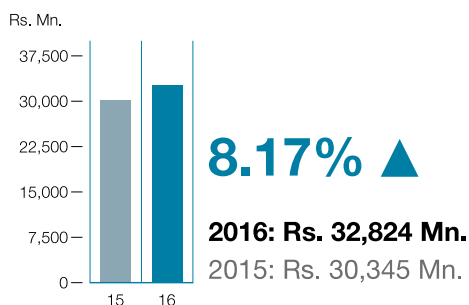
Principals - S.R.I. Perera FCMA(UK), LLB, Attorney-at-Law, H.S. Goonewardene ACA

FINANCIAL STATEMENTS HIGHLIGHTS – BANK

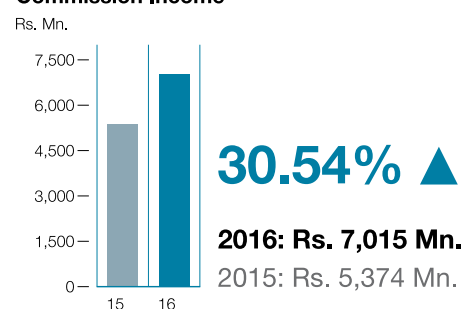
Gross Income



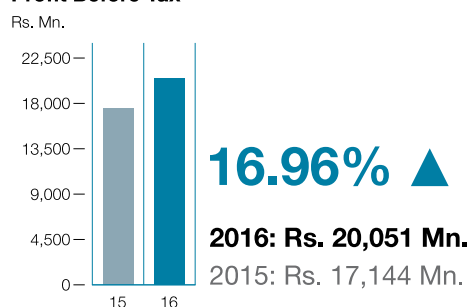
Net Interest Income



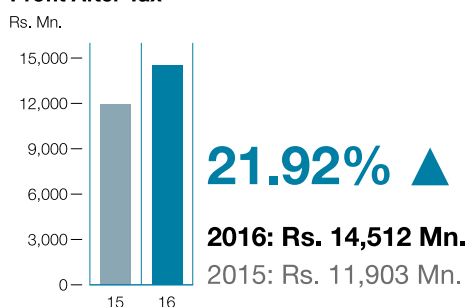
Net Fee and Commission Income



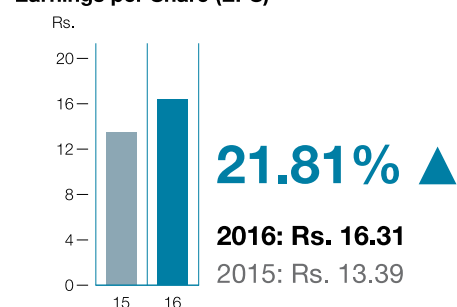
Profit Before Tax



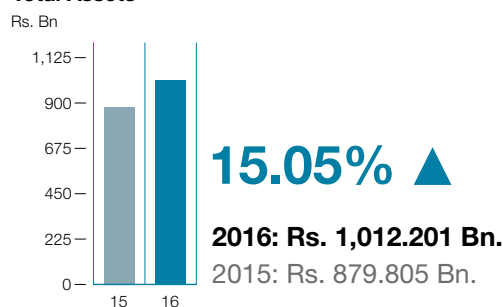
Profit After Tax



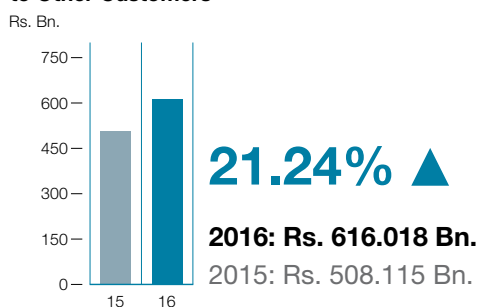
Earnings per Share (EPS)



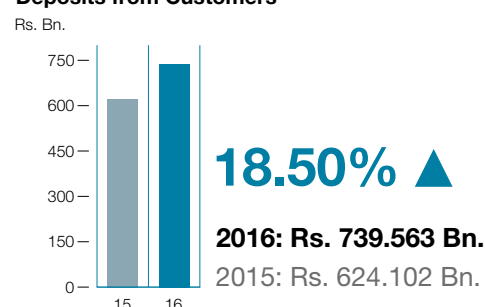
Total Assets



Loans and Receivables to Other Customers



Due to Other Customers/ Deposits from Customers



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INCOME STATEMENT

| For the year ended December 31, | Note | GROUP | | | BANK | | |
|--|------|------------------|------------------|-------------|------------------|------------------|-------------|
| | | 2016 Rs. '000 | 2015 Rs. '000 | Change % | 2016 Rs. '000 | 2015 Rs. '000 | Change % |
| Gross income | 12 | 93,725,535 | 78,225,397 | 19.81 | 93,142,610 | 77,867,952 | 19.62 |
| Interest income | 13.1 | 81,314,607 | 66,339,317 | 22.57 | 80,738,176 | 66,030,456 | 22.27 |
| Less: Interest expense | 13.2 | 48,186,331 | 35,771,967 | 34.70 | 47,914,573 | 35,685,172 | 34.27 |
| Net interest income | 13 | 33,128,276 | 30,567,350 | 8.38 | 32,823,603 | 30,345,284 | 8.17 |
| Fee and commission income | 14.1 | 8,230,131 | 6,329,900 | 30.02 | 8,143,041 | 6,275,276 | 29.76 |
| Less: Fee and commission expense | 14.2 | 1,140,954 | 919,590 | 24.07 | 1,127,536 | 901,190 | 25.12 |
| Net fee and commission income | 14 | 7,089,177 | 5,410,310 | 31.03 | 7,015,505 | 5,374,086 | 30.54 |
| Net gains/(losses) from trading | 15 | (1,466,711) | 813,376 | (280.32) | (1,466,711) | 813,376 | (280.32) |
| Net gains/(losses) from financial instruments designated at fair value through profit or loss | | - | - | - | - | - | - |
| Net gains/(losses) from financial investments | 16 | 110,759 | 693,987 | (84.04) | 110,701 | 693,933 | (84.05) |
| Other income (net) | 17 | 5,536,749 | 4,048,817 | 36.75 | 5,617,403 | 4,054,911 | 38.53 |
| Total operating income | | 44,398,250 | 41,533,840 | 6.90 | 44,100,501 | 41,281,590 | 6.83 |
| Less: Impairment charges for loans and other losses | 18 | 1,583,326 | 4,099,738 | (61.38) | 1,529,814 | 3,943,196 | (61.20) |
| Net operating income | | 42,814,924 | 37,434,102 | 14.37 | 42,570,687 | 37,338,394 | 14.01 |
| Less: Expenses | | | | | | | |
| Personnel expenses | 19 | 10,913,088 | 10,260,750 | 6.36 | 10,794,307 | 10,180,537 | 6.03 |
| Depreciation and amortisation | 20 | 1,268,330 | 1,206,172 | 5.15 | 1,189,493 | 1,141,804 | 4.18 |
| Other operating expenses | 21 | 6,809,435 | 5,954,483 | 14.36 | 6,832,345 | 5,983,088 | 14.19 |
| Total operating expenses | | 18,990,853 | 17,421,405 | 9.01 | 18,816,145 | 17,305,429 | 8.73 |
| Operating profit before Value Added Tax (VAT) and Nation Building Tax (NBT) | | 23,824,071 | 20,012,697 | 19.04 | 23,754,542 | 20,032,965 | 18.58 |
| Less: Value Added Tax (VAT) on financial services and Nation Building Tax (NBT) | | 3,715,941 | 2,890,224 | 28.57 | 3,703,359 | 2,889,355 | 28.17 |
| Operating profit after Value Added Tax (VAT) and Nation Building Tax (NBT) | | 20,108,130 | 17,122,473 | 17.44 | 20,051,183 | 17,143,610 | 16.96 |
| Share of profits of associates, net of tax | | 6,454 | 13,638 | (52.68) | - | - | - |
| Profit before tax | | 20,114,584 | 17,136,111 | 17.38 | 20,051,183 | 17,143,610 | 16.96 |
| Less: Income tax expense | 22 | 5,648,160 | 5,276,851 | 7.04 | 5,538,672 | 5,240,386 | 5.69 |
| Profit for the year | | 14,466,424 | 11,859,260 | 21.98 | 14,512,511 | 11,903,224 | 21.92 |
| Profit Attributable to: | | | | | | | |
| Equity holders of the Bank | | 14,510,333 | 11,855,172 | 22.40 | 14,512,511 | 11,903,224 | 21.92 |
| Non-controlling interest | | (43,909) | 4,088 | (1,174.09) | - | - | - |
| Profit for the year | | 14,466,424 | 11,859,260 | 21.98 | 14,512,511 | 11,903,224 | 21.92 |
| Earnings per Share | | | | | | | |
| Basic earnings per ordinary share (Rs.) | 23 | 16.30 | 13.34 | 22.19 | 16.31 | 13.39 | 21.81 |
| Diluted earnings per ordinary share (Rs.) | 23 | 16.27 | 13.32 | 22.15 | 16.27 | 13.37 | 21.69 |

The Notes appearing on pages 191 to 352 form an integral part of these Financial Statements.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

| For the year ended December 31, | GROUP | | | BANK | | |
|---|-------------------|------------------|--------------|-------------------|------------------|--------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | Change % | 2016 Rs. '000 | 2015 Rs. '000 | Change % |
| Profit for the year | 14,466,424 | 11,859,260 | 21.98 | 14,512,511 | 11,903,224 | 21.92 |
| Other comprehensive income, net of tax | | | | | | |
| Items that will never be reclassified to profit or loss | | | | | | |
| Net actuarial gains/(losses) on defined benefit plans | 140,826 | (62,272) | 326.15 | 139,763 | (68,714) | 303.40 |
| Remeasurement of defined benefit liability/(asset) | 164,225 | (65,150) | 352.07 | 162,748 | (74,097) | 319.64 |
| Less: Deferred tax charge/(reversal) on actuarial gains/(losses) | 23,399 | (2,878) | 913.03 | 22,985 | (5,383) | 526.99 |
| Net change in revaluation surplus | - | - | - | - | - | - |
| Changes in revaluation surplus/(deficit) | - | - | - | - | - | - |
| Less: Deferred tax charge/(reversal) on revaluation surplus | - | - | - | - | - | - |
| Items that are or may be reclassified to profit or loss | | | | | | |
| Net gains/(losses) arising from translating the Financial Statements of the foreign operations | 438,565 | 886,677 | (50.54) | 414,578 | 888,844 | (53.36) |
| Net fair value gains/(losses) on remeasuring financial investments – available-for-sale | (3,253,429) | (6,690,945) | 51.38 | (3,253,429) | (6,690,945) | 51.38 |
| Government Securities | (3,263,598) | (6,733,881) | 51.53 | (3,263,598) | (6,733,881) | 51.53 |
| Fair value gains/(losses) that arose during the year, net of tax | (3,479,504) | (6,625,162) | 47.48 | (3,479,504) | (6,625,162) | 47.48 |
| Fair value gains/(losses) realised to the Income Statement on disposal, net of tax | (27,425) | (108,719) | 74.77 | (27,425) | (108,719) | 74.77 |
| Fair value gains/(losses) recycled to the Income Statement on reclassification, net of tax | 243,331 | - | - | 243,331 | - | - |
| Equity Securities | 10,169 | 42,936 | (76.32) | 10,169 | 42,936 | (76.32) |
| Fair value gains/(losses) that arose during the year, net of tax | 10,169 | 42,936 | (76.32) | 10,169 | 42,936 | (76.32) |
| Fair value gains/(losses) realised and recycled to the Income Statement on disposal, net of tax | - | - | - | - | - | - |
| Share of other comprehensive income of associates, net of tax | 3,807 | (8,689) | 143.81 | - | - | - |
| Other comprehensive income for the year, net of tax | (2,670,231) | (5,875,229) | 54.55 | (2,699,088) | (5,870,815) | 54.03 |
| Total comprehensive income for the year | 11,796,193 | 5,984,031 | 97.13 | 11,813,423 | 6,032,409 | 95.83 |
| Attributable to: | | | | | | |
| Equity holders of the Bank | 11,829,508 | 5,979,574 | 97.83 | 11,813,423 | 6,032,409 | 95.83 |
| Non-controlling interest | (33,315) | 4,457 | (847.48) | - | - | - |
| Total comprehensive income for the year | 11,796,193 | 5,984,031 | 97.13 | 11,813,423 | 6,032,409 | 95.83 |

STATEMENT OF FINANCIAL POSITION

| As at December 31, | Note | GROUP | | | BANK | | |
|--|------|----------------------|--------------------|--------------|----------------------|--------------------|--------------|
| | | 2016 Rs. '000 | 2015 Rs. '000 | Change % | 2016 Rs. '000 | 2015 Rs. '000 | Change % |
| Assets | | | | | | | |
| Cash and cash equivalents | 27 | 32,924,227 | 20,107,076 | 63.74 | 30,193,589 | 20,043,512 | 50.64 |
| Balances with Central Banks | 28 | 43,935,258 | 28,221,017 | 55.68 | 43,873,205 | 28,221,017 | 55.46 |
| Placements with banks | 29 | 11,718,499 | 17,193,539 | (31.84) | 11,718,499 | 17,193,539 | (31.84) |
| Securities purchased under resale agreements | | - | 8,002,100 | - | - | 8,002,100 | - |
| Derivative financial assets | 30 | 1,052,829 | 4,118,169 | (74.43) | 1,052,829 | 4,118,169 | (74.43) |
| Other financial instruments – Held-for-trading | 31 | 4,987,798 | 7,656,349 | (34.85) | 4,987,798 | 7,656,349 | (34.85) |
| Loans and receivables to banks | 32 | 624,458 | 601,106 | 3.88 | 624,458 | 601,106 | 3.88 |
| Loans and receivables to other customers | 33 | 620,129,488 | 509,923,128 | 21.61 | 616,018,228 | 508,115,127 | 21.24 |
| Financial investments – Available-for-sale | 34 | 160,092,522 | 204,261,934 | (21.62) | 160,023,471 | 204,244,289 | (21.65) |
| Financial investments – Held-to-maturity | 35 | 63,626,598 | - | - | 60,981,298 | - | - |
| Financial investments – Loans and receivables | 36 | 51,824,026 | 57,724,369 | (10.22) | 51,824,026 | 57,724,369 | (10.22) |
| Investments in subsidiaries | 37 | - | - | - | 2,435,392 | 1,237,146 | 96.86 |
| Investments in associates | 38 | 108,859 | 104,503 | 4.17 | 44,331 | 44,331 | - |
| Property, plant & equipment | 39 | 11,569,666 | 11,181,433 | 3.47 | 10,307,825 | 9,968,985 | 3.40 |
| Intangible assets | 40 | 1,132,669 | 884,034 | 28.13 | 640,645 | 465,960 | 37.49 |
| Leasehold property | 41 | 105,968 | 107,420 | (1.35) | 73,536 | 74,478 | (1.26) |
| Deferred tax assets | 48 | 668,150 | - | - | 963,935 | - | - |
| Other assets | 42 | 16,482,559 | 12,097,017 | 36.25 | 16,438,166 | 12,094,591 | 35.91 |
| Total assets | | 1,020,983,574 | 882,183,194 | 15.73 | 1,012,201,231 | 879,805,068 | 15.05 |
| Liabilities | | | | | | | |
| Due to banks | 43 | 71,098,391 | 31,789,396 | 123.65 | 67,608,811 | 30,319,119 | 122.99 |
| Derivative financial liabilities | 44 | 1,515,035 | 1,890,770 | (19.87) | 1,515,035 | 1,890,770 | (19.87) |
| Securities sold under repurchase agreements | | 69,628,961 | 112,249,703 | (37.97) | 69,867,469 | 112,384,812 | (37.83) |
| Other financial liabilities – Held-for-trading | | - | - | - | - | - | - |
| Due to other customers/deposits from customers | 45 | 743,310,613 | 624,021,217 | 19.12 | 739,563,494 | 624,101,810 | 18.50 |
| Other borrowings | 46 | 9,270,154 | 9,985,637 | (7.17) | 9,270,154 | 9,985,637 | (7.17) |
| Current tax liabilities | 47 | 3,464,682 | 3,025,662 | 14.51 | 3,440,736 | 3,001,984 | 14.62 |
| Deferred tax liabilities | 48 | - | 467,632 | - | - | 230,615 | - |
| Other provisions | 49 | 1,874 | 1,874 | - | 1,874 | 1,874 | - |
| Other liabilities | 50 | 18,028,902 | 15,749,184 | 14.48 | 17,710,394 | 15,548,159 | 13.91 |
| Due to subsidiaries | 51 | - | - | - | 20,061 | 26,212 | (23.47) |
| Subordinated liabilities | 52 | 24,849,539 | 11,988,272 | 107.28 | 24,849,539 | 11,973,272 | 107.54 |
| Total liabilities | | 941,168,151 | 811,169,347 | 16.03 | 933,847,567 | 809,464,264 | 15.37 |
| Equity | | | | | | | |
| Stated capital | 53 | 24,978,003 | 23,254,605 | 7.41 | 24,978,003 | 23,254,605 | 7.41 |
| Statutory reserves | 55 | 5,647,993 | 4,922,367 | 14.74 | 5,647,890 | 4,922,264 | 14.74 |
| Retained earnings | 56 | 4,553,778 | 4,467,807 | 1.92 | 4,464,077 | 4,388,867 | 1.71 |
| Other reserves | 57 | 43,812,536 | 38,318,860 | 14.34 | 43,263,694 | 37,775,068 | 14.53 |
| Total equity attributable to equity holders of the Bank | | 78,992,310 | 70,963,639 | 11.31 | 78,353,664 | 70,340,804 | 11.39 |
| Non-controlling interest | 58 | 823,113 | 50,208 | 1,539.41 | - | - | - |
| Total equity | | 79,815,423 | 71,013,847 | 12.39 | 78,353,664 | 70,340,804 | 11.39 |
| Total liabilities and equity | | 1,020,983,574 | 882,183,194 | 15.73 | 1,012,201,231 | 879,805,068 | 15.05 |
| Contingent liabilities and commitments | 59 | 498,568,500 | 521,232,320 | (4.35) | 498,304,527 | 521,232,320 | (4.40) |
| Net assets value per ordinary share (Rs.) | 60 | 88.68 | 80.93 | 9.58 | 87.97 | 80.22 | 9.66 |

The Notes appearing on pages 191 to 352 form an integral part of these Financial Statements.

Certification

These Financial Statements have been prepared in compliance with requirements of the Companies Act No. 07 of 2007.



K.D.N. Buddhipala
Chief Financial Officer

The Board of Directors is responsible for the preparation and presentation of these Financial Statements.

Approved and signed for and on behalf of the Board,



K.G.D.D. Dheerasinghe
Chairman



M.P. Jayawardena
Deputy Chairman



J. Durairatnam
Managing Director



Mrs. J.R. Gamage
Company Secretary

February 22, 2017
Colombo

STATEMENT OF CHANGES IN EQUITY – GROUP

| | Stated Capital Rs. '000 | Statutory Reserve Fund Rs. '000 | Retained Earnings Rs. '000 |
|---|-------------------------------|---------------------------------------|----------------------------------|
| Balance as at January 01, 2015 | 21,457,501 | 4,327,103 | 4,418,412 |
| Super Gain Tax for the year of assessment 2013/2014 | | | (2,608,469) |
| Balance as at January 01, 2015 – Adjusted [Refer Note 56] | 21,457,501 | 4,327,103 | 1,809,943 |
| Total comprehensive income for the year 2015 | | | |
| Profit for the year | - | - | 11,855,172 |
| Other comprehensive income, net of tax | - | - | (71,330) |
| Net actuarial gains/(losses) on defined benefit plans | - | - | (62,641) |
| Share of other comprehensive income of associates, net of tax | - | - | (8,689) |
| Net fair value gains/(losses) on remeasuring financial investments – Available-for-sale | - | - | - |
| Net gains/(losses) arising from translating the financial statements of foreign operations | - | - | - |
| Total comprehensive income for the year 2015 | - | - | 11,783,842 |
| Transactions with owners, recognised directly in equity, contributions and distributions to owners | | | |
| Issue of ordinary shares under Employee Share Option Plan [Refer Note 53] | 237,304 | - | - |
| Dividends to equity holders | 1,559,800 | - | (5,647,414) |
| Second interim dividend for 2014 [Refer Note 24] | - | - | (865,943) |
| Final cash dividend for 2014 | - | - | (1,733,110) |
| Final dividend for 2014 satisfied in the form of issue and allotment of new shares [Refer Note 53] | 1,559,800 | - | (1,733,110) |
| First interim dividend for 2015 [Refer Note 24] | - | - | (1,315,251) |
| Share-based payment transactions [Refer Note 57.5] | - | - | - |
| Restatement of deferred tax on revaluation gains | - | - | - |
| Profit due to change in ownership | - | - | 2,344 |
| Movement due to change in ownership | - | - | (644) |
| Transfers during the year [Refer Notes 55 and 57] | - | 595,264 | (3,480,264) |
| Total transactions with equity holders | 1,797,104 | 595,264 | (9,125,978) |
| Balance as at January 01, 2016 | 23,254,605 | 4,922,367 | 4,467,807 |
| Total comprehensive income for the year 2016 | | | |
| Profit for the year | - | - | 14,510,333 |
| Other comprehensive income, net of tax | - | - | 144,591 |
| Net actuarial gains/(losses) on defined benefit plans | - | - | 140,784 |
| Share of other comprehensive income of associates, net of tax | - | - | 3,807 |
| Net fair value gains/(losses) on remeasuring financial investments – Available-for-sale | - | - | - |
| Net gains/(losses) arising from translating the Financial Statements of foreign operations | - | - | - |
| Total comprehensive income for the year 2016 | - | - | 14,654,924 |
| Transactions with owners, recognised directly in equity, contributions and distributions to owners | | | |
| Issue of ordinary shares under Employee Share Option Plans [Refer Note 53] | 144,804 | - | - |
| Dividends to equity holders | 1,578,594 | - | (5,720,913) |
| Final cash dividend for 2015 | - | - | (2,630,991) |
| Final dividend for 2015 satisfied in the form of issue and allotment of new shares [Refer Note 53] | 1,578,594 | - | (1,753,994) |
| First interim dividend for 2016 [Refer Note 24] | - | - | (1,335,928) |
| Share-based payment transactions (net) [Refer Note 57.5] | - | - | - |
| Write back of dividend payable | - | - | 624 |
| Derecognition of revaluation reserve to the retained earnings | - | - | 5,628 |
| Profit due to change in ownership | - | - | 3,047 |
| Movement due to change in ownership | - | - | (1,188) |
| Incorporation of a subsidiary with non-controlling interest | - | - | - |
| Transfers during the year [Refer Notes 55 and 57] | - | 725,626 | (8,856,151) |
| Total transactions with equity holders | 1,723,398 | 725,626 | (14,568,953) |
| Balance as at December 31, 2016 | 24,978,003 | 5,647,993 | 4,553,778 |

The Notes appearing on pages 191 to 352 form an integral part of these Financial Statements.

| | Other Reserves | | | | | Shareholders' Funds Rs. '000 | Non-Controlling Interest Rs. '000 | Total Equity Rs. '000 |
|--|---------------------------------|--|--|-----------------------------|---|---------------------------------|--------------------------------------|--------------------------|
| | Revaluation Reserve Rs. '000 | Available-for-Sale Reserve Rs. '000 | Foreign Currency Translation Reserve Rs. '000 | General Reserve Rs. '000 | Employee Share Option Reserve Rs. '000 | | | |
| | 6,246,960 | 2,735,569 | (454,188) | 32,474,478 | - | 71,205,835 | 47,564 | 71,253,399 |
| | - | - | - | - | - | (2,608,469) | (1,503) | (2,609,972) |
| | 6,246,960 | 2,735,569 | (454,188) | 32,474,478 | - | 68,597,366 | 46,061 | 68,643,427 |
| | - | - | - | - | - | 11,855,172 | 4,088 | 11,859,260 |
| | - | (6,690,945) | 886,677 | - | - | (5,875,598) | 369 | (5,875,229) |
| | - | - | - | - | - | (62,641) | 369 | (62,272) |
| | - | - | - | - | - | (8,689) | - | (8,689) |
| | - | (6,690,945) | - | - | - | (6,690,945) | - | (6,690,945) |
| | - | - | 886,677 | - | - | 886,677 | - | 886,677 |
| | - | (6,690,945) | 886,677 | - | - | 5,979,574 | 4,457 | 5,984,031 |
| | - | - | - | - | - | 237,304 | - | 237,304 |
| | - | - | - | - | - | (4,087,614) | (3,270) | (4,090,884) |
| | - | - | - | - | - | (865,943) | - | (865,943) |
| | - | - | - | - | - | (1,733,110) | (1,962) | (1,735,072) |
| | - | - | - | - | - | (173,310) | - | (173,310) |
| | - | - | - | - | - | (1,315,251) | (1,308) | (1,316,559) |
| | - | - | - | - | 223,330 | 223,330 | - | 223,330 |
| | 13,710 | - | - | - | - | 13,710 | 585 | 14,295 |
| | - | - | - | - | - | 2,344 | - | 2,344 |
| | (1,731) | - | - | - | - | (2,375) | 2,375 | - |
| | - | - | - | 2,885,000 | - | - | - | - |
| | 11,979 | - | - | 2,885,000 | 223,330 | (3,613,301) | (310) | (3,613,611) |
| | 6,258,939 | (3,955,376) | 432,489 | 35,359,478 | 223,330 | 70,963,639 | 50,208 | 71,013,847 |
| | - | - | - | - | - | 14,510,333 | (43,909) | 14,466,424 |
| | - | (3,253,429) | 428,013 | - | - | (2,680,825) | 10,594 | (2,670,231) |
| | - | - | - | - | - | 140,784 | 42 | 140,826 |
| | - | - | - | - | - | 3,807 | - | 3,807 |
| | - | (3,253,429) | - | - | - | (3,253,429) | - | (3,253,429) |
| | - | - | 428,013 | - | - | 428,013 | 10,552 | 438,565 |
| | - | (3,253,429) | 428,013 | - | - | 11,829,508 | (33,315) | 11,796,193 |
| | - | - | - | - | - | 144,804 | - | 144,804 |
| | - | - | - | - | - | (4,142,319) | (3,432) | (4,145,751) |
| | - | - | - | - | - | (2,630,991) | (2,059) | (2,633,050) |
| | - | - | - | - | - | (175,400) | - | (175,400) |
| | - | - | - | - | - | (1,335,928) | (1,373) | (1,337,301) |
| | - | - | - | - | 196,952 | 196,952 | - | 196,952 |
| | - | - | - | - | - | 624 | 38 | 662 |
| | (5,628) | - | - | - | - | - | - | - |
| | - | - | - | - | - | 3,047 | - | 3,047 |
| | (2,757) | - | - | - | - | (3,945) | 3,945 | - |
| | - | - | - | - | - | - | 805,669 | 805,669 |
| | - | - | - | 8,130,525 | - | - | - | - |
| | (8,385) | - | - | 8,130,525 | 196,952 | (3,800,837) | 806,220 | (2,994,617) |
| | 6,250,554 | (7,208,805) | 860,502 | 43,490,003 | 420,282 | 78,992,310 | 823,113 | 79,815,423 |

STATEMENT OF CHANGES IN EQUITY – BANK

| | Stated Capital Rs. '000 | Statutory Reserve Fund Rs. '000 | Retained Earnings Rs. '000 |
|---|-------------------------------|---------------------------------------|----------------------------------|
| Balance as at January 01, 2015 | 21,457,501 | 4,327,103 | 4,258,287 |
| Super Gain Tax for the year of assessment 2013/2014 | - | - | (2,576,355) |
| Balance as at January 01, 2015 – Adjusted [Refer Note 56] | 21,457,501 | 4,327,103 | 1,681,932 |
| Total comprehensive income for the year 2015 | | | |
| Profit for the year | - | - | 11,903,224 |
| Other comprehensive income, net of tax | - | - | (68,714) |
| Net actuarial gains/(losses) on defined benefit plans | - | - | (68,714) |
| Net fair value gains/(losses) on remeasuring financial investments – Available-for-sale | - | - | - |
| Net gains/(losses) arising from translating the Financial Statements of the foreign operation | - | - | - |
| Total comprehensive income for the year 2015 | - | - | 11,834,510 |
| Transactions with owners, recognised directly in equity, contributions and distributions to owners | | | |
| Issue of Ordinary shares under Employee Share Option Plan [Refer Note 53] | 237,304 | - | - |
| Dividends to equity holders | 1,559,800 | - | (5,647,414) |
| Second interim dividend for 2014 [Refer Note 24] | - | - | (865,943) |
| Final cash dividend for 2014 | - | - | (1,733,110) |
| Final dividend for 2014 satisfied in the form of issue and allotment of new shares [Refer Note 53] | 1,559,800 | - | (1,733,110) |
| First interim dividend for 2015 [Refer Note 24] | - | - | (1,315,251) |
| Share-based Payment transactions [Refer Note 57.5] | - | - | - |
| Transfers during the year [Refer Notes 55 and 57] | - | 595,161 | (3,480,161) |
| Total transactions with equity holders | 1,797,104 | 595,161 | (9,127,575) |
| Balance as at January 01, 2016 | 23,254,605 | 4,922,264 | 4,388,867 |
| Total comprehensive income for the year 2016 | | | |
| Profit for the year | - | - | 14,512,511 |
| Other comprehensive income, net of tax | - | - | 139,763 |
| Net actuarial gains/(losses) on defined benefit plans | - | - | 139,763 |
| Net fair value gains/(losses) on remeasuring financial investments – Available-for-sale | - | - | - |
| Net gains/(losses) arising from translating the Financial Statements of the foreign operation | - | - | - |
| Total comprehensive income for the year 2016 | - | - | 14,652,274 |
| Transactions with owners, recognised directly in equity, contributions and distributions to owners | | | |
| Issue of Ordinary shares under Employee Share Option Plans [Refer Note 53] | 144,804 | - | - |
| Dividends to equity holders | 1,578,594 | - | (5,720,913) |
| Final cash dividend for 2015 | - | - | (2,630,991) |
| Final dividend for 2015 satisfied in the form of issue and allotment of new shares [Refer Note 53] | 1,578,594 | - | (1,753,994) |
| First interim dividend for 2016 [Refer Note 24] | - | - | (1,335,928) |
| Share-based payment transactions (net) [Refer Note 57.5] | - | - | - |
| Transfers during the year [Refer Notes 55 and 57] | - | 725,626 | (8,856,151) |
| Total transactions with equity holders | 1,723,398 | 725,626 | (14,577,064) |
| Balance as at December 31, 2016 | 24,978,003 | 5,647,890 | 4,464,077 |

The Notes appearing on pages 191 to 352 form an integral part of these Financial Statements.

| | Other Reserves | | | General Reserve Rs. '000 | Employee Share Option Reserve Rs. '000 | Shareholders' Funds Rs. '000 | Non-Controlling Interest Rs. '000 | Total Equity Rs. '000 |
|--|------------------------------------|--|---|-----------------------------|--|------------------------------------|---|-----------------------------|
| | Revaluation Reserve Rs. '000 | Available- for-Sale Reserve Rs. '000 | Foreign Currency Translation Reserve Rs. '000 | | | | | |
| | 5,722,859 | 2,735,578 | (464,076) | 32,474,478 | - | 70,511,730 | - | 70,511,730 |
| | - | - | - | - | - | (2,576,355) | - | (2,576,355) |
| | 5,722,859 | 2,735,578 | (464,076) | 32,474,478 | - | 67,935,375 | - | 67,935,375 |
| | - | - | - | - | - | 11,903,224 | - | 11,903,224 |
| | - | (6,690,945) | 888,844 | - | - | (5,870,815) | - | (5,870,815) |
| | - | - | - | - | - | (68,714) | - | (68,714) |
| | - | (6,690,945) | - | - | - | (6,690,945) | - | (6,690,945) |
| | - | - | 888,844 | - | - | 888,844 | - | 888,844 |
| | - | (6,690,945) | 888,844 | - | - | 6,032,409 | - | 6,032,409 |
| | - | - | - | - | - | 237,304 | - | 237,304 |
| | - | - | - | - | - | (4,087,614) | - | (4,087,614) |
| | - | - | - | - | - | (865,943) | - | (865,943) |
| | - | - | - | - | - | (1,733,110) | - | (1,733,110) |
| | - | - | - | - | - | (173,310) | - | (173,310) |
| | - | - | - | - | - | (1,315,251) | - | (1,315,251) |
| | - | - | - | - | 223,330 | 223,330 | - | 223,330 |
| | - | - | - | 2,885,000 | - | - | - | - |
| | - | - | - | 2,885,000 | 223,330 | (3,626,980) | - | (3,626,980) |
| | 5,722,859 | (3,955,367) | 424,768 | 35,359,478 | 223,330 | 70,340,804 | - | 70,340,804 |
| | - | - | - | - | - | 14,512,511 | - | 14,512,511 |
| | - | (3,253,429) | 414,578 | - | - | (2,699,088) | - | (2,699,088) |
| | - | - | - | - | - | 139,763 | - | 139,763 |
| | - | (3,253,429) | - | - | - | (3,253,429) | - | (3,253,429) |
| | - | - | 414,578 | - | - | 414,578 | - | 414,578 |
| | - | (3,253,429) | 414,578 | - | - | 11,813,423 | - | 11,813,423 |
| | - | - | - | - | - | 144,804 | - | 144,804 |
| | - | - | - | - | - | (4,142,319) | - | (4,142,319) |
| | - | - | - | - | - | (2,630,991) | - | (2,630,991) |
| | - | - | - | - | - | (175,400) | - | (175,400) |
| | - | - | - | - | - | (1,335,928) | - | (1,335,928) |
| | - | - | - | - | 196,952 | 196,952 | - | 196,952 |
| | - | - | - | 8,130,525 | - | - | - | - |
| | - | - | - | 8,130,525 | 196,952 | (3,800,563) | - | (3,800,563) |
| | 5,722,859 | (7,208,796) | 839,346 | 43,490,003 | 420,282 | 78,353,664 | - | 78,353,664 |

STATEMENT OF CASH FLOWS

| For the year ended December 31, | Note | GROUP | | BANK | |
|---|------|-------------------|--------------------|--------------------|--------------------|
| | | 2016 | 2015 | 2016 | 2015 |
| | | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Cash Flows from Operating Activities | | | | | |
| Profit before income tax | | 20,114,584 | 17,136,111 | 20,051,183 | 17,143,610 |
| Adjustments for: | | | | | |
| Non-cash items included in profit before tax | 65 | 2,778,203 | 5,995,738 | 2,612,274 | 5,769,102 |
| Change in operating assets | 66 | (131,952,287) | (96,144,998) | (126,779,462) | (95,259,038) |
| Change in operating liabilities | 67 | 117,122,450 | 85,616,406 | 111,259,187 | 84,528,957 |
| (Gains)/losses on sale of property, plant and equipment | 17 | (10,395) | 1,334 | (1,705) | 6,505 |
| Share of profits in associates, net of tax | 38 | (6,454) | (13,638) | - | - |
| Dividend income from subsidiaries and associates | 17 | - | - | (85,579) | (87,830) |
| Interest expense on subordinated liabilities | 13.2 | 1,535,349 | 823,267 | 1,533,934 | 786,953 |
| Net unrealised gains/(losses) arising from translating the Financial Statements of foreign operations | 57.4 | 438,565 | 886,677 | 414,578 | 888,844 |
| Profit due to change in ownership | 17 | - | - | (3,047) | (2,344) |
| Benefits paid on defined benefit plans | | (110,800) | (95,682) | (109,329) | (92,505) |
| Income tax paid | 47 | (4,014,741) | (3,376,261) | (3,966,831) | (3,271,753) |
| Super Gain tax paid | | - | (2,609,972) | - | (2,576,355) |
| Net cash from operating activities | | 5,894,474 | 8,218,982 | 4,925,203 | 7,834,146 |
| Cash Flows from Investing Activities | | | | | |
| Net purchase of property, plant & equipment | | (1,501,070) | (1,086,405) | (1,369,729) | (986,735) |
| Proceeds from sale of property, plant & equipment | | 32,168 | 20,377 | 11,958 | 9,206 |
| Purchase of financial investments | | (514,043) | (4,108,097) | (514,043) | (4,108,097) |
| Proceeds from sale and maturity of financial investments | | 1,628,487 | 1,502,107 | 1,628,487 | 1,502,107 |
| Net purchase of intangible assets | | (422,175) | (208,168) | (340,351) | (205,811) |
| Proceeds due to change in ownership | | 4,294 | 3,127 | 4,294 | 3,127 |
| Net cash flow from investment in subsidiaries and associates | | - | - | (1,184,707) | (63,152) |
| Dividends received from investments in subsidiaries and associates | 17 | 5,808 | 6,733 | 85,579 | 87,830 |
| Net cash (used in) investing activities | | (766,531) | (3,870,326) | (1,678,512) | (3,761,525) |
| Cash Flows from Financing Activities | | | | | |
| Net proceeds from issue of ordinary voting shares | | 135,582 | 237,304 | 135,582 | 237,304 |
| Proceeds from issue of subordinated liabilities | 52 | 13,179,430 | - | 13,179,430 | - |
| Redemption of subordinated liabilities | 52 | (987,660) | (200,000) | (972,660) | - |
| Interest paid on subordinated liabilities | | (1,298,062) | (809,778) | (1,296,647) | (770,666) |
| Dividend paid to non-controlling interest | 58 | (3,432) | (3,270) | - | - |
| Capital contribution from non-controlling interest of a newly incorporated subsidiary | 58 | 805,669 | - | - | - |
| Dividend paid to shareholders of the Bank | | (4,142,319) | (4,087,614) | (4,142,319) | (4,087,614) |
| Net cash from/(used in) financing activities | | 7,689,208 | (4,863,358) | 6,903,386 | (4,620,976) |
| Net increase/(decrease) in cash and cash equivalents | | 12,817,151 | (514,702) | 10,150,077 | (548,355) |
| Cash and cash equivalents as at January 01, | | 20,107,076 | 20,621,778 | 20,043,512 | 20,591,867 |
| Cash and cash equivalents as at December 31, | 27 | 32,924,227 | 20,107,076 | 30,193,589 | 20,043,512 |

The Notes appearing on pages 191 to 352 form an integral part of these Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

1. Reporting Entity

1.1. Corporate Information

Commercial Bank of Ceylon PLC (the 'Bank') is a public limited liability company listed on the Colombo Stock Exchange (CSE), incorporated on June 25, 1969 under the Companies Ordinance No. 51 of 1938, and domiciled in Sri Lanka. It is a licensed commercial bank regulated under the Banking Act No. 30 of 1988 and amendments thereto. The Bank was re-registered under the Companies Act No. 07 of 2007 on January 23, 2008,

under the Company Registration No. PQ 116. The registered office of the Bank is situated at 'Commercial House', No. 21, Sir Razik Fareed Mawatha, Colombo 01, Sri Lanka. The ordinary shares of the Bank have a primary listing on the CSE.

The staff strength of the Bank as at December 31, 2016 was 4,987 (4,951 as at December 31, 2015).

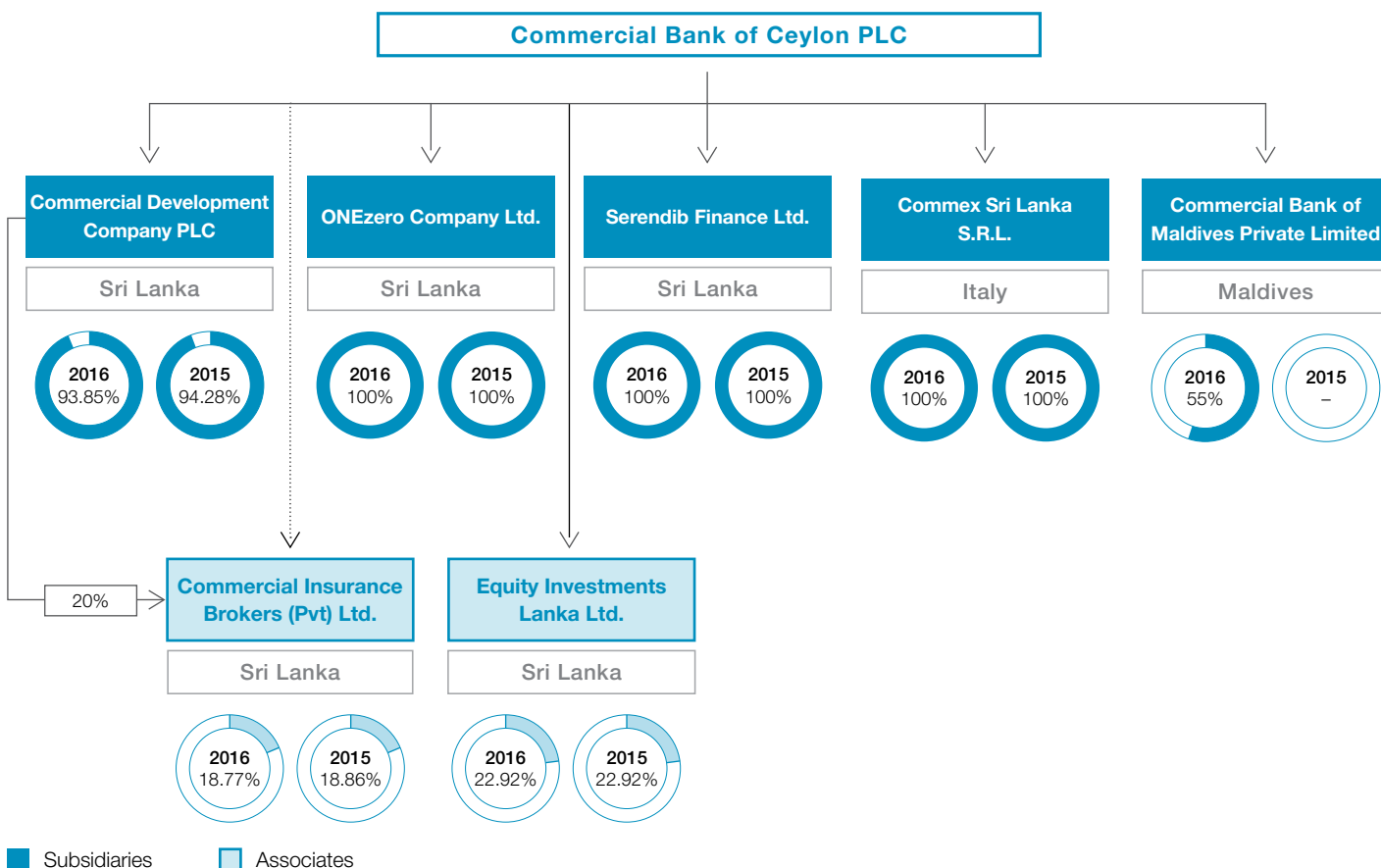
Corporate information is presented in the inner back cover of this Annual Report.

1.2 Consolidated Financial Statements

The Consolidated Financial Statements as at and for the year ended December 31, 2016, comprise the Bank (Parent Company) and its Subsidiaries (together referred to as the 'Group' and individually as 'Group entities') and the Group's interest in its Associates.

The Bank does not have an identifiable parent of its own. The Bank is the Ultimate Parent of the Group.

1.3 Principal Business Activities, Nature of Operations of the Group and Ownership by the Bank in its Subsidiaries and Associates



Commercial Bank of Ceylon PLC

The principal business activities of the Bank are providing a comprehensive range of financial services encompassing accepting deposits, personal banking, trade financing, off-shore banking, resident and non-resident foreign currency operations, travel-related services, corporate and retail credit, syndicated financing, project financing, development banking, lease financing, hire purchase financing, rural credit, issuing of local and international debit and credit cards, tele-banking, internet banking, mobile banking, money remittance facilities, dealing in Government Securities and treasury-related products, salary remittance package, bullion trading, export and domestic factoring, pawning, margin trading, e-Banking services, bancassurance and Islamic banking products and services, etc.

Commercial Development Company PLC (CDC)

Principal business activities of CDC are property development, related ancillary services and outsourcing of staff for non-critical functions of the Bank.

During 2015, the Board of Directors of the Bank resolved to reduce the shareholding of CDC, (in which the Bank had a stake of 94.55%) to comply with the requirements of the Listing Rule No. 7.13 of the CSE on Minimum Public Holding. Accordingly, the Bank disposed a part of shares through the CSE and reduced the shareholding in CDC to 93.85% by December 31, 2016 (94.28% by December 31, 2015) and is in the process of taking steps to dispose the required number of shares to adhere to the requirements of the Listing Rules.

CDC, holds a 20% stake of Commercial Insurance Brokers (Pvt) Ltd. The Bank has a significant influence over financial and operating activities of CIB though it effectively holds only 18.77% as at December 31, 2016 (18.86% as at December 31, 2015).

ONEzero Company Ltd.

The principal business activities being providing IT – related services.

Serendib Finance Ltd.

Principal business activities being providing financial services including leasing, hire purchase, loans, etc.

Commex Sri Lanka S.R.L.

Commex Sri Lanka S.R.L. inaugurated its money transfer operation during 2016 following the grant of a Money Transfer License from the Bank of Italy.

It operates as an agent to the Bank for opening of accounts, providing money transfer services, issuance and encashment of foreign currencies and travellers cheques, collecting applications for credit facilities and handling of ATM cards, etc.

Commercial Bank of Maldives Private Limited

Commercial Bank of Maldives Private Limited, a fully-fledged Tier-I Bank, inaugurated its banking operations in the Maldives on September 26, 2016. This is a Subsidiary of the Bank partnering with Treetop Investments Maldives.

The principal activities will include offering of an extensive range of banking and related financial services.

Equity Investments Lanka Ltd.

The principal activities include investment services, risk capital and venture capital management.

Commercial Insurance Brokers (Pvt) Ltd. (CIB)

CIB, a private limited liability company is an insurance broker registered with the Ministry of Finance in terms of legislation.

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

2. Basis of Accounting

2.1. Statement of Compliance

The consolidated Financial Statements of the Group and the separate Financial Statements of the Bank, have been prepared and presented in accordance with the Sri Lanka Accounting Standards (SLFRSs and LKASs), laid down by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and in compliance with the requirements of the Companies Act and the Banking Act and provide appropriate disclosures as required by the Listing Rules of the CSE. These Financial Statements, except for information on cash flows have been prepared following the accrual basis of accounting.

These SLFRSs and LKASs are available at www.casrilanka.com

The Group did not adopt any inappropriate accounting treatments, which are not in compliance with the requirements of the SLFRSs and LKASs, regulations governing the preparation and presentation of the Financial Statements.

Details of the Group's Significant Accounting Policies followed during the year are given in Notes 6 to 10 on pages 200 to 211.

The formats used in the preparation of the Financial Statements and the disclosures made therein also comply with the specified formats prescribed by the CBSL for the preparation, presentation and publication of Annual Audited Financial Statements of Licensed Commercial Banks.

2.2 Responsibility for Financial Statements

The Board of Directors of the Bank is responsible for the preparation and presentation of the Financial Statements of the Group and the Bank as per the provisions of the Companies Act No. 07 of 2007 and Sri Lanka Accounting Standards (SLFRSs and LKASs).

The Board of Directors acknowledges their responsibility for Financial Statements as set out in the 'Annual Report of the Board of Directors', 'Statement of Directors' Responsibility' and the certification on the Statement of Financial Position on pages 153, 164 and 185, respectively.

These Financial Statements include the following components:

- an Income Statement and a Statement of Profit or Loss and Other Comprehensive Income providing the information on the financial performance of the Group and the Bank for the year under review. Refer pages 183 and 184;
- a Statement of Financial Position providing the information on the financial position of the Group and the Bank as at the year end. Refer page 185;
- a Statement of Changes in Equity depicting all changes in shareholders' funds during the year under review of the Group and the Bank. Refer pages 186 to 189;
- a Statement of Cash Flows providing the information to the users, on the ability of the Group and the Bank to generate cash and cash equivalents and utilisation of those cash flows. Refer page 190;
- Notes to the Financial Statements comprising Significant Accounting Policies and other explanatory information. Refer pages 191 to 352.

2.3 Approval of Financial Statements by the Board of Directors

The Financial Statements of the Group and the Bank for the year ended December 31, 2016 (including comparatives for 2015), were approved and authorised for issue by the Board of Directors in accordance with Resolution of the Directors on February 22, 2017.

2.4 Basis of Measurement

The Financial Statements of the Group have been prepared on the historical cost basis except for the following material items stated in the Statement of Financial Position.

| Items | Basis of Measurement | Note No./s | Page/s |
|--|--|------------|-----------|
| Held-for-trading financial instruments including financial derivatives | Fair Value | 30 & 31 | 241 – 244 |
| Financial investments – Available-for-sale | Fair Value | 34 | 251 |
| Land and buildings | Measured at cost at the time of acquisition and subsequently at revalued amounts which are the fair values at the date of revaluation | 39 | 265 |
| Defined benefit obligation | Net liability for defined benefit obligations are recognised as the present value of the defined benefit obligation, less net total of the plan assets, plus unrecognised actuarial gains, less unrecognised past service cost and unrecognised actuarial losses | 50 | 286 |
| Equity settled share-based payment arrangements | Fair Value on grant date | 54 | 298 |

2.5 Going Concern Basis of Accounting

The Management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future.

Furthermore, the Management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the Financial Statements of the Group continue to be prepared on a going concern basis.

2.6 Functional and Presentation Currency

Items included in these Financial Statements are measured using the currency of the primary economic environment in which the Bank operates (the Functional Currency).

Each entity in the Group determines its own functional currency and items included in the Financial Statements of these entities are measured using that Functional Currency. There was no change in the Group's Presentation and Functional Currency during the year under review.

These Financial Statements are presented in Sri Lankan Rupees, the Group's Functional and Presentation Currency.

The information presented in US Dollars in the Section on 'Supplementary Information' on pages 434 and 435 does not form part of the Financial Statements and is made available solely for the information of stakeholders.

2.7 Presentation of Financial Statements

The assets and liabilities of the Group presented in the Statement of Financial Position are grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern.

No adjustments have been made for inflationary factors affecting the Financial Statements.

An analysis on recovery or settlement within 12 months and after more than 12 months from the Reporting date is presented in Note 62 on pages 308 and 309.

2.8 Rounding

The amounts in the Financial Statements have been rounded-off to the nearest Rupees thousands, except where otherwise indicated as permitted by the Sri Lanka Accounting Standard – LKAS 1 on 'Presentation of Financial Statements'.

2.9 Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position, only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the assets and settle the liabilities simultaneously. Income and expenses are not offset in the Income Statement, unless required or permitted by an Accounting Standard or Interpretation (issued by the International Financial Reporting Interpretations Committee and Standard Interpretations Committee) and as specifically disclosed in the Significant Accounting Policies of the Bank.

2.10 Materiality and Aggregation

Each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature or function are presented separately, unless they are immaterial as permitted by the Sri Lanka Accounting Standard – LKAS 1 on 'Presentation of Financial Statements' and amendments to the LKAS 1 on 'Disclosure Initiative' which was effective from January 01, 2016.

Notes to the Financial Statements are presented in a systematic manner which ensures the understandability and comparability of Financial Statements of the Group and the Bank. Understandability of the Financial Statements is not compromised by obscuring material information with immaterial information or by aggregating material items that have different natures or functions.

2.11 Comparative Information

Comparative information including quantitative, narrative and descriptive information is disclosed in respect of the previous period in the Financial Statements in order to enhance the understanding of

the current period's Financial Statements and to enhance the inter period comparability. The presentation and classification of the Financial Statements of the previous year are amended, where relevant for better presentation and to be comparable with those of the current year.

2.12 Use of Judgements and Estimates

In preparing the Financial Statements of the Group in conformity with SLFRSs and LKASs, the Management has made judgments, estimates and assumptions which affect the application of Accounting Policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively.

Significant areas of critical judgments, assumptions and estimation uncertainty, in applying Accounting Policies that have most significant effects on the amounts recognised in the Financial Statements of the Group are as follows:

A. Judgment

Information about judgments made in applying Accounting Policies that have the most significant effects on the amounts recognised in these Financial Statements is included in the following notes.

2.12.1 Determination of Control Over Investees

Management applies its judgment to determine whether the control indicators set out in Note 37 on page 260 indicates that the Group controls the investees.

2.12.2 Classification of Financial Assets and Liabilities

The Significant Accounting Policies of the Group provide scope for assets to be classified at inception into different accounting categories under certain circumstances.

- In classifying financial assets or liabilities at 'Fair value through profit or loss' (FVTPL), the Group has determined that it has met the criteria for this designation set out in Notes 30 and 31 on pages 240 to 241.

- In classifying financial assets as 'Held-to-maturity' (HTM), the Group has determined that it has both the positive intention and ability to hold the assets until their maturity date as required by Note 35 on page 257.
- In classifying financial assets as 'Available-for-sale' (AFS), the Group has determined that all non-derivative financial assets that are designated as available-for-sale or those financial assets not classified as loans and receivables, FVTPL or HTM be classified as AFS as set out in Note 34 on page 251.

B. Assumptions and Estimation Uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in material adjustments for the year ended December 31, 2016 are included in the following Notes.

2.12.3 Fair Value of Financial Instruments

The determination of fair values of financial assets and financial liabilities recorded on the Statement of Financial Position, for which there is no observable market price are determined using a variety of valuation techniques that include the use of mathematical models. The Group measures fair value using the fair value hierarchy that reflects the significance of input used in making measurements. Methodologies used for valuation of financial instruments and fair value hierarchy are stated in Note 26 on pages 233 to 238.

2.12.4 Impairment Losses on Loans and Receivables

The Group reviews its individually significant loans and advances at each Reporting date to assess whether an impairment loss should be provided in the Income Statement. In particular, the Management's judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss.

These estimates are based on assumptions about a number of factors and hence actual results may differ, resulting in future changes to the provisions made.

The individual impairment provision applies to financial assets evaluated individually for impairment and is based on Management's best estimate of the present value of the future cash flows that are expected to be received. In estimating these cash flows, Management makes judgments about a borrower's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable.

A collective impairment provision is established for:

- groups of homogeneous loans and advances that are not considered individually significant; and
- groups of assets that are individually significant but that were not found to be individually impaired

The collective provision for groups of homogeneous loans is established using statistical methods (such as, net flow rate methodology, risk migration analysis) or, a formula approach based on historical loss rate experience, using the statistical analysis of historical data on delinquency to estimate the amount of loss. Management applies judgment to ensure that the estimate of loss arrived at, on the basis of historical information is appropriately adjusted to reflect the economic conditions and portfolio factors as at the Reporting date. The loss rates are regularly reviewed against actual loss experience.

In assessing the need for collective impairment, Management considers factors such as credit quality (for example, loan to collateral ratio, level of restructured performing loans), portfolio size, concentrations and economic factors. To estimate the required allowance, assumptions are made to define how inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions (including policy rates, inflation, growth in Gross Domestic Product, sovereign rating, etc).

The accuracy of the provision depends on the model assumptions and parameters used in determining the collective provision.

Refer Note 18 on page 220 for details.

2.12.5 Impairment of Financial Investments – Available-for-Sale

The Group reviews the debt securities classified as available-for-sale investments at each Reporting date to assess whether they are impaired. This requires similar judgments as applied on the individual assessment of loans and advances.

The Group also records impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost along with the historical share price movements, duration and extent up to which the fair value of an investment is less than its cost.

Refer Note 7.1.10.2 on page 206 for details.

2.12.6 Impairment of Non-Financial Assets

The Group assesses whether there are any indicators of impairment for an asset or a cash generating unit (CGU) at each Reporting date or more frequently, if events or changes in circumstances necessitate to do so. This requires the estimation of the 'Value in use' of such individual assets or the CGUs. Estimating 'Value in use' requires the Management to make an estimate of the expected future cash flows from the asset or the CGU and also to select a suitable discount rate in order to calculate the present value of the relevant cash flows. This valuation requires the Group to make estimates about expected future cash flows and discount rates and hence, they are subject to uncertainty.

Refer Note 7.5 on page 207 for details.

2.12.7 Revaluation of Property, Plant & Equipment

The Group measures land and buildings at revalued amounts with changes in fair value being recognised in Equity through Other Comprehensive Income (OCI). The Group engages independent professional valuers to assess fair value of land and buildings. The key assumptions used to determine the fair value of the land and building and sensitivity analyses are provided in Note 39.5 (b) and 39.5 (c) on pages 271 to 275.

2.12.8 Useful Life-time of the Property, Plant & Equipment

The Group reviews the residual values, useful lives and methods of depreciation of Property, Plant & Equipment at each Reporting date. Judgment of the Management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

Refer Note 20 on page 222.

2.12.9 Deferred Tax Assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profit will be available and can be utilised against such tax losses. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax-planning strategies.

Refer Note 48 on page 283 for details.

2.12.10 Defined Benefit Obligation

The cost of the defined benefit plans determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates, future pension increases, etc. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

Refer Note 50 on pages 286 to 294 for the assumptions used.

2.12.11 Provisions for Liabilities, Commitments and Contingencies

The Group receives legal claims in the normal course of business. Management has made judgments as to the likelihood of any claim succeeding in making provisions. The time of concluding legal claims is uncertain, as is the amount of possible outflow of economic benefits. Timing and cost ultimately depends on the due processes in respective legal jurisdictions.

Information about significant areas of estimation uncertainty and critical judgments in applying Accounting Policies other than those stated above that have significant effects on the amounts

recognised in the Consolidated Financial Statements are described in Notes 7.9 to 7.15 on pages 209 to 210.

2.13 Events After the Reporting Period

Events after the Reporting period are those events, favourable and unfavourable, that occur between the Reporting date and the date when the Financial Statements are authorised for issue.

In this regard, all material and important events that occurred after the Reporting period have been considered and appropriate disclosures are made in Note 70 on page 352 where necessary.

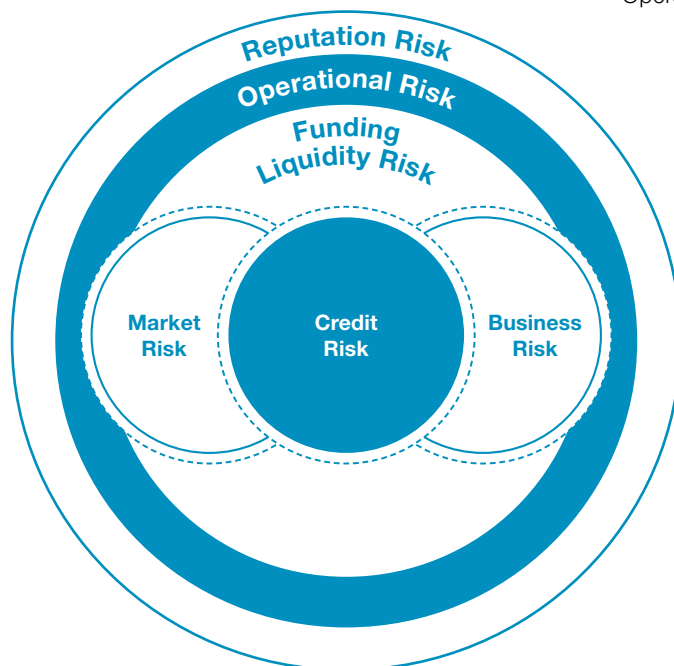
3. Financial Risk Management

3.1 Introduction and Overview

Risk is inherent in the Bank's activities, but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities.

The Group has exposure mainly to the following risks from financial instruments:

- Credit Risk;
- Market Risk;
- Liquidity Risk; and
- Operational Risk.



3.2 Bank's Risk Management Framework

The Board of Directors of the Bank has the overall responsibility for the establishment and oversight of the Bank's Risk Management Framework.

The Risk Management Policy of the Bank translates overall risk appetite on business activities in a holistic approach to provide

the guidance required for convergence of strategic and risk perspectives of the Bank.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The Risk Management Policy Framework constitutes

the Credit Policy, Lending Guidelines, ALM Policy including Liquidity Risk Policy, Foreign Exchange Policy, Operational Risk Policy, IT Risk Management Policy, Market Risk Management Policy, Stress Testing Policy, etc., which have been firmly established to provide control and guidance for decision making throughout the Bank in a uniform manner.

The Committee structure embedded to the system acts as a fact finding and decision making authority through meaningful discussions of multiple points of view. The Risk Management Committees effectively deliberate on matters at hand to provide guidance to the business lines with a view to managing risk in accordance with the strategic goals and risk appetite of the Bank.

The Board of Directors of the Bank has formed a mandatory Subcommittee namely, the Board Integrated Risk Management Committee (BIRMC) as per Banking Act Direction No. 11 of 2007 on Corporate Governance. The performance of the Committee and the duties and roles of members are reviewed by the Board annually.

The meetings of the Executive Integrated Risk Management Committee (EIRMC) are conducted on a monthly basis to discuss Credit and Operational risk matters of the Bank while priority is given for liquidity and market risks at the Assets and Liabilities Management Committee (ALCO) meetings that convene at least once a fortnight.

In addition, the Risk Management Department carries out semi-annual Bank-wide risk assessment function focusing on adherence to laws, regulations and regulatory guidelines as well as internal controls and approved policies. A dedicated Compliance Department is entrusted with the responsibility of monitoring these requirements on an ongoing basis.

Further, the Internal Audit function of the Bank independently monitors and evaluates the risk management function of the Bank and provides their views on adequacy of the Risk Management Framework to the Board Audit Committee.

Credit Risk

The risk that the Bank will incur a loss because its customers or counterparties fail to discharge their contractual obligations.

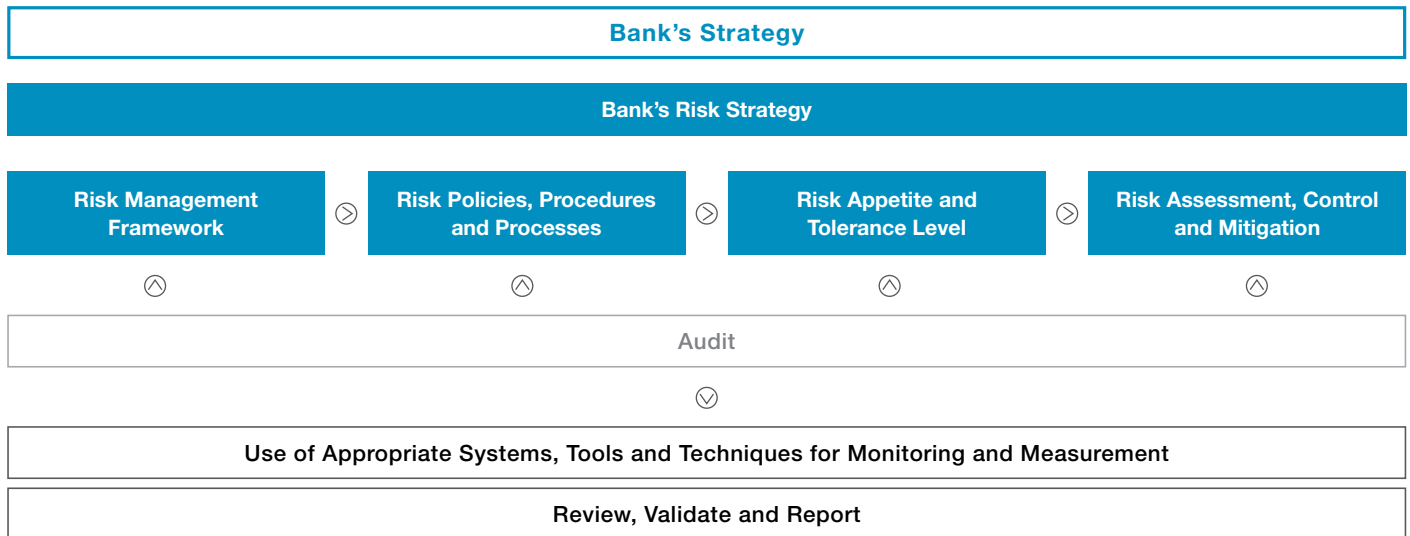
The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations and by monitoring exposures in relation to such limits.

Management of Credit Risk

Lending Guidelines of the Bank formulated in consultation with lending units provide expected granularity of credit assessment, risk grading, their acceptability of collateral, etc., as well as limits on exposures and concentration levels to various sectors, counter parties, geographies and segments.

A robust risk grading system incorporating Basel requirements of facility rating and counterparty rating are adopted by the Bank for evaluation of credit proposals.

Bank's Financial Risk Management Framework



This risk grading framework consists 10 grades of varying degrees of risk as indicators for the Lending Officers to evaluate and arrive at suitable risk-reward trade-offs in their propositions. These risk grades are reviewed by the Integrated Risk Management Department regularly.

Portfolio level credit risk analyses are taken up at monthly EIRMC as well as quarterly BIRMC meetings. Individual credit proposals evaluated by the Lending Officers are approved by the Authorising Officers within the hierarchy in Delegated Authority Levels whilst ensuring a minimum of four eyes principle when approving any lending proposals. Escalation of approving levels occurs based on exposure levels as well as final risk ratings of borrowers.

The Executive Credit Committee (ECC) and the Board Credit Committee (BCC) are entrusted with approval of high value facilities while the Board will be the ultimate authority for approving facilities beyond predetermined threshold levels. Deliberations take place at BCC level on facilities taken up for approval within the specified threshold and recommendation for approval of the Board based on quantum of exposures proposed is exercised.

The Integrated Risk Management Department provides risk approval for individual proposals above predetermined threshold levels, consequent to a rigorous independent risk evaluation guided by Credit Policy, Lending Guidelines and circular instructions within a limit framework stemming from risk appetite of the Bank.

Market Risk

The risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices. The Bank classifies exposures to market risk into either trading or non-trading portfolios and manages each of those portfolios separately.

The market risk for the trading portfolio is monitored and managed closely.

Management of Market Risk

Market Risk Policy, ALCO Policy and Foreign Exchange Risk Policy are the three main policies that constitute the framework governing the Market Risk Management function of the Bank.

Due to the business model adopted by the Bank, exposure to equity and commodity risk was kept at bay throughout the year.

However, Interest Rate Risk arising from the Banking Book as well as Trading Book and Foreign Exchange Risk arising from dealing in currencies other than local currency, continued to expose the Bank to associated risk elements.

Volatile interest scenarios experienced by the country during the period impacted the financial market in Sri Lanka resulted in shrinking Net Interest Margin. Interest Rates of the Banking Book was subjected to varying degrees of rate shocks to identify impact on earnings perspective in such rate scenarios. The results reflected predictions which assisted the Bank in formulating strategies to manage the financial position in an effective manner with the limited choices available.

Trading Book too was subjected to Value at Risk (VaR) framework as described in the, Section on 'Managing Risk: An Overview' on pages 172 to 175. The Bank also carried out sensitivity analysis on a regular basis to ascertain the impact on portfolios maintained, mainly in Government Securities and marking to market such portfolios to reflect fair value for decision making process.

Foreign exchange positions were maintained within the regulatory framework in a market where much volatility was observed in the major currency that the Bank deals in, i.e. US Dollars. The positions were subjected to sensitivity analysis to provide insight to possible losses/gains arising from currency appreciation/depreciation, as the reporting currency of the Bank being Sri Lankan Rupees.

Liquidity Risk

The risk that the Bank will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Bank might be unable to meet its payment obligations when they fall due under both normal and stress circumstances.

To limit this risk, Management has arranged for diversified funding sources in addition to its core deposit base and adopted a policy of managing assets with liquidity in mind and monitoring future cash flows and liquidity on a daily basis. The Bank has developed internal control processes and contingency plans for managing liquidity risk. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding, if required.

Management of Liquidity Risk

Market Risk Management Policy and the ALCO Policy of the Bank approved by the Board of Directors set the tone for managing liquidity risk of the Bank. Liquidity risk of the Bank is given utmost priority when managing a wide range of other risks due to the fact that it is considered as the most critical risk for any financial institution.

The Bank's Treasury Department is entrusted with managing liquidity of the Bank on real time basis to ensure smooth functioning of business activities of all other business units of the Bank.

Having access to a substantial stable Current Account and Savings Account (CASA) base due to its wide branch network and the top of the mind perception created in the depositors in general, for stability provides immense strength to the Bank in managing liquidity.

Having high quality liquid assets at the disposal of the Bank is another plus factor for the Bank. The strength of such was amply reflected in the new Basel III parallel computation the Bank carries out for arriving at Liquidity Coverage Ratio as per the CBSL Guidelines that recorded very healthy results as compared to regulatory minimum threshold levels.

Contingency funding plans available, constant monitoring of salient liquidity ratios and scenario based stress testing being carried out regularly, provide the sense of Bank with required indicators enabling the Bank to take proactive measures that could provide time to overcome any adverse liquidity position on a future date.

Operational Risk

The risk that the Bank will incur a loss due to systems failure, human error, fraud or external events. When controls fail to operate effectively, operational risks can cause damage to reputation, have legal or regulatory implications or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but it endeavours to manage these risks through a control framework and by monitoring and responding to potential risks.

Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, such as the use of internal audit.

Management of Operational Risk

Sound Operational Risk Management practices are embedded into the work process through the Bank's culture, internal policy framework and as per regulatory requirements.

Circular instructions and Operational Risk Management Policy play a major part in bringing together business practices with accepted benchmarks to ensure minimum disruption to processes, personnel, technology and infrastructure.

Internal control framework and Audit function with firmly established 'three lines of defences' serve the Bank to manage Operational Risk at current acceptable levels.

Risk and Control Self-Assessment (RCSA) framework is adopted to identify risks involved in business activities of the Bank and to implement appropriate mitigatory measures after assessing criticality of such risks.

IT Risk of the Bank is managed through strict monitoring of Key IT Risk Indicators while Vulnerability Assessment and Penetration Tests are being carried out by both internal and external parties at regular intervals to identify the relevant risks.

Refer Note 69 on pages 321 to 352 for 'Financial Risk Review'.

A detailed write-up on how the risk management is carried out within the Bank's Risk Management Framework with due consideration given to factors such as governance, identification, assessment, monitoring, reporting and mitigation are discussed in detail in the section on 'Managing Risk: An Overview' on pages 172 to 175. The said write-up on 'Managing Risk: An Overview' does not form part of the Financial Statement.

4. Fair Value Measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When one is available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted pricing in an active market, then the Group uses valuation techniques that maximise the use of

relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The fair value of an asset or a liability is measured using the assumptions that market participants would use the fair value hierarchy when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the Reporting period during which the change has occurred.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. External professional valuers are involved for valuation of significant assets such as land and building.

An analysis of fair value measurement of financial and non-financial assets and liabilities is provided in Note 26 on pages 233 to 238.

5. Changes in Accounting Policies

The Group and the Bank has consistently applied the Accounting Policies as set out in Notes 6 to 10 on pages 200 to 211 to all periods presented in these Financial Statements.

Significant Accounting Policies

The Significant Accounting Policies set out below have been applied consistently to all periods presented in the Financial Statements of the Group, unless otherwise indicated.

These Accounting Policies have been applied consistently by Group entities.

Set out below is an index of Significant Accounting Policies, the details of which are available on the pages that follow:

| Note | Description | Reference to the Note | Page No. |
|------------|--|-----------------------|----------|
| 6. | Significant Accounting Policies – General | | 200 |
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6. Significant Accounting Policies – General

6.1 Basis of Consolidation

The Group's Financial Statements comprise, Consolidated Financial Statements of the Bank and its Subsidiaries in terms of the Sri Lanka Accounting Standard – SLFRS 10 on 'Consolidated Financial Statements' and the proportionate share of the profit or loss and net assets of its Associates in terms of the Sri Lanka Accounting Standard – LKAS 28 on 'Investments in Associates and Joint Ventures'. The Bank's Financial Statements comprise the amalgamation of the Financial Statements of the Domestic Banking Unit, the Off-Shore Banking Centre and the international operations of the Bank.

6.1.1 Business Combinations

Business combinations are accounted for using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition and identifiable net assets acquired are measured at fair value. Any goodwill that arises is tested annually for impairment (Refer Note 7.5 on page 207). Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if they are related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not re-measured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

6.1.2 Non-Controlling Interests (NCI)

Details of NCI are given in Note 58 on page 304.

6.1.3 Subsidiaries

Details of the Bank's Subsidiaries and their contingencies are set out in Notes 37 and 59.4 (a) on pages 260 to 262 and 306.

6.1.4 Loss of Control

When the Group loses control over a Subsidiary, it derecognises the assets and liabilities of the Subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Subsequently, it is accounted for as an Associate or in accordance with the Group's Accounting Policy for financial instruments depending on the level of influence retained.

6.1.5 Associates

Details of Associates together with their fair values and the Group's share of contingent liabilities of such Associates are set out in Notes 38 and 59.4 (b) on pages 262 to 264 and 306.

6.1.6 Transactions Eliminated on Consolidation

Intra-group balances, transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions are eliminated in preparing the Consolidated Financial Statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

6.1.7 Material Gains or Losses, Provisional Values or Error Corrections

There were no material gains or losses, provisional values or error corrections recognised during the year in respect of business combinations that took place in previous periods.

6.2 Foreign Currency

6.2.1 Foreign Currency Transactions and Balances

Foreign currency transactions are translated into the Functional Currency, which is Sri Lankan Rupees, using the exchange rates prevailing at the dates of the transactions. In this regard, the Bank's practice is to use the middle rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies as at the Reporting date are translated into the Functional Currency at the middle exchange rate of the Functional Currency ruling as at the Reporting date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the Functional Currency as at the beginning of the year adjusted for effective interest and payments during the year and the amortised cost in foreign currency translated at the exchange rate as at the Reporting date.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated into the Functional Currency at the spot exchange rate at the date that the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the transaction.

Foreign currency differences arising on translation are generally recognised in profit or loss. However, foreign currency differences arising from the translation of the following items are recognised in OCI:

- Available-for-sale equity instruments; or
- A financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; and
- Qualifying cash flow hedges to the extent that the hedge is effective.

6.2.2 Foreign Currency Translations

The Group's Consolidated Financial Statements are presented in Sri Lankan Rupees, which is also the Bank's Functional Currency. The Financial Statements of the Off-Shore Banking Centre of the Bank and the Financial Statements of the Foreign Operations of the Bank have been translated into the Group's Presentation Currency as explained under Notes 6.2.3 and 6.2.4 below.

6.2.3 Transactions of the Off-Shore Banking Centre

These are recorded in accordance with Note 6.2.1 above, except the application of the annual weighted average exchange rate for translation of the Income Statement and the Statement of Profit or Loss and Other Comprehensive Income. Net gains and losses are dealt through the Profit or Loss.

6.2.4 Foreign Operations

The results and financial position of overseas operations that have a Functional Currency different from the Bank's Presentation Currency are translated into the Bank's Presentation Currency as follows:

- Assets and liabilities, including goodwill and fair value adjustments arising on acquisition, are translated at the rates of exchange ruling as at the Reporting date.
- Income and expenses are translated at the average exchange rate for the period, unless this average rate is not a reasonable approximation of the rate prevailing at the transaction date, in which case income and expenses are translated at the exchange rates ruling at the transaction date.
- All resulting exchange differences are recognised in the OCI and accumulated in the Foreign Currency Translation Reserve (Translation Reserve), which is a separate component of Equity, except to the extent that the translation difference is allocated to the NCI.

When a Foreign Operation is disposed of such that the control is lost, the cumulative amount in the Translation Reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. If the Group disposes of only part of its interest in a subsidiary that includes a Foreign Operation while retaining control, then the relevant proportion of the cumulative amount of the Translation Reserve is reattributed to NCI.

7. Significant Accounting Policies – Recognition of Assets and Liabilities

7.1 Financial Instruments – Initial Recognition, Classification and Subsequent Measurement

7.1.1 Date of Recognition

The Group initially recognises loans and advances, deposits and subordinated liabilities, etc. on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Group becomes a party to the contractual provisions of the instrument.

7.1.2 Initial Measurement of Financial Instruments

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the Management's intention in acquiring them. (Please refer Notes 7.1.3 and 7.1.4 for further details on classification of financial instruments).

All financial instruments are measured initially at their fair value plus transaction costs that are directly attributable to acquisition or issue of such financial instrument, except in the case of financial assets and financial liabilities at fair value through profit or loss as per the Sri Lanka Accounting Standard – LKAS 39 on 'Financial Instruments: Recognition and Measurement'.

Transaction cost in relation to financial assets and financial liabilities at fair value through profit or loss are dealt with through the Income Statement.

7.1.2.1 'Day 1' Profit or Loss on Employee Below Market Loans

When the transaction price differs from the fair value of other observable current market transactions in the same instrument, or based on a valuation technique whose variables include only data from observable markets, the Group recognises the difference between the transaction price and fair value (a 'Day 1' profit or loss) in 'Interest Income and Personnel Expenses'. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the profit or loss when the inputs become observable, or when the instrument is derecognised. The 'Day 1 loss' arising in the case of loans granted to employees at concessionary rates under uniformly applicable schemes is deferred and amortised using Effective Interest Rates (EIR) over the remaining service period of the employees or tenure of the loan whichever is shorter.

Refer Note 8.1 on page 210.

7.1.3 Classification and Subsequent Measurement of Financial Assets

Group classifies financial assets into one of the following categories:

- Financial assets at fair value through profit or loss, and within this category as –
 - held-for-trading; or
 - designated at fair value through profit or loss;
- Loans and receivables;
- Held-to-maturity; and
- Available-for-sale.

The subsequent measurement of financial assets depends on their classification.

Please refer Note 25 on pages 229 to 232 for details on different types of financial assets recognised on the Statement of Financial Position.

7.1.3.1 Financial Assets at Fair Value through Profit or Loss

Financial assets at fair value through profit or loss include financial assets held-for-trading and financial assets designated upon initial recognition at fair value through profit or loss which are discussed in Notes 7.1.3.1.1 and 7.1.3.1.2 below:

7.1.3.1.1 Financial Assets – Held-for-Trading

Details of 'Financial assets – Held-for-trading' are given in Note 31 on pages 241 to 244.

Derivatives Recorded at Fair Value through Profit or Loss

Details of 'Derivative financial assets' recorded at fair value through profit or loss are given in Note 30 on page 240.

7.1.3.1.2 Financial Assets Designated at Fair Value through Profit or Loss

The Group designates financial assets at fair value through profit or loss in the following circumstances:

- the assets are managed, evaluated and reported internally on a fair value basis; or
- the designation eliminates or significantly reduces an accounting mismatch, which would otherwise have arisen; or
- the asset contains an embedded derivative that significantly modifies the cash flows which would otherwise have been required under the contract.

Financial assets designated at fair value through profit or loss are recorded in the Statement of Financial Position at fair value. Changes in fair value are recorded in 'Net gain or loss on financial assets and liabilities designated at fair value through profit or loss'. Interest earned is accrued in 'Interest Income', using the EIR, while dividend income is recorded in 'other operating income' when the right to receive the payment has been established.

The Group has not designated any financial assets upon initial recognition as at fair value through profit or loss.

7.1.3.1.3 Embedded Derivatives

Derivatives may be embedded in another contractual arrangement (a host contract). The Group accounts for an embedded derivative separately from the host contract when:

- the host contract was not itself carried at Fair Value through Profit or Loss;
- the terms of the embedded derivative would have met the definition of a derivative if they were contained in a separate contract; and
- the economic characteristics and risks of the embedded derivative were not closely related to the economic characteristics and risks of the host contract.

Separated embedded derivatives are measured at fair value, with all changes in fair value recognised in profit or loss unless they formed part of a qualifying cash flow or net investment hedging relationship. Separated embedded derivatives are presented in the Statement of Financial Position together with the host contract.

7.1.3.2 Loans and Receivables to Banks and Other Customers

Loans and receivable to banks and other customers include amounts due from banks, loans & advances and lease receivable of the Group.

Details of 'Loans and receivables to banks and other customers' are given in Notes 32 and 33 on pages 244 to 251.

7.1.3.2.1 Securities Purchased Under Resale Agreements (Reverse Repos)

When the Group purchases a financial asset and simultaneously enters into an agreement to resale the asset (or a similar asset) at a fixed price on a future date (Reverse Repo), the arrangement is accounted for as a financial asset in the Statement of Financial Position reflecting the transaction's economic substance as a loan granted by the Group. Subsequent to initial recognition, these securities issued are measured at amortised cost using the EIR with the corresponding interest receivable being recognised as interest income in profit or loss.

Details of 'Securities purchased under resale agreements' are given in the Statement of Financial Position on page 185.

7.1.3.3 Other Financial Investments Classified as Loans and Receivables

Details of 'Financial investments - Loans and receivables' are given in Note 36 on pages 258 to 260.

7.1.3.4 Financial Investments – Available-for-Sale

Details of 'Financial investments – Available-for-sale' are given in Note 34 on pages 251 to 257.

7.1.3.5 Financial Investments – Held-to-Maturity

Details of 'Financial investments – Held-to-maturity' are given in Note 35 on page 257.

7.1.3.6 Cash and Cash Equivalents

Details of 'Cash and cash equivalents' are given in Note 27 to the Financial Statements on page 238.

7.1.3.7 Balances with Central Banks

Details of 'Balances with Central Banks' are given in Note 28 to the Financial Statements on pages 238 and 239.

7.1.4 Classification and Subsequent Measurement of Financial Liabilities

Group classifies financial liabilities into one of the following categories:

- Financial liabilities at fair value through profit or loss, and within this category as –
 - Held-for-trading; or
 - Designated at fair value through profit or loss;
- Financial liabilities at amortised cost.

The subsequent measurement of financial liabilities depends on their classification.

Please refer Notes 7.1.4.1 and 7.1.4.2 as detailed below:

7.1.4.1 Financial Liabilities at Fair Value through Profit or Loss

Financial liabilities at fair value through profit or loss include financial liabilities held-for-trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Refer Notes 7.1.4.1.1 and 7.1.4.1.2 below:

7.1.4.1.1 Financial Liabilities Held-for-Trading

Details of 'Derivative financial liabilities' are given in Note 44 on page 281.

7.1.4.1.2 Financial Liabilities Designated at Fair Value through Profit or Loss

Financial liabilities designated at fair value through profit or loss are recorded in the Statement of Financial Position at fair value. Changes in fair value are recorded in 'Net gain or loss on financial assets and liabilities designated at fair value through profit or loss'. Interest paid/payable is accrued in 'Interest expense', using the EIR.

The Group has not designated any financial liabilities upon initial recognition as at fair value through profit or loss.

7.1.4.2 Financial Liabilities at Amortised Cost

Financial instruments issued by the Group that are not designated at fair value through profit or loss are classified as liabilities under 'Due to banks', 'Due to Other Customers/ Deposits from Customers', 'Securities sold under repurchase agreements', or 'Subordinated liabilities' as appropriate, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument.

After initial recognition, such financial liabilities are subsequently measured at amortised cost using the EIR method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR.

The EIR amortisation is included in 'Interest expense' in the Income Statement. Gains and losses too are recognised in the Income Statement when the liabilities are derecognised as well as through the EIR amortisation process.

7.1.4.2.1 Due to Banks

Details of the 'Due to banks' are given in Note 43 on page 280.

7.1.4.2.2 Due to Other Customers/ Deposits from Customers

Details of 'Due to other customers/ deposits from customers' are given in Note 45 on pages 281 and 282.

7.1.4.2.3 Subordinated Liabilities

Details of 'Subordinated liabilities' are given in Note 52 on pages 294 and 295.

7.1.4.2.4 Securities Sold Under Repurchase Agreements (Repos)

When the Group sells a financial asset and simultaneously enters into an agreement to repurchase the asset (or a similar asset) at a fixed price on a future date (Repos), the arrangement is accounted for as a financial liability in the Statement of Financial Position reflecting the transaction's economic substance as a deposit. Subsequent to initial recognition, these securities are measured at amortised cost using the EIR with the corresponding interest payable being recognised as interest expense in profit or loss.

Details of 'Securities sold under repurchase agreements (Repos)' are given in the Statement of Financial Position on page 185.

7.1.5 Reclassification of Financial Assets and Liabilities

Financial assets are not re classified subsequent to their initial recognition, except in the period after the Group

changes its business model for managing financial assets. The Group reclassifies financial assets and liabilities into and out of the different categories of financial instruments as permitted by the Sri Lanka Accounting Standard – LKAS 39 on 'Financial Instruments: Recognition and Measurement'.

7.1.5.1 Reclassification of Financial Instruments at 'Fair value through profit or loss'

The Group does not reclassify financial instruments out of the fair value through profit or loss category while it is held or issued. Non-derivative financial assets and liabilities designated at fair value through profit or loss upon initial recognition are not reclassified subsequently out of fair value through profit or loss category.

The Group may in rare circumstances, reclassify financial instruments out fair value through profit or loss category, if such instruments are no longer held for the purpose of selling or repurchasing in the near term notwithstanding that such financial instruments may have been acquired for the purpose of selling or repurchasing in the near term.

Financial assets classified as fair value through profit or loss at the initial recognition which would have also met the definition of 'loans and receivable' as at that date is reclassified out of the fair value through profit or loss category only if the Group has the intention or ability to hold such asset for the foreseeable future or until maturity.

Fair value of financial instrument at the date of reclassification becomes the new cost or new amortised cost of the financial instrument. Any gain or loss already recognised in respect of the reclassified financial instrument until the date of reclassification is not reversed to the Income Statement.

If financial asset is reclassified and if the Group subsequently increases its estimate of future cash receipts as a result of increased recoverability of those cash receipts, the effect of such increase is recognised as an adjustments to the EIR from the date of the change in estimate

rather than an adjustment to the carrying amount of the asset at the date of change in estimates.

The Group does not reclassify any financial instrument into the 'Fair value through profit or loss' category after initial recognition.

7.1.5.2 Reclassification of Financial Investments – Available-for-Sale

The Group may reclassify financial investments out of available-for-sale category as a result of change in intention or ability or in rare circumstances that a reliable measure of fair value is no longer available.

For a financial asset with a fixed maturity reclassified out of the 'available-for-sale' category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the asset using the EIR. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the EIR. In the case of a financial asset that does not have a fixed maturity, the gain or loss is recognised in the profit or loss when such financial asset is sold or disposed of. If the financial asset is subsequently determined to be impaired, then the amount recorded in equity is recycled to profit or loss. If a financial asset is reclassified and if the Group subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate.

7.1.5.3 Reclassification of Financial Investments – Held-to-Maturity

As a result of a change in intention or ability, if it is no longer appropriate to classify an investment as held-to-maturity, Group may reclassify such financial asset as available-for-sale and remeasured at fair value. Any difference between the carrying value of the financial asset before reclassification and fair value is recognised in equity through other comprehensive income (OCI).

However, if the Group were to sell or reclassify more than an insignificant amount of held-to-maturity financial investments before maturity (other than in certain specific circumstances permitted in the Sri Lanka Accounting Standard – LKAS 39 on ‘Financial Instruments: Recognition and Measurement’), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Group would be prohibited from classifying any financial asset as held-to-maturity during the following two years.

The above reclassifications at the election of the Management and is determined on an instrument-by-instrument basis.

7.1.6 Derecognition of Financial Assets and Financial Liabilities

7.1.6.1 Financial Assets

The Group derecognises a financial asset (or where applicable a part of thereof) when the contractual rights to the cash flows from the financial asset expire or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

The Group enters into transactions whereby it transfers assets recognised on its Statement of Financial Position, but retains either all or substantially all risks and rewards of the transferred assets or a portion of them. In such cases, the

transferred assets are not derecognised. Examples of such transactions are securities lending and sale and repurchase transactions.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale and repurchase transactions because the Group retains all or substantially all risks and rewards of ownership of such assets.

When the Group has transferred its right to receive cash flows from an asset or has entered into a pass-through arrangement and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group’s continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on the basis that reflected the rights and obligations that the Group has retained.

In certain transactions, the Group retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised, if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract, if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

7.1.6.2 Financial Liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

7.1.7 Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Income and expenses are presented on a net basis only when permitted under SLFRSs, or for gains and losses arising from a group of similar transactions such as in the Group’s trading activity.

7.1.8 Amortised Cost Measurement

An ‘amortised cost’ of a financial asset or financial liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the EIR method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

7.1.9 Fair Value of Financial Instruments

Fair value measurement of financial instruments including the fair value hierarchy is explained in Notes 4 and 26 on pages 199 and 233.

7.1.10 Identification and Measurement of Impairment of Financial Assets

At each Reporting date, the Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is ‘impaired’ when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s) and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include:

- significant financial difficulty of the borrower or issuer;
- reschedulement of credit facilities;
- default or delinquency by a borrower;
- restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider;
- indications that a borrower or issuer will enter bankruptcy;
- the disappearance of an active market for a security; or
- other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the Group or economic conditions that correlate with defaults in the Group.

In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is considered as an objective evidence of impairment.

7.1.10.1 Impairment of Financial Assets Carried at Amortised Cost

Details of the individual and collective assessment of impairments are given in Note 18 on pages 220 to 222.

7.1.10.2 Impairment of Financial Investments – Available-for-Sale

For available-for-sale financial investments, the Group assesses at each Reporting date whether there is objective evidence that an investment is impaired.

In the case of debt instruments classified as available-for-sale, the Group assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss. Future interest income is based on the reduced carrying amount/impaired balance and is accrued using the rate

of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income on such assets is also recorded within 'Interest income'.

In the case of equity investments classified as available-for-sale, objective evidence would also include a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. In general, the Group considers a decline of 20% to be 'significant' and a period of nine months to be 'prolonged'. However, in specific circumstances a smaller decline or a shorter period may be appropriate. Where there is evidence of impairment, the cumulative impairment loss on that investment previously recognised in Equity through the OCI is removed from Equity and charged to profit or loss.

If, in a subsequent period, the fair value of an impaired available-for-sale debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, then such impairment loss is reversed through profit or loss; otherwise, any increase in fair value is recognised through OCI. Any subsequent recovery in the fair value of an available-for-sale equity instrument is always recognised in OCI.

The Group writes-off certain financial investments – available-for-sale, either partially or in full and any related provision for impairment losses, when the Group determines that there is no realistic prospect of recovery.

7.2 Non-Current Assets Held-for-Sale and Disposal Groups

The Group intends to recover the value of Non-current Assets and disposal groups classified as held-for-sale as at the Reporting date principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available-for-sale in its present condition, Management has committed to the sale and the sale is expected to have been completed within one year from the date of classification.

As per the Sri Lanka Accounting Standard – SLFRS 5 on 'Non-current Assets Held-for-Sale and Discontinued Operations', these assets are measured at the lower of the carrying amount and fair value, less costs to sell. Thereafter, the Group assesses at each Reporting date or more frequently if events or changes in circumstances indicate that the investment or a group of investment is impaired. The Group recognises an impairment loss for any initial or subsequent write down of the assets to fair value less costs to sell and also recognises a gain for any subsequent increase in fair value less costs to sell of an asset, only to the extent of the cumulative impairment losses that have been recognised previously. Impairment loss is first allocated to goodwill, and then to the remaining assets and liabilities on a *pro rata* basis, except that no loss is allocated to financial assets, deferred tax assets or employee benefit assets which continue to be measured in accordance with the Group's other accounting policies. As a result, once classified, the Group neither amortises nor depreciates the assets classified as held-for-sale.

In the Income Statement of the Reporting period and of the comparable period of the previous year, income and expenses from discontinued operations are reported separately from income and expenses from continuing operations, down to the level of profit after taxes, even when the Group retains a NCI in a Subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately in the Income Statement.

7.3 Property, Plant & Equipment

Details of 'Property, Plant & Equipment' are given in Note 39 on pages 265 to 276.

7.3.1 Depreciation

Details of 'Depreciation' are given in Note 20 on pages 222 and 223.

7.3.2 Borrowing Costs

As per the Sri Lanka Accounting Standard – LKAS 23 on ‘Borrowing Costs’, the Group capitalises borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of the asset. A qualifying asset is an asset which takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are recognised in the profit or loss in the period in which they occur.

7.4 Intangible Assets

Details of ‘Intangible assets’ are given in Note 40 on pages 277 to 279.

Amortisation recognised during the year in respect of intangible assets is included under the item of ‘Amortisation of intangible assets’ under ‘Depreciation and amortisation’ in profit or loss.

Refer Note 20 on pages 222 and 223.

7.5 Impairment of Non-Financial Assets

At each Reporting date, the Group reviews the carrying amounts of its non-financial assets (other than investment properties and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset’s recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The ‘recoverable amount’ of an asset or CGU is the greater of its value in use and its fair value less costs to sell. ‘Value in use’ is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

The Group’s corporate assets do not generate separate cash inflows and are used by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGUs to which the corporate assets are allocated.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a *pro rata* basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

7.6 Dividends Payable

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are recommended and declared by the Board of Directors and approved by the shareholders. Interim dividends are deducted from Equity when they are declared and no longer at the discretion of the Bank.

Dividends for the year, that are approved after the Reporting date and not provided for, are disclosed as an event after the Reporting period in accordance with the Sri Lanka Accounting Standard – LKAS 10 on ‘Events after the Reporting Period’ in Note 70.1 on page 352.

7.7 Employee Benefits

7.7.1 Defined Benefit Plans (DBPs)

A Defined Benefit Plan is a post-employment benefit plan other than a Defined Contribution Plan as defined in the Sri Lanka Accounting Standard – LKAS 19 on ‘Employee Benefits’.

7.7.1.1 Defined Benefit Pension Plans

7.7.1.1.1 Description of the Plans and Employee Groups Covered

The Bank operates three types of Defined Benefit Pension Plans for its employees as described below:

(a) The Bank has an approved Pension Fund, which was established in 1992. As per the Deed of Trust, only those employees who were less than 45 years of age as at January 01, 1992 were covered by the Pension Fund in order to leave a minimum contribution for a period of 10 years before they are eligible to draw pension from the Pension Fund. Further, only the employees who joined the Bank on or before December 31, 2001, were in pensionable service of the Bank;

During 2006, the Bank offered a restructured pension scheme to convert the Defined Benefit Plan (DBP) to a Defined Contribution Plan (DCP) for the pensionable employees of the Bank and over 99% of them accepted it. As a result, the above Pension Fund now covers only those employees who did not opt for the restructured pension scheme and those employees who were covered by the Pension Fund previously but retired before the restructured pension scheme came into effect;

(b) Provision for pensions has been made for those employees who retired on or before December 31, 2001, and on whose behalf the Bank could not make contributions to the Retirement Pension Fund for more than 10 years. This liability although not funded has been provided for in full in the Financial Statements;

(c) Provision has been made in the Financial Statements for Retirement Gratuity from the first year of service for all employees who joined the Bank on or after January 01, 2002, as they are not in pensionable service of the Bank under either the DBP or DCP. However, if any of these employees resign before retirement, the Bank is liable to pay gratuity to such employees. This liability although not funded has been provided for in full in the Financial Statements.

The Subsidiaries of the Bank do not operate Pension Funds.

The Bank's net obligation in respect of Defined Benefit Pension Plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets, as per the Sri Lanka Accounting Standard – LKAS 19 on 'Employee Benefits' as detailed in Note 50 on pages 286 to 294.

The past service cost is recognised as an expense on a straight-line basis over the period until the benefits become vested. If the benefits are already vested following the introduction of, or changes to, a pension plan, past service cost is recognised immediately.

7.7.1.1.2 Recognition of Actuarial Gains or Losses

Actuarial gains or losses are recognised in the OCI in the period in which they arise.

7.7.1.1.3 Recognition of Retirement Benefit Obligation

The defined benefit asset or liability comprises the present value of the defined benefit obligation, less past service cost not yet recognised and less the fair value of plan assets out of which the obligations are to be settled directly. The value of any asset is restricted to the sum of any past service cost not yet recognised and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the Projected Unit Credit Method. When the calculation results in a potential asset for the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurement of the net defined benefit liability, which comprises actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in OCI. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then net-defined benefit liability (asset), taking into account any changes in the net-defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

Amounts recognised in profit or loss as expenses on DBPs and provisions made on DBPs together with the details of valuation methods are given in Notes 19 and 50 on pages 222 and 286 to 294, respectively.

7.7.2 Defined Contribution Plans (DCPs)

A Defined Contribution Plan is a post-employment plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligations to pay a further amount. Obligations to DCPs are recognised in the profit or loss as the related service is provided. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. The Group has three such plans as explained in Notes 7.7.2.1, 7.7.2.2 and 7.7.2.3.

Amounts recognised in profit or loss as expenses on DCPs are given in Note 19 on page 222.

7.7.2.1 Defined Contribution Pension Plan

As explained in Note 7.7.1.1.1(a), during 2006, the Bank restructured its pension scheme which was a DBP to a DCP. This restructured plan was offered on a voluntary basis to the eligible employees of the Bank. The scheme provides for lump sum payments instead of commuted/ monthly pensions to the eligible employees at the point of their separation, in return for surrendering their pension rights. The lump sum offered consisted of a past service package and a future service package. The shortfall on account of the past service package in excess of the funds available in the Pension Fund was borne by the Bank in 2006.

The future service package includes monthly contributions to be made by the Bank for the employees who accepted the offer, to be made during their remaining period of service, at predetermined contribution rates to be applied on their salaries, which are estimated to increase for this purpose at 10% p.a. based on the salary levels that prevailed as at the date of implementation of this scheme. In addition, interest to be earned on the assets of the DCP is also allocated to the employees who opted for the restructured scheme.

The assets of this Fund are held separately from those of the Bank and are independently administered by the Trustees as per the provisions of the Trust Deed.

7.7.2.2 Employees' Provident Fund

The Bank and employees contribute to an approved Private Provident Fund at 12% and 8% respectively, on the salaries of each employee. Other entities of the Group and their employees contribute at the same percentages as above to the Employees' Provident Fund managed by the Central Bank of Sri Lanka.

7.7.2.3 Employees' Trust Fund

The Bank and other entities of the Group contribute at the rate of 3% of the salaries of each employee to the Employees' Trust Fund managed by the Central Bank of Sri Lanka.

7.7.3 Other Long-Term Employee Benefits

The Group's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefits that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate used as the yield as at the Reporting date is the current market rate that has been extrapolated to reflect long-term rate of discount based on market rates of interest on short-term Corporate/ Government Bonds and anticipated long-term rate of inflation. The calculation is performed using the Projected Unit Credit Method. Remeasurements are recognised in profit or loss in the period in which they arise.

The Group does not have any other long-term employee benefit plans.

7.7.4 Terminal Benefits

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for a restructuring. If benefits are not expected to be wholly settled within 12 months of the Reporting date, then they are discounted.

7.7.5 Short-Term Employee Benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

7.7.6 Share-Based Payment Arrangements

Share-based payment arrangements in which the Group receives services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Group. Senior Executive Employees of the Group receive

remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments (equity-settled transactions). The Group does not operate any cash-settled share-based payment transactions.

The Group applies the requirements of the Sri Lanka Accounting Standard – SLFRS 2 on 'Share-based Payment' in accounting for equity-settled share-based payment transactions, if any, that were granted after January 01, 2012 and had not vested at the same date. As per the Sri Lanka Accounting Standard – SLFRS 2 on 'Share-based Payment', on the grant date fair value of equity-settled share-based payment awards (i.e., share options) granted to employees is recognised as personnel expense, with a corresponding increase in equity, over the period in which the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of share awards for which the related service and non-market performance vesting conditions are expected to be met, so that the amount ultimately recognised as an expense is based on the number of share awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

The Employee Share Option Plan – 2015, which was granted is subjected to the above accounting treatment.

However, the Employee Share Option Plan – 2008 which was granted prior to January 01, 2012, the effective date of the SLFRS 2 was not subjected to the above accounting treatment and the proceeds received during the year by the Group in consideration for shares issued were accounted for as Stated Capital within equity.

The details of Employee Share Option Plans are given in Notes 53.2 and 54 on pages 297 to 300.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted Earnings per Share as disclosed in Note 23.2 on page 227.

7.8 Other Liabilities

Details of 'Other liabilities' are given in Note 50 on page 286.

7.9 Provisions

Details of 'Other provisions' are given in Note 49 on page 285.

7.10 Restructuring

Provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses arising on such restructuring are not provided for.

The Group does not have any provision for restructuring as at the Reporting date.

7.11 Onerous Contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

The Group does not have any onerous contracts as at the Reporting date.

7.12 Bank Levies

A provision for bank levies is recognised when the condition that triggers the payment of the levy is met. If a levy obligation is subject to a minimum activity threshold so that the obligating event is reaching a minimum activity, then a provision is recognised when that minimum activity threshold is reached.

7.13 Financial Guarantees and Loan Commitments

'Financial guarantees' are contracts that require the Group to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. 'Loan commitments' are firm commitments to provide credit under pre-specified terms and conditions.

Liabilities arising from financial guarantees or commitments to provide a loan at a below-market interest rate are initially measured at fair value and the initial fair value is amortised over the life of the guarantee or the commitment. The liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment to settle the liability when a payment under the contract has become probable.

The Group has issued no loan commitment that are measured at FVTPL. The Group recognises a provision in accordance with the Sri Lanka Accounting Standard – LKAS 37 on 'Provisions, Contingent Liabilities and Contingent Assets', if the contract was considered to be onerous. Liabilities arising from financial guarantees and loan commitments are included within provisions.

7.14 Commitments

All discernible risks are accounted for in determining the amount of known liabilities as explained in Note 7.9 above.

Details of the Commitments are given in Notes 59.2 and 59.3 on pages 305 and 306.

7.15 Contingent Liabilities and Commitments

A detailed list of 'Contingent liabilities and commitments' and 'Litigation against the Bank and the Group' are given in Notes 59 and 61 on pages 304 to 307.

7.16 Stated Capital and Reserves

Details of the 'Stated capital and reserves' are given in Notes 53, 55, 56 and 57 to the Financial Statements on pages 296 to 298 and 300 to 303

7.17 Earnings Per Share (EPS)

Details of 'Basic and Diluted EPS' are given in Note 23 on pages 226 and 227.

7.18 Operating Segments

Details of 'Operating segments' are given in Note 63 on pages 310 to 312.

7.19 Fiduciary Assets

The Bank provides trust and other fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in a fiduciary capacity are not reported in these Financial Statements as they do not belong to the Bank.

8. Significant Accounting Policies – Recognition of Income and Expense

Details of 'Income and expense' are given in Notes 12 to 21 on pages 214 to 224.

8.1 Interest Income and Expense

Details of 'Interest income and expense' are given in Note 13 on pages 214 to 217.

8.2 Fee and Commission Income and Expense

Details of 'Commission income and expense' are given in Note 14 on pages 217 and 218.

8.3 Net Gains/(Losses) from Trading

Details of 'Net gains/(losses) from trading' are given in Note 15 on page 218.

8.4 Dividend Income

Dividend income is recognised when the right to receive income is established. Usually, this is the ex-dividend date for quoted equity securities.

Dividends are presented in Net gains/losses from trading, Net gains/losses from financial investments or Other income (net) based on the underlying classification of the equity investment.

Details of 'Dividend income' are given in Notes 15, 16 and 17 on pages 218 and 219.

8.5 Leases

The determination of whether an arrangement is a lease or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

8.5.1 Finance Leases

8.5.1.1 Finance Leases – Group as a Lessee

Finance leases that transfer substantially all risks and rewards incidental to ownership of the leased item to the Group are classified as finance leases and capitalised at the commencement of the lease at the lower of the fair value of the leased property and the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

8.5.1.2 Finance Leases – Group as a Lessor

When the Group is the lessor under a lease agreement that transfers substantially all of the risks and rewards incidental to the ownership of the asset to the lessee, the net investment in lease (i.e. after deduction of unearned charges) are included in 'loans and advances to banks' or 'loans and advances to other customers', as appropriate. The finance income receivable is recognised in 'interest income' over the periods of the leases so as to achieve a constant rate of return on the net investment in the leases.

8.5.2 Operating Leases

8.5.2.1 Operating Leases – Group as a Lessee

Assets held under leases other than finance leases are classified as operating leases and are not recognised in the Group's Statement of Financial Position. Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease. Contingent rental payable is recognised as an expense in the period in which they are incurred.

8.5.2.2 Operating Leases – Group as a Lessor

Assets leased under leases other than finance leases are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

Contingent rents are recognised as revenue in the period in which they are earned.

Details of 'Operating leases' are given in Note 68 on page 320.

8.6 Rental Income and Expenses

Rental income and expense are recognised in profit or loss on an accrual basis.

9. Significant Accounting Policies – Income Tax Expense

9.1 Current Tax

Details of 'Income tax expense' are given in Note 22 on pages 224 to 226.

9.2 Deferred Tax

Details of 'Deferred tax assets and liabilities' are given in Note 48 on pages 283 to 285.

9.3 Tax Exposures

In determining the amount of current and deferred tax, the Group considers the impact of tax exposures, including whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities. Such changes to tax liabilities would impact tax expense in the period in which such a determination is made.

9.4 Crop Insurance Levy (CIL)

As per the provisions of the Section 14 of the Finance Act No. 12 of 2013, the CIL was introduced with effect from April 01, 2013 and is payable to the National Insurance Trust Fund. Currently, the CIL is payable at 1% of the profit after tax.

9.5 Withholding Tax on Dividends Distributed by the Bank, Subsidiaries and Associates

9.5.1 Withholding Tax on Dividends Distributed by the Bank

Withholding tax that arises from the distribution of dividends by the Bank is recognised at the time the liability to pay the related dividend is recognised.

9.5.2 Withholding Tax on Dividends Distributed by the Subsidiaries and Associates

Dividends received by the Bank from its Subsidiaries and Associates, have attracted a 10% deduction at source.

9.6 Economic Service Charge (ESC)

As per the provisions of the Finance Act No. 11 of 2004, and amendments thereto, the ESC was introduced with effect from April 01, 2004. Currently, the ESC is payable at 0.25% on 'Exempt Turnover' and is deductible from the income tax payments. Unclaimed ESC, if any, can be carried forward and set-off against the income tax payable in the five subsequent years.

9.7 Value Added Tax on Financial Services

The value base for the computation of value added tax on financial services is calculated by adjusting the economic depreciation computed on rates prescribed by the Department of Inland Revenue to the accounting profit before Income Tax and emoluments payable. Emoluments payable include benefits in money and not in money including contribution or provision relating to terminal benefits.

9.8 Nation Building Tax on Financial Services (NBT)

With effect from January 01, 2014, NBT of 2% was introduced on supply of financial services via an amendment to the NBT Act No. 09 of 2009. NBT is chargeable on the same base used for calculation of VAT on financial services as explained in Note 9.7 above.

The amount of Value Added Tax and NBT charged in determining the profit or loss for the period is given in the Income Statement on page 183.

10. Significant Accounting Policies – Statement of Cash Flows

10.1 Statement of Cash Flows

The Statement of Cash Flows is prepared using the 'Indirect Method' of preparing cash flows in accordance with the Sri Lanka Accounting Standard – LKAS 7 on 'Statement of Cash Flows'. Cash and cash equivalents comprise of short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Cash and cash equivalents as referred to in the Statement of Cash Flows are comprised of those items as explained in Note 27 on page 238.

The Statement of Cash Flows is given on page 190.

11. New Accounting Standards Issued But Not Yet Effective

A number of new standards and amendments to standards, which have been issued but not yet effective as at the Reporting date, have not been applied in preparing these Consolidated Financial Statements. Accordingly, the following Accounting Standards have not been applied in preparing these Financial Statements and the Group plans to apply these standards on the respective effective dates:

| Accounting Standard | Summary of the Requirements | Possible Impact on Consolidated Financial Statements |
|-----------------------------------|---|--|
| SLFRS 9 – ‘Financial Instruments’ | <p>SLFRS 9, issued in 2014, replaces the existing guidance in LKAS 39 – Financial Instruments: Recognition and Measurement. SLFRS 9 contains three principal classification categories for financial assets – i.e. measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The existing LKAS 39 categories of Held-to-maturity, Loans and receivables and Available-for-sale are removed.</p> <p>SLFRS 9 replaces the ‘incurred loss’ model in LKAS 39 with an ‘expected credit loss’ model. The new model applies to financial assets that are not measured at FVTPL.</p> <p>The model uses a dual measurement approach, under which the loss allowance is measured as either:</p> <ul style="list-style-type: none"> • 12 month expected credit loss; or • Lifetime expected credit losses. <p>The measurement basis will generally depend on whether there has been a significant increase in credit risk since initial recognition.</p> <p>A simplified approach is available for trade receivables, contract assets and lease receivables, allowing or requiring the recognition of lifetime expected credit losses at all times. Special rules apply to assets that are credit impaired at initial recognition. The new standard carried guidance on new general hedge accounting requirements.</p> <p>SLFRS 9 introduces new presentation requirements and extensive new disclosure requirements.</p> <p>Effective date of SLFRS 9 has been deferred till January 01, 2018.</p> | <p>The Group has completed the initial high level assessment of the potential impact on its Consolidated Financial Statements resulting from the application of SLFRS 9 with the assistance of an external consultant.</p> <p>The next phase being the implementation phase, will commence from end February 2017. During this Phase the Group will implement a business model approach and solely payment of principal and interest criteria to ensure that financial assets are classified into the appropriate categories</p> <p>Need to build a model with appropriate methodologies and controls to ensure that judgment exercised to assess recoverability of loans and make robust estimates of expected credit losses and point at which there is significant increase in credit risk.</p> <p>Judgment will need to be applied to ensure that the measurement of expected credit losses reflects reasonable and supportable information.</p> <p>Given the nature of the Group's operations, this standard is expected to have a pervasive impact on the Group's Financial Statements. In particular, calculation of impairment of financial instruments on an expected credit loss model is expected to result in an increase in the overall level of impairment allowances.</p> |

| Accounting Standard | Summary of the Requirements | Possible Impact on Consolidated Financial Statements |
|---|--|---|
| SLFRS 15 – 'Revenue from Contracts with Customers' | <p>SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. New qualitative and quantitative disclosure requirements aim to enable Financial Statements users to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.</p> <p>Entities will apply five-step model to determine when to recognise revenue and at what amount. The model specified that revenue is recognised when or as an entity transfers control of goods and services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised.</p> <p>It replaces existing revenue recognition guidance, including LKAS 18 on 'Revenue' and LKAS 11 on 'Construction Contracts' and IFRIC 13 on 'Customer Loyalty Programmes'.</p> <p>SLFRS 15 is effective for annual reporting periods beginning on or after January 01, 2018, with early adoption permitted.</p> | <p>The Group does not expect significant impact on its Financial Statements resulting from the application of SLFRS 15.</p> |
| SLFRS 16 – 'Leases' | <p>SLFRS 16 eliminates the current dual accounting model for lessees which distinguishes between On-Balance Sheet finance leases and Off-Balance Sheet operating leases. Instead there will be a single On-Balance Sheet accounting model that is similar to current finance lease accounting.</p> <p>SLFRS 16 is effective for annual Reporting periods beginning on or after January 01, 2019.</p> | <p>The Group is assessing the potential impact on its Financial Statements resulting from the application of SLFRS 16.</p> |

12. Gross Income

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

| <i>For the year ended December 31,</i> | GROUP | | BANK | |
|---|-------------------|-------------------|-------------------|-------------------|
| | 2016 | 2015 | 2016 | 2015 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Interest income [Refer Note 13.1] | 81,314,607 | 66,339,317 | 80,738,176 | 66,030,456 |
| Fee and commission income [Refer Note 14.1] | 8,230,131 | 6,329,900 | 8,143,041 | 6,275,276 |
| Net gains/(losses) from trading [Refer Note 15] | (1,466,711) | 813,376 | (1,466,711) | 813,376 |
| Net gains/(losses) from financial investments [Refer Note 16] | 110,759 | 693,987 | 110,701 | 693,933 |
| Other income (net) [Refer Note 17] | 5,536,749 | 4,048,817 | 5,617,403 | 4,054,911 |
| Total | 93,725,535 | 78,225,397 | 93,142,610 | 77,867,952 |

13. Net Interest Income

Interest income and expense are recognised in profit or loss using the effective interest rate (EIR) method.

Interest income and expense presented in the Income Statement include:

- Interest on Held-for-trading financial instruments calculated using EIR method;
- Interest on Loans and receivables calculated using EIR method;
- Interest on Available-for-sale investments calculated using EIR method;
- Interest on Held-to-maturity investments calculated using EIR method;
- Interest on financial liabilities measured at amortised cost calculated using EIR method.

Effective Interest Rate (EIR)

The 'effective interest rate' is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability.

The calculation of the EIR includes transaction costs and fees and points paid or received that forms an integral part of the EIR. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

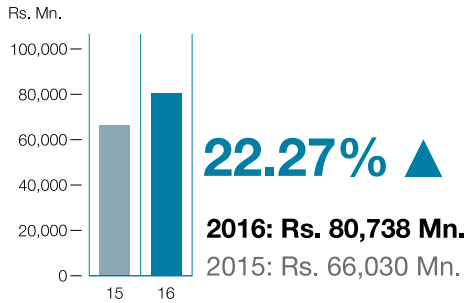
When calculating the effective interest rate for financial instruments other than credit impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses. For credit impaired financial assets, a credit adjusted effective interest rate is calculated using estimated future cash flows.

| <i>For the year ended December 31,</i> | GROUP | | BANK | |
|--|-------------------|-------------------|-------------------|-------------------|
| | 2016 | 2015 | 2016 | 2015 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Interest income [Refer Note 13.1] | 81,314,607 | 66,339,317 | 80,738,176 | 66,030,456 |
| Less: Interest expense [Refer Note 13.2] | (48,186,331) | (35,771,967) | (47,914,573) | (35,685,172) |
| Net interest income | 33,128,276 | 30,567,350 | 32,823,603 | 30,345,284 |

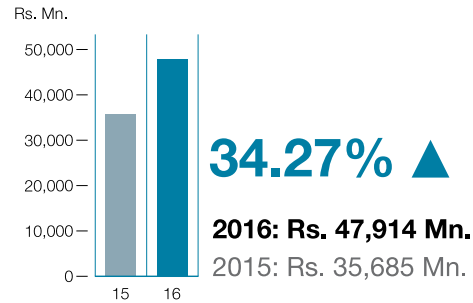
13.1 Interest Income

| <i>For the year ended December 31,</i> | GROUP | | BANK | |
|--|-------------------|-------------------|-------------------|-------------------|
| | 2016 | 2015 | 2016 | 2015 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Cash and cash equivalents | 219,048 | 88,573 | 218,337 | 88,270 |
| Balances with Central Banks | 40,575 | 336,040 | 40,504 | 336,040 |
| Placements with banks | 145,504 | 158,645 | 145,504 | 158,645 |
| Securities purchased under resale agreements | 352,695 | 665,897 | 352,695 | 665,897 |
| Financial instruments – Held-for-trading | 457,308 | 681,464 | 457,308 | 681,464 |
| Derivative financial instruments | – | – | – | – |
| Other financial instruments | 457,308 | 681,464 | 457,308 | 681,464 |
| Loans and receivables to other customers | 58,135,238 | 43,540,371 | 57,587,445 | 43,231,339 |
| Financial investments – Available-for-sale | 14,311,753 | 17,549,260 | 14,307,559 | 17,548,160 |
| Financial investments – Held-to-maturity | 3,757,168 | – | 3,731,930 | – |
| Financial investments – Loans and receivables | 3,360,048 | 3,052,231 | 3,360,048 | 3,052,231 |
| Interest income from impaired loans and receivables to other customers | 533,528 | 265,344 | 533,528 | 265,344 |
| Other interest income | 1,742 | 1,492 | 3,318 | 3,066 |
| Total interest income | 81,314,607 | 66,339,317 | 80,738,176 | 66,030,456 |

Interest Income – Bank



Interest Expense – Bank



13.2 Interest Expense

| <i>For the year ended December 31,</i> | GROUP | | BANK | |
|--|-------------------|-------------------|-------------------|-------------------|
| | 2016 | 2015 | 2016 | 2015 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Due to banks | 1,278,205 | 593,651 | 990,560 | 527,983 |
| Securities sold under repurchase agreements | 7,756,308 | 7,876,715 | 7,775,316 | 7,886,186 |
| Due to other customers/deposits from customers | 37,176,139 | 26,034,412 | 37,174,433 | 26,040,128 |
| Refinance borrowings | 270,977 | 253,502 | 270,977 | 253,502 |
| Foreign currency borrowings | 169,353 | 190,420 | 169,353 | 190,420 |
| Subordinated liabilities | 1,535,349 | 823,267 | 1,533,934 | 786,953 |
| Total interest expense | 48,186,331 | 35,771,967 | 47,914,573 | 35,685,172 |

13.3 Net Interest Income from Government Securities

Interest income and interest expense on Government Securities given in the Notes 13.3 (a), 13.3 (b) and 13.3 (c) below have been extracted from interest incomes and interest expenses given in Notes 13.1 and 13.2 respectively and disclosed separately, as required by the Guidelines issued by the Central Bank of Sri Lanka.

13.3 (a) Net Interest Income from Sri Lanka Government Securities

| <i>For the year ended December 31,</i> | GROUP | | BANK | |
|---|--------------------|--------------------|--------------------|--------------------|
| | 2016 | 2015 | 2016 | 2015 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Interest income | 19,870,503 | 19,303,078 | 19,866,309 | 19,301,978 |
| Securities purchased under resale agreements | 290,627 | 600,681 | 290,627 | 600,681 |
| Financial instruments – Held-for-trading | 351,293 | 320,011 | 351,293 | 320,011 |
| Financial investments – Available-for-sale | 13,412,354 | 16,560,676 | 13,408,160 | 16,559,576 |
| Financial investments – Held-to-maturity | 3,678,099 | – | 3,678,099 | – |
| Financial investments – Loans and receivables | 2,138,130 | 1,821,710 | 2,138,130 | 1,821,710 |
| Less: Interest expense | (7,755,075) | (7,883,079) | (7,774,082) | (7,892,551) |
| Securities sold under repurchase agreements | (7,755,075) | (7,883,079) | (7,774,082) | (7,892,551) |
| Net interest income | 12,115,428 | 11,419,999 | 12,092,227 | 11,409,427 |

Notional Tax Credit on Secondary Market Transactions

As per the Section 137 of the Inland Revenue Act No. 10 of 2006 and amendments thereto, net interest income of the Group derived from secondary market transactions in Government Securities, Treasury Bills and Treasury Bonds (Interest income accrued or received on outright or reverse repurchase transactions on Government Securities, Treasury Bills and Treasury Bonds less interest expense accrued or paid on repurchase transactions with such Government Securities, Treasury Bills and Treasury Bonds from which such interest income was earned) for the period January 01, 2016 to December 31, 2016 has been grossed up by Rs. 918.062 Mn. (2015 – Rs. 900.495 Mn.) and Rs. 916.767 Mn. (2015 – Rs. 899.563 Mn.) by the Group and the Bank respectively as the notional tax credit, consequent to the interest income on above instruments being subjected to withholding tax.

13.3 (b) Net Interest Income from Bangladesh Government Securities

| <i>For the year ended December 31,</i> | GROUP | | BANK | |
|--|------------------|------------------|------------------|------------------|
| | 2016 | 2015 | 2016 | 2015 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Interest income | 1,121,313 | 1,415,253 | 1,121,313 | 1,415,253 |
| Securities purchased under resale agreements | 62,068 | 65,216 | 62,068 | 65,216 |
| Financial instruments – Held-for-trading | 106,015 | 361,453 | 106,015 | 361,453 |
| Financial investments – Available-for-sale | 899,399 | 988,584 | 899,399 | 988,584 |
| Financial investments – Held-to-maturity | 53,831 | – | 53,831 | – |
| Less: Interest expense | (1,252) | (14,786) | (1,252) | (14,786) |
| Securities sold under repurchase agreements | (1,252) | (14,786) | (1,252) | (14,786) |
| Net interest income | 1,120,061 | 1,400,467 | 1,120,061 | 1,400,467 |

13.3 (c) Net Interest Income from Maldivian Government Securities

| <i>For the year ended December 31,</i> | GROUP | | BANK | |
|--|----------|----------|----------|----------|
| | 2016 | 2015 | 2016 | 2015 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Interest income | 25,238 | – | – | – |
| Financial investments – Held-to-maturity | 25,238 | – | – | – |
| Net interest income | 25,238 | – | – | – |

14. Net Fee and Commission Income

Fee and commission income and expense that are integral to the EIR of a financial asset or financial liability are capitalised and included in the measurement of the EIR and recognised in the Income Statement over the expected life of the instrument.

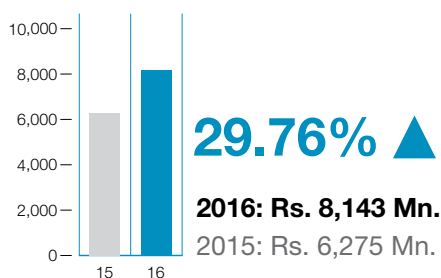
Other fee and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees are recognised as the related services are performed. If a loan commitment is not expected to result in the drawdown of a loan, then the related loan commitment fees are recognised on a straight-line basis over the commitment period.

Other fee and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

| <i>For the year ended December 31,</i> | GROUP | | BANK | |
|--|-----------|-----------|-----------|-----------|
| | 2016 | 2015 | 2016 | 2015 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Fee and commission income [Refer Note 14.1] | 8,230,131 | 6,329,900 | 8,143,041 | 6,275,276 |
| Less: Fee and commission expense [Refer Note 14.2] | 1,140,954 | 919,590 | 1,127,536 | 901,190 |
| Net fee and commission income | 7,089,177 | 5,410,310 | 7,015,505 | 5,374,086 |

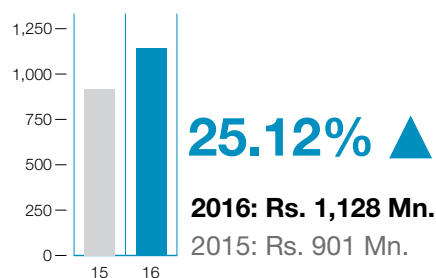
Fee and Commission Income – Bank

Rs. Mn.



Fee and Commission Expense - Bank

Rs. Mn.



14.1 Fee and Commission Income

| <i>For the year ended December 31,</i> | GROUP | | BANK | |
|---|-----------|-----------|-----------|-----------|
| | 2016 | 2015 | 2016 | 2015 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Loans and advances related services | 778,517 | 715,502 | 715,086 | 664,269 |
| Credit and debit cards related services | 2,671,294 | 1,849,571 | 2,671,116 | 1,849,571 |
| Trade and remittances related services | 2,619,429 | 2,212,916 | 2,619,194 | 2,212,916 |
| Deposits related services | 1,110,216 | 562,797 | 1,109,285 | 562,860 |
| Guarantees related services | 669,497 | 505,109 | 669,409 | 505,109 |
| Other financial services | 381,178 | 484,005 | 358,951 | 480,551 |
| Total fee and commission income | 8,230,131 | 6,329,900 | 8,143,041 | 6,275,276 |

14.2 Fee and Commission Expense

| <i>For the year ended December 31,</i> | GROUP | | BANK | |
|---|------------------|----------------|------------------|----------------|
| | 2016 | 2015 | 2016 | 2015 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Loans and advances related services | 53,289 | 52,149 | 39,871 | 33,749 |
| Credit and debit cards related services | 980,927 | 768,406 | 980,927 | 768,406 |
| Trade and remittances related services | 32,851 | 31,826 | 32,851 | 31,826 |
| Other financial services | 73,887 | 67,209 | 73,887 | 67,209 |
| Total fee and commission expense | 1,140,954 | 919,590 | 1,127,536 | 901,190 |

15. Net Gains/(Losses) from Trading

'Net gains/(losses) from trading' comprise gains less losses related to trading assets and trading liabilities and include all realised and unrealised fair value changes, dividends and foreign exchange differences.

| <i>For the year ended December 31,</i> | GROUP | | BANK | |
|--|--------------------|----------------|--------------------|----------------|
| | 2016 | 2015 | 2016 | 2015 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Derivative Financial Instruments | (1,429,188) | 891,825 | (1,429,188) | 891,825 |
| Foreign exchange gains/(losses) from banks and other customers | (1,429,188) | 891,825 | (1,429,188) | 891,825 |
| Other Financial Instruments – Held-for-Trading | | | | |
| Government Securities | (9,042) | (72,319) | (9,042) | (72,319) |
| Net mark-to-market losses | (79,981) | (92,831) | (79,981) | (92,831) |
| Net capital gains | 70,939 | 20,512 | 70,939 | 20,512 |
| Equities | (28,481) | (6,130) | (28,481) | (6,130) |
| Net mark-to-market losses | (49,581) | (26,452) | (49,581) | (26,452) |
| Net capital gains | 13,299 | 11,294 | 13,299 | 11,294 |
| Dividend income | 7,801 | 9,028 | 7,801 | 9,028 |
| Total | (1,466,711) | 813,376 | (1,466,711) | 813,376 |

16. Net Gains/(Losses) from Financial Investments

Net gains/(losses) from financial investments comprise gains less losses related to Available-for-sale investments, Held-to-maturity investments and Loans and receivables and include all realised and unrealised fair value changes and dividends.

| <i>For the year ended December 31,</i> | GROUP | | BANK | |
|---|----------------|----------------|----------------|----------------|
| | 2016 | 2015 | 2016 | 2015 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Financial investments – Available-for-sale [Refer Note 16.1] | 75,555 | 560,715 | 75,497 | 560,661 |
| Financial investments – Loans and receivables [Refer Note 16.2] | 35,204 | 133,272 | 35,204 | 133,272 |
| Total | 110,759 | 693,987 | 110,701 | 693,933 |

16.1 Financial Investments – Available-for-Sale

| <i>For the year ended December 31,</i> | GROUP | | BANK | |
|--|---------------|----------------|---------------|----------------|
| | 2016 | 2015 | 2016 | 2015 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Government Securities | 38,091 | 514,289 | 38,091 | 514,289 |
| Net capital gains | 38,091 | 514,289 | 38,091 | 514,289 |
| Equities | 37,464 | 46,426 | 37,406 | 46,372 |
| Net capital gains | – | – | – | – |
| Dividend income | 37,464 | 46,426 | 37,406 | 46,372 |
| Total | 75,555 | 560,715 | 75,497 | 560,661 |

16.2 Financial Investments – Loans and Receivables

| <i>For the year ended December 31,</i> | GROUP | | BANK | |
|--|---------------|----------------|---------------|----------------|
| | 2016 | 2015 | 2016 | 2015 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Government securities | 35,204 | 133,272 | 35,204 | 133,272 |
| Net capital gains | 35,204 | 133,272 | 35,204 | 133,272 |
| Total | 35,204 | 133,272 | 35,204 | 133,272 |

17. Other Income (Net)

| <i>For the year ended December 31,</i> | GROUP | | BANK | |
|--|------------------|------------------|------------------|------------------|
| | 2016 | 2015 | 2016 | 2015 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Gains/(losses) on sale of property, plant & equipment [Refer Note 17.1] | 10,395 | (1,334) | 1,705 | (6,505) |
| Gains on revaluation of foreign exchange | 3,755,346 | 1,985,444 | 3,755,047 | 1,985,444 |
| Recoveries of loans written off and provision reversals | 1,589,763 | 1,874,575 | 1,589,763 | 1,874,575 |
| Dividend income from subsidiaries | – | – | 81,468 | 81,664 |
| Dividend income from associates | 5,808 | 6,733 | 4,111 | 6,166 |
| Profit due to change in ownership | 3,047 | 2,344 | 3,047 | 2,344 |
| Rental and other income [Refer Note 17.2] | 181,245 | 190,132 | 182,262 | 111,223 |
| Less: Dividends received from associates transferred to investment account | (5,808) | (6,733) | – | – |
| Less: Profit due to change in ownership | (3,047) | (2,344) | – | – |
| Total | 5,536,749 | 4,048,817 | 5,617,403 | 4,054,911 |

17.1 Gains/(losses) on sale of Property, Plant & Equipment

The gains or losses on disposal of property, plant & equipment is determined as the difference between the carrying amount of the assets at the time of disposal and the proceeds from disposal, net of incremental disposal costs. This is recognised as an item of 'Other Income' in the year in which significant risks and rewards of ownership are transferred to the buyer.

17.2 Rental Income

Rental income is recognised in the profit or loss on an accrual basis.

18. Impairment Charges for Loans and Other Losses

For financial assets carried at amortised cost (such as amounts due from banks, loans and advances to customers as well as held to maturity investments), the Group first assesses whether objective evidence of impairment exists for individually significant financial assets or collectively for financial assets that are not individually significant. Assets that are individually assessed for impairment and for which an impairment loss is not recognised are included in a collective assessment of impairment together with the financial assets that are not individually significant.

Individual Assessment of Impairment

For financial assets above a pre-determined threshold (i.e., for individually significant financial assets), if there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of a provision account and the amount of impairment loss is recognised in profit or loss. Interest income continues to be accrued and recorded in 'Interest Income' on the reduced carrying amount/impaired balance and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR. If the Bank has reclassified trading assets to loans and advances, the discount rate for measuring any impairment loss is the new EIR determined at the reclassification date. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Collective Assessment of Impairment

Those financial assets for which, the Group determines that no provision is required under individual impairment, such financial assets are then collectively assessed for any impairments that have been incurred but not yet identified. For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar risk characteristics such as internal credit ratings, asset type, industry, geographical location, collateral type, past-due status, etc.

Future cash flows on a group of financial assets that are collectively evaluated for impairment, are estimated based on the historical loss experiences of assets with similar credit risk characteristics to those in the group.

The key inputs into the measurement of provision for collective impairment are the term structure of the following variables:

- Probability of default (PD)
- Loss given default (LGD)
- Exposure at default (EAD)

These parameters are generally derived from internally developed statistical models and other historical data.

PD values are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counter parties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures.

LGD is the magnitude of the likely loss in case of default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default or the financial asset's gross carrying amount.

Historical loss experiences are adjusted based on the current observable data to reflect the effects of current conditions on the historical losses experienced, further removing the effects of conditions that do not exist at the Reporting date. Estimates of changes in future cash flows reflect, and are directionally consistent with the changes in related observable data year-on-year such as changes in;

- Interest rates,
- Inflation rates,
- Growth in Gross Domestic Product (GDP),
- Global GDP growth rates,
- Countries' Sovereign ratings, ease of doing business Indices,
- Exchange rates,
- Political stability, and
- Portfolio factors including percentage of restructured performing loans.

The methodology and assumptions used for estimating provision for impairment including assumptions for projecting future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experiences.

Impairment of Rescheduled Loans and Advances

Where possible, the Bank seeks to reschedule loans and advances rather than to take possession of collateral. If the terms of a financial asset are renegotiated, modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made to whether the financial asset should be derecognised. If the cash flows of the renegotiated asset is substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and new financial asset is recognised at fair value. The impairment loss before an expected restructuring is measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the estimated cash flows arising from the modified financial asset are included in the measurement of the existing asset based on their expected timing and amounts discounted at the original EIR of the existing financial asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is discounted from the expected date of derecognition to the Reporting date using the original EIR of the existing financial asset.

Collateral Valuation

The Bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, gold, Government Securities, Letters of Credit/Guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements, etc. The fair value of collateral is generally assessed, at a minimum, at inception and based on the Bank's annual reporting schedule.

Collateral Repossessed

The Bank's policy is to carry collaterals repossessed at fair value at the repossession date and such assets will be disposed at the earliest possible opportunity. These assets are recorded under assets held for sale as per the Sri Lanka Accounting Standard – SLFRS 5 on 'Non-Current Assets Held for Sale and Discontinued Operations'.

Write Off

Financial assets (and the related impairment allowances) are normally written off either partially or in full, when there is no realistic prospect of recovery. Where financial assets are secured, this is generally after receipt of any proceeds from the realisation of securities.

Impairment losses are recognised in profit or loss and reflected in a provision account against the relevant category of financial assets. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the provision account. If a write-off is later recovered, the recovery is credited to 'Other Income'.

| <i>For the year ended December 31,</i> | GROUP | | BANK | |
|---|------------------|------------------|------------------|------------------|
| | 2016 | 2015 | 2016 | 2015 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Loans and receivables to banks [Refer Note 32] | - | - | - | - |
| Loans and receivables to other customers | 1,583,326 | 4,099,738 | 1,511,158 | 3,904,948 |
| Charge to the Income Statement – Individual impairment [Refer Note 33.2] | 3,439,879 | 1,386,477 | 3,439,879 | 1,386,477 |
| Charge/(write-back) to the Income Statement – Collective impairment [Refer Note 33.2] | (1,859,806) | 2,710,834 | (1,931,932) | 2,516,044 |
| Direct write-offs | 3,253 | 2,427 | 3,211 | 2,427 |
| Investments in subsidiaries [Refer Note 37.1] | - | - | 15,350 | 36,223 |
| Due from subsidiaries | - | - | 3,306 | 2,025 |
| Total | 1,583,326 | 4,099,738 | 1,529,814 | 3,943,196 |

19. Personnel Expenses

| <i>For the year ended December 31,</i> | GROUP | | BANK | |
|---|-------------------|-------------------|-------------------|-------------------|
| | 2016 | 2015 | 2016 | 2015 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Salary and bonus [Refer Note 19.1] | 8,261,068 | 7,740,991 | 8,161,579 | 7,675,955 |
| Pension costs [Refer Note 19.1] | 1,595,795 | 1,281,017 | 1,582,798 | 1,268,889 |
| Contributions to defined contribution/benefit plans – Funded schemes | 1,361,533 | 1,083,341 | 1,354,982 | 1,078,109 |
| Contributions to defined benefit plans – Unfunded schemes [Refer Notes 50.1 (c) and 50.2 (c)] | 234,262 | 197,676 | 227,816 | 190,780 |
| Equity-settled share-based payments [Refer Notes 19.2 and 57.5] | 206,174 | 223,330 | 206,174 | 223,330 |
| Others [Refer Note 19.3] | 850,051 | 1,015,412 | 843,756 | 1,012,363 |
| Total | 10,913,088 | 10,260,750 | 10,794,307 | 10,180,537 |

19.1 Salary, Bonus and Pension Costs

Salary, bonus and contributions to defined contribution/benefit plans, reported above also include amounts paid to and contribution made on behalf of Executive Directors.

19.2 Share Based Payment

The Bank has an equity-settled share based compensation plan, the details of which are given in Note 54 on page 298.

19.3 Others

This includes expenses such as overtime payments, medical and hospitalisation charges, expenses incurred on staff training/recruitment and staff welfare activities, etc.

20. Depreciation and Amortisation

Depreciation

Depreciation is calculated to write-off the cost of items of Property, Plant & Equipment less their estimated residual values using the straight-line method over their estimated useful lives and is recognised in profit or loss. Leased assets under finance leases are depreciated over the shorter of the lease term and their useful lives. Freehold land is not depreciated.

The estimated useful lives of the Property, Plant & Equipment of the Bank as at December 31, 2016 are as follows:

| Class of Asset | Depreciation % Per Annum | Period (years) |
|----------------------------------|-----------------------------|-------------------|
| Freehold and leasehold buildings | 2.5 | 40 |
| Motor vehicles | 20 | 5 |
| Computer equipment | 20 | 5 |
| Office equipment | 20 | 5 |
| Office interior work | 20 | 5 |
| Furniture & fittings | 10 | 10 |
| Machinery & equipment | 10 | 10 |

The above rates are compatible with the rates used by all Group entities.

The depreciation rates are determined separately for each significant part of an item of Property, Plant & Equipment and depreciation commences when it is available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by the management. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or the date that the asset is derecognised.

All classes of Property, Plant & Equipment together with the reconciliation of carrying amounts and accumulated depreciation at the beginning and at the end of the year are given in Note 39 on pages 265 to 276.

Depreciation methods, useful lives and residual values are reassessed at each Reporting date and adjusted, if required.

Amortisation of Intangible Assets

Intangible assets are amortised using the straight-line method to write down the cost over its estimated useful economic lives, at the rate specified below:

| Class of Asset | Amortisation % Per Annum | Period (years) |
|-------------------|-----------------------------|-------------------|
| Computer software | 20 | 5 |

The above rate is compatible with the rates used by all Group entities.

The unamortised balances of intangible assets with finite lives are reviewed for impairment whenever there is an indication for impairment and recognised in profit or loss to the extent that they are no longer probable of being recovered from the expected future benefits.

| For the year ended December 31, | GROUP | | BANK | |
|---|------------------|------------------|------------------|------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| Depreciation of property, plant & equipment [Refer Note 39] | 1,093,088 | 1,024,162 | 1,022,648 | 961,492 |
| Amortisation of intangible assets [Refer Note 40] | 173,790 | 180,558 | 165,903 | 179,370 |
| Amortisation of leasehold property [Refer Note 41] | 1,452 | 1,452 | 942 | 942 |
| Total | 1,268,330 | 1,206,172 | 1,189,493 | 1,141,804 |

21. Other Operating Expenses

| For the year ended December 31, | GROUP | | BANK | |
|--|------------------|------------------|------------------|------------------|
| | 2016 | 2015 | 2016 | 2015 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Directors' fees [Refer Note 21.1] | 38,872 | 31,947 | 32,133 | 26,886 |
| Auditors' remuneration | 31,218 | 26,787 | 25,124 | 21,399 |
| Audit fees and expenses | 14,304 | 14,195 | 9,766 | 9,736 |
| Audit related fees and expenses | 8,677 | 6,461 | 8,392 | 5,871 |
| Non-audit fees and expenses | 8,237 | 6,131 | 6,966 | 5,792 |
| Professional and legal expenses | 262,522 | 290,184 | 329,237 | 353,256 |
| Deposit insurance premium paid to the Central Banks | 590,544 | 497,850 | 590,236 | 497,850 |
| Donations, including contribution made to the CSR Trust Fund | 61,681 | 62,533 | 61,681 | 62,533 |
| Establishment expenses | 2,439,490 | 2,036,083 | 2,488,984 | 2,112,577 |
| Maintenance of property, plant & equipment | 890,002 | 731,213 | 1,035,238 | 870,500 |
| Office administration expenses | 2,495,106 | 2,277,886 | 2,269,712 | 2,038,087 |
| Total | 6,809,435 | 5,954,483 | 6,832,345 | 5,983,088 |

21.1 Directors' Fees

Directors' fees represent the fees paid to both Executive and Non-Executive Directors of the Group.

22. Income Tax Expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the Income Statement, except to the extent it relates to items recognised directly in Equity or in OCI.

Current Taxation

'Current tax' comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax receivable or payable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted, as at the Reporting date. Current tax also includes any tax arising from dividends.

Accordingly, provision for taxation is made on the basis of the accounting profit for the year, as adjusted for taxation purposes, in accordance with the provisions of the Inland Revenue Act No. 10 of 2006 and amendments thereto, at the rates specified in Note 22.1 on page 225. This Note also includes the major components of tax expense, the effective tax rates and a reconciliation between the profit before tax and tax expense, as required by the Sri Lanka Accounting Standard – LKAS 12 on 'Income Taxes'.

Provision for taxation on the overseas operations is made on the basis of the accounting profit for the year, as adjusted for taxation purposes, in accordance with the provisions of the relevant statutes in those countries, using the tax rates enacted or substantively enacted as at the Reporting date.

Deferred Taxation

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available, against which they can be used. Deferred tax assets are reviewed at each Reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Unrecognised deferred tax assets are reassessed at each Reporting date and recognised to the extent that it has become probable that future taxable profits will be available, against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted as at the Reporting date.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects as at the Reporting date to recover or settle the carrying amount of its assets and liabilities.

Additional taxes that arise from the distribution of dividends by the Group, are recognised at the same time as the liability to pay the related dividend is recognised. These amounts are generally recognised in profit or loss as they generally relate to income arising from transactions that were originally recognised in profit or loss.

22.1 Entity wise breakup of Income Tax Expense in the Income Statement is as follows:

| For the year ended December 31, | GROUP | | BANK | |
|---|------------------|------------------|------------------|------------------|
| | 2016 | 2015 | 2016 | 2015 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Current Year Tax Expense | 5,606,143 | 5,185,218 | 5,554,989 | 5,094,780 |
| Current year income tax expense of Domestic Banking Unit | 4,086,795 | 3,536,032 | 4,086,795 | 3,536,032 |
| Current year income tax expense of Off-shore Banking Centre | 291,831 | 277,207 | 291,831 | 277,207 |
| Current year income tax expense of Bangladesh Operation | 1,167,596 | 1,185,736 | 1,167,596 | 1,185,736 |
| Current year Income tax expense of Commercial Development Company PLC | 40,063 | 37,882 | - | - |
| Current year Income tax expense of ONEzero Company Ltd. | 13,169 | 10,914 | - | - |
| Current year Income tax expense of Serendib Finance Ltd. | (2,258) | 41,582 | - | - |
| Profit remittance tax of Bangladesh Operation | - | 86,551 | - | 86,551 |
| Withholding tax on dividends received | 8,947 | 9,314 | 8,767 | 9,254 |
| Prior years | | | | |
| Under/(Over) Provision of taxes in respect of prior years [Refer Note 47] | - | 1,700 | - | 1,701 |
| Deferred Tax Expense | 42,017 | 89,933 | (16,317) | 143,905 |
| Effect of change in tax rates | - | - | - | - |
| Origination and reversal of temporary differences [Refer Note 48.1] | 42,017 | 89,933 | (16,317) | 143,905 |
| Total | 5,648,160 | 5,276,851 | 5,538,672 | 5,240,386 |
| Effective tax rate (including deferred tax) (%) | | | 27.62 | 30.57 |
| Effective tax rate (excluding deferred tax) (%) | | | 27.70 | 29.73 |

The income tax for 2016 and 2015 of the Bank and its subsidiaries have been provided on the taxable income at rates shown below:

| | 2016 % | 2015 % |
|---|-----------|-----------|
| Domestic operations of the Bank | 28.0 | 28.0 |
| Off-shore banking operation of the Bank | 28.0 | 28.0 |
| Bangladesh operation of the Bank | 42.5 | 42.5 |
| Commercial Development Company PLC | 28.0 | 28.0 |
| ONEzero Company Ltd. | 28.0 | 28.0 |
| Serendib Finance Ltd. | 28.0 | 28.0 |
| Commercial Bank of Maldives Private Limited | 25.0 | - |

22.2 Reconciliation of the Accounting Profit to Income Tax Expense

A reconciliation between taxable income and the accounting profit multiplied by the statutory tax rates is given below:

| For the year ended December 31, | Tax Rate | | GROUP | | BANK | |
|---|-----------|-----------|------------------|------------------|------------------|------------------|
| | 2016 % | 2015 % | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| Accounting profit before tax from operations | | | 20,114,584 | 17,136,111 | 20,051,183 | 17,143,610 |
| Tax effect at the statutory income tax rate | | | 5,988,705 | 5,186,846 | 5,907,894 | 5,160,768 |
| Domestic operations of the Bank | 28 | 28 | 4,497,651 | 3,888,621 | 4,497,651 | 3,888,621 |
| Off-shore banking operation of the Bank | 28 | 28 | 273,192 | 118,712 | 273,192 | 118,712 |
| Bangladesh operation of the Bank | 42.5 | 42.5 | 1,137,051 | 1,153,435 | 1,137,051 | 1,153,435 |
| Subsidiaries | 28 & 25 | 28 | 80,811 | 26,078 | - | - |
| Tax effect of exempt income | | | (1,313,810) | (1,099,101) | (1,313,424) | (1,099,080) |
| Tax effect of non-deductible expenses | | | 6,766,163 | 6,864,719 | 6,722,770 | 6,626,069 |
| Tax effect of deductible expenses | | | (5,841,357) | (5,859,214) | (5,768,513) | (5,684,885) |
| Qualifying payments | | | (2,505) | (3,897) | (2,505) | (3,897) |
| Profit remittance tax of Bangladesh operation | | | - | 86,551 | - | 86,551 |
| Under/(Over) provision of taxes in respect of prior years [Refer Notes 22.1 and 47] | | | - | 1,700 | - | 1,701 |
| Withholding tax on dividends received | | | 8,947 | 9,314 | 8,767 | 9,254 |
| Deferred tax expense [Refer Notes 22.1 and 48.1] | | | 42,017 | 89,933 | (16,317) | 143,905 |
| Income tax expense reported in the Income Statement at the effective income tax rate | | | 5,648,160 | 5,276,851 | 5,538,672 | 5,240,386 |

23. Earnings Per Share (EPS)

The Group computes basic and diluted EPS for its ordinary shares. Basic EPS is calculated by dividing the profit or loss that is attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is calculated by dividing the profit or loss that is attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding, adjusted for the effects of all dilutive potentially ordinary shares, which comprise share options granted to employees.

Details of Basic and Diluted EPS are given below:

23.1 Basic Earnings per Ordinary Share

| | GROUP | | BANK | |
|---|--------------|--------------|--------------|--------------|
| | 2016 | 2015 | 2016 | 2015 |
| Amounts used as the numerator: | | | | |
| Profit for the year attributable to equity holders of the Bank (Rs. '000) | 14,510,333 | 11,855,172 | 14,512,511 | 11,903,224 |
| Number of ordinary shares used as the denominator: | | | | |
| Weighted average number of ordinary shares [Refer Note 23.3] | 890,037,763 | 888,693,776 | 890,037,763 | 888,693,776 |
| Basic earnings per ordinary share (Rs.) | 16.30 | 13.34 | 16.31 | 13.39 |

23.2 Diluted Earnings per Ordinary Share

| | GROUP | | BANK | |
|---|--------------|--------------|--------------|--------------|
| | 2016 | 2015 | 2016 | 2015 |
| Amounts used as the numerator: | | | | |
| Profit for the year attributable to equity holders of the Bank (Rs. '000) | 14,510,333 | 11,855,172 | 14,512,511 | 11,903,224 |
| Number of ordinary shares used as the denominator: | | | | |
| Weighted average number of ordinary shares [Refer Note 23.3] | 892,043,791 | 890,103,365 | 892,043,791 | 890,103,365 |
| Diluted earnings per ordinary share (Rs.) | 16.27 | 13.32 | 16.27 | 13.37 |

23.3 Weighted Average Number of Ordinary Shares for Basic and Diluted Earnings per Share

| | Outstanding No. of Shares | | Weighted average No. of Shares | |
|---|---------------------------|--------------------|--------------------------------|--------------------|
| | 2016 | 2015 | 2016 | 2015 |
| Number of shares in issue as at January 01, | 876,866,801 | 865,857,675 | 876,866,801 | 865,857,675 |
| Add: Number of shares satisfied in the form of issue and allotment of new shares from final dividend for 2014 [Refer Note 53.1] | - | 8,838,513 | - | 8,838,513 |
| Add: Number of shares satisfied in the form of issue and allotment of new shares from final dividend for 2015 [Refer Note 53.1] | 12,731,007 | - | 12,731,007 | 12,731,007 |
| | 889,597,808 | 874,696,188 | 889,597,808 | 887,427,195 |
| Add: Number of shares issued under Employee Share Option Plan (ESOP) 2008 | 894,487 | 2,170,613 | 268,784 | 1,266,581 |
| Add: Number of shares issued under Employee Share Option Plan (ESOP) 2015 | 242,245 | - | 171,171 | - |
| Weighted average number of ordinary shares for basic earnings per ordinary share calculation | 890,734,540 | 876,866,801 | 890,037,763 | 888,693,776 |
| Add: Bonus element on number of outstanding options under ESOP 2008 as at the year end | - | - | 1,404,951 | 1,409,589 |
| Add: Bonus element on number of outstanding options under ESOP 2015 as at the year end | - | - | 601,077 | - |
| Weighted average number of ordinary shares for diluted earnings per ordinary share calculation(*) | 890,734,540 | 876,866,801 | 892,043,791 | 890,103,365 |

(*) The market value of the Bank's shares for the purpose of calculating the dilutive effect of share options has been based on the excess of quoted market price as of December 31, 2016 and December 31, 2015 over the offer price.

24. Dividends

| | GROUP | | BANK | |
|--|----------|---|----------|---|
| | 2016 | 2015 Second Interim Rs. 1.00 Per share for 2014 (Paid on February 05, 2015) | 2016 | 2015 Second Interim Rs. 1.00 Per share for 2014 (Paid on February 05, 2015) |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| On Ordinary Shares | | | | |
| Net dividend paid to the ordinary shareholders out of normal profits | - | 783,258 | - | 783,258 |
| Withholding tax deducted at source | - | 82,685 | - | 82,685 |
| Gross ordinary dividend paid | - | 865,943 | - | 865,943 |

| | First Interim Rs. 1.50 Per share for 2016 (Paid on November 18, 2016) | First Interim Rs. 1.50 Per share for 2015 (Paid on December 18, 2015) | First Interim Rs. 1.50 Per share for 2016 (Paid on November 18, 2016) | First Interim Rs. 1.50 Per share for 2015 (Paid on December 18, 2015) |
|--|--|--|--|--|
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| On Ordinary Shares | | | | |
| Net dividend paid to the ordinary shareholders out of normal profits | 1,208,039 | 1,189,367 | 1,208,039 | 1,189,367 |
| Withholding tax deducted at source | 127,889 | 125,884 | 127,889 | 125,884 |
| Gross ordinary dividend paid | 1,335,928 | 1,315,251 | 1,335,928 | 1,315,251 |
| Total gross ordinary dividend paid | 1,335,928 | 2,181,194 | 1,335,928 | 2,181,194 |

The Board of Directors of the Bank has approved the payment of a second interim dividend of Rs.3.00 per share for both the voting and non-voting ordinary shareholders of the Bank for the year ended December 31, 2016 and this dividend was paid on February 17, 2017.

The Board of Directors of the Bank has recommended the payment of a final dividend of Rs.2.00 per share which is to be satisfied in the form of issue and allotment of new shares for both voting and non-voting ordinary shares of the Bank for the year ended December 31, 2016 (Bank declared a final dividend of Rs. 5.00 per share for 2015 in 2016 and this was satisfied by way of Rs. 3.00 per share in the form of cash and Rs. 2.00 per share in the form of shares). The total dividend recommended by the Board is to be approved at the forthcoming Annual General Meeting to be held on March 30, 2017. In accordance with provisions of the Sri Lanka Accounting Standard No.10 on 'Events after the Reporting Period', the second interim dividend referred to above and the proposed final dividend for the year ended December 31, 2016 has not been recognised as a liability as at the year end. Final dividend payable for the year 2016 has been estimated at Rs.1,783.199 Mn. (Actual final dividend for 2015 amounted to Rs. 4,384.985 Mn.)

Accordingly, the dividend per ordinary share (for both voting and non-voting) for the year 2016 would be Rs. 6.50 (2015 – Rs. 6.50).

25. Classification of Financial Assets and Financial Liabilities

The tables below provide a reconciliation between line items in the Statement of Financial Position and categories of financial assets and financial liabilities of the Group and the Bank.

25.1 Classification of Financial Assets and Financial Liabilities – Group

25.1 (a) Group

| <i>As at December 31, 2016</i> | | Held-for-Trading (HFT) | Held-to-Maturity (HTM) | Loans and Receivables | Available- for-Sale (AFS) | Other Amortised Cost | Total |
|--|------|---------------------------|---------------------------|--------------------------|------------------------------|-------------------------|--------------------|
| | Note | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Financial Assets | | | | | | | |
| Cash and cash equivalents | 27 | - | - | 32,924,227 | - | - | 32,924,227 |
| Balances with Central Banks | 28 | - | - | 43,935,258 | - | - | 43,935,258 |
| Placements with banks | 29 | - | - | 11,718,499 | - | - | 11,718,499 |
| Securities purchased under resale agreements | | - | - | - | - | - | - |
| Derivative financial assets | 30 | 1,052,829 | - | - | - | - | 1,052,829 |
| Other financial instruments – Held-for-trading | 31 | 4,987,798 | - | - | - | - | 4,987,798 |
| Loans and receivables to banks | 32 | - | - | 624,458 | - | - | 624,458 |
| Loans and receivables to other customers | 33 | - | - | 620,129,488 | - | - | 620,129,488 |
| Financial investments – Available-for-sale | 34 | - | - | - | 160,092,522 | - | 160,092,522 |
| Financial investments – Held-to-maturity | 35 | - | 63,626,598 | - | - | - | 63,626,598 |
| Financial investments – Loans and receivables | 36 | - | - | 51,824,026 | - | - | 51,824,026 |
| Total Financial Assets | | 6,040,627 | 63,626,598 | 761,155,956 | 160,092,522 | - | 990,915,703 |
| Financial Liabilities | | | | | | | |
| Due to banks | 43 | - | - | - | - | 71,098,391 | 71,098,391 |
| Derivative financial liabilities | 44 | 1,515,035 | - | - | - | - | 1,515,035 |
| Securities sold under repurchase agreements | | - | - | - | - | 69,628,961 | 69,628,961 |
| Due to other customers/ deposits from customers | 45 | - | - | - | - | 743,310,613 | 743,310,613 |
| Other borrowings | 46 | - | - | - | - | 9,270,154 | 9,270,154 |
| Subordinated liabilities | 52 | - | - | - | - | 24,849,539 | 24,849,539 |
| Total Financial Liabilities | | 1,515,035 | - | - | - | 918,157,658 | 919,672,693 |

25.1 (b) Group

| <i>As at December 31, 2015</i> | | | | | | | |
|--|------|---------------------------------------|---------------------------------------|--------------------------------------|--|-------------------------------------|--------------------|
| | Note | Held-for-trading (HFT) Rs. '000 | Held-to-maturity (HTM) Rs. '000 | Loans and Receivables Rs. '000 | Available- for-Sale (AFS) Rs. '000 | Other Amortised Cost Rs. '000 | Total Rs. '000 |
| Financial Assets | | | | | | | |
| Cash and cash equivalents | 27 | - | - | 20,107,076 | - | - | 20,107,076 |
| Balances with Central Banks | 28 | - | - | 28,221,017 | - | - | 28,221,017 |
| Placements with banks | 29 | - | - | 17,193,539 | - | - | 17,193,539 |
| Securities purchased under resale agreements | | - | - | 8,002,100 | - | - | 8,002,100 |
| Derivative financial assets | 30 | 4,118,169 | - | - | - | - | 4,118,169 |
| Other financial instruments – Held-for-trading | 31 | 7,656,349 | - | - | - | - | 7,656,349 |
| Loans and receivables to Banks | 32 | - | - | 601,106 | - | - | 601,106 |
| Loans and receivables to other customers | 33 | - | - | 509,923,128 | - | - | 509,923,128 |
| Financial investments – Available-for-sale | 34 | - | - | - | 204,261,934 | - | 204,261,934 |
| Financial investments – Loans and receivables | 36 | - | - | 57,724,369 | - | - | 57,724,369 |
| Total Financial Assets | | 11,774,518 | - | 641,772,335 | 204,261,934 | - | 857,808,787 |
| Financial Liabilities | | | | | | | |
| Due to banks | 43 | - | - | - | - | 31,789,396 | 31,789,396 |
| Derivative financial liabilities | 44 | 1,890,770 | - | - | - | - | 1,890,770 |
| Securities sold under repurchase agreements | | - | - | - | - | 112,249,703 | 112,249,703 |
| Due to other customers/ deposits from customers | 45 | - | - | - | - | 624,021,217 | 624,021,217 |
| Other borrowings | 46 | - | - | - | - | 9,985,637 | 9,985,637 |
| Subordinated liabilities | 52 | - | - | - | - | 11,988,272 | 11,988,272 |
| Total Financial Liabilities | | 1,890,770 | - | - | - | 790,034,225 | 791,924,995 |

25.2 Classification of Financial Assets and Financial Liabilities – Bank

The tables below provide a reconciliation between line items in the Statement of Financial Position and categories of financial assets and financial liabilities of the Bank.

25.2 (a) Bank

| <i>As at December 31, 2016</i> | | Held-for-Trading (HFT) | Held-to-Maturity (HTM) | Loans and Receivables | Available- for-Sale (AFS) | Other Amortised Cost | Total |
|--|------|---------------------------|---------------------------|--------------------------|------------------------------|-------------------------|--------------------|
| | Note | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Financial Assets | | | | | | | |
| Cash and cash equivalents | 27 | - | - | 30,193,589 | - | - | 30,193,589 |
| Balances with Central Banks | 28 | - | - | 43,873,205 | - | - | 43,873,205 |
| Placements with banks | 29 | - | - | 11,718,499 | - | - | 11,718,499 |
| Securities purchased under resale agreements | | - | - | - | - | - | - |
| Derivative financial assets | 30 | 1,052,829 | - | - | - | - | 1,052,829 |
| Other financial instruments – Held-for-trading | 31 | 4,987,798 | - | - | - | - | 4,987,798 |
| Loans and receivables to banks | 32 | - | - | 624,458 | - | - | 624,458 |
| Loans and receivables to other customers | 33 | - | - | 616,018,228 | - | - | 616,018,228 |
| Financial investments – Available-for-sale | 34 | - | - | - | 160,023,471 | - | 160,023,471 |
| Financial investments – Held-to-maturity | 35 | - | 60,981,298 | - | - | - | 60,981,298 |
| Financial investments – Loans and receivables | 36 | - | - | 51,824,026 | - | - | 51,824,026 |
| Total Financial Assets | | 6,040,627 | 60,981,298 | 754,252,005 | 160,023,471 | - | 981,297,401 |
| Financial Liabilities | | | | | | | |
| Due to banks | 43 | - | - | - | - | 67,608,811 | 67,608,811 |
| Derivative financial liabilities | 44 | 1,515,035 | - | - | - | - | 1,515,035 |
| Securities sold under repurchase agreements | | - | - | - | - | 69,867,469 | 69,867,469 |
| Due to other customers/ deposits from customers | 45 | - | - | - | - | 739,563,494 | 739,563,494 |
| Other borrowings | 46 | - | - | - | - | 9,270,154 | 9,270,154 |
| Subordinated liabilities | 52 | - | - | - | - | 24,849,539 | 24,849,539 |
| Total Financial Liabilities | | 1,515,035 | - | - | - | 911,159,467 | 912,674,502 |

25.2 (b) Bank

| <i>As at December 31, 2015</i> | | | | | | | |
|--|------|---------------------------------------|---------------------------------------|--------------------------------------|--|-------------------------------------|--------------------|
| | Note | Held-for-Trading (HFT) Rs. '000 | Held-to-Maturity (HTM) Rs. '000 | Loans and Receivables Rs. '000 | Available- for-Sale (AFS) Rs. '000 | Other Amortised Cost Rs. '000 | Total Rs. '000 |
| Financial Assets | | | | | | | |
| Cash and cash equivalents | 27 | - | - | 20,043,512 | - | - | 20,043,512 |
| Balances with Central Banks | 28 | - | - | 28,221,017 | - | - | 28,221,017 |
| Placements with banks | 29 | - | - | 17,193,539 | - | - | 17,193,539 |
| Securities purchased under resale agreements | | - | - | 8,002,100 | - | - | 8,002,100 |
| Derivative financial assets | 30 | 4,118,169 | - | - | - | - | 4,118,169 |
| Other financial instruments – Held-for-trading | 31 | 7,656,349 | - | - | - | - | 7,656,349 |
| Loans and receivables to banks | 32 | - | - | 601,106 | - | - | 601,106 |
| Loans and receivables to other customers | 33 | - | - | 508,115,127 | - | - | 508,115,127 |
| Financial investments – Available-for-sale | 34 | - | - | - | 204,244,289 | - | 204,244,289 |
| Financial investments – Loans and receivables | 36 | - | - | 57,724,369 | - | - | 57,724,369 |
| Total Financial Assets | | 11,774,518 | - | 639,900,770 | 204,244,289 | - | 855,919,577 |
| Financial Liabilities | | | | | | | |
| Due to banks | 43 | - | - | - | - | 30,319,119 | 30,319,119 |
| Derivative financial liabilities | 44 | 1,890,770 | - | - | - | - | 1,890,770 |
| Securities sold under repurchase agreements | | - | - | - | - | 112,384,812 | 112,384,812 |
| Due to other customers/ deposits from customers | 45 | - | - | - | - | 624,101,810 | 624,101,810 |
| Other borrowings | 46 | - | - | - | - | 9,985,637 | 9,985,637 |
| Subordinated liabilities | 52 | - | - | - | - | 11,973,272 | 11,973,272 |
| Total Financial Liabilities | | 1,890,770 | - | - | - | 788,764,650 | 790,655,420 |

26. Fair Value Measurement

The Group measures the fair value using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurement. An analysis of fair value measurement of financial and non-financial assets and liabilities is provided below.

Level 1

Inputs that are quoted market prices (unadjusted) in an active market for identical instruments.

When available, the Group measures the fair value of an instrument using active quoted prices or dealer price quotations (assets and long positions are measured at a bid price; liabilities and short positions are measured at an ask price), without any deduction for transaction costs. A market is regarded as active if transactions for asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2

Inputs other than quoted prices included within level that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices).

This category includes instruments valued using;

- (a) quoted prices in active markets for similar instruments,
- (b) quoted prices for identical or similar instruments in markets that are considered to be less active, or
- (c) other valuation techniques in which almost all significant inputs are directly or indirectly observable from market data.

Level 3

Inputs that are unobservable.

This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation.

This category includes instruments that are valued based on quoted prices of similar instruments for which significant unobservable adjustments or assumptions are required to reflect difference between the instruments.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which observable market prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, risk premiums in estimating discount rates, bond and equity prices, foreign exchange rates, expected price volatilities and corrections.

Observable prices or model inputs such as market interest rates are usually available in the market for listed equity securities and Government Securities such as Treasury Bills and Treasury Bonds. Availability of observable prices and model inputs reduces the need for management judgment and estimation while reducing uncertainty associated in determining the fair values.

Models are adjusted to reflect the spread for bid and ask prices to reflect costs to close out positions, credit and debit valuation adjustments, liquidity spread and limitations in the models. Also, profit or loss calculated when such financial instruments are first recorded ('Day 1' profit or loss) is deferred and recognised only when the inputs become observable or on derecognition of the instrument.

26.1 Assets and Liabilities Measured at Fair Value and Fair Value Hierarchy

The following table provides an analysis of assets and liabilities measured at fair value as at the Reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised. These amounts were based on the values recognised in the Statement of Financial Position.

| As at December 31, 2016 | Note | GROUP | | | | BANK | | | |
|--|------|---------------------|---------------------|---------------------|-------------------|---------------------|---------------------|---------------------|-------------------|
| | | Level 1 Rs. '000 | Level 2 Rs. '000 | Level 3 Rs. '000 | Total Rs. '000 | Level 1 Rs. '000 | Level 2 Rs. '000 | Level 3 Rs. '000 | Total Rs. '000 |
| Non-Financial Assets | | | | | | | | | |
| Property, plant & equipment | | | | | | | | | |
| Land and buildings | 26.2 | - | - | 7,743,071 | 7,743,071 | - | - | 7,528,891 | 7,528,891 |
| Total non-financial assets at fair value | | - | - | 7,743,071 | 7,743,071 | - | - | 7,528,891 | 7,528,891 |
| Financial Assets | | | | | | | | | |
| Derivative financial assets 30 | | | | | | | | | |
| Currency swaps | | - | 261,664 | - | 261,664 | - | 261,664 | - | 261,664 |
| Forward contracts | | - | 788,808 | - | 788,808 | - | 788,808 | - | 788,808 |
| Spot contracts | | - | 2,357 | - | 2,357 | - | 2,357 | - | 2,357 |
| Other financial instruments – Held-for-trading 31 | | | | | | | | | |
| Government securities | | 4,693,989 | - | - | 4,693,989 | 4,693,989 | - | - | 4,693,989 |
| Equity shares | | 293,809 | - | - | 293,809 | 293,809 | - | - | 293,809 |
| Financial investments – Available-for-sale 34 | | | | | | | | | |
| Government securities | | 159,642,243 | - | - | 159,642,243 | 159,573,316 | - | - | 159,573,316 |
| Equity securities | | 246,548 | - | 47,271 | 293,819 | 246,548 | - | 47,147 | 293,695 |
| Investment in unit trust | | - | 156,460 | - | 156,460 | - | 156,460 | - | 156,460 |
| Total financial assets at fair value | | 164,876,589 | 1,209,289 | 47,271 | 166,133,149 | 164,807,662 | 1,209,289 | 47,147 | 166,064,098 |
| Total assets at fair value | | 164,876,589 | 1,209,289 | 7,790,342 | 173,876,220 | 164,807,662 | 1,209,289 | 7,576,038 | 173,592,989 |
| Financial Liabilities | | | | | | | | | |
| Derivative financial liabilities 44 | | | | | | | | | |
| Currency swaps | | - | 663,714 | - | 663,714 | - | 663,714 | - | 663,714 |
| Forward contracts | | - | 849,011 | - | 849,011 | - | 849,011 | - | 849,011 |
| Spot contracts | | - | 2,310 | - | 2,310 | - | 2,310 | - | 2,310 |
| Total liabilities at fair value | | - | 1,515,035 | - | 1,515,035 | - | 1,515,035 | - | 1,515,035 |

| As at December 31, 2015 | Note | GROUP | | | | BANK | | | |
|---|------|---------------------|---------------------|---------------------|--------------------|---------------------|---------------------|---------------------|--------------------|
| | | Level 1 Rs. '000 | Level 2 Rs. '000 | Level 3 Rs. '000 | Total Rs. '000 | Level 1 Rs. '000 | Level 2 Rs. '000 | Level 3 Rs. '000 | Total Rs. '000 |
| Non-Financial Assets | | | | | | | | | |
| Property, plant & equipment | | | | | | | | | |
| Land and buildings | 26.2 | - | - | 7,469,355 | 7,469,355 | - | - | 7,242,924 | 7,242,924 |
| Total non-financial assets at fair value | | - | - | 7,469,355 | 7,469,355 | - | - | 7,242,924 | 7,242,924 |
| Financial Assets | | | | | | | | | |
| Derivative financial assets | | | | | | | | | |
| Currency swaps | 30 | - | 3,328,679 | - | 3,328,679 | - | 3,328,679 | - | 3,328,679 |
| Forward contracts | | - | 786,794 | - | 786,794 | - | 786,794 | - | 786,794 |
| Spot contracts | | - | 2,696 | - | 2,696 | - | 2,696 | - | 2,696 |
| Other financial instruments – Held-for-trading | | | | | | | | | |
| Government securities | 31 | 7,330,086 | - | - | 7,330,086 | 7,330,086 | - | - | 7,330,086 |
| Equity shares | | 326,263 | - | - | 326,263 | 326,263 | - | - | 326,263 |
| Financial investments – Available-for-sale | | | | | | | | | |
| Government securities | 34 | 203,774,930 | - | - | 203,774,930 | 203,757,409 | - | - | 203,757,409 |
| Equity securities | | 234,839 | - | 46,611 | 281,450 | 234,839 | - | 46,487 | 281,326 |
| Investment in unit trust | | - | 205,554 | - | 205,554 | - | 205,554 | - | 205,554 |
| Total financial assets at fair value | | 211,666,118 | 4,323,723 | 46,611 | 216,036,452 | 211,648,597 | 4,323,723 | 46,487 | 216,018,807 |
| Total assets at fair value | | 211,666,118 | 4,323,723 | 7,515,966 | 223,505,807 | 211,648,597 | 4,323,723 | 7,289,411 | 223,261,731 |
| Financial Liabilities | | | | | | | | | |
| Derivative financial liabilities | | | | | | | | | |
| Currency swaps | 44 | - | 791,199 | - | 791,199 | - | 791,199 | - | 791,199 |
| Forward contracts | | - | 1,098,002 | - | 1,098,002 | - | 1,098,002 | - | 1,098,002 |
| Spot contracts | | - | 1,569 | - | 1,569 | - | 1,569 | - | 1,569 |
| Total liabilities at fair value | | - | 1,890,770 | - | 1,890,770 | - | 1,890,770 | - | 1,890,770 |

26.2 Level 3 Fair Value Measurement

Property, Plant & Equipment (PPE)

Reconciliation from the opening balance to the ending balance for the land and buildings in the Level 3 of the fair value hierarchy is available in Note 39.1 to 39.4 on pages 266 to 269.

Reconciliation of Revaluation Reserve pertaining to land and buildings categorised as Level 3 in the fair value hierarchy is given in the Statement of Changes in Equity on pages 186 to 189.

Note 39.5 (b) on page 271 provides information on significant unobservable inputs used as at December 31, 2016 in measuring fair value of land and buildings categorised as Level 3 in the fair value hierarchy.

Note 39.5 (c) on page 275 provides details of valuation techniques used and sensitivity of fair value measurement to changes in significant unobservable inputs.

Equity Securities

Value of unquoted shares of Rs. 47.271 Mn. in Group and Rs. 47.147 Mn. in Bank as at end of the year 2016 (Rs. 46.611 Mn. in Group and Rs. 46.487 Mn. in Bank as at end 2015) categorised under Financial investments – Available-for-sale whose fair value cannot be reliably measured is stated at cost in the Statement of Financial Position as permitted by the LKAS 39 on ‘Financial Instruments: Recognition and Measurement’.

26.3 Financial Instruments not Measured at Fair Value and Fair Value Hierarchy

Methodologies and assumptions used to determine fair value of financial instruments which are not already recorded at fair value in the Statement of Financial Position are as follows:

Fixed Rate Financial Instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost (eg. fixed rate loans and receivables, due to other customers, subordinated liabilities) are estimated based on the Discounted Cash Flow approach. This approach employs the current market interest rates of similar financial instruments as a significant unobservable input in measuring the fair value and hence it is categorised under Level 3 in the fair value hierarchy.

Sensitivity of Significant Unobservable Inputs used to Measure Fair Value of Fixed Rate Financial Instruments

A significant increase/(decrease) in the market interest rate would result in lower/(higher) fair value being disclosed.

Assets for which Fair Value Approximates Carrying Value

For financial assets and liabilities with short-term maturities or with short-term re-pricing intervals, it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings deposits which do not have a specific maturity.

The following table sets out the estimated fair values of financial assets and liabilities not measured at fair value and hence reflected at the carrying amounts in Financial Statements and the fair value hierarchy used:

| As at December 31, 2016 | Note | GROUP | | | | | BANK | | | | |
|--|------|-------------------|--------------------|--------------------|--------------------|-----------------------|-------------------|--------------------|--------------------|--------------------|-----------------------|
| | | Level 1 | Level 2 | Level 3 | Total Fair Value | Total Carrying Amount | Level 1 | Level 2 | Level 3 | Total Fair Value | Total Carrying Amount |
| | | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Financial Assets | | | | | | | | | | | |
| Cash and cash equivalents | 27 | - | 32,924,227 | - | 32,924,227 | 32,924,227 | - | 30,193,589 | - | 30,193,589 | 30,193,589 |
| Balance with Central Banks | 28 | - | 43,935,258 | - | 43,935,258 | 43,935,258 | - | 43,873,205 | - | 43,873,205 | 43,873,205 |
| Placements with banks | 29 | - | 11,718,499 | - | 11,718,499 | 11,718,499 | - | 11,718,499 | - | 11,718,499 | 11,718,499 |
| Loans and receivables to banks | 32 | - | 624,458 | - | 624,458 | 624,458 | - | 624,458 | - | 624,458 | 624,458 |
| Loans and receivables to other customers | 33 | - | - | 625,821,184 | 625,821,184 | 620,129,488 | - | - | 621,709,924 | 621,709,924 | 616,018,228 |
| Financial investments – Held-to-maturity | 35 | 62,777,800 | - | - | 62,777,800 | 63,626,598 | 60,132,500 | - | - | 60,132,500 | 60,981,298 |
| Financial investments – Loans and receivables | 36 | - | - | 51,824,026 | 51,824,026 | 51,824,026 | - | - | 51,824,026 | 51,824,026 | 51,824,026 |
| Total financial assets not at fair value | | 62,777,800 | 89,202,442 | 677,645,210 | 829,625,452 | 824,782,554 | 60,132,500 | 86,409,751 | 673,533,950 | 820,076,201 | 815,233,303 |
| Financial Liabilities | | | | | | | | | | | |
| Due to banks | 43 | - | 71,098,391 | - | 71,098,391 | 71,098,391 | - | 67,608,811 | - | 67,608,811 | 67,608,811 |
| Securities sold under repurchase agreements | | - | 69,628,961 | - | 69,628,961 | 69,628,961 | - | 69,867,469 | - | 69,867,469 | 69,867,469 |
| Due to other customers/ deposits from customers | 45 | - | - | 743,145,668 | 743,145,668 | 743,310,613 | - | - | 739,728,439 | 739,728,439 | 739,563,494 |
| Other borrowings | 46 | - | - | 9,270,154 | 9,270,154 | 9,270,154 | - | - | 9,270,154 | 9,270,154 | 9,270,154 |
| Subordinated liabilities | 52 | - | - | 24,175,367 | 24,175,367 | 24,849,539 | - | - | 24,175,367 | 24,175,367 | 24,849,539 |
| Total financial liabilities not at fair value | | - | 140,727,352 | 776,591,189 | 917,318,541 | 918,157,658 | - | 137,476,280 | 773,173,960 | 910,650,240 | 911,159,467 |

| As at December 31, 2015 | Note | GROUP | | | | | BANK | | | | |
|--|------|----------|--------------------|--------------------|--------------------|-----------------------|----------|--------------------|--------------------|--------------------|-----------------------|
| | | Level 1 | Level 2 | Level 3 | Total Fair Value | Total Carrying Amount | Level 1 | Level 2 | Level 3 | Total Fair Value | Total Carrying Amount |
| | | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Financial Assets | | | | | | | | | | | |
| Cash and cash equivalents | 27 | - | 20,107,076 | - | 20,107,076 | 20,107,076 | - | 20,043,512 | - | 20,043,512 | 20,043,512 |
| Balances with Central Banks | 28 | - | 28,221,017 | - | 28,221,017 | 28,221,017 | - | 28,221,017 | - | 28,221,017 | 28,221,017 |
| Placements with banks | 29 | - | 17,193,539 | - | 17,193,539 | 17,193,539 | - | 17,193,539 | - | 17,193,539 | 17,193,539 |
| Securities purchased under resale agreements | | - | 8,002,100 | - | 8,002,100 | 8,002,100 | - | 8,002,100 | - | 8,002,100 | 8,002,100 |
| Loans and receivables to banks | 32 | - | 601,106 | - | 601,106 | 601,106 | - | 601,106 | - | 601,106 | 601,106 |
| Loans and receivables to other customers | 33 | - | - | 511,056,767 | 511,056,767 | 509,923,128 | - | - | 509,248,766 | 509,248,766 | 508,115,127 |
| Financial investments – Loans and receivables | 36 | - | - | 57,724,369 | 57,724,369 | 57,724,369 | - | - | 57,724,369 | 57,724,369 | 57,724,369 |
| Total financial assets not at fair value | | - | 74,124,838 | 568,781,136 | 642,905,974 | 641,772,335 | - | 74,061,274 | 566,973,135 | 641,034,409 | 639,900,770 |
| Financial Liabilities | | | | | | | | | | | |
| Due to banks | 43 | - | 31,789,396 | - | 31,789,396 | 31,789,396 | - | 30,319,119 | - | 30,319,119 | 30,319,119 |
| Securities sold under repurchase agreements | | - | 112,249,703 | - | 112,249,703 | 112,249,703 | - | 112,384,812 | - | 112,384,812 | 112,384,812 |
| Due to other customers/deposits from customers | 45 | - | - | 624,570,898 | 624,570,898 | 624,021,217 | - | - | 624,651,491 | 624,651,491 | 624,101,810 |
| Other borrowings | 46 | - | - | 9,985,637 | 9,985,637 | 9,985,637 | - | - | 9,985,637 | 9,985,637 | 9,985,637 |
| Subordinated liabilities | 52 | - | - | 12,019,342 | 12,019,342 | 11,988,272 | - | - | 12,004,342 | 12,004,342 | 11,973,272 |
| Total financial liabilities not at fair value | | - | 144,039,099 | 646,575,877 | 790,614,976 | 790,034,225 | - | 142,703,931 | 646,641,470 | 789,345,401 | 788,764,650 |

26.4 Valuation Techniques and Inputs in Measuring Fair Values

The table below provides information on the valuation techniques and inputs used in measuring the fair values of Derivative financial assets and liabilities in the Level 2 of the fair value hierarchy, as given in Note 26.1 on page 234.

| Type of Financial Instruments | Fair Value as at December 31, 2016 (Rs. '000) | Valuation Technique | Significant Valuation inputs |
|----------------------------------|---|--|--|
| Derivative Financial Assets | 1,052,829 | Adjusted Forward Rate Approach This approach considers the present value of projected forward exchange rate as at the Reporting date as the fair value. The said forward rate is projected, based on the spot exchange rate and the forward premium/discount calculated using extrapolated interest rates of the currency pairs under consideration. In computing the present value, interest rate differential between two currencies under consideration is used as the discount rate. | <ul style="list-style-type: none"> Spot exchange rate Interest rate differentials between currencies under consideration |
| Derivative Financial Liabilities | 1,515,035 | | |

27. Cash and Cash Equivalents

Cash and cash equivalents include cash in hand, placements with banks and loans at call/short notice and highly liquid financial assets with original maturities within three months or less from the date of acquisition that are subject to an insignificant risk of changes in fair value and are used by the Group in the management of its short-term commitments. These items are brought to Financial Statements at face values or the gross values, where appropriate. There were no cash and cash equivalents held by the Group companies that were not available for use by the Group.

Cash and cash equivalents are carried at amortised cost in the Statement of Financial Position.

| As at December 31, | GROUP | | BANK | |
|--|-------------------|-------------------|-------------------|-------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| Cash in hand | 17,599,901 | 15,931,941 | 17,406,776 | 15,873,479 |
| Coins and notes held in local currency | 15,497,697 | 14,035,800 | 15,488,867 | 14,031,376 |
| Coins and notes held in foreign currency | 2,102,204 | 1,896,141 | 1,917,909 | 1,842,103 |
| Balances with banks | 6,122,355 | 2,705,999 | 5,794,927 | 2,700,897 |
| Local banks | - | 5,102 | - | - |
| Foreign banks | 6,122,355 | 2,700,897 | 5,794,927 | 2,700,897 |
| Money at call and at short notice | 9,201,971 | 1,469,136 | 6,991,886 | 1,469,136 |
| Total | 32,924,227 | 20,107,076 | 30,193,589 | 20,043,512 |

The maturity analysis of Cash and Cash Equivalents is given in Note 62 on pages 308 and 309.

28. Balances with Central Banks

Balances with Central Banks are carried at amortised cost in the Statement of Financial Position.

| As at December 31, | GROUP | | BANK | |
|---|-------------------|-------------------|-------------------|-------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| Statutory balances with Central Banks [Refer Note 28.1] | 43,935,258 | 22,820,127 | 43,873,205 | 22,820,127 |
| Non-statutory balances with Central Banks [Refer Note 28.2] | - | 5,400,890 | - | 5,400,890 |
| Total | 43,935,258 | 28,221,017 | 43,873,205 | 28,221,017 |

28.1 Statutory Balances with Central Banks

| As at December 31, | GROUP | | BANK | |
|---|-------------------|-------------------|-------------------|-------------------|
| | 2016 | 2015 | 2016 | 2015 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Balances with the Central Bank of Sri Lanka | 40,469,986 | 20,075,130 | 40,469,986 | 20,075,130 |
| Balances with the Bangladesh Bank | 3,403,219 | 2,744,997 | 3,403,219 | 2,744,997 |
| Balances with the Maldives Monetary Authority | 62,053 | – | – | – |
| Total | 43,935,258 | 22,820,127 | 43,873,205 | 22,820,127 |

Balances with Central Bank of Sri Lanka

The Monetary Law Act requires that all commercial banks operating in Sri Lanka to maintain a statutory reserve on all deposit liabilities denominated in Sri Lankan Rupees. 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, 2016, the minimum cash reserve requirement was 7.50% of the rupee deposit liabilities (7.50% in 2015). There is no reserve requirement for foreign currency deposits liabilities of the Domestic Banking Unit (DBU) and the deposit liabilities of the Off-shore Banking Centre (OBC) in Sri Lanka.

Balances with Bangladesh Bank

The Bank's Bangladesh operation is required to maintain the statutory liquidity requirement on time and demand liabilities (both local and foreign currencies), partly in the form of a Cash Reserve Requirement and the balance by way of foreign currency and/or in the form of unencumbered securities held with the Bangladesh Bank. As per the Bangladesh Bank regulations, the Statutory Liquidity Requirement as at December 31, 2016 was 19.50% (19.50% in 2015) on time and demand liabilities (both local and foreign currencies), which includes a 6.50% (6.50% in 2015) cash reserve requirement and the balance 13.00% (13.00% in 2015) is permitted to be maintained in foreign currency and/or also in unencumbered securities held with the Bangladesh Bank.

Balances with Maldives Monetary Authority

The Maldives Banking Act No. 24 of 2010 section 25 requires the Bank to maintain a statutory reserve on all deposits liabilities denominated in both foreign currency and local currency deposits excluding interbank deposits of other banks in Maldives and Letter of Credit margin deposits. According to the Bank regulations of Maldives Monetary Authority, the Minimum Reserve Requirement (MRR) as at December 31, 2016 was 10%. The reserve requirement for local currency is to be met in the form of Rufiyaa deposits, while reserve requirement for foreign currency is to be met in the form of US dollar deposits.

28.2 Non-Statutory Balances with Central Banks

As per the circulars 35/01/005/006/33 and 34/01/005/006/07, issued by the Domestic Operations Department of the Central Bank of Sri Lanka, the 'Standing Repurchase (Repo)' facility was replaced by the 'Standing Deposit Facility (SDF)' for open market operations. This facility is available on an overnight basis and interest component on the deposit has been computed at the Standing Deposit Facility Rate (SDFR) of the Central Bank of Sri Lanka for the duration of the respective deposit held.

| As at December 31, | GROUP | | BANK | |
|-------------------------------|----------|------------------|----------|------------------|
| | 2016 | 2015 | 2016 | 2015 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Central Bank of Sri Lanka (*) | – | 5,400,890 | – | 5,400,890 |
| Bangladesh Bank | – | – | – | – |
| Total | – | 5,400,890 | – | 5,400,890 |

(*) The Group had the above balance on a Standing Deposit Facility as at December 31, 2015.

The maturity analysis of Balances with Central Banks is given in Note 62 on pages 308 and 309.

29. Placements with Banks

| <i>As at December 31,</i> | GROUP | | BANK | |
|--------------------------------|-------------------|-------------------|-------------------|-------------------|
| | 2016 | 2015 | 2016 | 2015 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Placements – within Sri Lanka | 1,094,821 | 5,516,273 | 1,094,821 | 5,516,273 |
| Placements – outside Sri Lanka | 10,623,678 | 11,677,266 | 10,623,678 | 11,677,266 |
| Total | 11,718,499 | 17,193,539 | 11,718,499 | 17,193,539 |

The maturity analysis of Placements with Banks is given in Note 62 on pages 308 and 309.

30. Derivative Financial Assets

The Bank uses derivatives such as interest rate swaps, foreign currency swaps and forward foreign exchange contracts, etc. Derivative financial assets are recorded at fair value. Changes in the fair value of derivatives are included in 'Net Gains/(Losses) from Trading' in the Income Statement.

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract and the host contract is not itself held-for-trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair value in the trading portfolio with changes in fair value recognised in the profit or loss.

| <i>As at December 31,</i> | GROUP | | BANK | |
|-------------------------------------|------------------|------------------|------------------|------------------|
| | 2016 | 2015 | 2016 | 2015 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Foreign currency derivatives | | | | |
| Currency swaps | 261,664 | 3,328,679 | 261,664 | 3,328,679 |
| Forward contracts | 788,808 | 786,794 | 788,808 | 786,794 |
| Spot contracts | 2,357 | 2,696 | 2,357 | 2,696 |
| Total | 1,052,829 | 4,118,169 | 1,052,829 | 4,118,169 |

The maturity analysis of Derivative Financial Assets is given in Note 62 on pages 308 and 309.

31. Other Financial Instruments – Held-for-Trading

Financial assets are classified as Held-for-trading if;

- they are acquired principally for the purpose of selling or repurchasing in the near term; or
- they hold as a part of a portfolio that is managed together for short-term profit or position taking; or
- they form part of derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as per the Sri Lanka Accounting Standard – LKAS 39 on ‘Financial Instruments: Recognition and Measurement’.

Financial assets Held-for-trading are recorded in the Statement of Financial Position at fair value. Changes in fair value are recognised in profit or loss. Interest and dividend income are recorded in ‘Interest Income’ and ‘Net Gains/(Losses) from Trading’ respectively in the Income Statement, according to the terms of the contract, or when the right to receive the payment has been established.

The Group evaluates its financial assets Held-for-trading, other than derivatives, to determine whether the intention to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets, due to inactive markets and Management’s intention to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances.

Financial assets held-for-trading include instruments such as Government and other debt securities and equity instruments that have been acquired principally for the purpose of selling or repurchasing in the near term and derivatives, including separated embedded derivatives explained below, unless they are designated as effective hedging instruments.

| <i>As at December 31,</i> | GROUP | | BANK | |
|---|------------------|-----------|------------------|-----------|
| | 2016 | 2015 | 2016 | 2015 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Government securities [Refer Note 31.1] | 4,693,989 | 7,330,086 | 4,693,989 | 7,330,086 |
| Equity securities [Refer Note 31.2] | 293,809 | 326,263 | 293,809 | 326,263 |
| Total | 4,987,798 | 7,656,349 | 4,987,798 | 7,656,349 |

31.1 Government Securities

| <i>As at December 31,</i> | GROUP | | BANK | |
|------------------------------------|------------------|-----------|------------------|-----------|
| | 2016 | 2015 | 2016 | 2015 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Treasury bills | 2,467,221 | 1,552,531 | 2,467,221 | 1,552,531 |
| Treasury bonds | 2,226,768 | 5,777,555 | 2,226,768 | 5,777,555 |
| Total Government securities | 4,693,989 | 7,330,086 | 4,693,989 | 7,330,086 |

The maturity analysis of Other Financial Instruments Held-for-trading is given in Note 62 on pages 308 and 309.

31.2 Equity Securities – Group and Bank

| Sector/Name of the Company | As at December 31, 2016 | | | | As at December 31, 2015 | | | |
|--|-------------------------|--------------|---------------|------------------------|-------------------------|--------------|---------------|------------------------|
| | No. of Shares | Market Price | Market Value | Cost of the Investment | No. of Shares | Market Price | Market Value | Cost of the Investment |
| | | Rs. | Rs. '000 | Rs. '000 | | Rs. | Rs. '000 | Rs. '000 |
| Bank, Finance and Insurance | | | | | | | | |
| Central Finance Company PLC | 196,189 | 100.00 | 19,619 | 18,937 | 94,930 | 253.00 | 24,017 | 18,937 |
| Citizens Development Business Finance PLC (Non-voting) | 101,965 | 62.10 | 6,332 | 3,398 | 101,965 | 80.00 | 8,157 | 3,398 |
| Hatton National Bank PLC | 83 | 225.00 | 19 | 12 | 82 | 210.60 | 17 | 12 |
| Lanka Ventures PLC | 100,000 | 42.50 | 4,250 | 3,033 | 100,000 | 43.50 | 4,350 | 3,033 |
| National Development Bank PLC | 200,000 | 156.00 | 31,200 | 34,381 | – | – | – | – |
| People's Insurance Ltd. | 126,500 | 19.00 | 2,404 | 1,898 | – | – | – | – |
| Sampath Bank PLC | 26,350 | 260.40 | 6,862 | 4,298 | 25,655 | 248.00 | 6,362 | 4,298 |
| Subtotal | | | 70,686 | 65,957 | | | 42,903 | 29,678 |
| Beverage, Food and Tobacco | | | | | | | | |
| Lanka Milk Foods (CWE) PLC | 250,000 | 119.00 | 29,750 | 27,866 | 250,000 | 135.00 | 33,750 | 27,866 |
| Melstacorp Ltd. | 245,960 | 59.30 | 14,585 | 9,814 | – | – | – | – |
| Renuka Foods PLC (Non-voting) | 1,000 | 19.50 | 20 | 15 | – | – | – | – |
| COCO Lanka PLC (Non-voting) | – | – | – | – | 1,000 | 23.90 | 24 | 15 |
| Distilleries Company of Sri Lanka PLC | – | – | – | – | 181,490 | 246.00 | 44,647 | 28,968 |
| Subtotal | | | 44,355 | 37,695 | | | 78,421 | 56,849 |
| Chemicals and Pharmaceuticals | | | | | | | | |
| Chemical Industries Colombo Holding PLC (Non-voting) | 161,400 | 68.00 | 10,975 | 11,692 | 161,400 | 81.20 | 13,106 | 11,692 |
| Haycarb PLC | 107,100 | 150.00 | 16,065 | 15,914 | 107,100 | 164.90 | 17,661 | 15,914 |
| Subtotal | | | 27,040 | 27,606 | | | 30,767 | 27,606 |
| Construction and Engineering | | | | | | | | |
| Colombo Dockyard PLC | 75,000 | 78.60 | 5,895 | 16,685 | 75,000 | 150.10 | 11,258 | 16,685 |
| Subtotal | | | 5,895 | 16,685 | | | 11,258 | 16,685 |
| Diversified Holdings | | | | | | | | |
| Hemas Holdings PLC | 60 | 98.00 | 6 | 2 | 60 | 92.90 | 6 | 2 |
| John Keells Holdings PLC | 130,611 | 145.00 | 18,939 | 20,527 | 114,285 | 178.10 | 20,354 | 20,527 |
| Subtotal | | | 18,945 | 20,529 | | | 20,360 | 20,529 |
| Healthcare | | | | | | | | |
| Ceylon Hospitals PLC | 121,900 | 87.40 | 10,654 | 12,868 | 121,900 | 101.20 | 12,336 | 12,868 |
| Ceylon Hospitals PLC (Non-voting) | 61,100 | 69.50 | 4,246 | 4,423 | 61,100 | 75.00 | 4,583 | 4,423 |
| Subtotal | | | 14,900 | 17,291 | | | 16,919 | 17,291 |
| Hotels and Travels | | | | | | | | |
| John Keells Hotels PLC | 267,608 | 10.90 | 2,917 | 3,473 | 267,608 | 15.40 | 4,121 | 3,473 |
| Taj Lanka Hotels PLC | 212,390 | 25.20 | 5,352 | 6,625 | 212,390 | 25.30 | 5,373 | 6,625 |
| Subtotal | | | 8,269 | 10,098 | | | 9,494 | 10,098 |

| Sector/Name of the Company | As at December 31, 2016 | | | | As at December 31, 2015 | | | |
|--|-------------------------|---------------------|--------------------------|------------------------------------|-------------------------|---------------------|--------------------------|------------------------------------|
| | No. of Shares | Market Price Rs. | Market Value Rs. '000 | Cost of the Investment Rs. '000 | No. of Shares | Market Price Rs. | Market Value Rs. '000 | Cost of the Investment Rs. '000 |
| Investment Trusts | | | | | | | | |
| Renuka Holdings PLC | 117,158 | 21.10 | 2,472 | 3,180 | 117,158 | 26.90 | 3,152 | 3,180 |
| Renuka Holdings PLC (Non-voting) | 265,368 | 18.00 | 4,777 | 4,958 | 265,368 | 22.80 | 6,050 | 4,958 |
| Subtotal | | | 7,249 | 8,138 | | | 9,202 | 8,138 |
| Land and Property | | | | | | | | |
| Overseas Reality Ceylon PLC | 183,320 | 20.00 | 3,666 | 2,716 | 183,320 | 23.20 | 4,253 | 2,716 |
| CT Land Development PLC | 15,000 | 53.10 | 797 | 531 | 15,000 | 50.00 | 750 | 531 |
| Subtotal | | | 4,463 | 3,247 | | | 5,003 | 3,247 |
| Manufacturing | | | | | | | | |
| ACL Cables PLC | 343,032 | 60.50 | 20,753 | 14,096 | 171,516 | 120.90 | 20,736 | 14,096 |
| Dipped Products PLC | 200,000 | 86.80 | 17,360 | 24,239 | 200,000 | 110.00 | 22,000 | 24,239 |
| Lanka Walltile PLC | 60 | 99.70 | 6 | 5 | 60 | 109.80 | 7 | 5 |
| Pelwatte Sugar Industries PLC | 12,300 | 0.10 | 1 | 351 | 12,300 | 0.10 | 1 | 351 |
| Royal Ceramics Lanka PLC | 155,927 | 115.50 | 18,010 | 18,057 | 155,927 | 111.20 | 17,339 | 18,057 |
| Subtotal | | | 56,130 | 56,748 | | | 60,083 | 56,748 |
| Plantations | | | | | | | | |
| Kotagala Plantations PLC | 201,750 | 8.90 | 1,796 | 9,172 | 201,750 | 17.80 | 3,591 | 9,172 |
| Subtotal | | | 1,796 | 9,172 | | | 3,591 | 9,172 |
| Power and Energy | | | | | | | | |
| Hemas Power PLC | 106,249 | 22.30 | 2,369 | 2,053 | 106,249 | 25.00 | 2,656 | 2,053 |
| Lanka IOC PLC | 685,984 | 31.70 | 21,746 | 15,013 | 685,984 | 37.10 | 25,450 | 15,013 |
| Subtotal | | | 24,115 | 17,066 | | | 28,106 | 17,066 |
| Telecommunications | | | | | | | | |
| Dialog Axiata PLC | 949,172 | 10.50 | 9,966 | 6,300 | 949,172 | 10.70 | 10,156 | 6,300 |
| Subtotal | | | 9,966 | 6,300 | | | 10,156 | 6,300 |
| Total | | | 293,809 | 296,532 | | | 326,263 | 279,407 |
| Mark to market gains/(losses) | | | | (2,723) | | | | 46,856 |
| Market value of equity securities | | | | 293,809 | | | | 326,263 |

31.3 Industry/Sector Composition of Equity Securities – Group and Bank

| Industry/Sector | As at December 31, 2016 | | | As at December 31, 2015 | | |
|--|-------------------------|------------------------|---------------|-------------------------|------------------------|---------------|
| | Market Value | Cost of the Investment | % | Market Value | Cost of the Investment | % |
| | Rs. '000 | Rs. '000 | | Rs. '000 | Rs. '000 | |
| Banking, Finance and Insurance | 70,686 | 65,957 | 24.06 | 42,903 | 29,678 | 13.15 |
| Beverage, Food and Tobacco | 44,355 | 37,695 | 15.10 | 78,421 | 56,849 | 24.04 |
| Chemicals and Pharmaceuticals | 27,040 | 27,606 | 9.20 | 30,767 | 27,606 | 9.43 |
| Construction and Engineering | 5,895 | 16,685 | 2.01 | 11,258 | 16,685 | 3.45 |
| Diversified Holdings | 18,945 | 20,529 | 6.45 | 20,360 | 20,529 | 6.24 |
| Healthcare | 14,900 | 17,291 | 5.07 | 16,919 | 17,291 | 5.19 |
| Hotels and Travels | 8,269 | 10,098 | 2.81 | 9,494 | 10,098 | 2.91 |
| Investment Trusts | 7,249 | 8,138 | 2.47 | 9,202 | 8,138 | 2.82 |
| Land and Property | 4,463 | 3,247 | 1.52 | 5,003 | 3,247 | 1.53 |
| Manufacturing | 56,130 | 56,748 | 19.10 | 60,083 | 56,748 | 18.42 |
| Plantations | 1,796 | 9,172 | 0.61 | 3,591 | 9,172 | 1.10 |
| Power and Energy | 24,115 | 17,066 | 8.21 | 28,106 | 17,066 | 8.61 |
| Telecommunications | 9,966 | 6,300 | 3.39 | 10,156 | 6,300 | 3.11 |
| Subtotal | 293,809 | 296,532 | 100.00 | 326,263 | 279,407 | 100.00 |
| Mark to market gains/(losses) | | (2,723) | | | 46,856 | |
| Market value of equity securities | 293,809 | 293,809 | 100.00 | 326,263 | 326,263 | 100.00 |

32. Loans and Receivables to Banks

'Loans and receivables to banks' comprises of non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those that the Group intends to sell immediately or in the near term and those that the Group, upon initial recognition, designates as at fair value through profit or loss.
- those that the Group, upon initial recognition, designates as available-for-sale.
- those that the Group, upon initial recognition, designates as held-to-maturity.
- those for which the Group may not recover substantially all of its initial investment, other than because of credit deterioration.
- finance lease receivables

'Loans and receivables to banks' include amounts due from banks. After initial measurement, Loans and receivables to banks are subsequently measured at amortised cost using the EIR, less provision for impairment, except when the Group designates loans and receivables at fair value through profit or loss. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in 'Interest Income' while the losses arising from impairment are recognised in 'Impairment charges for loans and other losses' in the Income Statement.

| As at December 31, | GROUP | | BANK | |
|----------------------------------|----------------|----------------|----------------|----------------|
| | 2016 | 2015 | 2016 | 2015 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Gross loans and receivables | 624,458 | 601,106 | 624,458 | 601,106 |
| Less: Provision for impairment | - | - | - | - |
| Net loans and receivables | 624,458 | 601,106 | 624,458 | 601,106 |

The maturity analysis of Loans and Receivables to Banks is given in Note 62 on pages 308 and 309.

The Bank did not make any payments to counter party banks for the oil hedging transactions with effect from June 02, 2009 in response to a Directive received from the Exchange Controller of the Central Bank of Sri Lanka. Consequently, one of the counterparty banks appropriated US\$ 4.170 Mn. (Rs. 624.458 Mn.) which has been kept as a deposit with them. This action has been contested by the Bank. In view of the stance taken by the Bank in this regard, both the deposit (made by the Bank) and the amount due to the said counterparty bank, have been recorded in the Statement of Financial Position.

32. 1 (a) By Currency

| As at December 31, | GROUP | | BANK | |
|----------------------|----------------|----------------|----------------|----------------|
| | 2016 | 2015 | 2016 | 2015 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| United States Dollar | 624,458 | 601,106 | 624,458 | 601,106 |
| Subtotal | 624,458 | 601,106 | 624,458 | 601,106 |

33. Loans and Receivables to Other Customers

'Loans and receivables to other customers' comprises of non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those that the Group intends to sell immediately or in the near term and those that the Group, upon initial recognition, designates as at fair value through profit or loss
- those that the Group, upon initial recognition, designates as available-for-sale
- those that the Group, upon initial recognition, designates as held-to-maturity.
- those for which the Group may not recover substantially all of its initial investment, other than because of credit deterioration.

'Loans and receivables to other customers' include, Loans & Advances and Lease Receivables of the Group.

When the Group is the lessor in a lease agreement that transfers substantially all risks and rewards incidental to ownership of the asset to the lessee, the arrangement is classified as a finance lease. Amounts receivable under finance leases, net of initial rentals received, unearned lease income and provision for impairment, are classified as lease receivable and are presented within 'Loans and receivables to customers' in the Statement of Financial Position.

After initial measurement, 'Loans and receivables to other customers' are subsequently measured at amortised cost using the EIR, less provision for impairment, except when the Group designates loans and receivables at fair value through profit or loss. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in 'Interest Income', while the losses arising from impairment are recognised in 'Impairment charges for loans and other losses' in the Income Statement.

The Bank may enter into certain lending commitments where the loan, on drawdown, is expected to be classified as Held-for-trading because the intent is to sell the loans in the short term. These commitments to lend, if any, are recorded as derivatives and measured at fair value through profit or loss. Where the loan, on drawdown, is expected to be retained by the Bank and not sold in the short term, the commitment is recorded only when it is an onerous contract that is likely to give rise to a loss.

| As at December 31, | GROUP | | BANK | |
|---|--------------------|--------------------|--------------------|--------------------|
| | 2016 | 2015 | 2016 | 2015 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Gross loans and receivables | 637,982,536 | 528,382,921 | 633,390,907 | 526,166,681 |
| Less: Provision for individual impairment [Refer Note 33.2] | 8,453,457 | 5,369,960 | 8,453,457 | 5,369,960 |
| Provision for collective impairment [Refer Note 33.2] | 9,399,591 | 13,089,833 | 8,919,222 | 12,681,594 |
| Net loans and receivables | 620,129,488 | 509,923,128 | 616,018,228 | 508,115,127 |

The maturity analysis of Loans and Receivables to Other Customers is given in Note 62 on pages 308 and 309.

33.1 Analysis**33.1 (a) By Product**

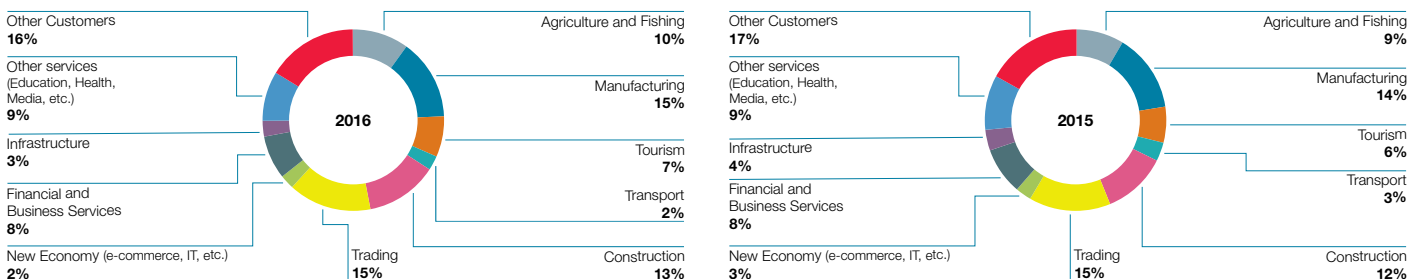
| As at December 31, | GROUP | | BANK | |
|--|--------------------|--------------------|--------------------|--------------------|
| | 2016 | 2015 | 2016 | 2015 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Loans and receivables | | | | |
| Overdrafts | 100,985,232 | 81,493,071 | 100,903,024 | 81,966,028 |
| Trade finance | 43,088,097 | 45,805,983 | 43,088,097 | 45,805,983 |
| Lease/hire purchase receivable [Refer Note 33.3] | 39,040,966 | 37,292,636 | 35,993,964 | 34,472,653 |
| Credit cards | 6,679,059 | 4,830,429 | 6,679,059 | 4,830,429 |
| Pawning | 1,239,785 | 1,870,881 | 1,239,785 | 1,870,881 |
| Staff loans | 7,276,285 | 6,117,701 | 7,274,154 | 6,115,662 |
| Housing loans | 47,275,462 | 40,327,887 | 47,275,462 | 40,327,887 |
| Personal loans | 25,996,196 | 26,290,382 | 25,906,055 | 26,270,744 |
| Term loans | | | | |
| Short-term | 72,590,084 | 44,044,255 | 71,219,300 | 44,044,255 |
| Long-term | 277,354,045 | 224,519,934 | 277,354,682 | 224,672,397 |
| Loans granted from Investment Fund Account (IFA) [Refer Note 33.4] | 3,974,359 | 4,435,479 | 3,974,359 | 4,435,479 |
| Bills of exchange | 12,482,966 | 11,354,283 | 12,482,966 | 11,354,283 |
| Subtotal | 637,982,536 | 528,382,921 | 633,390,907 | 526,166,681 |

33.1 (b) By currency

| As at December 31, | GROUP | | BANK | |
|----------------------|--------------------|--------------------|--------------------|--------------------|
| | 2016 | 2015 | 2016 | 2015 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Sri Lankan Rupee | 506,118,547 | 425,498,965 | 501,609,126 | 423,282,725 |
| United States Dollar | 94,727,986 | 68,414,361 | 94,645,778 | 68,414,361 |
| Great Britain Pound | 695,403 | 731,487 | 695,403 | 731,487 |
| Euro | 1,545,852 | 1,017,634 | 1,545,852 | 1,017,634 |
| Australian Dollar | 514,017 | 149,680 | 514,017 | 149,680 |
| Japanese Yen | 71,144 | 112,514 | 71,144 | 112,514 |
| Singapore Dollar | 127 | - | 127 | - |
| Bangladesh Taka | 34,174,199 | 32,449,851 | 34,174,199 | 32,449,851 |
| Others | 135,261 | 8,429 | 135,261 | 8,429 |
| Subtotal | 637,982,536 | 528,382,921 | 633,390,907 | 526,166,681 |

33.1 (c) By Industry

| As at December 31, | GROUP | | BANK | |
|---|--------------------|--------------------|--------------------|--------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| Agriculture and fishing | 63,529,644 | 45,842,559 | 63,332,661 | 45,667,263 |
| Manufacturing | 92,030,456 | 73,304,224 | 91,982,499 | 73,282,037 |
| Tourism | 46,086,461 | 33,696,456 | 45,919,393 | 33,644,481 |
| Transport | 14,892,683 | 16,684,942 | 14,800,244 | 16,592,979 |
| Construction | 81,259,365 | 61,665,875 | 81,187,168 | 61,602,932 |
| Trading | 94,987,320 | 78,254,327 | 93,538,474 | 77,628,493 |
| New economy (e-commerce, IT, etc.) | 15,111,861 | 14,226,759 | 15,111,861 | 14,226,759 |
| Financial and business services | 49,066,227 | 43,466,286 | 49,740,977 | 44,264,897 |
| Infrastructure | 17,894,260 | 19,128,131 | 17,894,260 | 19,128,131 |
| Other services (Education, Health, Media, etc.) | 57,961,305 | 51,057,181 | 56,923,320 | 50,305,657 |
| Other customers | 105,162,954 | 91,056,181 | 102,960,050 | 89,823,052 |
| Subtotal | 637,982,536 | 528,382,921 | 633,390,907 | 526,166,681 |

Sectoral Classification of Loans and Advances – Bank

33.2 Movement in Provision for Individual and Collective Impairment during the Year

| | GROUP | | BANK | |
|---|-------------------|-------------------|-------------------|-------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| Movement in Provision for Individual Impairment | | | | |
| Balance as at January 01, | 5,369,960 | 4,334,587 | 5,369,960 | 4,334,587 |
| Charge/(write-back) to the Income Statement [Refer Note 18] | 3,439,879 | 1,386,477 | 3,439,879 | 1,386,477 |
| Net write-off/(recoveries) during the year | (287,226) | (490,046) | (287,226) | (490,046) |
| Exchange rate variance on foreign currency provisions | 51,080 | 90,680 | 51,080 | 90,680 |
| Interest accrued/(reversals) on impaired loans and advances | (533,528) | (265,344) | (533,528) | (265,344) |
| Other movements | 413,292 | 313,606 | 413,292 | 313,606 |
| Balance as at December 31, | 8,453,457 | 5,369,960 | 8,453,457 | 5,369,960 |
| Movement in Provision for Collective Impairment | | | | |
| Balance as at January 01, | 13,089,833 | 12,835,436 | 12,681,594 | 12,621,987 |
| Charge/(write-back) to the Income Statement [Refer Note 18] | (1,859,806) | 2,710,834 | (1,931,932) | 2,516,044 |
| Net write-off/(recoveries) during the year | (1,835,798) | (2,465,797) | (1,835,798) | (2,465,797) |
| Exchange rate variance on foreign currency provisions | 5,362 | 9,360 | 5,358 | 9,360 |
| Balance as at December 31, | 9,399,591 | 13,089,833 | 8,919,222 | 12,681,594 |
| Total of Individual and Collective Impairment | 17,853,048 | 18,459,793 | 17,372,679 | 18,051,554 |

33.3 Lease/Hire Purchase Receivable

| <i>As at December 31,</i> | GROUP | | BANK | |
|---|-------------------|-------------------|-------------------|-------------------|
| | 2016 | 2015 | 2016 | 2015 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Gross Lease/Hire Purchase Receivable | 39,040,966 | 37,292,636 | 35,993,964 | 34,472,653 |
| Within one year [Refer Note 33.3 (a)] | 13,440,584 | 12,781,980 | 12,631,092 | 11,619,035 |
| From one to five years [Refer Note 33.3 (b)] | 25,250,003 | 24,424,152 | 23,358,999 | 22,851,419 |
| After five years [Refer Note 33.3 (c)] | 350,379 | 86,504 | 3,873 | 2,199 |
| Less: Provision for individual impairment [Refer Note 33.3 (d)] | 241,185 | 93,710 | 241,185 | 93,710 |
| Provision for collective impairment [Refer Note 33.3 (e)] | 681,035 | 953,696 | 262,381 | 556,776 |
| Net lease receivable | 38,118,746 | 36,245,230 | 35,490,398 | 33,822,167 |

33.3 (a) Lease/Hire Purchase Receivable within One Year

| <i>As at December 31,</i> | GROUP | | BANK | |
|---|-------------------|-------------------|-------------------|-------------------|
| | 2016 | 2015 | 2016 | 2015 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Total Lease/Hire purchase receivable within one year | 17,390,714 | 16,412,304 | 16,232,578 | 14,926,248 |
| Less: Unearned lease/hire purchase income | 3,950,130 | 3,630,324 | 3,601,486 | 3,307,213 |
| Gross Lease/Hire purchase receivable within one year | 13,440,584 | 12,781,980 | 12,631,092 | 11,619,035 |
| Less: Provision for individual impairment | 228,553 | 72,660 | 228,553 | 72,660 |
| Provision for collective impairment | 364,252 | 642,514 | 228,060 | 488,019 |
| Subtotal | 12,847,779 | 12,066,806 | 12,174,479 | 11,058,356 |

33.3 (b) Lease/Hire Purchase Receivable from One to Five Years

| <i>As at December 31,</i> | GROUP | | BANK | |
|--|-------------------|-------------------|-------------------|-------------------|
| | 2016 | 2015 | 2016 | 2015 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Total Lease/Hire purchase receivable from one to five years | 29,185,428 | 28,211,137 | 26,793,674 | 26,138,901 |
| Less: Unearned lease/hire purchase income | 3,935,425 | 3,786,985 | 3,434,675 | 3,287,482 |
| Gross Lease/Hire purchase receivable from one to five years | 25,250,003 | 24,424,152 | 23,358,999 | 22,851,419 |
| Less: Provision for individual impairment | 12,632 | 21,050 | 12,632 | 21,050 |
| Provision for collective impairment | 268,364 | 307,592 | 34,319 | 68,755 |
| Subtotal | 24,969,007 | 24,095,510 | 23,312,048 | 22,761,614 |

33.3 (c) Lease/Hire Purchase Receivable after Five Years

| <i>As at December 31,</i> | GROUP | | BANK | |
|--|----------------|---------------|--------------|--------------|
| | 2016 | 2015 | 2016 | 2015 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Total Lease/Hire purchase receivable after five years | 354,646 | 94,062 | 4,480 | 2,254 |
| Less: Unearned lease/hire purchase income | 4,267 | 7,558 | 607 | 55 |
| Gross Lease/Hire purchase receivable after five years | 350,379 | 86,504 | 3,873 | 2,199 |
| Less: Provision for individual impairment | - | - | - | - |
| Provision for collective impairment | 48,419 | 3,590 | 2 | 2 |
| Subtotal | 301,960 | 82,914 | 3,871 | 2,197 |

33.3 (d) Movement in Provision for Individual Impairment on Lease/Hire Purchase Receivable

| | GROUP | | BANK | |
|---|----------------|---------------|----------------|---------------|
| | 2016 | 2015 | 2016 | 2015 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Balance as at January 01, | 93,710 | 60,961 | 93,710 | 60,961 |
| Charge/(write-back) to the Income Statement | 209,134 | 55,159 | 209,134 | 55,159 |
| Net write-off/(recoveries) during the year | (31,648) | (21,673) | (31,648) | (21,673) |
| Interest accrued on impaired lease/hire purchase receivable | (32,268) | (4,516) | (32,268) | (4,516) |
| Other movements | 2,257 | 3,779 | 2,257 | 3,779 |
| Balance as at December 31, | 241,185 | 93,710 | 241,185 | 93,710 |

33.3 (e) Movement in Provision for Collective Impairment on Lease/Hire Purchase Receivable

| | GROUP | | BANK | |
|---|----------------|----------------|----------------|----------------|
| | 2016 | 2015 | 2016 | 2015 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Balance as at January 01, | 953,696 | 1,064,533 | 556,776 | 856,170 |
| Charge/(write-back) to the Income Statement | 1,154,843 | 620,604 | 1,133,109 | 432,047 |
| Net write-off/(recoveries) during the year | (1,427,504) | (731,441) | (1,427,504) | (731,441) |
| Balance as at December 31, | 681,035 | 953,696 | 262,381 | 556,776 |

33.4 Loans Granted from Investment Fund Account (IFA) – Bank

As per the guidelines issued by the Central Bank of Sri Lanka, Investment Fund Account was established effective from January 01, 2011, by transferring tax savings as explained below:

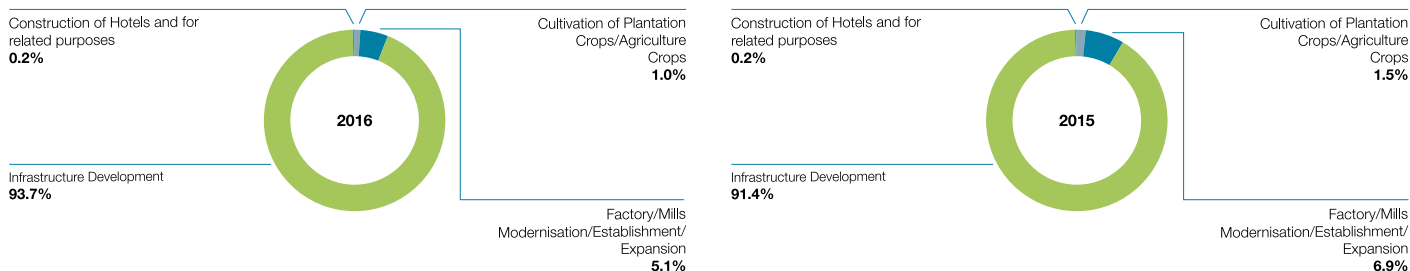
- 5% of the Profits Before Tax (PBT) calculated for Income Tax (IT) purposes, on the dates of making Self-Assessment payments on IT.
- 8% of the profits calculated for the payment of Value Added Tax (VAT) on financial services at the time of making payments on VAT.

The Sectoral Distribution of Loans Disbursed under IFA is given below:

| As at December 31, Sector | Range of Interest Rates | Tenure | 2016 | | | 2015 | | |
|--|-------------------------|--------|------------------------|--------------------------|------------------|------------------------|--------------------------|------------------|
| | | | Amount Outstanding (A) | Pending Disbursement (B) | Total (A) + (B) | Amount Outstanding (A) | Pending Disbursement (B) | Total (A) + (B) |
| | | | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| (a) Cultivation of plantation crops/ agriculture crops | 7.91 – 12.12 | 5.5 | 38,636 | – | 38,636 | 65,909 | – | 65,909 |
| (b) Factory/mills modernisation/ establishment/expansion | 7.91 – 13.12 | 5.5 | 192,040 | – | 192,040 | 295,591 | 51,800 | 347,391 |
| (c) Infrastructure development | 6.80 – 11.00 | 14.5 | 3,559,585 | 98,627 | 3,658,212 | 3,886,732 | 132,414 | 4,019,146 |
| (d) Construction of hotels and for related purposes | 8.41 – 12.62 | 7 | 8,236 | – | 8,236 | 10,372 | – | 10,372 |
| Capital Outstanding of the Loans granted | | | 3,798,497 | 98,627 | 3,897,124 | 4,258,604 | 184,214 | 4,442,818 |
| (e) Interest receivable | | | 175,862 | – | 175,862 | 176,875 | – | 176,875 |
| Carrying amount of the Loans granted | | | 3,974,359 | 98,627 | 4,072,986 | 4,435,479 | 184,214 | 4,619,693 |

The requirement to maintain the Investment Fund Account was ceased effective from October 1, 2014 as per the instructions issued by the Central Bank of Sri Lanka.

Sectoral Distribution of Loans Under IFA



33.5 Summary of Individually Impaired Loans and Receivables – Bank

| As at December 31, | 2016 | | 2015 | |
|--------------------------------|---|-------------------------------------|---|-------------------------------------|
| | Individually Impaired Loans and Receivables | Provision for Individual Impairment | Individually Impaired Loans and Receivables | Provision for Individual Impairment |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Loans and Advances | | | | |
| Overdrafts | 2,311,257 | 1,554,417 | 1,336,117 | 1,007,622 |
| Trade finance | 749,241 | 507,360 | 548,552 | 303,921 |
| Lease/hire purchase receivable | 444,882 | 241,185 | 533,359 | 93,710 |
| Credit cards | - | - | - | - |
| Pawning | - | - | 4,566 | 67 |
| Staff loans | - | - | - | - |
| Housing loans | 480,970 | 169,831 | 12,445 | 6,194 |
| Personal loans | 6,586 | 4,338 | 2,588 | 1,753 |
| Term loans | 18,109,141 | 5,976,326 | 9,309,002 | 3,956,693 |
| Bills of exchange | - | - | - | - |
| Total | 22,102,077 | 8,453,457 | 11,746,629 | 5,369,960 |

The net exposure of Rs. 13,648.620 Mn. (Rs. 6,376.669 Mn. As at December 31, 2015) is covered by collateral valued over Rs. 13,648.620 Mn. (Over Rs. 6,376.669 Mn. as at December 31, 2015) excluding machinery and stocks.

34. Financial Investments – Available-for-Sale

Available-for-sale financial investments include equity and debt securities. Equity investments classified as available-for-sale are those which are neither classified as held-for-trading nor designated at fair value through profit or loss. Debt securities in this category are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity or in response to changes in the market conditions.

The Group has not designated any loans or receivables as available-for-sale. After initial measurement, available-for-sale financial investments are subsequently measured at fair value.

Unrealised gains and losses are recognised in Equity through OCI in the 'Available-for-sale reserve'. When these financial investments are disposed of, the cumulative gain or loss previously recognised in Equity is recycled to profit or loss through 'Operating income'. Interest earned while holding available-for-sale financial investments is reported as 'Interest income' using the EIR. Dividend earned while holding available-for-sale financial investments are recognised in the Income Statement as 'Operating income' when the right to receive the payment has been established. The losses arising from impairment of such investments are recognised in the Income Statement in 'Impairment charges for loans and other losses' and removed from the 'Available-for-sale reserve'.

| As at December 31, | GROUP | | BANK | |
|--|--------------------|--------------------|--------------------|--------------------|
| | 2016 | 2015 | 2016 | 2015 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Government securities | 159,642,243 | 203,774,930 | 159,573,316 | 203,757,409 |
| Government securities – Sri Lanka [Refer Note 34.1 (a)] | 159,642,243 | 193,956,070 | 159,573,316 | 193,938,549 |
| Government securities – Bangladesh [Refer Note 34.1 (b)] | – | 9,818,860 | – | 9,818,860 |
| Equity securities | 293,819 | 281,450 | 293,695 | 281,326 |
| Quoted shares [Refer Notes 34.2.(a) and 34.3.(a)] | 246,548 | 234,839 | 246,548 | 234,839 |
| Unquoted shares [Refer Notes 34.2 (b) and 34.3 (b)] | 47,271 | 46,611 | 47,147 | 46,487 |
| Investment in Unit Trust [Refer Notes 34.4 and 34.5] | 156,460 | 205,554 | 156,460 | 205,554 |
| Total | 160,092,522 | 204,261,934 | 160,023,471 | 204,244,289 |

There were no impairment losses on Financial Investments – Available-for-Sale as at December 31, 2016 (2015 – Nil).

The maturity analysis of Financial Investments – Available-for-Sale is given in Note 62 on pages 308 and 309.

34.1 Government Securities

34.1 (a) Government Securities – Sri Lanka

| As at December 31, | GROUP | | BANK | |
|---------------------------|--------------------|--------------------|--------------------|--------------------|
| | 2016 | 2015 | 2016 | 2015 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Treasury bills | 17,827,210 | 8,961,530 | 17,758,283 | 8,944,009 |
| Treasury bonds | 138,993,358 | 172,727,815 | 138,993,358 | 172,727,815 |
| Sri Lanka sovereign bonds | 2,821,675 | 12,266,725 | 2,821,675 | 12,266,725 |
| Subtotal | 159,642,243 | 193,956,070 | 159,573,316 | 193,938,549 |

During 2016, the Sri Lankan operation of the Bank reclassified part of the Treasury Bonds and Sovereign Bonds portfolio amounting Rs. 34,646.318 Mn. (Face value Rs. 35,094.126 Mn.) classified as Available-for-sale (AFS) investments to the Held-to-maturity (HTM) category based on a detailed assessment of the actual intention and ability to hold to maturity. The said re-classification was effected after obtaining written approval from the Board of Directors and the Central Bank of Sri Lanka and this transfer also meets the requirement set out for reclassification under Sri Lanka Accounting Standard – LKAS 39 on 'Financial Instruments: Recognition and Measurement'.

34.1 (b) Government Securities – Bangladesh

| As at December 31, | GROUP | | BANK | |
|--------------------|----------|------------------|----------|------------------|
| | 2016 | 2015 | 2016 | 2015 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Treasury bills | – | 817,545 | – | 817,545 |
| Treasury bonds | – | 9,001,315 | – | 9,001,315 |
| Subtotal | – | 9,818,860 | – | 9,818,860 |

Bangladesh operation of the Bank reclassified its total Available-for-sale (AFS) portfolio amounting to Rs. 9,556.057Mn. (Face Value Rs. 8,521.690 Mn.) to Held-to-maturity (HTM) category during the year, based on a detailed assessment and the actual intention and ability to hold to maturity.

34.1 (c) Reclassification out of Available-for-sale Investment Securities

During the year Group reclassified part of Available-for-sale investment securities to Held-to-maturity category. The Group identified financial assets that would have met the definition of Held-to-maturity (if they had not been designated as Available-for-sale) for which at the date of reclassification it had the intention and ability to hold them until maturity.

The fair value of the reclassified Available-for-sale investment securities was Rs. 44,202.375 Mn. which was considered to be the new amortised cost of the Held-to-maturity portfolio at the date of reclassification.

The table below sets out the amounts actually recognised in profit or loss and OCI in respect of the financial assets reclassified out of Available-for-sale investment securities.

| | 2016 | | 2015 | |
|---|----------------------------|-----------------|----------------------------|-----------------|
| | Profit or loss Rs. '000 | OCI Rs. '000 | Profit or loss Rs. '000 | OCI Rs. '000 |
| Available-for-sale investment securities reclassified to Held-to-maturity | | | | |
| Interest income | 2,830,744 | – | – | – |
| Net impairment loss on financial assets | – | – | – | – |
| Net change in fair value | – | – | – | – |
| Amount transferred from AFS Reserve to profit of loss | – | 243,331 | – | – |
| Total | 2,830,744 | 243,331 | – | – |

The table below sets out the amounts that would have been recognised, if the reclassification had not been made.

| | 2016 | | 2015 | |
|---|----------------------------|------------------|----------------------------|-----------------|
| | Profit or loss Rs. '000 | OCI Rs. '000 | Profit or loss Rs. '000 | OCI Rs. '000 |
| Available-for-sale investment securities reclassified to Held-to-maturity | | | | |
| Interest income | 2,830,744 | – | – | – |
| Net impairment loss on financial assets | – | – | – | – |
| Net change in fair value | – | (844,209) | – | – |
| Total | 2,830,744 | (844,209) | – | – |

The Effective Interest Rates on reclassified Available-for-sale investment securities that were held as at the Reporting date ranged from 5.25% to 10.74%, with expected recoverable cash flows of Rs. 65,838.057 Mn.

34.2 (a) Equity Securities – As at December 31, 2016

| | GROUP | | | | BANK | | | |
|------------------------------------|---------------|---------------------|--------------------------|--------------------------------|---------------|---------------------|--------------------------|--------------------------------|
| | No. of Shares | Market Price Rs. | Market Value Rs. '000 | Cost of Investment Rs. '000 | No. of Shares | Market Price Rs. | Market Value Rs. '000 | Cost of Investment Rs. '000 |
| Sector/Type of Securities | | | | | | | | |
| Quoted Shares: | | | | | | | | |
| Bank, Finance and Insurance | | | | | | | | |
| DFCC Bank PLC | 3,496 | 122.50 | 428 | 155 | 3,496 | 122.50 | 428 | 155 |
| Hatton National Bank PLC | 11,950 | 225.00 | 2,689 | 315 | 11,950 | 225.00 | 2,689 | 315 |
| Nations Trust Bank PLC | 1,333 | 80.90 | 108 | 22 | 1,333 | 80.90 | 108 | 22 |
| National Development Bank PLC | 5,424 | 156.00 | 846 | 215 | 5,424 | 156.00 | 846 | 215 |
| Sampath Bank PLC | 3,914 | 260.40 | 1,019 | 72 | 3,914 | 260.40 | 1,019 | 72 |
| Seylan Bank PLC | 1,015 | 90.00 | 91 | 24 | 1,015 | 90.00 | 91 | 24 |
| VISA Inc. | 19,424 | US \$ 78.02 | 226,940 | - | 19,424 | US \$ 78.02 | 226,940 | - |
| Subtotal | | | 232,121 | 803 | | | 232,121 | 803 |
| Manufacturing | | | | | | | | |
| Alumex PLC | 714,200 | 20.20 | 14,427 | 9,999 | 714,200 | 20.20 | 14,427 | 9,999 |
| Subtotal | | | 14,427 | 9,999 | | | 14,427 | 9,999 |
| Total | | | 246,548 | 10,802 | | | 246,548 | 10,802 |

34.2 (b) Equity Securities – As at December 31, 2016

| | GROUP | | | | BANK | | | |
|--|---------------|---------------------|--------------------------|--------------------------------|---------------|---------------------|--------------------------|--------------------------------|
| | No. of Shares | Market Price Rs. | Market Value Rs. '000 | Cost of Investment Rs. '000 | No. of Shares | Market Price Rs. | Market Value Rs. '000 | Cost of Investment Rs. '000 |
| Sector/Type of Securities | | | | | | | | |
| Unquoted Shares: | | | | | | | | |
| Bank, Finance and Insurance | | | | | | | | |
| Central Depository of Bangladesh Ltd. | 3,427,083 | BDT 2.75 | 17,953 | 17,953 | 3,427,083 | BDT 2.75 | 17,953 | 17,953 |
| Credit Information Bureau of Sri Lanka | 5,637 | 100.00 | 564 | 564 | 4,400 | 100.00 | 440 | 440 |
| Fitch Ratings Lanka Ltd. | 62,500 | 10.00 | 625 | 625 | 62,500 | 10.00 | 625 | 625 |
| LankaClear (Pvt) Ltd. | 1,000,000 | 10.00 | 10,000 | 10,000 | 1,000,000 | 10.00 | 10,000 | 10,000 |
| Lanka Financial Services Bureau Ltd. | 225,000 | 10.00 | 2,250 | 2,250 | 225,000 | 10.00 | 2,250 | 2,250 |
| Lanka Ratings Agency Ltd. | 689,590 | 12.50 | 8,620 | 8,620 | 689,590 | 12.50 | 8,620 | 8,620 |
| Society for Worldwide Interbank Financial Telecommunication (SWIFT) | 47 | EUR 978.01 | 7,259 | 7,259 | 47 | EUR 978.01 | 7,259 | 7,259 |
| Total | | | 47,271 | 47,271 | | | 47,147 | 47,147 |

34.2 (c) Sector/Industry Composition of the Equity Securities – As at December 31, 2016

| | GROUP | | BANK | |
|-----------------------------|--------------------------|--------------------------------|--------------------------|--------------------------------|
| | Market Value Rs. '000 | Cost of Investment Rs. '000 | Market Value Rs. '000 | Cost of Investment Rs. '000 |
| Sector/Industry | | | | |
| Bank, Finance and Insurance | 279,392 | 48,074 | 279,268 | 47,950 |
| Manufacturing | 14,427 | 9,999 | 14,427 | 9,999 |
| Total | 293,819 | 58,073 | 293,695 | 57,949 |

34.3 (a) Equity Securities – As at December 31, 2015

| | GROUP | | | | BANK | | | |
|------------------------------------|---------------|---------------------|--------------------------|--------------------------------|---------------|---------------------|--------------------------|--------------------------------|
| | No. of Shares | Market Price Rs. | Market Value Rs. '000 | Cost of Investment Rs. '000 | No. of Shares | Market Price Rs. | Market Value Rs. '000 | Cost of Investment Rs. '000 |
| Sector/Type of Securities | | | | | | | | |
| Quoted Shares: | | | | | | | | |
| Bank, Finance and Insurance | | | | | | | | |
| DFCC Bank PLC | 3,496 | 168.10 | 588 | 155 | 3,496 | 168.10 | 588 | 155 |
| Hatton National Bank PLC | 11,760 | 210.60 | 2,477 | 315 | 11,760 | 210.60 | 2,477 | 315 |
| Nations Trust Bank PLC | 1,333 | 86.30 | 115 | 22 | 1,333 | 86.30 | 115 | 22 |
| National Development Bank PLC | 5,424 | 194.10 | 1,053 | 215 | 5,424 | 194.10 | 1,053 | 215 |
| Sampath Bank PLC | 3,811 | 248.00 | 945 | 72 | 3,811 | 248.00 | 945 | 72 |
| Seylan Bank PLC | 1,015 | 95.00 | 96 | 24 | 1,015 | 95.00 | 96 | 24 |
| VISA Inc. | 19,424 | US \$ 77.55 | 217,138 | – | 19,424 | US \$ 77.55 | 217,138 | – |
| Subtotal | | | 222,412 | 803 | | | 222,412 | 803 |
| Manufacturing | | | | | | | | |
| Alumex PLC | 714,200 | 17.40 | 12,427 | 9,999 | 714,200 | 17.40 | 12,427 | 9,999 |
| Subtotal | | | 12,427 | 9,999 | | | 12,427 | 9,999 |
| Total | | | 234,839 | 10,802 | | | 234,839 | 10,802 |

34.3 (b) Equity Securities – As at December 31, 2015

| | GROUP | | | BANK | | | | |
|--|---------------|---------------------|--------------------------|--------------------------------|---------------|---------------------|--------------------------|--------------------------------|
| | No. of Shares | Market Price Rs. | Market Value Rs. '000 | Cost of Investment Rs. '000 | No. of Shares | Market Price Rs. | Market Value Rs. '000 | Cost of Investment Rs. '000 |
| Sector/Type of Securities | | | | | | | | |
| Unquoted Shares: | | | | | | | | |
| Bank, Finance and Insurance | | | | | | | | |
| Central Depository of Bangladesh Ltd. | 3,427,083 | BDT 2.75 | 17,293 | 17,293 | 3,427,083 | BDT 2.75 | 17,293 | 17,293 |
| Credit Information Bureau of Sri Lanka | 5,637 | 100.00 | 564 | 564 | 4,400 | 100.00 | 440 | 440 |
| Fitch Ratings Lanka Ltd. | 62,500 | 10.00 | 625 | 625 | 62,500 | 10.00 | 625 | 625 |
| LankaClear (Pvt) Ltd. | 1,000,000 | 10.00 | 10,000 | 10,000 | 1,000,000 | 10.00 | 10,000 | 10,000 |
| Lanka Financial Services Bureau Ltd. | 225,000 | 10.00 | 2,250 | 2,250 | 225,000 | 10.00 | 2,250 | 2,250 |
| Lanka Ratings Agency Ltd. | 689,590 | 12.50 | 8,620 | 8,620 | 689,590 | 12.50 | 8,620 | 8,620 |
| Society for Worldwide Interbank Financial Telecommunication (SWIFT) | 47 | EUR 912.77 | 7,259 | 7,259 | 47 | EUR 912.77 | 7,259 | 7,259 |
| Total | | | 46,611 | 46,611 | | | 46,487 | 46,487 |

34.3 (c) Sector/Industry Composition of the Equity Securities – As at December 31, 2015

| | GROUP | | BANK | |
|-----------------------------|--------------------------|--------------------------------|--------------------------|--------------------------------|
| | Market Value Rs. '000 | Cost of Investment Rs. '000 | Market Value Rs. '000 | Cost of Investment Rs. '000 |
| Sector/Industry | | | | |
| Bank, Finance and Insurance | 269,023 | 47,414 | 268,899 | 47,290 |
| Manufacturing | 12,427 | 9,999 | 12,427 | 9,999 |
| Total | 281,450 | 57,413 | 281,326 | 57,289 |

34.4 Investment in Unit Trust – As at December 31, 2016

| | GROUP | | BANK | |
|------------------------------------|--------------------------|--------------------------------|--------------------------|--------------------------------|
| | Market Value Rs. '000 | Cost of Investment Rs. '000 | Market Value Rs. '000 | Cost of Investment Rs. '000 |
| Sector/Industry | | | | |
| Bank, Finance and Insurance | | | | |
| Capital Alliance Investment Ltd. | 156,460 | 153,849 | 156,460 | 153,849 |
| Total | 156,460 | 153,849 | 156,460 | 153,849 |

34.5 Investment in Unit Trust – As at December 31, 2015

| | GROUP | | BANK | |
|------------------------------------|----------------|--------------------|----------------|--------------------|
| | Market Value | Cost of Investment | Market Value | Cost of Investment |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Sector/Industry | | | | |
| Bank, Finance and Insurance | | | | |
| Capital Alliance Investment Ltd. | 205,554 | 201,402 | 205,554 | 201,402 |
| Total | 205,554 | 201,402 | 205,554 | 201,402 |

35. Financial Investments – Held-to-Maturity

Held-to-maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, that the Group has the positive intention and ability to hold to maturity, and which are not designated as at Fair value through profit or loss or Available-for-sale. After initial measurement, held-to-maturity financial investments are subsequently measured at amortised cost using the EIR, less provision for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortisation is included in 'Interest Income' while the losses arising from impairment of such investments are recognised in 'Impairment charges for loans and other losses' in the Income Statement.

A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and would prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- sales or reclassifications after the Group has collected substantially all of the asset's original principal; and
- Sales or reclassifications that are attributable to non-recurring isolated events beyond the Group's control that could not have been reasonably anticipated.

| <i>As at December 31,</i> | GROUP | | BANK | |
|---|-------------------|----------|-------------------|----------|
| | 2016 | 2015 | 2016 | 2015 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Government securities – Sri Lanka | 50,980,717 | – | 50,980,717 | – |
| Treasury bonds | 36,599,599 | – | 36,599,599 | – |
| Sri Lanka sovereign bonds | 14,381,118 | – | 14,381,118 | – |
| Government securities – Bangladesh | 10,000,581 | – | 10,000,581 | – |
| Treasury bills | 1,524,677 | – | 1,524,677 | – |
| Treasury bonds | 8,475,904 | – | 8,475,904 | – |
| Government securities – Maldives | 2,645,300 | – | – | – |
| Treasury bills | 2,645,300 | – | – | – |
| Total | 63,626,598 | – | 60,981,298 | – |

Please refer Notes 34.1 (a) and 34.1 (b) on page 252 for the details of re-classification to Held-to-maturity (HTM) investments from Available-for-sale (AFS) category effected during the year.

The maturity analysis of Financial Investments – Held-to-maturity is given in Note 62 on pages 308 and 309.

36. Financial Investments – Loans and Receivables

Financial investments classified as loans and receivables include unquoted debt instruments. After initial measurement, these are subsequently measured at amortised cost using the EIR, less provision for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in 'Interest Income' while the losses arising from impairment are recognised in 'Impairment charges for loans and other losses' in the Income Statement.

| <i>As at December 31,</i> | GROUP | | BANK | |
|--|-------------------|-------------------|-------------------|-------------------|
| | 2016 | 2015 | 2016 | 2015 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Investments in Government Securities [Refer Note 36.1] | 40,076,392 | 44,925,168 | 40,076,392 | 44,925,168 |
| Other Investments [Refer Note 36.2] | 11,747,634 | 12,799,201 | 11,747,634 | 12,799,201 |
| Total | 51,824,026 | 57,724,369 | 51,824,026 | 57,724,369 |

36.1 Investments in Government Securities

| <i>As at December 31,</i> | GROUP | | BANK | |
|-----------------------------|-------------------|-------------------|-------------------|-------------------|
| | 2016 | 2015 | 2016 | 2015 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Treasury Bonds | – | 605,737 | – | 605,737 |
| Sri Lanka Development Bonds | 40,076,392 | 44,319,431 | 40,076,392 | 44,319,431 |
| Total | 40,076,392 | 44,925,168 | 40,076,392 | 44,925,168 |

36.2 Other Investments

| <i>As at December 31,</i> | GROUP | | BANK | |
|---|-------------------|-------------------|-------------------|-------------------|
| | 2016 | 2015 | 2016 | 2015 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Debentures [Refer Note 36.2.1] | 11,236,208 | 11,272,757 | 11,236,208 | 11,272,757 |
| Trust certificates [Refer Note 36.2.2] | 511,208 | 1,140,613 | 511,208 | 1,140,613 |
| Corporate investments in Bangladesh [Refer Note 36.2.3] | 218 | 385,831 | 218 | 385,831 |
| Total | 11,747,634 | 12,799,201 | 11,747,634 | 12,799,201 |

The maturity analysis of Financial Investments – Loans and Receivables is given in Note 62 on pages 308 and 309.

36.2.1 Debentures

| As at December 31, | GROUP | | | | BANK | | | |
|--|------------------|-------------------|------------------|-------------------|------------------|-------------------|------------------|-------------------|
| | 2016 | | 2015 | | 2016 | | 2015 | |
| | No of Debentures | Carrying Value | No of Debentures | Carrying Value | No of Debentures | Carrying Value | No of Debentures | Carrying Value |
| | Rs. '000 | | Rs. '000 | | Rs. '000 | | Rs. '000 | |
| Central Finance Company PLC | 2,349,400 | 391,976 | 2,534,900 | 439,344 | 2,349,400 | 391,976 | 2,534,900 | 439,344 |
| Commercial Leasing and Finance PLC | 10,000,000 | 1,097,767 | 10,000,000 | 1,043,808 | 10,000,000 | 1,097,767 | 10,000,000 | 1,043,808 |
| DFCC Bank PLC | 18,000,000 | 1,857,008 | 18,000,000 | 1,857,008 | 18,000,000 | 1,857,008 | 18,000,000 | 1,857,008 |
| Dunamis Capital PLC | 500,000 | 50,403 | 500,000 | 50,403 | 500,000 | 50,403 | 500,000 | 50,403 |
| Hayleys PLC | 10,878,400 | 1,114,983 | 10,966,800 | 1,206,558 | 10,878,400 | 1,114,983 | 10,966,800 | 1,206,558 |
| Hemas Holdings PLC | 525,900 | 54,048 | 525,900 | 54,048 | 525,900 | 54,048 | 525,900 | 54,048 |
| Lanka Orix Leasing Company PLC | 20,000,000 | 2,045,370 | 20,000,000 | 2,045,370 | 20,000,000 | 2,045,370 | 20,000,000 | 2,045,370 |
| Lion Brewery (Ceylon) PLC | 400,000 | 413,177 | 600,000 | 611,968 | 400,000 | 413,177 | 600,000 | 611,968 |
| Mercantile Investments and Finance PLC | 418,650 | 42,551 | 418,650 | 42,551 | 418,650 | 42,551 | 418,650 | 42,551 |
| MTD Walkers PLC | 3,000,000 | 307,373 | 3,000,000 | 307,453 | 3,000,000 | 307,373 | 3,000,000 | 307,453 |
| Nawaloka Hospitals PLC | 2,290,000 | 237,167 | 2,290,000 | 237,167 | 2,290,000 | 237,167 | 2,290,000 | 237,167 |
| Orient Finance PLC | 1,968,800 | 197,173 | 1,968,800 | 197,173 | 1,968,800 | 197,173 | 1,968,800 | 197,173 |
| People's Leasing & Finance PLC | 6,924,200 | 751,180 | 6,924,200 | 751,133 | 6,924,200 | 751,180 | 6,924,200 | 751,133 |
| Richard Pieris and Company PLC | 6,763,400 | 695,136 | 6,763,400 | 695,136 | 6,763,400 | 695,136 | 6,763,400 | 695,136 |
| Senkadagala Finance PLC | 200,684 | 20,941 | 401,368 | 41,869 | 200,684 | 20,941 | 401,368 | 41,869 |
| Singer (Sri Lanka) PLC | 9,598,100 | 998,155 | 5,972,938 | 622,475 | 9,598,100 | 998,155 | 5,972,938 | 622,475 |
| Singer Finance (Lanka) PLC | 5,914,610 | 631,335 | 6,336,030 | 661,672 | 5,914,610 | 631,335 | 6,336,030 | 661,672 |
| Softlogic Finance PLC | 3,223,400 | 330,465 | 3,223,400 | 330,465 | 3,223,400 | 330,465 | 3,223,400 | 330,465 |
| Abans PLC | - | - | 720,700 | 77,156 | - | - | 720,700 | 77,156 |
| Subtotal | | 11,236,208 | | 11,272,757 | | 11,236,208 | | 11,272,757 |

The above debentures are stated at amortised cost and classified under Financial Investments – Loans and Receivables due to the absence of an active market.

36.2.2 Trust Certificates

| As at December 31, | GROUP | | BANK | |
|--------------------------------------|----------------|------------------|----------------|------------------|
| | 2016 | 2015 | 2016 | 2015 |
| | Carrying Value | Carrying Value | Carrying Value | Carrying Value |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Assetline Leasing Company Ltd. | 141,699 | 319,009 | 141,699 | 319,009 |
| Mercantile Investments & Finance PLC | 38,494 | 361,378 | 38,494 | 361,378 |
| People's Leasing & Finance PLC | 213,303 | 338,364 | 213,303 | 338,364 |
| Richard Pieris Finance Ltd. | 117,712 | 121,862 | 117,712 | 121,862 |
| Subtotal | 511,208 | 1,140,613 | 511,208 | 1,140,613 |

36.2.3 Corporate Investments in Bangladesh

| As at December 31, | GROUP | | BANK | |
|--------------------|----------------|----------------|----------------|----------------|
| | 2016 | 2015 | 2016 | 2015 |
| | Carrying Value | Carrying Value | Carrying Value | Carrying Value |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Price Bonds | 218 | 1,501 | 218 | 1,501 |
| Commercial Papers | – | 384,330 | – | 384,330 |
| Sub total | 218 | 385,831 | 218 | 385,831 |

37. Investments in Subsidiaries

Subsidiaries are investees controlled by the Group. The Group 'controls' an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group reassesses whether it has control if there are changes to one or more of the elements of control. This includes circumstances in which protective rights held (e.g. those resulting from a lending relationship) become substantive and lead to the Group having power over an investee.

The cost of an acquisition is measured at fair value of the consideration, including contingent consideration. The acquired identifiable assets, liabilities and contingent liabilities are measured at their fair values at the date of acquisition. Subsequent to the initial measurement the Bank continues to recognise the investments in Subsidiaries at cost.

The Financial Statements of Subsidiaries are included in the Consolidated Financial Statements from the date on which control commences until the date when control ceases.

The Financial Statements of all Subsidiaries in the Group have a common financial year which ends on December 31, except for the Serendib Finance Ltd., a licensed finance company, whose financial year ends on March 31. The Financial Statements of the Bank's Subsidiaries are prepared using consistent accounting policies.

The reason for using a different Reporting date by the aforesaid subsidiary is due to the requirement imposed by the Central Bank of Sri Lanka for licensed finance companies to publish their key financial data and key performance indicators for a 12-month period ending March 31 and 6 month period ending September 30, every year, in accordance with a format prescribed by the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.

All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions, income and expenses are eliminated in full.

There are no significant restrictions on the ability of Subsidiaries to transfer funds to the Parent (the Bank) in the form of cash dividend or repayment of loans and advances.

All Subsidiaries of the Bank have been incorporated in Sri Lanka except Commex Sri Lanka S.R.L. which was incorporated in Italy and Commercial Bank of Maldives Private Limited which was incorporated in the Republic of Maldives.

| As at December 31, | Holding | GROUP | | | | BANK | | | |
|--|-----------------|----------|--|----------|--|-----------|--|-----------|--|
| | | 2016 | | 2015 | | 2016 | | 2015 | |
| | | Cost | Market Value/ Directors' Valuation | Cost | Market Value/ Directors' Valuation | Cost | Market Value/ Directors' Valuation | Cost | Market Value/ Directors' Valuation |
| % | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | |
| Local Subsidiaries: | | | | | | | | | |
| Quoted: | | | | | | | | | |
| Commercial Development Company PLC | 93.85* | - | - | - | - | 272,363 | 845,755 | 273,610 | 1,047,611 |
| (11,261,717 Ordinary Shares) | | | | | | | (@ Rs. 92.60) | | (@ Rs. 92.60) |
| (11,313,290 Ordinary Shares as at December 31, 2015) | (94.28 in 2015) | | | | | | | | |
| Unquoted: | | | | | | | | | |
| ONEzero Company Ltd. | 100 | - | - | - | - | 5,000 | 5,000 | 5,000 | 5,000 |
| (500,001 Ordinary Shares) | | | | | | | (@ Rs. 10.00) | | (@ Rs. 10.00) |
| (500,001 Ordinary Shares as at December 31, 2015) | | | | | | | | | |
| Unquoted: | | | | | | | | | |
| Serendib Finance Ltd. | 100 | - | - | - | - | 1,116,046 | 1,116,046 | 916,046 | 916,046 |
| (21,600,000 Ordinary Shares) | | | | | | | | | |
| (21,600,000 Ordinary Shares as at December 31, 2015) | | | | | | | | | |
| Foreign Subsidiary: | | | | | | | | | |
| Unquoted: | | | | | | | | | |
| Commex – Sri Lanka S.R.L. (incorporated in Italy) (**) | 100 | - | - | - | - | 193,080 | 27,140 | 193,080 | 42,490 |
| Commercial Bank of Maldives Private Limited (***) | 55 | - | - | - | - | 1,014,843 | 1,014,843 | - | - |
| Gross Total | | - | - | - | - | 2,601,332 | 3,008,784 | 1,387,736 | 2,011,147 |
| Provision for impairment [Refer Note 37.1] | | | | | | (165,940) | - | (150,590) | - |
| Net Total | | - | - | - | - | 2,435,392 | 3,008,784 | 1,237,146 | 2,011,147 |

(*) During 2015, the Board of Directors of the Bank resolved to reduce the shareholding of Commercial Development Company PLC, (in which the Bank originally had a stake of 94.55%) to comply with the requirements of the Listing Rule No. 7.13 of the Colombo Stock Exchange on Minimum Public Holding. Accordingly, the Bank disposed 83,988 shares since November 2015 through the Colombo Stock Exchange and reduced the shareholding in the above Company to 93.85% by December 31, 2016 and is in the process of taking steps to dispose the required number of shares to adhere to the requirements of the Listing Rules.

Consequent to the above disposal, ownership interests of the Bank has changed while retaining control. As per SLFRS 10 on 'Consolidated Financial Statements', changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control are equity transactions and hence, the resulting gain/loss is recognised in equity.

(**) During the year, Commex Sri Lanka S.R.L., a fully-owned subsidiary of the Bank, inaugurated its money transfer operation in Italy, following the grant of a Money Transfer License from the Bank of Italy. However, the Bank has made provisions for the expenses incurred on Account of Italy operations before finalising the Bank's Financial Statements.

(***) Commercial Bank of Maldives, a subsidiary of the Bank partnering with Treetop Investments Maldives, formally inaugurated banking operations in the Maldives on September 26, 2016. The Bank holds a majority stake of 55% and the Maldivian partner owns 45%.

The following table summarises the information relating to the Group's subsidiary that has a material non-controlling interest (NCI).

Commercial Bank of Maldives Private Limited Non-controlling interest (NCI) percentage – 45%

| <i>As at December 31,</i> | 2016 Rs. '000 |
|---|------------------|
| Cash and cash equivalents | 2,721,818 |
| Balances with Central Banks | 62,053 |
| Financial investments – Held-to-maturity | 2,645,299 |
| Loans and advances | 81,797 |
| Other assets | 22,737 |
| Liabilities | 3,946,301 |
| Net assets value | 1,706,094 |
| Carrying amount of Non-controlling interest (NCI) | 767,743 |
| Revenue | 20,496 |
| Loss | (107,728) |
| Loss allocated to Non-controlling interest (NCI) | (48,478) |
| Cash flows from operating activities | 3,331,906 |
| Cash flows from investing activities | (2,804,158) |
| Cash flows from financing activities | 1,845,168 |
| Net increase in cash and cash equivalents | 2,372,916 |

The maturity analysis of Investments in Subsidiaries is given in Note 62 on pages 308 and 309.

37.1 Movement in Provision for Impairment o/a Subsidiaries during the Year

| <i>As at December 31,</i> | GROUP | | BANK | |
|---|------------------|------------------|------------------|------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| Balance as at January 01, | – | – | 150,590 | 114,367 |
| Charge/(Write back) to the Income Statement [Refer Note 18] | – | – | 15,350 | 36,223 |
| Balance as at December 31, | – | – | 165,940 | 150,590 |

The Bank made a provision against its investment in Commex – Sri Lanka S.R.L which is incorporated in Italy to bring the investment value in line with the net assets value of the said Subsidiary based on an assessment of impairment. Accordingly, the total amount provided for impairment as at December 31, 2016 is Rs.165.940 Mn. (2015 – Rs. 150.590 Mn.)

38. Investments in Associates

Associates are those entities in which the Group has significant influence, but not control, over the variable returns through its power over the investee. Significant influence is presumed to exist when the Group holds 20% or more of the voting power of another entity.

Investments in associates are accounted for using the equity method and are recognised initially at cost, in terms of Sri Lanka Accounting Standard – LKAS 28 on 'Investments in Associates and Joint Ventures'. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The Consolidated Financial Statements include the Group's share of the income and expenses and equity movements of equity-accounted investees, after adjustments to align the Accounting Policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. Accordingly, under the Equity Method, investments in Associates are carried at cost plus post-acquisition changes in the Group's share of net assets of the Associates and are reported as a separate line item in the Statement of Financial Position. The Income Statement reflects the Group's share of the results of operations of the Associates. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the Associate, the Group recognises its share of any

changes, when applicable, in Equity through OCI. Unrealised gains and losses resulting from transactions between the Group and the Associate are eliminated to the extent of the interest in Associate.

When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee. If the Associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equal the share of losses not recognised previously.

The Group discontinues the use of the Equity Method from the date that it ceases to have significant influence over an Associate and accounts for such investments in accordance with the Sri Lanka Accounting Standard – LKAS 39 on 'Financial Instruments: Recognition and Measurement'.

Upon loss of significant influence over the Associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the Associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

After application of the Equity Method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its Associate. At each Reporting date, the Group determines whether there is objective evidence that the investment in the Associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the Associate and its carrying value, and recognises the loss as 'Share of profits of associates' in the Income Statement.

| As at December 31, | Incorporation and operation | Ownership Interest % | No. of Shares | 2016 | | 2015 | |
|---|-----------------------------|----------------------|---------------|----------|----------------|----------|----------------|
| | | | | Cost | Carrying Value | Cost | Carrying Value |
| | | | | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Equity Investments Lanka Ltd. | Sri Lanka | 22.92 | 4,110,938 | 44,331 | 68,621 | 44,331 | 67,373 |
| Commercial Insurance Brokers (Pvt) Ltd. | Sri Lanka | 18.77(*) | 120,000 | 100 | 40,238 | 100 | 37,130 |
| | | | | 44,431 | 108,859 | 44,431 | 104,503 |

(*) 20% stake of Commercial Insurance Brokers (Pvt) Ltd. is held by Commercial Development Company PLC, a 93.85% owned Subsidiary of the Bank, which is listed on the Colombo Stock Exchange. The Bank has a significant influence over financial and operating activities of Commercial Insurance Brokers (Pvt) Ltd. though it effectively holds only 18.77%.

38.1 Reconciliation of Summarised Financial Information

Reconciliation of the summarised financial information to the carrying amount of the interest in Associates recognised in the Consolidated Financial Statements is as follows:

| As at December 31, | 2016 | | | 2015 | | |
|---|-------------------------------|---|----------------|-------------------------------|---|----------------|
| | Equity Investments Lanka Ltd. | Commercial Insurance Brokers (Pvt) Ltd. | Total | Equity Investments Lanka Ltd. | Commercial Insurance Brokers (Pvt) Ltd. | Total |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Cost of investments | 44,331 | 100 | 44,431 | 44,331 | 100 | 44,431 |
| Add: Share of Profit Applicable to the Group | | | | | | |
| Investment in associate as at January 01, | 23,043 | 37,030 | 60,073 | 27,803 | 34,053 | 61,856 |
| Total Comprehensive Income | 5,358 | 4,903 | 10,261 | 1,405 | 3,544 | 4,949 |
| Profit/(loss) for the period recognised in Income Statement, net of tax | 1,645 | 4,809 | 6,454 | 9,916 | 3,722 | 13,638 |
| Profit or Loss and Other Comprehensive Income, net of tax | 3,713 | 94 | 3,807 | (8,511) | (178) | (8,689) |
| Movement due to change in ownership | - | (98) | (98) | - | - | - |
| Transactions which are recorded directly in equity | - | - | - | - | - | - |
| Dividend received | (4,111) | (1,697) | (5,808) | (6,166) | (567) | (6,733) |
| Balance as at December 31, | 68,621 | 40,238 | 108,859 | 67,373 | 37,130 | 104,503 |

38.2 Summarised Financial Information in Respect of Associates is set out below:**38.2 (a) Summarised Income Statement**

| <i>For the year ended December 31,</i> | 2016 | | | 2015 | | |
|--|-------------------------------|---|---------------|-------------------------------|---|---------------|
| | Equity Investments Lanka Ltd. | Commercial Insurance Brokers (Pvt) Ltd. | Total | Equity Investments Lanka Ltd. | Commercial Insurance Brokers (Pvt) Ltd. | Total |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Percentage Ownership Interest | | | | | | |
| Revenue | 28,000 | 252,335 | 280,335 | 59,436 | 224,373 | 283,809 |
| Expenses | (21,602) | (214,731) | (236,333) | (16,926) | (192,222) | (209,148) |
| Income Tax | 783 | (12,090) | (11,307) | 754 | (12,468) | (11,714) |
| Profit from continuing operations, net of tax | 7,181 | 25,514 | 32,695 | 43,264 | 19,683 | 62,947 |
| Group's share of profit from continuing operations, net of tax | 1,645 | 4,809 | 6,454 | 9,916 | 3,722 | 13,638 |
| Other Comprehensive Income, net of tax | 16,201 | 499 | 16,700 | (37,134) | (939) | (38,073) |
| Group's share of Other Comprehensive Income from continuing operations, net of tax | 3,713 | 94 | 3,807 | (8,511) | (178) | (8,689) |
| Share of results of equity-accounted investee recognised in Income Statement and Statement of Profit or Loss and Other Comprehensive Income | 5,358 | 4,903 | 10,261 | 1,405 | 3,544 | 4,949 |

38.2 (b) Summarised Statement of Financial Position

| <i>As at December 31,</i> | 2016 | | 2015 | |
|--|-------------------------------|---|-------------------------------|---|
| | Equity Investments Lanka Ltd. | Commercial Insurance Brokers (Pvt) Ltd. | Equity Investments Lanka Ltd. | Commercial Insurance Brokers (Pvt) Ltd. |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Percentage ownership interest | | | | |
| Non-current assets | 194,144 | 143,515 | 207,786 | 141,015 |
| Current assets | 114,197 | 152,333 | 94,757 | 128,868 |
| Non-current liabilities | (5,975) | (22,366) | (5,618) | (21,199) |
| Current liabilities | (2,974) | (60,020) | (2,975) | (52,334) |
| Net assets | 299,392 | 213,462 | 293,950 | 196,350 |
| Group's share of net assets | 68,621 | 40,238 | 67,373 | 37,130 |
| Less: Unrealised profits | - | - | - | - |
| Carrying amount of interest in associates | 68,621 | 40,238 | 67,373 | 37,130 |

The Group recognises the share of net assets of the Associates under the Equity Method to arrive at the Directors' valuation.

The maturity analysis of Investments of Associates is given in Note 62 on pages 308 and 309.

39. Property, Plant & Equipment

The Group applies the requirements of the Sri Lanka Accounting Standard - LKAS 16 on 'Property, Plant & Equipment' in accounting for its owned assets (including buildings under operating leases where the Group is the lessor) which are held for and used in the provision of services, for rental to others or for administrative purposes and are expected to be used for more than one year.

Basis of Recognition

Property, Plant & Equipment is recognised if it is probable that future economic benefits associated with the asset will flow to the Group and cost of the asset can be reliably measured.

Basis of Measurement

An item of Property, Plant & Equipment that qualifies for recognition as an asset is initially measured at its cost. Cost includes expenditure that is directly attributable to the acquisition of the asset and subsequent costs (excluding the costs of day-to-day servicing) as explained in Note below. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use and the costs of dismantling and removing the items and restoring the site on which they are located and capitalised borrowing costs. Purchased software which is integral to the functionality of the related equipment is capitalised as part of Computer Equipment.

When parts of an item of Property, Plant & Equipment have different useful lives, they are accounted for as separate items (major components) of Property, Plant & Equipment.

- Cost Model

The Group applies the Cost Model to all Property, Plant & Equipment except freehold land and freehold & leasehold buildings. These are recorded at cost of purchase together with any incidental expenses thereon, less accumulated depreciation and any accumulated impairment losses.

- Revaluation Model

The Group applies the Revaluation Model for the entire class of freehold land and freehold & leasehold buildings for measurement after initial recognition. Such properties are carried at revalued amounts, being their fair value at the date of revaluation, less any subsequent accumulated depreciation on buildings and any accumulated impairment losses charged subsequent to the date of valuation. Freehold land and buildings of the Group are revalued by independent professional valuers every three years or more frequently if the fair values as are substantially different from carrying amounts to ensure that the carrying amounts do not differ from the fair values as at the Reporting date.

On revaluation of an asset, any increase in the carrying amount is recognised in Revaluation Reserve in Equity through OCI or used to reverse a previous loss on revaluation of the same asset, which was charged to the Income Statement. In this circumstance, the increase is recognised as income only to the extent of the previous write down in value. Any decrease in the carrying amount is recognised as an expense in the Income Statement or charged to Revaluation Reserve in equity through OCI, only to the extent of any credit balance existing in the Revaluation Reserve in respect of that asset. Any balance remaining in the Revaluation Reserve in respect of an asset, is transferred directly to Retained Earnings on retirement or disposal of the asset.

The Group revalued all its freehold land and freehold & leasehold buildings as at December 31, 2014. Methods and significant assumptions including unobservable market inputs employed in estimating the fair value together with the sensitivity of same are given in Note 39.5 (b) and Note 39.5 (c).

Subsequent Cost

Subsequent expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the Group. Ongoing repairs and maintenance are expensed as incurred.

Derecognition

An item of Property, Plant & Equipment is derecognised upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset), is recognised in 'Other Income (Net)' in profit or loss in the year the asset is derecognised.

When replacement costs are recognised in the carrying amount of an item of Property, Plant & Equipment, the remaining carrying amount of the replaced part is derecognised as required by Sri Lanka Accounting Standard – LKAS 16 on 'Property, Plant & Equipment'.

Capital Work-in-Progress

These are expenses of a capital nature directly incurred in the construction of buildings, major plant and machinery and system development, awaiting capitalisation. These are stated in the Statement of Financial Position at cost less any accumulated impairment losses. Capital work-in-progress is transferred to the relevant asset when it is in the location and condition necessary for it to be capable of operating in the manner intended by management (i.e. available for use).

39.1 Group – 2016

| | Freehold Land | Freehold Buildings | Leasehold Buildings | Computer Equipment | Motor Vehicles | Office Equipment, Furniture & Fixtures | Capital Work-in- Progress | Total 2016 | Total 2015 |
|---|------------------|-----------------------|------------------------|-----------------------|-------------------|---|---------------------------------|-------------------|-------------------|
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Cost/Valuation | | | | | | | | | |
| Balance as at January 01, | 4,924,702 | 2,635,938 | 1,080,861 | 3,880,784 | 335,180 | 4,514,891 | 358,439 | 17,730,795 | 16,810,952 |
| Additions/transfers during the year | – | 379,169 | 2,507 | 643,084 | 44,457 | 746,335 | (314,482) | 1,501,070 | 1,086,405 |
| Disposals during the year | (10,419) | (905) | – | (275,233) | (31,768) | (72,080) | – | (390,405) | (209,304) |
| Exchange rate variance | – | – | – | 4,772 | 1,964 | 12,935 | – | 19,671 | 42,742 |
| Adjustments | – | – | – | 11,666 | – | (11,666) | – | – | – |
| Balance as at December 31, | 4,914,283 | 3,014,202 | 1,083,368 | 4,265,073 | 349,833 | 5,190,415 | 43,957 | 18,861,131 | 17,730,795 |
| Accumulated Depreciation and Impairment Losses | | | | | | | | | |
| Balance as at January 01, | – | 91,285 | 62,296 | 2,973,701 | 217,350 | 3,204,730 | – | 6,549,362 | 5,676,091 |
| Charge for the year [Refer Note 20] | – | 94,171 | 29,887 | 413,528 | 40,519 | 514,983 | – | 1,093,088 | 1,024,162 |
| Disposals during the year | – | (42) | – | (271,541) | (30,511) | (66,538) | – | (368,632) | (187,573) |
| Exchange rate variance | – | – | – | 4,351 | 1,964 | 11,332 | – | 17,647 | 36,682 |
| Transfers/adjustments | – | – | – | 1,207 | – | (1,207) | – | – | – |
| Balance as at December 31, | – | 185,414 | 92,183 | 3,121,246 | 229,322 | 3,663,300 | – | 7,291,465 | 6,549,362 |
| Net book value as at December 31, 2016 | 4,914,283 | 2,828,788 | 991,185 | 1,143,827 | 120,511 | 1,527,115 | 43,957 | 11,569,666 | |
| Net book value as at December 31, 2015 | 4,924,702 | 2,544,653 | 1,018,565 | 907,083 | 117,830 | 1,310,161 | 358,439 | | 11,181,433 |

39.2 Group – 2015

| | Freehold Land | Freehold Buildings | Leasehold Buildings | Computer Equipment | Motor Vehicles | Office Equipment, Furniture & Fixtures | Capital Work-in-Progress | Total 2015 | Total 2014 |
|--|------------------|--------------------|---------------------|--------------------|----------------|--|--------------------------|-------------------|-------------------|
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Cost/Valuation | | | | | | | | | |
| Balance as at January 01, | 4,883,273 | 2,549,352 | 992,126 | 3,518,719 | 327,762 | 4,131,515 | 408,205 | 16,810,952 | 14,449,047 |
| Property, Plant & Equipment acquired on business combination | - | - | - | - | - | - | - | - | 216,168 |
| Additions/transfers during the year | 41,429 | 153,299 | 22,022 | 441,459 | 41,428 | 436,534 | (49,766) | 1,086,405 | 1,072,322 |
| Transfer of accumulated depreciation on assets revalued | - | - | - | - | - | - | - | - | (243,872) |
| Surplus on revaluation of property | - | - | - | - | - | - | - | - | 1,812,757 |
| Disposals during the year | - | - | - | (89,418) | (38,262) | (81,624) | - | (209,304) | (491,897) |
| Exchange rate variance | - | - | - | 10,024 | 4,252 | 28,466 | - | 42,742 | (3,573) |
| Adjustments | - | (66,713) | 66,713 | - | - | - | - | - | - |
| Balance as at December 31, | 4,924,702 | 2,635,938 | 1,080,861 | 3,880,784 | 335,180 | 4,514,891 | 358,439 | 17,730,795 | 16,810,952 |
| Accumulated Depreciation and Impairment Losses | | | | | | | | | |
| Balance as at January 01, | - | 608 | 34,369 | 2,719,287 | 205,193 | 2,716,634 | - | 5,676,091 | 5,273,822 |
| Accumulated depreciation assumed on business combination | - | - | - | - | - | - | - | - | 17,068 |
| Charge for the year [Refer Note 20] | - | 90,677 | 27,927 | 334,108 | 41,274 | 530,176 | - | 1,024,162 | 1,087,175 |
| Reversal of over provided depreciation | - | - | - | - | - | - | - | - | (243,872) |
| Disposals during the year | - | - | - | (88,532) | (33,269) | (65,772) | - | (187,573) | (456,362) |
| Exchange rate variance | - | - | - | 8,838 | 4,152 | 23,692 | - | 36,682 | (1,740) |
| Transfers/adjustments | - | - | - | - | - | - | - | - | - |
| Balance as at December 31, | - | 91,285 | 62,296 | 2,973,701 | 217,350 | 3,204,730 | - | 6,549,362 | 5,676,091 |
| Net book value as at December 31, 2015 | 4,924,702 | 2,544,653 | 1,018,565 | 907,083 | 117,830 | 1,310,161 | 358,439 | 11,181,433 | |
| Net book value as at December 31, 2014 | 4,883,273 | 2,548,744 | 957,757 | 799,432 | 122,569 | 1,414,881 | 408,205 | | 11,134,861 |

There were no capitalised borrowing cost related to the acquisition of Property, Plant & Equipment during the year 2016 (2015 – Nil).

The carrying amount of Group's revalued assets that would have been included in the Financial Statements had the assets been carried at cost less depreciation/amortisation is as follows:

| As at December 31, | 2016 | | | 2015 | | |
|-----------------------|------------------|--------------------------|------------------|------------------|--------------------------|------------------|
| | Cost | Accumulated Depreciation | Net Book Value | Cost | Accumulated Depreciation | Net Book Value |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Class of Asset | | | | | | |
| Freehold land | 742,730 | - | 742,730 | 753,149 | - | 753,149 |
| Freehold buildings | 1,544,666 | 357,334 | 1,187,332 | 1,166,621 | 328,170 | 838,451 |
| Leasehold buildings | 350,867 | 165,344 | 185,523 | 348,360 | 154,886 | 193,474 |
| Total | 2,638,263 | 522,678 | 2,115,585 | 2,268,130 | 483,056 | 1,785,074 |

39.3 Bank – 2016

| | Freehold Land | Freehold Buildings | Leasehold Buildings | Computer Equipment | Motor Vehicles | Office Equipment, Furniture & Fixtures | Capital Work-in-Progress | Total 2016 | Total 2015 |
|---|---------------|--------------------|---------------------|--------------------|----------------|--|--------------------------|------------|------------|
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Cost/Valuation | | | | | | | | | |
| Balance as at January 01, | 4,797,273 | 2,534,238 | 189,966 | 3,864,859 | 127,798 | 4,475,277 | 354,453 | 16,343,864 | 15,493,095 |
| Additions/transfers during the year | - | 378,045 | 2,507 | 620,541 | 6,177 | 676,941 | (314,482) | 1,369,729 | 986,735 |
| Disposals during the year | - | - | - | (275,233) | (12,057) | (71,236) | - | (358,526) | (177,835) |
| Exchange rate variance | - | - | - | 4,772 | 1,964 | 12,878 | - | 19,614 | 41,869 |
| Adjustments | - | - | - | 11,666 | - | (11,666) | - | - | - |
| Balance as at December 31, | 4,797,273 | 2,912,283 | 192,473 | 4,226,605 | 123,882 | 5,082,194 | 39,971 | 17,374,681 | 16,343,864 |
| Accumulated Depreciation and Impairment Losses | | | | | | | | | |
| Balance as at January 01, | - | 88,587 | 38,850 | 2,964,201 | 106,732 | 3,176,509 | - | 6,374,879 | 5,540,004 |
| Charge for the year [Refer Note 20] | - | 92,078 | 5,809 | 409,811 | 9,485 | 505,465 | - | 1,022,648 | 961,492 |
| Disposals during the year | - | - | - | (271,541) | (10,850) | (65,882) | - | (348,273) | (162,124) |
| Exchange rate variance | - | - | - | 4,351 | 1,964 | 11,287 | - | 17,602 | 35,507 |
| Adjustments | - | - | - | 1,207 | - | (1,207) | - | - | - |
| Balance as at December 31, | - | 180,665 | 44,659 | 3,108,029 | 107,331 | 3,626,172 | - | 7,066,856 | 6,374,879 |
| Net book value as at December 31, 2016 | 4,797,273 | 2,731,618 | 147,814 | 1,118,576 | 16,551 | 1,456,022 | 39,971 | 10,307,825 | |
| Net book value as at December 31, 2015 | 4,797,273 | 2,445,651 | 151,116 | 900,658 | 21,066 | 1,298,768 | 354,453 | | 9,968,985 |

39.4 Bank – 2015

| | Freehold Land | Freehold Buildings | Leasehold Buildings | Computer Equipment | Motor Vehicles | Office Equipment – Furniture & Fixtures | Capital Work in Progress | Total 2015 | Total 2014 |
|---|---------------|--------------------|---------------------|--------------------|----------------|---|--------------------------|------------|------------|
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Cost/Valuation | | | | | | | | | |
| Balance as at January 01, | 4,797,273 | 2,458,352 | 104,625 | 3,504,292 | 129,047 | 4,095,287 | 404,219 | 15,493,095 | 13,499,527 |
| Additions/transfers during the year | - | 142,599 | 18,628 | 439,313 | 3,958 | 432,003 | (49,766) | 986,735 | 989,864 |
| Transfer of accumulated depreciation on assets revalued | - | - | - | - | - | - | - | - | (206,238) |
| Surplus on revaluation of property | - | - | - | - | - | - | - | - | 1,621,489 |
| Disposals during the year | - | - | - | (88,770) | (9,459) | (79,606) | - | (177,835) | (410,543) |
| Exchange rate variance | - | - | - | 10,024 | 4,252 | 27,593 | - | 41,869 | (1,004) |
| Adjustments | - | (66,713) | 66,713 | - | - | - | - | - | - |
| Balance as at December 31, | 4,797,273 | 2,534,238 | 189,966 | 3,864,859 | 127,798 | 4,475,277 | 354,453 | 16,343,864 | 15,493,095 |
| Accumulated Depreciation and Impairment Losses | | | | | | | | | |
| Balance as at January 01, | - | - | 34,368 | 2,711,315 | 99,461 | 2,694,860 | - | 5,540,004 | 5,112,183 |
| Charge for the year [Refer Note 20] | - | 88,587 | 4,482 | 331,996 | 12,578 | 523,849 | - | 961,492 | 1,026,730 |
| Transfer of accumulated depreciation on assets revalued | - | - | - | - | - | - | - | - | (206,238) |
| Disposals during the year | - | - | - | (87,948) | (9,459) | (64,717) | - | (162,124) | (391,978) |
| Exchange rate variance | - | - | - | 8,838 | 4,152 | 22,517 | - | 35,507 | (693) |
| Transfers/adjustments | - | - | - | - | - | - | - | - | - |
| Balance as at December 31, | - | 88,587 | 38,850 | 2,964,201 | 106,732 | 3,176,509 | - | 6,374,879 | 5,540,004 |
| Net book value as at December 31, 2015 | 4,797,273 | 2,445,651 | 151,116 | 900,658 | 21,066 | 1,298,768 | 354,453 | 9,968,985 | |
| Net book value as at December 31, 2014 | 4,797,273 | 2,458,352 | 70,257 | 792,977 | 29,586 | 1,400,427 | 404,219 | | 9,953,091 |

There were no capitalised borrowing costs related to the acquisition of Property, Plant & Equipment during the year 2016 (2015 – Nil).

The carrying amount of Bank's revalued assets that would have been included in the Financial Statements had the assets been carried at cost less depreciation/amortisation is as follows:

| As at December 31, | 2016 | | | 2015 | | |
|-----------------------|------------------|--------------------------|------------------|------------------|--------------------------|------------------|
| | Cost | Accumulated Depreciation | Net Book Value | Cost | Accumulated Depreciation | Net Book Value |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Class of Asset | | | | | | |
| Freehold land | 660,987 | - | 660,987 | 660,987 | - | 660,987 |
| Freehold buildings | 1,484,701 | 350,755 | 1,133,946 | 1,106,656 | 323,089 | 783,567 |
| Leasehold buildings | 190,574 | 50,471 | 140,103 | 188,067 | 45,707 | 142,360 |
| Total | 2,336,262 | 401,226 | 1,935,036 | 1,955,710 | 368,796 | 1,586,914 |

The maturity analysis of Property, Plant & Equipment is given in Note 62 on pages 308 and 309.

39.5 (a) Information on Freehold Land and Buildings of the Bank – Extents and Locations

[As required by the Rule No. 7.6 (viii) of the 'Continuing Listing Requirements' of the Colombo Stock Exchange]

| Location | Extent (Perches) | Buildings (Square Feet) | Revalued Amounts Land Rs. '000 | Revalued Amounts Buildings Rs. '000 | Net Book Value/ Revalued Rs. '000 | Net Book Value before Revaluation Rs. '000 |
|--|---------------------|-------------------------------|---|--|--|---|
| CEO's Bungalow – No. 27, Queens Road, Colombo 3 | 64 | 5,616 | 544,850 | 15,150 | 553,940 | 421,459 |
| Holiday Bungalow – Bandarawela, Ambatenne Estate, Bandarawela | 423 | 5,649 | 56,700 | 11,400 | 67,109 | 61,436 |
| Holiday Bungalow – Haputale No. 23, Lilly Avenue, Welimada Road, Haputale | 258 | 5,662 | 30,900 | 15,300 | 44,500 | 38,713 |
| Branch Buildings | | | | | | |
| Battaramulla – No. 213, Kaduwela Road, Battaramulla | 14 | 11,216 | 52,500 | 87,375 | 131,138 | 79,866 |
| Battaramulla – No. 213, Kaduwela Road, Battaramulla | 13 | Bare Land | 50,000 | – | 50,000 | 52,399 |
| Borella – No. 92, D.S. Senanayake Mawatha, Borella, Colombo 8 | 16 | 16,880 | 156,300 | 198,700 | 340,805 | 126,331 |
| Chilaw – No. 44, Colombo Road, Chilaw | 35 | 9,420 | 63,522 | 38,000 | 99,622 | 126,541 |
| Galewela – No. 49/57, Matale Road, Galewela | 99 | 18,472 | 22,275 | 15,225 | 36,739 | 32,012 |
| Galle City – No. 130, Main Street, Galle | 7 | 3,675 | 40,500 | 8,269 | 48,156 | 40,277 |
| Galle Fort – No. 22, Church Street, Fort, Galle | 100 | 11,625 | 210,000 | 40,000 | 248,000 | 146,256 |
| Gampaha – No. 51, Queen Mary's Road, Gampaha | 33 | 4,685 | 57,575 | 10,541 | 67,511 | 61,463 |
| Hikkaduwa – No. 217, Galle Road, Hikkaduwa | 37 | 6,713 | 26,370 | 24,608 | 49,647 | 37,518 |
| Ja-Ela – No. 140, Negombo Road, Ja-Ela | 13 | 7,468 | 29,000 | 21,000 | 48,727 | 38,741 |
| Jaffna – No. 474, Hospital Road, Jaffna | 77 | 5,146 | 581,000 | 19,000 | 598,100 | 283,456 |
| Kandy – No. 120, Kotugodella Veediya, Kandy | 45 | 44,500 | 354,000 | 231,000 | 568,500 | 549,953 |
| Kegalle – No. 186, Main Street, Kegalle | 85 | 2,650 | 128,000 | 7,000 | 134,500 | 121,300 |
| Keyzer Street – No. 32, Keyzer Street, Colombo 11 | 7 | 6,100 | 56,000 | 26,000 | 80,700 | 68,128 |
| Kollupitiya – No. 285, Galle Road, Colombo 3 | 17 | 16,254 | 115,000 | 65,000 | 175,357 | 158,283 |
| Kotahena – No. 198, George R. De Silva Mawatha, Kotahena, Colombo 13 | 28 | 26,722 | 140,000 | 207,400 | 337,030 | 314,958 |
| Kurunegala – No. 4, Suratissa Mawatha, Kurunegala | 50 | 9,821 | 199,325 | 34,675 | 232,267 | 218,636 |
| Maharagama – No. 154, High Level Road, Maharagama | 18 | 8,440 | 53,250 | 31,750 | 83,413 | 101,015 |
| Matale – No. 70, King Street, Matale | 51 | 8,596 | 75,000 | 60,000 | 131,667 | 117,358 |
| Matara – No. 18, Station Road, Matara | 37 | 8,137 | 50,695 | 25,291 | 74,655 | 50,470 |
| Minuwangoda – No. 42, Siriwardena Mawatha, Minuwangoda | 25 | 5,550 | 31,250 | 17,690 | 48,010 | 71,655 |
| Mutwal – No. 160, St. James Street, Colombo 15 | 17 | Bare Land | 34,000 | – | 34,000 | 22,300 |
| Narahenpita – No. 201, Kirula Road, Narahenpita, Colombo 5 | 22 | 11,193 | 132,300 | 87,700 | 213,736 | 162,939 |
| Narammala – No. 55, Negombo Road, Narammala | 42 | 5,353 | 53,391 | 16,609 | 69,170 | 58,843 |
| Negombo – Nos. 24, 26, Fernando Avenue, Negombo | 37 | 11,360 | 73,000 | 31,000 | 101,520 | 73,940 |
| Nugegoda – No. 100, Stanley Thilakaratne Mawatha, Nugegoda | 39 | 11,150 | 156,000 | 41,000 | 194,950 | 234,221 |
| Nuwara Eliya – No. 36, Buddha Jayanthi Mawatha, Nuwara Eliya | 42 | 10,184 | 82,000 | 71,000 | 149,161 | 135,834 |
| Panadura – No. 375, Galle Road, Panadura | 12 | 6,168 | 30,750 | 40,090 | 66,833 | 35,236 |
| Pettah – People's Park Shopping Complex, Colombo 11 | – | 3,147 | – | 58,000 | 52,727 | 45,723 |
| Pettah – Stores – People's Park Shopping Complex, Colombo 11 | – | 225 | – | 4,800 | 4,364 | 3,521 |
| Pettah – Main Street – No. 280, Main Street, Pettah, Colombo 11 | 20 | 22,760 | 280,000 | 152,010 | 423,522 | 238,670 |
| Trincomalee – No. 474, Power House Road, Trincomalee | 100 | Bare Land | 90,300 | – | 90,300 | 75,000 |
| Union Place – No. 1, Union Place, Colombo 2 | 30 | 63,385 | 450,000 | 750,000 | 1,146,427 | 936,148 |
| Wellawatte – No. 343, Galle Road, Colombo 6 | 45 | 48,560 | 249,520 | 421,700 | 664,021 | 235,222 |
| Wennappuwa – Nos. 262, 264, Colombo Road, Wennappuwa | 36 | 9,226 | 42,000 | 28,000 | 68,069 | 58,315 |
| Total | | | 4,797,273 | 2,912,283 | 7,528,893 | 5,634,136 |

39.5 (b) Information on Valuation of Freehold Land and Buildings of the Bank

[As required by the Rule No. 7.6 (viii) of the 'Continuing Listing Requirements' of the Colombo Stock Exchange and the SLFRS 13 – 'Fair Value Measurement'].

Date of Valuation: December 31, 2014

| Name of Professional Valuer/ Location and Address of Property | Method of Valuation and Significant Unobservable Inputs | Range of Estimates for Unobservable Inputs | Net Book Value before Revaluation of | | Revalued Amount of | | Revaluation Gain/(Loss) Recognised on | |
|---|--|--|---|-----------|--------------------|-----------|--|-----------|
| | | | Land | Buildings | Land | Buildings | Land | Buildings |
| | | | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Mr. H.M.N. Herath | | | | | | | | |
| Chilaw No. 44, Colombo Road, Chilaw | Market comparable method | | 61,750 | 64,791 | 63,522 | 38,000 | 1,772 | (26,791) |
| | • Price per perch for land | Rs. 1,800,000 p.p. | | | | | | |
| | • Price per square foot for building | Rs. 4,250 p.sq.ft. | | | | | | |
| | • Depreciation rate | 5% | | | | | | |
| Gampaha No. 51, Queen Mary's Road, Gampaha | Market comparable method | | 51,658 | 9,805 | 57,575 | 10,541 | 5,917 | 736 |
| | • Price per perch for land | Rs. 1,750,000 p.p. | | | | | | |
| | • Price per square foot for building | Rs. 3,750 p.sq.ft. | | | | | | |
| | • Depreciation rate | 40% | | | | | | |
| Minuwangoda No. 42, Siriwardena Mawatha, Minuwangoda | Market comparable method | | 37,500 | 34,155 | 31,250 | 17,690 | (6,250) | (16,465) |
| | • Price per perch for land | Rs. 1,250,000 p.p. | | | | | | |
| | • Price per square foot for building | Rs. 4,250 p.sq.ft. | | | | | | |
| | • Depreciation rate | 25% | | | | | | |
| Mr. K.C.B. Condegama | | | | | | | | |
| Maharagama No. 154, High Level Road, Maharagama | Market comparable method | | 62,125 | 38,890 | 53,250 | 31,750 | (8,875) | (7,140) |
| | • Price per perch for land | Rs. 3,000,000 p.p. | | | | | | |
| | • Price per square foot for building | Rs. 3,750 p.sq.ft. | | | | | | |
| Nugegoda No. 100, Stanley Thilakaratne Mawatha, Nugegoda | Market comparable method | | 195,000 | 39,221 | 156,000 | 41,000 | (39,000) | 1,779 |
| | • Price per perch for land | Rs. 4,000,000 p.p. | | | | | | |
| | • Price per square foot for building | Rs. 3,800 p.sq.ft. | | | | | | |
| Wellawatte No. 343, Galle Road, Colombo 6 | Market comparable method | | 204,100 | 31,122 | 249,520 | 50,480 | 45,420 | 19,358 |
| | • Price per perch for land | Rs. 5,000,000 to Rs. 6,000,000 p.p. | | | | | | |
| | • Price per square foot for building | Rs. 3,800 p.sq.ft. | | | | | | |
| Mr. P.B. Kalugalagedara | | | | | | | | |
| Keyzer Street No. 32, Keyzer Street, Colombo 11 | Market comparable method | | 45,000 | 23,128 | 56,000 | 26,000 | 11,000 | 2,872 |
| | • Price per perch for land | Rs. 7,500,000 p.p. | | | | | | |
| | • Price per square foot for building | Rs. 500 to Rs. 6,000 p.sq.ft. | | | | | | |
| Kollupitiya No. 285, Galle Road, Colombo 3 | Market comparable method | | 100,000 | 58,283 | 115,000 | 65,000 | 15,000 | 6,717 |
| | • Price per perch for land | Rs. 7,500,000 p.p. | | | | | | |
| | • Price per square foot for building | Rs. 1,250 to Rs. 5,000 p.sq.ft. | | | | | | |

| Name of Professional Valuer/ Location and Address of Property | Method of Valuation and Significant Unobservable Inputs | Range of Estimates for Unobservable Inputs | Net Book Value before Revaluation of | | Revalued Amount of | | Revaluation Gain/(Loss) Recognised on | |
|---|--|--|---|-----------|--------------------|-----------|--|-----------|
| | | | Land | Buildings | Land | Buildings | Land | Buildings |
| | | | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Kotahena No. 198, George R. De Silva Mawatha, Kotahena, Colombo 13 | Market comparable method • Price per perch for land • Price per square foot for building | Rs. 5,000,000 p.p. Rs. 1,000 to Rs. 7,750 p.sq.ft. | 110,000 | 204,958 | 140,000 | 207,400 | 30,000 | 2,442 |
| Mutwal No. 160, St. James Street, Colombo 15 | Market comparable method • Price per perch for land | Rs. 2,000,000 p.p. | 22,300 | – | 34,000 | – | 11,700 | – |
| Mr. R.S. Wijesuriya | | | | | | | | |
| Battaramulla No. 213, Kaduwela Road, Battaramulla | Market comparable method • Price per perch for land • Price per square foot for building | Rs. 3,750,000 p.p. Rs. 7,500 p.sq.ft. | 24,518 | 55,348 | 52,500 | 87,375 | 27,982 | 32,027 |
| Battaramulla No. 213, Kaduwela Road, Battaramulla | Market comparable method • Price per perch for land | Rs. 3,750,000 p.p. | 52,399 | – | 50,000 | – | (2,399) | – |
| Panadura No. 375, Galle Road, Panadura | Market comparable method • Price per perch for land • Price per square foot for building | Rs. 2,500,000 p.p. Rs. 6,500 p.sq.ft. | 18,450 | 16,787 | 30,750 | 40,090 | 12,300 | 23,303 |
| Mr. S.A.S. Fernando | | | | | | | | |
| Galle City No. 130, Main Street, Galle | Market comparable method • Price per perch for land • Price per square foot for building | Rs. 6,000,000 p.p. Rs. 2,250 p.sq.ft. | 33,750 | 6,527 | 40,500 | 8,269 | 6,750 | 1,742 |
| Galle Fort No. 22, Church Street, Fort, Galle | Market comparable method • Price per perch for land • Price per square foot for building | Rs. 2,100,000 p.p. Rs. 3,440 p.sq.ft. | 100,000 | 46,256 | 210,000 | 40,000 | 110,000 | (6,256) |
| Hikkaduwa No. 217, Galle Road, Hikkaduwa | Market comparable method • Price per perch for land • Price per square foot for building | Rs. 500,000 to Rs. 850,000 p.p. Rs. 2,750 to Rs. 3,500 p.sq.ft. | 16,740 | 20,778 | 26,370 | 24,608 | 9,630 | 3,830 |
| Matara No. 18, Station Road, Matara | Market comparable method • Price per perch for land • Price per square foot for building | Rs. 750,000 to Rs. 1,750,000 p.p. Rs. 2,750 to Rs. 3,500 p.sq.ft. | 28,154 | 22,315 | 50,695 | 25,291 | 22,541 | 2,976 |
| Trincomalee No. 474, Power House Road, Trincomalee | Market comparable method • Price per perch for land | Rs. 900,000 p.p. | 75,000 | – | 90,300 | – | 15,300 | – |
| Mr. S.T. Sanmuganathan | | | | | | | | |
| Jaffna No. 474, Hospital Road, Jaffna | Investment method • Gross Monthly Rental • Years purchase (Present value of 1 unit per period) • Void period | Rs. 7,500,000 p.m. 10 2 months p.a. | 272,135 | 11,321 | 581,000 | 19,000 | 308,865 | 7,679 |

| Name of Professional Valuer/ Location and Address of Property | Method of Valuation and Significant Unobservable Inputs | Range of Estimates for Unobservable Inputs | Net Book Value before Revaluation of | | Revalued Amount of | | Revaluation Gain/(Loss) Recognised on | |
|---|--|--|---|-----------|--------------------|-----------|--|-----------|
| | | | Land | Buildings | Land | Buildings | Land | Buildings |
| | | | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Mr. Sarath G. Fernando | | | | | | | | |
| Holiday Bungalow – Bandarawela Ambatenne Estate, Bandarawela | Market comparable method | | 51,400 | 10,036 | 56,700 | 11,400 | 5,300 | 1,364 |
| | • Price per perch for land | Rs. 50,000 to Rs. 200,000 p.p. | | | | | | |
| | • Price per square foot for building | Rs. 3,750 to Rs. 4,500 p.sq.ft. | | | | | | |
| | • Depreciation rate | 50% | | | | | | |
| Holiday Bungalow – Haputale No. 23, Lilly Avenue, Welimada Road, Haputale | Market comparable method | | 25,700 | 13,013 | 30,900 | 15,300 | 5,200 | 2,287 |
| | • Price per perch for land | Rs. 150,000 p.p. | | | | | | |
| | • Price per square foot for building | Rs. 3,250 to Rs. 6,500 p.sq.ft. | | | | | | |
| | • Depreciation rate | 20% to 55% | | | | | | |
| Kandy No. 120, Kotugodella Veediya, Kandy | Market comparable method | | 342,000 | 207,953 | 354,000 | 231,000 | 12,000 | 23,047 |
| | • Price per perch for land | Rs. 8,500,000 p.p. | | | | | | |
| | • Price per square foot for building | Rs. 5,750 to Rs. 9,500 p.sq.ft. | | | | | | |
| | • Depreciation rate | 30% & 35% | | | | | | |
| Kegalle No.186, Main Street, Kegalle | Market comparable method | | 115,000 | 6,300 | 128,000 | 7,000 | 13,000 | 700 |
| | • Price per perch for land | Rs. 1,000,000 to Rs. 2,500,000 p.p. | | | | | | |
| | • Price per square foot for building | Rs. 5,500 p.sq.ft. | | | | | | |
| | • Depreciation rate | 50% | | | | | | |
| Matale No. 70, Kings Street, Matale | Market comparable method | | 60,000 | 57,358 | 75,000 | 60,000 | 15,000 | 2,642 |
| | • Price per perch for land | Rs. 1,500,000 p.p. | | | | | | |
| | • Price per square foot for building | Rs. 8,750 p.sq.ft. | | | | | | |
| | • Depreciation rate | 20% | | | | | | |
| Nuwara-Eliya No. 36/3, Buddha Jayanthi Mawatha, Nuwara-Eliya | Market comparable method | | 72,000 | 63,834 | 82,000 | 71,000 | 10,000 | 7,166 |
| | • Price per perch for land | Rs. 1,000,000 to Rs. 2,000,000 p.p. | | | | | | |
| | • Price per square foot for building | Rs. 8,750 p.sq.ft. | | | | | | |
| | • Depreciation rate | 20% | | | | | | |
| Mr. Siri Nissanka | | | | | | | | |
| Borella No. 92, D.S. Senanayake Mawatha, Colombo 08. | Market comparable method | | 70,335 | 55,996 | 156,300 | 198,700 | 85,965 | 142,704 |
| | • Price per perch for land | Rs. 10,000,000 p.p. | | | | | | |
| | • Price per square foot for building | Rs. 11,000 p.sq.ft. | | | | | | |
| CEO's Bungalow No. 27, Queens Road, Colombo 03 | Market comparable method | | 416,650 | 4,809 | 544,850 | 15,150 | 128,200 | 10,341 |
| | • Price per perch for land | Rs. 8,500,000 p.p. | | | | | | |
| | • Price per square foot for building | Rs. 2,750 p.sq.ft. | | | | | | |
| Narahenpita No. 201, Kirula Road, Narahenpita, Colombo 05 | Market comparable method | | 99,225 | 63,714 | 132,300 | 87,700 | 33,075 | 23,986 |
| | • Price per perch for land | Rs. 6,000,000 p.p. | | | | | | |
| | • Price per square foot for building | Rs. 7,850 p.sq.ft. | | | | | | |

| Name of Professional Valuer/ Location and Address of Property | Method of Valuation and Significant Unobservable Inputs | Range of Estimates for Unobservable Inputs | Net Book Value before Revaluation of | | Revalued Amount of | | Revaluation Gain/(Loss) Recognised on | |
|---|--|---|---|-----------|--------------------|-----------|--|-----------|
| | | | Land | Buildings | Land | Buildings | Land | Buildings |
| | | | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Pettah – Main Street No. 280, Main Street, Pettah, Colombo 11 | Market comparable method • Price per perch for land | Rs. 14,000,000 p.p. | 169,370 | 69,299 | 280,000 | 69,299 | 110,630 | – |
| Union Place No. 1, Union Place, Colombo 02 | Market comparable method • Price per perch for land • Price per square foot for building | Rs. 15,000,000 p.p. Rs. 12,000 p.sq.ft. | 360,000 | 576,148 | 450,000 | 750,000 | 90,000 | 173,852 |
| Mr. W.D.P. Rupananda | | | | | | | | |
| Ja-Ela No. 140, Negombo Road, Ja-Ela | Market comparable method • Price per perch for land • Price per square foot for building • Depreciation rate | Rs. 2,250,000 p.p. Rs. 3,500 to Rs. 4,500 p.sq.ft. 30% | 23,188 | 15,554 | 29,000 | 21,000 | 5,812 | 5,446 |
| Negombo No. 24, 26, Fernando Avenue, Negombo | Market comparable method • Price per perch for land • Price per square foot for building • Depreciation rate | Rs. 1,500,000 to Rs. 2,200,000 p.p. Rs. 3,500 to Rs. 4,250 p.sq.ft. 25% | 49,500 | 24,440 | 73,000 | 31,000 | 23,500 | 6,560 |
| Pettah People's Park Shopping Complex, Colombo 11 | Investment method • Gross monthly rental • Years purchase (Present value of 1 unit per period) • Void period | Rs. 23,200 to Rs. 160,000 p.m. 18.18 4 months p.a. | – | 45,723 | – | 58,000 | – | 12,277 |
| Pettah People's Park Shopping Complex, Colombo 11 | Investment method • Gross monthly rental • Years purchase (Present value of 1 unit per period) • Void period | Rs. 36,000 p.m. 18.18 4 months p.a. | – | 3,521 | – | 4,800 | – | 1,279 |
| Wennappuwa No. 262, 264, Colombo Road, Wennappuwa | Market comparable method • Price per perch for land • Price per square foot for building • Depreciation rate | Rs. 1,400,000 p.p. Rs. 3,250 to Rs. 4,500 p.sq.ft. 25% | 37,500 | 20,815 | 42,000 | 28,000 | 4,500 | 7,185 |

| Name of Professional Valuer/ Location and Address of Property | Method of Valuation and Significant Unobservable Inputs | Range of Estimates for Unobservable Inputs | Net Book Value before Revaluation of | | Revalued Amount of | | Revaluation Gain/(Loss) Recognised on | |
|---|--|--|---|------------------|--------------------|------------------|--|----------------|
| | | | Land | Buildings | Land | Buildings | Land | Buildings |
| | | | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Mr. W.S. Pamaratne | | | | | | | | |
| Galewela No. 49/57, Matale Road, Galewela | Market comparable method | | 19,800 | 12,212 | 22,275 | 15,225 | 2,475 | 3,013 |
| | • Price per perch for land | Rs. 225,000 p.p. | | | | | | |
| | • Price per square foot for building | Rs. 2,250 to Rs. 3,500 p.sq.ft. | | | | | | |
| | • Depreciation rate | 15% | | | | | | |
| Kurunegala No. 4, Suratissa Mawatha, Kurunegala | Market comparable method | | 140,000 | 78,636 | 199,325 | 34,675 | 59,325 | (43,961) |
| | • Price per perch for land | Rs. 3,500,000 to Rs. 4,150,000 p.p. | | | | | | |
| | • Price per square foot for building | Rs. 3,000 to Rs. 4,250 p.sq.ft. | | | | | | |
| | • Depreciation rate | 10% | | | | | | |
| Narammala No. 55, Negombo Road, Narammala | Market comparable method | | 44,550 | 14,293 | 53,391 | 16,609 | 8,841 | 2,316 |
| | • Price per perch for land | Rs. 1,300,000 p.p. | | | | | | |
| | • Price per square foot for building | Rs. 3,500 p.sq.ft. | | | | | | |
| | • Depreciation rate | 5% | | | | | | |
| Total | | | 3,606,797 | 2,027,339 | 4,797,273 | 2,458,352 | 1,190,476 | 431,013 |

p.p. – per perch p.sq.ft. – per square foot p.m. – per month

39.5 (c) Valuation Techniques and Sensitivity of the Fair Value Measurement of the Freehold Land and Buildings of the Bank

Description of the above valuation techniques together with narrative descriptions on sensitivity of the fair value measurement to changes in significant unobservable inputs are tabulated below:

| Valuation Technique | Significant unobservable valuation inputs (ranges of each property are given in the table above) | Sensitivity of the fair value measurement to inputs |
|---|--|--|
| Market Comparable Method This method considers the selling price of a similar property within a reasonably recent period of time in determining the fair value of the property being revalued. This involves evaluation of recent active market prices of similar assets, making appropriate adjustments for differences in size, nature, location, condition of specific property. In this process, outlier transactions, indicative of particularly motivated buyers or sellers are too compensated for since the price may not adequately reflect the fair market value. | Price per perch for land Price per square foot for building Depreciation rate for building | Estimated fair value would increase (decrease) if; Price per perch would increase (decrease) Price per square foot would increase (decrease) Depreciation rate for building would decrease (increase) |
| Investment Method This method involves the capitalisation of the expected rental income at an appropriate rate of years purchased currently characterised by the real estate market. | Gross Annual Rentals Years purchase (Present value of 1 unit per period) Void period | Estimated fair value would increase (decrease) if; Gross Annual Rentals would increase (decrease) Years purchase would increase (decrease) Void period would decrease (increase) |

39.6 Title Restriction on Property, Plant & Equipment

There were no restrictions existed on the title of the Property, Plant & Equipment of the Group as at the Reporting date.

39.7 Property, Plant & Equipment Pledged as Security for Liabilities – Bank

There were no items of Property, Plant & Equipment pledged as securities for liabilities as at the Reporting date.

39.8 Compensation from Third Parties for Items of Property, Plant & Equipment – Bank

The compensation received/receivable from third parties for items of Property, Plant & Equipment that were impaired, lost or given up as at the Reporting date of the Bank is as follows.

| <i>As at December 31,</i> | 2016 Rs. '000 | 2015 Rs. '000 |
|--------------------------------|------------------|------------------|
| Total claims lodged | 4,832 | 1,702 |
| Total claims received | (1,643) | (402) |
| Total claims rejected | – | (643) |
| Total claims receivable | 3,189 | 657 |

39.9 Fully Depreciated Property, Plant & Equipment – Bank

The cost of fully depreciated Property, Plant & Equipment of the Bank which are still in use is as follows:

| <i>As at December 31,</i> | 2016 Rs. '000 | 2015 Rs. '000 |
|--|------------------|------------------|
| Computer equipment | 1,205,702 | 1,823,142 |
| Office equipment, furniture and fixtures | 1,748,517 | 1,542,990 |
| Motor vehicles | 20,765 | 27,369 |

39.10 Temporarily Idle Property, Plant & Equipment – Bank

Following Property, Plant & Equipment of the Bank were temporarily idle (until the assets are issued to the business units).

| <i>As at December 31,</i> | 2016 Rs. '000 | 2015 Rs. '000 |
|--|------------------|------------------|
| Computer equipment | 128,136 | 349,244 |
| Office equipment, furniture and fixtures | 45,887 | 122,796 |

39.11 Property, Plant & Equipment Retired from Active Use – Bank

Following Property, Plant & Equipment of the Bank were retired from active use.

| <i>As at December 31,</i> | 2016 Rs. '000 | 2015 Rs. '000 |
|--|------------------|------------------|
| Computer equipment | 160,181 | 151,998 |
| Office equipment, furniture and fixtures | 100,681 | 73,991 |
| Motor vehicles | – | – |

39.12 Borrowing Costs

There were no capitalised borrowing costs related to the acquisition of Property, Plant & Equipment during the year 2016 (2015 – Nil).

40. Intangible Assets

The Group's intangible assets include the value of acquired goodwill and computer software.

Basis of Recognition

An intangible asset is recognised if it is probable that future economic benefits associated with the asset will flow to the entity and the cost of the asset can be measured reliably in accordance with the Sri Lanka Accounting Standard – LKAS 38 on 'Intangible Assets'.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, these assets are stated in the Statement of Financial Position at cost, less accumulated amortisation and accumulated impairment losses, if any.

Subsequent Expenditure

Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Useful Economic Lives, Amortisation and Impairment

The useful economic lives of intangible assets are assessed to be either finite or indefinite. Useful economic lives, amortisation and impairment of finite and indefinite intangible assets are described below:

- Intangible Assets with Finite Lives and Amortisation

Intangible assets with finite lives are amortised over the useful economic lives. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each Reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates, which require prospective application. The amortisation expense on intangible assets with finite lives is expensed as incurred.

- Goodwill

Goodwill that arises on the acquisition of Subsidiaries is presented with intangible assets (Refer Note 40 on page 277). Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed.

Subsequent to initial recognition, goodwill is measured at cost less accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

- Computer Software

Software acquired by the Group is measured at cost less accumulated amortisation and any accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when the Group is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software and capitalised borrowing costs, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and any accumulated impairment losses.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

- Research and Development Costs

Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the Group can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale.
- Its intention to complete and its ability to use or sell the asset.
- The asset will generate future economic benefits.
- The availability of resources to complete the asset.
- The ability to measure reliably the expenditure during development.
- The ability to use the intangible asset generated.

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses.

As at the Reporting date, the Group does not have development costs capitalised as an internally-generated intangible asset.

| <i>As at December 31,</i> | GROUP | | BANK | |
|--|------------------|----------------|----------------|----------------|
| | 2016 | 2015 | 2016 | 2015 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Computer Software [Refer Note 40.1] | 506,134 | 316,864 | 423,851 | 308,531 |
| Software under development [Refer Note 40.2] | 226,490 | 167,125 | 216,794 | 157,429 |
| Goodwill arising on business combination | 400,045 | 400,045 | - | - |
| Total | 1,132,669 | 884,034 | 640,645 | 465,960 |

40.1 Computer Software

| | GROUP | | BANK | |
|---|------------------|------------------|------------------|------------------|
| | 2016 | 2015 | 2016 | 2015 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Cost/Valuation | | | | |
| Balance as at January 01, | 1,731,169 | 1,629,086 | 1,719,589 | 1,618,429 |
| Additions during the year | 362,810 | 99,407 | 280,986 | 98,414 |
| Disposals/write-off during the year | (413,059) | (70) | (413,059) | - |
| Exchange rate variance | 1,757 | 2,754 | 1,785 | 2,754 |
| Transfers/adjustments | - | (8) | - | (8) |
| Balance as at December 31, | 1,682,677 | 1,731,169 | 1,589,301 | 1,719,589 |
| Accumulated amortisation and impairment losses | | | | |
| Balance as at January 01, | 1,414,305 | 1,231,442 | 1,411,058 | 1,229,333 |
| Amortisation for the year [Refer Note 20] | 173,790 | 180,558 | 165,903 | 179,370 |
| Impairment loss | - | - | - | - |
| Disposals/write-off during the year | (412,756) | (50) | (412,756) | - |
| Exchange rate variance | 1,204 | 2,363 | 1,245 | 2,363 |
| Transfers/adjustments | - | (8) | - | (8) |
| Balance as at December 31, | 1,176,543 | 1,414,305 | 1,165,450 | 1,411,058 |
| Net book value as at December 31, | 506,134 | 316,864 | 423,851 | 308,531 |

40.2 Software Under Development

| | GROUP | | BANK | |
|-----------------------------------|------------------|------------------|------------------|------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| Cost/Valuation | | | | |
| Balance as at January 01, | 167,125 | 58,541 | 157,429 | 50,032 |
| Additions during the year | 135,830 | 124,901 | 135,830 | 123,537 |
| Exchange rate variance | - | (177) | - | - |
| Transfers/adjustments | (76,465) | (16,140) | (76,465) | (16,140) |
| Balance as at December 31, | 226,490 | 167,125 | 216,794 | 157,429 |

There were no restrictions on the title of the intangible assets of the Group as at the Reporting date. Further, there were no items pledged as securities for liabilities. There were no capitalised borrowing costs related to the acquisition of intangible assets during the year 2016 (2015 – Nil).

The maturity analysis of Intangible Assets is given in Note 62 on pages 308 and 309.

41. Leasehold Property

| | GROUP | | BANK | |
|---|------------------|------------------|------------------|------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| Cost/Valuation | | | | |
| Balance as at January 01, | 128,700 | 128,700 | 84,840 | 84,840 |
| Additions during the year | - | - | - | - |
| Balance as at December 31, | 128,700 | 128,700 | 84,840 | 84,840 |
| Accumulated amortisation | | | | |
| Balance as at January 01, | 21,280 | 19,828 | 10,362 | 9,420 |
| Amortisation for the year [Refer Note 20] | 1,452 | 1,452 | 942 | 942 |
| Balance as at December 31, | 22,732 | 21,280 | 11,304 | 10,362 |
| Net book value as at December 31, | 105,968 | 107,420 | 73,536 | 74,478 |

The carrying amount of revalued assets that would have been included in the Financial Statements had the assets been carried at cost less depreciation/amortisation is as follows:

| As at December 31, 2016 | GROUP | | | BANK | | |
|-------------------------|------------------|---|-------------------------------|------------------|---|-------------------------------|
| | Cost Rs. '000 | Accumulated Amortisation Rs. '000 | Net Book Value Rs. '000 | Cost Rs. '000 | Accumulated Amortisation Rs. '000 | Net Book Value Rs. '000 |
| Class of Asset | | | | | | |
| Leasehold Land | 23,715 | 6,827 | 16,888 | 14,846 | 3,783 | 11,063 |
| Total | 23,715 | 6,827 | 16,888 | 14,846 | 3,783 | 11,063 |

| As at December 31, 2015 | GROUP | | | BANK | | |
|-------------------------|---------------|--------------------------|----------------|---------------|--------------------------|----------------|
| | Cost | Accumulated Amortisation | Net Book Value | Cost | Accumulated Amortisation | Net Book Value |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Class of Asset | | | | | | |
| Leasehold Land | 23,715 | 6,588 | 17,127 | 14,846 | 3,633 | 11,213 |
| Total | 23,715 | 6,588 | 17,127 | 14,846 | 3,633 | 11,213 |

The maturity analysis of Leasehold Property is given in Note 62 on pages 308 and 309.

42. Other Assets

| As at December 31, | GROUP | | BANK | |
|--|-------------------|-------------------|-------------------|-------------------|
| | 2016 | 2015 | 2016 | 2015 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Receivables | 36,511 | 11,290 | 36,511 | 11,290 |
| Deposits and prepayments | 1,481,830 | 1,426,519 | 1,490,786 | 1,434,714 |
| Clearing account balance | 6,370,312 | 4,811,743 | 6,370,312 | 4,811,743 |
| Unamortised cost on staff loans (Day 1 difference) | 3,373,174 | 2,696,643 | 3,373,174 | 2,696,643 |
| Other accounts | 5,220,732 | 3,150,822 | 5,167,383 | 3,140,201 |
| Total | 16,482,559 | 12,097,017 | 16,438,166 | 12,094,591 |

The maturity analysis of Other Assets is given in Note 62 on pages 308 and 309.

43. Due to Banks

These represent call money borrowings, credit balances in Nostro Accounts and borrowings from banks. Subsequent to initial recognition, these are measured at amortised cost using the EIR method. Interest paid/payable on these borrowings is recognised in profit or loss.

| As at December 31, | GROUP | | BANK | |
|--|-------------------|-------------------|-------------------|-------------------|
| | 2016 | 2015 | 2016 | 2015 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Borrowings | 58,406,994 | 30,975,857 | 54,917,414 | 29,505,580 |
| Local currency borrowings | 3,714,684 | 1,459,600 | 225,104 | – |
| Foreign currency borrowings | 54,692,310 | 29,516,257 | 54,692,310 | 29,505,580 |
| Securities sold under repurchase (Repo) agreements (*) | 12,691,397 | 813,539 | 12,691,397 | 813,539 |
| Total | 71,098,391 | 31,789,396 | 67,608,811 | 30,319,119 |

(*) Securities sold under repurchase (Repo) agreements are shown on the face of the Statement of Financial Position except for the Repos with banks.

The maturity analysis of Due to Banks is given in Note 62 on pages 308 and 309.

44. Derivative Financial Liabilities

Financial liabilities are classified as held-for-trading, if they are incurred principally for the purpose of repurchasing in the near term or held as a part of a portfolio that is managed together for short-term profit or position taking.

This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as per the Sri Lanka Accounting Standard – LKAS 39 on ‘Financial Instruments: Recognition and Measurement’. Separated embedded derivatives are also classified as held-for-trading unless they are designated as effective hedging instruments.

Derivative financial liabilities are recorded at fair value. Gains or losses on financial liabilities held-for-trading are recognised in the Income Statement.

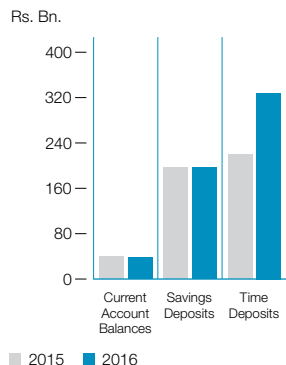
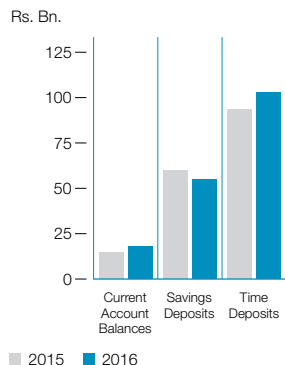
| As at December 31, | GROUP | | BANK | |
|-------------------------------------|------------------|------------------|------------------|------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| Foreign currency derivatives | | | | |
| Currency swaps | 663,714 | 791,199 | 663,714 | 791,199 |
| Forward contracts | 849,011 | 1,098,002 | 849,011 | 1,098,002 |
| Spot contracts | 2,310 | 1,569 | 2,310 | 1,569 |
| Total | 1,515,035 | 1,890,770 | 1,515,035 | 1,890,770 |

The maturity analysis of Derivative Financial Liabilities is given in Note 62 on pages 308 and 309.

45. Due to Other Customers/Deposits from Customers

These include non-interest-bearing deposits, savings deposits, term deposits, deposits payable at call and certificates of deposit. Subsequent to initial recognition deposits are measured at amortised cost using the EIR method, except where the Group designates liabilities at fair value through profit or loss. Interest paid/payable on these deposits is recognised in profit or loss.

| As at December 31, | GROUP | | BANK | |
|----------------------------------|--------------------|--------------------|--------------------|--------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| Local currency deposits | 564,036,848 | 455,729,976 | 564,194,443 | 455,810,569 |
| Current account balances | 38,151,058 | 38,689,812 | 38,152,646 | 38,692,706 |
| Savings deposits | 197,136,502 | 196,605,341 | 197,244,642 | 196,631,547 |
| Time deposits | 328,382,343 | 219,882,652 | 328,430,210 | 219,934,145 |
| Certificates of deposit | 366,945 | 552,171 | 366,945 | 552,171 |
| Foreign currency deposits | 179,273,765 | 168,291,241 | 175,369,051 | 168,291,241 |
| Current account balances | 19,516,806 | 14,699,065 | 17,908,311 | 14,699,065 |
| Savings deposits | 56,388,046 | 60,128,349 | 54,845,666 | 60,128,349 |
| Time deposits | 103,368,913 | 93,463,827 | 102,615,074 | 93,463,827 |
| Total | 743,310,613 | 624,021,217 | 739,563,494 | 624,101,810 |

Deposits – Local Currency – Bank

Deposits – Foreign Currency – Bank

45.1 Analysis of Due to Other Customers/Deposits from Customers

| As at December 31, | GROUP | | BANK | |
|-------------------------------------|--------------------|--------------------|--------------------|--------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| (a) By product | | | | |
| Current account balances | 57,667,864 | 53,388,877 | 56,060,957 | 53,391,771 |
| Savings deposits | 253,524,548 | 256,733,690 | 252,090,308 | 256,759,896 |
| Time deposits | 431,751,256 | 313,346,479 | 431,045,284 | 313,397,972 |
| Certificates of deposit | 366,945 | 552,171 | 366,945 | 552,171 |
| Subtotal | 743,310,613 | 624,021,217 | 739,563,494 | 624,101,810 |
| (b) By currency | | | | |
| Sri Lankan Rupee | 564,036,848 | 455,729,976 | 564,194,443 | 455,810,569 |
| United States Dollar | 119,220,744 | 112,704,677 | 115,932,892 | 112,704,677 |
| Great Britain Pound | 8,195,451 | 8,194,138 | 8,195,451 | 8,194,138 |
| Euro | 34,738,958 | 32,679,287 | 34,738,958 | 32,679,287 |
| Australian Dollar | 5,984,750 | 5,653,284 | 5,851,603 | 5,653,284 |
| Bangladesh Taka | 9,087,549 | 7,605,532 | 9,087,088 | 7,605,532 |
| Other currencies | 2,046,313 | 1,454,323 | 1,563,059 | 1,454,323 |
| Subtotal | 743,310,613 | 624,021,217 | 739,563,494 | 624,101,810 |
| (c) By institution/customers | | | | |
| Deposits from banks | 5,678,189 | 9,177,616 | 5,678,189 | 9,177,616 |
| Deposits from finance companies | 14,908,797 | 8,551,835 | 14,888,958 | 8,551,835 |
| Deposits from other customers | 722,723,627 | 606,291,766 | 718,996,347 | 606,372,359 |
| Subtotal | 743,310,613 | 624,021,217 | 739,563,494 | 624,101,810 |

The maturity analysis of due to other customers deposits from customers is given in Note 62 on pages 308 and 309.

46. Other Borrowings

| As at December 31, | GROUP | | BANK | |
|---|------------------|------------------|------------------|------------------|
| | 2016 | 2015 | 2016 | 2015 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Refinance borrowings | 5,425,666 | 4,434,582 | 5,425,666 | 4,434,582 |
| Borrowings from International Finance Corporation (IFC) | 3,844,488 | 5,551,055 | 3,844,488 | 5,551,055 |
| Total | 9,270,154 | 9,985,637 | 9,270,154 | 9,985,637 |

The maturity analysis of Other Borrowings is given in Note 62 on pages 308 and 309.

47. Current Tax Liabilities

| | GROUP | | BANK | |
|---|------------------|------------------|------------------|------------------|
| | 2016 | 2015 | 2016 | 2015 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Balance as at January 01, | 3,025,662 | 2,037,388 | 3,001,984 | 1,997,990 |
| Provision for the year | 5,606,143 | 5,185,218 | 5,554,989 | 5,094,780 |
| Under/(Over) provision of taxes in respect of prior years [Refer Note 22.1] | - | 1,700 | - | 1,701 |
| Self-assessment payments | (4,014,741) | (3,376,261) | (3,966,831) | (3,271,753) |
| Notional tax credits (*) | (918,062) | (900,495) | (916,767) | (899,563) |
| Withholding tax/other credits | (291,257) | (43,681) | (289,576) | (42,964) |
| Exchange rate variance | 56,937 | 121,793 | 56,937 | 121,793 |
| Balance as at December 31, | 3,464,682 | 3,025,662 | 3,440,736 | 3,001,984 |

(*) Notional Tax Credit for Withholding Tax on Government Securities on Secondary Market Transactions

As per Section 137 of the Inland Revenue Act No. 10 of 2006 and amendments thereto, a company engaged in secondary market transactions involving Government Securities, Treasury Bills and Treasury Bonds on which Income Tax had been deducted at 10% per annum at the time of issue of such securities, is entitled to a notional tax credit of one-ninth of Net Interest Income earned from such secondary market transactions.

The maturity analysis of Current Tax Liabilities is given in Note 62 on pages 308 and 309.

48. Deferred Tax Assets and Liabilities

48.1 Summary of Net Deferred Tax Liability

| | GROUP | | | | BANK | | | |
|---|----------------------------------|------------------------|----------------------------------|------------------------|----------------------------------|------------------------|----------------------------------|------------------------|
| | 2016 | | 2015 | | 2016 | | 2015 | |
| | Temporary Difference Rs. '000 | Tax Effect Rs. '000 | Temporary Difference Rs. '000 | Tax Effect Rs. '000 | Temporary Difference Rs. '000 | Tax Effect Rs. '000 | Temporary Difference Rs. '000 | Tax Effect Rs. '000 |
| Balance as at January 01, | 1,815,596 | 467,632 | 10,435,226 | 2,876,199 | 969,263 | 230,615 | 9,355,102 | 2,573,760 |
| Amount originating/(reversing) to Income Statement [Refer Note 22.1] | 303,341 | 42,017 | 268,938 | 89,933 | 94,840 | (16,317) | 461,836 | 143,905 |
| Amount originating/(reversing) to Statement of Profit or Loss and Other Comprehensive Income | (4,188,639) | (1,172,819) | (8,838,782) | (2,474,859) | (4,190,193) | (1,173,254) | (8,847,675) | (2,477,349) |
| Deferred tax on re-classification of revaluation surplus to revaluation reserve | - | - | (49,786) | (13,940) | - | - | - | - |
| Exchange rate variance | - | (4,980) | - | (9,701) | - | (4,979) | - | (9,701) |
| Balance as at December 31, | (2,069,702) | (668,150) | 1,815,596 | 467,632 | (3,126,090) | (963,935) | 969,263 | 230,615 |

48.2 Reconciliation of Net Deferred Tax Liability – Group

| | Statement of Financial Position | | Income Statement | | Statement of Profit or Loss and Other Comprehensive Income | |
|---|---------------------------------|------------------|------------------|------------------|--|------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| <i>For the year ended/as at December 31,</i> | | | | | | |
| Deferred Tax Liabilities on: | | | | | | |
| Accelerated depreciation for tax purposes – Own assets | 422,466 | 371,955 | (50,511) | 1,220 | – | – |
| Accelerated depreciation for tax purposes – Leased assets | 2,024,509 | 1,873,011 | (151,498) | (291,195) | – | – |
| Revaluation surplus on freehold buildings | 726,052 | 746,234 | 20,182 | 20,183 | – | – |
| Tax effect on actuarial gains on defined benefit plans | 66,464 | 26,458 | – | – | (40,006) | (22,874) |
| Effective interest rate on deposits | 1,986 | 2,585 | 599 | 813 | – | – |
| Effect of exchange rate variance | – | – | (5,888) | (11,447) | 908 | 1,746 |
| | 3,241,477 | 3,020,243 | (187,116) | (280,426) | (39,098) | (21,128) |
| Deferred Tax Assets on: | | | | | | |
| Finance leases | – | – | – | (203) | – | – |
| Defined benefit plans | 386,144 | 332,194 | 53,950 | 51,154 | – | – |
| Tax effect on actuarial losses on defined benefit plans | 61,179 | 23,975 | – | – | 37,204 | 8,174 |
| Unrealised (loss) on available-for-sale (AFS) portfolio | 2,875,685 | 1,679,467 | – | – | 1,196,218 | 2,471,980 |
| Specific provision on lease receivable | 56,254 | 56,254 | – | – | – | – |
| Leave encashment | 179,216 | 168,232 | 10,984 | 7,242 | – | – |
| Tax effect on actuarial losses on leave encashment | 13,444 | 34,949 | – | – | (21,505) | 15,833 |
| Straight lining of lease rentals | 39,236 | 28,463 | 10,773 | 9,241 | – | – |
| De-recognition of commission income | 110,633 | 81,016 | 29,617 | 10,354 | – | – |
| Equity-settled share-based payments | 117,679 | 62,532 | 55,147 | 62,532 | – | – |
| Impairment provision | 62,672 | 85,529 | (22,857) | 50,173 | – | – |
| Carried forward tax loss on leasing business | 7,485 | – | 7,485 | – | – | – |
| | 3,909,627 | 2,552,611 | 145,099 | 190,493 | 1,211,917 | 2,495,987 |
| Deferred tax effect on Income Statement and Statement of Profit or Loss and Other Comprehensive Income for the year | | | (42,017) | (89,933) | 1,172,819 | 2,474,859 |
| Net deferred tax liability as at December 31, | (668,150) | 467,632 | | | | |

48.3 Reconciliation of Net Deferred Tax Liability – Bank

| For the year ended/as at December 31, | Statement of Financial Position | | Income Statement | | Statement of Profit or Loss and Other Comprehensive Income | |
|--|---------------------------------|----------------|------------------|-----------|--|-----------|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Deferred Tax Liabilities on: | | | | | | |
| Accelerated depreciation for tax purposes – Own assets | 379,184 | 332,042 | (47,142) | (1,175) | – | – |
| Accelerated depreciation for tax purposes – Leased assets | 1,926,686 | 1,816,321 | (110,365) | (290,797) | – | – |
| Revaluation surplus on freehold buildings | 493,791 | 513,721 | 19,930 | 19,930 | – | – |
| Tax effect on actuarial gains on defined benefit plans | 63,016 | 23,301 | – | – | (39,715) | (20,242) |
| Effective interest rate on deposits | 1,986 | 2,585 | 599 | 813 | – | – |
| Effect of exchange rate variance | – | – | (5,887) | (11,447) | 908 | 1,746 |
| | 2,864,663 | 2,687,970 | (142,865) | (282,676) | (38,807) | (18,496) |
| Deferred Tax Assets on: | | | | | | |
| Defined benefit plans | 375,497 | 322,835 | 52,662 | 49,402 | – | – |
| Tax effect on actuarial losses on defined benefit plans | 60,946 | 23,620 | – | – | 37,326 | 8,047 |
| Unrealised (loss) on available-for-sale (AFS) portfolio | 2,875,694 | 1,679,454 | – | – | 1,196,240 | 2,471,965 |
| Specific provision on lease receivable | 56,254 | 56,254 | – | – | – | – |
| Leave encashment | 179,216 | 168,232 | 10,984 | 7,242 | – | – |
| Tax effect on actuarial losses on leave encashment | 13,444 | 34,949 | – | – | (21,505) | 15,833 |
| Straight lining of lease rentals | 39,236 | 28,463 | 10,773 | 9,241 | – | – |
| De-recognition of commission income | 110,632 | 81,016 | 29,616 | 10,354 | – | – |
| Equity-settled share-based payments | 117,679 | 62,532 | 55,147 | 62,532 | – | – |
| | 3,828,598 | 2,457,355 | 159,182 | 138,771 | 1,212,061 | 2,495,845 |
| Deferred tax effect on Income Statement and Statement of Profit or Loss and Other Comprehensive Income for the year | | | 16,317 | (143,905) | 1,173,254 | 2,477,349 |
| Net deferred tax liability as at December 31, | (963,935) | 230,615 | | | | |

The maturity analysis of Deferred Tax Liabilities is given in Note 62 on pages 308 and 309.

49. Other Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised in 'Interest Expense' in profit or loss.

| As at December 31, | GROUP | | BANK | |
|------------------------------|--------------|--------------|--------------|--------------|
| | 2016 | 2015 | 2016 | 2015 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Provision for claims payable | 1,874 | 1,874 | 1,874 | 1,874 |
| Total | 1,874 | 1,874 | 1,874 | 1,874 |

The maturity analysis of Other Provisions is given in Note 62 on pages 308 and 309.

50. Other Liabilities

Other liabilities include provisions made on account of interest, fees and expenses, gratuity/pensions, leave encashment and other provisions. These liabilities are recorded at amounts expected to be payable as at the Reporting date.

| As at December 31, | GROUP | | BANK | |
|---|-------------------|-------------------|-------------------|-------------------|
| | 2016 | 2015 | 2016 | 2015 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Accrued expenditure | 2,362,488 | 2,029,007 | 2,342,023 | 2,015,485 |
| Cheques sent on clearing | 6,358,679 | 4,811,743 | 6,358,679 | 4,811,743 |
| Provision for gratuity payable [Refer Note 50.1 (b)] | 1,010,095 | 886,648 | 983,180 | 863,230 |
| Provision for unfunded pension scheme [Refer Note 50.2 (b)] | 214,886 | 219,283 | 214,886 | 219,283 |
| Provision for Leave Encashment [Refer Note 50.3 (b)] | 688,073 | 725,647 | 688,073 | 725,647 |
| Payable on oil hedging transactions | 929,044 | 894,302 | 929,044 | 894,302 |
| Other payables | 6,465,637 | 6,182,554 | 6,194,509 | 6,018,469 |
| Total | 18,028,902 | 15,749,184 | 17,710,394 | 15,548,159 |

The maturity analysis of Other Liabilities is given in Note 62 on pages 308 and 309.

50.1 Provision for Gratuity Payable

An actuarial valuation of the retirement gratuity payable was carried out as at December 31, 2016 by Mr. M. Poopalanathan, AIA, of Messrs Actuarial & Management Consultants (Pvt) Ltd., a firm of professional Actuaries. The valuation method used by the actuaries to value the liability is the 'Projected Unit Credit Method (PUC)', the method recommended by the Sri Lanka Accounting Standard – LKAS 19 on 'Employee Benefits'.

50.1 (a) Actuarial Assumptions

| Type of Assumption | Criteria | Description |
|--------------------|------------------------|--|
| Demographic | Mortality – In service | A 67/70 Mortality table issued by the Institute of Actuaries, London |
| | Staff Turnover | The staff turnover rate at an age represents the probability of an employee leaving within one year of that age due to reasons other than death, ill health and normal retirement. The same withdrawal rates which were used in the last valuation (as at December 31, 2015) to determine the liabilities of the active employees in the gratuity, were used in the actuarial valuation carried out as at December 31, 2016. |
| | Normal retirement age | The employees who are aged over the specified retirement age have been assumed to retire on their respective next birthdays. |
| Financial | Rate of discount | Sri Lankan operation In the absence of a deep market in long-term bonds in Sri Lanka, a long-term interest rate of 11.50% p.a. (2015 – 10.50% p.a.) has been used to discount future liabilities considering anticipated long-term rate of inflation. |
| | | Bangladesh operation In the absence of long term high quality corporate bonds or Government bonds with the term that matches liabilities a long-term interest rate of 8% p.a. (2015 – 9% p.a.) has been used to discount future liabilities considering anticipated long-term rate of inflation. |
| | Salary increases | Sri Lankan operation A salary increment of 10% p.a. (2015 – 10% p.a.) has been used in respect of the active employees. Bangladesh operation A salary increment of 10% p.a. (2015 – 10% p.a.) has been used in respect of the active employees. |

50.1 (b) Movement in the Provision for Gratuity Payable

| | GROUP | | BANK | |
|--|------------------|------------------|------------------|------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| Balance as at January 01, | 886,648 | 748,969 | 863,230 | 720,520 |
| Expense recognised in the Income Statement [Refer Note 50.1 (c)] | 211,237 | 178,347 | 204,791 | 171,451 |
| Exchange rate variance | 7,782 | 14,579 | 7,782 | 14,579 |
| Amount paid during the year | (39,701) | (28,194) | (38,230) | (25,017) |
| Actuarial gain recognised in other comprehensive income | (55,871) | (27,053) | (54,393) | (18,303) |
| Balance as at December 31, | 1,010,095 | 886,648 | 983,180 | 863,230 |

50.1 (c) Expense Recognised in the Income Statement – Gratuity

| <i>For the year ended December 31,</i> | GROUP | | BANK | |
|--|------------------|------------------|------------------|------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| Interest cost | 91,149 | 73,745 | 88,801 | 70,160 |
| Current service cost | 120,088 | 104,602 | 115,990 | 101,291 |
| Total | 211,237 | 178,347 | 204,791 | 171,451 |

50.1 (d) Sensitivity Analysis on Actuarial Valuation

The following table illustrates the impact of the possible changes in the discount rate and salary increases in gratuity valuation of the Group and the Bank as at December 31, 2016.

| Variable | GROUP | BANK |
|------------------------------|--|--|
| | Sensitivity Effect on Statement of Financial Position (Benefit Obligation) Rs. '000 | Sensitivity Effect on Statement of Financial Position (Benefit Obligation) Rs. '000 |
| 1% increase in discount rate | (143,011) | (141,480) |
| 1% decrease in discount rate | 158,313 | 156,576 |
| 1% increase in salary | 163,072 | 161,297 |
| 1% decrease in salary | (148,678) | (147,090) |

50.2 Provision for Unfunded Pension Scheme

An actuarial valuation of the unfunded pension liability was carried out as at December 31, 2016 by Mr. M. Poopalanathan, AIA, of Messrs Actuarial & Management Consultants (Pvt) Ltd., a firm of professional actuaries. The valuation method used by the actuaries to value the liability is the 'Projected Unit Credit Method (PUC)', the method recommended by the Sri Lanka Accounting Standard – LKAS 19 on 'Employee Benefits'.

50.2 (a) Actuarial Assumptions

| Type of Assumption | Criteria | Description |
|--------------------|---------------------------------------|--|
| Demographic | Mortality – In service | A 1967/70 Mortality table issued by the Institute of Actuaries, London. |
| | After retirement | A (90) Annuities table (Males and Females) issued by the Institute of Actuaries, London. |
| | Staff turnover | The withdrawal rate at an age represents the probability of an active employee leaving within one year of that age due to reasons other than death, ill health and normal retirement. The same withdrawal rates which were used in the last valuation (as at December 31, 2015) to determine the liabilities of the active employees in the funded scheme, were used in the actuarial valuation carried out as at December 31, 2016. |
| | Disability | Assumptions similar to those used in other comparable schemes for disability were used as the data required to do a 'scheme specific' study was not available. |
| | Normal retirement age | 55 or 60 years as indicated in the data file of active employees. |
| Financial | Rate of discount | In the absence of a deep market in long-term bonds in Sri Lanka, a long-term interest rate of 11.50% p.a. (2015 – 10.50% p.a.) has been used to discount future liabilities considering anticipated long-term rate of inflation. |
| | Salary increases | A salary increment of 10% p.a. (2015 – 10% p.a.) has been used in respect of the active employees. |
| | Post-retirement pension increase rate | There is no agreed rate of increase even though the pension payments are subject to periodic increases, and increases are granted solely at the discretion of the Bank. Therefore, no specific rate was assumed for this valuation. |

50.2 (b) Movement in the Provision for Unfunded Pension Scheme

| | GROUP | | BANK | |
|--|------------------|------------------|------------------|------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| Balance as at January 01, | 219,283 | 203,458 | 219,283 | 203,458 |
| Expense recognised in the Income Statement [Refer Note 50.2 (c)] | 23,025 | 19,329 | 23,025 | 19,329 |
| Amount paid during the year | (34,134) | (32,245) | (34,134) | (32,245) |
| Actuarial loss recognised in other comprehensive income | 6,712 | 28,741 | 6,712 | 28,741 |
| Balance as at December 31, | 214,886 | 219,283 | 214,886 | 219,283 |

50.2 (c) Expense Recognised in the Income Statement – Unfunded Pension Scheme

| | GROUP | | BANK | |
|--|------------------|------------------|------------------|------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| <i>For the year ended December 31,</i> | | | | |
| Interest cost | 23,025 | 19,329 | 23,025 | 19,329 |
| Current service cost | - | - | - | - |
| Total | 23,025 | 19,329 | 23,025 | 19,329 |

50.2 (d) Sensitivity Analysis on Actuarial Valuation – Unfunded Pension Scheme

The following table illustrates the impact of the possible changes in the discount rate and salary increases in the unfunded pension scheme valuation of the Bank as at December 31, 2016.

| Variable | GROUP | BANK |
|------------------------------|--|--|
| | Sensitivity Effect on Statement of Financial Position (Benefit Obligation) Rs. '000 | Sensitivity Effect on Statement of Financial Position (Benefit Obligation) Rs. '000 |
| 1% increase in discount rate | (8,196) | (8,196) |
| 1% decrease in discount rate | 8,949 | 8,949 |
| 1% increase in salary | – | – |
| 1% decrease in salary | – | – |

50.3 Provision for Leave Encashment

An actuarial valuation of the leave encashment liability was carried out as at December 31, 2016 by Mr. M. Poopalanathan, AIA, of Messrs Actuarial & Management Consultants (Pvt) Ltd., a firm of professional actuaries. The valuation method used by the actuaries to value the liability is the 'Projected Unit Credit Method (PUC)', the method recommended by the Sri Lanka Accounting Standard – LKAS 19 on 'Employee Benefits'.

50.3 (a) Actuarial Assumptions

| Type of Assumption | Criteria | Description |
|--------------------|------------------------|--|
| Demographic | Mortality – In service | A 1967/70 Mortality table issued by the Institute of Actuaries, London |
| | Staff turnover | The probability of a member withdrawing from the scheme within a year of ages between 20 to 55 years. |
| | Disability | The probability of a member becoming disabled within a year of ages between 20 to 55 years. |
| Financial | Rate of discount | In the absence of a deep market in long-term bonds in Sri Lanka, a long-term interest rate of 11.50% p.a. (2015 – 10.50% p.a.) has been used to discount future liabilities considering anticipated long-term rate of inflation. |
| | Salary increases | A salary increment of 10% p.a. (2015 – 10% p.a.) has been used in respect of the active employees. |

50.3 (b) Movement in the Provision for Leave Encashment

| | GROUP | | BANK | |
|--|------------------|------------------|------------------|------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| Balance as at January 01, | 725,647 | 643,238 | 725,647 | 643,238 |
| Expense recognised in the Income Statement [Refer Note 50.3 (c)] | 76,193 | 61,108 | 76,193 | 61,108 |
| Amount paid during the year | (36,965) | (35,243) | (36,965) | (35,243) |
| Actuarial (gain)/loss recognised in other comprehensive income | (76,802) | 56,544 | (76,802) | 56,544 |
| Balance as at December 31, | 688,073 | 725,647 | 688,073 | 725,647 |

50.3 (c) Expense Recognised in the Income Statement – Leave Encashment

| <i>For the year ended</i> | GROUP | | BANK | |
|---------------------------|---------------|---------------|---------------|---------------|
| | 2016 | 2015 | 2016 | 2015 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Interest cost | 76,193 | 61,108 | 76,193 | 61,108 |
| Current service cost | - | - | - | - |
| Total | 76,193 | 61,108 | 76,193 | 61,108 |

50.3 (d) Sensitivity Analysis on Actuarial Valuation – Leave Encashment

The following table illustrates the impact of the possible changes in the discount rates and salary increases on account of leave encashment liability of the Bank as at December 31, 2016.

| Variable | GROUP | | BANK | |
|------------------------------|--|----------|--|----------|
| | Sensitivity Effect on Statement of Financial Position (Benefit Obligation) | | Sensitivity Effect on Statement of Financial Position (Benefit Obligation) | |
| | Rs. '000 | | Rs. '000 | |
| 1% increase in discount rate | | (76,710) | | (76,710) |
| 1% decrease in discount rate | | 93,149 | | 93,149 |
| 1% increase in salary | | 96,842 | | 96,842 |
| 1% decrease in salary | | (80,841) | | (80,841) |

50.4 Employee Retirement Benefit**50.4.1 Pension Fund – Defined Benefit Plan**

An actuarial valuation of the Retirement Pension Fund was carried out as at December 31, 2016 by Mr. M. Poopalanathan, AIA, of Messrs Actuarial and Management Consultants (Pvt) Ltd., a firm of professional actuaries. The valuation method used by the actuaries to value the fund is the 'Projected Unit Credit Method (PUC)', the method recommended by the Sri Lanka Accounting Standard – LKAS 19 on 'Employee Benefits'.

The assets of the fund, which are independently administered by the Trustees as per the provisions of the Trust Deed are held separately from those of the Bank.

50.4.1 (a) Actuarial Assumptions

| Type of Assumption | Criteria | Description |
|--------------------|---------------------------------------|---|
| Demographic | Mortality – in service | A 67/70 Mortality table issued by the Institute of Actuaries, London |
| | After retirement | A (90) Annuities table (Males & Females) issued by the Institute of Actuaries, London |
| | Staff Turnover | The withdrawal rate at an age represents the probability of an active employee leaving within one year of that age due to reasons other than death, ill health and normal retirement. The same withdrawal rates which were used in the last valuation (as at December 31, 2015) to determine the liability on account of the active employees in the funded scheme, were used in the actuarial valuation carried out as at December 31, 2016. |
| | Disability | Assumptions similar to those used in other comparable schemes for disability were used as the data required to do a 'scheme specific' study was not available. |
| | Normal retirement age | 55 or 60 years as indicated in the data file of active employees. |
| Financial | Rate of discount | In the absence of a deep market in long-term bonds in Sri Lanka, a long-term interest rate of 11.50% p.a. (2015 – 10.50% p.a.) has been used to discount future liabilities considering anticipated long-term rate of inflation. |
| | Salary increases | A salary increment of 10% p.a. (2015 – 10% p.a.) has been used in respect of the active employees. |
| | Post-retirement pension increase rate | There is no agreed rate of increase even though the pension payments are subject to periodic increases and increases are granted solely at the discretion of the Bank. Therefore, no specific rate was assumed for this valuation. |

50.4.1 (b) Movement in the Present Value of Defined Benefit Obligation – Bank

| | 2016 Rs. '000 | 2015 Rs. '000 |
|-----------------------------------|------------------|------------------|
| Balance as at January 01, | 163,821 | 140,311 |
| Interest cost | 17,201 | 13,329 |
| Current service cost | 2,686 | 3,022 |
| Benefits paid during the year | (15,879) | (12,169) |
| Actuarial (gain)/loss | (6,996) | 19,328 |
| Balance as at December 31, | 160,833 | 163,821 |

50.4.1 (c) Movement in the Fair Value of Plan Assets

| | 2016 Rs. '000 | 2015 Rs. '000 |
|--------------------------------------|------------------|------------------|
| Fair value as at January 01, | 137,308 | 125,708 |
| Expected return on plan assets | 14,418 | 11,943 |
| Contribution paid into plan | 1,624 | 1,588 |
| Benefits paid by the plan | (15,879) | (12,169) |
| Actuarial gain on plan assets | 23,281 | 10,238 |
| Fair value as at December 31, | 160,752 | 137,308 |

50.4.1 (d) Liability Recognised in the Statement of Financial Position

| | 2016 Rs. '000 | 2015 Rs. '000 |
|--|------------------|------------------|
| Present value of defined benefit obligations as at January 01, | 160,833 | 163,821 |
| Fair value of plan assets | (160,752) | (137,308) |
| Net liability recognised under other liabilities | 81 | 26,513 |

50.4.1 (e) Plan Assets Consist of the following

| | 2016 Rs. '000 | 2015 Rs. '000 |
|-----------------------------|------------------|------------------|
| Deposits held with the Bank | 160,752 | 137,308 |
| Total | 160,752 | 137,308 |

50.4.2 W&OP Fund – Defined Benefit Plan

An actuarial valuation of the Retirement Pension W&OP Fund was carried out as at December 31, 2016 by Mr. M. Poopalanathan, AIA, of Messrs Actuarial & Management Consultants (Pvt) Ltd., a firm of professional actuaries. The valuation method used by the actuaries to value the fund is the 'Projected Unit Credit Method (PUC)', the method recommended by the Sri Lanka Accounting Standard – LKAS 19 on 'Employee Benefits'.

The assets of the fund, which are independently administered by the Trustees as per the provisions of the Trust Deed are held separately from those of the Bank.

50.4.2 (a) Actuarial Assumptions

| Type of Assumption | Criteria | Description |
|--------------------|---------------------------------------|---|
| Demographic | Mortality – in service | A 67/70 Mortality table issued by the Institute of Actuaries, London |
| | After retirement | A (90) Annuities table (Males & Females) issued by the Institute of Actuaries, London |
| | Staff Turnover | The withdrawal rate at an age represents the probability of an active employee leaving within one year of that age due to reasons other than death, ill health and normal retirement. The same withdrawal rates which were used in the last valuation (as at December 31, 2015) to determine the liability on account of the active employees in the funded scheme, were used in the actuarial valuation carried out as at December 31, 2016. |
| | Disability | Assumptions similar to those used in other comparable schemes for disability were used as the data required to do a 'scheme specific' study was not available. |
| | Normal retirement age | 55 or 60 years as indicated in the data file of active employees. |
| Financial | Rate of discount | In the absence of a deep market in long-term bonds in Sri Lanka, a long-term interest rate of 11.50% p.a. (2015 – 10.50% p.a.) has been used to discount future liabilities considering anticipated long-term rate of inflation. |
| | Salary increases | A salary increment of 10% p.a. (2015 – 10% p.a.) has been used in respect of the active employees. |
| | Post-retirement pension increase rate | There is no agreed rate of increase even though the pension payments are subject to periodic increases and increases are granted solely at the discretion of the Bank. Therefore, no specific rate was assumed for this valuation. |

50.4.2 (b) Movement in the Present Value of Defined Benefit Obligation – Bank

| | 2016 Rs. '000 | 2015 Rs. '000 |
|-----------------------------------|------------------|------------------|
| Balance as at January 01, | 49,853 | 45,046 |
| Interest cost | 5,235 | 4,279 |
| Current service cost | 310 | 368 |
| Benefits paid during the year | (3,328) | (3,124) |
| Actuarial (gain)/loss | (3,651) | 3,284 |
| Balance as at December 31, | 48,419 | 49,853 |

50.4.2 (c) Movement in the Fair Value of Plan Assets

| | 2016 Rs. '000 | 2015 Rs. '000 |
|--------------------------------------|------------------|------------------|
| Fair value as at January 01, | 44,320 | 38,351 |
| Expected return on plan assets | 4,654 | 3,644 |
| Contribution paid into plan | 200 | 189 |
| Benefits paid by the plan | (3,328) | (3,124) |
| Actuarial gain on plan assets | 4,336 | 5,260 |
| Fair value as at December 31, | 50,182 | 44,320 |

50.4.2 (d) Liability Recognised in the Statement of Financial Position

| | 2016 Rs. '000 | 2015 Rs. '000 |
|--|------------------|------------------|
| Present value of defined benefit obligations as at January 01, | 48,419 | 49,853 |
| Fair value of plan assets | (50,182) | (44,320) |
| Net liability recognised under other liabilities | (1,763) | 5,533 |

50.4.2 (e) Plan Assets Consist of the following

| | 2016 Rs. '000 | 2015 Rs. '000 |
|-----------------------------|------------------|------------------|
| Deposits held with the Bank | 50,182 | 44,320 |
| Total | 50,182 | 44,320 |

50.4.3 Pension Fund – Defined Contribution Plan

During 2006, the Bank restructured its pension scheme which was a Defined Benefit Plan (DBP) to a Define Contribution Plan (DCP). This restructured plan was offered on a voluntary basis to the eligible employees of the Bank. The scheme provided for lump sum payments instead of commuted/monthly pension to the eligible employees at the point of their separation, in return for surrendering their pension rights. The lump sum offered consisted of a past service package and future service package. The cost to be incurred on account of the past service package in excess of the funds available in the pension fund was borne by the Bank in 2006.

The future service package includes monthly contributions to be made by the Bank for the employees who accepted the offer, to be made during their remaining period of service, at predetermined contribution rates to be applied on their salaries, estimated to increase for this purpose at 10% p.a. In addition, interest to be earned on the assets of the DCP is also allocated to the employees who joined the restructured scheme.

51. Due to Subsidiaries

| As at December 31, | GROUP | | BANK | |
|---|------------------|------------------|------------------|------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| Local Subsidiaries | | | | |
| Commercial Development Company PLC | - | - | 9,260 | 8,500 |
| ONEzero Company Ltd. | - | - | 10,801 | 17,712 |
| Serendib Finance Ltd. | - | - | - | - |
| Subtotal | - | - | 20,061 | 26,212 |
| Foreign Subsidiaries | | | | |
| Commex Sri Lanka S.R.L. – Italy | - | - | - | - |
| Commercial Bank of Maldives Private Limited | - | - | - | - |
| Subtotal | - | - | - | - |
| Total | - | - | 20,061 | 26,212 |

The maturity analysis of Due to Subsidiaries is given in Note 62 on pages 308 and 309.

52. Subordinated Liabilities

These represent the funds borrowed by the Group for long term funding requirements. Subsequent to initial recognition these are measured at their amortised cost using the EIR method, except where the Group designates them at fair value through profit or loss. Interest paid/payable is recognised in profit or loss.

| | GROUP | | BANK | |
|--|------------------|------------------|------------------|------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| Balance as at January 01, | 11,798,910 | 11,098,910 | 11,783,910 | 10,883,910 |
| Amount borrowed during the year (*) | 13,179,430 | - | 13,179,430 | - |
| Repayments/redemptions during the year | (987,660) | (200,000) | (972,660) | - |
| Subtotal | 23,990,680 | 10,898,910 | 23,990,680 | 10,883,910 |
| Exchange rate variance | 420,000 | 900,000 | 420,000 | 900,000 |
| Balance as at December 31, (before adjusting for amortised interest and transaction cost) [Refer Note 52.1] | 24,410,680 | 11,798,910 | 24,410,680 | 11,783,910 |
| Unamortised transaction cost | (75,805) | (88,015) | (75,805) | (88,015) |
| Net effect of amortised interest payable | 514,664 | 277,377 | 514,664 | 277,377 |
| Adjusted balance as at December 31, | 24,849,539 | 11,988,272 | 24,849,539 | 11,973,272 |

(*) Funds raised through the Debenture Issues have been utilised to finance expansion by increasing the lending portfolio of the Bank within 12 months from the Date of Allotment. Subordinated funds raised through the Debenture Issue are expected to further improve the Capital Adequacy of the Bank by increasing its Tier II Capital base thus strengthening its Total Eligible Capital.

Outstanding subordinated liabilities of the Bank as at December 31, 2016, consisted of 131,794,300 (2015 – 972,660) unsecured subordinated redeemable debentures of Rs. 100/- (2015 – Rs. 1,000/-) each and a subordinated loan of US \$ 75.0 Mn. (2015 – US \$ 75.0 Mn.) from International Finance Corporation (IFC).

52.1 Categories of Subordinated Liabilities

| Categories | Colombo Stock Exchange Listing | Interest Payable Frequency | Allotment Date | Maturity Date | Effective Annual Yield | | GROUP | | BANK | |
|---|--------------------------------|----------------------------|----------------|---------------|------------------------|-------|-------------------|-------------------|-------------------|-------------------|
| | | | | | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| | | | | | % | % | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Fixed Rate Debentures | | | | | | | | | | |
| 2016/2021 – 10.75% p.a. | Listed | Bi-annually | 09.03.2016 | 08.03.2021 | 11.04 | – | 4,430,340 | – | 4,430,340 | – |
| 2016/2021 – 12.00% p.a. | Listed | Bi-annually | 28.10.2016 | 27.10.2021 | 12.36 | – | 5,071,800 | – | 5,071,800 | – |
| 2016/2026 – 11.25% p.a. | Listed | Bi-annually | 09.03.2016 | 08.03.2026 | 11.57 | – | 1,749,090 | – | 1,749,090 | – |
| 2016/2026 – 12.25% p.a. | Listed | Bi-annually | 28.10.2016 | 27.10.2026 | 12.63 | – | 1,928,200 | – | 1,928,200 | – |
| 2006/2016 – 13.25% p.a. | Not Listed | Annually | 16.05.2006 | 16.05.2016 | – | 13.25 | – | 505,000 | – | 505,000 |
| 2006/2016 – 14.00% p.a. | Listed | Annually | 18.12.2006 | 18.12.2016 | – | 14.00 | – | 467,260 | – | 467,260 |
| Floating Rate Debentures | | | | | | | | | | |
| 2006/2016 – 12 months TB rate (Gross) + 1% p.a. (*) | Listed | Annually | 18.12.2006 | 18.12.2016 | – | 10.21 | – | 400 | – | 400 |
| Floating Rate Subordinated Loans | | | | | | | | | | |
| IFC Borrowings – 6 months LIBOR + 5.75% | | Bi-annually | 13.03.2013 | 14.03.2023 | 7.013 | 6.275 | 11,231,250 | 10,811,250 | 11,231,250 | 10,811,250 |
| Subsidiaries | | | | | | | | | | |
| Fixed Rate Debentures | | | | | | | | | | |
| 2011/2016 – 14.15% p.a. | Not listed | Monthly | 25.08.2011 | 25.08.2016 | – | 15.10 | – | 10,000 | – | – |
| 2011/2016 – 14.15% p.a. | Not listed | Monthly | 25.08.2011 | 25.08.2016 | – | 15.10 | – | 5,000 | – | – |
| Total | | | | | | | 24,410,680 | 11,798,910 | 24,410,680 | 11,783,910 |

(*) The 12 Months TB rate (Gross) – Twelve months Treasury Bill rate mentioned above is before deducting 10% Withholding Tax as published by the Central Bank of Sri Lanka immediately prior to the commencement of each interest period.

52.2 Subordinated Liabilities by Maturity

| As at December 31, | GROUP | | BANK | |
|-------------------------|-------------------|-------------------|-------------------|-------------------|
| | 2016 | 2015 | 2016 | 2015 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Payable within one year | – | 987,660 | – | 972,660 |
| Payable after one year | 24,410,680 | 10,811,250 | 24,410,680 | 10,811,250 |
| Total | 24,410,680 | 11,798,910 | 24,410,680 | 11,783,910 |

In the event of the winding-up of the issuer, the above liabilities would be subordinated to the claims of depositors and all other creditors of the issuer. The Bank has not had any defaults of principal, interest or other breaches with respect to its subordinated liabilities during the year ended December 31, 2016.

The maturity analysis of Subordinated Liabilities is given in Note 62 on pages 308 and 309.

53. Stated Capital

Ordinary shares in the Bank are recognised at the amount paid per ordinary share net of directly attributable issue cost.

| | GROUP | | BANK | |
|---|-------------------|-------------------|-------------------|-------------------|
| | 2016 | 2015 | 2016 | 2015 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Balance as at January 01, | 23,254,605 | 21,457,501 | 23,254,605 | 21,457,501 |
| Issue of ordinary voting shares under the Employee Share Option Plan | 144,804 | 237,304 | 144,804 | 237,304 |
| Issue of ordinary shares as part of the final dividend satisfied in the form of issue and allotment of new shares | 1,578,594 | 1,559,800 | 1,578,594 | 1,559,800 |
| Ordinary voting shares | 1,477,179 | 1,459,666 | 1,477,179 | 1,459,666 |
| Ordinary non-voting shares | 101,415 | 100,134 | 101,415 | 100,134 |
| Balance as at December 31, | 24,978,003 | 23,254,605 | 24,978,003 | 23,254,605 |

53.1 Movement in Number of Shares

| | No. of Ordinary Voting Shares | | No. of Ordinary Non-Voting Shares | |
|---|-------------------------------|--------------------|-----------------------------------|-------------------|
| | 2016 | 2015 | 2016 | 2015 |
| Balance as at January 01, | 820,567,115 | 810,277,729 | 56,299,686 | 55,579,946 |
| Issue of ordinary voting shares under the Employee Share Option Plan | 1,136,732 | 2,170,613 | - | - |
| Issue of ordinary shares as part of the final dividend satisfied in the form of issue and allotment of new shares | 11,818,040 | 8,118,773 | 912,967 | 719,740 |
| Balance as at December 31, | 833,521,887 | 820,567,115 | 57,212,653 | 56,299,686 |

The shares of Commercial Bank of Ceylon PLC are quoted on the Colombo Stock Exchange. The non-voting ordinary shares of the Bank, rank *pari passu* in respect of all rights with the ordinary voting shares of the Bank except voting rights on Resolutions passed at General Meetings.

The holders of ordinary shares are entitled to receive dividends declared from time to time and are entitled to one vote per share at General Meetings of the Bank.

The Bank has offered an Employee Share Option Plan. Please refer Note 53.2 on page 297 for details.

53.2 Employee Share Option Plan – 2008

The Bank obtained the approval of the shareholders at an Extraordinary General Meeting held on April 16, 2008, to introduce an Employee Share Option Plan for the benefit of all the Executive Officers in Grade III and above by creating up to 3% of the ordinary voting shares at the rate of 1% shares each year over a period of three to five years, upon the Bank achieving specified performance targets.

Option price is determined on the basis of the weighted average market price of Bank's voting shares, during the period of ten market days immediately prior to each option offer date.

Number of options offered under each tranche is based on the overall performance of the Bank and the individual performance of the eligible employees in the preceding year. In the event of a rights issue of shares, capitalisation of reserves, stock splits or stock dividends by the Bank during the vesting period, the number of options offered and the price are suitably adjusted as per the applicable rules of ESOP – 2008 which have been drafted in line with the accepted market practices.

1/3 of the options offered under each tranche is vested to eligible employees after one year from the date of offer, second 1/3 of the options after two years from the date of offer and final 1/3 after three years from the date of offer as detailed below:

| Date granted | Tranche I | | | Total |
|---|-------------------------------------|-------------------------------------|-------------------------------------|-------------|
| | April 30, 2008 | April 30, 2008 | April 30, 2008 | |
| Price (Rs.) – (*) | 46.91 | 46.91 | 46.91 | |
| Exercisable between | 1/3 of Options | 1/3 of Options | 1/3 of Options | Total |
| | April 30, 2009 to April 29, 2013 | April 30, 2010 to April 29, 2014 | April 30, 2011 to April 29, 2015 | |
| Original number of options | 777,308 | 777,308 | 777,308 | 2,331,924 |
| Additions consequent to share splits and rights issues | 692,095 | 789,320 | 1,057,059 | 2,538,474 |
| Number of options cancelled before vesting | (52,943) | (52,943) | (52,943) | (158,829) |
| Number of options vested | 1,416,460 | 1,513,685 | 1,781,424 | 4,711,569 |
| Options cancelled due to non-acceptance | - | - | - | - |
| Number of options exercised up to December 31, 2016 | (1,416,460) | (1,513,685) | (1,781,424) | (4,711,569) |
| Number of options to be exercised as at December 31, 2016 | - | - | - | - |

(*) Adjusted on account of the dividends declared in the form of issue and allotment of new shares, rights issue of shares and sub-division of shares.

| Date granted | Tranche II | | | Total |
|---|-------------------------------------|-------------------------------------|-------------------------------------|-------------|
| | April 30, 2011 | April 30, 2011 | April 30, 2011 | |
| Price (Rs.) | 132.23 | 132.23 | 132.23 | |
| Exercisable between | 1/3 of Options | 1/3 of Options | 1/3 of Options | Total |
| | April 30, 2012 to April 29, 2016 | April 30, 2013 to April 29, 2017 | April 30, 2014 to April 29, 2018 | |
| Original number of options | 1,213,370 | 1,213,386 | 1,213,399 | 3,640,155 |
| Additions consequent to share splits and rights issues | 1,213,370 | 1,213,386 | 1,213,399 | 3,640,155 |
| Number of options cancelled before vesting | (30,980) | (41,307) | (95,236) | (167,523) |
| Number of options vested | 2,395,760 | 2,385,465 | 2,331,562 | 7,112,787 |
| Options cancelled due to non-acceptance | (1,337,809) | - | - | (1,337,809) |
| Number of options exercised up to December 31, 2016 | (1,057,951) | (661,204) | (371,669) | (2,090,824) |
| Number of options to be exercised as at December 31, 2016 | - | 1,724,261 | 1,959,893 | 3,684,154 |

| Date granted | Tranche III | | | Total |
|--|-------------------------------------|-------------------------------------|-------------------------------------|------------------|
| | April 30, 2012 | April 30, 2012 | April 30, 2012 | |
| Price (Rs.) | 104.63 | 104.63 | 104.63 | |
| Exercisable between | 1/3 of Options | 1/3 of Options | 1/3 of Options | Total |
| | April 30, 2013 to April 29, 2017 | April 30, 2014 to April 29, 2018 | April 30, 2015 to April 29, 2019 | |
| Original number of options | 2,596,557 | 2,596,624 | 2,596,663 | 7,789,844 |
| Number of options cancelled before vesting | – | (49,706) | (79,964) | (129,670) |
| Number of options vested | 2,596,557 | 2,546,918 | 2,516,699 | 7,660,174 |
| Number of options exercised up to December 31, 2016 | (1,687,979) | (1,235,341) | (855,973) | (3,779,293) |
| Number of options to be exercised as at December 31, 2016 | 908,578 | 1,311,577 | 1,660,726 | 3,880,881 |

The Employee Share Option Plan – 2008 was exempted from the requirements of the SLFRS 2 on ‘Share-based Payment’ as it was granted prior to January 01, 2012, the effective date of the aforesaid accounting standard.

The details of Employee Share Option Plans within the scope of the SLFRS 2 on ‘Share-based Payment’ are reported in Note 54 to the Financial Statements below:

54. Share-Based Payment

54.1 Description of the Share-Based Payment Arrangement

As at the Reporting date, the Group had the following equity settled share-based payment arrangement which was granted after January 01, 2012, the effective date of the Accounting Standard SLFRS 2 on ‘Share-based Payment’.

Employee Share Option Plan – 2015

The Bank obtained the approval of the shareholders at an Extraordinary General Meeting held on March 31, 2015, to introduce an Employee Share Option Plan for the benefit of all executive officers in Grade 1A and above by creating up to 2% of the ordinary voting shares at the rate of 0.5% shares in the first two years and 1% shares in the last year over a period of three to five years, upon the Bank achieving specified performance targets. The performance conditions include minimum performance targets over the budget and over the industry peers and the service conditions include the fulfilment of the minimum service period as at the dates of vesting of each tranche.

Key terms and conditions related to the offer are detailed below:

| | Tranches | | |
|--|---|---|---|
| | Tranche 1 | Tranche 2 | Tranche 3 |
| % of Voting Shares Issued (Maximum) | 0.5 | 0.5 | 1.0 |
| Option Grant Date | April 1, 2015 | April 1, 2015 | April 1, 2015 |
| Exercisable between | October 01, 2016 to September 30, 2019 | October 01, 2017 to September 30, 2020 | October 01, 2018 to September 30, 2021 |
| Date of Vesting | September 30, 2016 | September 30, 2017 | September 30, 2018 |
| Vesting Conditions | 1½ years of service from the grant date and the fulfilment of performance conditions stated above for the Financial Year 2015 | 2½ years of service from the grant date and the fulfilment of performance conditions stated above for the Financial Year 2016 | 3½ years of service from the grant date and the fulfilment of performance conditions stated above for the Financial Year 2017 |
| No. of options vested on the date of vesting | | | |
| Option granted to Key Management Personal | 81,869 | – | – |
| Option granted to senior employees | 4,073,989 | – | – |
| Total options vested on the date of vesting | 4,155,858 | – | – |

All options are to be settled by physical delivery of ordinary voting shares of the Bank. There are neither cash settlement alternatives nor the Bank has a past practice of cash settlement for these types of options.

The exercise price of each tranche is computed based on a volume-weighted average market price of the Bank's ordinary (voting) shares, during the period of thirty (30) market days, on six months prior to the date of vesting.

54.2 Measurement of Fair Value

As required by SLFRS 2 on 'Share-based Payment', the fair value of the ESOP 2015 was estimated at the grant date using the Binomial Valuation Model taking into consideration various terms and conditions upon which the share options are granted.

The inputs used in measurement of fair value at the grant date of ESOP 2015 were as follows:

| Description of the Valuation Input | Tranches | | |
|---|-----------|-----------|-----------|
| | Tranche 1 | Tranche 2 | Tranche 3 |
| Expected dividend rate (%) | 3.50 | 3.50 | 3.50 |
| Risk free rate (%) | 8.00 | 8.00 | 8.00 |
| Probability of share price increase (%) | 80.00 | 80.00 | 80.00 |
| Probability of share price decrease (%) | 20.00 | 20.00 | 20.00 |
| Size of annual increase of share price (%) | 20.00 | 20.00 | 20.00 |
| Size of annual reduction in share price (%) | 10.00 | 10.00 | 10.00 |
| Exercise price (Rs.) | 206.90 | 227.54 | 250.24 |

Growths in share prices stated above have been based on evaluation of the historical volatility of the Bank's share price over past 10 years, adjusted for post-war growth in All Share Price Index published by the Colombo Stock Exchange.

54.3 Reconciliation of Outstanding Share Options

The number and weighted-average exercise prices of share options are as follows:

| | 2016 | | 2015 | |
|---|----------------|--------|----------------|--------|
| | No. of options | WAEP* | No. of options | WAEP* |
| No. of voting shares vested and to be vested as at January 01, | 16,351,837 | 212.20 | – | 233.59 |
| Granted during the year | – | – | 16,351,837 | – |
| Exercised during the year | (242,245) | 122.73 | – | – |
| No. of voting shares vested and to be vested as at December 31, | 16,109,592 | 213.55 | 16,351,837 | 233.59 |
| No. of options to be exercised as at December 31, | 3,913,613 | 122.73 | – | – |

*Weighted Average Exercise Price

54.4 Expense Recognised in Income Statement

The cumulative expense recognised for equity-settled transactions at each Reporting date until the vesting date, reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. Accordingly, the expense in the Income Statement represents the movement in cumulative expense recognised as at the beginning and end of that period and is recognised in employee benefits expense [Refer Note 19].

55. Statutory Reserves

Statutory reserves are maintained by the Group in order to meet legal requirements. The details of these reserves including the nature and purpose of maintaining them are given in Note 55.1 below:

| As at December 31, | GROUP | | BANK | |
|--|------------------|------------------|------------------|------------------|
| | 2016 | 2015 | 2016 | 2015 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Statutory reserve fund [Refer Note 55.1] | 5,647,993 | 4,922,367 | 5,647,890 | 4,922,264 |
| Subtotal | 5,647,993 | 4,922,367 | 5,647,890 | 4,922,264 |

55.1 Statutory Reserve Fund

| | GROUP | | BANK | |
|-----------------------------------|------------------|------------------|------------------|------------------|
| | 2016 | 2015 | 2016 | 2015 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Balance as at January 01, | 4,922,367 | 4,327,103 | 4,922,264 | 4,327,103 |
| Transfers during the year | 725,626 | 595,264 | 725,626 | 595,161 |
| Balance as at December 31, | 5,647,993 | 4,922,367 | 5,647,890 | 4,922,264 |

The statutory reserve fund is maintained as per the requirements under Section 20 (1) of the Banking Act No. 30 of 1988. Accordingly, the fund is built up by allocating a sum equivalent to not less than 5% of the profit after tax, but before declaring any dividend or any profits that are transferred elsewhere until the reserve is equal to 50% of the Bank's stated capital and thereafter a further sum equivalent to 2% of such profit until the amount of the said reserve fund is equal to the stated capital of the Bank.

The balance in the statutory reserve fund will be used only for the purposes specified in the Section 20 (2) of the Banking Act No. 30 of 1988.

56. Retained Earnings

| | GROUP | | BANK | |
|---|------------------|------------------|------------------|------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| Balance as at January 01, | 4,467,807 | 4,418,412 | 4,388,867 | 4,258,287 |
| Super Gain Tax for the year of assessment 2013/14 (*) | - | (2,608,469) | - | (2,576,355) |
| Balance as at January 01, (Adjusted) | 4,467,807 | 1,809,943 | 4,388,867 | 1,681,932 |
| Total comprehensive income | 14,654,924 | 11,783,842 | 14,652,274 | 11,834,510 |
| Profit for the year | 14,510,333 | 11,855,172 | 14,512,511 | 11,903,224 |
| Other comprehensive income, net of tax | 144,591 | (71,330) | 139,763 | (68,714) |
| Dividends paid | (5,720,913) | (5,647,414) | (5,720,913) | (5,647,414) |
| Write back of dividend payable | 624 | - | - | - |
| Derecognition of revaluation reserve | 5,628 | - | - | - |
| Transfers to other reserves | (8,856,151) | (3,480,264) | (8,856,151) | (3,480,161) |
| Profit on sale of partial disposal of subsidiary | 3,047 | 2,344 | - | - |
| Reinstatement of non-controlling interest due to partial disposal of subsidiary | (1,188) | (644) | - | - |
| Balance as at December 31, | 4,553,778 | 4,467,807 | 4,464,077 | 4,388,867 |

(*) As per the amendments to provisions of the Finance Act from the Government Interim Budget Proposals for 2015, the Group and the Bank were liable for Super Gain Tax (SGT) amounting to Rs. 2,609 Mn. and Rs.2,576 Mn. respectively. According to the Act, the SGT shall be deemed to be an expenditure in the Financial Statements relating to the year of assessment commenced on April 01, 2013. Since the Act supersedes the requirements of the Sri Lanka Accounting Standards, The Institute of Chartered Accountants of Sri Lanka recommended the accounting treatment on SGT by issuing the Statement of Alternative Treatment (SoAT) dated November 24, 2015 and SGT has been recorded in the Financial Statements accordingly.

57. Other Reserves

57. (a) Current Year – 2016

| | GROUP | | | BANK | | |
|---|--|------------------------------------|---|--|------------------------------------|---|
| | Balance as at January 01, Rs. '000 | Movement/ Transfers Rs. '000 | Balance as at December 31, Rs. '000 | Balance as at January 01, Rs. '000 | Movement/ Transfers Rs. '000 | Balance as at December 31, Rs. '000 |
| Revaluation reserve [Refer Note 57.1] | 6,258,939 | (8,385) | 6,250,554 | 5,722,859 | - | 5,722,859 |
| General reserve [Refer Note 57.2] | 35,359,478 | 8,130,525 | 43,490,003 | 35,359,478 | 8,130,525 | 43,490,003 |
| Available-for-sale reserve [Refer Note 57.3] | (3,955,376) | (3,253,429) | (7,208,805) | (3,955,367) | (3,253,429) | (7,208,796) |
| Foreign currency translation reserve [Refer Note 57.4] | 432,489 | 428,013 | 860,502 | 424,768 | 414,578 | 839,346 |
| Employee share option reserve [Refer Note 57.5] | 223,330 | 196,952 | 420,282 | 223,330 | 196,952 | 420,282 |
| Total | 38,318,860 | 5,493,676 | 43,812,536 | 37,775,068 | 5,488,626 | 43,263,694 |

57. (b) Previous Year – 2015

| | GROUP | | | BANK | | |
|--|------------------------------------|------------------------------|-------------------------------------|------------------------------------|------------------------------|-------------------------------------|
| | Balance as at January 01, Rs. '000 | Movement/ Transfers Rs. '000 | Balance as at December 31, Rs. '000 | Balance as at January 01, Rs. '000 | Movement/ Transfers Rs. '000 | Balance as at December 31, Rs. '000 |
| Revaluation reserve [Refer Note 57.1] | 6,246,960 | 11,979 | 6,258,939 | 5,722,859 | – | 5,722,859 |
| General reserve [Refer Note 57.2] | 32,474,478 | 2,885,000 | 35,359,478 | 32,474,478 | 2,885,000 | 35,359,478 |
| Available-for-sale reserve [Refer Note 57.3] | 2,735,569 | (6,690,945) | (3,955,376) | 2,735,578 | (6,690,945) | (3,955,367) |
| Foreign currency translation reserve [Refer Note 57.4] | (454,188) | 886,677 | 432,489 | (464,076) | 888,844 | 424,768 |
| Employee share option reserve [Refer Note 57.5] | – | 223,330 | 223,330 | – | 223,330 | 223,330 |
| Total | 41,002,819 | (2,683,959) | 38,318,860 | 40,468,839 | (2,693,771) | 37,775,068 |

57.1 Revaluation Reserve

The revaluation reserve relates to revaluation of freehold land and buildings and represents the fair value changes of the land and buildings as at the date of revaluation.

The Bank carried out a revaluation of all its freehold lands and buildings as at December 31, 2014 and recognised Rs. 1,621.489 Mn., as revaluation surplus.

| | GROUP | | BANK | |
|---|------------------|------------------|------------------|------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| Balance as at January 01, | 6,258,939 | 6,246,960 | 5,722,859 | 5,722,859 |
| Derecognition of revaluation reserve to the retained earnings | (5,628) | – | – | – |
| Reinstatement of deferred tax on revaluation gains | – | 13,710 | – | – |
| Movement due to changes in equity | (2,757) | (1,731) | – | – |
| Balance as at December 31, | 6,250,554 | 6,258,939 | 5,722,859 | 5,722,859 |

57.2 General Reserve

The Bank transfers the surplus profit, after payment of interim dividend and after retaining sufficient profits to pay final dividends proposed, from the retained earnings account to the General Reserve account. The purpose of setting up the General Reserve is to meet potential future unknown liabilities.

| | GROUP | | BANK | |
|-----------------------------------|-------------------|-------------------|-------------------|-------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| Balance as at January 01, | 35,359,478 | 32,474,478 | 35,359,478 | 32,474,478 |
| Transfers during the year | 8,130,525 | 2,885,000 | 8,130,525 | 2,885,000 |
| Balance as at December 31, | 43,490,003 | 35,359,478 | 43,490,003 | 35,359,478 |

57.3 Available-for-Sale Reserve

The available-for-sale reserve comprises the cumulative net change in fair value of financial investments available-for-sale until such investments are derecognised or impaired.

| | GROUP | | BANK | |
|---|--------------------|--------------------|--------------------|--------------------|
| | 2016 | 2015 | 2016 | 2015 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Balance as at January 01, | (3,955,376) | 2,735,569 | (3,955,367) | 2,735,578 |
| Net fair value gains/(losses) on remeasuring financial investments available-for-sale | (3,253,429) | (6,690,945) | (3,253,429) | (6,690,945) |
| Balance as at December 31, | (7,208,805) | (3,955,376) | (7,208,796) | (3,955,367) |

57.4 Foreign Currency Translation Reserve

The foreign currency translation reserve comprises all foreign currency differences arising from the translation of the Financial Statements of foreign operations.

As at the Reporting date, the assets and liabilities of the Bank's Bangladesh Operation, Commex – Sri Lanka S.R.L. Italy and Commercial Bank of Maldives Private Limited., subsidiaries of the Bank were translated into the presentation currency (Sri Lankan Rupee) at the exchange rate ruling as at the Reporting date and the Statement of Profit or Loss and Other Comprehensive Income was translated at the average exchange rate for the period. The exchange differences arising on the translation of these Financial Statements are taken to foreign currency translation reserve through other comprehensive income.

| | GROUP | | BANK | |
|---|----------------|----------------|----------------|----------------|
| | 2016 | 2015 | 2016 | 2015 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Balance as at January 01, | 432,489 | (454,188) | 424,768 | (464,076) |
| Net unrealised gains/(losses) arising from translating the Financial Statements of foreign operations | 438,565 | 886,677 | 414,578 | 888,844 |
| Foreign currency translation reserve attributable to non-controlling interest | (10,552) | – | – | – |
| Balance as at December 31, | 860,502 | 432,489 | 839,346 | 424,768 |

57.5 Employee Share Option Reserve

The employee share option reserve is used to recognise the value of equity-settled share-based payments to be provided to employees, including Key Management Personnel, as part of their remuneration.

| | GROUP | | BANK | |
|---|----------------|----------------|----------------|----------------|
| | 2016 | 2015 | 2016 | 2015 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Balance as at January 01, | 223,330 | – | 223,330 | – |
| Transfers during the year [Refer Note 19] | 206,174 | 223,330 | 206,174 | 223,330 |
| Transfers to stated capital | (9,222) | – | (9,222) | – |
| Balance as at December 31, | 420,282 | 223,330 | 420,282 | 223,330 |

58. Non-Controlling Interest

Non-Controlling Interest (NCI) are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. Accordingly, the Bank has Non-controlling interest of two subsidiaries namely, Commercial Development Company PLC. (NCI of 6.15%) and Commercial Bank of Maldives Private Limited (NCI of 45%) as at the Reporting date as follows.

| | 2016 Rs. '000 | 2015 Rs. '000 |
|---|------------------|------------------|
| Balance as at January 01, | 50,208 | 47,564 |
| Super Gain Tax for the year of assessment 2013/2014 | - | (1,503) |
| Profit for the year | (43,909) | 4,088 |
| Other comprehensive income, net of tax | 10,594 | 369 |
| Dividends paid for the year | (3,432) | (3,270) |
| Reinstatement of deferred tax on revaluation gains | - | 585 |
| Write back of dividend payable | 38 | - |
| Reinstatement of non-controlling interest due to partial disposal of subsidiary | 3,945 | 2,375 |
| Incorporation of a subsidiary with Non-Controlling Interest | 805,669 | - |
| Balance as at December 31, | 823,113 | 50,208 |

59. Contingent Liabilities and Commitments

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be readily measured as defined in the Sri Lanka Accounting Standard – LKAS 37 on 'Provisions, Contingent Liabilities and Contingent Assets'.

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other undrawn commitments to lend. Letters of credit and guarantees commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees and standby letters of credit carry a similar credit risk to loans.

Contingent liabilities are not recognised in the Statement of Financial Position but are disclosed unless its occurrence is remote.

Operating lease commitments of the Group (as a lessor and as a lessee) form part of commitments and pending legal claims against the Group form part of contingencies.

Even though, these obligations may not be recognised on the Statement of Financial Position, they do contain credit risk and are therefore part of the overall risk of the Bank as disclosed in Note 59.1 on page 305.

In the normal course of business, the Bank makes various irrevocable commitments and incurs certain contingent liabilities with legal recourse to its customers. Even though these obligations may not be recognised on the date of the Statement of Financial Position, they do contain credit risk and therefore form part of the overall risk profile of the Bank.

| <i>As at December 31,</i> | GROUP | | BANK | |
|---------------------------------------|-------------|-------------|-------------|-------------|
| | 2016 | 2015 | 2016 | 2015 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Contingencies | 365,862,605 | 365,874,611 | 365,853,920 | 365,874,611 |
| Guarantees | 33,267,170 | 31,504,779 | 33,258,485 | 31,504,779 |
| Performance bonds | 22,553,060 | 14,095,269 | 22,553,060 | 14,095,269 |
| Documentary credits | 36,222,394 | 30,161,623 | 36,222,394 | 30,161,623 |
| Other contingencies [Refer Note 59.1] | 273,819,981 | 290,112,940 | 273,819,981 | 290,112,940 |
| Commitments | 132,705,895 | 155,357,709 | 132,450,607 | 155,357,709 |
| Undrawn commitments [Refer Note 59.2] | 131,628,622 | 153,979,986 | 131,381,356 | 153,979,986 |
| Capital commitments [Refer Note 59.3] | 1,077,273 | 1,377,723 | 1,069,251 | 1,377,723 |
| Total | 498,568,500 | 521,232,320 | 498,304,527 | 521,232,320 |

59.1 Other Contingencies

| <i>As at December 31,</i> | GROUP | | BANK | |
|--|-------------|-------------|-------------|-------------|
| | 2016 | 2015 | 2016 | 2015 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Forward exchange contracts: | 70,646,854 | 77,647,330 | 70,646,854 | 77,647,330 |
| Forward exchange sales | 26,084,323 | 44,293,601 | 26,084,323 | 44,293,601 |
| Forward exchange purchases | 44,562,531 | 33,353,729 | 44,562,531 | 33,353,729 |
| Interest Rate Swap agreements/Currency Swaps: | 158,012,034 | 168,466,179 | 158,012,034 | 168,466,179 |
| Interest rate swaps | - | - | - | - |
| Currency swaps | 158,012,034 | 168,466,179 | 158,012,034 | 168,466,179 |
| Others: | 45,161,093 | 43,999,431 | 45,161,093 | 43,999,431 |
| Acceptances | 25,281,037 | 25,708,732 | 25,281,037 | 25,708,732 |
| Bills for collection | 19,260,765 | 17,533,095 | 19,260,765 | 17,533,095 |
| Stock of Travellers' Cheques | 616,341 | 586,893 | 616,341 | 586,893 |
| Bullion on consignment | 2,950 | 170,711 | 2,950 | 170,711 |
| Subtotal | 273,819,981 | 290,112,940 | 273,819,981 | 290,112,940 |

59.2 Undrawn Commitments

| <i>As at December 31,</i> | GROUP | | BANK | |
|---------------------------|-------------|-------------|-------------|-------------|
| | 2016 | 2015 | 2016 | 2015 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| On direct advances | 97,459,750 | 109,755,816 | 97,212,484 | 109,755,816 |
| On indirect advances | 34,168,872 | 44,224,170 | 34,168,872 | 44,224,170 |
| Subtotal | 131,628,622 | 153,979,986 | 131,381,356 | 153,979,986 |

59.3 Capital Commitments

The Group has commitments for acquisition of Property, Plant & Equipment and intangible assets incidental to the ordinary course of business which have been approved by the Board of Directors, the details of which are as follows:

| As at December 31, | GROUP | | BANK | |
|---|------------------|------------------|------------------|------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| Commitments in relation to property, plant & equipment | 647,677 | 964,469 | 647,677 | 964,469 |
| Approved and contracted for | 511,667 | 725,069 | 511,667 | 725,069 |
| Approved but not contracted for | 136,010 | 239,400 | 136,010 | 239,400 |
| Commitments in relation to intangible assets | 429,596 | 413,254 | 421,574 | 413,254 |
| Approved and contracted for | 429,596 | 413,254 | 421,574 | 413,254 |
| Approved but not contracted for | – | – | – | – |
| Subtotal | 1,077,273 | 1,377,723 | 1,069,251 | 1,377,723 |

59.4 Contingent Liabilities and Commitments of Subsidiaries and Associates

59.4 (a) Contingent Liabilities and Commitments of Subsidiaries

Contingent liabilities and commitments of the subsidiary, Commercial Bank of Maldives Private Limited have been included in the Consolidated Financial Statements of the Group while other subsidiaries of the Group do not have any contingencies or commitments as at the Reporting date.

59.4 (b) Contingent Liabilities and Commitments of Associates

The Associates of the Group do not have any contingencies as at the Reporting date.

60. Net Assets Value Per Ordinary Share

| As at December 31, | GROUP | | BANK | |
|--|--------------|--------------|--------------|--------------|
| | 2016 | 2015 | 2016 | 2015 |
| Amounts used as the Numerator: | | | | |
| Total equity attributable to equity holders of the Bank (Rs. '000) | 78,992,310 | 70,963,639 | 78,353,664 | 70,340,804 |
| Number of ordinary shares used as the denominator: | | | | |
| Total number of shares | 890,734,540 | 876,866,801 | 890,734,540 | 876,866,801 |
| Net assets value per share (Rs.) | 88.68 | 80.93 | 87.97 | 80.22 |

61. Litigation Against the Bank

Litigation is a common occurrence in the banking industry due to the nature of the business. The Bank has an established protocol for dealing with such legal claims. In respect of pending legal claims where the Bank had already made provisions for possible losses in its Financial Statements or has a realisable security to cover the damages are not included below as the Bank does not expect cash outflows from such claims. However, further adjustments are made to Financial Statements if necessary on the adverse effects of legal claims based on the professional advice obtained on the certainty of the outcome and also based on a reasonable estimate.

Set out below are the unresolved legal claims against the Bank as at December 31, 2016 for which, adjustments to the Financial Statements have not been made due to the uncertainty of its outcome. In addition, there are cases filed against the Bank that have not been listed here on the basis of non-materiality to operations and aggrieved party had obtained injunctions prior to acquiring the property by the Bank.

- (i) Court action has been initiated by a customer in High Court Civil Case No. 236/2011/MR challenging the Bank for transferring a vehicle in the name of a relation of the customer, upon settlement of a lease facility obtained from the Bank. The Bank has executed the transfer on the strength of a letter issued by the Plaintiff who is now challenging the letter. The value of the action is Rs. 3.500 Mn. Plaintiff has closed his case. Evidence by the 1st defendant has been completed. Bank as the 2nd defendant is scheduled to submit evidences on July 06, 2017.
- (ii) Court action has been initiated by a customer in proceeding number 25831/MR to claim a sum of Rs. 2.880 Mn. including the refund of interest of an overdraft facility. The judgment was entered against the Bank in the District Court for Rs.1.874 Mn. The Bank has appealed (Appeal No. 133/2010) to the Supreme Court. Arguments have been concluded. Bank has complied with written submissions. Date for the judgment is yet to be fixed.
- (iii) Court action has been initiated by the plaintiff in the Commercial High Court of the Western Province case No. 571/2008/MR to prevent the Bank from exercising the inherent rights of the Bank to set off a deposit of the plaintiff amounting to US\$ 15.000 Mn. against a sum due from the plaintiff in terms of a hedging agreement. Commercial High Court issued the judgment in favour of the Bank and dismissed plaintiff's application for an interim injunction. Presently the case is at the trial stage. Further trial fixed for July 12, 2017.
- (iv) Court action has been initiated by a customer for Rs. 14.000 Mn. in District Court, Colombo proceeding No. DMR 3/2014 to recover a sum of Rs. 13.063 Mn. including interest on cheques paid with a fraudulent signature. The case which was initially filed at the District Court was later referred to the Commercial High Court under case No. 315/2018/MR. Trial fixed for March 20, 2017.
- (v) Court action has been initiated in proceedings No. 03034/14/MR to claim a sum of Rs. 27.870 Mn. being the total amount withdrawn from the Company account with forged signatures by an employee by forging authorised customer's signatures in a number of transactions during a period of two years. Further trial fixed for June 14, 2017.
- (vi) Court action has been initiated in proceedings No. DMR/974/2016 to recover a sum of Rs. 26.237 Mn. together with interest as damages incurred by the plaintiff due to the delay by the Bank in refunding the amount with regard to a duplicated telegraphic transfer for USD 25,000/-. Answer filed by the Bank and next trial is fixed for June 28, 2017.
- (vii) An appeal was filed by the Bank under proceedings number HCALT 405/2014 in Provincial High Court of the Eastern Province against the order of the Labour Tribunal for payment of compensation and re-instatement in employment of an outsourced office helper. The office helper too filed a case in Provincial High Court in proceedings number HCALT 404/2014 refusing compensation and asking for reinstatement. Appeal made by the Bank was dismissed and the case filed by outsourced office helper was decided in favour of him. Bank appealed in the Supreme Court against the judgment of both cases under proceeding number SC/SPL/LA/220/15 and SC/SPL/LA/221/15. Next hearing of the cases is fixed for April 07, 2017.
- (viii) Court action has been initiated in proceeding No. 139/2016/MR to recover a sum of Rs. 29.000 Mn. together with interest and Rs. 10.000 Mn. as damages for holding a balance in a fixed deposit as lien against loans which plaintiff claims to be fraudulently created. Final answer due on March 22, 2017.
- (ix) Court action has been initiated for Rs. 15.000 Mn. and interest thereon in proceedings No. 584/L seeking declaration that the plaintiff is the lawful owner of the property mortgaged by her daughter as a security for a loan obtained from the Bank. The estimated loan loss to the Bank is Rs. 15.000 Mn. together with interest thereon. Answer due on March 03, 2017.
- (x) Court action has been initiated by a third party in Colombo High Court in proceedings No. 112/2005(1) to claim Rs. 5.584 Mn. plus Rs. 10.000 Mn. as damages for disposing of the shares owned by the plaintiff which were held under lien to the Bank. Plaintiff alleges that the transaction has taken place without obtaining her consent. Judgment was delivered in favour of the plaintiff. Bank has appealed to the Supreme Court (Appeal No. 09/2010) against the judgment delivered. The plaintiff has filed an application for the issue of Writ Pending Appeal. Bank had agreed to issue a guarantee for Rs. 5.000 Mn. in favour of the plaintiff, to be claimed only on the final determination of the appeal by the Supreme Court. Appeal is refixed for argument on June 16, 2017.
- (xi) Court action has been initiated by a customer in Colombo High Court Case No. 36/96 (1) to claim a sum of Rs. 183.050 Mn. regarding a forward exchange contract. Judgment was delivered in favour of the Bank dismissing the plaintiff's action, but the plaintiff has appealed against the judgment in the Supreme Court (Appeal No. 38/2006). The appeal is fixed for argument on March 8, 2017.
- (xii) Court action has been initiated by a customer in proceedings No. 52/10 to claim a sum of Bangladeshi Taka 35.328 Mn. (approx. Rs. 67.3546 Mn.) from the Bank for illegal withdrawal of money from their account by issuing cheques with forged signatures. The Bank refuses the claim of the customer as the Bank is of the view that it had acted in good faith, without negligence and also that the Bank is not responsible for any losses incurred due to inadequacy of control measures taken by the customer on cheques issued by the Bank. Last hearing was on January 2, 2017. Next date is yet to be fixed.

62. Maturity Analysis

Group

(i) Remaining contractual period to maturity as at the date of Statement of Financial Position of the assets employed by the Group is detailed below:

| <i>As at December 31,</i> | Up to 3 Months | 3 to 12 Months | 1 to 3 Years | 3 to 5 Years | More than 5 Years | Total as at 31.12.2016 | Total as at 31.12.2015 |
|---|--------------------|--------------------|--------------------|--------------------|----------------------|---------------------------|---------------------------|
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Interest earning assets: | | | | | | | |
| Financial Assets | | | | | | | |
| Cash and cash equivalents | 8,291,413 | - | - | - | - | 8,291,413 | 1,662,487 |
| Balances with central banks | 405,258 | 155,411 | - | - | - | 560,669 | 5,706,807 |
| Placements with banks | 11,718,499 | - | - | - | - | 11,718,499 | 17,193,539 |
| Securities purchased under resale agreements | - | - | - | - | - | - | 8,002,100 |
| Derivative financial assets | - | - | - | - | - | - | - |
| Other financial instruments Held-for-trading | 4,693,989 | - | - | - | - | 4,693,989 | 7,330,086 |
| Loans and receivables to banks | - | - | - | - | - | - | - |
| Loans and receivables to other customers | 233,537,753 | 112,043,420 | 149,228,993 | 78,486,820 | 46,832,502 | 620,129,488 | 509,923,128 |
| Financial investments – Available-for-sale | 4,371,101 | 41,490,429 | 90,256,125 | 23,524,588 | - | 159,642,243 | 203,987,506 |
| Financial investments – Held-to-maturity | 4,075,831 | 2,825,241 | 16,573,313 | 7,052,121 | 33,100,092 | 63,626,598 | - |
| Financial investments – Loans and receivables | 11,083,470 | 20,931,204 | 14,674,102 | 5,135,250 | - | 51,824,026 | 57,724,369 |
| | - | - | - | - | - | - | - |
| Total interest earning assets as at 31.12.2016 | 278,177,314 | 177,445,705 | 270,732,533 | 114,198,779 | 79,932,594 | 920,486,925 | |
| Total interest earning assets as at 31.12.2015 | 235,817,412 | 127,160,285 | 239,546,087 | 118,850,520 | 90,155,718 | | 811,530,022 |
| Non-interest earning assets: | | | | | | | |
| Financial Assets | | | | | | | |
| Cash and cash equivalents | 24,632,814 | - | - | - | - | 24,632,814 | 18,444,589 |
| Balances with central banks | 27,356,043 | 13,558,656 | 858,703 | 809,680 | 791,507 | 43,374,589 | 22,514,210 |
| Placements with banks | - | - | - | - | - | - | - |
| Securities purchased under resale agreements | - | - | - | - | - | - | - |
| Derivative financial assets | 393,762 | 508,226 | 150,841 | - | - | 1,052,829 | 4,118,169 |
| Other financial instruments – Held-for-trading | 293,809 | - | - | - | - | 293,809 | 326,263 |
| Loans and receivables to banks | - | - | 624,458 | - | - | 624,458 | 601,106 |
| Loans and receivables to other customers | - | - | - | - | - | - | - |
| Financial investments – Available-for-sale | 156,460 | - | - | 17,954 | 275,865 | 450,279 | 274,428 |
| Financial investments – Held-to-maturity | - | - | - | - | - | - | - |
| Financial investments – Loans and receivables | - | - | - | - | - | - | - |
| Non-Financial assets | | | | | | | |
| Investments in subsidiaries | - | - | - | - | - | - | - |
| Investments in associates | - | - | - | - | 108,859 | 108,859 | 104,503 |
| Property, plant & equipment | - | - | - | - | 11,569,666 | 11,569,666 | 11,181,433 |
| Intangible assets | - | - | - | - | 1,132,669 | 1,132,669 | 884,034 |
| Leasehold property | - | - | - | - | 105,968 | 105,968 | 107,420 |
| Deferred tax assets | (494,346) | 360,404 | 1,119,681 | (273,441) | (44,148) | 668,150 | |
| Other assets | 12,023,299 | 189,154 | 1,072,981 | 437,781 | 2,759,344 | 16,482,559 | 12,097,017 |
| Total non-interest earning assets as at 31.12.2016 | 64,361,841 | 14,616,440 | 3,826,664 | 991,974 | 16,699,730 | 100,496,649 | |
| Total non-interest earning assets as at 31.12.2015 | 44,931,050 | 7,583,819 | 2,176,751 | 789,092 | 15,172,460 | | 70,653,172 |
| Total assets – as at 31.12.2016 | 342,539,155 | 192,062,145 | 274,559,197 | 115,190,753 | 96,632,324 | 1,020,983,574 | |
| Total assets – as at 31.12.2015 | 280,748,462 | 134,744,104 | 241,722,838 | 119,639,612 | 105,328,178 | | 882,183,194 |
| Percentage – as at 31.12.2016(*) | 33.56 | 18.81 | 26.89 | 11.28 | 9.46 | 100.00 | |
| Percentage – as at 31.12.2015(*) | 31.83 | 15.27 | 27.40 | 13.56 | 11.94 | | 100.00 |

(*) Total percentage of each maturity bucket out of total assets employed by the Group.

(ii) Remaining contractual period to maturity as at the date of Statement of Financial Position of the liabilities and shareholders' funds employed by the Group is detailed below:

| | Up to 3 Months Rs. '000 | 3 to 12 Months Rs. '000 | 1 to 3 Years Rs. '000 | 3 to 5 Years Rs. '000 | More than 5 Years Rs. '000 | Total as at 31.12.2016 Rs. '000 | Total as at 31.12.2015 Rs. '000 |
|--|-------------------------------|-------------------------------|-----------------------------|-----------------------------|----------------------------------|---------------------------------------|---------------------------------------|
| Interest-bearing liabilities: | | | | | | | |
| Financial liabilities | | | | | | | |
| Due to banks | 42,777,902 | 9,731,320 | 13,144,180 | 1,359,566 | - | 67,012,968 | 27,959,634 |
| Derivative financial liabilities | - | - | - | - | - | - | - |
| Securities sold under repurchase agreements | 54,636,347 | 14,981,595 | 11,019 | - | - | 69,628,961 | 112,249,703 |
| Other financial liabilities – Held-for-trading | - | - | - | - | - | - | - |
| Due to other customers/Deposits from customers | 407,935,082 | 237,562,576 | 16,790,103 | 11,505,418 | 11,916,085 | 685,709,264 | 571,086,630 |
| Other borrowings | 614,168 | 1,934,456 | 2,881,210 | 777,775 | 3,062,545 | 9,270,154 | 9,985,637 |
| Subordinated liabilities | 207,796 | 311,731 | - | 9,500,724 | 14,829,288 | 24,849,539 | 11,988,272 |
| Total interest-bearing liabilities as at 31.12.2016 | 506,171,295 | 264,521,678 | 32,826,512 | 23,143,483 | 29,807,918 | 856,470,886 | |
| Total interest-bearing liabilities as at 31.12.2015 | 477,186,693 | 202,932,413 | 18,920,235 | 9,315,851 | 24,914,684 | | 733,269,876 |
| Non-interest-bearing liabilities: | | | | | | | |
| Financial liabilities | | | | | | | |
| Due to banks | 4,085,423 | - | - | - | - | 4,085,423 | 3,829,762 |
| Derivative financial liabilities | 748,553 | 534,112 | 232,370 | - | - | 1,515,035 | 1,890,770 |
| Securities sold under repurchase agreements | - | - | - | - | - | - | - |
| Other financial liabilities Held-for-trading | - | - | - | - | - | - | - |
| Due to other customers/deposits from customers | 57,601,349 | - | - | - | - | 57,601,349 | 52,934,587 |
| Other borrowings | - | - | - | - | - | - | - |
| Non-financial liabilities | | | | | | | |
| Current tax liabilities | 1,100,850 | 2,363,832 | - | - | - | 3,464,682 | 3,025,662 |
| Deferred tax liabilities | - | - | - | - | - | - | 467,632 |
| Other provisions | - | - | 1,874 | - | - | 1,874 | 1,874 |
| Other liabilities | 15,089,253 | 160,651 | 1,294,868 | 309,278 | 1,174,852 | 18,028,902 | 15,749,184 |
| Equity | | | | | | | |
| Stated capital | - | - | - | - | 24,978,003 | 24,978,003 | 23,254,605 |
| Statutory reserves | - | - | - | - | 5,647,993 | 5,647,993 | 4,922,367 |
| Retained earnings | - | - | - | - | 4,553,778 | 4,553,778 | 4,467,807 |
| Other reserves | - | - | - | - | 43,812,536 | 43,812,536 | 38,318,860 |
| Non-controlling interest | - | - | - | - | 823,113 | 823,113 | 50,208 |
| Total non-interest-bearing liabilities as at 31.12.2016 | 78,625,428 | 3,058,595 | 1,529,112 | 309,278 | 80,990,275 | 164,512,688 | |
| Total non-interest-bearing liabilities as at 31.12.2015 | 71,403,959 | 3,990,597 | 1,432,057 | 770,986 | 71,315,719 | | 148,913,318 |
| Total liabilities and equity – as at 31.12.2016 | 584,796,723 | 267,580,273 | 34,355,624 | 23,452,761 | 110,798,193 | 1,020,983,574 | |
| Total liabilities and equity – as at 31.12.2015 | 548,590,652 | 206,923,010 | 20,352,292 | 10,086,837 | 96,230,403 | | 882,183,194 |
| Percentage – as at 31.12.2016(*) | 57.28 | 26.21 | 3.36 | 2.30 | 10.85 | 100.00 | |
| Percentage – as at 31.12.2015(*) | 62.18 | 23.46 | 2.31 | 1.14 | 10.91 | | 100.00 |

(*) Total liabilities and shareholders' funds of each maturity bucket as a percentage of total liabilities and shareholders' funds employed by the Group.

Bank

Maturity analysis of the assets and liabilities of the Bank is given in Note 69.2.2 on 'Financial Risk Review' on pages 338 to 342.

63. Operating Segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Corporate Management Team headed by the Managing Director/Chief Executive Officer (being the chief operating decision-maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

The Group has five strategic divisions which are reportable segments, namely:

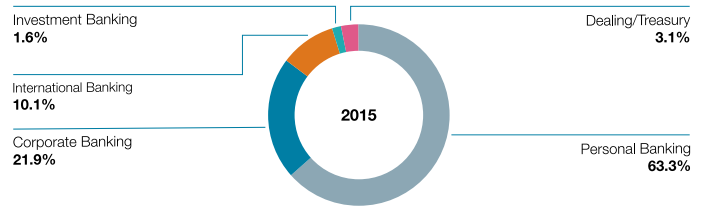
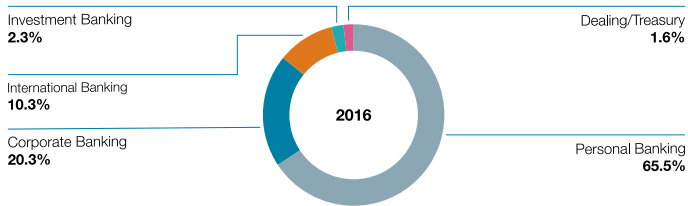
| Operating Segment | Types of Products and Services Offered |
|--------------------------|---|
| Personal Banking | Refer pages 82 to 101 for details on product portfolio by 'Key Business Lines Review' |
| Corporate Banking | |
| International Operations | |
| Investment Banking | |
| Dealing and Treasury | |

Segment performance is evaluated based on operating profits or losses which, in certain respects, are measured differently from operating profits or losses in the Consolidated Financial Statements. Income taxes are managed on a Group basis and are not allocated to operating segments.

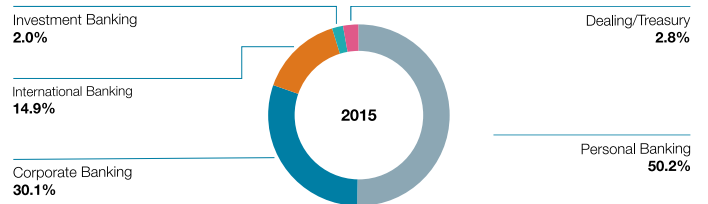
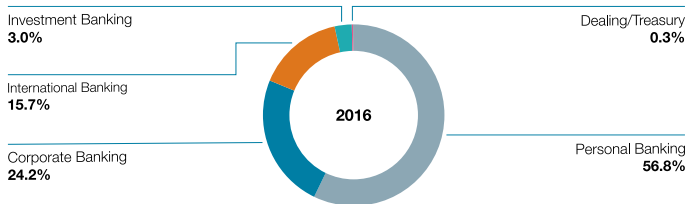
The following table presents the income, profit, asset and liability information on the Group's strategic business divisions for the year ended December 31, 2016 and comparative figures for the year ended December 31, 2015.

| For the year ended December 31, | Personal Banking | | Corporate Banking | | International Operations | | Investment Banking | | Dealing/Treasury | | Total/Consolidated | |
|--|-------------------|-------------------|-------------------|------------------|--------------------------|------------------|--------------------|------------------|------------------|------------------|--------------------|-------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| External operating income: | | | | | | | | | | | | |
| Net interest income | 22,882,865 | 21,229,112 | 6,162,515 | 6,038,268 | 3,214,891 | 3,035,880 | 992,038 | 591,019 | (124,033) | (326,929) | 33,128,276 | 30,567,350 |
| Foreign exchange profit | 198,679 | 84,085 | 822,894 | 1,270,664 | 509,081 | 518,116 | - | - | 795,504 | 1,004,405 | 2,326,158 | 2,877,270 |
| Net fee and commission income | 4,867,603 | 3,317,748 | 1,594,813 | 1,543,735 | 609,430 | 524,103 | 13,350 | 20,600 | 3,981 | 4,124 | 7,089,177 | 5,410,310 |
| Other income | 779,594 | 1,381,067 | 353,668 | 161,456 | 190,003 | 62,360 | 8,984 | 40,296 | 64,252 | 575,242 | 1,396,501 | 2,220,421 |
| Eliminations/unallocated | | | | | | | | | | | 458,138 | 458,489 |
| Total operating income | 28,728,741 | 26,012,012 | 8,933,890 | 9,014,123 | 4,523,405 | 4,140,459 | 1,014,372 | 651,915 | 739,704 | 1,256,842 | 44,398,250 | 41,533,840 |
| Credit loss expenses | 202,442 | (3,266,263) | (1,726,375) | (478,732) | (59,393) | (354,743) | - | - | - | - | (1,583,326) | (4,099,738) |
| Net operating income | 28,931,183 | 22,745,749 | 7,207,515 | 8,535,391 | 4,464,012 | 3,785,716 | 1,014,372 | 651,915 | 739,704 | 1,256,842 | 42,814,924 | 37,434,102 |
| Segment result | 11,436,038 | 8,591,633 | 4,874,706 | 5,166,707 | 3,148,044 | 2,544,328 | 599,677 | 345,419 | 49,665 | 474,386 | 20,108,130 | 17,122,473 |
| Profit from operations | | | | | | | | | | | 20,108,130 | 17,122,473 |
| Share of profit of associates – net of tax | | | | | | | | | | | 6,454 | 13,638 |
| Income tax expense | | | | | | | | | | | (5,648,160) | (5,276,851) |
| Non-controlling interest | | | | | | | | | | | 43,909 | (4,088) |
| Net profit for the year, attributable to Equity holders of the parent | | | | | | | | | | | 14,510,333 | 11,855,172 |

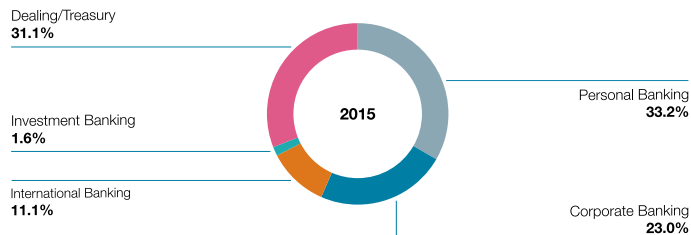
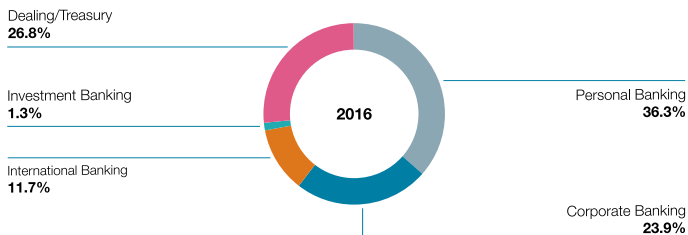
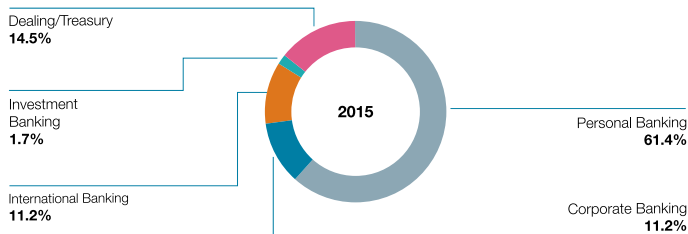
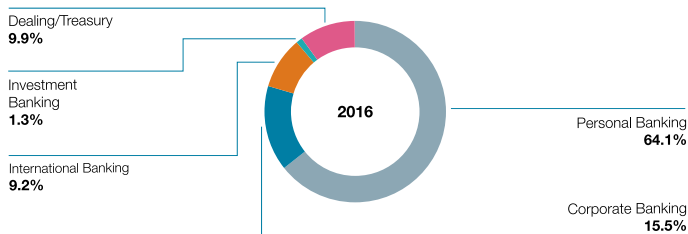
Total Operating Income



Segment Result



| As at December 31, | Personal Banking | | Corporate Banking | | International Operations | | Investment Banking | | Dealing/Treasury | | Total/Consolidated | |
|--------------------------|--------------------|--------------------|--------------------|--------------------|--------------------------|-------------------|--------------------|-------------------|--------------------|--------------------|----------------------|--------------------|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Other information | | | | | | | | | | | | |
| Segment assets | 348,163,433 | 279,706,505 | 229,759,156 | 193,881,080 | 112,387,766 | 93,138,952 | 12,335,263 | 13,406,914 | 257,143,130 | 261,627,206 | 959,788,748 | 841,760,657 |
| Investment in associates | - | - | - | - | - | - | 108,859 | 104,503 | - | - | 108,859 | 104,503 |
| Unallocated assets | - | - | - | - | - | - | - | - | - | - | 61,085,967 | 40,318,034 |
| Total assets | 348,163,433 | 279,706,505 | 229,759,156 | 193,881,080 | 112,387,766 | 93,138,952 | 12,444,122 | 13,511,417 | 257,143,130 | 261,627,206 | 1,020,983,574 | 882,183,194 |
| Segment liabilities | 601,064,166 | 496,764,815 | 145,104,008 | 90,064,347 | 86,181,038 | 90,399,530 | 12,444,122 | 13,511,417 | 92,910,135 | 116,935,944 | 937,703,469 | 807,676,053 |
| Unallocated liabilities | - | - | - | - | - | - | - | - | - | - | 3,464,682 | 3,493,294 |
| Total liabilities | 601,064,166 | 496,764,815 | 145,104,008 | 90,064,347 | 86,181,038 | 90,399,530 | 12,444,122 | 13,511,417 | 92,910,135 | 116,935,944 | 941,168,151 | 811,169,347 |

Total Assets

Total Liabilities


| For the year ended December 31, | Personal Banking | | Corporate Banking | | International Operations | | Investment Banking | | Dealing/Treasury | | Total/Consolidated | |
|---|------------------|------------------|-------------------|------------------|--------------------------|------------------|--------------------|------------------|------------------|------------------|--------------------|------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| Information on cash flows | | | | | | | | | | | | |
| Cash flows from operating activities | | | | | | | | | | | | |
| | 48,260,328 | 5,511,885 | (20,442,140) | (4,636,226) | (491,909) | (2,818,494) | (40,710) | (235,112) | (21,391,095) | 10,396,929 | 5,894,474 | 8,218,982 |
| Cash flows from investing activities | | | | | | | | | | | | |
| | - | - | - | - | - | - | 1,124,546 | (2,596,130) | - | - | 1,124,546 | (2,596,130) |
| Cash flows from financing activities | | | | | | | | | | | | |
| | 11,969,421 | (641,079) | - | - | - | - | - | - | (1,075,713) | (368,699) | 10,893,708 | (1,009,778) |
| Capital expenditure | | | | | | | | | | | | |
| Property, plant & equipment | | | | | | | | | | | (1,468,902) | (1,066,028) |
| Intangible assets | | | | | | | | | | | (422,175) | (208,168) |
| Eliminations/unallocated | | | | | | | | | | | (3,204,500) | (3,853,580) |
| Net cash flow generated during the year | | | | | | | | | | | 12,817,151 | (514,702) |

64. Related Party Disclosures

The Bank carried out transactions in the ordinary course of business on an arm's length basis at commercial rates with parties who are defined as Related Parties as per the Sri Lanka Accounting Standard – LKAS 24 – 'Related Party Disclosures'.

However, transactions that the Key Management Personnel (KMP) have availed under schemes uniformly applicable to all staff are at concessionary rates.

64.1 Parent and Ultimate Controlling Party

The Bank does not have an identifiable parent of its own.

64.2 Key Management Personnel (KMP)

KMP are those persons having authority and responsibility for planning, directing and controlling the activities of the entity directly or indirectly.

KMP of the Bank

The Board of Directors of the Bank has been classified as KMP of the Bank.

KMP of the Group

As the Bank is the ultimate parent of the Subsidiaries listed out on page 191, the Board of Directors of the Bank has the authority and responsibility for planning, directing and controlling the activities of the Group directly or indirectly. Accordingly, the Board of Directors of the Bank is also KMP of the Group. Therefore, officers who are only Directors of the subsidiaries and not of the Bank have been classified as KMP only for that respective subsidiary.

64.2.1 Transactions with KMP

64.2.1.1 Compensation of KMP – Bank

| <i>For the year ended December 31,</i> | 2016 Rs. '000 | 2015 Rs. '000 |
|--|------------------|------------------|
| Short-term employment benefits | 124,478 | 119,089 |
| Post-employment benefits | 6,984 | 6,384 |
| Total | 131,462 | 125,473 |

64.2.1.2 Compensation of KMP – Group

| <i>For the year ended December 31,</i> | 2016 Rs. '000 | 2015 Rs. '000 |
|--|------------------|------------------|
| Short-term employment benefits | 125,648 | 119,909 |
| Post-employment benefits | 6,984 | 6,384 |
| Total | 132,632 | 126,293 |

In addition to the above, the Bank/Group provide non-cash benefits to the KMP.

64.2.2 Transactions, Arrangements and Agreements Involving KMP and their Close Family Members (CFM)

CFM of a KMP are those family members who may be expected to influence, or be influenced by, that KMP in their dealings with the entity. They may include KMP's domestic partner and children, children of the KMP domestic partner and dependants of the KMP or the KMP domestic partner. CFM are related parties to the Group/Bank.

64.2.2.1 Statement of Financial Position – Bank

| <i>As at December 31,</i> | Year end Balance | | Average Balance | |
|---|------------------|---------------|-----------------|---------------|
| | 2016 | 2015 | 2016 | 2015 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Assets | | | | |
| Loans and advances | 10,229 | 7,800 | 9,462 | 7,777 |
| Credit cards | - | - | 238 | 144 |
| Total | 10,229 | 7,800 | 9,700 | 7,921 |
| Liabilities | | | | |
| Deposits | 145,701 | 28,686 | 79,474 | 49,565 |
| Securities sold under repurchase agreements | 35,062 | 26,790 | 31,198 | 23,732 |
| Debentures | 2,000 | - | 355 | - |
| Total | 182,763 | 55,476 | 111,027 | 73,297 |

64.2.2.2 Commitments and Contingencies – Bank

| <i>As at December 31,</i> | Year end Balance | | Average Balance | |
|---------------------------|------------------|--------------|-----------------|--------------|
| | 2016 | 2015 | 2016 | 2015 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Undrawn facilities | 10,380 | 9,195 | 11,716 | 9,184 |
| Total | 10,380 | 9,195 | 11,716 | 9,184 |

64.2.2.3 Direct and Indirect Accommodation – Bank

| <i>As at December 31,</i> | Year-end Balance | |
|---|------------------|------|
| | 2016 | 2015 |
| | % | % |
| Direct and indirect accommodation as a % of the Bank's Regulatory Capital | 0.02 | 0.02 |

No impairment losses have been recorded against balances outstanding with KMP and CFM.

64.2.2.4 Income Statement

| <i>For the Year Ended December 31,</i> | 2016 | 2015 |
|---|----------|----------|
| | Rs. '000 | Rs. '000 |
| Interest income | 626 | 433 |
| Interest expense | 7,747 | 3,228 |
| Other income | 20 | 226 |
| Compensation to KMP [Refer Notes 64.2.1.1 & 64.2.1.2] | 131,462 | 125,473 |

64.2.2.5 Share-Based Transactions of KMP and CFM

| <i>As at the year end</i> | 2016 | 2015 |
|---|---------|---------|
| Number of ordinary shares held | 810,939 | 694,883 |
| Dividends paid (in Rs. '000) | 4,762 | 3,674 |
| Number of cumulative exercisable options under the Employee Share Option Plan (ESOP) 2008 | | |
| Tranche II | 98,678 | 148,016 |
| Tranche III | 155,603 | 155,603 |
| Number of cumulative exercisable options under the Employee Share Option Plan (ESOP) 2015 | | |
| Tranche I | 81,869 | - |

64.2.3 Transactions, Arrangements and Agreements involving Entities which are Controlled, and/or Significantly Influenced by the KMP or their CFM

64.2.3.1 Statement of Financial Position

| | Year end Balance | | Average Balance | |
|---|------------------|----------|-----------------|----------|
| | 2016 | 2015 | 2016 | 2015 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Assets | | | | |
| Loans and advances | 266,349 | - | 80,967 | - |
| Total | 266,349 | - | 80,967 | - |
| Liabilities | | | | |
| Deposits | 977,122 | - | 276,411 | - |
| Securities sold under repurchase agreements | 126,237 | - | 426 | - |
| Debentures | 24,310 | - | 4,317 | - |
| Total | 1,127,669 | - | 281,154 | - |

64.2.3.2 Commitments and Contingencies

| | Year end Balance | | Average Balance | |
|--------------------|------------------|----------|-----------------|----------|
| | 2016 | 2015 | 2016 | 2015 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Guarantees | 71,280 | - | 71,280 | - |
| Undrawn facilities | 379,266 | - | 279,891 | - |
| Total | 450,546 | - | 351,171 | - |

64.2.3.3 Direct and Indirect Accommodation

| | Year end Balance | |
|---|------------------|------|
| | 2016 | 2015 |
| | % | % |
| Direct and indirect accommodation as a % of the Bank's Regulatory Capital | 0.69 | 0.00 |

64.2.3.4 Income Statement

| <i>For the year ended December 31,</i> | 2016 | 2015 |
|--|----------|----------|
| | Rs. '000 | Rs. '000 |
| Interest income | 10,451 | - |
| Interest expense | 9,916 | - |
| Other income | - | - |

64.3 Transactions with Group Entities

The Group entities include the Subsidiaries and the Associates of the Bank.

64.3.1 Transactions with Subsidiaries

64.3.1.1 Statement of Financial Position

| | Year end Balance | | Average Balance | |
|---|------------------|----------------|-----------------|----------------|
| | 2016 | 2015 | 2016 | 2015 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Assets | | | | |
| Loans and advances | 786,000 | 859,356 | 564,749 | 588,616 |
| Lease receivables | - | - | - | 465 |
| Other receivables | 92,857 | 90,596 | 91,727 | 88,141 |
| Impairment for other receivables | (55,684) | (53,423) | (54,554) | (52,410) |
| Total | 823,173 | 896,529 | 601,922 | 624,812 |
| Liabilities | | | | |
| Deposits | 178,827 | 80,593 | 108,269 | 100,251 |
| Securities sold under repurchase agreements | 238,508 | 135,109 | 145,944 | 136,559 |
| Other | 20,061 | 26,212 | 23,137 | 22,750 |
| Total | 437,396 | 241,914 | 277,350 | 259,560 |

64.3.1.2 Commitments and Contingencies

| | Year end Balance | | Average Balance | |
|--------------------|------------------|----------------|-----------------|---------------|
| | 2016 | 2015 | 2016 | 2015 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Letters of Credit | - | - | 1,126 | 1,126 |
| Undrawn facilities | 62,565 | 126,349 | 113,165 | 81,333 |
| Total | 62,565 | 126,349 | 114,291 | 82,459 |

64.3.1.3 Direct and Indirect Accommodation

| | Year end Balance | |
|---|------------------|------|
| | 2016 | 2015 |
| | % | % |
| Direct and indirect accommodation as a % of the Bank's Regulatory Capital | 0.86 | 1.28 |

64.3.1.4 Income Statement

| <i>For the Year Ended December 31,</i> | 2016 | 2015 |
|--|----------|----------|
| | Rs. '000 | Rs. '000 |
| Interest income | 58,002 | 45,842 |
| Interest expense | 26,731 | 60,384 |
| Other income | 103,569 | 84,997 |
| Impairment charges | 3,306 | 2,025 |
| Expenses | 454,126 | 427,106 |

64.3.1.5 Other Transactions

| <i>For the Year Ended December 31,</i> | 2016 | 2015 |
|---|----------|----------|
| | Rs. '000 | Rs. '000 |
| Payments made to OneZero Company Ltd. in relation to purchase of computer hardware and software | 8,253 | 70,618 |

64.3.2 Transactions with Associates

64.3.2.1 Statement of Financial Position

| | Year end Balance | | Average Balance | |
|--------------------|------------------|----------|-----------------|----------|
| | 2016 | 2015 | 2016 | 2015 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Assets | | | | |
| Loans and advances | - | - | 29 | 88 |
| Lease receivables | - | - | - | 20 |
| Total | - | - | 29 | 108 |
| Liabilities | | | | |
| Deposits | 48,606 | 23,733 | 38,967 | 23,427 |
| Total | 48,606 | 23,733 | 38,967 | 23,427 |

64.3.2.2 Direct and Indirect Accommodation

| | Year end Balance | |
|---|------------------|------|
| | 2016 | 2015 |
| | % | % |
| Direct and indirect accommodation as a % of the Bank's Regulatory Capital | 0.00 | 0.00 |

64.3.2.3 Income Statement

| <i>For the year ended December 31,</i> | 2016 | 2015 |
|--|----------|----------|
| | Rs. '000 | Rs. '000 |
| Interest income | 7 | 23 |
| Interest expense | 3,310 | 616 |
| Other income | 22,698 | 22,577 |

64.3.2.4 Other Transactions

| <i>For the year ended December 31,</i> | 2016 | 2015 |
|---|----------|----------|
| | Rs. '000 | Rs. '000 |
| Number of Ordinary shares of the Bank held by the associates as at the year end | 4,605 | 4,536 |
| Dividend paid (Rs. '000) | 29 | 25 |

64.4 Transactions with Other Related Entities

Other related entities include significant investors (either entities or individuals) that have control, joint control or significant influence, post-employment benefit plans for the Bank's employees.

64.4.1 Transactions with the Post-Employment Benefit Plans for the Employees of the Bank

64.4.1.1 Statement of Financial Position

| | Year end Balance | | Average Balance | |
|---|-------------------|------------------|------------------|------------------|
| | 2016 | 2015 | 2016 | 2015 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Liabilities | | | | |
| Deposits | 12,681,135 | 4,029,010 | 7,615,681 | 2,984,576 |
| Securities sold under repurchase agreements | 386,447 | 5,060,229 | 293,317 | 1,863,801 |
| Total | 13,067,582 | 9,089,239 | 7,908,998 | 4,848,377 |

64.4.1.2 Income Statement

| <i>During the year</i> | 2016 | 2015 |
|--|-----------|----------|
| | Rs. '000 | Rs. '000 |
| Interest income | 30 | – |
| Interest expense | 821,179 | 431,322 |
| Contribution made/taxes paid by the Bank | 1,007,451 | 947,416 |

65. Non-Cash Items Included in Profit Before Tax

| <i>As at December 31,</i> | GROUP | | BANK | |
|---|------------------|------------------|------------------|------------------|
| | 2016 | 2015 | 2016 | 2015 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Depreciation of property, plant & equipment | 1,093,088 | 1,024,162 | 1,022,648 | 961,492 |
| Amortisation of leasehold property | 1,452 | 1,452 | 942 | 942 |
| Amortisation of intangible assets | 173,790 | 180,558 | 165,903 | 179,370 |
| Impairment losses on loans and advances | 1,583,326 | 4,099,738 | 1,511,158 | 3,904,948 |
| Other impairment | - | - | 18,656 | 38,248 |
| Contributions to defined benefit plans – Unfunded schemes | 234,262 | 197,676 | 227,816 | 190,780 |
| Provision made o/a of leave encashment | 76,193 | 61,108 | 76,193 | 61,108 |
| Equity-settled share-based payments | 206,174 | 223,330 | 206,174 | 223,330 |
| Unamortised interest payable o/a subordinated liabilities | 12,210 | 12,210 | 12,210 | 12,210 |
| Mark to market on other financial instruments – Held-for-trading | 129,562 | 119,283 | 129,562 | 119,283 |
| Loss on intangible assets written off | 303 | - | 303 | - |
| Effect of exchange rate variances on investment in subsidiaries | - | - | (30,136) | - |
| Effect of exchange rate variances on property, plant & equipment | (2,024) | (6,060) | (2,012) | (6,362) |
| Effect of exchange rate variances on intangible assets | (553) | (214) | (540) | (391) |
| Effect of exchange rate variances on defined benefit plans | 7,782 | 14,579 | 7,782 | 14,579 |
| Effect of exchange rate variances on subordinated liabilities | 420,000 | 900,000 | 420,000 | 900,000 |
| Net effect of exchange rate variances on net deferred tax liability | (4,980) | (9,701) | (4,979) | (9,701) |
| Net effect of exchange rate variances on income tax liability | 56,937 | 121,793 | 56,937 | 121,793 |
| Grossed up notional tax and withholding tax credits | (1,209,319) | (944,176) | (1,206,343) | (942,527) |
| Total | 2,778,203 | 5,995,738 | 2,612,274 | 5,769,102 |

66. Change in Operating Assets

| <i>As at December 31,</i> | GROUP | | BANK | |
|--|----------------------|---------------------|----------------------|---------------------|
| | 2016 | 2015 | 2016 | 2015 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Net (increase)/decrease in derivative financial instruments | 3,065,340 | (3,658,659) | 3,065,340 | (3,658,659) |
| Net (increase)/decrease in balances with Central Banks | (15,714,241) | (8,587,271) | (15,652,188) | (8,587,271) |
| Net (increase)/decrease in placements with banks | 5,475,040 | (2,685,678) | 5,475,040 | (2,685,678) |
| Net (increase)/decrease in securities purchased under resale agreements | 8,002,100 | 33,196,166 | 8,002,100 | 33,196,166 |
| Net (increase)/decrease in other financial assets held-for-trading | 2,556,114 | (1,460,608) | 2,556,114 | (1,460,608) |
| Net (increase)/decrease in loans and receivables to banks | (23,352) | (50,040) | (23,352) | (50,040) |
| Net (increase)/decrease in loans and receivables to customers | (111,789,686) | (107,491,777) | (109,414,259) | (106,588,618) |
| Net (increase)/decrease in Financial investments – Available-for-sale | 39,672,872 | 400,472 | 39,724,256 | 401,485 |
| Net (increase)/decrease in Financial investments – Held-to-maturity | (63,626,598) | - | (60,981,298) | - |
| Net (increase)/decrease in financial investments – Loans and receivables | 4,815,666 | (4,271,016) | 4,815,666 | (4,271,016) |
| Net (increase)/decrease in other assets | (4,385,542) | (1,536,587) | (4,346,881) | (1,554,799) |
| Total | (131,952,287) | (96,144,998) | (126,779,462) | (95,259,038) |

67. Change in Operating Liabilities

| As at December 31, | GROUP | | BANK | |
|--|--------------------|-------------------|--------------------|-------------------|
| | 2016 | 2015 | 2016 | 2015 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Net increase/(decrease) in due to banks | 39,308,995 | 6,120,371 | 37,289,692 | 5,058,143 |
| Net increase/(decrease) in derivative financial instruments | (375,735) | 697,631 | (375,735) | 697,631 |
| Net increase/(decrease) in securities sold under repurchase agreements | (42,620,742) | (12,141,339) | (42,517,343) | (12,179,687) |
| Net increase/(decrease) in deposits from customers | 119,289,396 | 94,754,629 | 115,461,684 | 94,740,326 |
| Net increase/(decrease) in other borrowings | (715,483) | (1,650,946) | (715,483) | (1,650,946) |
| Net increase/(decrease) in other liabilities | 2,236,019 | (2,163,940) | 2,122,523 | (2,143,433) |
| Net increase/(decrease) in due to subsidiaries | - | - | (6,151) | 6,923 |
| Total | 117,122,450 | 85,616,406 | 111,259,187 | 84,528,957 |

68. Operating Leases

68.1 Operating Lease Commitments (Payables)

A number of branches and office premises occupied by the Group are under operating leases. These leases have an average life of three to six years. Lease agreements include clauses to enable upward revision of the rental payments on a periodic basis to reflect market conditions. There are no restrictions placed upon the Group by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases are as follows:

| As at December 31, | GROUP | | BANK | |
|---------------------------|------------------|------------------|------------------|------------------|
| | 2016 | 2015 | 2016 | 2015 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Less than one year | 731,251 | 740,366 | 707,066 | 736,784 |
| Between one to five years | 1,771,460 | 1,901,675 | 1,762,161 | 1,897,436 |
| Over five years | 941,892 | 848,690 | 927,007 | 848,690 |
| Total | 3,444,603 | 3,490,731 | 3,396,234 | 3,482,910 |

68.2 Operating Lease Commitments (Receivables)

The Group has entered into operating leases to rent its own properties (mainly consisting of areas not currently occupied by the branches). Lease agreements include clauses to enable upward revision of rental income on a periodic basis to reflect market conditions. These leases have an average life of three to five years. There are no restrictions placed upon the Group by entering into these leases.

Future minimum rentals receivable under non-cancellable operating leases are as follows:

| As at December 31, | GROUP | | BANK | |
|---------------------------|---------------|--------------|--------------|--------------|
| | 2016 | 2015 | 2016 | 2015 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Less than one year | 6,042 | 5,190 | 3,218 | 4,290 |
| Between one to five years | 12,167 | 3,320 | 3,469 | 2,825 |
| Over five years | - | - | - | - |
| Total | 18,209 | 8,510 | 6,687 | 7,115 |

69. Financial Risk Review

This note presents information about the Bank's exposure to financial risks and the Bank's management of capital.

| For Information on the Bank's Financial Risk Management Framework | | Page No. |
|---|---|----------|
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Introduction

As a financial intermediary, the Bank is exposed to various types of risks including credit, market, liquidity and operational risks which are inherent in the Bank's activities. Managing these risks is critical for the sustainability of the Bank and plays a pivotal role in all activities of the Bank. Risk Management function strives to identify potential risks in advance, analyse them and take precautionary steps to mitigate the impact of risk whilst optimising risk-adjusted returns within the risk appetite of the Bank.

Risk Management Framework

The overall responsibility and oversight of the Risk Management Framework of the Bank is vested with the Board of Directors (BOD). The Board Integrated Risk Management Committee (BIRMC), a mandatory Subcommittee set up by the Board, in turn is entrusted with the development of the Bank's Risk Management Policies and monitoring of due compliance of same through the Executive Integrated Risk Management Committee (EIRMC).

The Risk Management Policies spell out the risk appetite of the Bank and have incorporated risk exposure limits and controls to monitor adherence to the limits in force. These Policies and systems are reviewed regularly to reflect the changing market conditions and the products and services offered.

The Bank strives to inculcate a Risk Management Culture through continuous training, work ethics and standards.

Refer Note 3 on pages 196 to 199 for more information on the Risk Management Framework of the Bank.

Integrated Risk Management Department (IRMD)

Business Units are the Risk Owners and have the primary responsibility for Risk Management. The IRMD acts as the second line of defence in managing the risk. The IRMD through Chief Risk Officer reports to the BIRMC thus ensuring its independence.

Risk Measurement and Reporting

The Bank uses robust risk measurement techniques based on the type of risk and industry best practices. The Bank also carries out Stress Testing which is a key aspect of the Internal Capital Adequacy Assessment Process (ICAAP) and the Risk Management Framework and provides an insight on the impact of extreme, but plausible scenarios on the Bank's risk profile. The results are reported to the EIRMC and to the BIRMC on a periodic basis.

The Bank establishes policies, limits and thresholds within the risk appetite. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept (risk appetite). The monitoring and control mechanism therefore, is based on risk appetite of the Bank.

69.1 Credit Risk

The financial loss resulting from a borrower or counterparty to a financial instrument failing or delaying to meet its contractual obligations is referred to as credit risk. It arises principally from the loans and receivables to banks and other customers and investments in debt securities. In addition to the credit risk from direct funding exposure i.e., On-Balance Sheet exposure, indirect liabilities such as Letters of Credit, Guarantees etc. also would expose the Bank to credit risk.

The Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector concentration risks) to ensure stringent Credit Risk Management.

69.1.1 Credit Quality Analysis

69.1.1 (a) Maximum Exposure to Credit Risk by Risk Rating

The table below sets out information about the maximum exposure to credit risk (including Off-Balance Sheet exposure) broken down by risk ratings and the related provision for impairment made by the Bank against those assets:

| As at December 31, | Notes | Loans and Receivables to Other Customers | | Loans and Receivables to Banks | | Financial Investments | | Lending Commitments and Contingencies | |
|---|----------|---|-------------|-----------------------------------|----------|-----------------------|-------------|--|-------------|
| | | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| | | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Maximum Exposure to Credit Risk | | | | | | | | | |
| Carrying amount | 31 - 36 | 616,018,228 | 508,115,127 | 624,458 | 601,106 | 277,816,593 | 269,625,007 | - | - |
| Amount committed/contingencies | 59 | - | - | - | - | - | - | 497,235,276 | 519,854,597 |
| At amortised Cost – | | | | | | | | | |
| Loans and receivables | | | | | | | | | |
| Government securities (Risk Free Investments) | | - | - | - | - | 40,076,392 | 44,925,168 | - | - |
| Rating 0-4: Investment grade(*) | | 382,276,912 | 295,536,012 | - | - | 11,747,634 | 12,799,201 | - | - |
| Rating 5-6: Moderate risk | | 222,439,065 | 205,704,910 | 624,458 | 601,106 | - | - | - | - |
| Rating S: High risk | | 1,696,932 | 2,937,274 | - | - | - | - | - | - |
| Rating 7-9: Extreme risk | | 26,977,998 | 21,988,485 | - | - | - | - | - | - |
| Gross carrying amount | | 633,390,907 | 526,166,681 | 624,458 | 601,106 | 51,824,026 | 57,724,369 | - | - |
| Less: Provision for impairment (Individual and Collective) | | 17,372,679 | 18,051,554 | - | - | - | - | - | - |
| Net carrying amount | 32,33,36 | 616,018,228 | 508,115,127 | 624,458 | 601,106 | 51,824,026 | 57,724,369 | - | - |
| Financial investments – | | | | | | | | | |
| Available-for-sale | | | | | | | | | |
| Government securities (Risk Free Investments) | | - | - | - | - | 159,573,316 | 193,938,549 | - | - |
| Rating 0-4: Investment grade | | - | - | - | - | 450,155 | 486,880 | - | - |
| Rating 5-6: Moderate risk | | - | - | - | - | - | 9,818,860 | - | - |
| Rating S: High risk | | - | - | - | - | - | - | - | - |
| Rating 7-9: Extreme risk | | - | - | - | - | - | - | - | - |
| Gross/net carrying amount | 34 | - | - | - | - | 160,023,471 | 204,244,289 | - | - |
| Financial investments – | | | | | | | | | |
| Held-to-maturity | | | | | | | | | |
| Government securities (Risk Free Investments) | | - | - | - | - | 50,980,717 | - | - | - |
| Rating 0-4: Investment grade | | - | - | - | - | - | - | - | - |
| Rating 5-6: Moderate risk | | - | - | - | - | 10,000,581 | - | - | - |
| Rating S : High risk | | - | - | - | - | - | - | - | - |
| Rating 7-9: Extreme risk | | - | - | - | - | - | - | - | - |
| Gross/net carrying amount | 35 | - | - | - | - | 60,981,298 | - | - | - |

| As at December 31, | Notes | Loans and Receivables to Other Customers | | Loans and Receivables to Banks | | Financial Investments | | Lending Commitments and Contingencies | |
|---|-------|--|-------------|--------------------------------|----------|-----------------------|-------------|---------------------------------------|-------------|
| | | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| | | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Other financial instruments – Held-for-trading | | | | | | | | | |
| Government securities (Risk Free Investments) | | - | - | - | - | 3,505,335 | 3,943,697 | - | - |
| Rating 0-4: Investment grade | | - | - | - | - | 293,809 | 326,263 | - | - |
| Rating 5-6: Moderate risk | | - | - | - | - | 1,188,654 | 3,386,389 | - | - |
| Rating S: High risk | | - | - | - | - | - | - | - | - |
| Rating 7-9: Extreme risk | | - | - | - | - | - | - | - | - |
| Gross/net carrying amount | 31 | - | - | - | - | 4,987,798 | 7,656,349 | - | - |
| Total net carrying amount | | 616,018,228 | 508,115,127 | 624,458 | 601,106 | 277,816,593 | 269,625,007 | - | - |
| Off-Balance Sheet(**) | | | | | | | | | |
| Maximum Exposure | | | | | | | | | |
| Lending commitments | | | | | | | | | |
| Grade 0-6: Investment grade to moderate risk | | - | - | - | - | - | - | 131,381,356 | 153,979,986 |
| Contingencies | | | | | | | | | |
| Grade 0-6: Investment grade to moderate risk | | - | - | - | - | - | - | 365,853,920 | 365,874,611 |
| Total exposure | 59 | - | - | - | - | - | - | 497,235,276 | 519,854,597 |

(*) Investment grade also includes Cash, Gold.

(**) Amounts reported above does not include capital commitments disclosed in Note 59 on 'Contingent Liabilities and Commitments' on pages 304 to 306.

69.1.1 (b) Age Analysis by Class of Financial Assets

The maximum exposure to credit risk for class of financial assets by risk rating and by age are given below:

| As at December 31, | Notes | Loans and Receivables to Other Customers | | Loans and Receivables to Banks | | Financial Investments | | Lending Commitments and Contingencies | |
|--|-----------------|--|--------------------|--------------------------------|----------------|-----------------------|--------------------|---------------------------------------|--------------------|
| | | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| | | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Government securities (Risk Free investments) | | - | - | - | - | 254,135,760 | 242,807,414 | - | - |
| Gross carrying amount | | - | - | - | - | 254,135,760 | 242,807,414 | - | - |
| Neither past due nor individually impaired | | | | | | | | | |
| Rating 0-4: Investment grade | | 377,513,301 | 294,042,877 | - | - | 12,491,598 | 13,612,344 | 268,186,647 | 283,307,261 |
| Rating 5-6: Moderate risk | | 218,392,511 | 203,984,694 | 624,458 | 601,106 | 11,189,235 | 13,205,249 | 229,048,629 | 236,547,336 |
| Gross carrying amount | | 595,905,812 | 498,027,571 | 624,458 | 601,106 | 23,680,833 | 26,817,593 | 497,235,276 | 519,854,597 |
| Past due but not individually Impaired | | | | | | | | | |
| Less than 3 months | | 8,484,516 | 5,568,510 | - | - | - | - | - | - |
| 3 to 6 months | | 507,450 | 914,145 | - | - | - | - | - | - |
| 6 to 12 months | | 859,216 | 921,336 | - | - | - | - | - | - |
| 12 to 18 months | | 490,692 | 789,046 | - | - | - | - | - | - |
| More than 18 months | | 5,041,144 | 8,199,444 | - | - | - | - | - | - |
| Gross carrying amount | | 15,383,018 | 16,392,481 | - | - | - | - | - | - |
| Individually impaired | | | | | | | | | |
| Less than 3 months | | 11,145,557 | 4,357,858 | - | - | - | - | - | - |
| 3 to 6 months | | 748,471 | 1,099,777 | - | - | - | - | - | - |
| 6 to 12 months | | 598,082 | 284,986 | - | - | - | - | - | - |
| 12 to 18 months | | 893,546 | 906,849 | - | - | - | - | - | - |
| More than 18 months | | 8,716,421 | 5,097,159 | - | - | - | - | - | - |
| Gross carrying amount | | 22,102,077 | 11,746,629 | - | - | - | - | - | - |
| Total gross carrying amount | | 633,390,907 | 526,166,681 | 624,458 | 601,106 | 277,816,593 | 269,625,007 | 497,235,276 | 519,854,597 |
| Less: Provision for impairment | | | | | | | | | |
| Individual | | 8,453,457 | 5,369,960 | - | - | - | - | - | - |
| Collective | | 8,919,222 | 12,681,594 | - | - | - | - | - | - |
| Total Provision for impairment | | 17,372,679 | 18,051,554 | - | - | - | - | - | - |
| Total net carrying amount | 31-36,59 | 616,018,228 | 508,115,127 | 624,458 | 601,106 | 277,816,593 | 269,625,007 | 497,235,276 | 519,854,597 |

The methodology of the impairment assessment is explained in the Note 18 on pages 220 and 222.

69.1.1 (c) Credit Risk Exposure for Each Internal Credit Rating on Facilities and Probability of Historical Default Rates

Through adoption of a robust risk grading system that falls in line with Basel requirements, the Bank maintains accurate and consistent risk ratings across the credit portfolio in accordance with the established policy framework to ensure the quality of its credit portfolio. The risk grading framework consists of several ratings of risks to represent varying degrees of risks as an indicator for Lending Officers to evaluate the overall risk profile of counterpart and to arrive at an acceptable risk return trade-off. It also provides a tool for the Management to assess the credit exposures across all lines of business, geographic regions and products. The risk gradings of the borrowers are reviewed at least annually or more frequently in a deteriorating risk profile of the counterparties.

The Bank's internal credit rating of the loans and receivable portfolio together with historical default rates and respective gross carrying amounts are given in the table below:

| <i>As at December 31,</i> | | 2016 | | 2015 | |
|---|------|---|--------------------------|---|--------------------------|
| Bank's Internal Credit Rating | Note | Probability of Historical Default Rates | Gross Carrying Amount | Probability of Historical Default Rates | Gross Carrying Amount |
| | | % | Rs. '000 | % | Rs. '000 |
| Gold | | 10.34 | 1,246,374 | 12.13 | 1,879,893 |
| Investment Grade | | | | | |
| Rating – 0 | | 0.21 | 74,103,326 | 0.14 | 57,957,593 |
| Rating – 1 | | 0.17 | 8,137,933 | 0.28 | 5,343,970 |
| Rating – 2 | | 0.22 | 32,231,244 | 0.20 | 25,937,869 |
| Rating – 3 | | 0.42 | 124,005,233 | 0.54 | 96,615,386 |
| Rating – 4 | | 0.60 | 137,789,192 | 0.54 | 106,308,166 |
| Subtotal | | | 377,513,302 | | 294,042,877 |
| Moderate Risk | | | | | |
| Rating – 5 | | 0.75 | 183,723,935 | 0.74 | 172,997,420 |
| Rating – 6 | | 1.31 | 34,668,576 | 1.30 | 30,987,274 |
| Subtotal | | | 218,392,511 | | 203,984,694 |
| Past due but not individually impaired | | | | | |
| High Risk | | | | | |
| Rating – S | | 23.57 | 1,081,476 | 23.29 | 1,807,302 |
| Extreme Risk | | | | | |
| Rating – 7 | | 54.78 | 7,474,654 | 56.39 | 3,246,400 |
| Rating – 8 | | 71.22 | 630,680 | 69.86 | 1,191,771 |
| Rating – 9 | | 100.00 | 6,196,207 | 100.00 | 10,147,008 |
| Subtotal | | | 15,383,017 | | 16,392,481 |
| Impaired | | | | | |
| Individually Impaired(*) | | – | 22,102,077 | – | 11,746,629 |
| Total | 33 | | 633,390,907 | | 526,166,681 |

(*) Probability of historical default rates are not calculated for individually impaired loans and receivables.

69.1.1 (d) Credit Quality by Class of Financial Assets

The table below shows the credit quality by the class of asset for all financial assets exposed to credit risk, based on the Bank's internal credit rating:

| <i>As at December 31, 2016</i> | | | | | | | |
|--|------|--|--------------------|--------------------|--|-----------------------|--------------------|
| | Note | Neither Past Due Nor Individually Impaired | | | Past Due But Not Individually Impaired | Individually Impaired | Total |
| | | Government Guarantee | Investment Grade | Moderate Risk | | | |
| | | Rs. '000 | Rs. '000 | Rs. '000 | | | |
| Cash and cash equivalents | 27 | - | 30,193,589 | - | - | - | 30,193,589 |
| Balances with Central Banks | 28 | 43,873,205 | - | - | - | - | 43,873,205 |
| Placements with banks | 29 | - | 11,718,499 | - | - | - | 11,718,499 |
| Securities purchased under resale agreements | | - | - | - | - | - | - |
| Derivative financial assets | 30 | - | 1,052,829 | - | - | - | 1,052,829 |
| Other financial instruments – held-for-trading | 31 | 3,505,335 | 293,809 | 1,188,654 | - | - | 4,987,798 |
| Loans and receivables to banks | 32 | - | - | 624,458 | - | - | 624,458 |
| Loans and receivables to other customers | 33 | - | 375,317,855 | 216,881,465 | 10,170,288 | 13,648,620 | 616,018,228 |
| Corporate banking | | - | 194,301,767 | 69,668,628 | 6,354,171 | 4,144,273 | 274,468,839 |
| Amortised cost | | - | 195,783,488 | 70,296,607 | 6,850,195 | 7,095,590 | 280,025,880 |
| Less – provision for impairment | | - | 1,481,721 | 627,979 | 496,024 | 2,951,317 | 5,557,041 |
| Personal banking | | - | 181,016,088 | 147,212,837 | 3,816,117 | 9,504,347 | 341,549,389 |
| Amortised cost | | - | 181,729,813 | 148,095,904 | 8,532,823 | 15,006,487 | 353,365,027 |
| Less – provision for impairment | | - | 713,725 | 883,067 | 4,716,706 | 5,502,140 | 11,815,638 |
| Financial investments – Available-for-sale | 34 | 159,573,316 | 450,155 | - | - | - | 160,023,471 |
| Government Securities | | 159,573,316 | - | - | - | - | 159,573,316 |
| Quoted shares | | - | 246,548 | - | - | - | 246,548 |
| Unquoted shares | | - | 47,147 | - | - | - | 47,147 |
| Investment in unit trust | | - | 156,460 | - | - | - | 156,460 |
| Financial investments – Held-to-maturity | 35 | 60,981,298 | - | - | - | - | 60,981,298 |
| Government Securities | | 60,981,298 | - | - | - | - | 60,981,298 |
| Other investments | | - | - | - | - | - | - |
| Financial investments – Loans and receivables | 36 | 40,076,392 | 11,747,634 | - | - | - | 51,824,026 |
| Government Securities | | 40,076,392 | - | - | - | - | 40,076,392 |
| Other investments | | - | 11,747,634 | - | - | - | 11,747,634 |
| Total | | 308,009,546 | 430,774,370 | 218,694,577 | 10,170,288 | 13,648,620 | 981,297,401 |

Definition of 'Past Due' – The Bank considers that any amounts uncollected one day or more beyond their contractual due date.

| <i>As at December 31, 2015</i> | | | | | | | |
|--|------|--|--------------------|--------------------|--|-----------------------|--------------------|
| | Note | Neither Past Due Nor Individually Impaired | | | Past Due But Not Individually Impaired | Individually Impaired | Total |
| | | Government Guarantee | Investment Grade | Moderate Risk | | | |
| | | Rs. '000 | Rs. '000 | Rs. '000 | | | |
| Cash and cash equivalents | 27 | - | 20,043,512 | - | - | - | 20,043,512 |
| Balances with Central Banks | 28 | 28,221,017 | - | - | - | - | 28,221,017 |
| Placements with banks | 29 | - | 17,193,539 | - | - | - | 17,193,539 |
| Securities purchased under resale agreements | | 8,002,100 | - | - | - | - | 8,002,100 |
| Derivative financial assets | 30 | - | 4,118,169 | - | - | - | 4,118,169 |
| Other financial instruments – Held-for-trading | 31 | 3,943,697 | 326,263 | 3,386,389 | - | - | 7,656,349 |
| Loans and receivables to banks | 32 | - | - | 601,106 | - | - | 601,106 |
| Loans and receivables to other customers | 33 | - | 292,140,306 | 202,385,179 | 7,212,973 | 6,376,669 | 508,115,127 |
| Corporate banking | | - | 156,450,856 | 70,818,794 | 2,377,758 | 2,368,228 | 232,015,636 |
| Amortised cost | | - | 157,741,097 | 71,573,763 | 2,743,604 | 5,029,349 | 237,087,813 |
| Less - provision for impairment | | - | 1,290,241 | 754,969 | 365,846 | 2,661,121 | 5,072,177 |
| Personal banking | | - | 135,689,450 | 131,566,385 | 4,835,215 | 4,008,441 | 276,099,491 |
| Amortised cost | | - | 136,301,780 | 132,410,931 | 13,648,878 | 6,717,280 | 289,078,869 |
| Less - provision for impairment | | - | 612,330 | 844,546 | 8,813,663 | 2,708,839 | 12,979,378 |
| Financial investments – Available-for-sale | 34 | 193,938,549 | 486,880 | 9,818,860 | - | - | 204,244,289 |
| Government Securities | | 193,938,549 | - | 9,818,860 | - | - | 203,757,409 |
| Quoted shares | | - | 234,839 | - | - | - | 234,839 |
| Unquoted shares | | - | 46,487 | - | - | - | 46,487 |
| Investment in unit trust | | - | 205,554 | - | - | - | 205,554 |
| Financial investments – Held-to-maturity | 35 | - | - | - | - | - | - |
| Government Securities | | - | - | - | - | - | - |
| Other investments | | - | - | - | - | - | - |
| Financial investments – Loans and receivables | 36 | 44,925,168 | 12,799,201 | - | - | - | 57,724,369 |
| Government Securities | | 44,925,168 | - | - | - | - | 44,925,168 |
| Other investments | | - | 12,799,201 | - | - | - | 12,799,201 |
| Total | | 279,030,531 | 347,107,870 | 216,191,534 | 7,212,973 | 6,376,669 | 855,919,577 |

Definition of 'Past Due' – The Bank considers that any amount uncollected one day or more beyond their contractual due date.

69.1.1 (e) Trading Assets

Held-for-Trading Investments in Debt and Equity Securities

The table below sets out the credit quality of debt and equity securities classified as held-for-trading debt securities which include investments made by the Bank in Government Securities of Sri Lanka and Bangladesh. The analysis of equity securities is based on Fitch Ratings Nomenclature or Equivalent Ratings, where applicable.

| <i>As at December 31,</i> | Note | 2016 Rs. '000 | 2015 Rs. '000 |
|---|------|------------------|------------------|
| Government securities | | | |
| Government securities – Sri Lanka | | | |
| Treasury bills | | 1,761,970 | 1,552,531 |
| Treasury bonds | | 1,743,365 | 2,391,166 |
| Government securities – Bangladesh | | | |
| Treasury bills | | 705,251 | – |
| Treasury bonds | | 483,403 | 3,386,389 |
| Total – Government securities | | 4,693,989 | 7,330,086 |
| Equity securities | | | |
| Rated AAA | | 9,966 | 54,803 |
| Rated AA+ to AA- | | 19 | 17 |
| Rated A+ to A | | 86,970 | 30,380 |
| Rated BBB+ | | – | – |
| Unrated | | 196,854 | 241,063 |
| Total – Equity securities | | 293,809 | 326,263 |
| Total | 31 | 4,987,798 | 7,656,349 |

Credit Exposure Arising from Derivative Transactions

Credit risk arising from derivative financial instruments at any time is limited to those with positive fair values, as reported in the Statement of Financial Position. With gross settled derivatives, the Bank is also exposed to a settlement risk, being the risk that the counterparty failing to deliver the counter value.

The tables below show an analysis of credit exposures arising from derivative financial assets and liabilities:

| As at December 31, 2016 | Derivative Type | | | | | | | |
|--|-----------------|------------|-----------------|------------|-----------------|------------|-----------------|-------------|
| | Forward | | SWAPS | | Spot | | Total | |
| | Notional Amount | Fair Value | Notional Amount | Fair Value | Notional Amount | Fair Value | Notional Amount | Fair Value |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Derivative financial assets (Note 1) | 45,610,942 | 788,808 | 61,841,987 | 261,664 | 2,713,810 | 2,357 | 110,166,739 | 1,052,829 |
| Derivative financial liabilities (Note 2) | 20,808,137 | (849,010) | 96,170,047 | (663,714) | 1,513,965 | (2,311) | 118,492,149 | (1,515,035) |
| Note 1 | | | | | | | | |
| Derivative financial assets by counterparty type | | | | | | | | |
| With Banks | 12,618,500 | 98,281 | 56,881,672 | 247,217 | 2,352,621 | 2,258 | 71,852,793 | 347,756 |
| Other customers | 32,992,442 | 690,527 | 4,960,315 | 14,447 | 361,189 | 99 | 38,313,946 | 705,073 |
| | 45,610,942 | 788,808 | 61,841,987 | 261,664 | 2,713,810 | 2,357 | 110,166,739 | 1,052,829 |
| Note 2 | | | | | | | | |
| Derivative financial liabilities by counterparty type | | | | | | | | |
| With Banks | 8,910,120 | (38,476) | 93,952,339 | (654,910) | 1,513,965 | (2,311) | 104,376,424 | (695,697) |
| Other customers | 11,898,017 | (810,534) | 2,217,708 | (8,804) | - | - | 14,115,725 | (819,338) |
| | 20,808,137 | (849,010) | 96,170,047 | (663,714) | 1,513,965 | (2,311) | 118,492,149 | (1,515,035) |

| As at December 31, 2015 | Derivative Type | | | | | | | |
|--|-----------------|-------------|-----------------|------------|-----------------|------------|-----------------|-------------|
| | Forward | | SWAPS | | Spot | | Total | |
| | Notional Amount | Fair Value | Notional Amount | Fair Value | Notional Amount | Fair Value | Notional Amount | Fair Value |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Derivative financial assets (Note 1) | 33,615,548 | 786,794 | 119,436,202 | 3,328,679 | 4,537,226 | 2,696 | 157,588,976 | 4,118,169 |
| Derivative financial liabilities (Note 2) | 37,226,463 | (1,098,002) | 49,029,977 | (791,199) | 2,505,341 | (1,569) | 88,761,781 | (1,890,770) |
| Note 1 | | | | | | | | |
| Derivative financial assets by counterparty type | | | | | | | | |
| With Banks | 7,233,582 | 108,548 | 119,349,712 | 3,328,679 | 4,150,359 | 1,711 | 130,733,653 | 3,438,938 |
| Other customers | 26,381,966 | 678,246 | 86,490 | – | 386,867 | 985 | 26,855,323 | 679,231 |
| | 33,615,548 | 786,794 | 119,436,202 | 3,328,679 | 4,537,226 | 2,696 | 157,588,976 | 4,118,169 |
| Note 2 | | | | | | | | |
| Derivative financial liabilities by counterparty type | | | | | | | | |
| With Banks | 31,120,972 | (851,679) | 49,029,977 | (787,433) | 2,412,484 | (1,513) | 82,563,433 | (1,640,625) |
| Other customers | 6,105,491 | (246,323) | – | (3,766) | 92,857 | (56) | 6,198,348 | (250,145) |
| | 37,226,463 | (1,098,002) | 49,029,977 | (791,199) | 2,505,341 | (1,569) | 88,761,781 | (1,890,770) |

69.1.2 Impaired Loans and Receivables and Investment Debt Securities

Reconciliation of changes in the carrying amount of individually impaired loans and receivables is as detailed below:

| As at December 31, | 2016 | 2015 |
|--|-------------------|------------------|
| | Rs. '000 | Rs. '000 |
| Impaired loans and receivables to other customers as at January 01, | 6,376,669 | 2,214,099 |
| Newly classified as impaired loans and receivables during the year | 9,802,478 | 5,282,954 |
| Net change in already impaired loans and receivables during the year | (281,599) | (608,652) |
| Net payment, write-off and recoveries and other movement during the year | (2,248,928) | (511,732) |
| Impaired loans and receivables to customers as at December 31, | 13,648,620 | 6,376,669 |

No impairment provision has been made for investment in debt securities as at December 31, 2016 (2015 – Nil).

For methodology of the impairment assessment, refer Note 18 on 'Impairment of Financial Assets' which are carried at amortised cost on pages 220 and 222.

For details of provision for impairment for loans and receivables to banks and for loans and receivable to other customers, refer Notes 32 and 33 on pages 244 to 251.

Set out below is an analysis of the gross and net carrying amounts of individually impaired loans and receivables by risk rating.

| As at December 31, | 2016 | | 2015 | |
|------------------------------|-----------------------------------|-------------------|-----------------------------------|------------------|
| | Loans and Receivable to Customers | | Loans and Receivable to Customers | |
| | Gross | Net | Gross | Net |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Rating 0-4: Investment grade | 4,766,976 | 4,607,959 | 1,493,134 | 1,418,234 |
| Rating 5-6: Moderate risk | 4,046,553 | 3,912,239 | 1,720,216 | 1,620,746 |
| Rating S: High risk | 615,456 | 402,464 | 1,129,972 | 807,046 |
| Rating 7-9: Extreme risk | 12,673,092 | 4,725,958 | 7,403,307 | 2,530,643 |
| Total | 22,102,077 | 13,648,620 | 11,746,629 | 6,376,669 |

69.1.3 Collateral Held

Loan to Value Ratio of Residential Mortgage Lending

The table below stratifies mortgaged credit exposures to retail customers by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan to the value of the collateral, which is used for the computation of Capital Adequacy ratios. The value of the collateral for residential mortgage loans is based on the forced sale value determined by professional valuers.

| As at December 31, | 2016 | | 2015 | |
|--------------------|-------------------|-----------------|-------------------|-----------------|
| | Rs. '000 | Composition (%) | Rs. '000 | Composition (%) |
| LTV ratio | | | | |
| Less than 50% | 8,406,374 | 26.14 | 4,706,206 | 21.68 |
| 51 - 70% | 7,027,873 | 21.86 | 5,443,350 | 25.08 |
| 71 - 90% | 8,262,704 | 25.70 | 6,693,133 | 30.84 |
| 91 - 100% | 1,352,172 | 4.20 | 958,034 | 4.41 |
| More than 100%* | 7,105,439 | 22.10 | 3,903,690 | 17.99 |
| | 32,154,562 | 100.00 | 21,704,413 | 100.00 |

* LTV ratio of more than 100% has arisen due to subsequent disbursements made to the borrower on the initial valuation of the property (the denominator).

Assets Obtained by taking the Possession of Collaterals

Repossession of collaterals is resorted to in extreme situations where action is necessitated to recover the dues. The repossessed assets are disposed, in an orderly and transparent manner and the proceeds are used to reduce or recover the outstanding claims. The amount recovered in excess of the dues is refunded to the customer.

69.1.4 Concentrations of Credit Risk

By setting various concentration limits under different criteria within the established risk appetite framework (i.e., single borrower/group, industry sectors, product, counterparty and country etc.), the Bank ensures that an acceptable level of risk diversification is maintained on an ongoing basis. These limits are continuously monitored and periodically reviewed by the Credit Policy Committee, the Executive Integrated Risk Management Committee and the Board Integrated Risk Management Committee to capture the developments in market, political and economic environment both locally and globally to strengthen the dynamic portfolio management practices and to provide an early warning on possible credit concentrations.

The maximum exposure to credit risk in respect of each item of financial assets in the Statement of Financial Position as at December 31, as per industry sector and by geographical region of financial assets is given below:

69.1.4 (a) Industry-wise Distribution

| As at December 31, 2016 | Agriculture and Fishing | Manu- facturing | Tourism | Transport | Construction | Traders | New Economy | Financial and Business Services | Government | Infrastructure | Other Services | Other Customers | Total |
|--|-------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|---------------------------------|--------------------|-------------------|-------------------|-------------------|--------------------|
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Financial Assets | | | | | | | | | | | | | |
| Cash and cash equivalents | - | - | - | - | - | - | - | 30,193,589 | - | - | - | - | 30,193,589 |
| Balances with Central Banks | - | - | - | - | - | - | - | - | 43,873,205 | - | - | - | 43,873,205 |
| Placements with banks | - | - | - | - | - | - | - | 11,718,499 | - | - | - | - | 11,718,499 |
| Securities purchased under resale agreements | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Derivative financial assets | - | 86,050 | - | - | - | 180,305 | - | 757,311 | - | - | 29,163 | - | 1,052,829 |
| Other financial instruments – Held-for-trading | - | 115,386 | 8,269 | - | 8,487 | 30,707 | 28,912 | 77,933 | 4,693,989 | 24,115 | - | - | 4,987,798 |
| Government Securities | - | - | - | - | - | - | - | - | 4,693,989 | - | - | - | 4,693,989 |
| Quoted equity securities | - | 115,386 | 8,269 | - | 8,487 | 30,707 | 28,912 | 77,933 | - | 24,115 | - | - | 293,809 |
| Loans and receivables to banks | - | - | - | - | - | - | - | 624,458 | - | - | - | - | 624,458 |
| Loans and receivables to other customers | 61,601,062 | 89,467,955 | 43,784,446 | 14,493,562 | 78,831,928 | 90,502,006 | 14,664,164 | 49,133,741 | - | 17,805,741 | 56,263,732 | 99,469,891 | 616,018,228 |
| Loans & advances* | 61,601,062 | 89,467,955 | 43,784,446 | 14,493,562 | 78,831,928 | 90,502,006 | 14,664,164 | 49,133,741 | - | 17,805,741 | 56,263,732 | 99,469,891 | 616,018,228 |
| Financial investments – Available-for-sale | - | 14,427 | - | - | - | - | - | 435,728 | 159,573,316 | - | - | - | 160,023,471 |
| Government Securities | - | - | - | - | - | - | - | - | 159,573,316 | - | - | - | 159,573,316 |
| Equity securities – Quoted shares | - | 14,427 | - | - | - | - | - | 232,121 | - | - | - | - | 246,548 |
| Equity securities – Unquoted shares | - | - | - | - | - | - | - | 47,147 | - | - | - | - | 47,147 |
| Investment in Unit trusts | - | - | - | - | - | - | - | 156,460 | - | - | - | - | 156,460 |
| Financial investments – Held-to-maturity | - | - | - | - | - | - | - | - | 60,981,298 | - | - | - | 60,981,298 |
| Government Securities | - | - | - | - | - | - | - | - | 60,981,298 | - | - | - | 60,981,298 |
| Financial investments – Loans and receivable | - | 2,584,717 | - | - | - | 998,155 | - | 7,927,595 | 40,076,392 | - | 237,167 | - | 51,824,026 |
| Government Securities | - | - | - | - | - | - | - | - | 40,076,392 | - | - | - | 40,076,392 |
| Investment in Unit trusts | - | 2,584,717 | - | - | - | 998,155 | - | 7,927,595 | - | - | 237,167 | - | 11,747,634 |
| Total | 61,601,062 | 92,268,535 | 43,792,715 | 14,493,562 | 78,840,415 | 91,711,173 | 14,693,076 | 100,868,854 | 309,198,200 | 17,829,856 | 56,530,062 | 99,469,891 | 981,297,401 |

(*) Loans and advances referred to above do not agree with the Note 33.1 (c) on page 247 due to impairment provision.

| As at December 31, 2015 | Agriculture and Fishing | Manufacturing | Tourism | Transport | Construction | Traders | New Economy | Financial and Business Services | Government | Infrastructure | Other Services | Other Customers | Total |
|--|-------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|--|--------------------|-------------------|-------------------|--------------------|--------------------|
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Financial Assets | | | | | | | | | | | | | |
| Cash and cash equivalents | - | - | - | - | - | - | - | 20,043,512 | - | - | - | - | 20,043,512 |
| Balances with Central Banks | - | - | - | - | - | - | - | - | 28,221,017 | - | - | - | 28,221,017 |
| Placements with banks | - | - | - | - | - | - | - | 17,193,539 | - | - | - | - | 17,193,539 |
| Securities purchased under resale agreements | - | - | - | - | - | - | - | - | 8,002,100 | - | - | - | 8,002,100 |
| Derivative financial assets | - | 166,252 | 6,600 | 8,353 | 262 | 317,574 | - | 3,602,206 | - | - | 16,422 | 500 | 4,118,169 |
| Other financial instruments – Held-for-trading | - | 155,422 | 9,495 | - | 15,599 | 35,019 | 30,516 | 52,106 | 7,330,086 | 28,106 | - | - | 7,656,349 |
| Government Securities | - | - | - | - | - | - | - | - | 7,330,086 | - | - | - | 7,330,086 |
| Quoted securities – Quoted shares | - | 155,422 | 9,495 | - | 15,599 | 35,019 | 30,516 | 52,106 | - | 28,106 | - | - | 326,263 |
| Loans and receivables to banks | - | - | - | - | - | - | - | 601,106 | - | - | - | - | 601,106 |
| Loans and receivables to other customers | 43,880,354 | 70,756,644 | 31,704,922 | 16,229,559 | 59,068,173 | 74,515,538 | 13,733,055 | 43,678,286 | - | 18,958,293 | 49,292,548 | 86,297,755 | 508,115,127 |
| Loans & advances* | 43,880,354 | 70,756,644 | 31,704,922 | 16,229,559 | 59,068,173 | 74,515,538 | 13,733,055 | 43,678,286 | - | 18,958,293 | 49,292,548 | 86,297,755 | 508,115,127 |
| Financial investments – Available-for-sale | - | 12,427 | - | - | - | - | - | 474,453 | 203,757,409 | - | - | - | 204,244,289 |
| Government Securities | - | - | - | - | - | - | - | - | 203,757,409 | - | - | - | 203,757,409 |
| Equity securities – Quoted shares | - | 12,427 | - | - | - | - | - | 222,412 | - | - | - | - | 234,839 |
| Equity securities – Unquoted shares | - | - | - | - | - | - | - | 46,487 | - | - | - | - | 46,487 |
| Investment in Unit trust | - | - | - | - | - | - | - | 205,554 | - | - | - | - | 205,554 |
| Financial investments – Held-to-maturity | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Government Securities | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Financial investments – Loans and receivables | - | 2,875,163 | - | - | - | 1,083,961 | - | 8,602,910 | 44,925,168 | - | 237,167 | - | 57,724,369 |
| Government Securities | - | - | - | - | - | - | - | - | 44,925,168 | - | - | - | 44,925,168 |
| Investment in Unit trusts | - | 2,875,163 | - | - | - | 1,083,961 | - | 8,602,910 | - | - | 237,167 | - | 12,799,201 |
| Total | 43,880,354 | 73,965,908 | 31,721,017 | 16,237,912 | 59,084,034 | 75,952,092 | 13,763,571 | 94,248,118 | 292,235,780 | 18,986,399 | 49,546,137 | 86,298,255 | 855,919,577 |

(*) Loans and advances referred to above do not agree with the Note 33.1 (c) on page 247 due to impairment provision.

69.1.4 (b) Geographical Distribution of Loans and Receivable Portfolio

The Western Province has recorded a higher percentage of lending based on geographical distribution of the Bank's lending portfolio. It has accounted for 76% (approximately) of total advances portfolio of the Bank (excluding Bangladesh operations) as at December 31, 2016. Although, Western Province is attracted with highest credit concentration, we believe that a sizable portion of these lending has been utilised to facilitate industries scattered around the country. For example, most of the large corporates which have island-wide operations are being accommodated by the Branches and Corporate Banking Division situated in the Western Province thereby reflecting a fairly diversified geographical concentration contrary to the figures given below:

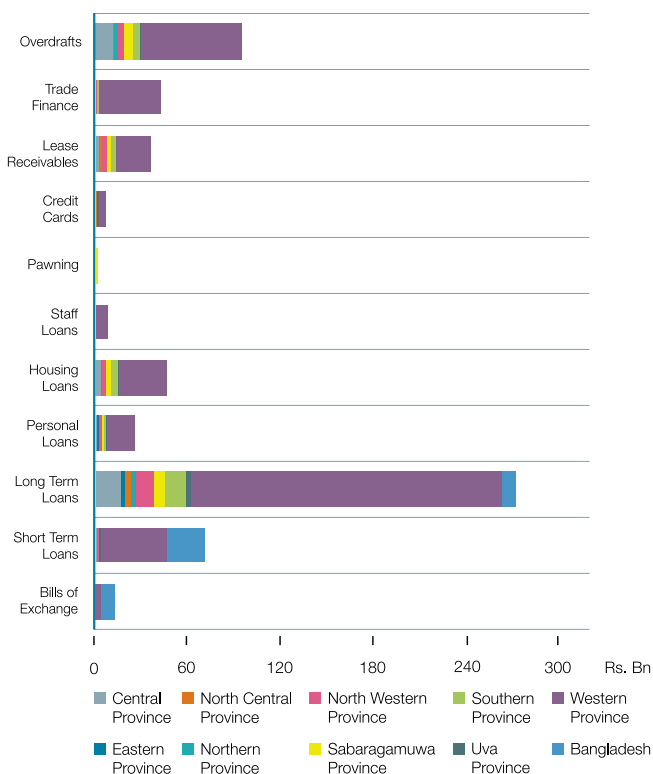
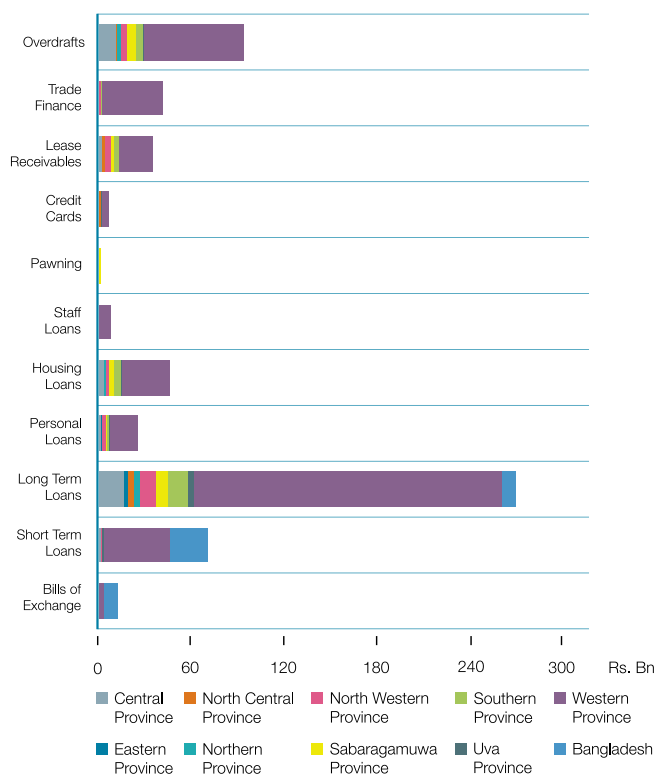
As at December 31, 2016

| Country/Province | Loans and Receivables by Product | | | | | | | | | | | |
|-------------------|----------------------------------|-------------------|-------------------|------------------|------------------|------------------|-------------------|-------------------|--------------------|-------------------|-------------------|--------------------|
| | Overdrafts | Trade Finance | Lease Receivables | Credit Cards | Pawning | Staff Loans | Housing Loans | Personal Loans | Long-Term Loans | Short-Term Loans | Bills of Exchange | Total |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Sri Lanka | | | | | | | | | | | | |
| Central | 10,661,557 | 178,668 | 1,942,902 | 323,715 | 52,966 | - | 2,787,403 | 1,374,071 | 16,327,523 | 953,154 | 30,441 | 34,632,400 |
| Eastern | 832,420 | 91,427 | 428,517 | 69,867 | 13,091 | - | 286,271 | 407,103 | 1,933,866 | 34,492 | - | 4,097,054 |
| North Central | 946,600 | 104,482 | 1,534,704 | 79,938 | 7,219 | - | 423,027 | 293,058 | 4,584,201 | 201,547 | 4,433 | 8,179,209 |
| Northern | 2,004,596 | 148 | 792,854 | 90,711 | 352,881 | - | 619,791 | 614,333 | 3,070,477 | 40,954 | - | 7,586,745 |
| North Western | 4,761,332 | 522,114 | 2,633,365 | 270,788 | 121,944 | - | 2,982,527 | 1,483,099 | 11,563,070 | 714,417 | 13,287 | 25,065,943 |
| Sabaragamuwa | 4,571,645 | 289,939 | 2,334,374 | 165,686 | 53,744 | - | 2,430,909 | 865,355 | 7,917,406 | 427,456 | 3,025 | 19,059,539 |
| Southern | 5,137,398 | 1,380,610 | 3,022,169 | 329,615 | 83,428 | - | 4,472,432 | 1,803,027 | 12,331,936 | 327,570 | 976 | 28,889,161 |
| Uva | 1,226,155 | 31,070 | 963,565 | 92,241 | 17,990 | - | 1,600,487 | 551,923 | 3,505,996 | 220,512 | 1,248 | 8,211,187 |
| Western | 64,168,727 | 38,940,278 | 21,660,085 | 4,646,051 | 532,526 | 7,144,946 | 30,661,911 | 17,701,287 | 201,515,731 | 43,616,020 | 3,571,804 | 434,159,366 |
| Bangladesh | | | | | | | | | | | | |
| Bangladesh | 3,793,007 | 704,416 | 177,863 | 68,234 | - | 106,066 | 221,024 | 276,508 | 8,720,126 | 23,435,538 | 8,634,842 | 46,137,624 |
| Total | 98,103,437 | 42,243,152 | 35,490,398 | 6,136,846 | 1,235,789 | 7,251,012 | 46,485,782 | 25,369,764 | 271,470,332 | 69,971,660 | 12,260,056 | 616,018,228 |

As at December 31, 2015

| Country/Province | Loans and Receivables by Product | | | | | | | | | | | |
|-------------------|----------------------------------|-------------------|-------------------|------------------|------------------|------------------|-------------------|-------------------|--------------------|-------------------|-------------------|--------------------|
| | Overdrafts | Trade Finance | Lease Receivables | Credit Cards | Pawning | Staff Loans | Housing Loans | Personal Loans | Long-Term Loans | Short-Term Loans | Bills of Exchange | Total |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Sri Lanka | | | | | | | | | | | | |
| Central | 8,554,213 | 180,407 | 2,066,547 | 256,801 | 103,425 | - | 2,480,416 | 1,438,608 | 12,100,975 | 1,005,681 | 50,194 | 28,237,267 |
| Eastern | 671,967 | 27,151 | 479,533 | 59,211 | 35,273 | - | 228,346 | 435,810 | 1,490,021 | 28,071 | 1,599 | 3,456,982 |
| North Central | 691,180 | 71,533 | 1,384,839 | 68,702 | 8,779 | - | 355,277 | 281,563 | 2,948,036 | 199,250 | 2,901 | 6,012,060 |
| Northern | 1,709,859 | 47,798 | 735,285 | 73,501 | 486,231 | - | 536,945 | 557,278 | 2,504,367 | 29,811 | 967 | 6,682,042 |
| North Western | 3,531,249 | 406,243 | 2,579,974 | 220,765 | 192,368 | - | 2,756,994 | 1,414,967 | 9,546,347 | 558,536 | 3,212 | 21,210,655 |
| Sabaragamuwa | 3,222,608 | 139,125 | 1,912,235 | 121,407 | 78,159 | - | 1,961,883 | 882,740 | 5,437,548 | 255,548 | 8,833 | 14,020,086 |
| Southern | 4,071,013 | 1,328,383 | 3,062,705 | 238,144 | 126,180 | - | 3,961,944 | 1,958,579 | 10,612,183 | 213,666 | 21,603 | 25,594,400 |
| Uva | 828,363 | 2,409 | 998,925 | 75,521 | 31,476 | - | 1,359,779 | 481,967 | 3,049,962 | 145,196 | 7 | 6,973,605 |
| Western | 51,816,858 | 41,965,436 | 20,425,439 | 2,868,609 | 803,814 | 5,999,407 | 25,570,432 | 17,918,380 | 165,670,040 | 19,425,636 | 2,838,338 | 355,302,389 |
| Bangladesh | | | | | | | | | | | | |
| Bangladesh | 3,943,380 | 911,569 | 176,685 | 57,608 | - | 100,426 | 170,182 | 279,043 | 5,861,989 | 20,825,415 | 8,299,344 | 40,625,641 |
| Total | 79,040,690 | 45,080,054 | 33,822,167 | 4,040,269 | 1,865,705 | 6,099,833 | 39,382,198 | 25,648,935 | 219,221,468 | 42,686,810 | 11,226,998 | 508,115,127 |

Please refer Note 33 on page 245 for the Gross carrying amount of the Loans and Advances.

Geographical Distribution of Loans and Receivables for the year 2016

Geographical Distribution of Loans and Receivables for the year 2015


69.1.5 Exposures to Unrated Countries

This note summarises the Bank's On-Balance Sheet and Off-Balance Sheet exposure to countries which are not rated by an established rating company.

| <i>As at December 31,</i> | 2016 | 2015 |
|--|----------------|-------------------|
| | Rs. '000 | Rs. '000 |
| On-Balance Sheet Exposures | | |
| Loans and receivables to customers | | |
| At net carrying amount | 253,978 | 12,565,857 |
| Gross carrying value | 254,534 | 14,177,263 |
| Less – Provision for impairment | 556 | 1,611,406 |
| At fair value net of provision for impairment (*) | 253,978 | 12,565,857 |
| Fair value before impairment | 254,534 | 14,177,263 |
| Less – Provision for impairment | 556 | 1,611,406 |
| Off-Balance Sheet Exposures | | |
| Loan commitments and contingencies | – | 9,301,980 |
| Contingencies | – | 47,419 |
| Loan commitments | – | 9,254,561 |
| Total On-Balance Sheet and Off-Balance Sheet exposure | 253,978 | 21,867,837 |

(*) There is no difference between the net carrying value and the fair value, as all facilities have been granted under floating interest rates.

69.2 Liquidity Risk

Liquidity risk is the Bank’s inability to meet On or Off-Balance Sheet contractual and contingent financial obligations, as they fall due without incurring unacceptable losses. The principal objective in liquidity risk management is to assess the need for funds to meet such obligations and to ensure the availability of adequate funding to fulfil those needs at the appropriate time, under both normal and stressed conditions.

Therefore, the Bank continuously analyses and monitors its liquidity profile, maintains adequate levels of high quality liquid assets, ensures access to diverse funding sources and has contingency funding agreements with peer banks to meet any unforeseen liquidity requirements. Exposures and ratios against tolerance limits as well as stressed scenarios are regularly monitored in order to identify the Bank’s liquidity position and potential funding requirements.

Assets and Liability Management Committee (ALCO)

ALCO chaired by the Managing Director, has representatives from Treasury, Corporate Banking, Personal Banking, Risk and Finance Departments. The Committee meets fortnightly or more frequently to monitor and manage the assets and liabilities of the Bank and also the overall liquidity position to keep the Bank’s liquidity at healthy levels, whilst satisfying the regulatory requirements.

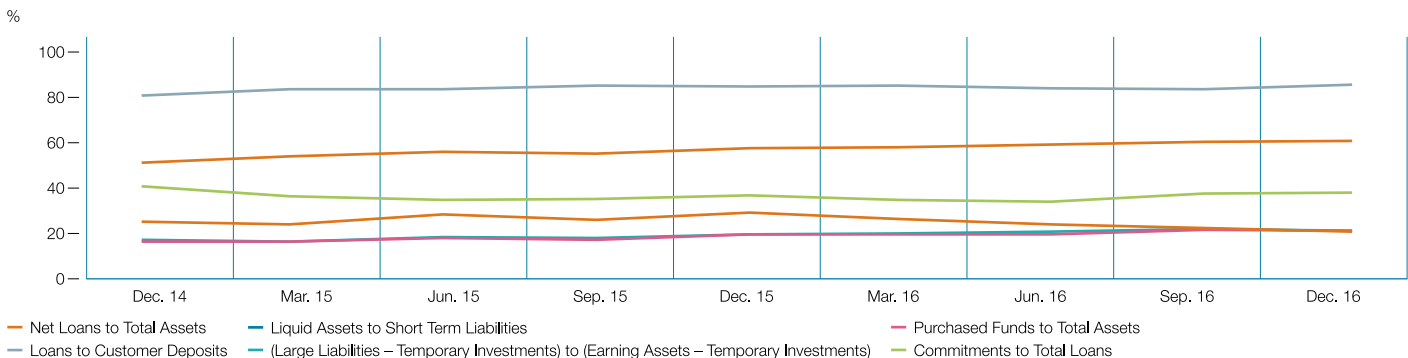
69.2.1 Exposure to Liquidity Risk

The key measure used by the Bank for managing liquidity risk is the ratio of liquid assets to total liabilities excluding shareholders’ funds. For this purpose, ‘liquid assets’ include cash and cash equivalents, placements with banks and Government Securities (net). Details of the reported ratio of liquid assets to external liabilities of the Domestic Banking Unit (DBU) and the Off-shore Banking Centre (OBC) as at the Reporting dates are as follows:

| | DBU | | OBC | |
|-------------------------------|-----------|-----------|-----------|-----------|
| | 2016 % | 2015 % | 2016 % | 2015 % |
| As at December 31, | 27.19 | 26.24 | 30.19 | 49.13 |
| Average for the period | 25.63 | 28.50 | 35.78 | 43.90 |
| Maximum for the period | 27.19 | 34.29 | 47.13 | 51.20 |
| Minimum for the period | 23.88 | 24.99 | 28.84 | 32.05 |
| Statutory minimum requirement | 20.00 | 20.00 | 20.00 | 20.00 |

The graph below depicts the trends in liquidity ratios of the Bank calculated on a quarterly basis during the period from December 2014 to December 2016:

Liquidity Ratios



69.2.2 Maturity Analysis of Financial Assets and Financial Liabilities**69.2.2 (a) Remaining Contractual Period to Maturity – Bank**

(i) Remaining contractual period to maturity of the assets employed by the Bank as at December 31, is detailed below:

| <i>As at December 31,</i> | Up to 3 Months Rs. '000 | 3 to 12 Months Rs. '000 | 1 to 3 Years Rs. '000 | 3 to 5 Years Rs. '000 | More than 5 Years Rs. '000 | Total as at 31.12.2016 Rs. '000 | Total as at 31.12.2015 Rs. '000 |
|---|-------------------------------|-------------------------------|-----------------------------|-----------------------------|----------------------------------|---------------------------------------|---------------------------------------|
| Interest Earning Assets | | | | | | | |
| Financial Assets | | | | | | | |
| Cash and cash equivalents | 7,930,050 | – | – | – | – | 7,930,050 | 1,652,959 |
| Balances with Central Banks | 343,205 | 155,411 | – | – | – | 498,616 | 5,706,807 |
| Placements with banks | 11,718,499 | – | – | – | – | 11,718,499 | 17,193,539 |
| Securities purchased under resale agreements | – | – | – | – | – | – | 8,002,100 |
| Derivative financial assets | – | – | – | – | – | – | – |
| Other financial instruments – Held-for-trading | 4,693,989 | – | – | – | – | 4,693,989 | 7,330,086 |
| Loans and receivables to banks | – | – | – | – | – | – | – |
| Loans and receivables to other customers | 233,368,248 | 110,552,091 | 147,844,211 | 77,799,420 | 46,454,258 | 616,018,228 | 508,115,127 |
| Financial investments – Available-for-sale | 4,302,174 | 41,490,429 | 90,256,125 | 23,524,588 | – | 159,573,316 | 203,969,861 |
| Financial investments – Held-to-maturity | 2,828,892 | 1,426,880 | 16,573,313 | 7,052,121 | 33,100,092 | 60,981,298 | – |
| Financial investments – Loans and receivables | 11,083,470 | 20,931,204 | 14,674,102 | 5,135,250 | – | 51,824,026 | 57,724,369 |
| Total interest earning assets as at 31.12.2016 | 276,268,527 | 174,556,015 | 269,347,751 | 113,511,379 | 79,554,350 | 913,238,022 | |
| Total interest earning assets as at 31.12.2015 | 235,989,646 | 126,529,700 | 238,598,065 | 118,504,773 | 90,072,664 | | 809,694,848 |

| <i>As at December 31,</i> | Up to 3 Months Rs. '000 | 3 to 12 Months Rs. '000 | 1 to 3 Years Rs. '000 | 3 to 5 Years Rs. '000 | More than 5 Years Rs. '000 | Total as at 31.12.2016 Rs. '000 | Total as at 31.12.2015 Rs. '000 |
|---|-------------------------------|-------------------------------|-----------------------------|-----------------------------|----------------------------------|---------------------------------------|---------------------------------------|
| Non-Interest Earning Assets | | | | | | | |
| Financial Assets | | | | | | | |
| Cash and cash equivalents | 22,263,539 | – | – | – | – | 22,263,539 | 18,390,553 |
| Balances with Central Banks | 27,356,043 | 13,558,656 | 858,703 | 809,680 | 791,507 | 43,374,589 | 22,514,210 |
| Placements with banks | – | – | – | – | – | – | – |
| Securities purchased under resale agreements | – | – | – | – | – | – | – |
| Derivative financial assets | 393,762 | 508,226 | 150,841 | – | – | 1,052,829 | 4,118,169 |
| Other financial instruments – Held-for-trading | 293,809 | – | – | – | – | 293,809 | 326,263 |
| Loans and receivables to banks | – | – | 624,458 | – | – | 624,458 | 601,106 |
| Loans and receivables to other customers | – | – | – | – | – | – | – |
| Financial investments – Available-for-sale | 156,460 | – | – | 17,954 | 275,741 | 450,155 | 274,428 |
| Financial investments – Held-to-maturity | – | – | – | – | – | – | – |
| Financial investments – Loans and receivables | – | – | – | – | – | – | – |
| Non-Financial Assets | | | | | | | |
| Investments in subsidiaries | – | – | – | – | 2,435,392 | 2,435,392 | 1,237,146 |
| Investments in associates | – | – | – | – | 44,331 | 44,331 | 44,331 |
| Property, plant & equipment | – | – | – | – | 10,307,825 | 10,307,825 | 9,968,985 |
| Intangible assets | – | – | – | – | 640,645 | 640,645 | 465,960 |
| Leasehold property | – | – | – | – | 73,536 | 73,536 | 74,478 |
| Deferred tax assets | (198,561) | 360,404 | 1,119,681 | (273,441) | (44,148) | 963,935 | – |
| Other assets | 11,978,906 | 189,154 | 1,072,981 | 437,781 | 2,759,344 | 16,438,166 | 12,094,591 |
| Total non-interest earning assets as at 31.12.2016 | 62,243,958 | 14,616,440 | 3,826,664 | 991,974 | 17,284,173 | 98,963,209 | – |
| Total non-interest earning assets as at 31.12.2015 | 44,874,588 | 7,583,819 | 2,176,751 | 789,092 | 14,685,970 | – | 70,110,220 |
| Total assets – as at 31.12.2016 | 338,512,485 | 189,172,455 | 273,174,415 | 114,503,353 | 96,838,523 | 1,012,201,231 | – |
| Total assets – as at 31.12.2015 | 280,864,234 | 134,113,519 | 240,774,816 | 119,293,865 | 104,758,634 | – | 879,805,068 |
| Percentage – as at 31.12.2016 (*) | 33.44 | 18.69 | 26.99 | 11.31 | 9.57 | 100.00 | – |
| Percentage – as at 31.12.2015 (*) | 31.92 | 15.24 | 27.37 | 13.56 | 11.91 | – | 100.00 |

(*) Total assets of each maturity bucket as a percentage of total assets employed by the Bank.

(ii) Remaining contractual period to maturity of the liabilities and shareholders' funds employed by the Bank as at the date of Statement of Financial Position is detailed below:

| <i>As at December 31,</i> | Up to 3 Months Rs. '000 | 3 to 12 Months Rs. '000 | 1 to 3 Years Rs. '000 | 3 to 5 Years Rs. '000 | More than 5 Years Rs. '000 | Total as at 31.12.2016 Rs. '000 | Total as at 31.12.2015 Rs. '000 |
|--|-------------------------------|-------------------------------|-----------------------------|-----------------------------|----------------------------------|---------------------------------------|---------------------------------------|
| Interest-Bearing Liabilities: | | | | | | | |
| Financial Liabilities | | | | | | | |
| Due to banks | 42,514,223 | 9,029,165 | 11,980,000 | - | - | 63,523,388 | 26,489,357 |
| Derivative financial liabilities | - | - | - | - | - | - | - |
| Securities sold under repurchase agreements | 54,874,855 | 14,981,595 | 11,019 | - | - | 69,867,469 | 112,384,812 |
| Other financial liabilities – Held-for-trading | - | - | - | - | - | - | - |
| Due to other customers/ deposits from customers | 406,514,453 | 236,842,993 | 16,790,103 | 11,505,418 | 11,916,085 | 683,569,052 | 571,164,329 |
| Other borrowings | 614,168 | 1,934,456 | 2,881,210 | 777,775 | 3,062,545 | 9,270,154 | 9,985,637 |
| Subordinated liabilities | 207,796 | 311,731 | - | 9,500,724 | 14,829,288 | 24,849,539 | 11,973,272 |
| Total interest-bearing liabilities as at 31.12.2016 | 504,725,495 | 263,099,940 | 31,662,332 | 21,783,917 | 29,807,918 | 851,079,602 | |
| Total interest-bearing liabilities as at 31.12.2015 | 477,087,275 | 202,263,106 | 18,517,266 | 9,215,076 | 24,914,684 | | 731,997,407 |
| Non-Interest Bearing Liabilities: | | | | | | | |
| Financial Liabilities | | | | | | | |
| Due to banks | 4,085,423 | - | - | - | - | 4,085,423 | 3,829,762 |
| Derivative financial liabilities | 748,553 | 534,112 | 232,370 | - | - | 1,515,035 | 1,890,770 |
| Securities sold under repurchase agreements | - | - | - | - | - | - | - |
| Other financial liabilities – Held-for-trading | - | - | - | - | - | - | - |
| Due to other customers/deposits from customers | 55,994,442 | - | - | - | - | 55,994,442 | 52,937,481 |
| Other borrowings | - | - | - | - | - | - | - |
| Subordinated liabilities | - | - | - | - | - | - | - |

| <i>As at December 31,</i> | Up to 3 Months Rs. '000 | 3 to 12 Months Rs. '000 | 1 to 3 Years Rs. '000 | 3 to 5 Years Rs. '000 | More than 5 Years Rs. '000 | Total as at 31.12.2016 Rs. '000 | Total as at 31.12.2015 Rs. '000 |
|--|-------------------------------|-------------------------------|-----------------------------|-----------------------------|----------------------------------|---------------------------------------|---------------------------------------|
| Non-Financial Liabilities | | | | | | | |
| Current tax liabilities | 1,076,904 | 2,363,832 | - | - | - | 3,440,736 | 3,001,984 |
| Deferred tax | - | - | - | - | - | - | 230,615 |
| Other provisions | - | - | 1,874 | - | - | 1,874 | 1,874 |
| Other liabilities | 14,770,745 | 160,651 | 1,294,868 | 309,278 | 1,174,852 | 17,710,394 | 15,548,159 |
| Due to subsidiaries | 20,061 | - | - | - | - | 20,061 | 26,212 |
| Equity | | | | | | | |
| Stated capital | - | - | - | - | 24,978,003 | 24,978,003 | 23,254,605 |
| Statutory reserves | - | - | - | - | 5,647,890 | 5,647,890 | 4,922,264 |
| Retained earnings | - | - | - | - | 4,464,077 | 4,464,077 | 4,388,867 |
| Other reserves | - | - | - | - | 43,263,694 | 43,263,694 | 37,775,068 |
| Total non-interest bearing liabilities as at 31.12.2016 | 76,696,128 | 3,058,595 | 1,529,112 | 309,278 | 79,528,516 | 161,121,629 | |
| Total non-interest bearing liabilities as at 31.12.2015 | 70,971,345 | 3,990,597 | 1,432,057 | 770,986 | 70,642,676 | | 147,807,661 |
| Total liabilities and equity - as at 31.12.2016 | 581,421,623 | 266,158,535 | 33,191,444 | 22,093,195 | 109,336,434 | 1,012,201,231 | |
| Total liabilities and equity - as at 31.12.2015 | 548,058,620 | 206,253,703 | 19,949,323 | 9,986,062 | 95,557,360 | | 879,805,068 |
| Percentage - as at 31.12.2016 (*) | 57.44 | 26.30 | 3.28 | 2.18 | 10.80 | 100.00 | |
| Percentage - as at 31.12.2015 (*) | 62.29 | 23.44 | 2.27 | 1.14 | 10.86 | | 100.00 |

(*) Total liabilities and shareholders' funds of each maturity bucket as a percentage of total liabilities and shareholders' funds employed by the Bank.

69.2.2 (b) Non-Derivative Financial Assets and Financial Liabilities Expected to be Recovered or settled after 12 months from the Reporting date

The table below sets out the carrying amounts of non-derivative financial assets and financial liabilities expected to be recovered or settled after 12 months from the Reporting date:

| <i>As at December 31,</i> | 2016 Rs. '000 | 2015 Rs. '000 |
|--|--------------------|--------------------|
| Financial Assets | | |
| Non-Derivative Financial Assets | | |
| Balances with Central Banks | 2,459,890 | 1,284,010 |
| Loans and receivables to banks | 624,458 | 601,106 |
| Loans and receivables to other customers | 272,097,889 | 232,631,534 |
| Financial investments – Available-for-sale | 114,074,408 | 180,968,180 |
| Financial investments – Held-to-maturity | 56,725,526 | – |
| | 445,982,171 | 415,484,830 |
| Financial Liabilities | | |
| Non-Derivative Financial Liabilities | | |
| Securities sold under repurchase agreements | 11,019 | 331,497 |
| Due to other customers/deposits from customers | 40,211,606 | 33,605,021 |
| Other borrowings | 6,721,530 | 7,987,274 |
| Subordinated liabilities | 24,330,012 | 10,723,234 |
| | 71,274,167 | 52,647,026 |

69.2.3 Liquidity Reserves

The table below sets out the components of the Bank's liquidity reserves:

| <i>As at December 31,</i> | 2016 | | 2015 | |
|---|-----------------------------|------------------------|-----------------------------|------------------------|
| | Carrying Amount Rs. '000 | Fair Value Rs. '000 | Carrying Amount Rs. '000 | Fair Value Rs. '000 |
| Balances with Central Banks | 43,873,205 | 43,873,205 | 28,221,017 | 28,221,017 |
| Cash and balances with other banks | 12,786,813 | 12,786,813 | 4,170,033 | 4,170,033 |
| Coins and notes held | 17,406,776 | 17,406,776 | 15,873,479 | 15,873,479 |
| Unencumbered debt securities issued by sovereigns | 155,381,134 | 151,455,447 | 106,704,783 | 107,319,745 |
| Total liquidity reserves | 229,447,928 | 225,522,241 | 154,969,312 | 155,584,274 |

69.2.4 Financial Assets Available to Support Future Funding

The table below sets out the availability of the Bank's financial assets to support future funding:

| December 31, 2016 | Note | Encumbered | | Unencumbered | | Total Rs. '000 |
|--|------|--------------------------------------|-------------------|--|-------------------|--------------------|
| | | Pledged as Collateral Rs. '000 | Other Rs. '000 | Available as Collateral Rs. '000 | Other Rs. '000 | |
| | | | | | | |
| Cash and cash equivalents | 27 | | | 30,193,589 | | 30,193,589 |
| Balances with Central Banks | 28 | | 34,268,658 | 9,604,547 | | 43,873,205 |
| Placements with banks | 29 | | | 11,718,499 | | 11,718,499 |
| Securities purchased under resale agreements | | | | – | | – |
| Derivative financial assets | 30 | | | 1,052,829 | | 1,052,829 |
| Other financial instruments – Held-for-trading | 31 | | | 4,987,798 | | 4,987,798 |
| Loans and receivables to banks* | 32 | | 624,458 | | | 624,458 |
| Loans and receivables to other customers | 33 | | | 616,018,228 | | 616,018,228 |
| Financial investments – Available-for-sale** | 34 | 89,037,472 | | 70,985,999 | | 160,023,471 |
| Financial investments – Held-to-maturity | 35 | – | | 60,981,298 | | 60,981,298 |
| Financial investments – Loans and receivables | 36 | | | 51,824,026 | | 51,824,026 |
| Total financial assets | | 89,037,472 | 34,893,116 | 857,366,813 | | 981,297,401 |

| December 31, 2015 | Note | Encumbered | | Unencumbered | | Total Rs. '000 |
|--|------|--------------------------------------|-------------------|--|-------------------|--------------------|
| | | Pledged as Collateral Rs. '000 | Other Rs. '000 | Available as Collateral Rs. '000 | Other Rs. '000 | |
| | | | | | | |
| Cash and cash equivalents | 27 | | | 20,043,512 | | 20,043,512 |
| Balances with Central Banks | 28 | | 28,221,017 | – | | 28,221,017 |
| Placements with banks | 29 | | | 17,193,539 | | 17,193,539 |
| Securities purchased under resale agreements | – | | | 8,002,100 | | 8,002,100 |
| Derivative financial assets | 30 | | | 4,118,169 | | 4,118,169 |
| Other financial instruments – Held-for-trading | 31 | | | 7,656,349 | | 7,656,349 |
| Loans and receivables to banks * | 32 | | 601,106 | | | 601,106 |
| Loans and receivables to other customers | 33 | | | 508,115,127 | | 508,115,127 |
| Financial investments – Available-for-sale** | 34 | 126,431,103 | – | 77,813,186 | | 204,244,289 |
| Financial investments – Held-to-maturity | 35 | – | – | – | | – |
| Financial investments – Loans and receivables | 36 | | | 57,724,369 | | 57,724,369 |
| Total financial assets | | 126,431,103 | 28,822,123 | 700,666,351 | | 855,919,577 |

*Represents an amount where the Bank is prevented from exercising the right of lien against the claim made by the Bank due to a Court action.

** Market value of Securities pledged as collateral is considered as encumbered.

69.3 Market Risk

Market risk is the risk of losses in On or Off-Balance Sheet positions arising out of movements in prices affecting foreign exchange exposures, interest rate instruments, equity/debt instruments and commodity exposures. The Bank monitors market risk in both trading and non-trading portfolios.

69.3.1 Exposure to Market Risk – Trading and Non-Trading Portfolios

The table below sets out the allocation of assets and liabilities subject to market risk between trading and non-trading portfolios:

| As at December 31, 2016 | Note | Carrying Amount Rs. '000 | Market Risk Measurement | |
|--|------|-----------------------------|--------------------------------|------------------------------------|
| | | | Trading Portfolios Rs. '000 | Non-Trading Portfolios Rs. '000 |
| Assets Subject to Market Risk | | | | |
| Cash and cash equivalents | 27 | 14,704,722 | | 14,704,722 |
| Balances with Central Banks | 28 | 3,403,219 | | 3,403,219 |
| Placements with banks | 29 | 11,718,499 | | 11,718,499 |
| Securities purchased under resale agreements | | – | | – |
| Derivative financial assets | 30 | 1,052,829 | 1,052,829 | |
| Other financial instruments – Held-for-trading | 31 | 4,987,798 | 4,987,798 | |
| Loans and receivables to banks | 32 | 624,458 | | 624,458 |
| Loans and receivables to other customers | 33 | 616,018,228 | | 616,018,228 |
| Financial investments – Available-for-sale | 34 | 160,023,471 | | 160,023,471 |
| Financial investments – Held-to-maturity | 35 | 60,981,298 | | 60,981,298 |
| Financial investments – Loans and receivables | 36 | 51,824,026 | | 51,824,026 |
| | | 925,338,548 | 6,040,627 | 919,297,921 |
| Liabilities Subject to Market Risk | | | | |
| Due to banks | 43 | 67,608,811 | | 67,608,811 |
| Derivative financial liabilities | 44 | 1,515,035 | 1,515,035 | |
| Securities sold under repurchase agreements | | 69,867,469 | | 69,867,469 |
| Due to other customers/deposits from customers | | 701,410,848 | | 701,410,848 |
| Other borrowings | 46 | 9,270,154 | | 9,270,154 |
| Subordinated liabilities | 52 | 24,849,539 | | 24,849,539 |
| | | 874,521,856 | 1,515,035 | 873,006,821 |

| As at December 31, 2015 | Note | Carrying Amount Rs. '000 | Market Risk Measurement | |
|--|------|-----------------------------|--------------------------------|---------------------------------------|
| | | | Trading Portfolios Rs. '000 | Non-Trading Portfolios Rs. '000 |
| Assets Subject to Market Risk | | | | |
| Cash and cash equivalents | 27 | 6,012,136 | – | 6,012,136 |
| Balances with Central Banks | 28 | 8,145,887 | – | 8,145,887 |
| Placements with banks | 29 | 17,193,539 | – | 17,193,539 |
| Securities purchased under resale agreements | | 8,002,100 | – | 8,002,100 |
| Derivative financial assets | 30 | 4,118,169 | 4,118,169 | – |
| Other financial instruments – Held-for-trading | 31 | 7,656,349 | 7,656,349 | – |
| Loans and receivables to banks | 32 | 601,106 | – | 601,106 |
| Loans and receivables to other customers | 33 | 508,115,127 | – | 508,115,127 |
| Financial investments – Available-for-sale | 34 | 204,244,289 | – | 204,244,289 |
| Financial investments – Held-to-maturity | 35 | – | – | – |
| Financial investments – Loans and receivables | 36 | 57,724,369 | – | 57,724,369 |
| | | 821,813,071 | 11,774,518 | 810,038,553 |
| Liabilities Subject to Market Risk | | | | |
| Due to banks | 43 | 30,319,119 | – | 30,319,119 |
| Derivative financial liabilities | 44 | 1,890,770 | 1,890,770 | – |
| Securities sold under repurchase agreements | | 112,384,812 | – | 112,384,812 |
| Due to other customers/deposits from customers | | 585,409,104 | – | 585,429,104 |
| Other borrowings | 46 | 9,985,637 | – | 9,985,637 |
| Subordinated liabilities | 52 | 11,973,272 | – | 11,973,272 |
| | | 751,962,714 | 1,890,770 | 750,071,944 |

69.3.2 Exposure to Interest Rate Risk – Sensitivity Analysis

69.3.2 (a) Exposure to Interest Rate Risk – Non-Trading Portfolio

The possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments gives rise to interest rate risk. The Bank's policy is to continuously monitor portfolios and adopt hedging strategies to ensure that interest rate risk is maintained within prudent levels.

The tables below analyse the Bank's interest rate risk exposure on financial assets and financial liabilities. The Bank's assets and liabilities are included at carrying amounts and categorised by the earlier of contractual re-pricing or maturity dates.

Interest rate gap position of the non-trading portfolio of the Bank is given below:

| <i>As at December 31, 2016</i> | Up to 3 Months Rs. '000 | 3 to 12 Months Rs. '000 | 1 to 3 Years Rs. '000 | 3 to 5 Years Rs. '000 | More than 5 Years Rs. '000 | Non- Sensitive Rs. '000 | Total as at 31.12.2016 Rs. '000 |
|--|-------------------------------|-------------------------------|-----------------------------|-----------------------------|----------------------------------|-------------------------------|---------------------------------------|
| Financial Assets | | | | | | | |
| Cash and cash equivalents | 6,991,886 | – | – | – | – | 23,201,703 | 30,193,589 |
| Balances with Central Banks | 3,403,219 | – | – | – | – | 40,469,986 | 43,873,205 |
| Placements with banks | 11,718,499 | – | – | – | – | – | 11,718,499 |
| Securities purchased under resale agreements | – | – | – | – | – | – | – |
| Derivative financial assets | – | – | – | – | – | – | – |
| Other financial instruments – Held-for-trading | – | – | – | – | – | – | – |
| Loans and receivables to banks | – | – | – | – | – | 624,458 | 624,458 |
| Loans and receivables to other customers | 380,578,852 | 114,228,759 | 56,281,391 | 30,331,334 | 29,613,153 | 4,984,739 | 616,018,228 |
| Financial investments – Available-for-sale | 4,616,318 | 35,445,896 | 94,598,716 | 24,912,386 | – | 450,155 | 160,023,471 |
| Financial investments – Held-to-maturity | 13,220,906 | 5,077,400 | 17,061,858 | 135,192 | 25,485,942 | – | 60,981,298 |
| Financial investments – Loans and receivables | 41,332,775 | 2,599,730 | 5,663,994 | 2,227,527 | – | – | 51,824,026 |
| Total Financial Assets | 461,862,455 | 157,351,785 | 173,605,959 | 57,606,439 | 55,099,095 | 69,731,041 | 975,256,774 |
| Financial Liabilities | | | | | | | |
| Due to banks | 47,523,006 | 17,370,999 | – | – | – | 2,714,806 | 67,608,811 |
| Derivative financial liabilities | – | – | – | – | – | – | – |
| Securities sold under repurchase agreements | 55,479,230 | 14,377,545 | 10,694 | – | – | – | 69,867,469 |
| Due to other customers/deposits from customers | 419,615,132 | 229,599,655 | 14,761,841 | 10,500,371 | 8,882,763 | 56,203,732 | 739,563,494 |
| Other borrowings | 5,601,711 | 322,650 | 661,989 | 639,217 | 2,044,587 | – | 9,270,154 |
| Subordinated liabilities | 11,670,109 | – | – | 9,502,140 | 3,677,290 | – | 24,849,539 |
| Total Financial Liabilities | 539,889,188 | 261,670,849 | 15,434,524 | 20,641,728 | 14,604,640 | 58,918,538 | 911,159,467 |
| Interest rate sensitivity gap | (78,026,733) | (104,319,064) | 158,171,435 | 36,964,711 | 40,494,455 | 10,812,503 | 64,097,307 |

| <i>As at December 31, 2015</i> | Up to 3 Months Rs. '000 | 3 to 12 Months Rs. '000 | 1 to 3 Years Rs. '000 | 3 to 5 Years Rs. '000 | More than 5 Years Rs. '000 | Non- Sensitive Rs. '000 | Total as at 31.12.2015 Rs. '000 |
|---|-------------------------------|-------------------------------|-----------------------------|-----------------------------|----------------------------------|-------------------------------|---------------------------------------|
| Financial Assets | | | | | | | |
| Cash and cash equivalents | - | - | - | - | - | 20,043,512 | 20,043,512 |
| Balances with Central Banks | 5,707,697 | - | - | - | - | 22,513,320 | 28,221,017 |
| Placements with banks | 16,472,789 | 720,750 | - | - | - | - | 17,193,539 |
| Securities purchased under resale agreements | 8,002,100 | - | - | - | - | - | 8,002,100 |
| Derivative financial assets | - | - | - | - | - | - | - |
| Other financial instruments – Held-for-trading | - | - | - | - | - | - | - |
| Loans and receivables to banks | - | - | - | - | - | 601,106 | 601,106 |
| Loans and receivables to other customers | 305,050,450 | 102,751,351 | 45,161,485 | 29,482,071 | 20,557,607 | 5,112,163 | 508,115,127 |
| Financial investments – Available-for-sale | 16,995,448 | 12,795,555 | 83,586,193 | 37,424,636 | 52,955,579 | 486,878 | 204,244,289 |
| Financial investments – Held-to-maturity | - | - | - | - | - | - | - |
| Financial investments – Loans and receivables | 45,994,468 | 1,493,686 | 5,025,175 | 5,211,040 | - | - | 57,724,369 |
| Total Financial Assets | 398,222,952 | 117,761,342 | 133,772,853 | 72,117,747 | 73,513,186 | 48,756,979 | 844,145,059 |
| Financial Liabilities | | | | | | | |
| Due to banks | 15,872,928 | 12,252,750 | - | - | - | 2,193,441 | 30,319,119 |
| Derivative financial liabilities | - | - | - | - | - | - | - |
| Securities sold under repurchase agreements | 89,404,870 | 22,648,445 | 331,497 | - | - | - | 112,384,812 |
| Due to other customers/deposits from customers | 376,414,265 | 164,654,425 | 13,448,855 | 8,416,197 | 7,222,343 | 53,945,725 | 624,101,810 |
| Other borrowings | 7,935,160 | 419,463 | 348,618 | 264,069 | 1,018,327 | - | 9,985,637 |
| Subordinated liabilities | 10,855,595 | 1,117,677 | - | - | - | - | 11,973,272 |
| Total Financial Liabilities | 500,482,818 | 201,092,760 | 14,128,970 | 8,680,266 | 8,240,670 | 56,139,166 | 788,764,650 |
| Interest rate sensitivity gap | (102,259,866) | (83,331,418) | 119,643,883 | 63,437,481 | 65,272,516 | (7,382,187) | 55,380,409 |

69.3.2 (b) Exposure to Interest Rate Risk – Non-Trading Portfolio (Rate Shocks)

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and financial liabilities to various interest rate scenarios.

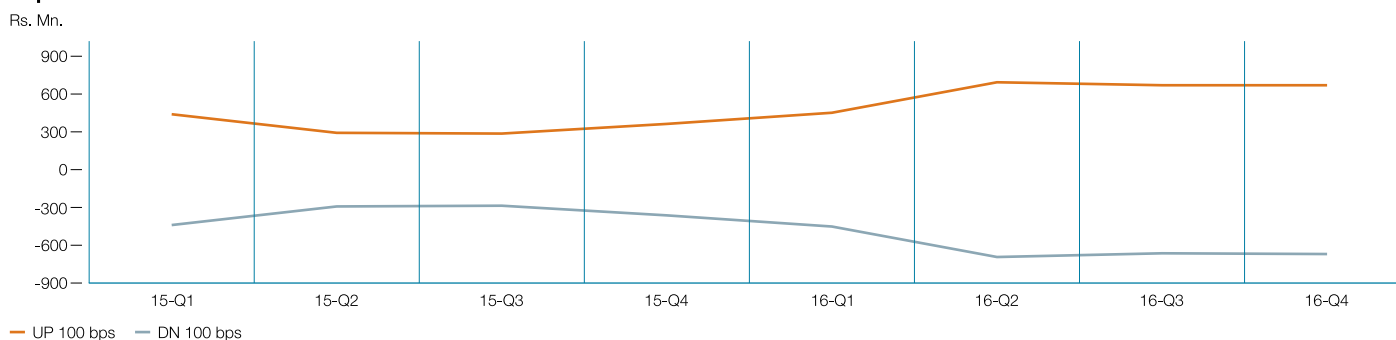
The following table demonstrates the sensitivity of the Bank's Income Statement as at the Reporting date to a reasonably possible change in interest rates, with all other variables held constant.

Sensitivity of Projected Net Interest Income

| Net Interest Income (NII) | 2016 | | 2015 | |
|---------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| | Parallel Increase Rs. '000 | Parallel Decrease Rs. '000 | Parallel Increase Rs. '000 | Parallel Decrease Rs. '000 |
| As at December 31, | 670,859 | (668,620) | 363,173 | (362,303) |
| Average for the period | 634,306 | (632,375) | 336,601 | (335,541) |
| Maximum for the period | 827,488 | (824,962) | 469,161 | (468,336) |
| Minimum for the period | 366,432 | (365,569) | 267,117 | (266,063) |

The graph below depicts the impact on the Net Interest Income due to a Rate shock of 100 bps on Rupee denominated Assets and Liabilities and 25 bps on FCY denominated Assets and Liabilities.

Impact of a Rate Shock on the Net Interest Income



The impact of changes in interest rates on NII is measured using a static Balance Sheet which is subjected to 100 bps and 25 bps shocks on Rupee and foreign currency denominated interest earning assets and interest bearing liabilities portfolios, respectively. Thereafter, the potential impact on the Bank's profitability due to changes in Rupee and foreign currency interest rates is evaluated to ensure that the volatilities are prudently managed within the internal tolerance limits. Above graph depicts the sensitivity of NII to rate shocks during the years 2015 and 2016. Right throughout 2016, the impact of rate shocks on projected NII has been well below the Management Action Trigger (MAT) limit. Since December, 2015 the impact has gradually decreased due to the conscious decision of the Bank to rebalance the Fixed Income Securities (FIS) portfolio, growth in short term repricing portfolio and the Bank's decision to increase the shock level for foreign currency denominated assets and liabilities to 25 bps from 10 bps.

69.3.3 Exposure to Currency Risk – Non-Trading Portfolio

Currency Risk arises as a result of fluctuations in the value of a financial instrument due to changes in foreign exchange rates. There are set limits on position by currency and these positions are monitored on a daily basis.

The table below indicates the currencies to which the Bank had significant exposures as at December 31, 2016 and 2015 and the exposure as a percentage of the total capital funds:

Foreign Exchange Position as at December 31, 2016

| Currency | Spot | | | Forward | | | Net Open Position | Net Position in Other Exchange Contracts | Overall Exposure in Respective Foreign Currency | Overall Exposure in LKR |
|--|-----------|-------------|---------------|-----------|-------------|---------------|-------------------|--|---|-------------------------|
| | Assets | Liabilities | Net | Assets | Liabilities | Net | | | | |
| | 2 '000 | 3 '000 | 4=2-3 '000 | 5 '000 | 6 '000 | 7=5-6 '000 | | | | |
| United States Dollar | 34,367 | 42,279 | (7,912) | 20,447 | 11,005 | 9,442 | 3,179 | | 4,709 | 705,226 |
| Great Britain Pound | 3,524 | 7,832 | (4,308) | 5,072 | 807 | 4,265 | 45 | | 3 | 467 |
| Euro | 5,216 | 5,384 | (168) | 420 | 300 | 120 | 66 | | 17 | 2,703 |
| Japanese Yen | 15,549 | 2,271 | 13,278 | 5,847 | 18,937 | (13,090) | (150) | | 38 | 49 |
| Indian Rupee | - | - | - | - | - | - | - | | - | - |
| Australian Dollar | 180 | 71 | 109 | - | 100 | (100) | (40) | | (30) | (3,284) |
| Canadian Dollar | 97 | 74 | 23 | - | - | - | (1) | | 23 | 2,538 |
| Other currencies in US Dollars | 914 | 340 | 574 | - | 509 | (509) | 95 | | 160 | 23,948 |
| Total exposure | | | | | | | US \$ 3,367 | | US \$ 4,886 | 731,647 |
| Total capital funds as per the Audited Basel II computation (capital base of the Bank as at December 31, 2016) | | | | | | | | | | 103,373,535 |
| Total exposure as a percentage of total capital funds | | | | | | | | | | 0.71% |

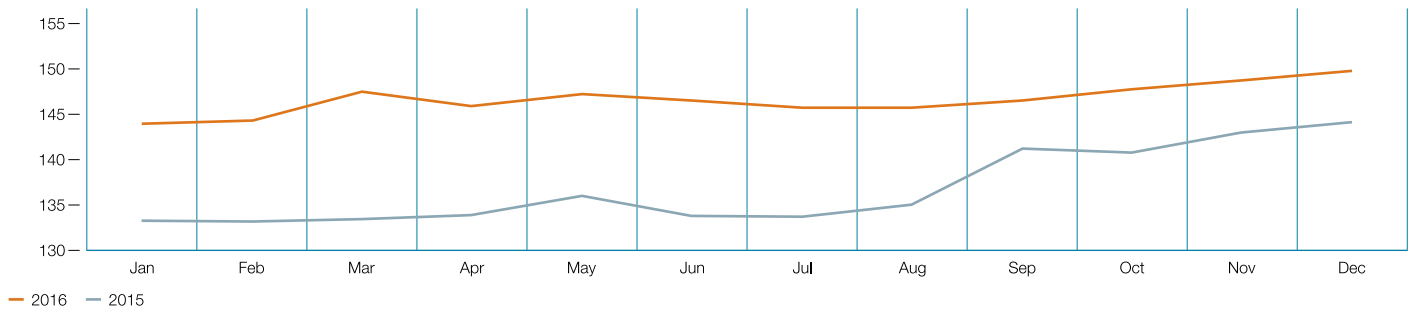
Foreign Exchange Position as at December 31, 2015

| Currency | Spot | | | Forward | | | Net Open Position | Net Position in Other Exchange Contracts | Overall Exposure in Respective Foreign Currency | Overall Exposure in LKR |
|---|-----------|-------------|---------------|-----------|-------------|---------------|-------------------|--|---|-------------------------|
| | Assets | Liabilities | Net | Assets | Liabilities | Net | | | | |
| | 2 '000 | 3 '000 | 4=2-3 '000 | 5 '000 | 6 '000 | 7=5-6 '000 | | | | |
| United States Dollar | 27,147 | 27,207 | (60) | 15,410 | 14,568 | 842 | 1,096 | | 1,877 | 270,602 |
| Great Britain Pound | 191 | 183 | 8 | 60 | 100 | (40) | 46 | | 15 | 3,171 |
| Euro | 2,751 | 753 | 1,998 | 172 | 2,143 | (1,971) | (58) | | (31) | (4,886) |
| Japanese Yen | 16,056 | 12,095 | 3,961 | 12,040 | 9,734 | 2,306 | (420) | | 5,848 | 6,999 |
| Indian Rupee | - | - | - | - | - | - | - | | - | - |
| Australian Dollar | 503 | 569 | (66) | 1,350 | 1,250 | 100 | (33) | | 1 | 86 |
| Canadian Dollar | 354 | 347 | 7 | - | - | - | - | | 7 | 716 |
| Other currencies in US Dollars | 363 | 144 | 219 | 168 | 99 | 69 | 44 | | 333 | 47,951 |
| Total exposure | | | | | | | US \$ 1,117 | | US \$ 2,252 | 324,639 |
| Total capital funds as per the latest Audited Financial Statements (capital base of the Bank as at December 31, 2015) | | | | | | | | | | 79,687,972 |
| Total exposure as a percentage of total capital funds as per the Audited Financial Statements | | | | | | | | | | 0.41% |

The Bank regularly conducts sensitivity analysis on Net Open Position (NOP) due to possible changes in the USD/LKR exchange rate to assess the exposure to FX Risk. An appropriate shock based on historical USD/LKR exchange rate is applied on the NOP which is measured against the Board approved threshold limits.

Sensitivity of Fx Position - Impact of 1% change in Exchange Rate (Sri Lanka Operation)

+/- Rs. Mn.



69.3.4 Exposure to Equity Price Risk

Impact on Income Statement due to a change in market price by 10% on equity shares held by the Bank.

Equity price risk arises as a result of any change in prices and volatilities of individual equities. The Bank conducts mark-to-market calculations on a daily, quarterly and on a need basis to identify the impact due to changes in equity prices.

The table below summarises impact (both to the Income Statement and to the equity) due to a shock of 10% on equity price.

| | 2016 | | | 2015 | | |
|---|------------------------------|--------------------------------|-------------------------|------------------------------|--------------------------------|-------------------------|
| | Held-for-Trading Rs. '000 | Available-for-Sale Rs. '000 | Total Rs. '000 | Held-for-Trading Rs. '000 | Available-for-Sale Rs. '000 | Total Rs. '000 |
| Market value of equity securities as at December 31, | 293,809 | 246,548 | 540,357 | 326,263 | 234,839 | 561,102 |
| Stress Level | Impact on P&L | Impact on OCI | Impact on Equity | Impact on P&L | Impact on OCI | Impact on Equity |
| Shock of 10% on equity price (upward) | 29,381 | 24,655 | 54,036 | 32,626 | 23,484 | 56,110 |
| Shock of 10% on equity price (downward) | (29,381) | (24,655) | (54,036) | (32,626) | (23,484) | (56,110) |

69.4 Operational Risk

Operational risk arises due to inadequate or failed internal processes, people and systems or from external events. Operational risk events which include legal and regulatory implications could lead to financial and reputational losses to the Bank.

The Operational Risk Management Framework of the Bank has been defined under the Board approved Operational Risk Management Policy. Operational risk is managed by establishing an appropriate internal control system that requires a mechanism for segregation of related responsibilities within the Bank, and a detailed testing and verification of the Bank's overall operational systems, and achieving a full harmony between internal and external systems and establishing a fully independent back-up facility for Business Continuity Planning.

69.5 Capital Management

Objective

The Bank is required to manage its capital taking into account the need to meet the regulatory requirements as well as the current and future business needs, stakeholder expectations and available options for raising capital.

69.5.1 Regulatory Capital

Capital Adequacy Ratio (CAR) is calculated based on the CBSL Directions stemming from Basel II Accord. These guidelines require the Bank to maintain a CAR of not less than 5% with core capital (Tier 1) in relation to total risk weighted assets and a minimum overall CAR of 10% with Tier I and Tier II (Supplementary Capital) in relation to total risk weighted assets.

| <i>As at December 31,</i> | 2016 Rs. '000 | 2015 Rs. '000 |
|---|--------------------|-------------------|
| Tier I: Core Capital | | |
| Paid-up ordinary shares/Common stock/Assigned capital++ | 24,978,002 | 23,254,605 |
| Statutory reserve fund | 5,647,890 | 4,922,265 |
| Published retained profits/(accumulated losses)(+/-) | 1,538,142 | 1,582,894 |
| General and other reserves | 44,749,627 | 36,007,573 |
| Minority interests (consistent with the above capital constituents) | - | - |
| Tier I: Deductions/Adjustments | | |
| Goodwill | - | - |
| Other intangible assets | (640,646) | (465,962) |
| Advances granted to employees of the Bank for the purchase of shares of the Bank (ESOP) | (302) | (499) |
| 50% of Investments in unconsolidated banking and financial subsidiary companies | (1,065,444) | (458,023) |
| 50% Investments in the capital of other banks and financial institutions | (402) | (402) |
| Total Eligible Core Capital (Tier I Capital) | 75,206,867 | 64,842,451 |
| Tier II: Supplementary Capital | | |
| Revaluation reserves (as approved by the Central Bank of Sri Lanka) | 2,034,231 | 2,034,231 |
| General provisions | 2,863,408 | 2,351,948 |
| Approved subordinated term debt | 24,334,875 | 10,917,767 |
| Tier II: Deductions/Adjustments | | |
| 50% of investments in unconsolidated banking and financial subsidiary companies | (1,065,444) | (458,023) |
| 50% investments in the capital of other banks and financial institutions | (402) | (402) |
| Total eligible supplementary capital (Tier II Capital) | 28,166,668 | 14,845,521 |
| Total capital base | 103,373,535 | 79,687,972 |

The Bank's regulator, the Central Bank of Sri Lanka sets and monitors capital requirements for the Banking industry as a whole.

Historically, the Bank has been maintaining a relatively higher CAR, which shows the stability and resilience of the Bank.

Higher level of capital maintained by the Bank too contributed to the growth of the Bank.

The Bank has a well structured Corporate Planning and Budgeting procedure and therefore Capital budgeting decisions are arrived at after evaluating the impact of such decisions on the income of the Bank.

69.5.2 Capital Allocation

Management monitors the capital adequacy ratio on a regular basis and ensures that it operates well above the internal limit set by the Bank. The allocation of capital between specific operations and activities, to a large extent, is driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily on regulatory capital requirements, but in some cases the regulatory requirements do not fully reflect the varying degree of risk associated with different activities. In such cases, the capital requirements may be flexed to reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum requirements for regulatory purposes.

70. Events After the Reporting Period

No circumstances have arisen since the Reporting date which would require adjustments or disclosure in the Financial Statements other than those disclosed below.

70.1 Interim Dividend – 2016

The Bank declared and paid a second interim dividend of Rs. 3.00 per share on February 17, 2017 to both the voting and non-voting ordinary shareholders of the Bank.

In accordance with the Sri Lanka Accounting Standard – LKAS 10 on 'Events after the Reporting Period', this interim dividend has not been recognised as a liability as at December 31, 2016. Under the Inland Revenue Act No. 10 of 2006, a withholding tax of 10% has been imposed on dividends paid.

70.2 Final Dividend – 2016

The Board of Directors of the Bank has recommended the payment of a final dividend of Rs. 2.00 per share which will be satisfied in the form of issue and allotment of new shares for both the voting and non-voting ordinary shareholders of the Bank for the year ended December 31, 2016.

This dividend is yet to be approved at the Annual General Meeting to be held on March 30, 2017. In accordance with the Sri Lanka Accounting Standard – LKAS 10 on 'Events after the Reporting Period', this proposed final dividend has not been recognised as a liability as at December 31, 2016. Under the Inland Revenue Act No. 10 of 2006, a withholding tax of 10% will be imposed on dividends declared.

Compliance with Sections 56 and 57 of Companies Act No. 07 of 2007

As required by the Section 56 of the Companies Act No. 07 of 2007, the Board of Directors of the Bank satisfied the solvency test in accordance with the Section 57, prior to recommending the final dividend. A Statement of Solvency completed and duly signed by the Directors on February 22, 2017 has been audited by Messrs KPMG.

Annexes






Delve into detailed information about how we comply with regulatory requirements and voluntary codes on Corporate Governance, Risk and Capital Management and Sustainability Reporting

| | |
|-----|---|
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| 354 | – Annex 1.1: Compliance with Banking Act Direction |
| 367 | – Annex 1.2: Codes of Best Practice on Corporate Governance |
| 372 | – Annex 1.3: Other Disclosure Requirements |
| 377 | Annex 2: Risk and Capital Management Report |
| 414 | Annex 3: GRI Content Index: “In Accordance” – Core |
| 420 | Annex 4: Materiality Mapping |
| 422 | Annex 5: Independent Assurance Reports |
| 422 | – Independent Assurance Report on Sustainability Reporting – KPMG |
| 424 | – Independent Assurance Statement on Non-Financial Reporting – DNV GL |

ANNEX 1: GOVERNANCE

ANNEX 1.1: COMPLIANCE WITH BANKING ACT DIRECTION

The Banking Act Direction No.11 of 2007 and Subsequent Amendments thereto on Corporate Governance for Licensed Commercial Banks in Sri Lanka issued by the Central Bank of Sri Lanka

| Section | Principle, Compliance and Implementation | Complied |
|--------------|--|---|
| 3 (1) | Responsibilities of the Board | |
| | The Board has strengthened the safety and the soundness of the Bank in the following manner: | |
| a. | Setting Strategic Objectives and Corporate Values |  |
| | The Bank's strategic objectives and corporate values are determined by the Board as set out on page 29. These are communicated to all levels of staff through structured meetings and reinforced monthly at team meetings which review performance vis a vis strategic goals. The corporate values are included in the Code of Conduct and Business Ethics which is communicated to all employees in hard copy, via the intranet, through orientation programmes and reinforced at meetings. | |
| b. | Approving Overall Business Strategy Including Risk Policy and Management |  |
| | The Board provides direction and guidance for preparation of the 5 year Corporate Strategic Plan from 2016-2020 which was approved by the Board after discussing related issues in detail with the Corporate Management. It is aligned to the overall Risk Strategy of the Bank through involvement of the Independent Risk Management Committee. The Risk appetite of the Bank is embedded throughout the corporate plan in allocation of capital, adoption of risk matrix to measure the risk levels and in defining key performance indicators which include both quantitative and qualitative criteria. Additionally, governance and compliance are embedded into the Bank-wide Risk Management Policy Framework and included in the strategic goals. | |
| | The Bank's Strategic Plan for 2017-2021 has been approved on December 19, 2016 by the Board. | |
| c. | Risk Management |  |
| | The BIRMC is tasked with approving the Bank's Risk Policy, defining the risk appetite, identifying principal risks, setting governance structures and implementing systems to measure, monitor and manage the principal risks. Managing Risk: An Overview on pages 172 to 175 and the Report of the BIRMC on page 143 provide further insights on Risk Management policies and processes of the Bank. | |
| d. | Communication with all Stakeholders |  |
| | The Board has approved and implemented the following communication policies: | |
| | <ul style="list-style-type: none"> • Shareholders – The Shareholder Communication Policy of the Bank explicitly provides for effective and timely communication to shareholders of material matters and performance. Shareholders receive quarterly Financial Statements within six weeks for the first three quarters and within eight weeks from the last quarter and a quarterly press release is issued providing a review of the Bank's performance on a quarterly basis. Performance of the Bank is set out in the Annual Report of the Bank which is circulated to shareholders 15 working days prior to the AGM. The AGM is the key forum for contact with shareholders and the Bank has a history of well attended AGMs where shareholders take an active role in exercising their rights. Additionally, the Investor Relations page on the Bank's website contains the Interim Financial Statements and Annual Reports together with key disclosures on risk management. The Bank also provides information to equity analysts to facilitate high quality information in research reports which are made available to investors by the stockbrokers. | |
| | <ul style="list-style-type: none"> • Customers – Customers include depositors and borrowers. The Bank's Customer Complaint Handling Policy has been printed in all three languages and disseminated to all customer contact points of the Bank. This document outlines the complaints handling policy of the Bank, provides contact numbers of the Bank for this purpose and also of the Financial Ombudsman. There is a 24 hour trilingual customer hotline set up for this purpose and reports are reviewed by the BIRMC. | |
| | <ul style="list-style-type: none"> • Staff – Employees and representatives of the trade unions are given unrestricted access to the management to discuss their concerns. The Deputy General Manager – Human Resource Management co-ordinates communication between the Board and the employees. | |
| e. | Internal Control System and Management Information Systems |  |
| | The Board is assisted in this regard by the BAC who reviews the adequacy and the integrity of the Bank's internal control system and management information system. The BAC has reviewed reports from the Internal Audit Department and the External Auditors in carrying out this function and also reviewed management responses on same during the year. | |







| Section | Principle, Compliance and Implementation | Complied |
|-------------|---|----------|
| f. | <p>Key Management Personnel (KMPs)</p> <p>KMPs are defined in the Sri Lanka Accounting Standards, who significantly influence policy, direct activities and exercise control over business activities, operations and risk management. All appointments of designated KMPs are recommended by the BNC and approved by the Board.</p> <p>Further, for Corporate Governance reporting and monitoring purposes, the Bank has included selected members of the Corporate Management in addition to the KMPs identified for financial reporting purposes.</p> | ☑ |
| g. | <p>Define Areas of Authority and Key Responsibilities for Directors and KMPs</p> <p>The Board Charter sets out the matters specifically reserved for Board, defining the areas of authority and key responsibilities of the Board of Directors. Areas of authority and key responsibilities for members of the Corporate Management are stated in the job descriptions of each member.</p> | ☑ |
| h. | <p>Oversight of Affairs of the Bank by KMPs</p> <p>The Board reviews the performance of the Bank vis a vis the strategic plan and receives reports from its Subcommittees on financial reporting, internal control, risk management, changes in KMPs and other relevant matters delegated to them. Additionally, KMPs make regular presentations to the Board on matters under their purview and are also called in by the Board to explain matters relating to their areas.</p> | ☑ |
| i. | <p>Assess Effectiveness of Own Governance Practices</p> <p>Completed Board Evaluation Forms were received from all Board members for 2016 and the responses were discussed at a BNC meeting and at a subsequent Board meeting. Matters of concern noted are followed up and improved upon during the year to continuously improve the governance practices of the Bank.</p> | ☑ |
| j. | <p>Succession Plan for KMPs</p> <p>There is a formal succession plan in place with named successors for KMPs together with development plans to ensure their readiness. The succession plan for the CEO and KMPs was reviewed by the BNC and approved by the Board during 2016.</p> | ☑ |
| k. | <p>Regular Meetings with KMPs</p> <p>Progress towards corporate objectives is a regular agenda item for the Board and KMPs are regularly involved in the Board level discussions on the same. Additionally, they make presentations on key agenda items or are called in for discussions at the meetings of the Board and its Subcommittees on policy and other matters relating to their areas on a regular basis.</p> | ☑ |
| l. | <p>Regulatory Environment and Maintaining an Effective Relationship with Regulator</p> <p>Directors are briefed about regulatory developments at Board meetings by the KMPs to facilitate effective discharge of their responsibilities. Members of the BAC and the BIRMC are also briefed on regulatory developments at their meetings by the Heads of Internal Audit, Risk and Compliance. All Board members attend the Director Forums arranged by the Central Bank of Sri Lanka as well.</p> | ☑ |
| m. | <p>Hiring External Auditors</p> <p>The Board has adopted a Policy of Rotation of Auditors, once in every five years, in keeping with the principles of Good Corporate Governance. At the end of the five-year period, quotations are called from suitable Audit Firms, prior to the recommendation of new Auditors as per the Rotation Policy. In addition to this, External Auditors submit a statement annually confirming their independence as required by Section 163 (3) of the Companies Act No. 07 of 2007 in connection with external audit.</p> | ☑ |
| 3 (1) (ii) | <p>Appointment of Chairman and CEO and Defining and Approving their Functions and Responsibilities</p> <p>Positions of the Chairman and the Managing Director (MD)/Chief Executive Officer (CEO) are separated in the Board Charter to maintain a balance of power. Further, functions and responsibilities of the Chairman and the CEO are properly defined and approved in line with the Section 3 (5) of this Direction as given on page 358.</p> | ☑ |
| 3 (1) (iii) | <p>Regular Board Meetings</p> <p>Board meetings are held on the last Friday of each month on a regular basis and special meetings are scheduled as and when the need arises at which Directors present actively participate in deliberating matters set before the Board. Attendance at Board meetings is given on page 127 together with the number of meetings of the Board and its Subcommittees. We have minimised obtaining approval via Circular Resolutions and it is done only on an exceptional basis and such resolutions are ratified by the Board at the next meeting.</p> | ☑ |

| Section | Principle, Compliance and Implementation | Complied |
|--------------|---|----------|
| 3 (1) (iv) | <p>Arrangements for Directors to Include Proposals in the Agenda</p> <p>Notice of Meeting is circulated two weeks prior to the meeting and Directors may submit proposals for inclusion in the Agenda on discussion with the Chairman on matters relating to the business of the Bank.</p> | ✔ |
| 3 (1) (v) | <p>Notice of Meetings</p> <p>Notice of meetings, together with the Agenda and Board papers for the Board meetings are circulated to the Directors seven days prior to the meeting giving Directors time to attend and submit any urgent proposals.</p> | ✔ |
| 3 (1) (vi) | <p>Directors' Attendance</p> <p>The Directors are apprised of their attendance in accordance with the Articles of the Company and the Corporate Governance Code. Details of the Directors' attendance are set out on page 127. No Director has been absent from three consecutive meetings.</p> | ✔ |
| 3 (1) (vii) | <p>Appointment and Setting Responsibilities of the Company Secretary</p> <p>The Board appoints and sets responsibilities of the Company Secretary in accordance with the Companies Act, Banking Act Directions and the Articles of the Company under advisement of the BNC.</p> | ✔ |
| 3 (1) (viii) | <p>Directors' Access to Advice and Services of Company Secretary</p> <p>All Board members have full access, to the advice and services of the Company Secretary to ensure that proper Board procedures are followed and all applicable rules and regulations are complied with.</p> | ✔ |
| 3 (1) (ix) | <p>Maintenance of Board Minutes</p> <p>Company Secretary maintains the minutes of the Board meetings and circulates same to all Board members after review by the CEO and the Chairman. The minutes are reviewed and approved at the next Board meeting after incorporating any amendments/inclusions proposed by other Directors. Additionally, the Directors have access to the past Board papers and minutes through a secure electronic link.</p> | ✔ |
| 3 (1) (x) | <p>Minutes to be of Sufficient Detail and Serve as a Reference for Regulators and Supervisory Authorities</p> <p>The Minutes of the meetings include:</p> <ul style="list-style-type: none"> (a) a summary of data and information used by the Board in its deliberations; (b) the matters considered by the Board; (c) the fact-finding discussions and the issues of contention or dissent; (d) the testimonies and confirmations of relevant executives with regard to the Board's strategies and policies and adherence to relevant laws and regulations; (e) matters regarding the risks to which the Bank is exposed and an overview of the risk management measures including reports of the BIRMC; and (f) the decisions and Board resolutions including reports of all Board Subcommittees. | ✔ |
| 3 (1) (xi) | <p>Directors' Ability to Seek Independent Professional Advice</p> <p>Directors can obtain independent professional advice, as and when necessary, in discharging their responsibilities according to a procedure approved by the Board. This function is coordinated by the Company Secretary.</p> | ✔ |
| 3 (1) (xii) | <p>Dealing with Conflicts of Interest</p> <p>The Directors make declarations of their interests at appointment, annually and whenever there is a change in the same and a quarterly report is sent to the Board on possible areas of conflict (if any). Directors abstain from participating in the discussions, voicing their opinion or approving in situations where there is a conflict of interest. Additionally, such Director's presence is disregarded in counting the quorum in such instances. Key appointments of the Directors are included in their profiles on pages 11 to 13 and in Note 64 to the Financial Statements on page 313.</p> | ✔ |
| 3 (1) (xiii) | <p>Formal Schedule of Matters Reserved for Board Decision</p> <p>The Board has put in place systems and controls to facilitate the effective discharge of Board functions.</p> <p>Pre-set Agenda of meetings ensures the direction and control of the Bank are firmly under Board's control and authority in line with regulatory codes, guidelines and international best practice.</p> | ✔ |

| Section | Principle, Compliance and Implementation | Complied |
|--------------|---|----------|
| 3 (1) (xiv) | <p>Inform Central Bank if there are Solvency Issues</p> <p>The Bank is solvent and no situation arisen where its solvency has been in doubt. A Board approved procedure is in place to inform the Director of Bank Supervision prior to taking any decision or action if the Bank is about to become insolvent or about to suspend payments to its depositors and other creditors.</p> | ✔ |
| 3 (1) (xv) | <p>Capital Adequacy</p> <p>The Board monitors capital adequacy and other prudential measures to ensure compliance with regulatory requirements, and the Bank's defined risk appetite. The Bank is in compliance with the minimum capital requirements.</p> | ✔ |
| 3 (1) (xvi) | <p>Publish Corporate Governance Report in Annual Report</p> <p>This Report forms part of the Corporate Governance Report of the Bank which is set out from page 123 to 175 and pages 354 to 371.</p> | ✔ |
| 3 (1) (xvii) | <p>Self-Assessment of Directors</p> <p>The Bank has adopted a system of self-assessment, to be undertaken by each Director, annually. Each member of the Board carried out a self-assessment of his/her own effectiveness as an individual as well as the effectiveness of the Board as a whole. Further, each Director carries out an assessment of 'fitness and propriety' to serve as a Director.</p> | ✔ |
| 3 (2) | Board Composition | |
| 3 (2) (i) | <p>Number of Directors</p> <p>As per CBSL Governance Direction, the number of Directors should not be less than seven and not more than thirteen. The Bank's Board comprised 10 Directors as at December 31, 2016.</p> | ✔ |
| 3 (2) (ii) | <p>Period of Service of a Director</p> <p>The period of service of a Director is limited to nine years excluding the Executive Directors as per the Corporate Governance Code for Licensed Commercial Banks. Details of their tenures of service are given on pages 11 to 13.</p> | ✔ |
| 3 (2) (iii) | <p>Board Balance</p> <p>There are two Executive Directors and eight NEDs which is compliant with the requirement to limit the number of Executive Directors to 1/3 of the total.</p> | ✔ |
| 3 (2) (iv) | <p>Independent NEDs</p> <p>The Board has seven independent Directors which is well above the regulatory requirement to satisfy the criteria for determining independence.</p> | ✔ |
| 3 (2) (v) | <p>Alternate Independent Directors</p> <p>There are no alternate Directors.</p> | ✔ |
| 3 (2) (vi) | <p>Criteria for Non-Executive Directors</p> <p>NEDs are persons with proven track records and necessary skills and experience to bring independent judgement to bear on, issues of strategy, performance and resources and appointed by the Board.</p> <p>Directors nominate names of eminent professionals or academics from various disciplines to the BNC who peruses the profiles and recommend suitable candidates to the Board.</p> | ✔ |
| 3 (2) (vii) | <p>More than Half the Quorum to Comprise Non-Executive Directors</p> <p>This requirement is strictly observed and it is noteworthy that the majority of the Board are NEDs.</p> | ✔ |
| 3 (2) (viii) | <p>Identify Independent Non-Executive Directors in communications and Disclose Categories of Directors in Annual Report</p> <p>The independent NEDs are expressly identified as such in all corporate communications that disclose the names of Directors of the Bank. The composition of the Board, by category of Directors, including the names of the Chairman, Executive & Non-Executive Directors and Independent and Non-Independent are given on page 127.</p> | ✔ |










| Section | Principle, Compliance and Implementation | Complied |
|--------------|--|----------|
| 3 (2) (ix) | <p>Formal and Transparent Procedure for Appointments to the Board</p> <p>The Board has established a BNC, whose Terms of Reference comply with the Specimen given in the Code of Best Practice on Corporate Governance. Accordingly, new Directors including the CEO and COO are appointed by the Board upon consideration of recommendations by the BNC. The Board has also developed a succession plan together with the BNC to ensure the orderly succession of appointments to the Board.</p> | ✓ |
| 3 (2) (x) | <p>Re-election of Directors filling Casual Vacancies</p> <p>All Directors appointed to the Board are subject to re-election by shareholders at the first AGM after their appointment.</p> | ✓ |
| 3 (2) (xi) | <p>Communication of Reasons for Removal or Resignation of Director</p> <p>Resignations of Directors and the reasons are promptly informed to the regulatory authorities and shareholders as per CSE's Continuing Listing Requirements together with a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders.</p> | ✓ |
| 3 (2) (xii) | <p>Prohibition of Directors or Employees of a Bank Becoming a Director of Another Bank</p> <p>The Board and the BNC take in to account this requirement in their deliberations when considering appointments of Directors. None of the Directors are Directors or employees of any other bank.</p> | ✓ |
| 3 (3) | Criteria to Assess Fitness and Propriety of Directors | |
| 3 (3) (i) | <p>Age of Director should not exceed 70</p> <p>There are no Directors who are over 70 years of age.</p> | ✓ |
| 3 (3) (ii) | <p>Directors Should not be Directors of more than 20 Companies and not more than 10 Companies Classified as Specified Business Entities</p> <p>No Director holds directorships of more than 20 companies/entities/institutions inclusive of Subsidiaries or Associates of the Bank.</p> | ✓ |
| 3 (4) | Management Functions Delegated by the Board | |
| 3 (4) (i) | Understand and study delegation arrangements | ✓ |
| 3 (4) (ii) | Extent of delegation should not hinder the Board's ability to discharge its functions | ✓ |
| 3 (4) (iii) | <p>Review delegation arrangements periodically to ensure relevance to operations of the Bank</p> <p>The Board reviews and approves the delegation arrangements of the Bank annually and ensures that the extent of delegation addresses the business needs of the Bank whilst enabling the Board to discharge their functions effectively. Consequently, the Board takes time to study and understand the delegation arrangements as referred to in the Sections 3 (4) (i), (ii) and (iii) above.</p> | ✓ |
| 3 (5) | The Chairman and Chief Executive Officer | |
| 3 (5) (i) | <p>Separation of Roles</p> <p>There is a clear separation of duties between the roles of the Chairman and the CEO, thereby preventing unfettered powers for decision making being vested with one person.</p> | ✓ |
| 3 (5) (ii) | <p>Non-Executive Chairman and Appointment of a Senior Independent Directors</p> <p>The Chairman is an Independent Non-Executive Director.</p> | ✓ |
| 3 (5) (iii) | <p>Disclosure of identity of Chairman and CEO and any Relationships with the Board Members</p> <p>The identity of the Chairman and the CEO are disclosed in the Annual Report on page 11.</p> <p>The Board is aware that there are no relationships whatsoever, including financial, business, family, any other material/relevant relationship between the Chairman and the CEO. Similarly, no relationships prevail among the other members of the Board.</p> | ✓ |






| Section | Principle, Compliance and Implementation | Complied |
|--------------|--|----------|
| 3 (5) (iv) | <p>Chairman to provide Leadership to the Board</p> <p>Board approved List of Functions and Responsibilities of the Chairman includes, 'Providing Leadership to the Board' as a responsibility of the Chairman. The Board's Annual Assessment Form includes an area to measure the 'Effectiveness of the Chairman in facilitating the effective discharge of Board functions'.</p> <p>All key and appropriate issues are discussed by the Board on a timely basis.</p> | ✔ |
| 3 (5) (v) | <p>Responsibility for Agenda Lies with Chairman but may be Delegated to Company Secretary</p> <p>The Company Secretary draws up the agenda for the meetings in consultation with the Chairman.</p> | ✔ |
| 3 (5) (vi) | <p>Ensure that Directors are Properly Briefed and Provided Adequate Information</p> <p>The Chairman ensures that the Board is sufficiently briefed and informed regarding the matters arising at Board meetings. The following procedures ensure this:</p> <ul style="list-style-type: none"> • Circulation of Board papers seven days prior to meeting • Clarification of matters by KMPs when required | ✔ |
| 3 (5) (vii) | <p>Encourage Active Participation by all Directors and Lead in Acting in the Interests of the Bank</p> <p>This requirement is addressed in the List of Functions and Responsibilities of the Chairman approved by the Board.</p> | ✔ |
| 3 (5) (viii) | <p>Encourage Participation of Non-Executive Directors and Relationships between Non-Executive and Executive Directors</p> <p>Eight members of the Board are NEDs which creates a conducive environment for active participation by the NEDs. Additionally, NEDs chair the Subcommittees of the Board providing further opportunity for active participation.</p> | ✔ |
| 3 (5) (ix) | <p>Refrain from Direct Supervision of Key Management Personnel and Executive Duties</p> <p>The Chairman does not get involved in the supervision of KMPs or any other executive duties.</p> | ✔ |
| 3 (5) (x) | <p>Ensure Effective Communication with Shareholders</p> <p>The Bank historically has active shareholder participation at the Annual General Meeting. At the Annual General Meeting the shareholders are given the opportunity to take up matters for which clarification is needed. These matters are adequately clarified by the Chairman and/or CEO and/or any other officer.</p> | ✔ |
| 3 (5) (xi) | <p>CEO Functions as the Apex Executive in charge of the day-to-day operations</p> <p>The day-to-day operations of the Bank have been delegated to the CEO.</p> | ✔ |
| 3 (6) | Board Appointed Committees | |
| 3 (6) (i) | <p>Establishing Board Committees, their Functions and Reporting</p> <p>The Board has established eight committees with written terms of reference for each of which five are mandatory with the remainder appointed to meet the business needs of the Bank. Each committee has a Secretary to arrange the meetings and maintain minutes, records, etc., under the supervision of the Chairman of the Committee. The reports of the Subcommittees are included in the Annual Report as follows:</p> <ul style="list-style-type: none"> • Board Audit Committee on page 140 • Board Integrated Risk Management Committee on page 143 • Board Nomination Committee on page 145 • Board Human Resources and Remuneration Committee on page 147 • Board Related Party Transactions Review Committee on page 149 • Board Credit Committee on page 150 • Board Investments Committee on page 151 • Board Technology Committee on page 152 <p>The chairpersons of the Subcommittees are available at the AGM to clarify any matters that may be referred to them by the Chairman.</p> | ✔ |

| Section | Principle, Compliance and Implementation | Complied |
|------------|--|---|
| 3 (6) (ii) | Audit Committee | |
| a. | <p>Chairman to be an Independent Non-Executive Director with Qualifications and Experience in Accountancy and/or Audit</p> <p>Chairman of the Committee, Mr. S. Swarnajothi is an Independent Non-Executive Director. He is a Fellow of The Institute of Chartered Accountants of Sri Lanka and a Fellow of the Certified Management Accountants of Sri Lanka and also a member of the Institute of Certified Management Accountants of Australia. A former Auditor General of Sri Lanka, he has the required skills and experience to function effectively in this capacity.</p> |  |
| b. | <p>Committee to Comprise Solely of Non-Executive Directors</p> <p>All members of the BAC are independent NEDs.</p> |  |
| c. | <p>Audit Committee Functions</p> <p>In accordance with the Terms of Reference, the BAC has made the following recommendations:</p> <ul style="list-style-type: none"> (i) the appointment of the External Auditor for audit services to be provided in compliance with the relevant statutes; (ii) the implementation of the Central Bank Guidelines issued to Auditors from time to time; (iii) the application of the relevant Accounting Standards; and (iv) the service period, audit fee and any resignation or dismissal of the Auditor. <p>The BAC ensures that the service period of the engagement of the External Audit partner shall not exceed five years, and that the particular audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term.</p> |  |
| d. | <p>Review and Monitor External Auditor's Independence and Objectivity and the Effectiveness of the Audit Processes</p> <p>The Board has adopted a policy of rotation of Auditors, once in every five years, in keeping with the principles of good Corporate Governance.</p> |  |
| e. | <p>Provision of Non-Audit Services by External Auditor</p> <p>Following action is taken prior to the assignment of non-audit services to External Auditors by the Bank:</p> <ul style="list-style-type: none"> a. If the management is of the view that the independence is likely to be impaired with the assignment of any non-audit services to External Auditors, no assignment will be made to obtain such services. b. Further, relevant information is obtained from External Auditors to ensure that their independence is not impaired, as a result of providing any non-audit services. <p>Assigning such non-audit services to External Auditors is discussed at BAC meetings and required approval is obtained to that effect.</p> |  |
| f. | <p>Determines Scope of Audit</p> <p>The committee discussed the Audit Plan and scope of the audit with External Auditors to ensure that it includes:</p> <ul style="list-style-type: none"> (i) an assessment of the Bank's compliance with the relevant Directions in relation to corporate governance and the management's internal controls over financial reporting; (ii) the preparation of Financial Statements for external purposes in accordance with relevant accounting principles and reporting obligations. <p>As all audits within the Group are carried out by the same External Auditor, there was no requirement to discuss arrangements for co-ordinating activities with other auditors.</p> |  |

| Section | Principle, Compliance and Implementation | Complied |
|---------|--|----------|
| g. | <p>Review Financial Information of the Bank</p> <p>The BAC reviews the financial information of the Bank, in order to monitor the integrity of the Financial Statements of the Bank, its Annual Report, accounts and quarterly reports prepared for disclosure, and the significant financial reporting judgements contained therein. The review focuses on the following:</p> <ul style="list-style-type: none"> (i) major judgemental areas; (ii) any changes in accounting policies and practices; (iii) significant adjustments arising from the audit; (iv) the going concern assumption; (v) compliance with relevant Accounting Standards and other legal requirements. <p>The BAC makes their recommendations to the Board on the above on a quarterly basis.</p> | ✔ |
| h. | <p>Discussions with External Auditor on Interim and Final Audits</p> <p>The BAC discusses issues, problems and reservations arising from the interim and final audits with the External Auditor. The Committee met on two occasions with the External Auditors in the absence of executive staff of the Bank.</p> | ✔ |
| i. | <p>Review of Management Letter and Bank's response</p> <p>The BAC has reviewed the External Auditor's Management Letter and the management's response thereto.</p> | ✔ |
| j. | <p>Review of Internal Audit Function</p> <p>The Annual Audit Plan prepared by the Internal Audit Department is submitted to the BAC for approval. This plan covers the scope and resource requirement relating to the Audit Plan.</p> <p>The services of five audit firms have been obtained to assist the Internal Audit Department to carry out the audit function. Prior approval of the BAC has been obtained in this regard.</p> <p>The Committee reviewed the reports submitted by Internal Audit Department and ensures that appropriate action is taken on the recommendations.</p> <p>The Assistant General Manager – Management Audit, who leads the Internal Audit Department, reports directly to the BAC and his performance appraisal is reviewed by the BAC.</p> <p>The BAC is kept apprised of terminations/resignations of senior internal audit staff members and recommends their appointment.</p> <p>The above processes ensure that audits are performed with impartiality, proficiency and due professional care.</p> | ✔ |
| k. | <p>Internal Investigations</p> <p>Major findings of internal investigations and management's responses thereto are reviewed by the BAC. It has also ensured that the recommendations of such investigations are implemented.</p> | ✔ |
| l. | <p>Attendees at Board Audit Committee Meetings</p> <p>The CEO, CFO, AGM – Management Audit and a representative of the External Auditors normally attend meetings. Other Board members may also attend meetings upon the invitation of the Committee. The Committee met with the External Auditors without the Executive Directors being present on two occasions during the year.</p> | ✔ |
| m. | <p>Explicit Authority, Resources and Access to Information</p> <p>The Terms of Reference for the BAC includes:</p> <ul style="list-style-type: none"> (i) explicit authority to investigate into any matter within its terms of reference; (ii) the resources which it needs to do so; (iii) full access to information; and (iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary. <p>Refer the BAC Report on page 140.</p> | ✔ |

| Section | Principle, Compliance and Implementation | Complied |
|-------------|--|----------|
| n. | <p>Regular Meetings</p> <p>The BAC has scheduled regular quarterly meetings and additional meetings are scheduled when required. Accordingly, the Committee met eleven times during the year. Members of the BAC are served with due notice of issues to be discussed and the conclusions in discharging its duties and responsibilities are recorded in the minutes of the meetings maintained by the Secretary of the BAC.</p> | ☑ |
| o. | <p>Disclosure in Annual Report</p> <p>The Report of the BAC on page 140 includes the following:</p> <p>(i) details of the activities of the Audit Committee;</p> <p>(ii) the number of BAC meetings held in the year; and</p> <p>(iii) details of attendance of each individual Director at such meetings.</p> | ☑ |
| p. | <p>Maintain Minutes of Meetings</p> <p>AGM – Management Audit serves as the Secretary for the BAC and maintains minutes of the committee meetings.</p> | ☑ |
| q. | <p>Whistle Blowing Policy and Relationship with External Auditor</p> <p>The Bank has a Whistle blowing Policy which has been reviewed and approved by the BAC and the Board of Directors. Board's responsibility towards encouraging communication on any non-compliance and unethical practices are addressed in the Board Charter.</p> <p>A process is in place and proper arrangements are in effect to conduct fair and independent investigation and appropriate follow up action regarding any concerns raised by the employees of the Bank, in relation to possible inappropriate financial reporting, internal controls or other matters.</p> <p>The BAC is the key representative body for overseeing the Bank's relations with the External Auditor and meets the Auditor on a regular basis to discharge this function.</p> | ☑ |
| 3 (6) (iii) | <p>Human Resources and Remuneration Committee</p> <p>Charter of the Committee</p> <p>The HR and Remuneration Committee (BHRRC) is responsible for:</p> <p>a. determining the remuneration policy relating to Directors, CEO and KMPs;</p> <p>b. setting goals and targets for the Directors, CEO and KMPs;</p> <p>c. evaluating performance of the CEO and KMPs against agreed targets and goals and determining the basis for revising remuneration, benefits and other payments of performance based incentives.</p> <p>The CEO attends all meetings of the Committee, except when matters relating to the CEO are being discussed.</p> | ☑ |
| 3 (6) (iv) | <p>Nomination Committee</p> <p>a. Appointment of Directors, CEO and Key Management Personnel</p> <p>The Committee has developed and implemented a procedure to appoint new Directors, CEO and KMPs.</p> <p>The Committee is chaired by the Chairman of the Bank and comprises three other NEDs, two of whom are independent.</p> <p>The CEO may be present at meetings by invitation. Refer the BNC Report on page 145.</p> <p>b. Re-Election of Directors</p> <p>The Committee makes recommendations regarding the re-election of current Directors, considering the performance and contribution made by the Director concerned towards the overall discharge of the Board's responsibilities.</p> <p>c. Eligibility Criteria for Appointments to Key Managerial Positions Including CEO</p> <p>The Committee sets the eligibility criteria to be considered, including qualifications, experience and key attributes, for appointment or promotion to key managerial positions including the position of the CEO. The Committee considers the applicable statutes and guidelines in setting the criteria.</p> | ☑ |

| Section | Principle, Compliance and Implementation | Complied |
|-----------|--|---|
| d. | <p>Fit and Proper persons</p> <p>The Committee obtains annual declarations from Directors, CEO and COO to ensure that they are fit and proper persons to hold office as specified in the criteria given in the Section 3 (3) of this Direction and as set out in the Statutes.</p> <p>Further, the BHRRC obtains declaration from KMPs to ensure that they too are fit and proper persons to hold office as specified in the said Direction.</p> |  |
| e. | <p>Succession Plan and New Expertise</p> <p>The Committee has developed a succession plan for the Directors whilst succession planning for KMPs is carried out by the BHRRC. The need for new expertise may be identified by the Board or its Subcommittees and brought to the attention of the BNC who will take appropriate action.</p> |  |
| f. | <p>Committee to be chaired by an Independent Director</p> <p>The Committee was chaired by an Independent Non-Executive Director and the CEO was presented at the meetings by invitation.</p> |  |
| 3 (6) (v) | Integrated Risk Management Committee/Board Risk Management Committee | |
| a. | <p>Composition of Integrated Risk Management Committee</p> <p>The Committee comprises NEDs, the CEO and the Chief Risk Officer who serves as the secretary to the committee. Other KMPs supervising credit, market, liquidity, operational and strategic risk are invited to attend the meeting on a regular basis.</p> |  |
| b. | <p>Risk Assessment</p> <p>The Committee has approved the policies on Credit Risk Management, Market Risk Management and Operational Risk Management, which provide a framework for management and assessment of risks. Accordingly, monthly information on pre-established risk indicators is reviewed by the Committee in discharging its responsibilities as per the Terms of Reference.</p> |  |
| c. | <p>Review of Management Level Committees on Risk</p> <p>The Committee reviews the reports of the management level Credit Policy Risk and Portfolio Review Committee and the Asset and Liability Management Committee (ALCO) to assess their adequacy and effectiveness in addressing specific risks and managing same within the quantitative and qualitative risk limits set out in the Risk Appetite Statement reviewed and approved by the Board on a regular basis.</p> <p>Further, adequacy and effectiveness of all management level risk-related committees such as Executive Integrated Risk Management Committee, ALCO, Credit Policy Committee and Executive Committee on Monitoring NPAs are reviewed by the BIRMC annually.</p> |  |
| d. | <p>Corrective Action to Mitigate Risks Exceeding Prudential Levels</p> <p>Actual exposure levels under each risk category are monitored against the tolerance levels when preparation of 'Risk Profile Dashboard' of the Bank, which is circulated among members of the BIRMC monthly and discussed in detail at quarterly meetings.</p> <p>The Committee takes prompt corrective action to mitigate the effects of specific risks in the case, such risks are at levels beyond the prudent levels decided by the Committee on the basis of the Bank's policies and regulatory and supervisory requirements.</p> |  |
| e. | <p>Frequency of Meetings</p> <p>The Committee has regular quarterly meetings and schedules additional meetings when required. The agenda covers matters assessing all aspects of risk management including updated business continuity plans. The committee met five times during 2016.</p> |  |
| f. | <p>Actions against Officers Responsible for Failure to Identify specific Risks or Implement Corrective Action</p> <p>The Committee refers such matters, if any, to the Human Resources Department for necessary action.</p> |  |









| Section | Principle, Compliance and Implementation | Complied |
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| g. | <p>Risk Assessment Report to Board</p> <p>A comprehensive report of the meeting is submitted to the Board after each committee meeting by the Secretary of the Committee for their information, views, concurrence or specific directions.</p> |  |
| h. | <p>Compliance function</p> <p>A compliance function has been established to assess the Bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations. This function is headed by a dedicated Compliance Officer who reports to the BAC and the BIRMC. The Compliance Officer submits a Positive Assurance Certificate on Compliance with Mandatory Banking and Other Statutory Requirements on a quarterly basis to BAC and BIRMC.</p> |  |
| 3 (7) | Related Party Transactions | |
| 3 (7) (i) | <p>Avoid Conflict of Interest</p> <p>The BRPTRC is tasked with the oversight of the processes relating to this subject and their report is on page 149.</p> <p>All members of the Board are required to make declarations of the positions held with related parties at the time of appointment and annually thereafter. This information is provided to the Finance Department, enabling them to capture relevant transactions. In the event of any change (during the year), the Directors are required to make a further declaration to the Company Secretary.</p> <p>Directors refrain from participating at relevant sessions, in which lending to related entities are discussed to avoid any kind of an influence and conflict of interest.</p> <p>Transactions carried out with related parties as defined by LKAS 24 on 'Related Party Disclosures', in the normal course of business, are disclosed in Note 64 to the Financial Statements on 'Related Party Disclosures' on pages 313 to 318.</p> <p>Directors' interest in contracts, which do not fall into the definition of related party transactions as per LKAS 24, are reported separately in the Annual Report, outside the Financial Statements. Refer pages 170 and 171 for more details.</p> |  |
| 3 (7) (ii) | <p>Related Party Transactions Covered by Direction</p> <p>The Related Party Transactions Policy approved by the Board, covers the following transactions:</p> <ol style="list-style-type: none"> The grant of any type of accommodation, as defined in the Monetary Board's Directions on maximum amount of accommodation; The creation of any liabilities of the Bank in the form of deposits, borrowings and investments; The provision of any services of a financial or non-financial nature to the Bank or received from the Bank; The creation or maintenance of reporting lines and information flows between the Bank and any related parties, which may lead to sharing of potentially proprietary, confidential or otherwise sensitive information that may give benefits to such related parties. |  |
| 3 (7) (iii) | <p>Prohibited Transactions</p> <p>The Bank's Related Party Transactions Policy prohibits transactions, which would grant related parties more favourable treatment than that accorded to other customers. These include the following:</p> <ol style="list-style-type: none"> Granting of 'total net accommodation' to related parties, exceeding a prudent percentage of the Bank's regulatory capital; Charging of a lower rate of interest than the Bank's best lending rate or paying more than the Bank's deposit rate for a comparable transaction with an unrelated comparable counterparty; Providing of preferential treatment, such as favourable terms, covering trade losses and/or waiving fees/commissions, that extend beyond the terms granted in the normal course of business undertaken with unrelated parties; Providing services to or receiving services from a related party without an evaluation procedure; Maintaining reporting lines and information flows that may lead to sharing potentially proprietary, confidential or otherwise sensitive information with related parties, except as required for the performance of legitimate duties and functions. |  |

| Section | Principle, Compliance and Implementation | Complied |
|--------------|---|----------|
| 3 (7) (iv) | <p>Granting Accommodation to a Director or Close Relation of a Director</p> <p>A procedure is in place for granting accommodation to Directors or to close relations of Directors. Such accommodation requires approval at a meeting of the Board of Directors, by not less than two thirds of the number of Directors, other than the Director concerned, voting in favour of such accommodation or through circulation of papers, which require approval by all. The terms and conditions of the facility include a proviso that it will be secured by such security, as may from time to time be determined by the Monetary Board as well.</p> | ☑ |
| 3 (7) (v) | <p>Accommodations granted to Persons, Concerns of Persons or Close Relations of Persons, who subsequently are appointed as Directors of the Bank</p> <p>The Company Secretary obtains declarations/affidavits from all Directors prior to their appointment and they are requested to declare any further transactions.</p> <p>Employees of the Bank are aware of the requirement to obtain necessary security, as defined by the Monetary Board, if the need arises.</p> <p>Processes for compliance with this regulation is also monitored by the Compliance Unit.</p> <p>Ms. N.T.M.S. Cooray was appointed as a Director to the Board on September 19, 2016. The Bank had granted facilities to companies in which she was a Director. Since appointment to the Board, granting of these facilities have been disclosed as RPTs. Upon obtaining the accommodation, the necessary securities were obtained for the facilities under consideration.</p> | ☑ |
| 3 (7) (vi) | <p>Favourable Treatment or Accommodation to Bank Employees or their Close Relations</p> <p>No favourable treatment/accommodation is provided to Bank employees, other than staff benefits. Employees of the Bank are informed through operational circulars, to refrain from granting favourable treatment to other employees or their close relations or to any concern in which an employee or close relation has a substantial interest.</p> | ☑ |
| 3 (7) (vii) | <p>Remittance of Accommodation Subject to Monetary Board approval</p> <p>No such situation has arisen during the year.</p> | ☑ |
| 3 (8) | Disclosures | |
| 3 (8) (i) | <p>Publish Annual and Quarterly Financial Statements</p> <p>Annual Audited Financial Statements and Interim Financial Statements of the Bank were prepared and published during 2016 in the newspapers (in Sinhala, Tamil and English), in accordance with the formats prescribed by the Supervisory and Regulatory Authorities and applicable accounting standards.</p> | ☑ |
| 3 (8) (ii) | <p>Disclosures in Annual Report</p> <p>a. A Statement to the Effect that the Annual Audited Financial Statements have been prepared in line with Applicable Accounting Standards and Regulatory requirements, Inclusive of Specific Disclosures.</p> <p>Disclosures on the compliance with the applicable accounting standards and regulatory requirements in preparation of the Annual Audited Financial Statements, have been made in the 'Statement of Directors' Responsibility', 'Managing Director's and Chief Financial Officer's Statement of Responsibility'. Refer pages 164 and 169.</p> <p>b. Report by the Board on the Bank's Internal Control Mechanism</p> <p>The Annual Report includes the reports where the Board confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting and that the preparation of Financial Statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements:</p> <ul style="list-style-type: none"> • Directors' Statement on Internal Control on page 166 and 167. • Statement of Director's Responsibility on pages 164 and 165. • Annual Report of the Board of Directors on pages 153 to 163. | ☑ |







| Section | Principle, Compliance and Implementation | Complied | | | | | | | | | | | | | | |
|---------------------------|--|---------------------------|-----------------------------|--|------|------|---------------|------|------|--------------|------|------|------------|------|------|---|
| c. | <p>External Auditor's Certification on the Effectiveness of the Internal Control Mechanism</p> <p>The Bank has obtained a Certificate on the Effectiveness of Internal Controls over Financial Reporting, which is published on page 168.</p> | ✓ | | | | | | | | | | | | | | |
| d. | <p>Details of Directors, Including Names, Fitness and Propriety, Transactions with the Bank and the Total of Fees/ Remuneration paid by the Bank</p> <ul style="list-style-type: none"> • Profiles of Directors are given on pages 11 to 13. • Directors' interests in contracts with the Company on pages 170 and 171. • Remunerations paid by the Bank are given in Note 21 to the Financial Statements on page 224. | ✓ | | | | | | | | | | | | | | |
| e. | <p>Total Accommodations Granted to each Category of Related Parties and as a Percentage of the Bank's Regulatory Capital</p> <p>Total accommodations granted to each category of Related Parties are given in Note 64 to the Financial Statements on pages 313 to 318. The net accommodations granted to each category of related parties as a percentage of the Bank's Regulatory Capital are given below:</p> <p>Direct and indirect accommodation to related parties:</p> <table border="1"> <thead> <tr> <th rowspan="2">Category of Related Party</th> <th colspan="2">% of the Regulatory Capital</th> </tr> <tr> <th>2016</th> <th>2015</th> </tr> </thead> <tbody> <tr> <td>KMPs and CFMs</td> <td>0.48</td> <td>0.22</td> </tr> <tr> <td>Subsidiaries</td> <td>0.86</td> <td>1.28</td> </tr> <tr> <td>Associates</td> <td>0.00</td> <td>0.00</td> </tr> </tbody> </table> <p>CFMs – Close Family Members</p> | Category of Related Party | % of the Regulatory Capital | | 2016 | 2015 | KMPs and CFMs | 0.48 | 0.22 | Subsidiaries | 0.86 | 1.28 | Associates | 0.00 | 0.00 | ✓ |
| Category of Related Party | % of the Regulatory Capital | | | | | | | | | | | | | | | |
| | 2016 | 2015 | | | | | | | | | | | | | | |
| KMPs and CFMs | 0.48 | 0.22 | | | | | | | | | | | | | | |
| Subsidiaries | 0.86 | 1.28 | | | | | | | | | | | | | | |
| Associates | 0.00 | 0.00 | | | | | | | | | | | | | | |
| f. | <p>Aggregate Values of Remuneration to and Transactions with Key Management Personnel</p> <p>The aggregate values of remuneration paid and transactions with the Bank by KMPs as defined by LKAS 24 for financial reporting purposes, are given in Note 64 to the Financial Statements on pages 313 to 318.</p> <p>Further, total Deposits and repurchase agreements held and total Direct and Indirect facilities obtained, as at December 31, 2016 by the KMPs (Board and selected members of Corporate Management) amounted to Rs. 200.3 Mn. (Rs. 135.3 Mn. in 2015) and Rs. 156.1 Mn. (Rs. 177.6 Mn. in 2015), respectively.</p> | ✓ | | | | | | | | | | | | | | |
| g. | <p>External Auditors Certification of Compliance</p> <p>The factual findings report has been issued by the External Auditor on the level of compliance with the requirements of these regulations.</p> <p>The findings presented in their report addressed to the Board did not identify any inconsistencies to those reported above.</p> | ✓ | | | | | | | | | | | | | | |
| h. | <p>Report Confirming Compliance with Prudential Requirements, Regulations, Laws and Internal Controls</p> <p>The Statement of Directors' Responsibility on pages 164 and 165 clearly sets out details regarding compliance with prudential requirements, regulations, laws and internal controls. There were no instances of non-compliance during the year.</p> | ✓ | | | | | | | | | | | | | | |
| i. | <p>Non-compliance Report</p> <p>There were no supervisory concern lapses in the Bank's Risk Management Systems or non-compliance with these directions that have been pointed out by the Director of the Bank Supervision Department of the CBSL and therefore, there is no disclosure in this regard.</p> | ✓ | | | | | | | | | | | | | | |
| 3 (9) | <p>Transitional and Other General Provisions</p> <p>The Bank has complied with the transitional provisions.</p> | ✓ | | | | | | | | | | | | | | |

ANNEX 1.2: CODES OF BEST PRACTICE ON CORPORATE GOVERNANCE




Compliance with the Code of Best Practice on Corporate Governance issued jointly by the Securities and Exchange Commission of Sri Lanka and The Institute of Chartered Accountants of Sri Lanka

| Code Ref. | Compliance and Implementation | Complied |
|-----------|--|---|
| A. | Directors | |
| A.1 | <p>The Board</p> <p>The Board of Commercial Bank comprises 10 eminent professionals drawn from multiple fields. They bring diverse perspectives and independent judgement to the deliberation of matters set before the Board.</p> <p>Directors are elected by shareholders at the AGMs with the exception of the CEO and COO who are appointed by the Board and remain as Executive Directors until expiry or termination of such appointment. Casual vacancies are filled by the Board based on the recommendations of the BNC as provided for in the Articles of Association. They are assisted by the Company Secretary.</p> |  |
| A.1.1 | <p>Regular Meetings</p> <p>The Board meets on a monthly basis and each Board Subcommittee also has its own schedule of meetings as set out in the respective committee reports. Attendance at meetings is summarised in Table 22 on pages 127 to 129.</p> |  |
| A.1.2 | <p>Role and Responsibilities of the Board</p> <p>The Role and Responsibilities of the Board are set out in the Board Charter as summarised in Figure 29 on page 131.</p> |  |
| A.1.3 | <p>Act in Accordance with Laws</p> <p>The Board has an approved Working Procedure in place to facilitate compliance with the relevant laws, CBSL Directions and guidelines and international best practice with regards to the operations of the Bank. This includes provision to obtain independent professional advice as and when necessary coordinated through the Company Secretary. Independent professional advices were sought on matters in accordance with the above provision in 2016 on four occasions for which the expenses were borne by the Bank.</p> |  |
| A.1.4 | <p>Access to Advice and Services of Company Secretary</p> <p>All Directors are able to obtain the advice and services of the Company Secretary and the appointment and removal of the Company Secretary is a matter involving the whole Board under advisement of the BNC as it is a Key Management position.</p> |  |
| A.1.5 | <p>Independent Judgement</p> <p>The Board comprises senior professionals who are luminaries in their respective fields and use their independent judgement on issues of strategy, performance, resources, key appointments and standards of business conduct. The composition of the Board ensures that there is a sufficient balance of power and contribution by all Directors and minimises the tendency for one or few members of the Board to dominate the Board processes or decision making.</p> |  |
| A.1.6 | <p>Dedicate Adequate Time and Effort to Matters of the Board and the Company</p> <p>Board meetings and Board Committee meetings are scheduled well in advance and the relevant papers are circulated a week prior to the meeting using electronic means to ensure that Directors have sufficient time to review the same and call for additional information or clarifications, if required. While there is provision to circulate papers closer to the meeting in exceptional circumstances, this is generally discouraged. Members of the Corporate Management Team and external experts make representations to the Board on the business environment, regulatory changes, operations and other developments on a regular basis to facilitate enhancing the knowledge of the Board on matters relevant to the Bank's operations.</p> <p>It is estimated that NEDs dedicate not less than 12 days per annum for the affairs of the Bank and those Directors who are also on the BAC and the BIRMC dedicate a further four days for the affairs of the Bank.</p> |  |
| A.1.7 | <p>Board Induction and Training</p> <p>Refer the Section on 'Induction and Training of Directors' on page 132.</p> |  |

| Code Ref. | Compliance and Implementation | Complied |
|-----------|---|----------|
| A.2 | <p>Separating the Activities of the Board from the Executive Responsibilities of the Company</p> <p>The positions of the Chairman and the CEO have been separated in line with best practice in order to maintain a balance of power and authority. The Chairman is a Non-Executive Director whilst the CEO is an Executive Director appointed by the Board. The roles of the Chairman and the CEO are clearly defined in the Board Charter.</p> | ✓ |
| A.3 | <p>Chairman's Role in Preserving Good Corporate Governance</p> <p>The Chairman provides leadership to the Board, preserving order and facilitating the effective discharge of duties of the Board and is responsible for ensuring the effective participation of all Directors and maintaining open lines of communication with KMPs, acting as a sound Board on strategic and operational matters. The agenda for Board Meetings are determined by the Chairman in consultation with the Company Secretary and Directors wishing to include items on the Agenda may request the Chairman to discuss same.</p> | ✓ |
| A.4 | <p>Availability of Financial Acumen and Knowledge to offer Guidance on Matters of Finance</p> <p>The Chairman of the BAC and the Deputy Chairman of the Bank both of whom are NEDs are Fellow members of the CA Sri Lanka ensuring a sufficiency of financial acumen within the Board on matters of finance. Additionally, the Executive Directors and two NEDs are professional Bankers with considerable experience on matters of finance.</p> | ✓ |
| A.5 | <p>Board Balance</p> <p>The Board comprises eight NEDs and two Executive Directors facilitating an appropriate balance within the Board. Seven NEDs are independent of management and free of business dealings that may be perceived to interfere with the exercise of their unfettered and independent judgement. They submit annual declarations to this effect which evaluated to ensure compliance with the criteria for determining independence which are based on the requirements of the Code.</p> <p>The Chairman holds a meeting at least once a year with only the NEDs without the presence of the Executive Directors. Directors' concerns regarding matters which are not resolved unanimously are recorded in the minutes.</p> | ✓ |
| A.6 | <p>Provision of Appropriate and Timely Information</p> <p>Board members receive information regarding matters set before the Board seven days prior to the meetings and the Chairman ensures that all Directors are properly briefed on same by requiring the presence of KMPs when deemed necessary. Management also makes presentations on regular agenda items to the Board and its Subcommittees. Additionally, the Directors have access to KMPs to seek clarifications or additional information on matters presented to the Board. Directors who are unable to attend a meeting is updated on proceedings through formally documented minutes, which are also discussed at the next meeting to ensure follow up and proper recording.</p> | ✓ |
| A.7 | <p>Appointments to the Board and Re-election</p> <p>Refer Sections on 'Appointment of Director' and 'Re-Election' on page 132.</p> | ✓ |
| A.8 | <p>All Directors should Submit themselves for Re-election at Regular Intervals</p> <p>Refer the Section on 'Re-Election' on page 132.</p> | ✓ |
| A.9 | <p>Appraisal of Board and Committee Performance</p> <p>Refer the Section on 'Board and Subcommittee Evaluations' on page 133.</p> | ✓ |
| A.10 | <p>Annual Report to Disclose Specified Information Regarding Directors</p> <p>Information specified in the Code with regard to Directors are disclosed within this Annual Report as follows:</p> <ul style="list-style-type: none"> • Profiles including qualifications, expertise, material business interests and key appointments on pages 11 to 13. • Remuneration paid to Directors in Note 21 to the Financial Statements on page 224. • Related Party Transactions and other business interests on pages 313 to 318 and 170 and 171. • Membership of committees and attendance at Board Meetings and Committee meetings on the pages 127 to 129. | ✓ |
| A.11 | <p>Appraisal of the CEO – Refer page 133</p> | ✓ |

| Code Ref. | Compliance and Implementation | Complied |
|-----------|--|---|
| B. | Directors' Remuneration | |
| B.1 | Directors' and Executive Remuneration – Refer page 224. |  |
| B.2 | Level and Make-Up of Remuneration – Refer page 133. |  |
| B.3 | Disclosures Related to Remuneration in Annual Report <ul style="list-style-type: none"> • Statement of Remuneration Policy – Refer page 133. • Details of remuneration of the Board as a whole – Refer Note 21 to the Financial Statements on page 224. • Names of the members of the BHRRC and their Report – Refer page 147. |  |
| C. | Relations with Shareholders | |
| C.1 | Constructive use of the AGM and Other General Meetings <p>The AGM provides a forum for all shareholders to participate in decision making matters reserved for the shareholders which typically include proposals to adopt the Annual Report and Accounts, appointment of Directors and Auditors and other matters requiring special resolutions as defined in the Articles of Association or the Companies Act No. 7 of 2007. The Chairman ensures the presence of the Chairmen of the Audit, Remuneration and Nomination Committees to respond to any questions that may be directed to them by the Chairman. Notice of the AGM is circulated together with the Annual Report and Accounts which includes information relating to any other resolutions that may be set before the shareholders at the AGM 15 working days in advance. A summary of the procedures governing voting at General Meetings is included on page 133 of this Annual Report.</p> |  |
| C.2 | Communication with Shareholders <p>The Shareholder Communication Policy sets out multiple channels of communication for engaging with shareholders. Channels include a dedicated investor relations website at http://www.combank.lk/newweb/investor-relations, press releases and notices in English, Sinhala and Tamil newspapers and required disclosures to the CSE which are published on the CSE website. The Bank's website which was re-designed during the year now provides information on risk management, economy and financial markets in addition to the financial information. The Interim Financial Statements are published in the English, Sinhala and Tamil newspapers within 45 days. Every effort is made to ensure that the Annual Report provides a balanced review of the Bank's performance.</p> <p>The principal forum for shareholders is the AGM, while matters can also be raised through the Company Secretary. The Company Secretary keeps the Board apprised of issues raised by the shareholders to ensure that they are addressed in an appropriate manner in keeping with the corporate values of the Bank. Matters raised in writing are responded to in writing by the Company Secretary.</p> |  |
| C.3 | Disclosure of Major Transactions <p>The Shareholders Communication Policy addresses the need to disclose major transactions to shareholders and has in place a defined process for doing the same. There were no transactions which would materially alter the Company's or Group's net asset base nor any major related party transactions apart from those disclosed in the –</p> <ul style="list-style-type: none"> • Annual Report of the Board of Directors on pages 153 to 163; and • Note 64 to the Financial Statements on page 313 |  |

| Code Ref. | Compliance and Implementation | Complied |
|-----------|---|----------|
| D | Accountability and Audit | |
| D.1 | <p data-bbox="208 381 1381 401">Present a Balanced and Understandable Assessment of the Company's Financial Position, Performance and Prospects</p> <p data-bbox="208 422 1381 561">All efforts are taken to ensure that the Annual Report presents a balanced review of the Bank's financial position, performance and prospects combining narrative and visual elements to facilitate readability and comprehension. Care has been exercised to ensure that all statutory requirements are complied with-in the Annual Report and in the issue of interim communications on financial performance which are reviewed by the BAC and approved prior to publication. The following disclosures as required by the Code are included in this report:</p> <ul data-bbox="208 571 1381 851" style="list-style-type: none"> • Annual Report of the Board of Directors – Refer pages 153 to 163. • Statement of Directors' Responsibility – Refer pages 164 and 165. • Independent Auditors' Report – Refer page 180. • Directors' Statement on Internal Control – Refer pages 160 and 167. • Management Discussion and Analysis – Refer pages 37 to 122. • Statement of going concern of the Company is set out in the Statement of Directors' Responsibility and Item 20 of the Annual Report of the Directors. • Related Party Transactions disclosed on page 161 of the Directors' Report and in Note 64 in the Financial Statements on pages 313 to 318 and the process in place is described in the Report of the BRPTRC on page 149. <p data-bbox="208 861 1381 975">In the unlikely event of the net assets of the Company falling below 50% of Shareholders Funds, the Board will summon an Extraordinary General Meeting (EGM) to notify the shareholders of the position and to explain the remedial action being taken. The Annual Report clearly explains how net assets have increased during the year in the Financial Review on page 46.</p> | ☑ |
| D.2 | <p data-bbox="208 996 1381 1048">Process of Risk Management and a Sound System of Internal Control to Safeguard Shareholders' Investments and the Company's Assets</p> <p data-bbox="208 1058 1381 1286">The Board is responsible for formulating and implementing appropriate processes for risk management and internal control systems to safeguard shareholder investments and assets of the Bank. The BIRMC assists the Board in discharge of its duties with regard to risk management and the BAC assists the Board in discharge of its duties in relation to internal control. Their responsibilities are summarised in the respective Subcommittee reports and have been formulated with reference to the requirements of the Code, the Banking Act Direction No.11 of 2007 on Corporate Governance and the Bank's business needs. The BIRMC is supported by the Risk Management Department of the Bank and a comprehensive report of how the Bank manages risk is included on pages 172 to 175 and the Subcommittee Reports on pages 143 and 144.</p> | ☑ |
| D.3 | <p data-bbox="208 1307 1381 1328">Audit Committee</p> <p data-bbox="208 1348 1381 1545">The BAC of the Board comprises four independent NEDs and a summary of its responsibilities and activities are given in the Report of the BAC. It is supported by the Internal Audit function of the Bank who report directly to the BAC. The Chairman of the Committee is Mr. S. Swarnajothi, a Fellow member of the CA Sri Lanka and a former Auditor General of Sri Lanka. The Committee has also appointed Mr. Manil Jayasinghe FCA, FCMA, Partner of Ernst & Young as a Consultant to the Committee and is invited to the meetings. The Board also obtains assurance from its External Auditors on the effectiveness of internal controls on financial reporting which is reproduced on page 168.</p> | ☑ |
| D.4 | <p data-bbox="208 1566 1381 1587">Code of Ethics</p> <p data-bbox="208 1607 1381 1680">The Bank has an internally-developed Code of Conduct and Business Ethics which is applicable to all employees. The Bank also has Board adopted rules applicable to share transactions of Commercial Bank by the Directors which are fully compliant with the Listing Rules of the CSE.</p> <p data-bbox="208 1701 1381 1897">The Code of Conduct is in compliance with the requirements of the Schedule I of the Code of Best Practice on Corporate Governance 2013 which encompasses conflict of interest, bribery and corruption, entertainment and gifts, accurate accounting and record-keeping, corporate opportunities, confidentiality, fair dealing, protection and proper use of company assets, compliance with laws, rules and regulations (including insider trading laws), and encouraging the reporting of any illegal or unethical behaviour. The BHRRC of the Bank reviews the Code of Ethics on an annual basis to ensure that it is sufficient and relevant with reference to the current operations of the Bank.</p> | ☑ |

| Code Ref. | Compliance and Implementation | Complied |
|-----------|--|---|
| D.5 | <p>Corporate Governance Disclosures</p> <p>This Corporate Governance Report from pages 123 to 175 and pages 354 to 371 complies with the requirement to disclose the extent of compliance with the Code of Best Practice on Corporate Governance as specified in Principle D5.</p> |  |
| E & F | <p>Encourage Voting at AGM</p> <p>The Bank has 9,610 ordinary voting shareholders of which 5.74% are institutional shareholders. We have a regular structured dialogue with the large institutional shareholders and any concerns of these institutional shareholders expressed at the meetings is communicated to the Board as a whole. All shareholders are encouraged to exercise their voting powers at the Annual General Meeting. We also facilitate the analysis of the securities of the Bank by encouraging both foreign and local analysts covering the Bank with structured meetings where they are able to obtain information and explanations required for evaluating the current and future performance of the Company, sector and country. Additionally, the investor relations page on the Bank's website has key information required by shareholders and analysts. The Interactive Annual Report also has a tab where investors can provide feedback and request for specified information.</p> |  |
| G | <p>Sustainability Reporting</p> <p>The Bank is an early champion of sustainability and sustainability reporting commenced in 2009. Sustainability principles are embedded in our business operations and considered in formulating our business strategy and reported in a holistic manner throughout this Report. Information required by the Code is located as follows:</p> <p>Principle 1 – Reporting of Economic Sustainability (Financial and Manufactured Capital) – Refer pages 46 to 51.</p> <p>Principle 2 – Reporting on the Environment (Impact on Environment) – Refer pages 76 to 81.</p> <p>Principle 3 – Reporting on Labour Practices (Human Capital) – Refer pages 68 to 75.</p> <p>Principle 4 – Reporting on Society (Social Impact) – Refer pages 52 to 63.</p> <p>Principle 5 – Reporting on Product Responsibility (Social and Network Capital) – Refer pages 52 to 63.</p> <p>Principle 6 – Reporting on Stakeholder identification, engagement and effective communication (Stakeholder Engagement) – Refer pages 30 and 31.</p> <p>Principle 7 – Sustainable reporting to be formalised as part of the reporting process and to take place regularly (About this Report) – Refer page 03.</p> |  |

ANNEX 1.3: OTHER DISCLOSURE REQUIREMENTS

Disclosure Requirements under the Prescribed Format Issued by the Central Bank of Sri Lanka for Preparation of Annual Financial Statements of Licensed Commercial Banks

| Disclosure Requirements | Description | Page No/s. |
|--|--|------------|
| 1. Information about the Significance of Financial Instruments for Financial Position and Performance | | |
| 1.1 Statement of Financial Position | | |
| 1.1.1 Disclosures on categories of financial assets and financial liabilities. | <i>Notes to the Financial Statements:</i> Note 25 – Classification of Financial Assets and Financial Liabilities | 229 |
| 1.1.2 Other Disclosures | | |
| (i) Special disclosures about financial assets and financial liabilities designated to be measured at fair value through profit or loss, including disclosures about credit risk and market risk, changes in fair values attributable to these risks and the methods of measurement. | <i>Significant Accounting Policies:</i> Note 7.1.3.1.2 – Financial Assets Designated at Fair Value through Profit or Loss Note 7.1.4.1.2 – Financial Liabilities Designated at Fair Value through Profit or Loss | 202 203 |
| (ii) Reclassifications of financial instruments from one category to another. | <i>Significant Accounting Policies:</i> Note No. 7.1.5 – Reclassification of Financial Assets and Liabilities | 204 |
| (iii) Information about financial assets pledged as collateral and about financial or non-financial assets held as collateral. | <i>Notes to the Financial Statements:</i> Note 69.1.3 – Collateral Held | 332 |
| (iv) Reconciliation of the allowance account for credit losses by class of financial assets. | <i>Notes to the Financial Statements:</i> Note 33.2 – Movement in Provision for Individual and Collective Impairment during the year | 247 |
| (v) Information about compound financial instruments with multiple embedded derivatives. | The Bank does not have compound financial instruments with multiple embedded derivatives. | – |
| (vi) Breaches of terms of loan agreements. | None | – |
| 1.2 Statement of Comprehensive Income | | |
| 1.2.1 Disclosures on items of income, expense, gains and losses. | <i>Notes to the Financial Statements:</i> Notes 12 – 22 to the Financial Statements | 214 to 226 |
| 1.2.2 Other Disclosures | | |
| (i) Total interest income and total interest expense for those financial instruments that are not measured at fair value through profit and loss. | <i>Notes to the Financial Statements:</i> Note 13 – Net Interest Income | 214 |
| (ii) Fee income and expense. | <i>Notes to the Financial Statements:</i> Note 14 – Net Fees and Commission Income | 217 |
| (iii) Amount of impairment losses by class of financial assets. | <i>Notes to the Financial Statements:</i> Note 18 – Impairment Charges for Loans and Other Losses | 220 |
| (iv) Interest income on impaired financial assets. | <i>Notes to the Financial Statements:</i> Note 13.1 – Interest income | 215 |

| Disclosure Requirements | | Description | Page No/s. |
|-------------------------|--|--|------------|
| 1.3 | Other Disclosures | | |
| 1.3.1 | Accounting policies for financial instruments. | <i>Significant Accounting Policies:</i> Note 7.1 – Financial Instruments – Initial Recognition, Classification and Subsequent Measurement | 202 |
| 1.3.2 | Information on hedge accounting. | The Bank did not elect to follow hedge accounting. | |
| 1.3.3 | Information about the fair values of each class of financial asset and financial liability, along with: | | |
| | (i) Comparable carrying amounts. | <i>Notes to the Financial Statements:</i> Note 26.1 – Assets and Liabilities Measured at Fair Value and Fair Value Hierarchy | 234 |
| | | Note 26.3 – Financial Instruments not Measured at Fair Value and Fair Value Hierarchy | 236 |
| | (ii) Description of how fair value was determined. | <i>Significant Accounting Policies:</i> Note 4 - Fair Value Measurement | 199 |
| | (iii) The level of inputs used in determining fair value. | <i>Notes to the Financial Statements:</i> Note 26.3 – Financial Instruments not Measured at Fair Value and Fair Value Hierarchy | 236 |
| | | Note 26.4 – Valuation Techniques and Inputs in Measuring the Fair Value | 238 |
| | | Note 39.5 (b) – Information on Valuations of Freehold Land and Buildings of the Bank | 271 |
| | (iv) (a) Reconciliations of movements between levels of fair value measurement hierarchy. | There were no movements between levels of fair value hierarchy during the period under review. | |
| | (b) Additional disclosures for financial instruments that fair value is determined using level 3 inputs. | <i>Notes to the Financial Statements:</i> Note 26.2 – Level 3 Fair Value Measurement | 236 |
| | (v) Information if fair value cannot be reliably measured. | <i>Notes to the Financial Statements:</i> Note 34 – Financial Investments – Available-for-Sale | 251 |
| 2. | Information about the Nature and Extent of Risks Arising from Financial Instruments | | |
| 2.1 | Qualitative Disclosures | | |
| 2.1.1 | Risk exposures for each type of financial instrument. | <i>Significant Accounting Policies:</i> Note 3 – Financial Risk Management | 196 |
| | | <i>Notes to the Financial Statements:</i> Note 69 – Financial Risk Review | 321 |
| 2.1.2 | Management's objectives, policies and processes for managing those risks. | <i>Significant Accounting Policies:</i> Note 3 – Financial Risk Management | 196 |
| | | Refer the Section on 'Managing Risk: An Overview' for comprehensive disclosure of Management's objectives, policies and processes. | 172 |
| 2.1.3 | Changes from the prior period. | There were no major policy changes during the period under review. | |

| Disclosure Requirements | Description | Page No/s. |
|-------------------------|---|--|
| 2.2 | Quantitative disclosures | |
| 2.2.1 | Summary of quantitative data about exposure to each risk at the Reporting date. | <i>Notes to the Financial Statements:</i> Note 69 – Financial Risk Review 321 |
| 2.2.2 | Disclosures about credit risk, liquidity risk, market risk, operational risk, interest rate risk and how these risks are managed. | |
| | (i) Credit Risk | |
| | (a) Maximum amount of exposure (before deducting the value of collateral), description of collateral, information about credit quality of financial assets that are neither past due nor impaired and information about credit quality of financial assets. | <i>Notes to the Financial Statements:</i> Note 69.1.1 – Credit Quality Analysis 323 Note 69.1.3 – Collateral Held 332 |
| | (b) For financial assets that are past due or impaired, disclosures on age, factors considered in determining as impaired and the description of collateral on each class of financial asset. | <i>Notes to the Financial Statements:</i> Note 69.1.1 (b) – Age Analysis by Class of Financial Assets 325 Note 18 – Impairment Charges for Loans and Other Losses – Collateral Valuation for description on collaterals 220 <i>Significant Accounting Policies:</i> Note 7.1.10 – Identification and Measurement of Impairment of Financial Assets for factors considered in determining the financial assets as impaired 205 |
| | (c) Information about collateral or other credit enhancements obtained or called. | <i>Notes to the Financial Statements:</i> Note 69.1.3 – Collateral Held 332 |
| | (d) Other disclosures (As required by the Section H of the Banking Act Direction No. 07 of 2011 on Integrated Risk Management Framework for Licensed Banks). | Refer the Section on ‘Managing Risk: An Overview’ 172 |
| | (ii) Liquidity Risk | |
| | (a) A maturity analysis of financial liabilities. | <i>Notes to the Financial Statements</i> Note 62 – Maturity Analysis – Group 308 Note 69.2.2 (a) – Maturity Analysis of Financial Assets and Financial Liabilities – Bank 338 |
| | (b) Description of approach to risk management. | <i>Significant Accounting Policies:</i> Note 3 – Financial Risk Management 196 Refer the Section on ‘Managing Risk: An Overview’ 172 |
| | (c) Other disclosures (As per Section H of the Banking Act Direction No. 07 of 2011 on Integrated Risk Management Framework for Licensed Banks). | Refer the Section on ‘Managing Risk: An Overview’ 172 |

| Disclosure Requirements | Description | Page No/s. |
|---|---|------------|
| (iii) Market Risk | | |
| (a) A sensitivity analysis of each type of market risk to which the Bank is exposed. | <i>Notes to the Financial Statements:</i> Note 69.3 – Market Risk | 334 |
| (b) Additional information, if the sensitivity analysis is not representative of the Bank's risk exposure. | None | |
| (c) Other disclosures (As required by the Section H of the Banking Act Direction No. 07 of 2011 on Integrated Risk Management Framework for Licensed Banks). | <i>Notes to the Financial Statements:</i> Note 69.4 – Operational Risk | 350 |
| | Refer the Section on 'Managing Risk: An Overview' | 172 |
| (iv) Operational Risk | | |
| Disclosures as required by the Section H of the Banking Act Direction No. 07 of 2011 on Integrated Risk Management Framework for Licensed Banks. | Refer the Section on 'Managing Risk: An Overview' | 172 |
| (v) Equity Risk in the Banking Book | | |
| (a) Qualitative Disclosures | | |
| <ul style="list-style-type: none"> Differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons. Discussion of important policies covering the valuation and accounting of equity holdings in the banking book. | <i>Significant Accounting Policies:</i> Note 4 – Fair Value Measurement | 199 |
| | Note 6.1.3 – Subsidiaries | 201 |
| | Note 6.1.5 – Associates | 201 |
| | Note 7.1.3.1.1 – Financial Assets – Held-for-Trading | 202 |
| | Note 7.1.3.4 – Financial Investments – Available-for-sale | 203 |
| (b) Quantitative Disclosures | | |
| <ul style="list-style-type: none"> Value disclosed in the Statement of Financial Position of investments, as well as the fair value of those investments; for quoted securities, a comparison to publicly quoted share values where the share price is materially different from fair value. The types and nature of investments. | <i>Notes to the Financial Statements:</i> Note 31 – Other Financial Instruments – Held-for-Trading | 241 |
| | Note 34 – Financial investments – Available-for-sale | 251 |
| | Note 35 – Financial Investments – Held-for-Maturity | 257 |
| | Note 36 – Financial Investments – Loans and Receivables | 258 |
| | Note 37 – Investments in Subsidiaries | 260 |
| | Note 38 – Investments in Associates | 262 |
| <ul style="list-style-type: none"> The cumulative realised gains/(losses) arising from sales and liquidations in the reporting period. | <i>Notes to the Financial Statements:</i> Note 15 – Net Gains/(Losses) from Trading | 218 |
| | Note 16 – Net Gains/(Losses) from Financial Investments | 218 |
| (vi) Interest Rate Risk in the Banking Book | | |
| (a) Qualitative Disclosures | | |
| <ul style="list-style-type: none"> Nature of interest rate risk in the banking book (IRRBB) and key assumptions. | <i>Notes to the Financial Statements:</i> Note 69.3.1 – Exposure to Market Risk – Trading and non-trading portfolios | 344 |
| | Refer the section on 'Managing Risk: An Overview' | 172 |

| Disclosure Requirements | Description | Page No/s. |
|---|--|------------|
| (b) Quantitative disclosures | | |
| <ul style="list-style-type: none"> The increase/(decline) in earnings or economic value (or relevant measure used by management) for upward and downward rate shocks according to the management's method for measuring IRRBB, broken down by currency (as relevant). | <i>Notes to the Financial Statements:</i> Note 69.3.2 – Exposure to Interest Rate risk – Sensitivity Analysis | 346 |
| | Refer the Section on 'Managing Risk: An Overview' | 172 |
| 2.2.3 Information on concentrations of risk. | <i>Notes to the Financial Statements:</i> Note 69.1.4 – Concentration of credit risk | 332 |
| 3. Other Disclosures | | |
| 3.1 Capital | | |
| 3.1.1 Capital Structure | | |
| (i) Qualitative Disclosures | | |
| Summary information on the terms and conditions of the main features of all capital instruments, especially in the case of innovative, complex or hybrid capital instruments. | <i>Notes to the Financial Statements:</i> Note 69.5 – Capital Management | 351 |
| (ii) Quantitative Disclosures | | |
| (a) The amount of Tier 1 capital, with separate disclosure of: <ul style="list-style-type: none"> Paid-up share capital/common stock Reserves Non-controlling interests in the equity of subsidiaries Innovative instruments Other capital instruments Deductions from Tier 1 capital | <i>Notes to the Financial Statements:</i> Note 69.5 – Capital Management | 351 |
| (b) The total amount of Tier 2 and Tier 3 capital | | |
| (c) Other deductions from capital | | |
| (d) Total eligible capital | | |
| 3.1.2 Capital Adequacy | | |
| (i) Qualitative Disclosures | | |
| A summary discussion of the Bank's approach to assessing the adequacy of its capital to support current and future activities. | <i>Notes to the Financial Statements:</i> Note 69.5 – Capital Management | 351 |
| | Refer the Section on 'Managing Risk: An Overview' | 172 |
| (ii) Quantitative Disclosures | | |
| (a) Capital requirements for credit risk, market risk and operational risk | Refer the Section on 'Managing Risk: An Overview' | |
| (b) Total and Tier 1 capital ratio | | 172 |

ANNEX 2: RISK AND CAPITAL MANAGEMENT REPORT

ENABLING PERFORMANCE AND SAFEGUARDING BUSINESS

Managing Risk

Risk management continues to increase in significance and complexity as technology, regulation and banking operations evolve at a rapid pace. It is an integral part of the Bank's value creation model as we accept risk in the normal course of business. Our stability and profitability are determined by how we manage risk. Significant resources are devoted to this critical function to ensure that it is articulated, communicated and understood by all employees of the Bank as it is a shared responsibility. It is a dynamic and disciplined function based on the triad of Credit, Market and Operational Risk in compliance with the Basel requirements increasing in sophistication with time and subject to stringent oversight by regulators. Risk management continues to evolve at the Bank in line with a Board approved roadmap in the direction of achieving a fully-fledged Enterprise Risk Management System in time to come. A comprehensive risk governance framework facilitates identification, assessment, monitoring and controlling risks within the Bank's defined risk appetite. The overarching objective is to ensure that risks accepted are in line with the Bank's risk appetite and strategic priorities and that there is an appropriate trade-off between risk and reward enabling delivery of value to key stakeholders.

A robust risk management framework supports our business strategy which is more-fully described in the Section 'Managing Risk: An Overview' on page 172. The Risk Appetite Statement (RAS), which is a key component of the framework, identifies key sources of risk as:

- Macroeconomic, macro-prudential and regulatory risks which are beyond our control, but impact our business directly
- Risks that we accept as a necessary part of our business for which parameters are defined

Risks beyond our control are closely monitored and play a key role in determining strategy while risks accepted as part of our business are monitored as part of key performance indicators or strategic deliverables and are the focus of the risk management function. Key risk metrics which form part of the RAS are summarised below:

| Aspect | Measure | Risk Appetite (%) | 2016 (%) |
|-------------------------|---------------|-------------------|----------|
| Returns | ROA | > 2 | 1.53 |
| Capital | CAR | | |
| | Tier I | > 8 | 11.56 |
| | Total Capital | > 13.5 | 15.89 |
| Liquidity | SLAR | 22 | 27.41 |
| Asset quality downgrade | Gross NPA | 4-5 | 2.18 |

Table 26

The Board of Directors has ultimate responsibility for managing risk and has delegated oversight responsibility to the BIRMC which reports on risk at regular meetings of the Board. Risk is accepted, monitored and managed by the business units which report to the CEO forming the first line of defence. The risk management function independently monitors risk on an aggregate basis and promulgates policies and guidelines for effective management of risk. Reporting directly to the BIRMC, the risk management function constitutes the second line of defence. Assurance over the first and second lines of defence is provided by Internal Audit which report directly to the BAC forming the third line of defence, together with external audit. This structure facilitates constructive challenge of the balance between risk and reward which is necessary for effective risk management.

Summary of Key Risks

While we track numerous externally driven and internally managed risks, a few become more relevant and increase in significance at times. The list is dynamic and reviewed regularly to ensure it reflects the key risks facing the Bank at present and those that are likely to emerge as key risks. These risks and mitigatory measures available are summarised below:

| | Credit Risk ▼ | People & Operational Risk ► | Market Risk ▲ | Model Risk ► | Liquidity Risk ▲ | |
|----------------------|--|--|--|---|--|-----------------|
| Our Objective | Safeguard the asset quality and reduce exposures to high risk segments | Creating an environment that enables performance while safeguarding the business | Safeguard against adverse movement of market factors arising out of price sensitivities of funding sources, investments, lending or trading portfolios | Develop predictive capability to support the decision making process | Safeguard against funding constraints that prevent growth and meet demands of depositors/investors | Internal |
| Mitigation | Robust and rigorous risk assessment and pricing of loans in line with risk appetite and collateral support | Succession plans, code of conduct and business ethics, competency, policy frameworks, segregation of duties and internal controls | Monitoring, predicting and controlling through stringent limits and management action triggers | Assumptions based models and behavioural testing through internal/external independent validation | Retention & growth of stable deposit base & tapping low cost funding sources locally & overseas, act as a buffer in addition to sound maintenance of liquid asset portfolio to support contingencies | |
| Bank | | | | | | |
| Mitigation | Guiding business strategy and resource allocation communicated to business lines | Specialised teams within the risk management function (in addition to the first line of defence) and continued investments in enhancing cyber security | A dedicated compliance function and an independent internal audit function facilitate compliance | | Close monitoring of trends for possible ramifications on economy and business strategy which could impact asset quality and profitability | External |
| Our Objective | Safeguard stable funding sources, asset quality and returns | Safeguard information and ensure business continuity | Dynamic approach to comply with regulations | | | |
| | Economic Growth & Trade Cycles ▲ | Cyber Threat ▲ | Increased Regulations ▲ | Fiscal & Monetary Policy ▲ | | |

▲ Increasing trend in risk ▼ Decreasing trend in risk ► No significant change

☉ Figure 33

Comparison of Exposures with Risk Policy Parameters as at December 31, 2016

| Risk Category & Parameter | Description | Policy Parameter | Actual Position |
|----------------------------------|--|--------------------------|-----------------|
| Credit Risk Criteria | | | |
| Quality of the Lending Portfolio | Gross NPA Ratio | 4%-5% | 2.18% |
| | Net NPA Ratio | 2.5% – 3.5% | 1.09% |
| | Provision Cover | 30% – 40% | 50.11% |
| | Weighted Average Rating Score of the overall lending portfolios to be above | 35% – 45% | 56.84% |
| Concentration | Loans and Advances by Product (using HHI) | 0.15 – 0.20 | 0.176 |
| | Advances by Economic sub-sector (using FRB) (using HHI) | 0.015 – 0.025 | 0.0158 |
| | Exposures exceeding 5% of the Eligible Capital (using HHI) | 0.05 – 0.10 | 0.0061 |
| | Exposures exceeding 15% of the Eligible Capital (using HHI) | 0.10 – 0.20 | 0.0075 |
| | Exposure to any sub-sector (SIC) to be maintained at | 4% – 5% | 3.97% |
| | Aggregate of exposures exceeding 15% of the Eligible Capital | 20% – 30% | 20.55% |
| Cross border exposure | Rating of the exposure of the portfolio on S & P Investment Grade – AAA to BBB | AA | AAA |
| Market Risk Criteria | | | |
| Interest Rate Risk | Interest Rate Shock: (Impact to NII as a result of 100bps parallel rate shock) | Maximum of Rs. 1,890 Mn. | Rs. 670.86 Mn. |
| | Re-pricing Gaps (RSA/RSL in each maturity bucket – up to 1 year period) | < 1.5 (Times) | 2.40 (Times) |
| Strategic Risk Criteria | | | |
| | Capital Adequacy Ratio | | |
| | Tier I | Over 8% | 11.56% |
| | Total Capital | Over 13.5% | 15.89% |
| | ROE | Over 20% | 16.90% |
| | Creditworthiness – Fitch Rating | AA (lka) | AA (lka) |

Table 27

Risk Management Tools

Risk management tools are an integral part of an effective risk management framework, supporting strategy and business planning.

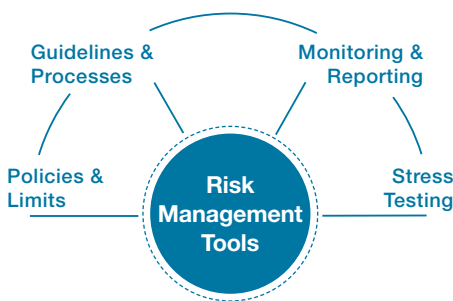


Figure 34

Policies and Limits

The Bank's Risk Management Policy is comprehensive, addressing the risks managed by the Bank encompassing compliance with the regulatory requirements including the Banking Act Direction No. 07 of 2011 – Integrated Risk Management Framework for Licensed Commercial Banks based on the Basel Framework. This key document clearly defines the objectives, outlines priorities and processes and roles of the Board and Management in managing risk, shaping the risk culture of the Bank. The RAS sets out the limits for risks and forms an integral part of the risk management framework. The RAS and all risk policies are reviewed by the BIRMC at least annually or more frequently depending on the regulatory and business needs.

The overall Bank exposure including overseas operations is compliant with the regulatory framework of the CBSL. Additionally, the risk management framework takes into account the regulatory requirements of countries where we operate to facilitate compliance with the same.

Guidelines and Processes

Guidelines facilitate implementation of policies and limits with operational detail including specification of types of facilities, processes and terms and conditions under which the Bank will conduct business providing employees clarity in their day-to-day work.

Monitoring and Reporting

Risk measurement, monitoring and reporting are the responsibilities of the risk management function which undergoes regular training programmes to develop and refine their skills. They are well-supported by IT systems which enable extraction of data, analysis and modelling. Regular and ad hoc reports are generated for review by Senior Management, Management Committees and Board which rely on these for evaluating performance and providing strategic direction. The reports provide information on aggregate measures of risks across products and portfolios which are compared to agreed policy limits providing a clear picture of the amounts, types and sensitivities of the risks taken by the Bank.

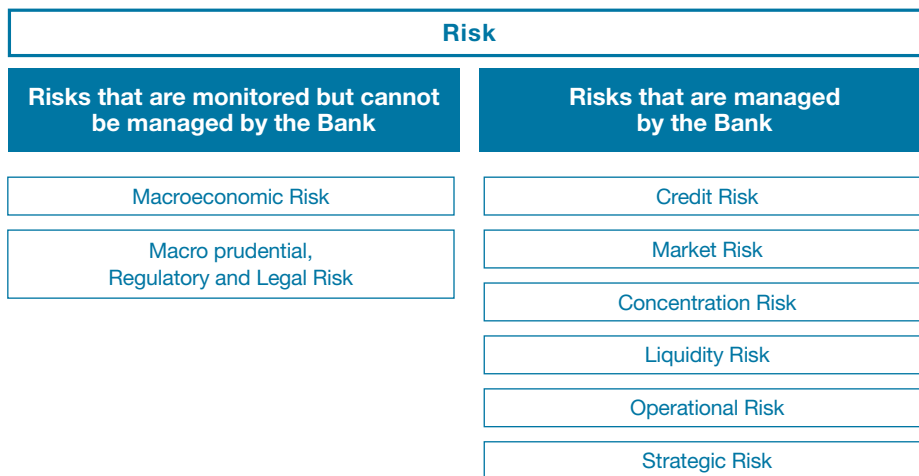


Figure 35

Stress Testing

Stress testing is carried out at individual risk level and at entity level to estimate the potential impact on income, capital and liquidity position as a result of changes in market conditions and other risk factors. Results of stress testing are used for decision making processes for credit risk appetite, market risk limits, capital and funding and are also integrated into the strategic and financial planning processes. Development, approval and review of stress tests are the responsibility of the EIRMC and the BIRMC.

Risks

The Bank is exposed to risks which have the potential to impact the Bank's ability to achieve agreed strategic goals including the financial performance. While some risks can be managed by the Bank, there are other key risks that need to be monitored to assess their impacts as described in the adjacent Figure 35.

Macroeconomic Risks

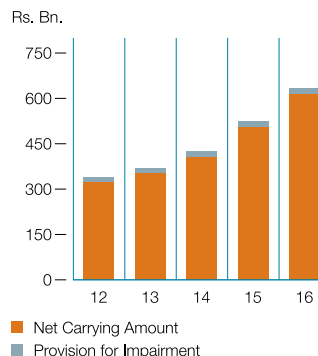
The economic and market conditions of the countries we operate in have a direct impact on our performance but such risks cannot be managed by the Bank. These include global economic growth particularly in principal import/export markets for Sri Lanka, geo-political risks impacting principal trading partners, commodities markets which impact sovereign corporate earnings and external trade and structural reforms to regulate or stimulate economic activity including Fiscal and Monetary Policy.

Macro-Prudential, Regulatory and Legal Risks

The Risk Management Committees receive regular reports on trends and analysis of these risks to support decision making at operational and strategic levels. Key risks monitored include developments in the financial services sector both locally and globally that give rise to increased regulation in Banking sector, increased regulation of the financial services sector and tax-related risks in the countries we operate.

20.00%
YoY growth in Gross Loans & Receivables to Other Customers amidst severe competition

Gross Loans & Receivables to Other Customers



Graph 71

Credit Risk

Credit Risk is the risk of potential loss resulting from the failure of a customer/ borrower or counterparty to honour its financial or contractual obligations to the Bank. It arises mainly from direct lending activities which are reflected On-Balance Sheet and from Off-Balance Sheet transactions such as Letters of Credit facilities, Guarantees facilities, Documents against Acceptance, etc. Credit risk is composed of counterparty risk, concentration risk and settlement risk.

Maximum Credit Exposure

| | Maximum Exposure 2016 | | Maximum Exposure 2015 | |
|---|-----------------------|--------------|-----------------------|--------------|
| | Rs. Mn. | % | Rs. Mn. | % |
| Carrying Amount of Credit Exposures | | | | |
| Loans and receivables to other customers | 616,018 | 44.3 | 508,115 | 39.1 |
| Loans receivables to banks | 624 | 0.0 | 601 | 0.0 |
| Financial investments | 277,817 | 20.0 | 269,625 | 20.8 |
| | 894,459 | | 778,341 | |
| Off-Balance Sheet Maximum Exposures | | | | |
| Lending commitments | 131,382 | 9.4 | 153,980 | 11.9 |
| Contingencies | 365,854 | 26.3 | 365,875 | 28.2 |
| | 497,236 | | 519,855 | |
| Maximum Credit Exposure | 1,391,695 | 100.0 | 1,298,196 | 100.0 |
| Individually Impaired loans | 22,102 | | 11,747 | |
| Impaired loans as a % of gross loans and receivables | 3.49 | | 2.23 | |
| Provisions for impairment (individual and collective) | 17,373 | | 18,052 | |
| Net carrying amount of loans and receivables | 616,018 | | 508,115 | |
| Provisions as a % of gross loans and receivables | 2.74 | | 3.43 | |
| Loan Impairment Charge (individual and collective) | 1,511 | | 3,905 | |

Table 28

Credit risk commentary focuses primarily on the following:

Overall Credit Exposure

The Bank's maximum credit exposure increased by 7% in 2016 compared to the previous year. Both retail banking and corporate banking portfolios have contributed to this growth. Individually impaired loans have increased by 88.15% as a result of a policy decision of the Bank to lower the threshold for recognition of individually significant loans.

Since a large number of individually significant loans are subject to rigorous evaluation at the time of being subjected to

impairment trigger tests, final provisioning figures reflect a more realistic picture of the quality of the advances portfolio of the Bank.

During the year, a reduction of 61.20% is observed in impairment charges compared to the previous year. The combination of moderation of defaults and the high coverage ratio maintained in the past made it permissible to reduce the collective provision coverage within the Bank's risk appetite. The shift that has taken place in considering a larger number of loans that were previously considered under collective impairment methodology to

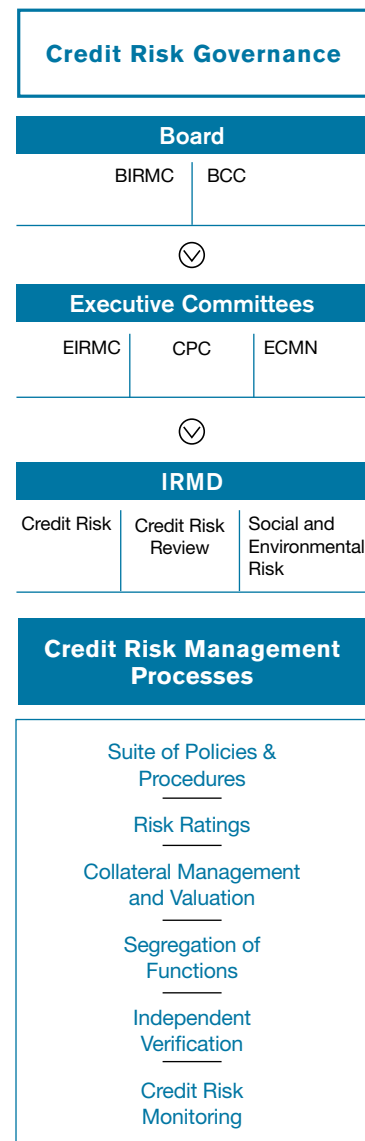
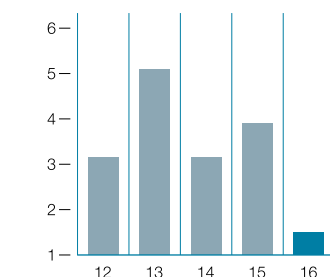


Figure 36

individually significant provisioning also has contributed to this development.

Impairment Charge

Rs. Bn.



Graph 72

Management Processes

Management of credit risk is critical to the Bank and our approach is to enhance value through credit risk management going beyond mere regulatory compliance. It is managed through the Credit Risk Management Framework approved by the Board which is summarised graphically in the Figure 36 on page 381.

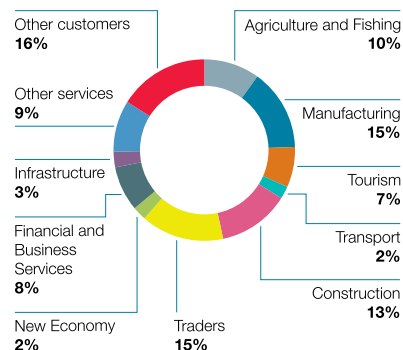
- A Comprehensive Suite of Policies and Procedures** – These comprise the RAS, Delegation of Authority, Credit Risk Review Framework, Social and Environmental Management Systems Policy and Guidelines for valuation of collateral which are reviewed and amended as deemed necessary by the Board based on the recommendations of the CPC and the BCC.
- Risk Ratings** – A comprehensive risk rating system compliant with Basel Guidelines representing diverse risk factors through a single point indicator is in place. The indicator uses borrower and transaction specific criteria for predicting the probability of default facilitating measurement of risk in credit portfolios in an objective and consistent manner. It also supports the Bank's progression from the present Basel II Standardised Approach towards the more advanced Internal Ratings Based approach for calculating the capital requirement for credit risk.
- Collateral Management and Valuation** – The Bank obtains collaterals as a possible secondary recourse in the form of cash, marketable securities, properties, stocks, trade debtors, other receivables, machinery and equipment and other physical or financial assets which are valued in accordance with strict guidelines. A panel of reputed professional valuers appointed by the Bank provides valuations of properties, machinery and vehicles obtained as collateral periodically, ensuring sufficient coverage through collateral. Collaterals vulnerable to frequent fluctuations in values are subject to stringent haircuts and/or more frequent valuations. The Bank also accepts personal and/or Corporate Guarantees, Guarantees from other banks and credit-worthy bodies which are assessed considering the financial strength of guarantors as against their cash flows, net worth etc.

- Segregation of Credit Risk Management Functions** – Credit risk management comprises of three functional components with pre-sanction risk being monitored and evaluated by Credit Risk Management Function, post-sanction credit risk being monitored by the Credit Risk Review Function and the social and environment risk being monitored by the Environmental Risk Review Function. This facilitates a high degree of specialisation and honing of skills resulting in focused and effective analysis supporting effective credit risk management.
- Independent Verification of Risk Assessments** – The Credit Risk Management Unit (CRMU) independently verifies that the proposals with exposures above identified threshold levels fall within the established credit risk framework of the Bank and that they comply with the internal as well as regulatory requirements.
- Credit Risk Monitoring** – Branch Credit Monitoring Unit independently monitors the loans and advances portfolio for signs of delinquency and supports Lending Officers in maintaining portfolio quality. CRMU prepares monthly reports on Key Credit Risk Indicators (KCRIs) which include segmentation of the loans and advances portfolio using a number of different parameters enabling the analysis of the portfolio at high level of granularity. KCRI monthly reports also include an in-depth analysis of exposure to the financial subsidiaries thus providing a holistic view of the overall credit risk of the group thereby facilitating identification of emerging risks in individual portfolios and implementation of corrective action in a timely manner.
- Providing Direction to Business Line Managers** – The credit monitoring process provides information on products, industries and other indicators of elevated risk facilitating diversification in thriving economic segments whilst reducing the overall credit risk concentration and optimising returns.
- Internal Audit** – Credit risk management processes are reviewed by Internal Audit to ensure that they comply with regulatory requirements and the Bank's policy framework.

38.05% Credit Risk Review

CBSL requires 30-40% of the Total Loans & Receivables of the Bank to be subjected to Credit Risk Review (CRR). The Bank has covered 38.05% of the Total Loans and Receivable portfolio under CRR in 2016.

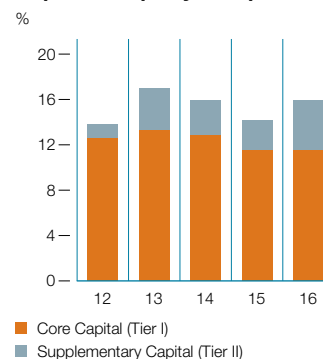
Industry wise Analysis of Loans & Receivables to Other Customers as at December 31, 2016 (Impaired Value)



Graph 73

The graph depicts that there is no significant concentration to any industry sector.

Capital Adequacy Composition



Graph 74

The total capital has increased mainly due to the two debenture issues during the year.

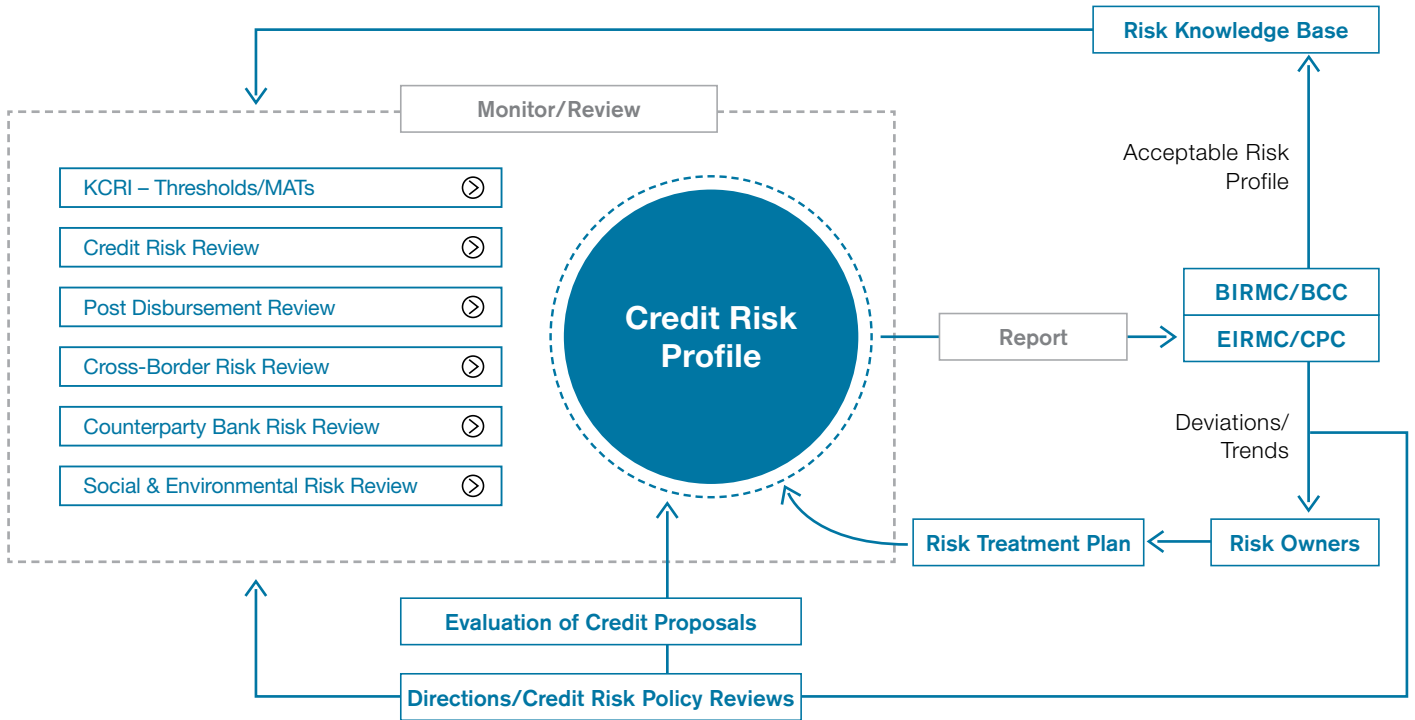


Figure 37

Review of Credit Risk

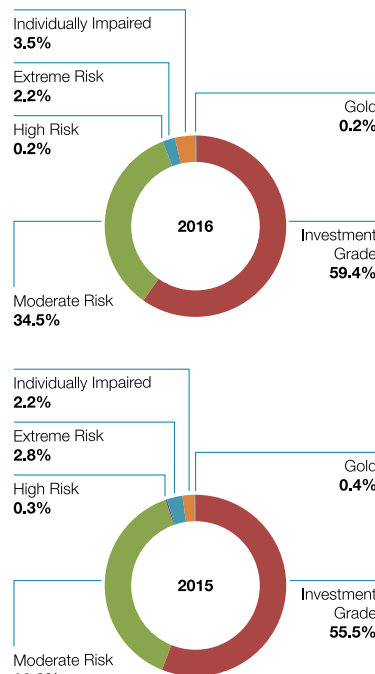
Default Risk is defined as the risk of potential loss due to borrower/counterparty's inability or unwillingness to meet its obligations. Elevated levels of attention given to loan approvals and disbursements coupled with concerted efforts in keeping the NPA levels in tandem with the established policy parameters paved the way to improve the asset quality of the Bank.

A more cautious approach in on-boarding high risk segment related exposure, channeling of lending to economically thriving industry sectors, improved risk assessments of credit proposals and effective credit monitoring too have contributed positively in preserving the quality of the loan book.

The age analysis of past due loans also supported swift actioning for the moderation of default risk during the year.

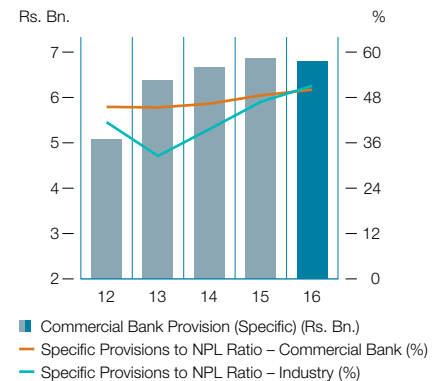
The allowance for individually impaired loans increased by 57% whilst the allowance for collective impairment reduced by 29% during the year, distribution of which is given in the page 384.

Risk Ratings-wise Distribution of Loans and Receivables to Other Customers



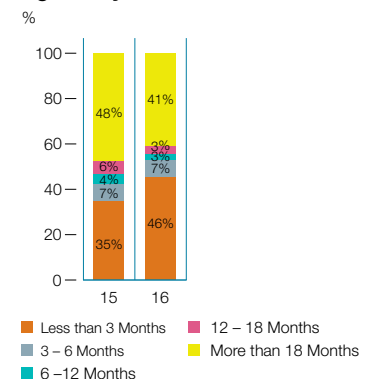
Graph 75

Provision Cover of the Bank



Graph 76

Age Analysis of Past Due Loans



Graph 77

Individual/Collective Impairment Distribution – Sri Lanka Operation

| Industry Sector | Past due Advances (According to SLFRS Classification) Rs.'000 | Allowance for Collective Impairment Rs.'000 | Allowance for Individually Impaired Loans Rs.'000 | Amount Written Off Rs.'000 |
|-----------------------------------|---|---|---|----------------------------|
| Exports | 3,285,109 | 4,235,707 | 1,765,093 | 3,357 |
| Imports & trading | 3,445,338 | 108,598 | 327,571 | 3,778 |
| Wholesale & retail trading | 1,190,040 | 167,899 | 258,005 | 7,767 |
| Construction industry | 2,257,557 | 124,415 | 33,746 | – |
| Any other commercial activity | 743,689 | 149,908 | 412,911 | 955 |
| Industries – MFG for local market | 5,927,906 | 129,078 | 32,225 | 6,348 |
| Agricultural activity | 2,208,597 | 117,507 | 84,605 | 40,609 |
| Housing and property development | 1,293,380 | 102,183 | 124,826 | 121 |
| Tourism and hospitality trade | 7,776,871 | 123,722 | 109,783 | 211 |
| Personal | 4,925,820 | 104,626 | 39,948 | 71,098 |
| Services | 2,142,280 | 2,159,332 | 4,983,351 | 2,528 |
| Holding companies | 4,862 | – | – | – |
| Finance & insurance industry | 75,582 | – | – | – |
| State institutions | 526 | – | – | – |
| Others | 859,819 | 619,543 | – | 54,726 |
| Total | 36,137,376 | 8,142,517 | 8,172,063 | 191,497 |

Table 29

Individual/Collective Impairment Distribution – Outside of Sri Lanka

| Industry Sector | Past due Advances (According to SLFRS Classification) Rs.'000 | Allowance for Collective Impairment Rs.'000 | Allowance for Individually Impaired Loans Rs.'000 | Amount Written Off Rs.'000 |
|-----------------------------------|---|---|---|----------------------------|
| Exports | 88,615 | 147,215 | 53,334 | – |
| Imports & trading | 10,647 | 17,688 | 6,408 | – |
| Wholesale & retail trading | 49,621 | 82,435 | 29,865 | – |
| Construction industry | 8,507 | – | – | – |
| Any other commercial activity | 96,927 | 85,783 | 31,078 | – |
| Industries – MFG for local market | 847,318 | 314,701 | 114,012 | – |
| Agricultural activity | 5,523 | 9,175 | 3,324 | – |
| Housing and property development | 4,727 | 7,852 | 2,845 | – |
| Tourism and hospitality trade | 2,798 | 4,648 | 1,684 | – |
| Personal | 14,858 | 10,515 | 3,809 | – |
| Services | 87,897 | 21,529 | 7,800 | – |
| Holding companies | 79,777 | – | – | – |
| Finance & insurance industry | 26,350 | 43,775 | 15,859 | – |
| State institutions | – | – | – | – |
| Others | 24,152 | 31,388 | 11,376 | – |
| Total | 1,347,718 | 776,705 | 281,394 | – |

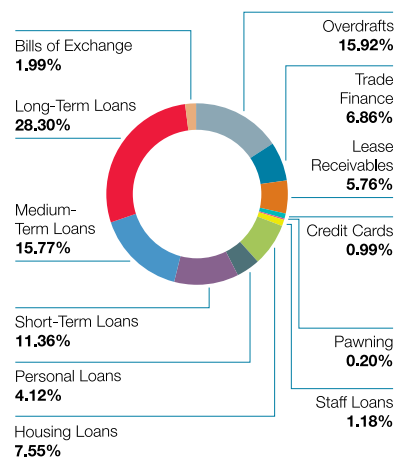
Table 30

Concentration Risk

Concentration risk is managed by diversification of risk across industry sectors, products, counterparties and geographies. The Bank's RAS defines the limits for these segments and exposures are monitored by the Board, BIRMC, EIRMC and the CPC to ensure compliance and also to make recommendations on modifications to specified limits taking into consideration trends and events shaping the business environment. Individual and collective impairment distribution to identified industry sectors as at year end is given in Tables 29 and 30.

An analysis of the loans and receivables by product (Graph 78) also reflects the effectiveness of the Bank's credit policies with risk being well-diversified across the Bank's range of credit products with relatively high exposure of 28.3% to long-term loans which is rigorously monitored and mitigated with collateral.

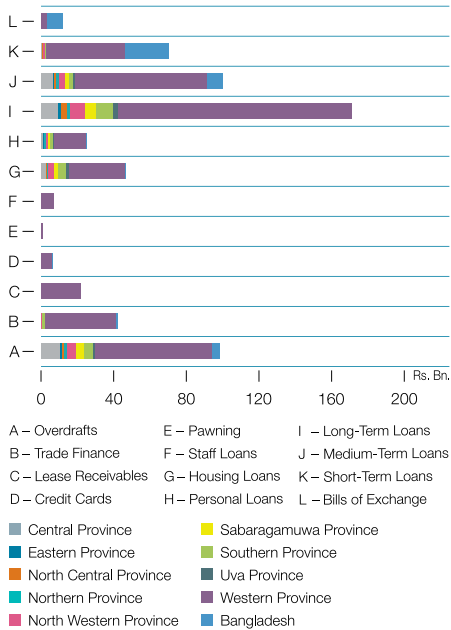
Product-wise Analysis of Loans & Receivables to Other Customers as at December 31, 2016



Graph 78

A geographical analysis reflects a high concentration of loans (Graph 79) in the Western Province which is due to concentration of economic activity and the Head Offices of most borrowing entities being located in the Western Province.

Geographical Analysis of Loans & Receivables Product-wise to Other Customers as at December 31, 2016



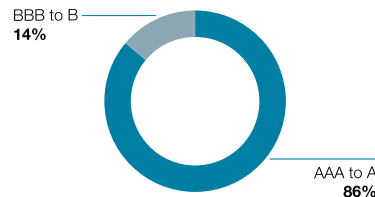
Graph 79

Counterparty Exposures

The Bank has laid down policies/procedures and limit structures including single borrower limits and group exposure limits with sub-limits for products etc. to manage the counterparty risks. The limits set by the Bank are far more stringent compared to the regulator stipulated exposure thresholds for single borrower and group exposure. This provides the Bank with a greater comfort in managing its concentration levels with regard to the counterparty exposures.

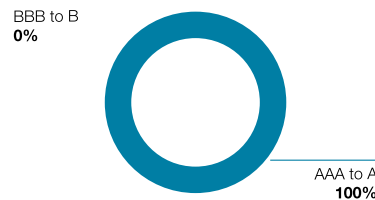
A key component in managing counterparty risk is the loans and receivables to banks both local and foreign where a specific set of policies, procedures and a limit structure is in place to monitor the exposure to this segment. At frequent intervals the counterparty bank exposures are monitored against the established prudent limits while market information on the financial/economic performance of these counterparties are subject to a rigorous scrutiny throughout the year and the limits will be revised to reflect the latest information where deemed necessary.

The Concentration of Counterparty Bank Exposures in Sri Lanka as at December 31, 2016 (Fitch Ratings-wise)



Graph 80

The Concentration of Counterparty Bank Exposures in Bangladesh as at December 31, 2016 (CRAB Ratings-wise*)



Note: Equal CRISL/Alpha ratings are given where CRAB ratings are unavailable

Graph 81

The analysis uses Fitch Ratings for local banks in Sri Lanka and Credit Ratings Agency in Bangladesh (CRAB) for local banks of Bangladesh (Equivalent CRISL/Alpha ratings have been used where CRAB ratings are not available).

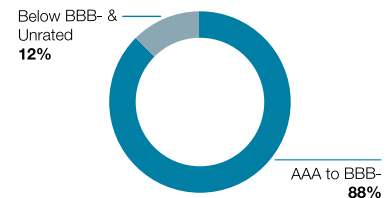
Exposures for local banks in Sri Lanka rated AAA to A category stood at 86% (Graph 80) while 100% of exposure of local banks in Bangladesh consisted of AAA to A rated counterparty banks (Graph 81).

Cross-Border Risk

The risk that Bank will be unable to obtain payment from its customers or third parties on their contractual obligations as a result of certain actions taken by foreign Governments, mainly relating to convertibility and transferability of foreign currency is referred to as the Cross-border Risk. Cross-border assets comprise of loans and advances, interest-bearing deposits with other banks, trade and other bills and acceptances and predominantly relate to short-term money market activities.

In addition to the limit structure in place to minimise risk arising from over concentration and possible settlement risk, Bank carries out stringent evaluations and imposes different threshold levels to facilitate monitoring and timely action to suspend limits to countries due to global economic/political developments when necessary.

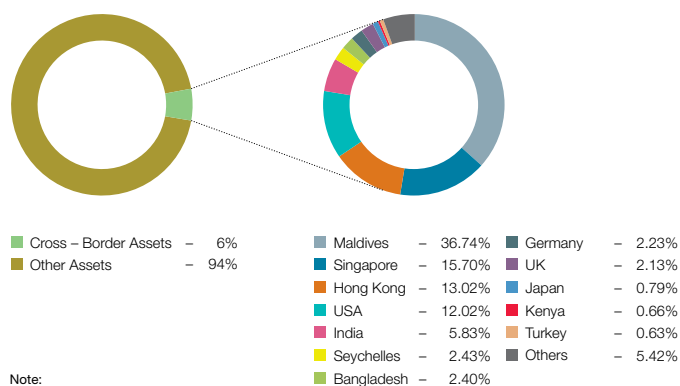
The Concentration of Cross-Border Exposure (Sri Lanka and Bangladesh Operations) S & P Ratings-wise as at December 31, 2016



Note: Excluding the investment in Bangladesh Operations & Direct Lending in Maldives/Bangladesh

Graph 82

Cross – Border Exposure of the Bank



Graph 83

Total cross-border exposure is only 6% of total assets of the Bank (Graph 83). The Bank has exposures to cross-border through a spread of countries which primarily include Maldives, Singapore, Hong Kong, USA, India, etc.

With the start of operations in Maldives through our subsidiary 'Commercial Bank of Maldives (CBM)', group level cross-border exposure measurements are also to be analysed in future. However, as of year-end there are no other additional exposures to this entity, other than the capital investment.

Market Risk

Market Risk is the risk of loss arising from movements in interest rates, foreign exchange rates, commodity prices, equity and debt prices and their correlations. Most of the Bank's operations are subject to at least one or more elements of market risk.

| | Trading Activities | Non-Trading Activities |
|---------------------|--|---|
| Risk Type ⊙ | Interest Rate Risk <ul style="list-style-type: none"> • Repricing risk • Yield curve risk • Basis risk Foreign Exchange Risk Equity Price Risk Commodity Price Risk | Interest Rate Risk <ul style="list-style-type: none"> • Repricing risk • Basis risk Foreign Exchange Risk |
| Business Lines ⊙ | Treasury | Retail, Corporate, International Operations and Treasury |
| Measurement ⊙ | Value-at-Risk, Sensitivity Analysis, Stress Testing, Gap Analysis | Sensitivity Analysis, Stress Testing, Gap Analysis |

Table 31

59.60%

Distribution of Borrower Ratings

Borrowers with Investment Grade Ratings where Default Risk is considered to be very low, comprised 59.60% of the Total Loans and Receivables of the Bank.

88.00%

Distribution of Country Rating

Exposure to countries which are rated AAA to BBB-(S&P or equivalent) accounted for 88% of the Total Cross-Border exposure of the Bank

Interest Rate Risk (IRR)

Extreme movements in interest rates pose challenges to the Bank's Net Interest Income (NII) and have the potential to impact the underlying value of interest earning assets and inherent liabilities and Off-Balance Sheet items. The main types of IRR to which the Bank is exposed to are re-pricing risk, yield curve risk and basis risk.

| Major Market Risk Category | Risk Components | Description | Tools to Monitor | Severity | Impact | Exposure |
|----------------------------|-----------------|---|---|----------|--------|------------|
| Interest Rate | | Risk of loss arising from movements or volatility in interest rates | | | | |
| | Re-Pricing | Differences in amounts of interest earning assets and interest bearing liabilities getting re-priced at the same time or due to timing differences in the fixed rate maturities and appropriately re-pricing of floating rate assets, liabilities and Off-Balance Sheet instruments | Re-pricing gap limits and interest rate sensitivity limits | High | High | High |
| | Yield Curve | Unanticipated changes in shape and gradient of the yield curve | Rate shocks and reports | High | High | High |
| | Basis | Differences in the relative movements of rate indices which are used for pricing instruments with similar characteristics | Rate shocks and reports | High | Medium | Medium |
| Foreign Exchange | | Possible impact on earnings or capital arising from movements in exchange rates arising out of maturity mismatches in foreign currency positions other than those denominated in base currency, Sri Lankan Rupee (LKR.) | Risk tolerance limits for individual currency exposures as well as aggregate exposures within regulatory limits for NOP | High | Medium | Medium |
| Equity | | Possible loss arising from changes in prices and volatilities of individual equities | Mark-to-Market calculations are carried out daily and quarterly for Held-for-Trading (HFT) and Available-for-Sale (AFS) portfolios respectively | Low | Low | Negligible |
| Commodity | | Exposures to changes in prices and volatilities of individual commodities | Mark-to-Market calculations | Low | Low | Negligible |

Table 32

Management of Market Risk

The Market Risk Management Framework of the Bank sets out guidance for management of market risk within the Bank's overall risk. Key elements include:

- A Robust Risk Governance Structure** – Market risk is monitored by the Board, BIRMC and EIRMC which are responsible for formulating policy including setting the parameters of the RAS. ALCO is the principal Management Committee responsible for monitoring market risk exposure and initiating appropriate action to optimise overall market risk exposures within the defined risk appetite. Market Risk Management Unit (MRMU) of the IRMD is responsible for daily Market Risk Management activities including measuring, monitoring and reporting of market risk exposures and facilitating review of the Bank's market risk-related policies and exposure limits at least annually. It also provides independent reviews on market risks associated with new investment proposals and products to optimise risk-return trade-off. The Treasury Middle Office (TMO) is an integral part of MRMU and functions independently from both the Treasury Front Office (i.e. trading unit) and Treasury Back Office (i.e. settlement unit). TMO independently monitors, measures and analyses exposures as per the comprehensive limit framework pertaining to Treasury transactions. Further it reports on Management Action Triggers (MATs), which alert of imminent limit breaches and recurring loss events, to initiate preventive measures to mitigate potential losses.
- Market Risk Limits** – These are regularly reviewed by ALCO and EIRMC which are revised to narrower bands than specified in the RAS if market dynamics indicate elevated risk levels.
- MATs** – These are risk thresholds that trigger specific actions to safeguard the market risk exposures of the Bank within the levels specified in the RAS.
- Risk Monitoring** – ALCO monitors asset and liability gaps and market trends to determine strategy, pricing of risk and funding requirements while also guiding Treasury on management of IRR. Tools such as gap analysis (income perspective) and duration analysis (value perspective) are used to monitor IRR on an ongoing basis factoring the re-pricing characteristics of all assets and liabilities of the Bank's Balance Sheet. The Bank assesses IRR exposure based on both the Earnings at Risk (EAR) approach focusing on the impact of interest rate changes on its near-term earnings and the Economic Value of Equity (EVE) approach, focusing on the time value of the Bank's net cash flows from longer time horizon.
- Risk Assessment** – A range of techniques including sensitivity analysis, stress testing, Mark-to-Market and Value-at-Risk (VaR) calculations are used to assess market risk across portfolios.
- A Comprehensive Suite of Policies** – Policies covering various aspects of market risk which include Market Risk Management Policy, Asset and Liability Management (ALM) Policy, Foreign Exchange (FX) Risk Management Policy, Derivative Policy, Treasury Policy and Stress Testing Policy define exposure limits and procedures for transactions.



Figure 38

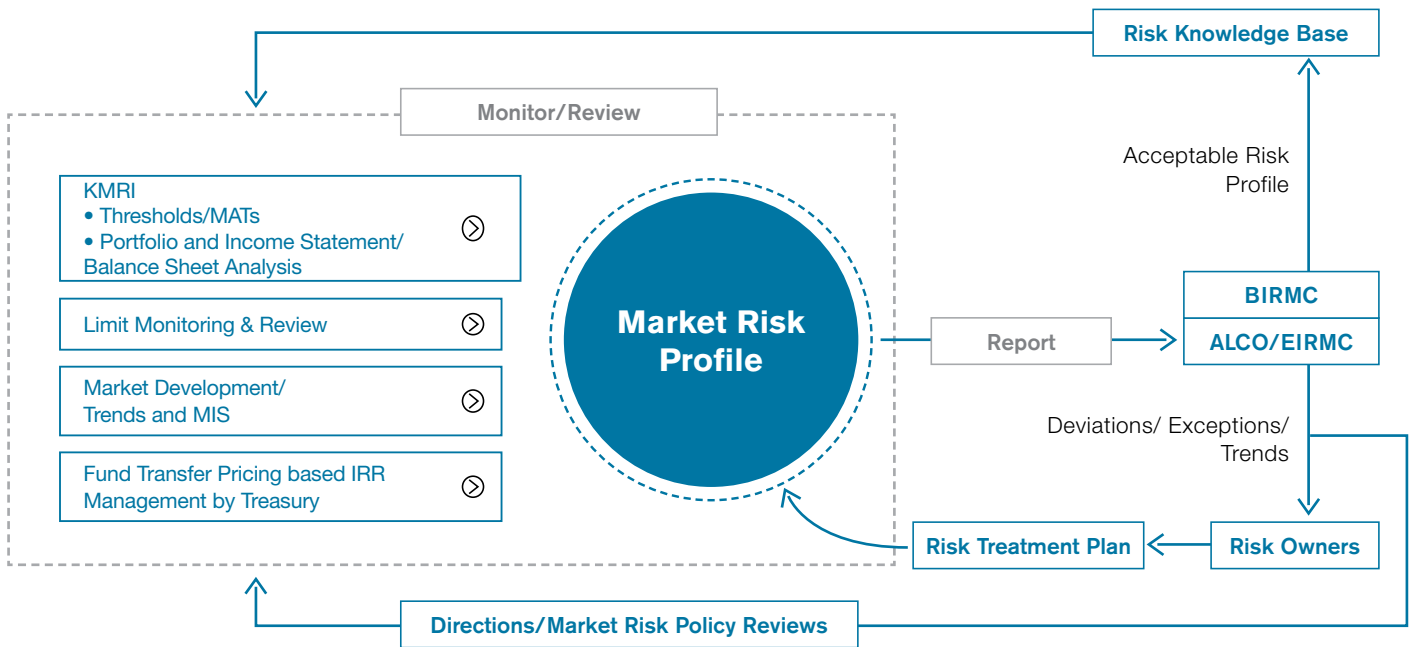


Figure 39

Review of Market Risk

Market risk arises mainly from the Non-Trading Portfolio (Banking Book) which accounts for 90.82% of the total assets and 93.48% of the total liabilities subject to market risk. Exposure to market risk arises mainly from IRR and FX risk as the Bank has negligible exposure to commodity related price risk and equity and debt price risk which was less than 13% of the total risk weighted exposure for market risk.

The Bank's exposure to market risk analysed by Trading Book and Non-Trading Portfolios (or Banking Book) are set out in the Table 33 below:

Audited (Rs. Mn.)

| as at December 31, 2016 | Carrying Amount | Market Risk Measurement | |
|--|-----------------|-------------------------|-----------------------|
| | | Trading Portfolio | Non-Trading Portfolio |
| Assets Subject to Market Risk | | | |
| Cash and cash equivalents | 14,704.72 | 0.00 | 14,704.72 |
| Balances with Central Banks | 3,403.22 | 0.00 | 3,403.22 |
| Placements with banks | 11,718.50 | 0.00 | 11,718.50 |
| Securities purchased under resale agreements | 0.00 | 0.00 | 0.00 |
| Derivative financial assets | 1,052.83 | 1,052.83 | 0.00 |
| Other financial instruments – Held-for-trading | 4,987.80 | 4,987.80 | 0.00 |
| Loans and receivables to banks | 624.46 | 0.00 | 624.46 |
| Loans and receivables to other customers | 616,018.23 | 0.00 | 616,018.23 |
| Financial investments – Available-for-sale | 160,023.47 | 0.00 | 160,023.47 |
| Financial investments – Held-to-maturity | 60,981.30 | 0.00 | 60,981.30 |
| Financial investments – Loans and receivables | 51,824.03 | 0.00 | 51,824.03 |
| | 925,338.55 | 6,040.63 | 919,297.92 |
| Liabilities Subject to Market Risk | | | |
| Due to banks | 67,608.81 | 0.00 | 67,608.81 |
| Derivative financial liabilities | 1,515.04 | 1,515.04 | 0.00 |
| Securities sold under repurchase agreements | 69,867.47 | 0.00 | 69,867.47 |
| Due to other customers/Deposits from customers | 701,410.85 | 0.00 | 701,410.85 |
| Other borrowings | 9,270.15 | 0.00 | 9,270.15 |
| Subordinated liabilities | 24,849.54 | 0.00 | 24,849.54 |
| | 874,521.86 | 1,515.04 | 873,006.82 |

Table 33

Market Risk Portfolio Analysis

The gap report is prepared by stratifying Rate Sensitive Assets (RSA), Rate Sensitive Liabilities (RSL), and Off-Balance Sheet items into various time bands according to maturity (if fixed rates) or time remaining to their next re-pricing (if floating rate). Vulnerability of the Bank to interest rate volatility is indicated by the gap between RSA and RSL.

Interest Rate Sensitivity Gap Analysis of Assets and Liabilities of the Banking Book as at December 31, 2016 – Bank.

| | Up to 1 Month Rs. Mn. | 1-3 Months Rs. Mn. | 3-6 Months Rs. Mn. | 6-9 Months Rs. Mn. | 9-12 Months Rs. Mn. | 1-3 Years Rs. Mn. | 3-5 Years Rs. Mn. | Over 5 Years Rs. Mn. | Non- Sensitive Rs. Mn. | Total Rs. Mn. |
|--|-----------------------------|--------------------------|--------------------------|--------------------------|---------------------------|-------------------------|-------------------------|----------------------------|------------------------------|------------------|
| Cash on hand | - | - | - | - | - | - | - | - | 17,407 | 17,407 |
| Deposits with Central Banks | 499 | - | - | - | - | - | - | - | 43,374 | 43,873 |
| Balances due from head office, affiliates and own branches | - | - | - | - | - | - | - | - | - | - |
| Balances due from other banks | 19,288 | - | - | - | - | - | - | - | 5,795 | 25,083 |
| Investments | 47,821 | 2,762 | 27,204 | 21,124 | 1,071 | 118,767 | 35,457 | 32,609 | 2,917 | 289,732 |
| Bills of exchange | 12,311 | - | - | - | - | - | - | - | - | 12,311 |
| Overdrafts | 96,016 | - | - | - | - | - | - | - | - | 96,016 |
| Loans and advances | 227,361 | 41,824 | 44,213 | 38,439 | 31,341 | 56,278 | 30,330 | 32,235 | - | 502,021 |
| NPLs | - | - | - | - | - | 374 | 94 | 281 | 2,993 | 3,742 |
| Fixed assets | - | - | - | - | - | - | - | - | 11,022 | 11,022 |
| Net inter-branch transactions | - | - | - | - | - | - | - | - | - | - |
| Accrued interest | - | - | - | - | - | - | - | - | 4,967 | 4,967 |
| Other assets | - | - | - | - | - | - | - | - | 13,071 | 13,071 |
| Reverse Repos | - | - | - | - | - | - | - | - | - | - |
| FRAs | - | - | - | - | - | - | - | - | - | - |
| SWAPs | - | - | - | - | - | - | - | - | - | - |
| Futures | - | - | - | - | - | - | - | - | - | - |
| Options | - | - | - | - | - | - | - | - | - | - |
| Others | - | - | - | - | - | - | - | - | - | - |
| Total Rate Sensitive Assets (RSA) | 403,296 | 44,586 | 71,417 | 59,563 | 32,412 | 175,419 | 65,881 | 65,125 | 101,546 | 1,019,245 |

| | Up to 1 Month Rs. Mn. | 1-3 Months Rs. Mn. | 3-6 Months Rs. Mn. | 6-9 Months Rs. Mn. | 9-12 Months Rs. Mn. | 1-3 Years Rs. Mn. | 3-5 Years Rs. Mn. | Over 5 Years Rs. Mn. | Non- Sensitive Rs. Mn. | Total Rs. Mn. |
|--|-----------------------------|--------------------------|--------------------------|--------------------------|---------------------------|-------------------------|-------------------------|----------------------------|------------------------------|------------------|
| Demand deposits | - | - | - | - | - | - | - | - | 57,682 | 57,682 |
| Savings deposits | 4,956 | 179 | 321 | 328 | 311 | 1,868 | 2,243 | 226,614 | - | 236,820 |
| Time deposits | 61,512 | 101,247 | 96,028 | 78,735 | 53,670 | 12,833 | 8,257 | 6 | - | 412,288 |
| Other deposits | 14,666 | - | - | - | - | - | - | - | 4,312 | 18,978 |
| Balances due to head office, affiliates and own branches | - | - | - | - | - | - | - | - | - | - |
| Balances due to other banks | - | - | - | - | - | - | - | - | 4,085 | 4,085 |
| Certificates of deposit | 128 | 4 | 11 | 30 | 50 | 53 | - | - | - | 276 |
| Other borrowings | 14,266 | 20,931 | 12,140 | 9,007 | 140 | 662 | 639 | 1,834 | - | 59,619 |
| Net inter-branch transactions | - | - | - | - | - | - | - | - | - | - |
| Bills payable | - | - | - | - | - | - | - | - | - | - |
| Interest payable | 3,115 | 2,785 | 3,045 | 2,404 | 1,553 | 1,097 | 452 | 66 | - | 14,517 |
| Provisions (Others) | - | - | - | - | - | - | - | - | - | - |
| Capital | - | - | - | - | - | - | - | - | 24,978 | 24,978 |
| Reserves | - | - | - | - | - | - | - | - | 11,371 | 11,371 |
| Retained earnings | - | - | - | - | - | - | - | - | 48,372 | 48,372 |
| Subordinated debt | 11,155 | - | - | - | - | - | 9,502 | 3,678 | - | 24,335 |
| Other liabilities | - | - | - | - | - | - | - | - | 23,350 | 23,350 |
| Repos | 58,450 | 9,450 | 9,620 | 2,252 | 2,791 | 11 | - | - | - | 82,574 |
| FRAs | - | - | - | - | - | - | - | - | - | - |
| Futures | - | - | - | - | - | - | - | - | - | - |
| SWAPs | - | - | - | - | - | - | - | - | - | - |
| Options | - | - | - | - | - | - | - | - | - | - |
| Total Rate Sensitive Liabilities (RSL) | 168,248 | 134,596 | 121,165 | 92,756 | 58,515 | 16,524 | 21,093 | 232,198 | 174,150 | 1,019,245 |
| Period gap | 235,048 | (90,010) | (49,748) | (33,193) | (26,103) | 158,895 | 44,788 | (167,073) | | |
| Cumulative gap | 235,048 | 145,038 | 95,290 | 62,097 | 35,994 | 194,889 | 239,677 | 72,603 | | |
| RSA/RSL | 2.40 | 0.33 | 0.59 | 0.64 | 0.55 | 10.62 | 3.12 | 0.28 | | |

Note: Balances are based on SLAS

Table 34

(CBSL Disclosure)

Sensitivity to Projected NII

Regular stress tests are carried out on Interest Rate Risk in Banking Book (IRRBB) encompassing changing positions and new economic variables together with systemic and specific stress scenarios. Change in value of the Fixed Income Securities (FIS) portfolio in HFT category due to abnormal market movements is measured using both EVE and EAR perspectives. Results of stress test on IRR are analysed to identify the impact of such scenarios on Bank profitability and capital.

Impact on NII due to rate shocks on LKR and FCY is continuously monitored to ascertain the Bank's vulnerability to sudden interest rate movements [Refer Note 69.3.2 (b) on page 348].

| | 2016 | | 2015 | |
|----------------------|-----------------------------------|-------------------------------------|-----------------------------------|-------------------------------------|
| | 100 bp Parallel Up Rs. '000 | 100 bp Parallel Down Rs. '000 | 100 bp Parallel Up Rs. '000 | 100 bp Parallel Down Rs. '000 |
| As at December 31 | 670,859 | (668,620) | 363,173 | (362,303) |
| Average for the Year | 634,306 | (632,375) | 336,601 | (335,541) |
| Maximum for the Year | 827,488 | (824,962) | 469,161 | (468,336) |
| Minimum for the Year | 366,432 | (365,569) | 267,117 | (266,063) |

Table 35

Foreign Exchange Risk

Stringent risk tolerance limits for individual currency exposures as well as aggregate exposures within the regulatory limits ensure that potential losses arising out of fluctuations in FX rates are minimised and maintained within the Bank's risk appetite.

USD/LKR exchange rate fluctuated between a low of Rs. 143.72 and a high of Rs. 149.85 (source: Bloomberg) during the year under review and the annual Rupee depreciation was recorded at approximately 4.04%. The Table 36 below indicates the Bank's exposure to FX risk as at end 2016.

| | Net Open Position (NOP) | Overall Exposure in Respective Foreign Currency | Overall Exposure in Rs. |
|---|----------------------------|---|-------------------------------|
| | '000 | '000 | '000 |
| United States Dollar | 3,179 | 4,709 | 705,226 |
| Great Britain Pound | 45 | 3 | 467 |
| Euro | 66 | 17 | 2,703 |
| Japanese Yen | (150) | 38 | 49 |
| Indian Rupee | - | - | - |
| Australian Dollar | (40) | (30) | (3,284) |
| Canadian Dollars | (1) | 23 | 2,538 |
| Other Currencies in US \$ | 95 | 160 | 23,948 |
| Total Exposure US \$ | 3,367 | 4,886 | 731,647 |
| Total Capital Funds as at December 31, 2016 | | | 103,373,535 |
| Total Exposure as a % of Capital Funds as at December 31, 2016 | | | 0.71% |

Table 36

(CBSL Disclosure)

Stress testing is conducted on NOP by applying rate shocks ranging from 6% to 15% in order to estimate the impact on profitability and capital adequacy of the Bank (Refer Note 69.3.3). The impact of a 1% change in exchange rate on the NOP indicates a loss of Rs. 147.53 Mn. on the positions as at December 31, 2016.

Equity Price Risk

Although the Bank's exposure to equity price risk is negligible, Mark-to-Market calculations are conducted daily on HFT and AFS portfolios. The Bank has also commenced VaR calculations on equity portfolio. The Table 37 below summarises the impact of a shock of 10% on equity price on profit, Other Comprehensive Income (OCI) and equity.

Audited

| | HFT Impact on Income Statement Rs '000 | AFS Impact on OCI Rs '000 | Total Impact on Equity Rs '000 |
|------------------------------|---|---------------------------------|--------------------------------------|
| Shock of 10% on equity price | 29,381 | 24,655 | 54,036 |

Table 37

Commodity Risk

The Bank has negligible exposure to commodity risk which is limited to the extent of the Pawning portfolio which is subject to fluctuations in the price of gold which amounts to less than 0.12% of total market risk exposure.

Liquidity Risk

Liquidity Risk is the Bank’s inability to meet ‘On’ or ‘Off’ Balance Sheet contractual and contingent financial obligations as they fall due, without incurring unacceptable losses.

Banks are vulnerable to liquidity and solvency problems resulting from asset and liability mismatches. Consequently, the primary objective of liquidity risk management is to assess and ensure availability of funds required to meet obligations at appropriate times, both under normal and stressed conditions.

The Bank has maintained the following Liquid Asset Ratios as at December 31, 2016

| | Domestic Banking Unit (DBU) % | Off-shore Banking Unit (OBC) % |
|--------------------------------------|-------------------------------|--------------------------------|
| Statutory Liquid Assets Ratio (SLAR) | 27.19 | 30.19 |
| | Local Currency % | All Currencies % |
| Liquidity Coverage Ratio (LCR) | 422.96 | 241.35 |

Table 38

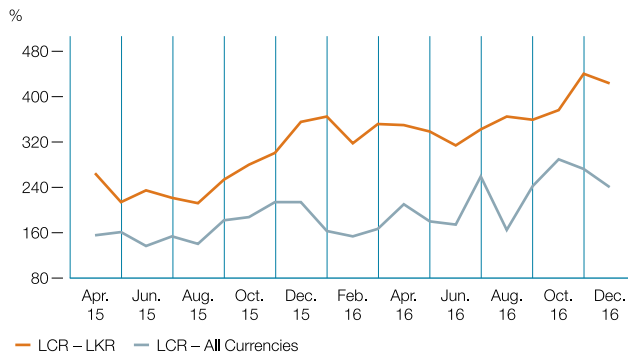
Managing Liquidity Risk

The Bank monitors liquidity risk on a continuous basis to ensure that it is managed within the parameters of the risk appetite. Structures and processes in place for management of liquidity risk are described below.

- Governance Structure** – ALCO is mandated with the implementation of liquidity risk management policies and procedures which encompass establishing and monitoring liquidity targets, determining strategies and tactics to meet those targets and ensuring availability of sufficient liquidity for unanticipated contingencies. Strategies include effective diversification in sources and tenors of funding, monitoring Off-Balance Sheet activity related liquidity impact and diversifying deposit maturity base avoiding concentration of resources. The Board, BIRMC, ALCO and EIRMC regularly review reports of key liquidity risk indicators to ensure that they are within the agreed parameters.

- Measurement** – Liquidity is monitored within both stock (based on key ratios) and flow (based on cash inflows and outflows in time bands) approaches. Key liquidity risk indicators used by the Bank to assess adequacy of its liquidity position include Statutory Liquid Asset Ratio (SLAR), Liquidity Coverage Ratio (LCR), Net Advances to Deposit Ratio, Dynamic and Static (Structural) Liquidity Gap Summary, Core Funding Ratio, Funding Concentration and Commitments Vs Funding Sources. A more stringent internal limit is in place for maintaining SLAR as compared to the statutory requirement of 20% of total liabilities excluding contingent liabilities as well as LCR as per the Basel III Guidelines.

Liquidity Coverage Ratio (LCR)



Graph 84

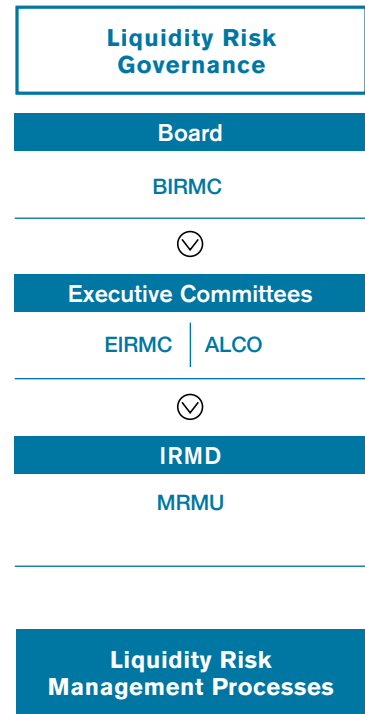


Figure 40

- Risk Mitigation** – An adequate margin is maintained in high quality liquid assets and access to diverse funding sources such as inter-bank market, wholesale and retail repurchase agreements, assets and investments available-for-sale. Additionally, contingency funding agreements with peer banks are in place ensuring availability of adequate liquidity to fund its existing asset base and growth whilst maintaining sufficient liquidity buffers to operate smoothly under varying market conditions including any short-term, medium or long-term market disruptions.
- Stress Testing** – Regular liquidity stress tests and scenario analysis are done to evaluate the potential impact of sudden and severe stress events on the Bank's liquidity position. This enables the Bank to proactively identify appropriate funding arrangements that can be used to manage such stress situations with a minimum financial and/or reputational impact.
- Contingency Funding** – The Contingency Funding Plan provides guidance in managing liquidity in Bank specific or market specific scenarios. It outlines how assets and liabilities of the Bank are to be monitored, emphasising avoidance of a liquidity crisis. These procedures address unlikely but possible events of either short or long-term funding crisis, forecast funding needs as well as funding sources under different market situations including aggressive asset growth or loan rollover and rapid liability erosion or sharp decline in deposits during a 3-month period which is considered the most critical time span in a liquidity crisis. The management and reporting framework identifies early warning signals and enumerates means to avoid and mitigate possible crises promptly. A Management Action Plan with alternative sources of inflows and trigger levels for action, a communication plan to prevent further escalation or contagion and regular sources of liquidity supplemented with contingent sources in detail are among other things covered under this critical document.
- Value at Risk (VaR)** – The Bank carries out VaR calculations on four portfolios categorised as HFT, using a market risk software solution with

the capability of computing VaR in three methodologies namely, Historical Simulation, Monte Carlo Simulation and Variance-Covariance in order to measure its market risk exposure. VaR is computed in line with Basel II Market Risk Framework, considering a 99% 'Confidence Interval' and a 10-trading-days Holding Period. VaR, a quantitative measure depicts the maximum loss the Bank may incur, under specific conditions during a given period due to changes in interest rates, exchange rates, debt and equity prices as well as price of financial products.

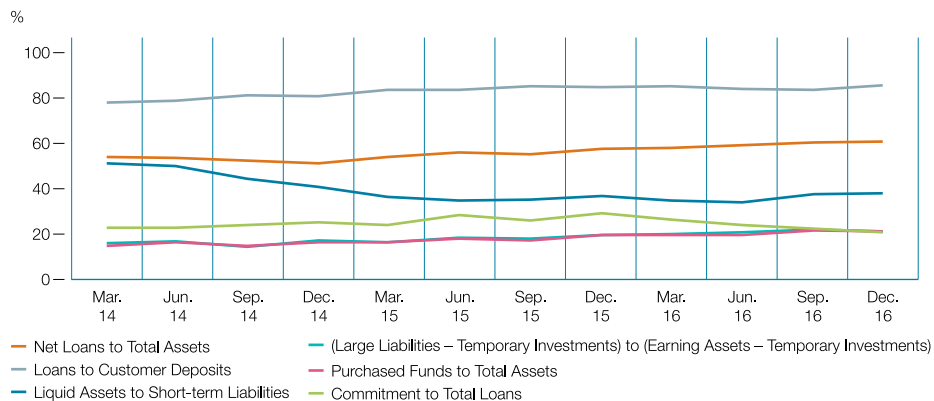
The Bank is in the process of obtaining validation on VaR model through an external consultant. Recommendations that are forthcoming are to be deployed for effective decision making.

Liquidity Risk Review

The Net Loans to Deposits Ratio is regularly monitored by ALCO to ensure that the asset and liability portfolios of the Bank are geared to maintain a healthy liquidity position. Loans to steady funding sources (Core Funding Ratio) indicating stability of funding sources compared to loans and advances granted was maintained well above the policy threshold of 90%, which is considered healthy to support the Bank's business model and growth.

The key ratios used for measuring liquidity under the Stock approach are depicted graphically below: (Graph 85)

Liquidity Ratios



Graph 85

241.35%

Liquidity Coverage Ratio (LCR)

Liquidity Coverage Ratio of the Bank which stood at 241.35% was well above the statutory requirement of 100%

Maturity Gap Analysis of Assets and Liabilities as at December 31, 2016 – Bank

Maturity analysis of Assets and Liabilities of financial assets and financial liabilities of the Bank (Table 39) indicates sufficient funding for foreseeable adverse situations based on prescribed behavioural patterns of depositors.

| | Up to 1 Month Rs. Mn. | 1-3 Months Rs. Mn. | 3-6 Months Rs. Mn. | 6-9 Months Rs. Mn. | 9-12 Months Rs. Mn. | 1-3 Years Rs. Mn. | 3-5 Years Rs. Mn. | Over 5 Years Rs. Mn. | Total Rs. Mn. |
|---|--------------------------|-----------------------|-----------------------|-----------------------|------------------------|----------------------|----------------------|-------------------------|------------------|
| Cash and cash equivalents | 17,407 | - | - | - | - | - | - | - | 17,407 |
| Deposits with Central Banks | 6,656 | 5,738 | 5,450 | 4,026 | 3,149 | 3,792 | 3,746 | 11,316 | 43,873 |
| Balances due from head office, affiliates and own branches | - | - | - | - | - | - | - | - | - |
| Balances due from other banks | 23,448 | 1,635 | - | - | - | - | - | - | 25,083 |
| Investments | 8,125 | 12,070 | 40,982 | 25,647 | 1,101 | 127,982 | 38,470 | 35,355 | 289,732 |
| Bills of exchange | 12,311 | - | - | - | - | - | - | - | 12,311 |
| Overdrafts (ODs) | 7,201 | 7,201 | 7,201 | 7,201 | 7,201 | 20,003 | 20,003 | 20,005 | 96,016 |
| Loans and advances | 45,941 | 66,543 | 51,569 | 31,070 | 20,579 | 126,058 | 69,358 | 90,903 | 502,021 |
| NPLs | - | - | - | - | 935 | - | - | 2,807 | 3,742 |
| Net inter-branch transactions | - | - | - | - | - | - | - | - | - |
| Other assets | 16,720 | 258 | 433 | 50 | 51 | 215 | 109 | 11,224 | 29,060 |
| Lines of credit committed from institutions | 1,000 | - | - | - | - | - | - | - | 1,000 |
| Others (Reverse Repos) | - | - | - | - | - | - | - | - | - |
| Total | 138,809 | 93,445 | 105,635 | 67,994 | 33,016 | 278,050 | 131,686 | 171,610 | 1,020,245 |
| Demand Deposits | 12,721 | 12,721 | 9,541 | 6,361 | 6,361 | - | - | 15,902 | 63,607 |
| Savings Deposits | 12,493 | 12,494 | 12,493 | 12,493 | 12,493 | 62,468 | 62,468 | 62,468 | 249,870 |
| Balances due to head office, affiliates and own branches | - | - | - | - | - | - | - | - | - |
| Balances due to other banks | 16,854 | 17,103 | 12,461 | 9,466 | 481 | 1,922 | - | - | 58,287 |
| Time Deposits | 49,846 | 80,450 | 74,416 | 64,116 | 42,305 | 9,487 | 5,967 | 85,701 | 412,288 |
| Certificates of Deposit, Borrowings and Bonds | 208 | 93 | 215 | 117 | 234 | 987 | 10,250 | 17,925 | 30,029 |
| Net Inter-Branch Transactions | - | - | - | - | - | - | - | - | - |
| Bills payable | - | - | - | - | - | - | - | - | - |
| Interest payable | 2,962 | 2,695 | 2,911 | 2,325 | 1,553 | 1,079 | 446 | 66 | 14,037 |
| Provisions other than NPLs & Depreciation of Investments | - | - | - | - | - | - | - | - | - |
| Other Liabilities | 18,470 | 1,077 | 1,077 | 1,033 | - | - | 2,174 | - | 23,831 |
| Lines of Credit committed to institutions | 1,000 | - | - | - | - | - | - | - | 1,000 |
| Unutilised portion of ODs & Advances | 95,923 | - | - | - | - | - | - | - | 95,923 |
| Letters of Credit/Guarantees/ Acceptance | 31,677 | 36,438 | 17,105 | 9,281 | 10,242 | 12,043 | 1,138 | - | 117,924 |
| Repos/Bills Rediscounted/ SWAPs/Forward Contracts | 161,222 | 85,183 | 45,650 | 25,333 | 17,891 | 10,123 | - | - | 345,402 |
| Others | - | - | - | - | - | - | - | - | - |
| Total | 403,376 | 248,254 | 175,869 | 130,525 | 91,560 | 98,109 | 82,443 | 182,062 | 1,412,198 |
| Period Gap | (264,568) | (154,809) | (70,234) | (62,531) | (58,544) | 179,941 | 49,243 | (10,452) | |
| Cumulative Gap | (264,568) | (419,376) | (489,611) | (552,142) | (610,686) | (430,745) | (381,502) | (391,954) | |
| Cumulative liabilities | 403,376 | 651,630 | 827,499 | 958,024 | 1,049,584 | 1,147,693 | 1,230,137 | 1,412,199 | |
| Cumulative gap as a percentage (%) of cumulative liabilities | -66% | -64% | -59% | -58% | -58% | -38% | -31% | -28% | |

Note: Balances are based on SLAS

Table 39

(CBSL Disclosure)

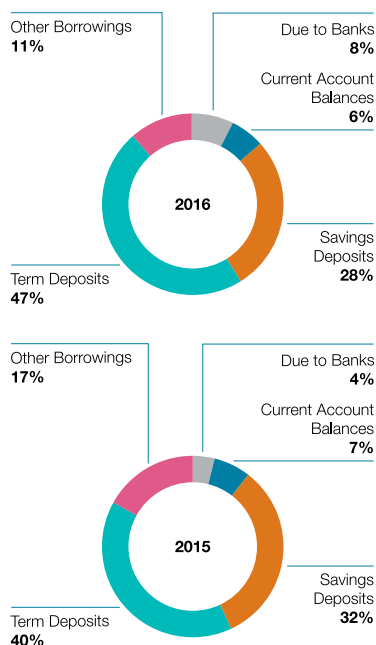
Maturity analysis of financial assets and financial liabilities of the Bank (Table 39) does not indicate any adverse situation when due cognisance is given to the fact that cash outflows include savings deposits which can be considered as a quasi stable source of funds based on historical behavioural patterns of such depositors.

The liquidity position is measured in all major currencies at both individual and aggregate levels to ensure that potential risks are within specified threshold limits. Additionally, potential liquidity commitments resulting from loan disbursements and undrawn overdrafts are also monitored to ensure sufficient funding sources.

Funding Diversification by Product

The Bank's primary sources of funding are deposits from customers. The Graph 86 provides a product-wise analysis of the Bank's funding diversification as at year end.

Funding Diversification by Products



Graph 86

Credit Ratings

The Bank's ability to borrow is significantly dependent on its credit ratings which were as follows:

| Operations/Entity | Rating Agency | Rating |
|-------------------------------|---|------------------|
| Commercial Bank of Ceylon PLC | Fitch Ratings Lanka Ltd. | AA (Ika)/ Stable |
| Bangladesh | Credit Rating Information and Services Ltd. (CRISL) | AAA |

Table 40

The rating of AA (Ika) is the strongest rating given to a Sri Lankan non-state sector bank. The AAA (Triple A) long-term credit rating accorded to the Bangladesh operations of Commercial Bank PLC has been reaffirmed by CRISL for the sixth consecutive year and is the highest credit rating given to any financial institution in Bangladesh by CRISL. (Table 40)

Operational Risk

Operational Risk is the risk of losses stemming from inadequate or failed internal processes, people and systems, or from external events such as natural disasters, social or political events. It is inherent in all banking products and processes and our objective is to control it in a cost-effective manner. Operational risk includes Legal Risk but excludes Strategic and Reputational Risk.

Managing Operational Risk

The Bank manages operational risk based on an organisation-wide consistent framework that enables determination of its operational risk profile in comparison to its risk appetite and systematically identifies operational risk themes and concentrations to define risk mitigating measures and priorities. These are described below.

- **Governance** – The Board of Directors aided by the BIRMC ensures that a sufficiently robust framework for managing operational risks is established. The Bank’s first line of defence is the Management and staff of the Bank and a rigorous system of review is in place to identify operational risks within the strategic business units. An independent Operational Risk Management Unit (ORMU) reporting to the Chief Risk Officer (CRO) supports the EIRMC in monitoring operational risk providing independent oversight of the first line of defence. Internal Audit provides assurance on the effectiveness and integrity of the first and second lines of defence independently to the BAC.
- **Policies** – The Bank’s Operational Risk Management Framework defines the Bank’s approach in identifying, assessing, mitigating, monitoring and reporting the operational risks which may impact the achievement of the Bank’s business objectives. The risk management responsibilities and obligations of the Board of Directors, Corporate Management, ORMU and all other Risk Owners are clearly specified in the Operational Risk Management Policy which is reviewed annually.

- **Risk Assessment** – Each business function proactively identifies and assesses its significant operational risks and the controls in place to manage those risks in a semi-annual RCSA process which is automated via the Operational Risk Management System (ORMS). Findings from the RCSA exercise is used to formulate appropriate action plans to address identified control gaps which are monitored as part of the overall Operational Risk Management exercise. The Bank also conducts reviews of new products, processes, services, operations, etc., to assess risk on a regular basis.
- **Risk Mitigation** – Risk mitigation is planned in accordance with the ‘as low as reasonably practicable’ principle by balancing the cost of mitigation with the benefits thereof and formally accepting the Residual Risk. Several risk mitigation policies and programmes, including a robust internal control framework are in place to maintain a sound operating environment within the established risk appetite of the Bank.
 - Insurance coverage is used as an external mitigant for ‘low probability – high impact’ events and uncontrollable operational risk events such as damage to physical assets by natural disasters, fire etc. Insurable risks are transferred to reputed insurance providers, which are periodically reviewed comprehensively by the ORMU for adequacy.
 - Policies and procedures relating to outsourcing of business activities of the Bank ensure that all significant risks arising from outsourcing arrangements of the Bank are identified and effectively managed on a continuous basis. Details of all outsourced functions are reported to CBSL annually. Due diligence tests of outsourced vendors are carried out by respective Risk Owners prior to executing new agreements and renewal of existing agreements. Assistance of Information Systems Audit Unit is obtained when conducting due diligence tests of outsourced parties which provide IT services.

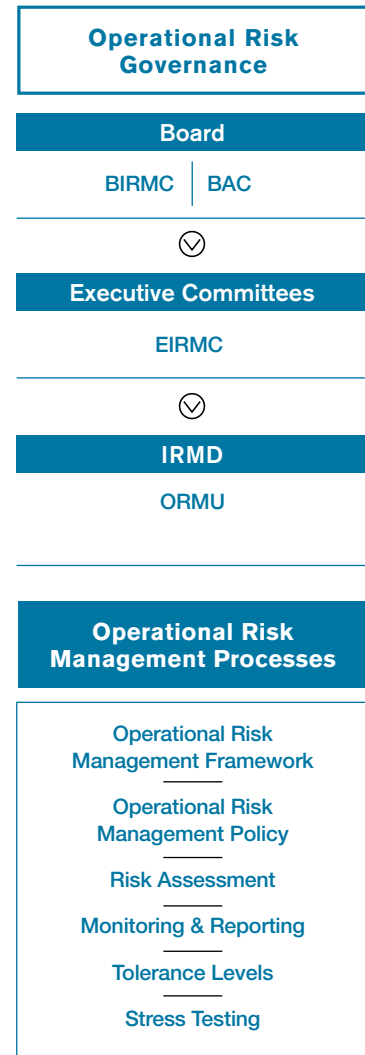


Figure 41

- Technology risk is managed in a systematic and consistent manner to avoid potential operational losses to the Bank resulting from technological obsolescence. Accordingly, existing Information Technology systems including the core-banking systems are upgraded and new software solutions implemented in a timely and appropriate manner.
- The Bank has a comprehensive Business Continuity Plan (BCP) and Disaster Recovery Plan (DRP) to assure the immediate continuity of all essential operations in case of a disaster and the eventual continuity of all other operations, which are continuously updated and tested to ensure ongoing readiness. These plans are reviewed independently by ORMU and Internal Audit Department in line with CBSL requirements.
- Creating a culture of risk awareness across the Bank through comprehensive training programmes together with high standards of ethics and integrity is also a key component of the Bank’s risk mitigatory measures.
- **Monitoring and Reporting of Operational Risk – Key Operational Risk Indicators (KORIs) and corresponding tolerance levels are reported to designated Committees and the Board.** KORIs comprise of both financial and non-financial indicators. A database of operational risk events and losses, including losses without any financial impact and ‘near-misses’ has been established through the ORMS to facilitate the analysis of loss trends and root causes as prescribed in Basel II. This is a key component in progressing towards advanced approaches in operational risk capital calculations in future.
- **Stress Testing of Operational Risk –** The Bank commenced conducting of stress testing on operational losses during the year 2014 by considering the historical data as per the scenarios proposed in the Stress Testing Policy of the Bank. This exercise is being carried out quarterly by the Bank as an additional measure to confirm its sound position.

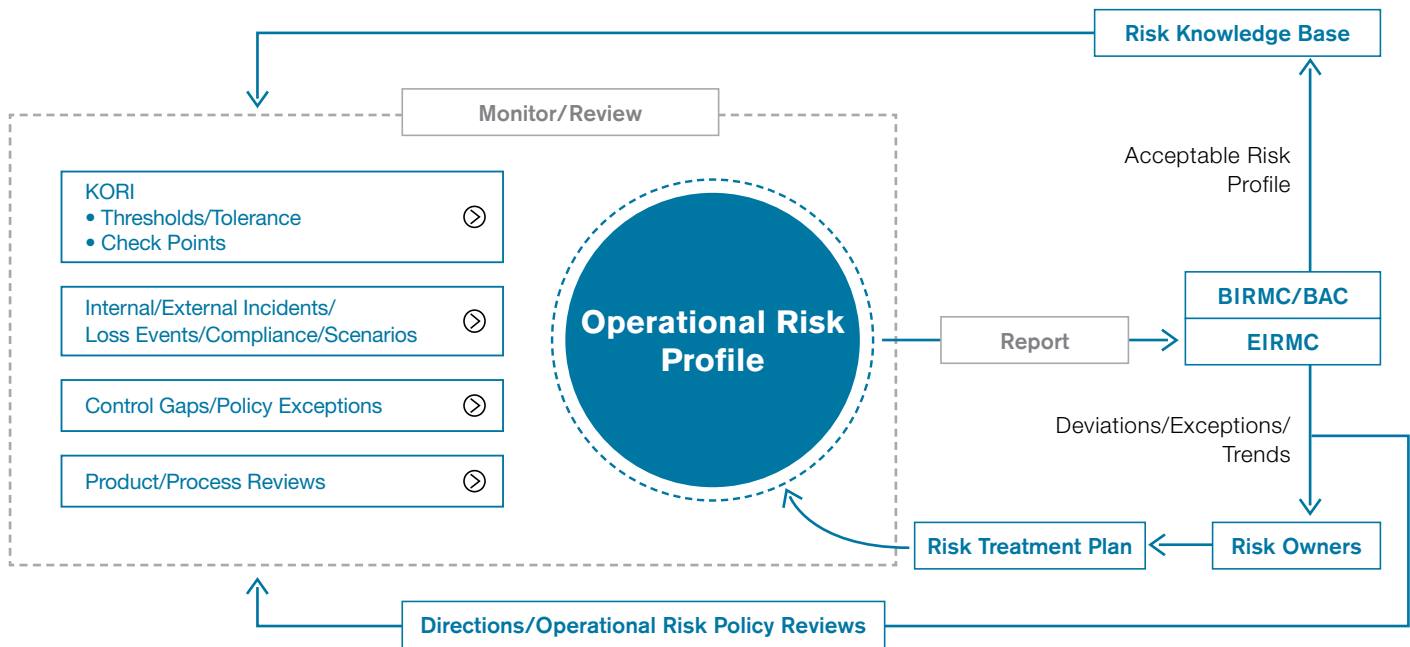


Figure 42

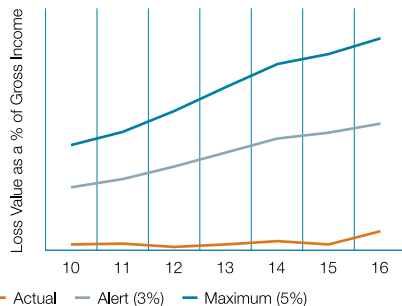
Review of Operational Risk

The Bank has a low appetite for operational risks and has established tolerance levels for all material operational risk loss types by considering several factors which include historical loss data, budgets and forecasts, performance of the Bank, existing systems and controls governing Bank operations, etc. Thresholds established for monitoring purposes considering audited financials are:

- Alert Level – 3% of the average gross income for the last three years
- Maximum Level – 5% of the average gross income for the last three years

Operational losses for the financial year 2016 were below the internal Alert Level at 0.44% (of average audited gross income for last three years) reflecting the ‘tone at the top’, effectiveness of the governance structures and the rigour of processes and procedures in place to manage operational risk. The trend line also demonstrates the Bank’s consistency in maintaining losses at minimal levels over the period of the last seven years (Graph 87).

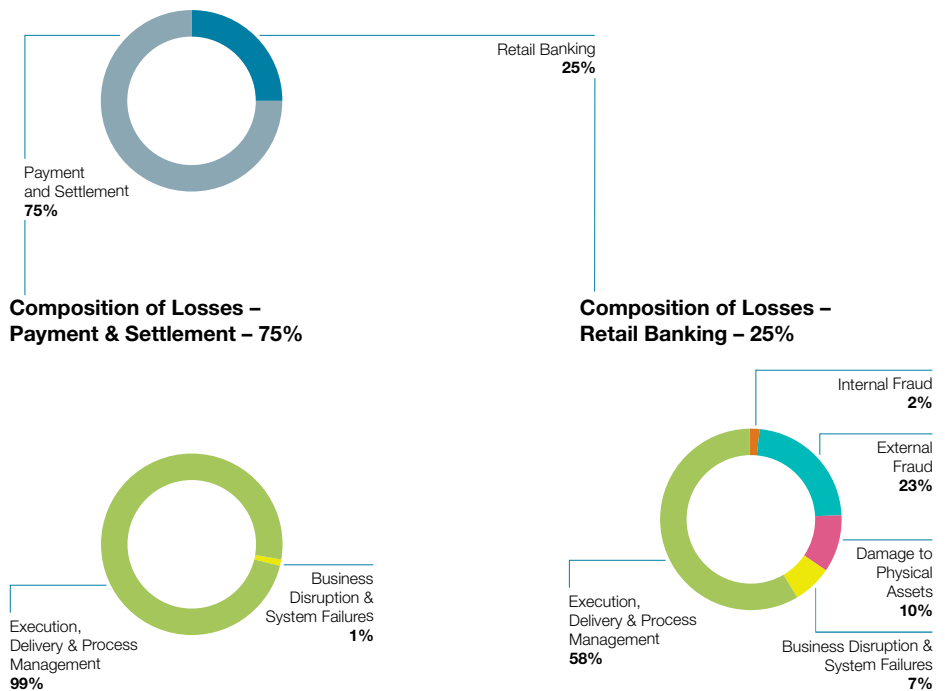
Actual Operational Losses Against Internal Alert Levels for Years 2010 – 2016



Graph 87

The Graph 88 analyses the operational risk losses incurred by the Bank under each business line/category during the year 2016.

Composition of Losses by Value 2016

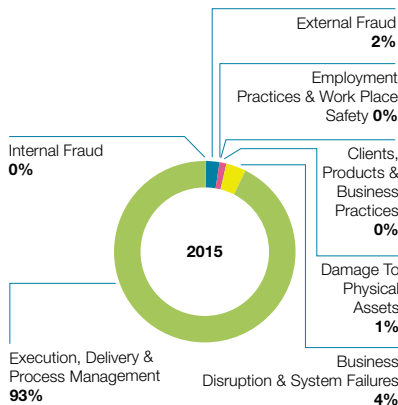
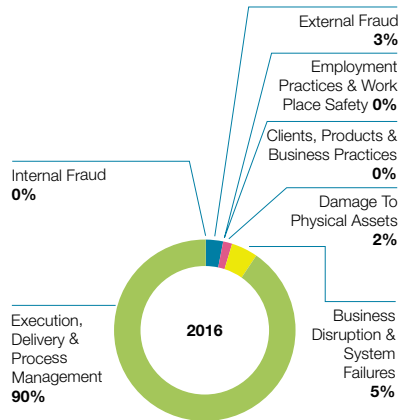


Graph 88

When analysing the losses incurred during 2016 under the Basel II defined business lines, it is evident that the majority (75%) of losses with financial impact falls under the business line of ‘Payment and Settlement’, followed by the losses reported under the ‘Retail Banking’ business line. The Bank managed to resolve two incidents that had contributed to 88% of the Payment and Settlement-related losses through subsequent recovery/rectification. Further, necessary process improvements have been introduced to prevent recurrence. Losses relating to other business lines remain negligible.

The Graphs 89 and 90 on page 400 depict the comparison of operational losses reported during the last two years (2016 and 2015) under each Basel II loss event type both in terms of number of occurrences and value.

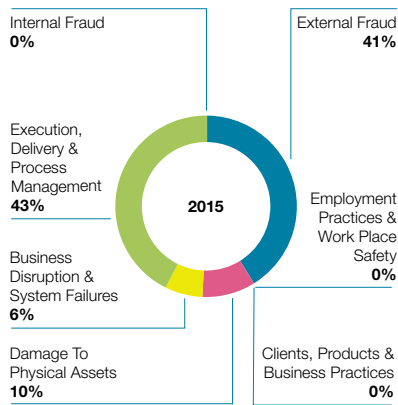
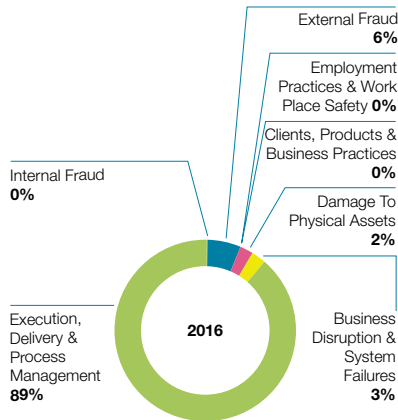
Operational Loss Events by Category – % of Total Losses by Number of Events



Graph 89

As typical with operational risk losses, majority of the losses encountered by the Bank during 2016 consists of high frequency/low financial impact events mainly falling under the loss category ‘Execution, Delivery and Process Management’. These low value events are mainly related to cash and ATM operations of the Bank’s service delivery network consisting of over 900 points across Sri Lanka and Bangladesh. Individual events with monetary values less than Rs. 100,000 account for more than 96% of the total loss events for the year. Also, the number of loss events for the year when compared to the number of transactions performed during the year stands at a mere 0.008%.

Operational Loss Events by Category – % of Total Losses by Value



Graph 90

When considering the values of the losses incurred by the Bank during the period under review (2016), they can be mainly categorised under Execution, Delivery and Process Management related, External Fraud, Business Disruption and System Failures and Damage to Physical Assets. Nevertheless, as described earlier, total of the actual operational risk related losses for 2016 remains at a mere 0.44% of the average audited gross income for last three years, as compared to the capital allocation of 15% under the Basic Indicator Approach of capital computation as per Basel II. This trend of exceptionally low levels of operational risk losses of the Bank bears testimony to the effectiveness of the Bank’s Operational Risk Management Framework and the internal control environment.

IT Risk

Defined as the business risk associated with use, ownership, operation, involvement, influence and adoption of IT within an organisation, IT Risk is a key area of concern globally as threats continue to escalate in magnitude and audacity. A major component of operational risk, IT risk comprises IT-related events such as system interruptions, errors, frauds through system manipulations, cyber attacks, obsolescence in applications, falling behind competitors concerning the technology, etc., that could potentially impact the business as a whole. Occurrence is uncertain with regard to frequency and magnitude, posing challenges in managing this vital aspect.

A dedicated, independent IT Risk Function under the ORMU is responsible for implementation of the IT Risk Management Framework for the Bank, facilitating management of all significant IT risks in a consistent and effective manner across the organisation. The IT Risk Management Policy, aligned with the Operational Risk Management Policy of the Bank complements the Information Security Policy, the related processes, objectives and procedures relevant for managing risk and improving information security of the Bank.

Year 2016 saw the number of cyber attacks directed at global financial institutions of all sizes growing, including several high profile attacks involving fraudulent fund transfers, data breaches, ransom demands and other hacks. As a key player in the local financial sector, Commercial Bank too realises that it is a likely target for cyber attacks akin to any other organisation. In light of this growing sophistication and variety of cyber attacks and the scale of their impact, the Bank has made reinforcement for this emerging IT risk category a top management priority, with the IT Risk Function giving more focus to cyber security strategies.

With regard to the overall IT Risk Management process, RCSA is used as one of the core mechanisms for IT risk identification and assessment, while the IT Risk Unit carries out independent IT risk

reviews both separately and in conjunction with regular operational risk reviews, in line with the established structure of the Operational Risk Management process. Results of these independent IT risk assessments together with audit findings, analysis of information security incidents, internal and external loss data are also employed for IT risk identification and assessment purposes.

IT risk mitigation involves prioritising, evaluating and implementing the appropriate risk-reducing controls or risk treatment techniques recommended from the risk identification and assessment process. The Bank seeks to operate within a highly secure environment which protects its data, systems, people and other information assets from various threats, through robust technology solutions, security policies and processes. A range of controls including technical, operational and management controls required to mitigate its identified IT risks and potential vulnerabilities have been implemented, strengthened by the Bank's implementation of an Information Security Management System (ISMS) established as per ISO/IEC 27001:2013 information security standard.

We have continued to invest in information security, embarking upon a roadmap to improve our resilience towards the cyber threats:

- A key initiative during the year was streamlining the cyber incident management process by realigning responsibilities for cyber incident response via the Network Operations Centre;

- The cyber incident response capabilities were further expanded by improving the security incident and event monitoring function, which is a stepping stone towards establishing a fully-fledged Security Operations Centre to detect and respond to increasingly sophisticated cyber attacks;
- The existing processes for regular vulnerability assessment, penetration testing, code reviews and other special security assessments were enhanced by expanding the scope and depth with particular focus on external facing interfaces of the Bank, which are most susceptible for cyber attacks;
- As part of on-going procedural improvements, the System Development Life Cycle, IT functional processes and third party agreements were reviewed from an information security perspective to make necessary enhancements to embed security end-to-end in key processes.

Given that risk management relies heavily on an effective monitoring mechanism, the IT Risk Function carries out continuous, independent monitoring of the Bank's IT risk profile. A range of tools and techniques including Key IT Risk Indicators (KIRIs) are used in this activity, where deviations from set thresholds receive a differential level of management attention in order to initiate appropriate corrective action.

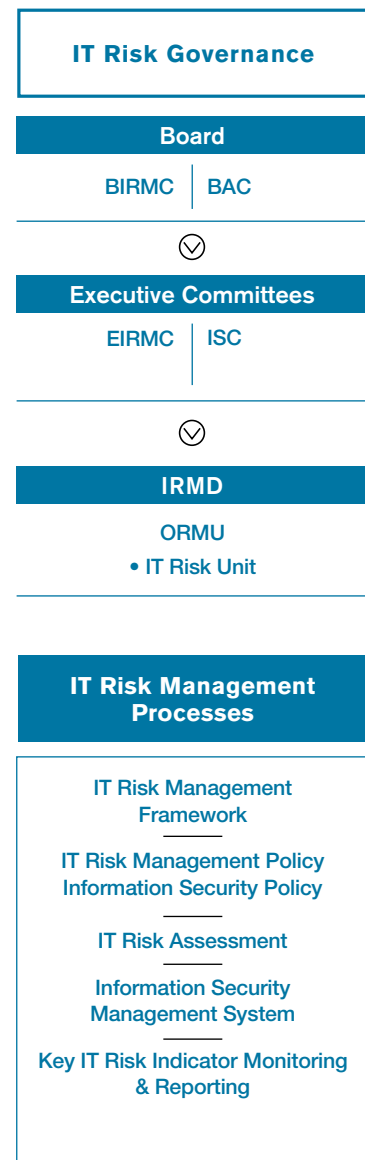


Figure 43

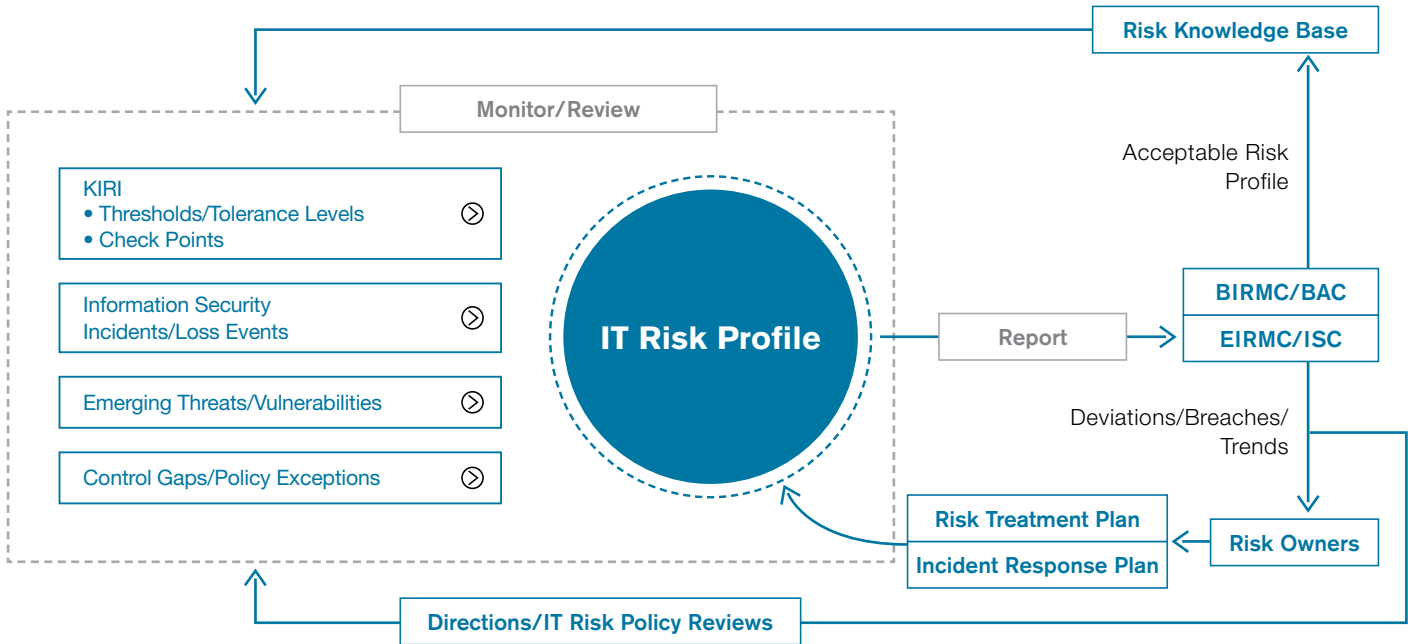


Figure 44

Legal Risk

Defined as the exposure to the adverse consequences resulting from inaccurately drafted contracts, their execution, the absence of written agreements or inadequate agreements, Legal Risk is an integral part of operational risk. It includes, but is not limited to, exposure to fines, penalties, or punitive damages resulting from supervisory actions, as well as cost of private settlements.

Legal risk is managed by ensuring that applicable regulations are fully taken into consideration in all relations and contracts with individuals and institutions who maintain business relationships with the Bank, and that they are supported by required documentation whereas risk of breaching the rules and regulations are managed by establishing and operating a sufficient mechanism for verification of conformity of operations with applicable regulations.

Compliance and Regulatory Risk

Compliance and Regulatory Risk refers to the potential risk of incurring regulatory sanctions, financial and/or reputational damage arising from failure to comply with applicable laws, rules and regulations and codes of conduct applicable to banking

activities. A Compliance Function reporting directly to Board of Directors is in place to assess the Bank's compliance with external and internal regulations. A comprehensive Compliance Policy specifies how this key risk is identified, monitored and managed by the Bank in a structured manner.

Other Related Risks

Strategic Risk

Strategic Risks are those that either affect or are created by strategic decisions. They could materialise due to internal or external factors and can cause reduction in shareholder value, loss of earnings, etc. Strategic goals are determined through the corporate planning and budgeting process, and critical evaluation of their alignment with the Bank's vision, mission and the risk appetite, facilitates management of strategic risk. The detailed scorecard-based qualitative model aligned to ICAAP is used to measure and monitor strategic risk of the Bank. This scorecard-based approach takes into consideration a range of factors, including the size and sophistication of the organisation, the nature and complexity of its activities in measuring strategic risk and highlights the areas that need emphasis to mitigate potential strategic risks.

Reputational Risk

Reputational Risk is the risk of adverse impact on earnings or organisational value arising from negative stakeholder perception of the Bank's business practices, activities and financial condition. The Bank recognises that reputational risk is driven by a wide range of other business risks that must all be actively managed. Accordingly, reputational risk is broadly managed through the systems and controls adopted for all other risk types such as credit, market, operational risk etc., which are underpinned by the code of conduct and business ethics. Further, reputational risk is measured through the detailed scorecard-based model developed by the Bank to measure and monitor reputational risk under ICAAP. Timely actions are initiated to mitigate potential reputational risks by critically evaluating the criteria given in the said scorecard.

Capital Management

The ICAAP Framework in line with Basel requirements sets out the process for assessing total overall capital adequacy in relation to its risk profile. Internal limits which are more stringent than the regulatory requirement provide early warnings with regard to capital adequacy.

| Capital Ratios | Goal (Internal Limit) | 2016 (%) | 2015 (%) |
|--|--------------------------|-------------|-------------|
| Tier I (Regulatory minimum 5%) | > 8 | 11.56 | 11.60 |
| Total Capital (Regulatory minimum 10%) | > 13.5 | 15.89 | 14.26 |

| Capital | 2016 (Rs. '000) | 2015 (Rs. '000) |
|--------------------------------|--------------------|--------------------|
| Tier I: Core capital | 76,913,661 | 65,767,337 |
| Deductions & adjustments | -1,706,794 | -924,886 |
| Eligible Tier I capital | 75,206,867 | 64,842,451 |
| Tier II: Supplementary capital | 29,232,514 | 15,303,946 |
| Deductions & adjustments | -1,065,846 | -458,425 |
| Total capital base | 103,373,535 | 79,687,972 |
| Risk-weighted assets | 650,509,591 | 558,828,383 |

Table 41

We are compliant with both regulatory and our own prudential requirements. We are also well positioned to meet future expected requirements as we continue to generate sufficient cashflow to support our growth aspirations and business needs.

Capital Management Process

ICAAP supports the regulatory review process providing valuable inputs for evaluating the required capital in line with future business plans. It integrates strategic plans and risk management plans with the capital plan in a meaningful manner with inputs from Senior Management, Management Committees, Board Committees and the Board. It also supports profit optimisation through proactive decisions on exposures both current and potential through measurement of vulnerabilities by carrying out stress testing and scenario-based analysis. The ICAAP process also identifies gaps in managing qualitative and quantitative aspects of reputational risk and strategic risk which are not covered under Pillar 1 of Basel II.

Basel III Minimum Capital Requirements and Buffers

The Banking Act Direction No. 01 of 2016 introduced capital requirements under Basel III for Licensed Commercial Banks commencing from July 01, 2017 with specified timelines to increase minimum capital ratios to be fully implemented by January 01, 2019.

The CAR to be maintained by a bank having more than Rs. 500 Bn. Asset base as at July 01, 2017 vis-a-vis the Bank's position as at December 31, 2016 is produced below which provides testimony on the ability of the Bank to meet the stringent requirements brought in by the regulator from current perspective.

However, the Bank acknowledges the challenges associated with increasing demand on capital as per the roadmap given by CBSL and is mindful about all the contributory factors that require in recording a healthy CAR in the ensuing period.

For instance, the Bank does not have access to Tier II capital or alternative Tier I capital instruments that fulfil Basel III definitions. Details of the debentures that were issued prior to Basel III guidelines (effective from July 1, 2017), and considered as qualifying instruments during the transition period are given in the Note 52 to the Financial Statements on page 294.

'Basel Workgroup' of the Bank consists of representation from members from a cross-section of business units and supporting units that work as a team to ascertain levels of capital adequacy in line with strategic direction of the Bank. While ICAAP acts as a foundation for such assessment, the Basel Workgroup is constantly on the lookout for improvements amidst changing landscape in different frontiers, to recommend to the ALCO on the desired way forward including indications on current and future capital needs, anticipated capital expenditure based assessments and desirable capital levels, etc. The Bank is aware of the importance of capital as a scarce and valuable resource. The Bank has access to contributions from shareholders as well as to built up capital over a period of time by adopting prudent dividend policies, ploughing back an increased

| Ratios (%) | Bank's Position as at 31.12.2016 | Minimum Capital Ratio Prescribed by CBSL by 01.07.2017 | Minimum Capital Ratio Prescribed by CBSL by 01.01.2019 |
|---|-------------------------------------|---|---|
| Common Equity Tier I (CETI) including Capital Conservation Buffer (CCB) and Capital Surcharge on Domestic Systemically Important Banks (D-SIBs) | 10.60 | 6.25 | 8.50 |
| Total Tier I including CCB and Capital Surcharge on D-SIBs | 10.60 | 7.75 | 10.00 |
| Total Capital including CCB and Capital Surcharge on D-SIBs | 15.20 | 11.75 | 14.00 |

Table 42

level of retained profits, etc. In addition, the Bank is continuously finding ways to improve judicious use of capital allocation requirements associated with day-to-day activities so that an optimised level of capital allocation can be achieved. The challenges associated with mobilising capital from external sources are also given due cognisance, but not excluded as a sustainable option to boost the capital in the long run. The Bank is reasonably comfortable with the current and future availability of capital buffer to withstand an ambitious growth/ stressed market conditions, but not complacent with current comfort levels and believe in providing stakeholder confidence that the Bank is known for, through sound capital buffer levels.

Stress Testing

An integral part of ICAAP under Pillar 2, stress testing is used to evaluate the sensitivity of the current and forward risk profile relative to risk appetite. It also supports a number of business processes, including strategic planning, the ICAAP

including capital management, liquidity management, setting of risk appetite triggers and risk tolerance limits, mitigating risks through actions such as reviewing and changing limits, limiting or reducing exposures and hedging thereof, facilitating the development of risk mitigation or contingency plans across a range of stressed conditions supporting communication with internal and external stakeholders.

The Bank's Stress Testing Governance Framework sets out the responsibilities for and approaches to stress testing activities which are conducted at Bank, business line and risk type level. The Bank's stress testing programme uses one or a combination of stress testing techniques, including scenario analysis, sensitivity analysis and reverse stress testing to perform stress testing for different purposes.

The framework covers all the material risks such as credit risk, credit concentration risk, operational risk, liquidity risk, FX risk, IRRBB using EVE and EAR perspectives. The Bank looks at different degrees of

stress levels which are defined as Minor, Moderate and Severe stress levels in the Stress Testing Policy. The resultant impact on the capital through these stress tests is carefully analysed. If the stress tests bring about a deterioration of the capital which has no impact on the policy level on capital maintenance, same is defined as Minor Risk, while a deterioration of up to 1% is considered Moderate Risk. If the impact results in the capital falling below the statutory requirement such a level will be considered Severe Risk, warranting immediate attention of the Management to rectify the situation.

As it provides a broader view of all risks borne by the Bank in relation to its risk tolerance and strategy in a hypothetical stress situation, stress testing has become an effective communication tool to Senior Management, Risk Owners and Risk Managers as well as Supervisors and Regulators. The results of the stress testing are reported to the EIRMC and BIRMC on a quarterly basis for appropriate, proactive decision making. Extracts from the stress testing results are set out in the Table 43.

Impact on CAR on Minor, Moderate and Severe Shocks

| Particulars | Description | 2016 | | | 2015 | | |
|--|---|---------|------------|----------|---------|------------|----------|
| | | Minor % | Moderate % | Severe % | Minor % | Moderate % | Severe % |
| Credit Risk – Asset Quality Downgrade | Increasing the direct non-performing facilities over the direct performing facilities for the entire portfolio | -0.14 | -0.36 | -0.70 | -0.12 | -0.30 | -0.58 |
| Operational Risk | 1. Top five operational losses during last five years 2. Average of yearly operational risk losses during last three years | -0.01 | -0.03 | -0.05 | -0.01 | -0.03 | -0.06 |
| Foreign Exchange Risk | % shock in the exchange rates for Sri Lanka and Bangladesh operations (gross positions in each book without netting) | -0.06 | -0.10 | -0.15 | -0.07 | -0.11 | -0.17 |
| Liquidity Risk (LKR) – Sri Lanka | 1. Withdrawal of % of the clients, banks and other banking institution deposits from the Bank within a period of three months 2. Rollover of loans to a period greater than three months | -0.24 | -0.53 | -0.83 | -0.24 | -0.53 | -0.90 |
| Interest Rate Risk – EAR and EVE (LKR) – Sri Lanka | To assess the long-term impact of changes in interest rates on Bank's EVE through changes in the economic value of its assets and liabilities and to assess the immediate impact of changes in interest rates on Bank's earnings through changes in its Net Interest Income (Nil) | -1.33 | -2.45 | -3.42 | -1.63 | -2.92 | -3.97 |

Table 43

Table 44 on pages 405 to 408 sets out Basel II Capital Adequacy Computation disclosures of the Group.

Capital Adequacy Computation – Group (Basel II)

1. Capital Adequacy Ratios

1.1 Core Capital Ratio

| <i>As at December 31,</i> | 2016 (Rs. '000) | 2015 (Rs. '000) |
|---|--------------------|--------------------|
| Total eligible core capital (Tier I capital) (Refer Note 2.1) | 76,605,502 | 64,914,870 |
| Total risk-weighted assets (Refer Note 3) | 661,045,970 | 561,797,326 |
| Total eligible core capital (Tier I capital) (Minimum requirement 5%) (%) | 11.59 | 11.55 |

1.2 Total Capital Ratio

| <i>As at December 31,</i> | 2016 (Rs. '000) | 2015 (Rs. '000) |
|---|--------------------|--------------------|
| Total capital base (Refer Note 2.2) | 105,837,614 | 80,218,414 |
| Total risk-weighted assets (Refer Note 3) | 661,045,970 | 561,797,326 |
| Total capital ratio (Minimum requirement 10%) (%) | 16.01 | 14.28 |

2. Computation of Capital

2.1 Computation of Eligible Core Capital (Eligible Tier I Capital)

| <i>As at December 31,</i> | 2016 (Rs. '000) | 2015 (Rs. '000) |
|---|--------------------|--------------------|
| Paid-up ordinary shares/common stock/assigned capital | 24,978,002 | 23,254,605 |
| Statutory reserve fund | 5,647,993 | 4,922,367 |
| Published retained profits/(accumulated losses) | 1,518,984 | 1,557,331 |
| General and other reserves | 44,770,783 | 36,015,294 |
| Minority interests (consistent with the above capital constituents) | 823,113 | 50,208 |
| Less: Deductions/Adjustments | | |
| Goodwill | 400,045 | 400,045 |
| Other intangible assets | 732,624 | 483,989 |
| Advances granted to employees of the Bank for the purchase of shares of the Bank (ESOP) | 302 | 499 |
| 50% investments in the capital of other banks and financial institutions | 402 | 402 |
| Total eligible core capital (Tier I capital) | 76,605,502 | 64,914,870 |

2.2 Computation of Total Capital Base (Regulatory Capital)

| <i>As at December 31,</i> | 2016 (Rs. '000) | 2015 (Rs. '000) |
|--|---------------------------|---------------------------|
| Total eligible core capital (Tier I capital) (Refer Note 2.1 above) | 76,605,502 | 64,914,870 |
| Supplementary Capital | | |
| Revaluation reserves (as approved by the Central Bank of Sri Lanka) | 2,034,231 | 2,034,231 |
| General provisions | 2,863,408 | 2,351,948 |
| Approved subordinated term debt | 24,334,875 | 10,917,767 |
| Less: Deductions/Adjustments | | |
| 50% investments in the capital of other banks and financial institutions | 402 | 402 |
| Total capital base | 105,837,614 | 80,218,414 |

3. Computation of Risk-Weighted Assets – RWA

| <i>As at December 31,</i> | 2016 (Rs. '000) | 2015 (Rs. '000) |
|--|---------------------------|---------------------------|
| Credit Risk | | |
| RWA of On-Balance sheet assets (Refer Note 4.1) | 550,294,881 | 458,837,165 |
| RWA of Off-Balance sheet assets (Refer Note 4.2) | 46,103,560 | 39,319,568 |
| Total RWA for credit risk (a) | 596,398,441 | 498,156,733 |
| Market Risk | | |
| Capital charge for interest rate risk | 226,153 | 561,648 |
| Capital charge for equities | 54,683 | 61,176 |
| Capital charge for foreign exchange and gold | 151,979 | 143,204 |
| Total capital charge for market risk | 432,815 | 766,028 |
| Total RWA for market risk (Total capital charge for market risk x 10) (b) | 4,328,147 | 7,660,279 |
| Operational Risk | | |
| Gross income | | |
| Year 1 | 35,273,703 | 35,666,060 |
| Year 2 | 41,018,522 | 35,273,703 |
| Year 3 | 44,346,540 | 41,020,866 |
| Average gross income | 40,212,922 | 37,320,210 |
| Total capital charge for operational risk – (Average gross income x 15%) | 6,031,938 | 5,598,031 |
| Total RWA for operational risk – (Total capital charge for operational risk x 10) (c) | 60,319,383 | 55,980,315 |
| Total risk-weighted assets (a + b + c) | 661,045,970 | 561,797,326 |

4. Computation of RWA of On-Balance Sheet and Off-Balance Sheet Assets

4.1 Computation of RWA of On-Balance Sheet Assets

| As at December 31, | Risk Weight Factor % | 2016 | | 2015 | |
|---|----------------------|------------------------------------|---------------------------------|------------------------------------|---------------------------------|
| | | On Balance Sheet Assets (Rs. '000) | Risk Weighted Assets (Rs. '000) | On Balance Sheet Assets (Rs. '000) | Risk Weighted Assets (Rs. '000) |
| Claims on Government of Sri Lanka and Central Bank of Sri Lanka | 0 | 304,463,654 | – | 278,819,777 | – |
| Claims on foreign sovereigns and their central banks | 0-150 | 14,828,182 | 14,828,182 | 10,963,272 | 10,963,272 |
| Claims on public sector entities (PSEs) | 20-150 | 8,137 | 8,137 | 2,176,061 | 2,176,061 |
| Claims on Banks | 0-150 | 27,620,560 | 16,462,666 | 21,931,045 | 10,693,390 |
| Claims on financial institutions | 20-150 | 30,283,774 | 13,081,513 | 32,635,103 | 13,736,419 |
| Claims on corporates | 20-150 | 284,911,325 | 277,008,403 | 229,452,108 | 222,334,225 |
| Retail claims | 75-100 | 184,180,124 | 153,626,264 | 151,746,375 | 126,561,595 |
| Claims secured by residential property | 50-100 | 54,430,398 | 43,784,768 | 43,268,979 | 35,778,552 |
| Non-performing assets (NPAs) | 50-150 | 6,559,370 | 8,820,073 | 7,232,518 | 9,702,823 |
| Cash items | 0-20 | 23,958,602 | 1,271,740 | 15,951,475 | 3,907 |
| Property, plant & equipment | 100 | 11,675,438 | 11,675,438 | 11,288,672 | 11,288,672 |
| Other assets | 100 | 9,727,696 | 9,727,696 | 15,598,248 | 15,598,248 |
| Total | | 952,647,262 | 550,294,881 | 821,063,634 | 458,837,165 |

4.2 Computation of RWA of Off-Balance Sheet Assets

| <i>As at December 31,</i> | | 2016 | | 2015 | |
|---|--------------------------------|---|--|---|--|
| | Credit Conversion Factor | Principal Amount of Off-Balance Sheet Assets (Rs. '000) | Risk Weighted Assets (Rs. '000) | Principal Amount of Off-Balance Sheet Assets (Rs. '000) | Risk Weighted Assets (Rs. '000) |
| | % | | | | |
| Claims on Banks | | | | | |
| (a) Foreign exchange contracts | 2 | 176,228,611 | 1,003,151 | 213,383,575 | 1,335,748 |
| (i) Original maturity – Less than one year | | 176,228,611 | 1,003,151 | 213,383,575 | 1,335,748 |
| Claims on corporates | | | | | |
| (a) Direct credit substitutes | 100 | 21,068,556 | 18,265,104 | 19,525,544 | 16,782,075 |
| (i) General guarantees of indebtedness | | 21,068,556 | 18,265,104 | 19,525,544 | 16,782,075 |
| (b) Transaction-related contingencies | 50 | 19,742,310 | 9,196,436 | 11,610,441 | 5,600,459 |
| (i) Performance bonds, bid bonds and warranties | | 19,742,310 | 9,196,436 | 11,610,441 | 5,600,459 |
| (ii) Others | | – | – | – | – |
| (c) Short-term self-liquidating trade-related contingencies | 20 | 60,508,393 | 11,846,911 | 54,293,156 | 10,620,306 |
| (i) Shipping guarantees | | 1,625,728 | 283,712 | 1,755,562 | 336,409 |
| (ii) Documentary letters of credit | | 32,920,889 | 6,370,844 | 26,441,578 | 5,064,694 |
| (iii) Trade-related acceptances | | 680,739 | 136,148 | 387,284 | 77,457 |
| (iv) Others | | 25,281,037 | 5,056,207 | 25,708,732 | 5,141,746 |
| (d) Foreign exchange contracts | | 52,429,672 | 688,146 | 32,729,935 | 476,461 |
| (i) Original maturity – Less than one year | 2 | 47,395,225 | 634,094 | 26,286,091 | 411,071 |
| (ii) Original maturity – More than one year and less than two years | 5 | 5,034,447 | 54,052 | 6,443,844 | 65,390 |
| Retail claims | | | | | |
| (a) Direct credit substitutes | 100 | 6,927,352 | 3,817,954 | 6,163,524 | 3,412,998 |
| (i) General guarantees of indebtedness | | 6,927,352 | 3,817,954 | 6,163,524 | 3,412,998 |
| (b) Transaction-related contingencies | 50 | 2,810,750 | 762,451 | 2,484,828 | 578,091 |
| (i) Performance bonds, bid bonds and warranties | | 2,810,750 | 762,451 | 2,484,828 | 578,091 |
| (c) Short-term self-liquidating trade-related contingencies | 20 | 3,427,238 | 523,407 | 3,898,084 | 513,430 |
| (i) Shipping guarantees | | 125,733 | 16,358 | 178,038 | 28,044 |
| (ii) Documentary letters of credit | | 3,301,505 | 507,049 | 3,720,046 | 485,386 |
| (iii) Trade related acceptances | | – | – | – | – |
| (iv) Others | | – | – | – | – |
| Other commitments with an original maturity of up to one year or which can be unconditionally cancelled at any time | 0 | 116,473,250 | – | 127,288,911 | – |
| Undrawn term loans | | 29,599,437 | – | 38,435,052 | – |
| Undrawn overdraft facilities/unused credit card lines | | 67,613,047 | – | 71,320,764 | – |
| Others | | 19,260,766 | – | 17,533,095 | – |
| Total | | 459,616,132 | 46,103,560 | 471,377,998 | 39,319,568 |

Table 44

Tables 45 to 50 on pages 409 to 413 depict Basel III Guidelines based disclosures of the Bank.

Readiness with Basel III Regulatory Disclosure Requirements Key Regulatory Ratios – Capital and Liquidity

| Item | December 31, 2016 Amount (Rs. '000) |
|--|--|
| Regulatory Capital (Rs. '000) | |
| Common Equity | 67,284,572 |
| Tier I Capital | 67,284,572 |
| Total Capital | 96,517,086 |
| Regulatory Capital Ratios (%) | |
| Common Equity Tier I Capital Ratio (Minimum Requirement – 4.5% (with effect from 01.07.2017)) | 10.60% |
| Tier I Capital Ratio Minimum Requirement – 7.75% (with effect from 01.07.2017) | 10.60% |
| Total Capital Ratio Minimum Requirement – 11.75% (with effect from 01.07.2017) | 15.20% |
| Regulatory Liquidity | |
| Statutory Liquid Assets (Rs. '000) | 211,363,134 |
| Statutory Liquid Assets Ratio (Minimum Requirement – 20%) | 27.41% |
| Domestic Banking Unit (%) | 27.19% |
| Off shore Banking Unit (%) | 30.19% |
| Liquidity Coverage Ratio (%) – Rupee Minimum Requirement – 80% (with effect from 01.01.2017) | 422.96% |
| Liquidity Coverage Ratio (%) – All Currency Minimum Requirement – 80% (with effect 01.01.2017) | 241.35% |

Table 45

(CBSL Disclosure)

Basel III Computation of Capital Ratios as at December 31, 2016

| Item | Amount (Rs. '000) |
|---|-------------------|
| Common Equity Tier I (CET I) Capital after Adjustments | 67,284,572 |
| Total Common Equity Tier I (CET I) Capital | 69,368,825 |
| Equity Capital (Stated Capital)/Assigned Capital | 24,977,700 |
| Reserve fund | 5,647,890 |
| Published retained earnings/(Accumulated retained losses) | 1,538,142 |
| Published Accumulated Other Comprehensive Income (OCI) | (6,705,188) |
| General and other disclosed reserves | 43,910,281 |
| Unpublished current year's profit/(losses) and gains reflected in OCI | - |
| Ordinary shares issued by consolidated banking and financial subsidiaries of the Bank and held by third parties | - |
| Total Adjustments to CET I Capital | 2,084,253 |
| Goodwill (net) | |
| Intangible Assets (net) | 640,646 |
| Significant investments in the capital of financial institutions where the Bank owns more than 10% of the issued ordinary share capital of the entity | 1,443,607 |
| Additional Tier I (ATI) Capital after Adjustments | - |
| Total Additional Tier I (ATI) Capital | - |
| Qualifying Additional Tier I Capital Instruments | - |
| Instruments issued by consolidated banking and financial subsidiaries of the Bank and held by third parties | - |
| Total Adjustments to ATI Capital | - |

| Item | Amount (Rs. '000) |
|--|----------------------|
| Investments in own shares | - |
| Others (Specify) | - |
| Tier II Capital after Adjustments | 29,232,514 |
| Total Tier II Capital | 29,232,514 |
| Qualifying Tier II Capital Instruments | 24,334,875 |
| Revaluation gains | 2,034,231 |
| Loan Loss Provisions | 2,863,408 |
| Instruments issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties | - |
| Total Adjustments to Tier II Capital | - |
| Investment in own shares | - |
| Others (Specify) | - |
| CETI Capital | 67,284,572 |
| Total Tier I Capital | 67,284,572 |
| Total Capital | 96,517,086 |
| Total Risk Weighted Amount | 634,947,824 |
| Risk Weighted Amount for Credit Risk | 580,193,958 |
| Risk Weighted Amount for Market Risk | 3,683,529 |
| Risk Weighted Amount for Operational Risk | 51,070,336 |
| CETI Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer & Surcharge on D-SIBs) (%) | 10.60% |
| Of which: Capital Conservation Buffer (%) | - |
| Of which: Countercyclical Buffer (%) | - |
| Of which: Capital Surcharge on D-SIBs (%) | - |
| Total Tier 1 Capital Ratio (%) | 10.60% |
| Total Capital Ratio (Including Capital Conservation Buffer, Countercyclical Capital Buffer & Surcharge on D-SIBs) (%) | 15.20% |
| Of which: Capital Conservation Buffer (%) | - |
| Of which: Countercyclical Buffer (%) | - |
| Of which: Capital Surcharge on D-SIBs (%) | - |

Table 46

(CBSL Disclosure)

The implementation of Basel III computation of capital ratios as per the above format and reporting is effective from July 01, 2017

Basel III Computation of Liquidity Coverage Ratio as at December 31, 2016

| Item | Amount (Rs. '000) | |
|--|------------------------|----------------------|
| | Total Unweighted Value | Total weighted Value |
| Total stock of High Quality Liquid Assets (HQLA) | 139,201,013 | 139,088,165 |
| Total Adjusted Level 1A Assets | 138,975,487 | 138,975,487 |
| Level 1A Assets | 138,975,402 | 138,975,402 |
| Total Adjusted Level 2A Assets | - | - |
| Level 2A Assets | - | - |
| Total Adjusted Level 2B Assets | 225,526 | 112,763 |
| Level 2B Assets | 225,526 | 112,763 |
| Total Cash outflows | 978,003,918 | 182,394,614 |
| Deposits | 552,552,387 | 55,255,239 |
| Unsecured wholesale funding | 208,051,363 | 101,309,555 |
| Secured funding transactions | - | - |
| Undrawn portion of committed (irrevocable) facilities and other contingent funding obligations | 217,103,854 | 25,533,505 |
| Additional requirements | 296,315 | 296,315 |
| Total Cash Inflows | 205,585,675 | 124,765,753 |
| Maturing secured lending transactions backed by collateral | 35,782,810 | 35,325,892 |
| Committed facilities | - | - |
| Other inflows by counterparty which are maturing within 30 days | 59,398,731 | 38,837,257 |
| Operational deposits | 9,198,927 | - |
| Other cash inflows | 101,205,207 | 50,602,604 |
| Liquidity Coverage Ratio (%) (Stock of High Quality Liquid Assets/Total Net Cash Outflows over the Next 30 Calendar Days)*100 | | 241.35% |

Table 47

(CBSL Disclosure)

Credit Risk under Standardised Approach

Credit Risk Exposures and Credit Risk Mitigation (CRM) Effects

| Asset Class | Amount (Rs. '000) as at Decemeber 31, 2016 | | | | | |
|---|---|--------------------------|----------------------------|--------------------------|-------------------------|-----------------|
| | Exposures before Credit Conversion Factor (CCF) and CRM | | Exposures post CCF and CRM | | RWA and RWA Density (%) | |
| | On-Balance Sheet Amount | Off-Balance Sheet Amount | On-Balance Sheet Amount | Off-Balance Sheet Amount | RWA | RWA Density (%) |
| Claims on Central Government and Central Bank of Sri Lanka | 304,394,727 | 63,643,750 | 304,394,727 | 1,272,875 | - | - |
| Claims on Foreign Sovereigns and their Central Banks | 12,120,831 | - | 12,120,831 | - | 12,120,831 | 100.00 |
| Claims on Public Sector Entities (PSEs) | 8,137 | - | 8,137 | - | 8,137 | 100.00 |
| Claims on Official Entities and Multilateral Development Banks (MDBs) | - | - | - | - | - | - |
| Claims on Banks Exposures | 25,083,849 | 112,584,838 | 25,083,849 | 2,251,697 | 14,928,477 | 54.61 |
| Claims on Financial Institutions | 30,283,774 | - | 30,283,774 | - | 13,081,513 | 43.20 |
| Claims on Corporates | 317,859,443 | 253,702,480 | 281,104,342 | 40,915,599 | 313,198,017 | 97.26 |
| Retail Claims | 216,539,136 | 29,685,039 | 185,320,826 | 6,307,048 | 151,197,530 | 78.90 |
| Claims Secured by Residential Property | 54,430,398 | - | 54,430,398 | - | 43,784,768 | 80.44 |
| Claims Secured by Commercial Real Estate | - | - | - | - | - | - |
| Non-Performing Assets (NPAs) | 6,559,370 | - | 6,559,370 | - | 8,820,073 | 134.47 |
| Higher-risk Categories | 687,282 | - | 687,282 | - | 1,718,204 | 250.00 |
| Cash Items and Other Assets | 43,830,145 | - | 43,830,145 | - | 21,336,408 | 48.68 |
| Total | 1,011,797,092 | 459,616,108 | 943,823,682 | 50,747,219 | 580,193,958 | 58.34 |

Table 48

(CBSL Disclosure)

Exposures by Asset Classes and Risk-Weights

| Description Risk Weight/Asset Class | Amount (Rs. '000) as at December 31, 2016 (Post CCF & CRM) | | | | | | | | Total Credit Exposures Amount |
|---|--|-------------------|-------------------|-------------------|-------------------|--------------------|------------------|----------------|-------------------------------|
| | 0% | 20% | 50% | 60% | 75% | 100% | 150% | >150% | |
| Claims on Central Government and Central Bank of Sri Lanka | 305,667,602 | - | - | - | - | - | - | - | 305,667,602 |
| Claims on Foreign Sovereigns and their Central Banks | - | - | - | - | - | 12,120,831 | - | - | 12,120,831 |
| Claims on Public Sector Entities (PSEs) | - | - | - | - | - | 8,137 | - | - | 8,137 |
| Claims on Official Entities and Multilateral Development Banks (MDBs) | - | - | - | - | - | - | - | - | - |
| Claims on Bank's Exposures | - | 8,485,842 | 11,236,789 | - | - | 7,612,914 | - | - | 27,335,546 |
| Claims on Financial Institutions | - | 7,881,716 | 21,793,776 | - | - | 608,282 | - | - | 30,283,774 |
| Claims on Corporates | - | 7,443,099 | 5,734,891 | - | - | 308,841,951 | - | - | 322,019,941 |
| Retail Claims | 1,077,309 | 63,393 | - | 50,301,492 | 76,726,893 | 63,458,787 | - | - | 191,627,874 |
| Claims Secured by Residential Property | - | - | 21,291,261 | - | - | 33,139,137 | - | - | 54,430,398 |
| Claims Secured by Commercial Real Estate | - | - | - | - | - | - | - | - | - |
| Non-Performing Assets (NPAs) | - | - | 38,157 | - | - | 1,961,651 | 4,559,562 | - | 6,559,370 |
| Higher-risk Categories | - | - | - | - | - | - | - | 687,282 | 687,282 |
| Cash Items and Other Assets | 17,406,776 | 6,358,702 | - | - | - | 20,064,668 | - | - | 43,830,145 |
| Total | 324,151,687 | 30,232,752 | 60,094,875 | 50,301,492 | 76,726,893 | 447,816,358 | 4,559,562 | 687,282 | 994,570,901 |

Table 49

(CBSL Disclosure)

Computation of Risk Weighted Amount for Operational Risk for the year ended December 31, 2016

| Business Lines | Capital Charge Factor (Alpha and Beta) | Fixed Factor 'm' | Amount (Rs. '000) | | | | | |
|--|--|------------------|--------------------|--------------------|--------------------|------------------|------------------|-------------------|
| | | | Gross Income | | | Capital Charges | | |
| | | | 1st Year | 2nd Year | 3rd Year | 1st Year | 2nd Year | 3rd Year |
| The Basic Indicator Approach | 15% | | 35,186,169 | 40,771,463 | 44,057,658 | 5,277,925 | 6,115,719 | 6,608,649 |
| The Standardised Approach | | | 35,186,169 | 40,771,463 | 44,057,658 | 4,523,252 | 5,533,628 | 5,955,485 |
| Corporate Finance | 18% | | - | - | - | - | - | - |
| Trading and Sales | 18% | | (910,115) | 3,317,030 | 3,771,864 | (163,821) | 597,065 | 678,936 |
| Payment and Settlement | 18% | | 395,330 | 437,001 | 511,789 | 71,159 | 78,660 | 92,122 |
| Agency Services | 15% | | - | - | - | - | - | - |
| Asset Management | 12% | | - | - | - | - | - | - |
| Retail Brokerage | 12% | | - | - | - | - | - | - |
| Retail Banking | 12% | | 24,640,996 | 23,157,077 | 26,055,771 | 2,956,920 | 2,778,849 | 3,126,693 |
| Commercial Banking | 15% | | 11,059,958 | 13,860,355 | 13,718,234 | 1,658,994 | 2,079,053 | 2,057,735 |
| The Alternative Standardised Approach | | | 386,452,159 | 486,032,975 | 585,368,915 | 1,723,987 | 2,934,930 | 3,491,483 |
| Subtotal | | | (514,785) | 3,754,031 | 4,283,653 | (92,661) | 675,726 | 771,058 |
| Corporate Finance | 18% | | - | - | - | - | - | - |
| Trading and Sales | 18% | | (910,115) | 3,317,030 | 3,771,864 | (163,821) | 597,065 | 678,936 |
| Payment and Settlement | 18% | | 395,330 | 437,001 | 511,789 | 71,159 | 78,660 | 92,122 |
| Agency Services | 15% | | - | - | - | - | - | - |
| Asset Management | 12% | | - | - | - | - | - | - |
| Retail Brokerage | 12% | | - | - | - | - | - | - |
| Subtotal | | | 386,966,944 | 482,278,944 | 581,085,261 | 1,816,648 | 2,259,204 | 2,720,426 |
| Retail Banking | 12% | 0.035 | 204,693,529 | 259,771,405 | 314,544,873 | 859,713 | 1,091,040 | 1,321,088 |
| Commercial Banking | 15% | 0.035 | 182,273,416 | 222,507,539 | 266,540,388 | 956,935 | 1,168,165 | 1,399,337 |
| Capital Charges for Operational Risk | | | | | | | | 6,000,765 |
| The Basic Indicator Approach | | | | | | | | 6,000,765 |
| The Standardised Approach | | | | | | | | 5,337,455 |
| The Alternative Standardised Approach | | | | | | | | 2,716,800 |
| Risk-Weighted Amount for Operational Risk | | | | | | | | 51,070,336 |
| The Basic Indicator Approach | | | | | | | | 51,070,336 |
| The Standardised Approach | | | | | | | | 45,425,149 |
| The Alternative Standardised Approach | | | | | | | | 23,121,702 |

Table 50

(CBSL Disclosure)

ANNEX 3: GRI CONTENT INDEX: “IN ACCORDANCE” – CORE

| General Standard Disclosures | | | |
|---|--|---------------------|--------------------|
| GRI Indicator | Description | Page Number | External Assurance |
| Strategy and Analysis | | | |
| G4-1 | Statement from the Chairman | 18 | Yes |
| Organisational Profile | | | |
| G4-3 | Name of the organisation | 3, Inner Back Cover | Yes |
| G4-4 | Primary brands, products and/or services | 84,92 | Yes |
| G4-5 | Location of organisation's headquarters | Inner Back Cover | Yes |
| G4-6 | Countries of operation | 3 | Yes |
| G4-7 | Nature of ownership and legal form | Inner Back Cover | |
| G4-8 | Markets served | 3 | Yes |
| G4-9 | Scale of the reporting organisation | 6 | Yes |
| G4-10 | Total workforce by employment type, employment contract and region, broken down by gender | 6,70 | Yes |
| G4-11 | Percentage of employees covered by collective bargaining agreements | 428 | Yes |
| G4-12 | Organisation's supply chain | 57 | Yes |
| G4-13 | Significant changes during the reporting period regarding size, structure or ownership | 6 | Yes |
| G4-14 | Explanation of whether and how the precautionary approach or principle is addressed by the organisation | 78 | Yes |
| G4-15 | Externally developed economic, environmental and social charters and principles, or other initiatives to which the organisation subscribes or endorses | 58 | Yes |
| G4-16 | Memberships in associations and/or national/international advocacy organisations | 63 | Yes |
| Identified Material Aspects And Boundaries | | | |
| G4-17 | Organisations entities covered by the report | 3 | Yes |
| G4-18 | Process for defining report content | 3 | Yes |
| G4-19 | Material aspects identified for report content | 32 | Yes |
| G4-20 | Aspect boundary for identified material aspects within the Organisation | 420 | Yes |
| G4-21 | Aspect boundary for identified material aspects outside the Organisation | 420 | Yes |
| G4-22 | Explanation of the effect of any restatement of information provided in earlier reports and the reason for such restatement | 421 | Yes |
| G4-23 | Significant changes from previous reporting periods in the Scope, aspect boundaries in the Report | 421 | Yes |
| Stakeholder Engagement | | | |
| G4-24 | List of stakeholder groups engaged by the organisation | 30 | Yes |
| G4-25 | Basis for identification and selection of stakeholders with whom to engage | 30 | Yes |
| G4-26 | Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group | 30 | Yes |
| G4-27 | Key topics and concerns raised through stakeholders engagement and how the organisation responded to them | 30 | Yes |
| Report Profile | | | |
| G4-28 | Reporting period | 3 | Yes |
| G4-29 | Date of most recent previous report | 3 | Yes |
| G4-30 | Reporting cycle | 3 | Yes |
| G4-31 | Contact point for questions regarding the report or its contents | 3 | Yes |

| General Standard Disclosures | | | | |
|------------------------------|---|--|---|--------------------|
| GRI Indicator | Description | | Page Number | External Assurance |
| G4-32 | Compliance with GRI G4 guidelines, GRI content index and the External Assurance Report. | | Compliance – 3, Index – 414, External Assurance – 422-426 | Yes |
| G4-33 | Policy and current practice with regard to seeking external assurance for the Report | | 3 | Yes |
| Governance | | | | |
| G4-34 | Governance structure of the organisation, for sustainability impacts | | 125 | Yes |
| Ethics and Integrity | | | | |
| G4-56 | The values, principles, standards and norms of behaviour | | 124 | Yes |

| Specific Standard Disclosures | | | | | | |
|---|--|-------------|------------------------|---------------------------|-----------------------------|--------------------|
| DMA and Indicators | | Page Number | Identified Omission(s) | Reason(s) for Omission(s) | Explanation for Omission(s) | External Assurance |
| Category: Economic | | | | | | |
| Material Aspect: Economic Performance | | | | | | |
| G4-DMA | | 48 | | | | Yes |
| G4-EC1 | Direct economic value generated, distributed and retained | 15 | | | | Yes |
| Material Aspect: Market Presence | | | | | | |
| G4-DMA | | 71 | | | | Yes |
| G4-EC5 | Ratios of standard entry level wage vis-a-vis minimum wage | 428 | | | | Yes |
| G4-EC6 | Proportion of senior management hired from the local community | 428 | | | | Yes |
| Material Aspect: Indirect Economic Impacts | | | | | | |
| G4-DMA | | 85, 65 | | | | Yes |
| G4-EC8 | Significant indirect economic impacts | 85, 65 | | | | Yes |
| Material Aspect: Procurement Practices | | | | | | |
| G4-DMA | | 57 | | | | Yes |
| G4-EC9 | Proportion of spending on local suppliers | 57, 428 | | | | Yes |
| Category: Environmental | | | | | | |
| Material Aspect: Energy | | | | | | |
| G4-DMA | | 79 | | | | Yes |
| G4-EN3 | Energy consumption within the organisation | 79 | | | | Yes |
| G4-EN6 | Reduction of energy consumption | 79 | | | | Yes |

| Specific Standard Disclosures | | | | | | |
|--|--|-------------|------------------------|---------------------------|-----------------------------|--------------------|
| DMA and Indicators | | Page Number | Identified Omission(s) | Reason(s) for Omission(s) | Explanation for Omission(s) | External Assurance |
| Material Aspect: Effluents and Waste | | | | | | |
| G4-DMA | | 79 | | | | Yes |
| G4-EN23 | Total weight of waste by type and disposal method | 79 | | | | Yes |
| Material Aspect: Products and Services | | | | | | |
| G4-DMA | | 78 | | | | Yes |
| G4-EN27 | Extent of impact mitigation of environmental impacts of Products and services | 428 | | | | Yes |
| Material Aspect: Supplier Environmental Assessment | | | | | | |
| G4-DMA | | 57 | | | | Yes |
| G4-EN32 | Percentage of new suppliers that were screened using environmental criteria | 428 | | | | Yes |
| Category: Social | | | | | | |
| Sub-Category: Labour Practices and Decent Work | | | | | | |
| Material Aspect: Employment | | | | | | |
| G4-DMA | | 71, 73 | | | | Yes |
| G4-LA1 | New employee hires and employee turnover | 71, 73 | | | | Yes |
| G4-LA2 | Benefits provided to full-time employees that are not provided to temporary or part-time employees | 73 | | | | Yes |
| G4-LA3 | Return to work and retention rates after parental leave | 74 | | | | Yes |
| Material Aspect: Labour/Management Relations | | | | | | |
| G4-DMA | | 75 | | | | Yes |
| G4-LA4 | Minimum notice periods regarding operational changes | 75 | | | | Yes |
| Material Aspect: Training and Education | | | | | | |
| G4-DMA | | 72 | | | | Yes |
| G4-LA9 | Average hours of training per year per employee | 72 | | | | Yes |
| G4-LA10 | Programmes for skills management and lifelong learning | 72 | | | | Yes |
| G4-LA11 | Percentage of employees receiving regular performance and career development reviews | 74 | | | | Yes |
| Material Aspect: Diversity and Equal Opportunity | | | | | | |
| G4-DMA | | 74 | | | | Yes |
| G4-LA12 | Composition of governance bodies and composition of employees | 70 | | | | Yes |
| Material Aspect: Equal Remuneration for Women and Men | | | | | | |
| G4-DMA | | 74 | | | | Yes |
| G4-LA13 | Ratio of basic salary and remuneration of women to men | 74 | | | | Yes |

| Specific Standard Disclosures | | | | | | |
|--|--|-------------|------------------------|---------------------------|-----------------------------|--------------------|
| DMA and Indicators | | Page Number | Identified Omission(s) | Reason(s) for Omission(s) | Explanation for Omission(s) | External Assurance |
| Material Aspect: Supplier Assessment for Labour Practices | | | | | | |
| G4-DMA | | 58 | | | | Yes |
| G4-LA14 | Percentage of new suppliers that were screened using labour practices criteria | 429 | | | | Yes |
| Material Aspect: Labour Practices Grievance Mechanisms | | | | | | |
| G4-DMA | | 75 | | | | Yes |
| G4-LA16 | Number of grievances about labour practices filed, addresses and resolved through formal grievance mechanisms | 429 | | | | Yes |
| Sub-Category: Human Rights | | | | | | |
| Material Aspect: Non-Discrimination | | | | | | |
| G4-DMA | | 75 | | | | Yes |
| G4-HR3 | Number of incidents of discrimination and corrective actions taken | 429 | | | | Yes |
| Material Aspect: Freedom of Association and Collective Bargaining | | | | | | |
| G4-DMA | | 75 | | | | Yes |
| G4-HR4 | Operations and suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and measures taken to support these rights | 75 | | | | Yes |
| Material Aspect: Child Labour | | | | | | |
| G4-DMA | | 75 | | | | Yes |
| G4-HR5 | Operations and suppliers identified as having significant risk for incidents of child labour and measures taken to contribute to the effective abolition of child labour | 75 | | | | Yes |
| Material Aspect: Forced Or Compulsory Labour | | | | | | |
| G4-DMA | | 75 | | | | Yes |
| G4-HR6 | Operations and significant suppliers identified as having significant risk of forced or compulsory labour and measures to contribute to the elimination of all forms of forced or compulsory labour | 75 | | | | Yes |
| Material Aspect: Supplier Human Rights Assessment | | | | | | |
| G4-DMA | | 58 | | | | Yes |
| G4-HR10 | Percentage of new suppliers that were screened using Human Rights criteria | 429 | | | | Yes |
| Material Aspect: Human Rights Grievance Mechanisms | | | | | | |
| G4-DMA | | 75 | | | | Yes |
| G4-HR12 | Number of grievances about Human Rights impacts filed, addressed and resolved through formal grievance mechanisms | 75 | | | | Yes |

| Specific Standard Disclosures | | | | | | |
|--|---|-------------|------------------------|---------------------------|-----------------------------|--------------------|
| DMA and Indicators | | Page Number | Identified Omission(s) | Reason(s) for Omission(s) | Explanation for Omission(s) | External Assurance |
| Sub-category: Society | | | | | | |
| Material Aspect: Local Communities | | | | | | |
| G4-DMA | | 54, 59 | | | | Yes |
| G4-SO1 | Percentage of operations with implemented local community engagement, impact assessments and development programmes | 59 | | | | Yes |
| G4-FS13 | Access points in low-populated or economically disadvantage areas | 54 | | | | Yes |
| G4-FS14 | Initiatives to improved access to financial services for disadvantaged people | 54 | | | | Yes |
| Material Aspect: Anti-corruption | | | | | | |
| G4-DMA | | 55 | | | | Yes |
| G4-SO3 | Number of operations assessed for risks related to corruption | 429 | | | | Yes |
| G4-SO5 | Confirmed incidents of corruption and actions taken | 429 | | | | Yes |
| Material Aspect: Compliance | | | | | | |
| G4-DMA | | 124 | | | | Yes |
| G4-SO8 | Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations | 429 | | | | Yes |
| Material Aspect: Supplier Assessment for Impacts on Society | | | | | | |
| G4-DMA | | 57 | | | | Yes |
| G4-SO9 | Percentage of new suppliers that were screened using criteria for impacts on society | 429 | | | | Yes |
| Sub-category: Product Responsibility | | | | | | |
| Material Aspect: Product and Service Labelling | | | | | | |
| G4-DMA | | 55 | | | | Yes |
| G4-PR3 | Procedure for product and service information and labelling | 55 | | | | Yes |
| G4-PR4 | Number of incidents of non-compliance with regulations on product and service information and labelling | 429 | | | | Yes |
| G4-PR5 | Results of surveys measuring customer satisfaction | 54 | | | | Yes |
| G4-PR7 | Total number of incidents of non-compliance with regulations on marketing communications | 429 | | | | Yes |
| Material Aspect: Customer Privacy | | | | | | |
| G4-DMA | | 55 | | | | Yes |
| G4-PR8 | Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data | 429 | | | | Yes |

| Specific Standard Disclosures | | | | | | |
|---|--|-------------|------------------------|---------------------------|-----------------------------|--------------------|
| DMA and Indicators | | Page Number | Identified Omission(s) | Reason(s) for Omission(s) | Explanation for Omission(s) | External Assurance |
| Material Aspect: Compliance | | | | | | |
| G4-DMA | | 124 | | | | Yes |
| G4-PR9 | Monetary value of significant fines for non-compliance with laws and regulations on the provision and use of products and services | 429 | | | | Yes |
| Material Aspect: Product Portfolio | | | | | | |
| G4-DMA | | | | | | Yes |
| G4-FS7 | Monetary value of products and services designed to deliver a specific social benefit | 429 | | | | Yes |
| G4-FS8 | Monetary value of products and services designed to deliver a specific environmental benefit | 429 | | | | Yes |
| G4-FS9 | Coverage and frequency of audits to assess implementation of environmental and social policies and risks assessment | 429 | | | | Yes |
| Material Aspect: Audit | | | | | | |
| G4-DMA | | 55 | | | | Yes |

In addition to the above following are disclosed in the Report as Supplementary Information.

| General Standard Disclosures | | | | |
|-------------------------------|--|--|-------------|--------------------|
| GRI Indicator | Description | | Page Number | External Assurance |
| Organisational Profile | | | | |
| G4-2 | Key risks and opportunities | | 172 | No |
| Governance | | | | |
| G4-35 | Process for delegating authority for sustainability topics from the highest governance body | | 358 | No |
| G4-38 | Composition of the highest governance body and its committees | | 127 | No |
| G4-39 | Indicate whether the chair of the highest governance body is also an executive officer | | 358 | No |
| G4-40 | Process and criteria used for nomination and selection of members to the highest governance body and its committees. | | 145 | No |
| G4-41 | Processes in place for the highest governing body to ensure conflicts of interests are avoided and managed | | 364,149 | No |
| G4-51 | The remuneration policies for the highest governance body and senior executive officers and the performance criteria in the remuneration policy related to the sustainability topics | | 147 | No |

ANNEX 4: MATERIALITY MAPPING

| Aspect | Significance to Bank's Operations | Aspect Boundary | | | | | Materiality | |
|--|-----------------------------------|-----------------|------------|-----------|-------------|-----------|-------------|--------------------|
| | | Internal | | External | | | To the Bank | To the Stakeholder |
| | | Sri Lanka | Bangladesh | Customers | Communities | Suppliers | | |
| Economic | | | | | | | | |
| 1. Economic performance | High | ★ | ★ | | | | High | High |
| 2. Market presence | High | ★ | | | | | High | High |
| 3. Indirect economic impacts | Moderate | | | ★ | | | Moderate | High |
| 4. Procurement practices | Moderate | ★ | | | | | Moderate | Moderate |
| Environmental | | | | | | | | |
| 5. Materials | Moderate | ★ | | | | | Moderate | Low |
| 6. Energy | Moderate | ★ | ★ | | | | High | Moderate |
| 7. Water | Low | | | | | | | |
| 8. Biodiversity | Low | | | | | | | |
| 9. Emissions | Moderate | ★ | | | | | | |
| 10. Effluents and waste | Moderate | ★ | | | | ★ | Low | Moderate |
| 11. Products and services | Moderate | | | ★ | | | Moderate | Moderate |
| 12. Compliance | Low | | | | | | | |
| 13. Transport | Low | | | | | | | |
| 14. Overall | Low | | | | | | | |
| 15. Supplier environmental assessment | Moderate | | | | | ★ | Moderate | Low |
| 16. Environmental grievance mechanisms | Low | | | | | | | |
| Social: Labour Practices and Decent Work | | | | | | | | |
| 17. Employment | High | ★ | ★ | | | | High | High |
| 18. Labour/management relations | High | ★ | ★ | | | ★ | High | High |
| 19. Occupational health and safety | Moderate | ★ | ★ | | | | Moderate | Moderate |
| 20. Training and education | High | ★ | ★ | | | | High | High |
| 21. Diversity and equal opportunity | High | ★ | ★ | | | | High | High |
| 22. Equal remuneration for women and men | High | ★ | ★ | | | | High | High |
| 23. Supplier assessment for labour practices | High | | | | | ★ | High | Low |
| 24. Labour practices grievance mechanisms | High | ★ | ★ | | | | High | High |
| Social: Human Rights | | | | | | | | |
| 25. Investment | Moderate | ★ | | | | | Moderate | High |
| 26. Non-discrimination | High | ★ | ★ | | | | High | High |
| 27. Freedom of association and collective bargaining | High | ★ | ★ | | | | High | High |
| 28. Child labour | High | ★ | ★ | | | | High | High |
| 29. Forced or compulsory labour | High | ★ | ★ | | | | High | High |
| 30. Security practices | High | ★ | ★ | | | | High | High |
| 31. Indigenous rights | Low | | | | | | | |
| 32. Assessment | Moderate | ★ | ★ | | | | Moderate | Moderate |
| 33. Supplier human rights assessment | High | | | | | ★ | High | High |
| 34. Human rights grievance mechanisms | High | ★ | ★ | | | | High | High |

| Aspect | Significance to Bank's Operations | Aspect Boundary | | | | | Materiality | |
|---|-----------------------------------|-----------------|------------|-----------|-------------|-----------|-------------|--------------------|
| | | Internal | | External | | | To the Bank | To the Stakeholder |
| | | Sri Lanka | Bangladesh | Customers | Communities | Suppliers | | |
| Social: Society | | | | | | | | |
| 35. Local communities | Moderate | ★ | | | ★ | | Moderate | Moderate |
| 36. Anti-corruption | High | ★ | | | | | High | High |
| 37. Public policy | Low | | | | | | | |
| 38. Anti-competitive behaviour | Low | | | | | | | |
| 39. Compliance | High | ★ | ★ | ★ | | ★ | High | High |
| 40. Supplier assessment for impacts on society | Moderate | | | | | ★ | High | Low |
| 41. Grievance mechanisms for impacts on society | Low | | | | | | | |
| Social: Product Responsibility | | | | | | | | |
| 42. Customer health and safety | Low | | | | | | | |
| 43. Product and service labelling | High | ★ | ★ | | | | High | High |
| 44. Marketing communications | High | ★ | ★ | | | | High | High |
| 45. Customer privacy | High | ★ | ★ | | | | High | High |
| 46. Compliance | High | ★ | ★ | | | | High | High |
| 47. Product portfolio | High | ★ | ★ | | | | High | Moderate |
| 48. Audit | High | ★ | ★ | | | | High | High |
| 49. Active ownership | Low | | | | | | | |
| Other Topics | | | | | | | | |
| 50. Bank's CSR activities | Moderate | | | | ★ | | Moderate | Moderate |
| 51. Financial literacy | Moderate | | | | ★ | | Moderate | Moderate |
| 52. Risk management | High | ★ | ★ | | | | High | High |
| 53. Innovation | High | ★ | | | | | High | High |
| 54. Channel migration | High | ★ | ★ | | | | High | High |
| 55. Business Continuity | High | ★ | ★ | | | | High | High |

There were neither material restatement of information provided in earlier reports nor any material change in the scope nor in the aspect boundaries of the report with regard to reporting on sustainability impacts of the Bank.

ANNEX 5: INDEPENDENT ASSURANCE REPORTS

INDEPENDENT ASSURANCE REPORT TO COMMERCIAL BANK OF CEYLON PLC



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We have been engaged by the Directors of Commercial Bank of Ceylon PLC ("the Company") to provide reasonable assurance and limited assurance in respect of the Sustainability Indicators as identified below for the year ended December 31, 2016. The Sustainability Indicators are included in the Commercial Bank of Ceylon PLC's Integrated Annual Report for the year ended December 31, 2016 (the "Report").

The Reasonable Assurance Sustainability Indicators covered by our reasonable assurance engagement are:

| Assured Sustainability Indicators | Integrated Annual Report Page |
|-----------------------------------|-------------------------------|
| Financial Highlights | 14 |

The Limited Assurance Sustainability Indicators covered by our limited assurance engagement are:

| Limited Assurance Sustainability Indicators | Integrated Annual Report Page |
|--|-------------------------------|
| Sustainability performance indicators: | |
| Non-financial highlights | 15 |
| Performance highlights | 16 – 17 |
| Information provided on following stakeholder groups: | |
| • Shareholders and investors – Financial and manufactured capital and Investor relations | 48 – 51 and 108 – 116 |
| • Customers – Social and network capital, Intellectual capital and personal banking | 54 – 56, 66 – 67 and 84 – 87 |
| • Society and environment – Natural capital and Social and network capital | 59 – 63 and 78 – 79 |
| • Employees and employee association – Human capital | 70 – 75 |
| • Suppliers and business partners – Social and network capital | 57 – 58 |

Our Conclusions:

Our conclusion has been formed on the basis of, and is subject to, the matters outlined in this Report.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusions.

Reasonable Assurance Sustainability Indicators

In our opinion, the Reasonable Assurance Sustainability Indicators, as defined above, for the year ended December 31, 2016, are, in all material respects, prepared and presented in accordance with the Global Reporting Initiative (GRI) G4 Content Index Guidelines.

Limited Assurance Sustainability Indicators

Based on the limited assurance procedures performed and the evidence obtained, as described below, nothing has come to our attention that causes us to believe that the Limited Assurance Sustainability Indicators, as defined above, for the year ended December 31, 2016, have not in all material respects, been prepared and presented in accordance with the GRI G4 Content Index Guidelines.

Management's Responsibility

Management is responsible for the preparation and presentation of the Reasonable Assurance Sustainability Indicators and the Limited Assurance Sustainability Indicators in accordance with the GRI G4 Content Index Guidelines.

These responsibilities includes establishing such internal controls as management determines are necessary to enable the preparation of the Reasonable Assurance Sustainability Indicators and the Limited

Assurance Sustainability Indicators that are free from material misstatement whether due to fraud or error.

Management is responsible for preventing and detecting fraud and for identifying and ensuring that the Company complies with laws and regulations applicable to its activities.

Management is also responsible for ensuring that staff involved with the preparation and presentation of the description and Report are properly trained, information systems are properly updated and that any changes in reporting encompass all significant business units.

Our Responsibility

Our responsibility is to express a reasonable assurance conclusion on the Company's preparation and presentation of the Reasonable Assurance Sustainability Indicators and a limited assurance conclusion on the preparation and presentation of the Limited Assurance Sustainability Indicators included in the Report, as defined above.

We conducted our assurance engagement in accordance with Sri Lanka Standard on Assurance Engagements SLSAE 3000: Assurance Engagements other than Audits or Reviews of Historical Financial Information (SLSAE 3000) issued by The Institute of Chartered Accountants of Sri Lanka.

We have complied with the independence and other ethical requirements of the Code of Ethics issued by The Institute of Chartered Accountants of Sri Lanka.

SLSAE 3000 requires that we plan and perform the engagement to obtain reasonable assurance about whether the Reasonable Assurance Sustainability Indicators are free from material

misstatement and limited assurance about whether the Limited Assurance Sustainability Indicators are free from material misstatement.

Reasonable Assurance over Reasonable Assurance Sustainability Indicators

The procedures selected in our reasonable assurance engagement depend on our judgement, including the assessment of the risks of material misstatement of the Reasonable Assurance Sustainability Indicators whether due to fraud or error.

In making those risk assessments, we have considered internal control relevant to the preparation and presentation of the Reasonable Assurance Sustainability Indicators in order to design assurance procedures that are appropriate in the circumstances, but not for the purposes of expressing a conclusion as to the effectiveness of the Company's internal control over the preparation and presentation of the Report.

Our engagement also included assessing the appropriateness of the Reasonable Assurance Sustainability Indicators, the suitability of the criteria, being the GRI G4 Content Index Guidelines, used by the Company in preparing and presenting the Reasonable Assurance Sustainability Indicators within the Report, obtaining an understanding of the compilation of the financial and non-financial information to the sources from which it was obtained, evaluating the reasonableness of estimates made by the Company, and re-computation of the calculations of the Reasonable Assurance Sustainability Indicators.

Limited Assurance on the Assured Sustainability Indicators

Our limited assurance engagement on the Limited Assurance Sustainability Indicators consisted of making enquiries, primarily of persons responsible for the preparation of the Limited Assurance Sustainability Indicators, and applying analytical and other procedures, as appropriate. These procedures included:

- interviews with senior management and relevant staff at corporate and selected site level concerning sustainability strategy and policies for material issues, and the implementation of these across the business;
- enquiries of management to gain an understanding of the Company's processes for determining material issues for the Company's key stakeholder groups;
- enquiries of relevant staff at corporate and selected site level responsible for the preparation of the Limited Assurance Sustainability Indicators;
- enquiries about the design and implementation of the systems and methods used to collect and report the Limited Assurance Sustainability Indicators, including the aggregation of the reported information;
- comparing the Limited Assurance Sustainability Indicators to relevant underlying sources on a sample basis to determine whether all the relevant information has been appropriately included in the Report;
- reading the Limited Assurance Sustainability Indicators presented in the Report to determine whether they are in line with our overall knowledge of, and experience with, the sustainability performance of the Company;
- reading the remainder of the Report to determine whether there are any material misstatements of fact or material inconsistencies based on our understanding obtained as part of our assurance engagement.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement, and consequently the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. Accordingly, we do not express a reasonable assurance conclusion on the Limited Assurance Sustainability Indicators.

Purpose of our Report

In accordance with the terms of our engagement, this Assurance Report has been prepared for the Company for the purpose of assisting the Directors in determining whether the Company's Reasonable and Limited Assurance Sustainability Indicators are prepared and presented in accordance with the GRI G4 Content Index Guidelines and for no other purpose or in any other context.

Restriction of use of our Report

Our Report should not be regarded as suitable to be used or relied on by any party wishing to acquire rights against us other than the Company, for any purpose or in any other context. Any party other than the Company who obtains access to our Report or a copy thereof and chooses to rely on our Report (or any part thereof) will do so at its own risk. To the fullest extent permitted by law, we accept or assume no responsibility and deny any liability to any party other than the Company for our work, for this Independent Assurance Report, or for the conclusions we have reached.



Chartered Accountants
Colombo.
February 22, 2017

KPMG, a Sri Lankan partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

M.R. Mihular FCA
T.J.S. Rajakarier FCA
Ms. S.M.B. Jayasekara ACA
G.A.U. Karunaratne FCA
R.H. Rajan ACA

P.Y.S. Perera FCA
W.W.J.C. Perera FCA
W.K.D.C. Abeyrathne FCA
R.M.D.B. Rajapakse FCA

C.P. Jayatilake FCA
Ms. S. Joseph FCA
S.T.D.L. Perera FCA
Ms. B.K.D.T.N. Rodrigo FCA

Principals - S.R.I. Perera FCMA(UK), LLB, Attorney-at-Law, H.S. Goonewardene ACA

INDEPENDENT ASSURANCE STATEMENT ON NON-FINANCIAL REPORTING – DNV GL



Scope and Approach

DNV GL represented by DNV GL Business Assurance Lanka (Private) Limited has been commissioned by the management of Commercial Bank of Ceylon PLC ('Commercial Bank' or 'the Bank') to carry out an independent assurance engagement (Type 2, Moderate level) for the non-financial – qualitative and quantitative information (sustainability performance) reported in Commercial Bank's Annual Report 2016 ('the Report') in its printed format for the financial year ending December 31, 2016. The sustainability disclosures in this Report is prepared by the Bank, based on the 'in accordance' – Core reporting option of the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines Version 4 (GRI G4) and its Financial Service Sector Disclosures.

We performed our work using Account Ability's AA1000 Assurance Standard 2008 (AA1000 AS) and DNV GL's assurance methodology VeriSustain™¹, which is based on our professional experience, international assurance best practice including International Standard on Assurance Engagements 3000 (ISAE 3000) Revised* and GRI G4. Our assurance engagement was planned and carried out in February – March 2017.

The intended user of this assurance statement is the Management of Bank ('the Management'). We disclaim any liability or responsibility to a third party for decisions, whether investment or otherwise, based on this assurance statement.

The reporting aspect boundary of sustainability performance is based on internal and external materiality assessment covering Commercial Bank's banking and associated operations in Sri Lanka and Bangladesh. The Report excludes performance data and information related to the activities of Commercial

Bank's five subsidiaries – Commercial Development Co. PLC, ONEzero Co. Ltd., Serendib Finance Ltd., Commercial Bank of Maldives Private Limited and Commex Sri Lanka S.R.L. – Italy and the operations of its two associates, Equity Investments Lanka Ltd. and Commercial Insurance Brokers (Pvt) Ltd. as the results of their operations are not significant (<1 % revenue) compared to the overall results of the Bank. This is as set out in the Report in the section 'Basis of Preparation'.

We planned and performed our work to obtain the evidence we considered necessary to provide a basis for our assurance opinion and the process did not involve engagement with external stakeholders.

Responsibilities of the Management of Commercial Bank and of the Assurance Providers

The Management of Commercial Bank have the sole responsibility for the preparation of the Report as well as the processes for collecting, analysing and reporting the information presented in the Report. In performing our assurance work, our responsibility is to the Management; however, our statement represents our independent opinion and is intended to inform the outcome of our assurance to the stakeholders of the Bank. DNV GL was not involved in the preparation of any statements or data included in the Report except for this Assurance Statement.

DNV GL provides a range of other services to Commercial Bank, none of which in our opinion, constitute a conflict of Interest with this assurance work.

DNV GL's assurance engagements are based on the assumption that the data and information provided by the client to us as part of our review have been provided in good faith. We were not involved in the preparation of any statements or data included in the Report except for this

Assurance Statement. DNV GL expressly disclaims any liability or co-responsibility for any decision a person or an entity may make based on this Assurance Statement.

Basis of our Opinion

A multi-disciplinary team of sustainability and assurance specialists performed work at Commercial Bank's Head Office and as part of assurance, we visited sample branch operations in Colombo, Sri Lanka. We undertook the following activities:

- Review of Commercial Bank's approach to stakeholder engagement and materiality determination process and the outcome as reported in this Report. We did not have any direct engagement with external stakeholders;
- Interviews with selected senior managers responsible for management of sustainability issues and review of selected evidence to support issues discussed. We were free to choose interviewees and interviewed those with overall responsibility to deliver the Company's sustainability objectives;
- Site visits to two sample branch operations in Kelaniya and Kiribathgoda to review processes and systems for preparing site level sustainability data and implementation of sustainability strategy. We were free to choose sites we visited;
- Review of supporting evidence for key claims and data in the Report;
- Review of the processes for gathering and consolidating the specified performance data and, for a sample, checking the data consolidation. The reported data on economic performance and other financial data are based on audited Financial Statements issued by the Company's statutory Auditors;
- An independent assessment of Commercial Bank's reporting against the Global Reporting Initiative (GRI) G4 Guidelines and the reporting requirements for its 'in accordance' – Core option.

¹The VeriSustain protocol is available on www.dnvgl.com

* Assurance Engagements other than Audits or Reviews of Historical Financial Information.

During the assurance process, we did not come across limitations to the scope of the agreed assurance engagement.

Opinion

On the basis of the verification undertaken, nothing came to our attention to suggest that the Report does not properly describe Commercial Bank's adherence to the GRI G4 reporting requirements, including the Principles for Defining Report Content, identified material Aspects, related strategies and Disclosures on Management Approach and Performance Indicators as below:

- **General Standard Disclosures:** The reported information on General Standard Disclosure generally meets the disclosure requirements for the 'in accordance' – Core option of reporting and the reasons for omissions and partial disclosure were explained to us and also brought out within the Report.
- **Specific Standard Disclosures:** The Report describes the generic Disclosures on Management Approach (DMA) and Performance Indicators for identified material Aspects presented within the Report as below:

Economic

- Economic Performance – G4-EC1;
- Market Presence – G4-EC5, G4-EC6;
- Indirect Economic Impacts – G4-EC8;
- Procurement Practices – G4-EC9;

Environmental

- Energy - G4-EN6;
- Effluents and Waste - G4-EN23;
- Supplier Environmental Assessment - G4-EN32;

Social

Labour Practices and Decent Work

- Employment – G4-LA1, G4-LA2, G4-LA3 ;
- Labour/Management Relations – G4-LA4;
- Occupational Health and Safety – G4-LA8;
- Training and Education – G4-LA9, G4-LA10, G4-LA11;

- Diversity and Equal Opportunity – G4-LA12;
- Equal Remuneration for Women and Men – G4-LA13;
- Supplier Assessment for Labour Practices – G4-LA14;
- Labour Practices and Grievance Mechanisms – G4-LA16;

Human Rights

- Non-Discrimination – G4-HR3;
- Freedom of Association and Collective Bargaining – G4-HR4;
- Child Labour – G4-HR5;
- Forced or Compulsory Labour – G4-HR6;
- Supplier Human Rights Assessment – G4-HR10;
- Human Rights Grievance Mechanisms – G4-HR12;

Society

- Local Communities – G4-SO1, FS13, FS14;
- Anti-Corruption – G4-SO5;
- Compliance – G4-SO8;
- Supplier Assessment for Impacts on Society – G4-SO9;

Product Responsibility

- Product and Service Labelling – G4-PR3, G4-PR4, G4-PR5;
- Marketing Communications – G4-PR7;
- Customer Privacy – G4-PR8;
- Compliance – G4-PR9;
- Product Portfolio – FS7, FS8
- Audit

Observations

Without affecting our assurance opinion, we also provide the following observations. We have evaluated the Report's adherence to the following principles on a scale of 'Good', 'Acceptable' and 'Needs Improvement':

Materiality

The process of determining the issues that is most relevant to an organisation and its stakeholders.

The process of materiality assessment is based on the GRI G4 guidelines and considers the Bank's value creation process, sustainability context and key concerns and issues raised by key external and internal stakeholders. In our opinion, the level at which the Report adheres to this principle is 'Good'.

Inclusivity

The participation of stakeholders in developing and achieving an accountable and strategic response to Sustainability.

The Bank has a documented stakeholder engagement process, which helps in identifying, engaging and responding to key sustainability concerns of significant stakeholders. In our opinion, the level at which the Report adheres to this principle is 'Good'.

Responsiveness

The extent to which an organisation responds to stakeholder issues.

The key stakeholder concerns are well responded within the Report i.e. the Report adequately brings out disclosures such as Bank's business model, policies, management systems, governance mechanisms, Disclosures on Management Approach and Performance Indicators for the identified material Aspects. In our opinion, the level at which the Report adheres to this principle is 'Good'.

Reliability

The accuracy and comparability of information presented in the Report, as well as the quality of underlying data management systems.

The robustness of the data management and aggregation systems was evaluated during our visits to Commercial Bank's Head Office and branch sites; the sample data and information verified as part of assurance was found to be reliable. Nothing has come to our attention to suggest that reported data has not been properly collated from information reported at operational level, nor that the assumptions used were inappropriate. Some of the data inaccuracies identified during the verification process were found to be attributable to transcription, interpretation and aggregation errors and the errors have been communicated for correction. In our opinion, the level at which the Report adheres to this principle is 'Good'.

Specific Evaluation of the Information on Sustainability Performance

We consider the methodology and process for gathering information developed by the Bank for its sustainability performance reporting to be appropriate and the qualitative and quantitative data included in the Report was found to be identifiable and traceable; the personnel responsible were able to demonstrate the origin and interpretation of the data and its reliability. We observed that the Report presents a faithful description of the reported sustainability activities for the Reporting period.

Additional principles as per DNV GL VeriSustain

Completeness

How much of all the information that has been identified as material to the organisation and its stakeholders is reported.

The Report has fairly reported the General and Specific Standard Disclosures including the management approach, monitoring systems and sustainability performance indicators against GRI G4 requirements for its 'in accordance' – Core option of reporting within its identified reporting boundary. In our opinion, the level at which the Report adheres to this principle is 'Acceptable'.

Neutrality

The extent to which a report provides a balanced account of an organisation's performance, delivered in a neutral tone.

The disclosures related to sustainability issues and performances are reported in a neutral tone, in terms of content and presentation, however, the Report could further bring out responses related to the challenges faced during the Reporting period at various geographical locations of operations. In our opinion, the level at which the Report adheres to the principle of Neutrality is 'Good'.

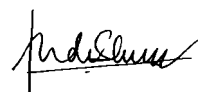
Opportunities for Improvement

The following is an excerpt from the observations and opportunities for improvement, reported to the management of the Bank and are not considered for drawing our conclusions on the Report; however, they are generally consistent with the management's objectives:

- Commercial Bank may link its strategy to the Sri Lankan Banking Association's Sustainable Banking Principles and disclose its responses to the principles within the Report.

- Disclosures on sustainability opportunities, impacts and strategy to mitigate impacts and risks related to Commercial Bank's international operations with significant operational or financial control and influence may be carried out, to further improve completeness of reported disclosures.

For DNV GL



Rathika de Silva

Country Head

DNV GL Business Assurance Lanka

(Private) Limited, Colombo, Sri Lanka

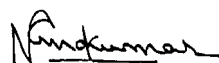


Kiran Radhakrishnan

Lead Verifier

DNV GL Business Assurance India Private

Limited, India.



Nandkumar Vadakepath

Assurance Reviewer

Regional Sustainability Manager – Indian

Subcontinent and Middle East

DNV GL Business Assurance India Private

Limited, India.

March 2, 2017,
Colombo,
Sri Lanka.

DNV GL Business Assurance Lanka (Private) Limited is part of DNV GL – Business Assurance, a global provider of certification, verification, assessment and training services, helping customers to build sustainable business performance. www.dnvgl.com



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Supplementary Information

Information presented here extends the understanding of the reader with detailed information on the Bank's performance.

- 428 Our Sustainability Footprint
- 430 Decade at a Glance
- 434 Income Statement (US Dollars)
- 435 Statement of Financial Position (US Dollars)
- 436 Events
- 440 Correspondent Banks and Agent Network
- 442 Group Structure
- 443 Glossary of Financial and Banking Terms
- 446 Alphabetical Index
- 447 Abbreviations

- 448 Notice of Meeting – Annual General Meeting
- 450 Circular to the Shareholders on the Final Dividend for 2016
- Form of Proxy (Voting Shareholders) – Enclosed
- Form of Proxy (Non-Voting Shareholders) – Enclosed
- Stakeholder Feedback Form – Enclosed

- Corporate Information – Inner Back Cover

OUR SUSTAINABILITY FOOTPRINT

GRI INDICATORS – 5 YEAR SUMMARY

| Indicator | Unit of Measure | 2016 | 2015 | 2014 | 2013 | 2012 | |
|-----------|--|---------------------|--------------------------------------|---------------|---------------|---------------|---------------|
| EC1 | Direct economic value: | | | | | | |
| | – Generated | Rs. Mn. | 93,143 | 77,868 | 72,752 | 73,160 | 63,395 |
| | – Distributed | Rs. Mn. | 84,424 | 71,665 | 67,202 | 68,234 | 58,715 |
| | – Retained | Rs. Mn. | 8,719 | 6,203 | 5,550 | 4,926 | 3,620 |
| | Economic value added | Rs. Mn. | 5,130 | 8,256 | 7,272 | 6,532 | 4,680 |
| EC5 | Ratio of standard entry level wage | | Above minimum | Above minimum | Above minimum | Above minimum | Above minimum |
| EC6 | Proportion of senior management from local community | | | | | | |
| | – Sri Lanka | % | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |
| | – Bangladesh | % | 98.83 | 98.81 | 98.58 | 98.58 | 98.51 |
| FS7 | Funds disbursed to SMEs, Financial literacy and capacity building programmes | Rs. Bn. | 272,914 | 260,407 | 220,246 | 182,523 | 16,362 |
| | – Number of programmes | Nos. | 7 | 15 | 9 | 6 | 5 |
| | – Number of participants | Nos. | 873 | 1,822 | 382 | 574 | 580 |
| EC9 | Proportion of spending on local suppliers | % | 90.75 | 91.83 | 94.21 | 91.64 | 89.10 |
| EN6 | Energy consumption | Gigajoules | 56,359 | 55,877 | 55,944 | 55,080 | 58,446 |
| EN23 | Waste disposal | | | | | | |
| | – e-waste | CO ₂ Kg. | 163,708 | Nil | Nil | Nil | 13,200 |
| | – Paper | Kg. | 111,405 | 130,334 | 130,335 | Unavailable | Unavailable |
| | Credit proposal screened through SEMS | Nos. | 7,606 | 4,232 | 3,063 | Unavailable | Unavailable |
| EN32 | Percentage of new suppliers screened for environmental impact | % | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |
| LA1 | New employee hires | | | | | | |
| | – Male | Nos. | 225 | 225 | 236 | 228 | 122 |
| | – Female | Nos. | 46 | 21 | 93 | 103 | 108 |
| | Attrition | | | | | | |
| | – Male | Nos. | 175 | 158 | 159 | 106 | 6 |
| | – Female | Nos. | 54 | 49 | 44 | 43 | 4 |
| LA2 | Benefits provided to full time employees | | Qualitative disclosure refer page 73 | | | | |
| LA3 | Return to work after maternity leave | | | | | | |
| | – Return to work ratio | % | 95.38 | 100.00 | 100.00 | 98.00 | 100.00 |
| | – Retention ratio | % | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |
| LA4 | Minimum notice period | | Qualitative disclosure refer page 75 | | | | |
| LA8 | Health and safety topics covered | | Qualitative disclosure refer page 75 | | | | |
| LA9 | Average training hours | | | | | | |
| | – Male | Hours | 24.79 | 25.82 | 25.68 | 34.85 | 22.98 |
| | – Female | Hours | 19.74 | 19.59 | 27.14 | 25.68 | 21.41 |
| LA10 | Skills development programmes | Hours | 14,650 | 10,581 | 7,382 | 16,686 | 18,816 |
| LA11 | Percentage of employees receiving performance evaluations | % | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |
| LA12 | Diversity and equal opportunity | | Qualitative disclosure refer page 74 | | | | |
| LA13 | Remuneration ratio women to men | | | | | | |
| | – Corporate Management | X:Y | 1 : 0.95 | 1 : 0.94 | 1 : 0.84 | 1 : 0.87 | 1 : 0.97 |
| | – Executive Officers | X:Y | 1 : 1.10 | 1 : 1.09 | 1 : 0.93 | 1 : 0.98 | 1 : 0.96 |
| | – Junior Executive Assistants and Allied Grades | X:Y | 1 : 1.08 | 1 : 1.10 | 1 : 0.91 | 1 : 0.85 | 1 : 0.88 |
| | – Banking and Graduate Trainees | X:Y | 1 : 1.01 | 1 : 1.04 | 1 : 1.00 | 1 : 0.98 | 1 : 1.06 |
| | – Office Assistants and Others | X:Y | 1 : N/A | 1 : N/A | 1 : N/A | 1 : N/A | 1 : N/A |

| Indicator | Unit of Measure | 2016 | 2015 | 2014 | 2013 | 2012 |
|-----------|--|---|--------|--------|--------|--------|
| LA14 | Percentage of new suppliers screened – labour practises | % | 100.00 | 100.00 | 100.00 | 100.00 |
| LA16 | Number of significant grievances on labour practices filed and resolved | Nos. | Nil | Nil | Nil | Nil |
| HR3 | Number of incidents of discrimination | Nos. | Nil | Nil | Nil | Nil |
| G4-11 | Percentage of employees in trade unions | % | 88.97 | 83.91 | 83.48 | 82.17 |
| HR5 | Number of incidents of child labour | Nos. | Nil | Nil | Nil | Nil |
| HR6 | Number of incidents of forced or compulsory labour | Nos. | Nil | Nil | Nil | Nil |
| HR10 | Percentage of new suppliers screened – Human Rights | % | 100.00 | 100.00 | 100.00 | 100.00 |
| HR12 | Number of grievances on Human Rights | Nos. | Nil | Nil | Nil | Nil |
| SO1 | Operations with local community engagement | Qualitative disclosure refer pages 59 to 61 | | | | |
| SO5 | Confirmed incidents of corruption | Nos. | Nil | Nil | Nil | Nil |
| FS13 | Access points in low populated and economically disadvantaged areas | Qualitative disclosure refer page 54 | | | | |
| FS14 | Initiatives to improve access to financial services for disadvantaged people | Qualitative disclosure refer page 54 | | | | |
| SO8 | Non-compliance with laws and regulations | | | | | |
| | – Monetary value | Rs. '000s | – | – | – | – |
| | – No. of monetary sanctions | Nos. | Nil | Nil | Nil | Nil |
| SO9 | Percentage of new suppliers screened Impacts on society | % | Nil | Nil | Nil | Nil |
| PR3 | Information required on product and service labelling | Qualitative disclosure refer page 55 | | | | |
| PR4 | Non-compliance with regulations on product and service labelling | Nos. | Nil | Nil | Nil | Nil |
| PR5 | Results of marketing survey | Qualitative disclosure refer page 54 | | | | |
| PR7 | Non-compliance with regulations on marketing communication | Nos. | Nil | Nil | Nil | Nil |
| PR8 | Substantiated complaints on customer privacy | Nos. | Nil | Nil | Nil | Nil |
| PR9 | Non-compliance with laws and regulations on provision and use of products and services | Nos. | Nil | Nil | Nil | Nil |
| FS6 | Portfolio of business lines by segments | Refer Note 63 to the Financial Statements on page 310 | | | | |
| FS7 | Products portfolios of | | | | | |
| | – Industrial | Rs. Mn. | 51,401 | 39,539 | 25,950 | 18,868 |
| | – Agriculture | Rs. Mn. | 7,565 | 4,997 | 3,385 | 2,398 |
| | – Microfinance | Rs. Mn. | 1,411 | 708 | 777 | 968 |
| FS8 | Loan disbursements for renewable energy projects | | | | | |
| | – Wind | Rs. Mn. | – | 1,835 | 2,101 | 1,091 |
| | – Solar | Rs. Mn. | 495 | – | – | 46 |
| | – Hydro | Rs. Mn. | 428 | 876 | 819 | 1,263 |
| | – Bio-mass | Rs. Mn. | 126 | 131 | – | – |
| FS9/SO3 | Coverage and frequency of audits | | | | | |
| | – Onsite audits | | 363 | 265 | 264 | 232 |
| | – Online audits | | 157 | 216 | 213 | 242 |

DECADE AT A GLANCE

Bank – Based on Financial Statements Prepared Under SLASs

| Year ended December 31, Rs. Mn. | 2007 | 2008 | 2009 | 2010 |
|------------------------------------|----------|----------|----------|----------|
| Operating Results | | | | |
| Income | 35,223 | 44,115 | 43,741 | 41,522 |
| Interest income | 30,503 | 37,188 | 35,925 | 34,740 |
| Interest expenses | (18,951) | (24,336) | (23,515) | (18,328) |
| Foreign exchange profit | 1,545 | 2,633 | 2,962 | 1,741 |
| Commission and other income | 3,175 | 4,294 | 4,854 | 5,041 |
| Operating expenses and provisions | (9,567) | (12,259) | (13,035) | (13,876) |
| Profit before income tax | 6,705 | 7,520 | 7,191 | 9,318 |
| Income tax on profit | (2,601) | (3,252) | (2,887) | (3,794) |
| Net profit for the year | 4,104 | 4,268 | 4,304 | 5,524 |

| As at December 31, Rs. Mn. | 2007 | 2008 | 2009 | 2010 |
|---|---------|---------|---------|---------|
| Assets | | | | |
| Cash and short-term funds | 16,208 | 24,115 | 24,057 | 10,557 |
| Balances with Central Banks | 11,576 | 10,322 | 11,795 | 12,189 |
| Government Treasury Bills, Bonds and other Securities | 49,863 | 51,633 | 96,671 | 114,541 |
| Commercial paper | - | - | - | - |
| Securities purchased under resale agreements | 3,804 | 3,400 | 5,203 | 68 |
| Dealing securities | 207 | 58 | 81 | 283 |
| Investments – Held-for-sale | 205 | - | - | - |
| Investments – Held-to-maturity | 1,756 | 1,197 | 1,025 | 2,366 |
| Bills of Exchange | 3,195 | 3,059 | 2,847 | 5,291 |
| Lease receivable | 10,945 | 9,484 | 7,794 | 11,019 |
| Loans and advances | 160,184 | 167,858 | 161,329 | 200,729 |
| | 257,943 | 271,126 | 310,802 | 357,043 |
| Investments in subsidiaries | 434 | 434 | 279 | 354 |
| Investments in associates | 44 | 44 | 44 | 44 |
| Property, plant & equipment and intangible assets | 3,768 | 4,098 | 4,382 | 6,428 |
| Other assets | 5,751 | 5,512 | 6,808 | 6,191 |
| Total assets | 267,940 | 281,214 | 322,315 | 370,060 |
| Liabilities | | | | |
| Deposits from customers | 183,110 | 199,881 | 234,745 | 259,779 |
| Dividends payable | 113 | - | - | - |
| Borrowings | 18,752 | 13,620 | 11,639 | 14,371 |
| Securities sold under repurchase agreements | 23,342 | 25,075 | 29,905 | 45,774 |
| Other liabilities | 10,308 | 10,646 | 12,888 | 12,259 |
| Tax payable | 1,698 | 1,665 | 1,203 | 2,448 |
| Debentures | 6,680 | 4,436 | 3,436 | 2,127 |
| Total liabilities | 244,003 | 255,323 | 293,816 | 336,758 |
| Shareholders' Funds | | | | |
| Share capital | 10,515 | 10,548 | 10,608 | 10,811 |
| Statutory reserve fund | 1,634 | 1,896 | 2,164 | 2,472 |
| Reserves | 11,788 | 13,447 | 15,727 | 20,019 |
| Total liabilities and shareholders' funds | 267,940 | 281,214 | 322,315 | 370,060 |
| Commitments and contingencies | 116,212 | 115,809 | 146,072 | 196,617 |

Bank – Based on Financial Statements Prepared Under SLFRSs and LKASs

| Year ended December 31, Rs. Mn. | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | CAGR % |
|------------------------------------|----------|----------|----------|----------|----------|----------|-----------|
| Operating Results | | | | | | | |
| Income | 45,860 | 63,395 | 73,736 | 72,753 | 77,868 | 93,143 | 15.22 |
| Interest income | 38,356 | 52,685 | 62,764 | 61,832 | 66,030 | 80,738 | |
| Interest expenses | (19,650) | (29,830) | (36,879) | (34,610) | (35,685) | (47,915) | |
| Foreign exchange profit | 2,322 | 4,687 | 1,996 | 1,481 | 2,877 | 2,326 | |
| Commission and other income | 5,182 | 6,023 | 8,976 | 9,440 | 8,961 | 10,079 | |
| Operating expenses and provisions | (15,313) | (19,270) | (22,347) | (22,407) | (25,040) | (25,176) | |
| Profit before income tax | 10,897 | 14,295 | 14,510 | 15,736 | 17,143 | 20,052 | 12.97 |
| Income tax on profit | (3,014) | (4,197) | (4,065) | (4,556) | (5,240) | (5,539) | |
| Net profit for the year | 7,883 | 10,098 | 10,445 | 11,180 | 11,903 | 14,513 | 12.98 |

| As at December 31, Rs. Mn. | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | CAGR % |
|--|---------|---------|---------|---------|---------|-----------|-----------|
| Assets | | | | | | | |
| Cash and cash equivalents | 12,911 | 19,733 | 14,262 | 20,592 | 20,044 | 30,194 | |
| Balances with Central Banks | 17,343 | 18,168 | 18,432 | 19,634 | 28,221 | 43,873 | |
| Placements with banks | 11,674 | 16,163 | 4,132 | 14,508 | 17,194 | 11,718 | |
| Securities purchased under resale agreements | 1,542 | 3,697 | 8,946 | 41,198 | 8,002 | – | |
| Derivative financial assets | 40 | 1,351 | 838 | 460 | 4,118 | 1,053 | |
| Other financial investments – Held-for-trading | 6,418 | 6,041 | 6,379 | 6,327 | 7,656 | 4,988 | |
| Loans and receivables to banks | 580 | 629 | 546 | 551 | 601 | 624 | } 16.54 |
| Loans and receivables to other customers | 286,314 | 337,247 | 353,062 | 405,431 | 508,115 | 616,018 | |
| Financial investments – Available-for-sale | 61,415 | 57,963 | 131,757 | 214,208 | 204,244 | 160,023 | |
| Financial investments – Held-to-maturity | – | – | – | – | – | 60,981 | |
| Financial investments – Loans and receivables | 26,630 | 31,971 | 48,943 | 50,436 | 57,724 | 51,824 | |
| | 424,867 | 492,963 | 587,297 | 773,345 | 855,919 | 981,296 | |
| Investments in subsidiaries | 315 | 303 | 289 | 1,211 | 1,237 | 2,435 | |
| Investments in associates | 44 | 44 | 44 | 44 | 44 | 44 | |
| Property, plant & equipment | 7,907 | 8,221 | 8,387 | 9,953 | 9,969 | 10,308 | |
| Intangible assets | 467 | 497 | 468 | 439 | 466 | 641 | |
| Leasehold property | 78 | 77 | 76 | 75 | 74 | 74 | |
| Deferred tax assets | 360 | 449 | – | – | – | 964 | |
| Other assets | 7,291 | 9,189 | 9,426 | 10,543 | 12,096 | 16,439 | |
| Total assets | 441,329 | 511,743 | 605,987 | 795,610 | 879,805 | 1,012,201 | 18.06 |
| Liabilities | | | | | | | |
| Due to banks | 11,574 | 4,894 | 14,194 | 25,261 | 30,319 | 67,609 | |
| Derivative financial liabilities | 435 | 84 | 1,412 | 1,193 | 1,891 | 1,515 | |
| Securities sold under repurchase agreements | 41,235 | 31,760 | 45,519 | 124,564 | 112,385 | 69,867 | |
| Other financial liabilities – Held-for-trading | – | – | – | – | – | – | |
| Due to other customers/Deposits from customers | 323,755 | 390,612 | 451,153 | 529,361 | 624,102 | 739,563 | 17.96 |
| Other borrowings | 8,368 | 15,823 | 8,654 | 11,637 | 9,986 | 9,270 | |
| Debt securities issued | – | – | – | – | – | – | |
| Current tax liabilities | 1,305 | 2,802 | 1,759 | 1,998 | 3,002 | 3,441 | |
| Deferred tax liabilities | 1,594 | 1,698 | 1,563 | 2,574 | 231 | – | |
| Other provisions | 1 | 2 | 2 | 2 | 2 | 2 | |
| Other liabilities | 8,162 | 10,363 | 9,827 | 17,444 | 15,547 | 17,710 | |
| Due to subsidiaries | 30 | 22 | 16 | 19 | 26 | 20 | |
| Subordinated liabilities | 1,106 | 1,106 | 10,944 | 11,045 | 11,973 | 24,850 | |
| Total liabilities | 397,565 | 459,166 | 545,043 | 725,098 | 809,464 | 933,847 | |
| Equity | | | | | | | |
| Stated capital | 16,474 | 18,009 | 19,587 | 21,458 | 23,255 | 24,978 | |
| Statutory reserves | 2,890 | 3,433 | 4,035 | 4,327 | 4,922 | 5,648 | |
| Retained earnings | 2,547 | 4,178 | 4,233 | 4,258 | 4,389 | 4,464 | |
| Other reserves | 21,853 | 26,957 | 33,089 | 40,469 | 37,775 | 43,264 | |
| Total liabilities & shareholders' funds | 441,329 | 511,743 | 605,987 | 795,610 | 879,805 | 1,012,201 | 18.06 |
| Commitments and contingencies | 234,551 | 279,593 | 295,452 | 352,453 | 521,232 | 498,305 | |

Bank – Based on Financial Statements Prepared Under SLASs

| <i>Year ended December 31, Rs. Mn.</i> | 2007 | 2008 | 2009 | 2010 |
|---|----------|----------|----------|----------|
| Ratios | | | | |
| Return on average shareholders' funds (%) | 20.63 | 17.13 | 15.83 | 17.87 |
| Income growth (%) | 43.95 | 25.25 | (0.85) | (5.07) |
| Return on average assets (%) | 1.67 | 1.55 | 1.43 | 1.60 |
| Dividend per share (Rs.) | 7.00 | 7.00 | 7.00 | 7.00 |
| Ordinary share dividend cover (times) | 2.29 | 2.42 | 2.46 | 2.09 |
| Gross dividends to ordinary shareholders (Rs. Mn.) | 1,743.13 | 1,745.81 | 1,751.47 | 2,642.25 |
| Advances to deposits and refinance (%) | 91.75 | 87.12 | 70.88 | 80.97 |
| Property, Plant & Equipment to shareholders' funds (%) | 15.74 | 15.83 | 15.38 | 19.30 |
| Total assets to shareholders' funds (times) | 11.19 | 10.86 | 11.31 | 11.11 |
| Capital funds to liabilities including contingent liabilities (%) | 7.87 | 6.98 | 6.48 | 6.26 |
| Cost/income ratio (%) | 47.87 | 50.46 | 56.86 | 54.69 |
| Liquid assets to liabilities (%) | 24.24 | 24.83 | 38.80 | 29.74 |
| (As specified in the Banking Act No. 30 of 1988) | | | | |
| Group Capital Adequacy (%) Tier I | 10.60 | 10.55 | 11.92 | 10.86 |
| Tier I & II | 13.71 | 13.13 | 13.93 | 12.26 |
| Share Information | | | | |
| Market value of a share (Rs.) | 147.00 | 67.00 | 189.50 | 259.90 |
| Earnings per share (Rs.) | 5 | 6 | 6 | 7 |
| Price earnings ratio (times) | 9 | 4 | 11 | 18 |
| Net assets value per share (Rs.) | 30 | 34 | 38 | 44 |
| Earnings yield (%) | 11 | 25 | 9 | 6 |
| Dividend payout ratio (%) – Cash | 44 | 41 | 41 | 34 |
| Total dividend payout ratio (%) | - | - | - | 48 |
| Other Information | | | | |
| Number of employees | 3,745 | 4,041 | 4,071 | 4,321 |
| Number of delivery points – Sri Lanka | 163 | 170 | 172 | 187 |
| Number of delivery points – Bangladesh | 9 | 11 | 15 | 17 |
| Number of automated teller machines | 301 | 346 | 368 | 414 |

Bank – Based on Financial Statements Prepared Under SLFRSs and LKASs

| <i>Year ended December 31, Rs. Mn.</i> | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | CAGR % |
|---|----------|----------|----------|----------|----------|----------|-----------|
| Ratios | | | | | | | |
| Return on average shareholders' funds (%) | 20.28 | 20.96 | 18.40 | 17.01 | 16.90 | 19.52 | |
| Income growth (%) | 10.45 | 38.24 | 16.31 | (1.33) | 7.03 | 19.62 | |
| Return on average assets (%) | 1.94 | 2.12 | 1.87 | 1.60 | 1.42 | 1.53 | |
| Dividend per share (Rs.) | 6.00 | 6.50 | 6.50 | 6.50 | 6.50 | 6.50 | |
| Ordinary share dividend cover (times) | 1.61 | 1.86 | 1.89 | 1.99 | 2.09 | 2.25 | |
| Gross dividends to ordinary shareholders (Rs. Mn.) | 4,904.70 | 5,421.42 | 5,522.47 | 5,630.32 | 5,700.22 | 5,793.93 | |
| Advances to deposits and refinance (%) | 83.30 | 82.01 | 77.48 | 75.89 | 80.84 | 82.69 | |
| Property, plant & equipment to equity (%) | 19.31 | 16.73 | 14.65 | 14.85 | 14.94 | 14.07 | |
| Total assets to equity (times) | 9.92 | 9.73 | 9.94 | 11.28 | 12.51 | 12.92 | |
| Capital funds to liabilities including contingent liabilities (%) | 6.92 | 7.12 | 7.25 | 6.54 | 5.29 | 5.47 | |
| Cost/income ratio (%) | 50.70 | 47.02 | 45.59 | 49.26 | 48.92 | 51.06 | |
| Liquid assets to liabilities (%) | 26.35 | 25.79 | 34.05 | 33.11 | 27.72 | 27.41 | |
| <i>(As specified in the Banking Act No. 30 of 1988)</i> | | | | | | | |
| Group Capital Adequacy (%) Tier I | 12.11 | 12.63 | 13.30 | 13.07 | 11.55 | 11.59 | |
| Tier I & II | 13.01 | 13.84 | 16.93 | 16.22 | 14.28 | 16.01 | |
| Share Information | | | | | | | |
| Market value of a share (Rs.) | 100.00 | 103.00 | 120.40 | 171.00 | 140.20 | 145.00 | |
| Earnings per share (Rs.) | 9 | 12 | 12 | 13 | 13 | 16 | |
| Price earnings ratio (times) | 11 | 9 | 10 | 13 | 10 | 9 | |
| Net assets value per share (Rs.) | 54 | 63 | 72 | 81 | 80 | 88 | |
| Earnings yield (%) | 9 | 12 | 10 | 8 | 10 | 11 | |
| Dividend payout ratio (%) – Cash | 42 | 37 | 37 | 35 | 33 | 28 | |
| Total dividend payout ratio (%) | 62 | 54 | 53 | 50 | 48 | 40 | |
| Other Information | | | | | | | |
| Number of employees | 4,524 | 4,602 | 4,730 | 4,852 | 4,951 | 4,987 | |
| Number of delivery points – Sri Lanka | 213 | 227 | 235 | 239 | 246 | 255 | } 3.56 |
| Number of delivery points – Bangladesh | 17 | 17 | 18 | 18 | 18 | 19 | |
| Number of automated teller machines | 514 | 572 | 604 | 625 | 640 | 677 | 5.66 |

CAGR – Compounded Annual Growth Rate

INCOME STATEMENT (US DOLLARS)

| | GROUP | | | BANK | | |
|--|--------------------|--------------------|-------------|--------------------|--------------------|-------------|
| | 2016 US \$ '000 | 2015 US \$ '000 | Change % | 2016 US \$ '000 | 2015 US \$ '000 | Change % |
| <i>For the year ended December 31,</i> | | | | | | |
| Gross income | 625,880 | 542,667 | 15.33 | 621,987 | 540,187 | 15.14 |
| Interest income | 543,002 | 460,210 | 17.99 | 539,153 | 458,068 | 17.70 |
| Less: Interest expenses | 321,779 | 248,158 | 29.67 | 319,964 | 247,556 | 29.25 |
| Net interest income | 221,223 | 212,052 | 4.32 | 219,189 | 210,512 | 4.12 |
| Fees and commission income | 54,959 | 43,912 | 25.16 | 54,378 | 43,533 | 24.91 |
| Less: Fees and commission expenses | 7,619 | 6,379 | 19.44 | 7,529 | 6,252 | 20.43 |
| Net fees and commission income | 47,340 | 37,533 | 26.13 | 46,849 | 37,281 | 25.66 |
| Net gains/(losses) from trading | (9,794) | 5,643 | (273.56) | (9,794) | 5,643 | (273.56) |
| Net gains/(losses) from financial instruments designated at fair value through profit or loss | - | - | - | - | - | - |
| Net gains/(losses) from financial investments | 740 | 4,814 | (84.63) | 739 | 4,814 | (84.65) |
| Other income (net) | 36,973 | 28,088 | 31.63 | 37,512 | 28,130 | 33.35 |
| Total operating income | 296,482 | 288,130 | 2.90 | 294,495 | 286,380 | 2.83 |
| Less: Impairment charges for loans and other losses | 10,573 | 28,441 | (62.82) | 10,216 | 27,355 | (62.65) |
| Net operating income | 285,909 | 259,689 | 10.10 | 284,279 | 259,025 | 9.75 |
| Less: Expenses | | | - | | | - |
| Personnel expenses | 72,875 | 71,181 | 2.38 | 72,082 | 70,625 | 2.06 |
| Depreciation and amortisation | 8,470 | 8,367 | 1.23 | 7,943 | 7,921 | 0.28 |
| Other operating expenses | 45,472 | 41,309 | 10.08 | 45,624 | 41,505 | 9.92 |
| Total operating expenses | 126,816 | 120,857 | 4.93 | 125,650 | 120,052 | 4.66 |
| Operating profit before Value Added Tax (VAT) and Nation Building Tax (NBT) | 159,092 | 138,832 | 14.59 | 158,630 | 138,974 | 14.14 |
| Less: Value Added Tax (VAT) on financial services and Nation Building Tax (NBT) | 24,814 | 20,050 | 23.76 | 24,730 | 20,044 | 23.38 |
| Operating profit after Value Added Tax (VAT) and Nation Building Tax (NBT) | 134,278 | 118,782 | 13.05 | 133,900 | 118,930 | 12.59 |
| Share of profits of associates, net of tax | 34 | 95 | (64.21) | - | - | - |
| Profit before tax | 134,312 | 118,877 | 12.98 | 133,900 | 118,930 | 12.59 |
| Less: Income tax expense | 37,717 | 36,607 | 3.03 | 36,986 | 36,354 | 1.74 |
| Profit for the year | 96,595 | 82,270 | 17.41 | 96,914 | 82,576 | 17.36 |
| Profit Attributable to: | | | | | | |
| Equity holders of the Bank | 96,888 | 82,242 | 17.81 | 96,914 | 82,576 | 17.36 |
| Non-controlling interest | (293) | 28 | (1,146.43) | - | - | - |
| | 96,595 | 82,270 | 17.41 | 96,914 | 82,576 | 17.36 |
| Basic earnings per ordinary share (US \$) | 0.11 | 0.09 | 22.22 | 0.11 | 0.09 | 22.22 |
| Diluted earnings per ordinary share (US \$) | 0.11 | 0.09 | 22.22 | 0.11 | 0.09 | 22.22 |

US Dollar Accounts

The Income Statement and the Statement of Financial Position given on pages 434 and 435 are solely for the convenience of stakeholders and do not form part of the Financial Statements.

STATEMENT OF FINANCIAL POSITION (US DOLLARS)

| As at December 31, | GROUP | | | BANK | | |
|--|--------------------|--------------------|-----------------|--------------------|--------------------|---------------|
| | 2016 US \$ '000 | 2015 US \$ '000 | Change % | 2016 US \$ '000 | 2015 US \$ '000 | Change % |
| Assets | | | | | | |
| Cash and cash equivalents | 219,861 | 139,487 | 57.62 | 201,627 | 139,046 | 45.01 |
| Balances with Central Banks | 293,391 | 195,775 | 49.86 | 292,976 | 195,775 | 49.65 |
| Placements with banks | 78,254 | 119,275 | (34.39) | 78,254 | 119,275 | (34.39) |
| Securities purchased under resale agreements | – | 55,512 | – | – | 55,512 | – |
| Derivative financial assets | 7,031 | 28,569 | (75.39) | 7,031 | 28,569 | (75.39) |
| Other financial instruments – Held-for-trading | 33,307 | 53,114 | (37.29) | 33,307 | 53,114 | (37.29) |
| Loans and receivables to banks | 4,170 | 4,170 | – | 4,170 | 4,170 | – |
| Loans and receivables to other customers | 4,141,098 | 3,537,448 | 17.06 | 4,113,644 | 3,524,905 | 16.70 |
| Financial investments – Available-for-sale | 1,069,065 | 1,417,010 | (24.55) | 1,068,604 | 1,416,887 | (24.58) |
| Financial investments – Held-to-maturity | 424,885 | – | – | 407,221 | – | – |
| Financial investments – Loans and receivables | 346,070 | 400,447 | (13.58) | 346,070 | 400,447 | (13.58) |
| Investments in subsidiaries | – | – | – | 16,263 | 8,582 | 89.50 |
| Investments in associates | 727 | 725 | 0.28 | 296 | 308 | (3.90) |
| Property, plant & equipment | 77,260 | 77,568 | (0.40) | 68,834 | 69,157 | (0.47) |
| Intangible assets | 7,564 | 6,133 | 23.33 | 4,278 | 3,232 | 32.36 |
| Leasehold property | 708 | 745 | (4.97) | 491 | 517 | (5.03) |
| Deferred tax assets | 4,462 | – | – | 6,437 | – | – |
| Other assets | 110,067 | 83,920 | 31.16 | 109,771 | 83,903 | 30.83 |
| Total assets | 6,817,920 | 6,119,898 | 11.41 | 6,759,274 | 6,103,399 | 10.75 |
| Liabilities | | | | | | |
| Due to Banks | 474,781 | 220,530 | 115.29 | 451,478 | 210,330 | 114.65 |
| Derivative financial liabilities | 10,117 | 13,117 | (22.87) | 10,117 | 13,117 | (22.87) |
| Securities sold under repurchase agreements | 464,968 | 778,701 | (40.29) | 466,561 | 779,638 | (40.16) |
| Other financial liabilities – Held-for-trading | – | – | – | – | – | – |
| Due to other customers/Deposits from customers | 4,963,677 | 4,328,971 | 14.66 | 4,938,654 | 4,329,530 | 14.07 |
| Other borrowings | 61,904 | 69,273 | (10.64) | 61,904 | 69,273 | (10.64) |
| Current tax liabilities | 23,136 | 20,990 | 10.22 | 22,977 | 20,825 | 10.33 |
| Deferred tax liabilities | – | 3,244 | – | – | 1,600 | – |
| Other provisions | 13 | 13 | – | 13 | 13 | – |
| Other liabilities | 120,402 | 109,256 | 10.20 | 118,267 | 107,861 | 9.65 |
| Due to subsidiaries | – | – | – | 134 | 182 | (26.37) |
| Subordinated liabilities | 165,940 | 83,165 | 99.53 | 165,940 | 83,061 | 99.78 |
| Total liabilities | 6,284,938 | 5,627,260 | 11.69 | 6,236,045 | 5,615,430 | 11.05 |
| Equity | | | | | | |
| Stated capital | 166,798 | 161,322 | 3.39 | 166,798 | 161,322 | 3.39 |
| Statutory reserves | 37,716 | 34,148 | 10.45 | 37,715 | 34,147 | 10.45 |
| Retained earnings | 30,400 | 30,994 | (1.92) | 29,810 | 30,447 | (2.09) |
| Other reserves | 292,571 | 265,825 | 10.06 | 288,906 | 262,053 | 10.25 |
| Total equity attributable to equity holders of the Bank | 527,485 | 492,289 | 8.29 | 523,229 | 487,969 | 7.23 |
| Non-controlling interest | 5,497 | 348 | 1,479.60 | – | – | – |
| Total equity | 532,982 | 492,637 | 8.19 | 523,229 | 487,969 | 7.23 |
| Total liabilities and equity | 6,817,920 | 6,119,898 | 11.41 | 6,759,274 | 6,103,399 | 10.75 |
| Contingent liabilities and commitments | 3,320,727 | 3,615,902 | (8.16) | 3,318,964 | 3,615,902 | (8.21) |
| Net assets value per ordinary share (US \$) | 0.59 | 0.56 | 5.36 | 0.59 | 0.56 | 5.36 |

Exchange Rate of 1 US \$ was Rs. 149.75 as at December 31, 2016 (Rs. 144.15 as at December 31, 2015).

EVENTS

January

Commercial Bank's 247th Branch opens at Delgoda Laugfs Super



Commercial Bank opens 249th and 250th Branches at Galle City (Minicom) and Orion City Complex (Automated Banking Sector)



The milestone 250th branch of the Bank was opened at Orion City. This sophisticated automated branch represents the Bank's commitment to deploy the latest in secure technology.

Global Finance (USA) names Commercial Bank 'Best Bank in Sri Lanka' for 17th time



Commercial Bank adjudged Best among Banks for Sustainability Reporting



The Sustainability Report of the Bank has been adjudged the best in the Banking Sector at the 2015, Sri Lanka Sustainability Reporting Awards presented by the Association of Chartered Certified Accountants (ACCA) Sri Lanka Liaison Office.

February

Commercial Bank's 248th Branch opens in departure terminal of Bandaranaike International Airport (BIA) Katunayake



Commercial Bank supports 'Ransalu' loyalty privilege programme for apparel sector



Sri Lanka's apparel sector associates are to be supported with an exclusive Debit Card that confers special benefits, under a partnership between Commercial Bank, Joint Apparel Association Forum (JAAF) and Channel 17, the Company tasked with managing an employee loyalty programme for the sector.

March

Commercial Bank opens its 14th Agriculture & Micro Finance Unit at Neluwa



Commercial Bank introduces e-passbook on mobile phone

The Bank has broken new ground in technology-enabled convenience by becoming the first bank in Sri Lanka to offer customers an e-Passbook that provides access to details of savings, current, NRFC and RFC accounts on Android and iOS powered mobile devices.



April

Commercial Bank wins top Global Brand Excellence Award



The Bank was presented the award for 'Marketing Campaign of the Year' at the 2016 CMO Asia Awards for Excellence in Branding and Marketing in Kuala Lumpur, Malaysia.

May



Commercial Bank signs agreement with Bank Muscat Oman for instant money transfers



Commercial Bank enhances customer convenience with 'Over the Air PIN' for credit and debit cards

New card holders of the Bank will no longer be required to wait for their PIN (Personal Identification Number) to arrive in the post to activate and use their cards, instead, they will now receive their PINs to registered mobile phone numbers via SMS, when the cards are ready for collection.



September



Commercial Bank joins technology initiative for tea leaf suppliers in Sri Lanka



Commercial Bank has been designated the Preferred Bank for the issue of the first Hybrid Debit Card coupled with Sony 'FeliCa' Near Field Communication (NFC) technology in the market, enabling its promoter Smart Metro (Pvt) Ltd. to deploy a Debit Card cum Identification Card for tea leaf suppliers.

Commercial Bank ranked among World's Top 1000 Banks for 6th successive year



Commercial Bank has become the only Sri Lankan bank to be ranked among the Top 1000 Banks of the World for the sixth year running.

Commercial Bank is Sri Lanka's Most Respected Bank for 12th successive year

Commercial Bank has been rated the most respected bank in Sri Lanka for the 12th year running and the second 'Most Respected' corporate entity in the country overall for the sixth successive year in the 2016 by LMD rankings of the Most Respected Entities in Sri Lanka.

June



Commercial Bank launches Sri Lanka's first Remittance Card



A branded Debit cum ATM Card licensed by Visa Inc. and issued locally by Commercial Bank to recipients of remittances, the new Remittance Card eliminates the need to visit a branch of the bank to collect remitted funds.

August



Commercial Bank ATM network first in Sri Lanka to be secure with EMV capability



Commercial Bank has completed the upgrade of its automated teller machine (ATM) network in Sri Lanka to EMV Chip capability, significantly enhancing security against fraud by conforming to the EMV standards of the various card brands that are accepted by the Bank's ATMs.

Commercial Bank receives award as 'Strongest Bank' in Sri Lanka from Asian Banker



July



Commercial Bank's 252nd Branch (Minicom) opens at Batticaloa (second branch)



Commercial Bank receives Finance Asia Award for Best Bank in Sri Lanka



This is the sixth 'FinanceAsia Country Banking Achievement Award' presented to Commercial Bank in the eight years since the Bank became the first entity in Sri Lanka to receive this coveted tribute in 2009.

Additionally, as FinanceAsia celebrates 20 years covering Asia's financial markets this year, the magazine has chosen Commercial Bank as one the recipients of a one-off Platinum Award presented to banks and corporations that have consistently excelled over the past two decades, providing utmost quality and innovation to customers.

Commercial Bank launches new series of 'Cash Deposit and Withdrawal' machines



Commercial Bank has launched a new generation of machines that offers several new advancements on the standard ATMs and deposit machines, including cash deposits that are credited instantly.

Commercial Bank of Maldives launches its operations



History was made when the Commercial Bank of Maldives, a subsidiary of Commercial Bank of Ceylon and a joint venture with Tree Top Investments Maldives, formally inaugurated its banking operations in the Maldives with the opening of its head office and the first branch in the archipelago's capital Malé by Maldivian President Abdulla Yameen Abdul Gayoom.

Commercial Bank begins new series of entrepreneurship programmes for women



Commercial Bank conducted the first of a series of entrepreneur development programmes exclusively for women, in recognition of their importance to the national economy.

Commercial Bank adds cross currency transactions to Online Banking

Commercial Bank has added a new dimension to its Online Banking platform by enabling foreign currency account holders to carry out fund transfers between accounts maintained in different currencies other than Sri Lankan rupees.

Commercial Bank launches new enhanced version of PayMaster

Commercial Bank has announced the launch of a new version of PayMaster, the Bank's sophisticated bulk payments platform for corporate customers, offering enhanced functionality and controls and a new level of security.

Commercial Bank wins 4 prestigious awards at South Asian Partnership Summit



The most-awarded bank at the ceremony, Commercial Bank received the awards for 'Best in CSR Practices', 'Best in Brand Excellence in Banking, Financial Services and Insurance Industry,' and 'Best Sustainable Bank' in addition to being named the 'Best Private Sector Bank.'

Commercial Bank unveils ambitious 'Smart Schools' initiative



A ground-breaking new initiative to raise averages for pass levels in key subjects in the secondary schools curriculum has been launched by the Commercial Bank of Ceylon as part of the Bank's extensive commitments to promote education.

October



Commercial Bank launches 'Easy POS' – smartphone linked mobile POS system for card transactions



Branded Commercial Bank 'EasyPOS,' the mobile units introduced in collaboration with CBA Solutions, make it possible for any merchant outlet that has a smartphone to acquire one and enhance sales.

Commercial Bank offers exciting new look and functionality in revamped website



A stand-out feature of the overhaul is the website's enhanced responsiveness to access via phone devices and tabs, in acknowledgement of the growing popularity of mobile banking. New mobile-friendly interfaces and interaction allow faster and smoother access to information and tools on mobile devices.

November

Commercial Bank launches Max Loyalty Rewards



Commercial Bank has unveiled COMBANK Max Loyalty Rewards, offering loyalty benefits for both debit and credit card holders for the first time in Sri Lanka, enabling card holders of the Bank to accumulate points whenever they use their cards to pay for purchases.

Commercial Bank first to launch NFC-enabled premium credit cards for both Visa & Mastercard



Commercial Bank has become the first bank in Sri Lanka to offer Near Field Communication (NFC) enabled credit cards of both Visa and Mastercard.

Commercial Bank's fully-owned subsidiary Commex inaugurated in Italy



Commercial Bank ranked 2nd in Business Today's Top 30



Commercial Bank has been ranked second in Business Today's 'Top 30' public listed companies in Sri Lanka in 2015-16 for the fourth consecutive year.

December

Commercial Bank opens 253rd, 254th, 255th and 256th Branches at Kelaniya, Veyangoda, Delyandara and Morawaka



Commercial Bank Annual Report wins six awards including Best in Banking Sector for 13th time



Commercial Bank won six awards, at the 52nd Annual Report Awards of The Institute of Chartered Accountants of Sri Lanka. Banking Sector – Gold Award, Overall – Third, Corporate Governance Disclosure – Silver Award, Corporate Social Responsibility Reporting – Silver Award, Integrated Reporting: Best Disclosure on Capital Management – Silver Award, Integrated Reporting – Bronze Award. With these six awards, Commercial Bank became the most-awarded Corporate of the night.

Commercial Bank reopens expanded Wellawatte branch in purpose-built 8-storey Green building



Commercial Bank receives its 10th 'Bank of the Year' award in London



Commercial Bank receives its 10th 'Bank of the Year' award in London. This was the 10th time Commercial Bank has won this prestigious award, thus becoming one of the few banks in the world to achieve this feat.

Commercial Bank honoured with Gold Award by ETF



Commercial Bank was honoured for its exemplary compliance with the requirements of the Employees-Trust Fund (ETF).

CORRESPONDENT BANKS AND AGENT NETWORK

01 United States of America

Bank of America NT & SA (USD)
BIC: BOFAUS6S A/C: 6290890098

Citi Bank (USD)
BIC: CITIUS33 A/C: 36141446, 36241316*

Deutsche Bank Trust Company Americas (USD)
BIC: BKTRUS33 A/C: 4034566 & 4447395*

JP Morgan Chase Bank (USD)
BIC: CHASUS33 A/C: 400808625

Standard Chartered Bank (USD)
BIC: SCBLUS33 A/C: 3582052360001, 3582052360002 & 3582052637001*

Wells Fargo Bank N.A. (USD)
BIC: PNBUS33NYC A/C: 2000191002407 & 2000193003365*

02 Canada

Bank of Nova Scotia (CAD)
BIC: NOSCCATT A/C: 72214

Bank of Montreal (CAD)
BIC: BOFMCAM2 A/C: 314441044203 & 31441044190*

03 France

Credit Agricole SA (EUR)
BIC: AGRIFRPP A/C: 20533624000*

04 United Kingdom

Standard Chartered Bank (GBP)
BIC: SCBLGB2L A/C: 1804813401 & 01270435801*

United Kingdom **A**

Ary Forex
Brac Saajan Exchange Ltd.
Currency Exchange change Corp Ltd.
Earthport PLC
GCC Exchange UK Ltd.
Global Exchange Ltd.
LCC Trans-Sending Ltd.

05 Netherlands

Ing Bank N.V. (EUR)
BIC: INGBNL2A A/C: 50908928

06 Norway

Den Norske Bank (NOK)
BIC: DNBNOKK A/C: 7002.02.04808

07 Sweden

Skandinaviska Enskilda Banken (SEK)
BIC: ESSESESS A/C: 52018529803

08 Denmark

Nordea Bank Denmark A/S (DKK)
BIC: NDEADKKK A/C: 5000408909

12 United Arab Emirates

Mashreq Bank (AED)
Dubai
BIC: BOMLAEAD
A/C: AE270330000010195511268

13 Pakistan

Standard Chartered Bank (ACS)
Karachi
BIC: SCBLPKK A/C: 15000297601 USD & 15000288701 USD*

14 Maldives

Commercial Bank of Maldives Private Limited (ACUS)
Male, BIC: CBMVMVMV A/C: 1600100051

Maldives **K**

Commercial Bank of Maldives Pvt. Ltd.

15 India

Axis Bank Limited (ACUS),
Mumbai
BIC: AXISINBB A/C: 910020049396568*

Bank of Ceylon, Chennai (ACUE),
Chennai BIC: BCEYIN5M A/C: 1-119

ICICI Bank Ltd. (ACUS)
Mumbai
BIC: ICICINBB A/C: 406000181 & 406000220*

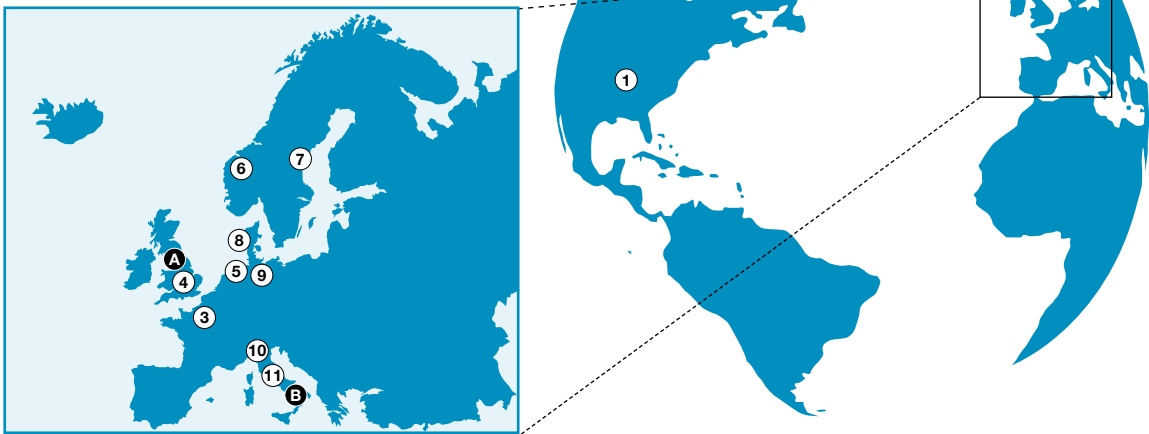
Standard Chartered Bank,
Mumbai
BIC: SCBLINBB A/C: 22205031885 (ACUS) & 22205394120 (ACUE)

16 Bangladesh

Commercial Bank of Ceylon Limited (ACUS)
Dhaka
BIC: CCEYBDDH A/C: 2802000017

17 Sri Lanka

Commercial Bank of Ceylon PLC (ACUS)
BIC: CCEYLKXL A/C: 1420825031*



09 Germany

Commerz Bank AG (EUR)
BIC: COBADEFF A/C: 400872103701 & 400871436200*

Standard Chartered Bank (EUR)
BIC: SCBLDEF A/C: 18109406, 18149205 & 018112204*

Unicredit Bank AG (Hypo Vereins Bank) (EUR)
BIC: HYVEDEMM A/C: 69101429

10 Switzerland

UBS A.G. (CHF)
Zurich
BIC: UBSWCHZH
A/C: 02300000085408050000W

11 Italy

Banca Intesa BCI (EUR), Milan
BIC: BCITITMM A/C: 100100003820

Banco Popolare Society Cooperation (EUR)
Verona,
BIC: BAPPIT22 A/C: 400000082

Unicredito Italiano SPA (EUR)
Rome,
BIC: UNCRITMM A/C: 0995 4268

Italy **B**

Commex Srilanka S.R.L.
National Exchange Co.

Israel **C**

S T B Union Ltd.
Unigiros Ltd.

Kuwait **D**

Al Mulla Int Exchange Co.
Al Muzaini Exchange Co.
Aman Exchange Company Wll
Bahrain Exchange Co.
City Int Exchange Co.
Dollarco Exchange Co.
Etemadco Company Ltd.
Joy Alukkas Exchange Co. Wll
Kuwait Bahrain Exchange Co.
Kuwait National Exchange Co.
Lulu Exchange Company Wll
National Exchange Co.
National Money Exchange Co.
Oman Exchange Co.
UAE Exchange

Baharain **E**

Ezremit Limited - Bfc
Modern Exchange Co. Bssc
National Finance & Exchange Co.
Nonoo Exchange Co.
Zenj Exchange

* Accounts of Bangladesh Operations.
e-Exchange Agent Network

18 Singapore

Citibank NA (USD)
 BIC: CITISGSG A/C: (USD) 851122001,
 (EUR) 851122028, (GBP) 851122036

Oversea – Chinese Banking Corp Ltd (USD)
 BIC: OCBCSGSG A/C: (USD) 503212862301,
 (SGD) 695703165001

Standard Chartered Bank (SGD)
 BIC: SCBLSGSG A/C: 109344561 & 102318735*

Singapore **(M)**

Ameertech Remittance & Exchange

19 China

Standard Chartered Bank (CNY)
 Shanghai.
 BIC: SCBLCNSX A/C: 501510533540

20 Korea

Kookmin Bank (USD) Seoul
 BIC: CZNBRKSE A/C: 7598USD010 & 7618USD013*

Korea Exchange Bank (USD), Seoul.
 BIC: KOEXKRSE A/C: 0963THR051080010

Woori Bank (USD), Seoul.
 BIC: HVBKKRSE A/C: W1027001US

21 Japan

Bank of Tokyo Mitsubishi Ltd. (JPY)
 Tokyo.
 BIC: BOTKJPJT A/C: 653-0461318*

Standard Chartered Bank (JPY)
 Tokyo
 BIC: SCBLJPJT A/C: 2168531110

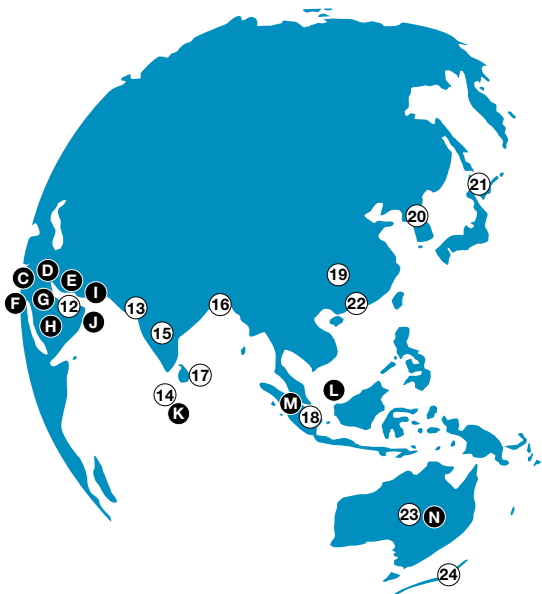
Sumitomo Mitsui Banking Corporation (JPY)
 Tokyo BIC: SMBCJPJT A/C: 4395

22 Hong Kong

Standard Chartered Bank
 BIC: SCBLHKHH A/C: (HKD) 41109468048, (HKD) 44709419107* & (CNY) 44709448344

Global 

Ezremit Limited
 Instant Cash
 Payoneer Inc
 Placid Nk Corporation
 Prabhu Group Inc
 Ria Financial Services
 Royal Exchange (USA) Inc
 Transfast Remittance LLC
 Xpress Money



Jordan **(F)**

Al Alami Exchange Co.
 Al Nasir Establishment For Exchange
 Alawneh Exchange Co.
 Kalil Al Rahman Exchange Co.

Saudi Arabia **(G)**

Arabia Alrajhi Banking & Inv Corp
 Arab National Bank
 Bank Albilad
 The National Commercial Bank

United Arab Emirates **(H)**

Al Ahalia Money Exchange
 Al Ansari Exchange Co. – Abu Dhabi
 Al Dahab Exchange
 Al Faud Exchange
 Al Ghurair Exchange Llp
 Al Razouki Int Exchange Co.
 Al Rosatamani Exchange
 Alukkas Exchange
 Arab Link Money Transfer
 PSC Delma Exchange
 Desert Exchange
 G C C Exchange
 Habib Exchange Co.
 Lari Exchange
 Leela Megh Exchange LLC
 Lulu International Exchange
 Multinet Trust Exchange LLC
 Noor Ahalia Exchange
 Orient Exchange Co.
 Saad Exchange
 UAE Exchange – Abudabi
 Universal Exchange Centre
 Wall Street Exchange Centre

Qatar **(I)**

Al Dar For Exchange Works
 Al Fardan Exchange Co.
 Al Mana Exchange Wll
 Al Mirqab Exchange Co. Wll
 Al Saad Exchange Co.
 Al Zaman Exchange Co.
 Arabian Exchange Company Wll
 City Exchange Ltd.
 Doha Bank
 Doha Exchange Co. LLC
 Eastern Exchange Establishment
 Gulf Exchange Co.
 Habib Qatar Int Exchange
 Islamic Exchange Ltd.

Oman **(J)**

Al Jadeed Exchange LLC
 Asia Express Exchange
 Bank Muscat S.A.O.G
 Global Money Exchange Co.LLC
 Laxmidas Tharia Ved & Co.
 Majan Exchange LLC
 Modern Exchange Co. LLC
 Oman & UAE Exchange Centre
 Purshottam Kanji Exchange Co. LLC

Malaysia **(L)**

IME (M) SDN

08 Australia

National Australia Bank (AUD)
 Melbourne
 BIC: NATAAU33 A/C: 1803020052500 & 1803152323500*

Australia **(N)**

Cash Express Pty Ltd.
 Ceylon Exchange Pty Ltd.
 Colombo Money Transfer Services
 Direct Forex Foreign Exchange
 Central Pty Ltd.
 Kapruka Pvt Ltd.
 Lanka Currency Converter Pty Ltd.
 Remittanceplus Pvt Ltd.
 Remittances & Money Exchange Pty Ltd.
 TSS Worldwide Money Transfer

24 New Zealand

Bank of New Zealand (NZD)
 Wellington
 BIC: BKNZ22985 A/C: 2659680000 & 2690700000*

GROUP STRUCTURE

| | Commercial Development Co. PLC | ONEzero Co. Ltd. | Commex Sri Lanka S.R.L. – Italy | Serendib Finance Ltd.* | Commercial Bank of Maldives Private Limited | Equity Investments Lanka Ltd. | Commercial Insurance Brokers (Pvt) Ltd. |
|-------------------------------|---|---|---|-----------------------------------|--|--------------------------------------|--|
| Company Profile | | | | | | | |
| Relationship to the Bank | Subsidiary | Subsidiary | Subsidiary | Subsidiary | Subsidiary | Associate | Associate |
| Incorporated on | March 14, 1980 in Sri Lanka | February 17, 2003 in Sri Lanka | December 02, 2008 in Italy | February 18, 1987 in Sri Lanka | March 24, 2015 in Maldives | August 08, 1990 in Sri Lanka | August 17, 1987 in Sri Lanka |
| Bank's Holding | 93.85% | 100% | 100% | 100% | 55% | 22.92% | 18.77% |
| | | | | | | | |
| Principal Business Activities | Property Development | Provision of IT Related Services | Money Transfer and Money Exchange | Leasing & Hire Purchase Financing | Banking | Venture Capital Financing | Insurance Brokering |
| Business Address | 'Commercial House', No. 21, Sir Razik Fareed Mawatha, Colombo 01. | 'Commercial House', No. 21, Sir Razik Fareed Mawatha, Colombo 01. | No. 34, Via Giacomo, Leopardi, Cap 00185 Rome, Italy. | No. 187, Katugastota Road, Kandy. | H.Filigasdhoshuge, Ameer Ahmed Magu, Male 20066, Maldives. | 108 A, 2/1, Maya Avenue, Colombo 06. | No. 347, Dr. Colvin R. De Silva Mawatha, Colombo 02. |
| Contact Numbers | 2447300 | 2430420 | +39 06 48905707 | 081 2213498, 081 2200272 | +96 03332668 | 5373745, 2507605-6 | 2447297, 2447299 |
| Board of Directors | | | | | | | |
| Chairman | B.R.L. Fernando | Prof. A.K.W. Jayawardane | K.G.D.D. Dheerasinghe | K.G.D.D. Dheerasinghe | Mr. Hussain Afeef | M.J.C. Amarasuriya | M.P. Jayawardena |
| Managing Director/CEO | J. Durairatnam | | | | Mr. Dilan Rajapakse | | R.A.M. Seneviratne |
| Director | A.L. Gooneratne | K.D.N. Buddhipala | M.E.P. Perera | Ms. J.P. Kuruppu | Mr. S. Renganathan | Deshamanya S. E. Captain | D.M.D.K. Thilakarantne |
| Director | A.T.P. Edirisinghe | S.C.U. Manatunga | K.D.N. Buddhipala | S.R. Pushpakumara | Mr. Sanath Manathunga | J.D. Peiris | U.I.S. Tillakawardana |
| Director | L.D.A. Jayasinghe | Mrs. S.A. Walgama | U.K.P. Banduwansa | A.N.P. Sooriyaarachchi | Mr. Isuru Thillakawardana | J.B. Abu Baker | S.P.S. Ranatunga |
| Director | U.I.S. Tillakawardana | K.S.A. Gamage | Prof. Francesco Bellini | Y.S.H.R.S. Silva | Mr. Adam Saleem | W.I. Arambage | |
| Director | | S. Prabagar | | | Dr. Ibrahim Vishan | L.A. Rajapakse (Alternate Director) | |
| Director | | | | | | H.A. Pieris K.C. Vignarajah | |
| Company Secretary | L.W.P. Indrajith | M.P. Dharmasiri | Antonia Coppola (Commercialista) | R.A.P. Rajapaksha | Ms. Fathmath Muaza | Mrs. R.R. Dunuwille | Ms. Y.A. Kularathna |

Summary of Financial Information

| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
|--------------------------|-----------|-----------|---------|---------|----------|----------|-----------|-----------|-----------|---------|---------|---------|---------|---------|
| | Rs. Mn. | Rs. Mn. | Rs. Mn. | Rs. Mn. | Rs. Mn. | Rs. Mn. | Rs. Mn. | Rs. Mn. | Rs. Mn. | Rs. Mn. | Rs. Mn. | Rs. Mn. | Rs. Mn. | Rs. Mn. |
| Total assets | 2,364.676 | 2,064.361 | 104.734 | 103.132 | 41.853 | 66.432 | 5,242.565 | 2,925.295 | 5,682.531 | - | 308.341 | 297.774 | 295.848 | 257.851 |
| Total liabilities | 388.810 | 356.523 | 40.135 | 47.054 | 71.443 | 77.365 | 4,541.251 | 2,452.044 | 3,946.301 | - | 8.949 | 8.593 | 82.387 | 61.502 |
| Net assets | 1,975.866 | 1,707.838 | 64.599 | 56.078 | (29.590) | (10.933) | 701.314 | 473.251 | 1,736.230 | - | 299.392 | 289.181 | 213.461 | 196.349 |
| Total revenue | 329.258 | 316.988 | 138.000 | 181.725 | 20.796 | 3.405 | 681.187 | 356.233 | 30.291 | - | 28.000 | 55.536 | 232.302 | 212.673 |
| Profit before tax | 391.653 | 321.897 | 46.616 | 38.177 | (19.086) | (37.257) | 83.064 | (85.125) | (107.699) | - | 11.166 | 37.670 | 37.703 | 32.501 |
| Profit after tax | 326.441 | 259.794 | 33.209 | 27.523 | (19.086) | (37.257) | 29.056 | (72.676) | (107.730) | - | 11.949 | 37.640 | 25.614 | 20.033 |
| Dividend per share (Rs.) | 5.00 | 5.00 | 50.00 | 50.00 | - | - | - | - | - | - | - | - | 15.00 | 5.00 |

GLOSSARY OF FINANCIAL AND BANKING TERMS

A

Acceptances

Promise to pay created when the drawee of a time draft stamps or writes the word 'accepted' above his signature and a designated payment date.

Accounting Policies

The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting Financial Statements.

Accrual Basis

Recognition of the effects of transactions and other events when they occur without waiting for receipt or payment of cash or cash equivalent.

Actuarial Gain/Loss

Gain or loss arising from the difference between estimates and actual experience in an entity's pension plan.

Amortisation

The systematic allocation of the depreciable amount of an intangible asset over its useful life.

Amortised Cost

Amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and minus any reduction for impairment or un-collectability.

Associate

An entity over which the investor has significant influence.

Available-for-Sale (AFS) Financial Investments

All non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables, financial investments – Held-to-maturity and financial investments at fair value through profit or loss.

B

Basel II

The capital adequacy framework issued by the Basel Committee on Banking Supervision (BCBS) in the form of the 'International Convergence of Capital Measurement and Capital Standards'.

Basel III

The BCBS issued the Basel III rules text, which presents the details of strengthened global regulatory standards on bank capital adequacy and liquidity.

Basis Point (bp)

One-hundredth of a percentage point (0.01 per cent); 100 basis points is 1 percentage point. Used in quoting movements in interest rates or yields on securities.

Bills Sent for Collection

A bill of exchange drawn by an exporter usually at a term, on an importer overseas and brought by the exporter to his bank with a request to collect the proceeds.

C

Capital Adequacy Ratio

The percentage of risk-adjusted assets supported by capital as defined under the framework of risk-based capital standards developed by the Bank for International Settlements (BIS) and as modified by the Central Bank of Sri Lanka to suit local requirements.

Cash Equivalents

Short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash Generating Unit (CGU)

The smallest group of assets that independently generates cash flow and the cash flow is largely independent of the cash flows generated by other assets.

Collectively Assessed Loan Impairment Provisions

Also known as portfolio impairment provisions. Impairment assessment on a collective basis for homogeneous groups of loans that are not considered individually significant and to cover losses that has been incurred but has not yet been identified at the reporting date.

Commitments

Credit facilities approved but not yet utilised by the clients as at the Reporting date.

Contingencies

A condition or situation, the ultimate outcome of which will be confirmed only on the occurrence or non-occurrence of one or more uncertain future events.

Corporate Governance

The process by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and direction of entity, the supervision of executive actions and accountability to owners and others.

Correspondent Bank

A bank in a foreign country that offers banking facilities to the customers of a bank in another country.

Cost/Income Ratio

Operating expenses excluding impairment charge for loans and other losses as a percentage of total operating income.

Credit Rating

An evaluation of a corporate's ability to repay its obligations or the likelihood of not defaulting, carried out by an independent rating agency.

Credit Risk

Risk of financial loss to the Bank, if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the loans and advances to customers and other banks and investment in debt securities.

Currency SWAPs

The simultaneous purchase of an amount of a currency for spot settlement and the sale of the same amount of the same currency for forward settlement.

D

Deferred Taxation

Sum set aside in the Financial Statements for taxation that may become payable/receivable in a financial year other than the current financial year. It arises because of temporary differences between tax rules and accounting conventions.

Delinquency

A debt or other financial obligation is considered to be in a state of delinquency when payments are overdue. Loans and advances are considered to be delinquent when consecutive payments are missed. Also known as 'Arrears'.

Derivatives

A derivative is a financial instrument or other contract, the value of which changes in response to some underlying variable (e.g. interest rate) that has an initial net investment smaller than would be required for other instruments that have a similar response to the variable, and that will be settled at a future date.

Dividend Cover

Profit after tax divided by gross dividends. This ratio measures the number of times dividend is covered by the current year's distributable profits.

Dividend Yield

Dividend earned per share as a percentage of its market value.

Documentary Letters of Credit (LCs)

Written undertaking by a bank on behalf of its customers, authorising a third party to draw on the Bank up to a stipulated amount under specific terms and conditions. Such undertakings are established for the purpose of facilitating international trade.

E

Earnings per Ordinary Share (EPS)

The profit attributable to ordinary shareholders divided by the number of ordinary shares in issue.

Effective Interest Rate (EIR)

Rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Effective Tax Rate (ETR)

Provision for taxation excluding deferred tax expressed as a percentage of the profit before taxation.

Equity Method

This is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition changes in the investor's share of net assets of the investee. The profit or loss and other comprehensive income of the investor include the investor's share of the profit or loss and other comprehensive income of the investee.

F

Fair Value

The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair Value through Profit or Loss Investments

A financial asset/liability acquired/incurred principally for the purpose of selling or repurchasing it in the near term, part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking, or a derivative (except for a derivative that is a financial guarantee contract).

Finance Lease

A lease in which the lessee acquires all the financial benefits and risks attaching to ownership of the asset under lease.

Financial Instrument

A financial instrument is any contract that gives rise to both a financial asset in one entity and a financial liability or equity instrument in another entity.

Forward Exchange Contract

Agreement between two parties to exchange one currency for another at a future date at a rate agreed upon today.

G

Global Reporting Initiative (GRI)

The GRI is an international independent standards organisation that helps businesses, Governments and other organisations understand and communicate their impacts on issues such as climate change, human rights and corruption. GRI promotes sustainability reporting as a way for organisations to become more sustainable and contribute to sustainable development.

Group

A parent and all its subsidiaries.

Guarantees

Three party agreement involving a promise by one party (the guarantor) to fulfil the obligations of a person owing a debt if that person fails to perform.

H

Hedging

A strategy under which transactions are effected with the aim of providing cover against the risk of unfavourable price movements (interest rate, foreign exchange rate, commodity prices, etc.).

Held-to-Maturity (HTM) Investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity.

High Quality Liquid Assets (HQLA)

Assets that are unencumbered, liquid in markets during a time of stress and ideally, be Central Bank eligible. These include, for example, cash and claims on Central Governments and Central Banks.

I

Impaired Loans

Loans where the Group does not expect to collect all the contractual cash flows or expects to collect them later than they are contractually due.

Impairment

This occurs when recoverable amount of an asset is less than its carrying amount.

Impairment Allowances

Impairment allowances are provisions held on the Statement of Financial Position as a result of the raising of a charge against profit for the incurred loss. An impairment allowance may either be identified or unidentified and individual (specific) or collective (portfolio).

Intangible Asset

An intangible asset is an identifiable non-monetary asset without physical substance.

Interest Rate SWAP

An agreement between two parties (known as counterparties) where one stream of future interest payments is exchanged for another stream of future interest payments based on a specified principal amount.

Interest Spread

Represents the difference between the average interest rate earned on interest earning assets and the average interest rate paid on interest-bearing liabilities.

Investment Properties

Property (land or a building – or part of a building – or both) held (by the owner or by the lessee for capital appreciation or both, rather than for use in the production or supply of goods or services or for administrative services; or sale in the ordinary course of business).

K

Key Management Personnel (KMP)

Key Management Personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any Director (whether Executive or otherwise) of that entity.

L

Liquid Assets

Assets that are held in cash or in a form that can be converted to cash readily, such as deposits with other banks, Bills of Exchange and Treasury Bills and Bonds.

Loans and Receivables

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those intended to sell immediately or in the near term and designated as fair value through profit or loss or available-for-sale on initial recognition.

Loan-to-Value Ratio (LTV)

The LTV ratio is a mathematical expression which expresses the amount of a first mortgage lien as a percentage of the total appraised value of real property. The LTV ratio is used in determining the appropriate level of risk for the loan and therefore the correct price of the loan to the borrower.

Loss Given Default (LGD)

LGD is the percentage of an exposure that a lender expects to lose in the event of obligor default.

M

Market Capitalisation

The value of an entity obtained by multiplying the number of ordinary shares in issue multiplied by its market value as at a date.

Market Risk

This refers to the possibility of loss arising from changes in the value of a financial instrument as a result of changes in market variables such as interest rates, exchange rates, credit spreads and other asset prices.

Materiality

The relative significance of a transaction or an event, the omission or misstatement of which could influence the economic decisions of users of Financial Statements.

N

Net Interest Income (NII)

The difference between the amount a bank earns on assets such as loans and securities and the amount it pays on liabilities such as deposits, refinance funds and inter-bank borrowings.

Net Interest Margin (NIM)

The margin is expressed as net interest income divided by average interest earning assets.

Non-Controlling Interest (NCI)

Equity in a Subsidiary not attributable, directly or indirectly, to a parent.

Nostro Account

A bank account held in foreign country by a domestic bank, denominated in the currency of that country. Nostro accounts are used to facilitate the settlement of foreign exchange trade transactions.

O

Open Credit Exposure Ratio

Total net non-performing loans and advances expressed as a percentage of regulatory capital base.

Operational Risk

This refers to the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

P

Parent

An entity that controls one or more entities.

Price Earnings Ratio (P/E Ratio)

Market price of a share divided by the earnings per share.

Probability of Default (PD)

PD is an internal estimate for each borrower grade of the likelihood that an obligor will default on an obligation.

Provision Cover

Total provisions for loan losses expressed as a percentage of net non-performing loans and advances before discounting for provisions on non-performing loans and advances.

R

Related Parties

One party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions, directly or indirectly.

Related Party Transaction (RPT)

RPT is a transfer of resources, services or obligations between a reporting entity and a related party, regardless whether a price is charged.

Repurchase Agreement

Contract to sell and subsequently repurchase securities at a specified date and price.

Return on Average Assets (ROA)

Profit after tax expressed as a percentage of the average assets.

Return on Average Equity (ROE)

Net profit attributable to owners expressed as a percentage of average ordinary shareholders' equity.

Reverse Repurchase Agreement

Transaction involving the purchase of securities by a bank or a dealer and resale back to the seller at a future date at a specified price.

Risk-Weighted Assets

The sum total of assets as per the Statement of Financial Position and the credit equivalent of assets that are not on the Statement of Financial Position multiplied by the relevant risk weighting factors.

S

Segment Reporting

Disclosure of bank's assets, income and other information, broken down by activity and geographical area.

Specific Impairment Provisions

Impairment is measured individually for loans that are individually significant to the Bank.

Subsidiary

An entity that is controlled by another entity.

Substance Over Form

The consideration that the accounting treatment and presentation of Financial Statements of transactions and events should be governed by their substance and financial reality and not merely by legal form.

T

Tier I Capital (Core Capital)

Core capital representing permanent shareholders' equity and reserves created or increased by appropriations of retained earnings or other surpluses.

Tier II Capital (Supplementary 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.

U

Unit Trust

An undertaking formed to invest in securities under the terms of a trust deed.

Y

Yield to Maturity (YTM)

Discount rate at which the present value of future cash flows would equal the security's current price.

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ABBREVIATIONS

| | |
|--------|---|
| AGM | Annual General Meeting |
| AFS | Available-for-sale |
| AMA | Advanced Measurement Approaches |
| ALCO | Assets & Liabilities Committee |
| BAC | Board Audit Committee |
| BCC | Board Credit Committee |
| BCMCS | Business Continuity Management Steering Committee |
| BCP | Business Continuity Plan |
| BCBS | Basel Committee on Banking Supervision |
| BHRRC | Board Human Resources & Remuneration Committee |
| BIA | Basic Indicator Approach |
| BIC | Board Investment Committee |
| BIS | Bank for International Settlements |
| BIRMC | Board Integrated Risk Management Committee |
| BNC | Board Nomination Committee |
| BRPTRC | Board Related Party Transactions Review Committee |
| BTC | Board Technology Committee |
| CAR | Capital Adequacy Ratio |
| CASL | Institute of Chartered Accountants of Sri Lanka |
| CBSL | Central Bank of Sri Lanka |
| CCB | Capital Conservation Buffer |
| CCR | Counterparty Credit Risk |
| CEO | Chief Executive Officer |
| CFM | Close Family Members |
| CFO | Chief Financial Officer |
| COO | Chief Operating Officer |
| CPC | Credit Policy Committee |
| CRAB | Credit Rating Agency of Bangladesh |
| CRM | Credit Risk Mitigation |
| CRO | Chief Risk Officer |
| CSE | Colombo Stock Exchange |
| DRP | Disaster Recovery Plan |
| EAR | Earning at Risk |
| ECMN | Executive Committee on Monitoring NPA |
| EGM | Extraordinary General Meeting |
| EIRMC | Executive Integrated Risk Management Committee |
| ESOP | Employee Share Ownership Plan |
| EVE | Economic Value of Equity |
| FIS | Fixed Income Securities |
| FS | Financial Statements |
| FX | Foreign Exchange |
| FY | Financial Year |
| GDP | Gross Domestic Product |
| GOSL | Government of Sri Lanka |
| GRI | Global Reporting Initiatives |
| HFT | Held-for-trading |
| HR | Human Resources |
| HTM | Held-to-maturity |
| ICAAP | Internal Capital Adequacy Assessment Process |
| IMF | International Monetary Fund |
| IRMD | Integrated Risk Management Department |
| IRR | Interest Rate Risk |
| IRRBB | Interest Rate Risk in Banking Books |
| ISC | Information Security Council |
| ISMS | Information Security Management System |
| KCRI | Key Risk Indicators |
| KIRI | Key IT Risk Indicators |
| KORI | Key Operational Risk Indicators |
| KMP | Key Management Personnel |
| LCB | Licensed Commercial Bank |
| LCR | Liquidity Coverage Ratio |
| LSB | Licensed Specialised Bank |
| LTV | Loan to Value Ratio |
| MATs | Management Action Triggers |
| MRMU | Market Risk Management Unit |
| NII | Net Interest Income |
| NIM | Net Interest Margin |
| NOP | Net Opening Position |
| NPA | Non-Performing Assets |
| NPL | Non-Performing Loans |
| OCI | Other Comprehensive Income |
| ORMS | Operational Risk Management System |
| ORMU | Operational Risk Management Unit |
| PAT | Profit After Tax |
| PBT | Profit Before Tax |
| RAS | Risk Appetite Statement |
| RCSA | Risk Control Self Assessment |
| ROA | Return on Assets |
| ROE | Return on Equity |
| RPT | Related Party Transactions |
| RSA | Rate Sensitive Assets |
| RSL | Rate Sensitive Liabilities |
| RWA | Risk Weighted Assets |
| SA | Standardised Approach |
| SEC | Securities and Exchange Commission of Sri Lanka |
| SME | Small and Medium Enterprise |
| TMO | Treasury Middle Office |
| SLAR | Statutory Liquid Assets Ratio |
| UNGC | United Nations Global Compact |
| VaR | Value at Risk |
| YoY | Year-on-Year |

NOTICE OF MEETING – ANNUAL GENERAL MEETING

Notice is hereby given that the Forty-Eighth (48th) Annual General Meeting (AGM) of the Commercial Bank of Ceylon PLC (the 'Company') will be held at the Cinnamon Grand Hotel, 'Oak Room', No. 77, Galle Road, Colombo 03, on **Thursday, March 30, 2017 at 2.00 p.m.** for the following purposes:

1. To receive and consider the Annual Report of the Board of Directors on the affairs of the Company, the Statement of Compliance and the Financial Statements for the year ended December 31, 2016 together with the Report of the Auditors thereon.
2. To declare a dividend as recommended by the Board of Directors and to consider and if thought fit, to pass the following resolutions:
 - (i) **To consider and if thought fit to pass the following resolution by way of an ordinary resolution pertaining to the Declaration of a final dividend and approval of its method of satisfaction. [To be passed only by the ordinary (voting) shareholders]. [Dividend Resolution No. 1]**

THAT a final dividend of Rs. 2/- per issued and fully-paid ordinary (voting) and (non-voting) share constituting a total sum of Rs. 1,783,305,054/- based on the issued ordinary (voting) and (non-voting) shares as at February 21, 2017 [subject however to necessary amendments being made to such amount to include the dividends pertaining to the options that may be exercised by employees under the Commercial Bank of Ceylon PLC (the 'Company') ESOP schemes] be and is hereby declared for the financial year ended December 31, 2016 on the issued and fully-paid ordinary (voting) and (non-voting) shares of the Company;

THAT such dividend so declared be paid out of exempt dividends received (if any), dividends received on which Withholding Tax has already been paid by the companies from which such dividends are received (if any), and the balance out of the profits of the Company, which balance would be liable to a Withholding Tax of ten percent (10%) as per the clarification obtained from the Department of Inland Revenue dated February 27, 2017;

THAT the shareholders entitled to such dividend would be those shareholders [both ordinary (voting) and (non-voting)], whose names have been duly registered in the Shareholders' Register maintained by the Registrars of the

Company [i.e. SSP Corporate Services (Pvt) Ltd., No. 101, Inner Flower Road, Colombo 03] and also those shareholders whose names appear on the Central Depository Systems (Pvt) Ltd. ('CDS') as at end of trading on the date on which the requisite resolution of the shareholders in regard to the final dividend is passed ('entitled shareholders');

THAT subject to the shareholders (a) waiving their pre-emptive rights to new share issues; and (b) approving the proposed allotment and issue of new ordinary (voting) and (non-voting) shares by passing the resolutions set out in items 2 (ii) and 2 (iii) below, the declared final dividend of Rs. 2/- per issued and fully-paid ordinary (voting) and (non-voting) share, be distributed and satisfied by the allotment and issue of new ordinary (voting) and (non-voting) shares (the 'distribution scheme') based on the share prices of ordinary (voting) and (non-voting) shares as at February 21, 2017 in the manner following:

- The allotment and issue of new ordinary (voting) and (non-voting) shares in satisfaction of the total dividend entitlement amounting to a sum of Rs. 1,783,305,054/- (less any Withholding Tax).

THAT accordingly and subject to the approval of the shareholders being obtained in the manner aforementioned the implementation of the said distribution scheme shall be by way of the allotment and issue of new shares:

The total sum of:

- Rs. 1,668,879,748/- (subject however to necessary amendments being made to such amount to include the dividend payable on the options that may be exercised by employees under the Company's ESOP schemes) to which the ordinary (voting) shareholders are entitled (less any Withholding Tax); and
- Rs. 114,425,306/- to which the ordinary (non-voting) shareholders are entitled (less any Withholding Tax),

shall be satisfied by the allotment and issue of new ordinary (voting) and (non-voting) shares to the entitled shareholders of the ordinary (voting) and (non-voting) shares respectively, on the basis of the following ratios:

- 01 new fully-paid ordinary (voting) share for every 79.3888902155 existing issued and fully-paid ordinary (voting) shares calculated on the basis of the market value of the ordinary (voting) shares as at the end of trading on February 21, 2017; and

- 01 new fully-paid ordinary (non-voting) share for every 63.3333809335 existing issued and fully-paid ordinary (non-voting) shares calculated on the basis of the market value of the ordinary (non-voting) shares as at the end of trading on February 21, 2017.

THAT the ordinary (voting) and (non-voting) residual share fractions, respectively, arising in pursuance of the aforementioned allotment and issue of new ordinary (voting) and (non-voting) shares, be aggregated, and the ordinary (voting) and (non-voting) shares, respectively, arising consequent to such aggregation be allotted to a Trustee to be nominated by the Board of Directors of the Company, and that the Trustee so nominated and appointed be permitted to hold the said shares in trust until such shares are sold by the Trustee on the trading floor of the Colombo Stock Exchange, and that the net sale proceeds thereof be donated to a charity or charities approved by the Board of Directors of the Company;

THAT the new shares to be issued in pursuance of the said distribution scheme constituting a total issue of 10,510,789 new ordinary (voting) shares, based on the issued and fully-paid ordinary (voting) shares as at February 21, 2017, (subject however to the necessary amendments being made to such number to include the dividend on the options that may be exercised by the employees under the Company's ESOP schemes) and 903,357 new ordinary (non-voting) shares based on the issued and fully-paid ordinary (non-voting) shares as at February 21, 2017 shall, immediately consequent to due allotment thereof to the entitled shareholders rank equal and *pari passu* in all respects with the existing issued and fully paid ordinary (voting) shares and the existing issued and fully-paid ordinary (non-voting) shares of the Company respectively including the entitlement to participate in any dividend that may be declared after the date of allotment thereof and shall be listed on the Colombo Stock Exchange; and

THAT the new ordinary (voting) and (non-voting) shares to be so allotted and issued shall not be eligible for the payment of the dividend declared hereby and which dividend shall accordingly be payable only on the 834,439,874 existing issued and fully-paid ordinary (voting) shares as at February 21, 2017 and 57,212,653 existing

issued and fully-paid ordinary (non-voting) shares as at February 21, 2017 (subject to amendments thereto to include the shares arising on the options that may be exercised by the employees under the Company's ESOP schemes).

(ii) Waiver of Pre-emption Rights [Dividend Resolution No. 2]:

Subject to the passing of the Ordinary Resolution set out in Dividend Resolution No. 1 above, to consider and if thought fit to pass the following Resolution by way of an Ordinary Resolution (To be passed by a separate vote of the ordinary (voting) shareholders and of the ordinary (non-voting) shareholders respectively):

THAT the pre-emptive right to a new issue of shares provided for by Article 9 A of the Articles of Association of Commercial Bank of Ceylon PLC (the 'Company'), be and is hereby waived in respect of the following proposed issue of new shares to be effected by the Company for purposes of satisfying the final dividend for the year ended December 31, 2016:

"The allotment and issue of 10,510,789 new ordinary (voting) shares (subject however to the necessary amendments being made to such number to include the dividend on the options that may be exercised by the employees under the Company's ESOP schemes), and 903,357 new ordinary (non-voting) shares credited as fully-paid to shareholders registered in the Company's Share Register and on the Central Depository Systems (Pvt) Ltd. ('CDS') as at the end of trading on the day when the relevant resolutions to be passed by shareholders are, in fact, duly passed by shareholders ('entitled shareholders') and which new shares shall rank equal and *pari passu* with the existing issued and fully paid ordinary (voting) and (non-voting) shares of the Company including the right to participate in any dividend which may be declared after the date of allotment of such shares".

(iii) Approval of an Issue of ordinary (voting) and (non-voting) shares (Dividend Resolution No. 3):

Subject to the passing of the Ordinary Resolution set out in Dividend Resolution No. 1 above, to consider and if thought fit to pass the following resolution by way of a Special

Resolution [To be passed by a separate vote of the ordinary (voting) shareholders and of the ordinary (non-voting) shareholders respectively]:

THAT the proposed allotment and issue of 10,510,789 new ordinary (voting) shares [subject however to the necessary amendments being made to such number to include the dividend on the options that may be exercised by the employees under the Commercial Bank of Ceylon PLC (the 'Company') ESOP schemes], and 903,357 new ordinary (non-voting) shares credited as fully paid to shareholders registered in the Share Register of the Company and on the Central Depository Systems (Pvt) Ltd. ('CDS') as at the end of trading on the day when the relevant resolutions to be passed by shareholders in relation to the final dividend are, in fact, duly passed by shareholders ('entitled shareholders') and which new shares shall rank equal and *pari passu* with the existing issued and fully-paid ordinary (voting) and (non-voting) shares of the Company including the right to participate in any dividend which may be declared after the date of allotment of such shares be and is hereby approved in pursuance of Section 99 of the Companies Act No. 07 of 2007 and Article 10 of the Articles of Association of the Company; and

THAT accordingly the Company's management be and is hereby authorised to take all necessary steps to give effect to the aforesaid proposed issue of new ordinary (voting) and (non-voting) shares of the Company.

3. To re-elect/elect the following Directors who, in terms of the Company's Articles of Association, retire by rotation or otherwise as given below:
 - (i) To re-elect Mr. M.P. Jayawardena who retires by rotation in terms of Article 86 of the Articles of Association
 - (ii) To re-elect Prof. A.K.W. Jayawardane who retires by rotation in terms of Article 86 of the Articles of Association
 - (iii) To elect Mr. L.D. Niyangoda who retires by rotation in terms of Article 92 of the Articles of Association
 - (iv) To elect Ms. N.T.M.S. Cooray who retires in terms of Article 92 of the Articles of Association
 - (v) To elect Mr. G.S. Jadeja who retires in terms of Article 92 of the Articles of Association

4. (a) To re-appoint Messrs KPMG, Chartered Accountants, as recommended by the Board of Directors as the Company's Auditors for the financial year ending December 31, 2017; and
 - (b) To authorise the Board of Directors to determine the remuneration of the Auditors for the financial year ending December 31, 2017.
5. To authorise the Board of Directors to determine donations for the year 2017.

By Order of the Board of Commercial Bank of Ceylon PLC,



Mrs. Ranjani Gamage
Company Secretary

March 08, 2017
Colombo

Notes

- (i) A duly registered and entitled holder of the Company's ordinary (voting) shares is entitled to attend, speak and vote at the AGM and is entitled to appoint a proxyholder to attend, speak and vote in his/her stead.
- (ii) A duly registered and entitled holder of the Company's ordinary (non-voting) shares is entitled only to attend and speak at the AGM and to vote only on the resolutions set out in items 2 (ii) and 2 (iii) of the Notice of Meeting. Such a shareholder is entitled to appoint a proxyholder to attend and speak on his/her behalf and to vote only on the resolutions set out in items 2 (ii) and 2 (iii) of the Notice of Meeting.
- (iii) A proxyholder need not be a shareholder of the Company.
- (iv) A Form of Proxy is sent along with this Report. The completed Form of Proxy should be deposited at the Registered Office of the Company, 'Commercial House', No. 21, Sir Razik Fareed Mawatha, Colombo 01, not less than forty-eight (48) hours before the time appointed for the holding of the AGM.

CIRCULAR TO THE SHAREHOLDERS ON THE FINAL DIVIDEND FOR 2016



Dear Shareholder/s,

Final Dividend for the year ended December 31, 2016 to be Satisfied by the Allotment and Issue of New Shares

The Board of Directors of Commercial Bank of Ceylon PLC (the 'Company'), is pleased to inform its shareholders that from and out of the Company's profits for the financial year ended December 31, 2016 a final dividend distribution of Rs. 2/- per each existing issued and fully-paid ordinary (voting) and (non-voting) share is recommended for the financial year ended December 31, 2016 for due declaration by the shareholders at the Annual General Meeting ('AGM') to be held on March 30, 2017.

The Board of Directors is confident that the Company will be able to satisfy the solvency test set out in Section 57 of the Companies Act No. 07 of 2007 ["CA 2007"] immediately post-payment of such dividend. A certificate of solvency has been provided by the Company's Auditors, Messrs KPMG, Chartered Accountants.

Subject to obtaining the approval of the shareholders, the said dividend will be satisfied in accordance with a distribution scheme whereby new ordinary (voting) and (non-voting) shares will be allotted and issued, in satisfaction of the remaining dividend entitlement, constituting a total sum of Rs. 1,783,305,054/- based on the issued and fully-paid ordinary (voting) and (non-voting) shares of the Company as at February 21, 2017 [subject however to necessary amendments being made to such sum to accommodate the dividend payable on the options that may be exercised by employees under the Company's ESOP schemes].

Accordingly, and in pursuance of the aforesaid distribution scheme, the Company proposes to issue:

- 10,510,789 new ordinary (voting) shares, calculated based on the issued and fully-paid ordinary (voting) shares as at February 21, 2017 [subject however to necessary amendments being made to such number to include the dividend on the options that may be exercised by employees under the Company's ESOP schemes], and on the basis of their market value (closing price) as at the end of trading on February 21, 2017; and
- 903,357 new ordinary (non-voting) shares calculated based on the issued and fully-paid ordinary (non-voting) shares as at February 21, 2017 and on the basis of their market value (closing price) as at the end of trading on February 21, 2017.

The said shares shall be issued in the following ratios to the entitled shareholders:

- One new fully-paid ordinary (voting) share for every 79.3888902155 existing issued and fully-paid ordinary (voting) shares calculated on the basis of the market value of the ordinary (voting) shares as at the end of trading on February 21, 2017; and
- One new fully-paid ordinary (non-voting) share for every 63.3333809335 existing issued and fully-paid ordinary (non-voting) shares calculated on the basis of the market value of the ordinary (non-voting) shares as at the end of trading on February 21, 2017.

The above share ratio is based on a value of Rs. 142.90 per ordinary (voting) share and Rs. 114.00 per ordinary (non-voting) share [subject to ten percent (10%) Withholding Tax, as per the clarification dated February 27, 2017 obtained from the Department of Inland Revenue] as at the end of trading on February 21, 2017. The Board of Directors is satisfied that the aforementioned values which constitutes the consideration for which the new shares are to be allotted and issued is fair and reasonable to the Company and to all its existing shareholders.

Entitled Shareholders

Shareholders entitled to participate in the said dividend (the 'entitled shareholders') are those who are duly registered in the Company's Share Register and also those shareholders whose names appear on the Central Depository Systems (Pvt) Ltd. ('CDS') as at the end of trading on the date on which the requisite resolution of the shareholders in this regard is duly passed.

In calculating the number of shares held by a shareholder as at the relevant date for the proposed allotment and issue of new shares, the shareholding of the shareholder as appearing in the CDS and the Shareholders' Register maintained by the Registrars of the Company (SSP Corporate Services (Pvt) Ltd., No. 101, Inner Flower Road, Colombo 03) will not be aggregated. However, if a shareholder holds shares with multiple stock brokers, the shares held with multiple stock brokers will be aggregated for calculation purposes, and the shares arising as a result of the proposed issue and allotment of new shares will be uploaded proportionately to the respective CDS accounts held with each broker. The Company has obtained the approval in principle of the Colombo Stock Exchange ('CSE') for the proposed allotment and issue of new shares.

Residual Fractions of Shares

The residual fractions arising from the aforementioned allotment and issue of new ordinary (voting) and (non-voting) shares respectively, will be aggregated and the shares arising consequent thereto will, subject to receiving the approval of the shareholders therefor, be allotted to a Trustee to be nominated by the Board of Directors. The Trustee so nominated, will hold the said shares in trust until such shares are sold by the Trustee on the trading floor of the CSE. The net sale proceeds arising therefrom shall, subject to receiving the approval of the shareholders therefor, be distributed to a charity/charities approved by the Board of Directors. The sale of such shares will be effected by the Company within a reasonable period of time, following the date on which the approval of the shareholders has been obtained in this regard.

Status of the New Shares

The new ordinary (voting) and (non-voting) shares to be so issued, immediately consequent to due allotment thereof to the entitled shareholders, shall rank equal and *pari passu* in all respects with the existing issued and fully-paid ordinary (voting) and (non-voting) shares, respectively, of the Company.

Listing/Exchange Control Approval

An application has been made to the CSE for listing the new ordinary (voting) and (non-voting) shares on the official list of the CSE. This application has been approved 'in principle' by the CSE. The Company will obtain approval of the Controller of Exchange in principle for the allotment and issue of the new ordinary (voting) and (non-voting) shares to the Company's non-resident shareholders, where applicable.

Shareholder Approvals

The proposed method of satisfying the abovementioned final dividend is subject to shareholders granting approval therefor by passing the resolutions set out in the attached Notice of Meeting pertaining to the following matters:

- Authorisation to satisfy the final dividend by an allotment and issue of new shares

Article 124 of the Company's Articles of Association provides, in effect, that, subject to the CA 2007 the Board is empowered to pay a dividend or otherwise make a distribution in whole or in part by the distribution of specific assets and in particular of paid up shares. In pursuance of principles of transparency, the Board seeks the authorisation of shareholders for the satisfaction of the final dividend by the issue of new ordinary (voting) and (non-voting) shares in the manner set out above. The relevant ordinary resolution to be passed by the shareholders in this regard is set out in item 2(i) of the attached Notice of Meeting.

- Waiver of pre-emption rights to new share issues [Article 9 A]:

In terms of Article 9 A of the Company's Articles of Association, any issue of shares beyond 500,000 shares must be first offered to the shareholders in proportion to their holding at the time of the offer, unless otherwise authorised by an ordinary resolution of the Company.

As mentioned previously, the final dividend is proposed to be satisfied, by the allotment and issue of new ordinary (voting) and (non-voting) shares in the manner set out above and on the application of the abovementioned ratio. The said allotment and issue of new shares would accordingly be in excess of 500,000 shares. As such, the authorisation of shareholders is sought under and in terms of the abovementioned Article 9 A for the waiver by shareholders of their pre-emption rights to the new shares to be issued exceeding 500,000 ordinary (voting) and (non-voting) shares. The relevant ordinary resolution to be passed by the shareholders in this regard is set out in item 2 (ii) of the attached Notice of Meeting.

- Alteration of Shareholder Rights [Section 99 of the CA 2007 and Article 10 of the Articles of Association]:

The Company is required, in compliance with the above provisions, to seek shareholder approval by a special resolution for the proposed method of satisfaction of the final dividend by an allotment and issue of new ordinary (voting) and (non-voting) shares in the manner set out above. The relevant special resolution to be passed by the shareholders in this regard is set out in item 2 (iii) of the attached Notice of Meeting.

Confirmation of Compliance

The Board of Directors hereby confirms that the allotment and issue of new shares is in compliance with the Articles of Association of the Company, the Listing Rules of the CSE and the provisions of the CA 2007.

Allotment of the New Shares

The Board of Directors emphasises that the aforementioned allotment and issue of new shares is in satisfaction of the final dividend for the year ended December 31, 2016 and shall be dependent on and subject to the shareholders passing the requisite resolutions.

Uploading of Shares into CDS Accounts

In the event that the requisite resolution declaring the dividend [including its manner of satisfaction thereof] by way of the issue and allotment of new shares is passed by the shareholders, the accounts of the shareholders whose shares are deposited in the CDS would be directly uploaded with the new shares to the extent that such shareholder has become entitled thereto. The shares would be uploaded within seven market days from and excluding the date on which the requisite resolutions are passed. If a shareholder holds multiple CDS accounts the total entitlement will be directly deposited to the respective CDS accounts proportionately. Pursuant to a Direction issued by the Securities and Exchange Commission of Sri Lanka ('SEC') pertaining to the de-materialisation of listed securities, the shareholders who hold shares in scrip form (i.e. Share Certificates) as per the Share Register maintained by the Registrars of the Company, will not be issued Share Certificates for the new shares allotted and issued in their favour. Such shareholders are accordingly requested to open an account with the CDS and to deposit their Share Certificates in the CDS prior to the date of the AGM of the Company. This will enable the Company to deposit the new shares directly into the shareholder's CDS Account.

If a shareholder fails to deposit his/her existing ordinary (voting) and/or (non-voting) shares in the CDS prior to the date of the AGM, such shareholder's entitlement of new ordinary (voting) and/or (non-voting) shares will be deposited by the Company after such shareholder has opened a CDS Account and has informed the Company's Registrars in writing of his/her CDS account number. Until such CDS account is opened by a shareholder as aforementioned, the new ordinary (voting) and (non-voting) shares that are allotted in his /her favour will be registered in such shareholder's account in the Share Register maintained by the Registrars of the Company [subject to compliance with Exchange Control requirements as may be applicable in respect of non-resident shareholders]. Consequent to the opening of the CDS account by such shareholder, the new shares will be credited to such CDS account. Direct uploads pertaining to written requests received from shareholders to deposit such shares will be done on a weekly basis.

AGM

Attached hereto is the Annual Report comprising the Notice convening the AGM for March 30, 2017 and setting out in item 2 thereof, the relevant resolutions to be passed by the shareholders in the above regard.

Form of Proxy

Shareholders who are unable to attend the AGM in person are entitled to appoint a proxy to attend and speak and also vote on their behalf, depending on their voting rights. If you wish to appoint such a proxy, kindly complete and return the enclosed Form of Proxy (in accordance with instructions specified therein) to the Registered Office of the Company, not less than 48 hours before the time scheduled for the holding of the AGM.

Yours faithfully,

By Order of the Board of Commercial Bank of Ceylon PLC

(Sgd.)

Mrs. Ranjani Gamage
Company Secretary

March 08, 2017

FORM OF PROXY (VOTING SHAREHOLDERS) ANNUAL GENERAL MEETING

I/We of
 being a shareholder/s of Commercial Bank of Ceylon PLC hereby appoint
 (NIC No.) of
 whom failing:

- | | |
|---|--------------|
| Mr. Kankanam Gamage Don Dharmasena Dheerasinghe | whom failing |
| Mr. Mahinda Preethiraj Jayawardena | whom failing |
| Mr. Jegatheesan Durairatnam | whom failing |
| Mr. Sembakuttige Swarnajothi | whom failing |
| Mr. Sivakrishnarajah Renganathan | whom failing |
| Prof. Ananda Kithsiri Wijenayaka Jayawardane | whom failing |
| Mr. Kumbukage Dharmasiri | whom failing |
| Mr. Lakshman Dushyantha Niyangoda | whom failing |
| Ms. Nawalage Therese Manouri Shiromal Cooray | whom failing |
| Mr. Giriraj Sinh Jadeja | |

as my/our Proxyholder to represent me/us and to speak at the meeting and to vote on a show of hands or on a poll on my/our behalf as indicated below at the Forty-Eighth (48th) Annual General Meeting (AGM) of Commercial Bank of Ceylon PLC to be held on Thursday, March 30, 2017 and at any adjournment thereof and at every poll which may be taken in consequence thereof. (Please indicate your preference with a '✓' in the relevant box.)

- | | For | Against |
|---|--------------------------|--------------------------|
| 1. To receive and consider the Annual Report of the Board of Directors on the affairs of the Company, the Statement of Compliance and the Financial Statements for the year ended December 31, 2016 together with the Report of the Auditors thereon. | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. To declare a dividend as recommended by the Directors and to consider and if thought fit, to pass the following resolutions set out in the attached Notice of Meeting: | | |
| i. Declaration of a final dividend and approval of its method of satisfaction [Dividend Resolution No. 1] | <input type="checkbox"/> | <input type="checkbox"/> |
| ii. Waiver of Pre-emption Rights [Dividend Resolution No. 2] | <input type="checkbox"/> | <input type="checkbox"/> |
| iii. Approval of an issue of ordinary (voting) and (non-voting) shares [Dividend Resolution No. 3] | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. To re-elect/elect the following Directors who, in terms of the Company's Articles of Association, are retiring by rotation or otherwise as given below: | | |
| i. To re-elect Mr. M.P. Jayawardena who retires by rotation in terms of Article 86 of the Articles of Association | <input type="checkbox"/> | <input type="checkbox"/> |
| ii. To re-elect Prof. A.K.W. Jayawardane who retires by rotation in terms of Article 86 of the Articles of Association | <input type="checkbox"/> | <input type="checkbox"/> |
| iii. To elect Mr. L.D. Niyangoda who retires by rotation in terms of Article 92 of the Articles of Association | <input type="checkbox"/> | <input type="checkbox"/> |
| iv. To elect Ms. N.T.M.S. Cooray who retires in terms of Article 92 of the Articles of Association | <input type="checkbox"/> | <input type="checkbox"/> |
| v. To elect Mr. G.S. Jadeja who retires in terms of Article 92 of the Articles of Association | <input type="checkbox"/> | <input type="checkbox"/> |
| 4. (a) To re-appoint Messrs KPMG, Chartered Accountants as recommended by the Board of Directors, as Auditors to the Company for the Financial Year ending December 31, 2017. | <input type="checkbox"/> | <input type="checkbox"/> |
| (b) To authorise the Board of Directors to determine the remuneration of the Auditors for the Financial Year ending December 31, 2017. | <input type="checkbox"/> | <input type="checkbox"/> |
| 5. To authorise the Board of Directors to determine donations for the year 2017. | <input type="checkbox"/> | <input type="checkbox"/> |

Signed on this day of Two Thousand and Seventeen.

.....

 Folio Number Signature/s of shareholder/s NIC/PP/Co. Reg. No. of shareholder/s

Notes

- (i) Instructions as to completion of this Form of Proxy are given overleaf.
- (ii) As regards voting on the Resolutions indicated in the Form of Proxy, if no words are struck out or there is in the view of the Proxyholder doubt (by reason of the way in which the instructions in the Form of Proxy have been stated by the Shareholder) as to the way in which the Proxyholder should vote, the Proxyholder will vote as he/she thinks fit.
- (iii) If the Form of Proxy is signed by an attorney, the relative Power of Attorney (POA) should accompany the completed Form of Proxy for registration in the event such POA has not already been registered with the Company.
- (iv) If the shareholder is a company or a corporate body, the Form of Proxy should be executed under its common seal or in such other manner as provided for in its Constitutional Documents, if any, or be signed by its attorney or by an officer on behalf of the company/corporate body, in accordance with its Articles of Association/Statute.
- (v) Every alteration or addition to the Form of Proxy must be duly authenticated by the full signature of the shareholder signing the Form of Proxy. Such signature should as far as possible be placed in proximity to the alteration or addition intended to be authenticated.
- (vi) The use of the word 'Member/s' herein is a reference to 'Shareholder/s'.

Instructions as to Completion of Form of Proxy

- (a) Article 68 of the Articles of Association of the Company provides that: “An instrument appointing a proxy shall be in writing, and
- (i) In the case of an individual shall be signed by the appointor or by his attorney; or in the case of a corporation shall be either under the common seal or signed by its attorney or by an officer authorised to do so on behalf of the corporation. The Company may, but shall not be bound to require evidence of the authority of any such attorney or officer.
 - (ii) A proxy need not be a Member of the Company”.
- (b) In terms of Article 63 of the Articles of Association of the Company:
- “In the case of joint-holders of a share, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint-holders, and for this purpose, seniority shall be determined by the order in which the name stands in the Register of Members in respect of the joint holding”.
- (c) The full name and address of the Proxyholder and of the Shareholder appointing the Proxyholder should be entered legibly in the Form of Proxy.
- (d) The completed Form of Proxy should be deposited at the Registered Office of the Company, ‘Commercial House’, No. 21, Sir Razik Fareed Mawatha, Colombo 01, not less than forty-eight (48) hours before the time appointed for the holding of the Meeting.
- (e) Articles 57 to 60 of the Articles of Association of the Company, dealing with voting are quoted below, for information of Shareholders:

“57. Method of Voting

At any General Meeting, a resolution put to the vote of the Meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands) demanded by:

- (i) The Chairman of the Meeting; or
- (ii) Not less than five persons present in person or by attorney or representative or by proxy and entitled to vote; or
- (iii) A Member or Members present in person or by attorney or representative or by proxy and representing not less than one-tenth of the total voting rights of all the Members having the right to vote at the Meeting.

A demand for a poll may be withdrawn. Unless a poll be demanded (and the demand be not withdrawn), a declaration by the Chairman of the Meeting that a resolution has been carried or carried unanimously, or by a particular majority, or lost and an entry to that effect in the minute book, shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded for or against such resolution.

58. How a Poll is to be Taken

If a poll is duly demanded (and the demand be not withdrawn), it shall be taken in such manner (including the use of ballot or voting papers or tickets) as the Chairman of the Meeting may direct, and the result of the poll shall be deemed to be the resolution of the Meeting at which the poll was demanded. The Chairman may (and if so requested shall), appoint scrutineers and may adjourn the Meeting to some place and time fixed by him for the purpose of taking and declaring the result of the poll.

59. Chairman’s Casting Vote

In the case of an equality of votes, whether on a show of hands or poll, the Chairman of the Meeting at which the show of hands takes place or at which the poll is demanded shall be entitled to a second or casting vote.

60. Time for Taking a Poll

A poll demanded on the election of a Chairman of the Meeting or on a question of adjournment shall be taken forthwith. A poll demanded on any other question shall be taken either immediately or at such subsequent time (not being more than thirty days from the date of the Meeting) and place as the Chairman may direct. No notice need be given of a poll not taken immediately.”

REQUEST TO SHAREHOLDERS

SHAREHOLDERS ARE KINDLY REQUESTED TO INDICATE THE ‘FOLIO NUMBER’ APPEARING IN THE ADDRESS LABEL [PASTED ON THE ENVELOPE CONTAINING THE ANNUAL REPORT] IN THE SPACE PROVIDED FOR ‘FOLIO NUMBER’ IN THE FORM OF PROXY. THIS IS FOR THE CONVENIENCE OF THE REGISTRARS. PLEASE NOTE THAT NON-INDICATION OF THE ‘FOLIO NUMBER’ WILL NOT INVALIDATE THE FORM OF PROXY, UNDER ANY CIRCUMSTANCES.

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- (i) In the case of an individual shall be signed by the appointor or by his attorney; or in the case of a corporation shall be either under the common seal or signed by its attorney or by an officer authorised to do so on behalf of the corporation. The Company may, but shall not be bound to require evidence of the authority of any such attorney or officer.
 - (ii) A proxy need not be a Member of the Company”.
- (b) In terms of Article 63 of the Articles of Association of the Company:
“In the case of joint-holders of a share, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint-holders, and for this purpose, seniority shall be determined by the order in which the name stands in the Register of Members in respect of the joint holding”.
- (c) The full name and address of the Proxyholder and of the Shareholder appointing the Proxyholder should be entered legibly in the Form of Proxy.
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- (i) The Chairman of the Meeting; or
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- (iii) A Member or Members present in person or by attorney or representative or by proxy and representing not less than one-tenth of the total voting rights of all the Members having the right to vote at the Meeting.

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STAKEHOLDER FEEDBACK FORM

Dear Reader,

We welcome your valuable ideas/comments on our Annual Report.

To request information or submit a comment/query to the Bank, please provide the following details and return this page to –

The Company Secretary
Commercial Bank of Ceylon PLC
'Commercial House'
21, Sir Razik Fareed Mawatha
P.O. Box 856
Colombo 01
Sri Lanka

Name :

Permanent Mailing Address :

Contact Number/s

- Tel :

- Fax :

- e-mail :

Name of Company (If Applicable) :

Designation (If Applicable) :

Company Address (If Applicable) :

Queries/Comments

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Please tick (✓) the appropriate box

| | Yes | No |
|--|--------------------------|--------------------------|
| Would you like to receive soft copies of the Commercial Bank's Interim Financial Reports via e-mail? | <input type="checkbox"/> | <input type="checkbox"/> |
| Would you like to receive news and press releases of Commercial Bank via e-mail? | <input type="checkbox"/> | <input type="checkbox"/> |
| Would you like to receive any news on our products/services? | <input type="checkbox"/> | <input type="checkbox"/> |

CORPORATE INFORMATION

General

Name of Company

Commercial Bank of Ceylon PLC

Legal Form

A public limited liability Company incorporated in Sri Lanka on June 25, 1969 under the Companies Ordinance No. 51 of 1938 and quoted in the Colombo Stock Exchange in March 1970. The Company was re-registered under the Companies Act No. 07 of 2007. Commercial Bank of Ceylon PLC is a Licensed Commercial Bank under the Banking Act No. 30 of 1988.

Company Registration Number

PQ 116

Accounting Year End

December 31

Stock Exchange Listing

833,521,887 Ordinary voting shares and 57,212,653 Ordinary non-voting shares

50,718,000 Listed Unsecured Subordinated Redeemable Fixed Rate Debentures of Rs. 100/- each – 2016 October/2021 October

19,282,000 Listed Unsecured Subordinated Redeemable Fixed Rate Debentures of Rs. 100/- each – 2016 October/2026 October

44,303,400 Listed Unsecured Subordinated Redeemable Fixed Rate Debentures of Rs. 100/- each – 2016 March/2021 March

17,490,900 Listed Unsecured Subordinated Redeemable Fixed Rate Debentures of Rs. 100/- each – 2016 March/2026 March

Registered Office

'Commercial House',
No. 21, Sir Razik Fareed Mawatha,
P.O. Box 856,

Colombo 01, Sri Lanka.

Telephone (General):

2486000-3 (4 lines), 4486000,
7486000, 5486000, 2430420,

2336700, 2445010-15 (6 lines),
Tele-Banking: 2336633-5 (3 lines)

Facsimile: 2449889

SWIFT Code –

Sri Lanka: CCEYLKXL

SWIFT Code –

Bangladesh: CCEYBDDH

E-mail: email@combank.net

Web: <http://www.combank.net>

www.combank.lk

Head Office

'Commercial House',
No. 21, Sir Razik Fareed Mawatha,
P.O. Box 856,
Colombo 01, Sri Lanka.

Information Centre

Telephone: 2353333, 7353333

Tax Payer Identification Number (TIN)

124006007

Credit Ratings

Sri Lanka Operation

– AA(Ika) was re-affirmed by Fitch Ratings Lanka Ltd. in 2016

Bangladesh Operation

– AAA was re-affirmed by Credit Rating Information Services Ltd. in 2016

Compliance Officer

Mr. C.J. Wijethillake

Lawyers

Messrs Julius & Creasy,
No. 41, Janadhipathi Mawatha,
Colombo 01, Sri Lanka.

Auditors

KPMG
Chartered Accountants,
No. 32 A,
Sir Mohammed Macan Markar Mawatha,
Colombo 03, Sri Lanka.

Registrars

S S P Corporate Services (Pvt) Ltd.
No. 101, Inner Flower Road,
Colombo 03, Sri Lanka.
Telephone: 2573894, 2576871
Facsimile: 2573609

E-mail: sspsec@sltnet.lk

(Kindly direct any queries about the administration of the shareholding to the above Company)

Subsidiary and Associate Companies

Subsidiary Companies

Commercial Development Company PLC
ONEzero Company Ltd.
Serendib Finance Ltd.
Commex Sri Lanka S.R.L. – Italy
Commercial Bank of Maldives
Private Limited

Associate Companies

Equity Investments Lanka Ltd.
Commercial Insurance Brokers (Pvt) Ltd.

Board of Directors and Subcommittees

Board of Directors

Mr. K.G.D.D. Dheerasinghe –
Chairman

Mr. M.P. Jayawardena –
Deputy Chairman

Mr. J. Durairatnam –
Managing Director/CEO

Mr. S. Swarnajothi

Mr. S. Renganathan

Prof. A.K.W. Jayawardane

Mr. K. Dharmasiri

Mr. L.D. Niyangoda

(Appointed w.e.f. August 26, 2016)

Ms. N.T.M.S. Cooray

(Appointed w.e.f. September 19, 2016)

Mr. G.S. Jadeja

(Appointed w.e.f. September 19, 2016)

Company Secretary

Mrs. J.R. Gamage

Board Subcommittees

Mandatory Committees

Board Audit Committee

Mr. S. Swarnajothi –
Chairman

Prof. A.K.W. Jayawardane

Mr. K. Dharmasiri

Ms. N.T.M.S. Cooray

Board Integrated Risk Management Committee

Mr. M.P. Jayawardena –
Chairman

Mr. J. Durairatnam

Mr. S. Swarnajothi

Mr. K. Dharmasiri

Mr. L. D. Niyangoda

Board Nomination Committee

Mr. K.G.D.D. Dheerasinghe –
Chairman

Mr. M.P. Jayawardena

Mr. S. Swarnajothi

Mr. G.S. Jadeja

Board Human Resources and Remuneration Committee

Mr. K.G.D.D. Dheerasinghe –
Chairman

Mr. M.P. Jayawardena

Mr. S. Swarnajothi

Mr. J. Durairatnam (By Invitation)

Related Party Transactions Review Committee

Mr. K.G.D.D. Dheerasinghe –
Chairman

Mr. J. Durairatnam

Mr. S. Swarnajothi

Mr. S. Renganathan

Mr. L.D. Niyangoda

Voluntary Committees

Board Credit Committee

Mr. K.G.D.D. Dheerasinghe –
Chairman

Mr. J. Durairatnam

Mr. S. Renganathan

Prof. A.K.W. Jayawardane

Board Investment Committee

Mr. K.G.D.D. Dheerasinghe –
Chairman

Mr. J. Durairatnam

Mr. S. Renganathan

Mr. K. Dharmasiri

Mr. G.S. Jadeja

Board Technology Committee

Prof. A.K.W. Jayawardane –
Chairman

Mr. J. Durairatnam

Mr. S. Renganathan

Ms. N.T.M.S. Cooray



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