COMMERCIAL BANK

Banking on the Future

Commercial Bank of Ceylon PLC

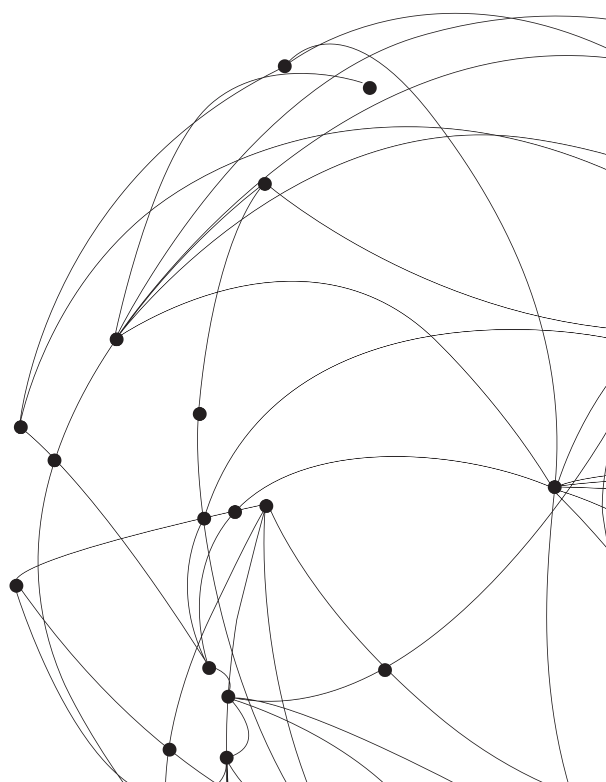
Annual Report 2017

Banking on the future

The future will be defined by the choices we make today. But as we said last year, there are hints and signs that grow ever stronger to indicate the sort of world that lies ahead for the banking industry.

It is fairly certain that the age unfolding will have at its centre – the customer...without whom we will cease to be, the power of evolving technology, the eclecticism of the innovative mind and an empathetic heart keeping us always on point.

Your Bank is fully focussed on such a horizon...in fact you could say we're banking on it!



TRANSCENDING THE MEDIUM

This Report is available in four mediums to cater to the different needs of our various readers.

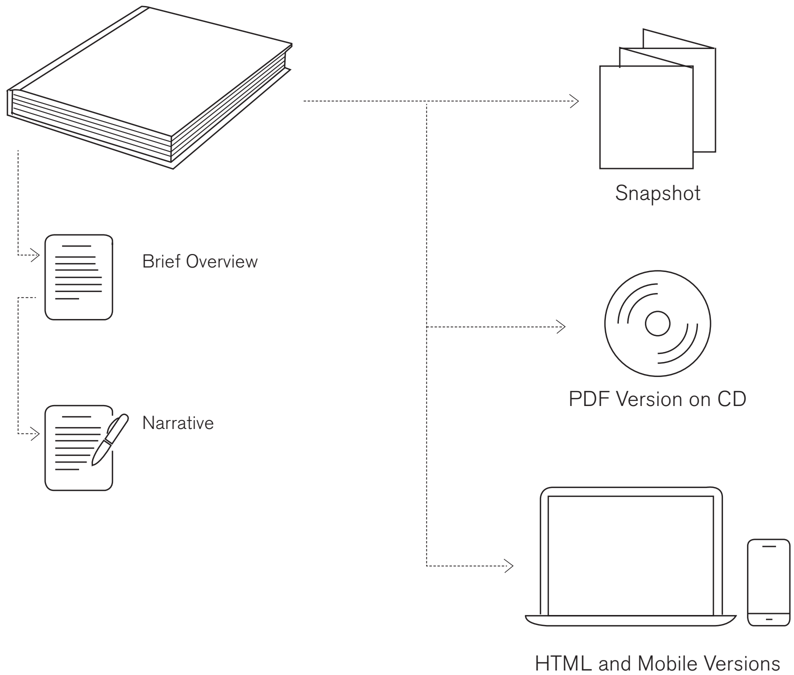
A limited number of printed annual reports have been produced to be despatched to those who have requested for the same. Readers who prefer the ease of accessing this Annual Report online through either a computer or mobile device can access our Online Annual Report.

A soft copy (PDF) version of the report is also available in CD (compact disk) format for those who would like to maintain an easily-portable digital version of the Report. The Annual Snapshot contains a concise summary of the Bank's performance during the year under review.

Reference to other pages within the report

Reference to further reading online

Reference to specific GRI Standard indicators on each page



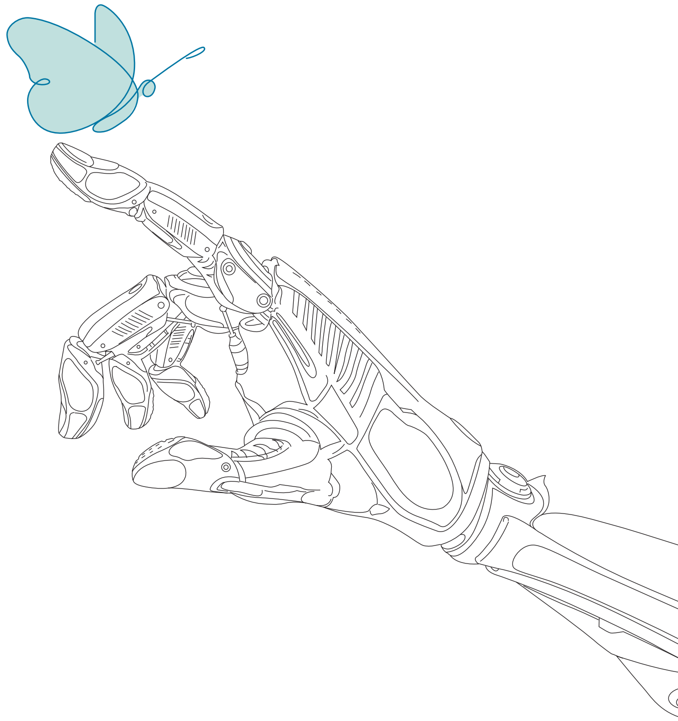
CONTENTS

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.



Report structure

The structure of this Annual Report comprises six parts that, together, give the astute reader a comprehensive picture of the Bank and its performance in 2017. These six sections are as depicted below:

Strategic Report 015
A helicopter view of our strategy, as explained through the five strategic imperatives we deployed to deliver value to stakeholders

Management Discussion and Analysis 049
A concise but thorough analysis of the year's operations against the operating environment and how we delivered value to and derived value from stakeholders across all capitals

Governance and Risk Management 105
An overview of how we balance stakeholder interests while conducting the affairs of the Bank, including the meticulous management of risks

Financial Reports 159
Primary Financial Statements together with supplementary notes prepared and presented in accordance with the applicable standards and regulations and the Auditor's opinion thereon

Annexes 333
Additional information on the Management Discussion and Analysis, Governance, and Risk and Capital Management Reports for reference

Supplementary Information 427
Further additional information on sustainability, our growth over the past decade, global connectivity etc. for convenience of the reader

INTRODUCTION TO THE 49TH ANNUAL REPORT

This Integrated Report is the 49th Annual Report of Commercial Bank of Ceylon PLC and covers the 12-month period from January 1, to December 31, 2017. It is consistent with our usual annual reporting cycle for financial and sustainability reporting.

How to read this Report

Taking into account investors' as well as regulators' calls for more clarity and concision in corporate reporting, we have employed a unique approach for this Report to meet the varying information needs of our stakeholders. Each main section begins with a brief overview, which then expands to include further details in a comprehensive narrative format.

The "three-minute reader" may wish to turn to pages 15, 49, 105, 159, 333, and 427 for a quick overview of the Bank's performance in key areas. Readers in search of a more detailed narrative are welcome to read the Annual Report from cover to cover or pick and choose the clearly identified sections of their choice to obtain a more comprehensive understanding of the Bank's progress during the year and the future potential.

Readers would also note that reading material (pages 4 – 158) and reference material (pages 159 – 454) have been clearly segregated to make the Report more reader-friendly.

Strategic orientation

Giving the reader a clear understanding of how the Bank plans to execute strategy (to the extent that it is possible to disclose such information), this Report is also structured according to the Bank's strategic imperatives. This structure highlights the plotted course of action that will propel the Bank forward and perpetuate the value creation process. It provides the reader with a clearer understanding of future direction in the wake of unfolding mega trends.

Irrespective of the method, information is central to effective investor engagement. This Annual Report provides investors with insights into the Bank's growth potential and the strategies by which the growth will be achieved.

Integrated thinking

We started integrated reporting in line with the IIRC Framework elements with our Annual Report for 2012. This has strengthened and reinforced integrated thinking across the Bank, leading to integration of various aspects making the Bank more sustainable in creating value over the long term by minimising risks, reducing compartmentalisation and dysfunctional behaviour, generating cost efficiencies, and making capital allocation more efficient. This not only integrated economic goals with those of society and environment, but also integrated the following aspects too, as you will find later in this Report:

- Business model to business opportunities in the market
- Strategy with the evolving business environment
- The organisation from a functional and team based one to an integrated one
- Service standards across all the channels leading to an integrated customer experience
- The Bank's key messages across all communication channels for greater clarity
- Software systems used to make them agile and speed up processes
- Information available across channels and products
- The Bank with other service providers such as telecoms and fintech firms

Non-financial information

It is now widely believed that non-financial information accounts for a substantial portion of the value of a corporate, as reflected in Price to Book Values higher than 1 time. The Bank is well aware that information needs of stakeholders are changing in keeping with the dynamic environment we operate in. Investors in particular are increasingly becoming interested in the future potential of the Bank than its past performance and non-financial information is becoming more and more relevant for ascertaining the future potential. Accordingly, the Bank has enhanced its disclosures of non-financial information in this Annual Report which will provide clarity on the Bank's path into the future.

Quality assurance

Through this Integrated Report, we set out to provide you with a holistic and meaningful picture of our business model, strategy, governance, performance, and future prospects. We also strive to illustrate the value created by the Bank in terms of non-financial resources such as human, natural, intellectual, and social and network capitals, in addition to financial capital. We do so in a credible and consistent manner facilitating clarity and comparability.

We have taken every effort to provide credible information with the aid of visual elements such as figures, graphs, and tables in a consistent manner facilitating clarity and comparability.

Qualitative criteria taken into account include:

- Completeness: We have included material impacts within and under the direct control of the Bank, impacts outside which are indirectly influenced through our engagement with stakeholders and broader sustainability initiatives undertaken through the Bank's own CSR Trust.
- Comparability: We have included performance of current period and previous reporting periods together with industry benchmarks where relevant and available.
- Accuracy and Consistency: We have inbuilt internal controls to facilitate traceability and verifiability of information.
- Clarity: We have used visual elements to facilitate understanding of the reader and to maintain brevity of the Report.
- Balance: We have taken every possible effort to present a balanced review of relevant material information.
- Credibility and Reliability: We have obtained external assurance on both financial and sustainability information from reputed assurance service providers.

Basis of preparation

For the past eight years information in the Bank's Annual Reports have been presented in line with the GRI Guidelines. This year the Bank decided to early adopt GRI Standards which will become effective from July 2018. In preparing this Report, we drew mainly on the concepts, principles and guidelines from the following sources:

- Global Reporting Initiative Sustainability Reporting Guidelines – GRI Standards (www.globalreporting.org)
- International Integrated Reporting Framework (www.theiirc.org)
- "A Preparer's Guide to Integrated Corporate Reporting", published by The Institute of Chartered Accountants of Sri Lanka (ICASL)

The Annual Report 2017 follows our most recent Report for the year ended December 31, 2016 for which you will find comparatives within this Report.

This Report has been prepared in accordance with the GRI Standards: Core option.

Report boundary

The Financial Statements depict the consolidated performance of the entire Group, including the six subsidiaries: Commercial Development Company PLC, ONEzero Company Ltd., Serendib Finance Ltd., Commex Sri Lanka S.R.L. Italy, Commercial Bank of Maldives Private Limited, and CBC Myanmar Microfinance Company Limited and the two associates: Equity Investments Lanka Ltd., and Commercial Insurance Brokers (Pvt) Ltd.

Reporting on the Bank's social and environmental impact within the Management Discussion and Analysis, however, generally excludes these entities, focusing instead on Commercial Bank of Ceylon PLC, the parent entity of the Group, which accounts for over 98% of the Group's revenue, assets, borrowings and employees. Where the contributions of other Group entities are mentioned they are referred to as Group or Consolidated.

Internal and external assessments of the Bank's operations in Sri Lanka and other countries such as Bangladesh are encompassed within the material aspects boundaries. The Bank always takes into account reasonable aspirations and expectations of the stakeholders and engages them in a myriad of ways and they have been taken into account in deciding on the information content of this Report. Information is presented in a sustainability context, covering topics that reflect the Bank's significant economic, environmental and social impacts that substantively influence stakeholder decisions. For your convenience, we have provided quantitative and qualitative data along with reliable external benchmarks wherever possible to ensure completeness and aid comparison and further analysis of information within this Report.

No significant changes in the organisation type, structure, ownership, supply chain, material topics, or topic boundaries have taken place during the year.

The Figure 01 on the right illustrates the guiding principles, regulations, codes, and Acts used for financial and narrative reporting; reporting on sustainability goals and practices; and the governance of the Bank.

No restatements were done of previously reported financial, social or environmental information.

External assurance

External Auditors, Messrs KPMG have assured the Group's Financial Statements. As required by the regulators, these Auditors are rotated every five years to ensure their independence and objectivity. KPMG was however given an additional year to conduct the audit for the year ended December 31, 2017 in order to ensure completion of the work relating to SLFRS 9 implementation, with the audit partner being rotated in the sixth year. The Bank's social and environmental processes have been assured by Messrs DNV GL Business Assurance Lanka (Pvt) Ltd. who represents DNV GL and performance indicators by Messrs KPMG.

Aside from their engagement as Independent Assurance Services providers of the Group, Commercial Bank of Ceylon PLC, the Board of Directors and the Management have no other relationship with Messrs KPMG, DNV GL Business Assurance Lanka (Pvt) Ltd., or DNV GL. 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. They worked with the external assurance providers on the report content.

Contact

We welcome your comments or questions on this Report and invite you to contact:

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Commercial Bank of Ceylon PLC
"Commercial House"
21, Sir Razik Fareed Mawatha
Colombo 1
Sri Lanka

Figure – 01

Financial Reporting
- Sri Lanka Accounting Standards
- Companies Act No. 07 of 2007

CA THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SRI LANKA

Narrative Reporting
- Integrated Reporting Framework

INTEGRATED REPORTING <IR>

Sustainability Reporting
- GRI Standards: Core option
- UNGC Principles and UN Sustainable Development Goals

Global Reporting Initiative™ THE GLOBAL COMPACT

Corporate Governance
- Banking Act Direction No. 11 of 2007
- Listing Rules of the Colombo Stock Exchange
- Code of Best Practice on Corporate Governance issued by the ICASL

Assurance
- Sri Lanka Auditing Standards
- Sri Lanka Standard on Assurance Engagements SLSAE 3000; Assurance Engagements other than Audits or Review of Historical Financial Information
- AccountAbility's AA1000 Assurance Standard 2008
- DNV GL's assurance methodology VeriSustain™

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.combank17.annualreports.lk

ABOUT THE BANK

Largest private sector commercial bank

Commercial Bank of Ceylon PLC is the largest private sector commercial bank and third-largest bank in Sri Lanka in terms of total assets. With a total asset base of Rs. 1.143 Tn. (USD 7.444 Bn.), accounting for 11% of sector assets, it is a Systemically Important Bank in the country. With a legacy of approximately 100 years and a history of 49 years in its present name, the Bank serves over three million customers with a staff strength of 4,982 employees both in Sri Lanka and in Bangladesh where the Bank has 19 branches. The Bank has a wide local and an international reach through a network of branches and ATMs, subsidiaries, a representative office, agency arrangements, Business Promotion Officers, and correspondent banking relationships.

International expansion of the Bank commenced with the acquisition of the Bangladesh operations of Crédit Agricole Indosuez in 2003 and continued since then with the Bank establishing subsidiaries in Italy, the Maldives, a representative office and a subsidiary in Myanmar and establishing agency arrangements and stationing its own Business Promotion Officers in several Middle Eastern countries for money remittance business.

Risk profile

With a risk profile that reflects a moderate risk appetite, a strong funding base, a comfortable level of liquidity, a solid domestic franchise, and a consistently solid performance, the Bank has been rated AA(lka), the highest rating for a local private sector bank by Fitch Ratings Lanka Ltd. with a stable outlook.

The Bank is well diversified across its four main business segments of personal banking, corporate banking, treasury and international operations. International operations in Bangladesh, Maldives, Italy, and Myanmar now account for 11% of total assets and 17.5% of profit before taxes. Demonstrating its strong domestic franchise, 74.35% of the total assets is funded by customer deposits.

Vibrant financial intermediation

Loans and receivables and deposits grew by over Rs. 100 Bn. for the third and second consecutive years respectively.

Loans and receivables to deposits ratio at 86.95% on average for the past five years with both credit and deposits growing in a commensurate manner, reflects the vibrancy of the Bank's financial intermediation and illustrates the optimum deployment of funding resources in the pursuit of productive assets. Current and savings accounts (CASA) make up 39.23% of the total deposits, the highest among the peer banks. Asset quality is one of the best among the industry.

Well capitalised

The Bank is well capitalised with a CET 1 ratio of 12.11% as at December 31, 2017 as against the regulatory minimum of 6.25% denoting capital strength and resilience.

Successful rights issue of ordinary shares in June 2017 that raised Rs. 10.144 Bn. towards CET 1 capital and profits retained for the year of Rs. 10.104 Bn. helped boost the capital.

The Bank had the highest market capitalisation of Rs. 133.274 Bn. (USD 868 Mn.), ranking fourth among all listed entities and also had the highest Price to Book Value of 1.26 times of its shares in the Banking and Finance Sector of the Colombo Stock Exchange as at December 31, 2017.

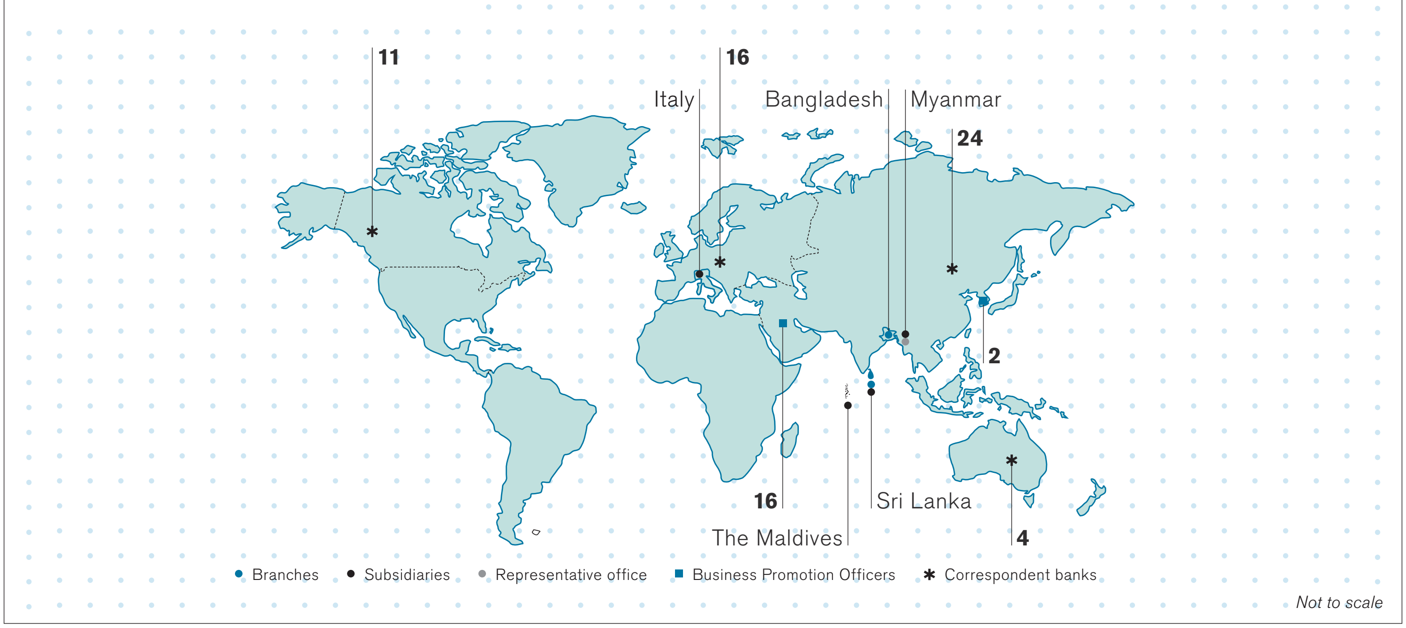
About the Group

The Bank has six subsidiaries, including a small non-bank financial institution and two associate companies (refer page 438 for Group Structure). The banking operations account for by far the largest share of Group assets and profits.

As demonstrated in this Report, the Bank clearly understands the evolving banking scenario and emerging risks associated with it and has a clear focus and strategy for its future growth.

There are approximately 9,800 ordinary voting shareholders of the Bank of whom DFCC Bank PLC (13.62%), entities related to the State including Employees Provident Fund, Employees Trust Fund Board, and Sri Lanka Insurance Corporation (20.62%), Mr Y S H I Silva (7.59%), and International Finance Corporation (4.45%) are the major shareholders.

Our regional presence and global connectivity Figure – 02



A snapshot of the Bank's profile

Figure – 03

Rs. 16.581 Bn.
PAT

Rs. 17.26
EPS

1.54%
ROA

17.88%
ROE

Over 3 Mn.
Customers

4,982
Employees

Rs. 107.54
NAV

Rs. 6.50
DPS

Rs. 133 Bn.
Market capitalisation

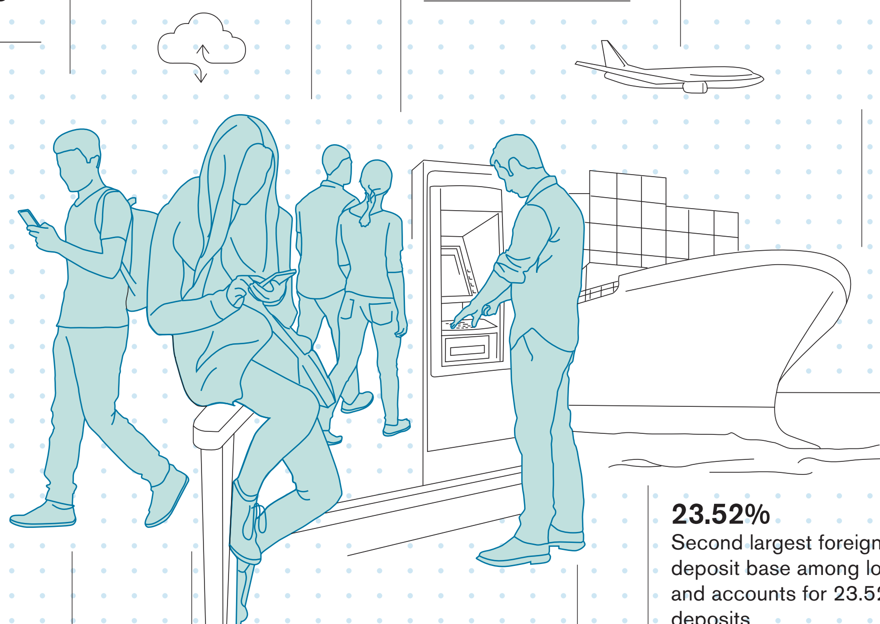
1.26 times
PBV

280
Branches

775
ATMs

55
Correspondent banks

AA(lka)
Rating from Fitch Ratings Lanka Limited



6
Subsidiaries

2
Associates

12.11%
CET 1 ratio

15.75%
Total capital ratio

5.83 times
Leverage ratio

23.52%
Second largest foreign currency deposit base among local banks, and accounts for 23.52% of total deposits

79.49%
Foreign currency loans to foreign currency deposits stood at 79.49%

1.88%
Gross NPL ratio

0.92%
Net NPL ratio

51.05%
Provision cover

7.60%
Open credit exposure ratio

Rs. 850 Bn.
Customer deposits

Rs. 755 Bn.
Gross loans and advances

Rs. 1.143 Tn.
Total assets

17.44%
5-year CAGR in total assets

27.64%
Liquid assets ratio

209.17%
Liquidity coverage ratio

127.87%
Net stable funding ratio

OUR JOURNEY

1920
Eastern Bank Limited (EBL) opens a branch in Chatham Street

1957
EBL was acquired by Chartered Bank

1969
Commercial Bank of Ceylon Limited was incorporated with EBL holding a 40% stake

1971
Business of EBL integrated with Chartered Bank

1972
First two branches opened in Galewela and Matale

1973
Acquired Galle, Jaffna and Kandy branches of Mercantile Bank Limited

1979
Offshore banking centre formed

1980
Commercial Development Company (CDC) formed to construct the Head Office building with 40% equity participation

1984
Head office moved to new premises at No. 21, Sir Razik Fareed Mawatha, (formerly Bristol Street), Colombo 1

1987
EBL changed its name to Standard Chartered (UK) Holdings Limit

1990
Introduced ATM facilities to customers

1993
Introduced core banking software- International Comprehensive Banking System (ICBS)

1996
Increased shareholding in CDC to 94.5% through a share swap

1997
Standard Chartered Bank sold its 40% stake in the Bank

1998
- First 365-day branch opened in Colombo 7
- All branches linked to ICBS except Jaffna

1999
Banking and supermarketing were combined by opening the first "MiniCom"

2000
Launched Internet Banking

2001
Opened the 100th branch at Kaduruwela and the Gold Trading Unit at the Foreign Branch

2003
Acquired operations of Crédit Agricole Indosuez in Bangladesh

2005
Raised USD 65 Mn. syndicated loan, becoming the 1st non-sovereign corporate in Sri Lanka to source external funding

2006
- Issued USD 10 Mn. bond, becoming the first indigenous bank to do so
- Opened 150th branch at Mahiyanganaya

2008
First Sri Lankan bank to be ranked among the top 1,000 banks in the world

2009
First Sri Lankan Bank to be certified CMMi

2010
Reached milestone 400th ATM at the Ruwanwella branch

2011
- Commenced "Sharia" compliant Islamic Banking
- Opened 200th branch in Kataragama
- Opened an exclusive "Elite" Branch at Colombo 7 for high net worth customers
- ATM network expanded to 500

2012
- Became the first Sri Lankan Bank to Link it's ATMs to China UnionPay
- Raised USD 65 Mn., from the International Finance Corporation (IFC)
- Launched an exclusive savings account for women named *"Anagi"*

2013
- Launched sophisticated Internet Banking service (On-line Banking) in Bangladesh
- Raised a 10-year subordinated debt of USD 75 Mn. from IFC
- Opened "24-hour automated Banking Centre' at Ward Place

2014
- Bank's first "Forex ATM" installed at Crescat Boulevard
- Commissioned 600th ATM at the new Colombo Gold Centre
- Bank acquired the 100% stake of Indra Finance Limited
- Became the first Sri Lankan Bank to be granted a license by the Central Bank of Myanmar to operate a Representative Office

2015
- Launched paperless green banking facility
- Launched new generation of automated cash deposit terminals eliminating the use of paper
- Indra Finance, a fully-owned subsidiary of Commercial Bank, renamed Serendib Finance Limited
- Bank branches go green with the installation of solar power systems at four branches

2016
- Only Sri Lankan bank to be ranked among the "Top 1,000 banks in the world" for the 7th time, the 6th consecutive year
- Launched Sri Lanka's first Remittance Card
- Commenced Commercial operations of Commex Sri Lanka S.R.L. Italy, our fully owned subsidiary
- Opened Commercial Bank of Maldives Private Limited, 2nd foreign subsidiary with a 55% stake
- The Bank became a Trillion-Rupee Asset company

2017
- Became the first ATM network to be fully EMV compliant in Sri Lanka
- Introduced Mastercard Debit Cards with Chip and PIN technology for the first time in Sri Lanka
- Introduced mobile banking in the literal sense with the launch of "Bank on Wheels" – a modified and branded vehicle designed to provide basic over-the-counter banking facilities to customers living outside city limits
- "World Finance" the prestigious London-based magazine declares COMBANK the best in Sri Lanka for digital and mobile banking
- Commercial Bank of Maldives opens its second branch in Hulhumalé
- COMBANK tops private banks in Interbrand's inaugural ranking of country's best brands
- Commercial Bank's Annual Report 2016 wins overall award for best annual report at the ICASL Annual Report Awards
- The Bank was named among the "Top Companies in Asia" and the "Top Green Companies in Asia" at the 2017 Asia Corporate Excellence and Sustainability (ACES) awards
- Established 100% owned CBC Myanmar Microfinance Company Limited, 3rd foreign subsidiary

2017 Highlights and impacts

Figure – 04

Progress in 2017 on Strategic Imperatives

Loans and receivables and deposits grew by over **Rs. 100 Bn.** for the 3rd and 2nd consecutive years, respectively

Our **3rd foreign subsidiary** was incorporated in **Myanmar**

The **only Sri Lankan Bank** amongst the **Top 1000 banks** in the world for the 7th successive year

Procured a **digital banking solution** from FISERV, a leading software vendor from the USA

Over **800,000** online banking customers

Adjudged the **highest ranked private sector bank** with a value of **Rs. 20.33 Bn.** at the "Best Sri Lankan Brands in 2017" ranking by **Interbrand**

A total of **21** international banking and other awards

Augmented regulatory capital by **Rs. 10.144 Bn.** through a rights issue

Strengthened the independent element of the Board by appointing **two Non-Executive Independent Directors**

Impact on our Key Stakeholders

Largest lender to **SMEs** in Sri Lanka

Highest market capitalisation in the Bank, Insurance and Finance Sector

Largest private sector bank with a wide reach of **1,055 customer touch points**

Market share in **imports and exports volumes** grew to **10.56%** and **18.58%**

Paid **Rs. 11.5 Bn.** or 41% of profits in **taxes** to the Governments and collected over **Rs. 2 Bn.** in taxes on their behalf

Bank's **CSR Trust** contributed **Rs. 43.4 Mn.** towards the well-being of the community

HIGHLIGHTS – FINANCIAL AND NON-FINANCIAL

Financial highlights

Table – 01

	GROUP			BANK		
	2017	2016	Change %	2017	2016	Change %
Results for the year (Rs. Bn.)						
Gross income	116.842	93.726	24.66	115.594	93.143	24.10
Profit before Financial VAT and Taxation	28.173	23.824	18.25	28.064	23.755	18.14
Profit before taxation (PBT)	23.280	20.115	15.73	23.183	20.051	15.62
Income tax expenses	6.654	5.648	17.81	6.602	5.539	19.19
Profit after taxation (PAT)	16.627	14.466	14.94	16.581	14.513	14.25
Revenue to the Government	11.617	9.436	23.11	11.516	9.385	22.71
Gross dividends	6.477	5.800	11.16	6.477	5.800	11.16
Position at the year end (Rs. Bn.)						
Shareholders' funds (Stated capital and reserves)	107.995	78.992	36.72	107.099	78.354	36.69
Deposits from customers	857.270	743.311	15.33	850.128	739.563	14.95
Gross loans and advances	760.454	637.983	19.20	754.708	633.391	19.15
Total Assets	1,155.821	1,020.984	13.21	1,143.374	1,012.201	12.96
Information per ordinary share (Rs.)						
Earnings (Basic)	17.28	15.80	9.37	17.26	15.81	9.17
Earnings (Diluted)	17.27	15.77	9.51	17.24	15.77	9.26
Dividends – Cash	–	–	–	4.50	4.50	–
Dividends – Shares	–	–	–	2.00	2.00	–
Net assets value	108.44	88.68	22.28	107.54	87.97	22.25
Market value at the year-end – Voting	N/A	N/A	–	135.80	140.20	(3.14)
Market value at the year-end – Non-voting	N/A	N/A	–	105.00	123.00	(14.63)
Ratios						
Return on average shareholders' funds (%)	17.78	19.29	(1.51)	17.88	19.52	(1.64)
Return on average assets (%)	1.53	1.52	0.01	1.54	1.53	0.01
Price earnings (times) – Ordinary voting shares	N/A	N/A		8.16	8.61	(5.23)
Price earnings (times) – Ordinary non-voting shares	N/A	N/A		6.31	7.55	(16.42)
Year-on-year growth in earnings (%)	14.93	21.98	(7.05)	14.25	21.92	(7.67)
Dividend yield (%) – Ordinary voting shares	N/A	N/A		4.79	4.64	0.15
Dividend yield (%) – Ordinary non-voting shares	N/A	N/A		6.19	5.28	0.91
Dividend cover on Ordinary shares (times)	N/A	N/A		2.56	2.50	2.40
Statutory ratios:						
Liquid assets (%)	N/A	N/A	–	27.64	27.41	0.23
Capital adequacy Ratios: (Under Basel II)						
Tier 1 ratio (%) – Minimum requirement 5%	–	10.47	–	–	10.37	–
Total capital ratio (%) – Minimum requirement 10%	–	14.91	–	–	14.87	–
Capital Adequacy Ratios (Under Basel III)						
Common Equity Tier 1 Capital Ratio (%) – Minimum requirement 6.25%	12.12	–	–	12.11	–	–
Tier 1 ratio (%) – Minimum requirement 7.75%	12.12	–	–	12.11	–	–
Total capital ratio (%) – Minimum requirement 11.75%	15.70	–	–	15.75	–	–

Financial Goals and Achievements – Bank

Table – 02

Financial indicator	Goal	Achievement				
		2017	2016	2015	2014	2013
Return on average assets (ROA) (%)	Over 2	1.54	1.53	1.42	1.60	1.87
Return on average shareholders' funds (%)	Over 20	17.88	19.52	16.90	17.01	18.40
Growth in income (%)	Over 20	24.10	19.62	7.03	0.96	15.40
Growth in profit for the year (%)	Over 20	14.25	21.92	6.47	7.03	3.44
Growth in total assets (%)	Over 20	12.96	15.05	10.58	31.29	18.54
Dividend per share (DPS) (Rs.)	Over Rs. 5.00	6.50	6.50	6.50	6.50	6.50
Capital Adequacy Ratios						
Common Equity Tier 1 Capital Ratio (%) – Minimum requirement as per Basel III – 6.25%	Over 10	12.11	N/A	N/A	N/A	N/A
Tier 1 Capital Ratio (%) – Minimum requirement as per Basel III – 7.75%	Over 10	12.11	N/A	N/A	N/A	N/A
Tier 1 Capital Ratio (%) – Minimum requirement as per Basel II – 5%	Over 10	–	11.56	11.60	12.93	13.27
Total Capital Ratio (%) – Minimum requirement as per Basel III – 11.75%	Over 15	15.75	N/A	N/A	N/A	N/A
Total Capital Ratio (%) – Minimum requirement as per Basel II – 10%	Over 14	N/A	15.89	14.26	15.97	16.91

Non-financial highlights

Table – 03

GRI Disclosure		BANK 2017	BANK 2016	Unit of Measure	Page Reference
Financial and Manufactured Capital					
201-1	Direct economic value:				
	Generated	115,594	93,143	Rs. Mn.	
	Distributed to:	102,268	81,712	Rs. Mn.	
	– Depositors	64,011	47,915	Rs. Mn.	
	– Employees	11,268	10,794	Rs. Mn.	
	– Business Partners	8,775	7,772	Rs. Mn.	
	– Government	11,654	9,368	Rs. Mn.	
	– Shareholders	6,477	5,765	Rs. Mn.	
	– Community	83	62	Rs. Mn.	
	Retained	13,326	11,431	Rs. Mn.	
		115,594	93,143	Rs. Mn.	
Social and Network Capital					
413-1	Funds disbursed to SMEs, Agri businesses, Micro financing	131,881	272,914	Rs. Mn.	79
	Financial literacy and Capacity building programmes				
	– No. of programmes	8	7	Nos.	79
	– No. of participants	1,195	873	Nos.	79
	Penetration rate outside principle province	12	12	%	92
205-1	Coverage and frequency of audits				
	– Onsite audits	335	271	Nos.	
	– Online audits	243	223	Nos.	
205-3	Number of alerts reported to FIU of the CBSL	14	15	Nos.	81
204-1	Payments to suppliers	8,775	7,772	Rs. Mn.	82
	Proportion of spending on local suppliers	92.18	90.75	%	82
	Spending on CSR activities	43	65	Rs. Mn.	84
308-1,412-1,414-1	Percentage of new suppliers screened for social and environmental impacts	100	100	%	82
Intellectual Capital					
	Brand Value	20,330	24,027	Rs. Mn.	90
	Cumulative service period of employees	57,852	56,043	Years	93
Human Capital					
102-8	Total employees	4,982	4,987	Nos.	94
401-1	New employee hires	4.88	5.43	%	95
	Attrition rate	4.86	4.61	%	97
401-3	Return to work after maternity leave	94.64	95.38	%	98
404-1	Average training hours				99
	– Male	25.47	24.79	Hours	
	– Female	17.04	19.74	Hours	
404-2	Skill development programmes	12,937	14,650	Hours	99
404-3	Percentage of employees receiving performance evaluations	100	100	%	98
405-1	Remuneration ratio women to men				99
	– Corporate and Senior Management	1:0.75	1:0.95	X:Y	
	– Executive Officers	1:0.90	1:1.10	X:Y	
	– Junior Executive Assistants and Allied Grades	1:0.92	1:1.08	X:Y	
	– Banking and executive Trainees	1:0.97	1:1.01	X:Y	
	– Office Assistants and Other	1:1.05	1:1.01	X:Y	
Natural Capital					
302-1	Energy Consumption	54,820	56,359	Gj	103
306-2	Waste Disposal				104
	– e-waste (CO_2 emission offset)	9,500	163,708	Kg	
	– Paper	151,885	98,155	Kg	
	Loan disbursements for renewable energy projects				88
	– Wind	–	–	–	
	– Solar	100	495	Rs. Mn.	
	– Hydro	302	428	Rs. Mn.	
	– Bio-mass	39	126	Rs. Mn.	

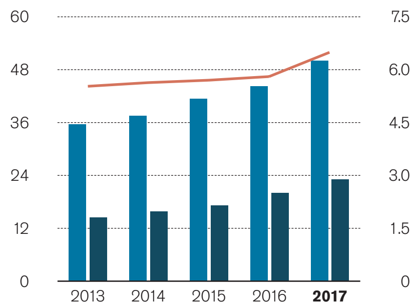
PERFORMANCE HIGHLIGHTS

Value Created for the Shareholders

Total operating income, profit before tax and dividend paid — Graph – 01

Rs. Bn. | Rs. Bn.

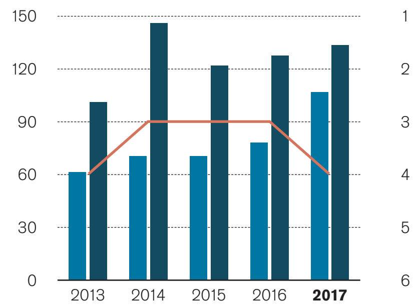
Operating income | Profit before tax | Dividend



Market capitalisation — Graph – 02

Rs. Bn. | Rank

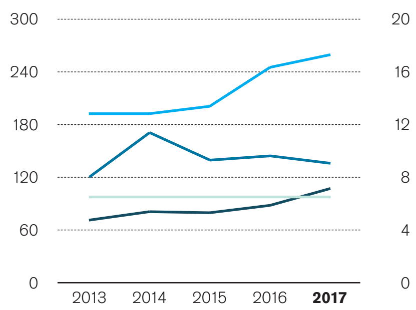
Shareholders' funds | Bank's market capitalisation | Bank's market capitalisation ranking



NAV/MPS/EPS/DPS — Graph – 03

Rs. | Rs.

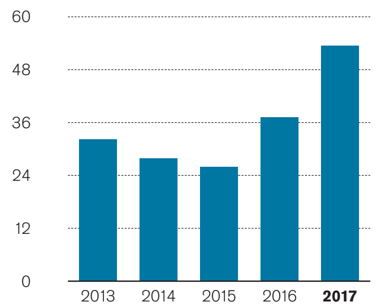
Net asset value per share | Market value of a share | Earnings per share | Dividend per share



Value Created for the Customers

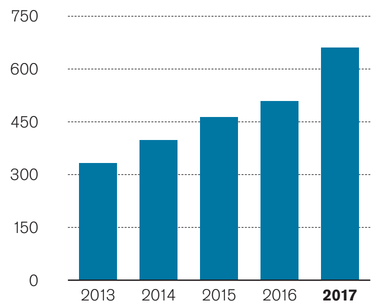
Interest paid to depositors — Graph – 04

Rs. Bn.



Loans disbursed — Graph – 05

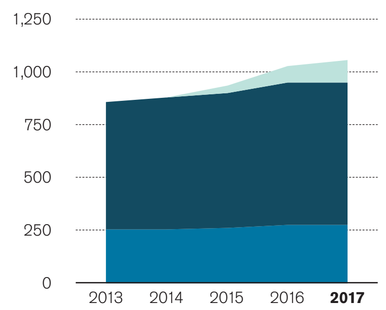
Rs. Bn.



Customer touch points — Graph – 06

Nos.

Branches | ATMs | CDMs and CRMs

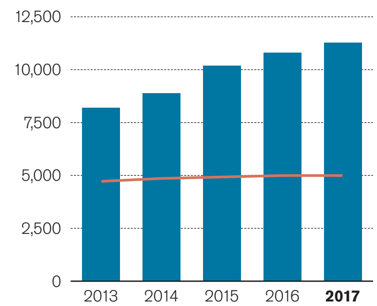


Value Created for the Employees

Personnel expenses and number of employees — Graph – 07

Rs. Mn./Nos.

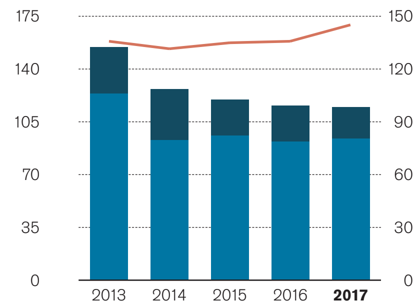
Personnel expenses | Number of employees



Training hours and investment in training — Graph – 08

Hours ('000) | Rs. Mn.

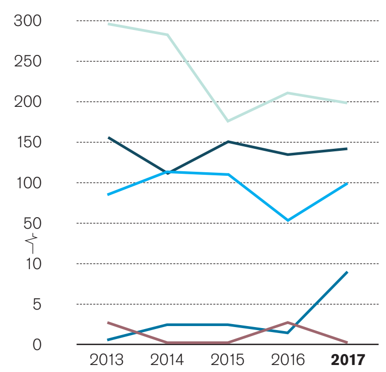
Training hours – Male | Training hours – Female | Investment



Employee promotions/ absorptions — Graph – 09

Nos.

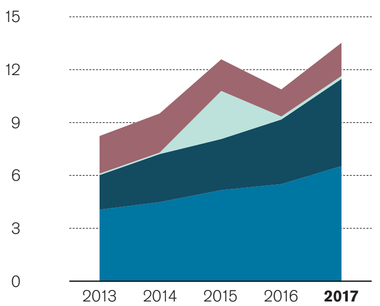
Corporate and senior management | Executive officers | Junior executive assistants and allied grades | Banking and executive trainees | Office assistants and others



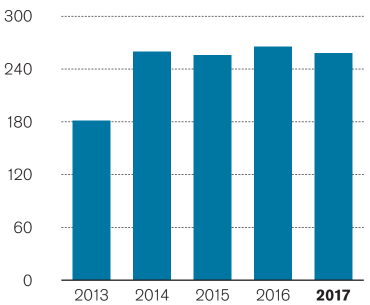
Value Created for the Governments

Government taxes paid and collected on behalf — Graph – 10
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



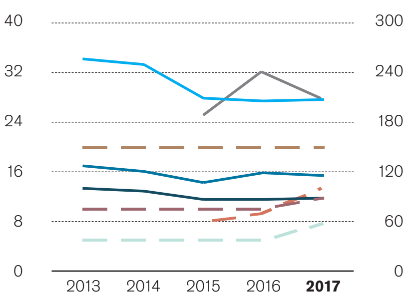
Total investment in Government securities — Graph – 11
Rs. Bn.



Capital adequacy, liquid assets and liquidity coverage ratio — Graph – 12
% | %

CAR – Tier 1 | CAR – Total | SLAR | LCR | LCR (R)

CAR – Tier 1 (R) | CAR – Total (R) | SLAR (R)

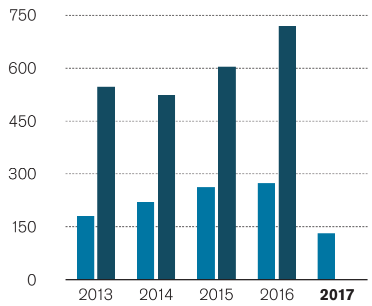


CAR Capital adequacy ratio
SLAR Statutory liquid assets ratio
LCR Liquidity coverage ratio
(R) Regulatory minimum requirement

Value Created for the Community

Disbursement to SME sector — Graph – 13
Rs. Bn.

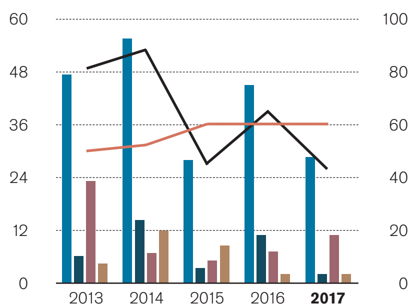
Commercial Bank | Total disbursement of commercial and development banks



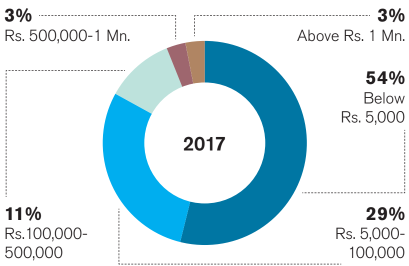
CSR Trust Fund – contribution and utilisation — Graph – 14
Rs. Mn. | Rs. Mn.

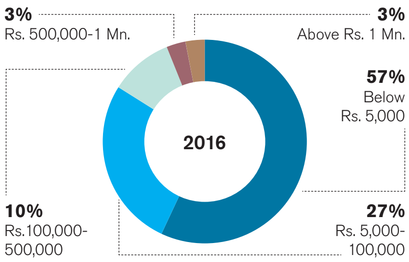
Education | Healthcare | Contribution | Utilisation

Community | Others



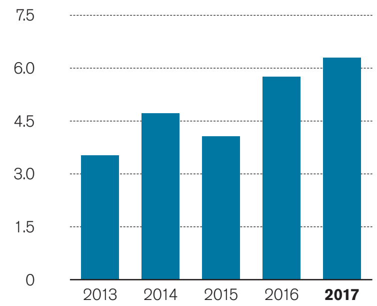
Deposits distribution — Graph – 15





Value Created for the Business Partners

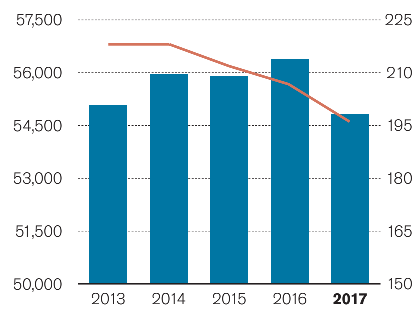
Payments to business partners — Graph – 16
Rs. Bn.



Value Created for the Environment

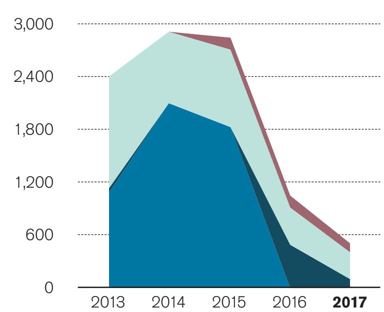
Electricity consumption — Graph – 17
Gigajoules | Gigajoules

Total consumption | Consumption per branch



Loans disbursed for renewable energy projects — Graph – 18
Rs. Mn.

Wind | Solar | Hydro | Bio-mass



Imagination expands in scope

The coming era promises to lend wings to imagination. What we consider unimaginable today will be tomorrow's reality

Strategic Report

The Bank's business model revolves around five strategic imperatives through which operations were directed during the year. These imperatives were founded to ensure that we are geared to make the most of future opportunities.

Supported by a robust governance framework and an organisational structure with clearly defined roles and responsibilities, these imperatives are:

- ***Prudent growth:** Focusing on expanding market presence and improving economic performance while embracing principles of inclusive and responsible banking*
- ***Customer centricity:** Putting the customer at the heart of all we do and ensuring that all products and services are in compliance with regulations*
- ***Digital leadership:** Investing in innovation so that we are future-ready both in terms of technology and the readiness of our people and customers to embrace new opportunities*
- ***Operational excellence:** Ensuring that systems and processes are streamlined and that our people have every opportunity and resource to perform at an optimum*
- ***Risk management:** Prioritising risks to minimise the impact of unfortunate events and maximise the realisation of opportunities to prevent corruption and ensure compliance at all times*

With digital technology developing at a breakneck pace it is imperative that the Bank develops and implements a strategy that is fit for the future. Our stakeholders depend on us to be at the cutting edge of the latest technological developments in banking and customer service.

To this end we have expanded our business in terms of network both within Sri Lanka and overseas – our operations in Bangladesh, the Maldives, and Italy continue to be profitable. We have improved our product and service offering, reach, and responsiveness in answer to feedback from customers. During the year we also invested heavily in a digital banking solutions platform from one of the world's leading suppliers to provide customers with the top-notch service they expect from the country's biggest private-sector bank. Initiatives such as the integration of our call centres, process automation, the more efficient use of branch space, and the training and development of our people have increased our operational performance during the year.

CHAIRMAN'S STATEMENT

The Bank recorded an enhanced overall performance across all business lines and geographies, enabling us to report growth in excess of the industry averages in most of the indicators. This is all the more significant when viewed in the context of the conservative risk profile and prudent growth pursued by the Bank.

Having established ourselves as the leading private sector bank in Sri Lanka, overseas expansion is now one of our foremost strategies which will help us geographically diversify our risk profile.

Dear Friends,

A hallmark of Commercial Bank is its consistent and steady growth over the years. Year 2017 was no exception. The Bank recorded an enhanced overall performance across all business lines and geographies, enabling us to report growth in excess of the industry averages in most of the indicators. This is all the more significant when viewed in the context of the conservative risk profile and prudent growth pursued by the Bank.

Prudent growth

Total assets grew by 12.96% to Rs. 1.143 Tn. as at end 2017 with core business activities of loans and receivables and deposits growing at 19.71% and 14.95% respectively, which augurs well for the Bank's commitment to long term value creation. Five-year compounded annual growth rate in excess of industry growth enabled us to grow our market share in total assets to 11.1% from 10.04% in 2012, further strengthening our leadership position. In August 2017, Fitch Ratings Lanka Ltd. reaffirmed the Bank's rating at AA (lka) with a stable outlook while Credit Rating Information and Services Limited reaffirmed Bangladesh Operations' at AAA in June 2017. Profit before tax grew by 15.62% to Rs. 23.183 Bn. while profit after tax grew by 14.25% to Rs. 16.581 Bn. for the year. The Board of Directors recommended a final dividend of Rs. 2.00 per share for approval by the shareholders at the forthcoming AGM, to be fulfilled by way of a scrip issue of shares, which together with the two interim dividends already paid in cash, add to a total dividend for the year of Rs. 6.50 per share. Taking into account the challenging context in which these robust results were achieved during 2017, I wish to begin this review by extending my warm appreciation and congratulations to the Board and the dedicated team led by our dynamic Managing Director.

Before reviewing our performance further, let me first set the context. Impacted by events in global and domestic markets, 2017 presented a challenging environment for the industry.

Challenging times

Globally, economic activity certainly strengthened when compared to the preceding year, recording a projected growth of 3.7%. While the baseline outlook for 2018 is strengthening, growth remains weak in many countries, with a large number of advanced economies recording inflation that is below the target. Importers of commodities such as fuel, were affected as they adjusted to an increase in prices. While the short-term risks appear to be balancing out, medium-term risks still list downward.

In Sri Lanka, the economy recorded lower than projected growth during the year, primarily due to weather taking a toll on the agricultural sector. Core inflation remained in check, thanks to the Central Bank's tight monetary policy stance, but headline inflation was high. Interest rates were high at the beginning of the year, but gradually declined towards the latter part of the year due to deceleration of credit to the private sector, higher liquidity levels, moderate inflation and lower levels of borrowings by the Government consequent to enhanced revenue collection. Restoration of GSP+ helped boost exports. Credit to the private sector by commercial banks, which grew at a higher rate in 2016 and up to mid 2017, decelerated in the second half of 2017. Asset quality in terms of gross NPL ratio, however, improved marginally from 2.6% at end 2016 to 2.5% at end 2017.

Import expenditure increased during the year and Sri Lanka's trade deficit widened, offsetting the positive impact of improving export earnings. Net inflows to the Government securities market and the Colombo Stock Exchange somewhat eased pressures on external accounts. Depreciation of the Sri Lankan rupee against the US dollar was 2.57% during the year and the Central Bank was able to maintain a flexible exchange rate regime under the enhanced monetary policy framework. Fiscal consolidation is expected to continue in the medium term and therefore we can look forward to experiencing macroeconomic stability in the future. Gross Domestic Product (GDP) too is projected to grow between 5.0%–5.5% in 2018. Overall, we remain positive about the medium term prospects of the Sri Lankan economy.

Within this challenging local and global backdrop we forged ahead, adopting new strategies and exploring new areas of business. More details on the Bank's performance are given in the Managing Director's Review and the Financial Review.

Our SME focus

We are heavily SME (small and medium-sized enterprises) focussed. As I mentioned in my Review last year, we believe that the SME sector is the backbone of the economy and this is reflected in our lending portfolio. Over 12% of our lending is to SMEs. With its potential to make a high contribution to the GDP, employment creation, export revenue, poverty alleviation, and regional development, a strong SME sector spells good health and prosperity for the entire economy. We have taken a number of initiatives during the year to improve the lives and livelihoods of those in this important sector. For instance, the Bank launched Commercial Bank Biz Club allowing SMEs a forum to network and share ideas about their businesses (please refer page 62 for more details of our focus on this sector).

Regional expansion

Having established ourselves as the leading private sector bank, overseas expansion is now one of our foremost strategies which will help us geographically diversify our risk profile. I am happy to note that within a relatively short period of time, the Bank has established itself as a premier regional foreign bank in Bangladesh and the Maldives. Now completing its fourteenth year in the country, our Bangladesh operations accounted for 11% of our assets and 12% of our profit before tax in 2017. With the gradual expansion of the branch network in this country, the Bank is now ready to gradually attract SME and retail clientele, allowing us to mobilise low cost deposits and improve profitability. Commex Sri Lanka S.R.L. – Italy, our fully owned subsidiary, which was issued with an Authorised Payments Institute License by the Bank of Italy in 2016, has strengthened our remittance business and is already making a positive contribution. This license opens up many avenues for us to make further inroads into Europe and, naturally, we are already making plans to make full use of this opportunity.

The Board also continued to ensure the highest standards of corporate governance and adherence to the Bank's Code of Ethics. Besides ensuring compliance with the applicable rules and regulations true to both the spirit and the letter of the law, the Board keenly monitored progress of implementation of Basel III regulations and SLFRS 9 standard, two developments that promise to strengthen the financial soundness of banks, but will have significant impact on the profitability of banks.

Commercial Bank of Maldives Private Limited was established in 2016 and is a fully-fledged Tier 1 bank under license issued by the Maldives Monetary Authority. This subsidiary too, I am proud to say, is already contributing to the Bank's profits. Our recent microfinance license in Myanmar is another exciting development that will, in due time, contribute to the Bank's profits and geographical diversification.

Digital leadership

As the only Sri Lankan bank to have an extensive reach beyond our shores, we are conscious of the need to stay abreast of global trends in banking and customer service. For us, 2017 was a year in which we intensified our focus on exploring methods that will further increase efficiency and productivity through the use of state-of-the-art technology.

Our efforts encompassed digital banking and automated banking centres, two areas that are fast gaining popularity in Sri Lanka and abroad. We also looked at innovations that would better streamline systems and processes, integrate workflows, and centralise operations. For the customer, these implementations mean greater convenience and uniform service standards no matter where they come into contact with the Bank.

We continue to monitor the many different cases of cyber security breaches around the world with an ever-vigilant eye. They highlight, now more than ever, the importance for caution and agility. It is to safeguard customer wealth and data, as well as our own intellectual capital, that we invested in a top-of-the-line digital banking platform from a world-renowned financial services technology solutions provider during the year.

Indeed, customer centricity and digital leadership are two of five strategic imperatives by which the Bank's operations were steered in 2017. Together with prudent growth, operational excellence, and risk management, these strategic imperatives were supported by a robust governance framework, and adhered to across the Bank at every level with able support from the Board.

Customer centricity

Customer centricity is built into the culture of the Bank.

The Bank is embracing new technology in order to meet the demands for enhanced user experience by customers, millennials in particular, while achieving operational excellence. During the year, the Bank partnered with FISERV, a leading software vendor from the USA for procuring a digital banking solution which is expected to go live by mid 2018. This solution would enable omnichannel presence and provide a true contextual banking experience to customers across web, mobile phones, tablets and wearables. The Bank is looking towards establishing partnerships with global IT players such as Microsoft and IBM in order to provide a better customer experience.

Our Social and Environmental Management System (SEMS)

Demonstrating our commitment as a responsible corporate citizen to the worldwide efforts in protecting society and the environment, we have developed a SEMS incorporating a set of rules and objectives which guide the Bank in its assessment and management of social and environmental risks associated with our operations, lending activities in particular. During the year, we revamped the SEMS with technical input from the International Finance Corporation and strengthened it further by recruiting experts and impanelling consultants from the market. SEMS, as part of the Loan Origination System, now plays a key role in managing the risk profile and making lending and investment activities responsible.

The Bank also worked with an IFC advisory to train staff so that they are able to identify and focus more on green lending opportunities. These are related to alternative energy generation from windmills, solar power and mini hydropower and other environment friendly initiatives such as the implementation of carbon emission reduction programmes, and the installation of more efficient lighting systems in office buildings etc. During the year, the Bank disbursed Rs. 13 Bn. in green loan facilities that will help reduce the environmental footprint of borrowers.

Governance and Board oversight

Ever mindful of its statutory, fiduciary, and regulatory responsibilities, the Board continued to strengthen its oversight responsibilities on the affairs of the Bank. During the year, the Board welcomed two new independent non-executive Directors namely, Justice K Sripavan and Mr T L B Hurulle to fill casual vacancies. They bring with them a wealth of experience from their respective fields, widening the collective knowledge and expertise of the Board.

The Board also continued to ensure the highest standards of corporate governance and adherence to the Bank's Code of Ethics. Besides ensuring compliance with the applicable rules and regulations true to both the spirit and the letter of the law, the Board keenly monitored progress of implementation of Basel III regulations and SLFRS 9 standard, two developments that promise to strengthen the financial soundness of banks, but will have significant impact on the profitability of banks. The Board reviewed the composition and terms of reference of Board and Management committees taking into account developments in the industry and best practice and took measures to strengthen their performance. The composition of Board Related Party Transactions Review Committee was reconstituted to comprise only Non-Executive Directors from January 2018 in line with the requirements of ICASL Code of Best Practice on Corporate Governance. Strategic decisions were made based on the outcomes of reviews of ICAAP (Internal Capital Adequacy Assessment Process), risk profile and risk mitigation measures, and business continuity and disaster recovery plans. In preparation for enhanced capital requirements of the Bank as a Domestic Systemically Important Bank under Basel III, the Bank raised Rs. 10 Bn. through a rights issue.

I take this opportunity to state that, as at the date of publishing, we had complied with all the applicable regulatory requirements and best practices to maintain our position as one of the most compliant financial institutions in Sri Lanka.

The people behind our operational excellence

Adherence to standards and regulations requires the engagement and dedication of our people. This year was no different with employees rising to the occasion and proving their loyalty and commitment. They continued discharging their duties and preparing themselves to make the most of upcoming opportunities, as the Bank put in place the necessary systems and processes to support their work.

It gives me great pleasure to report the finalisation of the new collective agreement which was completed on time and with the concurrence of all parties. Cordial relations continue between our branch of the Ceylon Bank Employees' Union, the Executives' Association of the Bank and the Management. This is an ideal opportunity to thank their collective efforts and great contribution to the progress and success of the Bank.

At the end of another impressive year I would like to give all credit to the entire Commercial Bank team. That they succeeded in winning for the Bank an unparalleled haul of awards – justifying our claim of being the "Most Awarded Bank" – was simply the by-product of an engaged group of hard-working individuals inspiring each other to achieve common goals amidst the challenges of the times. To each one I extend my heartiest thanks as we forge ahead into the future – onwards and upwards!

Dharma Dheerasinghe
Chairman

Colombo
February 23, 2018

MANAGING DIRECTOR'S REVIEW

Our customers find safe haven in us because we remain true to our original ideals of being a banker first and foremost.

Where once our arena was limited to our shores it now encompasses the whole world. And yet the whole world now fits in the palm of a hand – often in the form of a mobile phone. Meeting the needs of our customers means competing with the latest technological innovations by smart start-ups and also the biggest brands in the consumer space. Are we prepared for this challenge? We certainly are.

Through all the storms (both literal and figurative) that affected the region during the year under review, Commercial Bank remained a steadfast beacon in a volatile environment. Our customers find safe haven in us because we remain true to our original ideals of being a banker first and foremost. Adhering to our core business values resulted in substantial core business growth, high levels of stakeholder satisfaction and the ability to attract and retain a loyal base of customers with whom our ideals resonate.

Banking to the core. We are one of the few banks that remain true to our original values, focusing totally on pure banking. Our products are sound, uncomplicated, and straightforward, giving customers the confidence that from Commercial Bank they will always receive the attention they need for their banking requirements. As verified by an independent brand health study conducted during the year, Commercial Bank trended upwards, ahead of the industry, in areas such as banking service levels, speed and attentiveness, and employee competency in serving customers.

Our customers appreciate that our conservative ethos, prudence, and integrity provide them with greater security and stability – qualities they now value even more a decade or so after the global financial crisis which, despite having a low impact on Sri Lanka at the time, sent shock waves through the entire industry. Our customers trust us to continue being who we are as we move swiftly into a fast-evolving future.

At end 2017, we recorded Rs. 16.581 Bn. in profit after tax, a growth of 14.25%. Our deposits grew by 14.95% to Rs. 850.128 Bn., an average monthly growth of over Rs. 9.0 Bn., as we continued to maintain our leadership position in deposit growth within the industry. Our loans grew by 19.71%, an average monthly growth of over Rs. 10.0 Bn., supporting net interest income (NII) growth of 18.89%. The growth of deposits and credit, reflects the Bank's strong capacity for financial intermediation and illustrates a deployment of funding resources that is most conducive to the pursuit of productive assets. The main contributor to operating profit, NII, accounts for 78% of total operating income. Net fee and commission income grew by 22.62% thanks to a stellar performance in trade finance, credit cards, and remittances.

Operating costs increased by 6.49% primarily because we invested heavily in the digital technology that is vital for solid growth. With total operating income growing at a higher rate, the cost to income ratio marginally decreased to 49.82%. We continued to strengthen our risk management framework and recovery efforts during the year. This led to further improvement in asset quality with both Gross and Net NPL (non-performing loans) ratios decreasing to 1.88% and 0.92% respectively as at December 31, 2017 from 2.18% and 1.09% respectively a year ago, in turn boosting profitability.

The Personal Banking Division recorded a strong performance, increasing its contribution to profit before tax by 57%, with 16% of asset growth, and 14.6% of liability growth. Likewise, the Corporate Banking Division too grew solidly this year as well, growing its assets base by 23% and liabilities by 10%, thereby increasing its contribution to profit before tax by 25%. Our Treasury Division continued to focus on funding and liquidity, accounting for 24% of assets and 7% of liabilities. During the year, we borrowed USD 100 Mn. from the International Finance Corporation (IFC) to fund business growth. This came at a relatively lower cost and also eased pressure on securing funding from other sources. Further information pertaining to our financial performance is elaborated under "Financial Capital" on 🕮 pages 54 to 72.

Banking through headwinds. While economic stability and business confidence are improving in Sri Lanka, taxation pressures bring with them an element of instability. This especially impacts the banking industry which is perhaps subject to the most stringent regulatory requirements, on capital in particular. A long term view by regulators and the general public is imperative if the country is to benefit from an improving economic scenario.

It goes without saying that banks, by necessity, require capital. Investors who contribute to capital expect reasonable returns for the risks assumed. On one hand, increasing regulatory as well as economic capital requirements in the wake of minimum capital, Basel III, and higher provisioning requirements arising from SLFRS 9 make it necessary to increase profit retention. Yet, on the other hand additional tax burdens imposed on banks limit the internal generation of capital. Both affect the return to shareholders. Naturally this impact on capital affects Sri Lankan banks with aspirations to expand overseas and bring long-term benefits to the country.

Commercial Bank is a listed company with a track record for transparency, efficiency, and productivity. It has the capacity to further financial inclusion within Sri Lanka and grow beyond our shores, putting Sri Lanka firmly on the map – both regionally and internationally. During the year, we contributed approximately 41% of our profits to the Governments through taxes. This was in addition to over Rs. 2.0 Bn. in taxes we have collected from customers on behalf of the Government. Looking to the future, regulators need to work together and take a longer-term view to ensure that while the necessary checks and balances are in place, banks are not stymied from achieving their full potential.

Given our predilection for prudence and forward planning, we began preparing for SLFRS 9 (which is equivalent to the International Financial Reporting Standard on Financial Instruments) two years ago, bolstering our capital and ensuring our loans and advances were recognised in the books in line with the Standard. We are now fully equipped to implement SLFRS 9 which became effective from January 1, 2018.

With stability as our cornerstone, we are well-prepared for Basel III – the internationally agreed set of measures developed in response to the financial crisis of 2007-09 – both with regard to capital and liquidity. We are comfortably above the minimum requirements prescribed by the regulator in respect of both.

The new Foreign Exchange Act, which replaced Sri Lanka's existing Exchange Control Act takes a more liberalised approach to the transaction of foreign exchange – focusing on management rather than control. While the new Act proved to be a sharp learning curve for banks, there has been reasonable clarity and we believe the Act will have a positive impact in the long term.

Banking on the future. Where once our arena was limited to our shores it now encompasses the whole world. And yet the whole world now fits in the palm of a hand – often in the form of a mobile phone. Meeting the needs of our customers means competing with the latest technological

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innovations by smart start-ups and also the biggest brands in the consumer space. Are we prepared for this challenge? We certainly are.

During the year under review, we invested in a digital solution that will cover the entire spectrum from online and mobile banking services to internal systems and processes. To enhance customer service with an optimum level of security, this is a top-of-the-line product from Fiserv, a global leader in financial services technology solutions. The new software solution will allow us to bring the convenience of online and mobile banking to the masses, ensuring that the communities within which we operate are future-ready.

Subject to regulatory approvals, our goal is to provide customers with a completely digital banking experience. Our new mobile banking offering, for example, will sit completely within the customer's phone, allowing them to do anything and everything related to banking wherever they are, whenever they want, without ever visiting any of our outlets at any stage.

In the meantime, with customer enthusiasm for automation growing ever stronger, we will continue to set up automated banking centres (ABCs), and assisted ABCs. All new and newly refurbished branches will feature automated banking divisions to meet growing customer demand. The ABCs are a win-win solution for the Bank and our customers – a cost-efficient way to provide access to banking services around the clock. Such keenness for digital solutions among the general public bodes well for Sri Lanka's future. Feel free to turn to the section titled 'Outlook for 2018 and Beyond' (on pages 44 to 46) to learn more about our plans for the future.

Banking beyond our shores. We continued to expand our business overseas in pursuit of growth and as a strategy to diversify risk exposures. Reflecting our stability and potential, International Operations contributed 17.5% of the profit before tax and accounted for 11% of total assets.

Our ventures overseas began in Bangladesh with the acquisition of Crédit Agricole Indosuez in 2003. With an ever increasing range of customer touch points there, including Internet banking, we continue to make a name for ourselves as a leading regional bank.

Our business in the Maldives has broken even in just over a year of operations and is now making a positive contribution to the Bank's profitability. During the year, we also opened a second branch on the island of Hulhumalé, which is connected by road to the airport island of Hulhulé.

In Myanmar, where we established a Representative Office in June 2015, we received a microfinance license in 2017. In 2018, we will concentrate on building and growing our operations in the country – ensuring that the groundwork for information technology systems, and Human Resources and other processes is well laid out.

Besides our office in Rome, we are now present in eight other cities in Italy. Our license to operate in this country is a European Union license which allows us the opportunity to expand our business across the EU. Naturally, we are actively pursuing opportunities to grow in Europe.

Having revamped our Social and Environmental Management System (SEMS) with technical input from the IFC, we will extend its application to our business in Bangladesh and the Maldives. This means that a greater part of the lending conducted through our International Operations will be evaluated through SEMS. We also worked with an IFC advisory to train our people to be able to identify and focus more on green lending opportunities, adding further value to the communities within which we operate.

Thanking our stakeholders. I am very thankful to all our stakeholders for their support – especially our shareholders for the capital that they have entrusted to us – our rights issue in June 2017 was fully subscribed. I am also grateful to our customers whose loyalty is our strength and whose banking needs inspire us to reach new heights in innovative banking every year.

Our success has always pivoted on our winning team and the year under review was no different. With the wisdom and guidance of the Board, for which I am ever grateful, our people continue to build on their reputation for dedication and commitment. Yet again, they have pulled together to produce another strong set of results. The unmatchable haul of awards we have received year after year are testament to their engagement and drive, and have made us the Most Awarded Bank in Sri Lanka. These accolades include Best Bank in Sri Lanka (Global Finance Magazine, USA) for the 18th year and our position as the only Sri Lankan bank to be within the Top 1,000 Banks in the World (The Banker Magazine, UK) for the seventh consecutive year.

To all our customers – I thank you for your loyalty and patronage. We will always endeavour to be worthy of it. To the Board whose guidance and visionary leadership I greatly value – I extend my warm appreciation. I am also grateful to the banking and financial services regulatory authorities of Sri Lanka, Bangladesh, Italy, the Maldives and Myanmar for their cooperation. Last, but by no means least, to every single member of staff – my heartfelt thanks for your invaluable contribution.

At Commercial Bank, we take pride in the role we play in furthering financial inclusion in Sri Lanka and our commitment to the community remains as strong as ever. We are aware of and fully prepared to shoulder the hopes and dreams of our stakeholders as we continue banking on the future.

Jegan Durairatnam
Managing Director/CEO

Colombo
February 23, 2018

Security is paramount

The world is constantly seeking better ways of 'securing the cloud'....or more accurately, the millions of bytes of data it stores...security is and always will be paramount

BOARD OF DIRECTORS AND PROFILES

Profiles of Board Members

Mr K G D D Dheerasinghe
Chairman

Chairman of the Board since July 2014

Chairman of the Board Human Resources and Remuneration Committee (BHRRC), Board Nomination Committee (BNC), Board Credit Committee (BCC), Board Investment Committee (BIC), and Board Related Party Transactions Review Committee (BRPTRC)

Independent Non-Executive Director since December 2011

Skills and experience
An eminent Economist with a distinguished career of over 41 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.

Holds a B.Phil. (Econ.) and B.Com. with first class honours from the University of Colombo and MA (Econ.) from the University of Leeds, UK. Honorary Fellow of the Institute of Bankers of Sri Lanka and Honorary ACI Diploma holder.

Member of Sri Lanka Institute of Directors since December 2015.

Other current appointments
Chairman, Commex Sri Lanka S.R.L. Italy, Chairman, Serendib Finance Limited (the above companies are subsidiaries of the Bank).

Previous appointments
Senior Deputy Governor of the 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.

Shareholding of Bank
Holds 23,567 voting shares

Mr M P Jayawardena
Deputy Chairman

Deputy Chairman since July 2014

Chairman of the Board Integrated Risk Management Committee (BIRMC)

Independent Non-Executive Director since December 2011

Skills and experience
A senior finance professional with wide experience in the corporate sector, both in Sri Lanka and overseas.

Fellow member of The Institute of Chartered Accountants of Sri Lanka.

Member of Sri Lanka Institute of Directors since March 2000.

Other current appointments
Chairman, Sri Lanka Institute of Directors. Group Director, CIC Holdings PLC. Chairman, Commercial Insurance Brokers (Pvt) Limited. Group Consultant to Chemanex PLC and Chairman of a few subsidiaries thereof. Serves on the Boards of many other private companies.

Previous appointments
Head of Treasury, Zambia Consolidated Copper Mines.

Shareholding of Bank
Nil

Mr J Durairatnam
Managing Director/ Chief Executive Officer

Managing Director/ Chief Executive Officer since July 2014

Executive Director since April 2012 and former Chief Operating Officer

Skills and experience
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.

Holds a Bachelor's Degree from the University of Peradeniya.

Member of Sri Lanka Institute of Directors since December 2013.

Other current appointments
Managing Director, Commercial Development Company PLC (the above company is a subsidiary of the Bank), Director, Lanka Financial Services Bureau Limited, Sri Lanka Banks' Association (Guarantee) Limited, The Financial Ombudsman Sri Lanka (Guarantee) Limited.

Previous appointments
None

Shareholding of Bank
Holds 616,800 voting shares

Mr S Swarnajothi

Appointed as an Independent Non-Executive Director in August 2012

Chairman of the Board Audit Committee (BAC)

Skills and experience
A senior finance professional with experience in both private and public sectors.

Fellow member of The Institute of Chartered Accountants of Sri Lanka and CMA Sri Lanka, a member of CMA Australia. Holds a BSc. Degree in Management from the University of Sri Jayewardenepura and a MSc in Project Management from the University of Moratuwa.

Member of Sri Lanka Institute of Directors since December 2015.

Other current appointments
Member of the Tax Appeals Commission, which position he had held since May 2014. Member of the National Salaries and Cadre Commission – March 2016. Member of the Governing Council of Moratuwa University – from August 2016.

Previous appointments
Auditor General of Sri Lanka from January 2008 to August 2010.

Shareholding of Bank
Holds 10,762 non-voting shares

Mr S Renganathan

Appointed as an Executive Director and Chief Operating Officer in July 2014

Skills and experience
A senior banker counting over 35 years, he led the Bank's acquisition of the Bangladesh operations of Crédit 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.

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).

Member of Sri Lanka Institute of Directors since December 2013.

Other current appointments
Director of Commercial Bank of Maldives Private Limited, Director of International Chamber of Commerce Sri Lanka.

Previous appointments
Member of the General Council of the Institute of Bankers of Bangladesh, Founder President Bangladesh Chamber of Commerce and Industry, Executive Member, Foreign Investor Chamber of Commerce and Industry, Bangladesh.

Shareholding of Bank
Holds 319,792 voting and 11,718 non-voting shares

Prof A K W Jayawardane

Appointed as an Independent Non-Executive Director in April 2015

Chairman of the Board Technology Committee (BTC)

Skills and experience
Vice Chancellor of the University of Moratuwa until November 27, 2017 and a Senior Professor in Civil Engineering. An academic of high repute, he brings considerable knowledge and experience of IT to the Board.

Holds a PhD in Construction Management and a Master of Science Degree in Construction from the Loughborough University of Technology, UK and a BSc. Eng. in Civil Engineering Degree with first class honours from the University of Moratuwa.

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).

Member of Sri Lanka Institute of Directors since December 2015.

Other current appointments
Director of Sierra Cables PLC, Chairman of ONEzero Company Limited and a member of the Board of the Management of several other institutions.

Previous appointments
Dean, Faculty of Engineering for six years. First NDB Bank Endowed Professor in Entrepreneurship at the University of Moratuwa. President of the Institution of Engineers, Sri Lanka (IESL).

Shareholding of Bank
Nil

Mr K Dharmasiri

Appointed as an Independent Non-Executive Director in July 2015

Skills and experience
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.

Holds a B.Phil. (Econ.) and B.Com. with first class honours from the University of Colombo. Also an Associate Member of the Institute of Bankers of Sri Lanka.

Member of Sri Lanka Institute of Directors since December 2015.

Other current appointments
None.

Previous appointments
Non-Executive Nominee Director on the Boards of Janashakthi Insurance Limited, Sabaragamuwa Development Bank, Merchant Bank of Sri Lanka PLC, BOC Travels (Pvt) Limited, BOC Property Development & Management (Pvt) Limited, Ceybank Holiday Homes (Pvt) Limited, Hotels Colombo (1963) Limited, Ceybank Asset Management Limited, Lanka Securities (Pvt) Limited, Institute of Bankers of Sri Lanka, Lanka Financial Services Bureau Limited, LankaClear (Pvt) Limited, Bank of Ceylon (UK) Limited and Credit Information Bureau of Sri Lanka.

Shareholding of Bank
Nil

Mr L D Niyangoda

Appointed as an Independent Non-Executive Director in August 2016

Skills and experience
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.

Consultant Business and Administration experience for a period of 35 years.

Holds a Bachelor's Degree from the University of Peradeniya.

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.

Member of Sri Lanka Institute of Directors since March 2000.

Other current appointments
Managing Director/Chief Executive Officer of A Baur & Co. (Pvt) Limited, Director of Baur Asia (Pte) Limited, Singapore. Serves on the Boards of many other Companies.

Previous appointments
Chief Operating Officer – A Baur & Company (Pvt) Limited.

Shareholding of Bank
Nil

Ms N T M S Cooray

Appointed as an Independent Non-Executive Director in September 2016

Skills and experience
A senior finance professional with wide experience in the private sector.

Holds a Master's of Business Administration from the University of Colombo, Fellow Member of the Chartered Institute of Management Accountants – UK (FCMA).

Member of Sri Lanka Institute of Directors since July 2006.

Other current appointments
Managing Director of Jetwing Travels (Pvt) Limited, Advisory Council for Tourism and a member of the Board of the Management of several other institutions.

Previous appointments
Former Chairperson of the Sri Lanka Institute of Directors. 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 serves on the Boards of many other private and public companies.

Shareholding of Bank
Holds 49,731 non-voting shares

Mr G S Jadeja

Appointed as a Non-Executive Director in September 2016

Skills and experience
A senior finance professional with wide experience in the private sector.

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. (Honours) from St. Stephen's College, University of Delhi.

Other current appointments
Global Head, Financial Innovation at the International Finance Corporation.

Previous appointments
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.

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.

Shareholding of Bank
Nil

Mr T L B Hurulle

Appointed as an Independent Non-Executive Director in April 2017

Skills and experience
Holds a Diploma in Refrigeration and Air Conditioning (Dip.R), Southbank University, London SE1, UK and Engineering Apprentices I and II Programme, University of Moratuwa.

Member of Sri Lanka Institute of Directors since August 2017.

Other current appointments
None

Previous appointments
Senior Manager/Engineer, Tudawe Trading Co. (Pvt) Limited, Director – General, Telecommunications Regulatory Commission of Sri Lanka, Designs and Applications Engineer, Metropolitan Air Con and Refrigeration Limited, London, UK, Senior Engineer, Walker Sons & Co. Limited, Divisional Manager/Chief Engineer, Walker Sons & Co. Limited, Manager, Worldview Global Learning and Manager – Administration, Foundation for Co-Existence.

He was a Corporate Member (M. Inst.R), of the Institute of Refrigeration, Surrey, United Kingdom (1977-1978).

He was awarded the INFOTEL "92 Pioneering" Award at the inauguration of INFOTEL 2017 ICT Exhibition and was a member of the Public Representations Committee on Constitutional Reform (PRC – CR) 2016/2017.

Shareholding of Bank
Nil

Justice K Sripavan

Appointed as an Independent Non-Executive Director in April 2017

Skills and experience
Appointed as the Chief Justice of the Democratic Socialist Republic of Sri Lanka on January 30, 2015 and held office until March 1, 2017.

Functioned as the Chairman of the Judicial Services Commission of Sri Lanka, Chairman of the Incorporated Council of Legal Education, Chairman of the Sri Lanka Judges' Institute and Chairman of the Superior Court Complex, Board of Management.

Enrolled as an Attorney-at-Law of the Supreme Court of Sri Lanka in 1977. He obtained a Diploma in Industrial Law from the University of Colombo in 1992 and Master of Laws from the University of London in 1994.

Member of Sri Lanka Institute of Directors since August 2017.

Other current appointments
None

Previous appointments
Head of the Court of Appeal Unit in the Attorney General's Department and handled a large volume of work both in the Court of Appeal and in the Supreme Court including Bills and Fundamental Rights Applications. Prior to the elevation to the Court of Appeal Bench he functioned as a Legal Consultant for the National Savings Bank for two years.

Appointed as a Judge of the Court of Appeal in May 2002 and was elevated to the post of President of the Court of Appeal in March 2007 by his Excellency the President. Elevated to the Supreme Court Bench in March 2008.

Shareholding of Bank
Nil

Mrs J R Gamage
Company Secretary

Appointed as Company Secretary in May 2014

Skills and experience
An Attorney-at-Law who counts over19 years experience at the Bank. 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. She has received extensive training on Secretarial and Legal fields at a leading Law Firm prior to joining the Bank.

Member of Sri Lanka Institute of Directors since October 2017.

Other current appointments
None

Previous appointments
None

Shareholding of Bank
76,564 voting shares

OUR VALUE CREATION PROCESS

As a conventional commercial bank, the Commercial Bank's business model is primarily centred around **financial intermediation** and **maturity transformation**.

Financial intermediation and maturity transformation

Financial intermediation entails the Bank acting as an intermediary between various stakeholders – depositors and borrowers, importers and exporters, those who remit money and beneficiaries, entrepreneurs and investors, to name a few. Maturity transformation on the other hand, is borrowing funds on short-term maturities and lending such funds for longer tenures. Financial intermediation and maturity transformation are two activities that are central to the economic development of the country.

These two activities enable the Bank to earn two broader categories of income – net interest income from **fund based operations** and fee and commission income from **fee based operations**. Fund based operations involve the process of borrowing from those who save money incurring interest expenses and lending such funds to those who need money for investments and consumption earning interest income. The difference between the lending rate and the borrowing rate, which is the interest margin, compensates the Bank for credit risk, funding risk and the interest rate risk. All other services provided by the Bank not involving funds are fee based operations. Reflecting efficient financial intermediation, the Bank generated 78.02% of its total operating income by way of net interest income (74.43% in 2016) and the balance from fee based sources, exchange profit, trading gains and recoveries of loans written off/provisions reversals for the year 2017.

Gearing

Financial intermediation and maturity transformation cause the business model of banks to substantially differ from other business organisations. Principal difference is the substantially lower Return on Assets (ROA) that tends to be as low as 2% in general in stark contrast to between 10% – 20% earned by corporates in other sectors. Hence, the banks resort to the process of gearing in order to make the returns to the investors attractive in terms of Return on Equity (ROE). Gearing involves expanding the business volumes by mobilising more and more funding from depositors and other providers of funds to the banks and lending or investing such funds to grow the loan book, and investment portfolios on the strength of a given amount of capital.

Gearing primarily remains the cornerstone of our business model, which enables us to operate at around 10 times higher business volumes compared to the shareholders' equity. Our license to mobilise deposits from the public has made it possible. However, we are well aware that gearing exposes the Bank to a multitude of internal as well as external risks. In addition, certain emerging global developments are now threatening to disrupt the conventional business models of banks. As you would read later in this Report, the Bank has established a sound risk management framework with necessary oversight of the Board of Directors and thereby has been able to successfully manage such risks.

Stakeholder returns

As shown in the table below, Commercial Bank has been able to improve its profitability over the years while maintaining gearing at acceptable levels. This improvement in profitability reflects the net impact of the value we have been able to create by delivering value to and by deriving value from our stakeholders. From investors' perspective, this value creation is reflected in the returns the Bank has been able to generate for them in terms of earnings, dividends and appreciation in market price of shares. Subject to adjustments for scrip shares and the rights issue, the market price of a ordinary voting share grew from Rs. 120.40 to Rs. 135.80 over the past five years with a Price to Book Value of 1.26 times as at December 31, 2017, the highest among the corporates in the Bank, Finance and Insurance Sector of the Colombo Stock Exchange.

While growing organically and in the domestic market, the Bank has taken steps to leverage the inorganic and regional growth opportunities, primarily to geographically diversify its risk exposures and sources of revenue and thereby enhance its sustainability of operations and long-term value creation.

Gearing and Profitability Table – 04

	2017	2016	2015	2014	2013
ROA (%)	1.54	1.53	1.42	1.60	1.87
Gearing (Times)	11.61	12.76	11.90	10.63	9.84
ROE (%)	17.88	19.52	16.90	17.01	18.40

Our business model — Figure – 05

Sources of inputs

Financial capital
Over 14,000 investors in shares/debentures
Over 50 other lenders

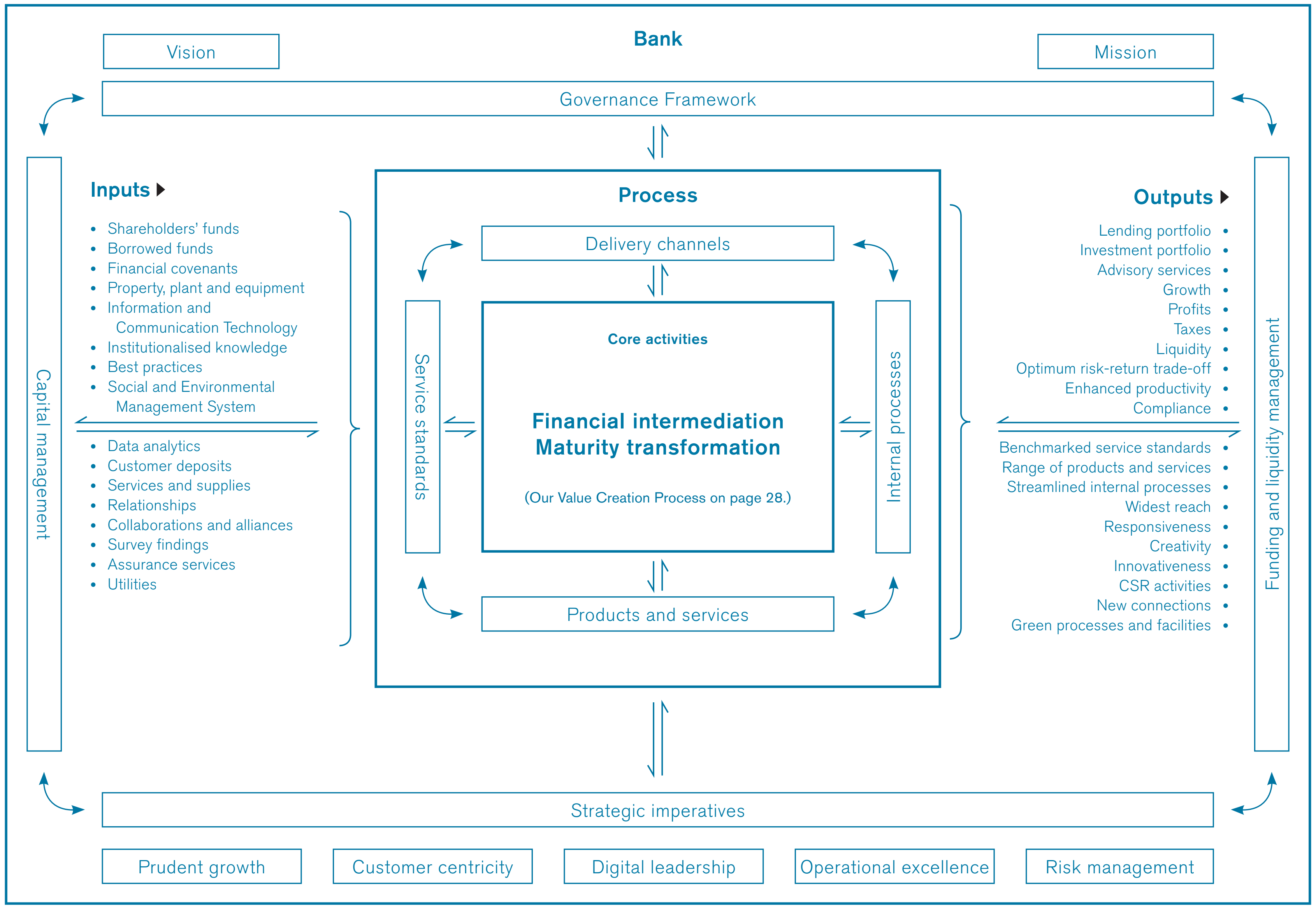
Manufactured capital
Procured by investing over Rs. 15 Bn. of financial capital

Intellectual capital
Institutionalised knowledge in terms of systems, processes, procedures and competencies

Human capital
4,982 employees with a cumulative service of 57,852 years

Social and network capital
Over 2 Mn. deposit customers
Over 600 suppliers
55 correspondent banks

Natural capital
Land
Water
Energy
Air



Operating environment

Beneficiaries and outcomes

Investors
Dividends, Interest, and capital gains
Higher Price to Book Value
A loyal investor base with a long-term view

Customers
Realised growth opportunities
Safety and security for savings
Financial inclusion
Unparalleled convenience and unprecedented choice
A satisfied and growing customer base

Employees
Remuneration and benefits
Career development
Job satisfaction
Great Place to Work

Suppliers and business partners
An integrated supplier chain
Supplier success and growth
Long-term relationships

Government
Revenue and tax collection facilities
Economic growth
Financial sector stability
Economic opportunities
Compliance

Community
Responsible banking
Financial inclusion
Community development
Social "Licence" to operate
Sustainability Development Goals

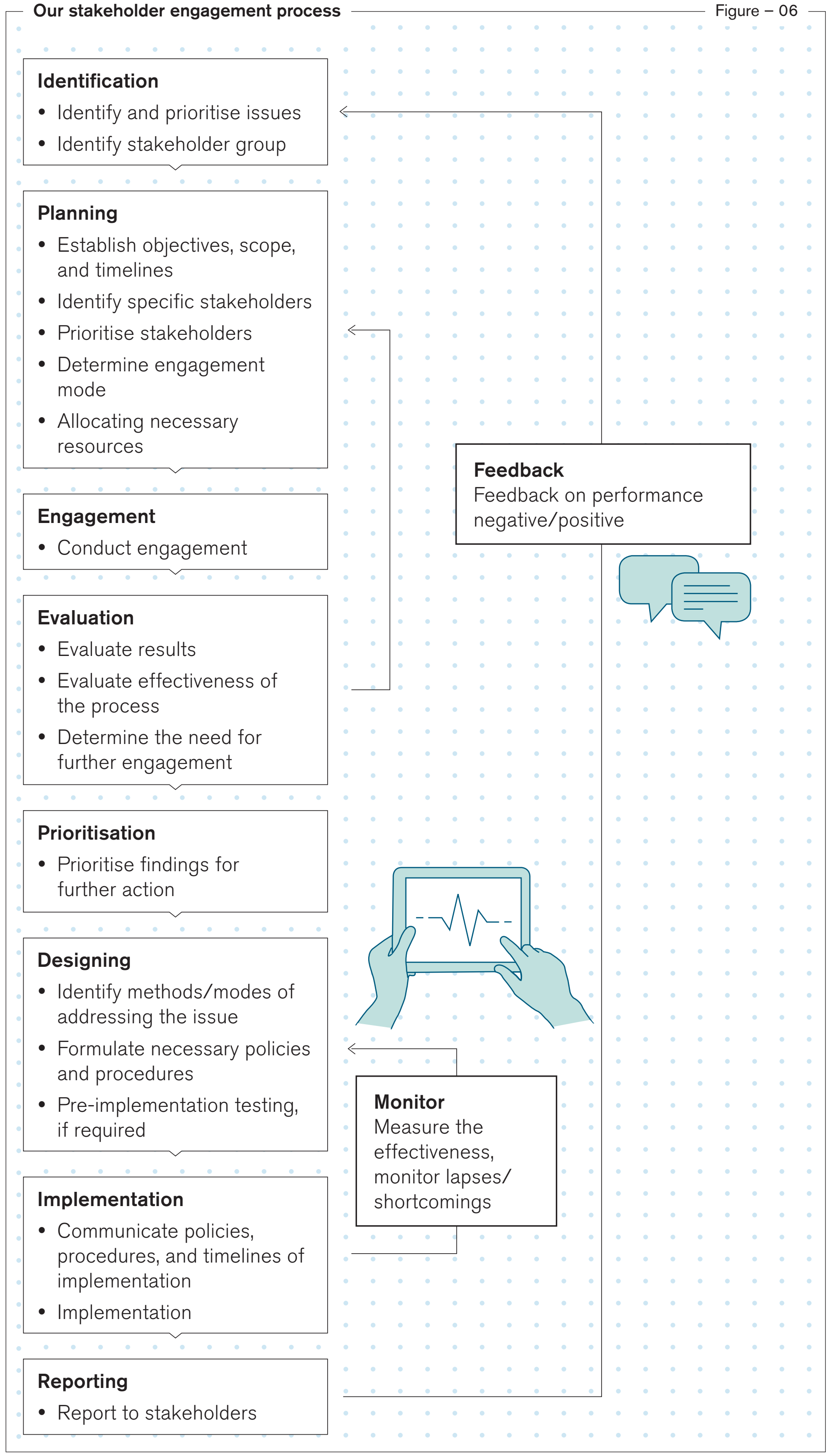
(KPIs relating to above outcomes are given in Highlights on pages 10 and 12)

Our business model

The diagram overleaf depicts the inputs used and the processes deployed for financial intermediation and maturity transformation, the two primary activities of the Bank. It also illustrates the consequent outputs generated by the Bank and the outcomes experienced by the stakeholders in 2017.

CONNECTING WITH STAKEHOLDERS

Our stakeholder engagement process Figure – 06



A stakeholder can be an individual or a group that is significantly impacted by an organisation's actions, products and services. In our case their perceptions and behaviour can also have a powerful effect on the Bank's ability to carry on its activities and meet its strategic goals. Given the significant impact stakeholders have on an organisation and vice versa it is vital for the Bank to identify them and communicate effectively.

Connecting with our stakeholders helps us to understand and address their concerns (Figure 06) while balancing the distribution of value created.

Our stakeholders are:

- Customers
- Shareholders and investors
- Employees and employee associations
- Government institutions and regulators
- Suppliers and business partners
- Community and environment

We maintain formal mechanisms to engage with each group of stakeholders (Figure 07 on page 31). Responsibility for such engagement is shared across the organisation at every stakeholder touch point.

We value stakeholder engagement as it gears us for the future, highlighting business model improvements, driving innovation, and providing invaluable insights for the strategic planning process.

How we connect with stakeholder groups

Figure – 07

Shareholders and investors

Stakeholder aspirations

- Financial performance
- Governance
- Transparency and disclosure
- Business expansion plans
- Risk management
- Sustainable growth

Mode and frequency

Engagement activity	Frequency
Annual Reports and AGMs	Annually
Extraordinary General Meetings	As required
Interim financial statements	Quarterly
Investor presentations	As required
Press conferences and releases	As required
Announcements to CSE	As required
One-to-one discussions	As required
Corporate website	Continuous

Employees and employee associations

Stakeholder aspirations

- Performance and reward management
- Training and development
- Career advancement opportunities
- Work-life balance
- Retirement benefit plans
- Value driven corporate culture
- Diversity and inclusion
- Perception of a prosperous future for the Bank

Mode and frequency

Engagement activity	Frequency
Manager's Conference	Annually
Town hall meeting	Annually
Regional review meetings	Quarterly
Branch marketing meeting	Monthly
Training programmes	As required
Intranet	Continuous
Special staff events	Annually
Trade union discussions	As required
Employee satisfaction survey	As required

Customers

Stakeholder aspirations

- Customer service
- Customer security and privacy
- Service quality
- Financial inclusion
- Affordability of services and convenience
- Grievance handling mechanism
- Financial education and literacy

Mode and frequency

Engagement activity	Frequency
Customer visits	As required
Complaints received	As required
Complaints resolution officer, relationship managers	As required
ComBank Biz Club	Continuous
Branch network and call centre	Continuous
Media advertisements	As required
Corporate website	Continuous
Customer workshops	As required

Government institutions and regulators

Stakeholder aspirations

- Compliance with directives and codes
- Local and overseas expansion
- Microfinance and SME development
- Consolidation of the financial sector

Mode and frequency

Engagement activity	Frequency
On-site surveillance	Annually
Directives and circulars	As required
Meetings and consultations	As required
Press releases	As required
Periodic returns	As specified
Submissions to policymakers	As required
Responses to consultation papers on Directions and other regulations	As specified

Suppliers and business partners

Stakeholder aspirations

- Contractual performance
- Future business opportunities
- Maintaining healthy relationships
- Timely settlement of dues
- Ease of working
- Growth potential

Mode and frequency

Engagement activity	Frequency
Supplier relationship management	As required
On-site visits and meetings	As required

Community and environment

Stakeholder aspirations

- Responsible financing
- Commitment to community
- Financial inclusion, recruitment
- Microfinance and SME
- Ethics and business conduct
- Environmental performance
- Employment opportunities

Mode and frequency

Engagement activity	Frequency
Delivery channels	Continuous
Press releases, conferences and media briefings	As required
Informal briefings and communications	As required
Public events	As required
Corporate website	Continuous

MATERIALITY MATTERS

The definition of a material topic is one that significantly affects the Bank's ability to create value over the short, medium and long-term. A topic's materiality is determined by its relevance and the magnitude of impact as well as the probability of occurrence.

The Bank's value creation process, corporate planning exercise and findings of the stakeholder engagements are bases upon which the materiality assessment is conducted keeping in mind the new opportunities and emerging major local and global social trends. The results revealed that stakeholder concerns remain largely unchanged from the previous year.

Based on principles of sustainable growth, our strategy focuses on understanding stakeholder needs and delivering value in a responsible manner that ensures we remain relevant for the future.

Material issues identified were framed in terminology relevant to the Bank and mapped to the topics of the GRI Standards and the UNGC Principles (Figure 09 on page 34). Following this reconciliation, issues that were not specifically included in the GRI Standards were also included as material topics.

We then mapped the material topics to the Bank's strategic imperatives: prudent growth, customer centricity, digital leadership, operational excellence, and risk management which rest on a foundation of sound corporate governance (Figure 09 on page 34).

GRI Content Index and the boundaries for material topics are given in Annex 4 and 5 on pages 418 to 421.

Due to the impracticality of addressing all issues that are material to the Bank and its stakeholders here, this section only covers aspects that are high in importance. Please refer Annex 5 on page 421 for the complete list of material aspects.

Management approach

The Bank manages its material topics through its strategic planning process by assigning responsibility to the heads of the relevant divisions of the Bank, allocating necessary resources based on the significance of each material topic towards achieving the aforesaid strategic imperatives. Goals and targets, where relevant are embedded into the KPIs of the Key Management Personnel to ensure that the Organisation achieve its objectives with regard to its material topics and are reviewed at regular intervals.

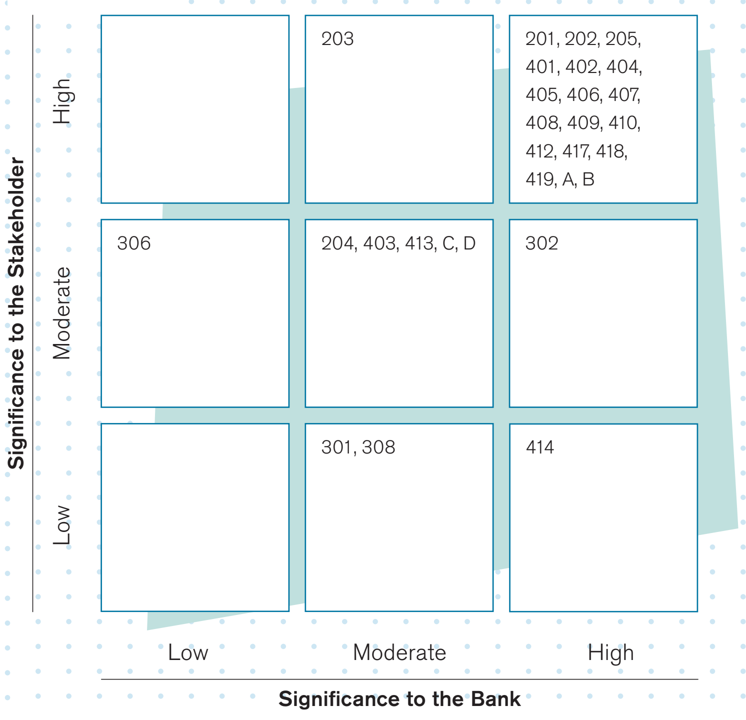
Many policies are in place guiding its people to conduct activities in a responsible, transparent, and ethical manner in managing the material topics. These policies are duly adopted by the Board of Directors and are reviewed at predetermined intervals to stay current with the changing environment.

Where relevant grievance mechanisms are in place with assigned responsibility to the relevant divisional heads to manage, address and resolve grievances.

Screening is carried out into the social and environmental aspects of the Bank's lending to its customers and dealings with its business partners.

Internal and external auditing and verifications are carried out to ensure that the internal controls, policies and procedures laid down to achieve the objectives of material topics are adhered to. Findings are reported to the Board of Directors and/or to the Management Committees on a regular basis for corrective action where necessary.

Materiality matrix Figure – 08



Non-GRI topics

A – Risk management and business continuity
B – Digitalisation and channel migration
C – Bank's CSR activities
D – Financial literacy

For the list of GRI Topics and other relevant details thereon, please refer page 421.

External ratings, awards and accolades bear testimony to the success of the Bank's approach in managing its affairs.

In this respect, the Bank's efforts during the year were directed in line with the following strategic imperatives.

- **Prudent growth:** Embracing principles of inclusive and responsible banking the Bank focused on expanding its market presence and improving its economic performance as detailed in the section on Financial Capital (pages 54 to 72).
- **Customer centricity:** Putting the customer at the heart of all we do, the Bank ensures that all products and services are in compliance with all regulations, and accurately labelled and described to enable customers to make informed decisions.

  The Bank's marketing communication policy ensures that ethics are a priority in all customer interactions. Stringent systems and processes are in place to ensure that customer privacy is maintained at all times.

  Balancing the needs of our diverse customer base, the Bank is striving to deliver convenience through tailoring technological solutions whilst keeping at heart the need for human touch.

  Freeing up staff from back office chores has helped increase the service standards with more attention given to customers and guide them to use digital channels. This also provides career development opportunities for the staff.
- **Digital leadership:** In today's context, gearing itself to be future ready means focusing and investing in innovation. Finding new ways to extend our reach and increase financial inclusion through digital channels has enabled us to achieve digital leadership and to provide contextual banking to customers by being where they are and when they want, enabling faster and secure transactions.
- **Operational excellence:** In a service organisation operational excellence depends on the competency of its employees and the efficiency of its processes.

  It is a winning team that drives the excellence of a service organisation. The Bank has taken many measures, including training and education, to ensure that its employee cadre remains efficient and well informed, (for more details please refer the section on Human Capital on pages 94 to 101).

  Automation of processes, streamlining and re-engineering of processes are steps taken to speed up the delivery of service enhancing the value delivered to the customers and enhancing value for shareholders.
- **Risk management:** The prioritisation of risks to minimise the impact of unforeseen and unfortunate events and maximise the realisation of opportunities include systems and processes that ensure the continuity of business, prevent corruption and ensure compliance at all times.

  While the Bank's Internal Audit Department continues to conduct surprise checks, its recent restructure sees this function taking on the role of trusted advisor, helping business and service units remain compliant (for more details please refer the section on Governance and Risk Management on pages 105 to 158).

The above strategic imperatives are underpinned by:

- **Corporate governance:** The Bank has a robust governance framework in place and an organisational structure with clearly defined roles and responsibilities that is described in detail in the section titled "How we govern" (on pages 106 to 117). Historically conservative, the Bank continues to uphold values such as prudence, vigilance, directness, and simplicity in the way it conducts its business and designs products and services. These qualities underpin best practices that have been devised over nearly half a century and which are diligently put into practice on a daily basis. They are what differentiate the Bank from its peers. With the Bank's leadership committed towards openness, honesty, integrity, and ethical behaviour the tone at the top drives employee culture, attitudes and behaviour. The Bank's Code of Ethics outlines the Organisation's ethos and its expectations of employees at every level.

Material topics for 2017 Figure – 09

Population growth | Urbanisation | Wealth

Material resource scarcity | Food security

Tech revolution | Climate change | Fuel and energy

Mapping material topics to GRI Disclosure and UNGC Principles

Material topics	GRI Disclosure	UNGC principles
Prudent growth		Principles 1, 4, 5, 7, 8, 9
Venturing into new markets	201, 202	
Inclusive banking	413	
Responsible lending	307, 408, 409, 412, 419	
Responsible investments		
Earnings growth	201	
Customer centricity		
Customer convenience		
Customer satisfaction		
Responsible marketing	417	
Digital leadership		
Channel migration		
Automation		
Innovation		
Operational excellence		Principles 1-6
Winning team	401, 402, 403, 404, 405, 406, 407, 408, 409, 412	
Employee productivity		
Quality consciousness		
Process automation		
Risk management		Principles 7, 9
Conduct and business ethics	205	
Community engagement	413, 419	
Capital management	201	
Funding and liquidity management	201	
Responsible sourcing	204, 308, 414	
Environmental concerns	302, 305, 306, 308	
Business continuity		
Information security	418	
Compliance		
Strong governance and organisation culture		Principle 10

Disruption is the norm

What serves us well today could be obsolete tomorrow...
a disruption of status quo is not always a bad thing!

RISK REVIEW

The Bank is operating in a highly competitive and dynamic environment. From a risk management perspective, year 2017 was characterised by changes in regulatory frameworks and reporting guidelines with the phased in implementation of Basel III Framework and SLFRS 9, worldwide spread of ransom ware to unprecedented levels targeting financial institutions in particular, significant investments for enhancing system and process capabilities arising from the above, and ripple effects of natural disasters throughout the year. Banks were seen approaching shareholders by way of rights issue of shares and capital markets by way of Basel III compliant debentures for augmenting increased levels of capital requirements. Further, competition for stable funding intensified with the implementation of new liquidity regulations in terms of Basel III and aggressive pricing for deposits is expected in the near future.

Credit growth continued at an accelerated phase in the first half of the year, but tightening of the monetary policy saw it slow down during the second half of the year. Despite a growth in non-performing loans and receivables by Rs. 19 Bn. during the year, banking sector asset quality remained more or less at the same levels of those reported at end 2016. Liquidity too remained at levels above optimum throughout the year. Interest margins continued to be under pressure.

Nevertheless, as evident from the risk profile (refer Table 05 below) and the operating results posted for the year, the rigorous risk management framework in place enabled the Bank to successfully manage its risk exposures, strengthen its stability and enhance profitability during the year. Overall risk profile did not undergo any significant changes during the year.

Progress in 2017

Key initiatives during the year in this regard include:

- Obtaining validation of the VaR model from an external consultant.
- Setting up and applying limits in VaR model to control market risk related portfolios.
- Significantly strengthened the Bank’s Social and Environmental Management System (SEMS) by recruiting experts on the subject and impanelling consultants from the market thereby enhancing the level of its acceptance within the Bank.
- Successful rights issue of shares during the year strengthened the Common Equity Tier 1 and total Tier 1 capital by Rs. 10 Bn.
- Continued overseas expansion by incorporating a fully owned subsidiary for microfinance lending in Myanmar which will help geographical diversification of risk further.
- The Bank continued to evaluate options available for implementing an Enterprise Risk Management system.

Risk profile compared to risk appetite — Table – 05

Risk category and parameter	Description	Policy parameter	Actual position 31.12.2017	Actual position 31.12.2016
Credit risk				
Quality of lending portfolio	Gross NPA Ratio	4% – 5%	1.88%	2.18%
	Net NPA Ratio	2.5% – 3.5%	0.92%	1.09%
	Provision Cover	30% – 40%	51.02%	50.11%
	Weighted Average Rating Score of the overall lending portfolios to be above	35% – 40%	57.63%	56.84%
Concentration	Loans and Advances by Product – Highest exposure to be maintained as a percentage of the total loan portfolio	30% – 40%	21.46	40.39%
	Advances by Economic sub-sector (using HHI)	0.015 – 0.025	0.016	0.0158
	Exposures exceeding 5% of the Eligible Capital (using HHI)	0.05 – 0.10	0.0071	0.0061
	Exposures exceeding 15% of the Eligible Capital (using HHI)	0.10 – 0.20	0.0095	0.0075
	Exposure to any sub-sector to be maintained at	4% – 5%	4.04%	3.97%
	Aggregate of exposures exceeding 15% of the Eligible Capital	20% – 30%	24.71%	20.55%
Cross border exposure	Rating of the highest exposure of the portfolio on S&P Investment Grade – AAA to BBB-	AA	AAA	AAA

Risk category and parameter	Description	Policy parameter	Actual position	
			31.12.2017	31.12.2016
Market risk				
Interest rate risk	Interest Rate Shock: (Impact to NII as a result of 100bps parallel rate shock for LKR and 25bps for FCY)	Maximum of Rs. 1,300 Mn.	**Rs. 1,243.61 Mn.**	Rs. 670.86 Mn.
	Re-pricing Gaps (RSA/RSL in each maturity bucket – upto one year period)	< 1.5 Times (Exemption < 2.5 times for 1 Month bucket)	**0.89 Times (2.34 times for 1 Month bucket)**	0.96 Times (2.03 times for 1 Month bucket)
Strategic risk				
	Capital Adequacy Ratio			
	CET1	Over 10%	**12.11%**	10.37%
	Total Capital	Over 14%	**15.75%**	14.87%
	ROE	Over 20%	**17.88%**	19.52%
	Creditworthiness – Fitch Rating	AA (lka)	**AA (lka)**	AA (lka)

Besides the conventional risks the Bank is faced with, it paid attention to several emerging risks and uncertainties with potential to disrupt banking business models in the future, arising from certain global developments and deliberated on the strategic responses thereto. A detailed review of these risks and mitigation measures is given in the Section on "Managing Risk: An Overview" on page 154 to 158.

Other developments and outcomes in relation to the risk profile and risk management initiatives during the year included:

- Increased foreign currency borrowings after a careful analysis of cost of funds and maturity profile of assets and liabilities.
- Stress tested the assets portfolio for Credit, Market and Operational risk under different stress scenarios which revealed that the risks associated therewith were well within the risk tolerance levels even under severe stress levels.
- Gearing in terms of on balance sheet assets as well as risk weighted assets improved from 12.92 (times) and 6.72 (times) in 2016 to 10.68 (times) and 6.35 (times) respectively in 2017.
- Both gross and net NPL ratios improved to 1.88% and 0.92% in 2017 from 2.18% and 1.09% respectively in 2016
- Both Provision Cover and Open Credit Exposure ratios improved to 51.05% and 7.60% in 2017 from 50.11% and 9.53% respectively in 2016.

Plans for 2018 and beyond

The Bank will continue to strengthen the Risk Management Framework further by taking into account the evolving regulatory requirements and conventional as well as emerging risks and uncertainties. Specific initiatives in this regard will include:

- Having the rating systems externally validated with the critical mass of information now in place,
- Implementing a new Assets and Liabilities Management System with an embedded risk based Funds Transfer Pricing mechanism and risk adjusted return calculations, enabling the Bank to better align the cost of capital to the risk profile of the borrowers.
- Gradual shifting of the maturity profile of assets from long term to medium term to improve maturity profile of assets and liabilities
- Furthering the success experienced in Bangladesh, Maldives, and Italy, continuing to explore opportunities for regional expansion to other geographies which will diversify the risk profile
- Maintaining a persistent focus on emerging risks and continuing to invest in improving protection against cyber security capabilities.
- Further integrating systems for effective risk management
- Intensifying the mobilization of stable funding

MANAGING FINANCIAL CAPITAL

Capital plays multiple roles in a bank. It helps a bank to acquire property, plant and equipment to establish and perpetuate business, protect uninsured depositors, act as a buffer to absorb unanticipated losses and also serves as a regulatory restraint on unjustified asset expansion. It is perhaps the last two roles that prompted regulators to prescribe higher capital, both in terms of quality and quantity, depending on the level of sophistication of a bank's operations.

As a result, banking has become a capital intensive business and capital is becoming the "limiting factor" inhibiting the growth of the banking industry in the face of tightening regulatory requirements and reporting standards. Both Basel III and SLFRS 9 promise to have a profound impact on the emerging banking landscape. Banks will require more capital and liquidity in future and would be forced to take less risk, all leading to higher costs and lower returns.

In the circumstances, the Bank accords the highest importance to pro-actively managing the capital at its disposal to remain solvent. Through the Internal Capital Adequacy Assessment Process (ICAAP) as well as the annual strategic planning and budgeting exercise, the Bank assesses its capital requirements. The Bank deploys tools such as prudent capital allocation, balancing risk-weighted assets, timely pricing, dividend policy, products and services portfolio and capital instruments for managing capital which has become a scarce resource.

Capital management objectives

Objectives of the Bank's Capital Management efforts include;

- Compliance with the regulatory requirements
- Maintaining internal capital targets which are more stringent than the regulatory requirements
- Optimum capital usage for maximum profitability thereby meeting the expectations of investors
- Supporting future business expansion
- Supporting desired credit rating
- Satisfying Basel III capital requirements while bearing the impact of SLFRS 9 due to additional provisions under expected credit loss model which requires provisions on off balance sheets exposures too in additions to current provisions made on balance sheet exposures.

Factors affecting capital

Restrictive capital definitions, difficulty in raising fresh capital given the poor market conditions, higher risk-weighted assets, additional capital buffers and higher capital adequacy ratios required under Basel III regulations are already in place pressuring capital requirements of banks. In addition, higher impairment provisioning anticipated based on the expected credit loss model under SLFRS 9 as opposed to the current incurred loss model under LKAS 39 which will make the provisions better aligned with the higher revenues from riskier loans, too will have implications on capital. In addition, the Debt Repayment Levy proposed in the Government budget 2018 which is to be borne by the financial institutions and the removal of most of the tax concessions currently available which will increase the tax payments are also expected to have a significant impact on the amount of capital that banks can internally generate.

During the year risk-free interest rates averaged over 9.5% and as a result, shareholders expect a risk premium in the return on their investments given the risks associated with investments in shares in the Bank. Raising Common Equity Tier 1 (CET 1) capital is relatively expensive compared to Basel III compliant Tier 2 capital due to the perpetual nature of such funds. Tier 2 capital with convertible options to be compliant with Basel III are saddled with additional risk premium but is tax friendly with the interest expense being tax deductible and whereas the cost of CET 1 capital is not. Increase in CET 1 capital results in a higher dividend payout resulting in less profit being ploughed back to the Bank. In order to address this issue, the Bank is currently evaluating the optimum mix of CET 1 and Tier 2 capital.

Progress in 2017

Despite the above pressures, by properly aligning capital planning with the corporate strategy, the Bank was able to successfully manage its capital which remained at comfortable levels throughout the year and as at the year end, leaving sufficient leeway for future business expansion. The primary contributors were the rights issue of shares in June 2017 infusing Rs. 10 Bn. and the relatively low levels of gearing that the Bank is currently operating at both in terms of on balance sheet gearing [10.68 times] as well as gearing in terms of risk-weighted assets [6.35 times]. The Bank also maintained a substantial portfolio of assets in Government securities which required no capital allocation. However, these too will attract a capital charge going forward.

During the year, the Bank assessed its capital requirements under the ICAAP using standardised approach for credit and market risk and basic indicator approach for operational risk, taking into account a broader range of risks and the Bank's risk and capital management capabilities. It revealed the need for a capital infusion to support the growth trajectory of the Bank for next two years, prompting the Bank to venture in to a rights issue. The ICAAP also assisted the Bank in realigning business processes to optimise capital utilisation. In addition, the Bank reviewed its Risk Control Self Assessment processes twice during the year to ensure the adequacy of processes to identify, record and assess potential risks and related risk management controls and implemented necessary actions to fill identified gaps.

The Bank also focused on generating tradeable loan assets to be able to dispose of such assets as and when required to reallocate funds for more capital efficient projects which also helped the Bank to increase its fee based income.

Capital Adequacy ratios and profitability ratios over the past 5 years are given on page 10 under Financial goals and achievements.

Total RWA for Credit Risk and Market Risk have increased to Rs. 725.5 Bn. and Rs. 6.3 Bn. respectively during 2017 from Rs. 602.9 Bn. and Rs. 3.6 Bn. during 2016. The RWA for Operation Risk meanwhile has increased to Rs. 57.9 Bn. during 2017 compared to Rs. 51.3 Bn. in 2016. The overall increase in RWA during 2017 was Rs. 131.8 Bn. which has been mainly contributed by the growth in loan book.

The CET 1 Capital stood at 12.11% as against the regulatory requirement of minimum 6.25%. The total capital ratio had improved to 15.75% in 2017 compared to 14.87% in 2016 which was well above the regulatory requirement of 11.75% Basel Work Group of the Bank met on a half-yearly basis to assess the capital adequacy and other capital related issues and to formulate and escalate its suggestions for implementation by way of strategies.

While the Bank has been historically generating significant amounts of capital through retained earnings, as evident from the issues of equity and debt instruments in the past, the Bank has a loyal shareholder base who takes a long-term view of their investment in the Bank and is ever willing to support the Bank at favourable terms whenever additional capital is required for business expansion.

2018 and beyond

Implementation of SLFRS 9 and Basel III would demand key changes in the way banks govern and report the asset side of their balance sheets, and could have a material impact on regulatory capital requirements. The capital planning therefore has become a critical exercise for all banks.

In line with the regulatory roadmap for additional capital requirement under Basel III guidelines the Bank also aligned its strategies to optimize the level of capital.

Having identified the need for expanding the capital base and after a careful analysis of the prevailing market conditions, the Bank has decided to issue 50 Mn. listed, rated, redeemable, subordinated Basel III compliant debentures with a non-viability conversion feature to raise Rs. 5.0 Bn., with the option of going upto Rs.10.0 Bn. to improve the Tier 2 capital requirements.

The Bank has sought approval from the Regulator to adopt Alternative Standardized Approach (ASA) in computation of risk weighted amount for operational risk as against the Basic Indicator Approach (BIA) which too is expected to give a substantial improvement in CAR.

The implementation of the SLFRS 9 impairment model puts extra pressure on the already dwindling NIM of banks and eventually the ability to plough back profits as capital for future expansion purposes, with the shift to the expected credit loss model. This has over emphasized, the need to move for rating based calculation on expected loss compared to the days past due (DPD) method. During 2018 the Bank will be undertaking a validation of its rating models by an independent party, which is a pre-requisite for relying on the rating based expected loss calculation as it can provide much improved loan loss provision figures thus easing the pressure on the scarce capital. In addition, a number of initiatives are in progress with regard to automation of certain back office functions which will bring about cost advantages to the Bank leading to improvement of profits that could end up as capital through retention.

Selection of sources of funding while having an understanding of regulatory controls in place as well as business requirements to grow in a sustainable manner, the Bank will rebalance its portfolios not only from a liquidity perspective but also from a profitability perspective to create better shareholder value.

Applying risk based pricing too is likely to be a universal approach to be adopted by all contenders in the banking environment in order to improve the NIM and will be pursued vigorously by the Bank as well. The bank feels that the need to adopt more robust risk based pricing techniques will be adopted across the industry in line with some of the developments facilitating a level playing field for such adoption. Revisiting the attractiveness of certain products in terms of utilization levels especially, the revolving limits to reduce the impact on provision requirement on the unutilised committed credit lines with the adoption of SLFRS 9 will push all banks in this direction.

Meanwhile the Bank will upgrade risk profile of its asset portfolio by continuously striving to maintain a high quality asset book through careful and strict risk assessments at the time of on-boarding new counterparties.

While the borrowings in the past have primarily been from a funding and liquidity perspective, going forward the Bank will explore borrowings from a capital perspective by going for convertible structures. The Bank will explore options available to adopt a scientific approach to capital allocation as well.

The current Funds Transfer Pricing (FTP) system is mostly based on duration rather than risk associated with the loans granted. The Bank is currently evaluating a FTP mechanism which will also capture the cost of capital through a revised yield curve, so that the cost of additional capital to be consumed will be recovered from the end user.

FUNDING AND LIQUIDITY MANAGEMENT

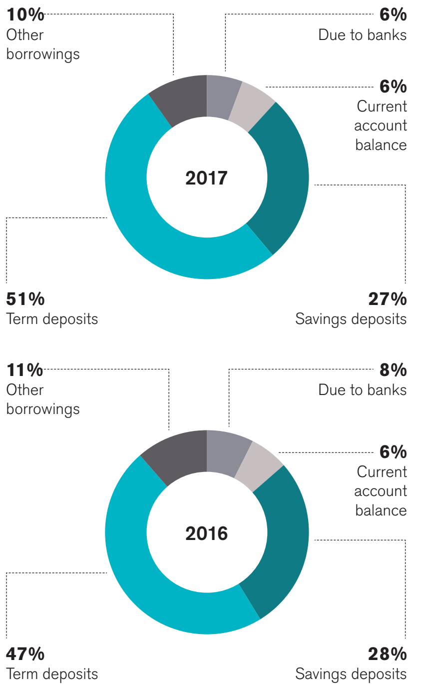
Funding and liquidity is an important criteria for the resilience of the financial services industry. Circumstances that led to the financial crisis in 2007 and events that followed reinforced the fact that funding and liquidity is as important, if not more, as capital. Yet, unlike for capital, there were no internationally harmonised standards with regard to liquidity. As a result, Basel III included provisions to strengthen the funding and liquidity risk management of banks with a view to promote the short-term and long-term resilience of a bank's liquidity risk profile through the introduction of the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) respectively. In addition to the Statutory Liquid Assets Ratio, the LCR came into effect in 2015 while the NSFR will come into effect from April 1, 2018, both promising to penalise banks for excessive reliance on short-term, wholesale funding to support long-term assets.

Accordingly, to make it viable as well as for maintaining public trust in the Bank and the financial services system, the Bank accords as much importance to funding and liquidity as for capital, for ensuring that the Bank has sustainable sources of funding and maintains adequate levels of liquidity at all times. The Bank never compromises on its liquidity in its drive to generate returns for investors. The Assets and Liabilities Committee (ALCO) of the Bank which meets fortnightly actively monitored the funding and liquidity requirements and pricing of assets and liabilities, taking into account liquidity constraints and pricing challenges. The Bank took measures to encourage the use of electronic cash and cards in order to reduce cash holdings. The Bank has established credit lines with strong overseas counterparties, enabling it to access foreign currency funds at attractive prices.

The Bank has wider access to retail deposits through its branch network and relies on that stable funding source as the primary source of funds for onward lending. However, the Bank is not averse to avail low cost foreign currency borrowing opportunities available in the market, provided the interest and swap cost attached to such borrowing is cheaper as compared to the cost of wholesale deposits.

The Bank deploys tools such as compliance with reserve requirements, liquid assets ratio, Liquidity Coverage Ratio, Net Stable Funding Ratio, loans to deposits ratio, interest rates, Government securities, money market instruments, debt instruments and SWAPs etc. and debenture interest, maturity profile of assets and liabilities, sensitivity analysis and contingency funding arrangements for managing its funding and liquidity profile.

Funding diversification by products — Graph – 19



Objectives

Objectives of the Bank's funding and liquidity management efforts included;

- Honouring customer deposit maturities/ withdrawals and other cash commitments efficiently under both normal as well as stressed operating conditions
- Compliance with the regulatory requirements
- Maintaining internal funding and liquidity targets which are more stringent than the regulatory requirements
- Optimum usage of liquid assets for maximum profitability thereby meeting the expectations of investors
- Funding future business expansion at optimum cost
- Supporting desired credit rating
- Ensuring smooth transition to Basel III funding and liquidity requirements

Factors affecting funding and liquidity

Interest rates – both current and perceived, changes in money supply, money market developments, demand for Government securities, Treasury Bills/Bonds holding of the Central Bank of Sri Lanka, developments in the capital markets, level of imports and exports, loan growth, market liquidity, national savings ratio, regulatory developments, Government tax regulations etc. affect the funding and liquidity levels of banks. Relative to the wholesale funding sources, retail customer deposits tend to be more stable since a core component therein is likely to remain with the Bank for the medium to long-term.

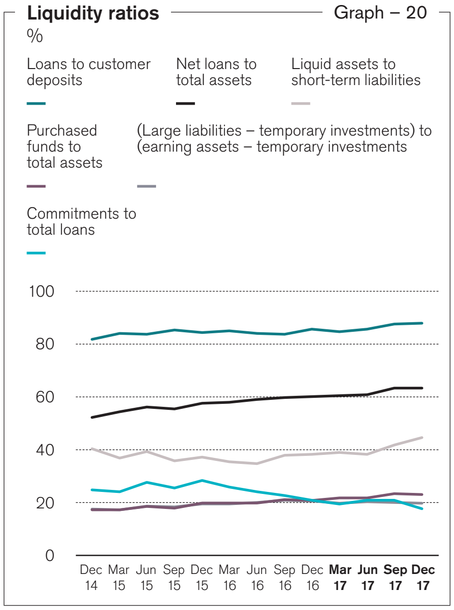
During the year, foreign inflows to the Government securities and the capital markets as well as the reduction of the CBSL's holding of Treasury Bills and Bonds contributed to the higher market liquidity and to limit currency depreciation. Higher loan growth in the initial months of the year resulted in negative mismatches in assets and liabilities which were financed through new foreign currency borrowings. Increase in M2b money supply by 16.70% (source: CBSL) during the year was also a contributory factor for the market liquidity.

Progress in 2017

With due regard to the factors affecting it and as guided by the ALCO, the Bank maintained optimum levels of funding and liquidity, under normal as well as stressed conditions, throughout the year as evident from the indicators given in graphs on page 41, enabling the Bank to earn higher net interest income. Both the Bank's assets and liabilities are well diversified without any significant concentrations. Diversifying its funding sources, the Bank borrowed USD 100 Mn. from IFC during the year. Suitable standby arrangements are also in place to meet contingency funding and liquidity requirements in the event of any stressed conditions.

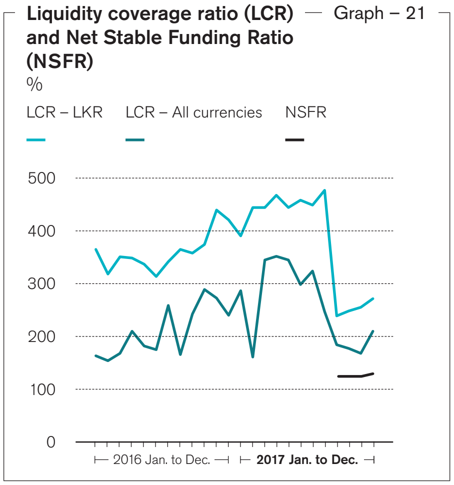
74.35% of the Bank's assets are funded by customer deposits and customer deposits made up 82.04% of the liabilities as at December 31, 2017. The funding portfolio was sufficiently diversified by type as well as maturity and represented a stable source of funding. As at December 31, 2017, the LCR at 209.17% (for all currencies) was well above the minimum requirement of 100%. The NSFR which will become a prudential requirement in 2018 was at 127.87% as at December 31, 2017.

Movement of liquidity ratios over the last four years are given in graph 20 below:.



The Bank had an available-for-sale securities portfolio of Rs. 154.87 Bn. as at December 31, 2017 (Rs. 160.02 Bn. as at December 31, 2016) that can be used to meet any funding requirements if the need arises in the normal course of business or due to market stress.

Movement of the liquidity coverage ratio and net stable funding ratio are given in graph 21 below.



The Bank tested its ability to withstand stressed liquidity conditions using several metrics. In December 2017, the Bank re-evaluated and updated its liquidity stress testing framework in December 2017.

The Bank observed that stress testing results at varying degrees of risk thresholds could result in strain on the day-to-day operations. However, even during a severe stress scenario, it was noted that the strain can be withstood with the resources at disposal and contingency plans are in place in the Bank.

2018 and beyond

In the wake of the LCR and the NSFR and also in preparation for any potential liquidity tightness in the region, the Bank will continue to move its current short-term reliance for funding more towards medium to long-term tenors. The Bank anticipates a certain amount of money to flow out of the region due to the extremely good performance in the US economy and satisfactory performance in Europe as well as geopolitical tensions. The Bank is also exploring the possibility of gradually reducing its dependence on deposits of low liquidity value such as interest sensitive wholesale funding. In order to improve its funding profile further, the Bank is currently evaluating broad-basing its funding sources to other multilateral lending institutions and also to other currencies by borrowing in currencies other than United States Dollars.

STRATEGIC PRIORITIES AND RESPONSES

The future of the Bank will be defined by the strategic choices it makes today.

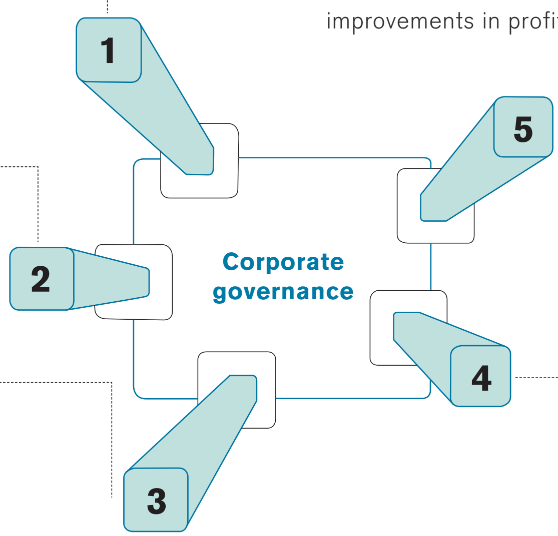
Emerging operating environment

Banks are operating in a highly competitive and dynamic environment. Certain developments relating to technology, stakeholder preferences and expectations, new forms of competition, sustainability, regulations etc., some of which are emerging risks have made the future of banking even more challenging. All these developments call for strategic responses on the part of banks for long term growth.

Strategic imperatives

Given that things are changing so fast today, the Bank understands that it needs to be in a constant state of adaptation to respond to these developments if it is to continue to be a sustained value creator. Accordingly, the Bank has identified **prudent growth, customer centricity, digital leadership, operational excellence,** and **risk management** as five broad strategic imperatives for "banking on the future".

Historically, the Bank has always championed disciplined growth. Strengthening the Bank's leadership in Sri Lanka and expanding its regional presence, the Bank has been able to grow at compounded annual growth rates in excess of 16% in total assets, loans and receivables, customer deposits and over 10% in profit before taxation over the past five years. Strategies have been devised to ensure that the Bank will continue to grow at a healthy pace. In this regard, the Bank is cognisant of the need to have a perfect understanding of the evolving customer demands and expectations and based on the insights drawn from this understanding, align its value proposition to match their expectations. Offering products and services through digital and mobile channels will be a pre-requisite in this respect. Similarly, achieving operational excellence by investing in best-in-class technology and integrating and modernising legacy systems to ensure smooth operations while achieving cost efficiencies is also a priority. The Bank will devise strategies for confronting these imperatives while managing the underlying risks within the Bank's desired risk profiles as expressed in terms of risk appetite and risk tolerance limits (refer table 38 on page 372).



Prudent growth – growth in business volumes and revenue with accompanying improvements in profitability and asset quality

Customer centricity – perfectly understanding the customer expectations and aligning the value proposition therewith

Digital leadership – leveraging digital and mobile platforms to offer products and services to the customer

Risk management – executing strategies to address other strategic imperatives within the risk thresholds

Operational excellence – streamlining back office operations to speed up and achieve execution excellence

Strategic responses

While these are closely interconnected and mutually inclusive, the Bank has also developed appropriate strategic responses for each of these imperatives for execution by the business units and support service functions in the Strategic Plan 2018-22 through the corporate planning and budgeting exercise, a process that has been fine-tuned over a decade.

Strategic responses have been developed on a number of aspects under each of the five strategic imperatives as given below:

Table – 06

Prudent growth	Customer centricity	Digital leadership	Operational excellence	Managing risk
Strengthen leadership in Sri Lanka	Products and services	Digitalisation	Employee value proposition	Risk appetite
Expand regional presence	Channels and networks	Online offering	Service standards	Optimising risk return trade-off
Diversification	Customer relationships	Digital channels	Internal processes	Emerging risks
Asset quality	Integrating service standards	Channel migration	Embracing new technologies	Governance/Compliance
Brand building	Customer education	Innovation and experiments	Partnerships/collaboration	Diversification
New Product development	Customer onboarding	Big data and data analytics	Operational efficiency/ cost containment	Funding and liquidity
Pricing and profitability	Data security/ customer privacy	Systems integration	Performance evaluation	Cyber security
Cross-selling	Customer expectations	Systems upgrades	Network optimisation	Disruptive innovations
Capital and stability	Customer satisfaction	Digital natives	Centralisation	New laws, rules and regulations
Inclusive banking	Convenience	Payment services	Supply chain	Environmental stewardship
Sales orientation	Customer engagement		Processing speeds	Fraud monitoring

Respective strategic responses have been referred to under the business units and support functions in the Management Discussion and Analysis on 📖 pages 49 to 104 and the reports on risk management on 📖 pages 154 to 158 to the extent they can be disclosed.

Strategy execution

Planning and execution being two sides of the same coin, execution is equally important. Hence, these strategic responses were communicated to all those who are responsible for their execution at the beginning of the year, defining the path the Bank is planning to take into the future and making it clearer for them as to how the Bank is planning to compete.

The corporate plan and the budget were adequately deliberated by the Board and the approval for the budgeted targets for 2018 was obtained in December 2017. This enabled the Bank to timely communicate the targets to all business units.

OUTLOOK FOR 2018 AND BEYOND

Throughout this Annual Report, particularly in the section on Financial Capital section (📖 page 54 to 72) we discuss the strengths and achievements of the Bank in the context of the operating environment that prevailed. They are good indicators of the Bank's prowess in the financial services arena and reflect healthy growth and financial stability. Yet, given the unprecedented pace of change in the operating environment and the potential challenges the conventional banking business models face, the Bank is cognisant that historical performance does not necessarily provide an assurance about the Bank's future potential and prospects.

Hence, this section summarises the Bank's plans to deliver value to stakeholders in 2018 and beyond, in the context of the forecast operating environment, based on publicly available information. Naturally, its extremely volatile nature makes the future hard to predict. As the statements below are forward looking, we urge you to keep in mind that all opinions, forecasts and plans given here are subject to change based on how the future unfolds. Such changes will in turn impact the risks and rewards outlined here.

Global economy

As we move into 2018, global growth is set to continue with some momentum, reaching a projected 3.9%, compared to 3.6% growth in 2017, led by India and other emerging market and developing economies. A unified domestic market and other structural reforms are expected to improve economic growth in India to 7.4% in 2018 up from a projected 6.7% for 2017. China is expected to experience a growth of 6.8% in 2017. Investment, trade, and industrial production are expected to maintain good growth, with rising confidence from businesses and consumers boosting recovery.

Advanced economies are expected to grow by 2.3% in 2018, thereby maintaining the growth of 2.3% estimated for 2017. The United Kingdom's outlook for 2018 appears uncertain as it attempts to redefine its economic relationship with the EU in relation to Brexit, with growth projected to fall to 1.5% from 1.7%.

South Asia growth decelerated but remained strong in 2017, at an estimated 6.5% – mainly due to temporary disruptions in India with the new goods and services tax. Growth is expected to pick up to 6.9% in 2018 and stabilise around 7.2% on average, in 2019-20, as consumption remains strong, exports recover, and investment revives with ongoing policy reforms and infrastructure improvements. Main risks to the outlook include setbacks in reviving investment, fiscal slippages, and disruptions to activity resulting from natural disasters.

Bangladesh is projected to grow at an average of 6.7% a year over the next three years, benefiting from strong domestic demand and strengthening exports, low interest rate and improved infrastructure. Remittances are expected to rebound as the growth firms in Gulf Cooperation Council (GCC) countries.

Sri Lankan economy

Reflecting strong private consumption and investment growth for the most part, Sri Lanka's economic growth is projected to average 5.1% a year over 2018-2020 with exports supported by the reinstatement of the GSP+ with the European Union. Reducing Government debt to a sustainable level is a priority with plans in place to reduce the budget deficit to 3.5% of GDP by 2020. For the first time since 1987, a surplus in the current account is expected in 2018.

In its "Vision 2025 – A Country Enriched", the Government outlines plans to transform Sri Lanka into an Indian Ocean Hub, with a knowledge-based, highly competitive, social-market economy. Development of the Colombo International Financial Centre (CIFC) within the Colombo Port City Development has already begun. Its completion along with the proposed National Logistics Policy for Shipping and Air Transportation, and the Telecommunication Connectivity Policy is expected to propel the CIFC as a financial hub strategically located between Dubai and Singapore.

Buoyed by World Bank and IMF programmes, Sri Lanka's economic reform agenda is projected to boost macroeconomic stability in the medium term. Widening regulatory provisions for the trading of derivatives and commodities, and introducing investment products to a larger customer base are also part of the Government's plan for 2018 and beyond.

On the socio-political front, local government elections held in February of 2018 has caused some political instability, adversely affecting economic activities, perhaps leading investors to take a wait and see approach as they did in 2015.

Adverse weather conditions have affected the agriculture sector in the recent past and there is good reason to believe that climate change will continue to impact this sector. The ripples caused by such events are likely to have a knock-on effect on the economy in the near future as well.

Central Bank's Road Map 2018 details a range of planned measures to sustain the theme of "Building on Stability" and strengthen Sri Lanka's long-term economic performance which include:

- A Flexible Inflation Targeting framework by 2020 to help ensure that monetary policy is conducted in a proactive manner, targeting an inflation range of 4-6%.
- A revenue-based fiscal consolidation programme to reduce budget deficits and debt levels.
- The Fiscal Management (Responsibility) Act to include effective sanctions for breaching targets, specify instances when targets can be breached and guide how to get back on target after such a breach. Sri Lanka is currently at 5.2% of GDP for fiscal deficit and 79% of GDP for public debt, against the targets of 3.5% for deficit and 60% for debt.
- Speeding up amendments to the Securities and Exchange Commission (SEC) Act and the Demutualisation Bill, helping to bring Sri Lanka's capital market in line with global norms.
- Through the Debt Management Bill Sri Lanka's public debt sustainability is to be managed at a national level. Foreign liability is a priority with the country facing its largest ever foreign debt servicing requirements during 2019-2022 amounting to almost USD 15 Bn.
- Encouraging market-based reforms to support private sector investments, the Government will be working to correct the country's legal and regulatory frameworks, financial market infrastructure, and institutions, in a bid to attract FDI and portfolio investment.
- The Electronic Transactions (Amendment) Act aims to ensure that Sri Lanka's e-commerce legislative framework is on par with those of Singapore, Australia, and China. The country's cyber security framework will also be further strengthened.

Banking sector

Digital disruptions challenging conventional business models and changing user expectations with demographic shifts coupled with tightening regulations requiring higher and quality capital and liquidity are expected to have profound implications on financial institutions world over. Banks in particular will need to adapt themselves innovatively to face the potential impact of these headwinds and sustain their value creation.

With the macro-economic environment expected to improve and stabilise in the medium term making it a conducive environment for achieving sustainable economic growth, Sri Lankan banking sector too is expected to continue its growth momentum. Both interest rates and inflation are expected to remain stable at the current levels. In the meantime, Sri Lanka will move towards the upper middle income category within the next three years. Historically, Sri Lanka's economic growth has been driven by the services sector, banking industry in particular. Given the strong correlation between the banking industry and the economic activity, this augurs well for the banking sector, generating opportunities to grow its business volumes.

With a fairly developed regulatory regime, Sri Lanka has been enjoying financial system stability. We have witnessed how resilient Sri Lanka's banking sector is in the wake of external shocks in the past mainly due to stringent regulations and prudent industry practices. The banking sector has a fairly diversified loan portfolio at present with exposure to any particular sector not exceeding 20% on average. Several regulatory measures were taken in the recent past to further strengthen the sector, mostly in compliance with the Basel III requirements relating to capital and liquidity which will come into effect in full from January 1, 2019. These are however expected to reduce banks' ability to leverage their balance sheets in terms of risk-weighted assets.

Banks will aggressively concentrate on channel optimisation with physical branch expansion expected to slow down while online and mobile channels expanded to offer contextual banking (i.e., seamless banking through mobiles where financial services are offered to customers at the place and time of their choice). These factors are expected to have a positive impact on the cost to income ratio as well.

Emerging trends are expected to have a significant impact on the banking business model. In order to respond to the accompanying challenges and meet ever growing customer expectations, banks will have to revamp their offering in terms of products and services, delivery channels, service standards and internal processes, making significant investments in technology.

Move from collateral Based lending to cash flow-based lending will continue. There will be demands for and regulatory pressures on banks to be more transparent in their tariff structures. Data analytics will play an important role to overcome these challenges.

Transaction banking (cash management, correspondent banking, international trade finance, factoring and related currency services) will increasingly become the basis for corporate banking relationships rather than previous investment banking considerations (such as corporate financing, M&A, equity financing and debt issuance.)

Despite tax exemptions being no longer available on investments in listed debentures, banking sector will increasingly rely on capital market for meeting capital requirements by way of rights issue of shares and Basel III compliant debt securities.

Government Budget 2018 had a proposal to set up a development bank. Given the fact that the country does not currently have a sizable development bank and commercial banks have limitations in funding development lending, this is certainly a welcome proposal.

The Debt Repayment Levy proposed in the 2018 Budget and removal of most of the tax concessions currently available on investments in Government Securities are expected to negatively impact the internal capital generation of banks. Increased minimum capital requirement of Rs. 20 Bn. by December 31, 2020 will exert pressure on smaller banks.

Main Regulatory Changes that will affect the banking industry in future.

- Adoption of the "expected loss model" in place of the "incurred loss model" for impairment testing upon implementation of SLFRS 9 is expected to substantially increase the impairment provision of banks.
- Upon full implementation of Basel III, the minimum total capital adequacy ratio for domestic systemically important banks will be 14% from January 2019.
- Banks will come under pressure with the proposed increase in minimum capital requirements.
- Removal of most of the tax concessions currently available and the imposition of the debt repayment levy under the new Inland Revenue Act/Budget proposals for 2018 are expected to significantly increase tax liability of banks.

Our plans

We are cognisant of the duality and the strong interconnectedness between the value delivered to the stakeholders and the value derived from them in turn. In fact, we know that the more value we deliver to our stakeholders, the more value we will be able to derive from them. Accordingly, taking the emerging trends and developments too into account, we will do our utmost to deliver enhanced value to all our stakeholders. Our focus remains fixed on the long term while balancing the demands of the short and medium term.

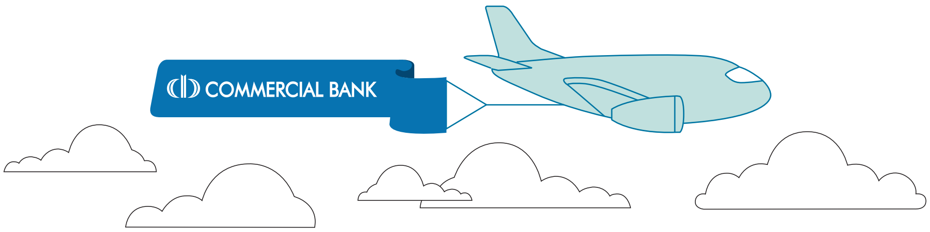
Consistent growth: Stability and reputation has enabled the Bank to record a consistent growth throughout its history spanning close to 50 years in its present name. We enjoyed compounded annual growth rates in excess of 16% on average over the past five years, in business volumes. Our growth rates have been in excess of the industry averages, signifying gains in market share. As at December 31, 2017, we accounted for over 11% in loans, deposits and total assets of the banking industry. Our aim is to continue to maintain a consistent growth over the next several years and based on the strategies we have implemented/will be implementing shortly, we are confident of achieving the targeted growth.

The table below outlines our financial goals for the medium term:

Our goals Table – 07

Performance indicator	Goal
Return on average assets	Over 2%
Return on average shareholders' 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
Capital adequacy:	
CET 1 – Minimum 6.25%	10%
Total Tier 1 – Minimum 7.75%	10%
Total capital – Minimum 11.75%	15%

Financial inclusion: Providing banking services to the unbanked remains one of our priorities as we push further out into



Taking banking to the "unbanked"

the peripheries beyond urban centres. We are proud of our reputation as Sri Lanka's largest financier to the SME sector. Our 16 Agriculture and Micro-Finance Units work hand-in-hand with hard-to-reach communities, connecting rural households to our branch network and in turn providing us with invaluable insights on how to serve these customers better.

The concept of a "Bank on Wheels", for instance, is a result of our in depth insights into this segment. When our planned mobile branch receives significant demand from a particular area we are then able to establish a brick and mortar branch for the convenience of these customers.

Digital connectivity: All our customers, in both rural and urban areas, are fast becoming or indeed have already become a long-established part of the digital revolution. Even our Corporate Social Responsibility Trust focuses on improving the digital savviness of children in rural and urban areas (refer pages 78 to 89 under Social and Network Capital). Indeed, many households in the peripheries have a family member or neighbour working abroad. For them, being connected to Commercial Bank means having direct and ready access to remittances from abroad and being able to significantly improve their lives.

For our urban customers, our service must match the experience they have with international giants in the consumer business, but we are up for the challenge. We look forward to rolling out many new technological innovations and conveniences that our new digital platform will bring in 2018 and beyond. These include the digitalisation and centralisation of processes, the strengthening and increased security of core businesses, and a customer experience that is ever greater in value. Such outcomes will be achieved through mutually beneficial partnerships with global, regional, and local partners following due diligence.

International footprint: By expanding beyond the shores of Sri Lanka we diversify our geographical portfolio, minimise risk, and increase stability. For our customers – particularly in the corporate sector – it means greater access to their trusted Bank in the region. Our international operations have yielded many successes as outlined in Social and Network Capital (refer pages 78 to 89) and will continue to do so into the future.

Our operations in Bangladesh, Maldives and Italy are already providing sound returns and opening many exciting new opportunities for expansion. Our representative office in Myanmar too is already providing considerable support for our corporate customers operating in the country and shows much promise for the future.

Grooming talent: With the Bank able to attract school leavers who can then be groomed to lead, we take seriously our role in developing the professional skills and talents of our people. The Bank as University is a concept that has stood the test of time with employees given every encouragement – including financial incentives – to learn through internal and external education and development programmes and an extensive culture of mentorship. Long term succession plans are in place for all key roles to ensure that the Bank continues to be a leader in its field.

Trusted brand: Our brand is built on a track record that spans close to half a century but, more importantly, it is our brand promise that ensures the loyalty and trust of our stakeholders. Our brand is built on a foundation of sound corporate governance practices. Competent risk management processes ensure that confidence in the brand remains strong. Our efficient processes and a performance culture that drives excellence ensure that corporate governance and risk management remain part of our core strength supporting our strategic initiatives well into the future.

WHAT MAKES THE BANK SUSTAINABLE

Sustainability as applicable to the Bank has two dimensions. Firstly, it is the ability of the Bank to sustain its performance into the foreseeable future as a going concern. Secondly, it relates to the way the Bank conducts its enterprise giving due consideration to society and the environment so that benefits accrue to the wider community and the environment. The two dimensions are so tightly interconnected that it is the sustained performance of the Bank that enables it to give due consideration to the society and the environment while the Bank cannot sustain its performance in the long run unless it gives due consideration to the social and environmental aspects. The Bank is cognisant of the need and its responsibility to deliver value to all its stakeholders. At the same time, poor social and environmental performance by its stakeholders, for example manifested by any irresponsible lending and investment decisions of the Bank, may pose a risk to the sustainability of the Bank.

The Bank is aware that its overall performance and efficacy of long-term value creation will be judged by its contribution to society and the environment besides being economically successful – two mutually inclusive aspects. A profitable operation is a precondition for being sustainable.

Accordingly, integrated thinking now pervades the Bank and sustainability is built into its strategy and decision-making process itself, making it a responsibility of each and every member of the staff. This has enabled the Bank to take a proactive approach to sustainability by integrating social and environmental considerations into all its core business activities and operations placing them at the heart of everything the Bank does. These activities vary from responsible lending, investments, new product development, procurement etc. to social and environmental initiatives such as recycling, use of renewable energy, supporting culture, health, and education etc. This has made the Bank's intermediary role more efficient by balancing the interests of various stakeholders and optimising the trade-off between risk and return.

The Social and Environmental Management System (SEMS) of the Bank which is a part of the loan approval process, plays a key role in managing the risk profile and making lending and investment activities responsible. Besides evaluating the feasibility of projects based on cash flows, all business and project loans are screened to ensure compliance with the applicable social and environmental regulations and are monitored on an ongoing basis. This in turn helps the entrepreneurs and SME customers to ensure the sustainability of their operations. The Bank also offers facilities for the adoption of environment-friendly technologies on concessionary terms and conditions.

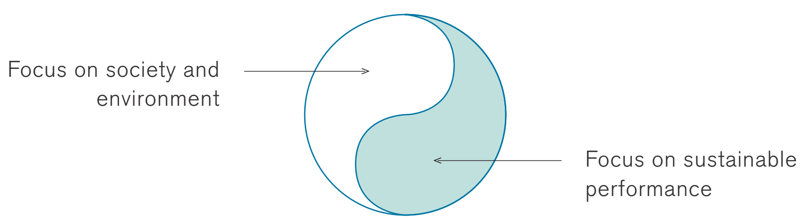
Operating in a highly regulated industry, the Bank is subject to regulatory oversight of the Central Banks/Monetary Authorities in the countries we operate in which has stipulated a range of compliance requirements. The Bank accords the highest importance to these compliance responsibilities and has complied with all the applicable rules and regulations, both in letter and in spirit as detailed later. No significant gaps, lapses, or inaccuracies were observed during the year.

The Bank has a Code of Conduct for the staff which prescribes the expected behaviour of staff relating to ethics, conduct, and compliance to ensure their integrity and provides a relevant point of reference when enforcing corrective action. The Bank also has a Supplier Code of Conduct to ensure compliance to social and environmental considerations across the supplier value chain as well. The Bank procures from suppliers supporting ethical business ranging from the use of environmentally accredited materials, transport, and fair and honest dealings in finances and their staff.

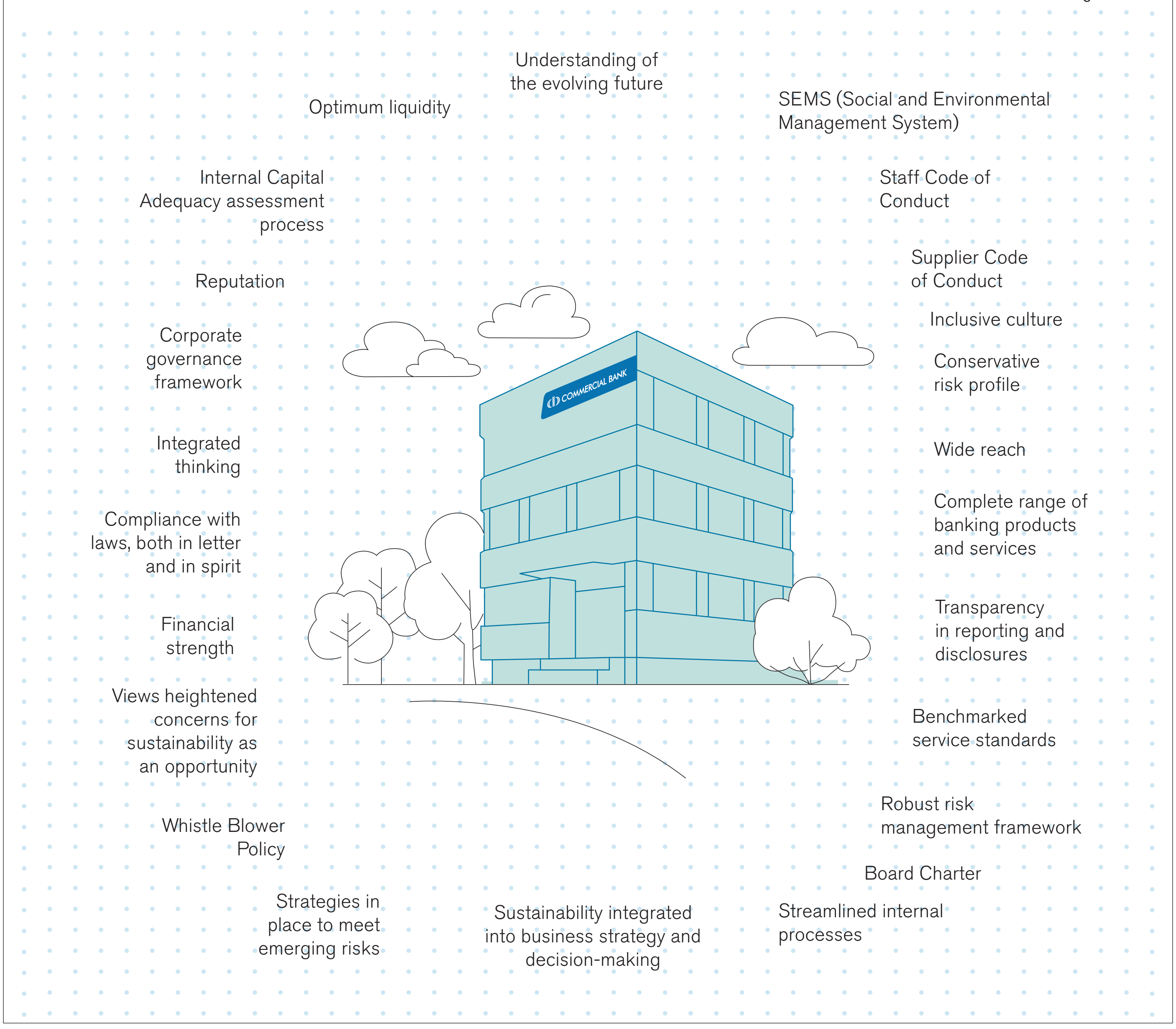
Demonstrating customer centricity, the Bank continued to enhance its offering of unparalleled convenience and unprecedented choice via a gamut of banking products and services to its customers through a wide network of 280 branches, 775 ATMs, and digital channels, with benchmarked service standards and streamlined internal processes. The Bank has in fact made banking more accessible and less intimidating, thereby promoting financial inclusion.

The Bank has recognised certain global developments with the potential to disrupt conventional business models of banks which it also believes as providing opportunities for growth. Leveraging its standing, the Bank has developed and implemented new and innovative business strategies involving collaboration, digitalisation, use of latest technology, data analytics, customer experience, trust, and is confident that these initiatives will help it realise its growth aspirations.

The Bank is in fact inspired and motivated by the value it creates for all its stakeholders by delivering value to and deriving value from them in turn. It is also aware that the higher the value it delivers, the higher the value it can derive in return.



What makes the bank sustainable — Figure – 10



Management Discussion and Analysis

Thanks to our winning strategy underpinned by the five strategic imperatives – prudent growth, customer centricity, digital leadership, operational excellence, and risk management, the Bank has made solid progress in gearing itself to make the most of a fast-evolving future.

Despite challenges, we were able to create value for all stakeholders through careful and practical management of capitals. The information in this section has been structured as follows:

Once again our financial performance has been robust in the face of domestic and global challenges. We are studying the latest technological innovations in digital and mobile banking – adopting the best, while keeping a cautious eye on the risks that come with such rapid developments. The Bank continues to cultivate meaningful dialogue with all stakeholders, acting on their feedback to ensure that the value we derive from them is reciprocated.

We are also exploring new avenues to expand our international business, including across Europe – further diversifying our geographical footprint and risk. During the year, we assessed the competencies and expertise of our employees, providing career advice, and training and development where needed, and moving people with the right skills to key positions – including to our overseas offices.

Our entire business was conducted in a sustainable manner – for instance, through increased focus on our Social and Environment Management System (SEMS) to promote green lending – in order to safeguard the interests of future generations.

Expectations are sky high

The expectations of tomorrow will see "imagination" and "reality" move ever closer...in fact to "scoot" may soon mean to "blast off"

OPERATING ENVIRONMENT

This review covers the global economic and business operating environment and the performance of the Sri Lankan economy in the wake of such global and other country specific developments. It also looks at how all these events impacted the Sri Lankan financial sector. The performance of the Bank in 2017 and its future potential need to be assessed in the context of this review.

Overview of global economic environment

Global growth in 2017 is estimated to be at 3.7%, continuing the upswing in global economic activity experienced towards the end of 2016. Investment conditions further improved and global trade rebounded during the year. The IMF anticipates that growth in Europe, Japan, the US, and expected growth pickup in emerging market and developing countries will have accounted for the improvement over 2016.

In particular, the IMF forecasts the growth rate in emerging market and developing countries to have reached 4.7% in 2017. The better prospects and moderate growth momentum in advanced economies and China is expected to have positive spillover effects on emerging economies.

GDP growth Table – 08

	2016 %	2017 (Estimated) %	2018 (Projected) %
World output	3.2	3.7	3.9
Advanced economies	1.7	2.3	2.3
United States	1.5	2.3	2.7
Euro Area	1.8	2.4	2.2
Japan	0.9	1.8	1.2
United Kingdom	1.9	1.7	1.5
Emerging markets and developing economies	4.4	4.7	4.9
Russia	-0.2	1.8	1.7
China	6.7	6.8	6.6
India	7.1	6.7	7.4
ASEAN 5	4.9	5.3	5.3

Source: IMF World Economic Outlook update January 2018

Given below is a synopsis of the economic performance of several developed and emerging market and developing countries and market trends for oil and a few other commodities that shaped the global economic development to a greater extent. Given the substantial trading relationships with these countries, these developments have had a significant impact on the Sri Lankan economy too.

United States

US tax reforms and associated fiscal stimulus are expected to temporarily raise US growth, with favourable demand spillovers for US. The growth forecast for the United States has been revised upto 2.3% in 2017 given stronger than expected activity in 2017, higher projected external demand, and expected macroeconomic impact of the tax reform, in particular the reduction in corporate tax rates and the temporary allowance for full expensing of investment. The United States accounts for 11.3% of Sri Lanka's value of imports and exports.

Euro Area

With a projected growth of 2.4% for 2017, its fastest pace in a decade, the Euro zone benefited from increased exports that went hand in hand with the strengthened global trade activity. Stability in the financial and political climate also helped to drive domestic demand growth. Euro Area accounts for 17.0% of Sri Lanka's value of imports and exports.

Japan

Japan is estimated to have achieved 1.8% growth in 2017. Conducive external environment and the resulting increase in exports and the temporary fiscal support package contributed to this growth. Demographic factors such as ageing population and shrinking workforce, low wage growth and low inflation are weighing heavily on the future growth, while growth in public investments in preparations for 2020 Olympic Games is expected to boost the economy. Japan accounts for 4.0% of Sri Lanka's value of imports and exports.

United Kingdom

Growth in the United Kingdom, Sri Lanka's second largest export destination, is projected to have slowed down to 1.7% by end 2017, with further slowdown anticipated in the future. This is primarily due to uncertainty arising from Brexit and inflationary pressures affecting real income and private consumption. Firms will also likely hold off on significant investment decisions until they understand better the future of the UK's trading relationship with the European Union. The United Kingdom accounts for 4.6% of Sri Lanka's value of imports and exports.

Russia

Recovery in trade, rising oil prices and macroeconomic stability helped Russian economy to return to an estimated modest growth of 1.8% during the year from -0.2% last year. Growth momentum is expected to continue aided by fiscal consolidation, new fiscal rule and significant advances in agricultural sector.

China

China's growth in 2017 is projected to have reached 6.8%. Increased household incomes and domestic demand, a recovery in global trade, policy easing and supply-side reforms contributed to its strong performance. Given that it is the second largest economy in the world, its currency, Renminbi is now one of the most traded currencies in the world and is fast on its way to internationalisation. China accounts for 15.0% of Sri Lanka's value of imports and exports.

India

A slowdown in India's growth momentum saw their estimated growth at 6.7% at the end of 2017. The effects of the November 2016 currency exchange initiative still lingered in 2017. The introduction of a country-wide Goods and Services Tax in the middle of the year added further uncertainty. The Indo-Sri Lanka Economic and Technology Cooperation Framework Agreement (ETCA) that is currently being negotiated between India and Sri Lanka will potentially lead to increased investment opportunities for both countries. Furthermore, it would place Sri Lanka as the only country to have preferential access to China, India and Europe. India accounts for 14.7% of Sri Lanka's value of imports and exports.

Oil

An improving global growth outlook, the extension of the OPEC+ agreement to limit oil production, and geopolitical tensions in the Middle East have attributed in increasing crude oil prices by about 20% between August 2017 and mid December 2017, to over USD 60 per barrel.

Sri Lankan Economy

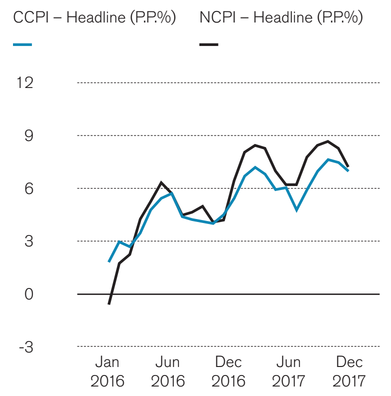
The Sri Lankan economy grew at a moderate 3.7% in the first nine months of the year, compared to 4.0% in the same period during 2016. Growth continued to be affected by adverse weather taking a toll on the agriculture sector, which indirectly impacted other sectors such as agro-based industries as well. The Industry and Services sectors, however, had a positive impact on the growth of the economy. The Services sector in particular was propped up by strong performances in financial services, wholesale and retail trade, and transportation. Nevertheless, economic growth in 2017 is expected to be lower than the growth projected at the beginning of the year. Growth in 2018 is now projected between 5.0% – 5.5%.

The increase in investment and consumption expenditure in the first half of the year also played a role in the growth of GDP. Sri Lanka announced plans to change its Foreign Direct Investment (FDI) policy to focus more on its competitive advantages in location, skills base, and its ongoing efforts to secure free trade agreements with developed and emerging markets such as Singapore, China and India. Ideally, the country wants to entice foreign investors from the US, China, and India with consistent policies, potentially attracting USD 5.0 – 6.0 Bn. in the next three years.

The gains from export earnings were offset by weather-related imports and a decline in workers' remittances. The Central Bank stated that the adverse economic and geopolitical situation in the Middle East will continue to have a negative impact on workers' remittances, a key source of foreign exchange earnings.

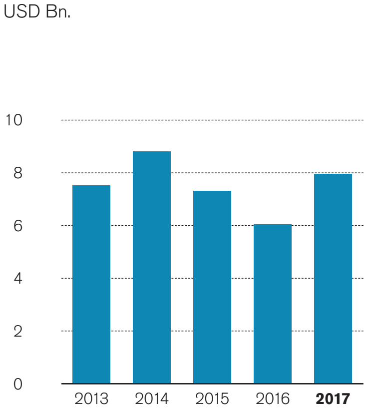
Inflation was marked by an increase to 7.3% (National Consumer Price Index, 2013 = 100) year on year in December 2017. The increase was beyond the CBSL's target of 4-6%, a result of the combination of high food prices due to adverse weather, upward revisions of indirect taxes, and rising international commodity prices.

Inflation (Base: 2013=100) Graph – 22



Source: CBSL

Gross official reserves Graph – 23



Source: CBSL

Earnings from exports grew 7.6% year on year, thanks to the restoration of GSP+ concessions from the European Union, more effective trade policies, and a competitive exchange rate. However, imports expenditure grew 9.6% year on year, further widening the trade deficit.

The Sri Lankan Rupee depreciated 2.6% against the US Dollar by end December 2017. A market tilted in favour of outflows through import expenditure, debt service payments, and the unwinding of foreign investments in Government Securities initially had a negative impact on the currency. Increased inflows from foreign investments to the Colombo Stock Exchange (CSE) and Government Securities market after the first quarter of 2017 started to ease pressure on the currency. The issuance of the International Sovereign Bond and the receipt of the fourth tranche of the International Monetary Fund Extended Fund Facility (IMF-EFF) in December 2017 helped to further ease-off the currency depreciation. More foreign exchange inflows are expected in the years ahead with the commencement of the Colombo Port City and the Hambantota Industrial Zone.

The country's gross official reserves increased to USD 7.9 Bn. by end 2017, compared to USD 6.0 Bn. at end 2016.

Sri Lankan Banking Sector

During the year 2017, the CBSL took several measures to promote a dynamic and resilient financial sector in the country. These included, among others, the introduction of a transparent market-based auction mechanism for the issuance of Government Securities, the enactment of a new Foreign Exchange Act to enhance overall efficiency of forex transactions, the implementation of Basel III, the strengthening of the framework to regulate Non-Banking Financial Institutions sector, the resolution of distressed finance companies, the strengthening of the regulatory framework for the microfinance sector, and measures to modernise the payment and settlement infrastructure.

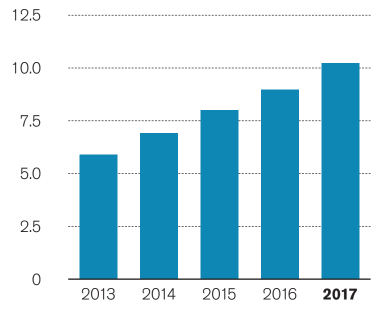
Despite the relatively slower economic growth, the expansion of Sri Lanka's financial sector continued in 2017, accounting for 3.4% of the country's estimated GDP during the first nine months. The banking sector reported an 19.2% increase year over year in profits after tax in 2017 compared to 2016.

The CBSL maintained a tight monetary policy by raising interest rates. Key policy rates of the Standing Deposit Facility Rate and the Standing Lending Facility Rate were increased by 25 basis points each to 7.25% and 8.75% respectively with effect from March 2017. This may have helped to reduce the inflationary impact of the increased supply of money and high financing requirement of the Government budget.

The increased net interest income, revaluation gains, and lower operating expenses created optimal conditions for increased profitability for the Banking sector. The sector recorded a 13.8% increase in its asset base during the year.

Assets of the banking sector Graph – 24

Rs. Tn.

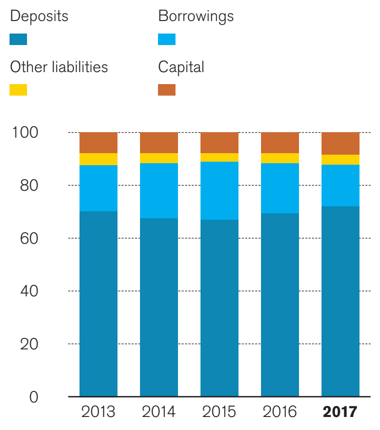


Source: CBSL

Funding was primarily sourced from deposits, which accounted for 72% of the total assets of the sector. Asset quality improved while capital and liquidity levels were maintained well above regulatory minimum requirements, ensuring stability during the year.

Banking sector funding composition Graph – 25

%

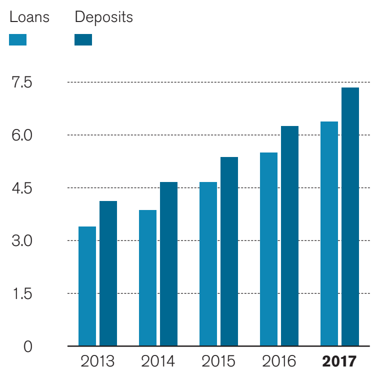


Source: CBSL

Loans and advances grew by 16% during the year to Rs. 6.3 Tn. Despite the higher interest rates, lending to all economic sectors increased. However, due to macro-prudential policy measures implemented by the CBSL, the leasing portfolio only increased marginally by 3.1%.

Banking sector loans and deposits Graph – 26

Rs. Tn.



Source: CBSL

Key banking industry indicators Table – 09

Industry	2017 (%)	CAGR* 2013-17 (%)
Business volumes		
Assets (YoY)	13.8	15.1
Gross loans and advances (YoY)	16.1	15.3
Asset funding		
Deposits (YoY)	17.5	15.3
Borrowings (YoY)	-5.3	14.8
Profitability		
Net Interest Income (YoY)	12.2	11.6
Return on equity	17.6	
Net interest margin	3.5	
Net NPL ratio	1.3	
Capital adequacy		
Total capital ratio (Minimum 10%)	15.2	
Liquidity		
Liquid asset ratio (Minimum 20%)	28.5	

**Compounded Annual Growth Rate*
Source: CBSL

CAPITAL MANAGEMENT
FINANCIAL CAPITAL

Financial capital plays multiple roles in the case of a financial sector organisation. It facilitates the expansion of operations by acquiring physical property, plant and equipment (manufactured capital) at the inception, and the perpetuation of operations by acting as a cushion for absorbing unforeseen losses as a going concern. It also serves as a regulatory restraint on unwarranted asset expansion. Maintaining adequate capital for absorbing unanticipated losses is imperative for the vibrancy of the financial intermediation and maturity transformation roles of a bank since these roles expose banks to a gamut of risks.

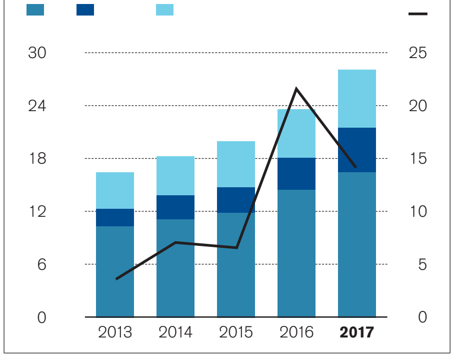
FINANCIAL REVIEW

An overview

Continuing on the stellar performance the Bank is renowned for, we recorded another excellent year in terms of overall performance. With compounded annual growth rates of 17.44%, 16.94% and 16.83% respectively, total assets, loans and receivables, and deposits again doubled over the past five years. Our growth rates in Sri Lanka have been in excess of the industry averages, enabling us to enhance our market share in total assets from 10.04% in 2012 to 11.11% in 2017.

Profit attributable to equity holders increased to Rs. 16.581 Bn., a growth of 14.25% compared to 2016. This is particularly significant since it is higher than the "natural growth" the Bank could have achieved under normal circumstances with an estimated GDP (gross domestic product) growth of 3.7% and an inflation rate of 7.1% for the year, a reflection of the effective execution of a focussed strategy.

Profit growth Graph – 27



The Bank achieved growth of over Rs. 100 Bn. each in both loans and receivables (for the third consecutive year) and deposits (for the second consecutive year) during the year.

A highlight of the year was the significant increase in trade finance business of the Bank. Imports turnover grew by 39.33% over 2016, increasing the Bank's market share to 10.56% from 8.36% in 2016. Exports turnover grew by 14.58% over 2016, increasing the Bank's market share to 18.58% from 17.82% in 2016.

Commercial Bank ranked among World's Top 1000 Banks for 7th successive year

Commercial Bank has been ranked in this prestigious global list compiled by "The Banker" magazine of the UK since 2010.

Demonstrating the perceived potential and future prospects of the Bank and the underlying value of its shares, the Bank's shares were trading at a premium to their book value with a price to book value ratio of 1.26 times as at December 31, 2017 (1.65 times as at December 31, 2016), the highest among all the banks listed on the Colombo Stock Exchange.

Having due regard to dividend policy, the capital requirements to support growth plans, and the increase in the number of shares consequent to the rights issue, the Board of Directors has declared a final dividend of Rs. 2.00 per share in the form of shares, taking the total dividend to Rs. 6.50 per share for the year which is consistent with dividends paid for the past five years.

Given that the Bank accounted for 98.92% of the assets and 99.73% of the profit of the Group, the analysis below refers to the Bank's financial performance. A brief commentary on Group performance is given on page 58.

Income Statement

Fund based operations

Interest income which accounted for 89.14% (86.68% in 2016) of the gross income of Rs. 115.594 Bn. grew to Rs. 103.034 Bn. during the year from Rs. 80.738 Bn. in 2016 recording a growth of 27.62%. The main contributory factors were the growth in average interest earning assets by Rs. 110.269 Bn. (12.80%), the average interest rate thereon improving by 123 basis points to 10.60%, and the improvement in asset quality.

Interest expenses, which accounted for 62.13% of the interest income (59.35% in 2016), grew by 33.59% to Rs. 64.011 Bn. for the year, up from Rs. 47.915 Bn. in 2016. The main contributory factors were the growth in average interest bearing liabilities by Rs. 102.560 Bn. (12.96%), continuing decline of the CASA ratio to 39.23% from 41.67% in 2016, and the average interest rate increasing by 111 basis points to 7.16%.

Consequently, net interest income grew by 18.89% (compared to 8.17% in 2016) to Rs. 39.023 Bn. from Rs. 32.824 Bn. in 2016, accounting for 78.02% of the total operating income. This compares well against the growth of 12.24% in net interest income (NII) of the banking sector for the year. Net interest spread improved to 3.44% from 3.32% in 2016. Net interest income as a percentage of average assets of 3.62% too compares well with the 3.50% for the banking sector.

Vibrancy of financial intermediation Table – 10

	2017	2016	2015	2014	2013
Average interest earning assets (%)*	**84.99**	85.11	87.77	80.92	83.42
Average interest bearing liabilities (%)*	**78.20**	78.20	77.90	71.11	74.38

** As a % of total assets*

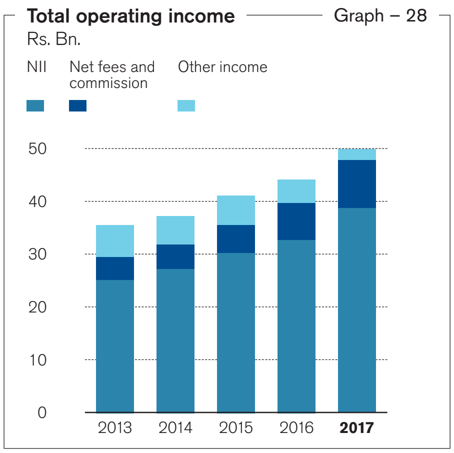
Fee based operations

Fee and commission income too recorded an impressive growth of 24.88% to Rs. 10.169 Bn. for the year. The sources that recorded significant growth included services related to credit and debit cards, trade finance and remittance, and deposits. This was consequent to the Bank managing to significantly increase the number of credit and debit cards in issue as well as their utilisation, enhancing the Bank's market share in both the trade finance and remittance business.

Fee and commission expenses which relate mostly to credit and debit cards related services increased by 38.96%. Consequently, net fee and commission income increased by 22.62% to Rs. 8.602 Bn. accounting for 17.20% of the total operating income (15.91% in 2016).

Total operating income

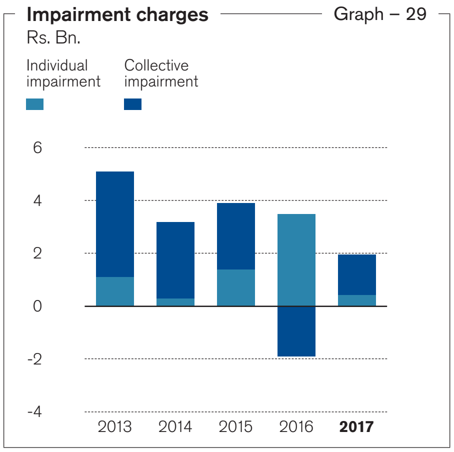
Improvements in NII and net fee and commission income as explained above coupled with the net gains from trading of Rs. 233.956 Mn. (mainly as a result of exchange gains of Rs. 107.201 Mn. compared to an exchange loss of Rs. 1.429 Bn. in 2016) contributed to a growth of 13.41% in the total operating income amounting to Rs. 50.016 Bn. The relative contribution to total operating income from other income, however, declined compared to 2016 due to lower gains on the revaluation of foreign exchange.



Impairment charges

Impairment charges for loans and other losses for the year increased by 25.13% to Rs. 1.914 Bn. from Rs. 1.530 Bn. This comprised individual impairment charges of Rs. 401.716 Mn. (compared to Rs. 3.440 Bn. in 2016) and collective impairment charges of Rs. 1.554 Bn. (compared to a reversal of Rs. 1.932 Bn. in 2016). Significant fluctuations in individual and collective impairment charges compared to 2016 are due to a revision of thresholds for identifying the loans to be subject to individual impairment in 2016 and the resulting shift of a sizable portfolio from collective impairment to individual impairment. Despite an improvement in asset quality, as reflected by a decline in the NPL ratio, the NPLs in absolute terms marginally increased. The substantial growth in the loan book recorded during the year too contributed to the increase in collective impairment provision.

Cumulative provision for collective and individual impairment was Rs. 17.261 Bn. as at December 31, 2017 compared to Rs. 17.373 Bn. as at end 2016.



Operating expenses

Total operating expenses increased by 6.49% to Rs. 20.038 Bn. for the year from Rs. 18.816 Bn. in 2016. While the increase corresponds to the general increase in prices due to inflationary pressures and the impact of VAT increase on general expenses, certain cost elements such as establishment expenses, maintenance of property, plant and equipment, and office administration expenses witnessed increases corresponding to the expansion of the Bank's operations through conventional as well as alternate channels.

However, the benefit of the lower growth in operating expenses compared to the growth in operating income was partly offset by the significant increase in VAT (Value Added Tax) and NBT (Nation Building Tax) on financial services by 31.80% to Rs. 4.881 Bn. from Rs. 3.703 Bn. This was mainly due to the increase in VAT on Financial Services from 11% to 15% effective November 1, 2016, the full year's impact of which was felt in 2017. Consequently, operating expenses including VAT and NBT on financial services increased by 10.65%.

More importantly, cost to income ratio decreased to 49.82% from 51.06% in 2016 and also the cost to income ratio excluding VAT and NBT on financial services improved to 40.06% from 42.67% in 2016.

Profit before tax and profit after tax

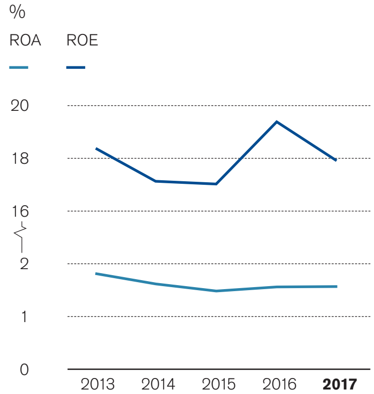
Profit before tax increased to Rs. 23.183 Bn. for the year, up by 15.62% from Rs. 20.051 Bn. reported in 2016. Income tax for the year increased by a higher percentage of 19.19%, thereby limiting the profit after tax to Rs. 16.581 Bn. which resulted in a lower growth of 14.25% compared to 21.92% reported for 2016. The higher increase in income tax was mainly due to the VAT and NBT on Financial Services being disallowed for tax purposes.

Accounting for 57.24%, Personal Banking Division made the highest contribution to the profit before tax, followed by 24.59% from the Corporate Banking division, 17.63% from International Operations and less than 1% from Treasury.

Profitability

Reflecting the growth in profit for the year and average assets at approximately similar rates, Return on Average Assets marginally improved to 1.54% from 1.53% reported in 2016. However, Return on Average Equity decreased to 17.88% from 19.52% reported in 2016 due to average equity growing at 24.72% during the year compared to growth in profit for the year by 14.25% only. The reasons for higher growth in average equity was the infusion of Rs. 10.144 Bn. through the rights issue in June 2017 (but the funds were utilised only for part of the year for income generation), gains recognised in Other Comprehensive Income on favourable movement in the mark to market valuation of the Available-For-Sale portfolio and the recognition of the surplus on revaluation of land and buildings in December 2017.

ROA and ROE Graph – 30



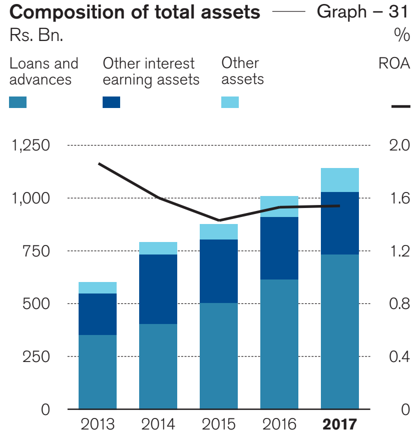
Statement of Financial Position

Assets

Total assets of the Bank grew by 12.96% during the year and reached Rs. 1.143 Tn. at the year end compared to Rs. 1.012 Tn. as at December 31, 2016. It is noteworthy that of the growth in total assets in absolute terms of Rs. 131.173 Bn. during the year, 92.49% or Rs. 121.317 Bn. came from loans and receivables, reflecting the robustness of the Bank's primary activities of financial intermediation and maturity transformation. The asset growth of the banking industry moderated to 13.77% for the year.

Contribution from the Bank's International Operations now accounts for 11.50% of total assets and 17.63% of profit before tax.

Composition of total assets Graph – 31



Loans and receivables

Loans and receivables is the single biggest asset of the Bank on its balance sheet, accounting for 64.50% of total assets compared to 60.86% a year ago. The Bank continued to sustain its growth momentum in loans and receivables from last year, recording a 19.71% growth to Rs. 737.447 Bn. as at December 31, 2017 compared to Rs. 616.018 Bn. a year ago. This compares well with the industry growth of 16.18% for the year as well as our own 5-year CAGR of 16.94%. Key contributors to the loans and receivables growth came from term loans, overdrafts, and housing loans. Heightened focus on SMEs, new customer acquisition, higher Single Borrower Limit, etc. contributed to this achievement.

Asset quality

With loans and receivables accounting for two thirds of total assets, the importance of a quality portfolio cannot be overemphasised for the profitability and stability of the Bank. Following two consecutive years of decreases in absolute terms, NPLs increased marginally during the year by 3.0% as against the industry NPL increase of 12.90%. However, with the significant growth in loans and advances portfolio during the year both the gross NPL and net NPL ratios improved to 1.88% and 0.92% as at December 31, 2017 from 2.18% and 1.09%, respectively a year ago. Backed by the moderate risk appetite, the Bank has a conservative risk profile. The Bank's NPL ratios compare well with the industry ratios of 2.5% and 1.3% for the gross and net NPLs, respectively.

Cumulative impairment provision for loans and other losses as a percentage of the loans and receivables as at the end of the year amounted to 2.29% compared to 2.74% in 2016. Provision cover improved to 51.05% in 2017 as against 50.11% in 2016. Open credit exposure ratio (which is net exposure on NPLs as a percentage of capital funds) improved from 9.53% at end 2016 to 7.60% as at December 31, 2017.

The loans and receivable portfolio is fairly well diversified across several industry sectors with exposure to any particular sector not exceeding 20% of the total.

Deposits

With a solid domestic franchise in Sri Lanka, deposits is the single biggest source of funding for the Bank and accounted for 74.35% of the total assets as at December 31, 2017 compared to 73.06% a year ago. Deposits grew by 14.95% during the year and reached Rs. 850.128 Bn. as at December 31, 2017 compared to Rs. 739.563 Bn. as at the previous year end. With the wide gap in interest rates between CASA and time deposits, shift of funds from current and savings accounts to high yielding time deposits continued as evident from the CASA ratio declining to 39.23% as at December 31, 2017 from 41.67% a year ago. Nevertheless, this compares well with the industry CASA ratio of 34%.

Other liabilities

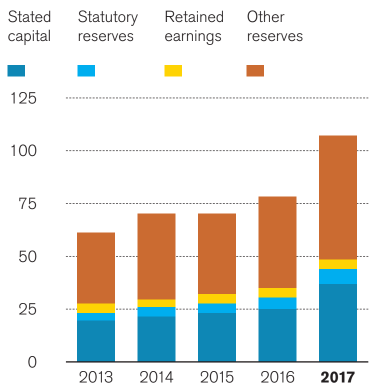
The Bank has a strong and resilient funding profile. Customer deposits and equity capital together funded 83.72% of the total assets as at December 31, 2017 with all forms of other liabilities such as trade related payables and borrowings accounting for 16.28% or Rs. 186.147 Bn. compared to 19.19% or Rs. 194.284 Bn. as at December 31, 2016. Significant growth in deposits, borrowings of USD 100 Mn. from IFC coupled with the capital funds from the rights issue of shares lowered the need for other borrowings during the year. Securities sold under re-purchase agreements, borrowings from IFC, China Development Bank, and subordinated liabilities represented significant forms of borrowings as at the year end.

Capital

Equity funded 9.37% of the assets as at the current year end, a significant improvement in comparison to the 7.74% as at December 31, 2016. This was consequent to the successful rights issue of shares, as proactively identified through the ICAAP and also to meet the enhanced capital requirements under the Basel III, effective from July 2017 that infused Rs. 10.144 Bn. in capital to the Bank, increasing the loss absorption capacity further. In addition, the Bank ploughed back Rs. 12.098 Bn. out of profit for the year after setting aside the dividends declared. Consequently, both the Common Equity Tier 1 ratio and the total capital ratio improved to 12.11% and 15.75%, respectively as at December 31, 2017, exceeding the higher levels of minimum capital requirements imposed on the Bank under Basel III as a Domestic Systemically Important Bank and creating sufficient leeway for the planned expansion of the Bank's operations. Consequently, the equity multiplier (gearing ratio) declined to 11.61 times from 12.76 times a year ago.

Shareholders funds Graph – 32

Rs. Bn.



Liquidity

The liquidity position remained healthy across the banking industry throughout the year. In fact, during most of the year it remained above the level we would consider to be the optimum. While higher liquidity levels may be welcome from the perspective of some of the stakeholders, the Bank is mindful of the trade-off between liquidity and profitability and has already taken appropriate measures in this regard. Liquid asset ratio was 27.64% as at December 31, 2017. Loans to deposits ratio was 88.78%.

Available stable funding based on definitions prescribed by the CBSL stood at Rs. 865.468 Bn. as at December 31, 2017, leading to a Net Stable Funding Ratio (NSFR) of 127.87% comfortably above the statutory minimum of 100%.

Demonstrating the availability of unencumbered high quality liquid assets at the disposal of the Bank, the Liquidity Coverage Ratio (All currency) stood at 209.17% as at December 31, 2017 as against the statutory minimum of 80%.

Core Financial Soundness Indicators (FSIs)

Financial soundness indicators given below provide insights into the financial health and stability of the Bank.

Financial soundness indicators Table – 11

Financial soundness indicator (%)	2017	2016	2015	2014	2013
Capital adequacy:					
Common Equity Tier 1 ratio	12.11	10.37	–	–	–
Tier 1 capital ratio	12.11	10.37	–	–	–
Total capital ratio	15.75	14.87	–	–	–
Non-performing loans [net of interest in suspense and specific provisions] to equity	6.39	8.65	10.36	10.95	12.58
Equity to total assets	9.37	7.74	8.00	8.86	10.06
Asset quality:					
Gross NPL ratio	1.88	2.18	2.74	3.47	3.88
Net NPL ratio	0.92	1.09	1.41	1.86	2.12
Total provisions made against gross loans and receivables	1.40	1.53	1.75	1.65	1.87
Provision coverage ratio	51.05	50.11	48.49	46.34	45.41
Earnings and profitability:					
Net interest income to total operating income	78.02	74.43	73.51	72.82	71.45
Interest margin (Net interest income to average assets)	3.62	3.47	3.62	3.88	4.63
Operating expenses to gross income	17.33	20.20	22.22	21.62	19.73
Impairment charge to total income	3.83	3.47	9.55	8.64	14.36
Return on assets	1.54	1.53	1.42	1.60	1.87
Return on equity	17.88	19.52	16.90	17.01	18.40
Cost to income ratio	49.82	51.06	48.92	49.26	45.59
Liquidity:					
Statutory liquid assets ratio (DBU)	27.28	27.19	26.24	33.15	33.66
Statutory liquid assets ratio (OBU)	30.95	30.19	49.13	31.43	29.38
Liquidity Coverage ratio (All currency)	209.17	150.45	–	–	–
Net Stable Funding ratio	127.87	–	–	–	–
CASA ratio	39.23	41.67	49.70	48.38	43.51
Gross Loans to deposits ratio	88.78	85.64	84.31	79.79	94.59
Assets and funding structure:					
Deposits to total assets	74.35	73.06	70.94	66.54	74.45
Borrowings to total assets	4.28	3.37	2.50	2.85	3.23
Equity to total assets	9.37	7.74	8.00	8.86	10.06
Deposits to gross loans	112.64	116.76	118.61	125.33	105.72

Subsidiaries and Associates

The Bank operates with six subsidiaries and two associates and group structure of the Bank is depicted on page 173. The following is an overview of the subsidiaries and associates of the Bank.

Commercial Development Company PLC (CDC)

Established in 1980 as the Bank's first subsidiary, CDC was responsible for building the present Head Office building of Commercial Bank. The Bank holds a 92.97% stake in CDC which handles a major portion of the Bank's utility services. A large part of its income is derived from renting space in the "Commercial House' building and outsourcing staff.

At end 2017 CDC recorded a post-tax profit of Rs. 426.780 Mn. up 30.74% from Rs. 326.441 Mn. in the previous year.

ONEzero Company Ltd.

Providing Information Technology Services and Solutions to the Bank, ONEzero is a wholly-owned subsidiary of Commercial Bank. Its four main lines of business are:

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

Recording a post-tax profit of Rs. 44.274 Mn. at end 2017, ONEzero posted year-on-year growth of 33.32%.

Serendib Finance Ltd. (SFL)

Acquired by Commercial Bank in September 2014 when it was Indra Finance Ltd., this licensed specialised leasing company was renamed Serendib Finance Ltd. in March 2015. SFL plays a role in the Bank's strategic plan to reach out to untapped market segments. The Company's strategy reflects this goal and through a network of 11 branches provides leasing, hire purchase, mortgage lending and business loans facilities. Company managed an asset portfolio of approximately Rs. 5 Bn. as at end 2017.

Commercial Bank of Maldives Private Limited (CBM)

Established during the latter part of 2016, CBM opened its Head Office and first branch in the capital, Malé. During the year it opened its second branch on the island of Hulhumalé.

Commercial Bank has a 55% stake in CBM. Founded in May 2013 by a diverse group of successful shareholders in the Maldives, Tree Top Investments is the Bank's Maldivian partner. It holds the balance 45% stake in CBM and contributes vital local market knowledge to the team.

While offering an extensive range of financial services, CBM's goal is to be the most technologically advanced, innovative, customer friendly and most sought-after financial service organisation in the Maldives.

In just over a year of operation, CBM recorded a profit of Rs. 32.984 Mn.

Commex Sri Lanka S.R.L. – Italy

Having established itself as one of the first Sri Lankan banks to launch money transfer facilities in Italy, the Bank incorporated its own subsidiary for these services. This marked the incorporation of Commex Sri Lanka, in Rome as a fully-owned subsidiary of the Bank, to serve the fund transfer needs of Sri Lankan expatriates in Italy.

Able to break-even by January 2017 Commex recorded a profit after tax of Rs. 17.702 Mn. by the year end.

CBC Myanmar Microfinance Company Limited

Having identified the enormous potential available in the microfinance business in Myanmar, the Bank incorporated a 100% fully owned subsidiary, CBC Myanmar Microfinance Company Limited in April 04, 2017. The Bank is in the process of finalising all formalities and necessary logistical arrangements to start commercial operations during the first half of 2018.

Commercial Insurance Brokers (Pvt) Ltd. (CIBL)

Through its subsidiary Commercial Development Company PLC., the Bank holds an indirect stake of 18.77% in CIBL. The line of business of the Company includes insurance brokering for all types of insurance through reputed life and general insurance companies in Sri Lanka.

CIBL recorded a growth of Rs. 3.1 Mn. profit after tax, for the year ended 2017 up from Rs. 25.614 Mn. in 2016. The Company's total assets stood at Rs. 303.564 Mn. as at December 31, 2017.

Equity Investments Lanka Ltd. (EQUILL)

The Bank owns a 22.92% stake in EQUILL, a venture capital company established 27 years ago. EQUILL invests in Equity and Equity featured Debt Instruments.

The Company recorded an after tax loss of Rs. 6.716 Mn. compared to the profit after tax of Rs. 11.949 Mn. recorded for the previous financial year.

Returns to shareholders

The Bank's business model enables creating value for its shareholders by delivering value to various stakeholders and deriving value from them in turn. Such value created enables the Bank to enhance shareholder wealth both in the short term and the long term through dividend payments and increases in the market capitalisation that enable them to realize capital gains.
The Bank's dividend policy seeks to balance the short-term shareholder returns and supporting business expansion in the long-term.

Bank proposed a final dividend of Rs. 2.00 per share for the year ended December 31, 2017 which together with the two interim dividends add up to a total dividend of Rs. 6.50 for the year. Further, the Bank made a rights issue of shares on the basis of 1 for 10 at a discounted price of Rs. 113.60 and Rs. 90.80 for ordinary voting and non-voting shares respectively during the year. The Bank's shares were trading at a premium to its book value throughout the year and the price to book value stood at 1.26 times as at December 31, 2017, the highest among all the banks listed on the CSE.

Evolution is real

An era is evolving where technology and equipment will render a whole new meaning and experience to "a walk about"

KEY BUSINESS LINES REVIEW

The Bank is cognisant that the requirement for financial services differs in many respects among its customers. In order to better understand them and align its value proposition in terms of products, services, and delivery channels to suit them, the Bank has segmented the customers and set up four primary customer facing business lines with several sub business lines coming under them as detailed in the table below. This has enabled the Bank to meet and regularly exceed customer expectations across all business lines. Further, it has afforded the Bank a certain degree of diversification in terms of exposures, sources of income and geographies to make growth more prudent and manage risks within the Bank's risk appetite.

In line with strategic imperatives that have the biggest impact on external stakeholders – customer centricity, digital leadership, and operational excellence – the Bank continued to expand its operations across all four business lines during the year, focussing mostly on the following:

- Diversifying products and services
- Widening its reach
- Streamlining service standards
- Optimising processes.

Activities that furthered these goals and strengthened the brand are discussed under the four business lines.

Criteria	Corporate	SME	Micro customers	Mass market	High net-worth
Income/Size of relationship/Business turnover/Exposure	Annual business turnover>Rs. 750 Mn./ Exposure> Rs. 250 Mn.	Annual business turnover<Rs. 750 Mn./ Exposure< Rs. 250 Mn.	Exposure< Rs. 500,000 and availing dedicated products	Individuals not falling into other categories	Individuals with banking relationships above set thresholds
Price sensitivity	High	Moderate	Low	Low	High
Products of interest	Transactional, trade finance, and project finance	Factoring, leasing and project financing	Transactional	Transactional	Investment
No. of transactions	High	Moderate	Low	Low	Low
Level of engagement	High	Moderate	Low	Low	High
Objective	Funding & growth	Funding & growth	Funding & advice	Personal financial needs	Wealth maximisation
Background	Rated, large to medium corporates	Medium business	Self employed	Salaried employees	Business community/ Professionals
No. of banking relationships	Many	Many	Few	Few	Many
Level of competition from banks	High	Moderate	Low	Moderate	High

The type of segmentation illustrated here provides the Bank with greater knowledge and understanding of the customer and enables it to better align with the banking requirements of each category (refer Table 12).

Channel mix and target market based on perceived customer preference Table – 12

Customer Segment	Branches	Internet Banking	ATMs	Call Centre	Mobile Banking	Relationship Managers	Business Promotion Officers	Premier Banking Units
Corporates	√	√	X	√	X	√	X	X
SMEs	√	√	X	√	X	X	X	X
Micro	√	X	√	X	√	X	X	X
Mass:								
Millennials	X	√	√	√	√	X	X	X
Others	√	√	√	√	√	X	X	X
High net-worth	√	√	√	√	√	√	X	√

The four business lines work in collaboration with each other and the various service units of the Bank to drive growth and further strengthen the Commercial Bank brand.

PERSONAL BANKING

Serving a total of over three million customers through its Personal Banking arm, the Bank continues to pursue its goals of increasing access to banking services, supporting wealth creation, and promoting financial inclusiveness across Sri Lanka's diverse communities. With over 1,000 physical customer touch points, it has also invested deeply in plans to accelerate growth in online and mobile banking.

1,016
Customer touch points

Deposits grew by over
14%

Over
10%
Growth in savings account holders

Advances grew by over
15%

Growth in credit cards (year on year)
17%
with total credit card outstanding reaching
Rs. 9 Bn.
by year end

Market share in debit cards approx:
33%
market leader

USD 1 Mn.
Investment in online and mobile banking

Products and services

The Bank's Personal Banking portfolio is designed to cater to the ever-evolving banking needs of our customers as their aspirations and lifestyles change over time. This portfolio includes products and services used by the small and medium enterprise (SME) sector and the micro and mass market segments.

Products and services — Table – 13

Deposits
Current accounts
Savings accounts
Foreign currency accounts
Call deposits
Fixed deposits
Treasury bill repos
Loans
Term loans
Personal loans
Home loans
Agriculture & Microfinance loans
Industrial loans
Leasing
Credit cards
Other
Bancassurance

Focus on deposits

Personal Banking enhanced its products and services during the year, launching new offerings and initiatives for the benefit of key customer segments including SME and mass market. Intensifying its focus on deposits the Bank enhanced and promoted a number of products that encourage the saving habit for every stage of a customer's life cycle. For instance, "Gedarata Thegi" was the Bank's biggest promotion during the year which helped grow the Bank's remittance business, while the "Arunalu Siththam" art competition promoted the Bank's flagship children's account. This focus on deposits went hand-in-hand with the Bank's strategy to increase both brick-and-mortar and digital banking channels, while reaching out to the peripheries of communities in its drive to support financial inclusion. In a challenging operating environment Personal Banking saw its deposit growth increase by 14.63% during the year to reach Rs. 646.742 Bn. The Bank's CASA ratio of 39.23% remains higher than the industry.

SME and micro sector. The SME sector is the backbone of the Sri Lankan economy. As the country's lead investor in this vital sector, the Bank continued to invest heavily on improving the lives and livelihoods of our SME and micro sector customers.

Commercial Bank affirmed Best SME Bank in Sri Lanka in 2016 by International Finance Magazine (IFM) of the UK

Commercial Bank was awarded for "making a significant difference and adding value, and achieving the highest standards of innovation and performance" for Small and Medium Enterprise clients.

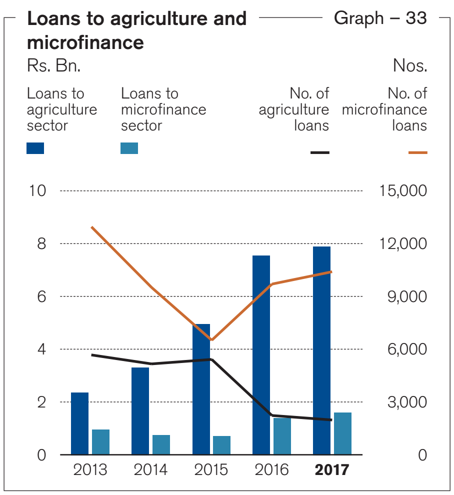
The Mastercard branded Dual Interface Card was launched exclusively for entrepreneurs in the SME sector in collaboration with The Federation of Chambers of Commerce and Industry of Sri Lanka (FCCISL) and Channel 17 (CH17). Issued by the FCCISL to its members these cardholders will be eligible for special benefits such as substantial discounts on products and services ranging from telecommunications, healthcare and hospitality, to hardware and vehicle maintenance. This debit card complies with EMV (EuroPay, Master Card and Visa) standards providing greater security for our customers.

Commercial Bank launches NFC enabled card acquiring POS for both Visa and MasterCard

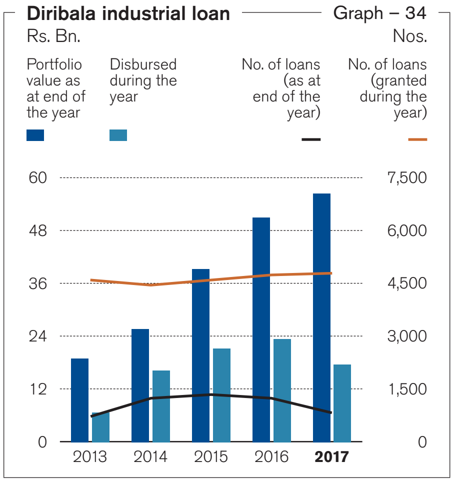
Commercial Bank became the first Bank in Sri Lanka to launch NFC enabled card acquiring POS for both Visa and Master cards.

Commercial Bank Biz Club was another important initiative that was launched in 2017. Its aim was to bring together SME customers and help create new business opportunities while providing them with support that goes beyond lending. The business club's goal is to build a bridge that connects SMEs with each other and the larger businesses of the world. Consisting of four segments categorised as platinum, gold, silver and bronze, the Personal Banking Division focuses on the needs of each segment, providing free advice, training, networking opportunities and other benefits in order to advance each group to the next level.

Our microfinance portfolio performed well during the year. Comprising loans below Rs. 500,000/- this segment demonstrated a strong growth of nearly 14% during the year.



Diribala, the Bank's branded SME industrial loan portfolio was reviewed to meet changing customer expectations and relaunched in 2016. Following this modification and relaunch loans in this portfolio grew by 10% to over Rs. 56 Bn. with NPL's amounting to less than 1.5% at year end.



Dedicated to promote agriculture lending and micro finance, the Bank added one more Agriculture and Micro Finance Unit (AMFU) to its network during the year, taking the total number to 16. These AMFUs continue to assist the Bank in identifying the specific needs of people attempting to develop either their agricultural activities or micro businesses and these officers move beyond urban centres to reach out to the "unbanked".

Partnering with WEBXPAY, the Bank launched an internet payment gateway (IPG) facility to support a new e-commerce platform in Sri Lanka that should increase sales for its SME customers. The new online platform facilitates e-commerce solutions for SMEs enabling transactions in Sri Lankan Rupees and US Dollars through credit and debit cards, mobile wallets and internet banking networks.

Commercial Bank reaches out to SMEs in Gampaha and Puttalam

Commercial Bank interacted with 160 entrepreneurs from the Gampaha and Puttalam Districts as part of the Bank's ongoing initiative to develop entrepreneurship skills of the SMEs in the country.

During the year the Personal Banking Division conducted 8 seminars for SME customers on a range of subjects such as entrepreneurship and succession planning. A total of over 1,000 participants attended these seminars. In line with Government initiatives the Bank paid special attention on the support of female entrepreneurs.

Mass market sector. Encompassing regular Personal Banking customers whose main interest is transactional banking, this segment continues to be a key driver of growth for the Bank. A range of initiatives were launched during the year to enhance banking services to this important segment. Special emphasis was given to provide digital banking solutions that allow customers the freedom to conduct their banking transactions at their convenience.

We further enhanced our Online Banking platform with the introduction of Electronic Fixed Deposits (or e-FDs) in both local and foreign currencies. These e-FDs can now be opened through the Bank's online portal at www.combank.lk allowing customers to open a fixed deposit with ease and convenience at any time, any day of the year, regardless of their geographical location. Customers eligible to open e-FDs are Sri Lankan citizens and holders of foreign currency accounts in the Domestic Banking Unit. Foreign Currency e-FDs can be opened in four major currencies, namely the US Dollar, Great British Pound, Euro or Australian Dollar.

Commercial Bank offers e-FDs online

The Bank's Online Banking platform has been further enhanced with the introduction of Electronic Fixed Deposits (e-FDs) in both local and foreign currencies.

It is encouraging to note that a growing number of customers are getting on board the e-Passbook facility launched in 2016. In 2017, just one year after it was launched, this ground-breaking mobile app won Gold for "Most Admired Customer Engaged Mobile App" at the sixth Asia Pacific Customer Engagement Awards in Mumbai, India. The Bank was the first financial services institution in Sri Lanka to offer customers an e-Passbook that provides real-time access to details of a range of deposit products and credit cards on Android and iOS powered mobile devices. This breakthrough digital mobile application offered free by the Bank enables account holders to view transactions of the past 30 days on their mobile phones or tabs even when the device is offline.

Commercial Bank's "e-Passbook" wins gold at the 6th Asia Pacific Customer Engagement Awards by the Asian Customer Engagement Forum (ACEF) in Mumbai, India

One year after it was launched, Commercial Bank's groundbreaking mobile app "e-Passbook" won a prestigious international award for design, creativity and innovation.

The app bagged the Gold for "Most Admired Customer Engaged Mobile App"

For the Bank, 2017 proved to be a good year for progressive technologies in banking with total fund transfers via mobile banking amounting to Rs. 12.34 Bn. for the year. Constantly looking to push the boundaries to offer the ultimate in technology-enabled convenience to customers, the Bank continues to invest in and explore new technologies that can improve the lives and lifestyles of its loyal customers.

In addition to lending the Bank also ventured further into innovations in lending. It launched Instant Loan Approvals for Personal Banking loans via an automated system. For the customer this means having faster access to funds without the hassle of multiple visits to a branch.

The Bank also enabled Loan on Fixed Deposit which allows customers access to funds on their deposit by way of a credit facility while their deposits earn interest. Funds can be obtained through ATMs via a Debit Card issued for customers who register for this facility.

Commercial Bank launches "Loan on FD" to offer emergency cash to fixed deposit holders

Commercial Bank launched a fixed deposit linked facility that provides depositors with credit against their fixed deposits in full or in part at their discretion while their deposits earn interest.

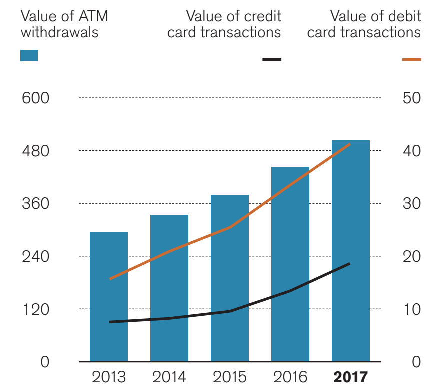
Another innovation in lending launched by the Bank in 2017 is Hybrid Leasing which makes leasing a higher value vehicle more affordable at commencement by combining the features of a Super Lease. This gives professionals and upwardly mobile executives the option of paying a comparatively low rental during the first six or 12 months, paying regular rentals thereafter, and a lump sum at the end of the lease.

The Bank introduced Mastercard Debit Cards with Chip and PIN technology for the first time in Sri Lanka. With their magnetic strips, these new cards are considered risk averse as they require the card holder to authenticate each transaction using a PIN, or an OTP (One Time Password) for e-commerce transactions.

Commercial Bank introduces Sri Lanka's first Chip and PIN debit card

The new Chip and PIN Debit Card will minimise the possibility of fraudulent transactions at point-of-sale (POS) due to the PIN requirement.

Value of ATM withdrawal and card transactions Graph – 35



During the year, point-of-sale (POS) usage was enabled for UnionPay cards by the Bank, making it possible for cardholders of the world`s largest card base in circulation to pay for purchases at local retailers with these cards. Visiting leisure and business travellers, from China in particular, benefit most as they enjoy the convenience of cashless payments in Sri Lanka. UnionPay cards have been accepted by the Bank's ATMs since 2012. Commercial Bank was the first Sri Lankan bank to link its ATMS with UnionPay. EMV-enabled UnionPay cards also enjoy additional security following the upgrade of all Commercial Bank ATMs to offer significantly higher protection against counterfeit fraud.

FLEXI Plan, was another initiative launched in 2017. It is an easy payment scheme for credit cardholders who have been unable to convert high value transactions into easy payment plans at the point of purchase. Designed to ease the cardholder's repayment burden, FLEXI Plan is effective when customers need to purchase air tickets, electrical appliances and consumer products or when they pay educational or medical bills.

Personal Banking grew its Bancassurance fee income to 34% during the year despite challenging market conditions. Competition from broker firms and other banks, and the possibility of new legislation being introduced are key concerns that could negatively impact growth in this business line.

During the year, the Bank also launched Combank Auto Bill Pay through which Personal Banking customers can settle monthly bills for several Dialog services by due date through their credit card.

The Bank launched the INSEE loyalty card in partnership with Siam City Limited. This card is the instrument through which all Siam City's loyalty points are distributed.

Several other types of cards were also launched during the year to offer customers greater convenience. The Prepaid Web Card is designed for customers who carry out regular online transactions and prefer to maintain a separate card for ease of monitoring. A multipurpose Prepaid Spend Card was launched to enable customers to manage their spending individually, make a gift to their loved ones or manage the cash floats of their personal assistants or helpers.

Customer outreach

The Bank continued to invest in its Personal Banking channels increasing and improving customer touch-points even further.

The purchase of a new digital platform from Fiserv during the year will expand the Bank's digital solutions offering for all customers soon, including the SME segment. While providing customers with a new and improved digital banking experience, this platform will significantly increase the Bank's operational effectiveness (refer 🕮 page 77 for more details).

The six new branches opened during the year take the Bank's total number up to 261. In addition to expanding its branch network the Bank is also focusing on creating greener, more energy efficient branches (refer 🕮 page 103 under Natural Capital for more details). All new and refurbished branches will sport a uniform external façade, with automated banking facilities available for customers on a 24/7 basis.

Commercial Bank's 256th Branch opens in Point Pedro

Commercial Bank opens 257th and 258th Branches at Katana and Rambukkana

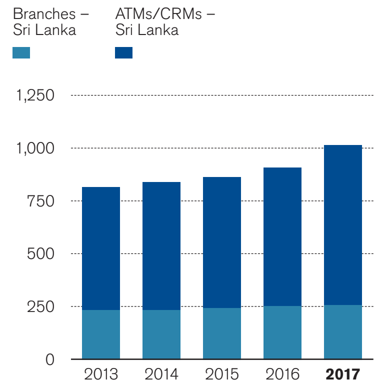
Commercial Bank opens 259th, 260th and 261st Branches at Yatiyantota, Bopitiya and Kolonnawa

The Bank's 700th ATM terminal was "opened for business" in Kilinochchi further increasing the Bank's 24/7 customer touch points.

Commercial Bank commissions landmark 700th ATM in Sri Lanka at MAS Intimates Vidiyal in Kilinochchi

Reaching out Graph – 36

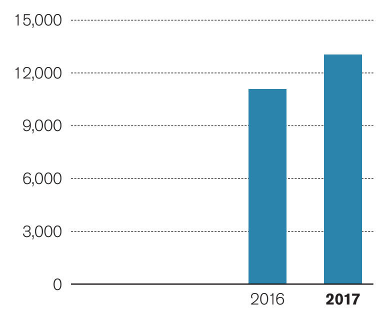
No.



The Bank's mobile payment solution, Fast Pay, described previously under mass market products and services, provides Personal Banking customers with yet another innovative channel through which to access their funds for daily expenses.

Online transfers Graph – 37

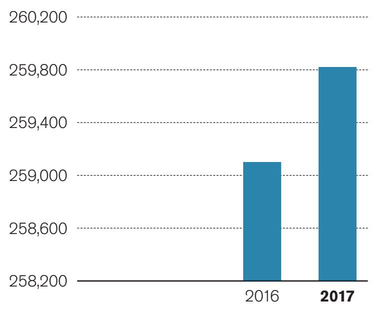
No. of transfers '000



During the year the Bank added substantial number of new current and savings account relationships to its portfolio and provided every customer with access to internet banking. A one week "Online Banking Drive" was held at 38 selected branches with branch staff at hand to demonstrate the convenience of online banking. Continuously seeking out and initiating improvements, the Bank introduced a new initiative in its award-winning corporate website. The corporate website is now equipped with assistive technology to enrich the experience of differently-abled persons.

Mobile banking transfers Graph – 38

No. of transfers



With financial inclusion always top-of-mind, the Personal Banking Division has begun investing in a Bank on Wheels – a mobile bank with automated banking facilities that would benefit traditionally "unbanked" customers who live far from urban centres. Working with its 16 AMFUs to identify areas that would benefit from such an innovation, the Bank will be sending this mobile bank to help ascertain the appetite for a brick and mortar branch in the area prior to investment.

Commercial Bank launches new version of its "Millionaire Account"

Millionaire Account

Commercial Bank relaunched its popular "Millionaire Account" enabling a larger group of aspiring savers to open accounts and benefit from its unique structure.

Benchmarked service standards. Personal Banking focuses on several key service standards to ensure it meets and exceeds the expectations of the Bank's stakeholders.

To protect customer data the Bank has ensured that it is compliant with PCI Security Council standards which, for example, prevents the printing of a customer's entire bank account number on ATM slips.

Following the introduction of 3D secure enabled cards the Bank revamped all cards, POS machines and ATMs to the EMV standard which will greatly reduce instances of card present fraud.

All IT and other equipment procured by the Bank for branches and other buildings is energy efficient, with "Energy Star 5" ratings that are compliant with the RoHS (Restriction of Hazardous Substances) standards. ATM machines that have been purchased during the year are energy efficient, able to function without air conditioning.

Streamlined processes. Providing customers with the service expected of one of Sri Lanka's leading private-sector banks means ensuring that systems and processes are simple and streamlined – an ongoing exercise that the Bank takes very seriously.

The Central Credit Approval Unit (CCAU) now supports a majority of the micro and SME-related loan facilities up to a certain threshold, helping to track and eventually reduce the Bank's non-performing loans. The centralisation and integration afforded by the CCAU allows greater uniformity in the assessment of credit quality.

Integrating our call centres in order to improve processes is another initiative that was begun during the year. The Bank's four call centres – Card Centre, Digital Banking, Recoveries, and the regular telephone operators – are now in the process of being connected. Over the course of 2018 the integrated call centre will have the ability to track a single caller's every contact with the Bank, including their interaction via social media.

In addition to the collaboration of front line teams from Branches and the "third line" team which is Audit, assurance mapping now directly involves the second line – teams from Procurement and Risk Management for instance – to ensure that risks are managed with even greater efficiency.

Impact on the economy

Through the activities of its Personal Banking arm Commercial Bank is making an indirect impact on the economy.

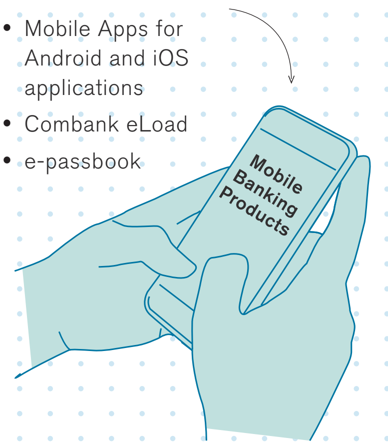
Furthering financial inclusion in Sri Lanka is one such initiative. The Bank works towards this goal mainly through the work of its AMFUs – taking banking to the peripheries, and by encouraging and supporting entrepreneurship through a range of effective awareness and education programmes.

Commercial Bank is a trusted brand that has a track record that stretches back to almost half a century. Thanks to its brand reputation and strength the Bank is able to partner with international organisations such as MasterCard and Visa and widen the scope of banking related initiatives that its Personal Banking customers may avail themselves of. Often these initiatives result in greater upward mobility for more people.

Through its Personal Banking Division the Bank is also preparing customers for the new digital revolution in financial services. Investing in top-of-the-line online and mobile banking services, conducting digital banking awareness campaigns and making banking more convenient and accessible for its over three million customers – these are some of the many ways in which the bank indirectly impacts the economy.

Convenient banking Figure – 11

- ComSMS
- USSD
- Mobile Apps for Android and iOS applications
- Combank eLoad
- e-passbook



Sustainability is a given

In the era unfolding, man will listen ever more closely to the universe and fashion enterprise around a mutuality of well being

CORPORATE BANKING

Our corporate customers rely on us to be a trusted partner, able to provide financial services that are tailored, relevant, and timely. For us, living up to their expectations and maintaining their loyalty means using our global and local networks, insights, and experience to enable them to reach their full potential in the industries and communities within which they operate.

Accounted for

24%

of the Bank's assets portfolio and

25%

of its profits before tax

23%

Growth in Corporate loan book (year on year)

0.6%

Non-performing loans ratio

Accounted for

10.56%

of Sri Lanka's imports and

18.58%

of the country's exports

Rs. 7.8 Bn.

Funds raised by Investment Banking unit

Funded domestic airport

in the Maldives

Professional client guidance training for all

Relationship Managers

Products and services

With an in-depth understanding of customer needs gleaned over nearly half a century of expertise in the field, the Corporate Banking team continued to develop customised solutions that include project lending and packaged facilities for medium to large corporates.

Corporate Banking products and services Table – 14

Financing	Transaction Products	Investment Banking
Overdraft	Trade Finance services	Initial Public Offerings (IPOs) of equity and debt
Short-term loans	Combank Online	Private placements of equity and debt
Import financing	Pay Master	Securitisations
Export financing	Interest rate swaps	Syndications
Long-term financing	Currency swaps	Specialised project financing
Term loans		Margin trading
Customised project loans		Escrow accounts
Leasing		Custodian services
Factoring		Advisory services on equity and debt
Islamic Banking		

Corporate Banking was able to acquire new corporate clients during the year with a total relationship over Rs. 40 Bn.

Loans in the Corporate Banking Division grew by 23% as the Bank strove to maintain a balance between growth, asset quality and pricing.

Usage of Pay Master increased by 12.97% year on year. Pay Master is a revolutionary payment solution that relieves customers of the burden and cost of large scale, repetitive but highly important tasks such as regular payments to suppliers and salary payments to employees. This product frees business owners, allowing them more time to focus on their core business.

The Corporate Banking arm was able to increase its green lending portfolio during the year. Social and Environmental Management System (SEMS) ensures that the Bank's lending is environmentally sustainable, socially acceptable and economically viable. Green lending contributed to Commercial Bank being named among the "Top Companies in Asia" and the "Top Green Companies in Asia" at the 2017 Asia Corporate Excellence & Sustainability (ACES) Awards.

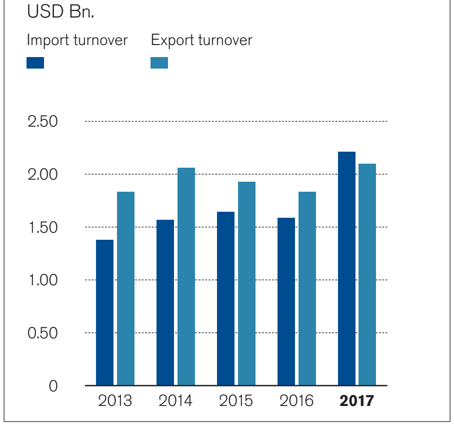
Commercial Bank among Top Companies in Asia – recognised for leadership and green efforts

Commercial Bank was named among the "Top Companies in Asia" and the "Top Green Companies in Asia" at the 2017 Asia Corporate Excellence and Sustainability (ACES) Awards that honour and showcase Asia's finest and most responsible corporate leaders

During the year a new database was set up to ensure lending officers knowledge of key industries is always up to date. Supported by the Bank's Research and Development Department this initiative has received positive feedback from lending officers.

Corporate Banking was able to grow the Bank's import and export volumes by 39.33% and 14.58% respectively (Graph 39), during the year.

Import and export turnover — Graph – 39



Commission income from trade contributed approximately 17% of the commission income of the Bank supported by increased focus on this area by Corporate Banking.

During the year Corporate Banking put together a strategic team that worked on developing new products, modifying existing products, expanding delivery and expanding revenue. The results of their work will be apparent in 2018 and beyond.

Always tuned into the needs and preferences of its customer base Corporate Banking was happy to launch a new initiative that filled a need identified by customers. The Bank launched a monthly "Economic Overview" developed in collaboration with Treasury and Research and Development Unit for Corporate Banking customers. This monthly report is designed to provide customers with useful information from their trusted Bank.

The establishment of two new accounts under Margin Trading with facilities totalling Rs. 600 Mn. despite suppressed market conditions and rising interest rates was another achievement worth noting for the year under review.

Islamic Banking was another area that the Bank focused on during the year. A marketing campaign to highlight Islamic Banking and a successful collaboration with Branches contributed towards growth of this segment. Mudaraba Savings and Mudaraba Investments, deposits products in the Islamic Banking Unit increased by 19.83% over 2016 while assets products increased by 17.56%.

Islamic Banking Products

Deposits

- Mudaraba Savings
- Mudaraba Investments

Assets

- Murabaha
- Musawama
- Wakala
- Musharaka
- Diminishing Musharaka
- Ijara

Customer outreach

Corporate Banking continued to look at new ways to improve customer touch-points during the year.

With 55 correspondent banks and 261 branches our clients have access to seamless banking solutions irrespective of whether they operate in a global market or a bustling rural village.

Corporate Banking considered face-to-face meetings an important channel to reach out to and stay in contact with its customers. Special training programmes during the year provided relationship managers with the skills they need to be able to exceed the expectations of high-ranking customers. Additionally, performance dashboards were introduced during the year to help monitor the activity of relationship managers visiting clients to ensure an adequate number of customer visits and uniformity of service quality.

Benchmarked service standards

Corporate banking division constantly reviews its' service standards and conducts benchmarking of such service standards with peers with a view to providing superior customer service. Plans are afoot to carry out a customer survey and a work study in order to identify any areas for further improvement.

Streamlined processes

During the year, Corporate Banking paid special attention to the review of all processes relating to Credit, Import, and Export to optimise efficiency, enhance customer convenience, and reduce costs.

To ensure processes within Corporate Banking remain smooth, a review of employee skills was conducted and the appropriate core banking training and personal development guidance provided for all staff within this business line.

The automation of Overdraft Overline Report for excess monitoring and the automation of monitoring mechanism of Stocks and Debtors positions against exposures were two initiatives that greatly improved internal processes during the year.

The monitoring of borderline advances were further strengthened using "Early Alerts" to minimise non-performing loans.

Impact on the economy

In Sri Lanka, Corporate Banking supports the many specialised banking requirements of its corporate customers, opening the door for large scale economic activities within these economies. The Bank accounts for 10.56% of imports and 18.58% of exports in Sri Lanka, drawing on its vast experience in Trade Finance to play an important role in facilitating trade.

Reflecting key areas of growth for the Sri Lankan economy, Corporate Banking noted loan growth in the health care, trading, apparel, education and leisure sectors.

TREASURY

The Treasury Department has the overall responsibility for managing the Bank's balance sheet which demands balancing and managing the capital, funding and liquidity requirements of the Bank. It also plays a key role in managing market risk – interest rate and exchange rate risks in particular – and underlying margins and mismatches in assets and liabilities. Treasury's role is crucial to maintain the financial security and stability of the Bank while enabling other business lines to readily access funds as they endeavour to meet customer needs.

A key player
in interbank foreign exchange and fixed income securities

Contributed
22%
of Bank's assets through fixed income securities

Mobilised
USD 410 Mn.
by way of foreign currency borrowings

Strategic rebalancing of fixed income securities portfolio

Products and services

Treasury operations comprise three specialised areas, Foreign Exchange and Corporate Sales, Fixed Income Securities Investment and Trading, and Assets and Liabilities Management (ALM Operations).

Reporting to the Head of Global Markets and the Head of Global Treasury, the Treasury manages the following products and services.

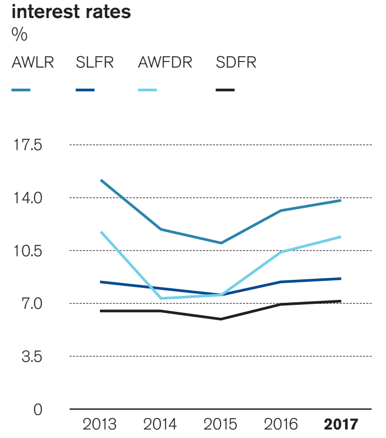
Treasury products and services Table – 15

Investment products	Foreign Exchange	Fixed Income Products	Financial Derivatives
Sri Lanka Development Bonds	Forward Contracts	Treasury Bills	Interest Rates Derivatives
Special Foreign Currency Investment Deposit Accounts	Spot Contracts	Treasury Bonds	Currency Options
		REPOs	
		Reverse REPOs	

Through the prudent management of these products and services Treasury reported the following results during the year.

The Bank's Fixed Income Securities portfolio is one of the largest in the country, and accounts for approximately 22% of the Bank's total assets. It is managed to support the liquidity of the Bank, while optimising earnings.

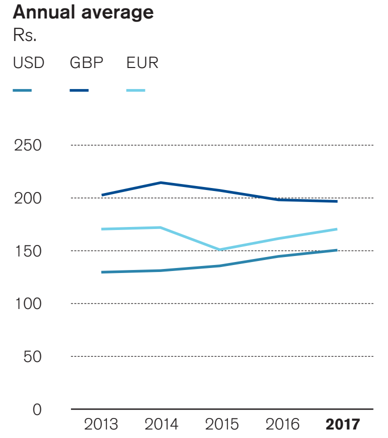
Policy and market interest rates Graph – 40



The Treasury Division's fixed income portfolio is a combination of both Rs. - and USD-denominated Sri Lanka Government debt securities. The USD denominated bonds in particular are a very attractive investment option, although the Sri Lanka Development Bond (SLDB) portfolio may lose some of the tax exemptions in 2018. By maintaining a major portion of the USD investments in floating rated bonds Treasury has been able to successfully hedge the risk of increasing USD rates, while maintaining a positive margin.

The Bank's forex profit of Rs. 588.213 Mn. reflects increased volumes of trade finance business and remittances. Treasury remains the market leader in Interbank FX Operations, providing liquidity in spot, forward and swap transactions.

Exchange rate – Annual average Graph – 41



During the year the Treasury Division diversified its foreign currency borrowing base and increased business relationships in order to support the Bank's other business lines, such as Personal Banking and Corporate Banking. Through structured funding (DPR) and bilateral agreements, Treasury also increased the duration of borrowings at a relatively low increase in borrowing costs. This improved the Bank's stable funding position supporting Basel III driven Net Stable Funding Ratio (NSFR) requirements.

The Bank's Treasury arm also increased its Special Foreign Currency Investment Deposit Account (SFIDA) and investment in Government security (G-sec) through Securities Investment Account (SIA).

To support the lending and investment activities of the Bank, the Treasury was successful in borrowing USD 100 Mn. from the International Finance Corporation (IFC) during the year.

Other activities during the year included entering the interest rate derivative market, arranging funding lines from reputed Development Finance Institutions (DFIs), and introducing SLDB and Sri Lanka Sovereign Bonds (SLSB) backed REPOs.

The Treasury Division also worked with an advisory from the International Finance Corporation (IFC) to educate employees on how to better promote green lending.

Customer outreach

The main customers of Treasury are the Bank's business lines and, subsequently, their customers. The department is structured to ensure that it operates at an optimal level.

As one team, the Treasury Division focuses on and emphasises customer satisfaction, both internal and external. Its business strategy is based on meeting and satisfying customer needs. Constantly working towards this goal, Treasury maintains a close rapport with the Personal Banking and Corporate Banking divisions of the Bank, providing relevant market information, supporting client acquisition and proposing suitable instruments and solutions to meet client-specific needs. Through its dedicated sales desk, which is the largest unit within Treasury, it services all key stakeholders, striving to maintain high standards throughout all interactions.

During the year, the Foreign Exchange and Corporate Sales team conducted foreign exchange trading operations while supporting the Personal Banking, Corporate Banking, and Trade Finance businesses. They also managed the foreign exchange requirements of their customers and the Bank's Foreign Exchange risk.

ALM Operations focuses on maintaining adequate liquidity for the Bank's operations, while ensuring optimal pricing for its assets and liabilities. The Department was also actively engaged in the activities of the asset-liability committee (ALCO) and regularly provided strategic direction for banking operations.

Treasury assigned dedicated dealers for each product, improving this important customer channel – face-to-face customer interaction.

Benchmarked service standards

During the year, the Treasury Division conducted process improvements to ensure attending to customer needs with greater speed and accuracy.

Systems capabilities were also reviewed and enhanced with an eye to the future. As the Bank prepares to make the most of future opportunities, this Division too is dedicated to being future-ready.

Streamlined processes

Treasury focused on optimising internal relationships while gearing staff to make the most of potential opportunities.

The Treasury Division streamlined its process of cross-selling with Corporate Banking as this provides access to financially stable customers with whom the Bank already has a relationship.

To further streamline existing processes, a skills assessment of people within Treasury resulted in additional training for all levels of employees, an initiative dedicated to ensure that employees were engaged in value-added activities rather than routine work. This also resulted in the transfer of experienced senior staff to top positions in international offices.

Impact on the economy

Declining interest rates resulted in decreasing mark to market losses, increasing the shareholders' equity, leading to an increase in net book value per share. Government initiatives taken to make the process more transparent and declining US Government treasury rates resulted in greater foreign inflows to Sri Lanka as foreign investors looked for higher yielding securities.

As one of the largest players in the market, Commercial Bank accounts for 10.56% of imports to and 18.58% of exports from Sri Lanka. Ties with foreign DFIs (Development Finance Institutions) improved the reach of the Bank in terms of Foreign Currency funding.

With customers more informed and keener to experience more complex products, Commercial Bank's Treasury Department was able to offer a range of hedging instruments and new products for their benefit.

INTERNATIONAL OPERATIONS

The Bank's International Operations is progressing from strength to strength. From our initial overseas venture in Bangladesh in 2003, we have expanded to Italy, Myanmar and the Maldives. When we acquired the operations of Crédit Agricole Indosuez in Bangladesh it consisted of two branches and two booths. We have been successful in expanding our business and network over the years, and will be setting up an Automated Banking Centre (ABC) in the country shortly.

Bangladesh operations now accounts for

7%

of the Bank's assets

AAA

for the seventh successive year for Bangladesh operations by Credit Rating Information and Services Limited.

Third

in terms of profitability, among the nine foreign banks in Bangladesh and first among regional banks

Maldivian operation began to

record profits

The opening of the

second branch

on the island of Hulhumalé in the Maldives

"Commex Sri Lanka S.R.L. – Italy"

nine

agents covering Northern region of Italy

A contribution of

17%

to the Bank's profit before tax from International Operations

Overview of Bangladesh Economy

Rising income, low inflation and increased public expenditure coupled with resulting increase in consumption led to Bangladesh achieving GDP growth of 7.24% in 2017. Per Capita Income also increased to USD 1,602, leading to a decline in poverty rates. Industrial sector followed by services sector made significant contributions to growth. Stronger Taka is attributed as one of the reasons for poor performance in exports. Remittances to the country from expatriate workers continued to decline. Standard & Poor and Moody rated Bangladesh at BB- and Ba3 respectively with stable outlook. Banking sector faces challenges in terms of rising non-performing loans, lower levels of capital adequacy, slippages of addressing fiscal reforms, political uncertainties and governance related issues. Year 2018 is significant for Bangladesh since the country is set to graduate from a least developed country and also a General Election is due to be held early 2019.

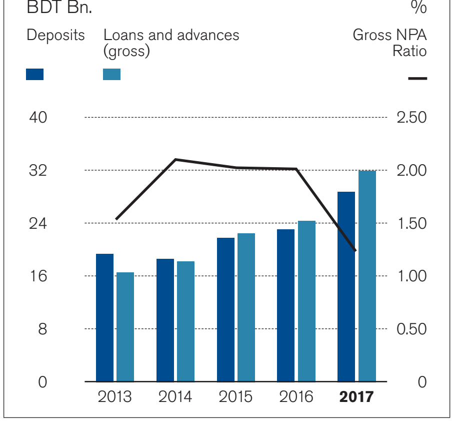
Other countries

Our subsidiary in Italy continues to boost our leadership position in inward remittances. Our fully-fledged Tier 1 Bank in the Maldives has already begun to return profits. During the year, the Bank obtained an Operation Licence to carry out microfinance business in Myanmar and arrangements are being made to commence commercial operations in the near future. As our horizons continue to expand we are banking on a promising future.

Products and services

Commercial Bank has been in operation for close to 50 years. It is this experience and strength which propels the success of the Bank's international operations in the form of products and services that have proven successful.

Deposits and advances Graph – 42



The number of accounts in Bangladesh grew by over 9% during the year, while deposits and advances grew by 24.58% and 31.31% respectively compared to 2016.

Having offered exceptional relationship banking to our corporate banking customers, and expanded the Corporate Banking portfolio in Bangladesh, we are on par with the multi-national banks operating in the market in terms of products and services. As a foreign bank we have good access to large corporates but must compete with international banks and local banks in this space.

In our efforts to be the preferred service provider for Personal Banking customers in Bangladesh we offer a superior online banking platform, innovative products, and customer service that is of a high standard. Despite our conservative ethos and competition from other commercial banks including the nine new banks established in 2013, we are able to attract a quality deposit mix consisting of savings and low cost deposits. We also introduced a new Floating Rate Housing Loan product to the market which at this early stage, is showing much promise.

Our Treasury operations in Bangladesh offer consistent, cost-effective fund management and trade finance services providing customers with some of the best treasury products available in the region. Thanks to our proven expertise and market knowledge in foreign exchange, money market, and fixed income products we are able to compete with other foreign banks and big local banks that enjoy larger business volumes due to their global and local references.

Online banking in Bangladesh is picking up with the total number of online fund transfers during the year amounting to BDT 598 Mn. Active users of the ePassbook among Personal Banking customers in Bangladesh and the Maldives reached 2,835. This was the first time such a product was offered in either of these countries.

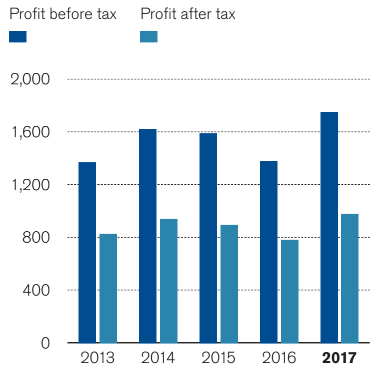
In the Maldives the number of accounts grew by approximately 74% year on year.

Customer outreach

With our overseas employees now numbering 281, an increase of over 9% over 2016, and contributing approximately 17% of profit before tax, International Operations provides a source of risk diversification and greater stability for the Bank.

Profit before and after tax — Graph – 43

BDT Mn.



We have been successful in expanding our business in Bangladesh to 11 branches, six SME centres, two offshore banking units, and 20 ATM machines (including three off site). Shortly we will be setting up an Automated Banking Centre (ABC) attached to the new Corporate branch, with a real time cash deposit machine – the first of its kind in the country.

The subsidiary, namely Commercial Bank of Maldives Private Limited, is a fully-fledged Tier 1 bank under the licence issued by the Maldives Monetary Authority has began to make profit during the year. With the opening the second branch this year, and commissioning of digital banking services, business volumes in Maldives have grown rapidly since its commencement in 2016.

Commercial Bank of Maldives opens its second branch in Hulhumale

The Commercial Bank of Maldives (CBM), a subsidiary of the Bank, opened its second branch in the Republic of Maldives, a little over a year since it commenced operations in the archipelago.

With nine agents covering the northern region of the country, Commex Sri Lanka S.R.L. – Italy, is a fully-owned subsidiary of the Bank which commenced its own business under the Authorized Payments Institute (API) License issued by the Bank of Italy in February 2016. This licence allows the Bank to expand further across Europe and plans to do so are currently being laid out.

The Bank opened a representative office in Myanmar in June 2015, and during the year, received a micro finance licence. Leveraging its expertise in this sector, Myanmar Operations will commence expanding customer touch points and growing its micro finance business.

The Bank also has placed its own Business Promotion Officers (BPOs) in key markets around the world to cater to the banking needs of Sri Lankans working in those markets. Products and services offered include money transfer facilities via the Bank's e-Exchange remittance services. International Operations continued to facilitate mobile to account remittances in real time with the Bank's partner in the Sultanate of Oman. In the Kingdom of Saudi Arabia, the Bank's partner continued to facilitate real time transfers through the ATM network and online banking channels.

Benchmarked service standards

The Bank's license in Italy is valid throughout the European Union. In addition to signalling that Commercial Bank's service standards are in line with European requirements it also opens the door for the Bank to expand across the continent.

Streamlined processes

The Bank's Bangladesh operation's pricing strategy was further streamlined and customised enabling loan growth and an increase in overall returns on advances.

Risk acceptance processes were strengthened to further enhance asset quality.

Employee competencies were classified across the Bank with career guidance, and training and development provided where necessary. In Bangladesh in particular, where nine commercial banks were opened together in 2013, human resources are stretched. This exercise helped the Bank redistribute talent where it is needed the most – including overseas postings which ensure that experienced personnel head key operations while receiving invaluable career opportunities and experience.

Impact on the economy

The Bank's International Operations allow Sri Lankan corporates, SMEs and Personal Banking customers the opportunity to widen their horizons.

At the same time, the presence of a stable, long-standing bank like Commercial Bank in Bangladesh, Italy, the Maldives, Myanmar, and also the Middle East region (through BPOs), brings greater investor attention and business opportunities to Sri Lanka.

The Bank also grew its market share of remittances in Sri Lanka from 16% to 18% during the year – a major achievement for the Bank, providing greater liquidity in the market.

Inward remittances from migrant workers, a vital source of foreign exchange for Sri Lanka, amounted to USD 7,164 Mn. for the year 2017, a decrease of 1.07% over 2016. One of the biggest markets for migrants, Italy has an estimated population of 150,000 Sri Lankans. The monthly value of fund inflows from Italy to Sri Lanka amounts to roughly Rs. 3 Bn.

Using the Bank's e-Exchange and other remittance services Commercial Bank acted as a catalyst, promoting many overseas Sri Lankans who had previously used informal channels to remit money to Sri Lanka.

Commercial Bank fetes top customers and business partners in Abu Dhabi

Commercial Bank hosted the Bank's top customers and business partners in the remittance business in the United Arab Emirates.

MANUFACTURED CAPITAL

By definition, and as it applies to the Bank, Manufactured Capital includes artificial (as opposed to natural) physical objects that are on hand for use in the provision of products and services. These objects include buildings, vehicles, and equipment. Manufactured capital may be created by external entities and is often used directly for the benefit of customers and other stakeholders. As the Bank continues to grow – expanding its branch network for instance – so too will its manufactured capital.

In addition to meeting stakeholder expectations, the Bank uses such tangible assets to meet future challenges. Naturally the quality of these assets has a profound impact on the Bank's future-readiness and the value it creates for all stakeholders. To ensure that the value it derives is at a premium, the Bank makes every effort to develop and continues to maintain the high standards of its manufactured capital.

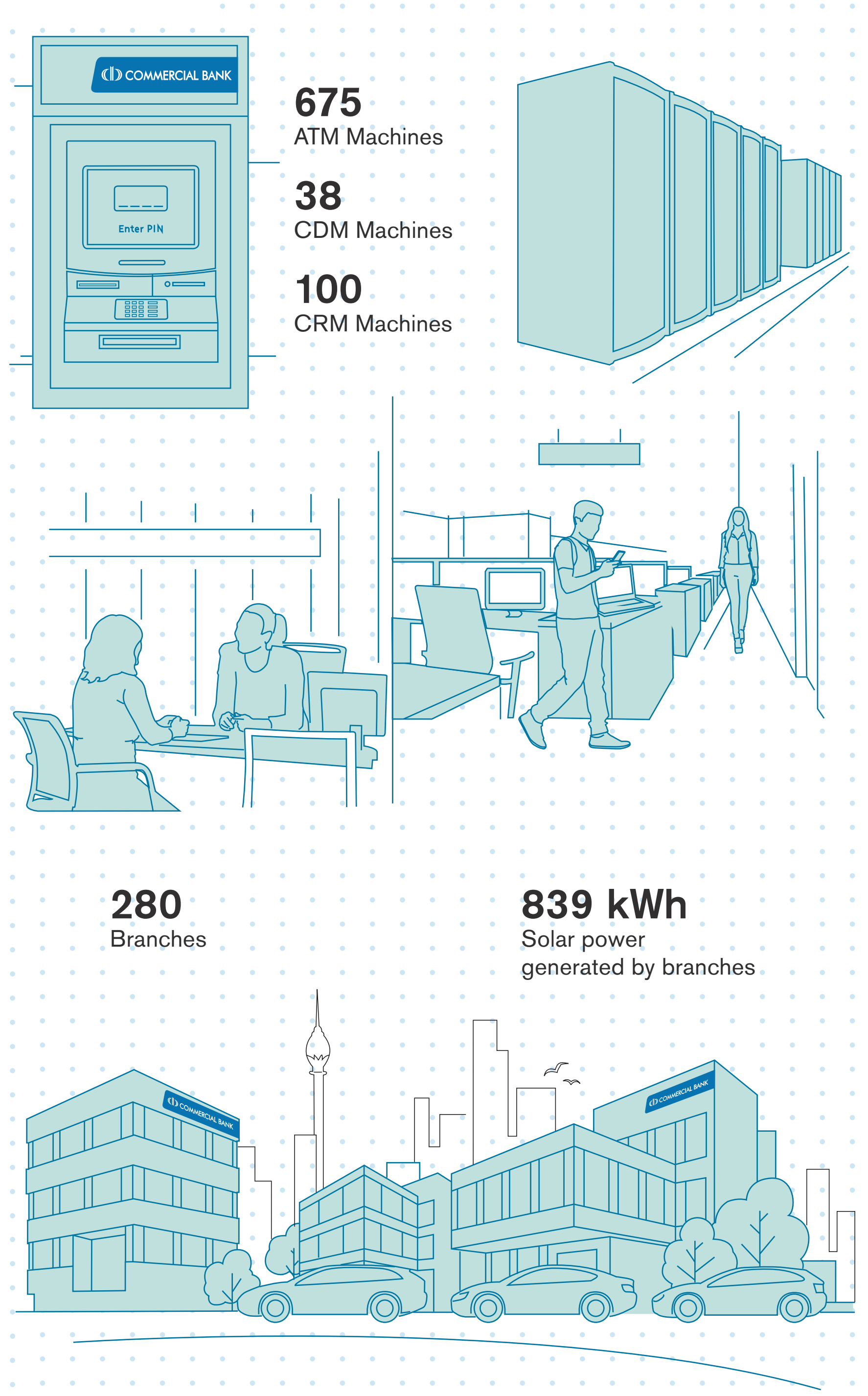
This section explores how the Bank deploys manufactured capital to meet three of the Bank's strategic imperatives – namely operational excellence, customer centricity and risk management.

Operational excellence

Diversified property. Maintaining a healthy balance between owned and rented buildings is one example of how the Bank optimises its manufactured capital. Since 2009, Sri Lanka's property market has been on an upward trajectory with the demand for commercial and residential real estate growing each year.

Convenient banking

Figure – 12



Network of delivery points in Sri Lanka

Central Province

Kandy District
Akurana (Minicom) **K**
Anniwatte (Nihals Super) **K**
Digana
Gampola
Gelioya (Arpico Super) **K**
Kandy **A**
Kandy (City Office) **K**
Katugastota
Katugastota (Minicom) **K**
Kundasale (Dumbara Super) **K**
Nawalapitiya
Peradeniya
Pilimatalawa
Wattegama Ext. Office

Matale District
Dambulla
Galewela
Matale

Nuwara Eliya District
Hatton
Maskeliya
Nuwara Eliya
Thalawakelle

Eastern Province

Ampara District
Akkaraipattu
Ampara
Kalmunai
Pottuvil

Batticaloa District
Batticaloa **A**
Batticaloa (Minicom) **F**
Chenkalady
Kattankudy
Valaichchenai

Trincomalee District
Trincomalee

North Central Province

Anuradhapura District
Anuradhapura **A**
Anuradhapura New Town
Kekirawa
Medawachchiya
Nochchiyagama
Thambuttegama

Polonnaruwa District
Hingurakgoda
Kaduruwela

North Western Province

Kurunegala District
Alawwa
Giriulla
Kuliyapitiya
Kurunegala **B**
Kurunegala (Minicom) **K**
Kurunegala City Office
Mawathagama
Narammala
Nikaweratiya
Pannala
Polgahawela
Wariyapola

Puttalam District
Chilaw
Dankotuwa
Marawila
Nattandiya
Palavi
Puttlam
Wennappuwa (Arpico Super) **K**
Wennappuwa

Northern Province

Jaffna District
Achchuvely
Chankanai
Chavakachcheri
Chunnakam
Jaffna **G**
Jaffna Stanley Road **A**
Kodikamam
Manipay
Nelliady **A**
Point Pedro*
Thirunelvely
Velanai

Kilinochchi District
Kilinochchi
Kilinochchi (Minicom)

Mannar District
Mannar

Mullaitivu District
Mulliyawalai

Vavuniya District
Vavuniya **A**
Vavuniya Second

Sabaragamuwa Province

Kegalle District
Kegalle **A**
Mawanella
Rambukkana*
Ruwanwella
Warakapola
Yatiyantota*

Ratnapura District
Balangoda
Eheliyagoda
Embilipitiya
Godakawela
Kahawatte
Kalawana
Kuruwita
Pelmadulla
Ratnapura
Ratnapura (Minicom) **K**

Southern Province

Galle District
Ambalangoda
Baddegama
Batapola
Deiyandara
Elpitiya
Galle City **B**
Galle City Main Street
Galle Fort
Hikkaduwa
Karapitiya
Koggala
Neluwa
Udugama

Hambantota District
Ambalantota
Beliatta
Hambantota
Middeniya
Tangalle
Tissamaharama

Matara District
Akuressa
Deiyandara
Deniyaya
Kamburupitiya
Matara **B**
Matara (Keells Super) **K**
Matara City Office
Morawaka
Urubokka
Weligama

Uva Province

Badulla District
Badulla
Badulla (Minicom) **F**
Bandarawela
Mahiyanganaya
Passara
Welimada

Monaragala District
Kataragama
Monaragala
Wellawaya

Western Province

Colombo District
ABC **M**
Athurugiriya
Attidiya
Avissawella
Bambalapitiya
Bambalapitiya (Majestic City) **K**
Baseline Road
Battaramulla
Battaramulla (Arpico Super) **K**
Bokundara (Minicom) **K**
Boralesgamuwa
Boralesgamuwa (Laugfs Super) **K**
Borella **A**
City Office
Colombo 07 **B**
Colombo Gold Centre
Dehiwela
Dehiwela (Arpico Super) **K**
Delkanda
Digital Banking
Duplication Road
Elite **A**
Foreign **D**
Grandpass
Hanwella
Homagama
Hulftsdorp
Hyde Park Corner (Arpico Super) **K**
Kaduwela
Katubedda
Katubedda (K-Zone) **K**
Keyzer Street
Kirullapone
Kirulapone (Minicom) **K**
Kohuwala
Kohuwala (Keells Super) **K**
Kolonnawa*
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
Nawala
Nawala (Minicom) **K**
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 District
Bandarawatte (Laugfs Super) **K**
Biyagama
Bopitiya*
Delgoda (Laughs Super) **K**
Divulapitiya
Ekala
Gampaha **A**
Gampaha (Minicom) **K**
Ganemulla
Hendala (Minicom) **K**
Ja-Ela
Ja-Ela (Minicom) **K**
Kadawatha
Kadawatha (Arpico Super) **K**
Kandana **A**
Katana*
Katunayake BIA Arrival Lounge **M**
Katunayake BIA Departure Lounge **M**
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 District
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

** Branches opened in 2017*

Arpico Super:
Banking Centers at Arpico Super Markets

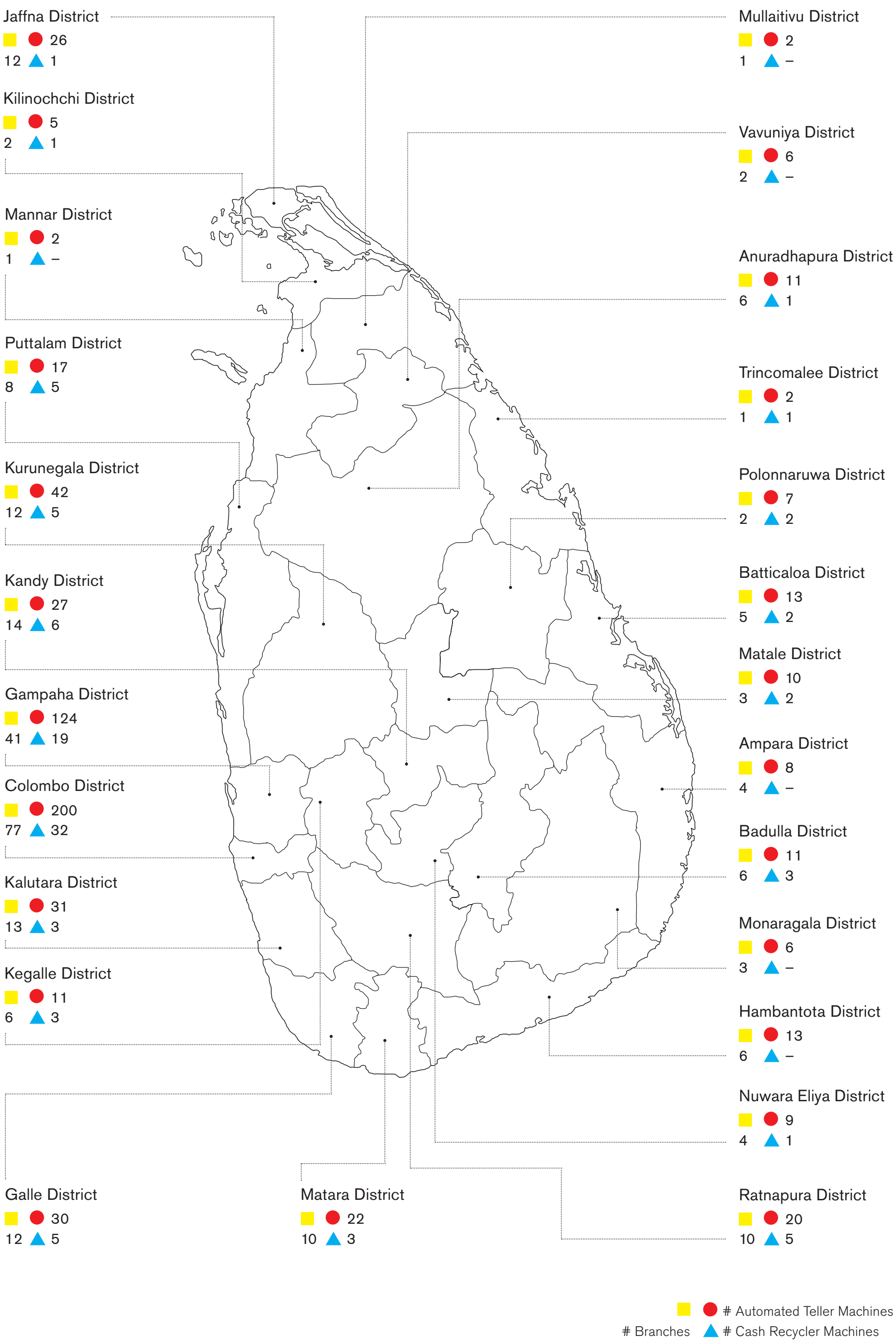
Minicom:
Banking Centers at Keells and Laugfs Super Markets

Banking Hours

Banking hours symbol		A	B	C	D	E	F	G	H	I	J	K	L	M
Weekdays	9.00-3.00	9.00-3.00	9.00-3.00	9.00-3.00	9.00-4.00	9.00-6.00	9.00-6.00	9.00-6.00	9.00-6.30	9.00-8.00	9.00-9.00	9.30-7.00	10.00-5.00	24*7
Saturday	–	9.00-1.30	9.00-1.30	–	–	9.00-1.30	–	9.00-1.30	9.00-6.30	9.00-3.00	9.00-9.00	9.30-7.00	10.00-5.00	24*7
Sunday	–	–	9.00-1.30	9.00-1.30	–	–	9.00-1.30	9.00-1.30	9.00-6.30	–	9.00-9.00	9.30-7.00	–	24*7
Bank Holidays/Poya*	–	–	9.00-1.30	–	–	–	–	9.00-1.30	9.00-1.30	–	9.00-9.00	9.30-7.00	–	24*7

Branches open from 9.00 a.m. to 1.30 p.m. on bank holidays will be notified by press releases.

Figure – 13



	No. of Branches	No. of ATMs	No. of CRMs
Kandy District	14	27	6
Matale District	3	10	2
Nuwara Eliya District	4	9	1
Central Province	21	46	9
Ampara District	4	8	–
Batticaloa District	5	13	2
Trincomalee District	1	2	1
Eastern Province	10	23	3
Anuradhapura District	6	11	1
Polonnaruwa District	2	7	2
North Central Province	8	18	3
Kurunegala District	12	42	5
Puttalam District	8	17	5
North Western Province	20	59	10
Jaffna District	12	26	1
Kilinochchi District	2	5	1
Mannar District	1	2	–
Mullaitivu District	1	2	–
Vavuniya District	2	6	–
Northern Province	18	41	2
Kegalle District	6	11	3
Ratnapura District	10	20	5
Sabaragamuwa Province	16	31	8
Galle District	12	30	5
Hambantota District	6	13	–
Matara District	10	22	3
Southern Province	28	65	8
Badulla District	6	11	3
Monaragala District	3	6	–
Uva Province	9	17	3
Colombo District	77	200	32
Gampaha District	41	124	19
Kalutara District	13	31	3
Western Province	131	355	54
	261	655	100

Network of delivery points in Bangladesh Figure – 14

Sylhet District
Sylhet Branch

Gazipur District
Tongi SME Centre

Dhaka District	**BHS**
Corporate Branch	
Dhanmondi Branch	A
Gulshan Branch	B
Mirpur Branch	
Motijheel Branch	
Panthapath Branch	
Tejgoan Branch	
Uttara Branch	
Old Dhaka – SME Centre	
Progati Sharani – SME Centre	
Shanthinagar – SME Centre	
Gulshan – OBU	

Narayanganj District
Narayanganj Branch

Chittagong District
Chittagong Branch
CDA Avenue – SME Centre
Jublee Road – SME Centre
CEPZ – OBU

Banking Hours

Banking Hours Symbol		A	B
Sunday to Thursday	10.00-4.00	10.00-4.00	10.00-8.00
Friday and Saturday		9.30-12.30	
Holidays			

BHS: Banking Hours Symbol *SME: Small and Medium Enterprises* *OBU: Off-Shore Banking Unit*

At the end of 2017 there were an estimated 8,000 apartments being built in Colombo compared to less than 1,000 in 2008. Following concessions for foreign investors in the real estate sector included in the 2016 and 2017 Government budgets, investments in strategic development projects in the city, such as, the Shangri-la, Tata Housing, and the Astoria are also expected to increase.

Such development means that renting in urban centres such as Colombo, Galle, and Kandy is neither easy nor cost-effective. Property owners have their pick of short-term tenants from start-ups to established companies all jostling for a piece of the action.

To meet the challenges presented by this scenario the Bank has made every effort to move back office and support staff into owned buildings. Buying premises strategically in key locations and renting – especially in rural areas where the security of renting to a trusted local bank is highly valued – the Bank has balanced its investments in properties to generate greater economies.

Smarter branches. The Bank is mindful of the requirement to maintain the state of art work environment within the Bank premises and continues to make substantial investments in upgrading the existing premises to be in line with industry standards.

To reflect its continued goal of providing customers with a consistent, high standard of service at every touch point the Bank redoubled its focus on standardising the façades of all its branches in the Colombo area. Work on standardising the internal layout of branches is also ongoing.

Six new branches were added to the Bank's network during the year, taking the total to 280 by end of 2017. Taking up less square-footage these branches include an automated banking services section to provide greater customer convenience.

Sustainable energy. The Bank installed solar panels in 20 branches during the year under review, converted all lighting to LEDs (light-emitting diodes). It also invested in the optimisation of air conditioners in the Head office building through its subsidiary Commercial Development Company PLC, which resulted in the Bank achieving approximately 15% reduction in its energy bill.

Rationalising office equipment. Buoyed by the ability to reap benefits of moneys spent on strengthening infrastructure, the Bank will continue to invest in ICT with the objective of delivering unprecedented customer experience through technology.

During the year under review the Bank also increased its ratio of hired versus owned office equipment, engaging a third party supplier for the renting of machines such as printers. This has resulted in approximately 35% shift from capital expenses to operational expenses across the branch network, with maintenance and repair costs being borne by the supplier.

Customer centricity

Software solution. In 2012, the Bank launched its own home-grown online financial services solution which provided distinctive experiences for both retail and corporate customers. Five years on and the needs of its stakeholders have grown exponentially. With plans to further expand digital solutions for customers – including mobile banking solutions for its Small and Medium Enterprise (SME) segment – the Bank procured a new digital platform from Fiserv, a global leader in financial services technology solutions, during the year and it will become fully functional in 2018.

The Bank will continue to upgrade its IT platforms to maintain a state of the art infrastructure.

Effective transport. To maintain the cost-efficiency of the transport arrangements the Bank now employs a combination of owned and rented vehicles. In addition to the use of commercial cab services the Bank has also negotiated with a third-party supplier to provide manned vehicles at a monthly fixed rate per kilometre.

Managing Risk

Online procurement. Online procurement of all fixed assets and inventory was a challenging but productive operation which involved changing employee mindsets throughout the Bank. Maintaining the usual dual control system, monthly requirements are submitted to the Bank's Logistics team who in turn alert the Procurement team. This process, including the supply of items from the Bank's warehouses to the point of delivery, is now entirely traceable online. This has helped in proper accounting and physical verification.

It is heartening to note that the Bank has received zero complaints on procurement practices through its whistle-blowing system this year.

Total investments in the Manufactured Capital of the Bank (Property, Plant and Equipment, Intangible Assets, and Leasehold Properties) stood at Rs. 15.484 Bn. as at end 2017 (please refer Note 39 on page 245 for details).

Maintaining an efficient and productive environment for all its stakeholders is of paramount importance to the Bank and helps fulfil its aim of creating value and being future ready.

SOCIAL AND NETWORK CAPITAL

The communities within which we operate have expectations of us for their well-being in the same way that we have expectations of them for our growth and sustainability. As we create value for them so they too create value for the Bank. The networks that have sprung up between the Bank and each stakeholder group – namely, customers, suppliers and business partners, and communities – are built on trust, loyalty, and shared values. These networks enhance the well-being of both the individual and the community as a whole, providing the Bank with a legitimate social license to operate.

This section explores how the Bank leverages social and network capital by delivering value to and deriving value from customers, suppliers and business partners and community thereby meeting all five of the Bank's strategic imperatives – namely prudent growth, customer centricity, operational excellence, digital leadership, and risk management.

Customers

Customer centricity

Anticipating customer needs. The term customer service has taken on a completely new meaning in today's context and judging by current trends will continue to morph even further. Service providers such as banks now need to be at least two steps ahead of the customer – being where they are, when needed.

To stay in touch with customers the Bank employs a number of channels such as customer gatherings, one-to-one meetings, social media, its widespread branch network, and complaints and feedback. For instance, during the year under review, the Bank's Corporate Banking arm increased the number of face-to-face customer meetings by specially trained business promotion managers resulting in a net increase in customer acquisitions.

The Bank's Personal Banking arm continues to have regular conversations with customers and uses such feedback to design customised products to drive financial inclusion and continue its expansion into the peripheries. The Bank on Wheels concept, succession planning for entrepreneurs and the ComBank Biz Club for small and medium enterprises (SMEs) were all ideas that sprang up as a result of customer conversations (refer Review of Key Business Lines on pages 61 to 65 for more details). Further investment in digitalisation and branch automation, online banking, mobile banking and collaborative networks was a result of the Bank's determination to fulfil the financial needs of its customers. Instant loan approvals, which were launched in June 2017, have proved to be very successful. Through this initiative loans are instantly approved or registered subject to document verification and credit clearance. By the end of 2017, Rs. 143.670 Mn. worth of advances have been approved, with a total of 195 loan applications approved.

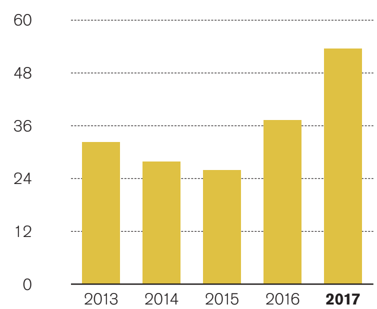
During the year, the Bank's Treasury Department continued to enhance its products and services offering, assigning during the year. The Bank's Treasury department set up dedicated dealers for each product to ensure a superior customer experience.

In credit cards the Bank continued to focus on security and convenience. From September 2017 onwards the Bank began utilising NFC (near field communication) technology for all cards. The Bank also introduced DCC or dynamic currency conversion – where at the point of sale, customers are presented with the choice of having their credit card transactions converted by a merchant or ATM to the currency of the country where their credit card was issued. These initiatives provide the Bank's customers with the latest technology in credit cards.

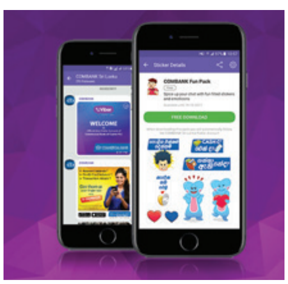
Promoting financial inclusion. In addition to customer convenience, the Bank also focused on making a positive difference to the lives and livelihoods of customers in urban centres as well as areas with a higher proportion of unbanked. During the year, the Bank provided investment opportunities as illustrated in graphs 44 and 45.

Interest paid to depositors Graph – 44

Rs. Bn.



Commercial Bank expands its social media offerings with attractive new features on Viber

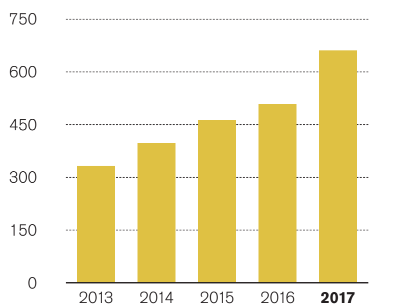


Commercial Bank has further broadened its social media presence with attractive new offerings on Viber.

Commercial Bank launches "Biz Club" to empower SME customers

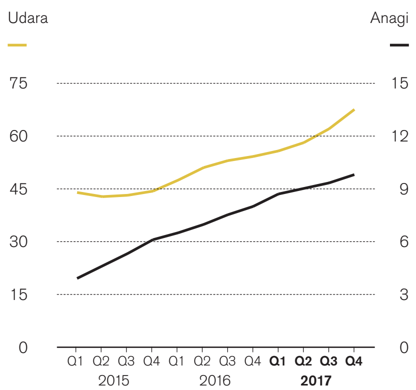
The first of its kind in the country, Commercial Bank Biz Club will focus on bringing SME customers together in order to create new business opportunities, and to provide them support beyond lending.

Loans disbursed Graph – 45
Rs. Bn.

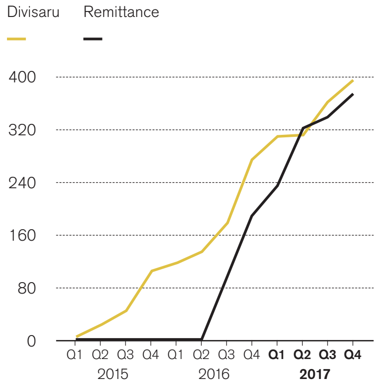


The Bank's customer penetration rate outside Sri Lanka's Western Province remained at 12% during the year. Specialised deposit products for women (Anagi savings accounts), senior citizens (Udara savings/ fixed deposit accounts) (graph 46), micro entrepreneurs and small scale farmers (Divisaru savings accounts), and beneficiaries of migrant workers (Remittance special savings account) (graph 47) show an upward trajectory while overall deposits are well distributed (graph 48) as the Bank continues its efforts to ensure that such groups are involved in the country's socio-economic progress.

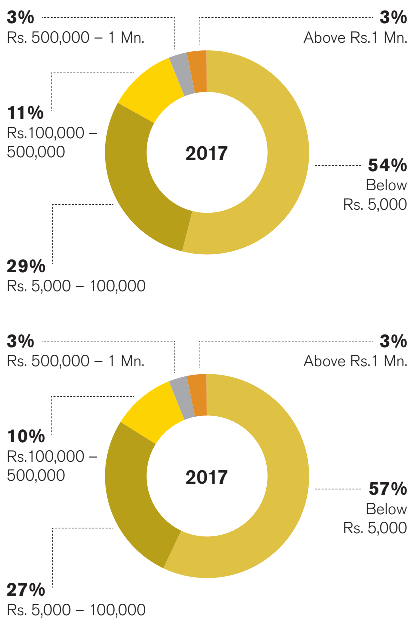
Growth of specialised deposit products Graph – 46
Rs. Bn.



Growth of specialised deposit products Graph – 47
Rs. Mn.



Deposits distribution Graph – 48



Financial literacy and capacity building. As Sri Lanka's largest financier to the SME sector, the Bank takes its role very seriously, providing SMEs with the type of financial literacy and capacity building they need to flourish and significantly contribute to the social and economic well-being of the country. For instance, through the CommBank Biz Club we are able to segment these customers into four groups – platinum, gold, silver, and bronze – to better cater to their needs. We work hand in hand with them to move members of each tier up to the next. This is achieved by first identifying their financial and business needs and providing them with the kind of advice and services they require to increase capacity and expand their financial knowledge. The Bank then utilises its far-reaching social networks to partner with external parties, including the Central Bank, which are able to provide them with the kind of training and development they need.

During the year, 500 entrepreneurs in this segment benefited from three programmes. Continuing on from the initiative taken in 2016, one of such programmes was dedicated for women which drew a participation of 200 female entrepreneurs.

Commercial Bank hosts seminars for SMEs in Polonnaruwa and Gampaha

An ongoing initiative of the Commercial Bank to develop entrepreneurship in the SME sector benefited 341 entrepreneurs in the Polonnaruwa and Gampaha areas, the majority of them women.

The Bank also conducted five financial literacy programmes targeting micro and agri entrepreneurs that benefited 695 participants of which 150 were females.

Commercial Bank engages in knowledge sharing with Kilinochchi farmers

Commercial Bank's Kilinochchi Branch with the assistance of the Bank's Development Credit Department organised a multifaceted seminar for 154 members of the Farmers Association in the area in collaboration with the Central Bank of Sri Lanka.

Commercial Bank shares knowledge with Achchuveli's micro entrepreneurs

Commercial Bank's Achchuveli branch and the Bank's Development Credit Department (DCD), conducted a seminar in collaboration with the Central Bank of Sri Lanka, for 162 micro entrepreneurs in the Achchuveli area, one of the major centres of agriculture in the Jaffna peninsula.

Other customer empowerment efforts include:

- Increasing wheel-chair accessible branches to 188 (72% of branches).
- Providing customers with their choice of language when operating our ATMs – Sinhala, Tamil, English and/or Bengali in Bangladesh.
- Enhancing access for differently-abled persons by enriching the corporate website with special assistive technologies for users with visual disabilities, hearing impairments, physical disabilities and age-related conditions.
- Launching the Smart Tea Card in late 2016 in collaboration with the Smart Metro Pvt Limited, – a hybrid card having the features of a debit card and data capturing card – facilitating transactions otherwise made by way of cash or cheque.

Expanding our footprint. Our overseas business has grown from strength to strength. Operations in Bangladesh, which began in July 2003 with the acquisition of the Bangladesh operations of Crédit Agricole Indosuez (CAI) has grown from four outlets to 19 with 20 ATMs, contributing 12% to the Bank's bottom line. The Bank has won many awards for its operations in Bangladesh.

Commercial Bank of Maldives Private Limited launched in September, 2016, began turning in profits and opened its second branch in Hulhumalé during the year under review. Customer feedback is overwhelmingly positive as we continue to grow our retail operations.

The Bank established its representative office in Myanmar in June 2015 to offer advisory services for Sri Lankan and Bangladeshi businesses wishing to operate in that country. The Bank also established the CBC Myanmar Microfinance Company Limited, a fully owned subsidiary, in April 2017. The Company received the license from Myanmar Microfinance Supervisory Enterprise to carry out microfinance business operating as a non-saving deposit organisation. The Company is yet to commence operations.

Commex Sri Lanka S.R.L. in Italy expanded to nine cities through agency operations covering most of northern region.

Risk management

Transparent service offering. We make sure customers are fully aware of the terms and conditions of the financial products and services they use. To this end we develop clear policies and procedures which are regularly monitored to ensure that transparency and integrity are maintained at all times.

Sound employee training takes into account our customers' varying levels of financial savviness as well as their preferred language. Along with the necessary literature, this ensures that our people are well-equipped to explain our products and services to customers so that they are able to make informed choices.

Customers can also visit the Bank's corporate website for the latest deposit rates, lending rates, exchange rates and tariffs, and charges. They can also contact the Bank's newly integrated Information Centre or visit any branch for clarification.

We ensure customers are aware of our Complaints and Grievances Procedure by promoting it on our website and at our branches. This includes contact details of Bank officials and the Financial Ombudsman in case the customer finds the Bank's efforts unsatisfactory.

Ethical products and services. The Bank's Product Development Committee which consists of Key Management Personnel from a wide cross section of business and service units – including the audit team – ensures that all new products and services as well as any amendments to current offerings are ethical and in line with all applicable laws and regulations.

Lending responsibly. Our employees take pride in living by the Bank's strong values and its Code of Ethics. They help school and encourage customers in ethical and conservative wealth management practices while serving varying risk appetites.

Working in tandem with our lending practices, our marketing efforts focus on products that create wealth for our customers such as home loans and business loans. At the same time we generally discourage consumption-based lending.

Every single business loan and industrial loan is screened by qualified employees to ensure compliance with the Bank's Social and Environmental Management System (SEMS) to ensure compliance with the country's environmental and labour regulations. They also take the time to educate customers on the benefits of such compliance and provide advice on remedying shortcomings. (For more information on our SEMS framework please refer page 102.)

With regard to asset quality in loans and advances, including credit cards, the recovery teams are now reporting to the head of the Recoveries Division. Another unit – the Branch Credit Monitoring Unit also under the purview of the head of Recoveries Division – begin their monitoring duties from the time the loan is approved. This is an ongoing process improvement with further improvements and the elimination of duplications planned for the coming year.

Securing sensitive information. Taking its responsibility of ensuring the security and privacy of customer information a step further than the stipulated regulations (as outlined in the Banking Act and subsequent directives by the Central Bank of Sri Lanka), Commercial Bank has been in compliance with the ISO 27001:2013 certifications on critical functions for the past seven years. This certification covers computer servers of Bangladesh operations too. In addition the Bank continues to invest in research and technology that is designed to help it meet the rapidly evolving threats of the future.

Having already introduced 3D secure enabled cards the Bank upgraded all cards, POS machines and ATMs to the EMV (EuroPay, MasterCard and Visa) standard, dramatically reducing instances of card present fraud.

The Bank is working towards being compliant with PCI Security Council Standards, which makes sure customer information is not indiscriminately available. An example of this is when a customer receives his or her ATM slip or the monthly statement which no longer reveals the entire account number, providing greater security in terms of customer information.

OTP or over the air pins for third party fund transfers was also launched within the year under review. With the OTP customers receive a message directly to their mobile phone while making a fund transfer. This means that even if the customer's computer is hacked they will still be able to prevent unauthorised fund transfers.

Being prepared. As always, regular drills are conducted to ensure that the Bank's disaster recovery data centre is geared to deal with any eventualities that could affect the business and the Bank's ability to continue providing the type of customer service that is expected of an organisation of Commercial Bank's stature and reputation. The Bank sends progress reports on such drills regularly to the CBSL, taking prompt action to remedy any weaknesses and eliminate the possibility of repeating any lapses.

The Bank takes the following additional precautions as well:

- An oath of secrecy is taken by all employees.
- Specific restrictions are placed on disclosure of account information to third parties.
- Access to customer accounts by staff members who do not have a need for such access is being monitored.
- Investments are made to secure online privacy and protection of all customers.
- Compliance reviews and audits are conducted regularly.
- Certification on specific aspects takes place benchmarking international best practices.
- All requests containing sensitive information are routed through a dedicated officer who keeps control over the dissemination of information.
- Sensitive data such as name, identification number, address, etc., are masked in data backups.

"No" to corruption. The Bank places a premium on the trust and confidence of its customers – a strength it has carefully cultivated for close to half a century. As illustrated in the Bank's Code of Ethics this is an organisation that forbid corruption. Through onsite audits and online surveillance the Inspection Department reinforces the provisions of the Code. The scope and frequency of audits are determined using a risk-based model and this approach ensures that customers continue to benefit from the highest levels of integrity.

With constant advances in technology the unlawful find new ways to profit through nefarious activities such as money laundering. It is to fight against such risks that the Bank continues to strictly enforce its Know Your Customer (KYC) policy and upgrade its systems for better monitoring. The Bank's Anti-Money Laundering Unit, under the purview of the Compliance Officer, also centrally monitors transactions promptly reporting any irregularities or suspicious activities to the Financial Intelligence Unit (FIU) of the CBSL.

Digital Leadership

Preparing for the future. In addition to focusing on being future ready as a Bank we are also focused on taking our customers with us on this exciting journey. With the goal of migrating more customers towards online channels several online banking drives were conducted at branches during the financial year resulting in an increase of 22.90% of internet and mobile banking users. The Bank's current platform offers SMEs and corporate customers Internet Banking services but with the new platform to be launched in 2018 they will also be ready to enjoy mobile banking services.

As part of the channel optimisation efforts, the Bank enabled fixed deposits to be opened via online banking, providing greater convenience for customers. This feature too is increasing in popularity with 8% of fixed deposits being opened online, within a very short period after its introduction, demonstrating the trust customers have placed in the Bank.

Commercial Bank unveils "COMBANK Auto Bill Pay" an automated bill payment facility

This new facility enables the customers to schedule recurring payments such as monthly bills to be paid through Commercial Bank Credit Card

Another feature that has customer convenience at its heart is the Commercial Bank Fast Pay. Currently being road tested at a popular café in Colombo, Fast Pay allows the customers to pay without taking their wallets out. The customer simply provides the cashier with their mobile phone number, then accepts a message for payment and has their account immediately debited.

Commercial Bank innovates with "Fast Pay" – new Mobile Payment Option

Commercial Bank launched its own Mobile Payment option, enabling account holders to make instant cash-less transactions *via* the Bank's existing mobile banking app, through a simple and innovative mobile payment option.

The Bank has also begun integrating all four of its call centres – the Card Centre, Digital Banking, Recoveries, and regular telephone operators. This move is in anticipation of the new digital platform that will be launched next year and which will allow all customer interaction – via telephone or social media – to be addressed via a single point of contact.

During the year under review the Bank launched a number of new initiatives, products, and services designed to bring greater convenience and security for the customer. These included assistive online technology for differently-abled customers, electronic fixed deposits in local and foreign currency, instant loan approval through online banking, credit facilities for fixed deposit holders through ATM for pre-registered customers, new credit card and point-of-sale (POS) technology, automated bill-payment facilities and travel-related benefits for credit cardholders, and an online platform that facilitates e-commerce for SME customers. These innovations are discussed in detail under the Review of Key Business Lines (on 🕮 pages 61 to 65).

Suppliers and business partners

Operational excellence

Building smart partnerships. The proverb, "A chain is only as strong as its weakest link," is very apt in the context of our suppliers and business partners. Just as our partnerships with them are mutually beneficial we ensure these relationships are professional, transparent, and fair so that we may be assured of operational excellence at all times. During the financial year, payments to business partners amounted to Rs. 8.775 Bn. with over 90% of value created for local suppliers. One example of our support for local suppliers is the Passbook for account holders which used to be printed by an overseas supplier. With input and advice from the Bank's Procurement Department local suppliers were groomed to provide the Bank with this product resulting in more value being created for our local business partners.

The figure below depicts our level of dependency on business partners. It demonstrates the entire spectrum from critical to ad hoc.

Risk management

Our Approach. Fair and transparent processes have been in place to ensure that the Bank's business needs are met without compromising quality, agreed deadlines, or the Bank's Code of Ethics. A thorough technical review, including social and environment aspects, is an essential part of every process. This goes hand in hand with a detailed financial review. Ongoing conversations and reviews help address any areas of concern on social and environment aspects.

As set out in figure 16 on 🕮 page 83 the Bank has established an efficient process to ensure that standards are met in line with the Bank's evolving business needs.

Signing of Memorandum of Understanding

Commercial Bank of Ceylon PLC signed a Memorandum of Understanding (MoU) with ARTISAN Outfitters Ltd which is a prominent Departmental Store in Bangladesh to offer discount facility on COMBANK Debit & Credit Cards.

Our business partners Figure – 15

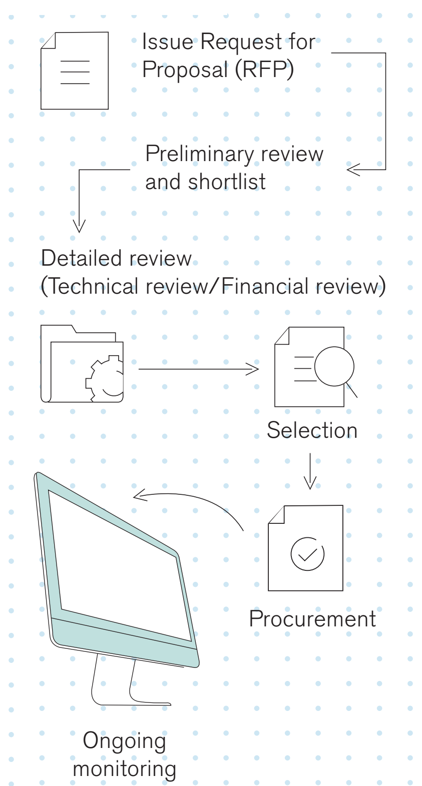
Extending our reach
- Correspondent banks
- Franchise partners
- Exchange houses
- Business Promotions Officers
- Agents

Critical to operations
- Utility services providers
- Travel and transport
- Materials suppliers

Ongoing support
- Maintenance
- Software suppliers
- Staff welfare
- Waste management
- Communication
- Human resource providers
- Asset suppliers
- Travel and transport
- Debt collection agencies

Infrequent engagement
- Premises providers
- Contractors
- Professional service providers

Procurement process Figure – 16



Each RFP issued to a potential supplier includes the following to ensure the highest standards:

- 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

The Bank works closely with suppliers wherever possible to help identify, address and resolve any areas of concern. In rare instances where material issues remain unresolved exit clauses in contracts make it possible for the Bank to terminate a relationship. Suppliers who are unable to adhere to the Bank's requirements are disqualified from the selection process and removed from the Bank's registered suppliers' list.

Customer centricity

Greater accessibility. With our customers venturing further afield and an ever-widening diversity within our customer base we have continued to focus on expanding our network. Consisting of some of the world's largest financial institutions (with some relationships spanning over 25 years), our network consists of 55 correspondent banks (please refer page 436 for complete list of correspondent banks) and franchise partners that include MasterCard, Visa, China UnionPay and Discover. Through these partners we are able to provide customers with greater connectivity to global payment platforms. Such connectivity benefits a large proportion of our customers as it facilitates trade and tourism.

Commercial Bank enables point-of-sale use in Sri Lanka for UnionPay cards

Commercial Bank has enabled point-of-sale (POS) usage for UnionPay cards, making it possible for cardholders of the world's largest card base in circulation to pay for purchases at local retailers with these cards.

Our network of exchange houses and agents totalling to 104 facilitate remittances to and from Sri Lankan and Bangladeshi citizens working overseas. We continue to be among the market leaders in this business segment.

A thorough screening is conducted on all partners in accordance with defined criteria. Further, detailed agreements have been signed formalising relationships and defining mutual obligations. Performance is monitored on an ongoing basis by both parties to ensure compliance with agreed terms and conditions.

Operational excellence

Critical support. We depend on business partners such as electricity, telecommunication, and software systems support providers for the smooth functioning of our business. Since we do not have much capacity to influence or switch a supplier easily without incurring hefty costs in the case of most services, we have taken great care to build long-standing relationships with them, ensuring that our expectations are met specially, compliance with all applicable regulations. Wherever possible, we have made stand-by arrangements and maintain a certain degree of redundancies to face any contingencies.

Ongoing support. Covering a wide range of services that allow us to operate at an optimum on a day-to-day basis these suppliers provide a wide range of services. Ranging from large corporates to SMEs and individuals, they face many sustainability challenges as identified below:

Business partners/Material aspects
Maintenance service providers Labour practices Health and safety of workers Effluents and waste
Human resource providers Labour practices Human rights
Travel and transport providers Emissions
Material/asset suppliers Responsible sourcing Human rights of workers
Debt collection agents Customer privacy Human rights
Waste management service providers Effluents and waste

We provide ongoing monitoring for this segment of suppliers initiating regular dialogue about areas of concern, working towards resolving identified issues and encouraging the adoption of best practices.

From all supplier groups we require compliance with all applicable regulations.

Outsourced staff. We outsource non-critical functions to reputable agencies after following a rigorous and well-documented screening process that is fully compliant with the CBSL directives. Issues that apply to all outsourced firms include:

- Compliance with labour laws.
- Preservation of human rights.
- Minimum wages.
- Timely payment of wages.
- Payment of statutory levies.
- Payment of social security contributions.
- Sufficient leave.
- Reasonable working hours.
- No forced or child labour.

To ensure these standards are met the Bank's Human Resources Department screens and provides guidance to outsourced agencies while the Bank's Internal Audit Department provides assurance on the function of processes.

The Bank also obtains the services of debt collection agents to recover its unsecured personal loans and credit card dues. Covered by an agreement which sets out rules for ethical conduct, these agencies are under continuous monitoring by the Recoveries Division of the Bank. Any violation of terms and conditions results in termination of service of such agency for which provisions are made in the agreement.

Infrequent engagements. From time to time the Bank engages a range of suppliers and service providers from large scale corporates, micro entrepreneurs to individuals. Suppliers in this category are monitored less frequently. The exception is for contractors whose employees work on Bank premises. In such cases the Bank works closely with the supplier to ensure the health and safety of such workers.

Supporting policy formulation. As a leading bank in Sri Lanka, Commercial Bank is constantly working towards the social and economic betterment of the country, identifying areas of concern and exploring solutions. Undertaking studies and analysis to support recommendations made to policy makers is a role that the Bank takes very seriously. In this pursuit it backs the following organisations:

- Sri Lanka Banks' 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.

The Bank is actively participating in the formulation of Sustainable Finance Initiative in Sri Lanka, comprising 11 principles.

Community

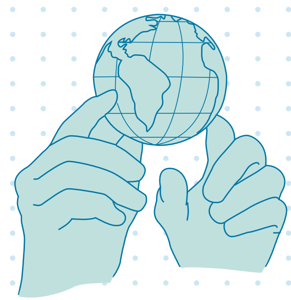
Risk management

Building sustainable communities. Empowering the communities within which we operate and supporting their development is part of the ethos of the Bank. In addition to investing in such communities directly we also provide financial support through selected Corporate Social Responsibility (CSR) projects. Up to 1% of the Bank's post tax profits are allocated for the Bank's CSR Trust. The Trust supports altruistic activities with no expectation of financial return.

CSR Trust

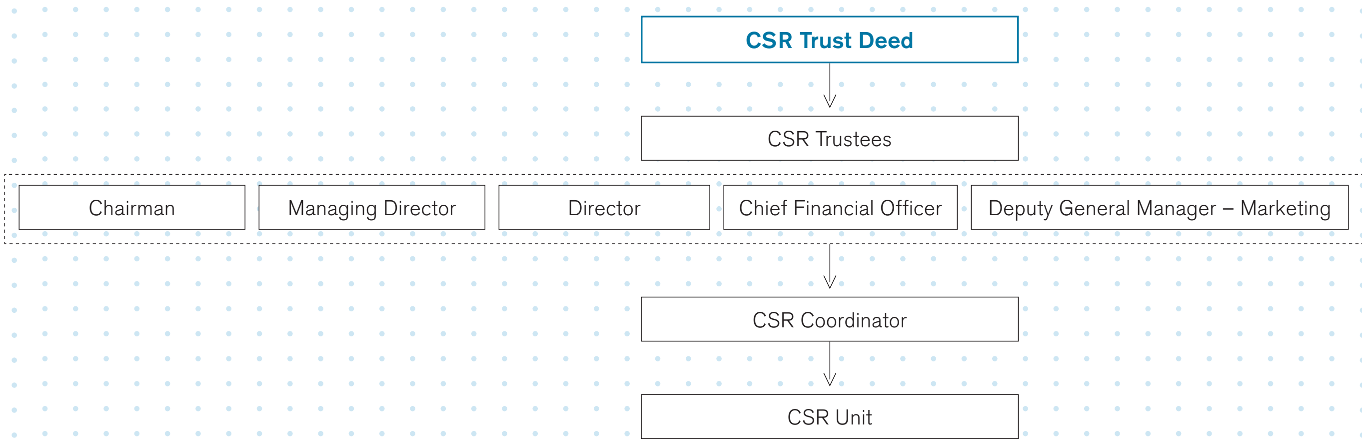
Established in 2004, the CSR Trust is an independent body that was established to ensure that the Bank's CSR projects were effective and meaningful. As outlined in the Trust Deed, the objectives, powers of the Trustees, eligibility criteria and the Bank's pledge to transfer up to 1% of its post-tax profit annually – all make up the formal structures and processes that ensure the proper governance of the CSR Trust. The Trust is operated by a cross section of employee volunteers from strategic business units as well as dedicated resources (Figure 18 on page 85). The Bank's top management provides the Trust with unfettered support generating the inspiration required to make a difference for good. Over the past 10 years the Bank has contributed Rs. 513.863 Mn. to the CSR Trust. During that period the Trust has utilised Rs. 412.440 Mn. (Graph 49).

How we impact communities Figure – 17

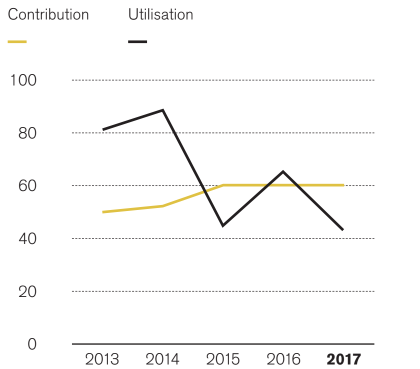


- Social and Environmental Management System (page 102)
- CSR Trust
- Inclusive and responsible banking (page 80)
- Supporting policy formulation
- Supporting SMEs (page 79)

Composition of CSR Trust Figure – 18



CSR Trust contribution and utilisation Graph – 49
Rs. Mn.



During the year under review the Trust focused on four main pillars: Education, Community, Healthcare, and Culture and Heritage. In addition to these key focus areas the Trust also funded a few other initiatives that met with the Bank's ethos for making an impact for good.

Education for employment generation

At the heart of any prosperous society lies education. It offers a new generation the chance to follow their dreams, realise their potential and make a worthwhile contribution to the world. The Trust dedicated 65% of spending, amounting to Rs. 28.57 Mn. during the year under review to education for employment generation (refer graph 50 on page 86).

Digital citizens. Since its inception, the CSR Trust's successful pilot projects under the pillar of education saw the donation of 175 IT labs and the introduction of comprehensive Learning Management Systems (LMS) to schools across Sri Lanka up to end 2017.

The Bank's recent education project "Smart Schools" is a collaboration between HeadStart (Pvt) Limited, Microsoft – Sri Lanka, Dialog Axiata PLC, and Commercial Bank under the supervision of the Department of Education – Western Province. Through the e-learning platform of Trust "www.sipnena.lk", of HeadStart (Pvt) Limited www.guru.lk, the project aims to improve results, digital skills and employability for students in Commerce, Maths, and Science streams at the GCE Advanced Level (A/L) Examinations. It also benefits students sitting English, Maths, and Science subjects at the GCE Ordinary Level (O/L) Examinations. Another important aim is to elevate the concept of teaching through technology in schools to the level of global trends and standards.

Through this project the Bank funded the training of 195 ambassador teachers in the use of Office 365 and LMS. In turn approximately 6,000 teachers and over 90,000 students benefit from this programme.

These teachers were also encouraged to create and upload their own teaching modules to the e-learning platform. So far over 10,000 learning content have been uploaded by these teachers adding to the wealth of knowledge accumulating for the use of students – totalling over 30,000 Office 365 user accounts for the year under review.

Through the successful implementation of this project Microsoft - Sri Lanka noticed an increased use of their tools in Sri Lanka and engaged local teachers with Microsoft educator network, to develop themselves and get certified. These teachers have earned more than 20,000 digital badges so far.
To encourage the new interest in technology Microsoft also sponsored a total of eight teachers to participate in various overseas training programmes.

Commercial Bank wins four CSR and Sustainability Awards from CMO Asia Council

Commercial Bank received the awards for Best Use of CSR Practices in Banking and Finance, Developing Sustainability Strategies, Concern for Health, and support and Improvement in quality of education, all in the sphere of Corporate Social Responsibility.

The programme has awakened a renewed interest in technology with many alumni associations sponsoring additional interactive boards for their schools to replace black or white boards.

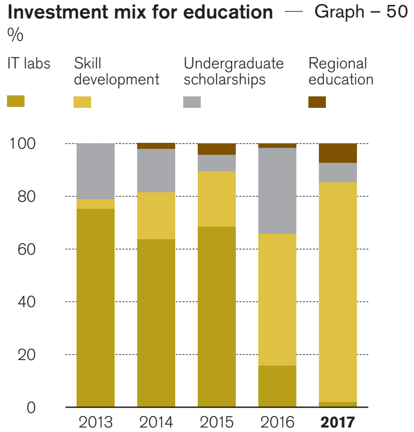
Another benefit of this project is that it enables collaborative work. Students are able to interact with other learners and discuss their chosen fields of study. At a different level, teachers are able to do the same and have, in addition, access to resource material and teaching guides.

Funded by the Bank, HeadStart (Pvt) Limited provides resources, training, support and guidance to all schools in the project while Dialog Axiata PLC ensures that they have the necessary data to work effectively.

Math Lab. Is a novel concept founded by a former maths teacher, consisting of over 70 interactive mathematical games that help stimulate the mathematical and analytical skills. Started in 2015, Trust has helped setup five labs, including one in a home for differently abled children.

During the year under review, a special programme was carried out by selecting 471 extremely weak students of four schools, resulting in 263 of them improving their scores in term tests evincing the effectiveness of the concept.

Investment mix for education — Graph – 50



Vocational training. With Sri Lankan universities able to accommodate an annual intake of only 30,000 of students who pass their A/Ls the Trust decided to take action to support the large number of school leavers left with few options for improving their prospects.

Reaching out to the Department of Technical Education and Training (DTET) under the Vocational Training Ministry, the Vocational Training Authority (VTA) and 39 technical colleges across the country the Trust began a pilot project – the establishment of six career guidance units (CGUs) in schools in remote areas around the country. The aim of the CGUs was to make students aware of alternatives to a university education. The Trust then sponsored DTET officials to speak to students about achieving National Vocational Qualification certification, explaining that level seven certification is equivalent to a university degree.

To improve the success rate of this project the Trust also funded final year undergraduates from the University of Colombo to act as counsellors at the CGUs. The Trust also funded students from the six schools to attend Open Days at various technical colleges so that they gain a better understanding of the opportunities available to them, including the prospect of working abroad.

The Bank signed a memorandum of understanding with Access Engineering PLC that allows students in the pilot project to be employed by the construction giant after one year of DTET training. The Trust also funded informational videos to change negative stereotypes about builders and made these available online, including the Sipnena site. With the current boom in the construction industry, for example, skilled labour is imported from countries such as Bangladesh, China and India. Hiring skilled local builders will benefit corporates such as Access Engineering PLC as well as the local labour market.

In anticipation of a new generation of professionals in various vocational fields the Bank also created awareness about its development credit loans for those who wish to set up their own businesses.

Clean water. Having previously financed and supported research that identified a link between the quality of drinking water and Chronic Kidney Disease of an unknown origin (CKDu), the Trust funded the provision of clean drinking water through rainwater harvesting by providing 5,000-litre capacity water tanks for 25 households affected by the disease in Ginnoruwa in the Mahiyangana area.

Following the indication from the research, the Trust has entrusted Wayamba University with conducting an in depth scientific study into the suitability of rainwater for consumption. The Trust has also commissioned an anthropological study to analyse and assess the changing perceptions of the villagers on the harvested water. The results show that there is now high demand for rainwater tanks within the community.

Commercial Bank's "Raindrops" project to combat CKDu enters Phase 2

Commercial Bank commenced the second phase of its "Raindrops" project to combat Chronic Kidney Disease of an unknown origin (CKDu) following the resounding success of the first phase in which the Bank in 2016 donated 5,000 litre storage tanks for rainwater harvesting to 25 families in Ginnoruwa in the Girandurukotte area.

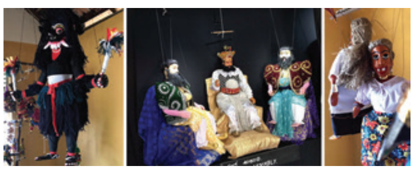
Seeing the success of the project, other donors have come together to provide the community with close to 100 water tanks. These included the National Water Board which provided the control group with 25 rainwater tanks.

The Trust also helped establish a society to give the community more control over the project. Among other things, the Society provides data for research projects and undertakes the construction of rainwater tanks – a useful source of income.

Culture and heritage

Puppet museum. The Trust funded the opening of Sri Lanka's first traditional puppet museum in Balapitiya, an area that has traditionally been famous for its string puppets. The museum is run by a science graduate whose family had been puppeteers for generations. He turned his back on a promising career in his chosen field of study to revive a dying cultural art form – a tradition that has been handed down from generation to generation in Balapitiya. The Trust invested a total of Rs. 1.19 Mn. on this project to promote this traditional industry to a sustainable level. Using its contacts in the hotel industry the Bank encouraged local hotels to provide patronage to the museum. The museum also provides skits with powerful social messages to be enjoyed by visiting groups from schools.

Commercial Bank fund Sri Lanka's first traditional puppetry museum



Ambalangoda's rich but partly-forgotten tradition of puppetry was revived and developed with the establishment of Sri Lanka's first puppetry museum with funding support from the Bank.

Other projects. Given below are some of the other projects the Trust carried out during the year.

- Financial assistance for upgrading the IT lab of Employers' Federation of Ceylon.
- Provision of furniture and equipment for Special Needs Resources Unit of the University of Peradeniya.
- Donation of over 1,400 library books to 13 rural schools.
- Financial assistance to construct a clinic for a divisional hospital in Jaffna peninsula.
- Provision of a water bowser to Caritas – Valuthayam Diocese of Mannar benefiting 382 families.
- Relief for flood and landslide victims of worst-hit areas of the country.
- Financial assistance to provide National Identity Cards to over 16,000 persons in the Galle District under the "Nila Mehewara" Presidential Mobile Service concluded in January 2017.

Commercial Bank celebrates *'Avurudu'* with war heroes

The annual Sinhala and Tamil New Year celebrations of ***"Ranaviru Sevana,"*** the rehabilitation centre in Ragama for differently abled war heroes, were supported for the eighth consecutive year by Commercial Bank.

Donation to the Society for Welfare of Autistic Children (SWAC)

The Chief Operating Officer, Mr Najith Meewanage is handing over the Cheque for the donation to Mr Anwar Hossain, Chairman of "Society for the Welfare of Autistic Children". Mr Binoy Gopal Roy, DGM (Finance) & Mr Shakir Khusru AGM (Personal Banking) of the Bank are also seen in the picture.

Our Contribution towards the Sustainable Development Goals

1 2 8 10

How we do it

The Bank extends financial support through its "Micro Loan" product specifically designed to support micro entrepreneurs in income generation activities and for upgrading their living standards.

We continue to enhance our footprint outside the principal province supporting financial inclusion, increasing financial literacy through target programmes and alongside a digital banking experience.

Our reputation as Sri Lanka's largest financier to the SME sector is a result of our commitment to financial inclusion. Through our Diribala Viyapara Pubuduwa programme we invest in capacity building and succession planning for the SME and Micro sectors. While our "Divisaru" product provides total financial packages, including savings schemes and micro loans facilities, we also focus on bringing banking facilities to the "unbanked".

We ensure our customers benefit from favourable interest rates by participating in loan schemes supported by the Central Bank.

What we did in 2017

- Rs. 132 Bn. disbursed to SME sector and 20% of all loans.
- Three entrepreneurship development programmes with 500 beneficiaries, out of which 200 were women.
- Five financial literacy programmes conducted targeting 695 micro and agri entrepreneurs. One of such programmes was dedicated for women with 150 participants.
- Customer penetration rate of 12% outside principal province.
- Added another Agriculture and Micro Finance Unit (AMFU) increasing the total to 16 units supporting expansion of our work in the peripheries.
- Loans to agriculture and fishing sector accounts for 9.37% of the total loan book.
- Introduced "Bank on Wheels" concept supporting financial inclusion.
- Launched CommBank Biz Club for the benefit of SMEs.

(More details on pages 61 to 65 and 78 to 80)

7 13

How we do it

We are continuing with our comprehensive programme of investing in solar power in our own buildings.

Our Investment Banking Unit helps finance large scale renewable energy generation projects. We also support the investments in renewable energy, waste management and pollution control systems through dedicated loan products.

What we did in 2017

- Invested Rs. 85.134 Mn. in solar panels in 20 branches taking the total investment to Rs. 118.837 Mn. in 28 branches.
- Contributed Rs. 441.465 Mn. for renewable energy generation projects.
- Reduced energy consumption by 1,539 Gj.
- Offset 9,500 kg of CO_2 emissions by recycling 497units of e-waste.
- Disposed 151,885 kg of used paper for recycling.

(More details on pages102 to 104)

12

How we do it

We provide customers with paperless banking options such as online banking, mobile banking, e-statements and e-passbook to reduce paper use. We also eliminated unproductive paper-based processes. Our waste is disposed of in a responsible manner.

What we did in 2017

- Converting the procurement process for all fixed assets to an online system.
- Increased use of e-passbook, to over 580,000 registration up from 500,000 the previous year.
- Through branch and other promotions increased registrations for online and mobile banking by 16.44% and 25.90% respectively.
- The Bank's used electronic equipment was disposed of through Ceylon Waste Management (Pvt) Limited, an international award-winning waste management company.

(More details on pages 102 to 104)

16

How we do it

We continue to strictly enforce the "Know Your Customer" policy. Our Anti-money Laundering Unit monitors illicit financial flows allowing us to report irregularities to the relevant regulatory authorities.

We are also expanding our support for SMEs, micro and agriculture sector in former conflict zones in the Northern and the Eastern Provinces to support economic development.

What we did in 2017

- 14 cases of suspicious transactions reported to the CBSL.
- Introduced "Bank on Wheels" concept supporting financial inclusion.

(More details on pages 65 and 81)

17

How we do it

Having pioneered the adoption of sustainable practices in the industry we continue to promote sustainability practices in the country. In collaboration with 18 members of the Sri Lanka Banks' Association, we are working to formulate a Sustainable Finance Initiative in the country.

We also partner with organisations and Government authorities to implement initiatives of the CSR Trust.

What we did in 2017

- Progress has been achieved in the formulation of the Sustainable Finance Initiative.
- Collaborated with HeadStart (Pvt) Limited, Microsoft – Sri Lanka, and Dialog Axiata under the supervision of the Department of Education – Western Province to improve A/L and O/L results, digital skills and employability of students.
- Partnered with the Department of Technical Education and Training, the Vocational Training Authority, various technical colleges and large corporates such as Access Engineering PLC to launch a vocational training project for school leavers.

(More details on pages 84 to 87)

4

How we do it

Supporting secondary education through a combination of online solutions for education, information technology infrastructure for schools, scholarships, and vocational training avenues leading to the equivalent of a university degree.

What we did in 2017

- Invested Rs. 28.57 Mn. in education through the Bank's CSR Trust.
- Under the Smart School project:
  - Benefits 6,000 teachers and 90,000 students approximately
  - Over 10,000 learning content were uploaded to the system

(More details on pages 84 to 87)

3 6

How we do it

Apart from its primary focus on education, the CSR Trust engages in activities that supports treatment facilities in Government healthcare institutions by donating necessary medical equipment. Our efforts under the healthcare pillar of the CSR Trust have benefited thousands of patients and number of beneficiaries adds on each day.

Under the community and healthcare pillar of the CSR Trust our main focus has been on finding ways to prevent the spread of Chronic Kidney Disease of an unknown origin (CKDu).

What we did in 2017

- Sponsored further research at the Girandurukotte Government Hospital.
- Commissioned two scientific researches to study the effects of CDKu on the community.
- Funded and helped establish the Gannoruwa Kidney Patients Society within the community.

(More details on pages 84 to 87)

14 15

How we do it

The Bank ensures that all business loans and advances are screened for Social and Environment Management System (SEMS) compliance, financing projects that do not harm the environment.

With its main energies focused on Education, Community and Healthcare, and Culture and Heritage, the Trust sponsors projects on the conservation of wildlife and marine life on a case by case basis.

What we did in 2017

- 9,595 loan proposals were screened for SEMS compliance.
- Bank is formulating a process to identify the green component of its lending and promote green lending.

(More details on page 102)

5

How we do it

We take pride in being an equal opportunities employer. We have a good track record of female employees returning after maternity leave – 94.64% in 2017.

Our Anagi savings account is designed to support and encourage female entrepreneurship, providing benefits such as lower interest rates on loans and special discounts on health packages at selected hospitals.

Dedicated capacity building and financial literacy programmes for women.

What we did in 2017

- Held a capacity building and a financial literacy programme dedicated to female entrepreneurs with participation of 200 and 150 respectively.
- Promoted nine employees to Senior Management of whom five were females, increasing the female representation in the Senior Management to 25%.

(More details on page 79)

9 11

How we do it

At present the Bank does not have a dedicated product or process aligned with these goals.

INTELLECTUAL CAPITAL

The latest business trends, such as digitalisation, disruptive technologies, unorthodox competition, demographic changes, and increasing concerns about sustainability, are shaping the future at an incredible pace. These developments will undeniably challenge conventional business models, making past financial performance less relevant for any assurance about the future potential of a company.

While tangible assets (refer Manufactured Capital on 🕮 pages 73 to 77) used to be considered the primary driver of a company's value this view is now obsolete. Mismanaging knowledge-based intangible assets can significantly impair the Bank's value so great care is taken to safeguard them. Intellectual Capital includes all intangibles that are of value to the Bank, providing it with a competitive advantage, future readiness, and the ability to meet stakeholder expectations. Such intangibles encompass brand, employee knowledge and skills, systems and processes, software, and good governance. The Bank's Intellectual Capital sets it apart from the competition and impacts its total market value.

The Bank was adjudged the highest ranked private sector bank in the inaugural "Best Sri Lankan Brands in 2017" ranking announced in December 2017 by Interbrand, and was placed fourth overall among the country's top brands with a value of Rs. 20.33 Bn. Total investment in intangible assets of the Bank stood at Rs. 2.151 Bn. as at end 2017 (please 🕮 refer Note 40 on page 258 for details).

In this section, prudent growth, customer centricity, operational excellence, and risk management are four of the Bank's strategic imperatives that are explored in relation to Intellectual Capital.

Prudent growth

Brand values. At its heart, collaboration is a social activity that is rooted in generosity, openness and a shared sense of purpose. In addition to ensuring that all employees are aware of its strategic direction the Bank has also identified five brand values that embody all that it stands for (Figure 19).

Awards and ratings. The outcome of living by its values is the ability to provide a service offering that is unique and differentiated – one that is recognised locally and internally.

Brand Building

Ranked one of the top banks in Sri Lanka as well as in the world, Commercial Bank has been recognised over the years for its excellence. With a rating of AA (lka) from Fitch Ratings Lanka Limited, it is the highest rated private sector bank in the country.

First included in 2008, it is the only Sri Lankan bank to be included in the World's Top 1000 Banks consecutively for the past six years. With increasing regional presence, our brand is fast gaining recognition beyond our shores. Awards, Ratings and Accolades bear testimony to our brand building initiatives. (please 🕮 refer Figure 20 on page 91)

Values that support the Bank's brand Figure – 19

Honesty
We strive to earn and retain the trust of our stakeholders through transparent actions that inspire them and align with their values.

Integrity
Maintaining our integrity is of paramount importance to us in ensuring that our brand value keeps growing for all stakeholders.

Fairness
We focus on doing the right thing by all our stakeholders so that their trust in us continues to deepen, enriching invaluable relationships.

Responsible citizenship
Continuing our commitment to the community we focus on making lives better and being a force for good.

Accountability
We live by our brand values, ready to take responsibility for our actions towards all stakeholders.

Awards and accolades in 2017 — Figure – 20

Sri Lanka's Most Awarded Bank in 2017

The Bank was lauded as the country's Most Awarded Bank. Here are the highlights of our accolades for 2017.

Corporate awards

Best Bank in Sri Lanka
(for the 18th year) – Global Finance Magazine, USA

Best Domestic Bank in Sri Lanka
Asiamoney Country Awards, UK

Best Bank in Sri Lanka
Finance Asia Magazine, UK

Strongest Bank in Sri Lanka
The Asian Banker, Singapore

Most Responsible Bank in Sri Lanka
CFI.co Magazine, UK

Best Private Bank in Sri Lanka
International Finance Magazine, UK

Best Commercial Bank in Sri Lanka
International Banker, UK

Top Companies in Asia
Asia Corporate Excellence and Sustainability Awards, Malaysia

Gold Award for Overall Best Annual Report – Annual Report Awards, CA Sri Lanka

Gold Award for Best Annual Report among Banking Institutions
Annual Report Awards, CA Sri Lanka

Gold Award for Management Commentary
Annual Report Awards, CA Sri Lanka

Sustainability and CSR Awards

Award for Best Use of CSR Practices in Banking and Finance – CSR Leadership Awards

Award for Developing Sustainability Strategies – CSR Leadership Awards

Award for Concern for Health – CSR Leadership Awards

Award for Support and Improvement in Quality of Education – CSR Leadership Awards

Best Green Bank in Sri Lanka
International Finance Magazine, UK

Top Green Companies in Asia
Asia Corporate Excellence and Sustainability Awards, Malaysia

Digital Banking and Innovation Awards

Best Digital Bank in Sri Lanka Asiamoney Country Awards, UK

Gold Award for e-Passbook
Most Admired Customer Engaged Mobile App – ACEF Customer Engagement Awards

Best Internet Bank in Sri Lanka
Global Banking and Finance Review, UK

Best Website in the Finance Sector SLT Zero One Awards

Best Innovative Bank in Sri Lanka
International Banker, UK

Best Digital Bank in Sri Lanka
World Finance Magazine, UK

Best Mobile Banking Application in Sri Lanka – World Finance Magazine, UK

Customer centricity

Data management. In today's fast-paced world, understanding the customer means knowing more than just the basics that are covered by the Bank's KYC (know your customer) policy. Used to experiences with global giants such as Apple and Amazon, customers today expect the Bank to be where they are, whenever they want it. They expect a personalised experience at each contact point with the Bank.

The gap between what a customer wants and what an organisation can provide is often more of a chasm than a gap. Many organisations are unable to find the information they need, when they need it, and lack the knowledge to manage what they know in order to meet the expectations of their stakeholders.

The Bank maintains effective databases that are designed to help it fulfil and exceed stakeholder expectations. These include a management information dashboard for decision-makers, credit card data analytics and a database of information on various industries to help lending officers. Overall customer profitability of its corporate portfolio is also tracked and monitored monthly.

An internal wiki is also being created to capture the invaluable experience of senior employees in the Bank – including those who have recently retired. To suit the needs of today's Millennial generation who are used to having information at their fingertips whenever they need it, this database will be eminently searchable.

Customer confidence. The Bank's goal of maintaining financial stability is just as important as its aim to maintain customer confidence. Its intellectual capital – including corporate governance, risk management frameworks, business ethics and values are the cornerstone of sustaining such continued faith in the Bank.

Responsive Bank. The biannual customer survey revealed that customers were keen to hear more often from their Bank. For this reason the Research and Development Department, in collaboration with the Treasury Department, began producing a monthly economic overview for top customers covering activities in global markets and local macro-economic developments.

Operational excellence

Strategic planning. The Bank's Research and Development Team assists the Management Team by providing on-demand and monthly management information reports that assist in the development of strategic plans. The economic analysis and forecasts undertaken contribute towards the accurate pricing of products and the minimisation of risks. Other studies cover trends and best practices in the banking industry, contributing towards the Bank's ethos as a forward-looking organisation and a leader in its field.

Cross-functionality. With the Bank's network expanding across businesses, time zones and space, so too has the importance of collaboration. In 2015, the Bank set up cross-functional teams to provide customers with a seamless experience. For example, personal banking account holders are able to discuss their corporate account with one person rather than having to visit multiple counters at a branch. During 2016, these teams began fine-tuning systems and processes that would facilitate ease of collaboration. With teething problems overcome, the teams achieved greater collaboration during the year under review.

Communications policy. The Bank has a robust Communications Policy to ensure that the Bank's operations continue without interruption. It contains a media policy – which identifies members of the senior management team who alone are allowed to speak to the media, including during a crisis. It also consists of a social media policy which outlines how the Bank and its employees should behave online in a manner that safeguards brand and reputation.

Filling skills gaps. Through a Qualification Matrix, skills gaps are identified and actions are taken to plug those gaps – including the recruitment of necessary people, with all new recruits provided with a formal induction programme and the Code of Ethics.

Risk management

Integrated audits. Long-term operational excellence is stymied when the Bank's actions are outside the scope of regulations. During the year under review the Bank's Audit, Compliance and Risk teams collaborated more closely with each other, adjusting their strategy so that rather than performing post-mortems of various issues they were providing business and service units with a more proactive and future-oriented service. Continuous near time and real time online monitoring by Audit was one step taken in this new direction. Others included replacing essay-type reports with check lists and symbols that underline ultra-important issues, highlighting issues that affect business performance so that business units are able to prioritise effectively, and bringing in key risk indicators which reflect the Board's risk appetite into reports.

The Audit team uses two main channels: electronic – where everything from account opening to lending can be audited through online systems, and physical – where on-site visits are necessary for checking signatory documents and other physical assets. The Audit function is also assured a seat at the table for important discussions such as new product development so that their input is received at an early stage.

The Audit function is now geared to move from an assurer's role to that of a trusted advisor.

The Section on "How we Govern" on 📖 pages 106 to 117, provides a comprehensive outline of the Bank's governance structures.

Ensuring its Intellectual Capital is preserved and nurtured is a key goal for any organisation and one that the Bank takes very seriously in its quest to be future ready.

Effective policies. Over the past half century or so the Bank has accumulated a significant amount of institutionalised tacit knowledge. It has 4,982 employees with a cumulative service period of 57,852 years. In addition to those described above, the Bank's day-to-day operations are guided by a large number of policy documents and manuals which include the following:

Policies

- Compliance
- Credit
- Investment
- Assets and liabilities management
- Risk management
- Related party transactions
- Communication and disclosure
- Human resource management
- Information security
- Outsourcing of business activities
- Anti money laundering
- Social and environmental management

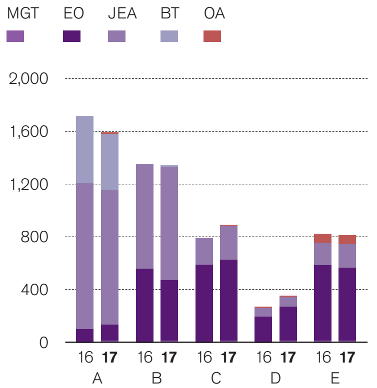
Manuals

- Credit
- Operations

Commercial Bank tops private sector banks in Interbrand's inaugural ranking of country's best brands

Commercial Bank was the highest-ranked private bank in the inaugural "Best Sri Lankan Brands 2017" ranking announced by the Interbrand, and was placed fourth overall among the country's top brands. Interbrand assigned a value of Rs. 20.33 Bn. to the Commercial Bank brand.

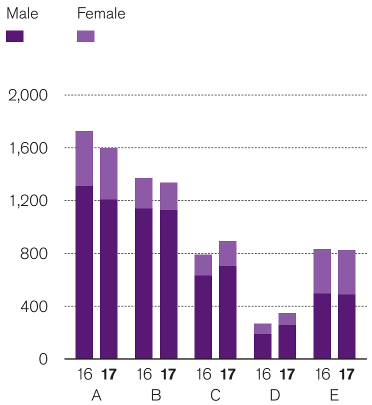
Service analysis of employees term of service and category Graph – 51



A – Below 5 years
B – 5 -10 years
C – 11-15 years
D – 16-20 years
E – Above 20 years

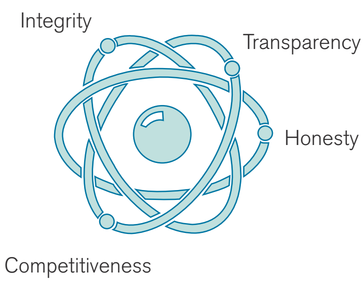
MGT – Corporate management
EO – Executive officers
JEA – Junior executive assistants and allied grades
BT – Banking trainees
OA – Office assistants and others

Service analysis of employees by gender Graph – 52



A – Below 5 years
B – 5 -10 years
C – 11-15 years
D – 16-20 years
E – Above 20 years

Our values Figure – 21



Commercial Bank wins overall award for Best Annual Report at CA Sri Lanka Annual Report Awards

Commercial Bank won four awards including

the coveted overall award for the best annual report by a Sri Lankan company

Overall Award for the best annual report among banking institutions

Gold Award for management commentary

Silver Award for Integrated Reporting – Best Disclosure on Capital Management.

HUMAN CAPITAL

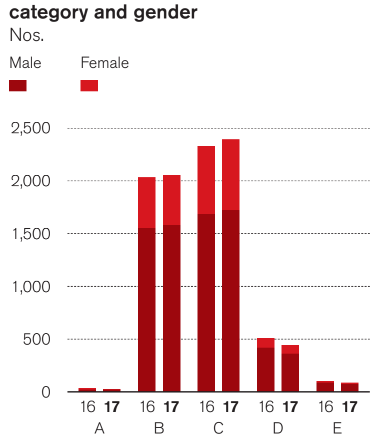
We live in an on-demand economy where advancing technology – particularly cheap computing power – and changing social habits are transforming our expectations as consumers. Given this scenario the Bank is gearing itself for a radical change in mindset; in the way it caters to the changing needs of its customers. Such change begins with its people.

Human Capital refers to the store of knowledge, habits, and skills accumulated by the Bank's people over the years.

This section examines our employees' ability to create value for the Bank and for its stakeholders in a fast changing environment and also how the Bank creates value for them in return.

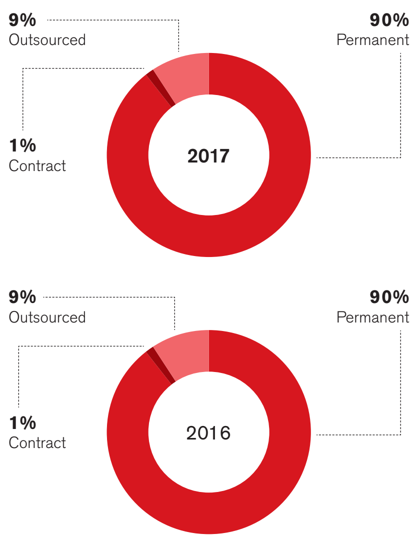
Providing customers with the kind of experience they expect from Sri Lanka's leading private bank means having a team of people on the ground who are agile and nimble, able to understand the customers, quickly learn and adapt to new technologies and new ways of thinking in order to maintain the customers' trust.

Analysis by employment category and gender Graph – 53



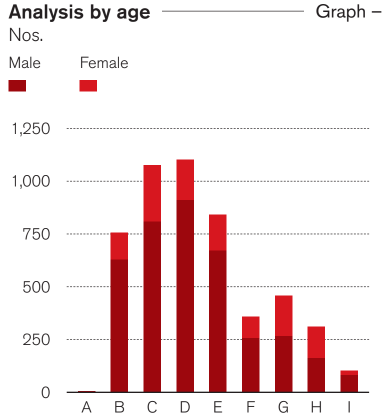
A – Corporate and senior management
B – Executive officers
C – Junior executive assistants and allied grades
D – Banking and executive trainees
E – Office assistants and others

Analysis of full time employees by Type Graph – 54



Winning team. Any organisation is only as strong as its weakest link as the saying goes but the Bank's strength and success is testament to its winning team. Comprising 4,982 individuals representing diversity in gender, ethnicity and generations X, Y and Z, this is a team that upholds the brand values and works well together to achieve common goals with dignity, dedication, and mutual respect (refer graphs 53, 54, 55 and 56). Numbering 311, the Bank's overseas cadre has increased by 11.47% over 2016 as we expand our footprint beyond Sri Lanka's shores. Typically employee contracts are full time while a few are time-bound contracts. We also use outsourced employees for specific non-critical functions.

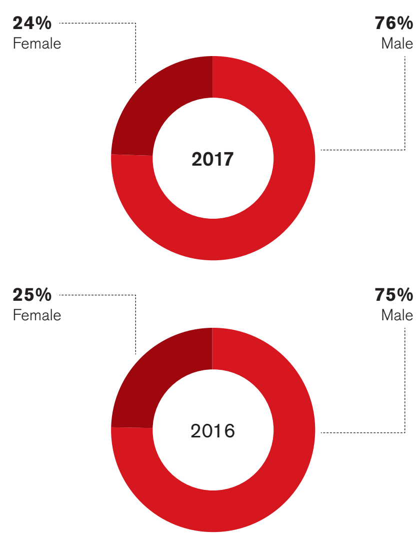
Analysis by age Graph – 55



A – 15-19 years
B – 20-24 years
C – 25-29 years
D – 30-34 years
E – 35-39 years
F – 40-44 years
G – 45-49 years
H – 50-54 years
I – Above 55 years

The Bank continues to maintain high levels of employee engagement, satisfaction and retention. With effective training and development measures, and succession planning in place the Bank promoted 447 employees during the year, helping them achieve career goals. During the year under review, a total of 243 new employees became part of our winning team, bringing fresh ideas and perspectives. At the annual long service awards ceremony, they witnessed the value created for employees by the Bank as they joined in felicitating 136 experienced employees who had completed a quarter century with Commercial Bank.

Staff analysis by gender Graph – 56



The 2017 A. C. Nielsen brand health study of the Banking sector shows that while other banks in Sri Lanka have declined in sectors such as branch employees' ability to provide relevant services and advice, their ability to understand the customer's requirements and provide exceptional service, their ability to provide quick banking services, and provide speedy service at counters, Commercial Bank has increased its scores in these categories over the previous year. These findings are a reflection of the dedication and commitment of our entire team.

Within this Capital we look at four of the Bank's strategic imperatives and how they are met – namely prudent growth, operational excellence, customer centricity and risk management.

Prudent growth

Governance. In addition to a winning team on the ground, the Bank owes its prudent growth to good governance practices. Assisted by the Board Human Resources and Remuneration Committee (BHRRC) the Board takes responsibility for ensuring that the Bank's People Strategy is effectively implemented. The Bank's approach to managing Human Capital is clearly defined in its policy framework. Its Code of Ethics (refer page 365) is designed to ensure that employees are made aware of the Bank's high expectations of them.

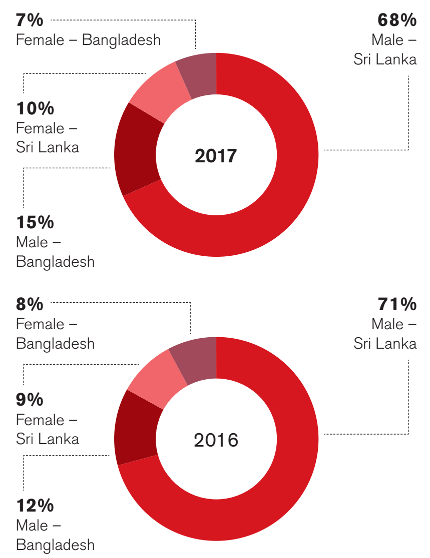
The implementation of the people strategy is the purview of the Human Resources (HR) Department. Continuous improvement of employee-related processes and procedures also falls within the HR domain. HR's performance is assessed by the Board, the BHRRC, and the MD/CEO. The Bank complies with all regulatory requirements relating to its Human Capital going above and beyond base requirements.

Aligning with corporate strategy. To continue to build on its strong and dependable workforce the Bank is focused on developing the skills and competencies of employees, providing adequate compensation, and rewarding and recognising them. Keenly aware of the Bank's strategic direction its employees follow the corporate values as they gear themselves to be future ready while meeting and exceeding stakeholder needs. The Bank strives to align the goals, skills and competencies of its people with its corporate strategy to ensure that no one is left behind on this journey to a prosperous and meaningful future.

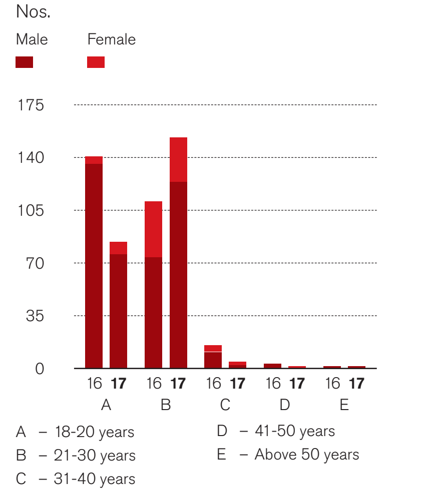
Employee recruitment. Prudent growth is also a result of prudent recruitment practices. Employee recruitment was approved prudently. For example, while over 100 new branches were opened and business volumes have doubled over the past seven years, only 500 new employees were hired by the Bank. Despite a majority of school-leavers going abroad for higher studies or choosing careers in Business or Marketing rather than Banking, the Bank has been able to attract the necessary talent, especially for its Banking Trainee intake. Despite changing trends in the job market the Commercial Bank brand still has a strong attraction. During the year, the Bank recruited 243 employees, of whom 40 were females (refer graphs 57, 58 and 59).

The Bank's equal opportunity policy is consistent with global best practices with selected candidates being assessed according to their suitability for the particular role and business need. The internal talent pool is always the first stop for vacancies. Even for external recruitments, first preference is always given to local talent in the countries within which the Bank operates. The Bank's policy of secondment to other countries helps entrench its unique culture and values. Through a comprehensive induction programme, new recruits come to understand and embrace the organisation's values, policies and procedures.

New hires by geography and gender — Graph – 57



New hires by age and gender — Graph – 58



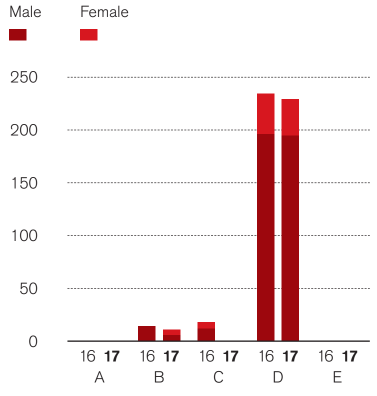
Workforce by growth — Table – 16

Gender	2017	2016	2015	2014	2013
Male	3,769	3,760	3,711	3,453	3,539
Female	1,213	1,227	1,240	1,190	1,191
Total	4,982	4,987	4,951	4,643	4,730

Senior management by gender — Table – 17

Gender	2017	2016	2015	2014	2013
Male	28	37	40	41	44
Female	11	12	13	11	9
Total	39	49	53	52	53

New hires by employment category — Graph – 59
Nos.



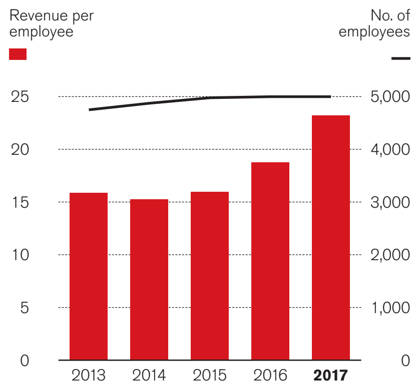
A – Corporate and senior management
B – Executive officers
C – Junior executive assistants and allied grades
D – Banking and executive trainees
E – Office assistants and others

Sales culture. Constantly in touch with what the customer wants, the Bank is aware of rapidly changing customer expectation trends in the sphere of banking.

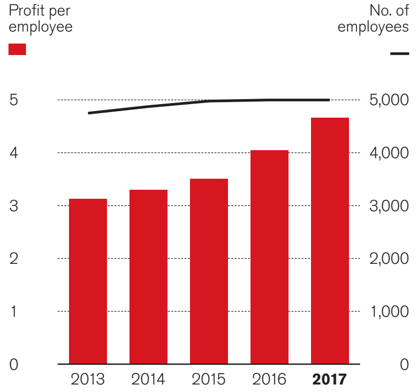
To ensure that customers receive the service they expect, the Bank is focusing on freeing up employees from operational chores so that they have more time to focus on building meaningful relationships with customers. This includes an overhaul of existing processes and automation at both the customer end as well as the employee end.

To prudently improve growth and productivity means gearing employees to change attitudes, behaviours, and skills. It also means managing change in such a way that it empowers rather than overwhelms people (refer graphs 60 and 61).

Revenue per employee — Graph – 60
Rs. Mn. Nos.

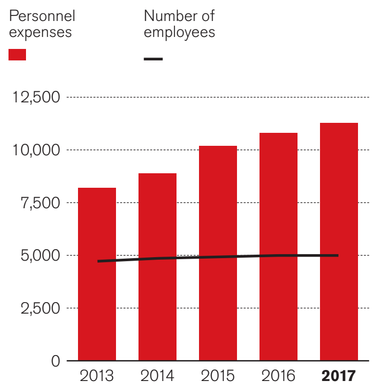


Profit per employee — Graph – 61
Rs. Mn. Nos.



Remuneration and benefits. Employees are the backbone of the Bank – the key drivers of prudent growth. To ensure that they remain engaged and satisfied in their pursuit of meeting the organisation's goals the Bank maintains an impartial remuneration structure which compensates for employee contributions and rewards performance (refer graph 62).

Personnel expenses and number of employees — Graph –62
Rs. Mn./Nos.



Remuneration consists of guaranteed "fixed" pay and performance-based variable pay – the former is determined by regular market surveys conducted in Sri Lanka and Bangladesh. Performance incentives for executive officers, including Executive Directors, are provided through mutually agreed benchmarks linked to the performance appraisal system and a well-defined rewards matrix. The Collective Agreement covers all other employee categories.

A list of benefits available to full time employees is given below:

- Performance-based bonuses or those decided on the Collective Bargaining Agreement.
- Employee share option scheme for executive staff.
- Overtime for non-executive staff.
- Fuel allowance, transport allowances, entertainment allowance and (for certain employee categories) reimbursement of expenses incurred in performing official duties.
- Accommodation/house rent and/or subsidised transportation or special allowances for employees working in 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 employee and spouse.
- Financial support for employees with differently-abled children (to cover routine medical expenses).
- Group life cover extended for permanent employees who are not eligible for pension.
- Retirement benefits and commuted pension.
- Honorarium for successful completion of Diploma in Banking at the Institute of Bankers of Sri Lanka.
- Reimbursement of annual subscription of professional bodies.
- Staff loans at below-market interest rates.
- Holiday bungalows and holiday allowances
- Insurance scheme covering critical illnesses and personal accidents.

Employees seconded to the Bank's overseas offices as Business Promotion Officers and Representative Officers receive remuneration that is commensurate with similar roles in Sri Lanka. Their pay is also supplemented by an allowance that covers expenses incurred while living abroad.

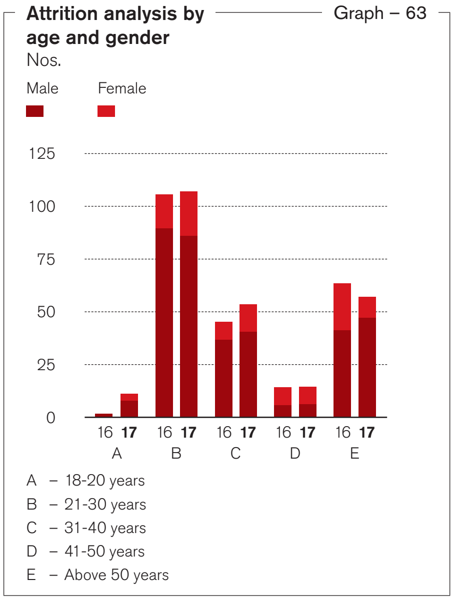
Where necessary labour is outsourced through reputed third-party suppliers and the Bank ensures that they are remunerated according to regulatory requirements including the remittance of Employees' Provident Fund and Employees' Trust Fund contributions.

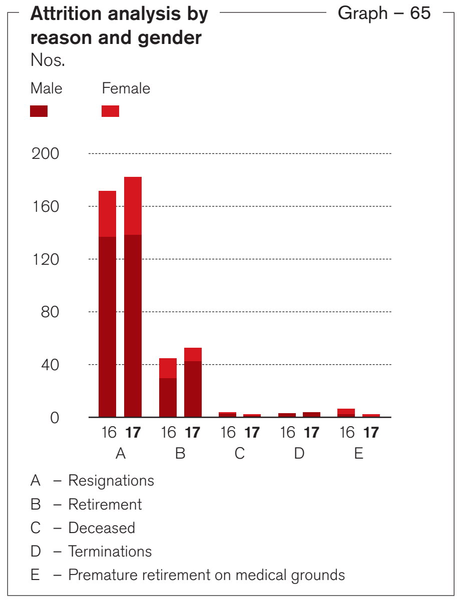
Talent inventory. A talent inventory records the skills, education and experiences of existing employees. Analysing the availability of human capital and identifying gaps in this matrix helps the Bank to meet its strategic goals and increase productivity. This is all the more vital in a period of change as the Bank continues to gear itself for the future. The talent inventory was created to help utilise employee skills effectively.

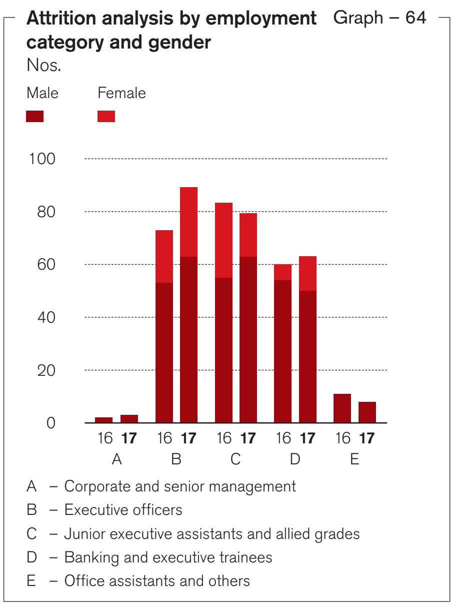
Operational excellence

Employee survey. Contributing to the Bank's future direction gives employees a sense of ownership and responsibility. In turn, employee surveys help the Bank to measure and understand employees' attitude, feedback, motivation, and satisfaction. Recent employee survey provided useful information which was taken into account for driving the future direction of the Bank and optimising operational excellence. In addition, the increasing foreign training, improving the transfer system, re-looking at the pension proposal, and increasing the number of holiday bungalows were all decisions based on employee feedback.

Employee retention. The employee survey reflected high engagement levels and which are reflected in strong employee retention rates.







In every country that the Bank operates in, employment separation processes are fully compliant with applicable labour laws. Reasons for employee exits are tracked and monitored via exit interviews with feedback escalated to the highest levels of management. Attrition rates are highest in the under 30 age group category reflecting the high demand for young, experienced Commercial Bank employees in the market. This demand in turn feeds into the aspirations of Generation Y employees who wish to fast-track their careers by negotiating for higher posts at other banks.

Employees bidding farewell to the Bank in Sri Lanka and Bangladesh numbered 219 (4.64%) and 29 (10.43%) respectively during the year (refer graphs 63, 64 and 65).

High rate of returns to work from maternity leave demonstrates employees' willingness to continue with their careers with the Bank (refer table 18).

Return to work and retention rate after maternity leave Table – 18

Employment category	2017	2016	2015	2014	2013
No. of employees					
– Entitled for leave	1,213	1,227	1,240	1,226	1,180
– Availed leave	52	65	53	54	65
– Due to return	57	65	53	54	64
– Returned after leave	53	62	53	54	63
– Still remain in employment	57	53	54	63	64
Return to work (%)	94.64	95.38	100.00	100.00	98.44
Return to rate (%)	91.94	100.00	100.00	100.00	100.00

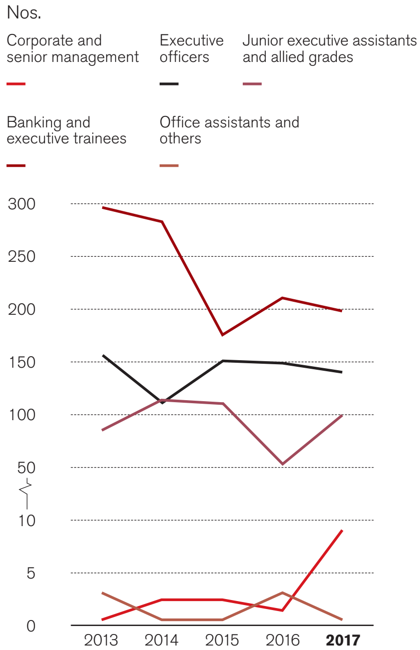
Commercial Bank honours 136 staff for 25 years of service

Commercial Bank felicitated 136 of its staff members in recognition of 25 years of loyal service at the Bank's annual Seniority Awards ceremony for 2017.

Talent discussions. Employees in Executive Grades are privy to talent discussions with the Human Resources representative for their particular unit. This was implemented to ensure that each employee at that level is assured of a clear career progression path and can work towards their own personal career goals with the knowledge and support of the Bank.

Employee recognition. The Bank's annual performance evaluation process covers all employees who are appraised based on criteria mutually agreed at the beginning of the year. This tool helps the Bank to build a target driven culture, reward and develop the employees. A total of 447 employees were promoted during the year under review (refer graph 66). Long service awards were presented to 136 employees for a quarter century of service with the Bank.

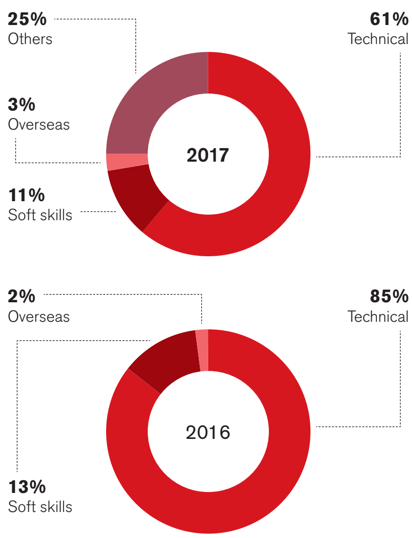
Employee promotions/ absorptions Graph – 66



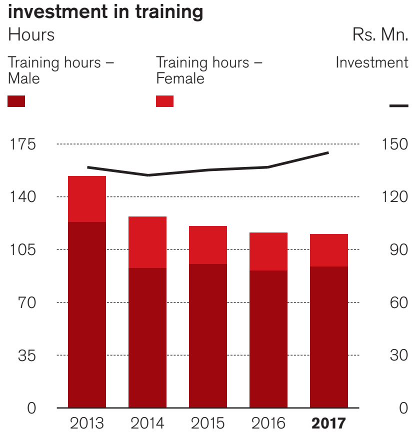
Leadership training. Given the great diversity of employees that a manager is called upon to oversee, sound leadership skills – in addition to technical expertise – is imperative for taking the Bank forward into a bright future. The Organisation has a history of grooming and producing its own leaders – men and women who have grown with the Bank, often progressing from trainee positions. This year too the Bank focused on providing management education, leadership development and coaching. The employee survey results illustrated that employees too appreciate the investment and trust the Bank places in them by providing such coaching. Employees started their career in the Corporate Management level were provided with external coaches – so that confidence was assured – who worked on improving their management and leadership skills.

Employee development. Training and development has always been of paramount importance for the Bank. With many employees joining the Bank prior to taking their tertiary examinations the Bank understands its role as an 'educator' and is focused on creating a learning culture where people are encouraged to continuously acquire knowledge, competencies and develop skills. It encourages employees to better themselves via internal and external training and educational programmes (both within country and without), ensuring they gain invaluable experience, carrying out talent discussions, encouraging them to apply for financial support, and giving recognition to those who perform well at banking exams. The Bank also supports a mentorship programme to guide and groom the next level of leadership (refer graphs 67, 68 and 69).

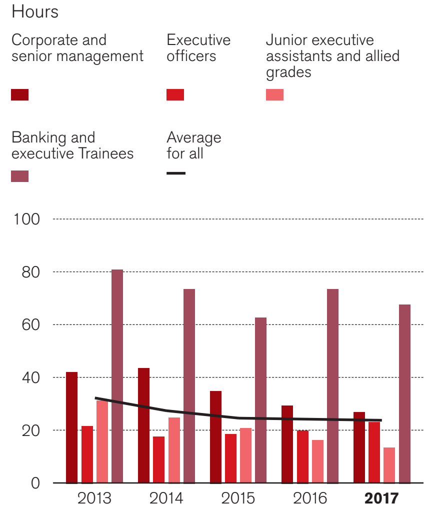
Training hours by type of training Graph – 67



Training hours by gender and investment in training Graph – 68



Average training hours by employee category Graph – 69



Equal opportunity. Committed to being an equal opportunity employer the Bank is committed to ensure that its ratio of basic salary and remuneration of women and men at all locations of operation and across all employee categories remains at 1:1.

Ratio of the basic salary Table – 19

Employment category	2017	2016	2015	2014	2013
Corporate and senior management	1:0.75	1:0.95	1:0.94	1:0.84	1:0.87
Executive officers	1:0.90	1:1.10	1:1.09	1:0.93	1:0.98
Junior executive and allied grades	1:0.92	1:1.08	1:1.10	1:0.91	1:0.85
Banking and executive trainees	1:0.97	1:1.01	1:1.04	1:1.00	1:0.98
Office assistants and others	1:1.05	1:1.01	1: N/A	1: N/A	1: N/A

Whilst the Bank provides training to its employees on need basis and promotions on merit, the Bank has provided such opportunities in proportion to its gender mix of employees as depicted in the table 20 below.

Gender mix – Staff count/promotions/training (male:female) Table – 20

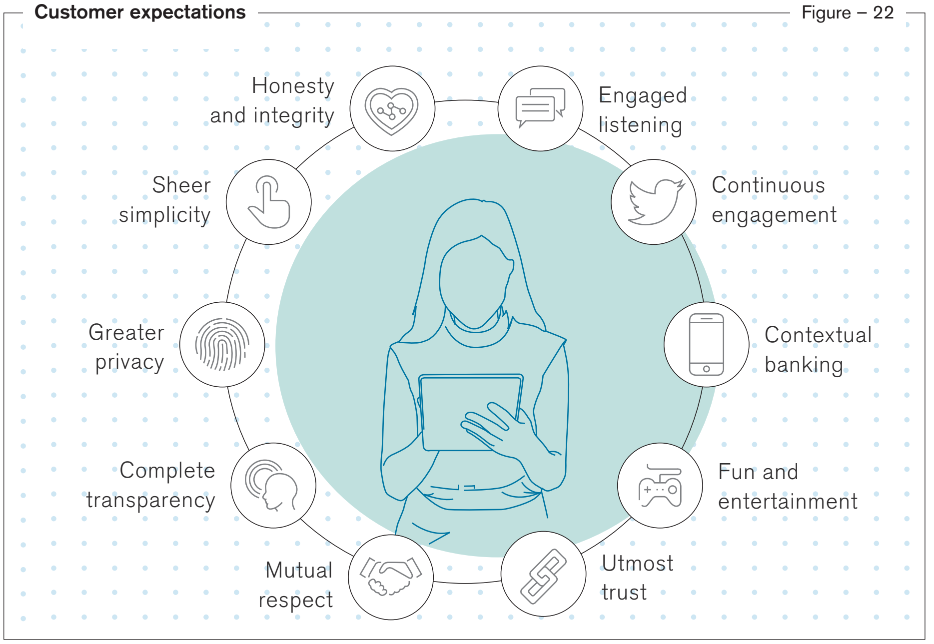
	2017	2016	2015	2014	2013
Staff count	76:24	75:25	75:25	74:26	75:25
Promotions	80:20	72:28	78:22	67:33	88:12
Training	82:18	79:21	80:20	73:27	80:20

Customer centricity

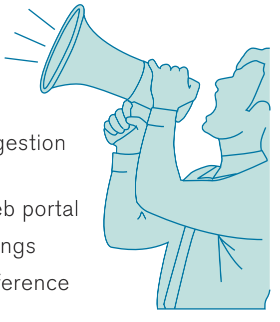
Diversity valued. To better serve customers the Bank is keen to ensure that its employee force is as diverse as its customer base and reflects the communities within which it operates. Employees in Sri Lanka now number 4,671 while those overseas number 311, an increase of 11.47% over 2016. With an abundance of diversity that spans gender, generations, geographies, ethnicities, experience, and capabilities within its employee force, the Bank is committed to drawing strength from such difference, while also providing equal opportunities irrespective of these categorisations. 243 new employees were added to the talent pool during the year, after rigorous assessment, and through effective, time-tested induction programmes. All new recruits are welcomed and introduced to the culture of the Bank. Just as they learn to work together as a team to reach common goals so too does the Bank benefit from the new ideas and suggestions they bring with them driving change in the way we serve our customers.

Employee communications. Effective employee communications ensure that the Bank's people remain engaged and committed to adding value to the customer experience. To this end the Bank employs a range of effective communications channels including circulars, an intranet, various internal events, and staff TV. This year the Bank also arranged townhall meetings where employees got to spend time in discussion with the Senior Management Team in the absence of their own managers. In this open forum they were able to make suggestions for improvement as well as ask questions about the direction and strategy of the Bank. The Bank is also looking at upgrading its intranet to suit the taste of its youngest employees who appreciate information at their fingertips.

Customer expectations Figure – 22



Employee communication channels



- Employee Surveys
- Employee suggestion schemes
- "Speak out" web portal
- Townhall meetings
- Managers conference
- Trade unions
- Emails
- Intranet
- Circulars
- Staff notice board
- Formal letters from HR Department
- Staff TV

Managing risk

Health and safety. All permanent employees are covered by a comprehensive medical insurance scheme that includes 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 (annually) upon reaching the age of 35 years.

Alarm systems, CCTV cameras and trained security personnel are employed to ensure that all Bank premises, people and customers remain secure at all times.

ComBank Sports Club Cricket Carnival

Commercial Bank of Ceylon PLC is seen handing over the Champion's Trophy to the Winning Team during the concluding session of the Cricket Carnival arranged in Bangladesh in December 2017.

Annual Staff Conference 2018

Bangladesh Management Committee during the Annual Staff Conference held in Dhaka on January 20, 2018.

The Bank's Security Department conducts training programmes for our people including fire drills and responding to various threats and has identified dedicated teams within each business/service unit of the Bank to supplement its work. Each business or service unit has a dedicated Health and Safety Champion who has received comprehensive training on how to respond to emergencies such as fire, burglaries or natural disasters. No significant health and safety issues were reported during the year.

Code of Ethics. Based on the UN Global Compact principles and the Universal Declaration of Human Rights proclaimed by the UN the Bank's Code of Ethics and its comprehensive policy framework focus on encouraging a culture of respect for human rights and values. Leaders and managers within the Bank are trained to ensure human rights are upheld at all times. Compliance with the policy framework is regularly verified by the Inspection Department.

Employees are empowered by the Bank's Whistle-Blower Charter which encourages the reporting of potential human rights violations. Any such violations are investigated swiftly with prompt disciplinary action, including dismissal, being taken against violators.

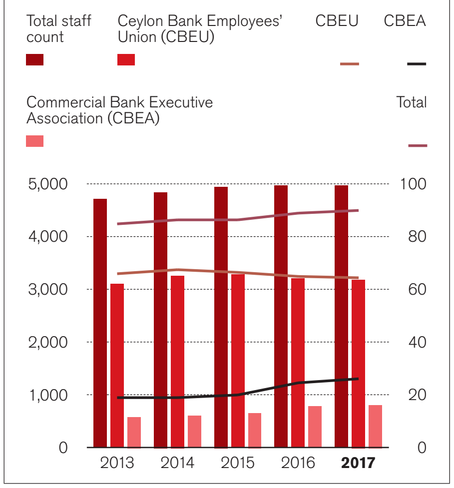
The "Speak Out" web portal is another avenue for employees to voice concerns regarding working conditions, labour practices or potential violations of human rights. Regularly monitored by the HR Department, legitimate concerns are investigated and acted upon.

The Bank's open door policy has encouraged proactive two-way discussions enabling the early identification and resolution of issues.

Freedom of association. Maintaining positive relationships with its employee associations, the Commercial Bank Executive Association (CBEA) and the Ceylon Bank Employees Union (CBEU), the Bank recognises its employees' rights to freedom of association and collective bargaining. When formulating relevant policies and procedures the Bank has regular dialogue with these parties and giving due consideration to their feedback.

The collective agreement that is in place with the Ceylon Bank Employees Union covers, among others, salaries and other perquisites, staff loans, and provision of accommodation for employees placed far from home stations. Changes to any of the terms require minimum notice periods (refer table 21). In total, 89.94% of the employee force are members of trade unions with whom the Bank enjoys positive relationships. (refer graph 70) Though the Bank does not have a similar agreement in Bangladesh, the Bank maintains a cordial relationship with its employees.

Employee participation in the trade unions Graph – 70



Minimum notice period Table – 21

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

NATURAL CAPITAL

Encompassing natural resources including water, soil, earth, and oil, Natural Capital refers to resources that people and animals depend on to live and function. Unlike other forms of capital (such as buildings and infrastructure), which can be created or refurbished regularly, most natural resources are finite; they cannot be replenished. As a responsible organisation our focus continues to be on using Natural Capital in a sustainable manner that ensures it is preserved for future generations.

Our focus on the environment goes beyond the greening of our operations. A firm believer in the importance of responsible stewardship of our planet, Commercial Bank seeks to influence its stakeholders – including customers, business partners and employees – for good. The Bank's Social and Environment Management System (SEMS) plays a key role in its environment management framework.

This section examines Natural Capital in light of three of the Bank's strategic imperatives – namely operational excellence, customer centricity, and risk management.

Customer centricity

Environmentally responsible financing.
At Commercial Bank, our Social and Environmental Management System is always in force when screening loans and advances for customers. This ensures that the Bank is compliant with applicable national laws and regulations on environmental and social issues at all times. This is possibly one of the Bank's most significant contributions to sustainability because it extends beyond its own actions. Whenever any issues regarding lending decisions are identified through the SEMS policy the Bank works hand-in-hand with customers to educate, advise, and resolve such issues for them throughout the approval process, implementation stage, and beyond (refer graph 71).

Through the introduction of attractive, purpose-designed loan schemes customers are also encouraged to adopt green technologies that reduce their environmental footprint.

The SEMS is also used to screen suppliers and influence them to maintain environmental compliance. Suppliers who do not comply are removed from the Bank's supply chain.

SEMS compliance process — Figure – 23

Receipt of credit application

Branch review for SEMS compliance

Review by SEMS coordinator

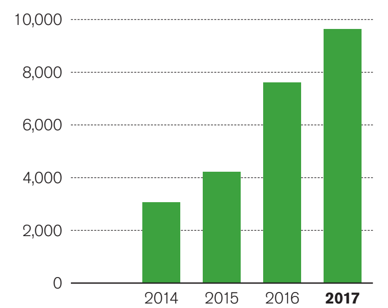
Feedback, comments, and amend plans, if required

Review by SEMS coordinator

Approval

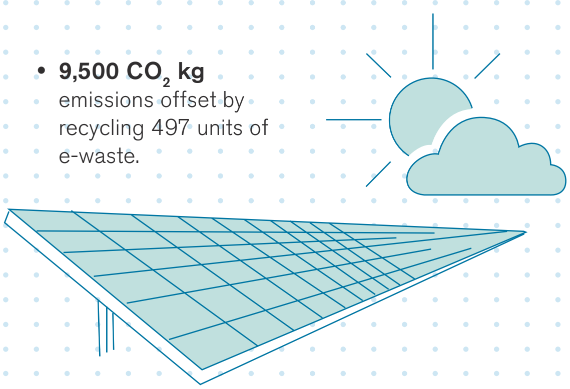
Loan proposals subjected to SEMS screening — Graph – 71

Nos.



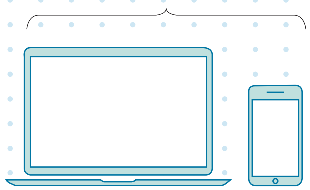
Highlights of natural capital indicators — Figure – 24

- **9,500 CO_2 kg** emissions offset by recycling 497 units of e-waste.

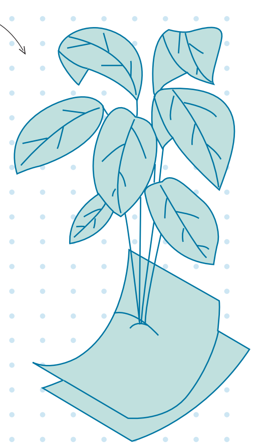


- **Rs. 85.134 Mn.** invested in solar panel installations at 20 more branches increasing our clean energy usage.
- Loans disbursed for renewable energy projects – **Rs. 441.465 Mn.**

- Loan proposals screened under SEMS – **9,595**
- New enrolments for e-passbook – **86,662**



- Growth in Online Banking users – **16.44%**
- Growth in Mobile Banking users – **25.90%**



- Paper recycled **151,885 kg**

Risk management

SEMS-trained employees. Dedicated resources have also been allocated specifically to ensure that loans and advances are processed according to the Bank's SEMS policy.

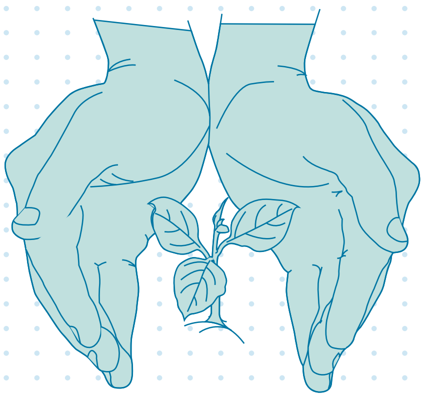
Screening process for environmental compliance Figure – 25

1 Customer submits credit application

2a SEMS-trained credit officers evaluate clients based on the Bank's SEMS policy

2b SEMS coordinator (reporting to Chief Risk Officer) evaluates SEMS compliance on credit proposals above a predetermined threshold

3 Customers are advised on how to comply with the policy (if not already compliant)



4 Review of submissions by SEMS coordinator

5 Financing extended to projects that are consistent with the policy

6 SEMS-trained lending officers visit customers on site periodically to ensure continued compliance

7 SEMS-trained lending officers continue to provide advice to customers as needed

Operational excellence

Managing inputs. The Bank has implemented procedures to manage consumption in a way that leaves the environment and the organisation more "fit for the future".

Managing the following inputs in a sustainable manner while maintaining set goals for materials and energy helps the Bank better manage its cost income ratio.

Materials

A major part of the Bank's consumption of materials continues to be paper and toner for printers. Reducing our environmental footprint continued to be a key focus during the year under review and included the promotion of:

- E-passbook, by migrating savings accounts holders to paperless mediums which also provided greater convenience.
- Automated banking – including an investment of Rs. 12 Mn. on six ATM machines and Rs. 289 Mn. on 92 automated cash recycler machines (CRM) – to minimise the use of paper and dispense with deposit slips and envelopes.
- Online and mobile banking at branches to migrate customers towards paperless banking.
- E-statements over paper based statements.
- Programmes for employees to reduce and reuse paper more often.

The Bank only engages ethical suppliers who adhere to its Supplier Code of Conduct. This ensures the sourcing of materials that are accredited. The code guarantees that environmental and social standards are adhered to across the value chain and covers the transparent, fair and honest dealings in finances and employees in the suppliers' respective companies.

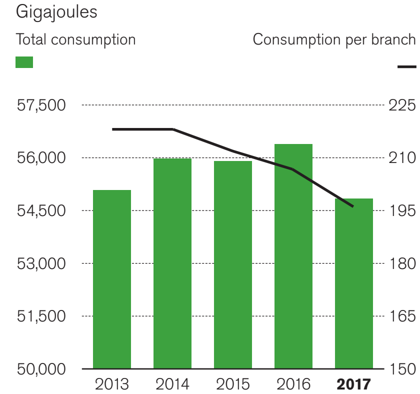
Energy

During the year under review 20 more branches were powered by solar energy bringing the total number to 28. Generating 839 kWh of power these branches have contributed towards bringing the Bank's total energy spend down. The Bank's energy consumptions in 2017 stood at 54,820 Gj, a reduction of 1,539 Gj from 56,359 Gj in 2016 (refer graph 72). All new and newly furbished branches maximise the use of natural light and are equipped with energy efficient lighting and equipment. The photo-cell technology used for interior and exterior branch signage also significantly reduces the Bank's energy footprint.

The Bank uses and procures IT and other equipment that is energy efficient, with "Energy Star 5" ratings that are compliant with the RoHS (Restriction of Hazardous Substances) standards. When procuring ATM machines it focuses on those that can function without air conditioning and further save energy.

Electricity consumption Graph – 72

Gigajoules



Energy intensity is a measure of an organisation's energy efficiency. It is measured by the quantity of energy needed to produce a unit output or activity. The use of less energy to provide a service reflects a low energy intensity. The Bank's energy saving measures and process efficiencies have had a positive impact on its energy intensity.

Commercial Bank adjudged 'Most Responsible Bank in Sri Lanka' by the London based print journal and online resource "Capital Finance International"

This significant accolade was awarded especially in recognition of Commercial Bank's commitment to improve Green financing – such as renewable energy projects on a large scale – by exploring the Green energy potential in the country.

Water

Being part of the services industry the Bank's water use is limited to consumption and sanitation purposes. Use of this precious resource is well regulated within the Bank and employees are regularly reminded of the importance of water conservation through awareness programmes and notices in pantries and washrooms.

Managing outputs. Diligent in its responsibility towards the environment and the promise of a better future for all, the Bank is stringent in its management of outputs. Reducing waste and emissions is a priority.

Emissions

- Scope 1, or direct emissions, are negligent for the Bank. They consist mostly of emissions generated from owned motor vehicles and those belonging to senior managers and such numbers are low because the Bank uses a combination of owned and rented vehicles with owned vehicles being in the minority.
- Scope 2 emissions are those generated from purchased electricity. The Bank undertakes many initiatives to reduce such emissions such as the use of natural light, LED lights and solar energy
- Scope 3 emissions are not reported as they are not applicable to the Bank's operations.

Effluents and waste

The Bank uses waste management companies that follow international standards in disposal practices for the dispatch of e-waste and paper. These third parties are monitored by the Bank's Services and Information Technology Departments. A total of 9,500 kg of CO_2 emissions were offset, during the year under review, by recycling 497 units of e-waste. The Bank further disposed 151,885 kg of used paper for recycling.

The Services Department continues to ensure employees are provided with the knowledge and awareness they need to uphold the Bank's environmental principles as they engage with suppliers and customers.

Commercial Bank wins international award for Best Sustainable Strategies

A strategic approach to sustainable business won Commercial Bank a prestigious award at the Global Sustainability and CSR Excellence and Leadership Awards in Mumbai, India.

Governance and Risk Management

The Bank's affairs and resources are managed with the utmost intellectual honesty and diligence. As we set about achieving our strategic objectives, we ensure that due care is always given to corporate ethics and social responsibility.

The Board of Directors, who collectively direct the affairs of the Bank, are completely aware of and knowledgeable about their role in ensuring the Bank's prosperity. Having pledged to take full responsibility for its actions, the Board ensures that executive authority is passed on only to those with untarnished reputations. The Board also oversees the implementation of reporting systems and processes that are adequate and effective in providing the necessary overall control.

Commercial Bank has a sound reputation for prudent governance – a track record that stretches back close to half a century. There are seven characteristics that make our governance system unique. They are:

- *Decision making that is participatory*
- *Accountability that applies to all stakeholders*
- *Dealings that are transparent*
- *Attention to stakeholder needs that is responsive*
- *Utilisation of resources that is efficient and effective*
- *Appreciation for diversity and fairness*
- *Compliance with the rule of law in the spirit of good governance*

The Bank confirms that, at the date of this publication, it has fully complied with all Corporate Governance Rules set out in the Banking Act Direction No. 11 of 2007, other compliance and disclosure requirements prescribed by the Central Bank of Sri Lanka in terms of the provisions of the Banking Act No. 30 of 1988, and the Code of Best Practice on Corporate Governance issued by The ICASL Sri Lanka (please refer details in Annex 2 and Annex 3 on pages 349 to 371).

Being fully compliant with all requirements set out in the Banking Act, the Colombo Stock Exchange has exempted the Bank from disclosing compliance with the Directions stipulated in Section 7.10 of the Continuing Listing Requirements on Corporate Governance.

Discharging their responsibility for overseeing the risk management function of the Bank, the Board of Directors has instituted a solid risk management framework, the robustness of which is reflected in the operating results reported for the year and the above industry average asset quality.

The Bank periodically reviews the principles of its governance system. This exercise is undertaken to assess the system's effectiveness so that refinements can be made as needed to suit the ever-evolving needs of the Bank and the regulatory environment within which it operates.

HOW WE GOVERN

Introduction to governance at the Bank

Growing public distrust of authority, the complexity and dynamism of operations, diverse and often conflicting stakeholder demands and proliferating regulations demand that corporates adopt sound governance practices and be transparent and clear in their public disclosures. Due to the very nature of the business activities where the shareholders' equity is substantially geared by mobilising public deposits and the resulting fiduciary duty, the application of good corporate governance practices to a bank is even more important. That is why the financial institutions are perhaps the most highly regulated institutions in the world. Stakeholders are increasingly appreciative of the importance of good corporate governance and the role it plays in ensuring that banks are run efficiently and transparently to meet strategic goals and create value for them.

Annual corporate governance report

The 🕮 pages that follow identify the overarching principles and components of the Bank's corporate governance framework. They also detail the governance structure and its constituent elements. This together with the extent of compliance with the applicable codes and guidelines on the subject given on 🕮 pages 349 to 366 constitute the annual corporate governance report. This is required to be published as per the Banking Act Direction No. 11 of 2007 on Corporate Governance which clearly elaborates how well corporate governance is being practiced at the Bank and how the Bank measures up against external benchmarks for governance.

Messrs KPMG, External Auditors of the Bank reviewed the Bank's compliance with the Banking Act Direction No. 11 of 2007 on Corporate Governance and they have provided their Assurance Statement thereon to the Central Bank of Sri Lanka.

> The Bank is committed to high standards of corporate governance, integrity and professionalism and has complied with all the applicable laws, rules, regulations, and codes in the spirit of good governance.

Compliance with the Banking Act Direction No. 11 of 2007 and the Code of Best Practice on Corporate Governance of The ICASL is given in Annex I and II on 🕮 pages 349 and 362, respectively. As the Bank is fully compliant with all requirements of the Banking Act Direction No. 11 of 2007, 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.

Corporate governance framework

The stewardship role of the members of the Board of Directors, corporate, and senior management teams and each and every staff member in the Bank is based on a corporate governance framework which includes governance structures, processes, systems, and policy frameworks and is underpinned by the following overarching principles of good governance:

- **Leadership** – Steering the Bank to achieve the strategic goals and fulfil stakeholder expectations
- **Accountability** – Being answerable to the stakeholders for the decisions made
- **Integrity** – Acting ethically in the best interest of the Bank and the stakeholder and being able to withstand scrutiny of the stakeholders
- **Transparency** – having clear procedures, roles, and responsibilities for making decisions and exercising power
- **Sustainability** – Commitment to ensure future vitality of the Bank and create value in the short, medium and long-term for the benefit of all the stakeholders

These principles guide the Bank in all its decisions relating to such aspects as

- Board oversight
- Delegation of authority
- Division of responsibilities
- Resource allocation
- Risk management
- Compliance
- Performance appraisal and compensation
- Related party transactions, and
- Financial reporting

Accordingly, the Bank conducts its affairs with the utmost intellectual honesty and diligence and with due care for the social and environmental obligations.

The Bank reviews its Corporate Governance framework regularly to identify areas for improvement to ensure that all elements of the governance framework are fit for purpose, enabling value creation, and growth.

Provisions in a number of statutory enactments, directions, determinations, circulars, and guidelines issued by the regulators under these enactments as well as codes and voluntary guidelines based on global best practice and internal rule books are relevant to the governance of the Bank as shown in the diagram below:

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

Figure – 26

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 to Licensed Commercial Banks by the Central Bank of Sri Lanka (CBSL), particularly the Banking Act 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 and Office Employees Act No. 19 of 1954 and amendments thereto addressing the rights and responsibilities of employees

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 by The ICASL for 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 (RPT) issued by the SEC and the CSE, which stipulates procedures and processes required for identifying, capturing, monitoring, and disclosing RPT

Rules applicable on the Bank share purchases/disposals by the Board of Directors of the Bank have been approved by the Board in the year 2015. The Board approved "Internal Rules applicable on the Bank share purchases/disposals by employees of the Bank" has been issued to the employees. Guidelines have also been included in the Code of Ethics given to the employees by the Bank with regard to insider dealing in securities.

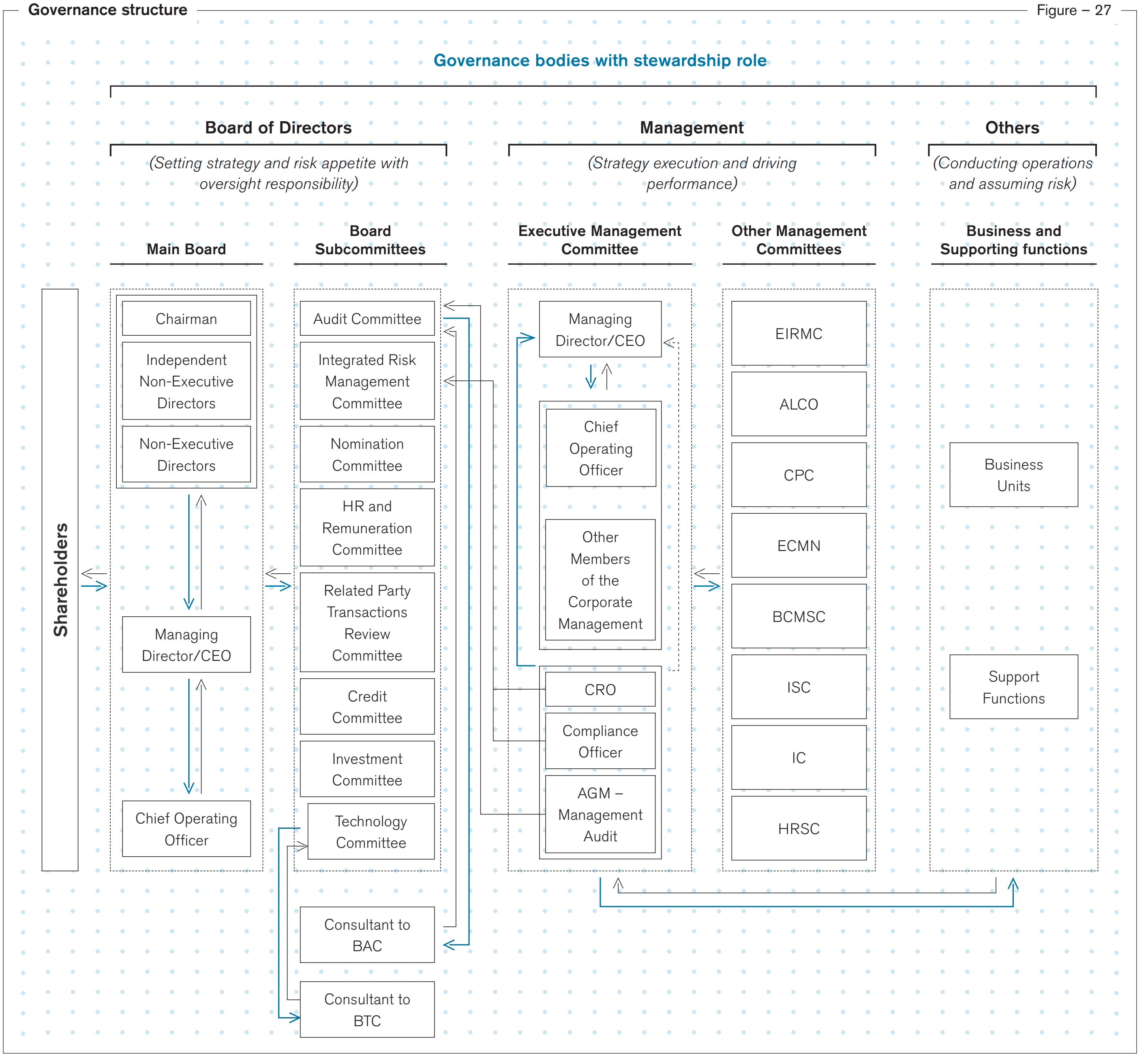
With the objectives of incentivising employees to achieve better performance, retaining staff for a longer period, succession planning for major shareholders and raising equity funding, the Bank has structured Employee Share Option Plans. These plans give a right to the eligible employees to buy a set number of shares at a fixed price during a given period of time. All these plans have been approved by the shareholders at Extra Ordinary General Meetings (EGMs).

Governance structure

The Bank has established a cohesive governance structure made up of several governance bodies with well-defined roles and responsibilities, greater accountability and clear reporting lines. These include the Board of Directors and several Board subcommittees supported by consultants where necessary with responsibility for setting strategy, risk appetite, and oversight. They also include Management and several Management committees with responsibility for executing strategy and driving performance, and business units and support functions with responsibility and accountability for conducting operations and assuming risk.

Figure 26 provides an overview of the governance structure of the Bank.

Governance structure Figure – 27



Appointment Flow → *Responsibility Flow – Direct* → *Responsibility Flow – Indirect* - - - ->

BAC - Board Audit Committee, BTC - Board Technology Committee, CRO - Chief Risk Officer, EIRMC - Executive Integrated Risk Management Committee, ALCO - Assets and Liabilities Committee, CPC - Credit Policy Committee, ECMN - Executive Committee on Monitoring NPAs, BCMSC - Business Continuity Management Steering Committee, ISC - Information Security Council, IC - Investment Committee, HRSC - Human Resources Steering Committee

A proficient board

The Board of Directors is the highest decision-making authority of the Bank and is responsible for providing leadership by setting strategic direction and risk appetite. It also takes responsibility for approving strategies in order to create sustainable value. It oversees Corporate Management who is responsible for day-to-day operations and ensures that an effective system of internal control is in place. The relationship between the Board and the Management can best be described as that of a strategic partner.

The Board comprises 12 Directors of whom nine are Independent Non-Executive Directors (INEDs) 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. They act in the best interest of the shareholders and avoid any conflict of interest. They understand and appreciate the dynamism and complexity of the Bank's operations, particularly in the wake of new global developments threatening to challenge conventional business models.

Profiles of Board Members are given on pages 25 to 27 together with their memberships in 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 27. Collectively they combine expertise in accounting, banking and finance, economics, engineering, information technology, and law, having risen to the highest echelons of Government institutions or commercial organisations, bring their independent judgement to bear on matters reserved for the Board. Bringing together banking, entrepreneurial, investor, and regulatory perspectives, our Board is able to explore matters from diverse points of view to facilitate long-term value creation.

Board process

The Board meets at least once a month based on a schedule of meetings agreed at the beginning of the year. Additional meetings are also convened as and when circumstances require. Directors regularly attend the meetings and actively participate in deliberations. The Chairman is responsible for determining the agenda for the meetings. This agenda is prepared with the assistance of the Company Secretary and the CEO. The Company Secretary circulates the agenda to the Directors with the accompanying Board papers one week in advance of the meetings, allowing reasonable time for Board members to study and be better prepared for productive deliberations, with urgent Board papers submitted at short notice or tabled at the meetings on an exceptional basis. Board members too can request inclusion of items in the agenda for discussion. The Chairman ensures that the Board receives all the information required to fulfil its responsibilities. Board members typically spend at least seven days a month on matters relating to the Board.

The Board is sufficiently diverse enough to enhance dynamics and its effectiveness, promote healthy and constructive exchange of views and embrace different perspectives, leaving no room for group think. Deliberations and decisions made at the meetings are minuted in sufficient detail. In addition to the two Executive Directors, other members of the Corporate Management are invited for meetings on a need basis. Members of the Board are allowed to seek independent professional advice, if necessary, at the Bank's expense. Directors annually declare their interests and necessary procedures are in place to ensure that there are no conflicts of interest that will compromise independence of the members. The Bank maintains a register of such interests declared. The Directors are covered by a Directors and Officers Liability Insurance Policy.

Board subcommittees

In order to strengthen governance, the Board has delegated authority to eight Board subcommittees. These subcommittees deal with and decide on certain subject-specific and specialised matters. The Board, however, retains responsibility for subcommittee decisions. Four out of five mandatory Subcommittees were formed as required by the provisions in the Banking Act Direction No. 11 of 2007, while the other subcommittee, the Board Related Party Transactions Review Committee was formed in 2014 by early adapting the requirements of the "Code of Best Practice on Related Party Transactions", issued by the Securities and Exchange Commission of Sri Lanka, which became mandatory from January 01, 2016. The other three voluntary subcommittees have been established considering the business, governance and risk management needs of the Bank as permitted by the Bank's Articles of Association. These subcommittees have been constituted with Board-approved terms of reference, hold regular meetings and report to the Board.

Their areas of oversight and executive support together with composition and attendance at meetings are summarised in Table 22 and Table 23 on pages 110 to 113.

Board and Board Subcommittees – Areas of oversight and executive support Table – 22

Board subcommittee	Areas of oversight	Executive support
Mandatory Subcommittees		
Board Audit Committee (BAC)	Financial reporting, internal controls, internal audit, and external audit. *BAC Report is given on pages 124* to *126*	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, and risk management. *BIRMC Report is given on pages 127* and *128*	Chief Risk Officer attends meetings by invitation. The Committee is supported by the senior staff of the departments 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, and evaluating the effectiveness of the Board and its subcommittees. *BNC Report is given on page 129*	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, and HR systems including performance evaluation. *BHRRC Report is given on pages 130* and *131*	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 (BRPTRC)	Related Party Transactions Policy and processes, market disclosures on Related Party Transactions to the Securities and Exchange Commission (SEC), and quarterly and annual disclosures of Related Party Transactions. *BRPTRC Report is given on page 132*	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, and performance of credit risk indicators. *BCC Report is given on page 133*	The Committee is supported by the Credit Risk Unit of the Integrated Risk Management Department. The Assistant Company Secretary of the Bank serves as the Secretary to the committee.
Board Investment Committee (BIC)	Review of economic climate, capital markets activity, and economic and monetary policy direction, the Bank's investment policy, and the review of the Bank's investment portfolios and their performance. *BIC Report is given on page 134*	Head of Global Treasury, Chief Financial Officer, Head of Global Markets, Assistant General Manager – Corporate and 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)	The Bank's technology strategy, significant procurements of technology, and emerging trends and their potential. *BTC Report is given on page 135*	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.

Board and Board Subcommittees – Composition and attendance at meetings Table – 23

Composition of Board/Board subcommittee	No.	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	16	16
Non-Executive Directors	10	Mr M P Jayawardena	M	NED	ID	28.12.2011	16	16
Independent Directors	9	Mr J Durairatnam	M	ED	NID	28.04.2012	16	16
Non-Independent Directors	3	Mr S Swarnajothi	M	NED	ID	20.08.2012	16	16
Male	11	Mr S Renganathan	M	ED	NID	17.07.2014	16	16
Female	1	Prof A K W Jayawardane	M	NED	ID	21.04.2015	16	16
Age below 50 years	Nil	Mr K Dharmasiri	M	NED	ID	21.07.2015	16	16
Age above 50 years	12	Mr L D Niyangoda	M	NED	ID	26.08.2016	16	16
		Ms N T M S Cooray	M	NED	ID	19.09.2016	16	16
		Mr G S Jadeja	M	NED	NID	19.09.2016	16	11
		Mr T L B Hurulle	M	NED	ID	05.04.2017	11	11
		Justice K Sripavan	M	NED	ID	26.04.2017	11	11
Mandatory Subcommittees								
Board Audit Committee (the BAC)								
Executive Members	2	Mr S Swarnajothi	C	NED	ID	24.08.2012	10	10
Non-Executive Members	5	Prof A K W Jayawardane	M	NED	ID	29.04.2015	10	7
Independent Members	5	Mr K Dharmasiri	M	NED	ID	28.08.2015	10	10
Non-Independent Members	2	Ms N T M S Cooray	M	NED	ID	30.09.2016	10	8
Male	6	Justice K Sripavan	M	NED	ID	28.04.2017	7	7
Female	1	Mr J Durairatnam	I	ED	NID	28.04.2012	10	10
Age below 50 years	Nil	Mr S Renganathan	I	ED	NID	17.07.2014	10	9
Age above 50 years	7							
Board Integrated Risk Management Committee (the BIRMC)								
Executive Members	2	Mr M P Jayawardena	C	NED	ID	30.12.2011	5	5
Non-Executive Members	5	Mr J Durairatnam	M	ED	NID	28.04.2012	5	5
Independent Members	5	Mr S Swarnajothi	M	NED	ID	24.08.2012	5	5
Non-Independent Members	2	Mr K Dharmasiri	M	NED	ID	21.07.2015	5	5
Male	7	Mr L D Niyangoda	M	NED	ID	30.09.2016	5	4
Female	Nil	Mr T L B Hurulle	M	NED	ID	28.04.2017	4	4
Age below 50 years	Nil	Mr S Renganathan	I	ED	NID	29.08.2014	5	5
Age above 50 years	7							
Board Nomination Committee (the BNC)								
Executive Members	1	Mr K G D D Dheerasinghe	C	NED	ID	30.12.2011	6	6
Non-Executive Members	4	Mr M P Jayawardena	M	NED	ID	29.08.2014	6	6
Independent Members	3	Mr S Swarnajothi	M	NED	ID	29.04.2015	6	5
Non-Independent Members	2	Mr G S Jadeja	M	NED	NID	30.09.2016	6	5
Male	5	Mr J Durairatnam	I	ED	NID	29.08.2014	6	6
Female	Nil							
Age below 50 years	Nil							
Age above 50 years	5							

Composition of Board/Board subcommittee	No.	Name of Director	Membership				Meeting attendance	
			Status			DOA	Eligible to attend	Attended
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 S Swarnajothi	M	NED	ID	29.04.2015	5	5
Non-Independent Members	1	Mr J Durairatnam	I	ED	NID	29.08.2014	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	4	Mr J Durairatnam*	M	ED	NID	26.12.2014	4	4
Independent Members	4	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	6	Mr L D Niyangoda	M	NED	ID	30.09.2016	4	4
Female	Nil	Justice K Sripavan	M	NED	ID	28.04.2017	2	2
Age below 50 years	Nil							
Age above 50 years	6							
Voluntary Subcommittees								
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	10
Independent Members	2	Mr S Renganathan	M	ED	NID	25.11.2014	12	10
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	12
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	12	9
Female	Nil							
Age below 50 years	Nil							
Age above 50 years	5							

Composition of Board/Board subcommittee	No.	Name of Director	Membership				Meeting attendance	
			Status			DOA	Eligible to attend	Attended
Board Technology Committee (the BTC)								
Executive Members	2	Prof A K W Jayawardane	C	NED	ID	29.04.2015	4	4
Non-Executive Members	3	Mr J Durairatnam	M	ED	NID	18.06.2012	4	4
Independent Members	3	Mr S Renganathan	M	ED	NID	29.08.2014	4	4
Non-Independent Members	2	Ms N T M S Cooray	M	NED	ID	30.09.2016	4	2
Male	4	Mr T L B Hurulle	M	NED	ID	28.04.2017	3	3
Female	1							
Age below 50 years	Nil							
Age above 50 years	5							

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 7 out of the 10 meetings held during the year.

Mr D B Saparamadu (Consultant to BTC) attended 3 out of the 4 meetings held during the year.

** Consequent to the reconstitution of the committee as required by the Code of Best Practices on Corporate Governance issued by the ICASL, Mr J Durairatnam and Mr S Renganathan attend meetings by invitation from January, 2018.*

Management Committees

In addition to the Board Committees, several Management Committees have been constituted under delegated authority from the Chief Executive Officer on specific subjects to facilitate decision-making in relation to the execution of the Board-approved strategies. All the Management Committees have approved terms of reference and operate under a structure and process similar to the Board Committees. These committees undertake extensive deliberations, cooperate across departments and debate on matters considered critical for the Bank's operations as described in the Table 24 below:

Management Committees Table – 24

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 predetermined risk appetite.	CEO, COO and key members of the Treasury, Corporate Banking, Personal Banking, Integrated 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, Integrated 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 predetermined 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 and Recoveries, and Integrated 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 Integrated Risk Management, Information Systems Audit, Operations, and IT Departments.
Investment Committee (IC)	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 (HRSL)	Setting guidelines and policies on any matter that may affect the Human Resource management of the Bank and make recommendations on policy matter to the Board Human Resources and Remuneration Committee and/or address any issues that may need review at Board level.	CEO, COO, DGM-HRM, DGM-PB, DGM-CB and CFO

Effective meetings

Meetings provide an effective platform for discharging the oversight responsibility of the Board. The Board held 16 scheduled meetings which included one meeting devoted exclusively to strategy with all members of Corporate Management whilst 15 meetings were devoted to matters including large and material transactions, review of performance, review of policy frameworks, and strategy.

During the year, the Board played an active role in strategy formulation providing clear directions to Management for the preparation of the Bank's five-year strategic plan which was then reviewed and approved at a meeting convened for the purpose. Alternative strategies were explored and evaluated by the Board prior to approval and allocation of resources for execution of the same. The performance review in relation to 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 22 on page 110.

Board roles and responsibilities

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 as detailed below.

Roles, responsibilities and powers of the Board

Role of the Board

- To represent and serve interests of shareholders by overseeing and appraising the Bank's strategies, policies and performance
- To provide leadership and guidance to the Management for the execution of strategies
- To optimise performance and build sustainable value for shareholders in accordance with the regulatory framework and internal policies
- To establish an appropriate governance framework
- To ensure regulators are apprised of the Bank's performance and any major developments

Key responsibilities

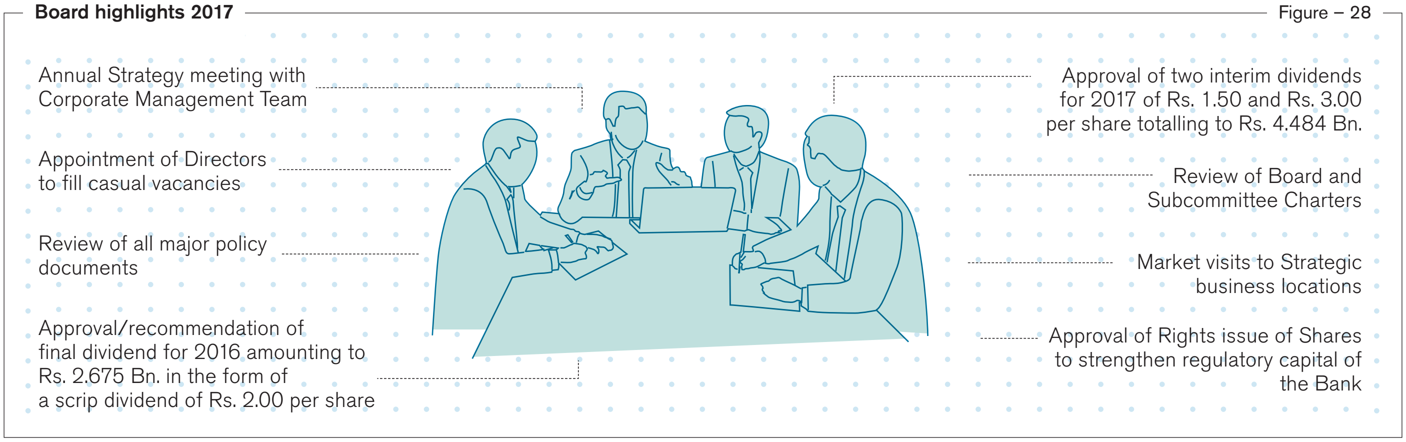
- Selecting, appointing, and evaluating the performance of the Chief Executive Officer
- Setting strategic direction and monitoring its effective implementation
- Establishing systems of risk management, internal control, and compliance
- Ensuring the integrity of the financial reporting process
- Developing a suitable corporate governance structure, policies and framework
- Strengthening the safety and soundness of the Bank
- Appointing and overseeing the External Auditors' Responsibilities
- Approving interim and annual financial statements for publication

Powers reserved for the Board

- Approving major capital expenditure, acquisitions and divestitures, and monitoring capital management
- Appointing the Board Secretary in accordance with Section 43 of the Banking Act No. 30 of 1988
- Seeking professional advice in appropriate circumstances at the Bank's expense
- Reviewing, amending and approving governance structures and policies

A synopsis of the important matters deliberated and decided upon by the Board during the year is given below:

Board highlights 2017 Figure – 28



The 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 distinctive with clear and effective separation of accountability and responsibility as set out in the Board Charter. The Chairman establishes good corporate governance and the highest standards of integrity and probity throughout the Group. He 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.

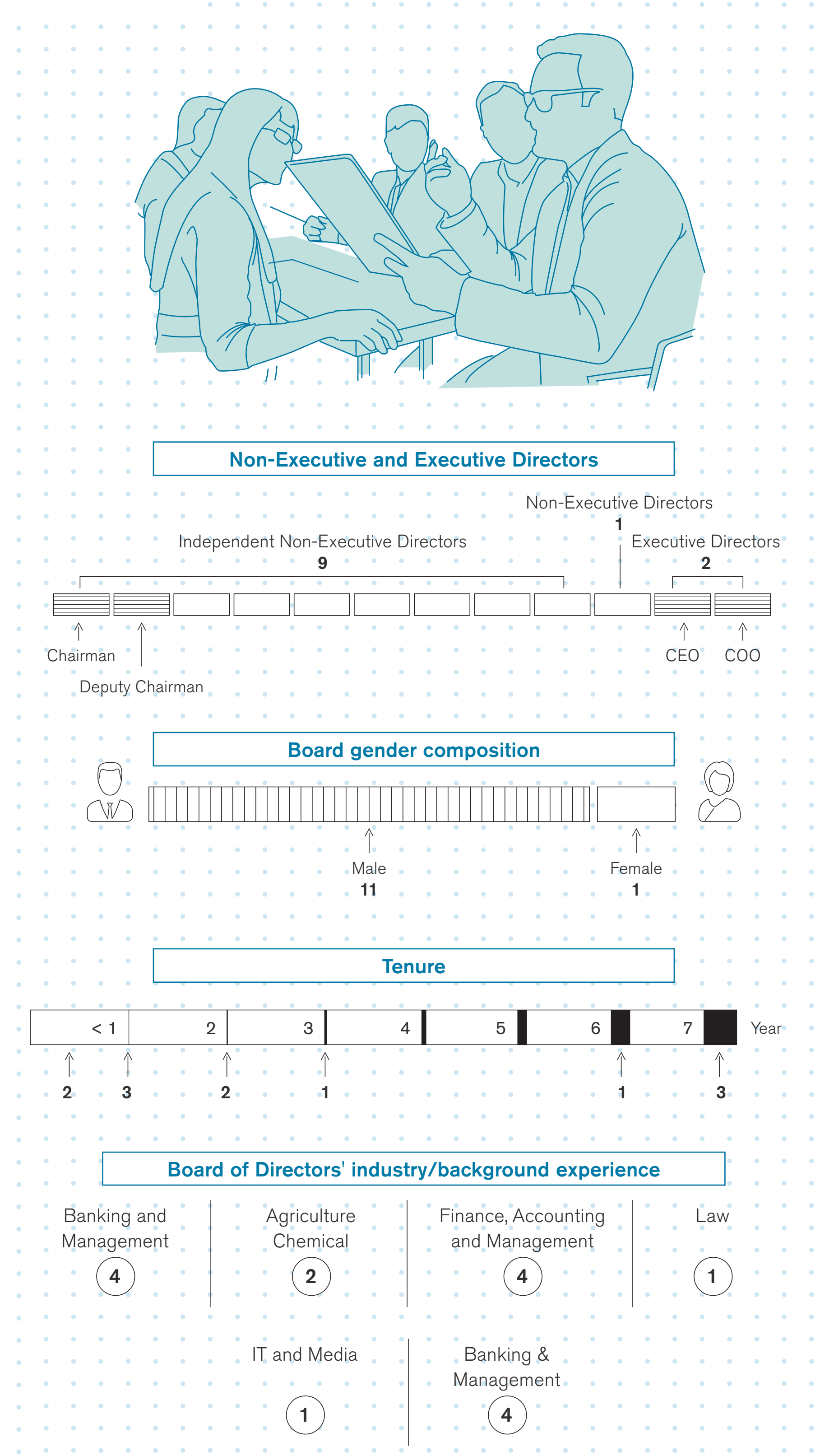
Role of the CEO

The Role of the CEO as set out in the Board Charter requires him to conduct the management functions as directed by the Board. The Board sets corporate objectives for the CEO and jointly develops his duties and responsibilities. The CEO is responsible for leading the Management in the day-to-day business operations of the Bank and implementing strategies, plans, and budgets approved by the Board. The CEO conducts the affairs of the Group upholding good corporate governance and the highest standards of integrity and probity as established by the Board.

Role of Independent Non-Executive Directors

Independent Non-Executive Directors are expected to complement the skills and experience of the other members of the Board by bringing an objective and independent view on matters, challenging the Board and Management constructively using their expertise and assisting in providing guidance on strategy.

Board composition Figure – 29



Role of Company Secretary

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

- Ensure conduct of Board and General Meetings in accordance with the Articles of Association, the Board Charter, and relevant legislations;
- Maintain statutory registers;
- Communicate promptly with the regulators and shareholders and file statutory returns in time;
- Facilitate best practice on Corporate Governance including assisting the Directors with respect to their duties and responsibilities;
- Facilitate access to legal advice in consultation with the Board, where necessary.

The 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 nomination of candidates for appointment as Directors. The BNC evaluates the resumes of potential candidates as recommended by the Board for consideration as Non-Executive Directors and makes recommendations to the Board for nomination. Such nominations may include an interview with the candidate. This process is based on an annual assessment of the combined knowledge, experience, and diversity of the Board in relation to the Bank's strategic plans in order to identify additional perspectives to ensure its effectiveness at all times.

The process for appointing Executive Directors is similar except that candidates are selected from amongst the KMPs of the Bank.

Appointments of new Directors are communicated to the CSE and shareholders through press releases subsequent to obtaining approval from the CBSL. The communications typically include a brief résumé of the Director, relevant expertise, key appointments, shareholding and his status of independence.

Re-election

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 immediately succeeding AGM.

Mr T L B Hurulle and Justice K Sripavan were appointed to the Board during the year to fill casual vacancies and are offering themselves for re-election at the AGM to be held on March 28, 2018.

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 it is deemed necessary. Remuneration for NEDs is set by the Board as a whole. Remuneration for Executive Directors is set out 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 rewards 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 at the Bank.

The total remuneration of KMPs is made up of three components, guaranteed remuneration being the fixed component and the annual performance bonus and

Employee Share Option Plan (ESOP) being the variable components. The Bank makes every effort to be transparent of the basis of granting ESOPs and their features when approval is sought from the shareholders. The Executive Directors of the Bank who are employees are also eligible for these ESOPs in the capacity of employees. 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 Association of Commercial Bank Executives 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 Notes 53.2 and 54 to the Financial Statements on "Share-based Payment" on pages 279 and 280 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 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 four months of the close of the financial year. The Board is supported by the BHRRC in this process.

Shareholder relations

The Bank has 9,812 shareholders of which 5.63% are institutional shareholders holding 79.97% voting ordinary shares and the balance 94.37% are retail investors. They play a key role in the re-election of Directors and the External Auditor. They also vote on material matters including the 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 228 Voting and 107 Non-Voting shareholders attended the Annual General Meeting held on March 30, 2017 while a further 159 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 made to 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)

36 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

37 years of Banking

03. Nandika Buddhipala
Chief Financial Officer

FCA/FCCA (UK)/FCMA/CMA (Aus)/MCISI (UK)/SA Fin (Aus)/IMA (USA)/BSc, BAd (Special) (Sri Jayewardenepura)/PG Dip in Management (Sri Jayewardenepura)/MBA (Colombo)/MA in Financial Economics (Colombo)/MSc in Financial Mathematics (Colombo)

27 years post qualifying experience including 10 years in Banking

04. Isuru Tillakawardana
Deputy General Manager – Human Resource Management

LL.B (Colombo)/MBA (University of Sri Jayewardenepura)/Diploma in International Affairs (BCIS)/Master of Arts in International Relations – Colombo University/Fellow of the Association of HR Professionals and Graduate Sri Lanka Institute of Directors

27 years of experience including 8 years in Banking

05. Hasrath Munasinghe
Deputy General Manager – Marketing

FCIM, FSLIM , MSc in IT (University of Moratuwa)/MBA (University of Southern Queensland, Aus)/Postgraduate Diploma in Marketing (CIM, UK)/CMA (ICMA, Aus)/AIB (IBSL)/PGDBFA (ICASL)/CPM (APMF, Sing), GSLID (SLID) Cert in Risk (CISI, UK)

23 years in Marketing including 6 years in Banking

06. Sanath Manatunge
Deputy General Manager – Corporate Banking

FCMA (UK)/CGMA/FCMA (SL)/FIB (SL)/MBA (University of Sri Jayewardenepura) Merit

28 years in Banking

07. Mrs 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 and Investment – London)

38 years in Banking

08. Prins Perera
Head of Global Markets

FCMA (UK)/CGMA/CMA (Aus)/MA in Financial Economics (Colombo)/FIB (SL)

28 years in Banking

09. Krishan Gamage
Assistant General Manager – Information Technology

BSc (Eng.) in Electronic and Telecommunication (University of Moratuwa)

19 years experience in Information Technology including 11 years in Banking

10. Prasanna Indrajith
Assistant General Manager – Finance

FCA/FCCA (UK)/FCMA (SL)/AIB(SL)/BSc BAd (Special) (University of Sri Jayewardenepura)

23 years experience in Finance related fields including 21 years in Banking

11. Chinthaka Dharmasena
Assistant General Manager – Services

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

17 years of experience in Manufacturing and supply chain Management and 6 years in Banking

12. Naveen Sooriyarchchi
Assistant General Manager – Corporate and Investment Banking

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

37 years in Banking

13. Selva Rajasooriyar
Assistant General Manager – Compliance

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

37 years in Banking

14. S Prabagar
Assistant General Manager – Operations

MBA (University of London), AIB (SL), BCom (Bharathidasan University, India), DISSCA (Diploma in System Security and Control Audit – ICASL)

22 years in Banking

15. Asela Wijesiriwardane
Head of Global Treasury

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

21 years in Banking

16. Priyantha De Silva
Assistant General Manager – Credit Supervision and Recoveries

AIB (SL), CIMA-Finalist

37 years in Banking

17. B A H S Preena
Assistant General Manager – Corporate and Trade Services

MBA (University of Colombo)/AIB (SL)

30 years in Banking

18. Delakshan Hettiarachchi
Assistant General Manager – Personal Banking I/SME

MBA/AIB (SL)

34 years in Banking

19. Kapila Hettihamu
Chief Risk Officer

BSc (University of Colombo)/MBA/ACI

22 years in Banking

20. 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 – ICASL)/ISO 27001:2013 ISMS Lead Auditor

27 years in Banking

21. Mrs Mithila Shamini
Assistant General Manager – Personal Banking II

AIB (SL)/Dip. in Business Mgmt. (SLBDC)/ Postgraduate Dip. in Business and Financial Admin. (ICASL)/Masters in Banking and Finance – Griffith University – Aus

31 years in Banking

22. M P Dharmasiri
Assistant General Manager – Planning

FCA, ACMA (SL), AIB (SL), MSc Mgt. (University of Sri Jayewardenepura) MA Financial Economics (University of Colombo), BSc Busi. Admin. (Special) (University of Sri Jayewardenepura)

28 years in Banking

23. Mrs Dharshanie Perera
Assistant General Manager – Personal Banking III

AIB (SL)

33 years in Banking

SENIOR MANAGEMENT

PERSONAL BANKING

Saman Kalansuriya
Head of Leasing, Factoring & Personal Loans

Thusitha Suraweera
Head of Card Centre

Yasmin Weerasuriya
Senior Regional Manager – Greater Colombo

Pradeep Banduwansa
Head of Digital Banking

Saneth Jayasundara
Regional Manager – Central

Amal Alles
Regional Manager – Colombo Metro

S Ganeshan
Regional Manager – Colombo Inner

S B Wasala
Regional Manager – Colombo Outer

Sanath Perera
Regional Manager – Colombo North

Dharshanee Keerthirathne
Regional Manager – Colombo South

CORPORATE BANKING

Sidath Pananwala
Head of Corporate Banking

Kelum Amarasinghe
Head of Foreign Operations & Travels

Mahinda Wijeratne
Chief Manager –
Off-shore Banking Centre

Feroza Ameen
Chief Manager –
Islamic Banking

Dilrukshi Nanayakkara
Chief Manager –
Corporate Banking

Sushara Vidyasagara
Chief Manager –
Investment Banking

Tamara Bernard
Chief Manager –
Corporate Banking

Prasad Fernando
Chief Manager –
Imports

SUPPORT SERVICES

Vajira Thotagammana
Head of Information Technology

Amitha Munasinghe
Head of Central Systems Support

Ajith Naranpanawe
Head of Inspection

Sujeeva Ranasinghe
Head of Human Resource Management

Priyanthi Perera
Head of Operations

Namal Gamage
Head of Legal

Thayalan Gnanapragasam
Chief Manager – Central Administration and Staff Advances

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

BANGLADESH OPERATION

Varuna Kolamunna
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

MALDIVIAN OPERATION

Dilan Rajapakse
Country Manager

BOARD SUBCOMMITTEE REPORTS

BOARD AUDIT COMMITTEE REPORT

Composition of the Committee

Board Audit Committee (the BAC) consists of following members whose profiles are given on pages 25 to 27.

Mr S Swarnajothi* *(Chairman)*
Prof A K W Jayawardane* *(Director)*
Mr K Dharmasiri* *(Director)*
Ms N T M S Cooray* *(Director)*
Justice K Sripavan*
Appointed to the Committee w.e.f. April 28, 2017

**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)*
V S Rajasooriyar
(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 Jayesinghe, 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	10/10
Prof A K W Jayawardane	10/07
Mr K Dharmasiri	10/10
Ms N T M S Cooray	10/08
Justice K Sripavan	07/07
Mr J Durairatnam	10/10
Mr S Renganathan	10/09

The Committee held ten (10) meetings during the financial year ended December 31, 2017. 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 nine (9) 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 need basis.

The Committee reviewed the progress in implementation of Basel III Direction No. 01 of 2016 issued by the Central Bank of Sri Lanka which was effective from July 1, 2017.

Charter of the Committee

The Charter of the BAC (the Committee) 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 August 2017.

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 by The Institute of Chartered Accountants of Sri Lanka further regulate the composition, roles and functions of the Committee.

The Committee is empowered by the Board to:

- Ensure that financial reporting system 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 2017

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.

Progress of implementation of SLFRS 9:

The Committee continuously monitored the progress of implementation of SLFRS 9 as per the requirements of Sri Lanka Accounting Standard – SLFRS 9 on "Financial Instruments" that has been issued with effective date being January 1, 2018.

Implementation of Basel III:

The Committee reviewed the progress in implementation of Basel III Direction No. 01 of 2016 issued by the Central Bank of Sri Lanka which was effective from July 1, 2017. Bank has fully complied with the requirements of the aforesaid Direction and submitted the first return under Basel III guidelines as at September 30, 2017.

Internal Capital Adequacy Assessment Process (ICAAP):

The Committee reviewed the effectiveness of internal control mechanism in place to meet the regulatory requirements on ICAAP and the mechanism in place to ensure integrity, accuracy and reasonableness in capital assessment process of the Bank for the year 2016, as per the Section 10 of Banking Act Direction No. 01 of 2016 on "Regulatory Framework on Supervisory Review Process".

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 ensured 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 Committee approved the Programme of Inspection formulated by the Inspection Department and the Information Systems Audit Unit (ISAU) and reviewed its progress of implementation regularly.

The Bank's Inspection Department carried 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 continued 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.

ISAU conducted onsite/off site audits to ensure safeguarding Bank's IT assets. The Committee reviewed the reports submitted by ISAU.

Five hundred and fifty-one (551) inspection reports on Business Units and Departments including subsidiaries and overseas operations namely Bangladesh and Maldives 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.

The Committee evaluated the Internal Audit Function covering key areas such as scope, quality of internal audits, independence and resources.

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.

The members of the Committee evaluated the Bank's External Auditor Messrs KPMG covering key areas such as scope and delivery of audit, resources and quality assurance initiatives, during the year 2017.

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 follows 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-Blower's 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-Blower's 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 23, 2018

BOARD INTEGRATED RISK MANAGEMENT COMMITTEE REPORT

Composition of the Committee

Board Integrated Risk Management Committee (the BIRMC) consists of following Board members, whose profiles are given on pages 25 to 27.

Board Members

Mr M P Jayawardena* *(Chairman)*
Mr J Durairatnam *(Managing Director/CEO)*
Mr S Swarnajothi* *(Director)*
Mr K Dharmasiri* *(Director)*
Mr L D Niyangoda* *(Director)*
Mr T L B Hurulle* *(Director)*
Appointed with effect from April 28, 2017

**Independent Non-Executive Director*

Non-Board Member

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

Regular Attendees by Invitation

Mr S Renganathan
(Director/Chief Operating Officer)

Mr V S Rajasooriyar *(Compliance Officer)*
Secretary to the Committee

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	5/5
Mr K Dharmasiri	5/5
Mr L D Niyangoda	5/4
Mr T L B Hurulle	4/4
Mr S Renganathan	5/5

BIRMC held four (4) meetings on a quarterly basis and one additional meeting specifically to discuss and recommend Internal Capital Adequacy Assessment Process (ICAAP) as at December 31, 2016, during the year under review.

This year we evaluated the proposed material changes to the Bank's risk appetite arising from planned, new or increased businesses.

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 are in compliance with the same as set out in the BIRMC Charter which was reviewed during December 2017 and 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 pages 154 to 158.

BIRMC assists the Board of Directors in performing its oversight function in relation to myriad 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. The 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 2017

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

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, Information Security Council, IT Steering Committee, Business Continuity Planning Committee, the Asset and Liability Committee, etc.
- Monitored actions initiated by the 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 got involved in improving the ICAAP framework and ensured that ICAAP is subject to comprehensive internal audit oversight.
- Reviewed and improved the effectiveness of the risk-related policy framework of the Bank.
- Evaluated the proposed material changes to the Bank's risk appetite arising from planned, new or increased businesses.

- 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 took proactive measures to control risk exposures.
- Reviewed the actual results computed monthly against each risk indicator and took prompt corrective action to mitigate the effects of specific risks, in case such risks exceeded the prudent thresholds defined by the Board of Directors.
- Approved the parameters and limits set by the Management against various categories of risk after ascertaining that 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 function through the Management 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 ensured the adequacy of resources 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.
- Carried out the annual review of updated Business Continuity and Disaster Recovery plans and brought in required updates.

During the year 2017, 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 23, 2018

BOARD NOMINATION COMMITTEE REPORT

Composition of the Committee

Board Nomination Committee (the BNC) consists of following members whose profiles are given on pages 25 to 27.

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

**Independent Non-Executive Director*

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 to the Committee

Mrs Ranjani Gamage *(Company Secretary)*

Meetings

Name	Eligible to attend/Attended
Mr K G D D Dheerasinghe	6/6
Mr M P Jayawardena	6/6
Mr S Swarnajothi	6/5
Mr G S Jadeja	6/5
Mr J Durairatnam	6/6

To hold a meeting there shall be a quorum of three members of the Committee who are Non-Executive Directors of whom at least one should be independent. The Committee shall meet as and when need arises. Six (06) Committee meetings were held during the year under review. Proceedings of the Committee meetings are regularly reported to the Board of Directors.

Appointed two new independent Non-Executive Directors to strengthen the independent element 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 Board Nomination Committee was established by the Board in compliance with the Section 3 (6) (iv) of the 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 KMP". It also states that matters relating to KMP may be dealt with by 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.
- The Members of the Committee have the authority to express their independent views when making decisions.
- The Committee regularly reviews the structure, size, composition including gender representation and competencies of the Board and makes recommendations to the Board with regard to any changes.
- The Committee recommends to the Board on insurance covers to be taken in respect of all Directors and KMP including indemnity insurance covers.
- If a need arises, professionals from outside may be invited for advice on specific issues.
- Bank staff may be present at Committee meetings for advice or special assignments, on invitation.

Charter of the Committee

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

- To implement a procedure to select/appoint new Directors including Chairman, 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, competencies, experience, independence, conflict of interest and key other 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 Companies Act No. 07 of 2007, Direction issued by the Central Bank of Sri Lanka and other 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.

Activities in 2017

During the year, the Committee selected and recommended to the Board two candidates considering their skills and diverse experience to fill casual vacancies on the Board after considering the recommendations made by the Board at the 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 23, 2018

BOARD HUMAN RESOURCES AND REMUNERATION COMMITTEE REPORT

Composition of the Committee

Board Human Resources and Remuneration Committee (the BHRRC) consists of following members whose profiles are given on pages 25 to 27:

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

**Independent Non-Executive Director*

Regular attendees by invitation

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

Secretary to the Committee

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 may be 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.

This year we 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.

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 with 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 recognises rewards as one of the key drivers influencing employee behaviour, thereby impacting business results. Therefore, the reward programmes are designed to attract and retain and to motivate employees to perform by linking performance to demonstrable performance-based criteria. In this regard, the Committee evaluates the performance of the Managing Director and 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.

Charter of the Committee

Evaluate, assess, decide and recommend to the Board, matters that may affect the Human Resource 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.

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 are invited to participate at the sittings of the Committee meetings as and when required by the Chairman, considering the topics for deliberation at such meeting. The proceedings of the Committee meetings are regularly reported to the Board of Directors.

Activities in 2017

The Committee held five (5) meetings during the year under review as stated in the table on page 112 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.
The changes that took place in the Key Management Positions during the year, 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 process of the Bank. In all promotions to the Corporate Management grade, the Committee applied previously approved leadership competency frame work to judge the suitability of the candidates.

Further, the Committee determined the bonus payable for 2016 performance according to the Variable Pay Plan (VPP) for Executive staff and the grant of annual increments to the Executive staff who are not covered by Collective Agreement. Performance of the members of the Corporate Management during the financial year 2016 including that of MD and COO were reviewed. At the conclusion of the review process for 2016, the Key Performance Areas and the respective KPI's of the Corporate Management members for 2017 were carefully perused by the Committee and agreed on, subject to changes.

The pensions and the outdoor medical scheme for the retired staff members of the bank, who are entitled to pension under the system which prevailed before year 2000, were also reviewed by the Committee on the recommendation of the MD and the proposal was recommended for the approved of the Board. A proposal to change the policy for the Widows & Orphans of pensioners, who had not contributed to the W&OP during their tenure at the Bank, was also recommended by the Committee for the approval of the Board.

The Committee also reviewed, suggested changes and recommended for the approval of the Board, revisions made to the Bank's HR Policy manual. Committee also approved the nomination made by the Association of Commercial Bank Executives to the vacant position in the Board of Trustees of the Bank's Retirement Pension Fund.

In view of the need to sign a fresh Collective Agreement with the Ceylon Bank Employees Union (CBEU) for a period of three years – with effect from January 1, 2018, the Committee ascertained the salary positions in the market through a survey and recommended for the Board approval the revisions proposed by the Management after negotiations with the CBEU.

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

Colombo
February 23, 2018

BOARD RELATED PARTY TRANSACTIONS REVIEW COMMITTEE REPORT

Composition of the Committee

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 25 to 27.

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)*
Justice K Sripavan* *(Director)*
Appointed with effect from April 28, 2017

**Independent Non-Executive Director*

Secretary to the Committee

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	4/4
Justice K Sripavan	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.

This year Related Party Transactions Policy was further reviewed and updated.

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 (RPT) as issued by the Securities and Exchange Commission of Sri Lanka (SEC) which became mandatory from January 1, 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 RPT Policy consistent with that proposed by the SEC.
- Updating the Board of Directors on the RPT of each of the listed companies of the Group on a quarterly basis.
- Advising the Board in making immediate market disclosures on applicable RPT as required by Section 9 of the Continuing Listing Requirements of the CSE.
- Advising the Board in making appropriate disclosures on RPT in the Annual Report as required by Section 9 of the Continuing Listing Requirements of the CSE.
- Monitoring compliance with the Code of Best Practices on Related Party Transactions issued by the SEC.

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 RPT carried out by them or their Close Family Members (CFM) 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 KMP 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 RPT which also includes information on KMP and CFM into the Bank's data collection system and the accuracy of such information.

Activities in 2017

During 2017, the RPT Policy was further reviewed and updated. The amended Policy was submitted to the Board and the approval of the Board of Directors was obtained in December 2017. Arrangements are being made to disseminate the amended RPT Policy among relevant stakeholders, to keep them informed of the applicable regulatory requirements relating to the reporting of RPT.

Further, the composition of the BRPTRC was reconstituted to comprise only Non-Executive Directors effective from January 2018 in line with the requirements of the Code of Best Practice on Corporate Governance issued by the ICASL which was issued in December 2017.

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

Colombo
February 23, 2018

BOARD CREDIT COMMITTEE REPORT

Composition of the Committee

Board Credit Committee (the BCC) consists of following members whose profiles are given on pages 25 to 27.

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 to the Committee
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	12/10
Mr S Renganathan	12/10
Prof A K W Jayawardane	12/12

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

The Committee continued to manage lending portfolios in line with the stipulated credit risk parameters set by the Board of Directors.

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 internal policies and 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 2017

The Committee approved credit proposals above a predetermined limit and recommended credit proposals and other credit reports intended for approval/perusal by the Board of Directors after careful scrutiny. 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 while achieving the Bank's lending targets.

K G D D Dheerasinghe
Chairman – Board Credit Committee

Colombo
February 23, 2018

BOARD INVESTMENT COMMITTEE REPORT

Composition of the Committee
Board Investment Committee (the BIC) consists of the following members whose profiles are given on pages 25 to 27.

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)*

**Independent Non-Executive Director*

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 to the Committee
Mr A Wijesiriwardane *(Head of Global Treasury)*

Meetings

Name	Eligible to attend/Attended
Mr K G D D Dheerasinghe	12/12
Mr J Durairatnam	12/12
Mr S Renganathan	12/12
Mr K Dharmasiri	12/12
Mr G S Jadeja	12/09

The Committee meets once a month.

Our investments have mainly been in Government Securities and debt instruments with strategy focused 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:

- Approve investment proposals, borrowings and execution of agreements.
- Review existing investment portfolio performance, monitor adherence to investment policies and decisions of the Investment Committee.
- Review and recommend significant investment decisions to be undertaken by the Bank to the Board of Directors.
- 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 2017

- Borrowing of Foreign Currency under repurchase agreement against Sri Lanka Sovereign Bonds held by the Bank.
- Investment in long and medium-term Sri Lanka Government Debt.
- Adoption of hedge accounting by the Bank and partial hedging of floating rate USD borrowing cost against increasing LIBOR through interest rate swaps.
- Medium-term FCY borrowing up to USD 200.0 Mn. from various counterparties.

K G D D Dheerasinghe
Chairman – Board Investment Committee

Colombo
February 23, 2018

BOARD TECHNOLOGY COMMITTEE REPORT

Composition of the Committee
The Board Technology Committee (the BTC) consists of following members whose profiles are given on pages 25 to 27.

Prof A K W Jayawardane* *(Chairman)*
Mr J Durairatnam *(Managing Director/CEO)*
Mr S Renganathan
(Director/Chief Operating Officer)
Ms N T M S Cooray* *(Director)*
Mr T L B Hurulle * *(Director)*
Appointed with effect from April 28, 2017

**Independent Non-Executive Director*

Regular Attendees by Invitation:
Mr L H Munasinghe
(Deputy General Manager – Marketing)
Mr U K P Banduwansa
(Head of Digital Banking)
Mr D B Saparamadu *(Consultant)*

Secretary to the Committee
Mr K S A Gamage
(Assistant General Manager – Information Technology)

Meetings

Name	Eligible to attend/Attended
Prof A K W Jayawardane	4/4
Mr J Durairatnam	4/4
Mr S Renganathan	4/4
Ms N T M S Cooray	4/2
Mr T L B Hurulle	3/3

This year we implemented a centralised automated reconciliation system to minimise disputes and increase efficiency.

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 the strategy.
- Review significant technology procurements, prior to them being sent to the Board of Directors for approval.
- Analyse emerging technology and its potential use to drive corporate IT strategy.

Activities in 2017

Committee focused to improve the following areas which will be key components that will drive Bank to digital era.

Improve customer convenience to attract more customers towards Bank. While it is always challenging to cater for ever increasing customer demands, Committee was able to monitor and ensure that the Bank delivers best products and services such as follows.

- Online Loan Approval facility to make customer convenience.
- Expanded Cash Recycler machine network to cover 100 locations.
- Extended mobile platform with more functionalities.
- Enhanced Call Centre with Customer Relationship Management.
- Automated Savings Account Opening facility.
- Opex model initiatives such as Digital Banking (Flash) and iPOS.
- Expanded card network with China Union Pay (CUP).
- Agent Banking Solution for Maldives.

Business Process Reengineering and Automation to improve productivity and save cost/time. With the direction of the BTC, initiatives have already been started to drive process automation in a strategic way. Following projects are being implemented under the guidance of the BTC.

- Email Cloud Solution to improve functionality and efficiency.
- Implementing a centralized automated reconciliation system to minimize disputes and increase efficiency.

Enhancing and Improving IT infrastructure to match with the demand, is one of the key determining factors. With the ever increasing customer demands and emerging use of technology, it is required to improve sustainable infrastructure with the aim of catering for high performance needs and availability. Following key projects were planned and are being implemented to cater for these requirements.

- Enterprise Integrator to ensure future third party integrations are smooth and faster than ever.
- Virtual Server Infrastructure to increase availability and operational efficiency.

Protect customer data is a foremost challenging requirement of the Bank. Committee steers the Bank to ensure that all necessary preventive actions are in place and regularly reviews the status of projects that are related to security.

The Committee also reviewed significant items for procurement and recommended them for approval by the Board of Directors.

Prof A K W Jayawardane
Chairman – Board Technology Committee

Colombo
February 23, 2018

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 49th Annual Report of your Company together with the Audited Financial Statements of the Group and the Bank for the year ended December 31, 2017 and the Independent 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 and 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 23, 2018. 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, 2017:

	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 173 and 174.
(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, 2017 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 165 to 332 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 162 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 173 to 194. There were no changes to the Accounting Policies used by the Group and the Bank during the year, except the application of hedge accounting principles for an Interest Rate Swap entered into by the Bank in March 2017.

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 Register of the Bank and its Subsidiaries during the accounting period.	Section 168 (1) (e)	The Bank and all its Subsidiaries maintain Interests Registers. All Directors have made declarations as required by 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. The Interests Registers are available for inspection by shareholders or their authorised representatives as required by Section 119 (1) (d) of the Companies Act No. 07 of 2007.
(vi) Remuneration and other benefits paid to Directors of the Bank and its Subsidiaries during the accounting period.	Section 168 (1) (f)	Refer Note 21 to the Financial Statements on page 205. Also refer the "Board Human Resources and Remuneration Committee Report" on pages 130 and 131.
(vii) Total amount of donations made by the Bank and its Subsidiaries during the accounting period.	Section 168 (1) (g)	Refer Note 21 to the Financial Statements on page 205.
(viii) Information on Directorate of the Bank and its Subsidiaries during and at the end of the accounting period.	Section 168 (1) (h)	Refer Items 12.1 and 12.2 on pages 141 and 142.
(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)	Refer Note 21 to the Financial Statements on page 205.
(x) Auditors' relationship or any interest with the Bank and its Subsidiaries.	Section 168 (1) (j)	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. Refer Item 22 on page 144.
(xi) Acknowledgement of the contents of this Report/Signatures on behalf of the Board of Directors.	Section 168 (1) (k)	Refer Item 33 on page 145.

2. Review of business

2.1 Vision, mission and corporate conduct

The Bank's vision and mission statements are exhibited on page 3 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 reflect 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 provisions contained therein.

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, six (6) new delivery points were added [nine (9) in 2016], bringing the total number of delivery points in Sri Lanka to 261 at the end of 2017 (255 at the end of 2016).

The Bank's ATM network is the single largest ATM network in the country. During 2017, the Bank installed 98 new ATMs (36 in 2016) bringing the total number of ATMs in Sri Lanka to 755 by the end of 2017 (657 at the end of 2016). In addition to the branch network in Sri Lanka, the Bank also has 19 delivery points and 20 ATMs at the end of 2017 (19 and 20 respectively, in 2016) in Bangladesh. The Bank's Bangladesh Operation was set up in 2003 with the acquisition of Bangladesh Operation of Crédit Agricole Indosuez.

Commercial Bank of Maldives Private Limited (CBM), the foreign subsidiary of the Bank, which is a fully-fledged Tier 1 Bank incorporated in the Republic of Maldives in which the Bank holds a stake of 55% (the remaining stake of 45% being held by a leading Maldivian group of companies) continued to expand its operations and was able to break-even and report profits during the year. The CBM which commenced commercial operations in September 2016 opened its second branch in Hulhumalé in the Republic of Maldives in December 2017.

Commex Sri Lanka S.R.L., the fully-owned foreign Subsidiary of the Bank, which was incorporated and registered in Italy under the supervision of the Bank of Italy to engage in fund transfers on its own market commenced commercial operations in November 2016.

This Company too continued to expand its operations and was able to break-even and reports profits during the year. The Bank expects over time, to open branches in other Italian cities which have high potential for money transfer services to both Sri Lanka and Bangladesh.

The Bank also has a Representative Office in Yangon, Myanmar and incorporated CBC Myanmar Microfinance Company Limited, our third foreign subsidiary in December 2017.

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.

The local operations of the Bank have been segmented into Personal Banking, Corporate Banking and Treasury Operations in order to provide personalised customer experience and for better strategy formulation, implementation and also for carrying out performance evaluations more effectively.

The "Chairman's Message" on 🕮 pages 16 to 19 and the "Managing Director's Review" on 🕮 pages 20 to 22 provide an overall review of business performance and the state of affairs of the Group and the Bank while the "Management Discussion and Analysis" on 🕮 pages 49 to 104, together with the Audited Financial Statements provide a comprehensive review on the performance of key business units and the state of affairs of the Group and the Bank together with important events that took place during the year as required by Section 168 of the Companies Act No. 07 of 2007 and the recommended best accounting practices.

The details of the segment wise contribution to the Group's revenue, results, assets and liabilities are disclosed in Note 63 to the Financial Statements on 🕮 pages 291 to 293.

2.3 Directors' responsibility for financial reporting

In terms of Sections 150 (1), 151, 152 and 153 (1) and (2) of the Companies Act No. 07 of 2007, the Board of Directors of the Bank 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. In this regard, the Board of Directors wish to confirm 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 165 to 332 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 146 and 147 forms an integral part of this Report.

3. Future developments

In line with the vision, the Bank intends expanding its network of delivery channels both in Sri Lanka and overseas by employing customer centric strategy with effective management of its capital, liquidity, and risks. Towards this, the Bank will continue to focus on its customer-centric model for doing business with the objective of bringing more convenience and delighting its customers. 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 "Banking on the Future", we will continue to focus on evolving customer aspirations and invest on state-of-the-art technology to serve our customers while strengthening our risk and compliance framework.

The sections on "Chairman's Message", "Managing Director's Review" on 🕮 pages 16 to 22 and "Management Discussion and Analysis" on 🕮 pages 49 to 104 describe the specific initiatives taken in this regard.

4. Gross income

The gross income of the Group for 2017 was Rs. 116.842 Bn. (Rs. 93.726 Bn. in 2016) while the Bank's gross income was Rs. 115.594 Bn. (Rs. 93.143 Bn. in 2016).

The sources of external operating income, net operating profit and asset allocation of the Group among main business segments, namely, Personal Banking, Corporate Banking, International Operations, Investment Banking, and Dealing/Treasury together with their proportions are given in Note 63 to the Financial Statements on 🕮 pages 291 to 293.

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. 23.280 Bn. and Rs. 23.183 Bn., respectively in 2017 (Rs. 20.115 Bn. and Rs. 20.051 Bn. in 2016) and this was an increase of 15.74% and 15.62%, (17.38% and 16.96%, respectively in 2016). Further, the net profit after tax of the Group and the Bank amounted to Rs. 16.627 Bn. and Rs. 16.581 Bn., respectively in 2017 (Rs. 14.466 Bn., and Rs. 14.513 Bn., respectively in 2016) and this was an increase of 14.93% and 14.25% (21.98% and 21.92%, respectively, in 2016).

Details of appropriation of profit of the Bank are given below:

	2017	2016
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	23,182,944	20,051,183
Less: Provision for taxation	(6,601,700)	(5,538,672)
Net profit after taxation	16,581,244	14,512,511
Balance brought forward from previous year	4,226	3,883
Net actuarial gains/(losses) on defined benefit plans	(529,902)	139,762
Dividend paid in respect of prior years	(2,279)	–
Realised revaluation gain on disposal of freehold land and buildings	36,940	–
Profit available for appropriation	16,090,229	14,656,156
Less: Appropriations		
Transfer to the statutory reserve fund	(829,062)	(725,626)
Transfer to the general reserve	(8,780,000)	(8,130,525)
Dividends on ordinary shares		
1st interim dividend paid – Rs. 1.50 per share in cash (Rs. 1.50 in 2016)	(1,493,719)	(1,335,928)
2nd interim dividend paid – Rs. 3.00 per share in cash (Rs. 3.00 in 2016)	(2,989,996)	(2,674,799)
Final dividend proposed/paid – Rs. 2.00 per share in shares (Rs. 2.00 in 2016)	(1,993,401)	(1,785,052)
Balance carried forward	4,051	4,226

On this basis, the cash dividend payout ratio amounts to 27.04% of the profit after tax of 2017, compared to 27.64% for 2016, while total dividend payout ratio amounts to 39.06% for 2017, compared to 39.94% for 2016. This is well above the minimum dividend payout ratio of 10% (10% in 2016) stipulated in the Deemed Dividend Tax Rule.

The Board of Directors provided the Statements 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 2018.

5.2 Dividends on ordinary shares

Details of information on dividends paid/proposed are given in Note 24 to the Financial Statements on page 209.

Two cash interim dividends of Rs. 1.50 per share (on November 20, 2017) and Rs. 3.00 per share (on February 20, 2018) 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. 2.00/- 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.

5.3 Reserves

A summary of the Group's reserves is given below:

	2017 Rs. '000	2016 Rs. '000
Statutory reserve fund	6,492,552	5,647,993
Revaluation reserve	7,834,003	6,250,554
General reserve	52,270,003	43,490,003
Foreign currency translation reserve	348,976	860,502
Available-for-sale reserve	(1,707,486)	(7,208,805)
Employee share option reserve	529,817	420,282
Hedging reserve	(3,212)	–
Retained earnings	5,086,609	4,553,778
Total	70,851,259	54,014,307

Information on the movement of reserves is given in the Statement of Changes in Equity on pages 168 to 171 and in Notes 55 to 57 to the Financial Statements on pages 282 to 285.

6. Corporate social responsibility (CSR)

The Bank established a CSR Trust in 2004 and this Trust is annually funded by the Bank which undertakes most of the CSR initiatives and activities of the Bank. 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 details of the CSR initiatives of the Bank are found under "Social and Network Capital" in the section on "Capital Management" in the Chapter on "Management Discussion and Analysis" on 📖 pages 78 to 89.

7. Property, plant and equipment, intangible assets and leasehold property

Information on property, plant and 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 245, 258 and 260, respectively.

Investment properties of any group company when significantly occupied by the other companies in the Group are classified under property, plant and 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 Note 39.5 (a) and (b) to the Financial Statements on 📖 pages 251 to 256.

The details of capital expenditure approved and contracted for are given in Note 59.3 to the Financial Statements on 📖 page 287.

8. Market value of properties

The Bank carried out a revaluation of all its freehold land and buildings as at December 31, 2017 as required by Section 7.1 (b) of the Direction No. 01 of 2014 on "Valuation of Immovable Property of Licensed Commercial Banks" issued by the Central Bank of Sri Lanka (CBSL) and recognised the revaluation gain/(loss) 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.

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 252 to 256.

Freehold land and buildings of the Bank are revalued by independent professional valuers every three years or more frequently if the fair values are substantially different from carrying amounts to ensure that the carrying amounts do not differ from the fair values as at the reporting date. The next revaluation exercise on the freehold land and buildings of the Bank will be carried out on or before December 31, 2020.

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	2017 Voting ordinary shares	2017 Non-voting ordinary shares	2016 Voting ordinary shares	2016 Non-voting ordinary shares
Rights issue of ordinary shares	Number of shares issued	84,649,465	5,811,601	N/A	N/A
	Consideration (Rs. '000)	9,616,179	527,693	N/A	N/A
Part of final dividend for 2016 amounting to Rs. 2.00/- per share (Rs. 2.00/- per share in 2015) satisfied in the form of issue and allotment of new shares	Number of shares issued	10,521,802	903,357	11,818,040	912,967
	Consideration (Rs. '000)	1,503,566	102,983	1,477,179	101,415
Exercise of options by employees under the Employee Share Option Plans	Number of shares issued	3,278,537	N/A	1,136,732	N/A
	Consideration received (Rs. '000)	386,311	N/A	135,582	N/A
	Amount transferred from Employee Share Option Reserve upon exercise (Rs. '000)	28,806	N/A	9,222	N/A

The Bank made a rights issue of ordinary shares (for both voting ordinary and non-voting ordinary shareholders) in June 2017 on the basis of one new ordinary share for every ten (10) ordinary shares held and raised Rs. 10.144 Bn. The issue price of a voting ordinary share was Rs. 113.60 and that of a non-voting share was Rs. 90.80. These funds were utilised to finance the lending portfolio of the Bank. All shares are listed on the CSE.

9.2 Issue of shares and debentures by the subsidiaries and associates

During the year 2017, Serendib Finance Limited issued 22,624,434 shares (9,128,252 shares in 2016) at Rs. 22.10 per share (Rs. 21.91 per share in 2016) for a total consideration of Rs. 500 Mn. (Rs. 200 Mn. in 2016) to the Bank in order to raise required funds for the expansion of lending activities.

During the year under review, CBC Myanmar Microfinance Company Limited too issued 420,000 ordinary shares at USD 1 per share for a total consideration of Rs. 64.512 Mn. to the Bank, upon formation of that company as a fully owned subsidiary of the Bank.

Except for the above share issues, 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 pages 278 to 280. The details of debentures including the redemptions during the year are given in Note 52 to the Financial Statements on pages 276 and 277.

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 339 to 341.

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 10 Information on the shares traded 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 334 to 348.

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 340 and 341.

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, 2017

The Board of Directors of the Bank as at December 31, 2017 consisted of 12 Directors (10 Directors as at December 31, 2016) with wide knowledge and experience on economic, banking and financial, commercial, engineering, and legal as detailed in the “Profiles of Board Members” on pages 25 to 27.

Names of the Directors of the Bank during and as at the end of 2017, as required by 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 *(Chairman)*	Non-Executive	Independent
Mr M P Jayawardena *(Deputy Chairman)*	Non-Executive	Independent
Mr J Durairatnam *(Managing Director/CEO)*	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
Mr L D Niyangoda	Non-Executive	Independent
Ms N T M S Cooray	Non-Executive	Independent
Mr G S Jadeja	Non-Executive	Non-Independent
New Appointments made during 2017		
Mr T L B Hurulle *(Appointed with effect from April 05, 2017)*	Non-Executive	Independent
Justice K Sripavan *(Appointed with effect from April 26, 2017)*	Non-Executive	Independent
Resignations/Cessations during 2017 – None		

Names of the Directors of all Subsidiaries and Associates are given in “Group Structure” on page 438.

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 Annual General Meeting (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 re-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 S Swarnajothi

Mr K Dharmasiri

(b) Directors appointed to fill casual vacancies

Mr T L B Hurulle

Justice K Sripavan

(iii) Directors who served on the Board for over 9 years.

[In terms of the Banking Act Direction No. 11 of 2007 on "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 111.

12.4 Board Subcommittees

The Board of Directors of the Bank formed four mandatory Board Subcommittees (namely, Board Nomination Committee, Board Human Resources and Remuneration Committee, Board Integrated Risk Management Committee and Board 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 1, 2016.

The Board of Directors also has formed three other voluntary Board Subcommittees to assist the Board.

These Subcommittees 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 (CA Sri Lanka), the SEC, and the CSE.

The composition of both mandatory and voluntary Board Subcommittees, as at December 31, 2017 and the details of the attendance by Directors at meetings are tabulated on pages 111 and 113 while the Reports of these subcommittees are found on pages 124 to 135.

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:

	Ordinary Voting shares		Ordinary Non-voting shares	
As at December 31,	**2017**	2016	**2017**	2016
Mr K G D D Dheerasinghe (Chairman)	**23,567**	21,159	**Nil**	Nil
Mr M P Jayawardena (Deputy Chairman)	**Nil**	Nil	**Nil**	Nil
Mr J Durairatnam (Managing Director/CEO)	**616,800**	470,770	**Nil**	Nil
Mr S Swarnajothi	**Nil**	Nil	**10,762**	8,738
Mr S Renganathan	**319,792**	197,647	**11,718**	10,488
Prof A K W Jayawardane	**Nil**	Nil	**Nil**	Nil
Mr K Dharmasiri	**Nil**	Nil	**Nil**	Nil
Mr L D Niyangoda	**Nil**	Nil	**Nil**	Nil
Ms N T M S Cooray	**Nil**	Nil	**49,731**	Nil
Mr G S Jadeja	**Nil**	Nil	**Nil**	Nil
Mr T L B Hurulle *(Appointed with effect from April 05, 2017)*	**Nil**	N/A	**Nil**	N/A
Justice K Sripavan *(Appointed with effect from April 26, 2017)*	**Nil**	N/A	**Nil**	N/A

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 06, 2018, 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 2016, Mr S Renganathan purchased 20,000 debentures of the Bank and as at December 31, 2017, 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.

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 predetermined performance criteria. The approval of the shareholders was obtained for this scheme to offer share options up to 3% of the ordinary voting shares of the Bank.

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 predetermined 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 and 2nd Tranches of this ESOP were vested on September 30, 2016 and September 30, 2017.

The details of the ESOPs are given in Notes 53.2 and 54 to the Financial Statements on pages 279 to 281 The Group and the Bank do not have any employee profit sharing plans, except the variable bonus scheme.

Tabulated below are the details of Options Available/Exercised by the Executive Directors under the ESOPs.

As at December 31,	2017		2016	
	Mr J Durairatnam	Mr S Renganathan	Mr J Durairatnam	Mr S Renganathan
Total options available to exercise as at January 1,	156,397	153,362	163,457	140,162
Options vested during the year	47,979	37,933	45,721	36,148
Additional options granted due to the rights issue	2,423	2,014	Nil	Nil
Options exercised during the year	83,609	94,323	52,781	22,948
Options expired during the year	Nil	Nil	Nil	Nil
Total options available to exercise as at December 31,	123,190	98,986	156,397	153,362

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 152 and 153. 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 pages 294 to 300 for those transactions disclosed by the Directors. These interests have been declared quarterly at Board 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.

Directors' remuneration and other benefits in respect of the Group and the Bank for the financial year ended December 31, 2017 are given in Note 21 to the Financial Statements on page 205.

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 102 to 104.

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 requires 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 332.

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. However, the Board with the recommendation of the Board Audit Committee resolved to extend the period of service of Messrs KPMG 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 assist in the implementation of the requirements under the Sri Lanka Accounting Standard – SLFRS 9 on "Financial Instruments".

The Directors are now proposing to adopt Messrs Ernst & Young be appointed as Auditors of the Bank, subject to the approval of shareholders, from the conclusion of the next Annual General Meeting of the Bank. Messrs Ernst & Young, on their appointment, with shareholders' approval, will serve for a maximum period of 5 years consecutively, subject to them being re-elected by the shareholders, upon a recommendation of the Board of Directors, annually.

A resolution to appoint Messrs Ernst & Young 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 28, 2018 for Shareholder approval.

The retiring Auditors, Messrs KPMG have advised the Bank that they would not offer themselves for re-election on conclusion of the next Annual General Meeting.

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 205.

22. Lead auditor's independence

Independence confirmation has been provided by Messrs KPMG as required by Section 163 (3) of the Companies Act No. 07 of 2007, in connection with the audit for the year ended December 31, 2017 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 ICASL, 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 Rules of the CSE are given in the section on "Investor Relations" on 🕮 pages 334 to 348.

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 154 to 158 in the "Board Integrated Risk Management Committee Report" on 🕮 pages 127 and 128 in Note 69 to the Financial Statements on "Financial Risk Review" on 🕮 pages 303 to 332.

An effective and comprehensive system of internal controls is in place in the Bank comprising 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 Independent Auditors' Report thereon are given on 🕮 pages 148 to 150.

25. Corporate governance

Directors' declarations

The Directors declare that:

(a) the Bank has 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) they 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;

(e) the Bank has complied with the Cord of Best Practice on Related Party Transactions and has made the disclosures in the Financial Statements and to the market when applicable; and

(f) 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 2017 issued by the ICASL, the CSE and the CBSL are given in the section on "How We Govern" on pages 106 to 117.

26. Focus on new regulations

The Directors have taken necessary steps to assess the implications of the new Inland Revenue Act which will become effective from April 1, 2018.

The Bank has evaluated the implications on adoption of the Sri Lanka Accounting Standard – SLFRS 9 on "Financial Instruments" effective from January 1, 2018 and developed the required financial models to assess the impairment on financial assets under the new framework.

27. 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 418 to 420.

28. 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 130 and 131.

29. 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 in this regard during the year are detailed in the "Board Technology Committee Report" appearing on page 135.

30. 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.

31. 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 page 288.

32. Annual general meeting and the notice of meeting

The 49th Annual General Meeting of the Bank will be held at Galadari Hotel, "Grand Ballroom", No. 64, Lotus Road, Colombo 01, on Wednesday, March 28, 2018 at 2.00 p.m.

Notice relating to the 49th Annual General Meeting of the Bank is enclosed at the end of the Annual Report.

33. Acknowledgement of the contents of the report

As required by 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

T L B Hurulle
Director

Justice K Sripavan
Director

Mrs J R Gamage
Company Secretary

Colombo
February 23, 2018

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 162.

In terms of Sections 150 (1), 151, 152 and 153 (1) and (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 the Statement of Financial Position as at December 31, 2017, 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, 2017; 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 165 to 332 based on the latest financial reporting framework on a consistent basis, while reasonable and prudent judgements have been made so that the form and substance of transactions are properly reflected and material departures, if any, have been disclosed and explained;

(b) the Financial Statements for the year 2017, 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 (Companies Act);
- 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 by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka);

(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 124 to 126. 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 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 148 and 149;

(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 page 288.

(i) as required by the Section 56 (2) of the Companies Act, 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 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, they have prepared this Annual Report in time and ensured that a copy thereof is sent to every shareholder of the Bank, who have expressed desire to receive a hard copy or to other shareholders a soft copy each in a CD containing the Annual Report within the stipulated period of time as required by the Rule No. 7.5 (a) and (b) on Continuing Listing Requirements of the Listing Rules of the 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 by the CA Sri Lanka, 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 and also have been signed by three Directors and the Company Secretary of the Bank on February 23, 2018 as required by the Sections 150 (1) (c) and 152 (1) (c) of the Companies Act 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 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 162;

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 23, 2018

DIRECTORS' STATEMENT ON INTERNAL CONTROL

Responsibility

In line with the Section 3 (8) (ii) (b) of the Banking Act Direction No. 11 of 2007, and principle D.1.5 of Code of Best Practice on Corporate Governance 2017 (Code), issued by The Institute of Chartered Accountants of Sri Lanka (ICASL) 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 ICASL. The Board has assessed the internal control taking into account all main 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.
- Policies/Charters are developed covering all functional areas of the Bank and these are approved by the Board or Board approved subcommittees. Such policies and Charters are reviewed and approved periodically.
- 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, branches, subsidiaries and overseas operations 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. Initiative taken by Inspection/Internal Audit Department to audit certain selected areas of the business "online" during the year 2016 on a limited scope, was enhanced to cover all branches in Sri Lanka and Bangladesh, Digital Banking Unit, Card Centre, Treasury and Finance during 2017. Through this initiative the controls are being tested on a near or real time basis. A significant improvement in methodology was made by testing the entire population of the data rather than on a random sample basis. The findings were tabled at the BAC meeting for review. The "Online Auditing" initiative has further strengthened the review of the design and effectiveness of the internal control system of the Bank by BAC.
- The BAC of the Bank reviews internal control issues identified by the Internal Audit Department, Regulatory Authorities, External Auditors and Management, and evaluates the adequacy and effectiveness of the risk management and internal control systems. The BAC also carries out an annual evaluation to review the effectiveness of internal audit functions with particular emphasis on the scope, quality of internal audits, independence, and resources. 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 124 to 126.
- 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 and the Bangladesh operations 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 BAC and the Board for changes made to the documented procedures. Automating the processes relating to various computations required under SLFRSs and LKASs including loan impairments are in progress. The Banks' Internal Audit Department commenced testing these processes since first quarter 2013 and continued to do so in 2017 as well.

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 1, 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" that is currently being applied under the Sri Lanka Accounting Standard – LKAS 39 on "Financial Instruments – Recognition and Measurement".

With the assistance of an external consultant Messrs KPMG a Gap Analysis has been carried out to identify areas expected to have a potentially higher impact on amounts already reported in Financial Statements consequent to adoption of SLFRS 9. Subsequent to that and as per the Implementation Plan of the working committee formed, Bank has developed statistical models to compute the expected credit loss as required by SLFRS 9.

The Bank has completed the preliminary high level assessment of the potential impact on its Financial Statements for the year ended December 31, 2016 resulting from the application of SLFRS 9 with the assistance of Messrs KPMG.

The above assessment is yet to be validated and the Bank is in the process of assessing the additional loan loss provision impact on the Financial Statements for the year ended December 31, 2017, resulting from the application of SLFRS 9. The progress of the implementation of SLFRS 9 in the Bank is monitored by the BAC on an ongoing basis.

The comments made by the External auditors in connection with the internal control system during the financial year 2016 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 150.

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, 2017 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 150 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 23, 2018

ASSURANCE REPORT ON INTERNAL CONTROL

KPMG
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To the Board of Directors of Commercial Bank of Ceylon PLC

We were engaged by the Board of Directors of Commercial Bank of Ceylon PLC ("the Company") to provide assurance on the Directors' Statement on Internal Control ("Statement") included in the Annual Report for the year ended December 31, 2017.

Management's responsibility for the Statement on Internal Control

Management is responsible for the preparation and presentation of the Statement in accordance with the "Guidance for Directors of Banks on the Directors' Statement on Internal Control" issued in compliance with the Section 3 (8) (ii) (b) of the Banking Act Direction No. 11 of 2007, by The Institute of Chartered Accountants of Sri Lanka.

Scope of the engagement in compliance with SLSAE 3050

Our responsibility is to issue a report to the Board on the Statement based on the work performed. We conducted our engagement in accordance with Sri Lanka Standard on Assurance Engagements SLSAE 3050 – Assurance Report for Banks on Directors' Statement on Internal Control issued by The Institute of Chartered Accountants of Sri Lanka.

Summary of work performed

Our engagement has been conducted to assess whether the Statement is both supported by the documentation prepared by or for Directors and appropriately reflects the process the Directors have adopted in reviewing the system of internal control for the Company.

To achieve this objective, appropriate evidence has been obtained by performing the following procedures:

(a) 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.

(b) Reviewed the documentation prepared by the Directors to support their Statement made.

(c) Related the Statement made by the Directors to our knowledge of the Company obtained during the audit of the Financial Statements.

(d) Reviewed the minutes of the meetings of the Board of Directors and of relevant Board Committees.

(e) 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.

(f) 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.

(g) Obtained written representations from Directors on matters material to the Statement on Internal Control where other sufficient appropriate audit evidence cannot reasonably be expected to exist.

SLSAE 3050 does not require us to consider whether the Statement covers all risks and controls, or to form an opinion on the effectiveness of the Company's risk and control procedures. SLSAE 3050 also does not require us to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the Annual Report will, in fact, remedy the problems.

Our conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the Statement included in the annual report is inconsistent with our understanding of the process the Board of Directors have adopted in the review of the design and effectiveness of internal control system over the financial reporting of the Company.

Kpmg

Chartered Accountants

Colombo
February 23, 2018

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, 2017 are prepared and presented in conformity with the requirements of the following:

- Sri Lanka Accounting Standards issued by the ICASL,
- 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 2017 issued by the ICASL.

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 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 position, 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 162. 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 124 to 126. 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 Bank and the Group have complied with all applicable laws and regulations and guidelines and there is no material litigation against the Group/Bank other than those disclosed in Note 61 on page 288 of the Financial Statements.
- All taxes, duties, levies and all statutory payments payable by the Group/Bank and all contributions, levies and taxes payable on behalf of and in respect of the employees of the Bank/Group as at December 31, 2017 have been paid, or where relevant provided for.

J Durairatnam
Managing Director/CEO

K D N Buddhipala
Chief Financial Officer

Colombo
February 23, 2018

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 pages 294 to 300 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 31.12.2017 Rs. '000	Balance/outstanding 31.12.2017 Rs. '000	Balance/outstanding 31.12.2016 Rs. '000
(a) Mr M P Jayawardena					
Cal Exports Lanka (Pvt) Limited	Loans and advances		9,984	557	–
	Off-balance sheet accommodations		92,160	–	2,246
	Deposits		–	1,961	68,525
Chemanex Exports (Pvt) Limited	Loans and advances		10,000	45	–
	Off-balance sheet accommodations		29,000	5,000	6,828
	Deposits		–	20,539	19,327
CIC Holdings PLC	Loans and advances	Combined	756,640	6,640	831,804
	Off-balance sheet accommodations	Limits	1,512,000	356,919	303,124
	Deposits		–	33,991	12,980
CIC Vetcare (Pvt) Limited	Loans and advances	Combined	100,000	161,218	102,107
	Off-balance sheet accommodations	Limits	152,000	13,005	51,903
	Deposits		–	444	465
CIC Poultry Farms Limited	Loans and advances		600,000	355,146	734,945
	Off-balance sheet accommodations		100,000	100	3,304
	Deposits		–	25	25
Rainforest Ecolodge (Pvt) Limited	Deposits		–	9	–
(b) Prof A K W Jayawardane					
Sierra Cables PLC	Loans and advances	Combined	1,220,528	588,169	950,702
	Off-balance sheet accommodations	Limits	690,000	1,215,861	811,597
	Deposits		–	22,915	48,135
(c) Ms N T M S Cooray					
The Solutions Group (Pvt) Limited	Off-balance sheet accommodations		–	600	1,759
	Deposits		–	2,658	27,798
Ceylon Tea Brokers PLC	Loans and advances		150,000	145,417	189,617
	Deposits		–	6,880	1,786
Jetwing Hotels Limited	Loans and advances		–	–	14,154
	Deposits		–	1,819	1,581
Negombo Hotels Limited	Loans and advances		–	–	49,553
	Deposits		–	2,187	2,067
The Lighthouse Hotel PLC	Loans and advances		–	–	129,487
	Deposits		–	7,168	1,996
Jetwing Travels (Pvt) Limited	Loans and advances		49,797	17,824	23,334
	Off-balance sheet accommodations		45,708	37,413	31,100
	Deposits		–	1,061,490	893,499

Director/company	Accommodation granted/deposits		Current limit 31.12.2017 Rs. '000	Balance/outstanding 31.12.2017 Rs. '000	Balance/outstanding 31.12.2016 Rs. '000
Jetwing Air (Pvt) Limited	Loans and advances		20,000	–	–
	Off-balance sheet accommodations		38,119	30,608	38,193
	Deposits		–	34,918	52,824
Jetwing Hotel Management Services (Pvt) Limited	Deposits		–	127	130
Jetwing Real Estate (Pvt) Limited	Loans and advances		157,120	141,304	169,253
Jetwing Events (Pvt) Limited	Off-balance sheet accommodations		100	100	1,511
	Deposits		–	19,786	18,304
Go Vacation Lanka Co. (Pvt) Limited	Off-balance sheet accommodations		600	100	600
	Deposits		–	7,548	4,697
N.J. Cooray Builders (Pvt) Limited	Deposits		–	1,319	498
Yarl Hotels (Pvt) Limited	Deposits		–	118	1,809
Jetwing Symphony Limited	Deposits		–	1,105	–
Capital Alliance Holdings Limited	Deposits		–	97	100
(d) Mr L D Niyangoda					
A Baur & Company (Pvt) Limited	Loans and advances	Combined	7,959,524	5,748,724	5,501,731
	Off-balance sheet accommodations	Limits	5,890,000	3,532,959	3,057,700
	Deposits		–	5,870,859	5,233,872
Baur Life Science (Pvt) Limited	Off-balance sheet accommodations		–	11,509	29,754
	Deposits		–	3,640	7,829
(e) Mr T L B Hurulle *(Appointed to the Board of the Bank with effect from 05.04.2017)*					
Kanrich Finance Limited	Loans and advances		19,245	16,781	N/A
	Off-balance sheet accommodations		–	–	N/A
	Deposits		–	11,489	N/A
(f) Mr S Renganathan *(Appointed as a Director of the Chamber with effect from 23.10.2017)*					
International Chamber of Commerce – Sri Lanka	Deposits		16,987	16,987	N/A

MANAGING RISK: AN OVERVIEW

Managing risk

The risks that the Bank is exposed to can broadly be classified into internal risks which are within the control of the Bank and external risks which are beyond the control of the Bank, both of which are managed through a robust risk management framework. In addition, certain recent global mega trends have emerged with potential to disrupt conventional business models. Banks will not be exempt from such disruption. These emerging risks and uncertainties require strategic responses.

Conventional risks

Internal and external risks that the Bank is exposed to include conventional risks such as credit, market, operational, reputational and legal. Changes in the overall risk profile of the Bank may occur due to changes in these internal and external factors. Internal factors may include lapses in implementing the risk management framework, assumptions about macro-economic variables turning out to be different, execution gaps in internal processes etc., while external factors may include adverse movements in the overall economic or market conditions, political instability, changes in fiscal and monetary policies of the Government, regulatory developments and growing stakeholder pressures. Banks are susceptible to these external developments since they could impact customer spending patterns, demand for loans, prepayment frequency, funding mix, macro-economic variables etc., all leading to erratic fluctuations in results of operations, financial position and cash flows.

A detailed discussion of conventional risks is given on pages 372 to 417 of this Report.

Emerging risks and uncertainties

In addition to the conventional risks referred to above, banks (similar to players in many other industries) are now beset with certain emerging risks and uncertainties too, arising from the unprecedented pace of developments in information and communication technology, digitalisation, exponential technologies, demographic changes, unorthodox competition and the like. These have made the operating environment even more volatile and unpredictable to financial services institutions, resulting in some of the long standing assumptions about markets, competition and even business fundamentals to be less valid today.

The Bank has identified these emerging risks and uncertainties. Being aware of their potentially disruptive nature, the Bank is following up on them with a high degree of enthusiasm. Accordingly, the Bank is aligning its strategies with these developments by leveraging the existing database through analytics. This allows the Bank to better understand the customer and deliver on their expectations while achieving execution excellence in internal processes and thereby reducing costs of operations. The Bank firmly believes that these strategies will help it to differentiate its offering and convert them into opportunities for future growth.

A summary of emerging risks and uncertainties and risk mitigation strategies of the Bank is given below:

Emerging risks and uncertainties — Figure – 30

Risk/uncertainty	Risk mitigation
Changing customer behaviour:	
The need for financial services and how such services are availed of are changing rapidly. Customer expectations are high as is the demand for a superior customer experience. The expectations of millennials are now defined by the level of service they receive from innovative tech giants.	The Bank is cognisant of these demographic changes and is developing its offering to satisfy the user experience that customers, millennials in particular, are demanding. Understanding the customer better, simplifying the customer onboarding process, providing a contextual banking experience with real time information, and innovative new products are some of these initiatives.
Talent recruitment and retention:	
With their values, beliefs, expectations and priorities focused on experiences rather than achievements, millennials no longer find the shine in a career in financial services industry. This coupled with potential stagnation in hierarchical structures, banks are finding it difficult to attract and retain new talent for growth and succession.	Some of the initiatives in this regard include conducting career guidance programmes and offering internship programmes for advanced level students, appreciating the educational/professional qualifications of employees, and actively promoting staff to enrol and obtain such educational/professional qualifications.
Digitalisation:	
Banks continue to invest substantial resources in their efforts to digitalise their operations to provide customers with an enhanced experience and achieve execution excellence. Yet, most banks fail to achieve desired levels of integration due to legacy issues.	Expanding the use of technology and mobile platforms is a must to optimise user experience. With integrated thinking permeating across the organisation, the Bank is making a conscious effort to integrate its offering in all respects – be it software systems, information, customer service standards, channel optimisation, marketing communication, single client view or regulatory reporting.

Risk/uncertainty	Risk mitigation
Cyber threat:	
As reliance on digital technologies is increasing day by day, cyber attacks on financial institutions are also increasing in frequency and intensity. Common incidents include phishing, ransomware, distributed denial of service, data breaches and payment system hacking.	With due focus and attention on information security, the Bank has made significant investments in systems and processes to protect customer databases and ICT infrastructure from cyber attacks. At the same time, the Bank is leveraging the capabilities of its technology partners to enhance information and cyber security. Raising awareness among employees and customers too is an important step in this regard.
Unorthodox competition:	
Innovative fintechs and telcos are responding to increasing customer expectations for speedier, cost effective and contextual digital banking services, posing a challenge to the conventional business models of banks.	Given the strengths of its capital base, customer relationships, insights from the databases and lower cost of funds, the Bank is in a strong position to overcome any such challenges. At the same time, depending on mutuality of benefits, the Bank may explore avenues to integrate new technology offerings, strategically collaborating or entering into partnerships with such competition.
Financial disintermediation:	
Growth in capital markets and electronic exchanges and other developments such as the Internet, crowd funding, fintechs, crypto-currencies, insurance companies, and auto makers are challenging the financial intermediation role of banks in the spheres such as lending and payment services.	The Bank will expand the use of technology and mobile platforms to offer low-cost solutions to customers that are simple to access and easy to use.
Anybody can be a stakeholder:	
The proliferation of the Internet and social media has shifted the communicating power to individuals and communities, making it easier than ever before for anyone to voice their opinion. As a result, anybody can be a stakeholder today and exercise significant influence over the Bank, with potential to damage reputation.	The Bank has a Board-approved Communication Policy that promotes open and honest communication between the Bank and its various stakeholders, both internal and external. It ensures the flow of accurate, timely and relevant information. In addition, the Bank also has a formal Customer Complaints Handling Policy. The Bank is actively present in all mainstream social media.

These developments have made the operating environment very complex and dynamic and risk management very challenging. Nevertheless, the effective management of these risks and uncertainties is a *sine qua non* to the execution of the Bank's strategy, creating sustainable value for all its stakeholders and making the Bank future ready. Hence, issues relating to risk management are at an all time high in the agenda at all Board and Management Committee meetings of the Bank.

Risk management framework

Risk management is no longer a compliance issue. Hence, as an integral part of the strategy design and execution, the Bank has developed an effective Risk Management Framework (RMF) based on the Three Lines of Defence model. RMF takes into account plausible risks and uncertainties the Bank is exposed to and is underpinned by rigorous organisational structures, systems, processes, procedures and practices.

The Three Lines of Defence model, which is the international standard, enables unique perspectives and specific skills for managing risk. RMF guides the Bank in its day-to-day operations.

Three lines of defence Figure – 31

1 line defence

Business lines/Corporate functions

- Owns and manages associated risks
- Evaluates risk using informed judgment
- Ensures that risks accepted are within the Bank's risk appetite and risk management policies
- Comprises a robust system of internal controls and an organisation culture of risk awareness which is nurtured with regular training

Line Management/Business Units

2 line defence

Risk management and control

- Independently monitors effective implementation of risk management framework
- Facilitates high levels of risk awareness throughout the organisation and implementation of risk management framework
- Maintains a sound risk management policy framework
- Carries out measurement, monitoring and reporting to Management and Board Integrated Risk Management Committee
- Objectively challenges first line of defence

Risk/Compliance Departments

3 line defence

Assurance

- Comprises internal audit, external audit and regulatory reviews providing independent assurance to the Board over the first and second lines of defence
- Facilitates high standards of governance and control systems
- Carries out timely reporting of findings to Management and Board Audit Committee

Inspection/Audit

The components of the Bank's RMF include risk governance, well-defined risk capacity, appetite and tolerance levels, risk control self-assessment, infrastructure, and risk culture.

Risk management framework Figure – 32

Risk governance	An independent, accountable governance structure with adequate segregation of duties for the oversight and management of Group-wide risks
Capacity, appetite and tolerance	Capacity is the maximum amount of risk the Bank can assume given the resources at its disposal. Appetite is the types and amounts of risk that the Bank is willing to assume to achieve the strategic goals while tolerance is the types and amounts of risk the Bank is prepared to tolerate.
Risk Control Self-Assessment (RCSA)	This is the process of identifying, assessing, measuring and recording potential risks and related controls to monitor, mitigate and manage risks within the Bank's risk appetite and tolerance.
Infrastructure	Encompasses both physical and human resources including tools, databases, policies and procedures, and competencies etc. that aid effective risk management.
Risk culture	Starting with the "tone at the top", this encompasses values, beliefs, knowledge, attitudes and understanding of the employees about risk.

RMF is reviewed at least annually or more frequently if the circumstances make it necessary, taking into account changes in the regulatory and operating environments.

Risk governance

Risk governance is essentially the application of the principles of good governance to the identification, assessment, treatment, monitoring, reviewing and reporting of risks. It comprises the organisational structure, culture, processes and best practice by which authority is exercised and decisions are made and implemented. It facilitates oversight of and accountability for risk at all levels and across all risk types, enabling a disciplined approach to managing risk. The organisation of the Bank's risk governance in terms of the Board of Directors, Board committees, executive functions and executive committees is given in Figure 33 below. Given the highly specialised nature, decision-making on risk management is centralised to a greater extent in several risk management committees.

Board of Directors

The overall responsibility of understanding the risks assumed by the Bank as well as the Group and ensuring that they are appropriately managed is vested with the Board of Directors. The Board discharges this responsibility by exercising its oversight on establishing an integrated risk management framework, facilitating the development of policies and procedures relating to risk in line with the Bank's strategy, determining the overall risk appetite, approving the capital plan, creating risk awareness and monitoring the risk profile against the risk appetite on an ongoing basis. Apart from the Bank, the Board of Directors gives more emphasis to the three financial services subsidiaries of the Group, Serendib Finance Limited, Commercial Bank of Maldives Limited and Commex Sri Lanka S.R.L. Italy. The Board is assisted in its oversight of risk by three Board subcommittees as detailed below.

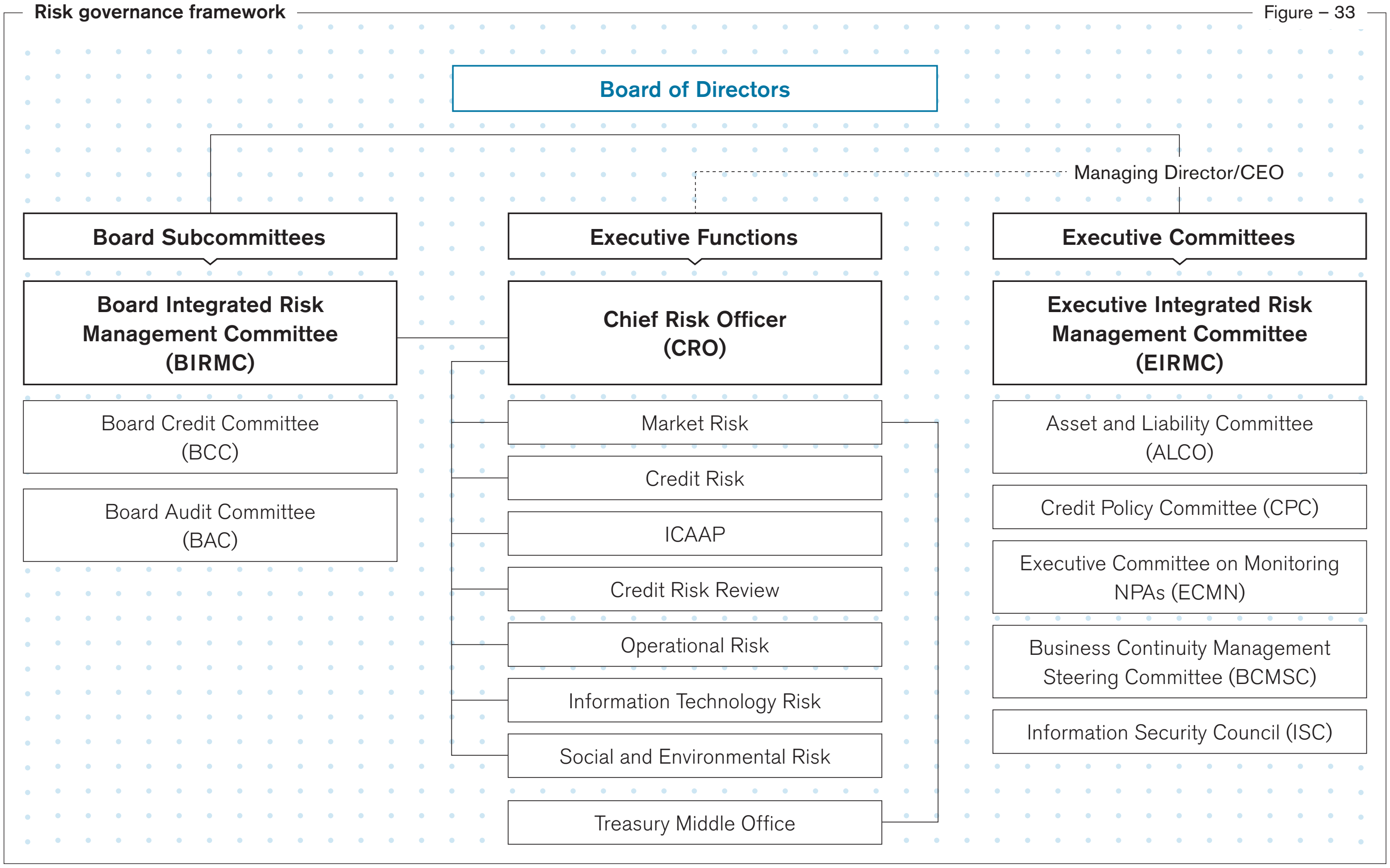
Board subcommittees

The Board has appointed three Board subcommittees with Board-approved terms of reference for assisting it in discharging its oversight responsibility for risk management. They are:

- Board Audit Committee
- Board Integrated Risk Management Committee
- Board Credit Committee

Details relating to composition, terms of reference, authority, meetings held and attendance etc., of each of these committees are given in the section on "How We Govern" on 📖 pages 124 to 128 and 133.

Risk governance framework Figure – 33



Executive committees

Executive management executes the approved strategies and plans in accordance with the Board's mandate on risk taking. Aided by a number of committees (listed below) on specific aspects of risk, these efforts are spearheaded by the Executive Integrated Risk Management Committee. EIRMC co-ordinates communication with the BIRMC and ensures that risk is managed within the defined risk appetite. Details relating to composition of each of these committees are given in the section on "How We Govern" on page 130.

- Asset and Liability Committee
- Credit Policy Committee
- Executive Committee on Monitoring Non-Performing Advances
- Business Continuity Management Steering Committee
- Information Security Council

Integrated Risk Management Department, provides the risk perspective for these committees to carry out independent risk evaluations and share their findings with the Line Managers and Senior Management to ensure effective communication of material issues and initiate deliberations and necessary action.

Risk appetite

Risk appetite is the types of risk and the aggregate amount of risk that the Bank is prepared to be exposed to at any given point in time. Taking into account the regulatory requirements, capital, funding and liquidity position, strategic objectives and the risk management framework, the Bank has put in place a Risk Appetite Statement which clearly defines the Bank's risk appetite and the strategic focus.

Risk appetite of the Bank for 2017 and 2016 are given on Table 25.

Risk appetite Table – 25

Aspect	Measure	Risk Appetite 2017	Risk Appetite 2016	Performance within risk appetite
Credit risk – Asset quality downgrade	Gross NPA ratio	4% – 5%	4% – 5%	√
Operational risk	Operational loss tolerance limit (as a % of last three years average gross income)	3% – 5%	3% – 5%	√
Foreign exchange risk	Exchange rate shock of 100 bps.	Maximum of Rs. 200 Mn.	Maximum of Rs. 150 Mn.	√
Liquidity risk	Statutory liquid asset ratio to be more than	22%	22%	√
Interest rate risk	Repricing gaps up to one year			
	For one month bucket	<2.5 times	–	√
	Beyond one month bucket	<1.5 times	1.5 times	√

Risk profile

Risk profile is the actual risk exposures of the Bank across all the risk categories. Aided by a rigorous risk management framework and keeping in mind that it can change under stressed economic conditions, the Bank monitors the risk profile on an ongoing basis to ensure that it is kept within the risk appetite of the Bank. The Bank's risk profile is characterised by a portfolio of assets and liabilities diversified in terms of geographies, sectors, products and tenors. Its strong capital adequacy and liquidity position define the capacity to assume risk.

Stress testing

As an integral part of the capital, funding and liquidity planning process, the Bank conducts stress tests of its lending portfolio, deposit base and market risk exposures for severe but plausible conditions. Stress scenarios themselves are periodically reviewed and modified to take into account the volatilities in the economic and financial market conditions. Stress testing enables the Bank to assess the potential impact on its income, capital and liquidity.

The Bank's stress testing framework encompasses a multitude of risks to ascertain resilience levels proactively and enabling the Bank to formulate strategies to overcome plausible threats. Credit Risk being the more prominent risk exposure of a bank, risk associated with high concentration levels to a business segment or a few counterparts could stress income sources due to adverse market movements. In addition, the risk of fall in value of collaterals could take away the buffer in absorbing losses arising out of defaults. The above risks and the downgrading of asset quality in general are considered major stressors that a bank needs to withstand and such parameters, though not limited to same, are being tested with varying degrees of risk to ascertain the ability of the Bank to meet the negative impacts associated with such events. During the year under review, none of the identified credit risk-related stress factors reached a high level of risk (an impact that could result in capital adequacy ratio falling below the threshold level of 11.75% in 2017).

Bank-specific market risk stressors mainly revolve around foreign exchange (FX) rate movements and interest rate movements inherent in the balance sheet structure with the changing dynamics of the market rates. Liquidity stressors are given more prominence under different scenarios stressing substantially on the cash inflows and outflows through severe demand for liquidity. During 2017, none of these stress scenarios also resulted in a high level of risk.

Operational risk scenarios are more or less idiosyncratic in nature. Developed by the Bank, such scenarios run across different risk dimensions such as credit, market and operational pillars. The aggregated results of such stresses indicated manageable levels of risk where the high risk levels were never breached. Thus the Bank demonstrated overall high resilience under various stress levels during the year under review.

For more details on capital planning, please refer the Section on Capital Management on pages 54 to 72.

Further details on the risk management infrastructure, types of risk, risk management framework and risk mitigation measures are given in Risk Management Report on pages 372 to 417.

Financial Reports

The Financial Statements together with accounting policies, and accompanying notes provide a true and fair view of our results of operations, financial position, changes in equity, and cash flows as opined in the Auditors' Report.

The Financial Statements are in compliance with all applicable accounting standards and are free from material misstatement.

Our Auditors have expressed their unqualified opinion on these Financial Statements, as shown in their report to the shareholders.

FINANCIAL CALENDAR – 2017

Dividend Calendar

	2017	2018
Final dividend for the previous year paid/payable	On April 11, 2017	On April 9, 2018
Interim dividends for the year paid/payable	On November 20, 2017 On February 20, 2018	In the second half 2018
Final dividend for the year to be proposed	On March 28, 2018	In March 2019
Final dividend for the year to be paid	On April 9, 2018	In April 2019

Annual General Meeting (AGM) Calendar

	2017	2018
Annual Report and Accounts for the year signed/to be signed	On February 23, 2018	In February 2019
Annual General Meeting to be held	On March 28, 2018	In March 2019

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)

	2017 Submitted on	2018 To be submitted on or before
For the three months ended/ending March 31, (unaudited)	May 15, 2017	May 15, 2018
For the six months ended/ending June 30, (audited)	August 14, 2017	August 15, 2018
For the nine months ended/ending September 30, (unaudited)	November 13, 2017	November 15, 2018
For the year ended/ending December 31, (audited)	February 23, 2018	February 28, 2019

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)

	2017 Published on/to be published on or before			2018 To be published on or before
	English	Sinhala	Tamil	In all three languages
For the three months ended/ending March 31, (unaudited)	May 19, 2017	May 27, 2017	May 27, 2017	May 31, 2018
For the six months ended/ending June 30, (audited)	August 18, 2017	August 25, 2017	August 28, 2017	August 31, 2018
For the nine months ended/ending September 30, (unaudited)	November 17, 2017	November 24, 2017	November 25, 2017	November 30, 2018
For the year ended/ending December 31, (audited)	March 31, 2018	March 31, 2018	March 31, 2018	March 31, 2019

INDEPENDENT AUDITORS' REPORT

KPMG
(Chartered Accountants)
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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, 2017, 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 165 to 332 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, 2017, 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, 2017, 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.

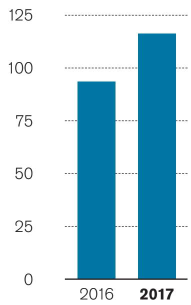
Kpmg

Chartered Accountants

Colombo
February 23, 2018

FINANCIAL STATEMENTS HIGHLIGHTS – BANK

Gross income
Rs. Bn.

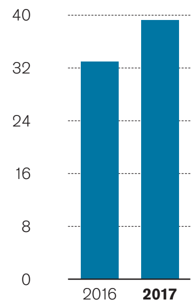


24.10%

2017: Rs. 115.594 Bn.

2016: Rs. 93.143 Bn.

Net interest income (NII)
Rs. Bn.

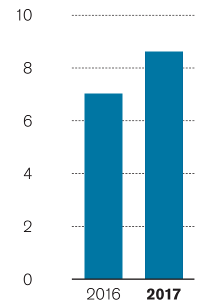


18.89%

2017: Rs. 39.023 Bn.

2016: Rs. 32.824 Bn.

Net fee and commission income
Rs. Bn.

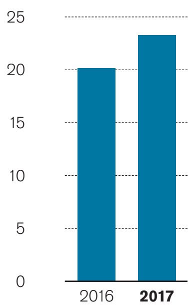


22.62%

2017: Rs. 8.602 Bn.

2016: Rs. 7.016 Bn.

Profit before tax
Rs. Bn.

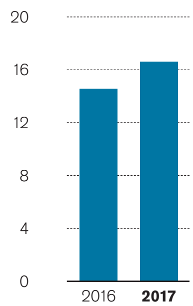


15.62%

2017: Rs. 23.183 Bn.

2016: Rs. 20.051 Bn.

Profit after tax
Rs. Bn.

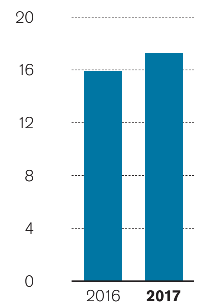


14.25%

2017: Rs. 16.581 Bn.

2016: Rs. 14.513 Bn.

Basic earnings per share
Rs.

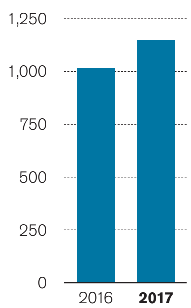


9.17%

2017: Rs. 17.26

2016: Rs. 15.81

Total assets
Rs. Bn.

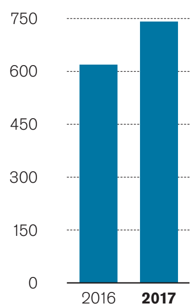


12.96%

2017: Rs. 1,143.374 Bn.

2016: Rs. 1,012.201 Bn.

Loans and receivables to other customers
Rs. Bn.

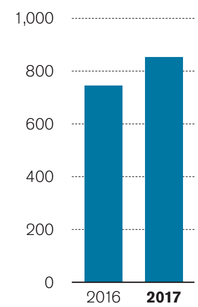


19.71%

2017: Rs. 737.447 Bn.

2016: Rs. 616.018 Bn.

Due to other customers Deposits from customers
Rs. Bn.



14.95%

2017: Rs. 850.128 Bn.

2016: Rs. 739.563 Bn.

FINANCIAL STATEMENTS – TABLE OF CONTENT

INCOME STATEMENT

For the year ended December 31,	Note	Page No.	GROUP 2017 Rs. '000	GROUP 2016 Rs. '000	GROUP Change %	BANK 2017 Rs. '000	BANK 2016 Rs. '000	BANK Change %
Gross income	12	195	116,841,755	93,725,535	24.66	115,593,948	93,142,610	24.10
Interest income	13.1	196	104,049,102	81,314,607	27.96	103,034,386	80,738,176	27.62
Less: Interest expense	13.2	196	64,481,804	48,186,331	33.82	64,010,991	47,914,573	33.59
Net interest income	13	195	39,567,298	33,128,276	19.44	39,023,395	32,823,603	18.89
Fee and commission income	14.1	198	10,510,800	8,230,131	27.71	10,169,211	8,143,041	24.88
Less: Fee and commission expense	14.2	199	1,586,334	1,140,954	39.04	1,566,851	1,127,536	38.96
Net fee and commission income	14	198	8,924,466	7,089,177	25.89	8,602,360	7,015,505	22.62
Net gains/(losses) from trading	15	199	233,956	(1,466,711)	115.95	233,956	(1,466,711)	115.95
Net gains/(losses) from financial instruments designated at fair value through profit or loss			–	–	–	–	–	–
Net gains/(losses) from financial investments	16	199	129,210	110,759	16.66	129,030	110,701	16.56
Other income (net)	17	200	1,918,687	5,536,749	(65.35)	2,027,365	5,617,403	(63.91)
Total operating income			50,773,617	44,398,250	14.36	50,016,106	44,100,501	13.41
Less: Impairment charges for loans and other losses	18	201	2,225,914	1,583,326	40.58	1,914,241	1,529,814	25.13
Net operating income			48,547,703	42,814,924	13.39	48,101,865	42,570,687	12.99
Less: Expenses								
Personnel expenses	19	203	11,338,517	10,913,088	3.90	11,268,016	10,794,307	4.39
Depreciation and amortisation	20	203	1,416,927	1,268,330	11.72	1,307,804	1,189,493	9.95
Other operating expenses	21	205	7,618,993	6,809,435	11.89	7,461,964	6,832,345	9.22
Total operating expenses			20,374,437	18,990,853	7.29	20,037,784	18,816,145	6.49
Operating profit before Value Added Tax (VAT) and Nation Building Tax (NBT)			28,173,266	23,824,071	18.26	28,064,081	23,754,542	18.14
Less: Value Added Tax (VAT) on financial services and Nation Building Tax (NBT)			4,896,620	3,715,941	31.77	4,881,137	3,703,359	31.80
Operating profit after Value Added Tax (VAT) and Nation Building Tax (NBT)			23,276,646	20,108,130	15.76	23,182,944	20,051,183	15.62
Share of profits of associates, net of tax	38.1	244	3,678	6,454	(43.01)	–	–	–
Profit before tax			23,280,324	20,114,584	15.74	23,182,944	20,051,183	15.62
Less: Income tax expense	22	205	6,653,817	5,648,160	17.81	6,601,700	5,538,672	19.19
Profit for the year			16,626,507	14,466,424	14.93	16,581,244	14,512,511	14.25
Profit attributable to:								
Equity holders of the Bank			16,605,963	14,510,333	14.44	16,581,244	14,512,511	14.25
Non-controlling interest			20,544	(43,909)	146.79	–	–	–
Profit for the year			16,626,507	14,466,424	14.93	16,581,244	14,512,511	14.25
Earnings per share								
Basic earnings per ordinary share (Rs.)	23.1	208	17.28	15.80	9.37	17.26	15.81	9.17
Diluted earnings per ordinary share (Rs.)	23.2	208	17.27	15.77	9.51	17.24	15.77	9.32

The Notes appearing on pages 173 to 332 form an integral part of these Financial Statements.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

			GROUP			BANK		
For the year ended December 31,	Note	Page No.	**2017 Rs. '000**	2016 Rs. '000	Change %	**2017 Rs. '000**	2016 Rs. '000	Change %
Profit for the year			16,626,507	14,466,424	14.93	16,581,244	14,512,511	14.25
Other comprehensive income, net of tax								
Items that will never be reclassified to profit or loss								
Net actuarial gains/(losses) on defined benefit plans			(536,508)	140,826	(480.97)	(529,902)	139,763	(479.14)
Gains/(losses) on remeasurement of defined benefit liability/asset			(718,572)	164,225	(537.55)	(709,396)	162,748	(535.89)
Less: Deferred tax charge/(reversal) on actuarial gains/(losses)			(182,064)	23,399	(878.08)	(179,494)	22,985	(880.92)
Net change in revaluation surplus			1,636,524	–	–	1,396,663	–	–
Changes in revaluation surplus/(deficit)			3,845,981	–	–	3,542,214	–	–
Less: Deferred tax charge/(reversal) on revaluation surplus			2,209,457	–	–	2,145,551	–	–
Items that are or may be reclassified to profit or loss								
Net gains/(losses) arising from translating the Financial Statements of the foreign operations	57.4	284	(503,140)	438,565	(214.72)	(525,093)	414,578	(226.66)
Net fair value gains/(losses) on remeasuring financial investments – available for sale	57.3	284	5,501,319	(3,253,429)	269.09	5,501,302	(3,253,429)	269.09
Government securities			5,407,140	(3,263,598)	265.68	5,407,123	(3,263,598)	265.68
Fair value gains/(losses) that arose during the year, net of tax			5,434,372	(3,479,504)	256.18	5,434,355	(3,479,504)	256.18
Fair value gains/(losses) realised to the Income Statement on disposal, net of tax			(65,413)	(27,425)	(138.52)	(65,413)	(27,425)	(138.52)
Fair value gains/(losses) recycled to the Income Statement on reclassification, net of tax			38,181	243,331	(84.31)	38,181	243,331	(84.31)
Equity securities			94,179	10,169	826.14	94,179	10,169	826.14
Fair value gains/(losses) that arose during the year, net of tax			94,179	10,169	826.14	94,179	10,169	826.14
Fair value gains/(losses) realised and recycled to the Income Statement on disposal			–	–	–	–	–	–
Cash flow hedges – effective portion of changes in fair value, net of tax	57.6	285	(3,212)	–	–	(3,212)	–	–
Share of other comprehensive income of associates, net of tax			3,526	3,807	(7.38)	–	–	–
Other comprehensive income for the year, net of tax			6,098,509	(2,670,231)	328.39	5,839,758	(2,699,088)	316.36
Total comprehensive income for the year			22,725,016	11,796,193	92.65	22,421,002	11,813,423	89.79
Attributable to:								
Equity holders of the Bank			22,682,515	11,829,508	91.75	22,421,002	11,813,423	89.79
Non-controlling interest			42,501	(33,315)	227.57	–	–	–
Total comprehensive income for the year			22,725,016	11,796,193	92.65	22,421,002	11,813,423	89.79

STATEMENT OF FINANCIAL POSITION

As at December 31,	Note	Page No.	GROUP 2017 Rs. '000	GROUP 2016 Rs. '000	GROUP Change %	BANK 2017 Rs. '000	BANK 2016 Rs. '000	BANK Change %
Assets								
Cash and cash equivalents	27	219	**34,673,424**	32,924,227	5.31	**33,224,619**	30,193,589	10.04
Balances with central banks	28	219	**45,546,349**	43,935,258	3.67	**44,801,446**	43,873,205	2.12
Placements with banks	29	221	**17,633,269**	11,718,499	50.47	**17,633,269**	11,718,499	50.47
Securities purchased under resale agreements			–	–	–	–	–	–
Derivative financial assets	30	221	**2,334,536**	1,052,829	121.74	**2,334,536**	1,052,829	121.74
Other financial instruments – Held for trading	31	222	**4,410,913**	4,987,798	(11.57)	**4,410,913**	4,987,798	(11.57)
Loans and receivables to banks	32	225	**640,512**	624,458	2.57	**640,512**	624,458	2.57
Loans and receivables to other customers	33	226	**742,444,130**	620,129,488	19.72	**737,446,567**	616,018,228	19.71
Financial investments – Available for sale	34	232	**154,913,643**	160,092,522	(3.23)	**154,714,132**	160,023,471	(3.32)
Financial investments – Held to maturity	35	238	**69,365,796**	63,626,598	9.02	**63,562,752**	60,981,298	4.23
Financial investments – Loans and receivables	36	239	**48,712,477**	51,824,026	(6.00)	**48,712,477**	51,824,026	(6.00)
Investments in subsidiaries	37	241	–	–	–	**3,065,935**	2,435,392	25.89
Investments in associates	38	243	**109,844**	108,859	0.90	**44,331**	44,331	–
Property, plant and equipment	39	245	**16,317,044**	11,569,666	41.03	**14,634,710**	10,307,825	41.98
Intangible assets	40	258	**1,251,226**	1,132,669	10.47	**776,810**	640,645	21.25
Leasehold property	41	260	**104,516**	105,968	(1.37)	**72,594**	73,536	(1.28)
Deferred tax assets	48	265	–	668,150	–	–	963,935	–
Other assets	42	261	**17,362,977**	16,482,559	5.34	**17,298,162**	16,438,166	5.23
Total assets			**1,155,820,656**	1,020,983,574	13.21	**1,143,373,765**	1,012,201,231	12.96
Liabilities								
Due to banks	43	261	**60,244,892**	71,098,391	(15.27)	**57,120,991**	67,608,811	(15.51)
Derivative financial liabilities	44	262	**3,678,494**	1,515,035	142.80	**3,678,494**	1,515,035	142.80
Securities sold under repurchase agreements			**49,532,385**	69,628,961	(28.86)	**49,676,767**	69,867,469	(28.90)
Other financial liabilities – Held for trading			–	–	–	–	–	–
Due to other customers/deposits from customers	45	263	**857,269,981**	743,310,613	15.33	**850,127,511**	739,563,494	14.95
Other borrowings	46	265	**23,786,094**	9,270,154	156.59	**23,786,094**	9,270,154	156.59
Current tax liabilities	47	265	**4,202,850**	3,464,682	21.31	**4,143,911**	3,440,736	20.44
Deferred tax liabilities	48	265	**3,565,215**	–	–	**3,274,826**	–	–
Other provisions	49	267	–	1,874	–	–	1,874	–
Other liabilities	50	268	**19,508,115**	18,028,902	8.20	**19,225,364**	17,710,394	8.55
Due to subsidiaries	51	276	–	–	–	**74,523**	20,061	271.48
Subordinated liabilities	52	276	**25,165,924**	24,849,539	1.27	**25,165,924**	24,849,539	1.27
Total liabilities			**1,046,953,950**	941,168,151	11.24	**1,036,274,405**	933,847,567	10.97
Equity								
Stated capital	53	278	**37,143,541**	24,978,003	48.71	**37,143,541**	24,978,003	48.71
Statutory reserves	55	282	**6,492,552**	5,647,993	14.95	**6,476,952**	5,647,890	14.68
Retained earnings	56	282	**5,086,609**	4,553,778	11.70	**4,987,446**	4,464,077	11.72
Other reserves	57	283	**59,272,098**	43,812,536	35.29	**58,491,421**	43,263,694	35.20
Total equity attributable to equity holders of the Bank			**107,994,800**	78,992,310	36.72	**107,099,360**	78,353,664	36.69
Non-controlling interest	58	285	**871,906**	823,113	5.93	–	–	–
Total equity			**108,866,706**	79,815,423	36.40	**107,099,360**	78,353,664	36.69
Total liabilities and equity			**1,155,820,656**	1,020,983,574	13.21	**1,143,373,765**	1,012,201,231	12.96
Contingent liabilities and commitments	59	285	**565,277,821**	498,568,500	13.38	**564,794,885**	498,304,527	13.34
Net assets value per ordinary share (Rs.)	60	287	**108.44**	88.68	22.28	**107.54**	87.97	22.25

The Notes appearing on pages 173 to 332 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 23, 2018
Colombo

STATEMENT OF CHANGES IN EQUITY – GROUP

	Note	Page No.	Stated capital Rs. '000	Statutory reserve fund Rs. '000	Retained earnings Rs. '000
Balance as at January 1, 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	38.1	244	–	–	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 Plan	53	278	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	53	278	1,578,594	–	(1,753,994)
First interim dividend for 2016	24	209	–	–	(1,335,928)
Share-based payment transactions (net)	57.5	285	–	–	–
Write back of unclaimed dividends			–	–	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	55 & 57	282 & 283	–	725,626	(8,856,151)
Total transactions with equity holders			1,723,398	725,626	(14,568,953)
Balance as at January 1, 2017			24,978,003	5,647,993	4,553,778
Total comprehensive income for the year 2017					
Profit for the year			–	–	16,605,963
Other comprehensive income, net of tax			–	–	(532,590)
Net actuarial gains/(losses) on defined benefit plans			–	–	(536,116)
Share of other comprehensive income of associates, net of tax	38.1	244	–	–	3,526
Net change in revaluation surplus			–	–	–
Net fair value gains/(losses) on remeasuring financial investments – Available for sale			–	–	–
Net gains/(losses) arising from translating the Financial Statements of foreign operations			–	–	–
Cash flow hedges – effective portion of changes in fair value, net of tax			–	–	–
Total comprehensive income for the year 2017			–	–	16,073,373
Transactions with owners, recognised directly in equity, contributions and distributions to owners					
Proceeds from Rights issue of ordinary shares			10,143,872	–	–
Issue of ordinary shares under Employee Share Option Plans	53	278	415,117	–	–
Dividends to equity holders			1,606,549	–	(5,955,851)
Second interim dividend for 2016	24	209	–	–	(2,674,799)
Final cash dividend for 2016			–	–	–
Final dividend for 2016 satisfied in the form of issue and allotment of new shares	53	278	1,606,549	–	(1,785,054)
Dividend paid in respect of previous years			–	–	(2,279)
First interim dividend for 2017	24	209	–	–	(1,493,719)
Share-based payment transactions (net)	57.5	285	–	–	–
Derecognition of revaluation reserve to the retained earnings			–	–	–
Profit due to change in ownership			–	–	5,262
Movement due to change in ownership			–	–	(2,334)
Revaluation gain on disposal of freehold land and building			–	–	36,940
Transfers during the year	55 & 57	282 & 283	–	844,559	(9,624,559)
Total transactions with equity holders			12,165,538	844,559	(15,540,542)
Balance as at December 31, 2017			37,143,541	6,492,552	5,086,609

The Notes appearing on pages 173 to 332 form an integral part of these Financial Statements.

Other reserves								
Revaluation reserve Rs. '000	Available-for-sale reserve Rs. '000	Foreign currency translation reserve Rs. '000	Hedging reserve Rs. '000	General reserve Rs. '000	Employee share option reserve Rs. '000	Shareholders' funds Rs. '000	Non-controlling interest Rs. '000	Total equity Rs. '000
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
–	–	–	–	–	–	16,605,963	20,544	16,626,507
1,622,567	5,501,319	(511,529)	(3,212)	–	–	6,076,555	21,955	6,098,510
–	–	–	–	–	–	(536,116)	(392)	(536,508)
–	–	–	–	–	–	3,526	–	3,526
1,622,567	–	–	–	–	–	1,622,567	13,958	1,636,525
–	5,501,319	–	–	–	–	5,501,319	–	5,501,319
–	–	(511,529)	–	–	–	(511,529)	8,389	(503,140)
–	–	–	(3,212)	–	–	(3,212)	–	(3,212)
1,622,567	5,501,319	(511,529)	(3,212)	–	–	22,682,518	42,499	22,725,017
–	–	–	–	–	–	10,143,872	–	10,143,872
–	–	–	–	–	–	415,117	–	415,117
–	–	–	–	–	–	(4,349,302)	(3,690)	(4,352,992)
–	–	–	–	–	–	(2,674,799)	(1,845)	(2,676,644)
–	–	–	–	–	–	–	(369)	(369)
–	–	–	–	–	–	(178,505)	–	(178,505)
–	–	–	–	–	–	(2,279)	–	(2,279)
–	–	–	–	–	–	(1,493,719)	(1,476)	(1,495,195)
–	–	–	–	–	109,535	109,535	–	109,535
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	5,262	–	5,262
(7,650)	–	–	–	–	–	(9,984)	9,984	–
(31,468)	–	–	–	–	–	5,472	–	5,472
–	–	–	–	8,780,000	–	–	–	–
(39,118)	–	–	–	8,780,000	109,535	6,319,972	6,294	6,326,266
7,834,003	(1,707,486)	348,973	(3,212)	52,270,003	529,817	107,994,800	871,906	108,866,706

STATEMENT OF CHANGES IN EQUITY – BANK

	Note	Page No.	Stated capital Rs. '000	Statutory reserve fund Rs. '000	Retained earnings Rs. '000
Balance as at January 1, 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 Plan	53	278	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	53	278	1,578,594	–	(1,753,994)
First interim dividend for 2016	24	209	–	–	(1,335,928)
Share-based payment transactions (net)	57.5	285	–	–	–
Transfers during the year	55 & 57	282 & 283	–	725,626	(8,856,151)
Total transactions with equity holders			**1,723,398**	**725,626**	**(14,577,064)**
Balance as at January 1, 2017			**24,978,003**	**5,647,890**	**4,464,077**
Total comprehensive income for the year 2017					
Profit for the year			–	–	16,581,244
Other comprehensive income, net of tax			–	–	(529,902)
Net actuarial gains/(losses) on defined benefit plans			–	–	(529,902)
Net change in revaluation surplus			–	–	–
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			–	–	–
Cash flow hedges – effective portion of changes in fair value, net of tax			–	–	–
Total comprehensive income for the year 2017			–	–	**16,051,342**
Transactions with owners, recognised directly in equity, contributions and distributions to owners					
Proceeds from Rights issue of ordinary shares			10,143,872	–	–
Issue of ordinary shares under Employee Share Option Plans	53	278	415,117	–	–
Dividends to equity holders			1,606,549	–	(5,955,851)
Second interim dividend for 2016	24	209	–	–	(2,674,799)
Final cash dividend for 2016			–	–	–
Final dividend for 2016 satisfied in the form of issue and allotment of new shares	53	278	1,606,549	–	(1,785,054)
Dividend paid in respect of previous years			–	–	(2,279)
First interim dividend for 2017	24	209	–	–	(1,493,719)
Share-based payment transactions (net)	57.5	285	–	–	–
Revaluation gain on disposal of freehold land and building			–	–	36,940
Transfers during the year	55 & 57	282 & 283	–	829,062	(9,609,062)
Total transactions with equity holders			**12,165,538**	**829,062**	**(15,527,973)**
Balance as at December 31, 2017			**37,143,541**	**6,476,952**	**4,987,446**

The Notes appearing on pages 173 to 332 form an integral part of these Financial Statements.

Other reserves: Revaluation reserve Rs. '000	Other reserves: Available-for-sale reserve Rs. '000	Other reserves: Foreign currency translation reserve Rs. '000	Other reserves: Hedging reserve Rs. '000	General reserve Rs. '000	Employee share option reserve Rs. '000	Total equity Rs. '000
5,722,859	(3,955,367)	424,768	–	35,359,478	223,330	70,340,804
–	–	–	–	–	–	14,512,511
–	(3,253,429)	414,578	–	–	–	(2,699,088)
–	–	–	–	–	–	139,763
–	(3,253,429)	–	–	–	–	(3,253,429)
–	–	414,578	–	–	–	414,578
–	(3,253,429)	414,578	–	–	–	11,813,423
–	–	–	–	–	–	144,804
–	–	–	–	–	–	(4,142,319)
–	–	–	–	–	–	(2,630,991)
–	–	–	–	–	–	(175,400)
–	–	–	–	–	–	(1,335,928)
–	–	–	–	–	196,952	196,952
–	–	–	–	8,130,525	–	–
–	–	–	–	8,130,525	196,952	(3,800,563)
5,722,859	(7,208,796)	839,346	–	43,490,003	420,282	78,353,664
–	–	–	–	–	–	16,581,244
1,396,663	5,501,302	(525,093)	(3,212)	–	–	5,839,758
–	–	–	–	–	–	(529,902)
1,396,663	–	–	–	–	–	1,396,663
–	5,501,302	–	–	–	–	5,501,302
–	–	(525,093)	–	–	–	(525,093)
–	–	–	(3,212)	–	–	(3,212)
1,396,663	5,501,302	(525,093)	(3,212)	–	–	22,421,002
–	–	–	–	–	–	10,143,872
–	–	–	–	–	–	415,117
–	–	–	–	–	–	(4,349,302)
–	–	–	–	–	–	(2,674,799)
–	–	–	–	–	–	–
–	–	–	–	–	–	(178,505)
–	–	–	–	–	–	(2,279)
–	–	–	–	–	–	(1,493,719)
–	–	–	–	–	109,535	109,535
(31,468)	–	–	–	–	–	5,472
–	–	–	–	8,780,000	–	–
(31,468)	–	–	–	8,780,000	109,535	6,324,694
7,088,054	(1,707,494)	314,253	(3,212)	52,270,003	529,817	107,099,360

STATEMENT OF CASH FLOWS

For the year ended December 31,	Note	Page No.	GROUP 2017 Rs. '000	GROUP 2016 Rs. '000	BANK 2017 Rs. '000	BANK 2016 Rs. '000
Cash flows from operating activities						
Profit before income tax			23,280,324	20,114,584	23,182,944	20,051,183
Adjustments for:						
Non-cash items included in profit before tax	65	301	2,315,139	2,754,851	1,882,763	2,588,922
Change in operating assets	66	301	(126,726,469)	(131,928,935)	(121,579,535)	(126,756,110)
Change in operating liabilities	67	302	100,265,879	117,122,450	97,246,867	111,259,187
(Gains)/losses on sale of property, plant and equipment	17	200	18,774	(10,395)	35,018	(1,705)
Share of profits in associates, net of tax	38.1	244	(3,678)	(6,454)	–	–
Dividend income from subsidiaries and associates	17	200	–	–	(100,443)	(85,579)
Interest expense on subordinated liabilities	13.2	196	2,377,694	1,535,349	2,377,694	1,533,934
Net unrealised gains/(losses) arising from translating the Financial Statements of foreign operations	57.4	284	(503,140)	438,565	(525,093)	414,578
Profit due to change in ownership	17	200	–	–	(5,262)	(3,047)
Benefits paid on defined benefit plans			(184,464)	(110,800)	(179,855)	(109,329)
Income tax paid	47	265	(3,810,701)	(4,014,741)	(3,753,679)	(3,966,831)
Net cash from (used in) operating activities			(2,970,642)	5,894,474	(1,418,581)	4,925,203
Cash flows from investing activities						
Net purchase of property, plant and equipment			(2,163,733)	(1,501,070)	(1,959,075)	(1,369,729)
Proceeds from sale of property, plant and equipment			58,032	32,168	41,408	11,958
Purchase of financial investments			(179,751)	(514,043)	(179,751)	(514,043)
Proceeds from sale and maturity of financial investments			3,530,785	1,628,487	3,530,785	1,628,487
Net purchase of intangible assets			(352,329)	(422,175)	(346,360)	(340,351)
Proceeds due to change in ownership			7,803	4,294	7,803	4,294
Net cash flow from investment in subsidiaries and associates			–	–	(564,253)	(1,184,707)
Dividends received from investments in subsidiaries and associates	17	200	4,111	5,808	100,443	85,579
Net cash from (used in) investing activities			904,918	(766,531)	631,000	(1,678,512)
Cash flows from financing activities						
Proceeds from rights issue of ordinary shares	53	278	10,143,872	–	10,143,872	–
Net proceeds from issue of ordinary voting shares			386,311	135,582	386,311	135,582
Proceeds from issue of subordinated liabilities	52	276	–	13,179,430	–	13,179,430
Redemption of subordinated liabilities	52	276	–	(987,660)	–	(972,660)
Interest paid on subordinated liabilities			(2,362,270)	(1,298,062)	(2,362,270)	(1,296,647)
Dividend paid to non-controlling interest	58	285	(3,690)	(3,432)	–	–
Capital contribution from non-controlling interest of a newly incorporated subsidiary	58	285	–	805,669	–	–
Dividend paid to shareholders of the Bank			(4,349,302)	(4,142,319)	(4,349,302)	(4,142,319)
Net cash from/(used in) financing activities			3,814,921	7,689,208	3,818,611	6,903,386
Net increase/(decrease) in cash and cash equivalents			1,749,197	12,817,151	3,031,030	10,150,077
Cash and cash equivalents as at January 1,			32,924,227	20,107,076	30,193,589	20,043,512
Cash and cash equivalents as at December 31,	27	219	34,673,424	32,924,227	33,224,619	30,193,589

The Notes appearing on pages 173 to 332 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, 2017 was 4,982 (4,987 as at December 31, 2016).

Corporate information is presented in the inner back cover of this Annual Report.

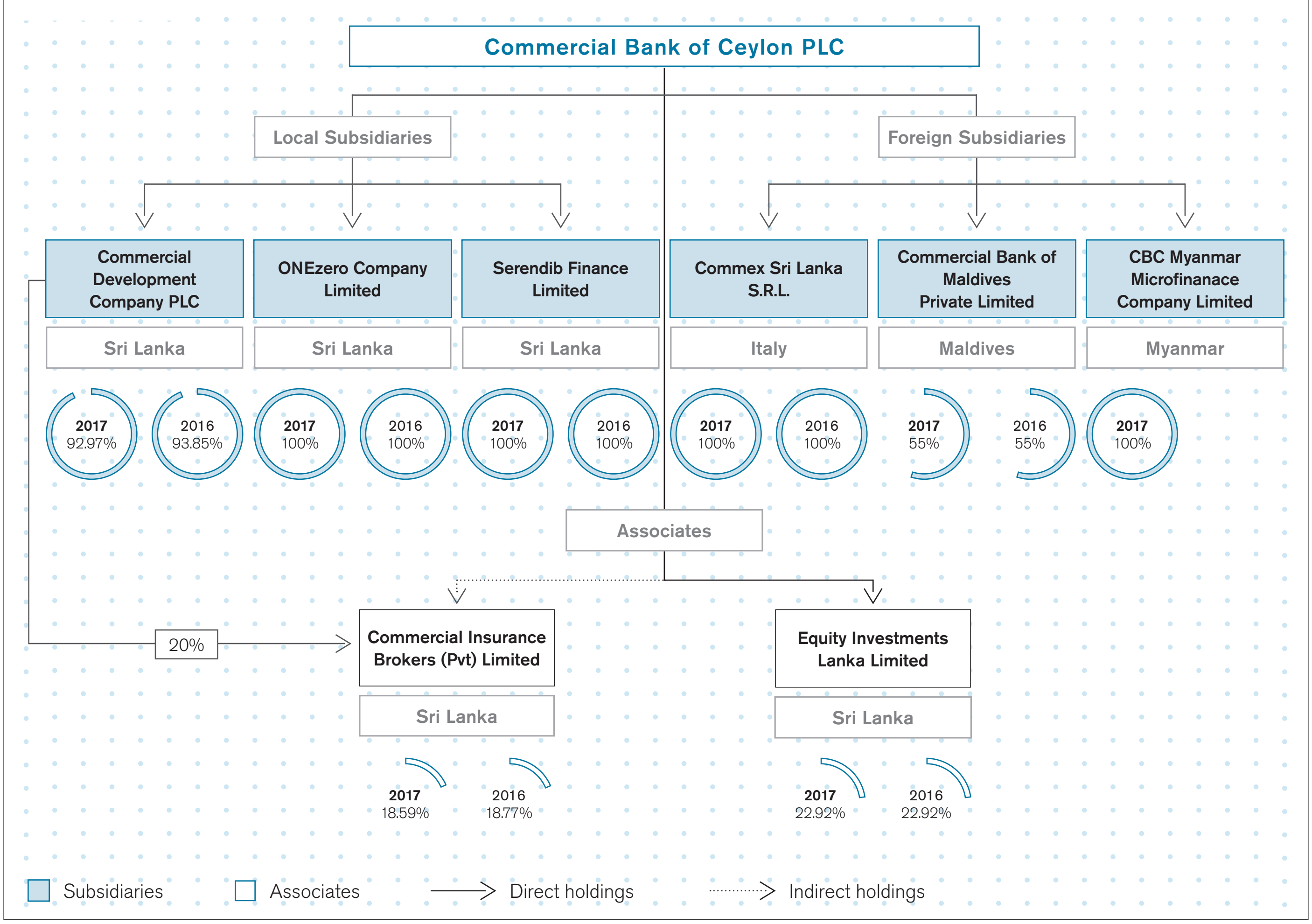
1.2 Consolidated Financial Statements

The Consolidated Financial Statements as at and for the year ended December 31, 2017, 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

Group structure



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, offshore 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 92.97% by December 31, 2017 (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.

CDC, holds a 20% stake of Commercial Insurance Brokers (Pvt) Limited (CIB). The Bank has a significant influence over financial and operating activities of CIB though it effectively holds only 18.59% as at December 31, 2017 (18.77% as at December 31, 2016).

ONEzero Company Limited

The principal business activities being providing IT – related services.

Serendib Finance Limited

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 1 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 include offering of an extensive range of banking and related financial services.

CBC Myanmar Microfinanace Company Limited

CBC Myanmar Microfinanace Company Limited was incorporated in Myanmar on April 4, 2017 as a fully owned subsidiary of the Bank.

The principle business activities include engaging in microfinance business.

A licence was issued by the Myanmar Microfinance Supervisory Enterprise for the Company to operate as a non-saving deposit organisation. The Company is yet to commence its commercial operations.

Equity Investments Lanka Limited

The principal activities include investment services, risk capital and venture capital management.

Commercial Insurance Brokers (Pvt) Limited (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 182 to 192.

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.

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 136, 146 and 167, 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 165 and 166;
- 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 167;
- 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 168 to 171;
- 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 172;
- Notes to the Financial Statements comprising Significant Accounting Policies and other explanatory information. Refer pages 173 to 332.

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, 2017 (including comparatives for 2016), were approved and authorised for issue by the Board of Directors in accordance with Resolution of the Directors on February 23, 2018.

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.

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 "Maturity Analysis"on pages 289 and 290.

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.

Items	Basis of measurement	Note No./s	Page/s
Held-for-trading financial instruments including financial derivatives	Fair value	30 & 31	221 & 222
Financial investments – Available for sale	Fair value	34	232
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	245
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	268
Equity settled share-based payment arrangements	Fair Value on grant date	54	280

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 1, 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 judgements, 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 judgements, 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. Judgement

Information about judgements 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 judgement to determine whether the control indicators set out in Note 37 on page 241 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 221 to 222.
- 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 238.
- In classifying financial assets as "Available for sale" (AFS), the Group has determined that all non-derivative financial assets that are designated as AFS 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 232.

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, 2017 are included in the following Notes.

2.12.3 Fair Value of financial instruments

The fair values of financial assets and financial liabilities recognised 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 214 to 219.

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 judgement 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 judgements 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 judgement 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 201 for details.

2.12.5 Impairment of financial investments – available for sale

The Group reviews the debt securities classified as AFS investments at each Reporting date to assess whether they are impaired. This requires similar judgements as applied on the individual assessment of loans and advances.

The Group also records impairment charges on AFS 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 7.1.11.2 on page 187 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 188 for details.

2.12.7 Revaluation of property, plant and 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 252 to 256.

2.12.8 Useful life-time of the property, plant and equipment

The Group reviews the residual values, useful lives and methods of depreciation of Property, Plant and Equipment at each Reporting date. Judgement 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 203.

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 265 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 268 to 275 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 judgements 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 judgements 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 190 and 191.

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 332, where necessary.

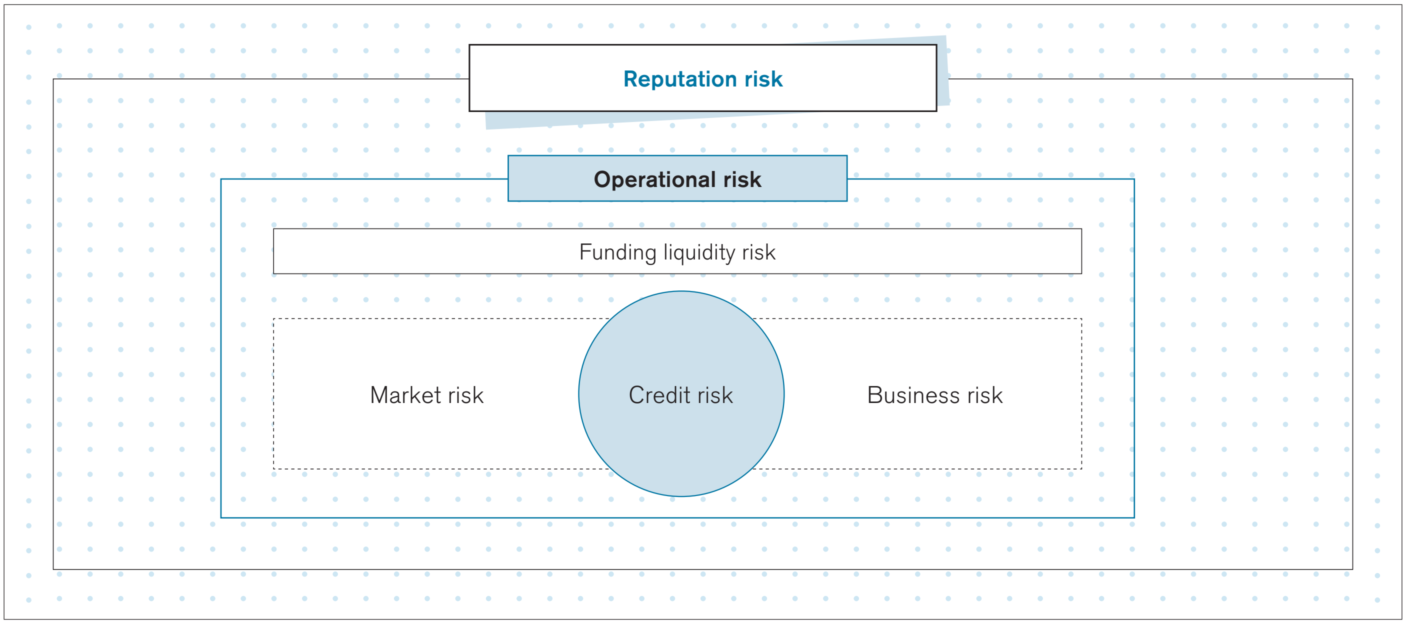
3. Financial Risk Management

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.

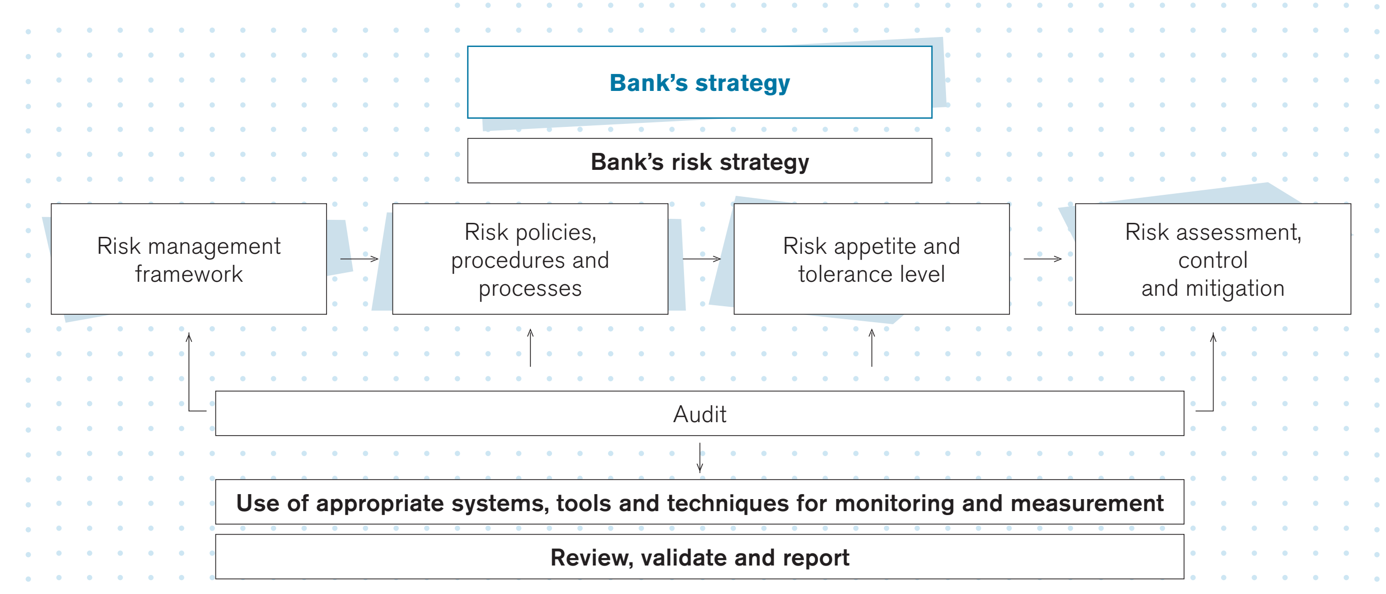
The Board of Directors of the Bank has formed a mandatory Subcommittee namely, the Board Integrated Risk Management Committee (BIRMC) as per Banking Act Direction No. 11 of 2007 on Corporate Governance. The performance of the Committee and the duties and roles of members are reviewed by the Board annually.

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 Committee (ALCO) meetings that convene at least once a fortnight.

In addition, the Integrated 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.

Bank's financial risk management framework



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, counterparties, 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. 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 and 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 154 to 158. 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 Basel III 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 in force, 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 303 to 332 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 the Section on "Managing Risk: An Overview" on pages 154 to 158. The said write-up on "Managing Risk: An Overview" does not form part of the Financial Statements.

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 214 to 219.

5. Changes in Accounting Policies

The Group and the Bank have consistently applied the Accounting Policies as set out in Notes 6 to 10 on pages 182 to 192 to all periods presented in these Financial Statements, except for application of "Hedge Accounting" principles of LKAS 39 on "Financial Instruments: Recognition and Measurement" as set out in Note 7.1.5 on pages 185 and 186.

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:

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 Offshore 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 188). 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 285.

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 141 to 143 and 287.

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 243 to 245 and 287.

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 Offshore 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 offshore 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 191.

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 210 to 213 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 223 to 225.

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 221.

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.

7.1.3.2 Loans and receivables to banks and other customers

Loans and receivable to banks and other customers include amounts due from banks, loans and 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 225 to 232.

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 167.

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 239 to 241.

7.1.3.4 Financial investments – Available for sale

Details of "Financial investments – Available for sale" are given in Note 34 on pages 232 to 238.

7.1.3.5 Financial investments – Held-to-maturity

Details of "Financial investments – Held to maturity" are given in Note 35 on page 238.

7.1.3.6 Cash and cash equivalents

Details of "Cash and cash equivalents" are given in Note 27 on page 219.

7.1.3.7 Balances with central banks

Details of "Balances with central banks" are given in Note 28 on pages 219 and 220.

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" classified under Financial Liabilities Held for Trading are given in Note 44 on page 262.

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 "Due to banks" are given in Note 43 on page 261.

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 263 and 264.

7.1.4.2.3 Subordinated liabilities

Details of "Subordinated liabilities" are given in Note 52 on pages 276 and 277.

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 167.

7.1.5 Derivatives held for risk management purposes and hedge accounting

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets and liabilities. Derivatives held for risk management purposes are measured at fair value in the Statement of Financial Position.

The Group designates certain derivatives held for risk management as well as certain non-derivative financial instruments as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument and hedged item, including risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at inception of the hedge relationship and on an ongoing basis, of whether the hedging instrument is expected to be highly effective in offsetting the changes in fair value or cash flow of the respective hedged item during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80% to 125%. The Group makes an assessment for a cash flow hedge of a forecast transaction, of whether the forecast transaction is highly probable to occur and presents an exposure to variations in cash flows that could ultimately affect profit or loss.

The Group currently uses cash flow hedging relationships for risk management purposes as discussed in the Notes 7.1.5.1 to 7.1.5.5 below:

7.1.5.1 Fair value hedges

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect the profit or loss, changes in the fair value of the derivative are recognised immediately in profit or loss together with changes in the fair value of the hedged item that are attributable to the hedged risk.

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. However, if the derivative is novated to a central counterparty by both parties as a consequence of laws or regulations without changes in its terms except for those are necessary for the novation, then the derivative is not considered as expired or terminated.

Any adjustment up to the point of discontinuation to a hedged item for which the effective interest method is used is amortised to profit or loss as part of the recalculated EIR of the item over its remaining life.

7.1.5.2 Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability that could affect the profit or loss, the effective portion of changes in the fair value of the derivative are recognised in OCI and presented in the hedging reserve within equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss. The amount recognised in OCI is reclassified to profit or loss as a reclassification adjustment in the same period as the hedged cash flows affect profit or loss, and in the same line item in the Statement Profit or Loss and OCI.

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. However, if the derivative is novated to a central counterparty by both parties as a consequence of laws or regulations without changes in its terms except for those are necessary for the novation, then the derivative is not considered as expired or terminated.

Details of "Cash flow hedges" are given in Note 44.2 on page 262.

7.1.5.3 Net investment hedges

When a derivative instrument or a non-derivative financial liability is designated as the hedging instrument in a hedge of a net investment in a foreign operation, the effective portion of changes in the fair value of the derivative are recognised in OCI and presented in the translation reserve within equity. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss. The amount recognised in OCI is reclassified to profit or loss as a reclassification adjustment on disposal of the foreign operation.

7.1.5.4 Other non-trading derivatives

If the derivative is not held for trading, and is not designated in a qualifying hedging relationship, then all changes in its fair value are recognised immediately in profit or loss as a component of net income from other financial instruments at fair value through profit or loss.

7.1.5.5 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.

7.1.6 Reclassification of financial assets and liabilities

Financial assets are not reclassified 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".

7.1.6.1 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.

7.1.6.2 Reclassification of financial investments – Available for sale

The Group may reclassify financial investments out of AFS 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.

7.1.6.3 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 AFS 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 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 AFS. 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.

7.1.7 Derecognition of financial assets and financial liabilities

7.1.7.1 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.

7.1.7.2 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.

7.1.8 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.

7.1.9 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.

7.1.10 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 180 and 214.

7.1.11 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.

7.1.11.1 Impairment of financial assets carried at amortised cost

Details of the individual and collective assessment of impairments are given in Note 18 on pages 201 to 203.

7.1.11.2 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 AFS, 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 investments classified as AFS, 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 and equipment

Details of "Property, plant and equipment" are given in Note 39 on pages 245 to 257.

7.3.1 Depreciation

Details of "Depreciation" are given in Note 20 on pages 203 and 204.

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 258 to 260.

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 203 and 204.

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 on page 332.

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 1, 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 1, 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 268 to 275.

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 203 and 268 to 275, 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 203.

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 1, 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 1, 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 279 to 281.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted Earnings per Share as disclosed in Notes 23.2 and 23.3 on page 208.

7.8 Other liabilities

Details of "Other liabilities" are given in Note 50 on pages 268 to 275.

7.9 Provisions

Details of "Other provisions" are given in Note 49 on page 267.

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 Notes 7.8 and 7.9 above.

Details of the Commitments are given in Notes 59.2 to 59.4 on page 287 .

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 285 to 288.

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 278 to 280 and 282 to 285.

7.17 Earnings per Share (EPS)

Details of "Basic and Diluted EPS" are given in Note 23 on pages 207 and 208.

7.18 Operating segments

Details of "Operating segments" are given in Note 63 on pages 291 to 293.

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 195 to 205.

8.1 Interest income and expense

Details of "Interest income and expense" are given in Note 13 on pages 195 to 198.

8.2 Fee and commission income and expense

Details of "Fees and commission income and expense" are given in Note 14 on pages 198 and 199.

8.3 Net gains/(losses) from trading

Details of "Net gains/(losses) from trading" are given in Note 15 on page 199.

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 199 and 200.

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 302.

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 205 to 207.

9.2 Deferred tax

Details of "Deferred tax assets and liabilities" are given in Note 48 on pages 265 to 267.

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 penalties are due. Finalisation of the tax liability with authorities may change the position already recorded in the Financial Statements and such changes to tax liabilities could impact the tax expense in the period in which such a determination is made either as an over or under provision.

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 1, 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 1, 2004. Currently, the ESC is payable at 0.5% of the total 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 (VAT) 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 (NBT) on financial services

With effect from January 1, 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 165.

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 219.

The Statement of Cash Flows is given on page 172.

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"	SLFRS 9, issued in 2014 which replaces the existing guidance in LKAS 39 – "Financial Instruments: Recognition and Measurement" is effective for annual reporting periods beginning on or after January 1, 2018. The key aspects of SLFRS 9 are; 1. Classification – Financial assets SLFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cashflow characteristics. SLFRS 9 includes 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). It eliminates the existing LKAS 39 categories of Held to maturity, Loans and receivables and Available for sale. 2. Impairment – Financial assets, loan commitments and financial guarantee contracts SLFRS 9 replaces the "Incurred Loss Model" in LKAS 39 with forward looking "Expected Loss Model" (ECL). This will require considerable judgement over how changes in economic factors affect ECL, which will be determined on a probability weighted basis. SLFRS 9 requires loan loss to be recognised at an amount equal to either 12 month ECL or life time ECL. Lifetime ECLs are the ECLs that result from possible default events over the expected life of a financial instrument, whereas 12 months ECLs are the portion of the ECLs that results from default events that are possible within 12 months after the Reporting date. 3. Inputs into measurement of ECLs The key inputs into measurement of ECLs are likely to be the term structures of the following variables which will be derived from internally developed statistical models and other historical data that leverage regulatory models. They will be adjusted to reflect forward looking information. • Probability of Default (PD) are estimates at a certain date which will be calculated based on statistical models and assessed using rating tools tailored to the various categories of counterparties and exposures. • Loss Given Default (LGD) is the magnitude to the likely loss if there is default. The Bank estimates LGD parameters based on history of recovery rates of claims against defaulted counter parties. • Exposure at Default (EAD) represents the expected exposure in the event of a default. The Bank will derive the EAD from the current exposure to the counterparty and potential chances to the current amount allowed under the contract.	The most significant impact on the Bank's financial statements from the implementation of SLFRS 9 is expected to result from the new impairment requirements. Impairment losses will increase and become more volatile for financial instruments within the scope of SLFRS 9. The Bank has employed statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposure and how these are expected to change as a result of the passage of time. This analysis includes the identification and calibration of relationship between changes in default rates and changes in key macro-economic factors as well as analysis of the impact of certain other factors on the risk of default. The Bank has estimated 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. EAD for lending commitments and financial guarantees, include the amount drawn, as well as potential future amounts that may be drawn or repaid under the contract, which has been estimated based on historical observations and forward looking forecasts. Under SLFRS 9, the Bank has incorporated forward looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The Bank has completed the initial high level assessment of the potential impact on its Financial Statements for the year ended December 31, 2016, resulting from the application of SLFRS 9 with the assistance of an external consultant. Based on the preliminary assessments undertaken to date which is yet to be audited, the total estimated additional loan loss provision on the Financial Statements for the year ended December 31, 2016 on adoption of SLFRS 9 is expected to be in the range of 25% to 35% of the total impairment provision as per the current LKAS 39. It will also have an impact on Tier 1 Capital Adequacy Ratio of approximately 60 bps.

Accounting standard	Summary of the requirements	Possible impact on Consolidated Financial Statements
		The above assessment is preliminary (and is yet to be audited) because not all transition work has been finalised. The actual impact of adopting SLFRS 9 on January 1, 2018 may change because; • SLFRS 9 will require the Bank to revise accounting process and internal controls and these changes are not yet complete; • The Bank is refining and finalising its models for ECL calculations; and • The new accounting policies, assumptions, judgements and estimation techniques employed are subject to change until the Bank finalises its first financial statements for the year December 31, 2018 that include the date of initial application. The Bank is in the process of assessing the additional loan loss provision impact on the Financial Statements for the year ended December 31, 2017, resulting from the application of SLFRS 9. The Bank is expected to maintain solid capital position even after taking into account the first time adoption of SLFRS 9, effective from January 1, 2018. The Group does not expect significant impact on the Consolidated Financial Statements resulting from the application of SLFRS 9 on the other Group entities.
SLFRS 15 – "Revenue from Contracts with Customers"	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. 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. It replaces existing revenue recognition guidance, including LKAS 18 on "Revenue" and LKAS 11 on "Construction Contracts" and IFRIC 13 on "Customer Loyalty Programmes". SLFRS 15 is effective for annual reporting periods beginning on or after January 1, 2018.	The Group and the Bank do not expect significant impact on its Financial Statements resulting from the application of SLFRS 15.
SLFRS 16 – "Leases"	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. SLFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019.	The Group and the Bank are assessing the potential impact on its Financial Statements resulting from the application of SLFRS 16, based on operating leases set-out in Note 68 on page 302.

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.

For the year ended December 31,	Note	Page No.	GROUP 2017 Rs. '000	GROUP 2016 Rs. '000	BANK 2017 Rs. '000	BANK 2016 Rs. '000
Interest income	13.1	196	104,049,102	81,314,607	103,034,386	80,738,176
Fees and commission income	14.1	198	10,510,800	8,230,131	10,169,211	8,143,041
Net gains/(losses) from trading	15	199	233,956	(1,466,711)	233,956	(1,466,711)
Net gains/(losses) from financial investments	16	199	129,210	110,759	129,030	110,701
Other income (net)	17	200	1,918,687	5,536,749	2,027,365	5,617,403
Total			116,841,755	93,725,535	115,593,948	93,142,610

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 are an integral part of the EIR. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

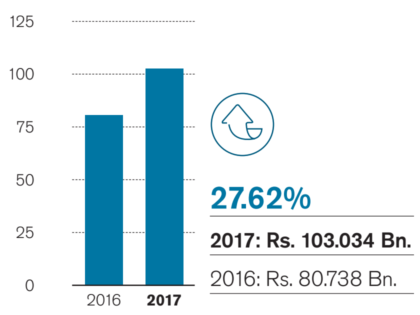
When calculating the effective interest rate for financial instruments other than credit impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses. For credit impaired financial assets, a credit adjusted effective interest rate is calculated using estimated future cash flows.

For the year ended December 31,	Note	Page No.	GROUP 2017 Rs. '000	GROUP 2016 Rs. '000	BANK 2017 Rs. '000	BANK 2016 Rs. '000
Interest income	13.1	196	104,049,102	81,314,607	103,034,386	80,738,176
Less: Interest expense	13.2	196	64,481,804	48,186,331	64,010,991	47,914,573
Net interest income			39,567,298	33,128,276	39,023,395	32,823,603

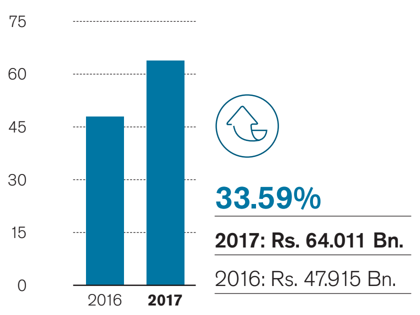
13.1 Interest income

For the year ended December 31,	GROUP		BANK	
	2017 **Rs. '000**	2016 Rs. '000	**2017** **Rs. '000**	2016 Rs. '000
Cash and cash equivalents	**362,695**	219,048	**356,930**	218,337
Balances with central banks	**4,400**	40,575	**3,263**	40,504
Placements with banks	**215,909**	145,504	**215,920**	145,504
Securities purchased under resale agreements	**139,153**	352,695	**139,153**	352,695
Financial instruments – Held for trading	**469,012**	457,308	**469,012**	457,308
Derivative financial instruments	**24,111**	–	**24,111**	–
Other financial instruments	**444,901**	457,308	**444,901**	457,308
Loans and receivables to other customers	**78,132,371**	58,135,238	**77,294,117**	57,587,445
Financial investments – Available for sale	**15,349,974**	14,311,753	**15,335,424**	14,307,559
Financial investments – Held to maturity	**5,475,592**	3,757,168	**5,318,994**	3,731,930
Financial investments – Loans and receivables	**3,036,526**	3,360,048	**3,036,526**	3,360,048
Interest income from impaired loans and receivables to other customers	**861,057**	533,528	**861,057**	533,528
Other interest income	**2,413**	1,742	**3,990**	3,318
Total interest income	**104,049,102**	81,314,607	**103,034,386**	80,738,176

Interest income – Bank
Rs. Bn.



Interest expense – Bank
Rs. Bn.



13.2 Interest expense

For the year ended December 31,	GROUP		BANK	
	2017 **Rs. '000**	2016 Rs. '000	**2017** **Rs. '000**	2016 Rs. '000
Due to banks	**2,069,416**	1,278,205	**1,617,094**	990,560
Derivative financial instruments	**38,702**	–	**38,702**	–
Securities sold under repurchase agreements	**5,943,417**	7,756,308	**5,965,608**	7,775,316
Due to other customers/deposits from customers	**53,385,259**	37,176,139	**53,344,577**	37,174,433
Refinance borrowings	**352,074**	270,977	**352,074**	270,977
Foreign currency borrowings	**315,242**	169,353	**315,242**	169,353
Subordinated liabilities	**2,377,694**	1,535,349	**2,377,694**	1,533,934
Total interest expense	**64,481,804**	48,186,331	**64,010,991**	47,914,573

13.3 Net interest income from Government securities

Interest income and interest expenses 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

	GROUP		BANK	
For the year ended December 31,	**2017** **Rs. '000**	2016 Rs. '000	**2017** **Rs. '000**	2016 Rs. '000
Interest income	**22,331,944**	19,870,503	**22,317,394**	19,866,309
Securities purchased under resale agreements	**81,635**	290,627	**81,635**	290,627
Financial instruments – Held for trading	**296,520**	351,293	**296,520**	351,293
Financial investments – Available for sale	**15,349,974**	13,412,354	**15,335,424**	13,408,160
Financial investments – Held to maturity	**4,520,977**	3,678,099	**4,520,977**	3,678,099
Financial investments – Loans and receivables	**2,082,838**	2,138,130	**2,082,838**	2,138,130
Less: Interest expenses	**5,942,176**	7,755,075	**5,964,367**	7,774,082
Securities sold under repurchase agreements	**5,942,176**	7,755,075	**5,964,367**	7,774,082
Net interest income	**16,389,768**	12,115,428	**16,353,027**	12,092,227

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 Bonds (Interest income accrued or received on outright or reverse repurchase transactions on Government Securities, Treasury Bills and Bonds less interest expenses accrued or paid on repurchase transactions with such Government Securities, Treasury Bills and Bonds from which such interest income was earned) for the period January 1, 2017 to December 31, 2017 has been grossed up by Rs. 1,338.116 Mn. (2016 – Rs. 918.062 Mn.) and Rs. 1,336.673 Mn. (2016 – Rs. 916.767 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

	GROUP		BANK	
For the year ended December 31,	**2017** **Rs. '000**	2016 Rs. '000	**2017** **Rs. '000**	2016 Rs. '000
Interest income	**1,003,916**	1,121,313	**1,003,916**	1,121,313
Securities purchased under resale agreements	**57,518**	62,068	**57,518**	62,068
Financial instruments – Held for trading	**148,381**	106,015	**148,381**	106,015
Financial investments – Available for sale	**–**	899,399	**–**	899,399
Financial investments – Held to maturity	**798,017**	53,831	**798,017**	53,831
Less: Interest expenses	**1,240**	1,252	**1,240**	1,252
Securities sold under repurchase agreements	**1,240**	1,252	**1,240**	1,252
Net interest income	**1,002,676**	1,120,061	**1,002,676**	1,120,061

13.3 (c) Net interest income from Maldivian Government securities

For the year ended December 31,	GROUP 2017 Rs. '000	GROUP 2016 Rs. '000	BANK 2017 Rs. '000	BANK 2016 Rs. '000
Interest income	156,598	25,238	–	–
Financial investments – Held to maturity	156,598	25,238	–	–
Net interest income	156,598	25,238	–	–

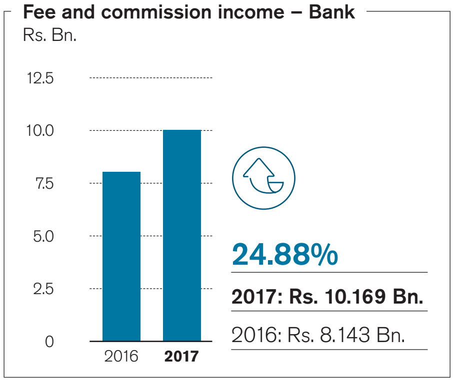
14. Net Fee and Commission Income

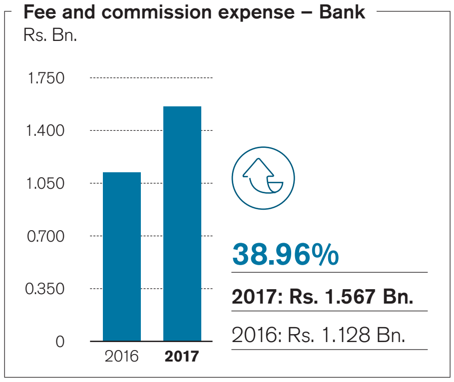
Fee and commission income and expenses that are integral to the EIR of a financial asset or financial liability are capitalised and included in the measurement of the EIR and recognised in the Income Statement over the expected life of the instrument.

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 expenses relate mainly to transaction and service fees, which are expensed as the services are received.

For the year ended December 31,	Note	Page No.	GROUP 2017 Rs. '000	GROUP 2016 Rs. '000	BANK 2017 Rs. '000	BANK 2016 Rs. '000
Fee and commission income	14.1	198	10,510,800	8,230,131	10,169,211	8,143,041
Less: Fee and commission expenses	14.2	199	1,586,334	1,140,954	1,566,851	1,127,536
Net fee and commission income			8,924,466	7,089,177	8,602,360	7,015,505





14.1 Fee and commission income

For the year ended December 31,	GROUP 2017 Rs. '000	GROUP 2016 Rs. '000	BANK 2017 Rs. '000	BANK 2016 Rs. '000
Loans and advances related services	834,468	778,517	742,996	715,086
Credit and debit cards related services	3,389,773	2,671,294	3,388,707	2,671,116
Trade and remittances related services	3,184,574	2,619,429	3,176,106	2,619,194
Deposits related services	1,687,448	1,110,216	1,680,926	1,109,285
Guarantees related services	798,583	669,497	798,281	669,409
Other financial services	615,954	381,178	382,195	358,951
Total fee and commission income	10,510,800	8,230,131	10,169,211	8,143,041

14.2 Fee and commission expenses

For the year ended December 31,	GROUP 2017 Rs. '000	GROUP 2016 Rs. '000	BANK 2017 Rs. '000	BANK 2016 Rs. '000
Loans and advances related services	58,313	53,289	42,114	39,871
Credit and debit cards related services	1,385,010	980,927	1,385,010	980,927
Trade and remittances related services	44,205	32,851	40,921	32,851
Other financial services	98,806	73,887	98,806	73,887
Total fee and commission expenses	1,586,334	1,140,954	1,566,851	1,127,536

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.

For the year ended December 31,	GROUP 2017 Rs. '000	GROUP 2016 Rs. '000	BANK 2017 Rs. '000	BANK 2016 Rs. '000
Derivative financial instruments	107,201	(1,429,188)	107,201	(1,429,188)
Foreign exchange gains/(losses) from banks and other customers	107,201	(1,429,188)	107,201	(1,429,188)
Other financial instruments – Held for trading				
Government securities	122,390	(9,042)	122,390	(9,042)
Net mark-to-market losses	94,672	(79,981)	94,672	(79,981)
Net capital gains	27,718	70,939	27,718	70,939
Equities	4,365	(28,481)	4,365	(28,481)
Net mark-to-market losses	(9,046)	(49,581)	(9,046)	(49,581)
Net capital gains	3,251	13,299	3,251	13,299
Dividend income	10,160	7,801	10,160	7,801
Total	233,956	(1,466,711)	233,956	(1,466,711)

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.

For the year ended December 31,	Note	Page No.	GROUP 2017 Rs. '000	GROUP 2016 Rs. '000	BANK 2017 Rs. '000	BANK 2016 Rs. '000
Financial investments – Available for sale	16.1	200	129,140	75,555	128,960	75,497
Financial investments – Loans and receivables	16.2	200	70	35,204	70	35,204
Total			129,210	110,759	129,030	110,701

16.1 Financial investments – Available for sale

For the year ended December 31,	GROUP		BANK	
	2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000
Government securities	91,202	38,091	91,202	38,091
Net capital gains	91,202	38,091	91,202	38,091
Equities	37,938	37,464	37,758	37,406
Net capital gains	–	–	–	–
Dividend income	37,938	37,464	37,758	37,406
Total	129,140	75,555	128,960	75,497

16.2 Financial investments – Loans and receivables

For the year ended December 31,	GROUP		BANK	
	2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000
Government securities	70	35,204	70	35,204
Net capital gains	70	35,204	70	35,204
Total	70	35,204	70	35,204

17. Other Income (Net)

For the year ended December 31,	Note	Page No.	GROUP		BANK	
			2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000
Gains/(losses) on sale of property, plant and equipment	17.1	200	(18,774)	10,395	(35,018)	1,705
Gains on revaluation of foreign exchange			489,824	3,755,346	481,012	3,755,047
Recoveries of loans written off and provision reversals			1,269,419	1,589,763	1,269,419	1,589,763
Dividend income from subsidiaries			–	–	96,332	81,468
Dividend income from associates			4,111	5,808	4,111	4,111
Profit due to change in ownership			5,262	3,047	5,262	3,047
Rental and other income	17.2	200	178,218	181,245	206,247	182,262
Less: Dividends received from associates transferred to investment account			(4,111)	(5,808)	–	–
Less: Profit due to change in ownership			(5,262)	(3,047)	–	–
Total			1,918,687	5,536,749	2,027,365	5,617,403

17.1 Gains/(losses) on sale of property, plant and equipment

The gains or losses on disposal of property, plant and equipment is determined as the difference between the carrying amount of the assets at the time of disposal and the proceeds of 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 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 counterparties 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".

Impairment charges for loans and other losses are given below:

For the year ended December 31,	Note	Page No.	GROUP 2017 Rs. '000	GROUP 2016 Rs. '000	BANK 2017 Rs. '000	BANK 2016 Rs. '000
Loans and receivables to banks	32	225	–	–	–	–
Loans and receivables to other customers			2,225,914	1,583,326	1,956,725	1,511,158
Charge to the Income Statement – Individual impairment	33.2	229	401,716	3,439,879	401,716	3,439,879
Charge/(write-back) to the Income Statement – Collective impairment	33.2	229	1,823,522	(1,859,806)	1,554,333	(1,931,932)
Direct write–offs			676	3,253	676	3,211
Investments in subsidiaries	37.1	243	–	–	(42,484)	15,350
Due from subsidiaries			–	–	–	3,306
Total			2,225,914	1,583,326	1,914,241	1,529,814

19. Personnel Expenses

For the year ended December 31,	Note	Page No.	GROUP 2017 Rs. '000	GROUP 2016 Rs. '000	BANK 2017 Rs. '000	BANK 2016 Rs. '000
Salary and bonus	19.1	203	8,538,989	8,261,068	8,509,813	8,161,579
Pension costs	19.1	203	1,596,841	1,595,795	1,569,187	1,582,798
Contributions to defined contribution/benefit plans – Funded schemes			1,308,050	1,361,533	1,289,938	1,354,982
Contributions to defined benefit plans – Unfunded schemes	50.1 (c) & 50.2 (c)	269 & 270	288,791	234,262	279,249	227,816
Equity-settled share-based payment expense	19.2 & 57.5	203 & 285	138,341	206,174	138,341	206,174
Others	19.3	203	1,064,346	850,051	1,050,675	843,756
Total			11,338,517	10,913,088	11,268,016	10,794,307

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 280.

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 and 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 and equipment of the Bank as at December 31, 2017 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 and fittings	10	10
Machinery and 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 and 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 and 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 245 to 257.

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 from the date on which it is available for use, at the rate specified below:

Class of asset	Amortisation % per annum	Period (years)
Computer software	20	5
Trademarks	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.

Amortisation method, useful lives, and residual values are reassessed at each reporting date and adjusted, if required.

			GROUP		BANK	
For the year ended December 31,			**2017**	2016	**2017**	2016
	Note	Page No.	**Rs. '000**	Rs. '000	**Rs. '000**	Rs. '000
Depreciation of property, plant and equipment	39	**245**	**1,185,698**	1,093,088	**1,097,096**	1,022,648
Amortisation of intangible assets	40	**258**	**229,764**	173,790	**209,766**	165,903
Amortisation of trademarks			**13**	–	**–**	–
Amortisation of leasehold property	41	**260**	**1,452**	1,452	**942**	942
Total			**1,416,927**	1,268,330	**1,307,804**	1,189,493

21. Other Operating Expenses

For the year ended December 31,	Note	Page No.	GROUP 2017 Rs. '000	GROUP 2016 Rs. '000	BANK 2017 Rs. '000	BANK 2016 Rs. '000
Directors' fees	21.1	205	65,205	38,872	45,901	32,133
Auditors' remuneration			30,260	31,218	22,696	25,124
Audit fees and expenses			16,656	14,304	10,563	9,766
Audit-related fees and expenses			7,620	8,677	6,825	8,392
Non-audit fees and expenses			6,084	8,237	5,308	6,966
Professional and legal expenses			361,880	262,522	443,387	329,237
Deposit insurance premium paid to the Central Banks			682,108	590,544	681,944	590,236
Donations, including contribution made to the CSR Trust Fund			83,104	61,681	83,043	61,681
Establishment expenses			2,677,614	2,439,490	2,714,360	2,488,984
Maintenance of property, plant and equipment			1,187,143	890,002	1,205,215	1,035,238
Office administration expenses			2,531,679	2,495,106	2,265,418	2,269,712
Total			7,618,993	6,809,435	7,461,964	6,832,345

21.1 Directors' emoluments

Directors emoluments represent salaries paid to Executive Directors and the fees paid to both Executive and Non-Executive Directors of the Group and the Bank.

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 tax

"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 206. 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 tax

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:

			GROUP		BANK	
For the year ended December 31,	Note	Page No.	**2017** **Rs. '000**	2016 Rs. '000	**2017** **Rs. '000**	2016 Rs. '000
Current year tax expense			**6,679,675**	5,606,143	**6,564,443**	5,554,989
Current year income tax expense of Domestic Banking Unit			**4,870,548**	4,086,795	**4,870,548**	4,086,795
Current year income tax expense of Off-shore Banking Centre			**232,412**	291,831	**232,412**	291,831
Current year income tax expense of Bangladesh Operation			**1,450,193**	1,167,596	**1,450,193**	1,167,596
Current year Income tax expense of Commercial Development Company PLC			**37,450**	40,063	**–**	–
Current year Income tax expense of ONEzero Company Limited			**17,684**	13,169	**–**	–
Current year Income tax expense of Serendib Finance Limited			**45,744**	(2,258)	**–**	–
Current year Income tax expense of Commercial Bank of Maldives Private Limited			**13,518**	–	**–**	–
Current year Income tax expense of Commex Sri Lanka S.R.L. – Italy			**656**	–	**–**	–
Withholding tax on dividends received			**11,470**	8,947	**11,290**	8,767
Prior years						
Under/(Over) provision of taxes in respect of prior years	47	**265**	**(99,996)**	–	**(100,000)**	–
Deferred tax expense			**74,138**	42,017	**137,257**	(16,317)
Effect of change in tax rates			**–**	–	**–**	–
Origination and reversal of temporary differences	48.1	**265**	**74,138**	42,017	**137,257**	(16,317)
Total			**6,653,817**	5,648,160	**6,601,700**	5,538,672
Effective tax rate (including deferred tax) (%)					**28.48**	27.62
Effective tax rate (excluding deferred tax) (%)					**27.88**	27.70

Income tax expense for 2017 and 2016 of the Bank and its subsidiaries have been provided for on the taxable income at rates shown below:

	2017 %	2016 %
Domestic operations of the Bank	28	28
Off-shore banking operation of the Bank	28	28
Bangladesh operation of the Bank	42.5	42.5
Commercial Development Company PLC	28	28
ONEzero Company Limited	28	28
Serendib Finance Limited	28	28
Commercial Bank of Maldives Private Limited	25	25
Commex Sri Lanka S.R.L. – Italy	24	24

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:

			Tax Rate		GROUP		BANK	
For the year ended December 31,	Note	Page No.	2017 %	2016 %	2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000
Accounting profit before tax from operations					23,280,324	20,114,584	23,182,944	20,051,183
Tax effect at the statutory income tax rate					7,031,752	5,988,705	6,959,962	5,907,894
Domestic banking operation of the Bank			28	28	4,808,919	4,497,651	4,808,919	4,497,651
Offshore banking operation of the Bank			28	28	744,242	273,192	744,242	273,192
Bangladesh operation of the Bank			42.5	42.5	1,406,801	1,137,051	1,406,801	1,137,051
Subsidiaries			28, 25 & 24	28, 25 & 24	71,790	80,811	–	–
Tax effect of exempt income					(1,490,271)	(1,313,810)	(1,490,271)	(1,313,424)
Tax effect of non-deductible expenses					7,840,250	6,766,163	7,550,140	6,722,770
Tax effect of deductible expenses					(6,711,539)	(5,841,357)	(6,464,691)	(5,768,513)
Qualifying payments					(1,987)	(2,505)	(1,987)	(2,505)
Under/(over) provision of taxes in respect of prior years	22.1 & 47	206 & 265			(99,996)	–	(100,000)	–
Withholding tax on dividends received					11,470	8,947	11,290	8,767
Deferred tax expense	22.1 & 48.1	206 & 265			74,138	42,017	137,257	(16,317)
Income tax expense reported in the Income Statement at the effective income tax rate					6,653,817	5,648,160	6,601,700	5,538,672

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 potentially dilutive 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

	Note	Page No.	GROUP 2017	GROUP 2016	BANK 2017	BANK 2016
Amount used as the numerator:						
Profit for the year attributable to equity holders of the Bank (Rs. '000)			**16,605,963**	14,510,333	**16,581,244**	14,512,511
Number of ordinary shares used as the denominator:						
Weighted average number of ordinary shares	23.3	208	**960,767,103**	918,193,096	**960,767,103**	918,193,096
Basic earnings per ordinary share (Rs.)			**17.28**	15.80	**17.26**	15.81

23.2 Diluted earnings per ordinary share

	Note	Page No.	GROUP 2017	GROUP 2016	BANK 2017	BANK 2016
Amount used as the numerator:						
Profit for the year attributable to equity holders of the Bank (Rs. '000)			**16,605,963**	14,510,333	**16,581,244**	14,512,511
Number of ordinary shares used as the denominator:						
Weighted average number of ordinary shares	23.3	208	**961,802,370**	920,199,124	**961,802,370**	920,199,124
Diluted earnings per ordinary share (Rs.)			**17.27**	15.77	**17.24**	15.77

23.3 Weighted average number of ordinary shares for basic and diluted earnings per share

	Note	Page No.	Outstanding no. of shares 2017	Outstanding no. of shares 2016	Weighted average no. of shares 2017	Weighted average no. of shares 2016
Number of shares in issue as at January 1,			**890,734,540**	876,866,801	**890,734,540**	876,866,801
Add: Number of shares satisfied in the form of issue and allotment of new shares from final dividend for 2015	53.1	278	–	12,731,007	–	12,731,007
Add: Number of shares satisfied in the form of issue and allotment of new shares from final dividend for 2016	53.1	278	**11,425,159**	–	**11,425,159**	11,425,159
Add: Number of shares exercised in the form of Rights Issue in 2017	53.1	278	**90,461,066**	–	**56,449,510**	16,730,174
			992,620,765	889,597,808	**958,609,209**	917,753,141
Add: Number of shares issued under Employee Share Option Plan (ESOP) 2008			**2,518,564**	894,487	**1,737,730**	268,784
Add: Number of shares issued under Employee Share Option Plan (ESOP) 2015			**759,973**	242,245	**420,164**	171,171
Weighted average number of ordinary shares for basic earnings per ordinary share calculation			**995,899,302**	890,734,540	**960,767,103**	918,193,096
Add: Bonus element on number of outstanding options under ESOP 2008 as at the year end			–	–	**625,382**	1,404,951
Add: Bonus element on number of outstanding options under ESOP 2015 as at the year end			–	–	**409,885**	601,077
Weighted average number of ordinary shares for diluted earnings per ordinary share calculation(*)			**995,899,302**	890,734,540	**961,802,370**	920,199,124

(*) 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, 2017 and December 31, 2016 over the offer price.

24. Dividends

	GROUP		BANK	
	2017 Second interim Rs. 3.00 per share for 2016 (paid on February 17, 2017) Rs. '000	2016 Rs. '000	**2017 Second interim Rs. 3.00 per share for 2016 (paid on February 17, 2017) Rs. '000**	2016 Rs. '000
On ordinary shares				
Net dividend paid to the ordinary shareholders out of normal profits	2,418,709	–	2,418,709	–
Withholding tax deducted at source	256,090	–	256,090	–
Gross ordinary dividend paid	2,674,799	–	2,674,799	–

	First interim Rs. 1.50 per share for 2017 (paid on November 20, 2017) Rs. '000	First interim Rs. 1.50 per share for 2016 (paid on November 18, 2016) Rs. '000	**First interim Rs. 1.50 per share for 2017 (paid on November 20, 2017) Rs. '000**	First interim Rs. 1.50 per share for 2016 (paid on November 18, 2016) Rs. '000
On ordinary shares				
Net dividend paid to the ordinary shareholders out of normal profits	1,350,719	1,208,039	1,350,719	1,208,039
Withholding tax deducted at source	143,000	127,889	143,000	127,889
Gross ordinary dividend paid	1,493,719	1,335,928	1,493,719	1,335,928
Total gross ordinary dividend paid	4,168,518	1,335,928	4,168,518	1,335,928

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, 2017 and this dividend was paid on February 20, 2018.

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, 2017 (Bank declared a final dividend of Rs. 2.00 per share for 2016 in 2017 and this was satisfied in the form of issue and allotment of new shares for both voting and non-voting ordinary shares of the Bank). The total dividend recommended by the Board is to be approved at the forthcoming Annual General Meeting to be held on March 28, 2018. 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, 2017 have not been recognised as liabilities as at the year end. Final dividend payable for the year 2017 has been estimated at Rs.1,993.401 Mn. (Actual final dividend for 2016 amounted to Rs. 1,785.054 Mn.).

Accordingly, the dividend per ordinary share (for both voting and non-voting) for the year 2017 would be Rs. 6.50 (2016 – 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

As at December 31, 2017	Note	Page No.	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	219	–	–	34,673,424	–	–	34,673,424
Balances with central banks	28	219	–	–	45,546,349	–	–	45,546,349
Placements with banks	29	221	–	–	17,633,269	–	–	17,633,269
Derivative financial assets	30	221	2,334,536	–	–	–	–	2,334,536
Other financial instruments – Held for trading	31	222	4,410,913	–	–	–	–	4,410,913
Loans and receivables to banks	32	225	–	–	640,512	–	–	640,512
Loans and receivables to other customers	33	226	–	–	742,444,130	–	–	742,444,130
Financial investments – Available for sale	34	232	–	–	–	154,913,643	–	154,913,643
Financial investments – Held to maturity	35	238	–	69,365,796	–	–	–	69,365,796
Financial investments – Loans and receivables	36	239	–	–	48,712,477	–	–	48,712,477
Total financial assets			6,745,449	69,365,796	889,650,161	154,913,643	–	1,120,675,049
Financial liabilities								
Due to banks	43	261	–	–	–	–	60,244,892	60,244,892
Derivative financial liabilities	44	262	3,678,494	–	–	–	–	3,678,494
Securities sold under repurchase agreements			–	–	–	–	49,532,385	49,532,385
Due to other customers/ deposits from customers	45	263	–	–	–	–	857,269,981	857,269,981
Other borrowings	46	265	–	–	–	–	23,786,094	23,786,094
Subordinated liabilities	52	276	–	–	–	–	25,165,924	25,165,924
Total financial liabilities			3,678,494	–	–	–	1,015,999,276	1,019,677,770

25.1 (b) Group

As at December 31, 2016	Note	Page No.	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	219	–	–	32,924,227	–	–	32,924,227
Balances with central banks	28	219	–	–	43,935,258	–	–	43,935,258
Placements with banks	29	221	–	–	11,718,499	–	–	11,718,499
Derivative financial assets	30	221	1,052,829	–	–	–	–	1,052,829
Other financial instruments – Held for trading	31	222	4,987,798	–	–	–	–	4,987,798
Loans and receivables to banks	32	225	–	–	624,458	–	–	624,458
Loans and receivables to other customers	33	226	–	–	620,129,488	–	–	620,129,488
Financial investments – Available for sale	34	232	–	–	–	160,092,522	–	160,092,522
Financial investments – Held to maturity	35	238	–	63,626,598	–	–	–	63,626,598
Financial investments – Loans and receivables	36	239	–	–	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	261	–	–	–	–	71,098,391	71,098,391
Derivative financial liabilities	44	262	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	263	–	–	–	–	743,310,613	743,310,613
Other borrowings	46	265	–	–	–	–	9,270,154	9,270,154
Subordinated liabilities	52	276	–	–	–	–	24,849,539	24,849,539
Total financial liabilities			1,515,035	–	–	–	918,157,658	919,672,693

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

As at December 31, 2017	Note	Page No.	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	219	–	–	33,224,619	–	–	33,224,619
Balances with central banks	28	219	–	–	44,801,446	–	–	44,801,446
Placements with banks	29	221	–	–	17,633,269	–	–	17,633,269
Derivative financial assets	30	221	2,334,536	–	–	–	–	2,334,536
Other financial instruments – Held for trading	31	222	4,410,913	–	–	–	–	4,410,913
Loans and receivables to banks	32	225	–	–	640,512	–	–	640,512
Loans and receivables to other customers	33	226	–	–	737,446,567	–	–	737,446,567
Financial investments – Available for sale	34	232	–	–	–	154,714,132	–	154,714,132
Financial investments – Held to maturity	35	238	–	63,562,752	–	–	–	63,562,752
Financial investments – Loans and receivables	36	239	–	–	48,712,477	–	–	48,712,477
Total financial assets			6,745,449	63,562,752	882,458,890	154,714,132	–	1,107,481,223
Financial liabilities								
Due to banks	43	261	–	–	–	–	57,120,991	57,120,991
Derivative financial liabilities	44	262	3,678,494	–	–	–	–	3,678,494
Securities sold under repurchase agreements			–	–	–	–	49,676,767	49,676,767
Due to other customers/ deposits from customers	45	263	–	–	–	–	850,127,511	850,127,511
Other borrowings	46	265	–	–	–	–	23,786,094	23,786,094
Subordinated liabilities	52	276	–	–	–	–	25,165,924	25,165,924
Total financial liabilities			3,678,494	–	–		1,005,877,287	1,009,555,781

25.2 (b) Bank

As at December 31, 2016	Note	Page No.	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	219	–	–	30,193,589	–	–	30,193,589
Balances with central banks	28	219	–	–	43,873,205	–	–	43,873,205
Placements with banks	29	221	–	–	11,718,499	–	–	11,718,499
Derivative financial assets	30	221	1,052,829	–	–	–	–	1,052,829
Other financial instruments – Held for trading	31	222	4,987,798	–	–	–	–	4,987,798
Loans and receivables to banks	32	225	–	–	624,458	–	–	624,458
Loans and receivables to other customers	33	226	–	–	616,018,228	–	–	616,018,228
Financial investments – Available for sale	34	232	–	–	–	160,023,471	–	160,023,471
Financial investments – Held to maturity	35	238	–	60,981,298	–	–	–	60,981,298
Financial investments – Loans and receivables	36	239	–	–	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	261	–	–	–	–	67,608,811	67,608,811
Derivative financial liabilities	44	262	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	263	–	–	–	–	739,563,494	739,563,494
Other borrowings	46	265	–	–	–	–	9,270,154	9,270,154
Subordinated liabilities	52	276	–	–	–	–	24,849,539	24,849,539
Total financial liabilities			1,515,035	–	–	–	911,159,467	912,674,502

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 1 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 judgement 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:

			GROUP				BANK			
As at December 31, 2017	Note	Page No.	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 and equipment										
Land and buildings	26.2	217	–	–	11,559,056	11,559,056	–	–	11,218,112	11,218,112
Total non-financial assets at fair value			–	–	11,559,056	11,559,056	–	–	11,218,112	11,218,112
Financial assets										
Derivative financial assets	30	221								
Currency swaps			–	1,067,259	–	1,067,259	–	1,067,259	–	1,067,259
Forward contracts			–	1,264,900	–	1,264,900	–	1,264,900	–	1,264,900
Spot contracts			–	2,377	–	2,377	–	2,377	–	2,377
Other financial instruments – Held for trading	31	222								
Government securities			4,096,168	–	–	4,096,168	4,096,168	–	–	4,096,168
Equity shares			314,745	–	–	314,745	314,745	–	–	314,745
Financial investments – Available for sale	34	232								
Government securities			154,366,556	–	–	154,366,556	154,167,169	–	–	154,167,169
Equity securities			500,278	–	46,809	547,087	500,278	–	46,685	546,963
Investment in unit trust			–	–	–	–	–	–	–	–
Total financial assets at fair value			159,277,747	2,334,536	46,809	161,659,092	159,078,360	2,334,536	46,685	161,459,581
Total assets at fair value			**159,277,747**	**2,334,536**	**11,605,865**	**173,218,148**	**159,078,360**	**2,334,536**	**11,264,797**	**172,677,693**
Financial liabilities										
Derivative financial liabilities	44	262								
Currency swaps			–	2,656,376	–	2,656,376	–	2,656,376	–	2,656,376
Interest rate swaps			–	4,462	–	4,462	–	4,462	–	4,462
Forward contracts			–	1,015,648	–	1,015,648	–	1,015,648	–	1,015,648
Spot contracts			–	2,008	–	2,008	–	2,008	–	2,008
Total liabilities at fair value			**–**	**3,678,494**	**–**	**3,678,494**	**–**	**3,678,494**	**–**	**3,678,494**

As at December 31, 2016	Note	Page No.	GROUP Level 1 Rs. '000	GROUP Level 2 Rs. '000	GROUP Level 3 Rs. '000	GROUP Total Rs. '000	BANK Level 1 Rs. '000	BANK Level 2 Rs. '000	BANK Level 3 Rs. '000	BANK Total Rs. '000
Non-financial assets										
Property, plant and equipment										
Land and buildings	26.2	217	–	–	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	221								
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	222								
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	232								
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	262								
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**

26.2 Level 3 fair value measurement

Property, Plant and Equipment (PPE)

Reconciliation from the beginning balance to the ending balance for the land and buildings in the Level 3 of the fair value hierarchy is available in Notes 39.1 to 39.4 on pages 247 to 257.

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 168 to 171.

Note 39.5 (b) on page 252 provides information on significant unobservable inputs used as at December 31, 2017 in measuring fair value of land and buildings categorised as Level 3 in the fair value hierarchy.

Note 39.5 (c) on page 256 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. 46.809 Mn. in Group and Rs. 46.685 Mn. in Bank as at end of the year 2017 (Rs. 47.271 Mn. in Group and Rs. 47.147 Mn. in Bank as at end 2016) 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 (e.g. 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 fair values of financial assets and liabilities not measured at fair value and related fair value hierarchy used:

As at December 31, 2017	Note	Page No.	GROUP Level 1 Rs. '000	GROUP Level 2 Rs. '000	GROUP Level 3 Rs. '000	GROUP Total fair values Rs. '000	GROUP Total carrying amount Rs. '000	BANK Level 1 Rs. '000	BANK Level 2 Rs. '000	BANK Level 3 Rs. '000	BANK Total fair values Rs. '000	BANK Total carrying amount Rs. '000
Financial assets												
Cash and cash equivalents	27	219	–	34,673,424	–	34,673,424	34,673,424	–	33,224,619	–	33,224,619	33,224,619
Balances with central banks	28	219	–	45,546,349	–	45,546,349	45,546,349	–	44,801,446	–	44,801,446	44,801,446
Placements with banks	29	221	–	17,633,269	–	17,633,269	17,633,269	–	17,633,269	–	17,633,269	17,633,269
Loans and receivables to banks	32	225	–	640,512	–	640,512	640,512	–	640,512	–	640,512	640,512
Loans and receivables to other customers	33	226	–	–	741,818,598	741,818,598	742,444,130	–	–	736,821,035	736,821,035	737,446,567
Financial investments – Held-to-maturity	35	238	68,892,386	–	–	68,892,386	69,365,796	63,089,342	–	–	63,089,342	63,562,752
Financial investments – Loans and receivables	36	239	–	–	48,712,477	48,712,477	48,712,477	–	–	48,712,477	48,712,477	48,712,477
Total financial assets not at fair value			68,892,386	98,493,554	790,531,075	957,917,015	959,015,957	63,089,342	96,299,846	785,533,512	944,922,700	946,021,642
Financial liabilities												
Due to banks	43	261	–	–	60,244,892	60,244,892	60,244,892	–	–	57,120,991	57,120,991	57,120,991
Securities sold under repurchase agreements			–	49,532,385	–	49,532,385	49,532,385	–	49,676,767	–	49,676,767	49,676,767
Due to other customers/deposits from customers	45	263	–	–	856,454,642	856,454,642	857,269,981	–	–	849,312,172	849,312,172	850,127,511
Other borrowings	46	265	–	–	23,786,094	23,786,094	23,786,094	–	–	23,786,094	23,786,094	23,786,094
Subordinated liabilities	52	276	–	–	25,731,210	25,731,210	25,165,924	–	–	25,731,210	25,731,210	25,165,924
Total financial liabilities not at fair value			–	49,532,385	966,216,838	1,015,749,223	1,015,999,276	–	49,676,767	955,950,467	1,005,627,234	1,005,877,287

As at December 31, 2016	Note	Page No.	GROUP Level 1 Rs. '000	GROUP Level 2 Rs. '000	GROUP Level 3 Rs. '000	GROUP Total fair value Rs. '000	GROUP Total carrying amount Rs. '000	BANK Level 1 Rs. '000	BANK Level 2 Rs. '000	BANK Level 3 Rs. '000	BANK Total fair value Rs. '000	BANK Total carrying amount Rs. '000
Financial assets												
Cash and cash equivalents	27	219	–	32,924,227	–	32,924,227	32,924,227	–	30,193,589	–	30,193,589	30,193,589
Balances with central banks	28	219	–	43,935,258	–	43,935,258	43,935,258	–	43,873,205	–	43,873,205	43,873,205
Placements with banks	29	221	–	11,718,499	–	11,718,499	11,718,499	–	11,718,499	–	11,718,499	11,718,499
Loans and receivables to banks	32	225	–	624,458	–	624,458	624,458	–	624,458	–	624,458	624,458
Loans and receivables to other customers	33	226	–	–	625,821,184	625,821,184	620,129,488	–	–	621,709,924	621,709,924	616,018,228
Financial investments – Held to maturity	35	238	62,777,800	–	–	62,777,800	63,626,598	60,132,500	–	–	60,132,500	60,981,298
Financial investments – Loans and receivables	36	239	–	–	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	261	–	–	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	263	–	–	743,145,668	743,145,668	743,310,613	–	–	739,728,439	739,728,439	739,563,494
Other borrowings	46	265	–	–	9,270,154	9,270,154	9,270,154	–	–	9,270,154	9,270,154	9,270,154
Subordinated liabilities	52	276	–	–	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			–	69,628,961	847,689,580	917,318,541	918,157,658	–	69,867,469	840,782,771	910,650,240	911,159,467

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 215.

Type of financial instruments	Fair value as at December 31, 2017 (Rs. '000)	Valuation technique	Significant valuation inputs
Derivative financial assets	2,334,536	**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.	• Spot exchange rate
Derivative financial liabilities	3,678,494		• Interest rate differentials between currencies under consideration

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.

	GROUP		BANK	
As at December 31,	**2017 Rs. '000**	2016 Rs. '000	**2017 Rs. '000**	2016 Rs. '000
Cash in hand	23,577,061	17,599,901	23,280,599	17,406,776
Coins and notes held in local currency	20,846,435	15,497,697	20,836,652	15,488,867
Coins and notes held in foreign currency	2,730,626	2,102,204	2,443,947	1,917,909
Balances with banks	6,748,718	6,122,355	6,700,666	5,794,927
Local banks	–	–	–	–
Foreign banks	6,748,718	6,122,355	6,700,666	5,794,927
Money at call and at short notice	4,347,645	9,201,971	3,243,354	6,991,886
Total	34,673,424	32,924,227	33,224,619	30,193,589

The maturity analysis of cash and cash equivalents is given in Note 62 on pages 289 and 290.

28. Balances with Central Banks

Balances with central banks are carried at amortised cost in the Statement of Financial Position.

			GROUP		BANK	
As at December 31,	Note	Page No.	**2017 Rs. '000**	2016 Rs. '000	**2017 Rs. '000**	2016 Rs. '000
Statutory balances with central banks	28.1	220	45,546,349	43,935,258	44,801,446	43,873,205
Total			45,546,349	43,935,258	44,801,446	43,873,205

28.1 Statutory balances with central banks

	GROUP		BANK	
As at December 31,	**2017**	2016	**2017**	2016
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
Balances with the Central Bank of Sri Lanka	**40,199,840**	40,469,986	**40,199,840**	40,469,986
Balances with the Bangladesh Bank	**4,601,606**	3,403,219	**4,601,606**	3,403,219
Balances with the Maldives Monetary Authority	**744,903**	62,053	**–**	–
Total	**45,546,349**	43,935,258	**44,801,446**	43,873,205

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, 2017, the minimum cash reserve requirement was 7.50% of the rupee deposit liabilities (7.50% in 2016). 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, 2017 was 19.50% (19.50% in 2016) on time and demand liabilities (both local and foreign currencies), which includes a 6.50% (6.50% in 2016) cash reserve requirement and the balance 13.00% (13.00% in 2016) 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, 2017 was 10% (10% in 2016). 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.

The maturity analysis of balances with central banks is given in Note 62 on pages 289 and 290.

29. Placements with Banks

As at December 31,	GROUP 2017 Rs. '000	GROUP 2016 Rs. '000	BANK 2017 Rs. '000	BANK 2016 Rs. '000
Placements – within Sri Lanka	–	1,094,821	–	1,094,821
Placements – outside Sri Lanka	**17,633,269**	10,623,678	**17,633,269**	10,623,678
Total	**17,633,269**	11,718,499	**17,633,269**	11,718,499

The maturity analysis of placements with banks is given in Note 62 on pages 289 and 290.

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.

As at December 31,	GROUP 2017 Rs. '000	GROUP 2016 Rs. '000	BANK 2017 Rs. '000	BANK 2016 Rs. '000
Foreign currency derivatives				
Currency swaps	**1,067,259**	261,664	**1,067,259**	261,664
Forward contracts	**1,264,900**	788,808	**1,264,900**	788,808
Spot contracts	**2,377**	2,357	**2,377**	2,357
Total	**2,334,536**	1,052,829	**2,334,536**	1,052,829

The maturity analysis of derivative financial assets is given in Note 62 on pages 289 and 290.

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.

			GROUP		BANK	
As at December 31,	Note	Page No.	**2017** **Rs. '000**	2016 Rs. '000	**2017** **Rs. '000**	2016 Rs. '000
Government securities	31.1	222	**4,096,168**	4,693,989	**4,096,168**	4,693,989
Equity securities	31.2	223	**314,745**	293,809	**314,745**	293,809
Total			**4,410,913**	4,987,798	**4,410,913**	4,987,798

31.1 Government securities

	GROUP		BANK	
As at December 31,	**2017** **Rs. '000**	2016 Rs. '000	**2017** **Rs. '000**	2016 Rs. '000
Treasury bills	**933,056**	2,467,221	**933,056**	2,467,221
Treasury bonds	**3,163,112**	2,226,768	**3,163,112**	2,226,768
Total Government securities	**4,096,168**	4,693,989	**4,096,168**	4,693,989

The maturity analysis of other financial instruments held for trading is given in Note 62 on pages 289 and 290.

31.2 Equity securities – Group and Bank

Sector/name of the Company	As at December 31, 2017				As at December 31, 2016			
	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
Bank, Finance and Insurance								
Central Finance Company PLC	196,189	92.30	18,108	18,937	196,189	100.00	19,619	18,937
Citizens Development Business Finance PLC (Non-voting)	101,965	56.00	5,710	3,398	101,965	62.10	6,332	3,398
Hatton National Bank PLC	84	249.00	21	12	83	225.00	19	12
Lanka Ventures PLC	100,000	55.00	5,500	3,033	100,000	42.50	4,250	3,033
National Development Bank PLC	207,628	136.40	28,320	34,381	200,000	156.00	31,200	34,381
People's Insurance PLC	126,500	23.00	2,910	1,898	126,500	19.00	2,404	1,898
Sampath Bank PLC	32,341	315.70	10,210	5,430	26,350	260.40	6,862	4,298
Subtotal			70,779	67,089			70,686	65,957
Beverage, Food and Tobacco								
Lanka Milk Foods (CWE) PLC	250,000	157.00	39,250	27,866	250,000	119.00	29,750	27,866
Melstacorp PLC	245,960	59.50	14,635	9,814	245,960	59.30	14,585	9,814
Renuka Foods PLC (Non-voting)	1,000	13.80	14	15	1,000	19.50	20	15
Subtotal			53,899	37,695			44,355	37,695
Chemicals and Pharmaceuticals								
Chemical Industries Colombo Holding PLC (Non-voting)	161,400	47.40	7,650	11,692	161,400	68.00	10,975	11,692
Haycarb PLC	107,100	147.50	15,797	15,914	107,100	150.00	16,065	15,914
Subtotal			23,447	27,606			27,040	27,606
Construction and Engineering								
Colombo Dockyard PLC	75,000	88.50	6,638	16,685	75,000	78.60	5,895	16,685
Subtotal			6,638	16,685			5,895	16,685
Diversified Holdings								
Hayleys PLC	68,313	241.00	16,463	19,269	–	–	–	–
Hemas Holdings PLC	60	126.00	8	2	60	98.00	6	2
John Keells Holdings PLC	130,611	148.50	19,396	20,527	130,611	145.00	18,939	20,527
Subtotal			35,867	39,798			18,945	20,529
Healthcare								
Ceylon Hospitals PLC	121,900	83.00	10,118	12,868	121,900	87.40	10,654	12,868
Ceylon Hospitals PLC (Non-voting)	61,100	65.30	3,990	4,423	61,100	69.50	4,246	4,423
Subtotal			14,108	17,291			14,900	17,291
Hotels and Travels								
John Keells Hotels PLC	267,608	8.80	2,355	3,473	267,608	10.90	2,917	3,473
Taj Lanka Hotels PLC	212,390	15.90	3,377	6,625	212,390	25.20	5,352	6,625
Subtotal			5,732	10,098			8,269	10,098

Sector/name of the Company	As at December 31, 2017 No. of shares	Market price Rs.	Market value Rs. '000	Cost of the investment Rs. '000	As at December 31, 2016 No. of shares	Market price Rs.	Market value Rs. '000	Cost of the investment Rs. '000
Investment Trusts								
Renuka Holdings PLC	117,158	24.00	2,812	3,180	117,158	21.10	2,472	3,180
Renuka Holdings PLC (Non-voting)	265,368	17.00	4,511	4,958	265,368	18.00	4,777	4,958
Subtotal			7,323	8,138			7,249	8,138
Land and Property								
CT Land Development PLC	15,000	45.50	683	531	15,000	53.10	797	531
Overseas Reality Ceylon PLC	183,320	17.60	3,226	2,716	183,320	20.00	3,666	2,716
RIL Property PLC	2,500,000	7.20	18,000	20,000	–	–	–	–
Subtotal			21,909	23,247			4,463	3,247
Manufacturing								
ACL Cables PLC	100,000	42.40	4,240	3,676	343,032	60.50	20,753	14,096
Dipped Products PLC	200,000	85.00	17,000	24,239	200,000	86.80	17,360	24,239
Lanka Walltiles PLC	60	99.40	6	5	60	99.70	6	5
Pelwatte Sugar Industries PLC	12,300	0.10	1	351	12,300	0.10	1	351
Royal Ceramics Lanka PLC	155,927	114.50	17,854	18,057	155,927	115.50	18,010	18,057
Subtotal			39,101	46,328			56,130	56,748
Plantations								
Kotagala Plantations PLC	201,750	12.20	2,461	9,172	201,750	8.90	1,796	9,172
Subtotal			2,461	9,172			1,796	9,172
Power and Energy								
Hemas Power PLC	106,249	18.20	1,934	2,053	106,249	22.30	2,369	2,053
Lanka IOC PLC	685,984	28.00	19,208	15,013	685,984	31.70	21,746	15,013
Subtotal			21,142	17,066			24,115	17,066
Telecommunications								
Dialog Axiata PLC	949,172	13.00	12,339	6,300	949,172	10.50	9,966	6,300
Subtotal			12,339	6,300			9,966	6,300
Total			314,745	326,513			293,809	296,532
Mark to market gains/(losses)				(11,768)				(2,723)
Market value of equity securities				314,745				293,809

31.3 Industry/sector composition of equity securities – Group and Bank

Industry/sector	As at December 31, 2017 Market value Rs. '000	Cost of the investment Rs. '000	%	As at December 31, 2016 Market value Rs. '000	Cost of the investment Rs. '000	%
Banking, finance and insurance	70,779	67,089	22.49	70,686	65,957	24.06
Beverage, food and tobacco	53,899	37,695	17.12	44,355	37,695	15.10
Chemicals and pharmaceuticals	23,447	27,606	7.45	27,040	27,606	9.20
Construction and engineering	6,638	16,685	2.11	5,895	16,685	2.01
Diversified holdings	35,867	39,798	11.40	18,945	20,529	6.45
Healthcare	14,108	17,291	4.48	14,900	17,291	5.07
Hotels and travels	5,732	10,098	1.82	8,269	10,098	2.81
Investment trusts	7,323	8,138	2.33	7,249	8,138	2.47
Land and property	21,909	23,247	6.96	4,463	3,247	1.52
Manufacturing	39,101	46,328	12.42	56,130	56,748	19.10
Plantations	2,461	9,172	0.78	1,796	9,172	0.61
Power and energy	21,142	17,066	6.72	24,115	17,066	8.21
Telecommunications	12,339	6,300	3.92	9,966	6,300	3.39
Subtotal	314,745	326,513	100.00	293,809	296,532	100.00
Mark to market gains/(losses) for the year		(11,768)			(2,723)	
Market value of equity securities	314,745	314,745	100.00	293,809	293,809	100.00

32. Loans and Receivables to Banks

"Loans and receivables to banks" comprised non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those that the Group intends to sell immediately or in the near term and those that the Group, upon initial recognition, designates as at fair value through profit or loss.
- those that the Group, upon initial recognition, designates as available for sale.
- those for which the Group may not recover substantially all of its initial investment, other than because of credit deterioration.
- 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 2017 Rs. '000	GROUP 2016 Rs. '000	BANK 2017 Rs. '000	BANK 2016 Rs. '000
Gross loans and receivables	640,512	624,458	640,512	624,458
Less: Provision for impairment	–	–	–	–
Net loans and receivables	640,512	624,458	640,512	624,458

The maturity analysis of loans and receivables to banks is given in Note 62 on pages 289 and 290.

The Bank did not make any payments to counterparty banks for the oil hedging transactions with effect from June 02, 2009 in response to a Directive received from the Exchange Controller of the Central Bank of Sri Lanka. Consequently, one of the counterparty banks appropriated USD 4.170 Mn. (Rs. 640.512 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

	GROUP		BANK	
As at December 31,	**2017** **Rs. '000**	2016 Rs. '000	**2017** **Rs. '000**	2016 Rs. '000
United States Dollar	**640,512**	624,458	**640,512**	624,458
Subtotal	**640,512**	624,458	**640,512**	624,458

33. Loans and Receivables to Other Customers

"Loans and receivables to other customers" comprised non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those that the Group intends to sell immediately or in the near term and those that the Group, upon initial recognition, designates as at fair value through profit or loss
- those that the Group, upon initial recognition, designates as available-for-sale
- those for which the Group may not recover substantially all of its initial investment, other than because of credit deterioration.

"Loans and receivables to other customers" include, Loans and 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 other 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.

			GROUP		BANK	
As at December 31,	Note	Page No.	**2017** **Rs. '000**	2016 Rs. '000	**2017** **Rs. '000**	2016 Rs. '000
Gross loans and receivables			**760,453,937**	637,982,536	**754,707,977**	633,390,907
Less: Provision for individual impairment	33.2	**229**	**7,853,654**	8,453,457	**7,853,654**	8,453,457
Provision for collective impairment	33.2	**229**	**10,156,153**	9,399,591	**9,407,756**	8,919,222
Net loans and receivables			**742,444,130**	620,129,488	**737,446,567**	616,018,228

The maturity analysis of loans and receivables to other customers is given in Note 62 on pages 289 and 290.

33.1 Analysis

33.1 (a) By product

As at December 31,	Note	Page No.	GROUP 2017 Rs. '000	GROUP 2016 Rs. '000	BANK 2017 Rs. '000	BANK 2016 Rs. '000
Loans and receivables						
Overdrafts			118,072,316	100,985,232	117,362,030	100,903,024
Trade finance			58,291,188	43,088,097	58,275,965	43,088,097
Lease/hire purchase receivable	33.3	229	40,766,415	39,040,966	37,865,183	35,993,964
Credit cards			9,639,046	6,679,059	9,639,046	6,679,059
Pawning			1,339,259	1,239,785	1,339,259	1,239,785
Staff loans			7,980,429	7,276,285	7,973,685	7,274,154
Housing loans			53,628,645	47,275,462	53,628,645	47,275,462
Personal loans			28,401,829	25,996,196	28,272,669	25,906,055
Term loans						
Short-term			88,668,616	72,590,084	87,600,808	71,219,300
Long-term			333,059,523	277,354,045	332,144,016	277,354,682
Loans granted from Investment Fund Account (IFA)	33.4	231	3,499,574	3,974,359	3,499,574	3,974,359
Bills of exchange			17,107,097	12,482,966	17,107,097	12,482,966
Subtotal			760,453,937	637,982,536	754,707,977	633,390,907

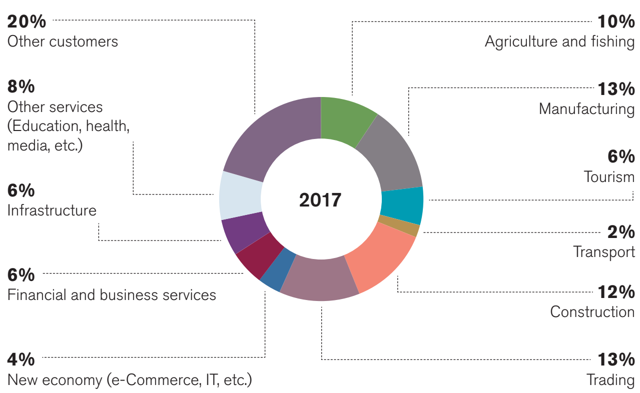
33.1 (b) By currency

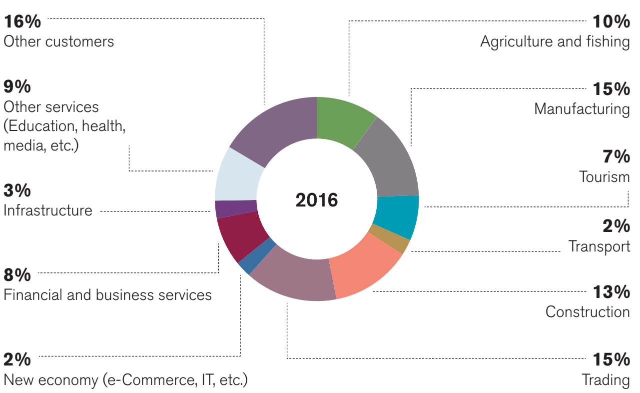
As at December 31,	GROUP 2017 Rs. '000	GROUP 2016 Rs. '000	BANK 2017 Rs. '000	BANK 2016 Rs. '000
Sri Lankan Rupee	600,058,048	506,118,547	595,745,318	501,609,126
United States Dollar	113,192,698	94,727,963	112,496,635	94,645,778
Great Britain Pound	892,245	695,403	892,245	695,403
Euro	1,500,772	1,545,852	1,500,772	1,545,852
Australian Dollar	690,992	514,017	690,992	514,017
Japanese Yen	135,765	71,144	135,765	71,144
Singapore Dollar	5,504	127	5,504	127
Bangladesh Taka	43,164,009	34,174,199	43,164,009	34,174,199
Maldivian Rufiyaa	737,167	23	–	–
Others	76,737	135,261	76,737	135,261
Subtotal	760,453,937	637,982,536	754,707,977	633,390,907

33.1 (c) By industry

As at December 31,	GROUP		BANK	
	2017	2016	**2017**	2016
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
Agriculture and fishing	**71,041,888**	63,529,644	**70,786,178**	63,332,661
Manufacturing	**115,028,848**	92,030,456	**114,980,885**	91,982,499
Tourism	**47,671,546**	46,086,461	**46,808,711**	45,919,393
Transport	**17,190,601**	14,892,683	**17,083,533**	14,800,244
Construction	**106,784,977**	81,259,365	**106,328,774**	81,187,168
Trading	**114,649,323**	94,987,320	**113,037,048**	93,538,474
New economy (e-commerce, IT, etc.)	**17,479,610**	15,111,861	**17,479,610**	15,111,861
Financial and business services	**46,764,237**	49,066,227	**47,393,198**	49,740,977
Infrastructure	**20,886,155**	17,894,260	**20,886,155**	17,894,260
Other services (education, health, media, etc.)	**64,040,605**	57,961,305	**63,062,660**	56,923,320
Other customers	**138,916,147**	105,162,954	**136,861,225**	102,960,050
Subtotal	**760,453,937**	637,982,536	**754,707,977**	633,390,907

Sectoral classification of loans and advances – Bank





33.2 Movement in provision for individual and collective impairment during the year

	Note	Page No.	GROUP 2017 Rs. '000	GROUP 2016 Rs. '000	BANK 2017 Rs. '000	BANK 2016 Rs. '000
Movement in provision for individual impairment						
Balance as at January 1,			8,453,457	5,369,960	8,453,457	5,369,960
Charge/(write-back) to the Income Statement	18	203	401,716	3,439,879	401,716	3,439,879
Net write-off/(recoveries) during the year			(695,023)	(287,226)	(695,023)	(287,226)
Exchange rate variance on foreign currency provisions			30,057	51,080	30,057	51,080
Interest accrued/(reversals) on impaired loans and advances			(861,057)	(533,528)	(861,057)	(533,528)
Other movements			524,504	413,292	524,504	413,292
Balance as at December 31,			7,853,654	8,453,457	7,853,654	8,453,457
Movement in provision for collective impairment						
Balance as at January 1,			9,399,591	13,089,833	8,919,222	12,681,594
Charge/(write-back) to the Income Statement	18	203	1,823,522	(1,859,806)	1,554,333	(1,931,932)
Net write-off/(recoveries) during the year			(1,060,768)	(1,835,798)	(1,060,768)	(1,835,798)
Exchange rate variance on foreign currency provisions			(6,192)	5,362	(5,031)	5,358
Balance as at December 31,			10,156,153	9,399,591	9,407,756	8,919,222
Total of individual and collective impairment			18,009,807	17,853,048	17,261,410	17,372,679

33.3 Lease/hire purchase receivable

As at December 31,	Note	Page No.	GROUP 2017 Rs. '000	GROUP 2016 Rs. '000	BANK 2017 Rs. '000	BANK 2016 Rs. '000
Gross lease/hire purchase receivable			40,766,415	39,040,966	37,865,183	35,993,964
Within one year	33.3 (a)	229	15,149,364	13,440,584	14,297,074	12,631,092
From one to five years	33.3 (b)	230	25,307,569	25,250,003	23,564,939	23,358,999
After five years	33.3 (c)	230	309,482	350,379	3,170	3,873
Less: Provision for individual impairment	33.3 (d)	230	133,536	241,185	133,536	241,185
Provision for collective impairment	33.3 (e)	231	642,502	681,035	254,128	262,381
Net lease receivable			39,990,377	38,118,746	37,477,519	35,490,398

33.3 (a) Lease/hire purchase receivable within one year

As at December 31,	GROUP 2017 Rs. '000	GROUP 2016 Rs. '000	BANK 2017 Rs. '000	BANK 2016 Rs. '000
Total lease/hire purchase receivable within one year	19,613,099	17,390,714	18,418,203	16,232,578
Less: Unearned lease/hire purchase income	4,463,735	3,950,130	4,121,129	3,601,486
Gross lease/hire purchase receivable within one year	15,149,364	13,440,584	14,297,074	12,631,092
Less: Provision for individual impairment	119,231	228,553	119,231	228,553
Provision for collective impairment	351,640	364,252	214,659	228,060
Subtotal	14,678,493	12,847,779	13,963,184	12,174,479

33.3 (b) Lease/hire purchase receivable from one to five years

As at December 31,	GROUP 2017 Rs. '000	GROUP 2016 Rs. '000	BANK 2017 Rs. '000	BANK 2016 Rs. '000
Total lease/hire purchase receivable from one to five years	29,262,074	29,185,428	27,056,087	26,793,674
Less: Unearned lease/hire purchase income	3,954,505	3,935,425	3,491,148	3,434,675
Gross lease/hire purchase receivable from one to five years	25,307,569	25,250,003	23,564,939	23,358,999
Less: Provision for individual impairment	14,305	12,632	14,305	12,632
Provision for collective impairment	236,877	268,364	39,468	34,319
Subtotal	25,056,387	24,969,007	23,511,166	23,312,048

33.3 (c) Lease/hire purchase receivable after five years

As at December 31,	GROUP 2017 Rs. '000	GROUP 2016 Rs. '000	BANK 2017 Rs. '000	BANK 2016 Rs. '000
Total lease/hire purchase receivable after five years	311,269	354,646	3,215	4,480
Less: Unearned lease/hire purchase income	1,787	4,267	45	607
Gross lease/hire purchase receivable after five years	309,482	350,379	3,170	3,873
Less: Provision for individual impairment	–	–	–	–
Provision for collective impairment	53,985	48,419	1	2
Subtotal	255,497	301,960	3,169	3,871

33.3 (d) Movement in provision for individual impairment on lease/hire purchase receivable

	GROUP 2017 Rs. '000	GROUP 2016 Rs. '000	BANK 2017 Rs. '000	BANK 2016 Rs. '000
Balance as at January 1,	241,185	93,710	241,185	93,710
Charge/(write-back) to the Income Statement	55,258	209,134	55,258	209,134
Net write-off/(recoveries) during the year	(149,508)	(31,648)	(149,508)	(31,648)
Interest accrued on impaired lease/hire purchase receivable	(15,171)	(32,268)	(15,171)	(32,268)
Other movements	1,772	2,257	1,772	2,257
Balance as at December 31,	133,536	241,185	133,536	241,185

33.3 (e) Movement in provision for collective impairment on lease/hire purchase receivable

	GROUP		BANK	
	2017	2016	**2017**	2016
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
Balance as at January 1,	**681,035**	953,696	**262,381**	556,776
Charge/(write-back) to the Income Statement	**75,108**	1,154,843	**105,388**	1,133,109
Net write-off/(recoveries) during the year	**(113,641)**	(1,427,504)	**(113,641)**	(1,427,504)
Balance as at December 31,	**642,502**	681,035	**254,128**	262,381

33.4 Loans granted from Investment Fund Account (IFA)

As per the guidelines issued by the Central Bank of Sri Lanka, Investment Fund Account was established effective from January 1, 2011, by transferring tax savings as explained below:

(a) 5% of the Profits Before Tax (PBT) calculated for Income Tax (IT) purposes, on the dates of making self-assessment payments on IT.

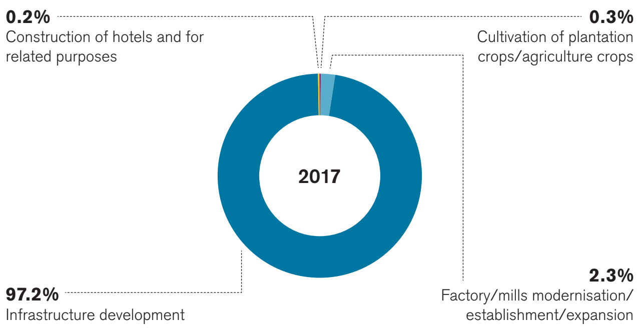
(b) 8% of the profits calculated for the payment of Value Added Tax (VAT) on financial services at the time of making payments on VAT.

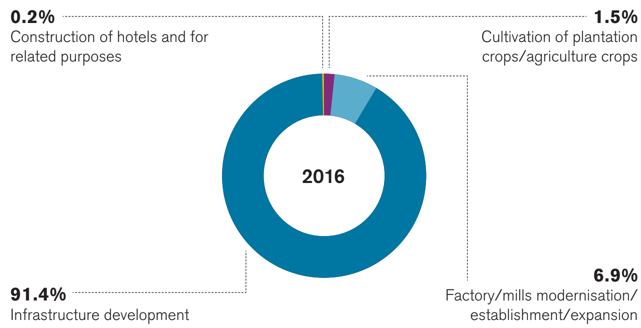
The sectoral distribution of loans disbursed under IFA is given below:

As at December 31,			**2017**			2016		
Sector	Range of interest rates (%)	Tenure (Years)	**Amount outstanding (A) Rs. '000**	**Pending disbursement (B) Rs. '000**	**Total (A) + (B) Rs. '000**	Amount outstanding (A) Rs. '000	Pending disbursement (B) Rs. '000	Total (A) + (B) Rs. '000
(a) Cultivation of plantation crops/agriculture crops	7.91 – 12.12	5.5	**11,363**	**–**	**11,363**	38,636	–	38,636
(b) Factory/mills modernisation/ establishment/expansion	7.91 – 13.12	5.5	**76,179**	**–**	**76,179**	192,040	–	192,040
(c) Infrastructure development	6.80 – 11.00	14.5	**3,232,587**	**64,691**	**3,297,278**	3,559,585	98,627	3,658,212
(d) Construction of hotels and for related purposes	8.41 – 12.62	7	**6,278**	**–**	**6,278**	8,236	–	8,236
Capital outstanding of the loans granted			**3,326,407**	**64,691**	**3,391,098**	3,798,497	98,627	3,897,124
(e) Interest receivable			**173,167**	**–**	**173,167**	175,862	–	175,862
Carrying amount of the loans granted			**3,499,574**	**64,691**	**3,564,265**	3,974,359	98,627	4,072,986

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,	2017		2016	
	Individually impaired loans and receivables Rs. '000	**Provision for individual impairment Rs. '000**	Individually impaired loans and receivables Rs. '000	Provision for individual impairment Rs. '000
Loans and advances				
Overdrafts	2,350,482	1,522,572	2,311,257	1,554,417
Trade finance	906,384	533,034	749,241	507,360
Lease/hire purchase receivable	295,761	133,536	444,882	241,185
Pawning	484	7	–	–
Housing loans	581,651	183,109	480,970	169,831
Personal loans	8,583	5,024	6,586	4,338
Term loans	18,899,904	5,476,372	18,109,141	5,976,326
Bills of exchange	–	–	–	–
Total	23,043,248	7,853,654	22,102,077	8,453,457

The net exposure of Rs. 15,189.594 Mn. (Rs. 13,648.620 Mn. As at December 31, 2016) is substantially covered by collaterals 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,	Note	Page No.	GROUP 2017 Rs. '000	GROUP 2016 Rs. '000	BANK 2017 Rs. '000	BANK 2016 Rs. '000
Government Securities			154,366,556	159,642,243	154,167,169	159,573,316
Government securities – Sri Lanka	34.1 (a)	233	154,366,556	159,642,243	154,167,169	159,573,316
Government securities – Bangladesh	34.1 (b)	233	–	–	–	–
Equity securities	34.2 & 34.3	235 & 236	547,087	293,819	546,963	293,695
Quoted shares (market value)	34.2 (a) & 34.3 (a)	235 & 236	500,278	246,548	500,278	246,548
Unquoted shares (at cost)	34.2 (b) & 34.3 (b)	235 & 237	46,809	47,271	46,685	47,147
Investment in unit trust	34.4 & 34.5	237 & 238	–	156,460	–	156,460
Total			154,913,643	160,092,522	154,714,132	160,023,471

There were no impairment losses on Financial Investments – Available for Sale as at December 31, 2017 (2016 – Nil).

The maturity analysis of Financial Investments – Available for Sale is given in Note 62 on pages 289 and 290.

34.1 Government securities

34.1 (a) Government securities – Sri Lanka

As at December 31,	GROUP 2017 Rs. '000	GROUP 2016 Rs. '000	BANK 2017 Rs. '000	BANK 2016 Rs. '000
Treasury bills	15,367,792	17,827,210	15,168,405	17,758,283
Treasury bonds	136,195,443	138,993,358	136,195,443	138,993,358
Sri Lanka sovereign bonds	2,803,321	2,821,675	2,803,321	2,821,675
Subtotal	154,366,556	159,642,243	154,167,169	159,573,316

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 2017 Rs. '000	GROUP 2016 Rs. '000	BANK 2017 Rs. '000	BANK 2016 Rs. '000
Treasury Bills	–	–	–	–
Treasury Bonds	–	–	–	–
Subtotal	–	–	–	–

During 2016, Bangladesh operation of the Bank reclassified its total Available-for-sale (AFS) portfolio amounting to Rs. 9,556.057 Mn. (Face Value Rs. 8,521.690 Mn.) to Held-to-maturity (HTM) category, 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 2016, 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.

	2017		2016	
	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	N/A	N/A	2,830,744	–
Net impairment loss on financial assets	N/A	N/A	–	–
Net change in fair value	N/A	N/A	–	–
Amount transferred from AFS reserve to profit or loss	N/A	N/A	–	243,331
Total	N/A	N/A	2,830,744	243,331

The table below sets out the amounts that would have been recognised, if the reclassification had not been made.

	2017		2016	
	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	N/A	N/A	2,830,744	–
Net impairment loss on financial assets	N/A	N/A	–	–
Net change in fair value	N/A	N/A	–	(844,209)
Total	N/A	N/A	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, 2017

	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	122.80	429	155	3,496	122.80	429	155
Hatton National Bank PLC	11,950	249.00	2,976	315	11,950	249.00	2,976	315
Nations Trust Bank PLC	1,333	78.00	104	22	1,333	78.00	104	22
National Development Bank PLC	5,424	136.40	740	215	5,424	136.40	740	215
Sampath Bank PLC	4,600	315.70	1,452	72	4,600	315.70	1,452	72
Seylan Bank PLC	1,015	87.20	89	24	1,015	87.20	89	24
VISA Inc.	19,424	USD 114.02	340,182	–	19,424	USD 114.02	340,182	–
Subtotal			345,972	803			345,972	803
Land and property								
RIL Property PLC	19,596,200	7.20	141,093	156,770	19,596,200	7.20	141,093	156,770
Subtotal			141,093	156,770			141,093	156,770
Manufacturing								
Alumex PLC	714,200	18.50	13,213	9,999	714,200	18.50	13,213	9,999
Subtotal			13,213	9,999			13,213	9,999
Total			500,278	167,572			500,278	167,572

34.2 (b) Equity securities – as at December 31, 2017

	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 Limited	3,427,083	BDT2.75	17,491	17,491	3,427,083	BDT2.75	17,491	17,491
Credit Information Bureau of Sri Lanka	5,637	100.00	564	564	4,400	100.00	440	440
Fitch Ratings Lanka Limited	62,500	10.00	625	625	62,500	10.00	625	625
LankaClear (Pvt) Limited	1,000,000	10.00	10,000	10,000	1,000,000	10.00	10,000	10,000
Lanka Financial Services Bureau Limited	225,000	10.00	2,250	2,250	225,000	10.00	2,250	2,250
Lanka Ratings Agency Limited	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 841.90	7,259	7,259	47	EUR 841.90	7,259	7,259
Total			46,809	46,809			46,685	46,685

34.2 (c) Sector/industry composition of the equity securities – as at December 31, 2017

	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	392,781	47,612	392,657	47,488
Land and property	141,093	156,770	141,093	156,770
Manufacturing	13,213	9,999	13,213	9,999
Total	547,087	214,381	546,963	214,257

34.3 (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	USD 78.02	226,940	–	19,424	USD 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

34.3 (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 Limited	3,427,083	BDT2.75	17,953	17,953	3,427,083	BDT2.75	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 Limited	62,500	10.00	625	625	62,500	10.00	625	625
LankaClear (Pvt) Limited	1,000,000	10.00	10,000	10,000	1,000,000	10.00	10,000	10,000
Lanka Financial Services Bureau Limited	225,000	10.00	2,250	2,250	225,000	10.00	2,250	2,250
Lanka Ratings Agency Limited	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

34.3 (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

34.4 Investment in unit trust – as at December 31, 2017

	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 Limited	–	–	–	–
Total	–	–	–	–

34.5 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 Limited	156,460	153,849	156,460	153,849
Total	156,460	153,849	156,460	153,849

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.

	GROUP		BANK	
As at December 31,	**2017 Rs. '000**	2016 Rs. '000	**2017 Rs. '000**	2016 Rs. '000
Government Securities – Sri Lanka	**53,555,302**	50,980,717	**53,555,302**	50,980,717
Treasury bonds	**38,675,911**	36,599,599	**38,675,911**	36,599,599
Sri Lanka Sovereign Bonds	**14,879,391**	14,381,118	**14,879,391**	14,381,118
Government Securities – Bangladesh	**10,007,450**	10,000,581	**10,007,450**	10,000,581
Treasury bills	**1,197,755**	1,524,677	**1,197,755**	1,524,677
Treasury bonds	**8,809,695**	8,475,904	**8,809,695**	8,475,904
Government Securities – Maldives	**5,803,044**	2,645,300	**–**	–
Treasury bills	**5,803,044**	2,645,300	**–**	–
Total	**69,365,796**	63,626,598	**63,562,752**	60,981,298

Please refer Notes 34.1 (a), 34.1 (b) and 34.1 (c) on page 233 for the details of re-classification to Held-to-maturity (HTM) investments from Available-for-sale (AFS) category effected during 2016.

The maturity analysis of financial investments – Held to maturity is given in Note 62 on pages 289 and 290.

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.

			GROUP		BANK	
As at December 31,			**2017**	2016	**2017**	2016
	Note	Page No.	**Rs. '000**	Rs. '000	**Rs. '000**	Rs. '000
Investments in Government securities	36.1	239	**40,566,702**	40,076,392	**40,566,702**	40,076,392
Other investments	36.2	239	**8,145,775**	11,747,634	**8,145,775**	11,747,634
Total			**48,712,477**	51,824,026	**48,712,477**	51,824,026

36.1 Investments in government securities

	GROUP		BANK	
As at December 31,	**2017**	2016	**2017**	2016
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
Sri Lanka Development Bonds	**40,566,702**	40,076,392	**40,566,702**	40,076,392
Total	**40,566,702**	40,076,392	**40,566,702**	40,076,392

36.2 Other investments

			GROUP		BANK	
As at December 31,			**2017**	2016	**2017**	2016
	Note	Page No.	**Rs. '000**	Rs. '000	**Rs. '000**	Rs. '000
Debentures	36.2.1	240	**8,045,593**	11,236,208	**8,045,593**	11,236,208
Trust certificates	36.2.2	240	**98,087**	511,208	**98,087**	511,208
Corporate investments in Bangladesh	36.2.3	241	**2,095**	218	**2,095**	218
Total			**8,145,775**	11,747,634	**8,145,775**	11,747,634

The maturity analysis of financial investments – Loans and receivables is given in Note 62 on pages 289 and 290.

36.2.1 Debentures

As at December 31,	GROUP				BANK			
	2017		2016		2017		2016	
	No. of debentures	Carrying value Rs. '000	No. of debentures	Carrying value Rs. '000	No. of debentures	Carrying value Rs. '000	No. of debentures	Carrying value Rs. '000
Central Finance Company PLC	2,084,400	300,475	2,349,400	391,976	2,084,400	300,475	2,349,400	391,976
Commercial Leasing and Finance PLC	10,000,000	1,097,500	10,000,000	1,097,767	10,000,000	1,097,500	10,000,000	1,097,767
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	10,878,400	1,114,983	10,878,400	1,114,983	10,878,400	1,114,983
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	200,000	206,286	400,000	413,177	200,000	206,286	400,000	413,177
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	307,373	3,000,000	307,373	3,000,000	307,373
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	328,800	36,045	6,924,200	751,180	328,800	36,045	6,924,200	751,180
Richard Pieris and Company PLC	5,353,500	550,326	6,763,400	695,136	5,353,500	550,326	6,763,400	695,136
Singer (Sri Lanka) PLC	9,598,100	997,423	9,598,100	998,155	9,598,100	997,423	9,598,100	998,155
Singer Finance (Lanka) PLC	4,435,230	478,005	5,914,610	631,335	4,435,230	478,005	5,914,610	631,335
Softlogic Finance PLC	3,223,400	330,465	3,223,400	330,465	3,223,400	330,465	3,223,400	330,465
DFCC Bank PLC	–	–	18,000,000	1,857,008	–	–	18,000,000	1,857,008
Senkadagala Finance PLC	–	–	200,684	20,941	–	–	200,684	20,941
Subtotal		8,045,593		11,236,208		8,045,593		11,236,208

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	
	2017	2016	2017	2016
	Carrying value Rs. '000	Carrying value Rs. '000	Carrying value Rs. '000	Carrying value Rs. '000
People's Leasing Company PLC	48,111	213,303	48,111	213,303
Richard Pieris Arpico Finance Limited	49,976	117,712	49,976	117,712
Assetline Leasing Company Limited	–	141,699	–	141,699
Mercantile Investments & Finance PLC	–	38,494	–	38,494
Subtotal	98,087	511,208	98,087	511,208

36.2.3 Corporate investments in Bangladesh

As at December 31,	GROUP		BANK	
	2017	2016	**2017**	2016
	Carrying value	Carrying value	**Carrying value**	Carrying value
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
Price bonds	2,095	218	2,095	218
Sub total	2,095	218	2,095	218

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, Commercial Bank of Maldives Private Limited which was incorporated in the Republic of Maldives and CBC Myanmar Microfinance Company Limited which was incorporated in Myanmar.

As at December 31,	Note	Page No.	Holding %	GROUP 2017 Cost Rs. '000	GROUP 2017 Market value/ Directors' valuation Rs. '000	GROUP 2016 Cost Rs. '000	GROUP 2016 Market value/ Directors' valuation Rs. '000	BANK 2017 Cost Rs. '000	BANK 2017 Market value/ Directors' valuation Rs. '000	BANK 2016 Cost Rs. '000	BANK 2016 Market value/ Directors' valuation Rs. '000
Local subsidiaries:											
Quoted:											
Commercial Development Company PLC			92.97*	–	–	–	–	269,821	780,963	272,363	845,755
(11,156,619 Ordinary shares)									(@ Rs. 70.00)		(@ Rs. 75.10)
(11,261,717 Ordinary shares as at December 31, 2016)			(93.85 in 2016)								
Unquoted:											
ONEzero Company Limited			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, 2016)											
Unquoted:											
Serendib Finance Limited			100	–	–	–	–	1,616,046	1,616,046	1,116,046	1,116,046
(53,352,686 Ordinary shares)											
(30,728,252 Ordinary shares as at December 31, 2016)											
Foreign subsidiaries:											
Unquoted:											
Commex – Sri Lanka S.R.L. (incorporated in Italy) (**)			100	–	–	–	–	112,400	69,622	193,080	27,140
(300,000 Ordinary shares) (300,000 Ordinary shares as at December 31, 2016)											
Commercial Bank of Maldives Private Limited			55	–	–	–	–	1,040,934	1,040,934	1,014,843	1,014,843
(104,500 Ordinary shares)											
(104,500 Ordinary shares as at December 31, 2016)											
CBC Myanmar Microfinance Co. Limited (***)			100	–	–	–	–	64,512	64,512	–	–
(420,000 Ordinary shares)											
Gross Total				–	–	–	–	3,108,713	3,577,077	2,601,332	3,008,784
Provision for impairment	37.1	243						(42,778)	–	(165,940)	–
Net Total				–	–	–	–	3,065,935	3,577,077	2,435,392	3,008,784

(*) 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 189,086 shares since November 2015 through the Colombo Stock Exchange and reduced the shareholding in the above Company to 92.97% by December 31, 2017 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.

(**) The investment made in Commex Sri Lanka S.R.L. – Italy has been written down to account for pre-operational expenses.

(***) The CBC Myanmar Microfinance Company Limited was incorporated as a fully owned subsidiary in Myanmar. The Bank obtained a licence from the Myanmar Microfinance Supervisory Enterprise to operate a non-savings deposit organisation.

37.1 Movement in provision for impairment o/a subsidiaries during the year

As at December 31,	Note	Page No.	GROUP 2017 Rs. '000	GROUP 2016 Rs. '000	BANK 2017 Rs. '000	BANK 2016 Rs. '000
Balance as at January 1,			–	–	165,940	150,590
Charge/(write back) to the Income Statement	18	201	–	–	(42,484)	15,350
Pre-operational expenses written-off o/a Commex Sri Lanka S.R.L. – Italy				–	(80,678)	–
Balance as at December 31,			–	–	42,778	165,940

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	2017 Cost Rs. '000	2017 Carrying value Rs. '000	2016 Cost Rs. '000	2016 Carrying value Rs. '000
Equity Investments Lanka Limited	Sri Lanka	22.92	4,110,938	44,331	66,528	44,331	68,621
Commercial Insurance Brokers (Pvt) Limited	Sri Lanka	18.59 *	120,000	100	43,316	100	40,238
				44,431	109,844	44,431	108,859

(*) 20% stake of Commercial Insurance Brokers (Pvt) Limited is held by Commercial Development Company PLC, a 92.97% 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) Limited though it effectively holds only 18.59%.

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:

	2017			2016		
	Equity Investments Lanka Ltd. Rs. '000	Commercial Insurance Brokers (Pvt) Ltd. Rs. '000	Total Rs. '000	Equity Investments Lanka Ltd. Rs. '000	Commercial Insurance Brokers (Pvt) Ltd. Rs. '000	Total 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 1,	24,290	40,138	64,428	23,043	37,030	60,073
Total comprehensive income	2,018	5,186	7,204	5,358	4,903	10,261
Profit/(loss) for the period recognised in income statement, net of tax	(1,539)	5,217	3,678	1,645	4,809	6,454
Profit or loss and other comprehensive income, net of tax	3,557	(31)	3,526	3,713	94	3,807
Movement due to change in equity	–	(419)	(419)	–	(98)	(98)
Transactions which are recorded directly in equity	–	–	–	–	–	–
Dividend received	(4,111)	(1,689)	(5,800)	(4,111)	(1,697)	(5,808)
Balance as at December 31,	66,528	43,316	109,844	68,621	40,238	108,859

38.2 Summarised financial information in respect of associates is set out below:

38.2 (a) Summarised income statement

For the year ended December 31,	2017			2016		
	Equity Investments Lanka Ltd. Rs. '000	Commercial Insurance Brokers (Pvt) Ltd. Rs. '000	Total Rs. '000	Equity Investments Lanka Ltd. Rs. '000	Commercial Insurance Brokers (Pvt) Ltd. Rs. '000	Total Rs. '000
Percentage ownership interest						
Revenue	21,048	274,885	295,015	28,000	252,335	280,335
Expenses	(27,159)	(230,556)	(257,715)	(21,602)	(214,731)	(236,333)
Income tax	(605)	(15,618)	(16,223)	783	(12,090)	(11,307)
Profit from continuing operations, net of tax	(6,716)	28,711	21,077	7,181	25,514	32,695
Group's share of profit from continuing operations, net of tax	(1,539)	5,217	3,678	1,645	4,809	6,454
Other comprehensive income, net of tax	15,519	(166)	15,353	16,201	499	16,700
Group's share of other comprehensive income from continuing operations, net of tax	3,557	(31)	3,526	3,713	94	3,807
Share of results of equity-accounted investee recognised in Income Statement and Statement of Profit or Loss and Other Comprehensive Income	2,018	5,186	7,204	5,358	4,903	10,261

38.2 (b) Summarised statement of financial position

As at December 31,	**2017**		2016	
	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	202,474	138,530	194,144	143,515
Current assets	97,902	165,034	114,197	152,333
Non-current liabilities	(1,448)	(23,485)	(5,975)	(22,366)
Current liabilities	(8,672)	(47,072)	(2,974)	(60,020)
Net assets	290,256	233,007	299,392	213,462
Group's share of net assets	66,528	43,316	68,621	40,238
Less: Unrealised profits	–	–	–	–
Carrying amount of interest in associates	66,528	43,316	68,621	40,238

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 289 and 290.

39. Property, Plant and Equipment

The Group applies the requirements of the Sri Lanka Accounting Standard – LKAS 16 on "Property, Plant and 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 and 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 and 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 and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

- Cost Model

  The Group applies the Cost Model to all property, plant and 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 and leasehold buildings as at December 31, 2017. 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 and 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 and equipment, the remaining carrying amount of the replaced part is derecognised as required by Sri Lanka Accounting Standard – LKAS 16 on "Property, Plant and 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 the Management (i.e. available for use).

39.1 Group – 2017

	Note	Page No.	Freehold land Rs. '000	Freehold buildings Rs. '000	Leasehold buildings Rs. '000	Computer equipment Rs. '000	Motor vehicles Rs.'000	Office equipment, furniture and fixtures Rs. '000	Capital work-in-progress Rs. '000	Total 2017 Rs. '000	Total 2016 Rs. '000
Cost/valuation											
Balance as at January 1,			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
Additions/transfers during the year			306,932	74,797	71,292	798,192	22,107	752,372	138,041	2,163,733	1,501,070
Transfer of accumulated depreciation on assets revalued			–	(282,656)	(74,247)	–	–	–	–	(356,903)	–
Surplus on revaluation of property			2,175,514	1,418,299	252,168	–	–	–	–	3,845,981	–
Disposals during the year			(34,000)	(21,263)	–	(76,893)	(17,230)	(130,437)	(4,558)	(284,381)	(390,405)
Exchange rate variance			–	–	–	(3,153)	(1,376)	(6,838)	–	(11,367)	19,671
Transfers/adjustments			–	(5,351)	(477)	–	–	5,828	–	–	–
Balance as at December 31,			7,362,729	4,198,028	1,332,104	4,983,219	353,334	5,811,340	177,440	24,218,194	18,861,131
Accumulated depreciation and impairment losses											
Balance as at January 1,			–	185,414	92,183	3,121,246	229,322	3,663,300	–	7,291,465	6,549,362
Charge for the year	20	203	–	101,848	32,513	459,910	42,892	548,535	–	1,185,698	1,093,088
Impairment loss			–	–	–	–	–	–	–	–	–
Transfer of accumulated depreciation on assets revalued			–	(282,656)	(74,247)	–	–	–	–	(356,903)	–
Disposals during the year			–	(2,850)	–	(72,861)	(17,230)	(114,634)	–	(207,575)	(368,632)
Exchange rate variance			–	–	–	(3,203)	(1,376)	(6,956)	–	(11,535)	17,647
Transfers/adjustments			–	(55)	(2)	1,109	–	(1,052)	–	–	–
Balance as at December 31,			–	1,701	50,447	3,506,201	253,608	4,089,193	–	7,901,150	7,291,465
Net book value as at December 31, 2017			7,362,729	4,196,327	1,281,657	1,477,018	99,726	1,722,147	177,440	16,317,044	
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

39.2 Group – 2016

	Note	Page No.	Freehold land Rs. '000	Freehold buildings Rs. '000	Leasehold buildings Rs. '000	Computer equipment Rs. '000	Motor vehicles Rs.'000	Office equipment, furniture and fixtures Rs. '000	Capital work-in-progress Rs. '000	**Total 2016 Rs. '000**	Total 2015 Rs. '000
Cost/valuation											
Balance as at January 1,			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
Transfer of accumulated depreciation on assets revalued			–	–	–	–	–	–	–	**–**	–
Surplus on revaluation of property			–	–	–	–	–	–	–	**–**	–
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
Transfers/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 1,			–	91,285	62,296	2,973,701	217,350	3,204,730	–	**6,549,362**	5,676,091
Charge for the year	20	203	–	94,171	29,887	413,528	40,519	514,983	–	**1,093,088**	1,024,162
Impairment loss			–	–	–	–	–	–	–	**–**	–
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

There were no capitalised borrowing cost related to the acquisition of property, plant and equipment during the year 2017 (2016 – 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,	**2017**			2016		
	Cost Rs. '000	**Accumulated depreciation Rs. '000**	**Net book value Rs. '000**	Cost Rs. '000	Accumulated depreciation Rs. '000	Net book value Rs. '000
Class of asset						
Freehold land	951,487	–	951,487	742,730	–	742,730
Freehold buildings	1,602,138	407,082	1,195,056	1,544,666	357,334	1,187,332
Leasehold buildings	421,815	286,829	134,986	350,867	165,344	185,523
Total	2,975,440	693,911	2,281,529	2,638,263	522,678	2,115,585

39.3 Bank – 2017

	Note	Page No.	Freehold land Rs. '000	Freehold buildings Rs. '000	Leasehold buildings Rs. '000	Computer equipment Rs. '000	Motor vehicles Rs. '000	Office equipment, furniture and Fixtures Rs. '000	Capital work-in-progress Rs. '000	Total 2017 Rs. '000	Total 2016 Rs. '000
Cost/valuation											
Balance as at January 1,			4,797,273	2,912,283	192,473	4,226,605	123,882	5,082,194	39,971	17,374,681	16,343,864
Additions/transfers during the year			229,349	74,797	106	791,165	2,347	723,270	138,041	1,959,075	1,369,729
Transfer of accumulated depreciation on assets revalued			–	(277,190)	–	–	–	–	–	(277,190)	–
Surplus on revaluation of property			2,151,512	1,390,702	–	–	–	–	–	3,542,214	–
Disposals during the year			(34,000)	(21,263)	–	(76,284)	–	(110,311)	(4,558)	(246,416)	(358,526)
Exchange rate variance			–	–	–	(3,645)	(1,376)	(9,121)	–	(14,142)	19,614
Transfers/adjustments			–	(5,351)	(477)	–	–	5,828	–	–	–
Balance as at December 31,			7,144,134	4,073,978	192,102	4,937,841	124,853	5,691,860	173,454	22,338,222	17,374,681
Accumulated depreciation and impairment losses											
Balance as at January 1,			–	180,665	44,659	3,108,029	107,331	3,626,172	–	7,066,856	6,374,879
Charge for the year	20	203	–	99,430	5,788	453,049	8,268	530,561	–	1,097,096	1,022,648
Impairment loss			–	–	–	–	–	–	–	–	–
Transfer of accumulated depreciation on assets revalued			–	(277,190)	–	–	–	–	–	(277,190)	–
Disposals during the year			–	(2,850)	–	(72,281)	–	(94,859)	–	(169,990)	(348,273)
Exchange rate variance			–	–	–	(3,270)	(1,376)	(8,614)	–	(13,260)	17,602
Transfers/adjustments			–	(55)	(2)	1,109	–	(1,052)	–	–	–
Balance as at December 31,			–	–	50,445	3,486,636	114,223	4,052,208	–	7,703,512	7,066,856
Net book value as at December 31, 2017			7,144,134	4,073,978	141,657	1,451,205	10,630	1,639,652	173,454	14,634,710	
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

39.4 Bank – 2016

	Note	Page No.	Freehold land Rs. '000	Freehold buildings Rs. '000	Leasehold buildings Rs. '000	Computer equipment Rs. '000	Motor vehicles Rs. '000	Office equipment – furniture and fixtures Rs. '000	Capital work-in-progress Rs. '000	**Total 2016 Rs. '000**	Total 2015 Rs. '000
Cost/valuation											
Balance as at January 1,			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
Transfer of accumulated depreciation on assets revalued			–	–	–	–	–	–	–	–	–
Surplus on revaluation of property			–	–	–	–	–	–	–	–	–
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
Transfers/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 1,			–	88,587	38,850	2,964,201	106,732	3,176,509	–	**6,374,879**	5,540,004
Charge for the year	20	203	–	92,078	5,809	409,811	9,485	505,465	–	**1,022,648**	961,492
Impairment loss			–	–	–	–	–	–	–	–	–
Transfer of accumulated depreciation on assets revalued			–	–	–	–	–	–	–	–	–
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
Transfers/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

There were no capitalised borrowing cost related to the acquisition of property, plant and equipment during the year 2017 (2016 – 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,	**2017**			2016		
	Cost Rs. '000	**Accumulated depreciation Rs. '000**	**Net book value Rs. '000**	Cost Rs. '000	Accumulated depreciation Rs. '000	Net book value Rs. '000
Class of asset						
Freehold land	**869,744**	**–**	**869,744**	660,987	–	660,987
Freehold buildings	**1,542,173**	**399,003**	**1,143,170**	1,484,701	350,755	1,133,946
Leasehold buildings	**190,203**	**55,217**	**134,986**	190,574	50,471	140,103
Total	**2,602,120**	**454,220**	**2,147,900**	2,336,262	401,226	1,935,036

The maturity analysis of property, plant and equipment is given in Note 62 on pages 289 and 290.

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	961,000	39,000	1,000,000	550,910
Holiday Bungalow – Bandarawela, Ambatenne Estate, Bandarawela	423	5,649	72,100	17,000	89,100	66,613
Holiday Bungalow – Haputale, No. 23, Lilly Avenue, Welimada Road, Haputale	258	5,662	41,200	21,300	62,500	43,650
Branch Buildings						
Battaramulla – No. 213, Kaduwela Road, Battaramulla	14	11,216	52,500	99,000	151,500	126,769
Battaramulla – No. 213, Kaduwela Road, Battaramulla	13	Bare Land	50,000	–	50,000	50,000
Borella – No. 92, D S Senanayake Mawatha, Borella, Colombo 8	16	16,880	196,000	216,000	412,000	333,711
Chilaw – No. 44, Colombo Road, Chilaw	35	9,420	91,754	42,390	134,144	98,672
Duplication Road – Nos. 405, 407, R A De Mel Mawatha, Colombo 03	20	4,194	220,400	10,000	230,400	231,814
Galewela – No. 49/57, Matale Road, Galewela	99	5,632	29,700	16,300	46,000	36,358
Galle City – No. 59, Wackwella Road, Galle	7	3,675	54,000	9,150	63,150	47,850
Galle Fort – No. 22, Church Street, Fort, Galle	100	11,625	255,650	45,000	300,650	247,000
Gampaha – No. 51, Queen Mary's Road, Gampaha	33	4,775	74,025	11,595	85,620	67,208
Hikkaduwa – No. 217, Galle Road, Hikkaduwa	37	7,518	35,670	27,780	63,450	49,184
Ja-Ela – No. 140, Negombo Road, Ja-Ela	13	7,468	33,000	26,000	59,000	48,091
Jaffna – No. 474, Hospital Road, Jaffna	78	Bare Land	1,000,000	–	1,000,000	581,000
Kandy – No. 120, Kotugodella Veediya, Kandy	45	44,500	396,000	256,600	652,600	560,250
Kegalle – No. 186, Main Street, Kegalle	85	2,650	156,700	7,200	163,900	134,250
Keyzer Street – No. 32, Keyzer Street, Colombo 11	7	6,100	82,000	24,000	106,000	80,050
Kollupitiya – No. 285, Galle Road, Colombo 3	17	16,254	225,000	68,000	293,000	173,036
Kotahena – No. 198, George R De Silva Mawatha, Kotahena, Colombo 13	28	26,722	197,000	210,000	407,000	331,845
Kurunegala – No. 4, Suratissa Mawatha, Kurunegala	50	10,096	236,800	43,200	280,000	231,399
Maharagama – No. 154, High Level Road, Maharagama	18	8,440	93,000	47,000	140,000	82,619
Matale – No. 70, King Street, Matale	51	8,596	125,000	61,000	186,000	130,000
Matara – No. 18, Station Road, Matara	38	8,137	60,080	28,770	88,850	73,990
Minuwangoda – No. 9, Siriwardena Mawatha, Minuwangoda	25	5,550	56,250	17,483	73,733	47,541
Narahenpita – No. 201, Kirula Road, Narahenpita, Colombo 5	22	11,193	176,000	104,000	280,000	210,604
Narammala – No. 55, Negombo Road, Narammala	41	5,353	61,605	19,910	81,515	69,094
Negombo – Nos. 24, 26, Fernando Avenue, Negombo	37	11,360	136,000	36,000	172,000	100,280
Nugegoda – No. 100, Stanley Thilakaratne Mawatha, Nugegoda	39	11,150	150,000	60,000	210,000	193,925
Nuwara Eliya – No. 36/3, Buddha Jayanthi Mawatha, Nuwara Eliya	42	10,184	124,800	74,400	199,200	147,243
Panadura – No. 375, Galle Road, Panadura	12	6,168	36,900	42,400	79,300	64,828
Pettah – People's Park Shopping Complex, Colombo 11	–	3,147	–	67,000	67,000	50,091
Pettah – Stores – People's Park Shopping Complex, Colombo 11	–	225	–	5,500	5,500	4,145
Pettah – Main Street – No. 280, Main Street, Pettah, Colombo 11	20	22,760	360,000	190,000	550,000	419,041
Trincomalee – No. 474, Power House Road, Trincomalee	100	Bare Land	100,000	–	100,000	90,300
Union Place – No. 1, Union Place, Colombo 2	30	63,385	500,000	1,000,000	1,500,000	1,119,643
Wellawatte – No. 343, Galle Road, Colombo 6	45	51,225	650,000	1,100,000	1,750,000	715,791
Wennappuwa – Nos. 262, 264, Colombo Road, Wennappuwa	36	9,226	54,000	31,000	85,000	67,103
Total			7,144,134	4,073,978	11,218,112	7,675,898

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, 2017

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 Rs. '000	Buildings Rs. '000	Land Rs. '000	Buildings Rs. '000	Land Rs. '000	Buildings Rs. '000
H M N Herath								
Chilaw	Market comparable method		63,522	35,150	91,754	42,390	28,232	7,240
No. 44, Colombo Road, Chilaw	• Price per perch for land	Rs. 2,600,000 p.p.						
	• Price per square foot for building	Rs. 5,000 p.sq.ft.						
	• Depreciation rate	10%						
Gampaha	Market comparable method		57,575	9,633	74,025	11,595	16,450	1,962
No. 51, Queen Mary's Road, Gampaha	• Price per perch for land	Rs. 2,250,000 p.p.						
	• Price per square foot for building	Rs. 4,500 p.sq.ft.						
	• Depreciation rate	45%						
Minuwangoda	Market comparable method		31,250	16,291	56,250	17,483	25,000	1,192
No. 9, Siriwardena Mawatha, Minuwangoda	• Price per perch for land	Rs. 2,250,000 p.p.						
	• Price per square foot for building	Rs. 4,500 p.sq.ft.						
	• Depreciation rate	30%						
P B Kalugalagedara								
Keyzer Street	Market comparable method		56,000	24,050	82,000	24,000	26,000	(50)
No. 32, Keyzer Street, Colombo 11	• Price per perch for land	Rs. 11,000,000 p.p.						
	• Price per square foot for building	Rs. 500 to Rs. 6,000 p.sq.ft.						
Kollupitiya	Market comparable method		115,000	58,036	225,000	68,000	110,000	9,964
No. 285, Galle Road, Colombo 3	• Price per perch for land	Rs. 15,000,000 p.p.						
	• Price per square foot for building	Rs. 1,250 to Rs. 5,000 p.sq.ft.						
Kotahena	Investment method		140,000	191,845	197,000	210,000	57,000	18,155
No. 198, George R De Silva Mawatha, Kotahena, Colombo 13	• Gross monthly rental	Rs. 2,800,000 p.m.						
	• Years purchase (present value of one unit per period)	18.18						
	• Void period	4 months p.a.						
Mr R S Wijesuriya								
Battaramulla	Market comparable method		52,500	74,269	52,500	99,000	–	24,731
No. 213, Kaduwela Road, Battaramula	• Price per perch for land	Rs. 3,750,000 p.p.						
	• Price per square foot for building	Rs. 8,500 p.sq.ft.						
Battaramulla	Market comparable method		50,000	–	50,000	–	–	–
No. 213, Kaduwela Road, Battaramulla	• Price per perch for land	Rs. 3,750,000 p.p.						
Panadura	Market comparable method		30,750	34,078	36,900	42,400	6,150	8,322
No. 375, Galle Road, Panadura	• Price per perch for land	Rs. 3,000,000 p.p.						
	• Price per square foot for building	Rs. 6,500 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
Sarath G Fernando								
Holiday Bungalow – Bandarawela Ambatenne Estate, Bandarawela	Market comparable method		56,700	9,913	72,100	17,000	15,400	7,087
	• Price per perch for land	Rs. 75,000 to Rs. 250,000 p.p.						
	• Price per square foot for building	Rs. 4,250 to Rs. 4,750 p.sq.ft.						
	• Depreciation rate	35%						
Holiday Bungalow – Haputale No. 23, Lilly Avenue, Welimada Road, Haputale	Market comparable method		30,900	12,750	41,200	21,300	10,300	8,550
	• Price per perch for land	Rs. 200,000 p.p.						
	• Price per square foot for building	Rs. 3,500 to Rs. 6,500 p.sq.ft.						
	• Depreciation rate	40%						
Kandy No. 120, Kotugodella Veediya, Kandy	Market comparable method		354,000	206,250	396,000	256,600	42,000	50,350
	• Price per perch for land	Rs. 9,500,000 p.p.						
	• Price per square foot for building	Rs. 6,500 to Rs. 10,000 p.sq.ft.						
	• Depreciation rate	30% and 35%						
Kegalle No.186, Main Street, Kegalle	Market comparable method		128,000	6,250	156,700	7,200	28,700	950
	• Price per perch for land	Rs. 1,250,000 to Rs. 3,000,000 p.p.						
	• Price per square foot for building	Rs. 6,000 p.sq.ft.						
	• Depreciation rate	55%						
Matale No. 70, Kings Street, Matale	Market comparable method		75,000	55,000	125,000	61,000	50,000	6,000
	• Price per perch for land	Rs. 750,000 to Rs. 2,500,000 p.p.						
	• Price per square foot for building	Rs. 9,750 p.sq.ft.						
	• Depreciation rate	20%						
Nuwara Eliya No. 36/3, Buddha Jayanthi Mawatha, Nuwara Eliya	Market comparable method		82,000	65,243	124,800	74,400	42,800	9,157
	• Price per perch for land	Rs. 2,000,000 to Rs. 3,000,000 p.p.						
	• Price per square foot for building	Rs. 9,750 p.sq.ft.						
	• Depreciation rate	25%						
Mr S A S Fernando								
Galle City No. 59, Wackwella Road, Galle	Market comparable method		40,500	7,350	54,000	9,150	13,500	1,800
	• Price per perch for land	Rs. 8,000,000 p.p.						
	• Price per square foot for building	Rs. 2,000 to Rs. 3,000 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
Galle Fort No. 22, Church Street, Fort, Galle	Market comparable method		210,000	37,000	255,650	45,000	45,650	8,000
	• Price per perch for land	Rs. 3,000,000 p.p.						
	• Price per square foot for building	Rs. 3,180 p.sq.ft.						
Hikkaduwa No. 217, Galle Road, Hikkaduwa	Market comparable method		26,370	22,814	35,670	27,780	9,300	4,966
	• Price per perch for land	Rs. 750,000 to Rs. 1,100,000 p.p.						
	• Price per square foot for building	Rs. 3,000 to Rs. 4,000 p.sq.ft.						
Matara No. 18, Station Road, Matara	Market comparable method		50,695	23,295	60,080	28,770	9,385	5,475
	• Price per perch for land	Rs. 1,000,000 to Rs. 2,000,000 p.p.						
	• Price per square foot for building	Rs. 3,000 to Rs. 3,750 p.sq.ft.						
Trincomalee No. 474, Power House Road, Trincomalee	Market comparable method		90,300	–	100,000	–	9,700	–
	• Price per perch for land	Rs. 1,000,000 p.p.						
S T Sanmuganathan								
Jaffna No. 474, Hospital Road, Jaffna	Market comparable method		581,000	–	1,000,000	–	419,000	–
	• Price per perch for land	Rs. 5,000,000 p.p.						
Siri Nissanka								
Borella No. 92, D S Senanayake Mawatha, Colombo 08.	Market comparable method		156,300	177,411	196,000	216,000	39,700	38,589
	• Price per perch for land	Rs. 12,500,000 p.p.						
	• Price per square foot for building	Rs. 12,750 p.sq.ft.						
CEO's Bungalow No. 27, Queens Road, Colombo 03	Market comparable method		544,850	6,060	961,000	39,000	416,150	32,940
	• Price per perch for land	Rs. 15,000,000 p.p.						
	• Price per square foot for building	Rs. 7,000 p.sq.ft.						
Narahenpita No. 201, Kirula Road, Narahenpita, Colombo 05	Market comparable method		132,300	78,304	176,000	104,000	43,700	25,696
	• Price per perch for land	Rs. 8,000,000 p.p.						
	• Price per square foot for building	Rs. 9,350 p.sq.ft.						
Pettah – Main Street No. 280, Main Street, Pettah, Colombo 11	Investment method		280,000	139,041	360,000	190,000	80,000	50,959
	• Gross monthly rental	Rs. 2,557,500 p.m.						
Union Place No. 1, Union Place, Colombo 02	Market comparable method		450,000	669,643	500,000	1,000,000	50,000	330,357
	• Price per perch for land	Rs. 18,000,000 p.p.						
	• Price per square foot for building	Rs. 16,500 p.sq.ft.						
Duplication Road Nos. 405, 407, R A De Mel Mawatha, Colombo 03	Market comparable method		229,349	2,465	220,400	10,000	(8,949)	7,535
	• Price per perch for land	Rs. 11,000,000 p.p.						
	• Price per square foot for building	Rs. 2,300 p.sq.ft.						
Maharagama No. 154, Highlevel Road, Maharagama	Market comparable method		53,250	29,369	93,000	47,000	39,750	17,631
	• Price per perch for land	Rs. 5,250,000 p.p.						
	• Price per square foot for building	Rs. 5,600 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
Nugegoda No. 100, Stanley Thilakaratne Mawatha, Nugegoda	Market comparable method		156,000	37,925	150,000	60,000	(6,000)	22,075
	• Price per perch for land	Rs. 7,500,000 p.p.						
	• Price per square foot for building	Rs. 8,350 p.sq.ft.						
Wellawatte No. 343, Galle Road, Colombo 06	Market comparable method		249,520	466,271	650,000	1,100,000	400,480	633,729
	• Price per perch for land	Rs. 15,000,000 p.p.						
	• Price per square foot for building	Rs. 22,000 p.sq.ft.						
W D P Rupananda								
Ja-Ela No. 140, Negombo Road, Ja-Ela	Market comparable method		29,000	19,091	33,000	26,000	4,000	6,909
	• Price per perch for land	Rs. 2,500,000 p.p.						
	• Price per square foot for building	Rs. 5,000 p.sq.ft.						
	• Depreciation rate	30%						
Negombo Nos. 24, 26, Fernando Avenue, Negombo	Market comparable method		73,000	27,280	136,000	36,000	63,000	8,720
	• Price per perch for land	Rs. 3,000,000 to Rs. 4,000,000 p.p.						
	• Price per square foot for building	Rs. 4,000 to Rs. 5,250 p.sq.ft.						
	• Depreciation rate	30%						
Pettah People's Park Shopping Complex, Colombo 11	Investment method		–	50,091	–	67,000	–	16,909
	• Gross monthly rental	Rs. 460,000 p.m.						
	• Years purchase (Present value of 1 unit per period)	18.18						
	• Void period	4 months p.a.						
Pettah People's Park Shopping Complex, Colombo 11	Investment method		–	4,145	–	5,500	–	1,355
	• Gross monthly rental	Rs. 41,500 p.m.						
	• Years purchase (Present value of 1 unit per period)	18.18						
	• Void period	4 months p.a.						
Wennappuwa Nos. 262, 264, Colombo Road, Wennappuwa	Market comparable method		42,000	25,103	54,000	31,000	12,000	5,897
	• Price per perch for land	Rs. 1,500,000 p.p.						
	• Price per square foot for building	Rs. 3,750 to Rs. 5,250 p.sq.ft.						
	• Depreciation rate	30%						
W S Pemaratne								
Galewela No. 49/57, Matale Road, Galewela	Market comparable method		22,275	14,083	29,700	16,300	7,425	2,217
	• Price per perch for land	Rs. 300,000 p.p.						
	• Price per square foot for building	Rs. 2,350 to Rs. 4,000 p.sq.ft.						
	• Depreciation rate	25%						

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
Kurunegala	Market comparable method		199,325	32,074	236,800	43,200	37,475	11,126
No. 4, Suratissa Mawatha, Kurunegala	• Price per perch for land	Rs. 5,000,000 p.p.						
	• Price per square foot for building	Rs. 3,500 to Rs. 4,750 p.sq.ft.						
	• Depreciation rate	12%						
Narammala	Market comparable method		53,391	15,703	61,605	19,910	8,214	4,207
No. 55, Negombo Road, Narammala	• Price per perch for land	Rs. 1,500,000 p.p.						
	• Price per square foot for building	Rs. 4,000 p.sq.ft.						
	• Depreciation rate	7%						
Total			4,992,622	2,683,276	7,144,134	4,073,978	2,151,512	1,390,702

p.p. – per perch p.sq.ft. – per square foot p.m. – per month p.a. – per annum

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 and equipment

There were no restrictions existed on the title of the property, plant and equipment of the Group/Bank as at the reporting date.

39.7 Property, plant and equipment pledged as security for liabilities – Bank

There were no items of property, plant and equipment pledged as securities for liabilities as at the reporting date.

39.8 Compensation from third parties for items of property, plant and equipment – Bank

The compensation received/receivable from third parties for items of property, plant and equipment that were impaired, lost or given up as at the reporting date of the Bank is as follows:

As at December 31,	**2017 Rs. '000**	2016 Rs. '000
Total claims lodged	17,096	4,832
Total claims received	(11,573)	(1,643)
Total claims rejected	–	–
Total claims receivable	5,523	3,189

39.9 Fully depreciated property, plant and equipment – Bank

The cost of fully depreciated property, plant and equipment of the Bank which are still in use is as follows:

As at December 31,	**2017 Rs. '000**	2016 Rs. '000
Computer equipment	1,458,542	1,205,702
Office equipment, furniture and fixtures	2,044,143	1,748,517
Motor vehicles	39,566	20,765

39.10 Temporarily idle property, plant and equipment – Bank

Following property, plant and equipment of the Bank were temporarily idle (until the assets are issued to the business units):

As at December 31,	**2017 Rs. '000**	2016 Rs. '000
Computer equipment	121,472	128,136
Office equipment, furniture and fixtures	100,175	45,887

39.11 Property, plant and equipment retired from active use – Bank

Following property, plant and equipment of the Bank were retired from active use:

As at December 31,	**2017 Rs. '000**	2016 Rs. '000
Computer equipment	182,080	160,181
Office equipment, furniture and fixtures	98,637	100,681

39.12 Borrowing costs

There were no capitalised borrowing costs related to the acquisition of property, plant and equipment during the year 2017 (2016 – Nil).

40. Intangible Assets

The Group's intangible assets include the value of acquired goodwill, trademarks, 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. 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.

			GROUP		BANK	
As at December 31,			**2017**	2016	**2017**	2016
	Note	Page No.	**Rs. '000**	Rs. '000	**Rs. '000**	Rs. '000
Computer software	40.1	259	539,408	506,134	473,390	423,851
Software under development	40.2	260	311,748	226,490	303,420	216,794
Goodwill arising on business combination			400,045	400,045	–	–
Trademarks			25	–	–	–
Total			1,251,226	1,132,669	776,810	640,645

40.1 Computer software

			GROUP		BANK	
			2017	2016	**2017**	2016
	Note	Page No.	**Rs. '000**	Rs. '000	**Rs. '000**	Rs. '000
Cost/valuation						
Balance as at January 1,			1,682,677	1,731,169	1,589,301	1,719,589
Additions during the year			267,071	362,810	259,734	280,986
Disposals/write-off during the year			(8,355)	(413,059)	–	(413,059)
Exchange rate variance			1,522	1,757	(1,450)	1,785
Transfers/adjustments			–	–	–	–
Balance as at December 31,			1,942,915	1,682,677	1,847,585	1,589,301
Accumulated amortisation and impairment losses						
Balance as at January 1,			1,176,543	1,414,305	1,165,450	1,411,058
Amortisation for the year	20	203	229,764	173,790	209,766	165,903
Impairment loss			–	–	–	–
Disposals/write-off during the year			(1,114)	(412,756)	–	(412,756)
Exchange rate variance			(1,686)	1,204	(1,021)	1,245
Transfers/adjustments			–	–	–	–
Balance as at December 31,			1,403,507	1,176,543	1,374,195	1,165,450
Net book value as at December 31,			539,408	506,134	473,390	423,851

40.2 Software under development

	GROUP		BANK	
	2017	2016	**2017**	2016
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
Cost/valuation				
Balance as at January 1,	**226,490**	167,125	**216,794**	157,429
Additions during the year	**189,620**	135,830	**189,620**	135,830
Transfers/adjustments	**(104,362)**	(76,465)	**(102,994)**	(76,465)
Balance as at December 31,	**311,748**	226,490	**303,420**	216,794

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 2017 (2016 – Nil).

The maturity analysis of intangible assets is given in Note 62 on pages 289 and 290.

41. Leasehold Property

			GROUP		BANK	
			2017	2016	**2017**	2016
	Note	Page No.	**Rs. '000**	Rs. '000	**Rs. '000**	Rs. '000
Cost/valuation						
Balance as at January 1,			**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 1,	20	**203**	**22,732**	21,280	**11,304**	10,362
Amortisation for the year			**1,452**	1,452	**942**	942
Balance as at December 31,			**24,184**	22,732	**12,246**	11,304
Net book value as at December 31,			**104,516**	105,968	**72,594**	73,536

The carrying amount of revalued assets that would have been included in the Financial Statements had the assets been carried at cost less amortisation is as follows:

	GROUP			BANK		
As at December 31, 2017	**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	101,298	16,573	84,725	14,846	12,245	2,601
Total	101,298	16,573	84,725	14,846	12,245	2,601

As at December 31, 2016	GROUP Cost Rs. '000	GROUP Accumulated amortisation Rs. '000	GROUP Net Book value Rs. '000	BANK Cost Rs. '000	BANK Accumulated amortisation Rs. '000	BANK 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

The maturity analysis of Leasehold Property is given in Note 62 on pages 289 and 290.

42. Other Assets

As at December 31,	GROUP 2017 Rs. '000	GROUP 2016 Rs. '000	BANK 2017 Rs. '000	BANK 2016 Rs. '000
Receivables	**46,212**	36,511	**46,171**	36,511
Deposits and prepayments	**1,530,984**	1,481,830	**1,563,026**	1,490,786
Clearing account balance	**6,135,630**	6,370,312	**6,135,630**	6,370,312
Unamortised cost on staff loans (Day 1 difference)	**3,676,965**	3,373,174	**3,676,965**	3,373,174
Other accounts	**5,973,186**	5,220,732	**5,876,370**	5,167,383
Total	**17,362,977**	16,482,559	**17,298,162**	16,438,166

The maturity analysis of other assets is given in Note 62 on pages 289 and 290.

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 2017 Rs. '000	GROUP 2016 Rs. '000	BANK 2017 Rs. '000	BANK 2016 Rs. '000
Borrowings	**54,538,743**	58,406,994	**51,414,842**	54,917,414
Local currency borrowings	**8,939,723**	3,714,684	**5,815,822**	225,104
Foreign currency borrowings	**45,599,020**	54,692,310	**45,599,020**	54,692,310
Securities sold under repurchase (Repo) agreements (*)	**5,706,149**	12,691,397	**5,706,149**	12,691,397
Total	**60,244,892**	71,098,391	**57,120,991**	67,608,811

(*) 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 289 and 290.

44. Derivative Financial Liabilities

As at December 31,	Note	Page No.	GROUP 2017 Rs. '000	GROUP 2016 Rs. '000	BANK 2017 Rs. '000	BANK 2016 Rs. '000
Derivative financial liabilities – Held for trading	44.1	262	3,674,032	1,515,035	3,674,032	1,515,035
Derivative financial liabilities – Cash flow hedges held for risk management	44.2	262	4,462	–	4,462	–
Total			3,678,494	1,515,035	3,678,494	1,515,035

44.1 Derivative financial liabilities – Held for trading

Derivative 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.

These are recorded at fair value with corresponding gains or losses recognised in net gains/(losses) on trading in the Income Statement.

As at December 31,	GROUP 2017 Rs. '000	GROUP 2016 Rs. '000	BANK 2017 Rs. '000	BANK 2016 Rs. '000
Foreign currency derivatives				
Currency swaps	2,656,376	663,714	2,656,376	663,714
Forward contracts	1,015,648	849,011	1,015,648	849,011
Spot contracts	2,008	2,310	2,008	2,310
Total	3,674,032	1,515,035	3,674,032	1,515,035

44.2 Derivative financial liabilities – cash flow hedges held for risk management

The Group uses interest rate swaps to hedge the interest rate risk arising from a floating rate borrowing denominated in foreign currencies.

The fair value of the derivative financial liability denominated as cash flow hedge is as follows.

As at December 31,	GROUP 2017 Rs. '000	GROUP 2016 Rs. '000	BANK 2017 Rs. '000	BANK 2016 Rs. '000
Interest rate swaps	4,462	–	4,462	–
Total	4,462	–	4,462	–

During the year, loss (net of tax) of Rs. 3.212 Mn. (2016 – Nil) relating to the effective portion of cash flow hedges were recognised in OCI.

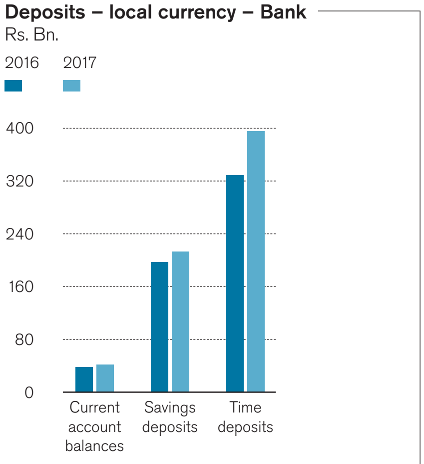
The maturity analysis of Derivative Financial Liabilities is given in Note 62 on pages 289 and 290.

45. Due to Other Customers/Deposits from Customers

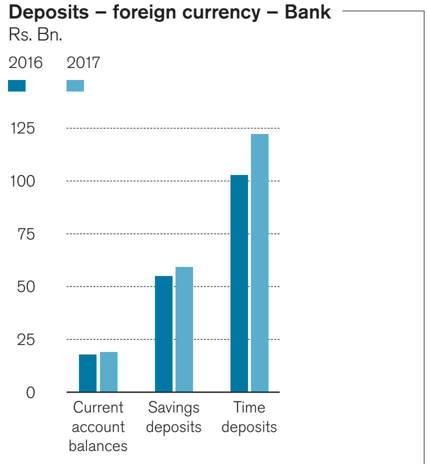
These include non-interest-bearing deposits, savings deposits, term deposits, deposits payable at call and certificates of deposit. Subsequent to initial recognition deposits are measured at amortised cost using the EIR method, except where the Group designates liabilities at fair value through profit or loss. Interest paid/payable on these deposits is recognised in profit or loss.

	GROUP		BANK	
As at December 31,	**2017** **Rs. '000**	2016 Rs. '000	**2017** **Rs. '000**	2016 Rs. '000
Local currency deposits	649,709,858	564,036,848	650,161,430	564,194,443
Current account balances	42,488,222	38,151,058	42,497,439	38,152,646
Savings deposits	212,687,511	197,136,502	213,055,712	197,244,642
Time deposits	394,357,770	328,382,343	394,431,924	328,430,210
Certificates of deposit	176,355	366,945	176,355	366,945
Foreign currency deposits	207,560,123	179,273,765	199,966,081	175,369,051
Current account balances	23,401,770	19,516,806	18,954,618	17,908,311
Savings deposits	60,355,737	56,388,046	59,001,649	54,845,666
Time deposits	123,802,616	103,368,913	122,009,814	102,615,074
Total	857,269,981	743,310,613	850,127,511	739,563,494

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	
	2017	2016	**2017**	2016
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
(a) By product				
Current account balances	65,889,992	57,667,864	61,452,057	56,060,957
Savings deposits	273,043,248	253,524,548	272,057,361	252,090,308
Time deposits	518,160,386	431,751,256	516,441,738	431,045,284
Certificates of deposit	176,355	366,945	176,355	366,945
Subtotal	857,269,981	743,310,613	850,127,511	739,563,494
(b) By currency				
Sri Lankan Rupee	649,709,858	564,036,848	650,161,430	564,194,443
United States Dollar	133,126,818	119,220,744	127,914,412	115,932,891
Great Britain Pound	7,753,315	8,195,451	7,753,315	8,195,451
Euro	43,047,102	34,738,958	43,047,102	34,738,958
Australian Dollar	10,673,908	5,984,750	10,513,278	5,851,603
Bangladesh Taka	8,887,830	9,087,549	8,887,302	9,087,088
Maldivian Rufiyaa	2,271,481	504,726	–	–
Other currencies	1,799,669	1,541,587	1,850,672	1,563,060
Subtotal	857,269,981	743,310,613	850,127,511	739,563,494
(c) By institution/customers				
Deposits from banks	12,153,761	5,678,189	12,153,761	5,678,189
Deposits from finance companies	6,666,165	14,908,797	6,705,055	14,888,958
Deposits from other customers	838,450,055	722,723,627	831,268,695	718,996,347
Subtotal	857,269,981	743,310,613	850,127,511	739,563,494

The maturity analysis of deposits from customers is given in Note 62 on pages 289 and 290.

46. Other Borrowings

As at December 31,	GROUP 2017 Rs. '000	GROUP 2016 Rs. '000	BANK 2017 Rs. '000	BANK 2016 Rs. '000
Refinance borrowings	6,624,731	5,425,666	6,624,731	5,425,666
Borrowings from International Finance Corporation (IFC)	17,161,363	3,844,488	17,161,363	3,844,488
Total	23,786,094	9,270,154	23,786,094	9,270,154

The maturity analysis of Other Borrowings is given in Note 62 on pages 289 and 290.

47. Current Tax Liabilities

	Note	Page No.	GROUP 2017 Rs. '000	GROUP 2016 Rs. '000	BANK 2017 Rs. '000	BANK 2016 Rs. '000
Balance as at January 1,			3,464,682	3,025,662	3,440,736	3,001,984
Provision for the year			6,679,675	5,606,143	6,564,443	5,554,989
Reversal of (over)/under provision	22.1	206	(99,996)	–	(100,000)	–
Self-assessment payments			(3,810,701)	(4,014,741)	(3,753,679)	(3,966,831)
Notional tax credits (*)			(1,338,116)	(918,062)	(1,336,673)	(916,767)
Withholding tax/other credits			(646,991)	(291,257)	(625,096)	(289,576)
Exchange rate variance			(45,703)	56,937	(45,820)	56,937
Balance as at December 31,			4,202,850	3,464,682	4,143,911	3,440,736

(*) 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.

As per the Inland Revenue Act No. 24 of 2017, which will become effective from April 1, 2018 the Bank will not be entitled to accrue notional tax credit from April 1, 2018.

The maturity analysis of Current Tax Liabilities is given in Note 62 on pages 289 and 290.

48. Deferred Tax Assets and Liabilities

48.1 Summary of net deferred tax liability

	Note	Page No.	GROUP 2017 Temporary difference Rs. '000	GROUP 2017 Tax effect Rs. '000	GROUP 2016 Temporary difference Rs. '000	GROUP 2016 Tax effect Rs. '000	BANK 2017 Temporary difference Rs. '000	BANK 2017 Tax effect Rs. '000	BANK 2016 Temporary difference Rs. '000	BANK 2016 Tax effect Rs. '000
Balance as at January 1,			(2,069,702)	(668,150)	1,815,596	467,632	(3,126,090)	(963,935)	969,263	230,615
Amount originating/(reversing) to Income Statement	22.1	206	254,859	74,138	303,341	42,017	508,142	137,257	94,840	(16,317)
Amount originating/(reversing) to Statement of Profit or Loss and Other Comprehensive Income			14,850,829	4,158,232	(4,188,639)	(1,172,819)	14,631,707	4,096,878	(4,190,193)	(1,173,254)
Exchange rate variance			–	995	–	(4,980)	–	4,626	–	(4,979)
Balance as at December 31,			13,035,986	3,565,215	(2,069,702)	(668,150)	12,013,759	3,274,826	(3,126,090)	(963,935)

48.2 Reconciliation of net deferred tax liability – Group

For the year ended/as at December 31,	Statement of financial position 2017 Rs. '000	Statement of financial position 2016 Rs. '000	Profit or loss 2017 Rs. '000	Profit or loss 2016 Rs. '000	Other comprehensive income 2017 Rs. '000	Other comprehensive income 2016 Rs. '000
Deferred tax liabilities on:						
Accelerated depreciation for tax purposes – Own assets	501,389	422,466	(78,923)	(50,511)	–	–
Accelerated depreciation for tax purposes – Leased assets	2,250,845	2,024,509	(226,336)	(151,498)	–	–
Revaluation surplus on freehold buildings	1,146,902	726,052	20,394	20,182	(441,244)	–
Revaluation surplus on freehold land (*)	1,762,741	–	–	–	(1,762,741)	–
Tax effect on actuarial gains on defined benefit plans	(21,569)	66,464	–	–	88,033	(40,006)
Effective interest rate on deposits	1,432	1,986	554	599	–	–
Effect of exchange rate variance	–	–	752	(5,888)	243	908
	5,641,740	3,241,477	(283,559)	(187,116)	(2,115,709)	(39,098)
Deferred tax assets on:						
Defined benefit plans	434,236	386,144	48,092	53,950	–	–
Tax effect on actuarial losses on defined benefit plans	85,738	61,179	–	–	24,559	37,204
Unrealised gain/(loss) on available-for-sale (AFS) portfolio	737,639	2,875,685	–	–	(2,138,046)	1,196,218
Specific provision on lease receivable	56,254	56,254	–	–	–	–
Leave encashment	181,231	179,216	2,015	10,984	–	–
Tax effect on actuarial losses on leave encashment	83,159	13,444	–	–	69,715	(21,505)
Straight lining of lease rentals	47,740	39,236	8,504	10,773	–	–
De-recognition of commission income	131,046	110,633	20,413	29,617	–	–
Equity-settled share-based payments	148,349	117,679	30,670	55,147	–	–
Impairment provision	144,888	62,672	82,216	(22,857)	–	–
Carried forward tax loss on leasing business	–	7,485	(7,485)	7,485	–	–
Cash flow hedges	1,249	–	–	–	1,249	–
Deferred tax on previous losses	24,996	–	24,996	–	–	–
	2,076,525	3,909,627	209,421	145,099	(2,042,523)	1,211,917
Deferred tax effect on Profit or Loss and Other Comprehensive Income for the year			(74,138)	(42,017)	(4,158,232)	1,172,819
Net deferred tax liability as at December 31,	3,565,215	(668,150)				

48.3 Reconciliation of net deferred tax liability – Bank

	Statement of financial position		Profit or loss		Other comprehensive income	
For the year ended/as at December 31,	**2017**	2016	**2017**	2016	**2017**	2016
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000	**Rs. '000**	Rs. '000
Deferred tax liabilities on:						
Accelerated depreciation for tax purposes – Own assets	**448,849**	379,184	**(69,665)**	(47,142)	**–**	–
Accelerated depreciation for tax purposes – Leased assets	**2,127,270**	1,926,686	**(200,584)**	(110,365)	**–**	–
Revaluation surplus on freehold buildings	**857,785**	493,791	**19,930**	19,930	**(383,924)**	–
Revaluation surplus on freehold land (*)	**1,756,155**	–	**–**	–	**(1,756,155)**	–
Tax effect on actuarial gains on defined benefit plans	**(22,492)**	63,016	**–**	–	**85,508**	(39,715)
Effective interest rate on deposits	**1,432**	1,986	**554**	599	**–**	–
Effect of exchange rate variance	**–**	–	**4,383**	(5,887)	**243**	908
	5,168,999	2,864,663	**(245,382)**	(142,865)	**(2,054,328)**	(38,807)
Deferred tax assets on:						
Defined benefit plans	**422,019**	375,497	**46,522**	52,662	**–**	–
Tax effect on actuarial losses on defined benefit plans	**85,461**	60,946	**–**	–	**24,515**	37,326
Unrealised gain/(loss) on available-for-sale (AFS) portfolio	**737,665**	2,875,694	**–**	–	**(2,138,029)**	1,196,240
Specific provision on lease receivable	**56,254**	56,254	**–**	–	**–**	–
Leave encashment	**181,231**	179,216	**2,015**	10,984	**–**	–
Tax effect on actuarial losses on leave encashment	**83,159**	13,444	**–**	–	**69,715**	(21,505)
Straight lining of lease rentals	**47,740**	39,236	**8,504**	10,773	**–**	–
De-recognition of commission income	**131,046**	110,632	**20,414**	29,616	**–**	–
Equity-settled share-based payments	**148,349**	117,679	**30,670**	55,147	**–**	–
Cash flow hedges	**1,249**	–	**–**	–	**1,249**	–
	1,894,173	3,828,598	**108,125**	159,182	**(2,042,550)**	1,212,061
Deferred tax effect on Profit or Loss and Other Comprehensive Income for the year			**(137,257)**	16,317	**(4,096,878)**	1,173,254
Net deferred tax liability as at December 31,	**3,274,826**	(963,935)				

(*) As per the Inland Revenue Act No. 24 of 2017, which will become effective from April 1, 2018 Capital Assets/Business Assets will attract tax at applicable Corporate tax rate on the gains at the time of disposal. Accordingly, deferred tax liability has been recognised at 28% on the revaluation surplus relating to freehold land in these Financial Statements.

The maturity analysis of Deferred Tax Liabilities is given in Note 62 on pages 289 and 290.

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.

	GROUP		BANK	
As at December 31,	**2017**	2016	**2017**	2016
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
Provision for claims payable	**–**	1,874	**–**	1,874
Total	**–**	1,874	**–**	1,874

The maturity analysis of Other Provisions is given in Note 62 on pages 289 and 290.

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,	Note	Page No.	GROUP 2017 Rs. '000	GROUP 2016 Rs. '000	BANK 2017 Rs. '000	BANK 2016 Rs. '000
Accrued expenditure			**2,895,090**	2,362,488	**2,865,751**	2,342,023
Cheques sent on clearing			**6,119,528**	6,358,679	**6,119,528**	6,358,679
Provision for gratuity payable	50.1 (b)	269	**1,515,410**	1,010,095	**1,474,387**	983,180
Provision for unfunded pension scheme	50.2 (b)	270	**285,095**	214,886	**285,095**	214,886
Provision for leave encashment	50.3 (b)	271	**944,251**	688,073	**944,251**	688,073
Payable on oil hedging transactions			**952,929**	929,044	**952,929**	929,044
Other payables			**6,795,812**	6,465,637	**6,583,423**	6,194,509
Total			**19,508,115**	18,028,902	**19,225,364**	17,710,394

The maturity analysis of other liabilities is given in Note 62 on pages 289 and 290.

50.1 Provision for gratuity payable

An actuarial valuation of the retirement gratuity payable was carried out as at December 31, 2017 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, 2016) to determine the liabilities of the active employees in the gratuity, were used in the actuarial valuation carried out as at December 31, 2017.
	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 11.00% p.a. (2016 – 11.50% 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. (2016 – 8% 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 11.50% p.a. (2016 – 10% p.a.) has been used in respect of the active employees.
		Bangladesh operation A salary increment of 10% p.a. (2016 – 10% p.a.) has been used in respect of the active employees.

50.1 (b) Movement in the provision for gratuity payable

	Note	Page No.	GROUP 2017 Rs. '000	GROUP 2016 Rs. '000	BANK 2017 Rs. '000	BANK 2016 Rs. '000
Balance as at January 1,			1,010,095	886,648	983,180	863,230
Expense recognised in the Income Statement	50.1 (C)	269	264,079	211,237	254,537	204,791
Exchange rate variance			(7,279)	7,782	(7,279)	7,782
Amount paid during the year			(67,216)	(39,701)	(62,607)	(38,230)
Actuarial (gain)/loss recognised in other comprehensive income			315,731	(55,871)	306,556	(54,393)
Balance as at December 31,			1,515,410	1,010,095	1,474,387	983,180

50.1 (c) Expense recognised in the Income Statement – Gratuity

For the year ended December 31,	GROUP 2017 Rs. '000	GROUP 2016 Rs. '000	BANK 2017 Rs. '000	BANK 2016 Rs. '000
Interest cost	105,960	91,149	102,993	88,801
Current service cost	158,119	120,088	151,544	115,990
Total	264,079	211,237	254,537	204,791

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, 2017.

Variable	GROUP Sensitivity effect on Statement of Financial Position (benefit obligation) Rs. '000	BANK Sensitivity effect on Statement of Financial Position (benefit obligation) Rs. '000
1% increase in discount rate	(225,654)	(223,047)
1% decrease in discount rate	280,956	277,988
1% increase in salary	285,515	282,509
1% decrease in salary	(231,506)	(228,822)

50.2 Provision for unfunded pension scheme

An actuarial valuation of the unfunded pension liability was carried out as at December 31, 2017 by Mr M Poopalanathan, AIA, of Messrs Actuarial & Management Consultants (Pvt) Ltd., a firm of professional actuaries. The valuation method used by the actuary 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, 2016) to determine the liabilities of the active employees in the funded scheme, were used in the actuarial valuation carried out as at December 31, 2017.
	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 decided 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 11.00% p.a. (2016 – 11.50% p.a.) has been used to discount future liabilities considering anticipated long-term rate of inflation.
	Salary increases	A salary increment of 11.50% p.a. (2016 – 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	
			2017	2016	**2017**	2016
	Note	Page No.	**Rs. '000**	Rs. '000	**Rs. '000**	Rs. '000
Balance as at January 1,			**214,886**	219,283	**214,886**	219,283
Expense recognised in the Income Statement	50.2 (c)	270	**24,712**	23,025	**24,712**	23,025
Amount paid during the year			**(45,317)**	(34,134)	**(45,317)**	(34,134)
Actuarial loss recognised in other comprehensive income			**90,814**	6,712	**90,814**	6,712
Balance as at December 31,			**285,095**	214,886	**285,095**	214,886

50.2 (c) Expense recognised in the Income Statement – Unfunded pension scheme

	GROUP		BANK	
For the year ended December 31,	**2017**	2016	**2017**	2016
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
Interest cost	**24,712**	23,025	**24,712**	23,025
Current service cost	**–**	–	**–**	–
Total	**24,712**	23,025	**24,712**	23,025

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, 2017.

Variable	GROUP Sensitivity effect on Statement of Financial Position (benefit obligation) Rs. '000	BANK Sensitivity effect on Statement of Financial Position (benefit obligation) Rs. '000
1% increase in discount rate	(10,811)	(10,811)
1% decrease in discount rate	11,801	11,801
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, 2017 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 11.00% p.a. (2016 – 11.50% p.a.) has been used to discount future liabilities considering anticipated long-term rate of inflation.
	Salary increases	A salary increment of 11.50% p.a. (2016 – 10.00% p.a.) has been used in respect of the active employees.

50.3 (b) Movement in the provision for leave encashment

			GROUP		BANK	
			2017	2016	**2017**	2016
	Note	Page No.	**Rs. '000**	Rs. '000	**Rs. '000**	Rs. '000
Balance as at January 1,			**688,073**	725,647	**688,073**	725,647
Expense recognised in the Income Statement	50.3 (c)	272	**79,128**	76,193	**79,128**	76,193
Amount paid during the year			**(71,931)**	(36,965)	**(71,931)**	(36,965)
Actuarial (gain)/loss recognised in other comprehensive income			**248,981**	(76,802)	**248,981**	(76,802)
Balance as at December 31,			**944,251**	688,073	**944,251**	688,073

50.3 (c) Expense recognised in the Income Statement – Leave encashment

For the year ended December 31,	GROUP 2017 Rs. '000	GROUP 2016 Rs. '000	BANK 2017 Rs. '000	BANK 2016 Rs. '000
Interest cost	79,128	76,193	79,128	76,193
Current service cost	–	–	–	–
Total	79,128	76,193	79,128	76,193

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 leave encashment liability of the Bank as at December 31, 2017.

Variable	GROUP Sensitivity effect on Statement of Financial Position (benefit obligation) Rs. '000	BANK Sensitivity effect on Statement of Financial Position (benefit obligation) Rs. '000
1% increase in discount rate	(118,563)	(118,563)
1% decrease in discount rate	145,531	145,531
1% increase in salary	147,799	147,799
1% decrease in salary	(122,412)	(122,412)

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, 2017 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 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, 2016) 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, 2017.
	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 11.00% p.a. (2016 – 11.50% p.a.) has been used to discount future liabilities considering anticipated long-term rate of inflation.
	Salary increases	A salary increment of 11.50% p.a. (2016 – 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

	2017 Rs. '000	2016 Rs. '000
Balance as at January 1,	160,833	163,821
Interest cost	18,496	17,201
Current service cost	3,518	2,686
Benefits paid during the year	(16,842)	(15,879)
Actuarial (gain)/loss	38,436	(6,996)
Balance as at December 31,	204,441	160,833

50.4.1 (c) Movement in the fair value of plan assets

	2017 Rs. '000	2016 Rs. '000
Fair value as at January 1,	160,752	137,308
Expected return on plan assets	18,486	14,418
Contribution paid into plan	1,710	1,624
Benefits paid by the plan	(16,842)	(15,879)
Actuarial gain/(loss) on plan assets	(3,576)	23,281
Fair value as at December 31,	160,530	160,752

50.4.1 (d) Liability recognised in the statement of financial position

	2017 Rs. '000	2016 Rs. '000
Present value of defined benefit obligations as at December 31,	204,441	160,833
Fair value of plan assets	(160,530)	(160,752)
Net liability recognised under other liabilities	43,911	81

50.4.1 (e) Plan assets consist of the following:

	2017 Rs. '000	2016 Rs. '000
Deposits held with the Bank	160,530	160,752
Total	160,530	160,752

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, 2017 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 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, 2016) 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, 2017.
	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 11.00% p.a. (2016 – 11.50% p.a.) has been used to discount future liabilities considering anticipated long-term rate of inflation.
	Salary increases	A salary increment of 11.50% p.a. (2016 – 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

	2017 Rs. '000	2016 Rs. '000
Balance as at January 1,	**48,419**	49,853
Interest cost	**5,568**	5,235
Current service cost	**409**	310
Benefits paid during the year	**(5,003)**	(3,328)
Actuarial (gain)/loss	**18,141**	(3,651)
Balance as at December 31,	**67,534**	48,419

50.4.2 (c) Movement in the fair value of plan assets

	2017 Rs. '000	2016 Rs. '000
Fair value as at January 1,	50,182	44,320
Expected return on plan assets	5,771	4,654
Contribution paid into plan	212	200
Benefits paid by the plan	(5,003)	(3,328)
Actuarial gain/(loss) on plan assets	(2,892)	4,336
Fair value as at December 31,	48,270	50,182

50.4.2 (d) Liability recognised in the Statement of Financial Position

	2017 Rs. '000	2016 Rs. '000
Present value of defined benefit obligations as at December 31,	67,534	48,419
Fair value of plan assets	(48,270)	(50,182)
Net liability recognised under other liabilities	19,264	(1,763)

50.4.2 (e) Plan assets consist of the following:

	2017 Rs. '000	2016 Rs. '000
Deposits held with the Bank	48,270	50,182
Total	48,270	50,182

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 2017 Rs. '000	GROUP 2016 Rs. '000	BANK 2017 Rs. '000	BANK 2016 Rs. '000
Local subsidiaries				
Commercial Development Company PLC	–	–	42,732	9,260
ONEzero Company Ltd.	–	–	31,791	10,801
Serendib Finance Ltd.	–	–	–	–
Subtotal	–	–	74,523	20,061
Foreign subsidiaries				
Commex Sri Lanka S.R.L. – Italy	–	–	–	–
Commercial Bank of Maldives Private Limited	–	–	–	–
CBC Myanmar Microfinance Co. Limited	–	–	–	–
Subtotal	–	–	–	–
Total	–	–	74,523	20,061

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.

	Note	Page No.	GROUP 2017 Rs. '000	GROUP 2016 Rs. '000	BANK 2017 Rs. '000	BANK 2016 Rs. '000
Balance as at January 1,			24,410,680	11,798,910	24,410,680	11,783,910
Amount borrowed during the year (*)			–	13,179,430	–	13,179,430
Repayments/redemptions during the year			–	(987,660)	–	(972,660)
Subtotal			24,410,680	23,990,680	24,410,680	23,990,680
Exchange rate variance			288,750	420,000	288,750	420,000
Balance as at December 31, (before adjusting for amortised interest and transaction cost)	52.1	277	24,699,430	24,410,680	24,699,430	24,410,680
Unamortised transaction cost			(63,594)	(75,805)	(63,594)	(75,805)
Net effect of amortised interest payable			530,088	514,664	530,088	514,664
Adjusted balance as at December 31,			25,165,924	24,849,539	25,165,924	24,849,539

(*) Funds raised through Debenture issues during the year has been utilised to finance the enhancing lending portfolio of the Bank. The Bank has followed and adhered to all conditions as laid down in Debenture prospectus. New Debenture issues are qualified to be treated under Tier 2 capital and thereby improving the total capital adequacy ratio of the Bank.

Outstanding subordinated liabilities of the Bank as at December 31, 2017, consisted of 131,794,300 (2016 – 131,794,300) unsecured subordinated redeemable debentures of Rs. 100/- each and a subordinated loan of USD 75.0 Mn. (2016 – USD 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 2017 %	Effective annual yield 2016 %	GROUP 2017 Rs. '000	GROUP 2016 Rs. '000	BANK 2017 Rs. '000	BANK 2016 Rs. '000
Fixed Rate Debentures										
2016/2021 – 10.75% p.a.	Listed	Bi-annually	09.03.2016	08.03.2021	**11.04**	11.04	**4,430,340**	4,430,340	**4,430,340**	4,430,340
2016/2021 – 12.00% p.a.	Listed	Bi-annually	28.10.2016	27.10.2021	**12.36**	12.36	**5,071,800**	5,071,800	**5,071,800**	5,071,800
2016/2026 – 11.25% p.a.	Listed	Bi-annually	09.03.2016	08.03.2026	**11.57**	11.57	**1,749,090**	1,749,090	**1,749,090**	1,749,090
2016/2026 – 12.25% p.a.	Listed	Bi-annually	28.10.2016	27.10.2026	**12.63**	12.63	**1,928,200**	1,928,200	**1,928,200**	1,928,200
Floating Rate Subordinated Loans										
IFC Borrowings – 6 month LIBOR + 5.75%		Bi-annually	13.03.2013	14.03.2023	**7.013**	7.013	**11,520,000**	11,231,250	**11,520,000**	11,231,250
Total							**24,699,430**	24,410,680	**24,699,430**	24,410,680

52.2 Subordinated liabilities by maturity

As at December 31,	GROUP 2017 Rs. '000	GROUP 2016 Rs. '000	BANK 2017 Rs. '000	BANK 2016 Rs. '000
Payable within one year	**–**	–	**–**	–
Payable after one year	**24,699,430**	24,410,680	**24,699,430**	24,410,680
Total	**24,699,430**	24,410,680	**24,699,430**	24,410,680

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, 2017.

The maturity analysis of subordinated liabilities is given in Note 62 on pages 289 and 290.

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	
	2017 **Rs. '000**	2016 Rs. '000	**2017** **Rs. '000**	2016 Rs. '000
Balance as at January 1,	24,978,003	23,254,605	24,978,003	23,254,605
Issue of ordinary voting shares under the Employee Share Option Plan	415,117	144,804	415,117	144,804
Issue of ordinary shares as part of the final dividend satisfied in the form of issue and allotment of new shares	1,606,549	1,578,594	1,606,549	1,578,594
Ordinary voting shares	1,503,566	1,477,179	1,503,566	1,477,179
Ordinary non-voting shares	102,983	101,415	102,983	101,415
Rights issue of ordinary voting shares	9,616,179	–	9,616,179	–
Rights issue of ordinary non-voting shares	527,693	–	527,693	–
Balance as at December 31,	37,143,541	24,978,003	37,143,541	24,978,003

53.1 Movement in number of shares

	No. of ordinary voting shares		No. of ordinary non-voting shares	
	2017	2016	**2017**	2016
Balance as at January 1,	833,521,887	820,567,115	57,212,653	56,299,686
Issue of ordinary voting shares under the Employee Share Option Plan	3,278,537	1,136,732	–	–
Issue of ordinary shares as part of the final dividend satisfied in the form of issue and allotment of new shares	10,521,802	11,818,040	903,357	912,967
Rights issue of ordinary shares	84,649,465	–	5,811,601	–
Balance as at December 31,	931,971,691	833,521,887	63,927,611	57,212,653

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 279 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 :

	Tranche I			Total
Date granted	April 30, 2008	April 30, 2008	April 30, 2008	
Price (Rs.) – (*)	46.91	46.91	46.91	
	1/3 of Options	1/3 of Options	1/3 of Options	
Exercisable between	April 30, 2009 to April 29, 2013	April 30, 2010 to April 29, 2014	April 30, 2011 to April 29, 2015	
Original number of options	777,308	777,308	777,308	2,331,924
Additions consequent to 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, 2017	(1,416,460)	(1,513,685)	(1,781,424)	(4,711,569)
Number of options to be exercised as at December 31, 2017	**–**	**–**	**–**	**–**

(*) 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.

	Tranche II			Total
Date granted	April 30, 2011	April 30, 2011	April 30, 2011	
Price (Rs.)	129.78	129.78	129.78	
	1/3 of Options	1/3 of Options	1/3 of Options	
Exercisable between	April 30, 2012 to April 29, 2016	April 30, 2013 to April 29, 2017	April 30, 2014 to April 29, 2018	
Original number of options	1,213,370	1,213,386	1,230,817	3,657,573
Additions consequent to share splits and rights issues	1,213,370	1,213,386	1,230,817	3,657,573
Number of options cancelled before vesting	(30,980)	(41,307)	(95,236)	(167,523)
Number of options vested	2,395,760	2,385,465	2,366,398	7,147,623
Options cancelled due to non-acceptance	(1,337,809)	(1,020,819)	–	(2,358,628)
Number of options exercised up to December 31, 2017	(1,057,951)	(1,364,646)	(738,900)	(3,161,497)
Number of options to be exercised as at December 31, 2017	**–**	**–**	**1,627,498**	**1,627,498**

	Tranche III			Total
Date granted	April 30, 2012	April 30, 2012	April 30, 2012	
Price (Rs.)	102.69	102.69	102.69	
	1/3 of Options	1/3 of Options	1/3 of Options	
Exercisable between	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	2,596,558	2,616,965	2,623,341	7,836,864
Number of options cancelled before vesting	–	(49,706)	(79,964)	(129,670)
Number of options vested	2,596,558	2,567,259	2,543,377	7,707,194
Number of options exercised up to December 31, 2017	(2,596,558)	(1,642,358)	(1,199,193)	(5,438,109)
Number of options to be exercised as at December 31, 2017	**–**	**924,901**	**1,344,184**	**2,269,085**

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 1, 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 1, 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% share 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 at vesting dates 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 1, 2016 to September 30, 2019	October 1, 2017 to September 30, 2020	October 1, 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			
Options granted to Key Management Personnel	81,869	85,912	–
Options granted to other executive officers	4,073,989	4,142,949	–
Total options vested on the date of vesting	4,155,858	4,228,861	–

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, 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:

	Tranches		
Description of the valuation input	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.)	122.73	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:

	Tranche 1			
	2017		2016	
	No. of options	**WAEP***	No. of options	WAEP*
No. of voting shares vested and to be vested as at January 1,	16,203,130	213.55	16,445,375	212.29
No. of shares granted from the right issue	297,177	191.41		
Granted during the year	–	–	–	–
Exercised during the year – Before right issue	(456,776)	122.73	(242,245)	122.73
Exercised during the year – After right issue	(303,197)	126.42	–	–
No. of voting shares vested and to be vested as at December 31,	15,740,334	190.67	16,203,130	213.63
Exercisable as at December 31,	7,447,408		3,913,613	

**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] on page 203.

Several statutory and voluntary reserves are maintained by the Group in order to meet various legal and operational requirements. The details of these reserves including the nature and purpose of maintaining them are given in Notes 55, 56 and 57 on pages 282 to 285.

55. Statutory Reserves

As at December 31,	Note	Page No.	GROUP 2017 Rs. '000	GROUP 2016 Rs. '000	BANK 2017 Rs. '000	BANK 2016 Rs. '000
Statutory reserve fund	55.1	282	6,492,552	5,647,993	6,476,952	5,647,890
Subtotal			6,492,552	5,647,993	6,476,952	5,647,890

55.1 Statutory reserve fund

	GROUP 2017 Rs. '000	GROUP 2016 Rs. '000	BANK 2017 Rs. '000	BANK 2016 Rs. '000
Balance as at January 1,	5,647,993	4,922,367	5,647,890	4,922,264
Transfers made during the year	852,024	725,626	829,062	725,626
Statutory reserve attributable to non-controlling Interest	(7,465)	–	–	–
Balance as at December 31,	6,492,552	5,647,993	6,476,952	5,647,890

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 2017 Rs. '000	GROUP 2016 Rs. '000	BANK 2017 Rs. '000	BANK 2016 Rs. '000
Balance as at January 1,	4,553,778	4,467,807	4,464,077	4,388,867
Total comprehensive income	16,073,373	14,654,924	16,051,342	14,652,274
Profit for the year	16,605,963	14,510,333	16,581,244	14,512,511
Other comprehensive income, net of tax	(532,590)	144,591	(529,902)	139,763
Dividends paid	(5,955,851)	(5,720,913)	(5,955,851)	(5,720,913)
Revaluation gain on disposal of freehold land and building	36,940	–	36,940	–
Write back of unclaimed dividends	–	624	–	–
De-recognition of revaluation reserve	–	5,628	–	–
Transfers to other reserves	(9,624,559)	(8,856,151)	(9,609,062)	(8,856,151)
Profit on sale of partial disposal of subsidiary	5,262	3,047	–	–
Reinstatement of non-controlling interest due to partial disposal of subsidiary	(2,334)	(1,188)	–	–
Balance as at December 31,	5,086,609	4,553,778	4,987,446	4,464,077

57. Other Reserves

57. (a) Current year – 2017

			GROUP			BANK		
	Note	Page No.	Balance as at January 1, Rs. '000	Movement/ transfers Rs. '000	Balance as at December 31, Rs. '000	Balance as at January 1, Rs. '000	Movement/ transfers Rs. '000	Balance as at December 31, Rs. '000
Revaluation reserve	57.1	283	6,250,554	1,583,449	7,834,003	5,722,859	1,365,195	7,088,054
General reserve	57.2	284	43,490,003	8,780,000	52,270,003	43,490,003	8,780,000	52,270,003
Available-for-sale reserve	57.3	284	(7,208,805)	5,501,319	(1,707,486)	(7,208,796)	5,501,302	(1,707,494)
Foreign currency translation reserve	57.4	284	860,502	(511,529)	348,973	839,346	(525,093)	314,253
Employee share option reserve	57.5	285	420,282	109,535	529,817	420,282	109,535	529,817
Hedging reserve	57.6	285	–	(3,212)	(3,212)	–	(3,212)	(3,212)
Total			43,812,536	15,459,562	59,272,098	43,263,694	15,227,727	58,491,421

57. (b) Previous year – 2016

	GROUP			BANK		
	Balance as at January 1, Rs. '000	Movement/ transfers Rs. '000	Balance as at December 31, Rs. '000	Balance as at January 1, 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

57.1 Revaluation reserve

The revaluation reserve relates to revaluation of freehold land and buildings and represents the fair value changes of the land and buildings, net of tax, as at the date of revaluation.

The Bank carried out a revaluation of all its freehold lands and buildings as at December 31, 2017 and recognised Rs. 1,396.663 Mn., as revaluation surplus, net of tax.

	GROUP		BANK	
	2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000
Balance as at January 1,	6,250,554	6,258,939	5,722,859	5,722,859
Surplus on revaluation of freehold land and building	3,828,390	–	3,542,214	–
Deferred tax effect on revaluation surplus on freehold buildings	(2,205,823)	–	(2,145,551)	–
Revaluation gain on disposal of freehold land and building	(31,468)	(5,628)	(31,468)	–
Movement due to changes in equity	(7,650)	(2,757)	–	–
Balance as at December 31,	7,834,003	6,250,554	7,088,054	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	
	2017	2016	**2017**	2016
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
Balance as at January 1,	43,490,003	35,359,478	43,490,003	35,359,478
Transfers during the year	8,780,000	8,130,525	8,780,000	8,130,525
Balance as at December 31,	52,270,003	43,490,003	52,270,003	43,490,003

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	
	2017	2016	**2017**	2016
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
Balance as at January 1,	(7,208,805)	(3,955,376)	(7,208,796)	(3,955,367)
Net fair value gains/(losses) on remeasuring financial investments available for sale	5,501,319	(3,253,429)	5,501,302	(3,253,429)
Balance as at December 31,	(1,707,486)	(7,208,805)	(1,707,494)	(7,208,796)

57.4 Foreign currency translation reserve

The foreign currency translation reserve comprises of 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 and Commex – Sri Lanka S.R.L. Italy and Commercial Bank of Maldives Private Limited and CBC Myanmar Microfinance Co. Limited a subsidiary of the Bank were translated into the presentation currency (Sri Lankan Rupee) at the exchange rate ruling 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	
	2017	2016	**2017**	2016
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
Balance as at January 1,	860,502	432,489	839,346	424,768
Net gains/(losses) arising from translating the Financial Statements of foreign operations	(503,140)	438,565	(525,093)	414,578
Foreign currency translation reserve attributable to non-controlling interest	(8,389)	(10,552)	–	–
Balance as at December 31,	348,973	860,502	314,253	839,346

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	
			2017	2016	2017	2016
	Note	Page No.	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at January 1,			420,282	223,330	420,282	223,330
Transfers during the year	19	203	138,341	206,174	138,341	206,174
Transfers to stated capital			(28,806)	(9,222)	(28,806)	(9,222)
Balance as at December 31,			529,817	420,282	529,817	420,282

57.6 Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition in profit or loss as the hedged cash flows affect profit or loss.

	GROUP		BANK	
	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at January 1,	–	–	–	–
Transfers during the year	(3,212)	–	(3,212)	–
Balance as at December 31,	(3,212)	–	(3,212)	–

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 7.03%) and Commercial Bank of Maldives Private Limited (NCI of 45%) as at the reporting date as follows:

	2017	2016
	Rs. '000	Rs. '000
Balance as at January 1,	823,113	50,208
Profit for the year	20,544	(43,909)
Other comprehensive income, net of tax	21,955	10,594
Dividends paid for the year	(3,690)	(3,432)
Write-back of unclaimed dividends	–	38
Reinstatement of non-controlling interest due to partial disposal of subsidiary	9,984	3,945
Acquisition of subsidiary with non-controlling Interest	–	805,669
Balance as at December 31,	871,906	823,113

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 286.

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 are therefore form part of the overall risk profile of the Bank.

			GROUP		BANK	
As at December 31,	Note	Page No.	**2017 Rs. '000**	2016 Rs. '000	**2017 Rs. '000**	2016 Rs. '000
Contingencies			**438,543,821**	365,862,605	**438,454,025**	365,853,920
Guarantees			**64,869,807**	33,267,170	**64,869,608**	33,258,485
Performance bonds			**30,604,509**	22,553,060	**30,601,521**	22,553,060
Documentary credits			**45,146,266**	36,222,394	**45,078,313**	36,222,394
Other contingencies	59.1	286	**297,923,239**	273,819,981	**297,904,583**	273,819,981
Commitments			**126,734,000**	132,705,895	**126,340,860**	132,450,607
Undrawn commitments	59.2	287	**124,977,782**	131,628,622	**124,594,675**	131,381,356
Capital commitments	59.3	287	**1,756,218**	1,077,273	**1,746,185**	1,069,251
Total			**565,277,821**	498,568,500	**564,794,885**	498,304,527

59.1 Other contingencies

	GROUP		BANK	
As at December 31,	**2017 Rs. '000**	2016 Rs. '000	**2017 Rs. '000**	2016 Rs. '000
Forward exchange contracts:	**68,436,909**	70,646,854	**68,436,909**	70,646,854
Forward exchange sales	**24,380,254**	26,084,323	**24,380,254**	26,084,323
Forward exchange purchases	**44,056,655**	44,562,531	**44,056,655**	44,562,531
Interest Rate Swap agreements/Currency Swaps:	**164,800,830**	158,012,034	**164,800,830**	158,012,034
Interest rate swaps	**–**	–	**–**	–
Currency swaps	**164,800,830**	158,012,034	**164,800,830**	158,012,034
Others:	**64,685,500**	45,161,093	**64,666,844**	45,161,093
Acceptances	**40,336,138**	25,281,037	**40,321,501**	25,281,037
Bills for collection	**23,310,642**	19,260,765	**23,306,623**	19,260,765
Stock of Travellers' Cheques	**1,030,549**	616,341	**1,030,549**	616,341
Bullion on consignment	**8,171**	2,950	**8,171**	2,950
Subtotal	**297,923,239**	273,819,981	**297,904,583**	273,819,981

59.2 Undrawn commitments

As at December 31,	GROUP 2017 Rs. '000	GROUP 2016 Rs. '000	BANK 2017 Rs. '000	BANK 2016 Rs. '000
On direct advances	105,053,514	97,459,750	104,670,407	97,212,484
On indirect advances	19,924,268	34,168,872	19,924,268	34,168,872
Subtotal	124,977,782	131,628,622	124,594,675	131,381,356

59.3 Capital commitments

The Group has commitments for acquisition of property, plant and 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 2017 Rs. '000	GROUP 2016 Rs. '000	BANK 2017 Rs. '000	BANK 2016 Rs. '000
Commitments in relation to property, plant and equipment	1,539,657	647,677	1,529,624	647,677
Approved and contracted for	1,425,307	511,667	1,415,274	511,667
Approved but not contracted for	114,350	136,010	114,350	136,010
Commitments in relation to intangible assets	216,561	429,596	216,561	421,574
Approved and contracted for	216,561	429,596	216,561	421,574
Approved but not contracted for	–	–	–	–
Subtotal	1,756,218	1,077,273	1,746,185	1,069,251

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 2017	GROUP 2016	BANK 2017	BANK 2016
Amounts used as the numerator:				
Total equity attributable to equity holders of the Bank (Rs. '000)	107,994,800	78,992,310	107,099,360	78,353,664
Number of ordinary shares used as the denominator:				
Total number of shares	995,899,302	890,734,540	995,899,302	890,734,540
Net assets value per share (Rs.)	108.44	88.68	107.54	87.97

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 the 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, 2017 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 has not been listed here on the basis of non-materiality to operations, aggrieved party had obtained injunctions prior to acquiring the property by the Bank etc.

(i) Court action has been initiated by a customer in High Court proceeding No. 236/2011/MR, challenging the Bank on transfer of title of a vehicle upon settlement of a lease facility. The Bank had transferred the title of a vehicle in the name of a relative of the customer on the strength of a letter issued by him which is now being disputed. The value of the action is Rs. 3.500 Mn. Plaintiff and the 1st defendant have closed their case. Evidence of an officer of the Bank was led and further trial fixed for March 28, 2018.

(ii) Court action has been initiated by a customer in District Court, Colombo under proceeding No. DMR 3/2014 for Rs. 14.000 Mn. 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. 315/2015/MR. The matter is fixed for trial on June 13, 2018.

(iii) Court action has been initiated in District Court, Colombo under case No. 03034/14/DMR to claim a sum of Rs. 27.870 Mn. being the total amount withdrawn from the Company account with forged signatures by an employee of the company in a number of transactions during a period of two years. Further trial fixed for May 25, 2018.

(iv) Court action has been initiated in District Court, Colombo under proceeding 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. Further trial fixed for May 21, 2018.

(v) Court action has been initiated in District Court, Colombo under proceeding No. DMR/2274/2015 to recover a sum of Rs. 3.374 Mn. as parking charges and interest thereon due to a dispute over parking facility provided to the Bank. Trial is due on March 29, 2018.

(vi) Court action has been initiated District Court, Kaduwela under proceeding No. 584/L for Rs. 15.000 Mn. and interest thereon in seeking declaration that the plaintiff is the lawful owner of the property mortgaged by her daughter as security for a loan (currently in the past-due section) obtained from the Bank. Replication on February 23, 2018.

(vii) Court action has been initiated by a third party in District Court Colombo under proceeding No. DMR/873/17 to recover a sum of Rs. 15.300 Mn. as damages for accepting three stale cheques amounting to Rs. 2.500 Mn. drawn by the plaintiff and deposited to an account of a customer, which was returned as "Account Closed". Customer has taken criminal action against the plaintiff in this regard and the latter had initiated action against the Bank successively. Answer by the Bank due on May 8, 2018.

(viii) An appeal was filed by the Bank under proceedings No. HCALT 405/2014 in Provincial High Court of the Eastern Province against the order of the Labour Tribunal for payment of compensation and reinstatement in employment of an outsourced office helper. The office helper too filed a case in Provincial High Court in proceedings No. HCALT 404/2014 refusing compensation and asking for reinstatement. Appeal made by the Bank was dismissed and case filed by outsourced office helper was decided in favour of him. Bank has appealed in the Supreme Court against the judgement of both cases under proceeding No. SC/SPL/LA/220/15 and SC/SPL/LA/221/15. Next hearing of the cases fixed for June 1, 2018.

(ix) Court action has been initiated in Colombo High Court under proceedings No. 112/2005 (1) to claim Rs. 5.584 Mn. and Rs. 10.000 Mn. as damages for disposing of 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. Judgement was delivered in favour of the Plaintiff. Bank has appealed in the Supreme Court (Appeal No. 09/2010) against the judgement delivered. Appeal is fixed for argument on May 11, 2018.

(x) Court action has been initiated by a customer in Colombo High Court under proceedings No. 36/96 (1) to claim a sum of Rs. 183.050 Mn. regarding a forward exchange contract. Judgement was delivered in favour of the Bank dismissing the plaintiff's action, but the plaintiff has appealed against the judgement in the Supreme Court (Appeal No. 38/2006). Next hearing on February 26, 2018.

(xi) Court action has been initiated in the Commercial High Court of the Western Province under proceedings 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 USD 15.000 Mn. against a sum due from the plaintiff in terms of a hedging agreement. Commercial High Court issued the judgement 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 March 7, 2018.

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:

As at December 31,	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 31.12.2017 Rs. '000**	Total as at 31.12.2016 Rs. '000
Interest earning assets:							
Financial assets							
Cash and cash equivalents	3,660,584	–	–	–	–	**3,660,584**	8,291,413
Balances with Central Banks	1,632,454	263,830	–	4,607	–	**1,900,891**	560,669
Placements with banks	17,633,269	–	–	–	–	**17,633,269**	11,718,499
Securities purchased under resale agreements	–	–	–	–	–	**–**	–
Derivative financial assets	–	–	–	–	–	**–**	–
Other financial instruments – Held for trading	4,096,168	–	–	–	–	**4,096,168**	4,693,989
Loans and receivables to banks	–	–	–	–	–	**–**	–
Loans and receivables to other customers	232,293,546	199,536,025	171,769,829	94,461,959	44,382,771	**742,444,130**	620,129,488
Financial investments – Available for sale	13,224,706	67,787,547	59,124,910	14,229,518	–	**154,366,681**	159,642,243
Financial investments – Held to maturity	6,966,556	12,785,739	12,885,249	29,661,652	7,066,600	**69,365,796**	63,626,598
Financial investments – Loans and receivables	2,521,780	5,188,975	16,430,329	24,571,393	–	**48,712,477**	51,824,026
Total interest earning assets as at 31.12.2017	**282,029,063**	**285,562,116**	**260,210,317**	**162,929,129**	**51,449,371**	**1,042,179,996**	
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
Non-interest earning assets:							
Financial assets							
Cash and cash equivalents	31,012,840	–	–	–	–	**31,012,840**	24,632,814
Balances with central banks	26,999,348	14,321,349	783,669	730,063	811,029	**43,645,458**	43,374,589
Placements with banks	–	–	–	–	–	**–**	–
Securities purchased under resale agreements	–	–	–	–	–	**–**	–
Derivative financial assets	959,937	1,374,599	–	–	–	**2,334,536**	1,052,829
Other financial instruments – Held for trading	314,745	–	–	–	–	**314,745**	293,809
Loans and receivables to banks	–	–	640,512	–	–	**640,512**	624,458
Loans and receivables to other customers	–	–	–	–	–	**–**	–
Financial investments – Available for sale	–	–	–	17,491	529,471	**546,962**	450,279
Financial investments – Held to maturity	–	–	–	–	–	**–**	–
Financial investments – Loans and receivables	–	–	–	–	–	**–**	–
Non-financial assets							
Investments in subsidiaries	–	–	–	–	–	**–**	–
Investments in associates	–	–	–	–	109,844	**109,844**	108,859
Property, plant and equipment	–	–	–	–	16,317,044	**16,317,044**	11,569,666
Intangible assets	–	–	–	–	1,251,226	**1,251,226**	1,132,669
Leasehold property	–	–	–	–	104,516	**104,516**	105,968
Deferred tax assets	–	–	–	–	–	**–**	668,150
Other assets	12,335,522	257,173	1,245,002	506,177	3,019,103	**17,362,977**	16,482,559
Total non-interest earning assets as at 31.12.2017	**71,622,392**	**15,953,121**	**2,669,183**	**1,253,731**	**22,142,233**	**113,640,660**	
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 assets – as at 31.12.2017	**353,651,455**	**301,515,237**	**262,879,500**	**164,182,860**	**73,591,604**	**1,155,820,656**	
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
Percentage – as at 31.12.2017 (*)	**30.60**	**26.09**	**22.74**	**14.20**	**6.37**	**100.00**	
Percentage – as at 31.12.2016 (*)	33.56	18.81	26.89	11.28	9.46		100.00

(*) Total assets of each maturity bucket as a percentage 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 31.12.2017 Rs. '000**	Total as at 31.12.2016 Rs. '000
Interest-bearing liabilities:							
Financial liabilities							
Due to banks	33,084,091	4,622,936	13,243,490	1,086,634	41,224	**52,078,375**	67,012,968
Derivative financial liabilities	–	–	–	–	–	**–**	–
Securities sold under repurchase agreements	35,806,750	10,978,972	2,746,663	–	–	**49,532,385**	69,628,961
Other financial liabilities – Held for trading	–	–	–	–	–	**–**	–
Due to other customers/deposits from customers	456,843,445	290,068,614	18,492,159	13,050,450	13,783,280	**792,237,948**	685,709,264
Other borrowings	657,813	2,091,720	5,021,093	7,503,789	8,511,679	**23,786,094**	9,270,154
Subordinated liabilities	203,326	314,552	–	9,477,720	15,170,326	**25,165,924**	24,849,539
Total interest-bearing liabilities as at 31.12.2017	**526,595,425**	**308,076,794**	**39,503,405**	**31,118,593**	**37,506,509**	**942,800,726**	
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
Non-interest-bearing liabilities:							
Financial liabilities							
Due to banks	8,166,517	–	–	–	–	**8,166,517**	4,085,423
Derivative financial liabilities	2,488,462	1,185,570	–	–	4,462	**3,678,494**	1,515,035
Securities sold under repurchase agreements	–	–	–	–	–	**–**	–
Other financial liabilities – Held for trading	–	–	–	–	–	**–**	–
Due to other customers/deposits from customers	65,032,033	–	–	–	–	**65,032,033**	57,601,349
Other borrowings	–	–	–	–	–	**–**	–
Subordinated liabilities	–	–	–	–	–	**–**	–
Non-financial liabilities							
Current tax liabilities	857,023	3,345,827	–	–	–	**4,202,850**	3,464,682
Deferred tax liabilities	472,934	153,861	588,908	261,930	2,087,582	**3,565,215**	–
Other provisions	–	–	–	–	–	**–**	1,874
Other liabilities	3,354,484	9,738,767	2,943,111	1,374,896	2,096,857	**19,508,115**	18,028,902
Equity							
Stated capital	–	–	–	–	37,143,541	**37,143,541**	24,978,003
Statutory reserves	–	–	–	–	6,492,552	**6,492,552**	5,647,993
Retained earnings	–	–	–	–	5,086,609	**5,086,609**	4,553,778
Other reserves	–	–	–	–	59,272,098	**59,272,098**	43,812,536
Non-controlling interest					871,906	**871,906**	823,113
Total non-interest-bearing liabilities as at 31.12.2017	**80,371,453**	**14,424,025**	**3,532,019**	**1,636,826**	**113,055,607**	**213,019,930**	
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 liabilities and equity – as at 31.12.2017	**606,966,878**	**322,500,819**	**43,035,424**	**32,755,419**	**150,562,116**	**1,155,820,656**	
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
Percentage – as at 31.12.2017(*)	**52.52**	**27.90**	**3.72**	**2.83**	**13.03**	**100.00**	
Percentage – as at 31.12.2016(*)	57.28	26.21	3.36	2.30	10.85		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 319 to 322.

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:

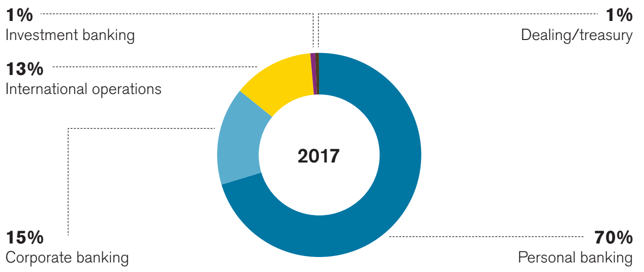
Operating segment	Types of products and services offered
Personal banking	Refer pages 61 to 72 for details on product portfolio by Business Lines
Corporate banking	
International operations	
Investment banking	
Dealing and treasury	

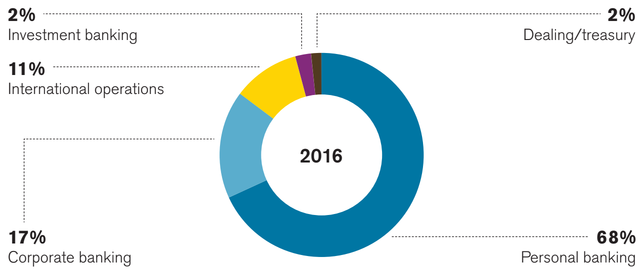
Segment performance is evaluated based on operating profits or losses which, in certain respects, are measured differently from operating profits or losses in the Consolidated Financial Statements. Income taxes are managed on a Group basis and are not allocated to operating segments.

The following table presents the income, profit, asset and liability information on the Group's strategic business divisions for the year ended December 31, 2017 and comparative figures for the year ended December 31, 2016.

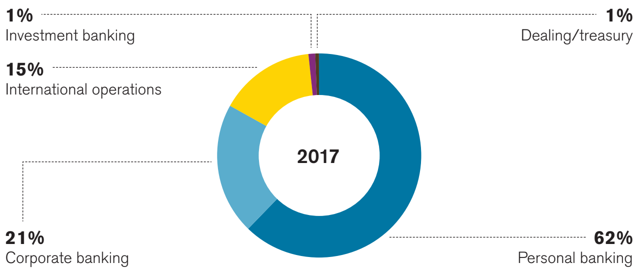
	Personal banking		Corporate banking		International operations		Investment banking		Dealing/treasury		Unallocated/eliminations		Total/consolidated	
For the year ended December 31,	**2017 Rs. '000**	2016 Rs. '000	**2017 Rs. '000**	2016 Rs. '000	**2017 Rs. '000**	2016 Rs. '000	**2017 Rs. '000**	2016 Rs. '000	**2017 Rs. '000**	2016 Rs. '000	**2017 Rs. '000**	2016 Rs. '000	**2017 Rs. '000**	2016 Rs. '000
External operating income:														
Net interest income	26,884,392	23,255,124	4,639,252	4,528,344	4,044,558	3,214,891	381,502	1,026,278	1,559,382	(125,417)	2,058,212	1,229,056	39,567,298	33,128,276
Foreign exchange profit	217,330	198,679	699,565	822,894	1,015,851	509,081	–	–	(1,335,721)	795,504	–	–	597,025	2,326,158
Net fee and commission income	6,135,191	4,857,448	1,803,963	1,594,813	934,398	609,430	45,242	23,505	5,672	3,981	–	–	8,924,466	7,089,177
Other income	454,232	779,594	334,100	353,668	125,674	190,003	42,303	8,984	213,662	64,252	514,857	458,138	1,684,828	1,854,639
Total operating income	33,691,145	29,090,845	7,476,880	7,299,719	6,120,481	4,523,405	469,047	1,058,767	442,995	738,320	2,573,069	1,687,194	50,773,617	44,398,250
Impairment loss expenses	(2,471,052)	202,442	564,494	(1,726,375)	(319,356)	(59,393)	–	–	–	–	–	–	(2,225,914)	(1,583,326)
Net operating income	31,220,093	29,293,287	8,041,374	5,573,344	5,801,125	4,464,012	469,047	1,058,767	442,995	738,320	2,573,069	1,687,194	48,547,703	42,814,924
Segment result	16,281,986	14,328,813	5,414,227	4,874,706	4,086,117	3,148,044	287,326	625,923	126,225	(4,086)	(2,919,235)	(2,865,270)	23,276,646	20,108,130
Profit from operations													23,276,646	20,108,130
Share of profit of associates – net of tax													3,678	6,454
Income tax expense													(6,653,817)	(5,648,160)
Non-controlling interest													(20,544)	43,909
Net profit for the year, attributable to equity holders of the parent													16,605,963	14,510,333

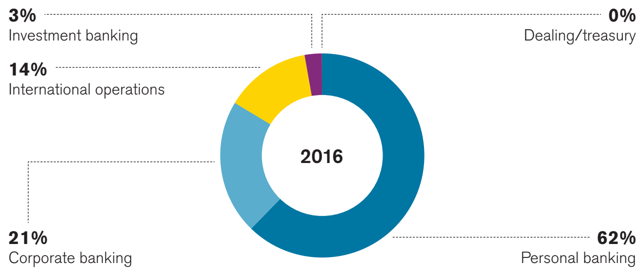
Total operating income





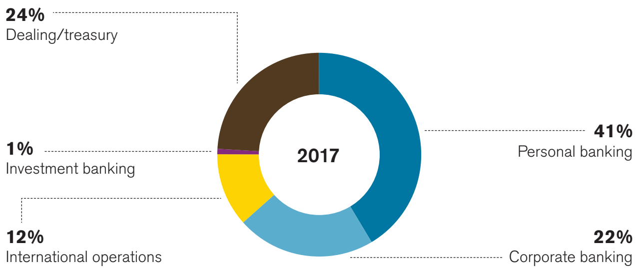
Segment result

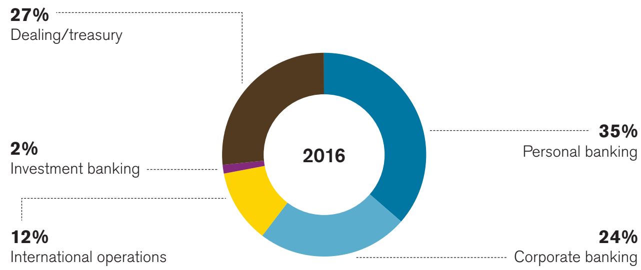




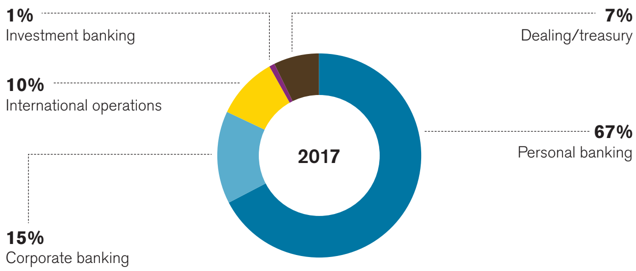
	Personal banking		Corporate banking		International operations		Investment banking		Dealing/treasury		Unallocated/eliminations		Total/consolidated	
As at December 31,	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000	**Rs. '000**	Rs. '000	**Rs. '000**	Rs. '000	**Rs. '000**	Rs. '000	**Rs. '000**	Rs. '000	**Rs. '000**	Rs. '000
Other information														
Segment assets	**443,643,154**	340,853,854	**240,649,838**	229,759,156	**128,456,896**	112,387,766	**17,270,623**	19,644,842	**262,780,975**	257,143,130	**62,909,326**	61,085,967	**1,155,710,812**	1,020,874,715
Investment in associates	–	–	–	–	–	–	–	–	–	–	**109,844**	108,859	**109,844**	108,859
Unallocated assets	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Total assets	**443,643,154**	340,853,854	**240,649,838**	229,759,156	**128,456,896**	112,387,766	**17,270,623**	19,644,842	**262,780,975**	257,143,130	**63,019,170**	61,194,826	**1,155,820,656**	1,020,983,574
Segment liabilities	**690,860,560**	601,064,166	**151,728,410**	145,104,008	**103,813,211**	86,181,038	**17,380,467**	12,444,122	**75,403,237**	92,910,135	**7,768,065**	3,464,682	**1,046,953,950**	941,168,151
Unallocated liabilities	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Total liabilities	**690,860,560**	601,064,166	**151,728,410**	145,104,008	**103,813,211**	86,181,038	**17,380,467**	12,444,122	**75,403,237**	92,910,135	**7,768,065**	3,464,682	**1,046,953,950**	941,168,151

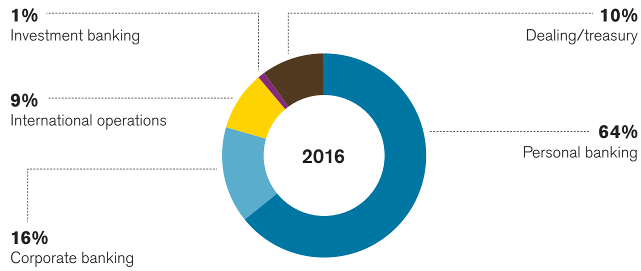
Total assets





Total liabilities





	Personal banking		Corporate banking		International operations		Investment banking		Dealing/treasury		Unallocated/eliminations		Total/consolidated	
For the year ended	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
	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**	Rs. '000
Information on cash flows														
Cash flows from operating activities	**3,977,097**	48,260,328	**(7,219,784)**	(20,442,140)	**322,609**	(491,909)	**140,802**	(40,710)	**(191,366)**	(21,391,095)	**–**	–	**(2,970,642)**	5,894,474
Cash flows from investing activities	**–**	–	**–**	–	**–**	–	**3,362,948**	1,124,546	**–**	–	**–**	–	**3,362,948**	1,124,546
Cash flows from financing activities	**(2,274,217)**	(1,298,062)	**–**	–	**–**	–	**–**	–	**(88,053)**	12,191,770	**6,177,191**	(3,204,500)	**3,814,921**	7,689,208
Capital expenditure														
Property, plant and equipment													**(2,105,701)**	(1,468,902)
Intangible assets													**(352,329)**	(422,175)
Net cash flow generated during the year													**1,749,197**	12,817,151

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", other than, transactions that the Key Management Personnel (KMP) have availed under schemes uniformly applicable to all staff 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 173, 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

For the year ended December 31,	**2017** **Rs. '000**	2016 Rs. '000
Short-term employment benefits	**159,190**	124,478
Post-employment benefits	**7,831**	6,984
Total	**167,021**	131,462

64.2.1.2 Compensation of KMP – Group

For the year ended December 31,	**2017** **Rs. '000**	2016 Rs. '000
Short-term employment benefits	**161,282**	125,648
Post-employment benefits	**7,831**	6,984
Total	**169,113**	132,632

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's domestic partner and dependants of the KMP or the KMP's domestic partner. CFM are related parties to the Group/Bank.

64.2.2.1 Statement of Financial Position – Bank

As at December 31,	Year-end balance 2017 Rs. '000	Year-end balance 2016 Rs. '000	Average balance 2017 Rs. '000	Average balance 2016 Rs. '000
Assets				
Loans and advances	18,890	10,229	9,282	9,462
Credit cards	115	–	427	238
Total	19,005	10,229	9,709	9,700
Liabilities				
Deposits	228,579	145,701	167,137	79,474
Securities sold under repurchase agreements	7,844	35,062	30,123	31,198
Debentures	2,000	2,000	2,000	355
Total	238,423	182,763	199,260	111,027

64.2.2.2 Commitments and contingencies – Bank

As at December 31,	Year-end balance 2017 Rs. '000	Year-end balance 2016 Rs. '000	Average balance 2017 Rs. '000	Average balance 2016 Rs. '000
Undrawn facilities	18,035	10,380	13,024	11,716
Total	18,035	10,380	13,024	11,716

64.2.2.3 Direct and indirect accommodation – Bank

As at December 31,	Year-end balance 2017 %	Year-end balance 2016 %
Direct and indirect accommodation as a % of the Bank's Regulatory Capital	0.03	0.02

No impairment losses have been recorded against balances outstanding with KMP and CFM.

64.2.2.4 Income Statement

For the Year Ended December 31,	Note	Page No.	2017 Rs. '000	2016 Rs. '000
Interest income			777	626
Interest expense			17,226	7,747
Other income			–	20
Compensation to KMP	64.2.1.1 & 64.2.1.2	294	167,021	131,462

64.2.2.5 Share-based transactions of KMP and CFM

As at the year end	**2017**	2016
Number of ordinary shares held	**1,206,569**	810,939
Dividends paid (in Rs. '000)	**6,304**	4,762
Number of cumulative exercisable options under the Employee Share Option Plan (ESOP) 2008		
Tranche II	**50,270**	98,678
Tranche III	**105,695**	155,603
Number of cumulative exercisable options under the Employee Share Option Plan (ESOP) 2015		
Tranche I	**83,416**	81,869
Tranche II	**85,912**	–

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	
	2017 Rs. '000	2016 Rs. '000	**2017 Rs. '000**	2016 Rs. '000
Assets				
Loans and advances	**3,693,085**	266,349	**2,220,358**	80,967
Credit cards	**777**	–	**596**	–
Total	**3,693,862**	266,349	**2,220,954**	80,967
Liabilities				
Deposits	**1,305,617**	977,122	**986,253**	276,411
Securities sold under repurchase agreements	**119,000**	126,237	**74,093**	426
Debentures	**24,310**	24,310	**24,310**	4,317
Total	**1,448,927**	1,127,669	**1,084,656**	281,154

64.2.3.2 Commitments and contingencies

	Year-end balance		Average balance	
	2017 Rs. '000	2016 Rs. '000	**2017 Rs. '000**	2016 Rs. '000
Guarantees	**76,530**	71,280	**74,055**	71,280
Undrawn facilities	**354,901**	379,266	**218,930**	279,891
Total	**431,431**	450,546	**292,985**	351,171

64.2.3.3 Direct and indirect accommodation

	Year-end balance	
	2017	2016
	%	%
Direct and indirect accommodation as a % of the Bank's Regulatory Capital	**3.37**	0.69

64.2.3.4 Income Statement

For the year ended December 31,	**2017**	2016
	Rs. '000	Rs. '000
Interest income	**233,786**	10,451
Interest expense	**39,411**	9,916
Other income	**118**	–

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	
	2017	2016	**2017**	2016
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
Assets				
Loans and advances	**841,060**	786,000	**879,790**	564,749
Lease receivables	**–**	–	**–**	–
Other receivables	**31,439**	92,857	**62,148**	91,727
Impairment for other receivables	**–**	(55,684)	**–**	(54,554)
Total	**872,499**	823,173	**941,938**	601,922
Liabilities				
Deposits	**502,575**	178,827	**120,953**	108,269
Securities sold under repurchase agreements	**142,550**	238,508	**202,877**	145,944
Other	**74,523**	20,061	**47,292**	23,137
Total	**719,648**	437,396	**371,122**	277,350

64.3.1.2 Commitments and contingencies

	Year-end balance		Average balance	
	2017	2016	**2017**	2016
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
Letters of credit	**–**	–	**–**	1,126
Undrawn facilities	**100,000**	62,565	**84,881**	113,165
Total	**100,000**	62,565	**84,881**	114,291

64.3.1.3 Direct and indirect accommodation

	Year-end balance	
	2017	2016
	%	%
Direct and indirect accommodation as a % of the Bank's Regulatory Capital	**0.79**	0.72

64.3.1.4 Income Statement

For the Year Ended December 31,	**2017**	2016
	Rs. '000	Rs. '000
Interest income	**143,796**	58,002
Interest expense	**32,695**	26,731
Other income	**182,826**	103,569
Impairment charges	**–**	3,306
Expenses	**523,214**	454,126

64.3.1.5 Other transactions

For the year ended December 31,	**2017**	2016
	Rs. '000	Rs. '000
Payments made to OneZero Company Ltd. in relation to purchase of computer hardware and software	**29,738**	8,253

64.3.2 Transactions with associates

64.3.2.1 Statement of Financial Position

	Year-end balance		Average balance	
	2017	2016	**2017**	2016
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
Assets				
Loans and advances	–	–	32	29
Lease receivables	–	–	–	–
Total	–	–	32	29
Liabilities				
Deposits	35,468	48,606	19,945	38,967
Securities sold under repurchase agreements	–	–	16,228	–
Total	35,468	48,606	36,173	38,967

64.3.2.2 Commitments and contingencies

	Year-end balance		Average balance	
	2017	2016	**2017**	2016
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
Undrawn facilities	1,000	–	–	–
Total	1,000	–	–	–

64.3.2.3 Direct and indirect accommodation

	Year end Balance	
	2017	2016
	%	%
Direct and indirect accommodation as a % of the Bank's Regulatory Capital	0.00	0.00

64.3.2.4 Income Statement

For the year ended December 31,	**2017**	2016
	Rs. '000	Rs. '000
Interest income	8	7
Interest expense	3,666	3,310
Other income	21,213	22,698
Expenses	71,194	–

64.3.2.5 Other transactions

	2017	2016
Number of ordinary shares of the Bank held by the associates as at the year-end	46,154	4,605
Dividend paid (Rs. '000)	278	29

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	
	2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000
Assets				
Loans and advances	–	–	474	–
Total	–	–	474	–
Liabilities				
Deposits	9,427,494	12,681,135	8,452,541	7,615,681
Securities sold under repurchase agreements	–	386,447	83,265	293,317
Total	9,427,494	13,067,582	8,535,806	7,908,998

64.4.1.2 Income Statement

For the year ended December 31,	2017 Rs. '000	2016 Rs. '000
Interest income	114	30
Interest expense	1,075,241	821,179
Contribution made/taxes paid by the Bank	1,005,342	1,007,451

65. Non-Cash Items Included in Profit Before Tax

As at December 31,	GROUP 2017 Rs. '000	GROUP 2016 Rs. '000	BANK 2017 Rs. '000	BANK 2016 Rs. '000
Depreciation of property, plant and equipment	1,185,698	1,093,088	1,097,096	1,022,648
Amortisation of leasehold property	1,452	1,452	942	942
Amortisation of intangible assets	229,764	173,790	209,766	165,903
Impairment losses on loans and advances	2,225,914	1,583,326	1,956,725	1,511,158
Other impairment	–	–	(42,484)	18,656
Contributions to defined benefit plans – Unfunded schemes	288,791	234,262	279,249	227,816
Provision made o/a of leave encashment	79,128	76,193	79,128	76,193
Equity-settled Share-based payments	138,341	206,174	138,341	206,174
Unamortised interest payable o/a subodinated liabilities	12,211	12,210	12,211	12,210
Mark to market on other financial instruments – held for trading	(85,627)	129,562	(85,627)	129,562
Loss on write-off intangible assets	7,241	303	–	303
Effect of exchange rate variances on investment in subsidiaries	–	–	(26,349)	(30,136)
Effect of exchange rate variances on loans and receivables to banks	(16,054)	(23,352)	(16,054)	(23,352)
Effect of exchange rate variances on property, plant and equipment	(168)	(2,024)	882	(2,012)
Effect of exchange rate variances on intangible assets	(3,208)	(553)	429	(540)
Effect of exchange rate variances on defined benefit plans	(7,279)	7,782	(7,279)	7,782
Effect of exchange rate variances on subordinated liabilities	288,750	420,000	288,750	420,000
Net effect of exchange rate variances on net deferred tax liability	995	(4,980)	4,626	(4,979)
Net effect of exchange rate variances on income tax liability	(45,703)	56,937	(45,820)	56,937
Grossed up notional tax and withholding tax credits	(1,985,107)	(1,209,319)	(1,961,769)	(1,206,343)
Total	2,315,139	2,754,851	1,882,763	2,588,922

66. Change in Operating Assets

As at December 31,	GROUP 2017 Rs. '000	GROUP 2016 Rs. '000	BANK 2017 Rs. '000	BANK 2016 Rs. '000
Net (increase)/decrease in derivative financial instruments	(1,281,707)	3,065,340	(1,281,707)	3,065,340
Net (increase)/decrease in balances with central banks	(1,611,091)	(15,714,241)	(928,241)	(15,652,188)
Net (increase)/decrease in placements with banks	(5,914,770)	5,475,040	(5,914,770)	5,475,040
Net (increase)/decrease in securities purchased under resale agreements	–	8,002,100	–	8,002,100
Net (increase)/decrease in other financial assets – Held for trading	683,448	2,556,114	683,448	2,556,114
Net (increase)/decrease in loans and receivables to customers	(124,540,556)	(111,789,686)	(123,385,064)	(109,414,259)
Net (increase)/decrease in financial investments – Available for sale	12,820,870	39,672,872	12,951,296	39,724,256
Financial investments – Held-to-maturity	(5,739,198)	(63,626,598)	(2,581,454)	(60,981,298)
Net (increase)/decrease in financial investments – Loans and receivables	(263,047)	4,815,666	(263,047)	4,815,666
Net (increase)/decrease in other assets	(880,418)	(4,385,542)	(859,996)	(4,346,881)
Total	(126,726,469)	(131,928,935)	(121,579,535)	(126,756,110)

67. Change in Operating Liabilities

As at December 31,	GROUP 2017 Rs. '000	GROUP 2016 Rs. '000	BANK 2017 Rs. '000	BANK 2016 Rs. '000
Net increase/(decrease) in due to banks	(10,853,499)	39,308,995	(10,487,820)	37,289,692
Net increase/(decrease) in derivative financial instruments	2,158,997	(375,735)	2,158,997	(375,735)
Net increase/(decrease) in securities sold under repurchase agreements	(20,096,576)	(42,620,742)	(20,190,702)	(42,517,343)
Net increase/(decrease) in deposits from banks, customers and debt securities issued	113,959,368	119,289,396	110,564,017	115,461,684
Net increase/(decrease) in other borrowings	14,515,940	(715,483)	14,515,940	(715,483)
Net increase/(decrease) in other provisions	(1,874)	–	(1,874)	–
Net increase/(decrease) in other liabilities	583,523	2,236,019	633,847	2,122,523
Net increase/(decrease) in due to subsidiaries	–	–	54,462	(6,151)
Total	100,265,879	117,122,450	97,246,867	111,259,187

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 2017 Rs. '000	GROUP 2016 Rs. '000	BANK 2017 Rs. '000	BANK 2016 Rs. '000
Less than one year	937,070	760,677	890,519	707,066
Between one to five years	2,510,540	1,889,163	2,352,812	1,762,161
Over five years	2,186,383	1,066,952	2,076,645	927,007
Total	5,633,993	3,716,792	5,319,976	3,396,234

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 2017 Rs. '000	GROUP 2016 Rs. '000	BANK 2017 Rs. '000	BANK 2016 Rs. '000
Less than one year	6,007	6,042	1,820	3,218
Between one to five years	10,289	12,167	2,440	3,469
Over five years	–	–	–	–
Total	16,296	18,209	4,260	6,687

69. Financial Risk Review

This note presents information about the Bank's exposure to financial risks and the Bank's management of capital.

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 through 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 has 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 178 and 179 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 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 obligour 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

As at December 31,	Notes	Page No.	Loans and receivables to other customers 2017 Rs. '000	Loans and receivables to other customers 2016 Rs. '000	Loans and receivables to banks 2017 Rs. '000	Loans and receivables to banks 2016 Rs. '000	Financial investments 2017 Rs. '000	Financial investments 2016 Rs. '000	Lending commitments and contingencies 2017 Rs. '000	Lending commitments and contingencies 2016 Rs. '000
Maximum exposure to credit risk										
Carrying amount	31-36		737,446,567	616,018,228	640,512	624,458	271,400,274	277,816,593		
Amount committed/ contingencies	59	285							563,048,700	497,235,276
At amortised cost – Loans and receivables										
Government securities (Risk free investments)							40,566,702	40,076,392		
Rating 0-4: Investment grade(*)			476,843,647	382,276,912	–	–	8,145,775	11,747,634		
Rating 5-6: Moderate risk			249,066,153	222,439,065	640,512	624,458				
Rating S: High risk			2,035,633	1,696,932	–	–				
Rating 7-9: Extreme risk			26,762,544	26,977,998	–	–				
Gross carrying amount			754,707,977	633,390,907	640,512	624,458	48,712,477	51,824,026	–	–
Less: Provision for impairment (Individual and collective)			17,261,410	17,372,679	–	–	–	–	–	–
Net carrying amount			737,446,567	616,018,228	640,512	624,458	48,712,477	51,824,026	–	–

As at December 31,	Notes	Page No.	Loans and receivables to other customers 2017 Rs. '000	Loans and receivables to other customers 2016 Rs. '000	Loans and receivables to banks 2017 Rs. '000	Loans and receivables to banks 2016 Rs. '000	Financial investments 2017 Rs. '000	Financial investments 2016 Rs. '000	Lending commitments and contingencies 2017 Rs. '000	Lending commitments and contingencies 2016 Rs. '000
Financial investments – Available for sale										
Government securities (Risk free investments)							154,167,169	159,573,316		
Rating 0-4: Investment grade							546,963	450,155		
Rating 5-6: Moderate risk							–	–		
Rating S: High risk										
Rating 7-9: Extreme risk										
Gross/net carrying amount	34	232	–	–	–	–	154,714,132	160,023,471	–	–
Financial investments – Held to maturity										
Government securities (Risk free investments)							53,555,302	50,980,717		
Rating 0-4: Investment grade										
Rating 5-6: Moderate risk							10,007,450	10,000,581		
Rating S : High risk										
Rating 7-9: Extreme risk										
Gross/net carrying amount	35	238	–	–	–	–	63,562,752	60,981,298	–	–
Other financial instruments – Held for trading										
Government securities (Risk free investments)							2,357,876	3,505,335		
Rating 0-4: Investment grade							314,745	293,809		
Rating 5-6: Moderate risk							1,738,292	1,188,654		
Rating S: High risk										
Rating 7-9: Extreme risk										
Gross/net carrying amount	31	222	–	–	–	–	4,410,913	4,987,798	–	–
Total net carrying amount			737,446,567	616,018,228	640,512	624,458	271,400,274	277,816,593	–	–
Off-Balance Sheet(**)										
Maximum exposure										
Lending commitments										
Grade 0-6: Investment grade to moderate risk									124,594,675	131,381,356
Contingencies										
Grade 0-6: Investment grade to moderate risk									438,454,025	365,853,920
Total exposure	59	285	–	–	–	–	–	–	563,048,700	497,235,276

(*) 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 285 to 287.

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:

	Loans and receivables to other customers		Loans and receivables to banks		Financial investments		Lending commitments and contingencies	
As at December 31,	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000	**Rs. '000**	Rs. '000	**Rs. '000**	Rs. '000
Government securities (Risk free investments)	–	–			250,647,049	254,135,760		
Gross carrying amount	–	–	–	–	250,647,049	254,135,760	–	–
Neither past due nor individually impaired								
Rating 0-4: Investment grade	472,230,045	377,513,301			9,007,483	12,491,598	282,344,809	268,186,647
Rating 5-6: Moderate risk	244,352,749	218,392,511	640,512	624,458	11,745,742	11,189,235	280,703,891	229,048,629
Gross carrying amount	716,582,794	595,905,812	640,512	624,458	20,753,225	23,680,833	563,048,700	497,235,276
Past due but not individually Impaired								
Less than 3 months	8,160,289	8,484,516						
3 to 6 months	856,410	507,450						
6 to 12 months	724,801	859,216						
12 to 18 months	469,520	490,692						
More than 18 months	4,870,915	5,041,144						
Gross carrying amount	15,081,935	15,383,018	–	–	–	–	–	–
Individually impaired								
Less than 3 months	12,533,705	11,145,557						
3 to 6 months	1,292,185	748,471						
6 to 12 months	404,605	598,082						
12 to 18 months	1,209,297	893,546						
More than 18 months	7,603,456	8,716,421						
Gross carrying amount	23,043,248	22,102,077	–	–	–	–	–	–
Total gross carrying amount	754,707,977	633,390,907	640,512	624,458	271,400,274	277,816,593	563,048,700	497,235,276
Less: Provision for impairment								
Individual	7,853,654	8,453,457						
Collective	9,407,756	8,919,222						
Total provision for impairment	17,261,410	17,372,679	–	–	–	–	–	–
Total net carrying amount	737,446,567	616,018,228	640,512	624,458	271,400,274	277,816,593	563,048,700	497,235,276

The methodology of the impairment assessment is explained in the Note 18 on pages 201and 202.

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:

As at December 31,			**2017**		2016	
Bank's Internal Credit Rating	Note	Page No.	**Probability of historical default rates %**	**Gross carrying amount Rs. '000**	Probability of historical default rates %	Gross carrying amount Rs. '000
Gold			9.50	1,337,133	10.34	1,246,374
Investment grade						
Rating – 0			0.10	100,062,702	0.21	74,103,326
Rating – 1			0.19	11,494,072	0.17	8,137,933
Rating – 2			0.22	39,968,653	0.22	32,231,244
Rating – 3			0.35	145,571,878	0.42	124,005,233
Rating – 4			0.55	173,795,607	0.60	137,789,192
Subtotal				472,230,045		377,513,302
Moderate risk						
Rating – 5			0.68	207,167,645	0.75	183,723,935
Rating – 6			0.98	37,185,104	1.31	34,668,576
Subtotal				244,352,749		218,392,511
Past due but not individually impaired						
High risk						
Rating – S			21.51	1,272,065	23.57	1,081,476
Extreme risk						
Rating – 7			47.52	6,804,251	54.78	7,474,654
Rating – 8			68.45	1,042,713	71.22	630,680
Rating – 9			100.00	5,962,906	100.00	6,196,207
Subtotal				15,081,935		15,383,017
Impaired						
Individually Impaired(*)			–	23,043,248	–	22,102,077
Total	33	226		754,707,977		633,390,907

(*) 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:

As at December 31, 2017	Note	Page No.	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	Rs. '000	Rs. '000	Rs. '000
Cash and cash equivalents	27	219	–	33,224,619	–	–	–	33,224,619
Balances with central banks	28	219	44,801,446	–	–	–	–	44,801,446
Placements with banks	29	221	–	17,633,269	–	–	–	17,633,269
Securities purchased under resale agreements			–	–	–	–	–	–
Derivative financial assets	30	221	–	2,334,536	–	–	–	2,334,536
Other financial instruments – Held for trading	31	222	2,357,876	314,745	1,738,292	–	–	4,410,913
Loans and receivables to banks	32	225		–	640,512			640,512
Loans and receivables to other customers	33	226	–	469,669,456	242,786,716	9,800,801	15,189,594	737,446,567
Corporate banking			–	249,817,145	86,639,832	5,776,899	3,931,899	346,165,775
Amortised cost			–	251,613,579	87,342,167	6,116,798	6,517,529	351,590,073
Less – Provision for impairment			–	1,796,434	702,335	339,899	2,585,630	5,424,298
Personal banking			–	219,852,311	156,146,884	4,023,902	11,257,695	391,280,792
Amortised cost			–	220,616,463	157,010,582	8,965,140	16,525,719	403,117,904
Less – Provision for impairment			–	764,152	863,698	4,941,238	5,268,024	11,837,112
Financial investments – Available for sale	34	232	154,167,169	546,963	–	–	–	154,714,132
Government securities			154,167,169		–	–	–	154,167,169
Quoted shares				500,278	–	–	–	500,278
Unquoted shares				46,685	–	–	–	46,685
Investment in unit trust				–	–	–	–	–
Financial investments – Held to maturity	35	238	63,562,752	–	–	–	–	63,562,752
Government securities			63,562,752	–	–	–	–	63,562,752
Other investments				–	–	–	–	–
Financial investments – Loans and receivables	36	239	40,566,702	8,145,775	–	–	–	48,712,477
Government securities			40,566,702	–	–	–	–	40,566,702
Other investments				8,145,775	–	–	–	8,145,775
Total			305,455,945	531,869,363	245,165,520	9,800,801	15,189,594	1,107,481,223

Definition of "Past Due" – The Bank considers that any amounts uncollected one day or more beyond their contractual due date.

As at December 31, 2016	Note	Page No.	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	Rs. '000	Rs. '000	Rs. '000
Cash and cash equivalents	27	219	–	30,193,589	–	–	–	30,193,589
Balances with central banks	28	219	43,873,205	–	–	–	–	43,873,205
Placements with banks	29	221	–	11,718,499	–	–	–	11,718,499
Securities purchased under resale agreements			–	–	–	–	–	–
Derivative financial assets	30	221	–	1,052,829	–	–	–	1,052,829
Other financial instruments – Held for trading	31	222	3,505,335	293,809	1,188,654	–	–	4,987,798
Loans and receivables to banks	32	225		–	624,458			624,458
Loans and receivables to other customers	33	226	–	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	232	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	238	60,981,298	–	–	–	–	60,981,298
Government securities			60,981,298	–	–	–	–	60,981,298
Other investments				–	–	–	–	–
Financial investments – Loans and receivables	36	239	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 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 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.

As at December 31,	Note	Page No.	**2017** Rs. '000	2016 Rs. '000
Government securities				
Government securities – Sri Lanka				
Treasury bills			654,438	1,761,970
Treasury bonds			1,703,438	1,743,365
Government securities – Bangladesh				
Treasury bills			278,618	705,251
Treasury bonds			1,459,674	483,403
Total – Government securities			4,096,168	4,693,989
Equity securities				
Rated AAA			12,341	9,966
Rated AA+ to AA-			16,492	19
Rated A+ to A			60,879	86,970
Rated BBB+			5,710	–
Unrated			219,323	196,854
Total – Equity securities			314,745	293,809
Total	31	222	4,410,913	4,987,798

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 analysis of credit exposures arising from derivative financial assets and liabilities.

As at December 31,2017	**Derivative Type**							
	Forward		**SWAPS**		**Spot**		**Total**	
	Notional amount Rs. '000	**Fair value Rs. '000**	**Notional amount Rs. '000**	**Fair value Rs. '000**	**Notional amount Rs. '000**	**Fair value Rs. '000**	**Notional amount Rs. '000**	**Fair value Rs. '000**
Derivative financial assets (Note 1)	35,831,935	1,264,900	80,896,084	1,067,259	4,432,721	2,377	121,160,740	2,334,536
Derivative financial liabilities (Note 2)	26,602,410	(1,015,648)	83,904,746	(2,660,838)	1,569,843	(2,008)	112,076,999	(3,678,494)
Note 1								
Derivative financial assets by counterparty type								
With banks	10,081,268	170,229	78,629,102	972,827	3,617,099	2,375	92,327,469	1,145,431
Other customers	25,750,667	1,094,671	2,266,982	94,432	815,622	2	28,833,271	1,189,105
	35,831,935	1,264,900	80,896,084	1,067,259	4,432,721	2,377	121,160,740	2,334,536
Note 2								
Derivative financial liabilities by counterparty type								
With banks	3,146,244	(61,900)	83,904,746	(2,660,838)	1,569,843	(2,008)	88,620,833	(2,724,746)
Other customers	23,456,166	(953,748)	–	–	–	–	23,456,166	(953,748)
	26,602,410	(1,015,648)	83,904,746	(2,660,838)	1,569,843	(2,008)	112,076,999	(3,678,494)

As at December 31,2016	Derivative type							
	Forward		SWAPS		Spot		Total	
	Notional amount Rs. '000	Fair value Rs. '000	Notional amount Rs. '000	Fair value Rs. '000	Notional amount Rs. '000	Fair value Rs. '000	Notional amount Rs. '000	Fair value 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)

69.1.2 Impaired loans and receivables and investment in debt securities

Reconciliation of changes in the carrying amount of individually impaired loans and receivables as detailed below:

As at December 31,	**2017** **Rs. '000**	2016 Rs. '000
Impaired loans and receivables to other customers as at January 1,	13,648,620	6,376,669
Newly classified as impaired loans and receivables during the year	8,177,859	9,802,478
Net change in already impaired loans and receivables during the year	361,095	(281,599)
Net payment, write-off and recoveries and other movements during the year	(6,997,980)	(2,248,928)
Impaired loans and receivables to customers as at December 31,	15,189,594	13,648,620

No impairment provision has been made for investment in debt securities as at December 31, 2017 (2016 – Nil).

Refer Note 18 for methodology of impairment assessment, on "Impairment of Financial Assets" which are carried at amortised cost on pages 201and 202.

Details of provision for impairment for loans and receivables to banks and for loans and receivable to other customers, are detailed in Notes 32 and 33 on pages 225 to 226.

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,	**2017**		2016	
	Loans and receivable to customers		Loans and receivable to customers	
	Gross **Rs. '000**	**Net** **Rs. '000**	Gross Rs. '000	Net Rs. '000
Rating 0-4: Investment grade	4,613,603	4,470,693	4,766,976	4,607,959
Rating 5-6: Moderate risk	4,713,404	4,600,908	4,046,553	3,912,239
Rating S: High risk	763,567	642,017	615,456	402,464
Rating 7-9: Extreme risk	12,952,674	5,475,976	12,673,092	4,725,958
Total	23,043,248	15,189,594	22,102,077	13,648,620

69.1.3 Collaterals 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,	**2017**		2016	
	Rs. '000	**Composition (%)**	Rs. '000	Composition (%)
LTV ratio				
Less than 50%	11,804,905	29.83	8,406,374	26.14
51 - 70%	8,952,662	22.62	7,027,873	21.86
71 - 90%	10,466,905	26.45	8,262,704	25.70
91 - 100%	1,600,415	4.05	1,352,172	4.20
More than 100%*	6,745,986	17.05	7,105,439	22.10
	39,570,873	100.00	32,154,562	100.00

** LTV ratio more than 100% has arisen due to subsequent disbursements made to the borrower after the initial valuation of the property (the denominator).*

Assets obtained by taking the possession of collaterals

Repossession of collaterals is resorted to 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 and the amount recovered in excess of the dues is refunded to the customer.

69.1.4 Concentration 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 the 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, 2017	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	–	–	–	–	–	–	–	33,224,619	–	–	–	–	33,224,619
Balances with central banks	–	–	–	–	–	–	–		44,801,446	–	–	–	44,801,446
Placements with banks	–	–	–	–	–	–	–	17,633,269	–	–	–	–	17,633,269
Securities purchased under resale agreements	–	–	–	–	–	–	–	–	–	–	–	–	–
Derivative financial assets	–	2,261	–	–	–	586,294	–	1,745,507	–	–	474	–	2,334,536
Other financial instruments – Held for trading	–	107,107	5,732	–	27,781	26,674	48,207	78,102	4,096,168	21,142	–	–	4,410,913
Government Securities	–	–	–	–	–	–	–	–	4,096,168	–	–	–	4,096,168
Quoted equity securities	–	107,107	5,732	–	27,781	26,674	48,207	78,102	–	21,142	–	–	314,745
Loans and receivables to banks	–	–	–	–	–	–	–	640,512	–	–	–	–	640,512
Loans and receivables to other customers*	68,713,903	112,807,745	44,937,470	16,820,822	104,314,394	110,304,070	17,031,993	47,045,113	–	20,086,388	62,567,873	132,816,796	737,446,567
Financial investments – Available for sale	–	13,213	–	–	141,093	–	–	392,657	154,167,169	–	–	–	154,714,132
Government securities	–	–	–	–	–	–	–	–	154,167,169	–	–	–	154,167,169
Equity securities – Quoted shares	–	13,213	–	–	141,093	–	–	345,972	–	–	–	–	500,278
Equity securities – Unquoted shares	–	–	–	–	–	–	–	46,685	–	–	–	–	46,685
Investment in unit trusts	–	–	–	–	–	–	–	–	–	–	–	–	–
Financial investments – Held to maturity	–	–	–	–	–	–	–	–	63,562,752	–	–	–	63,562,752
Government securities	–	–	–	–	–	–	–	–	63,562,752	–	–	–	63,562,752
Financial investments – Loans and receivables	–	2,233,016	–	–	–	997,423	–	4,678,169	40,566,702	–	237,167	–	48,712,477
Government securities	–	–	–	–	–	–	–	–	40,566,702	–	–	–	40,566,702
Other investments	–	2,233,016	–	–	–	997,423	–	4,678,169	–	–	237,167	–	8,145,775
Total	68,713,903	115,163,342	44,943,202	16,820,822	104,483,268	111,914,461	17,080,200	105,437,948	307,194,237	20,107,530	62,805,514	132,816,796	1,107,481,223

(*) Loans and advances referred to above do not agree with the Note 33.1 (c) on page 228 due to impairment provisions.

As at December 31, 2016	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	–	–	–	–	–	–	–	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 securities – Quoted shares	–	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
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 trust	–	–	–	–	–	–	–	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 receivables	–	2,584,717	–	–	–	998,155	–	7,927,595	40,076,392	–	237,167	–	51,824,026
Government securities	–	–	–	–	–	–	–	–	40,076,392	–	–	–	40,076,392
Other investments	–	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 228 due to impairment provisions.

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 77% (approximately) of total advances portfolio of the Bank (excluding Bangladesh operations) as at December 31, 2017. 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 and thereby reflecting a fairly diversified geographical concentration contrary to the figures given below:

As at December 31, 2017

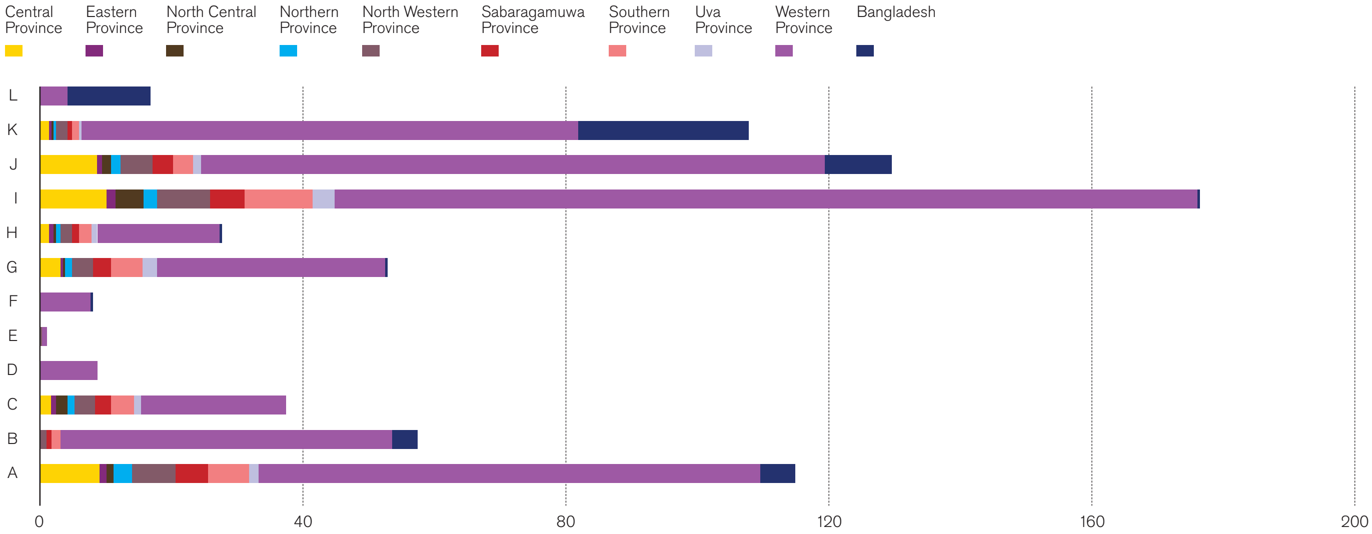
Country/province	Loans and Receivables by Product											
	Overdrafts Rs. '000	Trade finance Rs. '000	Lease receivables Rs. '000	Credit cards Rs. '000	Pawning Rs. '000	Staff loans Rs. '000	Housing loans Rs. '000	Personal loans Rs. '000	Long-Term loans Rs. '000	Short-Term loans Rs. '000	Bills of exchange Rs. '000	Total Rs. '000
Sri Lanka												
Central	9,105,845	234,423	1,916,498	411,761	45,545	–	3,068,331	1,477,341	18,850,775	1,475,025	10,947	36,596,491
Eastern	1,117,710	30,735	627,422	96,299	24,244	–	359,754	530,338	2,204,475	138,066	–	5,129,043
North Central	1,106,922	87,888	1,502,978	105,245	9,554	–	563,567	424,136	5,643,030	369,027	–	9,812,347
Northern	2,526,778	95,605	1,216,214	117,523	430,787	–	737,940	777,142	3,536,515	434,081	–	9,872,585
North Western	6,748,789	948,591	2,956,376	356,880	117,380	–	3,301,358	1,833,343	12,636,399	1,737,537	8,657	30,645,310
Sabaragamuwa	5,023,234	544,685	2,638,106	213,385	46,153	–	2,863,952	950,615	8,441,449	805,885	137,733	21,665,197
Southern	6,014,775	1,464,661	3,603,623	388,474	89,707	–	4,908,557	1,948,311	13,632,876	968,028	10,519	33,029,531
Uva	1,516,886	25,906	1,006,287	121,106	16,417	–	1,832,132	629,553	4,376,394	425,507	-	9,950,188
Western	76,142,919	50,154,096	21,747,218	6,956,843	555,710	7,831,111	34,700,747	18,696,937	225,372,988	75,412,905	3,941,857	521,513,331
Bangladesh	5,193,417	3,925,396	258,288	58,047	–	117,336	476,542	385,564	10,368,545	25,758,410	12,690,999	59,232,544
Total	114,497,275	57,511,986	37,473,010	8,825,563	1,335,497	7,948,447	52,812,880	27,653,280	305,063,446	107,524,471	16,800,712	737,446,567

As at December 31, 2016

Country/province	Loans and Receivables by Product											
	Overdrafts Rs. '000	Trade finance Rs. '000	Lease receivables Rs. '000	Credit cards Rs. '000	Pawning Rs. '000	Staff loans Rs. '000	Housing loans Rs. '000	Personal loans Rs. '000	Long-Term loans Rs. '000	Short-Term loans Rs. '000	Bills of exchange Rs. '000	Total 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	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

Please refer Note 33 on page 226 for the gross carrying amount of the loans and advances.

Geographical analysis of loans and receivables product-wise to other customers as at December 31, 2017
Rs. Bn.



A – Overdrafts
B – Trade finance
C – Lease receivables
D – Credit cards
E – Pawning
F – Staff loans
G – Housing loans
H – Personal loans
I – Long-term loans
J – Medium-term loans
K – Short-term loans
L – Bills of exchange

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.

As at December 31,	**2017** **Rs. '000**	2016 Rs. '000
On-balance sheet exposures		
Loans and receivables to customers		
At net carrying amount	294,567	253,978
Gross carrying value	296,249	254,534
Less – Provision for impairment	1,682	556
At fair value net of provision for impairment (*)	294,567	253,978
Fair value before impairment	296,249	254,534
Less – Provision for impairment	1,682	556
Off-balance sheet exposures		
Loan commitments and contingencies	–	–
Contingencies	–	–
Loan commitments	–	–
Total on-balance sheet and off-balance sheet exposure	294,567	253,978

(*) There is no difference between the net carrying amount 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.

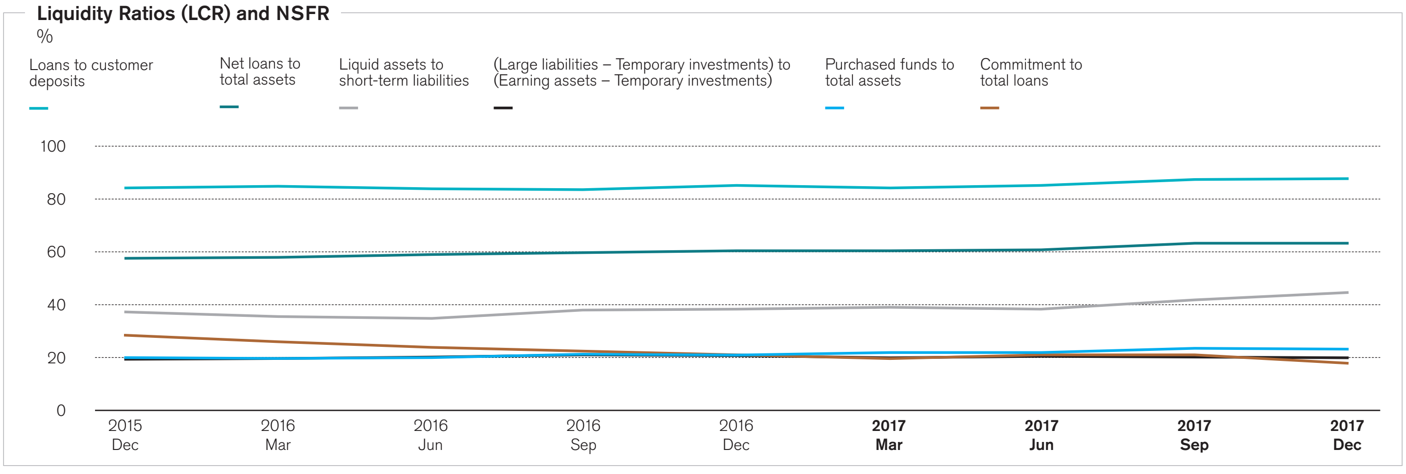
69.2.1 Exposure to liquidity risk

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" mainly comprise 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	
	2017 %	2016 %	**2017 %**	2016 %
As at December 31,	**27.28**	27.19	**30.95**	30.19
Average for the period	**26.66**	25.63	**31.72**	35.78
Maximum for the period	**27.98**	27.19	**37.00**	47.13
Minimum for the period	**25.75**	23.88	**27.80**	28.84
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 2015 to December 2017:

Liquidity Ratios (LCR) and NSFR



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:

As at December 31,	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 31.12.2017 Rs. '000**	Total as at 31.12.2016 Rs. '000
Interest earning assets							
Financial assets							
Cash and cash equivalents	3,457,539	–	–	–	–	**3,457,539**	7,930,050
Balances with central banks	887,551	263,830	–	4,607	–	**1,155,988**	498,616
Placements with banks	17,633,269	–	–	–	–	**17,633,269**	11,718,499
Securities purchased under resale agreements	–	–	–	–	–	**–**	–
Derivative financial assets	–	–	–	–	–	**–**	–
Other financial instruments – Held-for-trading	4,096,168					**4,096,168**	4,693,989
Loans and receivables to banks	–	–	–	–	–	**–**	–
Loans and receivables to other customers	231,342,860	198,426,781	169,978,799	93,774,191	43,923,936	**737,446,567**	616,018,228
Financial investments – Available-for-sale	13,025,195	67,787,547	59,124,910	14,229,518	–	**154,167,170**	159,573,316
Financial investments – Held-to-maturity	4,077,407	9,871,844	12,885,249	29,661,652	7,066,600	**63,562,752**	60,981,298
Financial investments – Loans and receivables	2,521,780	5,188,975	16,430,329	24,571,393	–	**48,712,477**	51,824,026
Total interest earning assets as at December 31, 2017	**277,041,769**	**281,538,977**	**258,419,287**	**162,241,361**	**50,990,536**	**1,030,231,930**	
Total interest earning assets as at December 31, 2016	276,268,527	174,556,015	269,347,751	113,511,379	79,554,350		913,238,022
Non-interest earning assets							
Financial assets							
Cash and cash equivalents	29,767,080	–	–	–	–	**29,767,080**	22,263,539
Balances with central banks	26,999,348	14,321,349	783,669	730,063	811,029	**43,645,458**	43,374,589
Placements with banks	–	–	–	–	–	**–**	–
Securities purchased under resale agreements	–	–	–	–	–	**–**	–
Derivative financial assets	959,937	1,374,599	–	–	–	**2,334,536**	1,052,829
Other financial instruments – Held for trading	314,745					**314,745**	293,809
Loans and receivables to banks	–	–	640,512	–	–	**640,512**	624,458
Loans and receivables to other customers	–	–	–	–	–	**–**	–
Financial investments – Available for sale	–	–	–	17,491	529,471	**546,962**	450,155
Financial investments – Held to maturity	–	–	–	–	–	**–**	–
Financial investments – Loans and receivables	–	–	–	–	–	**–**	–

As at December 31,	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 31.12.2017 Rs. '000**	Total as at 31.12.2016 Rs. '000
Non-financial assets							
Investments in subsidiaries	–	–	–	–	3,065,935	**3,065,935**	2,435,392
Investments in associates	–	–	–	–	44,331	**44,331**	44,331
Property, plant and equipment	–	–	–	–	14,634,710	**14,634,710**	10,307,825
Intangible assets	–	–	–	–	776,810	**776,810**	640,645
Leasehold property	–	–	–	–	72,594	**72,594**	73,536
Deferred tax assets	–	–	–	–	–	–	963,935
Other assets	12,270,707	257,173	1,245,002	506,177	3,019,103	**17,298,162**	16,438,166
Total non-interest earning assets as at December 31, 2017	70,311,817	15,953,121	2,669,183	1,253,731	22,953,983	**113,141,835**	
Total non-interest earning assets as at December 31, 2016	62,243,958	14,616,440	3,826,664	991,974	17,284,173		98,963,209
Total assets – as at December 31, 2017	**347,353,586**	**297,492,098**	**261,088,470**	**163,495,092**	**73,944,519**	**1,143,373,765**	
Total assets – as at December 31, 2016	338,512,485	189,172,455	273,174,415	114,503,353	96,838,523		1,012,201,231
Percentage – as at December 31, 2017 (*)	**30.38**	**26.02**	**22.83**	**14.30**	**6.47**	**100.00**	
Percentage – as at December 31, 2016 (*)	33.44	18.69	26.99	11.31	9.57		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:

As at December 31,	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 31.12.2017 Rs. '000**	Total as at 31.12.2016 Rs. '000
Interest-bearing liabilities:							
Financial liabilities							
Due to banks	32,840,250	3,840,696	12,232,304	–	41,224	**48,954,474**	63,523,388
Derivative financial liabilities	–	–	–	–	–	–	–
Securities sold under repurchase agreements	35,951,132	10,978,972	2,746,663	–	–	**49,676,767**	69,867,469
Other financial liabilities – Held-for-trading	–	–	–	–	–	–	–
Due to other customers/ deposits from customers	455,218,755	288,988,744	18,492,159	13,050,348	13,783,280	**789,533,286**	683,569,052
Other borrowings	657,813	2,091,720	5,021,093	7,503,789	8,511,679	**23,786,094**	9,270,154
Subordinated liabilities	203,326	314,552	–	9,477,720	15,170,326	**25,165,924**	24,849,539
Total interest-bearing liabilities as at December 31, 2017	**524,871,276**	**306,214,684**	**38,492,219**	**30,031,857**	**37,506,509**	**937,116,545**	
Total interest-bearing liabilities as at December 31, 2016	504,725,495	263,099,940	31,662,332	21,783,917	29,807,918		851,079,602

As at December 31,	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 31.12.2017 Rs. '000**	Total as at 31.12.2016 Rs. '000
Non-interest bearing liabilities:							
Financial liabilities							
Due to banks	8,166,517	–	–	–	–	**8,166,517**	4,085,423
Derivative financial liabilities	2,488,462	1,185,570	–	–	4,462	**3,678,494**	1,515,035
Securities sold under repurchase agreements	–	–	–	–	–	–	–
Other financial liabilities – Held-for-trading	–	–	–	–	–	–	–
Due to other customers/deposits from customers	60,594,225	–	–	–	–	**60,594,225**	55,994,442
Other borrowings	–	–	–	–	–	–	–
Subordinated liabilities	–	–	–	–	–	–	–
Non-financial liabilities							
Current tax liabilities	798,084	3,345,827	–	–	–	**4,143,911**	3,440,736
Deferred tax	182,545	153,861	588,908	261,930	2,087,582	**3,274,826**	–
Other provisions	–	–	–	–	–	–	1,874
Other liabilities	3,071,733	9,738,767	2,943,111	1,374,896	2,096,857	**19,225,364**	17,710,394
Due to subsidiaries	74,523	–	–	–	–	**74,523**	20,061
Equity							
Stated capital	–	–	–	–	37,143,541	**37,143,541**	24,978,003
Statutory reserves	–	–	–	–	6,476,952	**6,476,952**	5,647,890
Retained earnings	–	–	–	–	4,987,446	**4,987,446**	4,464,077
Other reserves	–	–	–	–	58,491,421	**58,491,421**	43,263,694
Total non-interest bearing liabilities as at December 31, 2017	75,376,089	14,424,025	3,532,019	1,636,826	111,288,261	206,257,220	
Total non-interest bearing liabilities as at December 31, 2016	76,696,128	3,058,595	1,529,112	309,278	79,528,516		161,121,629
Total liabilities and equity – as at December 31, 2017	600,247,365	320,638,709	42,024,238	31,668,683	148,794,770	1,143,373,765	
Total liabilities and equity – as at December 31, 2016	581,421,623	266,158,535	33,191,444	22,093,195	109,336,434		1,012,201,231
Percentage – as at December 31, 2017 (*)	52.50	28.04	3.68	2.77	13.01	100.00	
Percentage – as at December 31, 2016 (*)	57.44	26.30	3.28	2.18	10.80		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:

As at December 31,	**2017** **Rs. '000**	2016 Rs. '000
Financial assets		
Non-derivative financial assets		
Balances with central banks	2,329,368	2,459,890
Loans and receivables to banks	640,512	624,458
Loans and receivables to other customers	307,676,926	272,097,889
Financial investments – Available for sale	73,901,390	114,074,408
Financial investments – Held to maturity	49,613,501	56,725,526
Total	434,161,697	445,982,171
Financial liabilities		
Non-derivative financial liabilities		
Securities sold under repurchase agreements	2,746,663	11,019
Due to other customers/deposits from customers	45,325,787	40,211,606
Other borrowings	21,036,561	6,721,530
Subordinated liabilities	24,630,973	24,330,012
Total	93,739,984	71,274,167

69.2.3 Liquidity reserves

The table below sets out the components of the Bank's liquidity reserves:

As at December 31,	**2017**		2016	
	Carrying amount Rs. '000	**Fair value Rs. '000**	Carrying amount Rs. '000	Fair value Rs. '000
Balances with central banks	44,801,446	44,801,446	43,873,205	43,873,205
Cash and balances with other banks	9,944,020	9,944,020	12,786,813	12,786,813
Coins and notes held	23,280,599	23,280,599	17,406,776	17,406,776
Unencumbered debt securities issued by sovereigns	172,149,322	171,675,912	155,381,134	151,455,447
Total	250,175,387	249,701,977	229,447,928	225,522,241

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:

As at December 31, 2017	Note	Page No.	Encumbered		Unencumbered		
			Pledged as collateral Rs. '000	**Other Rs. '000**	**Available as collateral Rs. '000**	**Other Rs. '000**	**Total Rs. '000**
Cash and cash equivalents	27	219			33,224,619		33,224,619
Balances with central banks	28	219		39,766,630	5,034,816		44,801,446
Placements with banks	29	221			17,633,269		17,633,269
Securities purchased under resale agreements							–
Derivative financial assets	30	221			2,334,536		2,334,536
Other financial instruments – Held for trading	31	222			4,410,913		4,410,913
Loans and receivables to banks*	32	225		640,512			640,512
Loans and receivables to other customers	33	226			737,446,567		737,446,567
Financial investments – Available for sale**	34	232	58,768,665		95,945,467		154,714,132
Financial investments – Held to maturity	35	238			63,562,752		63,562,752
Financial investments – Loans and receivables	36	239			48,712,477		48,712,477
Total			58,768,665	40,407,142	1,008,305,416	–	1,107,481,223

As at December 31, 2016	Note	Page No.	Encumbered		Unencumbered		
			Pledged as collateral Rs. '000	Other Rs. '000	Available as collateral Rs. '000	Other Rs. '000	Total Rs. '000
Cash and cash equivalents	27	219			30,193,589		30,193,589
Balances with central banks	28	219		34,268,658	9,604,547		43,873,205
Placements with banks	29	221			11,718,499		11,718,499
Securities purchased under resale agreements							–
Derivative financial assets	30	221			1,052,829		1,052,829
Other financial instruments – Held for trading	31	222			4,987,798		4,987,798
Loans and receivables to banks *	32	225		624,458			624,458
Loans and receivables to other customers	33	226			616,018,228		616,018,228
Financial investments – Available for sale**	34	232	89,037,472		70,985,999		160,023,471
Financial investments – Held to maturity	35	238			60,981,298		60,981,298
Financial investments – Loans and receivables	36	239			51,824,026		51,824,026
Total			89,037,472	34,893,116	857,366,813	–	981,297,401

**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, 2017	Note	Page No.	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	219	12,387,967		12,387,967
Balances with central banks	28	219	4,601,606		4,601,606
Placements with banks	29	221	17,633,269		17,633,269
Derivative financial assets	30	221	2,334,536	2,334,536	–
Other financial instruments – Held for trading	31	222	4,410,913	4,410,913	–
Loans and receivables to banks	32	225	640,512		640,512
Loans and receivables to other customers	33	226	737,446,567		737,446,567
Financial investments – Available for sale	34	232	154,714,132		154,714,132
Financial investments – Held to maturity	35	238	63,562,752		63,562,752
Financial investments – Loans and receivables	36	239	48,712,477		48,712,477
Total			1,046,444,731	6,745,449	1,039,699,282
Liabilities subject to market risk					
Due to banks	43	261	57,120,991		57,120,991
Derivative financial liabilities	44	262	3,678,494	3,678,494	
Securities sold under repurchase agreements			49,676,767		49,676,767
Due to other customers/deposits from customers	45	263	807,630,072		807,630,072
Other borrowings	46	265	23,786,094		23,786,094
Subordinated liabilities	52	276	25,165,924		25,165,924
Total			967,058,342	3,678,494	963,379,848

As at December 31, 2016	Note	Page No.	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	219	14,704,722		14,704,722
Balances with central banks	28	219	3,403,219		3,403,219
Placements with banks	29	221	11,718,499		11,718,499
Derivative financial assets	30	221	1,052,829	1,052,829	
Other financial instruments – Held for trading	31	222	4,987,798	4,987,798	
Loans and receivables to banks	32	225	624,458		624,458
Loans and receivables to other customers	33	226	616,018,228		616,018,228
Financial investments – Available for sale	34	232	160,023,471		160,023,471
Financial investments – Held to maturity	35	238	60,981,298		60,981,298
Financial investments – Loans and receivables	36	239	51,824,026		51,824,026
Total			925,338,548	6,040,627	919,297,921
Liabilities subject to market risk					
Due to banks	43	261	67,608,811		67,608,811
Derivative financial liabilities	44	262	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	263	701,410,848		701,410,848
Other borrowings	46	265	9,270,154		9,270,154
Subordinated liabilities	52	276	24,849,539		24,849,539
Total			874,521,856	1,515,035	873,006,821

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:

As at December 31, 2017	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 31.12.2017 Rs. '000
Financial assets							
Cash and cash equivalents	3,952,578	–	–	–	–	29,272,041	**33,224,619**
Balances with central banks	4,601,606	–	–	–	–	40,199,840	**44,801,446**
Placements with banks	16,097,269	1,536,000	–	–	–	–	**17,633,269**
Securities purchased under resale agreements	–	–	–	–	–	–	–
Derivative financial assets	–	–	–	–	–	–	–
Other financial instruments – Held for trading	–	–	–	–	–	–	–
Loans and receivables to banks	–	–	–	–	–	640,512	**640,512**
Loans and receivables to other customers	460,905,113	134,400,971	65,554,128	38,341,792	31,537,815	6,706,748	**737,446,567**
Financial investments – Available for sale	10,573,104	68,317,215	46,631,198	28,638,006	–	554,609	**154,714,132**
Financial investments – Held to maturity	4,077,406	9,871,844	12,885,242	29,661,660	7,066,600	–	**63,562,752**
Financial investments – Loans and receivables	41,140,625	1,893,522	5,678,330	–	–	–	**48,712,477**
Total financial assets	541,347,701	216,019,552	130,748,898	96,641,458	38,604,415	77,373,750	**1,100,735,774**
Financial liabilities							
Due to banks	44,703,696	5,366,253	–	–	–	7,051,042	**57,120,991**
Derivative financial liabilities	–	–	–	–	–	–	–
Securities sold under repurchase agreements	35,949,554	10,652,592	2,733,779	–	–	340,842	**49,676,767**
Due to other customers/deposits from customers	457,830,953	286,182,073	16,482,261	12,360,297	10,739,911	66,532,016	**850,127,511**
Other borrowings	18,293,434	814,083	1,002,777	908,493	2,767,307	–	**23,786,094**
Subordinated liabilities	11,664,201	327,156	–	9,500,724	3,673,843	–	**25,165,924**
Total financial liabilities	568,441,838	303,342,157	20,218,817	22,769,514	17,181,061	73,923,900	**1,005,877,287**
Interest rate sensitivity gap	(27,094,137)	(87,322,605)	110,530,081	73,871,944	21,423,354	3,449,850	**94,858,487**

As at December 31, 2016	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

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.

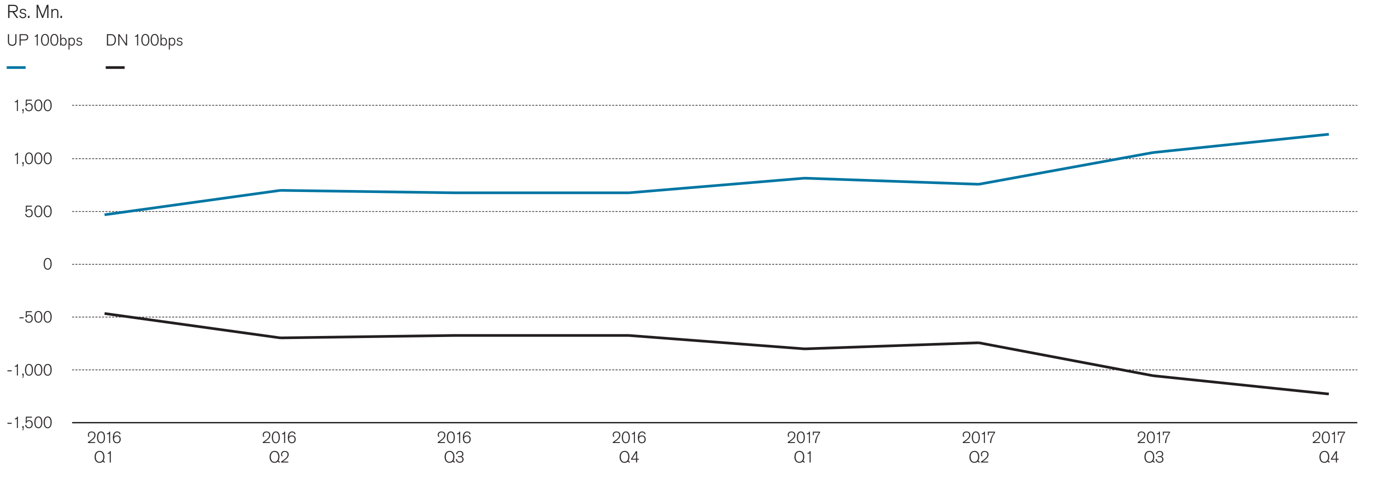
The following table demonstrates the sensitivity of the Bank's Income Statement as at the reporting date to a reasonably possible change in interest rates, with all other variables held constant.

Sensitivity of projected net interest income

Net interest income (NII)	**2017** Parallel increase Rs. '000	**2017** Parallel decrease Rs. '000	2016 Parallel increase Rs. '000	2016 Parallel decrease Rs. '000
As at December 31,	1,243,611	(1,241,623)	670,859	(668,620)
Average for the period	920,414	(918,225)	634,306	(632,375)
Maximum for the period	1,243,611	(1,241,623)	827,488	(824,962)
Minimum for the period	706,442	(704,325)	366,432	(365,569)

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 applying interest rate shocks on static Balance Sheet. In line with the industry practices, interest rate shock of 100 bps is applied on LKR denominated assets and liabilities and 25 bps on FCN denominated assets and liabilities. 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 2016 and 2017. Since the first quarter of 2017, the impact of rate shocks on projected NII has been gradually increasing due to the conscious decision of the Bank to focus more on short-term Fixed Income Securities (FIS) portfolio, considering the prevailed market conditions.

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, 2017 and 2016 and the exposure as a percentage of the total capital funds:

Foreign Exchange Position as at December 31, 2017

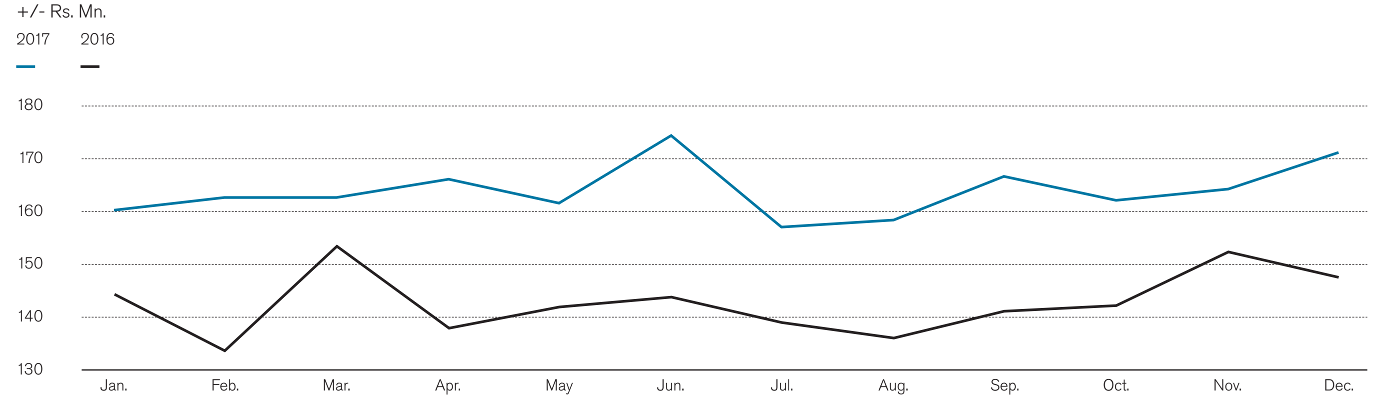
Currency	Spot			Forward			Net open position	Net position in other exchange contracts	Overall exposure in respective foreign currency	Overall exposure in Rs.
	Assets	Liabilities	Net	Assets	Liabilities	Net				
	2 '000	3 '000	4=2-3 '000	5 '000	6 '000	7=5-6 '000	8 '000	9 '000	10 '000	11 '000
United States Dollar	22,289	22,822	(533)	5,350	389	4,961	2,734	–	7,162	1,100,083
Great Britain Pound	388	473	(85)	36	–	36	20	–	(29)	(5,991)
Euro	5,479	5,696	(217)	–	–	–	(52)	–	(269)	(49,344)
Japanese Yen	12,181	8,754	3,427	11,278	18,042	(6,764)	372	–	(2,965)	(4,039)
Indian Rupee	–	–	–	–	–	–	–	–	–	–
Australian Dollar	482	633	(151)	106	16	90	10	–	(51)	(6,106)
Canadian Dollar	65	13	52	–	–	–	(34)	–	18	2,201
Other currencies in US Dollars	705	354	351	–	170	(170)	(88)	–	93	14,285
Total exposure							USD 2,595		USD 6,843	1,051,089
Total capital funds as per the Audited Basel III computation (capital base of the Bank as at December 31, 2017)										122,415,882
Total exposure as a percentage of total capital funds (%)										0.86

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 Rs.
	Assets	Liabilities	Net	Assets	Liabilities	Net				
	2 '000	3 '000	4=2-3 '000	5 '000	6 '000	7=5-6 '000	8 '000	9 '000	10 '000	11 '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							USD 3,367		USD 4,886	731,647
Total capital funds as per the Audited Basel III computation (capital base of the Bank as at December 31, 2016)										96,517,086
Total exposure as a percentage of total capital funds (%)										0.76

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 Foreign Exchange (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)



69.3.4 Exposure to equity price risk

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.

Impact on Income Statement due to a change in market price by 10% on equity shares held by the Bank.

The table below summarises the impact (both to the Income Statement and to the equity) due to a shock of 10% on equity prices.

	2017			2016		
	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,	314,745	500,278	815,023	293,809	246,548	540,357
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 prices (upward)	31,475	50,028	81,503	29,381	24,655	54,036
Shock of 10% on equity prices (downward)	(31,475)	(50,028)	(81,503)	(29,381)	(24,655)	(54,036)

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 and Pillar III disclosures as per Basel III

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 III Accord. These guidelines require the Bank to maintain a CAR not less than 7.75% with minimum Tier 1 Capital with buffers in relation to total risk weighted assets and a minimum Total CAR of 11.75% with buffers in relation to total risk weighted assets as at December 31, 2017.

As at December 31,	**2017** **Rs. '000**	2016 Rs. '000
Common Equity Tier 1 (CET1) Capital after adjustments	94,151,253	67,284,572
Total Common Equity Tier 1 (CET1) Capital	96,696,269	69,368,825
Equity capital (stated capital)/assigned capital	37,143,541	24,977,700
Reserve fund	6,476,952	5,647,890
Published retained earnings/(accumulated retained losses)	1,798,112	1,538,142
Published Accumulated Other Comprehensive Income (OCI)	(1,522,156)	(6,705,188)
General and other disclosed reserves	52,799,820	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 CET1 Capital	2,545,016	2,084,253
Goodwill (net)	–	–
Intangible assets (net)	776,812	640,646
Revaluation losses of property, plant and equipment	3,813	–
Significant investments in the capital of financial institutions where the bank owns more than 10 per cent of the issued ordinary share capital of the entity	1,764,391	1,443,607
Additional Tier 1 (AT1) Capital after adjustments	–	–
Total additional Tier 1 (ATI) Capital	–	–
Qualifying additional Tier 1 capital instruments	–	–
Instruments issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	–	–
Total adjustments to AT1 Capital	–	–
Investment in own shares	–	–
Others (Specify)	–	–
Tier 2 Capital after adjustments	28,264,629	29,232,514
Total Tier 2 Capital	28,264,629	29,232,514
Qualifying Tier 2 capital instruments	22,799,002	24,334,875
Revaluation gains	2,024,804	2,034,231
Loan loss provisions	3,440,823	2,863,408
Instruments issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties	–	–
Total adjustments to Tier 2 capital	–	–
Investment in own shares	–	–
Others (Specify)	–	–
CET1 capital	94,151,253	67,284,572
Total Tier 1 capital	94,151,253	67,284,572
Total Capital	122,415,882	96,517,086

69.5.2 Capital allocation

Management monitors the capital adequacy ratio on a regular basis and ensure 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, driven by optimisation of the return 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 required level by the regulator.

69.5.3 Pillar III disclosures as per Basel III

Disclosure under these requirements mainly include the regulatory capital requirements and liquidity, risk weighted assets, discussion on adequacy to meet current and future capital requirements of banks and linkages between financial statements and regulatory exposures. It is required to disclosure the templates specified by the Central Bank of Sri Lanka as per Basel III - Minimum disclosure requirements with effective from July 01, 2017.

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 disclosed below:

70.1 Interim dividend – 2017

The Bank declared and paid a second interim dividend of Rs. 3/- per share on February 20, 2018 to both the voting and non-voting ordinary shareholders of the Bank, for the year ended December 31, 2017.

In accordance with the Sri Lanka Accounting Standard – LKAS 10 on “Events After the Reporting Period”, this second interim dividend has not been recognised as a liability as at December 31, 2017. Under the Inland Revenue Act No. 10 of 2006, a withholding tax of 10% has been imposed on dividends paid.

70.2 Final dividend – 2017

The Board of Directors of the Bank has recommended the payment of a final dividend of Rs. 2/- 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, 2017.

This final dividend is yet to be approved at the Annual General Meeting to be held on March 28, 2018. 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, 2017. Under the Inland Revenue Act No. 10 of 2006, a withholding tax of 10% has been 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 23, 2018 has been audited by Messrs KPMG.

Annexes

This Integrated Annual Report details the Bank's performance during the 12-month period from January 1 to December 31, 2017. To ensure brevity and concentrated focus, all extraneous information to the Bank's 2017 story has been posted within the Annexes.

The list of Annexes encompasses the following:

ANNEX 1: INVESTOR RELATIONS

The Bank is grateful to its loyal investors, particularly those who take a long-term view of their investments in the Bank and are ever willing to provide support at times when the Bank requires capital for business expansion. The Bank is also cognisant of the role investor relations play in this regard.

Irrespective of the method, information is central to effective investor engagement. The communication of relevant and timely information to investors and the broader capital markets enables them to make informed decisions about their current and prospective shares and other securities held at the Bank. The Bank has a strong reputation for being actively engaged with its investors. The Bank's disclosure of information in various publications, in the Annual Report – the main investor communications tool – in particular, goes far beyond the legal and regulatory compliance requirements. Through such disclosures, the Bank aims to help investors obtain a fair understanding of the Bank's current performance, strategic direction, governance, risk management, and future business prospects which have made the Bank's shares a creditable investment proposition. The Bank always attempts to present a balanced view of its fundamentals in terms of operational results, financial position, and cash flows. This is done with the aim of helping them to understand the underlying strengths of the Bank and building positive relationships with the investors.

The Annual General Meeting is an excellent platform to have a two-way communication between the Bank and the investor community. In addition, an Extraordinary General Meeting was held in May 2017 to obtain shareholders' approval for the Rights Issues of Ordinary Shares of Rs. 10 Bn. Further, we have provided an opportunity for investors to provide their feedback to the Bank about this Annual Report through the stakeholder Feedback Form enclosed to this Annual Report. We urge investors to make use of these opportunities and indicate their views and any concerns on any aspects relevant to the future prospects of the Bank which, among other things, may include strategic direction, quality of management, and governance. We value such inputs and will use them when formulating strategy for long-term value creation.

The Bank always aspires to put in place international best practices to investor relations since a healthy dialogue with this important stakeholder group helps the Bank in many ways. Examples include reinforcing good policies and practices such as accountability and good governance within the Bank, and building an active market and a fair valuation for the Bank's shares. These actions all lead to strengthen the trust and confidence of investors further. The effectiveness of the Bank's investor engagement efforts – through sharing relevant information about its current performance and future prospects – is evident when the Bank's shares are trading at a premium to their book value at the Colombo Stock Exchange (CSE) (Price to book value of 1.26 times as at December 31, 2017, the highest among the players in the Bank, Finance and Insurance sector).

The Bank is aware that its website is now the first port of call for most stakeholders who want to learn more about the Bank. Accordingly, the Bank makes all effort to keep it (including the investor relations pages thereof) up to date at all times.

This Report provides relevant information to facilitate an informed and constructive discussion at the forthcoming Annual General Meeting.

With a public holding (free float) of 99.71% in voting shares and 89.66% in non-voting shares against the regulatory minimum of 10%, the Bank's shares are actively traded in the CSE, providing a ready "enter and exit" mechanism for investors. The following pages of the Report provide information on the performance of the Bank's listed securities.

1. Our Listed Securities

The Bank's ordinary shares 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.

Most daily newspapers, including the Daily News, Daily FT, The Island and Daily Mirror carry a summary of trading activity and daily prices of shares and debentures within their pages using the abbreviation of Commercial Bank or COMB (Table 26).

Summary of trading activity Table – 26

Security type	Number in issue as at		Stock symbol
	31.12.2017	31.12.2016	
Equity			
Ordinary Shares – Voting	931,971,691	833,521,887	COMB-N0000
Ordinary Shares – Non-voting	63,927,611	57,212,653	COMB-X0000
Debt			
Fixed Rate Debentures March 2016/21	44,303,400	44,303,400	COMB-BD-08/03/21-C2341-10.75%
Fixed Rate Debentures March 2016/26	17,490,900	17,490,900	COMB-BD-08/03/26-C2342-11.25%
Fixed Rate Debentures October 2016/21	50,718,000	50,718,000	COMB-BD-27/10/21-C2360-12.00%
Fixed Rate Debentures October 2016/26	19,282,000	19,282,000	COMB-BD-27/10/26-C2359-12.25%
Newswire Codes			
Bloomberg			
Dow Jones			
Reuters			

Share price trend over last five years Table – 27

	2017	2016	2015	2014	2013
Ordinary shares – Voting					
Highest price (Rs.)	**150.00**	151.90	194.00	179.90	126.00
Lowest price (Rs.)	**128.50**	115.00	139.90	113.50	103.20
Last traded price (Rs.)	**135.80**	145.00	140.20	171.00	120.40
Ordinary shares – Non-voting					
Highest price (Rs.)	**118.50**	123.00	149.00	125.50	102.00
Lowest price (Rs.)	**102.30**	101.50	122.10	91.30	87.00
Last traded price (Rs.)	**105.00**	115.00	123.00	125.10	93.00

Sustainable value for investors Ordinary shares – Voting Table – 29

Ordinary shares – Voting	2017 Rs.	2016 Rs.
Highest price		
(31.10.2017)	**150.00**	
(07.11.2016)		151.90
Lowest price		
(30.03.2017)	**128.50**	
(09.03.2016)		115.00
Year-end price	**135.80**	145.00

Ordinary shares – Non-voting Table – 30

Ordinary Shares – Non-Voting	2017 Rs.	2016 Rs.
Highest price		
(16.05.2017)	**118.50**	
(04.01.2016)		123.00
Lowest price		
(31.03.2017)	**102.30**	
(09.03.2016)		101.50
Year end price	**105.00**	115.00

2. Performance of Securities and Returns to Shareholders

Market exhibited a stronger investor appetite during the year compared to the previous year with both turnover and volume of shares traded recording significant increases. ASPI and S&P SL 20 indices gained 6.85% and 12.30% up to October, but lost part of the gains in November and December and ended the year with only 2.26% and 5.01% gains, respectively. Rising interest rates and inflation during the year also played a part resulting in a market performance that was less than expected. Domestic and foreign activity maintained its upward trajectory with respective turnovers growing by 14.23% and 39.03%. Foreign companies were net purchasers, while local companies and foreign and local individuals were net sellers. The Bank, Finance and Insurance sector also reflected a positive 5.07% trend during the year.

The market price of an ordinary voting share of the Bank decreased by 6.34% from Rs. 145.00 at the end of 2016 to Rs. 135.80 at the end of 2017 (Table 29). The Bank maintained its policy of issuing scrip dividends and continued with its employee share option plan. Further, the Bank raised Rs. 10 Bn. via a rights issue of Ordinary Shares in the proportion of 1:10 in June 2017. As a result there was an increase in the number of shares in issue in both categories (Please refer Section 3 on page 337). Market capitalisation for both voting and non-voting shares in turn increased from Rs. 127.440 Bn. (USD 851.019 Mn.) in 2016 to Rs. 133.274 Bn. (USD 867.670 Mn.) in 2017 accounting for 4.6% of the total market capitalisation.

During most of 2017, the movement of the non-voting share price followed the trend of the voting shares.

Market capitalisation Table – 28

Year	Rs. Bn.	USD Mn.
2017	**133.274**	**867.670**
2016	127.440	851.019

Share price trend – Voting Graph – 73

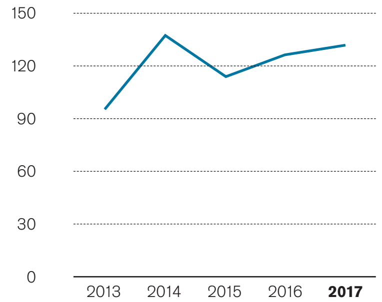
Share price trend – Non-voting Graph – 74

Information on shareholders' funds and Bank's market capitalisation Table – 31

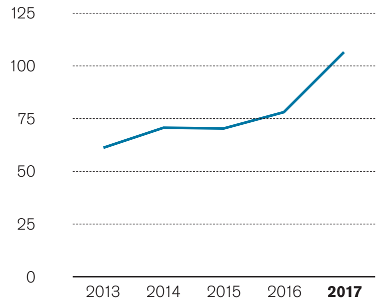
As at December 31,	Shareholders' funds Rs. Bn.	Commercial Bank's market capitalisation(*) Rs. Bn.	Total market capitalisation of the CSE Rs. Bn.	Market capitalisation as a % of CSE market capitalisation %	Market capitalisation ranking Rank
2017(*)	**107**	**133**	**2,899**	**4.60**	**4**
2016	78	127	2,745	4.64	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

(*) Market capitalisation as at December 31, 2017 includes both voting and non-voting shares.

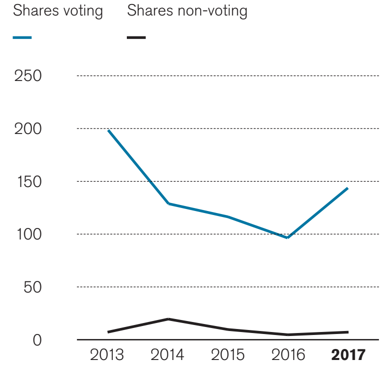
Bank's market capitalisation Graph – 75
Rs. Bn.



Shareholders' funds Graph – 76
Rs. Bn.



Number of shares traded Graph – 78
No. Mn.



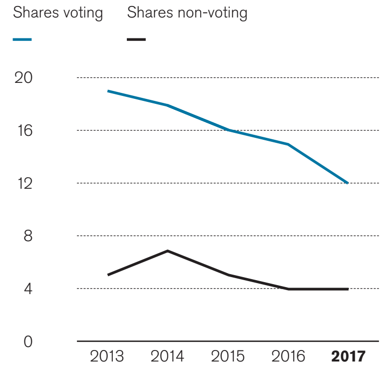
Number of transactions (No. '000) Table – 32

	2017	2016	2015	2014	2013
Shares voting	12	15	16	18	19
Shares non-voting	4	4	5	7	5

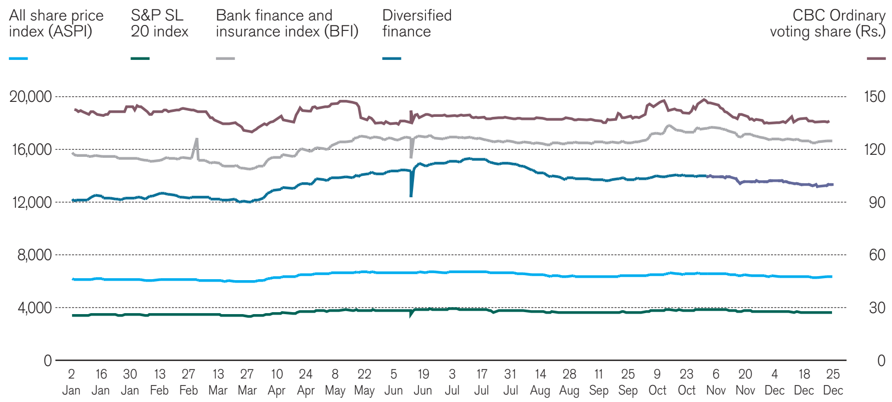
Number of shares traded (No. Mn.) Table – 33

	2017	2016	2015	2014	2013
Shares voting	144	96	117	129	199
Shares non-voting	7	5	10	20	7

Number of transactions Graph – 79
No. '000



Performance of the ordinary voting share – 2017 Graph – 77
Index '000 Rs.



With many investors adopting a holding strategy on the stock in view of its performance, an upward trajectory was recorded in the number of shares traded in both voting and non-voting shares during the year (Graph 78). There was, however sustained interest in the shares as reflected in the number of transactions in ordinary voting shares (Graph 79) which was similar to their performance in 2016 (Table 33).

Despite there being a marginal drop in the share price during 2017, the market price of Bank's ordinary voting shares grew by approximately 13% over the past five years.

3. 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 for 3	2,000,000	5,000,000	–	–
1990	Bonus Issue	Voting	1 for 1	5,000,000	10,000,000	–	–
1993	Rights Issue	Voting	1 for 4	2,500,000	12,500,000	–	–
1996	Bonus Issue	Voting	3 for 5	7,500,000	20,000,000	–	–
	Rights Issue	Voting	1 for 4	5,000,000	25,000,000	–	–
	Share Swap	Non-Voting		894,275	25,000,000	894,275	–
	Bonus Issue	Non-Voting	3 for 5	536,565	25,000,000	1,430,840	–
	Rights Issue	Non-Voting	1 for 4	357,710	25,000,000	1,788,550	–
1998	Bonus Issue	Voting	3 for 10	7,500,000	32,500,000	1,788,550	–
	Bonus Issue	Non-Voting	3 for 10	536,565	32,500,000	2,325,115	–
2001	Bonus Issue	Voting	1 for 5	6,500,000	39,000,000	2,325,115	–
	Bonus Issue	Non-Voting	1 for 5	465,023	39,000,000	2,790,138	–
	Issue of Cumulative Redeemable Preference Shares			90,655,500	39,000,000	2,790,138	90,655,500
2003	Bonus Issue	Voting	1 for 3	13,000,000	52,000,000	2,790,138	90,655,500
	Rights Issue	Voting	1 for 4	13,000,000	65,000,000	2,790,138	90,655,500
	Bonus Issue	Non-Voting	1 for 3	930,046	65,000,000	3,720,184	90,655,500
	Rights Issue	Non-Voting	1 for 4	930,046	65,000,000	4,650,230	90,655,500
	Issue of Cumulative Redeemable Preference Shares			100,000,000	65,000,000	4,650,230	190,655,500
2004	ESOP	Voting		29,769	65,029,769	4,650,230	190,655,500
2005	ESOP	Voting		1,361,591	66,391,360	4,650,230	190,655,500
	Bonus Issue	Voting	1 for 1	66,389,162	132,780,522	4,650,230	190,655,500
	Bonus Issue	Non-Voting	1 for 1	4,650,230	132,780,522	9,300,460	190,655,500
2006	ESOP	Voting		737,742	133,518,264	9,300,460	190,655,500
	Redemption of Cumulative Redeemable Preference Shares			(90,655,500)	133,518,264	9,300,460	100,000,000
2007	Rights Issue	Voting	3 for 10	40,288,996	173,807,260	9,300,460	100,000,000
	Bonus Issue	Voting	1 for 3	58,204,268	232,011,528	9,300,460	100,000,000
	ESOP	Voting		919,649	232,931,177	9,300,460	100,000,000
	Rights Issue	Non-Voting	3 for 10	2,790,138	232,931,177	12,090,598	100,000,000
	Bonus Issue	Non-Voting	1 for 3	4,030,199	232,931,177	16,120,797	100,000,000
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	Rs. 2.00 per share	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	–

Year	Details		Basis	No. of shares issued/ (redeemed)	No. of shares: Ordinary shares voting	Ordinary shares Non-voting	Cumulative redeemable preference shares
2012	Scrip issue for final dividend 2011	Voting	Rs. 2.00 per share	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	Rs. 2.00 per share	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	Rs. 2.00 per share	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	–
2015	Scrip issue for final dividend 2014	Voting	Rs. 2.00 per share	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	Rs. 2.00 per share	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	–
2017	Scrip issue for final dividend 2016	Voting	Rs. 2.00 per share	10,521,802	844,043,689	57,212,653	–
	Scrip issue for final dividend 2016	Non-Voting		903,357	844,043,689	58,116,010	–
	Rights Issue	Voting	1 for 10	84,649,465	928,693,154	58,116,010	–
	Rights Issue	Non-Voting	1 for 10	5,811,601	928,693,154	63,927,611	–
	ESOP	Voting		3,278,537	931,971,691	63,927,611	–

4. Dividends

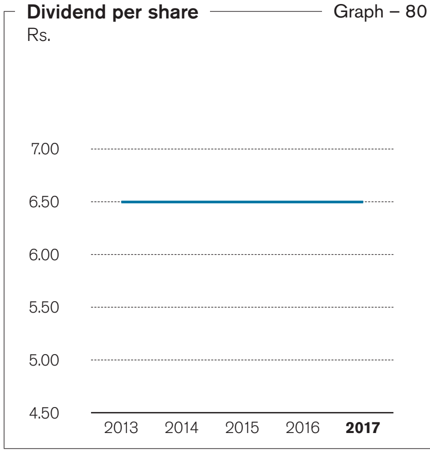
The declaration of a dividend should always ensure that a balance between the shareholders' needs and the business needs of the Bank. For the year under review, the Bank paid two interim dividends totalling to Rs. 4.50 per share in cash. A final dividend of Rs. 2.00 per ordinary share has now been recommended by the Bank's Board of Directors. This will be met in the form of the issue and allotment of new shares for both voting and non-voting shareholders of the Bank for the year ended December 31, 2017. It will be submitted for the approval of the shareholders at the 49th AGM, to be held on March 28, 2018.

(A dividend of Rs. 6.50 per share was declared and paid by the Bank for the year ended December 31, 2016. It consisted of a cash dividend of Rs. 4.50 per share and balance entitlement of Rs. 2.00 per share satisfied in the form of issue and allotment of new shares).

Dividends Table – 34

Dividends	2017	2016
Cash – Rs. per share		
First interim paid	**1.50**	1.50
Second interim paid	**3.00**	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	**27.04**	27.64
Total (cash and shares)	**39.06**	39.94

Dividend per share Graph – 80



Year	2017	2016	2015	2014	2013
Dividend per share	6.50	6.50	6.50	6.50	6.50

5. Shareholders

The Bank had 9,812 ordinary voting shareholders and 4,320 ordinary non-voting shareholders as at December 31, 2017 compared to 9,610 and 4,191 voting and non-voting shareholders as at December 31, 2016 (Table 35). With two new investors joining ranks, the percentage of ordinary voting shares held by the 20 largest shareholders increased to 71.39% from 66.35% in 2016. A rise was also recorded in the non-voting ordinary shares held by the 20 largest shareholders from 41.14% in 2016 to 45.53% in 2017. Three of the new investors making significant purchases during the year under review were foreign investors (Section 5.3).

Number of ordinary shareholders Table – 35

	2017	2016
Voting shareholders	9,812	9,610
Non-voting shareholders	4,320	4,191
Total	14,132	13,801

5.1 Composition of Shareholders

	As at December 31, 2017				As at December 31, 2016			
	No. of shareholders	%	No. of shares	%	No. of shareholders	%	No. of shares	%
Ordinary shares – voting								
Resident	9,524	97.06	614,635,782	65.95	9,314	96.92	587,487,079	70.48
Non-resident	288	2.94	317,335,909	34.05	296	3.08	246,034,808	29.52
Total	9.812	100.00	931,971,691	100.00	9,610	100.00	833,521,887	100.00
Individuals	9,260	94.37	186,657,813	20.03	9,058	94.26	193,603,082	23.23
Institutions	552	5.63	745,313,878	79.97	552	5.74	639,918,805	76.77
Total	9.812	100.00	931,971,691	100.00	9,610	100.00	833,521,887	100.00
Ordinary shares – non-voting								
Resident	4,243	98.22	47,078,661	73.64	4,107	98.00	43,843,846	76.63
Non-resident	77	1.78	16,848,950	26.36	84	2.00	13,368,807	23.37
Total	4,320	100.00	63,927,611	100.00	4,191	100.00	57,212,653	100.00
Individuals	4,102	94.95	34,197,527	53.49	3,970	94.73	32,320,757	56.49
Institutions	218	5.05	29,730,084	46.51	221	5.27	24,891,896	43.51
Total	4,320	100.00	63,927,611	100.00	4,191	100.00	57,212,653	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, 2017				As at December 31, 2016			
	No. of shareholders	%	No. of shares	%	No. of shareholders	%	No. of shares	%
Ordinary Shares Voting								
1 – 1,000	5,003	50.99	1,118,801	0.12	4,827	50.23	1,107,910	0.13
1,001 – 10,000	3,091	31.50	11,273,062	1.21	3,081	32.06	11,064,002	1.33
10,001 – 100,000	1,411	14.38	40,094,004	4.30	1,406	14.63	40,096,730	4.81
100,001 – 1,000,000	233	2.38	65,888,648	7.07	227	2.36	63,821,779	7.66
Over 1,000,000	74	0.75	813,597,176	87.30	69	0.72	717,431,466	86.07
Total	9,812	100.00	931,971,691	100.00	9,610	100.00	833,521,887	100.00
Ordinary Shares Non-Voting								
1 – 1,000	2,349	54.38	557,060	0.87	2,248	53.64	544,686	0.94
1,001 – 10,000	1,354	31.34	4,608,957	7.21	1,354	32.30	4,513,800	7.89
10,001 – 100,000	518	11.99	14,886,791	23.29	492	11.74	13,932,010	24.35
100,001 – 1,000,000	91	2.11	22,204,420	34.74	90	2.15	21,600,494	37.77
Over 1,000,000	8	0.18	21,670,383	33.89	7	0.17	16,621,663	29.05
Total	4,320	100.00	63,927,611	100.00	4,191	100.00	57,212,653	100.00

5.3 The names, number and percentage of shares held by the twenty largest shareholders (As per Rule No. 7.6 (iii) of the Listing Rules of the CSE)

As at December 31,	2017		2016 (*)	
Ordinary shares-voting	No. of shares	%	No. of shares	%
1. DFCC Bank PLC A/C 1	126,930,224	13.62	122,747,994	14.73
2. Employees' Provident Fund	89,933,984	9.65	80,741,135	9.69
3. Mr Y S H I Silva	70,742,605	7.59	82,635,230	9.91
4. Deutsche Bank AG Singapore – DSS A/C NT Asian Discovery Master Fund	53,263,322	5.72	13,929,632	1.67
5. Sri Lanka Insurance Corporation Ltd. – Life Fund	46,620,431	5.00	41,854,996	5.02
6. Melstacorp PLC	41,516,889	4.45	28,295,305	3.39
7. CB NY S/A International Finance Corporation	41,442,164	4.45	37,206,040	4.46
8. Sri Lanka Insurance Corporation Ltd. – General Fund	40,087,155	4.30	35,989,537	4.32
9. Mrs L E M Yaseen	17,008,550	1.83	16,603,339	1.99
10. HSBC International Nominees Ltd. – JPMLU – Franklin Templeton Investment Fund	16,599,478	1.78	14,791,566	1.77
11. BNYMSANV RE-CF Ruffer Absolute Return Fund	16,414,352	1.76	6,336,702	0.76
12. Employee's Trust Fund Board	15,579,452	1.67	10,723,987	1.29
13. HSBC International Nominees Ltd. – JPMCB – T ROWE New Asia Fund	14,990,626	1.61	–	–
14. HSBC International Nominees Ltd. – SSBT – Morgan Stanley Asset Management SA Acting on behalf of Morgan Stanley Galaxy Fund	14,181,819	1.52	12,732,186	1.53
15. HSBC International Nominees Ltd. – SSBT – Morgan Stanley Institutional Fund, Inc. – Frontier Emerging Markets Portfolio	13,605,543	1.46	12,998,068	1.56
16. BNYMSANV RE – First State Investments ICVC – Stewart Investors Indian Subcontinent Fund	9,897,978	1.06	8,886,230	1.07
17. HSBC International Nominees Ltd. – SSBT – BMO Investments II (Ireland) Public Limited Company	9,862,752	1.06	8,522,701	1.02
18. HSBC International Nominees Ltd. – JPMLU – T ROWE Price Funds SICAV	9,503,641	1.02	–	–
19. HSBC International Nominees Ltd. – BPSS LUX – Aberdeen Global Asia Pacific Equity Fund	9,444,947	1.01	11,172,854	1.34
20. HSBC International Nominees Ltd. – BP2S London – Aberdeen Asia Smaller Companies Investment Trust	7,734,621	0.83	6,944,006	0.83
Sub total	665,360,533	71.39	553,111,508	66.35
Other shareholders	266,611,158	28.61	280,410,379	33.65
Total	931,971,691	100.00	833,521,887	100.00

** Comparative shareholdings as at December 31, 2016 of the twenty largest shareholders as at December 31, 2017.*

Percentage of public holding of voting shares as at December 31, 2017 was 99.71% (99.73% as at December 31, 2016) (As per Rule No. 7.6 (iv) of the Listing Rules of the CSE).

Number of shareholders representing public holding as at December 31, 2017 – 9,780 (9,578 as at December 31, 2016) (As per Rule No. 7.13.1 of the Listing Rules of the CSE).

As at December 31,	2017		2016 (*)	
Ordinary shares – non-voting	No. of shares	%	No. of shares	%
1. Citi Bank NY S/A Norges Bank A/C 2	6,428,323	10.06	3,228,072	5.64
2. Employees' Trust Fund Board	4,656,784	7.28	4,167,636	7.28
3. HSBC International Nominees Ltd. – JPMLU – Franklin Templeton Investment Funds	3,866,166	6.05	3,309,627	5.78
4. GF Capital Global Ltd.	1,627,959	2.55	1,591,203	2.78
5. BNYMSANV RE-Butterfield Trust (Bermuda) Ltd.	1,442,008	2.26	1,419,594	2.48
6. CB NY S/A Salient International Dividend Signal Fund	1,323,138	2.07	1,802,572	3.15
7. Mr J D Bandaranayake	1,232,411	1.93	1,102,959	1.93
8. M J F Exports (Pvt) Ltd.	1,093,594	1.71	978,724	1.71
9. Mr M F Hashim	904,832	1.42	800,417	1.40
10. Saboor Chatoor (Pvt) Ltd.	872,800	1.37	781,100	1.37
11. Mrs L V C Samarasinha	750,000	1.17	650,000	1.14
12. Northern Trust Company S/A Polar Capital Funds PLC	718,286	1.12	–	–
13. Akbar Brothers (Pvt) Ltd. A/C No 1	689,509	1.08	576,809	1.01
14. Union Assurance PLC – No – 01A/C	649,979	1.02	581,706	1.02
15. Mr G R Mallawaaratchy/Mrs B G P Mallawaaratchy	536,072	0.84	479,764	0.84
16. Mr T W A Wickramasinghe	522,000	0.82	436,759	0.76
17. Mr Rahul Gautam	495,200	0.77	145,500	0.25
18. Mr Kirikankanamge Suren Mohanlal De Silva	442,974	0.69	383,468	0.67
19. Mr Amitha Lal Gooneratne	430,409	0.67	358,351	0.63
20. Bank of Ceylon A/C Ceybank Century Growth Fund	416,931	0.65	373,138	0.65
Sub total	29,099,375	45.52	23,167,399	40.49
Other shareholders	34,828,236	54.48	34,045,254	59.51
Total	63,927,611	100.00	57,212,653	100.00

** Comparative shareholdings as at December 31, 2016 of the twenty largest shareholders as at December 31, 2017.*

Percentage of public holding of non-voting shares as at December 31, 2017 was 89.66% (99.79% as at December 31, 2016) (As per Rule No. 7.6 (iv) of the Listing Rules of the CSE).

Number of shareholders representing public holding as at December 31, 2017 – 4,309 (4,182 as at December 31, 2016) (As per Rule No. 7.13.1 of the Listing Rules of the CSE).

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)

	Ordinary shares – voting		Ordinary shares – non-voting	
As at December 31,	**2017**	2016	**2017**	2016
Mr K G D D Dheerasinghe – *Chairman*	**23,567**	21,159	**Nil**	Nil
Mr M P Jayawardena – *Deputy Chairman*	**Nil**	Nil	**Nil**	Nil
Mr J Durairatnam – *MD/CEO*	**616,800**	470,770	**Nil**	Nil
Mr S Swarnajothi	**Nil**	Nil	**10,762**	8,738
Mr S Renganathan	**319,792**	197,647	**11,718**	10,488
Prof A K W Jayawardane	**Nil**	Nil	**Nil**	Nil
Mr K Dharmasiri	**Nil**	Nil	**Nil**	Nil
Mr L D Niyangoda	**Nil**	Nil	**Nil**	Nil
Ms. N T M S Cooray	**Nil**	Nil	**49,731**	Nil
Mr G S Jadeja	**Nil**	Nil	**Nil**	Nil
Mr T L B Hurulle *(appointed w.e.f. April 5, 2017)*	**Nil**	N/A	**Nil**	N/A
Justice K Sripavan *(appointed w.e.f. April 26, 2017)*	**Nil**	N/A	**Nil**	N/A

6. Engaging with shareholders

During the year, the Bank has complied with its shareholder communication policy. This policy outlines the various formal channels through which it engages with shareholders. It covers the timely communication of quarterly performance as set out on pages 30 and 31. It also records significant events that may reasonably be expected to impact the share price. (More details are given in Financial Calendar on page 161.)

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 is discussed in the Section on ["Managing Risk: An Overview"] on pages 154 through to 158.

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)
During the year under review there were no material issues relating to employees and industrial relations pertaining to the Bank which warrant disclosure.

9. Quarterly performance in 2017 compared to 2016

As required by Rule No. 7.4 (a) (i) of the Listing Rules of the CSE, the Bank duly submitted the Interim Financial Statements for the year 2017 to the CSE within applicable statutory deadlines. (The Bank duly complied with this requirement for 2016)

The Audited Income Statement for the year ended December 31, 2017 and the Audited Statement of Financial Position as at December 31, 2017 will be submitted to the CSE within three months from the year end, which is well within the required deadline as required by Rule No. 7.5 (a) of the Listing Rules of the CSE. (The Bank duly complied with this requirement for 2016)

This Annual Report in its entirety is available on the Bank's website (http://www.combank.lk/newweb/investor-relations). Shareholders may also elect to receive a hard copy of the Annual Report via mail on request.
The Company Secretary of the Bank will respond to individual letters received from shareholders.

Summary of the Income Statements – Group and Bank

	2017					2016				
	1st Quarter March 31 Rs. Mn.	2nd Quarter June 30 Rs. Mn.	3rd Quarter September 30 Rs. Mn.	4th Quarter December 31 Rs. Mn.	Total Rs. Mn.	1st Quarter March 31 Rs. Mn.	2nd Quarter June 30 Rs. Mn.	3rd Quarter September 30 Rs. Mn.	4th Quarter December 31 Rs. Mn.	Total Rs. Mn.
Group										
Net interest income	8,786.8	9,303.0	10,553.9	10,923.6	39,567.3	8,173.1	8,065.6	8,223.6	8,665.9	33,128.2
Net fee and commission income	2,060.9	2,021.5	2,235.5	2,606.5	8,924.4	1,463.0	1,515.6	1,805.5	2,305.1	7,089.2
Other operating income (Net)	845.8	766.2	(56.7)	726.4	2,281.7	1,429.1	496.7	1,080.1	1,174.9	4,180.8
Less: Impairment charges for loans and other losses	251.9	708.7	658.5	606.8	2,225.9	1,000.3	567.7	252.8	(237.5)	1,583.3
Net operating income	11,441.6	11,382.0	12,074.2	13,649.7	48,547.5	10,064.9	9,510.2	10,856.4	12,383.4	42,814.9
Less: Expenses	6,137.0	6,081.9	6,277.8	6,774.1	25,270.8	5,425.7	5,174.7	5,830.6	6,275.8	22,706.8
Operating profit	5,304.6	5,300.1	5,796.4	6,875.6	23,276.7	4,639.2	4,335.5	5,025.8	6,107.6	20,108.1
Add: Share of profits/ (losses) of associates companies	2.2	2.2	0.4	(1.1)	3.7	0.8	1.2	3.8	0.7	6.5
Profit before income tax	5,306.8	5,302.3	5,796.8	6,874.5	23,280.4	4,640.0	4,336.7	5,029.6	6,108.3	20,114.6
Less: Income tax expense	1,493.1	1,461.8	1,677.4	2,021.6	6,653.9	1,376.5	1,083.3	1,351.5	1,836.9	5,648.2
Profit for the period	3,813.7	3,840.5	4,119.4	4,852.9	16,626.5	3,263.5	3,253.4	3,678.1	4,271.4	14,466.4
Quarterly profit as a % of the profit after tax	23.8	23.9	25.7	26.6	100.0	22.6	22.5	25.4	29.5	100.0
Cumulative quarterly profit as a % of the profit after tax	23.8	47.7	73.4	100.0	–	22.6	45.0	70.5	100.0	
Bank										
Net interest income	8,661.4	9,159.8	10,420.6	10,781.6	39,023.4	8,112.9	7,997.9	8,144.3	8,568.5	32,823.6
Net fees and commission income	2,021.2	1,956.2	2,173.7	2,451.3	8,602.4	1,460.0	1,508.9	1,798.1	2,248.5	7,015.5
Other operating income (Net)	848.5	756.7	(36.2)	821.4	2,390.4	1,405.8	496.6	1,077.6	1,281.4	4,261.4
Less: Impairment charges for loans and other losses	241.7	695.3	557.5	419.8	1,914.3	995.0	551.2	257.4	(273.8)	1,529.8
Net operating income	11,289.4	11,177.4	12,000.6	13,634.5	48,101.9	9,983.7	9,452.2	10,762.6	12,372.2	42,570.7
Less: Expenses	6,067.6	5,974.2	6,193.6	6,683.6	24,919.0	5,404.0	5,136.4	5,770.9	6,208.2	22,519.5
Profit before income tax	5,221.8	5,203.2	5,807.0	6,950.9	23,182.9	4,579.7	4,315.8	4,991.7	6,164.0	20,051.2
Less: Income tax expense	1,446.4	1,438.6	1,672.2	2,044.5	6,601.7	1,345.2	1,062.1	1,328.5	1,802.9	5,538.7
Profit for the period	3,775.4	3,764.6	4,134.8	4,906.4	16,581.2	3,234.5	3,253.7	3,663.2	4,361.1	14,512.5
Quarterly profit as a % of the profit after tax	23.5	23.5	25.8	27.2	100.0	22.3	22.4	25.2	30.1	100.0
Cumulative quarterly profit as a % of the profit after tax	23.5	47.0	72.8	100.0	–	22.3	44.7	69.9	100.0	

Summary of Statements of Financial Position – Group

As at	2017 March 31 Rs. Mn.	2017 June 30 Rs. Mn.	2017 September 30 Rs. Mn.	2017 December 31 Rs. Mn.	2016 March 31 Rs. Mn.	2016 June 30 Rs. Mn.	2016 September 30 Rs. Mn.	2016 December 31 Rs. Mn.
Cash and cash equivalents	31,194.2	38,761.0	27,738.2	34,673.4	26,041.8	33,510.9	26,332.8	32,924.2
Placements with banks	11,332.2	9,332.8	12,378.9	17,633.3	4,301.3	8,426.8	14,061.6	11,718.5
Securities purchased under resale agreements	42.0	42.3	–	–	9,002.0	80.0	350.1	–
Other financial assets – Held for trading	13,090.7	6,283.9	5,246.3	4,410.9	10,539.6	8,670.5	12,085.4	4,987.8
Loans and receivables to banks and other customers	647,472.4	673,890.1	712,704.4	743,084.6	539,906.8	554,878.6	578,642.4	620,753.9
Financial investments – Available for sale	171,489.2	162,538.6	156,345.9	154,913.6	168,306.5	168,810.7	171,516.3	160,092.5
Financial investments – Held to maturity	64,544.4	66,779.0	68,368.3	69,365.8	35,911.1	36,124.7	37,001.2	63,626.6
Financial investments – Loans and receivables	44,850.3	55,418.4	48,205.5	48,712.5	66,464.2	61,741.8	52,060.8	51,824.0
Other assets	73,962.6	82,078.2	79,466.4	83,026.6	66,641.6	61,250.5	65,741.8	75,056.1
Total assets	1,057,978.0	1,095,124.3	1,110,453.9	1,155,820.7	927,114.9	933,494.5	957,792.4	1,020,983.6
Due to banks	52,951.4	58,502.8	45,185.2	60,244.9	39,095.2	36,937.4	33,417.8	71,098.4
Securities sold under resale agreements	78,220.4	77,902.3	59,990.4	49,532.4	115,628.0	95,083.4	87,040.9	69,629.0
Due to other customers/deposits from customers	784,777.9	804,554.5	824,859.9	857,270.0	652,934.5	679,948.2	710,389.5	743,310.6
Other borrowings	9,330.5	8,936.2	24,423.7	23,786.1	9,881.9	9,603.9	9,578.5	9,270.2
Subordinated liabilities	25,273.4	25,142.1	25,370.6	25,165.9	18,541.0	17,957.8	17,979.1	24,849.5
Other liabilities	26,175.1	22,403.6	26,510.6	30,954.7	25,475.6	23,169.4	22,093.6	23,010.5
Shareholders' funds	81,249.3	97,682.8	104,113.5	108,866.7	65,558.7	70,794.4	77,293.0	79,815.4
Total liabilities	1,057,978.0	1,095,124.3	1,110,453.9	1,155,820.7	927,114.9	933,494.5	957,792.4	1,020,983.6
Quarterly growth (%)								
Loans and receivables to banks and other customers	4.30	4.08	5.76	4.26	5.88	2.77	4.28	7.28
Due to other customers/deposits from customers	5.58	2.52	2.52	3.93	4.63	4.14	4.48	4.63
Total assets	3.62	3.51	1.40	4.09	5.09	0.69	2.60	6.60

Summary of Statements of Financial Position – Bank

	2017				2016			
As at	March 31 Rs. Mn.	June 30 Rs. Mn.	September 30 Rs. Mn.	December 31 Rs. Mn.	March 31 Rs. Mn.	June 30 Rs. Mn.	September 30 Rs. Mn.	December 31 Rs. Mn.
Cash and cash equivalents	29,312.5	36,755.5	25,896.0	33,224.6	25,995.1	33,475.1	24,647.9	30,193.6
Placements with banks	11,332.2	9,332.8	12,378.9	17,633.3	4,301.3	8,426.8	14,061.6	11,718.5
Securities purchased under resale agreements	42.0	42.3	–	–	9,002.0	80.0	350.1	–
Other financial assets – Held for trading	13,090.7	6,283.9	5,246.3	4,410.9	10,539.6	8,670.5	12,085.4	4,987.8
Loans and receivables to banks and other customers	642,804.7	669,327.6	708,069.6	738,087.1	537,473.3	551,891.7	575,081.6	616,642.7
Financial investments – Available for sale	171,420.0	162,343.9	156,151.2	154,714.1	168,288.5	168,741.5	171,446.0	160,023.5
Financial investments – Held to maturity	61,627.6	63,317.1	63,567.2	63,562.8	35,911.1	36,124.7	37,001.2	60,981.3
Financial investments – Loans and receivables	44,850.3	55,418.4	48,205.5	48,712.5	66,464.2	61,741.8	52,060.8	51,824.0
Other assets	74,334.1	82,297.3	79,471.0	83,028.5	66,599.5	61,222.2	66,564	75,829.8
Total assets	1,048,814.1	1,085,118.8	1,098,985.7	1,143,373.8	924,574.6	930,374.3	953,298.6	1,012,201.2
Due to banks	49,242.8	54,875.7	41,847.3	57,121.0	37,185.2	34,401.0	30,419.2	67,608.8
Securities sold under resale agreements	78,462.7	78,121.3	60,212.6	49,676.8	115,831.1	95,288.0	87,275.7	69,867.5
Due to other customers/deposit from customers	780,813.0	799,902.4	818,564.4	850,127.5	653,039.5	680,057.5	710,457.9	739,563.5
Other borrowings	9,330.5	8,936.2	24,423.7	23,786.1	9,881.9	9,603.9	9,578.5	9,270.2
Subordinated liabilities	25,273.4	25,142.1	25,370.6	25,165.9	18,526.0	17,942.8	17,979.1	24,849.5
Other liabilities	25,948.7	22,067.4	26,048.1	30,397.1	25,256.2	22,989.7	21,824.8	22,688.0
Shareholders' funds	79,743.0	96,073.7	102,519.0	107,099.4	64,854.7	70,091.4	75,763.4	78,353.7
Total liabilities	1,048,814.1	1,085,118.8	1,098,985.7	1,143,373.8	924,574.6	930,374.3	953,298.6	1,012,201.2
Quarterly Growth (%)								
Loans and receivables to banks and other customers	4.24	4.13	5.79	4.24	5.65	2.68	4.20	7.23
Due to other customers/deposits from customers	5.58	2.44	2.33	3.86	4.64	4.14	4.47	4.10
Total assets	3.62	3.46	1.28	4.04	5.09	0.63	2.46	6.18

10. Debt Securities

The Bank did not issue any debt securities during the year ended December 31, 2017.

10.1 Debenture composition

	Fixed interest rate				Fixed interest rate			
	2017				2016			
Type of issue	Public	Public	Public	Public	Public	Public	Public	Public
Debenture type	Type "A"	Type "B"	Type "A"	Type "B"	Type "A"	Type "B"	Type "A"	Type "B"
CSE listing	Listed	Listed	Listed	Listed	Listed	Listed	Listed	Listed
Issue date	March 2016	March 2016	Oct 2016	Oct 2016	Mar. 2016	Mar. 2016	Oct. 2016	Oct. 2016
Maturity date	March 2021	March 2026	Oct 2021	Oct 2026	Mar. 2021	Mar. 2026	Oct. 2021	Oct. 2026
Interest payable frequency	Bi-Annually	Bi-Annually	Bi-Annually	Bi-Annually	Biannually	Biannually	Biannually	Biannually
Offered interest rate	10.75% p.a.	11.25% p.a.	12.00% p.a.	12.25% p.a.	10.75% p.a.	11.25% p.a.	12.00% p.a.	12.25% p.a.
Amount (Rs. Mn.)	4,430.340	1,749.090	5,071.800	1,928.200	4,430.340	1,749.090	5,071.800	1,928.200
Market Values								
– Highest (Rs.)	85.33	Not traded during the year	96.00	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
– Lowest (Rs.)	81.40		87.17					
– Year-end (Rs.)	81.40		87.17					
Interest Rates								
– Coupon rate (%)	10.75	11.25	12.00	12.25	10.75	11.25	12.00	12.25
– Effective annual yield (%)	11.04	11.57	12.36	12.63	11.04	11.57	12.36	12.63
Interest rate of comparable Government security	9.70	10.10	9.80	10.10	12.05	12.45	12.15	12.50
Other Ratios as at Date of Last Trade								
– Interest yield (%)	17.96	N/A	15.98	N/A	N/A	N/A	N/A	N/A
– Yield to maturity (%)	17.52	N/A	15.74	N/A	N/A	N/A	N/A	N/A

10.2 Other ratios

	2017	2016
Debt equity ratio (%)	38.61	33.33
Net assets value per share (Rs.)	107.54	87.97
Interest cover (Times)	11.56	14.83
Liquid assets ratio (%) (Minimum 20%)	27.64	27.41

10.3 Credit ratings

- The Bank's credit rating, AA (lka) was reaffirmed by Fitch Ratings Lanka Ltd. in August 2017.
- The Bank's Bangladesh Operation's credit rating was reaffirmed at AAA by Credit Rating Information Services Ltd. in June 2017.

10.4 Credit ratings – Debentures

- The credit rating of the Bank's Subordinated Debentures affirmed in August 2017 at AA-(lka) by Fitch Ratings Lanka Ltd.

Compliance report on the contents of Annual Report in terms of the Listing Rules of the CSE

The Bank has fully complied with all applicable requirements of Section 7.6 of the Listing Rules of the CSE on the contents of the Annual Report and Accounts of a listed entity.

For the readers' convenience, the table below provides references to the relevant sections of this Annual Report where specific information is disclosed together with the relevant page numbers.

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	136 – 145
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	173 – 438
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"	340
7.6 (iv)	The public holding percentage	• Item 5.3 of the "Investor Relations"	340
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	342 136 – 145
7.6 (vi)	Information pertaining to material foreseeable risk factors	• Item 7 of the "Investor Relations"	342
7.6 (vii)	Details of material issues pertaining to employees and industrial relations	• Item 8 of the "Investor Relations"	342
7.6 (viii)	Extents, locations, and valuations of land holdings and investment properties as at the end of the year	• Note 39.5 (a) and (b) to the Financial Statements on "Property, Plant and Equipment"	251 – 256
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"	278 337
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"	339

Rule No.	Disclosure requirement	Section/reference	Page/s
7.6 (xi)	Ratios and market price information: • 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	• Items 4 and 10.2 of the "Investor Relations" • Items 10.1 and 10.2 of the "Investor Relations" • Items 10.3 and 10.4 of the "Investor Relations"	338 & 346 346 347
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	• Note 39.5 (b) to the Financial Statements on "Property, Plant and Equipment"	252
7.6 (xiii)	Details of funds raised through Public Issues, Rights Issues and Private Placements during the year	• Note 53 to the Financial Statements on "Stated Capital"	278
7.6 (xiv)	Information in respect of Employee Share Option Schemes • Total number of shares allotted during the financial year, price at which shares were allotted and the details of funding granted to employees (if any)	• Notes 53.2 and 54 to the Financial Statements on "Employee Share Option Plans"	279 & 280
	• Highest, lowest, and closing price of the share recorded during the financial year	• Item 2 of the "Investor Relations"	335
7.6 (xv)	Disclosures pertaining to Corporate Governance practices in terms of Rules 7.10.3, 7.10.5 (c) and 7.10.6 (c) of Section 7 of the Listing Rules	• Not applicable since the Bank received an exemption in terms of Section 7.10 (c) of the Listing Rules	–
7.6 (xvi)	Disclosures on Related Party Transactions exceeding 10% of the Equity or 5% of the total assets of the Entity as per Audited Financial Statements, whichever is lower	• The Bank did not have any related party transactions exceeding this threshold as at end 2017	–

ANNEX 2: GOVERNANCE

ANNEX 2.1: 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 28. These are communicated to all levels of employees through structured meetings and reinforced monthly at team meetings which review performance *vis-à-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 Bank's 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 five year Corporate Strategic Plan from 2017-2021 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's Risk Management Policy Framework and included in the strategic goals. The Bank's Strategic Plan for 2018-2022 was approved on December 22, 2017 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 154 to 158 and the Report of the BIRMC on pages 127 and 128 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: • Shareholders – The Shareholder Communication Policy of the Bank explicitly provides for effective and timely communication to shareholders of material matters and performance. Interim Financial Statements are made available to shareholders within 45 days for the first three quarters and within two months for the last quarter from the end of the relevant 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.	✓
	• Customers – Customers include *inter alia* 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.	
	• 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 coordinates 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.	**Key Management Personnel (KMPs)** 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. 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.	✓
g.	**Define areas of authority and key responsibilities for Directors and KMPs** 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.	✓
h.	**Oversight of affairs of the Bank by KMPs** The Board reviews the performance of the Bank *vis-à-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.	✓
i.	**Assess effectiveness of own governance practices** Completed Board evaluation forms were received from all Board members for 2017 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.	✓
j.	**Succession plan for KMPs** 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 2017.	✓
k.	**Regular meetings with KMPs** 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.	✓
l.	**Regulatory environment and maintaining an effective relationship with regulator** 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.	✓
m.	**Hiring External Auditors** 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.	✓

Section	Principle, compliance, and implementation	Complied
3 (1) (ii)	Appointment of Chairman and CEO and defining and approving their functions and responsibilities 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 Section 3 (5) of this Direction as given on page 354.	✓
3 (1) (iii)	Regular Board meetings 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 111 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.	✓
3 (1) (iv)	Arrangements for Directors to include proposals in the agenda 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.	✓
3 (1) (v)	Notice of Meetings 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.	✓
3 (1) (vi)	Directors' attendance The Directors are apprised of their attendance in accordance with the Articles of Association of the Company and the Corporate Governance Code. Details of the Directors' attendance are set out on page 111 No Director has been absent from three consecutive meetings.	✓
3 (1) (vii)	Appointment and setting responsibilities of the Company Secretary The Board appoints and sets responsibilities of the Company Secretary in accordance with the Companies Act, Banking Act, Directions, and the Articles of Association of the Company under advisement of the BNC.	✓
3 (1) (viii)	Directors' access to advice and services of Company Secretary 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.	✓
3 (1) (ix)	Maintenance of Board minutes 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.	✓
3 (1) (x)	Minutes to be of sufficient detail and serve as a reference for regulators and supervisory authorities The minutes of the meetings include: (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.	✓

Section	Principle, compliance, and implementation	Complied
3 (1) (xi)	Directors' ability to seek independent professional advice 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.	✓
3 (1) (xii)	Dealing with conflicts of interest 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 25 to 27.	✓
3 (1) (xiii)	Formal schedule of matters reserved for Board decision The Board has put in place systems and controls to facilitate the effective discharge of Board functions. 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.	✓
3 (1) (xiv)	Inform Central Bank if there are solvency issues 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.	✓
3 (1) (xv)	Capital adequacy 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.	✓
3 (1) (xvi)	Publish Corporate Governance Report in this Annual Report This Report forms part of the Corporate Governance Report of the Bank which is set out on pages 106 to 117 and pages 349 to 366.	✓
3 (1) (xvii)	Self-assessment of Directors 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.	✓
3 (2)	**Board Composition**	
3 (2) (i)	Number of Directors As per CBSL Governance Direction and Articles of Association of the Bank the number of Directors should not be less than seven and not more than 13. The Bank's Board comprised 12 Directors as at December 31, 2017.	✓
3 (2) (ii)	Period of service of a Director 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 page 111.	✓
3 (2) (iii)	Board balance There are two Executive Directors and eight NEDs which is compliant with the requirement to limit the number of Executive Directors to one-third of the total.	✓
3 (2) (iv)	Independent NEDs The Board has nine Independent Directors which is well above the regulatory requirement to satisfy the criteria for determining independence.	✓
3 (2) (v)	Alternate Independent Directors There are no alternate Directors.	✓

Section	Principle, compliance, and implementation	Complied
3 (2) (vi)	Criteria for Non-Executive Directors 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. 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.	✓
3 (2) (vii)	More than half the quorum to comprise Non-Executive Directors This requirement is strictly observed and it is noteworthy that the majority of the Board are NEDs.	✓
3 (2) (viii)	Identify Independent Non-Executive Directors in communications and disclose categories of Directors in this Annual Report 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 and Non-Executive Directors and Independent and Non-Independent Directors are given on page 111.	✓
3 (2) (ix)	Formal and transparent procedure for appointments to the Board 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.	✓
3 (2) (x)	Re-election of Directors filling casual vacancies All Directors appointed to the Board are subject to re-election by shareholders at the first AGM after their appointment.	✓
3 (2) (xi)	Communication of reasons for removal or resignation of Director 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.	✓
3 (2) (xii)	Prohibition of Directors or employees of a bank becoming a Director of another bank The Board and the BNC take into account this requirement in their deliberations when considering appointments of Directors. None of the Directors are directors or employees of any other bank.	✓
3 (3)	**Criteria to assess fitness and propriety of Directors**	
3 (3) (i)	Age of Director should not exceed 70 There are no Directors who are over 70 years of age.	✓
3 (3) (ii)	Directors should not be Directors of more than 20 companies and not more than 10 companies classified as specified business entities No Director holds directorships of more than 20 companies/entities/institutions inclusive of subsidiaries or associates of the Bank.	✓
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)	Review delegation arrangements periodically to ensure relevance to operations of the Bank 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 Section 3 (4) (i), (ii) and (iii) above.	✓

Section	Principle, compliance, and implementation	Complied
3 (5)	**The Chairman and Chief Executive Officer**	
3 (5) (i)	Separation of roles There is a clear separation of duties between the roles of the Chairman and the CEO, thereby preventing unfettered powers for decision-making being vested with one person.	✓
3 (5) (ii)	A Non-Executive Independent Director as the chairman or if not independent, designation of an Independent Director as the Senior Director The Chairman is an Independent Non-Executive Director.	✓
3 (5) (iii)	Disclosure of identity of Chairman and CEO and any relationships with the Board members The identity of the Chairman and the CEO are disclosed in the Annual Report on page 25. 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.	✓
3 (5) (iv)	Chairman to provide leadership to the Board 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". All key and appropriate issues are discussed by the Board on a timely basis.	✓
3 (5) (v)	Responsibility for agenda lies with chairman but may be delegated to Company Secretary The Company Secretary draws up the agenda for the meetings in consultation with the Chairman.	✓
3 (5) (vi)	Ensure that Directors are properly briefed and provided adequate information The Chairman ensures that the Board is sufficiently briefed and informed regarding the matters arising at Board meetings. The following procedures ensure that: • Circulation of Board papers including minutes of the previous meeting seven days prior to meeting • Clarification of matters by KMPs when required	✓
3 (5) (vii)	Encourage active participation by all Directors and lead in acting in the interests of the Bank This requirement is addressed in the list of functions and responsibilities of the Chairman approved by the Board.	✓
3 (5) (viii)	Encourage participation of Non-Executive Directors and relationships between Non-Executive and Executive Directors Ten 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.	✓
3 (5) (ix)	Refrain from Direct Supervision of Key Management Personnel and executive duties The Chairman does not get involved in the supervision of KMPs or any other executive duties.	✓
3 (5) (x)	Ensure effective communication with shareholders 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.	✓
3 (5) (xi)	CEO functions as the apex executive in charge of the day-to-day operations The day-to-day operations of the Bank have been delegated to the CEO.	✓

Section	Principle, compliance, and implementation	Complied
3 (6)	**Board appointed committees**	
3 (6) (i)	Establishing Board Committees, their functions and reporting 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: • Board Audit Committee on pages 124 to 126 • Board Integrated Risk Management Committee on pages 127 and 128 • Board Nomination Committee on page 129 • Board Human Resources and Remuneration Committee on pages 130 and 131 • Board Related Party Transactions Review Committee on page 132 • Board Credit Committee on page 133 • Board Investments Committee on page 134 • Board Technology Committee on page 135 The Chairpersons of the Subcommittees are available at the AGM to clarify any matters that may be referred to them by the Chairman.	✓
3 (6) (ii)	Audit Committee	
a.	**Chairman to be an Independent Non-Executive Director with qualifications and experience in accountancy and/or audit** 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.	✓
b.	**Committee to comprise solely of Non-Executive Directors** All members of the BAC are independent NEDs.	✓
c.	**Audit committee functions** In accordance with the Terms of Reference, the BAC has made the following recommendations: (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. 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.	✓
d.	**Review and monitor External Auditor's independence and objectivity and the effectiveness of the audit processes** The Board has adopted a policy of rotation of Auditors, once in every five years, in keeping with the principles of good corporate governance.	✓
e.	**Provision of non-audit services by External Auditor** Following action is taken prior to the assignment of non-audit services to External Auditor's by the Bank: a. If the Management is of the view that the independence is likely to be impaired with the assignment of any non-audit 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. Assigning such non-audit services to External Auditors is discussed at BAC meetings and required approval is obtained to that effect.	✓

Section	Principle, compliance, and implementation	Complied
f.	**Determines scope of audit** The Committee discussed the Audit Plan and scope of the audit with External Auditors to ensure that it includes: (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; and (ii) the preparation of Financial Statements for external purposes in accordance with relevant accounting principles and reporting obligations. As all audits within the Group are carried out by the same External Auditor, there was no requirement to discuss arrangements for coordinating activities with other auditors.	✓
g.	**Review financial information of the Bank** 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: (i) major judgemental areas; (ii) any changes in accounting policies and practices; (iii) significant adjustments arising from the audit; (iv) the going concern assumption; and (v) compliance with relevant Accounting Standards and other legal requirements. The BAC makes their recommendations to the Board on the above on a quarterly basis.	✓
h.	**Discussions with External Auditor on interim and final audits** 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.	✓
i.	**Review of management letter and Bank's response** The BAC has reviewed the External Auditor's Management Letter and the Management's response thereto.	✓
j.	**Review of internal audit function** 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. 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. The Committee reviewed the reports submitted by Internal Audit Department and ensures that appropriate action is taken on the recommendations. 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. The BAC is kept apprised of terminations/resignations of senior internal audit staff members and recommends their appointment. The above processes ensure that audits are performed with impartiality, proficiency and due professional care.	✓
k.	**Internal investigations** 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.	✓
l.	**Attendees at Board Audit Committee meetings** 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.	✓

Section	Principle, compliance, and implementation	Complied
m.	**Explicit authority, resources and access to information** The Terms of Reference for the BAC includes: (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. Refer the BAC Report on pages 124 to 126	✓
n.	**Regular meetings** 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.	✓
o.	**Disclosure in annual report** The Report of the BAC on pages 124 to 126 includes the following: (i) details of the activities of the Audit Committee; (ii) the number of BAC meetings held in the year; and (iii) details of attendance of each individual Director at such meetings.	✓
p.	**Maintain minutes of meetings** AGM – Management audit serves as the Secretary for the BAC and maintains minutes of the Committee meetings.	✓
q.	**Whistle-blowing policy and relationship with External Auditor** 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. 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. 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.	✓
3 (6) (iii)	Human Resources and Remuneration Committee **Charter of the Committee** The HR and Remuneration Committee (BHRRC) is responsible for: a. determining the remuneration policy relating to Directors, CEO and KMPs; b. setting goals and targets for the Directors, CEO and KMPs; and 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. The CEO attends all meetings of the Committee, except when matters relating to the CEO are being discussed.	✓
3 (6) (iv) a.	Nomination Committee **Appointment of Directors, CEO and KMP** The Committee has developed and implemented a procedure to appoint new Directors, CEO and KMPs. The Committee is chaired by the Chairman of the Bank and comprises three other NEDs, two of whom are independent. The CEO may be present at meetings by invitation. Refer the BNC Report on page 129.	✓

Section	Principle, compliance, and implementation	Complied
b.	**Re-election of Directors** 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 also considering the requirements of the Articles of Association.	✓
c.	**Eligibility criteria for appointments to key managerial positions including CEO** 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.	✓
d.	**Fit and proper persons** 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. 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.	✓
e.	**Succession plan and new expertise** 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.	✓
f.	**Committee to be chaired by an independent Director** The Committee was chaired by an Independent Non-Executive Director and the CEO was presented at the meetings by invitation.	✓
3 (6) (v)	Integrated Risk Management Committee/Board Risk Management Committee	
a.	**Composition of Integrated Risk Management Committee** 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 risks are invited to attend the meetings on a regular basis.	✓
b.	**Risk assessment** 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.	✓
c.	**Review of management level committees on risk** 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. 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.	✓
d.	**Corrective action to mitigate risks exceeding prudential levels** 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. 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.	✓

Section	Principle, compliance, and implementation	Complied
e.	**Frequency of meetings** 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 2017.	✓
f.	**Actions against officers responsible for failure to identify specific risks or implement corrective action** The Committee refers such matters, if any, to the Human Resources Department for necessary action.	✓
g.	**Risk Assessment Report to Board** 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.	✓
h.	**Compliance function** 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.	✓
3 (7)	**Related Party Transactions**	
3 (7) (i)	Avoid conflict of interest The BRPTRC is tasked with the oversight of the processes relating to this subject and their Report is on page 132. 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. 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. 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 294 to 300. 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 152 and 153 for more details.	✓
3 (7) (ii)	Related party transactions covered by direction The Related Party Transactions Policy approved by the Board, covers the following transactions: a. The grant of any type of accommodation, as defined in the Monetary Board's Directions on maximum amount of accommodation; b. The creation of any liabilities of the Bank in the form of deposits, borrowings and investments; c. The provision of any services of a financial or non-financial nature to the Bank or received from the Bank; d. The creation or maintenance of reporting lines and information flows between the Bank and any related parties, which may lead to sharing of potentially proprietary, confidential or otherwise sensitive information that may give benefits to such related parties.	✓
3 (7) (iii)	Prohibited transactions 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: a. Granting of "total net accommodation" to related parties, exceeding a prudent percentage of the Bank's regulatory capital; b. Charging of a lower rate of interest than the Bank's best lending rate or paying more than the Bank's deposit rate for a comparable transaction with an unrelated comparable counterparty; c. Providing of preferential treatment, such as favourable terms, covering trade losses and/or waiving fees/commissions, that extend beyond the terms granted in the normal course of business undertaken with unrelated parties; d. Providing services to or receiving services from a related party without an evaluation procedure; e. Maintaining reporting lines and information flows that may lead to sharing potentially proprietary, confidential or otherwise sensitive information with related parties, except as required for the performance of legitimate duties and functions.	✓

Section	Principle, compliance, and implementation	Complied
3 (7) (iv)	Granting accommodation to a Director or close relation of a Director 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.	✓
3 (7) (v)	Accommodations granted to persons, concerns of persons, or close relations of persons, who subsequently are appointed as Directors of the Bank The Company Secretary obtains declarations/affidavits from all Directors prior to their appointment and they are requested to declare any further transactions. Employees of the Bank are aware of the requirement to obtain necessary security, as defined by the Monetary Board, if the need arises. Processes for compliance with this regulation is also monitored by the Compliance Unit.	✓
3 (7) (vi)	Favourable treatment or accommodation to bank employees or their close relations 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.	✓
3 (7) (vii)	Remittance of accommodation subject to Monetary Board approval No such situation has arisen during the year.	✓
3 (8)	**Disclosures**	
3 (8) (i)	Publish annual and quarterly Financial Statements Annual Audited Financial Statements and Interim Financial Statements of the Bank were prepared and published during 2017 in the newspapers (in Sinhala, Tamil and English), in accordance with the formats prescribed by the Supervisory and Regulatory Authorities and applicable accounting standards.	✓
3 (8) (ii)	Disclosures in Annual Report	
a.	**A statement to the effect that the Annual Audited Financial Statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures** 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 146 and 151.	✓
b.	**Report by the Board on the Bank's internal control mechanism** 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: • Directors' Statement on Internal Control on pages 148 and 149 • Statement of Director's Responsibility on pages 146 and 147 • Annual Report of the Board of Directors on pages 136 and 145	✓
c.	**External Auditor's Certification on the Effectiveness of the Internal Control Mechanism** The Bank has obtained a Certificate on the Effectiveness of Internal Controls over financial reporting, which is published on page 150.	✓

Section	Principle, compliance, and implementation	Complied
d.	**Details of Directors, including names, fitness and propriety, transactions with the Bank and the total of fees/ remuneration paid by the Bank** • Profiles of Board Members are given on pages 25 to 27 • Directors' Interests in Contracts with the Company on pages 152 and 153 • Remunerations paid by the Bank are given in Note 21 to the Financial Statements on page 205	✓
e.	**Total accommodations granted to each category of related parties and as a percentage of the Bank's regulatory capital** The net accommodations granted to each category of related parties as a percentage of the Bank's Regulatory Capital are given below: Direct and indirect accommodation to related parties:	✓

Category of related party	Percentage of the regulatory capital 2017	Percentage of the regulatory capital 2016
KMP and CFM	3.62	0.52
Subsidiaries	0.77	0.88
Associates	0.00	0.00

Section	Principle, compliance, and implementation	Complied
f.	**Aggregate values of remuneration to and transactions with Key Management Personnel** The aggregate values of remuneration paid and transactions with the Bank by KMPs for financial reporting purposes, are given in Note 64 to the Financial Statements on pages 294 to 300. The total deposits and repurchase agreements held and total direct and indirect facilities obtained, as at December 31, 2017 by the KMPs (Board and selected members of Corporate Management) amounted to Rs. 357.7 Mn. (Rs. 200.3 Mn. in 2016) and Rs. 152.2 Mn. (Rs. 156.1 Mn. in 2016), respectively.	✓
g.	**External Auditors Certification of Compliance** The factual findings report has been issued by the External Auditor on the level of compliance with the requirements of these regulations. The findings presented in their report addressed to the Board did not identify any inconsistencies to those reported above.	✓
h.	**Report confirming compliance with prudential requirements, regulations, laws and internal controls** The Statement of Directors' Responsibility on pages 146 and 147 clearly sets out details regarding compliance with prudential requirements, regulations, laws and internal controls. There were no instances of non-compliance during the year.	✓
i.	**Non-compliance Report** 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.	✓
3 (9)	**Transitional and other general provisions** The Bank has complied with the transitional provisions.	✓

ANNEX 2.2: COMPLIANCE WITH CODE OF BEST PRACTICE ON CORPORATE GOVERNANCE

Compliance with the Code of Best Practice on Corporate Governance 2017 issued by The Institute of Chartered Accountants of Sri Lanka

Code ref.	Compliance and implementation	Complied
A.	**Directors**	
A.1	**The Board** 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. Directors are elected by shareholders at the AGMs with the exception of the CEO and the COO who are appointed by the Board and remain as Executive Directors until retirement, resignation 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. The Board is assisted by the Company Secretary.	✓
A.1.1	Regular meetings 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. The regularity of Board meetings and the structure and process of submitting information have been agreed to and documented by the Board. Attendance at meetings is summarised in Table 23 on page 111. Information required to be reported under this Section is reported on a regular basis.	✓
A.1.2	Role and responsibilities of the Board The roles and responsibilities of the Board are set out in the Board Charter as summarised in on page 114. The Board Charter was updated with the new requirements of the Code of Best Practice on Corporate Governance.	✓
A.1.3	Act in accordance with laws 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 regard to the operations of the Bank. This includes provision to obtain independent professional advice as and when necessary by any Director coordinated through the Company Secretary. Independent professional advice was sought on matters in accordance with the above provision in 2017 on three occasions for which the expenses were borne by the Bank.	✓
A.1.4	Access to advice and services of Company Secretary 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. The Bank has obtained appropriate insurance cover as recommended by the BNC for the Board, Directors and KMPs.	✓
A.1.5	Independent judgement The Board comprises senior professionals who are luminaries in their respective fields and use their independent judgement in discharging their duties and responsibilities on matters of strategy, performance, resource allocation, risk management, compliance, 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 a few members of the Board to dominate the Board processes or decision-making.	✓
A.1.6	Dedicate adequate time and effort to matters of the Board and the Company 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. 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.	✓
A.1.7	If necessary in the best interest of the Bank, one-third of the Directors can call for a resolution to be presented to the Board.	✓

Code ref.	Compliance and implementation	Complied
A.1.8	Board induction and training Refer the Section on "Induction and Training of Directors" on page 116.	✓
A.2	**Separating the business of the Board from the executive responsibilities for management of the Company** 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 an Independent 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.	✓
A.3	**Chairman's role in preserving good corporate governance** 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 is developed by the Chairman in consultation with the Directors, the CEO, and the Company Secretary, taking into consideration matters relating to strategy, performance, resource allocation, risk management, and compliance. Sufficiently detailed information on matters included in the agenda is provided to the Directors in time. All Directors have been made aware of their duties and responsibilities and the Board and committee structures. All Directors are encouraged to seek information necessary to discuss matters on the agenda. Views expressed by Directors on issues under consideration are recorded in the minutes.	✓
A.4	**Availability of financial acumen and knowledge to offer guidance on matters of finance** 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.	✓
A.5	**Board balance** The Board comprises ten NEDs and two Executive Directors facilitating an appropriate balance within the Board. Nine 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 are evaluated to ensure compliance with the criteria for determining independence in line with the requirements of the applicable regulations and this Code. The Chairman is an Independent Non-Executive Director. 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.	✓
A.6	**Provision of appropriate and timely information** 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. Minutes of a meeting is ordinarily provided to Directors at least within two weeks after the meeting date.	✓
A.7	**Appointments to the Board and re-election** Refer Sections on "Appointment of Director" and "Re-Election" on page 116.	✓
A.8	**All Directors should submit themselves for re-election at regular intervals** Refer Section on "Re-Election" on page 116. No Director resigned during the year prior to the completion of the appointed term.	✓
A.9	**Appraisal of Board and committee performance** Refer Section on "Board and Subcommittee Evaluations" on page 117.	✓

Code ref.	Compliance and implementation	Complied
A.10	**Annual Report to disclose specified information regarding Directors** Information specified in the Code with regard to Directors is disclosed within this Annual Report as follows: • Profiles including qualifications, expertise, material business interests and key appointments on pages 25 to 27 • Remuneration paid to Directors in Note 21 to the Financial Statements on page 205 • Related Party Transactions and other business interests on pages 294 to 300 and 152 and 153 • Membership of committees and attendance at Board meetings and committee meetings on pages 111 to 113	✓
A.11	**Appraisal of the CEO – refer page 117**	
B.	**Directors' remuneration**	
B.1	**Directors' and executive remuneration – refer page 116**	✓
B.2	**Level and make-up of remuneration – refer page 116**	✓
B.3	**Disclosures related to remuneration in Annual Report** • Statement of Remuneration Policy – Refer page 116 • Details of remuneration of the Board as a whole – Refer Note 21 to the Financial Statements on page 205 • Names of the members of the BHRRC and their Report – Refer pages 130 and 131	✓
C	**Relations with shareholders**	
C.1	**Constructive use of the AGM and conduct of other general meetings** 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. 07 of 2007. Separate resolutions are proposed for each substantially separate issue. The Chairman ensures the presence of the Chairmen of the Audit, Remuneration, Nomination and Related Party Transactions Review 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 117 of this Annual Report. Where a vote is required on a show of hands, the Bank will ensure that information required under the Code will be made available at the meeting and be published in the website within a month from the date of the AGM.	✓
C.2	**Communication with shareholders** The Shareholder Communication Policy sets out multiple channels of communication for engaging with shareholders. Channels include investor relations section of the 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 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 stipulated deadlines. Every effort is made to ensure that the Annual Report provides a balanced review of the Bank's performance. 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.	✓
C.3	**Disclosure of major and material transactions** The Shareholders Communication Policy addresses the need to disclose major and material transactions to shareholders as required by the rules and regulations of the SEC and the CSE and the Bank has in place a defined process for doing that. 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 – • Annual Report of the Board of Directors on pages 136 to 145; and • Note 64 to the Financial Statements on pages 294 to 300	✓

Code ref.	Compliance and implementation	Complied
D	**Accountability and audit**	
D.1	**Present a balanced and understandable assessment of the Company's financial position, performance, business model, governance, structure, risk management, internal controls, and challenges, opportunities and prospects** All efforts are taken to ensure that the Annual Report presents a balanced review of the Bank's financial position, performance, Business Model, Governance, Structure, Risk Management, Internal Controls, and Challenges, Opportunities and Prospects combining narrative and visual elements to facilitate readability and comprehension. Care has been exercised to ensure that all statutory requirements are complied within 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: • Management Discussion and Analysis – Refer pages 49 to 104 • Annual Report of the Board of Directors – Refer pages 136 to 145 • Statement of Directors' Responsibility – Refer pages 146 and 147 • 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. • Directors' Statement on Internal Control – Refer pages 148 and 149 and Independent Auditors' Report – Refer page 150 • Managing Director's and Chief Financial Officer's Statement of Responsibility on page 151 • Related Party Transactions disclosed on page 143 of the Directors' Report and in Note 64 in the Financial Statements on pages 294 to 300 and the process in place is described in the Report of the BRPTRC on page 132 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 pages 54 to 72.	✓
D.2	**Process of risk management and a sound system of internal control to safeguard shareholders' investments and the company's assets** The Board is responsible for determining the risk appetite for achieving the strategic objectives and formulates and implements 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 the 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 154 to 158 and the Subcommittee Reports on pages 127 and 128.	✓
D.3	**Audit Committee** 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 reports directly to the BAC. The Chairman of the Committee is Mr S Swarnajothi, a Fellow member of The ICASL and a former Auditor General of Sri Lanka. The Committee has also appointed Mr Manil Jayesinghe 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 150.	✓
D.4	**Related Party Transactions Review Committee** The Bank formed a Board Related Party Transactions Review Committee in December 2014 by early adopting the Code of Best Practice on Related Party Transactions as issued by the SEC which requirement became mandatory from January 1, 2016. The Committee comprises six Directors, of whom four are Independent NEDs whereas the remaining two members are Executive Directors. The Chairman of the Committee is an Independent NED. Arrangements will be made to comply with the requirement under Section D.4.2 of the Code in due course. The Bank has a Board Approved Related Party Transactions Policy in place which addresses requirements under this section.	✓
D.5	**Code of Ethics** The Bank has an internally-developed Code of Business Conduct and Ethics which is applicable to Directors, other KMPs, and all other employees. The Bank also has Board adopted rules applicable to dealing in shares of the Bank which are fully compliant with the Listing Rules of the CSE.	✓

Code ref.	Compliance and implementation	Complied
	The Code of Conduct is in compliance with the requirements of the Schedule J of the Code of Best Practice on Corporate Governance 2017 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 including information assets, compliance with laws, rules and regulations (including insider trading laws), fair and transparent procurement practices, and encouraging the reporting of any illegal, fraudulent, or unethical behaviour. The Code also requires any incidents involving any incidents of non-compliance be brought to the attention of those charged with governance. The BHRRC of the Bank reviews the Code on an annual basis to ensure that it is sufficient and relevant with reference to the current operations of the Bank. The Bank has a process in place to ensure that material and price sensitive information is promptly identified and reported in accordance with the relevant regulations. All the employees of the Bank are required to declare details of their dealings in shares of the Bank in a prescribed format to the Company Secretary of the Bank immediately. In addition, the Directors of the Bank too are required to disclose their dealings in shares of the Bank to the Company Secretary, enabling her to inform such transactions to the CSE. The Bank's Chief Financial Officer too monitors daily share transactions list to identify whether Directors, KMPs or employees involved in financial reporting are dealing in shares.	
D.6	**Corporate governance disclosures** This Corporate Governance Report from pages 106 to 117 and pages 349 to 366 complies with the requirement to disclose the extent of compliance with the Code of Best Practice on Corporate Governance as specified in Principle D6.	✓
E & F	**Encourage voting at AGM** The Bank has 9,812 ordinary voting shareholders of which 5.63% 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 AGM. 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 Bank, 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. All prospectuses include a clause which require all prospective investors in shares and debentures of the Bank to seek independent professional advice before investing.	✓
G	**Internet of things and cyber security** A Board approved Internet Security Policy (ISP) is in place. A designated officer has been appointed to independently monitor implementation of the ISP and report to the CRO who makes arrangements to regularly keep the Board informed of any exceptions through the BIRMC. Further, sufficient time is allocated in the agenda of the Board Technology Committee for discussion on cyber risk management. Minutes of both the BIRMC and the BTC meetings are submitted to the Board for information. Two external and two internal vulnerability assessments are also undertaken each year.	✓
H	**Environment, Society and Governance (ESG)** The Bank is an early champion of ESG and ESG reporting ESG 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 given in the following sections of the Annual Report: • Strategic report (pages 15 – 48) • Management Discussion and Analysis (pages 49 – 104) • Governance and Risk Management (pages 105 – 158)	✓
H.1	**ESG reporting**	✓
H.1.2	Environmental factors	✓
H.1.3	Social factors	✓
H.1.4	Governance	✓
H.1.5	Board's role on ESG factors	✓

ANNEX 2.3: OTHER DISCLOSURE REQUIREMENTS AS REQUIRED BY THE CBSL

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.	*Notes to the Financial Statements:* Note 25 – Classification of Financial Assets and Financial Liabilities	210
1.1.2	**Other disclosures**		
	(i) Special disclosures about financial assets and financial liabilities designated to be measured at fair value through profit or loss, including disclosures about credit risk and market risk, changes in fair values attributable to these risks and the methods of measurement.	*Significant Accounting Policies:* Note 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	183 184
	(ii) Reclassifications of financial instruments from one category to another.	*Significant Accounting Policies:* Note No. 7.1.5 – Reclassification of Financial Assets and Liabilities	185
	(iii) Information about financial assets pledged as collateral and about financial or non-financial assets held as collateral.	*Notes to the Financial Statements:* Note 69.1.3 – Collateral Held	313
	(iv) Reconciliation of the allowance account for credit losses by class of financial assets.	*Notes to the Financial Statements:* Note 33.2 – Movement in Provision for Individual and Collective Impairment during the year	229
	(v) Information about compound financial instruments with multiple embedded derivatives.	The Bank does not have compound financial instruments with multiple embedded derivatives.	
	(vi) Breaches of terms of loan agreements.	None	
1.2	**Statement of Comprehensive Income**		
1.2.1	Disclosures on items of income, expense, gains and losses.	*Notes to the Financial Statements:* Notes 12-22 to the Financial Statements	195-207
1.2.2	**Other disclosures**		
	(i) Total interest income and total interest expense for those financial instruments that are not measured at fair value through profit and loss.	*Notes to the Financial Statements:* Note 13 – Net Interest Income	195
	(ii) Fee income and expense.	*Notes to the Financial Statements:* Note 14 – Net Fees and Commission Income	198
	(iii) Amount of impairment losses by class of financial assets.	*Notes to the Financial Statements:* Note 18 – Impairment Charges for Loans and Other Losses	201
	(iv) Interest income on impaired financial assets.	*Notes to the Financial Statements:* Note 13.1 – Interest income	196

Disclosure requirements		Description	Page No/s.
1.3	**Other disclosures**		
1.3.1	Accounting policies for financial instruments.	*Significant Accounting Policies:* Note 7.1 – Financial Instruments – Initial Recognition, Classification and Subsequent Measurement	183
1.3.2	Information on hedge accounting.	The Bank applied hedge accounting principles for an interest rate swap entered into in March 2017. Refer Significant Accounting Policies Note 7.1.5 – Derivatives held for Risk Management Purpose and Hedge Accounting	185
1.3.3	Information about the fair values of each class of financial asset and financial liability, along with:		
	(i) Comparable carrying amounts.	*Notes to the Financial Statements:* Note 26.1 – Assets and Liabilities Measured at Fair Value and Fair Value Hierarchy	215
		Note 26.3 – Financial Instruments not Measured at Fair Value and Fair Value Hierarchy	218
	(ii) Description of how fair value was determined.	*Significant Accounting Policies:* Note 4 - Fair Value Measurement	180
	(iii) The level of inputs used in determining fair value.	*Notes to the Financial Statements:* Note 26.3 – Financial Instruments not Measured at Fair Value and Fair Value Hierarchy	218
		Note 26.4 – Valuation Techniques and Inputs in Measuring the Fair Value	220
		Note 39.5 (b) – Information on Valuations of Freehold Land and Buildings of the Bank	252
	(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.	*Notes to the Financial Statements:* Note 26.2 – Level 3 Fair Value Measurement	217
	(v) Information if fair value cannot be reliably measured.	*Notes to the Financial Statements:* Note 34 – Financial Investments – Available for Sale	232
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.	*Significant Accounting Policies:* Note 3 – Financial Risk Management	177
		Notes to the Financial Statements: Note 69 – Financial Risk Review	303
2.1.2	Management's objectives, policies and processes for managing those risks.	*Significant Accounting Policies:* Note 3 – Financial Risk Management	177
		Refer the Section on "Managing Risk: An Overview" for comprehensive disclosure of Management's objectives, policies and processes.	154

Disclosure requirements		Description	Page No/s.
2.1.3	Changes from the prior period.	There were no major policy changes during the period under review.	
2.2	**Quantitative disclosures**		
2.2.1	Summary of quantitative data about exposure to each risk at the reporting date.	*Notes to the Financial Statements:* Note 69 – Financial Risk Review	303
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.	*Notes to the Financial Statements:* Note 69.1.1 – Credit Quality Analysis	304
		Note 69.1.3 – Collateral Held	313
	(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.	*Notes to the Financial Statements:* Note 69.1.1 (b) – Age Analysis by Class of Financial Assets	306
		Note 18 – Impairment Charges for Loans and Other Losses – Collateral Valuation for description on collaterals	201
		Significant Accounting Policies: Note 7.1.11 – Identification and Measurement of Impairment of Financial Assets for factors considered in determining the financial assets as impaired	187
	(c) Information about collateral or other credit enhancements obtained or called.	*Notes to the Financial Statements:* Note 69.1.3 – Collateral Held	313
	(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'	154
	(ii) Liquidity risk		
	(a) A maturity analysis of financial liabilities.	*Notes to the Financial Statements* Note 62 – Maturity Analysis – Group	289
		Note 69.2.2 (a) – Maturity Analysis of Financial Assets and Financial Liabilities – Bank	319
	(b) Description of approach to risk management.	*Significant Accounting Policies:* Note 3 – Financial Risk Management	177
		Refer the Section on "Managing Risk: An Overview"	154
	(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"	154

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.	*Notes to the Financial Statements:* Note 69.3 – Market Risk	324
(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).	*Notes to the Financial Statements:* Note 69.4 – Operational Risk	331
	Refer the Section on "Managing Risk: An Overview"	154
(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"	154
(v) Equity risk in the banking book		
(a) Qualitative Disclosures		
• Differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons. • Discussion of important policies covering the valuation and accounting of equity holdings in the banking book.	*Significant Accounting Policies:* Note 4 – Fair Value Measurement	180
	Note 6.1.3 – Subsidiaries	182
	Note 6.1.5 – Associates	182
	Note 7.1.3.1.1 – Financial Assets – Held for Trading	183
	Note 7.1.3.4 – Financial Investments – Available for Sale	184
(b) Quantitative Disclosures		
• Value disclosed in the Statement of Financial Position of investments, as well as the fair value of those investments; for quoted securities, a comparison to publicly quoted share values where the share price is materially different from fair value. • The types and nature of investments.	Notes to the Financial Statements: Note 31 – Other Financial Instruments – Held for Trading	222
	Note 34 – Financial investments – Available for Sale	232
	Note 35 – Financial Investments – Held for Maturity	238
	Note 36 – Financial Investments – Loans and Receivables	238
	Note 37 – Investments in Subsidiaries	241
	Note 38 – Investments in Associates	243
• The cumulative realised gains/(losses) arising from sales and liquidations in the reporting period.	*Notes to the Financial Statements:* Note 15 – Net Gains/(Losses) from Trading	199
	Note 16 – Net Gains/(Losses) from Financial Investments	199
(vi) Interest rate risk in the banking book		
(a) Qualitative Disclosures • Nature of interest rate risk in the banking book (IRRBB) and key assumptions.	*Notes to the Financial Statements:* Note 69.3.1 – Exposure to Market Risk – Trading and non-trading portfolios	324
	Refer the Section on "Managing Risk: An Overview"	154

Disclosure requirements		Description	Page No/s.
	(b) Quantitative disclosures		
	• The increase/(decline) in earnings or economic value (or relevant measure used by management) for upward and downward rate shocks according to the management's method for measuring IRRBB, broken down by currency (as relevant).	*Notes to the Financial Statements:* Note 69.3.2 – Exposure to Interest Rate Risk – Sensitivity Analysis Refer the Section on "Managing Risk: An Overview"	326 154
2.2.3	Information on concentrations of risk.	*Notes to the Financial Statements:* Note 69.1.4 – Concentration of credit risk	313
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.	*Notes to the Financial Statements:* Note 69.5 – Capital Management	331
	(ii) Quantitative disclosures		
	(a) The amount of Tier 1 capital, with separate disclosure of: • Paid-up share capital/common stock • Reserves • Non-controlling interests in the equity of subsidiaries • Innovative instruments • Other capital instruments • Deductions from Tier 1 capital (b) The total amount of Tier 2 and Tier 3 capital (c) Other deductions from capital (d) Total eligible capital	*Notes to the Financial Statements:* Note 69.5 – Capital Management	331
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.	*Notes to the Financial Statements:* Note 69.5 – Capital Management Refer the Section on "Managing Risk: An Overview"	331 154
	(ii) Quantitative disclosures		
	(a) Capital requirements for credit risk, market risk, and operational risk (b) Total and Tier 1 capital ratio	Refer the Section on "Managing Risk: An Overview"	154

ANNEX 3: RISK MANAGEMENT REPORT
PRUDENT GROWTH WITHIN A DEFINED RISK APPETITE

Further to the Risk Review on page 36 and the Managing Risk: An Overview on page 154, this Risk Management Report details the risk management infrastructure, types of risk, risk management framework, and risk mitigation measures. Hence, it is recommended that this be read in conjunction with the Risk Review and the Managing Risk: An Overview write-ups referred to above.

The Board of Directors is responsible for overseeing the risk management function of the Bank. The Board carries out this responsibility directly by determining the desired risk profile of the Bank which is strongly correlated to achieving its strategic goals and indirectly by delegating oversight responsibility to the BIRMC which works closely with the executive level committees to review and assess the effectiveness of the risk management function and report to the Board on a regular basis. These reports provide a comprehensive perspective of the Bank's risk management efforts and outcomes, enabling the Board to identify the risk exposures, any potential gaps and mitigating actions necessary, on a timely basis. The tone at the top and the corporate culture reinforced by the ethical leadership of the Board play a key role in managing risk at the Bank.

Besides the tone at the top and the three lines of defence, the Bank's Code of Ethics sets out the Bank's commitment and expectations of all the employees to undertaking business in a responsible, transparent and disciplined manner and demands honesty, integrity and accountability from all employees. As a financial services intermediary, importance of such behaviour cannot be overemphasised. Accordingly, ethical conduct of the business too plays a significant role in managing risk in the Bank.

Credit ratings

The Bank's ability to borrow is significantly dependent on its credit ratings which were as follows:

Credit ratings Figure – 34

Commercial Bank of Ceylon PLC

AA(lka)/ Stable

Fitch Ratings

Fitch Ratings Lanka Limited.

Bangladesh

AAA

CRISL

Credit Rating Information and Services Limited.

The rating of AA(lka) 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 of Ceylon PLC has been reaffirmed by CRISL for the 7th consecutive year and is the highest credit rating given to any financial institution in Bangladesh by CRISL. (Figure 34)

In addition to the deposits, the Bank uses low cost international borrowings as a source of funding taking in to consideration the Swap cost of converting such funds in to LKR.

However, such strategy is embedded with the risk of premium volatilities that could result fluctuating marking to market gains or losses.

Summary of key risks

The Bank tracks a number of risks it is exposed to on a day-to-day basis. They include conventional externally driven and internally generated risks as well as emerging risks. Besides the correlations of risks, the dynamic and volatile operating environment and the unprecedented pace of technological advancements have caused the likelihood of occurrence and the impact of risk events themselves to be volatile, making the risk management function highly challenging.

Strategic goals and Risk Appetite Statement Table – 36

Aspect	Measure	Risk appetite (%)	2017 (%)	2016 (%)
Returns	ROA	> 2	1.54	1.53
	ROE	>20	17.88	19.52
Capital	CAR			
	CET 1	> 10	12.11	10.37
	Total Capital	> 14	15.75	14.87
Liquidity	SLAR	> 22	27.28	27.41
Asset quality downgrade	Gross NPA	4-5	1.88	2.18

These risks and mitigatory measures taken are summarised below:

Summary of key risks Figure – 35

Internal

	Credit risk	People and 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
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 and growth of stable deposit base and tapping low cost funding sources locally and overseas, act as a buffer in addition to sound maintenance of liquid asset portfolio to support contingencies

Bank

External

	Economic growth and trade cycles	Cyber threat	Increased regulations	Fiscal and monetary policy	Other emerging risks
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	Offering unparalleled and unprecedented convenience by adopting latest banking technology
Our objective	Safeguard stable funding sources, asset quality and returns	Safeguard information and ensure business continuity	Dynamic approach to comply with regulations	Dynamic approach to comply with regulations	To satisfy the rising expectations of stakeholders and to be future ready

⦿ Increasing trend in risk ⦿ Decreasing trend in risk ⦿ No significant change

Risk management infrastructure

Risk management infrastructure which is an integral part of the Bank's effective risk management framework encompasses both human and physical resources that enhance the Bank's preparedness to identify and manage risk including policies and procedures, limits, tools, databases, competencies, communication etc.

The Bank has invested a significant amount of resources to build its risk management infrastructure and to maintain it up to date on an ongoing basis by embracing international best practices. This is as part of the overall risk management system in line with the Board-approved roadmap in the direction of achieving a fully-fledged Enterprise Risk Management System in the near future.

Given that each and every employee in the Bank needs to understand that the Bank is exposed to risk, creating awareness by disseminating risk knowledge and enhancing skills on an on-going basis is essential to inculcate the desired risk culture. In this regard, Risk Management Department provides appropriate training/awareness to the employees, risk owners in particular, on all aspects related to risk based on the relevant policy documents.

Risk management policy, procedures and limits

The Bank has a comprehensive Risk Management Policy that addresses all 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. Apart from institutionalising the risk knowledge base, this helps minimise bias and subjectivity in risk decisions. This key document clearly defines the objectives, outlines priorities and processes and roles of the Board and the Management in managing risk, shaping the risk culture of the Bank. The Risk Assessment Statement (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 risk exposure of the Bank including its overseas operations is compliant with the regulatory framework of the CBSL. Additionally, in order to ensure compliance, the risk management framework takes into account the regulatory requirements of the respective countries where the Bank conducts its operations.

Bank has issued detailed operational guidelines to facilitate implementation of the risk management policy and the limits specified in the RAS. These guidelines relate to specification of types of facilities, processes and terms and conditions under which the Bank will conduct business, providing clarity to the employees in their day-to-day work.

Risk management tools

Bank employs a combination of qualitative and quantitative risk management tools for identifying, measuring, managing and reporting risks. The choice of a tool(s) for managing a particular risk depends on the likelihood of occurrence and the impact of the risk as well as the availability of data. These tools vary from risk policies, risk registers, risk maps, heat maps, diversification, SEMS, insurance and benchmarking to limits, gap analysis, NPV analysis, swaps, caps and floors, hedging, risk rating, risk scoring, risk modeling, duration, scenario analysis, marking to market, stress testing, and VaR analysis.

Risk management tools Table – 37

Type of risk	Qualitative tools	Quantitative tools
Credit	Risk policies, risk registers, risk maps, heat maps, benchmarking, SEMS, diversification, and insurance	NPV analysis, caps and floors, hedging, risk rating, risk scoring, stress testing,
Market	Risk policies, risk registers, risk maps, heat maps, diversification, and benchmarking	Limits, gap analysis, swaps, hedging, risk rating, risk modelling, duration, scenario analysis, mark to market, stress testing, VaR, and probabilistic techniques
Operational	Risk policies, risk registers, risk maps, heat maps and benchmarking	Risk modelling and insurance

Monitoring and reporting

It is the responsibility of the risk management function of the Bank to identify, measure, monitor and report risk. In order to enhance the effectiveness of its role, staff attached to it undergoes regular training, enabling them to develop and refine their skills. They are well aided by IT systems which enable extraction of data, analysis and modelling. Regular and ad hoc reports are generated for review by the Senior Management, management committees and the Board which rely on such reports for evaluating performance and providing strategic direction. The reports provide information on aggregate measures of risks across products, portfolios, and geographies which are compared against agreed policy parameters providing a clear representation of the risk profile and sensitivities of the risks assumed by the Bank.

Risk map

Based on the likelihood of occurrence and the impact of such risks on achieving strategic goals including the financial performance, the Bank has broadly categorised its risk exposures as shown in the risk map below [Figure 38]. While most of the risks are within the purview of the Bank and hence can be managed, there are a few other key risks that are beyond the purview of the Bank and hence can only be monitored to assess their impact.

Risk map Figure – 36

Risk

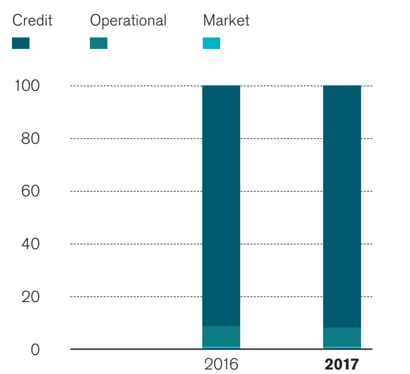
Risks that are monitored but cannot be managed by the Bank

- Macroeconomic risk
- Macro prudential, regulatory and legal risk

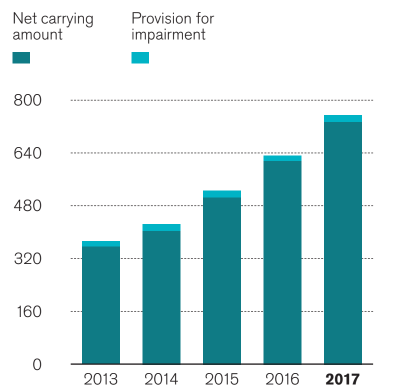
Risks that are monitored and managed by the Bank

- Credit risk
- Market risk
- Concentration risk
- Liquidity risk
- Operational risk
- Strategic risk

Risk-weighted assets composition as at December 31 Graph – 81
(%)



Gross loans and receivables to other customers as at December 31 Graph – 82
Rs. Bn.



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 in on-balance sheet assets as well as off-balance sheet transactions such as letters of credit, guarantees, documents against acceptance etc. Counterparty risk, concentration risk and settlement risk together constitute the total Credit risk of the Bank.

Maximum credit risk exposure Table – 38

	Maximum exposure 2017		Maximum exposure 2016	
	Rs. Mn.	%	Rs. Mn.	%
Carrying amount of credit exposures				
Loans and receivables to other customers	737,447	46.9	616,018	44.3
Loans receivables to banks	641	0.0	624	0.0
Financial investments	271,400	17.3	277,817	20.0
	1,009,488		894,459	
Off-balance sheet maximum exposures				
Lending commitments	124,595	7.9	131,382	9.4
Contingencies	438,454	27.9	365,854	26.3
	563,049		497,236	
Maximum credit exposure	1,572,537	100.0	1,391,695	100.0
Individually Impaired loans	23,043		22,102	
Impaired loans as a % of gross loans and receivables	3.05		3.49	
Provisions for impairment (individual and collective)	17,261		17,373	
Net carrying amount of loans and receivables	737,447		616,018	
Provisions as a % of gross loans and receivables	2.29		2.74	
Loan impairment charge (individual and collective)	1,957		1,511	

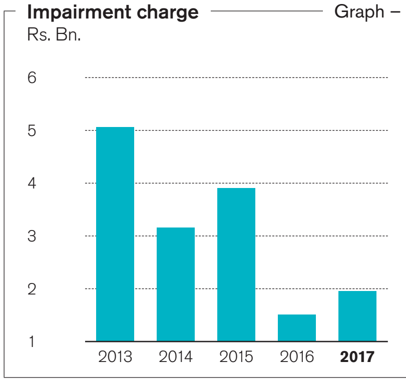
Overall credit exposure

The Bank's maximum credit exposure has increased by 12.99% in 2017 compared to the previous year. Both retail banking and corporate banking portfolios have contributed to this growth. Individually impaired loans have increased by 4.26% as a result of a policy decision of the Bank to lower the threshold for recognition of individually significant loans and the growth in loan book during the year.

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, an increase of 29.5% is observed in impairment charges compared to the previous year. Due to the revision of thresholds for identifying the loans to be subjected to individual impairment in 2016 and the resultant shift of a sizable portfolio from collective impairment to individual impairment has contributed to this increase in impairment charges. A detailed clarification in this regard is given on page 55.

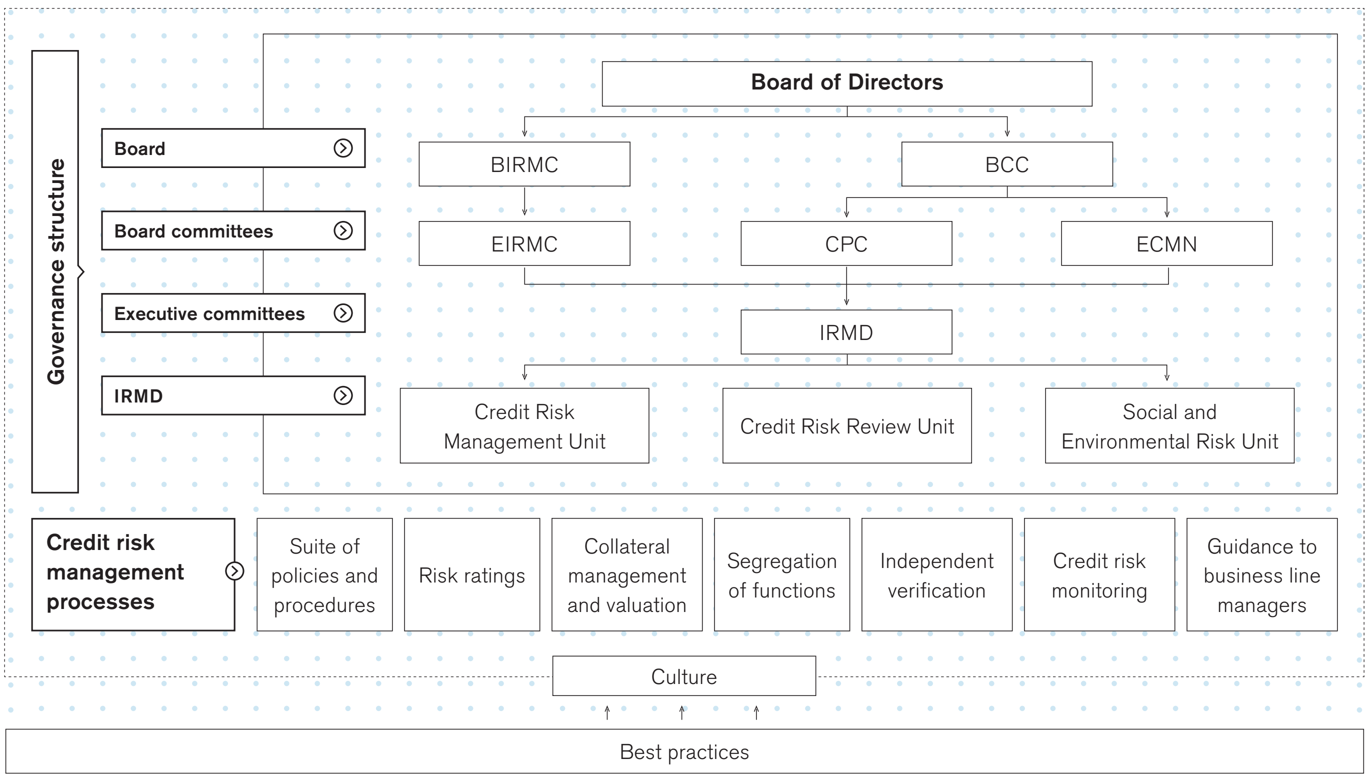
Impairment charge Graph – 83



Managing credit risk

Credit risk governance

Figure – 37

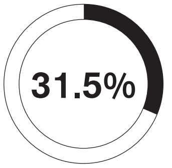


Given that credit risk accounts for 91.9% of the risk-weighted assets as at December 31, 2017 (91.6% as at December 31, 2016), management of credit risk is critical to the Bank. Our objective is to enhance value through credit risk management going beyond mere regulatory compliance. It is managed through the Credit Risk Management Framework approved by the Board, which is summarised graphically in the Figure 38 on page 379.

- **A robust risk governance structure –** Credit risk is monitored by the Board, BCC and BIRMC which are responsible for formulating policy including setting the parameters of the RAS. EIRMC, CPC and ECMN are the principal management committees responsible for monitoring credit risk exposure and initiating appropriate action to maintain the overall credit risk exposures within the defined risk appetite. Credit Risk Management Unit, Credit Risk Review Unit and Social and Environmental Risk Review Unit of the IRMD are responsible for daily credit risk management activities including measuring, monitoring and reporting of credit risk exposures and facilitating review of the Bank's credit risk-related policies and exposure limits at least annually. It also provides independent reviews on credit risk associated with new products/product relaunches and process changes to optimise risk-return trade-off.
- **A comprehensive suite of risk management processes** comprising the following:
  - **Policies and procedures –** These comprise the RAS, Delegation of Authority, Credit Risk Review Framework, Social and Environmental Management System, Policies 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. These guide the Bank in underwriting new lending as well as post disbursement monitoring of accommodation granted.
  - **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. During 2018, the Bank will be obtaining a validation of the rating system through an independent party. This is expected to facilitate the move towards calculating the impairment under SLFRS using rating based method whilst supporting 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 creditworthy 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 three functional components with pre-sanction risk being evaluated and monitored by the Credit Risk Management Function, post-sanction credit risk being monitored by the Credit Risk Review Function and the social and environment risk being evaluated/monitored by the Social and Environmental Risk Review Function. This facilitates a high degree of specialisation and leveraging of skills resulting in focused analysis supporting effective credit risk management.
- **Social and environmental risk management –** During 2017, the Bank took several steps to enhance S&E Risk assessment and management of Bank's lending activities which included providing the S&E officers with a series of regular S&E risk management training in collaboration with IFC, developing additional tools to ensure that S&E risks are appropriately screened, S&E officers undertaking more site visits to identify S&E risks and to formulate corrective action plans with the involvement of customers where necessary, to ensure that appropriate environmental management plans are in place. The Bank strengthened the S&E appraisal process in achieving a level of due diligence to commensurate with the level of S&E risk in the lending proposals.

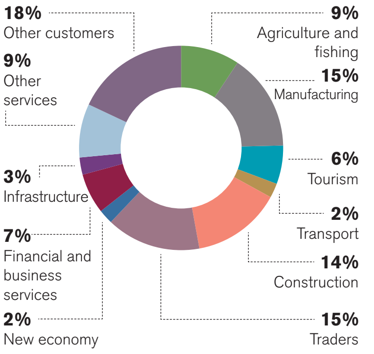
  The Bank also took the initiative to empanel independent external social and environmental consultants in year 2017 after carefully evaluating their experience and expertise in order to obtain their services when necessary to carry out S&E due diligence on complex project financing activities.
- **Independent 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 risk monitoring process provides information on products, industries and other indicators of elevated risk facilitating diversification into 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.



Credit risk review

CBSL requires 30-40% of the Total Loans and Receivables of the Bank to be subjected to Credit Risk Review (CRR). The Bank has covered 31.5% of the total loans and receivable portfolio under CRR in 2017 (38.05% in 2016).

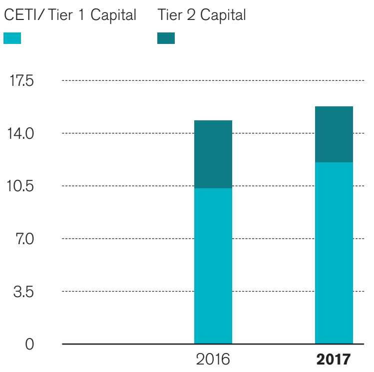
Industry-wise analysis of loans and receivables to other customers as at December 31, 2017 (Net carrying value) — Graph – 84



The graph depicts that there is no significant concentration to any industry sector.

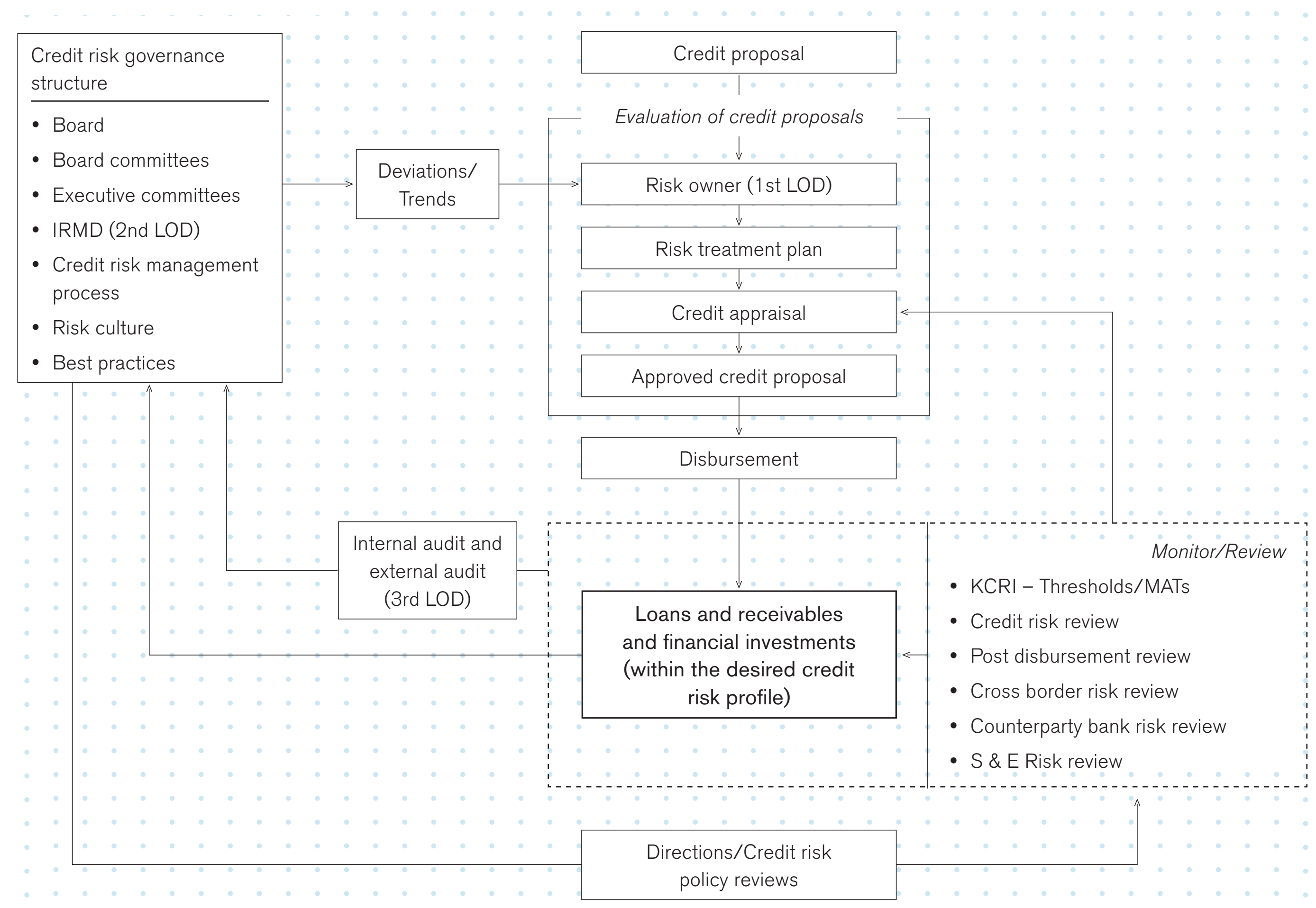
Capital adequacy composition — Graph – 85

%



The CET 1 capital increased due to the rights issue of shares during the year.

Credit risk management framework Figure – 38



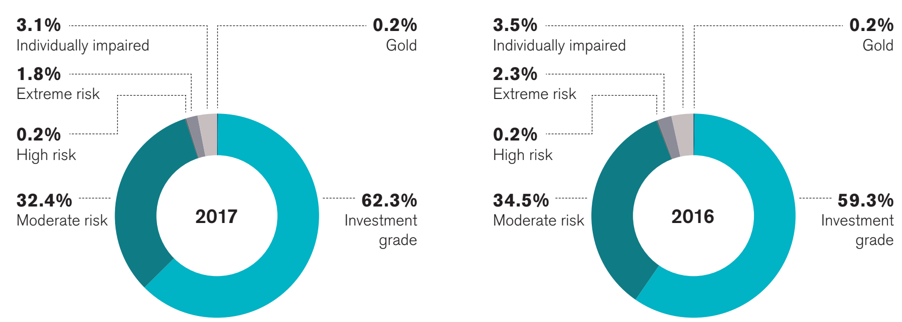
Review of credit risk

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.

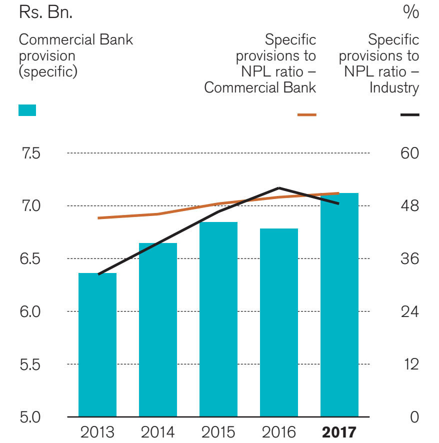
The effective Credit Risk Management Framework referred to above that guides the Bank throughout the process of on-boarding new exposure and monitoring existing exposure contributes immensely to preserve the quality of the loan book. In addition, the Bank is cautious and exercises restraint in the choice of customers, products, segments and geographies it caters to. Continuous monitoring of age analysis and the underlying movement across arrears buckets of past due loans enabled the Bank to swiftly take action, thereby moderating default risk during the year.

The allowance for individually impaired loans decreased by 7.1% whilst the allowance for collective impairment increased by 5.5% during the year, distribution of which is given on page 232.

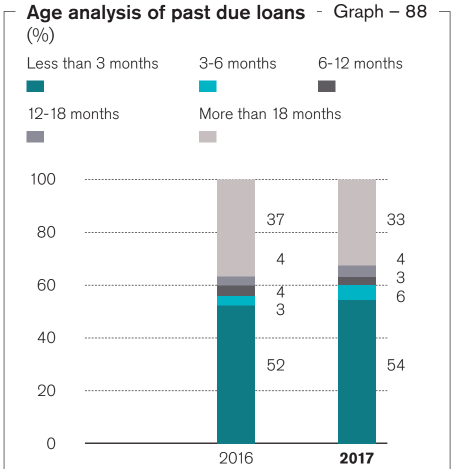
Risk ratings-wise distribution of loans and receivables to other customers Graph – 86



Provision cover of the Bank — Graph – 87



Age analysis of past due loans – Graph – 88



Individual/collective impairment distribution – Sri Lanka operation — Table – 39

Industry sector	Past due and individually impaired advances Rs. '000	Allowance for collective impairment Rs. '000	Allowance for individually impaired loans Rs. '000	Amount written off Rs. '000
Exports	3,318,650	471,706	583,982	5,717
Imports and trading	3,862,404	948,398	1,482,820	2,494
Wholesale and retail trading	1,331,525	377,490	267,397	1,871
Construction industry	1,945,727	199,382	376,267	53,182
Any other commercial activity	1,296,311	290,014	156,438	6,762
Industries – MFG for local market	6,591,036	802,929	1,312,957	6,544
Agricultural activity	1,794,354	644,642	247,302	19,412
Housing and property development	830,748	255,699	447,870	123
Tourism and hospitality trade	7,769,395	385,719	1,534,875	213
Personal	5,158,044	2,013,335	918,743	26,914
Services	1,978,533	696,474	233,399	4,959
Holding companies	41,417	65,691	1,619	–
Finance and insurance industry	82,694	161,324	35,235	–
State institutions	–	11,429	–	1,588
Others	1,249,650	1,045,854	53,066	690
Total	37,250,489	8,370,086	7,651,971	130,468

Individual/collective impairment distribution – Outside of Sri Lanka — Table – 40

Industry sector	Past due and individually impaired advances Rs. '000	Allowance for collective impairment Rs. '000	Allowance for individually impaired loans Rs. '000	Amount written off Rs. '000
Exports	–	224,379	–	–
Imports and trading	–	–	–	–
Wholesale and retail trading	255,513	129,553	–	–
Construction industry	–	–	–	–
Any other commercial activity	74,433	70,923	–	–
Industries – MFG for local market	427,732	451,739	78,916	–
Agricultural activity	–	18,282	–	–
Housing and property development	102,252	12,058	–	–
Tourism and hospitality trade	–	1,742	–	–
Personal	14,333	13,866	–	–
Services	10,158	20,483	73,007	–
Holding companies	–	–	49,755	–
Finance and insurance industry	–	56,409	–	–
State institutions	–	–	–	–
Others	–	38,236	–	–
Total	884,421	1,037,670	201,678	–

Concentration risk

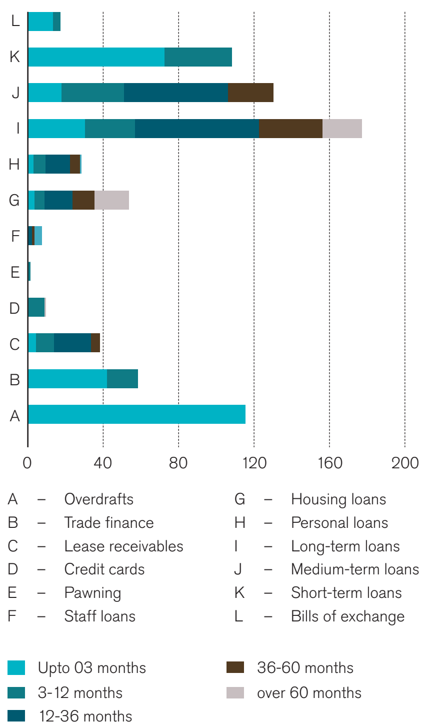
Concentration risk is managed by diversification of risk across industry sectors, products, counterparties and geographies. The Bank's RAS defines the limits for these segments and exposures are monitored by the Board, BIRMC, EIRMC and the CPC to ensure compliance. They also make recommendations on modifications 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 39 and 40.

The below graph depicts that the tenor-wise breakdown of the portfolio of total loans & receivables to other customers is within the risk appetite of the Bank.

Loans and receivables to other customers by tenor-wise as at December 31, 2017 (based on residual maturity) Graph – 89

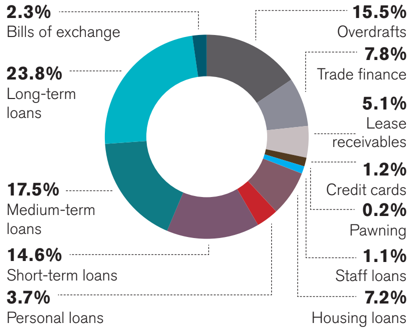
Rs. Bn.



An analysis of loans and receivables by product (Graph 90) also reflects the effectiveness of the Bank's credit policies with risk being well-diversified across the Bank's range of credit products.

The relatively high exposure of 23.8% to long-term loans is rigorously monitored and mitigated with collateral.

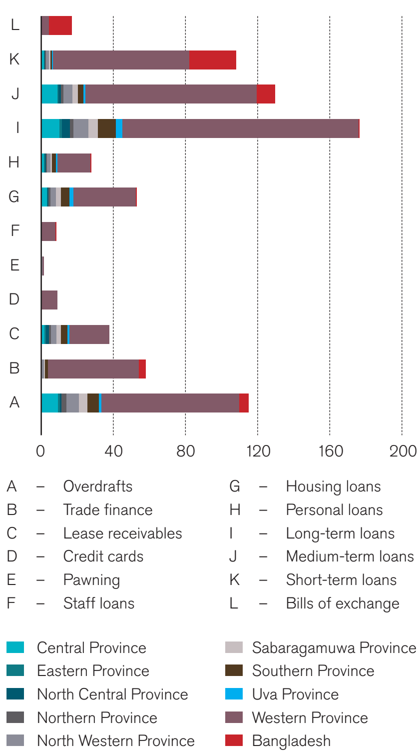
Product-wise analysis of loans and receivables to other customers as at December 31, 2017 Graph – 90



A geographical analysis reflects a high concentration of loans (Graph 91) in the Western Province which is due to concentration of economic activities in the Province and the head offices of most borrowing entities being located there.

Geographical analysis of loans and receivables product-wise to other customers as at December 31, 2017 Graph – 91

Rs. Bn.

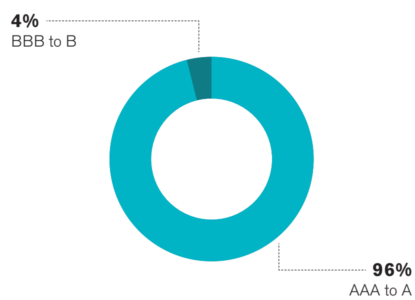


Counterparty risk

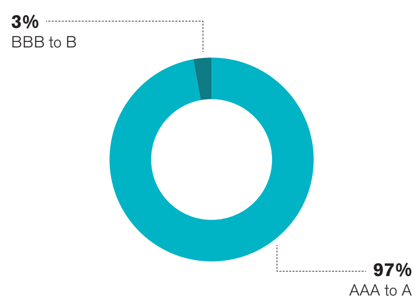
The Bank has laid down policies/procedures and limit structures including single borrower limits and group exposure limits with sub-limits for products etc. to manage the counterparty risks. The limits set by the Bank are far more stringent than those stipulated by the regulator. This provides the Bank with a greater leeway 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 which is being monitored through a specific set of policies, procedures and a limit structure. At frequent intervals the counterparty bank exposures are monitored against the established prudent limits whilst market information on the financial/economic performance of these counterparties are subject to a rigorous scrutiny throughout the year and the limits are revised to reflect the latest information where deemed necessary.

The concentration of counterparty bank exposures in Sri Lanka as at December 31, 2017 (Fitch ratings-wise) Graph – 92



The concentration of counterparty bank exposures in Bangladesh as at December 31, 2017 (CRAB ratings-wise*) Graph – 93



**Equal CRISL/Alpha ratings are given where CRAB ratings are unavailable*

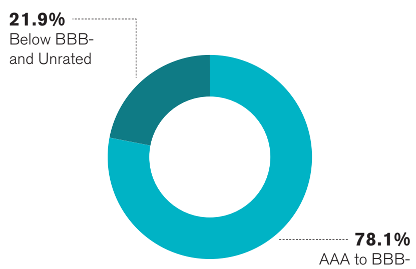
The analysis uses Fitch Ratings for local banks in Sri Lanka and Credit Ratings Agency in Bangladesh (CRAB) for local banks in Bangladesh (Equivalent CRISL/ Alpha ratings have been used where CRAB ratings are not available). Exposures for local banks in Sri Lanka rated AAA to A category stood at 96% (Graph 92) whilst 97% of exposure of local banks in Bangladesh consisted of AAA to A rated counterparty banks (Graph 93).

Cross-border risk

The risk that the 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 loans and advances, interest-bearing deposits with other banks, trade and other bills and acceptances and predominantly relate to short-term money market activities.

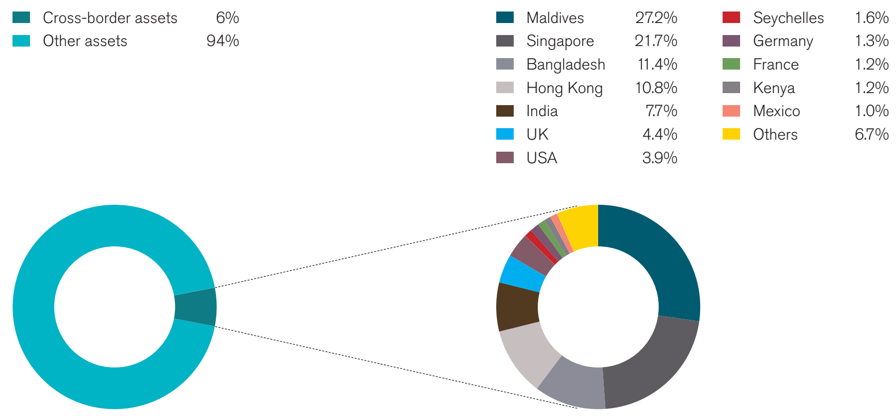
In addition to the limit structure in place to minimise risk arising from over concentration, the Bank continuously monitors macro-economic and market developments of the countries with exposure to counterparties besides stringent evaluations of counterparties and maintaining frequent dialogue with them. Timely action is taken to suspend limits to countries with adverse economic/political developments.

The concentration of cross-border exposure (Sri Lanka and Bangladesh operations) – S&P Rating wise as at December 31, 2017 Graph – 94



Note: Excluding the investment in Bangladesh operation and Direct lending in Maldives and Bangladesh

Cross-border exposure of the Bank Graph – 95



Total cross-border exposure is only 6% of total assets of the Bank (Graph 95). 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 the Maldives through our subsidiary "Commercial Bank of Maldives Limited (CBM)", the Group level cross-border exposure measurements are now analysed and monitored. However, as of year-end there are no 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.

Elements and measurement of market risk Table – 41

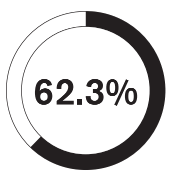
	Trading activities	Non-trading activities

Risk type	• Interest rate risk
	  ◦ Repricing risk
	  ◦ Yield curve risk
	  ◦ Basis risk
	• Foreign exchange risk
	• Equity price risk
	• Commodity price risk
		• Interest rate risk
		  ◦ 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

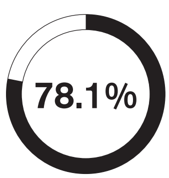
Market risk categories Table – 42

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



Distribution of borrower ratings

Borrowers with Investment Grade Ratings where default risk is considered to be very low, comprised 62.3% of the total loans and receivables to other customers.



Distribution of country rating

Exposure to countries which are rated AAA to BBB- (S&P or equivalent) accounted for 78.1% of the total cross-border exposure of the bank.

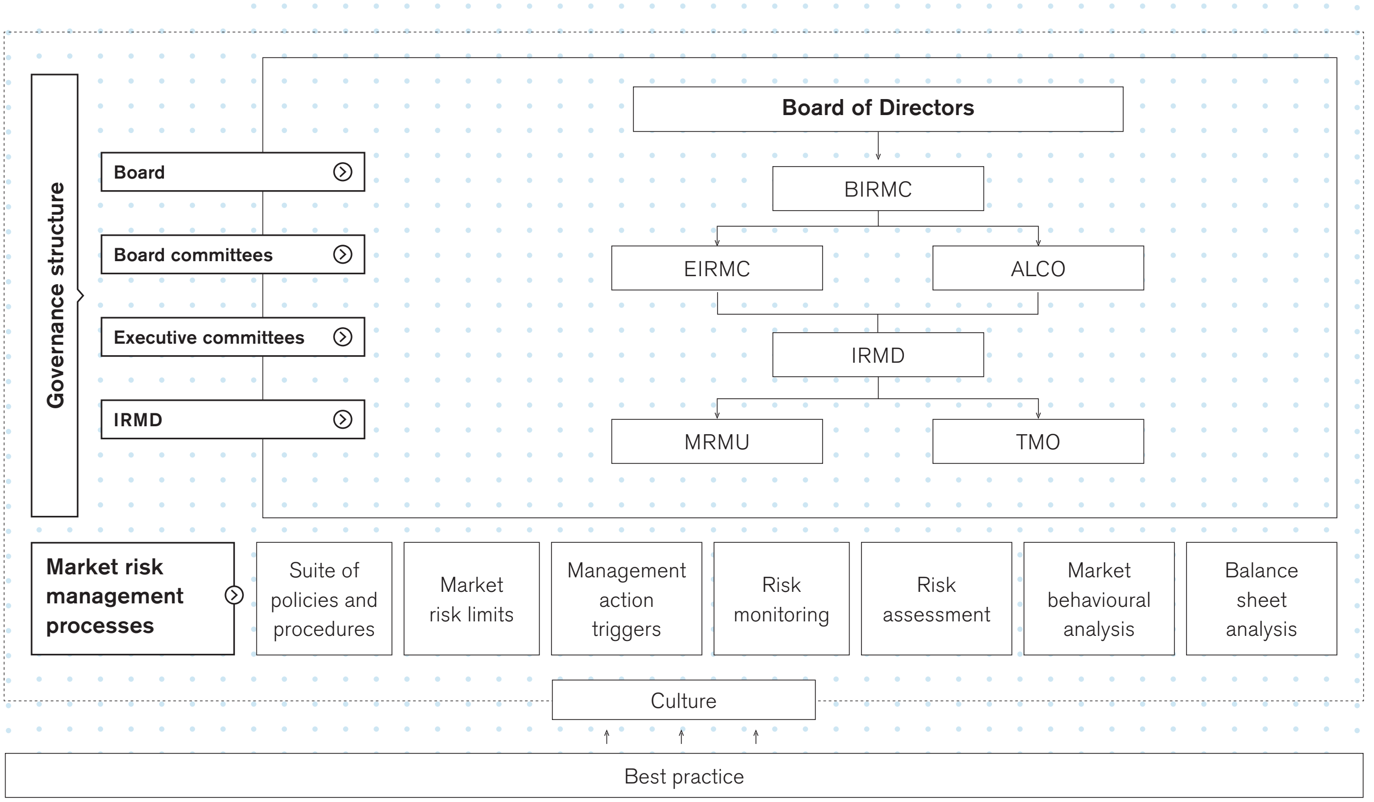
Managing market risk

The Market risk is managed through the Market Risk Management Framework approved by the Board, which is summarised graphically in the Figure 40 on page 385.

- **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 prepares and presents Key Market Risk Indicators (KMRIs) on a monthly basis to EIRMC in which they are extensively discussed and considered for appropriate actions. 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.

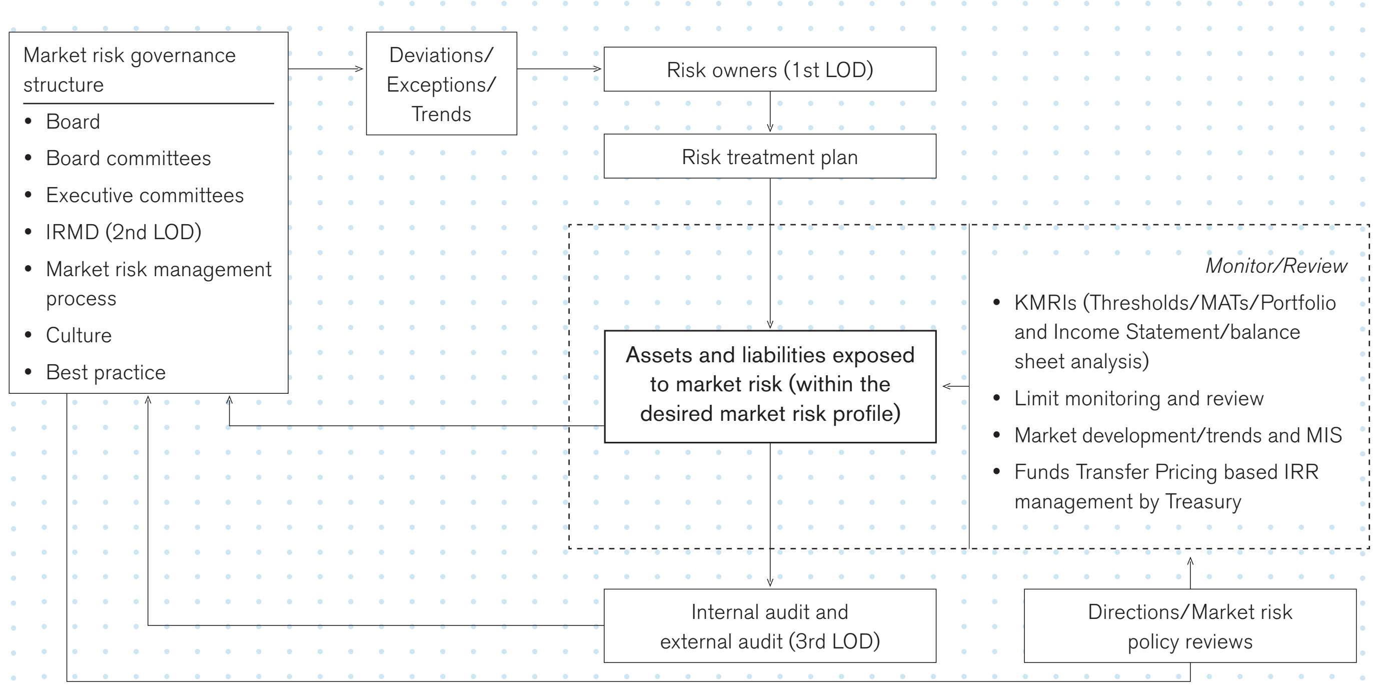
Market risk governance

Figure – 39



- **A comprehensive suite of risk management processes** comprising the following:
  - **Policies –** In addition to the Bank Risk Management Policy, 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, Stress Testing Policy Code of Ethics for Dealers define exposure limits and procedures for transactions.
  - **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 determined based on the risk appetite of the Bank, 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 over longer time horizons. Exchange Rate Risk (ERR) is monitored through variance analysis, SWAP exposures, Counter party limits, and Net Open Positions.
  - **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.

Market risk management framework Figure – 40



Review of market risk

Market risk arises mainly from the Non-Trading Portfolio (Banking Book) which accounts for 91.52% of the total assets and 93.32% 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 12% 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 43 below:

Bank's exposure to market risk Table – 43

as at December 31, 2017			Market risk measurement	
	Note	Carrying amount	Trading portfolio	Non-trading portfolio
Assets subject to market risk				
Cash and cash equivalents	27	12,387,967		12,387,967
Balances with central banks	28	4,601,606		4,601,606
Placements with banks	29	17,633,269		17,633,269
Securities purchased under resale agreements		–		–
Derivative financial assets	30	2,334,536	2,334,536	
Other financial instruments –Held for trading	31	4,410,913	4,410,913	
Loans and receivables to banks	32	640,512		640,512
Loans and receivables to other customers	33	737,446,567		737,446,567
Financial investments – Available for sale	34	154,714,132		154,714,132
Financial investments – Held to maturity	35	63,562,752		63,562,752
Financial investments – Loans and receivables	36	48,712,477		48,712,477
		1,046,444,731	6,745,449	1,039,699,282
Liabilities subject to market risk				
Due to banks	43	57,120,991		57,120,991
Derivative financial liabilities	44	3,678,494	3,678,494	
Securities sold under repurchase agreements	–	49,676,767		49,676,767
Due to other customers/deposits from customers	45	807,630,072		807,630,072
Other borrowings	46	23,786,094		23,786,094
Subordinated liabilities	52	25,165,924		25,165,924
		967,058,342	3,678,494	963,379,848

Market risk portfolio analysis

The gap report is prepared by stratifying Rate Sensitive Assets (RSA) and Rate Sensitive Liabilities (RSL) into various time bands according to maturity (if fixed rates) or time remaining to their next re-pricing (if floating rate). Savings Deposits balances are distributed in line with the findings of behavioural analysis conducted by the Bank. Vulnerability of the Bank to interest rate volatility is indicated by the gap between RSA and RSL.

Interest rate sensitivity gap analysis of assets of the banking book as at December 31, 2017 – Bank Table – 44

	0-90 days	3-12 months Rs. '000	1-3 years Rs. '000	3-5 years Rs. '000	Over 5 years Rs. '000	Non-sensitive Rs. '000	Total Rs. '000
Financial assets							
Total financial assets	541,347,702	216,019,552	130,748,898	96,641,458	38,604,415	77,373,750	1,100,735,775
Financial liabilities							
Total financial liabilities	323,590,213	344,150,761	88,233,157	90,783,854	85,195,402	73,923,900	1,005,877,287
Period gap	217,757,488	(128,131,209)	42,515,741	5,857,604	(46,590,987)		
Cumulative gap	217,757,488	89,626,279	132,142,020	137,999,624	91,408,637		
RSA/RSL	1.67	0.63	1.48	1.06	0.45		

Interest Rate Risk (IRR)

Extreme movements in interest rates expose the Bank to fluctuations in 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.

Sensitivity of 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 and AFS categories 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's 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 328].

Sensitivity of NII to rate shocks Table – 45

	2017		2016	
	Parallel increase Rs. '000	**Parallel decrease Rs. '000**	Parallel increase Rs. '000	Parallel decrease Rs. '000
As at December 31,	1,243,611	(1,241,623)	670,859	(668,620)
Average for the year	920,414	(918,225)	634,306	(632,375)
Maximum for the year	1,243,611	(1,241,623)	827,488	(824,962)
Minimum for the year	706,442	(704,325)	366,432	(365,569)

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. 149.65 and a high of Rs. 153.85 (source: Bloomberg) during the year under review and the annual rupee depreciation was recorded at approximately 2.46%. The Table 46 below indicates the Bank's exposure to FX risk as at end 2017.

Bank's exposure to FX risk Table – 46

Currency	Net open position (NOP)	Overall exposure in respective foreign currency	Overall exposure in Rs.
	'000	'000	'000
United States Dollar	2,734.00	7,162.00	1,100,083.20
Great Britain Pound	20.00	(29.00)	(5,990.50)
Euro	(52.00)	(269.00)	(49,344.50)
Japanese Yen	372.00	(2,965.00)	(4,039.22)
Indian Rupee	0.00	0.00	0.00
Australian Dollar	10.00	(51.00)	(6,105.51)
Canadian Dollars	(34.00)	18.00	2,200.75
Other currencies in USD	(88.00)	93.00	14,284.80
Total exposure USD	2,595	6,843	1,051,089.02
Total capital funds as at December 31, 2017			122,415,881.71
Total exposure as a % of capital funds as at December 31, 2017			0.86%

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 on page 329). The impact of a 1% change in exchange rate on the NOP indicates a loss of Rs. 171.27 Mn. on the positions as at December 31, 2017.

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 47 below summarises the impact of a shock of 10% on equity price on profit, other comprehensive income (OCI) and equity.

Impact of 10% shocks on equity portfolio Table – 47

	2017			2016		
	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,	314,745	500,278	815,023	293,809	246,548	540,357
	Impact on P&L Rs. '000	Impact on OCI Rs. '000	Impact on equity Rs. '000	Impact on P&L Rs. '000	Impact on OCI Rs. '000	Impact on equity Rs. '000
Shock of 10% on equity price (upward)	31,475	50,028	81,503	29,381	24,655	54,036
Shock of 10% on equity price (downward)	(31,474)	(50,028)	(81,502)	(29,381)	(24,655)	(54,036)

Commodity price risk

The Bank has a negligible exposure to commodity price risk which is limited to the extent of the fluctuations in gold price on the Pawning portfolio. The portfolio is less than 0.177% 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 arising 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.

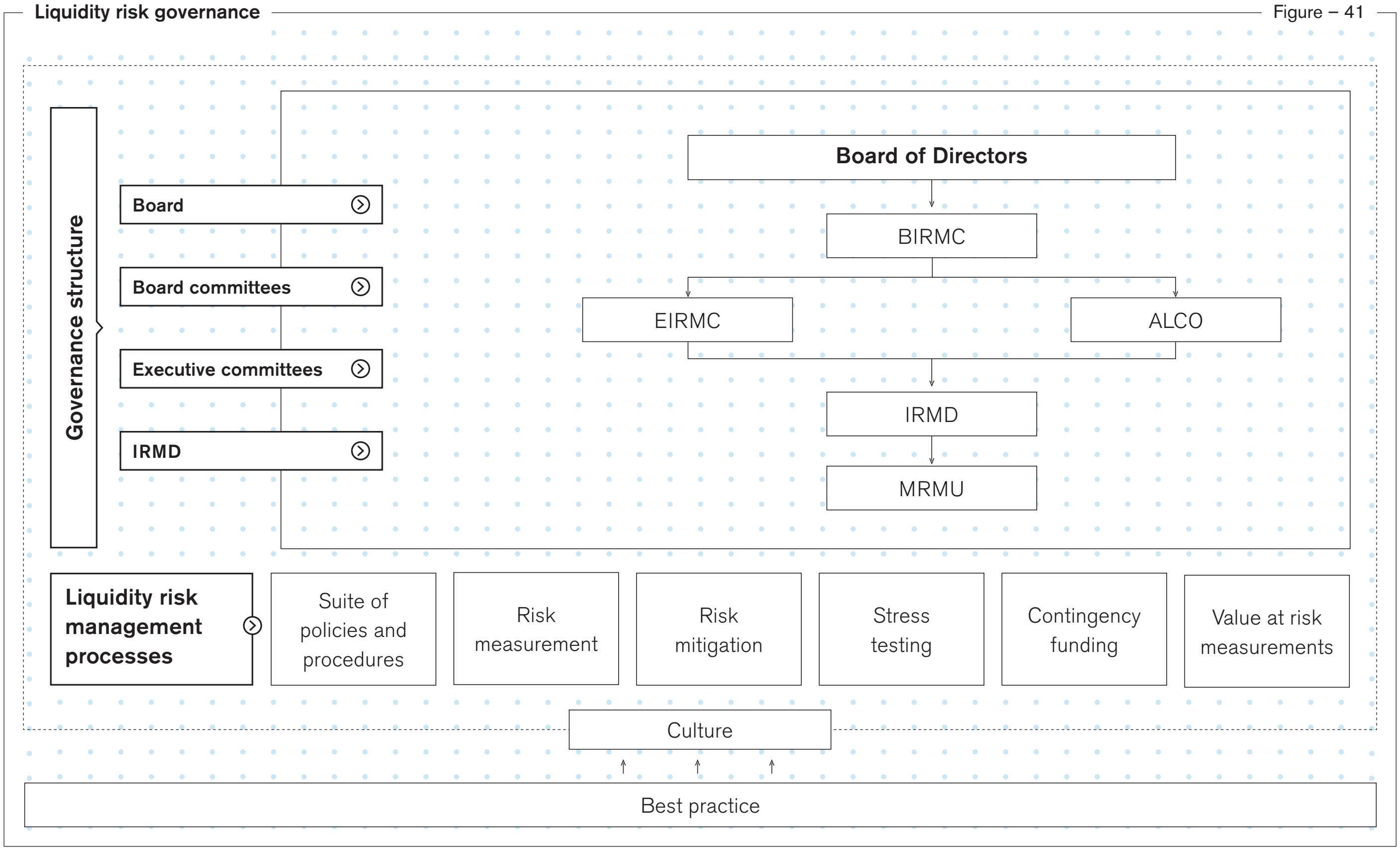
The Bank has maintained the following liquid asset ratios as at December 31, 2017:

Liquid asset ratios Table – 48

	Domestic Banking Unit (DBU) %	Off-shore Banking Unit (OBC) %
Statutory Liquid Assets Ratio (SLAR)	27.28	30.95
	Local currency %	All currencies %
Liquidity Coverage Ratio (LCR)	272.15	209.17

Managing liquidity risk

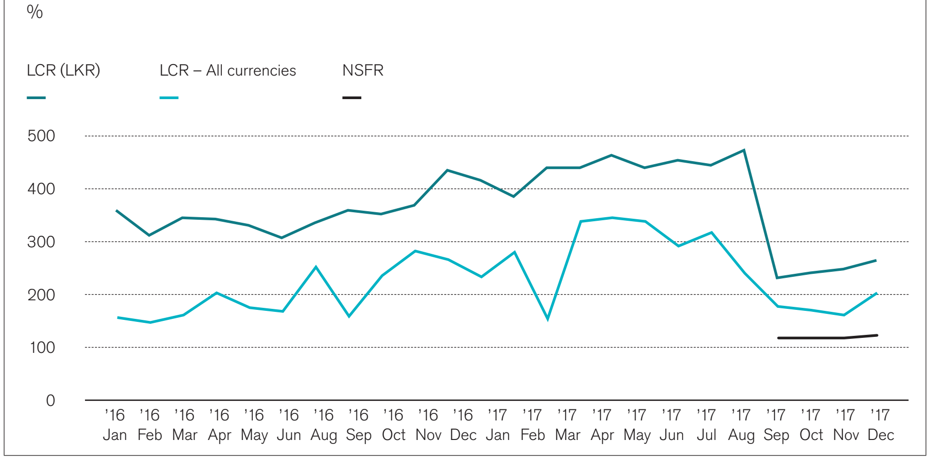
Liquidity risk governance — Figure – 41



The Bank manages liquidity risk through the Liquidity Risk Management Framework on a continuous basis to ensure that it is managed within the parameters of the risk appetite.

- **A robust risk 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 of sources and tenors of funding, monitoring off-balance sheet activity related liquidity impact and diversifying deposit maturity base avoiding concentrations. The Board, BIRMC, ALCO and EIRMC regularly review reports of key liquidity risk indicators to ensure that they are within the agreed parameters.
- **A comprehensive suite of risk management processes** comprising policies and procedures, measurement approaches, mitigation measures, stress testing methodologies, contingency funding arrangements and VaR measurements, as detailed below:
  - **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 Assets Ratio (SLAR), Liquidity Coverage Ratio (LCR), Net Advances to Deposits Ratio, Dynamic and Static (Structural) Liquidity Gap Summary, Net Stable Funding Ratio, Funding Concentration and Commitments in relation to funding sources. A more stringent internal limit has been set for SLAR 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) and Net Stable Funding Ratio (NSFR) — Graph – 96



209.17%

Liquidity Coverage Ratio (LCR)

Liquidity Coverage Ratio of the Bank which stood at 209.17% was well above the minimum statutory requirement of 100%.

127.87%

Net Stable Funding Ratio (NSFR)

NSFR, requires banks to maintain a stable funding profile by creating additional incentives for banks to fund their activities with more stable sources of funding on an ongoing basis, over a longer time horizon, in relation to the composition of their assets and off-balance sheet exposures.

Compliance for NSFR to be made with effect from April 1, 2018 as per the Consultation paper issued by CBSL in November 2017 and banks are required to maintain a minimum NSFR of 100%.

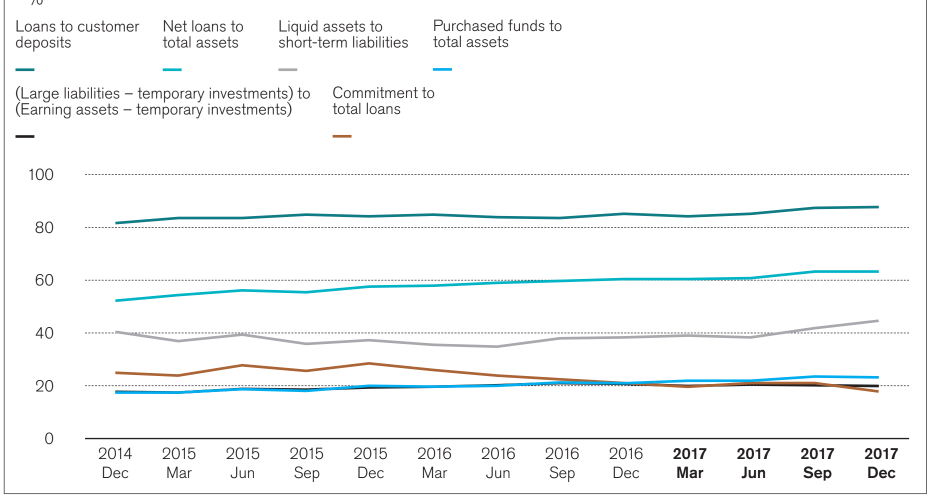
- **Risk mitigation –** An adequate margin is maintained in high quality liquid assets and access to diverse funding sources such as inter-bank market, wholesale and retail repurchase agreements, assets and investments available-for-sale. Additionally, contingency funding agreements with peer banks are 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 in the short-term.
- **Stress testing –** Liquidity stress tests and scenario analysis are carried out on an annual basis in line with the guidelines on stress testing of LCBs and LSBs issued by the CBSL in September 2014 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 in this important plan.
- **Value at Risk (VaR) –** The Bank carries out VaR calculations based on the historical simulation method on four portfolios categorised as HFT, using a market risk software solution (which has the capability to compute VaR based on Monte Carlo Simulation and Variance-Covariance as well) 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 period of 250 days due to changes in interest rates, exchange rates, debt and equity prices as well as price of financial products. During the year, the Bank obtained validation on its VaR model through an external consultant. Recommendations have been 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. Net stable funding ratio indicating stability of funding sources compared to loans and advances granted was maintained well above the policy threshold of 100%, 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 below (Graph 97):

Liquidity ratios Graph – 97



Maturity gap analysis of assets and liabilities as at December 31, 2017 – Bank

Maturity analysis of financial assets and liabilities of the Bank (Table 49) indicates sufficient funding for foreseeable adverse situations based on prescribed behavioural patterns observed.

Table – 49

As at December 31,	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 31.12.2017 Rs. '000	Total as at 31.12.2016 Rs. '000
Interest earning assets							
Financial assets							
Cash and cash equivalents	3,457,539	–	–	–	–	**3,457,539**	7,930,050
Balances with central banks	887,551	263,830	–	4,607	–	**1,155,988**	498,616
Placements with banks	17,633,269	–	–	–	–	**17,633,269**	11,718,499
Securities purchased under resale agreements	–	–	–	–	–	**–**	–
Derivative financial assets	–	–	–	–	–	**–**	–
Other financial instruments – Held fo trading	4,096,168					**4,096,168**	4,693,989
Loans and receivables to banks	–	–	–	–	–	**–**	–
Loans and receivables to other customers	231,342,860	198,426,781	169,978,799	93,774,191	43,923,936	**737,446,567**	616,018,228
Financial investments – Available for sale	13,025,195	67,787,547	59,124,910	14,229,518	–	**154,167,170**	159,573,316
Financial investments – Held to maturity	4,077,407	9,871,844	12,885,249	29,661,652	7,066,600	**63,562,752**	60,981,298
Financial investments – Loans and receivables	2,521,780	5,188,975	16,430,329	24,571,393	–	**48,712,477**	51,824,026
Total interest earning assets as at December 31, 2017	**277,041,769**	**281,538,977**	**258,419,287**	**162,241,361**	**50,990,536**	**1,030,231,930**	
Total interest earning assets as at December 31, 2016	276,268,527	174,556,015	269,347,751	113,511,379	79,554,350		913,238,022
Non-interest earning assets							
Financial assets							
Cash and cash equivalents	29,767,080	–	–	–	–	**29,767,080**	22,263,539
Balances with central banks	26,999,348	14,321,349	783,669	730,063	811,029	**43,645,458**	43,374,589
Placements with banks	–	–	–	–	–	**–**	–
Securities purchased under resale agreements	–	–	–	–	–	**–**	–
Derivative financial assets	959,937	1,374,599	–	–	–	**2,334,536**	1,052,829
Other financial instruments – Held for trading	314,745					**314,745**	293,809
Loans and receivables to banks	–	–	640,512	–	–	**640,512**	624,458
Loans and receivables to other customers	–	–	–	–	–	**–**	–
Financial investments – Available for sale	–	–	–	17,491	529,471	**546,962**	450,155
Financial investments – Held to maturity	–	–	–	–	–	**–**	–
Financial investments – Loans and receivables	–	–	–	–	–	**–**	–
Non-financial assets							
Investments in subsidiaries	–	–	–	–	3,065,935	**3,065,935**	2,435,392
Investments in associates	–	–	–	–	44,331	**44,331**	44,331
Property, plant and equipment	–	–	–	–	14,634,710	**14,634,710**	10,307,825
Intangible assets	–	–	–	–	776,810	**776,810**	640,645
Leasehold property	–	–	–	–	72,594	**72,594**	73,536
Deferred tax assets	–	–	–	–	–	**–**	963,935
Other assets	12,270,707	257,173	1,245,002	506,177	3,019,103	**17,298,162**	16,438,166
Total non-interest earning assets as at December 31, 2017	70,311,817	15,953,121	2,669,183	1,253,731	22,953,983	**113,141,835**	
Total non-interest earning assets as at December 31, 2016	62,243,958	14,616,440	3,826,664	991,974	17,284,173		98,963,209
Total assets – as at December 31, 2017	**347,353,586**	**297,492,098**	**261,088,470**	**163,495,092**	**73,944,519**	**1,143,373,765**	
Total assets – as at December 31, 2016	338,512,485	189,172,455	273,174,415	114,503,353	96,838,523		1,012,201,231
Percentage – as at December 31, 2017 (*)	**30.38**	**26.02**	**22.83**	**14.30**	**6.47**	**100.00**	
Percentage – as at December 31, 2016 (*)	33.44	18.69	26.99	11.31	9.57		100.00

(*) Total assets of each maturity bucket as a percentage of total assets employed by the Bank.

As at December 31,	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 31.12.2017 Rs. '000**	Total as at 31.12.2016 Rs. '000
Interest-bearing liabilities:							
Financial liabilities							
Due to banks	32,840,250	3,840,696	12,232,304	–	41,224	**48,954,474**	63,523,388
Derivative financial liabilities	–	–	–	–	–	**–**	–
Securities sold under repurchase agreements	35,951,132	10,978,972	2,746,663	–	–	**49,676,767**	69,867,469
Other financial liabilities – Held for trading	–	–	–	–	–	**–**	–
Due to other customers/deposits from customers	455,218,755	288,988,744	18,492,159	13,050,348	13,783,280	**789,533,286**	683,569,052
Other borrowings	657,813	2,091,720	5,021,093	7,503,789	8,511,679	**23,786,094**	9,270,154
Subordinated liabilities	203,326	314,552	–	9,477,720	15,170,326	**25,165,924**	24,849,539
Total interest-bearing liabilities as at December 31, 2017	**524,871,276**	**306,214,684**	**38,492,219**	**30,031,857**	**37,506,509**	**937,116,545**	
Total interest-bearing liabilities as at December 31, 2016	504,725,495	263,099,940	31,662,332	21,783,917	29,807,918		851,079,602

Maturity analysis of financial assets and financial liabilities of the Bank (Table 49) 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 as explained below.

Behavioural analysis on savings accounts

Savings accounts are treated as a non-maturing demand deposit as the customers do not enter into a contractual agreement with the Bank about the maturity of same. There is no exact re-pricing frequency for the product and the Bank resets rate offered to these deposits considering the factors such as re-pricing gap, liquidity and profitability etc. Since, there is no exact re-pricing frequency could be identified for the product, for the purpose of gap analysis of the Bank 100% of the LKR and FCY denominated Savings accounts were considered under the overnight category. This has created a significant mismatch in the overnight bucket of the re-pricing gap report of the Bank.

In 2017, the Bank carried out a behavioural analysis of savings accounts with the support of an external party in order to identify a mechanism to segregate the portfolio into re-pricing buckets.

It was revealed from the analysis that the Bank's Savings Accounts Portfolio is not sensitive to market interest rates movements. Hence, the liquidity approach is considered to segregate the portfolio between the buckets.

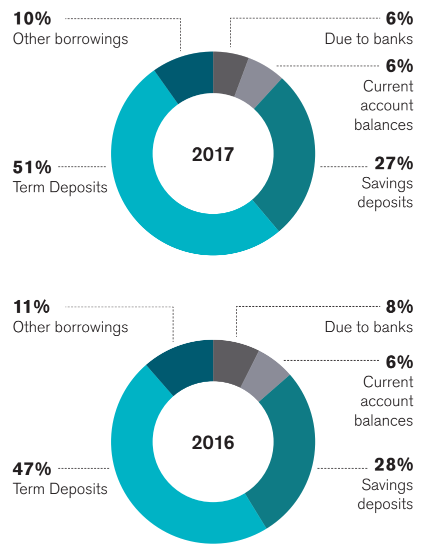
Segregation of the savings products, among the predefined maturity buckets in Maturity Gap report is currently done based on the regular simulations carried out by the Bank in line with the behavioural study.

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 98 provides a product-wise analysis of the Bank's funding diversification as at year end.

Funding diversification by product Graph – 98

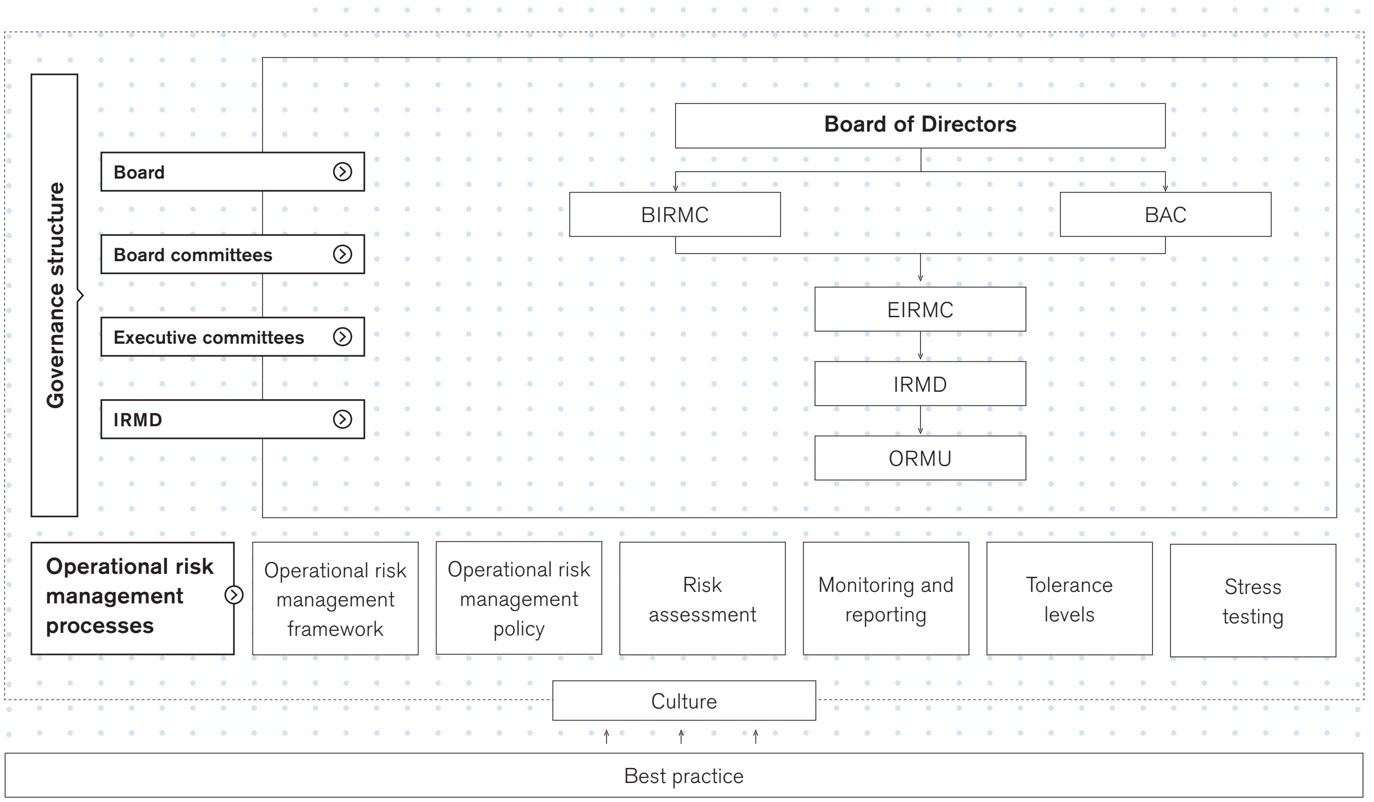


Operational risk

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

Operational risk governance — Figure – 42



The Bank manages operational risk through the Operational Risk Management Framework which is summarised graphically in the Figure 43 on page 394. It enables the Bank to determine the operational risk profile in relation to its risk appetite and systematically identify operational risk themes and concentrations to define risk mitigating measures and priorities, as described below.

- **A robust risk governance structure –** 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.
- **A comprehensive suite of risk management processes** comprising the following:
  - **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. Further, bi-annual review meetings are conducted with key IT service providers to monitor service performance levels and to verify adherence to the agreements.

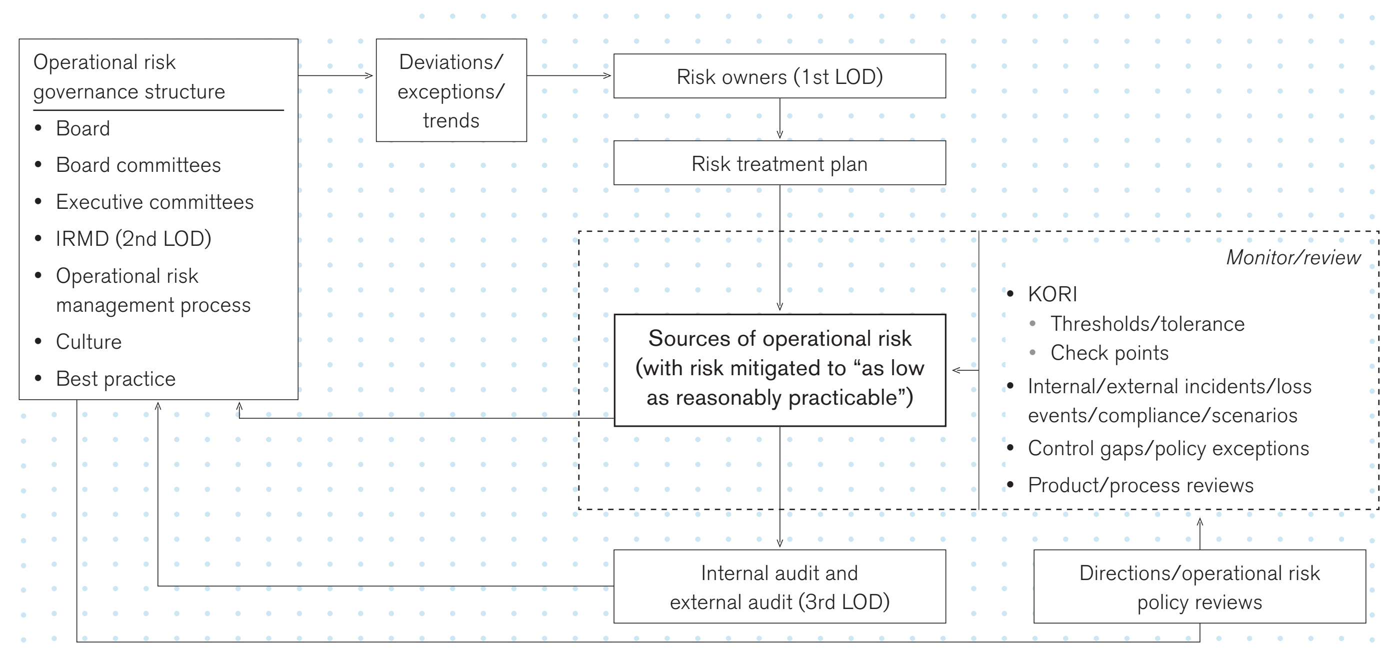
– Technology risk is managed in a systematic and consistent manner to avoid potential operational losses to the Bank resulting from technological obsolescence. Accordingly, existing Information Technology Systems including the core-banking systems are upgraded and new software solutions implemented in a timely and appropriate manner. Further, in order to prevent information and communications systems failures, the Bank maintains redundancies and backup facilities.

– 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 the ORMU and the 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 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.
- **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.

Operational risk management framework Figure – 43



Review of operational risk

In the absence of any upside unlike in the case of credit and market risks, the Bank has a low appetite for operational risks and has established tolerance levels for all material operational risk loss types based on historical loss data, budgets and forecasts, performance of the Bank, existing systems and controls governing Bank operations etc. Following thresholds have been established based on audited financials for monitoring purposes:

- Alert level – 3% of the average gross income for the past three years
- Maximum level – 5% of the average gross income for the past three years

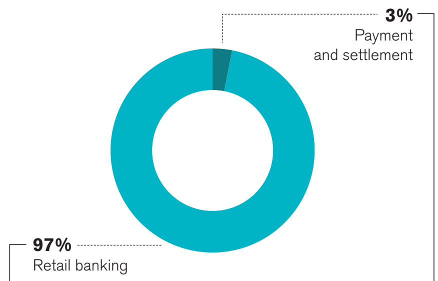
Operational losses for the financial year 2017 were below the internal alert level at 2.85% (of average audited gross income for past three years). The Bank has been consistently maintaining operational losses below the alert level for the past eight years, reflecting the "tone at the top", effectiveness of the governance structures and the rigour of processes and procedures in place to manage operational risk.

The Graph 99 analyses the operational risk losses incurred by the Bank under each business line/category during the year 2017.

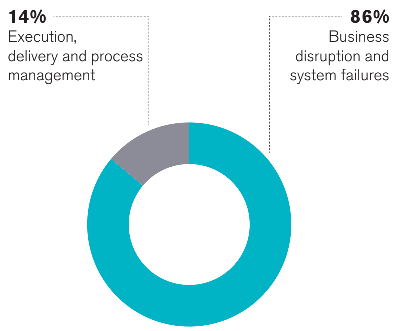
When analysing the losses incurred during 2017 under the Basel II defined business lines, it is evident that the majority (97%) of losses with financial impact falls under the business line of "Retail Banking", followed by the losses reported under the "Payment and Settlement" business line. Losses relating to other business lines remain negligible.

The Graphs 102 and 103 depict the comparison of operational losses reported during the last two years (2017 and 2016) under each Basel II loss event type both in terms of number of occurrences and value.

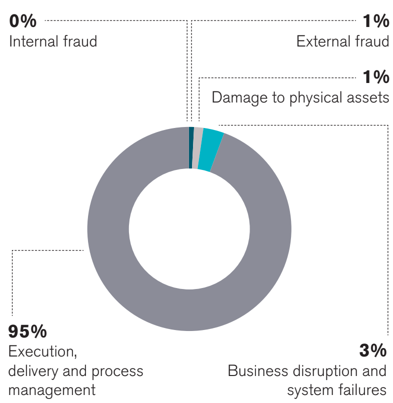
Composition of losses by value 2017 Graph – 99



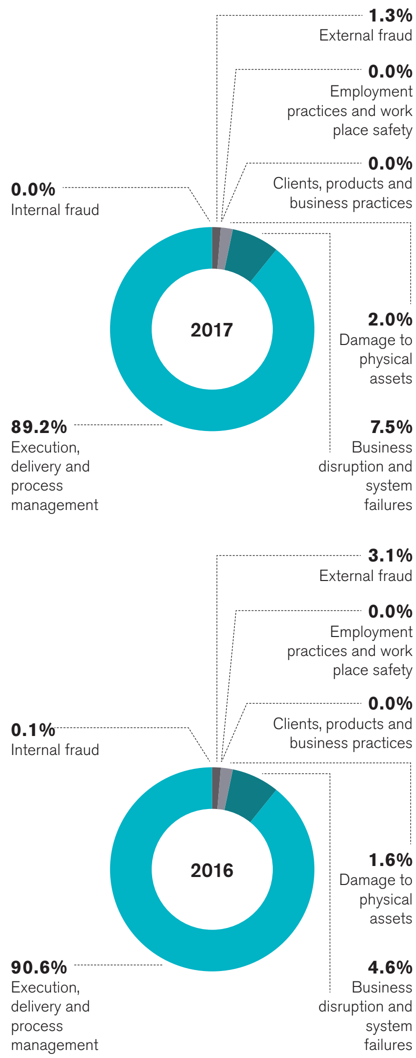
Composition of losses – payment and settlement – 3% Graph – 100



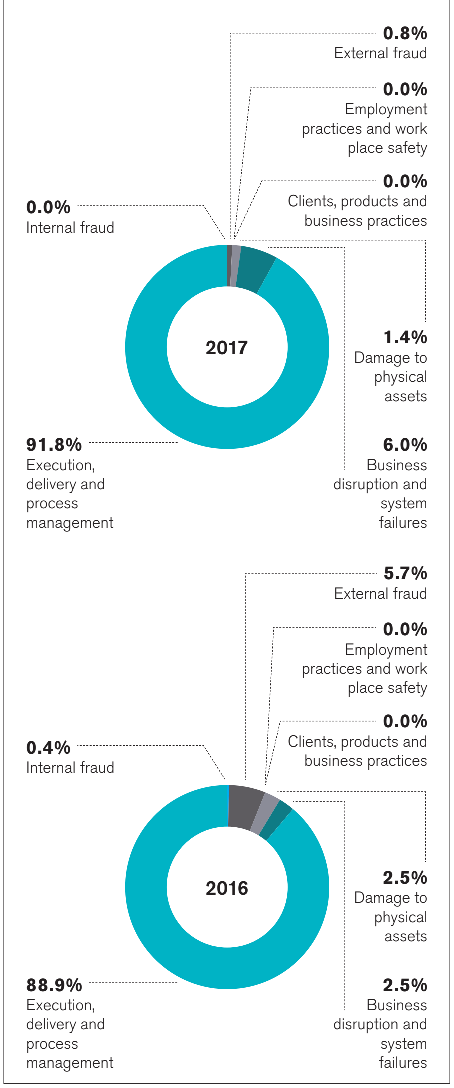
Composition of losses – retail banking – 97% Graph – 101



Operational loss events by category – % of total losses by number of events Graph – 102



Operational loss events by category – % of total losses by value — Graph – 103



As typical with operational risk losses, majority of the losses encountered by the Bank during 2017 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 1,000 points across Sri Lanka and Bangladesh. Individual events with monetary values less than Rs. 100,000 account for more than 89% 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 0.0079%.

When considering the values of the losses incurred by the Bank during the period under review (2017), they can be mainly categorised under Execution, Delivery and Process Management related and Business Disruption and System Failures. The losses for the year were primarily driven by a limited number of events in Execution, Delivery, and Process Management category, majority of which the Bank managed to resolve through subsequent recovery/rectification with minimum financial impact to the Bank. Further, necessary process improvements have been introduced to prevent recurrence. After the recovered amounts are discounted, the net loss amounts to a mere 0.08% of the average audited gross income for the 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 scale, speed, and sophistication. 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. In such a backdrop, addressing this emerging IT risk category has become a top priority of the Bank, with the IT risk function giving more focus to cyber security strategies.

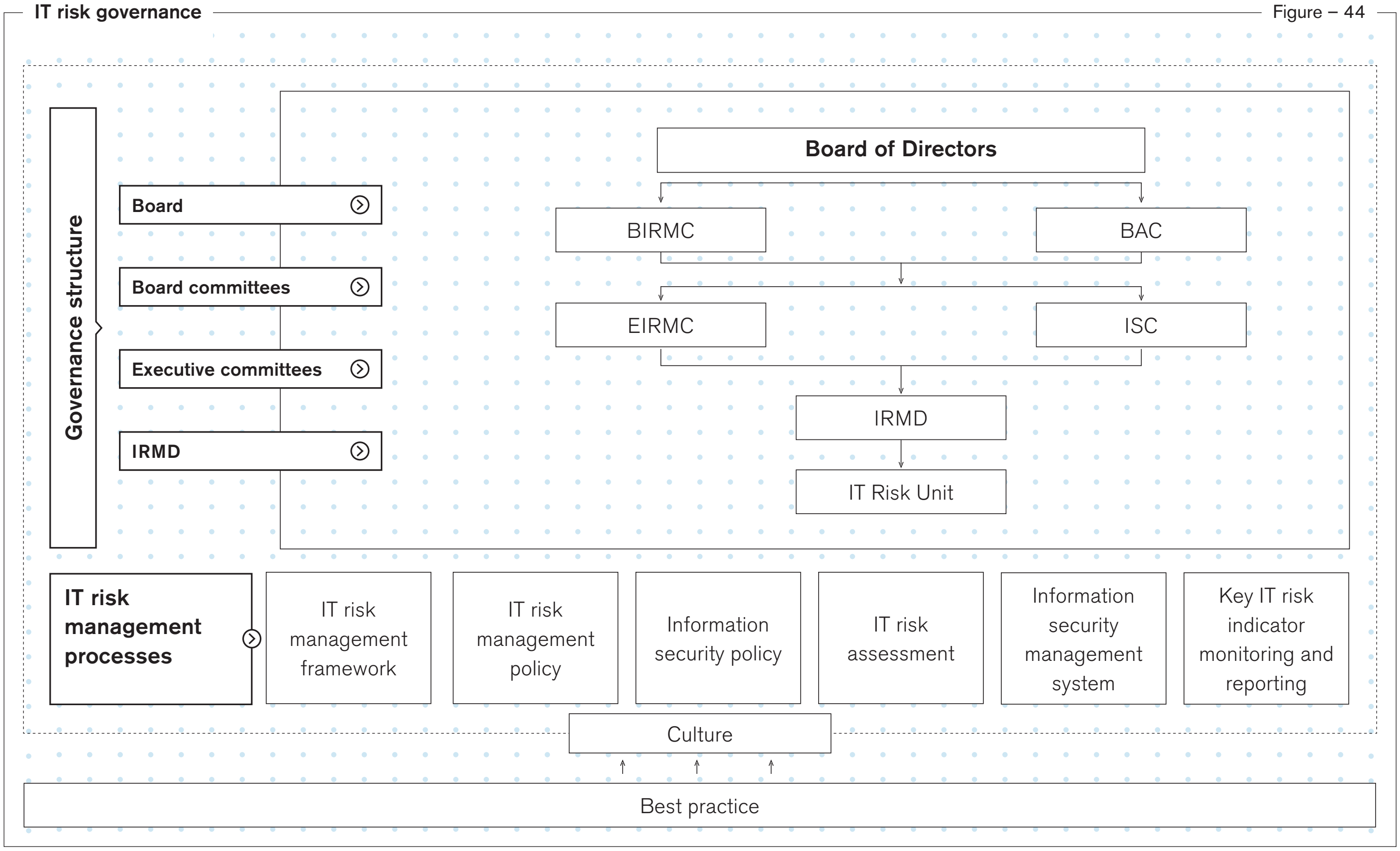
Year 2017 saw the number of cyber attacks directed at global financial institutions of all sizes growing, including several high profile attacks involving fraudulent fund transfers, data breaches, ransom demands and other hacks. Being a key player in the local financial sector, Commercial Bank too realises that it is a likely target for various evolving and adaptive cyber attacks, akin to any other organisation. We maintain a relentless focus on cyber security and continually invest on improving the Bank's cyber security capabilities. Our cyber security strategy is focused on securely enabling new technology and business initiatives while maintaining a persistent focus on protecting the Bank and its customers from cyber threats.

Established in 2012, the IT risk function operating under the CRO is responsible for implementing the IT Risk Management Framework for the Bank, ensuring that the appropriate governance framework, policies, processes and technical capabilities are in place to manage 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.

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 a multilayered approach of building controls in to each layer of technology, including data, applications, devices, network, etc. This ensures robust end-to-end protection, while enhancing the cyber threat detection, prevention, response and recovery opportunities. Being the first local Bank in the country to be certified under the ISO/IEC 27001 information security standard way back in 2010, the Bank has continued to demonstrate its commitment towards information security by maintaining the certification throughout, by successfully under-going the annual audits.

IT risk governance Figure – 44



The Bank continues to make significant investments in cyber security to enhance its resilience towards the cyber threats.

- A key initiative during the year was enhancing the endpoint security capabilities of the network and improvements made to the network architecture through finer segregations and adoption of additional network security technologies.
- The Network Operations Centre established with the objective to improve the cyber incident response capabilities expanded its security incident and event monitoring functions with a view towards a fully-fledged Security Operations Centre.
- The Information Security Policy Framework, which includes information security principles and detailed information security policies and procedures, was further enhanced during the year with the introduction of the Commercial Bank Group Information Security Policy Framework with the aim of maintaining an appropriate level of information security protection Group-wide.
- The Bank is proactively involved in industry cyber security efforts and working with other parties, including third-party service providers and governmental agencies, to continue to enhance defenses and improve resiliency to cyber security threats.

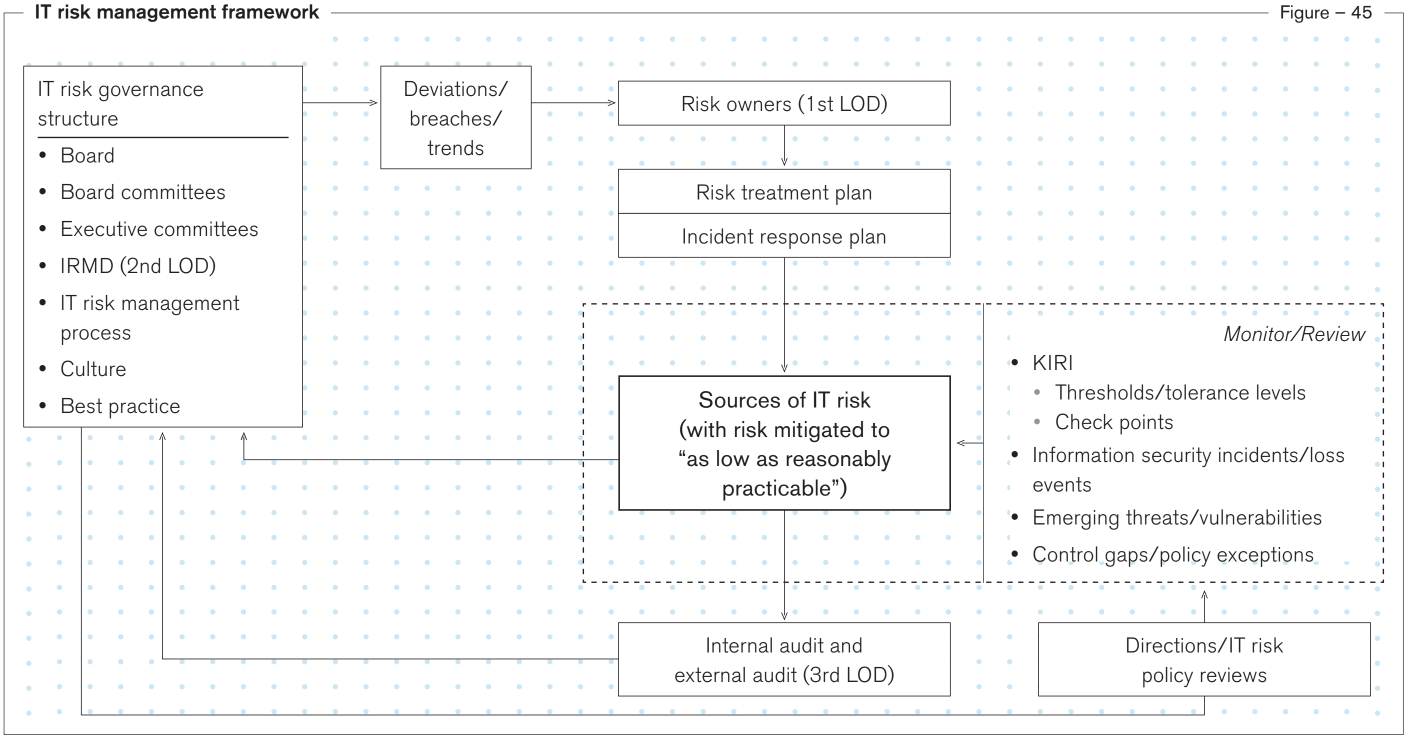
Given that risk management relies heavily on an effective monitoring mechanism, the IT Risk Function carries out continuous, independent monitoring of the Bank's IT risk profile. A range of tools and techniques including Key IT Risk Indicators (KIRIs) are used in this regard, where deviations from set thresholds receive a differential level of management attention in order to initiate appropriate corrective action.

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 is managed by establishing and operating a sufficient mechanism for verification of conformity of operations with applicable regulations.

IT risk management framework Figure – 45



Compliance and regulatory risk

Compliance and regulatory risk refers to the potential risk to the Bank arising from failure to comply with applicable laws, rules and regulations and codes of conduct and may lead to regulatory sanctions, financial losses, disruptions to business activities and reputational damage. A compliance function reporting directly to the 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. Bank's culture and the code of ethics too play a key role in managing this risk.

Other related risks

Strategic risk

Strategic risks are the risks that are associated with the strategic decisions and may manifest in the Bank not been able to keep up with the changing market dynamics, leading to loss of market share and failure to achieve strategic goals. Strategic risk has gained an added importance in the context of the emerging risks referred to on page 154. Corporate planning and budgeting process and critical evaluation of their alignment with the Bank's vision, mission and the risk appetite facilitate 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, assets and liabilities or brand 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. In addition, the exponential growth in channels of communication such as social media has widened the stakeholder base and expanded the sources of reputational risk. 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, communication policy 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.

Target and actual capital levels — Table – 50

Capital ratios	Goal (internal limit)	**2017 (%)**	2016 (%)
CET 1 (regulatory minimum 6.25%)	> 10%	**12.12**	10.47
Total capital (regulatory minimum 11.75%)	> 14%	**15.70**	14.91

Summary of capital adequacy computation — Table – 51

Capital	**2017 Rs. '000**	2016 Rs. '000
CET 1 capital	**96,980,344**	69,996,519
Deductions and adjustments	**1,255,038**	1,132,669
Eligible CET 1 capital	**95,725,306**	68,863,850
Tier 2 capital	**28,264,629**	29,232,514
Deductions and adjustments	**–**	–
Total capital base	**123,989,935**	98,096,364
Risk-weighted assets	**789,711,397**	657,951,630

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 cash flows 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 1, 2017 with specified timelines to increase minimum capital ratios to be fully-implemented by January 1, 2019.

A comparison of the position as at December 31, 2017 and the minimum capital requirement prescribed by the CBSL effective from January 1, 2019 as given below demonstrates the capital strength of the Bank and bears testimony to the ability to meet stringent requirements imposed by the regulator.

Basel III readiness Table – 52

Ratios (%)	Bank's position as at 31.12.2017	Minimum capital ratio prescribed by CBSL by 01.01.2019
Common Equity Tier 1 (CETI) including Capital Conservation Buffer (CCB) and Capital Surcharge on Domestic Systemically Important Banks (D-SIBs)	12.12	8.50
Total Tier 1 including CCB and Capital Surcharge on D-SIBs	12.12	10.00
Total Capital including CCB and Capital Surcharge on D-SIBs	15.70	14.00

Through a rights issue of shares, the Bank raised Rs. 10 Bn. in CET 1 capital during the year. However, the Bank foresees challenges in meeting the increasing capital requirements in the years to come. In this regard, it is relevant to mention here that both the SLFRS 9 implementation and the Debt Repayment Levy proposed in the Government budget 2018 which is to be borne by the financial institutions are expected to have a significant impact on the internal capital generation capabilities of the Bank.

Going forward, the Bank will explore the possibility of raising capital by issuing Basel III compliant debt securities. 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 276.

'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 a portion of the profits, etc. In addition, the Bank is continuously finding ways to improve judicious allocation of capital to requirements associated with the 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 II, 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 Table 53.

Impact on CAR at minor, moderate and severe stress levels Table – 53

Particulars	Description	2017			2016		
		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	-0.15	-0.37	-0.73	-0.14	-0.36	-0.71
Operational risk	Impact of; 1. Top five operational losses during last five years 2. Average of yearly operational risk losses during last three years whichever is higher	-0.07	-0.17	-0.34	-0.01	-0.03	-0.05
Foreign exchange risk	% shock in the exchange rates for the Bank and Maldives operations (gross positions in each book without netting)	-0.05	-0.09	-0.13	-0.06	-0.10	-0.15
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	-0.09	-0.25	-0.50	-0.24	-0.53	-0.83
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	-0.05	-0.09	-0.14	-1.33	-2.45	-3.42

Capital adequacy computation – Group

1. Capital Adequacy Ratios

1.1 Common equity Tier 1 (CET 1) capital ratio

As at December 31,	**2017 Rs. '000**	2016 Rs. '000
Common equity Tier 1 (CET 1) Capital (Refer Note 2.1)	95,725,306	68,863,850
Total risk weighted amount (Refer Note 3)	789,711,397	657,951,630
Common equity Tier 1 (CET 1) capital ratio (minimum requirement 6.25%) (%)	12.12	10.47

1.2 Total Tier 1 capital ratio

As at December 31,	**2017 Rs. '000**	2016 Rs. '000
Total Tier 1 capital [Refer Note 2.2]	95,725,306	68,863,850
Total risk weighted amount [Refer Note 3]	789,711,397	657,951,630
Total Tier 1 capital ratio (minimum requirement 7.75%) (%)	12.12	10.47

1.3 Total capital ratio

As at December 31,	**2017 Rs. '000**	2016 Rs. '000
Total capital [Refer Note 2.3]	123,989,935	98,096,364
Total risk-weighted amount [Refer Note 3]	789,711,397	657,951,630
Total capital ratio (Minimum requirement 11.75%) (%)	15.70	14.91

2. Computation of Capital

2.1 Computation of common equity Tier 1 (CET 1) capital

As at December 31,	**2017 Rs. '000**	2016 Rs. '000
Common Equity Tier 1 (CET 1) capital	95,725,306	68,863,850
Total Common Equity Tier 1 (CET 1) capital	96,980,344	69,996,519
Equity capital or stated capital/assigned capital	37,143,541	24,977,700
Reserve fund	6,492,552	5,647,993
Published retained earnings/(Accumulated retained losses)	1,783,969	1,518,984
Accumulated other comprehensive income (OCI)	(1,501,321)	(6,692,495)
General and other disclosed reserves	52,799,820	43,910,281
Ordinary shares issued by consolidated banking and financial subsidiaries and held by third parties	261,783	634,056
Total Adjustments to CET 1 capital	1,255,038	1,132,669
Goodwill (net)	400,045	400,045
Other intangible assets (net)	851,180	732,624
Revaluation losses of property, plant and equipment	3,813	–

2.2 Computation of additional Tier 1 (AT1) capital

As at December 31,	**2017 Rs. '000**	2016 Rs. '000
Common Equity Tier 1 (CET 1) capital [Refer Note 2.1]	95,725,306	68,863,850
Total additional Tier 1 (AT1) capital	–	–
Qualifying additional Tier 1 capital instruments	–	–
Instruments issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	–	–
Total sdjustments to AT1 capital	–	–
Investment in own shares	–	–
Reciprocal cross holdings in AT1 capital instruments	–	–
Investments in the capital of banking and financial institutions where the bank does not own more than 10 per cent of the issued ordinary share capital of the entity	–	–
Significant investments in the capital of banking and financial institutions where the bank own more than 10 per cent of the issued ordinary share capital of the entity	–	–
Regulatory adjustments applied to AT1 due to insufficient Tier 2 capital to cover adjustments	–	–
Total Tier 1 Capital	95,725,306	68,863,850

2.3 Computation of total capital

As at December 31,	**2017 Rs. '000**	2016 Rs. '000
Common equity Tier 1 capital [Refer Note 2.1]	95,725,306	68,863,850
Additional Tier 1 (AT1) capital [Refer Note 2.2]	–	–
Total Tier 2 capital	28,264,629	29,232,514
Qualifying Tier 2 capital instruments	22,799,002	24,334,875
Revaluation gains	2,024,804	2,034,231
General provisions	3,440,823	2,863,408
Total capital	123,989,935	98,096,364

3. Computation of risk-weighted amount – RWA

As at December 31,	**2017 Rs. '000**	2016 Rs. '000
Credit risk		
RWA of On-Balance sheet assets [Refer Note 4.1]	647,913,282	542,762,509
RWA of Off-Balance sheet assets [Refer Note 4.2]	77,587,693	60,169,944
Total RWA for credit risk (a)	725,500,975	602,932,453
Market risk		
Capital charge for interest rate risk	354,758	226,153
Capital charge for equities	58,849	54,683
Capital charge for foreign exchange and gold	327,079	151,979
Total capital charge for market risk	740,686	432,815
Total RWA for market risk (Total capital charge for market risk x CAR) (b)	6,303,710	3,683,532
Operational risk		
Gross income		
Year 1	41,020,866	35,273,703
Year 2	44,349,587	41,018,522
Year 3	50,710,320	44,346,540
Average gross income	45,360,258	40,212,922
Total capital charge for operational risk – (Average gross income x 15%)	6,804,039	6,031,938
Total RWA for operational risk – (Total capital charge for operational risk x CAR) (c)	57,906,712	51,335,645
Total risk-weighted amount (a + b + c)	789,711,397	657,951,630

4. Computation of RWA of On-Balance Sheet and Off-Balance Sheet items

4.1 Computation of RWA of on-balance sheet items

As at December 31,		**2017**		2016	
	Risk weight factor %	**Principal amount of On-Balance sheet items Rs. '000**	**Risk weighted amount Rs. '000**	Principal amount of On-Balance sheet items Rs. '000	Risk weighted amount Rs. '000
Total risk weighted amount for credit risk		1,060,402,543	647,913,282	953,788,767	542,762,509
Claims on Government and Central Bank of Sri Lanka	0	294,231,073	–	304,463,654	–
Claims on foreign sovereigns and their central banks	0-150	20,197,669	20,197,669	14,828,182	14,828,182
Claims on public sector entities (PSEs)	20-150	16,913	16,913	8,137	8,137
Claims on Banks	0-150	29,324,762	18,798,415	27,621,363	16,462,840
Claims on financial institutions	20-150	29,093,851	13,947,299	30,283,774	13,081,513
Claims on corporates	20-150	356,378,524	340,525,766	284,911,325	277,008,403
Retail claims	0-100	204,755,354	169,019,740	185,320,826	146,093,718
Claims secured by residential property	50-100	61,278,959	46,757,354	54,430,398	43,784,768
Non-performing assets (NPAs)	50-150	6,889,792	8,911,843	6,559,370	8,820,073
Cash items	0-20	29,727,440	1,230,076	23,958,602	1,271,740
Property, plant and equipment	100	16,421,471	16,421,471	11,675,438	11,675,438
Other assets	100	12,086,736	12,086,736	9,727,696	9,727,696

4.2 Computation of RWA of off-balance sheet assets

As at December 31,		2017		2016	
	Credit conversion factor %	Principal amount of off-balance sheet items Rs. '000	Risk weighted amount Rs. '000	Principal amount of off-balance sheet items Rs. '000	Risk weighted amount Rs. '000
Off-balance Sheet items		523,762,051	77,587,693	458,326,443	60,169,944
Claims on Banks					
(a) Foreign exchange contracts		180,595,429	835,117	176,228,611	1,003,151
(i) Original maturity – Less than one year	2	176,726,053	768,333	176,228,611	1,003,151
(ii) Original maturity – More than one year and less than two years	5	3,869,376	66,784	–	–
Claims on corporates					
(a) Direct credit substitutes	100	29,015,341	25,177,541	21,068,556	18,265,104
(i) General guarantees of indebtedness		29,015,341	25,177,541	21,068,556	18,265,104
(b) Transaction-related contingencies	50	27,350,464	12,973,789	19,742,310	9,196,436
(i) Performance bonds, bid bonds and warranties		27,350,464	12,973,789	19,742,310	9,196,436
(ii) Others		–	–	–	–
(c) Short-term self-liquidating trade-related contingencies	20	90,792,584	17,555,825	60,508,393	11,846,911
(i) Shipping guarantees		8,763,204	1,744,464	1,625,728	283,712
(ii) Documentary letters of credit		41,707,879	7,949,343	32,920,889	6,370,844
(iii) Trade-related acceptances		40,321,501	7,862,018	25,961,776	5,192,355
(iv) Others		–	–	–	–
(d) Foreign exchange contracts		52,349,856	662,202	52,429,672	688,146
(i) Original maturity – Less than one year	2	40,398,616	521,314	47,395,225	634,094
(ii) Original maturity – More than one year and less than two years	5	11,951,240	140,888	5,034,447	54,052
Retail claims					
(a) Direct credit substitutes	100	8,809,529	4,709,620	6,927,352	3,817,954
(i) General guarantees of indebtedness		8,809,529	4,709,620	6,927,352	3,817,954
(b) Transaction-related contingencies	50	3,254,243	768,369	2,810,750	762,451
(i) Performance bonds, bid bonds and warranties		3,254,243	768,369	2,810,750	762,451
(c) Short-term self-liquidating trade-related contingencies	20	3,617,575	504,326	3,427,238	523,407
(i) Shipping guarantees		247,140	28,399	125,733	16,358
(ii) Documentary letters of credit		3,370,435	475,927	3,301,505	507,049
(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	98,236,200	–	86,858,200	–
Undrawn term loans		–	–	–	–
Undrawn overdraft facilities/unused credit card lines		74,929,577	–	67,597,434	–
Others		23,306,623	–	19,260,766	–
Commitments with an original maturity up to 1 year	20	1,565,036	313,007	320,988	64,198
Undrawn term loans		1,565,036	313,007	320,988	64,198
Undrawn overdraft facilities/unused credit card lines		–	–	–	–
Others		–	–	–	–
Other commitments with an original maturity of over one year	50	28,175,794	14,087,897	28,004,372	14,002,186
Undrawn term loans		28,175,794	14,087,897	28,004,372	14,002,186
Undrawn overdraft facilities/unused credit card lines		–	–	–	–
Others		–	–	–	–

Basel III – Market Discipline – Minimum Disclosure requirement Under Pillar 3 as per the Banking Act Direction No. 01 of 2016

Template 01

Key regulatory ratios – Capital and liquidity

As at December 31,	GROUP 2017 Rs. '000	GROUP 2016 Rs. '000	BANK 2017 Rs. '000	BANK 2016 Rs. '000
Regulatory capital				
Common equity Tier 1	95,725,306	68,863,841	94,151,253	67,284,572
Tier 1 capital	95,725,306	68,863,841	94,151,253	67,284,572
Total capital	123,989,935	98,096,355	122,415,882	96,517,086
Regulatory capital ratios (%)				
Common equity Tier 1 capital ratio (minimum requirement -6.25%) (with effect from July 1, 2017) (%)	12.12	10.47	12.11	10.37
Tier 1 Capital Ratio (minimum requirement -7.75%) (with effect from July 1, 2017) (%)	12.12	10.47	12.11	10.37
Total Capital Ratio (minimum requirement -11.75%) (with effect from July 1, 2017) (%)	15.70	14.91	15.75	14.87
Regulatory liquidity				
Statutory liquid assets (Rs. '000)			243,945,792	211,363,134
Statutory liquid assets ratio (minimum requirement -20%)				
Domestic banking unit (%)			27.28	27.19
Off-shore banking unit (%)			30.95	30.19
Liquidity coverage ratio (%) – Rupee (Minimum requirement – 80%) (with effect from January 1, 2017)			272.15	196.34
Liquidity coverage ratio (%) – All currency (Minimum requirement – 80%) (with effect January 1, 2017)			209.17	150.93

Template 02

Key Regulatory Ratios – Capital and Liquidity

As at December 31,	GROUP 2017 Rs. '000	GROUP 2016 Rs. '000	BANK 2017 Rs. '000	BANK 2016 Rs. '000
Common equity Tier 1 (CETI) capital after adjustments	95,725,306	68,863,841	94,151,253	67,284,572
Total common equity Tier 1 (CET1) capital	96,980,344	69,996,510	96,696,269	69,368,825
Equity capital (stated capital)/assigned capital	37,143,541	24,977,700	37,143,541	24,977,700
Reserve fund	6,492,552	5,647,993	6,476,952	5,647,890
Published retained earnings/(accumulated retained losses)	1,783,969	1,518,984	1,798,112	1,538,142
Published accumulated Other Comprehensive Income (OCI)	(1,501,321)	(6,692,504)	(1,522,156)	(6,705,188)
General and other disclosed reserves	52,799,820	43,910,281	52,799,820	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	261,783	634,056	–	–
Total adjustments to CET1 Capital	1,255,038	1,132,669	2,545,016	2,084,253
Goodwill (net)	400,045	400,045	–	–
Intangible Assets (net)	851,180	732,624	776,812	640,646
Revaluation losses of property, plant and equipment	3,813	–	3,813	–
Significant investments in the capital of financial institutions where the Bank owns more than 10 per cent of the issued ordinary share capital of the entity	–	–	1,764,391	1,443,607
Additional Tier 1 (AT1) capital after adjustments	–	–	–	–
Total additional Tier 1 (AT1) capital	–	–	–	–
Qualifying additional Tier 1 capital instruments	–	–	–	–
Instruments issued by consolidated banking and financial subsidiaries of the bank and held by third parties	–	–	–	–
Total adjustments to AT1 capital	–	–	–	–
Investment in own shares	–	–	–	–
Others (specify)	–	–	–	–
Tier 2 capital after adjustments	28,264,629	29,232,514	28,264,629	29,232,514
Total Tier 2 capital	28,264,629	29,232,514	28,264,629	29,232,514
Qualifying Tier 2 capital instruments	22,799,002	24,334,875	22,799,002	24,334,875
Revaluation gains	2,024,804	2,034,231	2,024,804	2,034,231
Loan loss provisions	3,440,823	2,863,408	3,440,823	2,863,408
Instruments issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	–	–	–	–
Total adjustments to Tier 2 capital	–	–	–	–
Investment in own shares	–	–	–	–
Others (specify)	–	–	–	–
CET 1 capital	95,725,306	68,863,841	94,151,253	67,284,572
Total Tier 1 capital	95,725,306	68,863,841	94,151,253	67,284,572
Total capital	123,989,935	98,096,355	122,415,882	96,517,086

As at December 31,	GROUP 2017 Rs. '000	GROUP 2016 Rs. '000	BANK 2017 Rs. '000	BANK 2016 Rs. '000
Total risk-weighted amount	789,711,397	657,951,626	777,427,117	649,014,208
Risk-weighted amount for credit Risk	725,500,975	602,932,452	713,765,370	594,260,342
Risk-weighted amount for market risk	6,303,710	3,683,529	6,303,710	3,683,529
Risk-weighted amount for operational risk	57,906,712	51,335,645	57,358,037	51,070,336
CET 1 capital ratio (including capital conservation buffer, countercyclical capital buffer and surchage on D-SIBs) (%)	12.12	10.47	12.11	10.37
Of which: capital conservation buffer (%)				
Of which: countercyclical buffer (%)				
Of which: capital surcharge on D-SIBs (%)				
Total Tier 1 capital ratio (%)	12.12	10.47	12.11	10.37
Total capital ratio (including capital conservation buffer, countercyclical capital buffer and surcharge on D-SIBs) (%)	15.70	14.91	15.75	14.87
Of which: capital consevation buffer (%)				
Of which: countercyclical buffer (%)				
Of which: capital surcharge on D-SIBs (%)				

Template 03

Computation of Leverage Ratio

As at December 31, 2017	GROUP Rs. '000	BANK Rs. '000
Tier 1 capital	95,725,306	94,151,253
Total exposures	1,626,970,079	1,613,561,019
On-balance sheet items (excluding derivatives and securities financing transactions, but including collateral)	1,151,136,046	1,137,316,666
Derivative exposures	328,406,037	328,817,950
Securities financing transaction exposures	61,017,837	61,017,837
Other off-balance sheet exposures	86,410,159	86,408,566
Basel III leverage ratio (%) (Tier 1/total exposure)	5.88	5.83

Leverage ratio is prepared based on the consultation paper issued by the Central Bank of Sri Lanka. As per the paper minimum leverage ratio is 4%.

Template 04

Basel III Computation of Liquidity Coverage Ratio – All currency

As at December 31,	**2017**		2016	
	Total un-weighted value Rs. '000	**Total weighted value Rs. '000**	Total un-weighted value Rs. '000	Total weighted value Rs. '000
Total stock of High Quality Liquid Assets (HQLA)	167,783,592	167,583,281	139,200,928	139,088,165
Total adjusted level 1 assets	167,382,970	167,382,970	138,975,487	138,975,487
Level 1 assets	167,382,970	167,382,970	138,975,402	138,975,402
Total adjusted level 2a assets	–	–	–	–
Level 2A assets	–	–	–	–
Total adjusted level 2b assets	400,622	200,311	225,526	112,763
Level 2B assets	400,622	200,311	225,526	112,763
Total cash outflows	1,126,874,188	204,822,466	977,707,604	182,098,299
Deposits	647,140,480	64,714,048	552,552,387	55,255,239
Unsecured wholesale funding	228,997,705	111,382,639	208,051,363	101,309,555
Secured funding transaction	–	–	–	–
Undrawn portion of committed (irrevocable) facilities and other contingent funding obligations	250,736,003	28,725,779	216,807,539	25,237,190
Additional requirements	–	–	296,315	296,315
Total cash inflows	190,872,659	124,705,986	135,948,605	89,947,218
Maturing secured lending transactions backed by the following collateral	37,491,907	37,069,704	35,782,810	35,325,892
Committed facilities	–	–	–	–
Other inflows by counterparty which are maturing within 30 days	74,594,943	47,223,317	59,398,731	38,837,257
Operational deposits	11,301,982	–	9,198,927	–
Other cash inflows	67,483,827	40,412,965	31,568,137	15,784,069
Liquidity coverage ratio (%) (stock of high quality liquid assets/ total net cash outflows over the next 30 calendar days)*100		209.17		150.93

Template 05

Main Features of Regulatory Capital Instruments

Description of the Capital Instrument	Stated Capital	Debentures – Type "A" – 1	Debentures – Type "A" – 2	Debentures – Type "B" – 1	Debentures – Type "B" – 2	IFC Borrowings
Issuer	Commercial Bank	Commercial Bank	Commercial Bank	Commercial Bank	Commercial Bank	International Finance Corporation
Unique Identifier (e.g., ISIN or Bloomberg identifier for private placement)						
Governing law(s) of the instrument	Sri Lanka	Sri Lanka	Sri Lanka	Sri Lanka	Sri Lanka	United States of America
Original date of issuance	N/A	March 8, 2016	October 27, 2016	March 8, 2016	October 27, 2016	March 13, 2013
Par Value of instrument		Rs. 100/-	Rs. 100/-	Rs. 100/-	Rs. 100/-	
Perpetual or dated	Perpetual	Dated	Dated	Dated	Dated	Dated
Original maturity date, if applicable	N/A	March 8, 2021	October 27, 2021	March 8, 2026	October 27, 2026	March 14, 2023
Amount recognised in regulatory capital (in Rs. '000 as at the reporting date)	37,143,541	3,544,272	4,057,440	1,749,090	1,928,200	11,520,000
Accounting classification (equity/liability)	Equity	Liability	Liability	Liability	Liability	Liability
Issuer call subject to prior supervisory approval	No	No	No	No	No	No
Optional call date, contingent call dates and redemption amount (Rs. '000)	N/A	N/A	N/A	N/A	N/A	N/A
Subsequent call dates, if applicable	N/A	N/A	N/A	N/A	N/A	N/A
Coupons/dividends						
Fixed or floating dividend/coupon	N/A	Fixed	Fixed	Fixed	Fixed	Floating
Coupon rate and any related index		10.75%	12.00%	11.25%	12.25%	06 Months LIBOR + 5.75%
Non-cumulative or cumulative						
Convertible or non-convertible						
If convertible, conversion trigger(s)	N/A	N/A	N/A	N/A	N/A	N/A
If convertible, fully or partially	N/A	N/A	N/A	N/A	N/A	N/A
If convertible, mandatory or optional	N/A	N/A	N/A	N/A	N/A	N/A
If convertible, conversion rate	N/A	N/A	N/A	N/A	N/A	N/A

Template 06

Summary Discussion on Adequacy/Meeting Current and Future Capital Requirements

Bank prepares the Corporate Plan and Budget on a rolling basis covering a period of 5 years which includes the computation of Capital Adequacy ratios (CARs). The Bank carefully analyses the CARs against increases in risk-weighted assets underlying the budgeted expansion of business volumes. The Bank has set up an internal guideline on minimum CARs and ensures that measures to improve the CARs are also built into the budget should the CARs are expected to fall below that. These measures could either be to increase the CET 1 or raise Tier 2 debt capital. Further, in extreme situations, the Bank will deliberate on strategically curtailing risk weighted assets expansion.

Budgeting process of the Bank encapsulates all future capital requirements and finalises the process only after reaching the desired level of capital as well as the CARs.

Besides, the Bank has a dynamic ICAAP process with rigorous stress testing embodied in it in addition to taking into consideration the qualitative aspects such as reputational and strategic risks. This process also proactively identifies the gaps in CARs in advance, allowing the Bank to take calculated decisions to optimise utilisation of capital.

The Bank has a well-diversified assets portfolio which is neither overly exposed to any counterparty nor to any sector. Ways and means of improving the CARs are being monitored on an ongoing basis.

The Bank always strives to achieve a reasonable growth in profit which is above the industry average and is ever mindful to pay a consistent stream of dividends to the shareholders. Part of the profit generated is retained for future business expansion. Given the size of the Bank, capital generated through retained profits over the years could be considered as one of the primary sources of capital to the Bank.

Template 07

Credit Risk under Standardised Approach

Credit risk exposures and Credit Risk Mitigation (CRM) Effects – Group

As at December 31, 2017	Exposures before Credit Conversion Factor (CCF) and CRM		Exposures post CCF and CRM		RWA and RWA density (%)	
	On-balance sheet amount Rs. '000	Off-balance sheet amount Rs. '000	On-balance sheet amount Rs. '000	Off-Balance sheet amount Rs. '000	RWA Rs. '000	RWA density Rs. '000
Claims on Central Government and Central Bank of Sri Lanka	294,231,073	59,904,000	294,231,073	1,198,080	–	–
Claims on foreign sovereigns and their central banks	20,197,669	–	20,197,669	–	20,197,669	100.00
Claims on Public Sector Entities (PSEs)	16,913	–	16,913	–	16,913	100.00
Claims on official entities and Multilateral Development Banks (MDBs)	–	–	–	–	–	–
Claims on banks exposures	29,324,762	120,983,865	29,324,762	2,529,910	19,633,530	61.63
Claims on financial institutions	29,093,851	–	29,093,851	–	13,947,299	47.94
Claims on corporates	410,043,431	327,192,837	356,378,524	72,569,315	411,296,028	95.88
Retail claims	242,433,300	15,681,348	204,755,354	7,847,448	175,002,056	82.31
Claims secured by residential property	61,278,959	–	61,278,959	–	46,757,354	76.30
Claims secured by commercial real estate	–	–	–	–	–	–
Non-Performing Assets (NPAs)	6,889,792	–	6,889,792	–	8,911,843	129.35
Higher-risk categories	–	–	–	–	–	–
Cash Items and other assets	58,235,647	–	58,235,647	–	29,738,283	51.07
Total	1,151,745,396	523,762,050	1,060,402,543	84,144,753	725,500,975	63.39

Credit Risk Exposures and Credit Risk Mitigation (CRM) Effects – Bank

As at December 31, 2017	Exposures before Credit Conversion Factor (CCF) and CRM		Exposures post CCF and CRM		RWA and RWA density (%)	
	On-balance sheet amount Rs. '000	Off-balance sheet amount Rs. '000	On-balance sheet amount Rs. '000	Off-balance sheet amount Rs. '000	RWA Rs. '000	RWA density (%)
Claims on Central Government and Central Bank of Sri Lanka	294,031,685	59,904,000	294,031,685	1,198,080	–	–
Claims on foreign sovereigns and their central banks	13,649,722	–	13,649,722	–	13,649,722	100.00
Claims on Public Sector Entities (PSEs)	16,913	–	16,913	–	16,913	100.00
Claims on official entities and Multilateral Development Banks (MDBs)	–	–	–	–	–	–
Claims on banks exposures	28,172,419	120,983,865	28,172,419	2,535,758	18,487,036	60.20
Claims on financial institutions	29,093,851	–	29,093,851	–	13,947,299	47.94
Claims on corporates	405,766,848	327,482,087	352,101,941	72,567,722	407,017,852	95.84
Retail claims	242,433,300	15,681,348	204,755,354	7,847,448	175,002,056	82.31
Claims secured by residential property	61,278,959	–	61,278,959	–	46,757,354	76.30
Claims secured by commercial real estate	–	–	–	–	–	–
Non-Performing Assets (NPAs)	6,513,033	–	6,513,033	–	8,535,084	131.05
Higher-risk categories	957,101	–	957,101	–	2,392,752	250.00
Cash items and other assets	56,160,204	–	56,160,204	–	27,959,303	49.78
Total	1,138,074,034	524,051,300	1,046,731,182	84,149,008	713,765,370	63.12

Template 08

Credit Risk under Standardised Approach

Exposures by Asset Classes and Risk Weights (Post CCF and CRM) – Group

As at December 31, 2017	Risk weight								
	0%	20%	50%	60%	75%	100%	150%	>150%	Total credit exposures amount
Asset class	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Claims on Central Government and Central Bank of Sri Lanka	295,429,153	–	–	–	–	–	–	–	295,429,153
Claims on foreign sovereigns and their central banks	–	–	–	–	–	20,197,669	–	–	20,197,669
Claims on Public Sector Entities (PSEs)	–	–	–	–	–	16,913	–	–	16,913
Claims on official entities and Multilateral Development Banks(MDBs)	–	–	–	–	–	–	–	–	–
Claims on banks exposures	–	6,187,529	14,542,236	–	–	11,124,906	–	–	31,854,672
Claims on financial institutions	–	2,919,555	25,621,814	–	–	552,481	–	–	29,093,851
Claims on corporates	–	14,406,322	12,253,508	–	–	402,288,010	–	–	428,947,839
Retail claims	603,259	617,735	–	8,063,619	133,111,405	70,206,784	–	–	212,602,802
Claims secured by residential property	–	–	29,043,211	–	–	32,235,749	–	–	61,278,959
Claims secured by commercial real estate	–	–	–	–	–	–	–	–	–
Non-Performing Assets (NPAs)	–	–	23,774	–	–	2,798,141	4,067,876	–	6,889,792
Higher-risk categories	–	–	–	–	–	–	–	–	–
Cash items and other assets	23,577,061	6,150,379	–	–	–	28,508,207	–	–	58,235,647
Total	319,609,473	30,281,519	81,484,544	8,063,619	133,111,405	567,928,859	4,067,876	–	1,144,547,296

Exposures by Asset Classes and Risk Weights (Post CCF and CRM) – Bank

As at December 31, 2017	Risk weight								
	0%	20%	50%	60%	75%	100%	150%	>150%	Total credit exposures amount
Asset class	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Claims on Central Government and Central Bank of Sri Lanka	295,229,765	–	–	–	–	–	–	–	295,229,765
Claims on foreign sovereigns and their central banks	–	–	–	–	–	13,649,722	–	–	13,649,722
Claims on Public Sector Entities (PSEs)	–	–	–	–	–	16,913	–	–	16,913
Claims on official entities and Multilateral Development Banks(MDBs)	–	–	–	–	–	–	–	–	–
Claims on banks exposures	–	6,187,529	14,542,236	–	–	9,978,412	–	–	30,708,177
Claims on financial institutions	–	2,919,555	25,621,814	–	–	552,481	–	–	29,093,851
Claims on corporates	–	14,406,322	12,253,508	–	–	398,009,833	–	–	424,669,663
Retail claims	603,259	617,735	–	8,063,619	133,111,405	70,206,784	–	–	212,602,802
Claims secured by residential property	–	–	29,043,211	–	–	32,235,749	–	–	61,278,959
Claims secured by Commercial real estate	–	–	–	–	–	–	–	–	–
Non-Performing Assets (NPAs)	–	–	23,774	–	–	2,421,382	4,067,876	–	6,513,033
Higher-risk categories	–	–	–	–	–	–	–	957,101	957,101
Cash items and other assets	23,280,599	6,150,379	–	–	–	26,729,227	–	–	56,160,204
Total	319,113,623	30,281,519	81,484,544	8,063,619	133,111,405	553,800,503	4,067,876	957,101	1,130,880,190

Template 09

Market Risk under Standardised Measurement Method

As at December 31,	GROUP		BANK	
	2017	2016	**2017**	2016
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
(a) Capital charge for interest rate risk	354,758	226,153	354,758	226,153
General interest rate risk	150,553	107,288	150,553	107,288
i. Net long or short position	150,553	107,288	150,553	107,288
ii. Horizontal disallowance	–	–	–	–
iii. Vertical disallowance	–	–	–	–
iv. Options	–	–	–	–
Specific Interest rate risk	204,205	118,865	204,205	118,865
(b) Capital charge for equity	58,849	54,683	58,849	54,683
i. General equity risk	31,474	29,381	31,474	29,381
ii. Specific equity risk	27,375	25,302	27,375	25,302
(c) Capital charge for foreign exchange & gold	327,079	151,979	327,079	151,979
(d) Capital charge for market risk [(a) + (b) + (c)]	740,686	432,815	740,686	432,815
Total risk-weighted amount for market risk [(d) x CAR]	6,303,710	3,683,529	6,303,710	3,683,529

Template 10

Operational Risk under Basic Indicator Approach/The Standardised Approach/ The Alternative Standardised Approach – Bank Only

			Gross income		
As at December 31, 2017	Capital charge factor	Fixed factor	1st year	2nd year	3rd year
	%		Rs. '000	Rs. '000	Rs. '000
The basic indicator approach	15		40,773,807	44,057,659	49,959,921
The standardised approach			40,773,807	44,057,659	49,959,921
Corporate finance	18		641,679	402,397	273,036
Trading and sales	18		3,281,656	3,771,864	766,081
Payment and settlement	18		437,001	511,789	591,811
Agency services	15		–	–	–
Asset management	12		–	–	–
Retail brokerage	12		–	–	–
Retail banking	12		23,056,626	27,157,713	34,266,353
Commercial banking	15		13,356,845	12,213,896	14,062,640
The alternative standardised approach			710,934,264	805,169,696	935,463,626
Corporate finance	18		641,679	402,396	273,037
Trading and sales	18		3,281,656	3,771,864	766,081
Payment and settlement	18		437,001	511,789	591,811
Agency services	15		–	–	–
Asset management	12		–	–	–
Retail brokerage	12		–	–	–
Retail banking	12	0.035	265,321,140	320,537,695	379,027,523
Commercial banking	15	0.035	441,252,788	479,945,953	554,805,175
Capital charges for operational risk (Rs. '000)					
The basic indicator approach	6,739,569				
The standardised approach	6,001,536				
The alternative standardised approach	4,574,487				
Risk-weighted amount for operational risk (Rs. '000)					
The basic indicator approach	57,358,037				
The standardised approach	51,076,898				
The alternative standardised approach	38,931,801				

Template 11

Differences between Accounting and Regulatory Scopes and Mapping of Financial Statement Categories with Regulatory Risk Categories – Bank Only

As at December 31, 2017	Bank				
	a	b	c	d	e
	Carrying values as reported in published Financial Statements	Carrying values under scope of regulatory reporting	Subject to credit risk framework	Subject to market risk framework	Not subject to capital requirements or subject to deduction from capital
Assets	**1,143,373,765**	**1,141,585,508**	**1,046,731,182**	**4,725,657**	**93,884,054**
Cash and cash equivalents	33,224,619	33,224,329	33,224,329	–	–
Balances with central banks	44,801,446	44,801,446	44,801,446	–	–
Placements with banks	17,633,269	17,587,206	17,587,206	–	–
Derivative financial assets	2,334,536	–	–	–	–
Other financial instruments – Held for trading	4,410,913	4,410,913	–	4,410,913	–
Loans and receivables to banks	640,512	640,512	–	–	–
Loans and receivables to other customers	737,446,567	737,582,655	650,635,697	–	91,342,852
Financial investments – Available for sale	154,714,132	155,367,667	155,052,924	314,744	–
Financial investments – Held to maturity	63,562,752	65,363,679	65,363,679	–	–
Financial investments – Loans and receivables	48,712,477	48,371,776	48,371,776	–	–
Investments in subsidiaries	3,065,935	3,065,935	1,301,544	–	1,764,391
Investments in associates and joint ventures	44,331	44,331	44,331	–	–
Property, plant and equipment	14,707,304	14,707,304	14,707,306	–	–
Intangible assets	776,810	776,810		–	776,810
Other assets	17,298,162	15,640,944	15,640,944	–	–
Liabilities	**1,036,274,405**	**1,034,494,748**		–	–
Due to banks	57,120,991	56,586,879	–	–	–
Derivative financial liabilities	3,678,494	–	–	–	–
Securities sold under repurchase agreements	49,676,767	49,686,123	–	–	–
Due to other customers	850,127,511	833,073,338	–	–	–
Other borrowings	23,786,094	23,776,205	–	–	–
Current tax liabilities	4,143,911	3,874,521	–	–	–
Deferred tax liabilities	3,274,826	4,287,468	–	–	–
Other liabilities	19,225,364	38,499,855	–	–	–
Due to subsidiaries	74,523	74,523	–	–	–
Subordinated term debts	25,165,924	24,635,836	–	–	–
Off-balance sheet liabilities	**564,794,885**	**564,794,885**	**84,149,008**	–	**7,398,931**
Guarantees	64,869,608	64,869,608	33,677,132	–	5,949,807
Performance bonds	30,601,521	30,601,521	14,022,674	–	1,278,087
Letter of credit	45,078,313	45,078,313	8,845,421	–	170,242
Other contingent items	297,904,583	297,904,583	13,202,877	–	796
Undrawn loan commitments	29,740,830	29,740,830	14,400,904	–	–
Other commitments	96,600,030	96,600,030	–	–	–
Shareholders' equity	**107,099,360**	**107,090,763**	–	–	–
Equity capital (stated capital)/assigned capital			–	–	–
of which amount eligible for CET 1	37,143,541	37,143,541	–	–	–
of which amount eligible for AT I	–	–	–	–	–
Retained earnings	4,987,446	2,931,176	–	–	–
Accumulated other comprehensive income	(1,707,494)	–	–	–	–
Other reserves	66,675,867	67,016,047	–	–	–

Template 12

Explanations of Differences between Accounting and Regulatory Exposure Amounts

As at December 31, 2017	Differences observed between accounting carrying value and amounts considered for regulatory purposes	Reasons for differences						
		Net impact arising from individual and collective impairment	Fair value adjustment	Effective Interest Rate (EIR) adjustment	Re-classification of receivables and payables	Unamortised cost on staff loans (day 1 difference)	Other SLFRS adjustments	Tax Impact on SLFRS adjustments
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Assets								
Cash and cash equivalents	290	–	–	–	290	–	–	–
Placements with banks	46,063	–	–	–	46,063	–	–	–
Derivative financial assets	2,334,536	–	–	–	2,334,536	–	–	–
Loans and receivables to other customers	(136,088)	2,528,528	–	–	1,012,349	(3,676,965)	–	–
Financial investments – Available for sale	(653,535)	–	(660,250)	–	6,715	–	–	–
Financial investments – Held to maturity	(1,800,927)	–	(2,125,089)	–	324,163	–	–	–
Financial investments – Loans and receivables	340,701	–	–	–	340,701	–	–	–
Other assets	1,657,218	–	–	–	(2,019,747)	3,676,965	–	–
Liabilities								
Due to banks	534,112	–	–	–	534,112	–	–	–
Derivative financial liabilities	3,678,494	–	–	–	3,678,494	–	–	–
Securities sold under repurchase agreements	(9,356)	–	–	–	(9,356)	–	–	–
Due to other customers	17,054,173	–	–	(429,343)	17,483,516	–	–	–
Other borrowings	9,889	–	–	–	9,889	–	–	–
Current tax liabilities	269,390	–	–	–	–	–	–	269,390
Deferred tax liabilities	(1,012,642)	–	–	–	–	–	–	(1,012,642)
Other liabilities	(19,274,491)	–	–	–	(20,195,892)	–	921,401	–
Subordinated term debts	530,088	–	–	(4,863)	534,951	–	–	–
Shareholders' equity								
Retained earnings	2,056,270	2,528,524	–	443,561	–		(800,048)	(115,767)
Accumulated other comprehensive income	(1,707,494)	–	(1,707,494)	–	–	–	–	–
Other reserves	(340,180)	–	(340,180)	–	–	–	–	–

Explanations of differences between accounting and regulatory exposure amounts

Under LKAS 39 on "Financial Instruments: Recognition and Measurement", the Bank first assesses whether objective evidence of impairment exists for individually significant financial assets or collectively for financial assets that are not individually significant, based on the principles of "Incurred loss" (Refer Note 18 on page 201 for details). However, the regulatory provisions made on loans and advances under the Direction No. 3 of 2008 on "Classification of Loans and Advances, Income Recognition and Provisioning" (and subsequent amendments thereto) issued by the CBSL are "time/delinquency based". As a result, the LKAS 39 recognises delinquency pattern of a loan much earlier when compared to the CBSL Guidelines and also computes the impairment provision based on the historical loss experience of loans.

Investment securities are carried at "Cost" for regulatory reporting purposes while they classified as "Available for sale" carried at fair value or "Held to maturity" carried at amortised cost under the LKAS 39. The "Fair value" is defined as the best estimate of the price that would be received to sell an asset or be paid to transfer a liability in an orderly transaction between market participants at the measurement date. A variety of valuation techniques combined with the range of plausible market parameters as at a given point in time may still generate unexpected uncertainty beyond fair value. 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. Hence, the amortised cost of Financial investments – Held to maturity, Due to other customers, Debentures, etc under the LKAS 39 is different to the carrying value for regulatory reporting which is the "cost". Refer Notes 26, 34 and 35 on pages 214 to 219 and 232 to 238 for details.

As per LKAS 39, a "Day 1 difference" is recognised, when the transaction price differs from the fair value of other observable current market transactions in the same instrument. E.g. Employee loans below market rates. Refer Note 7.1.2.1 on page 183 for details. However, the carrying value of such transactions for regulatory reporting purposes is equal to cost/transaction price.

Template 13

Bank risk management approach

Effective risk management is at the core of the Bank's value creation model as we accept risk in the normal course of business. 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.

"The risk governance structure,responsibilities attributed throughout the bank, risk management framework, objectives, strategies, policy framework, risk appetite and tolerance limits for key risk types, and the overall risk management approach of the Bank are discussed under three main sections of this Report namely the Risk Review, Managing Risk: An Overview, and Risk Management Report".

Template 14

Risk management related to key risk exposures

The quantitative disclosures relating to key risk areas such as credit, market, liquidity, operational, and interest rate risk in the banking book are presented and discussed in the Financial Risk Management Report on page 303 to 332 and Annex: Risk Management Report on page 372 to 417.

ANNEX 4: GRI CONTENT INDEX

GRI Standard/Disclosure		Page No.	Report commentary title
GRI 102: General Disclosures 2016			
Organisational profile			
102-1	Name of the organisation	6	About the Bank
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102-3	Location of headquarters	Inner back cover	
102-4	Location of operations	6	About the Bank
102-5	Ownership and legal form	Inner back cover	
102-6	Markets served	6	About the Bank
102-7	Scale of the organisation	6 and 7	About the Bank, A snapshot of the Bank's profile
102-8	Information on employees and other workers	94	Winning team
102-9	Supply chain	82	Suppliers and business partners
102-10	Significant changes to the organisation and its supply chain	5	Report boundary
102-12	External initiatives	84	Supporting policy formulation
102-13	Membership of associations	84	Supporting policy formulation
Strategy			
102-14	Statement from senior decision-maker	16	Chairman's Statement
102-15	Key impacts, risks, and opportunities	154	Managing Risk: An overview
Ethics and integrity			
102-16	Values, principles, standards, and norms of behaviour	90	Brand values
102-17	Mechanisms for advice and concerns about ethics	126	Ethics and Good Governance
Governance			
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102-19	Delegating authority	32	Management approach
102-22	Composition of the highest governance body and its committees	109 to 113	A proficient Board/Board subcommittees
102-23	Chair of the highest governance body	24	Board of Directors
102-24	Nominating and selecting the highest governance body	129	Board nomination committee report
102-25	Conflicts of interest	352	Dealing with conflicts of interest
102-35	Remuneration policies	116	Directors' and executive remuneration
102-36	Process for determining remuneration	116	Directors' and executive remuneration
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102-40	List of stakeholder groups	31	How we connect with stakeholder groups
102-41	Collective bargaining agreements	429	Our sustainability footprint
102-42	Identifying and selecting stakeholders	30	Connecting with stakeholders
102-43	Approach to stakeholder engagement	31	How we connect with stakeholder groups
102-44	Key topics and concerns raised	31	How we connect with stakeholder groups
Reporting practice			
102-45	Entities included in the consolidated financial statements	5	Report boundary
102-46	Defining report content and topic boundaries	5, 32 and 421	Report boundary, Materiality Mapping
102-47	List of material topics	32 and 421	Material topics for 2017
102-48	Restatements of information	6	Report boundary
102-49	Changes in reporting	6	Report boundary

GRI Standard/Disclosure		Page No.	Report commentary title
102-50	Reporting period	4	For the year ended 2017
102-51	Date of most recent report	4	For the year ended 2016
102-52	Reporting cycle	4	Annual
102-53	Contact point for questions regarding the report	4	Contact
102-54	Claims of reporting in accordance with the GRI Standards	4	Basis of preparation
102-55	GRI content index		
102-56	External assurance	424	
GRI 200: Economic			
GRI 201: Economic performance 2016		54 – 58	Financial capital
201-1	Direct economic value generated and distributed	428	Our sustainability footprint
201-3	Defined benefit plan obligations and other retirement plans	269 to 272	Note numbers 50.1 (b), 50.2 (b)
GRI 202: Market presence 2016		95 96	Employee recruitment Remuneration and benefits
202-1	Ratios of standard entry level wage by gender compared to local minimum wage	428	Our sustainability footprint
202-2	Proportion of senior management hired from the local community	428	Our sustainability footprint
GRI 204: Procurement practices 2016		82	Building smart partnerships
204-1	Proportion of spending on local suppliers	82 428	Building smart partnerships Our sustainability footprint
GRI 205: Anti-corruption 2016		81	"No" to corruption
205-1	Operations assessed for risks related to corruption	428	Our sustainability footprint
205-3	Confirmed incidents of corruption and actions taken	428	Our sustainability footprint
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GRI 302: Energy 2016		103	Energy
302-1	Energy consumption within the organisation	103	Energy
302-4	Reduction of energy consumption	103	Energy
GRI 306: Effluents and waste 2016		104	Effluents and waste
306-2	Waste by type and disposal method	104	Effluents and waste
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308-1	New suppliers that were screened using environmental criteria	428	Our sustainability footprint
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401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	96	Benefits for full-time employees
401-3	Parental leave	98	Table-18
GRI 402: Labour/Management relations 2016		101	Freedom of association
402-1	Minimum notice periods regarding operational changes	101	Table-21
GRI 403: Occupational health and safety 2016		100	Health and safety
403-4	Health and safety topics covered in formal agreements with trade unions	100	Health and safety

GRI Standard/Disclosure		Page No.	Report commentary title
GRI 404: Training and education 2016		98 98	Employee development Employee recognition
404-1	Average hours of training per year per employee		Graphs-67, 68
404-2	Programs for upgrading employee skills and transition assistance programs	 428	Graph-69 Our sustainability footprint
404-3	Percentage of employees receiving regular performance and career development reviews	428	Our sustainability footprint
GRI 405: Diversity and equal opportunity 2016		100 99	Diversity valued Equal opportunity
405-1	Diversity of governance bodies and employees	111	Table-23
		94	Graphs-53, 54, 55, 56
405-2	Ratio of basic salary and remuneration of women to men	99	Table-19
GRI 406: Non-discrimination 2016		101	Code of ethics
406-1	Incidents of discrimination and corrective actions taken	429	Our sustainability footprint
GRI 407: Freedom of association and collective bargaining 2016		101	Freedom of association
407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	101	Freedom of association
GRI 408: Child labour 2016		101	Code of ethics
408-1	Operations and suppliers at significant risk for incidents of child labour	429	Our sustainability footprint
GRI 409: Forced or compulsory labour 2016		101	Code of ethics
409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labour	429	Our sustainability footprint
GRI 413: Local communities 2016		84 79	CSR Trust Financial literacy and capacity building
413-1	Operations with local community engagement, impact assessments, and development programs	84 79	CSR Trust Financial literacy and capacity building
GRI 414: Supplier social assessment 2016		82	Suppliers and business partners
414-1	New suppliers that were screened using social criteria	429	Our sustainability footprint
GRI 417: Marketing and labelling 2016		80	Transparent service offering.
417-1	Requirements for product and service information and labelling	80	Transparent service offering.
417-2	Incidents of non-compliance concerning product and service information and labelling	429	Our sustainability footprint
417-3	Incidents of non-compliance concerning marketing communications	429	Our sustainability footprint
GRI 418: Customer privacy 2016		81	Securing sensitive information
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	429	Our sustainability footprint
GRI 419: Socio-economic compliance 2016			
419-1	Non-compliance with laws and regulations in the social and economic area	429	Our sustainability footprint
Non GRI disclosures			
	Risk, funding, capital management and business continuity	154 to 158	Managing risk: An overview
	Digitalisation and channel migration	81	Digital leadership
	Bank's CSR activities	84	Building sustainable communities

ANNEX 5: MATERIALITY MAPPING

		Topic Boundary						
		Internal		External			Materiality	
Topic	Significance to Bank's Operations	Sri Lanka	Bangladesh	Customers	Communities	Suppliers	To the Bank	To the Stakeholder
GRI 200: Economic								
201 Economic performance	High	★	★				High	High
202 Market presence	High	★					High	High
203 Indirect economic impacts	Moderate			★			Moderate	High
204 Procurement practices	Moderate	★					Moderate	Moderate
205 Anti-corruption	High	★					High	High
206 Anti-competitive behaviour	Low							
GRI 300: Environmental								
301 Materials	Moderate	★					Moderate	Low
302 Energy	Moderate	★	★				High	Moderate
303 Water	Low							
304 Biodiversity	Low							
305 Emissions	Moderate	★					Moderate	Moderate
306 Effluents and waste	Moderate	★				★	Low	Moderate
307 Environmental compliance	Low							
308 Supplier environmental assessment	Moderate					★	Moderate	Low
GRI 400: Social								
401 Employment	High	★	★				High	High
402 Labour/management relations	High	★	★			★	High	High
403 Occupational health and safety	Moderate	★	★				Moderate	Moderate
404 Training and education	High	★	★				High	High
405 Diversity and equal opportunity	High	★	★				High	High
406 Non-discrimination	High	★	★				High	High
407 Freedom of association and collective bargaining	High	★	★				High	High
408 Child labour	High	★	★				High	High
409 Forced or compulsory labour	High	★	★				High	High
410 Security practices	High	★	★				High	High
411 Rights of indigenous people	Low							
412 Human rights assessment	High					★	High	High
413 Local communities	Moderate	★			★		Moderate	Moderate
414 Supplier social assessment	Moderate					★	High	Low
415 Public policy	Low							
416 Customer health and safety	Low							
417 Marketing and labelling	High	★	★				High	High
418 Customer privacy	High	★	★				High	High
419 Socio-economic compliance	High	★	★				High	High
Other Topics								
Risk management and business continuity	High	★	★				High	High
Digitalisation and channel migration	High	★	★				High	High
Bank's CSR activities	Moderate				★		Moderate	Moderate

ANNEX 6: INDEPENDENT ASSURANCE REPORTS

ANNEX 6.1: 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, 2017. The Sustainability Indicators are included in the Commercial Bank of Ceylon PLC's Integrated Annual Report for the year ended December 31, 2017 (the "Report").

The Reasonable Assurance Sustainability Indicators covered by our reasonable assurance engagement are:

Assured Sustainability Indicators	Integrated Annual Report page
Financial Highlights	10

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	11
Performance highlights	12 – 13
Information provided on following stakeholder groups:	
• Shareholders and investors – Financial and manufactured capital and Investor relations	54 – 57, 73 – 77 and 334 – 342
• Customers – Social and network capital and Intellectual capital	78 – 89 and 90 – 93
• Society and Environment – Natural capital and Social and network capital	102 – 104 and 78 – 89
• Employees and employee association – Human capital	94 – 101
• Suppliers and business partners – Social and network capital	78 – 89

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, 2017, are, in all material respects, prepared and presented in accordance with the GRI Standards.

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, 2017, have not in all material respects, been prepared and presented in accordance with the GRI Standards.

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 Standards.

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 Standards, 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 Standards 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.

KPMG

Chartered Accountants

Colombo
February 23, 2018

ANNEX 6.2: INDEPENDENT ASSURANCE STATEMENT ON NON-FINANCIAL REPORTING – DNV GL

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 2017 ("the Report") in its printed format for the financial year ending December 31, 2017. The sustainability disclosures in this Report is prepared by the Bank, based on International Integrated Reporting Council's ("IIRC's") International <IR> Framework ("<IR> Framework") and includes references to the Global Reporting Initiative ("GRI") Sustainability Reporting Standards 2016 ("GRI Standards"), for non-financial performance related to identified material topics.

We performed our work using AccountAbility'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 Guidelines. Our assurance engagement was planned and carried out during December 2017 – March 2018. The intended user of this assurance statement is the Management of the Bank ("the Management").

The reporting topic 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 six subsidiaries – Commercial Development Co. PLC, ONEzero Co. Ltd., Serendib Finance Ltd., Commex Sri Lanka S.R.L. Italy, Commercial Bank of Maldives (Private) Limited and CBC Myanmar Microfinance Company Limited, 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 Sri Lanka & Bangladesh. 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 Bank's sustainability objectives;
- Site visits to the sample branch operations at Wattala and Narahenpita in Sri Lanka, and Gulshan-2 in Dhaka, Bangladesh to review processes and systems with regard to the site level sustainability data and implementation of sustainability strategy. We were given the choice to select the sites we visited.
- Review of supporting evidence related to qualitative & quantitative disclosures within the Report against identified material topic.
- 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 Bank's statutory auditors;

During the assurance process, we did not come across limitations to the scope of the agreed assurance engagement.

[1] *The VeriSustain protocol is available on www.dnvgl.com*

* *Assurance Engagements other than Audits or Reviews of Historical Financial Information.*

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Opinion

On the basis of the verification undertaken, nothing came to our attention to suggest that the Report does not describe following Commercial Bank's non-financial performance related to identified material topics and performance Indicators verified by us as part of our assurance engagement:

- GRI 201: Economic-performance 2016 – 201-1, 201-3;
- GRI 202: Market presence 2016 – 202-1, 202-2;
- GRI 204: Procurement practices 2016 – 204-1;
- GRI 205: Anti-corruption 2016 – 205-1, 205-3;
- GRI 302: Energy 2016 – 302-1, 302-4;
- GRI 306: Effluents and waste 2016 – 306-2;
- GRI 308: Supplier environmental assessment 2016 – 308-1;
- GRI 401: Employment 2016 – 401-1, 401-2, 401-3;
- GRI 402: Labour/Management relations 2016 – 402-1;
- GRI 403: Occupational health and safety 2016 – 403-4;
- GRI 404: Training and education 2016 – 404-1, 404-2, 404-3;
- GRI 405: Diversity and equal opportunity 2016 – 405-1, 405-2;
- GRI 406: Non-discrimination 2016 – 406-1;
- GRI 407: Freedom of association and collective bargaining 2016 – 407-1;
- GRI 408: Child labour 2016 – 408-1;
- GRI 409: Forced or compulsory labour 2016 – 409-1;
- GRI 413: Local communities 2016 – 413-1;
- GRI 414 : Supplier social assessment 2016 – 414-1;
- GRI 417: Marketing and labeling 2016 – 417-1, 417-2, 417-3;
- GRI 418: Customer privacy 2016 – 418-1;
- GRI 419: Socio-economic compliance 2016 – 419-1.

Observations

Without affecting our assurance opinion, we also provide the following observations.

Materiality

The process of determining the issues that is most relevant to an organisation and its stakeholders.

The process considers inputs from a wide range of sources, including the needs and concerns of stakeholders, societal norms, financial considerations, policy-based performance and sustainability context. The Bank needs to evaluate impact of identified material topic to the entities which are excluded from the boundary i.e. six subsidiaries & two associates. The response to the organisation's material issues is balanced and comprehensive. It would be better to benchmark sustainability performance & trend analysis with respect to identified material topic with peer group.

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. This process covers a wide range of stakeholders. Engagement is practiced throughout the organisation. This can be further improved in terms of coverage.

Responsiveness

The extent to which an organisation responds to stakeholder issues.

The key stakeholder concerns are fairly responded within the Report i.e. the Report 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 topics. Commercial Bank can improve this further by applying proactive engagement method with key stakeholders. Customer responsiveness needs to improve which include identification of changing needs & timely fulfillment of their expectations.

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. All that had come to our attention suggests that reported data has been properly collated from information gathered from the operational level. A small portion of the data inaccuracies identified during the verification process were found to be attributable to transcription, interpretation and aggregation errors. Such errors have been communicated for correction have been proactively closed.

Specific Evaluation of the Information on Sustainability Performance

We consider the methodology and process for gathering information developed by 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;

DNV·GL

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 brought out the Content Elements and Guiding Principles of <IR> Framework well. Business strategy is well in place with digitalisation well in focus. Resource allocation is carefully done considering the automation, growth & increasing footprint in the global market. It has also brought out the six capitals including the management approach, monitoring systems and sustainability performance indicators against the <IR> Framework requirements for reporting within its identified reporting boundary.

Neutrality

The extent to which a report provides a balanced account of an organisation's performance, delivered in a neutral tone.

Neutral tone of the disclosures on sustainability initiatives in terms of content and justification, makes the report balanced in its approach. Discussion on the challenges along with the objective approach adopted or planned to that effect for the reporting period at various geographical locations of operations can bring more objectivity to the plans and their operationalisation.

For DNV GL

Mithu Ghose
Project Manager
DNV GL Business Assurance India Private Limited, India

Rathika de Silva
Country Head
DNV GL Business Assurance Lanka Private Limited, Colombo, Sri Lanka.

Nandkumar Vadakepatth
Assurance Reviewer
DNV GL Business Assurance India Private Limited, India.

March 1, 2018
Colombo
Sri Lanka.

AA1000
Licensed Assurance Provider
000-10

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

Supplementary Information

The main section of this Annual Report caters to both the three-minute reader – who will benefit from the five other summaries preceding this one – as well as the reader who prefers to read the Bank's 2017 story in more detail.

The Supplementary Information contained in this section will be appreciated by the specialist who wishes to peruse detailed information such as:

Information pertaining to shareholders and corporate information can also be found at the end of this section.

OUR SUSTAINABILITY FOOTPRINT
GRI DISCLOSURES – 5 YEAR SUMMARY

Disclosure		Unit of Measure	2017	2016	2015	2014	2013
201-1	Direct economic value:						
	– Generated (Rs. Mn.)		115,594	93,143	77,868	72,752	73,160
	– Distributed (Rs. Mn.)		102,268	81,712	66,580	62,772	62671
	– Depositors		64,011	47,915	35,685	34,610	36,879
	– Employees		11,268	10,794	10,181	8,903	8,186
	– Business partners		8,775	7,773	4,127	6,219	5,926
	– Government		11,654	9,368	10,824	7,355	6,110
	– Shareholders		6,477	5,800	5,700	5,630	5,519
	– Community		83	62	63	55	51
	– Retained (Rs. Mn.)		13,326	11,431	11,288	9,980	10,489
			115,594	93,143	77,868	72,752	73,160
202-1	Ratio of standard entry level wage		Above minimum	Above minimum	Above minimum	Above minimum	Above minimum
202-2	Proportion of senior management from local community						
	– Sri Lanka	%	100.00	100.00	100.00	100.00	100.00
	– Bangladesh	%	98.83	98.83	98.81	98.58	98.58
204-1	Proportion of spending on local suppliers	%	92.18	90.75	91.83	94.21	91.64
205-1	Coverage and frequency of audits						
	– Onsite audits	Nos.	335	271	265	264	232
	– Online audits	Nos.	243	223	216	213	242
205-3	Number of alerts reported to FIU of CBSL	Nos.	14	15	21	11	10
302-1	Energy consumption	Gigajoules	54,820	56,359	55,877	55,944	55,080
306-2	Waste disposal						
	– e-waste	CO_2 Kg.	9,500	163,708	Nil	Nil	Nil
	– Paper	Kg.	151,885	111,405	130,334	130,335	Unavailable
	Credit proposal screened through SEMS	Nos.	9,595	7,606	4,232	3,063	Unavailable
308-1	Percentage of new suppliers screened using environmental criteria	%	100.00	100.00	100.00	100.00	100.00
401-1	New employee hires						
	– Male	Nos.	203	225	225	236	228
	– Female	Nos.	40	46	21	93	103
	Attrition						
	– Male	Nos.	192	175	158	159	106
	– Female	Nos.	56	54	49	44	43
401-2	Benefits provided to full time employees		Qualitative disclosure refer page 96				
401-3	Return to work after maternity leave						
	– Return to work ratio	%	94.64	95.38	100.00	100.00	98.00
	– Retention ratio	%	91.94	100.00	100.00	100.00	100.00
402-1	Minimum notice period		Qualitative disclosure refer page 101				
403-4	Health and safety topics covered		Qualitative disclosure refer page 101				
404-1	Average training hours						
	– Male	Hours	25.47	24.79	25.82	25.68	34.85
	– Female	Hours	17.04	19.74	19.59	27.14	25.68
404-2	Skills development programmes	Hours	12,937	14,650	10,581	7,382	16,686
404-3	Percentage of employees receiving performance evaluations	%	100.00	100.00	100.00	100.00	100.00

Disclosure		Unit of Measure	2017	2016	2015	2014	2013
405-1	Diversity and equal opportunity						
	Gender mix						
	– Female	%	24.35	24.60	25.05	25.63	25.18
	– Male	%	75.65	75.40	74.95	74.37	74.82
	Age group						
	– below 30 years	%	41.17	43.85	45.93	48.69	50.83
	– 30-50 years	%	52.27	49.87	47.79	45.36	43.12
	– above 50 years	%	6.56	6.28	6.28	5.95	6.05
405-2	Remuneration ratio women to men						
	– Corporate and Senior Management	X:Y	1:0.75	1:0.95	1:0.94	1:0.84	1:0.87
	– Executive Officers	X:Y	1:0.90	1:1.10	1:1.09	1:0.93	1:0.98
	– Junior Executive Assistants and Allied Grades	X:Y	1:0.92	1:1.08	1:1.10	1:0.91	1:0.85
	– Banking and Executive Trainees	X:Y	1:0.97	1:1.01	1:1.04	1:1.00	1:0.98
	– Office Assistants and Others	X:Y	1:1.05	1:1.01	1:N/A	1:N/A	1:N/A
406-1	Number of incidents of discrimination	Nos.	Nil	Nil	Nil	Nil	Nil
407-1	Percentage of employees in trade unions	%	89.94	88.97	83.91	83.48	82.17
408-1	Number of incidents of child labour	Nos.	Nil	Nil	Nil	Nil	Nil
409-1	Number of incidents of forced or compulsory labour	Nos.	Nil	Nil	Nil	Nil	Nil
412-1	Percentage of new suppliers screened – Human Rights	%	100.00	100.00	100.00	100.00	100.00
413-1	Funds disbursed to SMEs,	Rs. Mn.	131,881	272,914	260,407	220,246	182,523
	Financial literacy and capacity building programmes						
	– Number of programmes	Nos.	8	7	15	9	6
	– Number of participants	Nos.	1,195	873	1,822	382	574
414-1	Percentage of new suppliers screened using social criteria	%	100.00	100.00	100.00	100.00	100.00
414-1	Percentage of new suppliers screened Impacts on society	%	Nil	Nil	Nil	Nil	Nil
417-1	Information required on product and service labelling		Qualitative disclosure refer page 80				
417-2	Non-compliance with regulations on product and service labelling	Nos.	Nil	Nil	Nil	Nil	Nil
417-3	Non-compliance with regulations on marketing communication	Nos.	Nil	Nil	Nil	Nil	Nil
418-1	Substantiated complaints on customer privacy	Nos.	Nil	Nil	Nil	Nil	Nil
419-1	Non-compliance with laws and regulations						
	– Monetary value	Rs. '000s	–	–	–	–	–
	– No. of monetary sanctions	Nos.	Nil	Nil	Nil	Nil	Nil
	Products portfolios of						
	– Industrial	Rs. Mn.	56,542	51,401	39,539	25,950	18,868
	– Agriculture	Rs. Mn.	11,705	7,565	4,997	3,385	2,398
	– Microfinance	Rs. Mn.	938	1,411	708	777	968
	Loan disbursements for renewable energy projects						
	– Wind	Rs. Mn.	–	–	1,835	2,101	1,091
	– Solar	Rs. Mn.	100	495	–	–	46
	– Hydro	Rs. Mn.	302	428	876	819	1,263
	– Bio-mass	Rs. Mn.	39	126	131	–	–

DECADE AT A GLANCE

Bank – Based on Financial Statements Prepared Under SLASs

Year ended December 31, Rs. Mn.	2008	2009	2010
Operating Results			
Gross Income	44,115	43,741	41,522
Interest income	37,188	35,925	34,740
Interest expense	(24,336)	(23,515)	(18,328)
Foreign exchange profit	2,633	2,962	1,741
Commission and other income	4,294	4,854	5,041
Operating expenses and provisions	(12,259)	(13,035)	(13,876)
Profit before tax	7,520	7,191	9,318
Income tax expense	(3,252)	(2,887)	(3,794)
Profit for the year	4,268	4,304	5,524

As at December 31, Rs. Mn.	2008	2009	2010
Assets			
Cash and short-term funds	24,115	24,057	10,557
Balances with Central Banks	10,322	11,795	12,189
Government Treasury Bills, Bonds and other Securities	51,633	96,671	114,541
Commercial paper	–	–	–
Securities purchased under resale agreements	3,400	5,203	68
Dealing securities	58	81	283
Investments – Held-for-sale	–	–	–
Investments – Held-to-maturity	1,197	1,025	2,366
Bills of Exchange	3,059	2,847	5,291
Lease receivable	9,484	7,794	11,019
Loans and advances	167,858	161,329	200,729
	271,126	310,802	357,043
Investments in subsidiaries	434	279	354
Investments in associates	44	44	44
Property, plant and equipment and intangible assets	4,098	4,382	6,428
Other assets	5,512	6,808	6,191
Total assets	281,214	322,315	370,060
Liabilities			
Deposits from customers	199,881	234,745	259,779
Dividends payable	–	–	–
Borrowings	13,620	11,639	14,371
Securities sold under repurchase agreements	25,075	29,905	45,774
Other liabilities	10,646	12,888	12,259
Tax payable	1,665	1,203	2,448
Debentures	4,436	3,436	2,127
Total liabilities	255,323	293,816	336,758
Shareholders' Funds			
Share capital	10,548	10,608	10,811
Statutory reserve fund	1,896	2,164	2,472
Reserves	13,447	15,727	20,019
Total liabilities and shareholders' funds	281,214	322,315	370,060
Commitments and contingencies	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	**2017**	CAGR %
Operating Results								
Gross Income	45,860	63,395	73,736	72,753	77,868	93,143	**115,594**	16.66
Interest income	38,356	52,685	62,764	61,832	66,030	80,738	**103,034**	
Interest expense	(19,650)	(29,830)	(36,879)	(34,610)	(35,685)	(47,915)	**(64,011)**	
Foreign exchange profit	2,322	4,687	1,996	1,481	2,877	2,326	**588**	
Commission and other income	5,182	6,023	8,976	9,440	8,961	10,079	**11,972**	
Operating expenses and Impairment	(15,313)	(19,270)	(22,347)	(22,407)	(25,040)	(25,177)	**(28,400)**	
Profit before tax	10,897	14,295	14,510	15,736	17,143	20,051	**23,183**	13.41
Income tax expense	(3,014)	(4,197)	(4,065)	(4,556)	(5,240)	(5,539)	**(6,602)**	
Profit for the year	7,883	10,098	10,445	11,180	11,903	14,512	**16,581**	13.19

As at December 31, Rs. Mn.	2011	2012	2013	2014	2015	2016	**2017**	CAGR %
Assets								
Cash and cash equivalents	12,911	19,733	14,262	20,592	20,044	30,194	**33,225**	
Balances with central banks	17,343	18,168	18,432	19,634	28,221	43,873	**44,801**	
Placements with banks	11,674	16,163	4,132	14,508	17,194	11,718	**17,633**	
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	**2,335**	
Other financial investments – Held for trading	6,418	6,041	6,379	6,327	7,656	4,988	**4,411**	
Loans and receivables to banks	580	629	546	551	601	624	**641**	17.06
Loans and receivables to other customers	286,314	337,247	353,062	405,431	508,115	616,018	**737,447**	
Financial investments – Available for sale	61,415	57,963	131,757	214,208	204,244	160,023	**154,714**	
Financial investments – Held to maturity	–	–	–	–	–	60,981	**63,563**	
Financial investments – Loans and receivables	26,630	31,971	48,943	50,436	57,724	51,824	**48,712**	
	424,867	492,963	587,297	773,345	855,919	981,296	**1,107,482**	
Investments in subsidiaries	315	303	289	1,211	1,237	2,435	**3,066**	
Investments in associates	44	44	44	44	44	44	**44**	
Property, plant and equipment	7,907	8,221	8,387	9,953	9,969	10,308	**14,635**	
Intangible assets	467	497	468	439	466	641	**777**	
Leasehold property	78	77	76	75	74	74	**73**	
Deferred tax assets	360	449	–	–	–	964	**-**	
Other assets	7,291	9,189	9,426	10,543	12,096	16,439	**17,297**	
Total assets	441,329	511,743	605,987	795,610	879,805	1,012,201	**1,143,374**	17.19
Liabilities								
Due to banks	11,574	4,894	14,194	25,261	30,319	67,609	**57,121**	
Derivative financial liabilities	435	84	1,412	1,193	1,891	1,515	**3,678**	
Securities sold under repurchase agreements	41,235	31,760	45,519	124,564	112,385	69,867	**49,677**	
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	**850,128**	17.46
Other borrowings	8,368	15,823	8,654	11,637	9,986	9,270	**23,786**	
Current tax liabilities	1,305	2,802	1,759	1,998	3,002	3,441	**4,144**	
Deferred tax liabilities	1,594	1,698	1,563	2,574	231	–	**3,275**	
Other provisions	1	2	2	2	2	2	**-**	
Other liabilities	8,162	10,363	9,827	17,444	15,547	17,710	**19,225**	
Due to subsidiaries	30	22	16	19	26	20	**75**	
Subordinated liabilities	1,106	1,106	10,944	11,045	11,973	24,850	**25,166**	
Total liabilities	397,565	459,166	545,043	725,098	809,464	933,847	**1,036,275**	
Equity								
Stated capital	16,474	18,009	19,587	21,458	23,255	24,978	**37,144**	
Statutory reserves	2,890	3,433	4,035	4,327	4,922	5,648	**6,477**	
Retained earnings	2,547	4,178	4,233	4,258	4,389	4,464	**4,987**	
Other reserves	21,853	26,957	33,089	40,469	37,775	43,264	**58,491**	
Total liabilities and equity	441,329	511,743	605,987	795,610	879,805	1,012,201	**1,143,374**	17.19
Contingent liabilities and commitments	234,551	279,593	295,452	352,453	521,232	498,305	**564,795**	

Bank – Based on Financial Statements Prepared Under SLASs

Year ended December 31,		2008	2009	2010
Ratios				
Return on average shareholders' funds (%)		17.13	15.83	17.87
Income growth (%)		25.25	(0.85)	(5.07)
Return on average assets (%)		1.55	1.43	1.60
Dividend per share (Rs.)		7.00	7.00	7.00
Ordinary share dividend cover (times)		2.42	2.46	2.09
Advances to deposits and refinance (%)		87.12	70.88	80.97
Property, plant and equipment to shareholders' funds (%)		15.83	15.38	19.30
Total assets to shareholders' funds (times)		10.86	11.31	11.11
Capital funds to liabilities including contingent liabilities (%)		6.98	6.48	6.26
Cost/income ratio (%)		50.46	56.86	54.69
Liquid assets to liabilities (%)		24.83	38.80	29.74
(As specified in the Banking Act No. 30 of 1988)				
Capital Adequacy – Group (%)	Tier 1 ratio	10.55	11.92	10.86
	Total capital ratio	13.13	13.93	12.26
Share Information				
Market value of a share (Rs.)		67.00	189.50	259.90
Earnings per share (Rs.)		6	6	7
Price earnings ratio (times)		4	11	18
Net assets value per share (Rs.)		34	38	44
Earnings yield (%)		25	9	6
Dividend payout ratio– Cash (%)		41	41	34
Total dividend payout ratio (%)		–	–	48
Other Information				
Number of employees		4,041	4,071	4,321
Number of delivery points – Sri Lanka		170	172	187
Number of delivery points – Bangladesh		11	15	17
Number of automated teller machines		346	368	414

Bank – Based on Financial Statements Prepared Under SLFRSs and LKASs

Year ended December 31,		2011	2012	2013	2014	2015	2016	**2017**	CAGR %
Ratios									
Return on average shareholders' funds (%)		20.28	20.96	18.40	17.01	16.90	19.52	**17.88**	
Income growth (%)		10.45	38.24	16.31	(1.33)	7.03	19.62	**24.10**	
Return on average assets (%)		1.94	2.12	1.87	1.60	1.42	1.53	**1.54**	
Dividend per share (Rs.)		6.00	6.50	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	**2.56**	
Advances to deposits and refinance (%)		83.30	82.01	77.48	75.89	80.84	82.69	**86.07**	
Property, plant and equipment to equity (%)		19.31	16.73	14.65	14.85	14.94	14.07	**14.46**	
Total assets to equity (times)		9.92	9.73	9.94	11.28	12.51	12.92	**10.68**	
Capital funds to liabilities including contingent liabilities (%)		6.92	7.12	7.25	6.54	5.29	5.47	**6.69**	
Cost/income ratio (%)		50.70	47.02	45.59	49.26	48.92	51.06	**49.82**	
Liquid assets to liabilities (%)		26.35	25.79	34.05	33.11	27.72	27.41	**27.64**	
(As specified in the Banking Act No. 30 of 1988)									
Capital Adequacy – Group (%)	Tier 1 ratio	12.11	12.63	13.30	13.07	11.55	11.59	**12.12**	
	Total capital ratio	13.01	13.84	16.93	16.22	14.28	16.01	**15.70**	
Share Information									
Market value of a share (Rs.)		100.00	103.00	120.40	171.00	140.20	145.00	**135.80**	
Earnings per share (Rs.)		9	12	12	13	13	16	**17**	
Price earnings ratio (times)		11	9	10	13	10	9	**8**	
Net assets value per share (Rs.)		54	63	72	81	80	88	**108**	
Earnings yield (%)		9	12	10	8	10	11	**13**	
Dividend payout ratio – Cash (%)		42	37	37	35	33	28	**27**	
Total dividend payout ratio (%)		62	54	53	50	48	40	**39**	
Other Information									
Number of employees		4,524	4,602	4,730	4,852	4,951	4,987	**4,982**	
Number of delivery points – Sri Lanka		213	227	235	239	246	255	**261**	3.33
Number of delivery points – Bangladesh		17	17	18	18	18	19	**19**	
Number of automated teller machines		514	572	604	625	640	677	**775**	7.08

CAGR – Compounded Annual Growth Rate

INCOME STATEMENT (US DOLLARS)

For the year ended December 31,	GROUP 2017 USD '000	GROUP 2016 USD '000	GROUP Change %	BANK 2017 USD '000	BANK 2016 USD '000	BANK Change %
Gross income	760,689	625,880	21.54	752,565	621,987	20.99
Interest income	677,403	543,002	24.75	670,797	539,153	24.42
Less: Interest expenses	419,803	321,779	30.46	416,738	319,964	30.25
Net interest income	257,600	221,223	16.44	254,059	219,189	15.91
Fees and commission income	68,430	54,959	24.51	66,206	54,378	21.75
Less: Fees and commission expenses	10,328	7,619	35.56	10,201	7,529	35.49
Net fees and commission income	58,102	47,340	22.73	56,005	46,849	19.54
Net gains/(losses) from trading	1,523	(9,794)	115.55	1,523	(9,794)	115.55
Net gains/(losses) from financial instruments designated at fair value through profit or loss	–	–	–	–	–	–
Net gains/(losses) from financial investments	841	740	13.65	840	739	13.67
Other income (net)	12,491	36,973	(66.22)	13,199	37,512	(64.81)
Total operating income	330,557	296,482	11.49	325,626	294,495	10.57
Less: Impairment charges for loans and other losses	14,492	10,573	37.07	12,463	10,216	21.99
Net operating income	316,065	285,909	10.55	313,163	284,279	10.16
Less: Expenses						
Personnel expenses	73,818	72,875	1.29	73,359	72,082	1.77
Depreciation and amortisation	9,225	8,470	8.91	8,514	7,943	7.19
Other operating expenses	49,603	45,473	9.08	48,579	45,624	6.48
Total operating expenses	132,645	126,818	4.59	130,454	125,650	3.82
Operating profit before Value Added Tax (VAT) and Nation Building Tax (NBT)	183,419	159,091	15.29	182,711	158,630	15.18
Less: Value Added Tax (VAT) on financial services and Nation Building Tax (NBT)	31,879	24,814	28.47	31,778	24,730	28.50
Operating profit after Value Added Tax (VAT) and Nation Building Tax (NBT)	151,540	134,277	12.86	150,933	133,900	12.72
Share of profits of associates, net of tax	24	43	(44.19)	–	–	–
Profit before tax	151,564	134,320	12.84	150,933	133,900	12.72
Less: Income tax expense	43,319	37,717	14.85	42,980	36,986	16.21
Profit for the year	108,245	96,603	12.05	107,953	96,914	11.39
Profit Attributable to:						
Equity holders of the Bank	108,111	96,896	11.57	107,953	96,914	11.39
Non-controlling interest	134	(293)	145.73	–	–	–
	108,245	96,603	12.05	107,953	96,914	11.39
Basic earnings per ordinary share (USD)	0.11	0.11	–	0.11	0.11	–
Diluted earnings per ordinary share (USD)	0.11	0.11	–	0.11	0.11	–

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)

	GROUP			BANK		
As at December 31,	**2017 USD '000**	2016 USD '000	Change %	**2017 USD '000**	2016 USD '000	Change %
Assets						
Cash and cash equivalents	**225,738**	219,861	2.67	**216,306**	201,627	7.28
Balances with central banks	**296,526**	293,391	1.07	**291,676**	292,976	(0.44)
Placements with banks	**114,800**	78,254	46.70	**114,800**	78,254	46.70
Securities purchased under resale agreements	–	–	–	–	–	–
Derivative financial assets	**15,199**	7,031	116.17	**15,199**	7,031	116.17
Other financial instruments – Held for trading	**28,717**	33,307	(13.78)	**28,717**	33,307	(13.78)
Loans and receivables to banks	**4,170**	4,170	–	**4,170**	4,170	–
Loans and receivables to other customers	**4,833,621**	4,141,098	16.72	**4,801,084**	4,113,644	16.71
Financial investments – Available for sale	**1,008,552**	1,069,065	(5.66)	**1,007,253**	1,068,604	(5.74)
Financial investments – Held to maturity	**451,600**	424,885	6.29	**413,820**	407,221	1.62
Financial investments – Loans and receivables	**317,139**	346,070	(8.36)	**317,139**	346,070	(8.36)
Investments in subsidiaries	–	–	–	**19,961**	16,263	22.74
Investments in associates	**715**	727	(1.65)	**289**	296	(2.36)
Property, plant and equipment	**106,231**	77,260	37.50	**95,278**	68,834	38.42
Intangible assets	**8,146**	7,564	7.69	**5,057**	4,278	18.21
Leasehold property	**680**	708	(3.95)	**473**	491	(3.67)
Deferred tax assets	–	4,462	–	–	6,437	–
Other assets	**113,040**	110,067	2.70	**112,618**	109,771	2.59
Total assets	**7,524,874**	6,817,920	10.37	**7,443,840**	6,759,274	10.13
Liabilities						
Due to banks	**392,219**	474,781	(17.39)	**371,881**	451,478	(17.63)
Derivative financial liabilities	**23,949**	10,117	136.72	**23,949**	10,117	136.72
Securities sold under repurchase agreements	**322,476**	464,968	(30.65)	**323,416**	466,561	(30.68)
Other financial liabilities – Held for trading	–	–	–	–	–	–
Due to other customers/deposits from customers	**5,581,185**	4,963,677	12.44	**5,534,684**	4,938,654	12.07
Other borrowings	**154,857**	61,904	150.16	**154,857**	61,904	150.16
Current tax liabilities	**27,362**	23,136	18.27	**26,979**	22,977	17.42
Deferred tax liabilities	**23,211**	–	–	**21,320**	–	–
Other provisions	–	13	–	–	13	–
Other liabilities	**127,007**	120,393	5.49	**125,166**	118,267	5.83
Due to subsidiaries	–	–	–	**485**	134	261.94
Subordinated liabilities	**163,841**	165,940	(1.26)	**163,841**	165,940	(1.26)
Total liabilities	**6,816,107**	6,284,929	8.45	**6,746,578**	6,236,045	8.19
Equity						
Stated capital	**241,820**	166,798	44.98	**241,820**	166,798	44.98
Statutory reserves	**42,269**	37,716	12.07	**42,168**	37,715	11.81
Retained earnings	**33,116**	30,409	8.90	**32,470**	29,810	8.92
Other reserves	**385,886**	292,570	31.90	**380,804**	288,906	31.81
Total equity attributable to equity holders of the Bank	**703,091**	527,493	14.40	**697,262**	523,229	33.26
Non-controlling interest	**5,676**	5,497	3.26	–	–	–
Total equity	**708,767**	532,990	32.98	**697,262**	523,229	33.26
Total liabilities and equity	**7,524,874**	6,817,920	10.37	**7,443,840**	6,759,274	10.13
Contingent liabilities and commitments	**3,680,194**	3,329,339	10.54	**3,677,050**	3,327,576	10.50
Net assets value per ordinary share (USD)	**0.71**	0.59	20.34	**0.70**	0.59	18.64

Exchange Rate of 1 USD was Rs. 153.60 as at December 31, 2017 (Rs. 149.75 as at December 31, 2016).

CORRESPONDENT BANKS AND AGENT NETWORK

The Map is not drawn to scale

01. Canada

Bank of Montreal (CAD)
Toronto
BIC: BOFMCAM2
A/C: 31441044203 and 31441044190*

02. United States of America

Bank of America NT & SA (USD)
San Francisco
BIC: BOFAUS6S
A/C: 6290890098

Citi Bank (USD)
New York
BIC: CITIUS33
A/C: 36141446 and 36241316*

Deutsche Bank Trust Company Americas (USD)
New York
BIC: BKTRUS33
A/C: 4034566

JP Morgan Chase Bank (USD)
New York
BIC: CHASUS33
A/C: 400808625

Standard Chartered Bank (USD)
New York
BIC: SCBLUS33
A/C: 3582052360001, 3582052360002 and 3582052637001*

Wells Fargo Bank N.A. (USD)
New York
BIC: PNBPUS3NNYC
A/C: 2000191002407 and 2000193003365*

03. France

Crédit Agricole SA (EUR)
Paris
BIC: AGRIFRPP
A/C: 20533624000*

04. United Kingdom

Standard Chartered Bank (GBP)
London
BIC: SCBLGB2L
A/C: 1804813401 and 01270435801*

05. Netherlands

Ing Bank N.V (EUR)
Amsterdam
BIC: INGBNL2A A/C: 50908928

06. Norway

Den Norske Bank (NOK)
Oslo
BIC: DNBANOKK
A/C: 7002.02.04808

07. Sweden

Skandinaviska Enskilda Banken (SEK)
Stockholm
BIC: ESSESESS
A/C: 52018529803

08. Denmark

Nordea Bank Denmark A/S (DKK)
Copenhagen
BIC: NDEADKKK
A/C: 5000408909

09. Germany

Commerz Bank AG (EUR)
Frankfurt
BIC: COBADEFF
A/C: 400872103701 and 400871436200*

Standard Chartered Bank (EUR)
Frankfurt
BIC: SCBLDEF
A/C: 18109406,18149205 and 018112204*

Unicredit Bank AG (Hypo Vereins Bank)(EUR)
Munich
BIC: HYVEDEMM
A/C: 69101429

10. Switzerland

UBS A.G. (CHF)
Zurich
BIC: UBSWCHZH
A/C: 0230000000085408050000W

11. Italy

Banca Intesa BCI (EUR)
Milan
BIC: BCITITMM
A/C: 100100003820

Banco Popolare Society Coperation (EUR)
Verona
BIC: BAPPIT22
A/C: 400000082

Unicredito Italiano SPA (EUR)
Rome
BIC: UNCRITMM
A/C: 0995 4268

12. United Arab Emirates

Mashreq Bank (AED)
Dubai
BIC: BOMLAEAD
A/C: AE270330000010195511268

13. Pakistan

Standard Chartered Bank (ACU$)
Karachchi
BIC: SCBLPKK
A/C: 15000297601USD and 15000288701USD*

14. Maldives

Commercial Bank of Maldives Private Limited. (ACU$)
Malé
BIC: CBMVMVMV
A/C: 1600100051

15. India

Axis Bank Ltd. (ACU$)
Mumbai
BIC: AXISINBB
A/C: 910020049396568*

ICICI Bank Ltd. (ACU$)
Mumbai
BIC: ICICINBB
A/C: 406000181 and 406000220*

Standard Chartered Bank (ACU$)
Mumbai
BIC: SCBLINBB
A/C: 22205031885

16. Bangladesh

Commercial Bank of Ceylon PLC (ACU$)
Dhaka
BIC: CCEYBDDH
A/C: 2802000017

17. Sri Lanka

Commercial Bank of Ceylon PLC (ACU$)
Colombo
BIC: CCEYLKLX
A/C: 1420825031*

18. Singapore

Citibank NA (USD)
BIC: CITISGSG
A/C: (USD) 851122001,
(EUR) 851122028 and (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 and 102318735*

19. China

Standard Chartered Bank (CNY)
Shanghai
BIC: SCBLCNSX
A/C: 501510533540

20. Korea/O. Korea

Kookmin Bank (USD)
Seoul
BIC: CZNBKRSE
A/C: 7598USD010 and 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* and
(CNY) 44709448344

23. Australia

National Australia Bank (AUD)
Melbourne
BIC: NATAAU33
A/C: 1803020052500 and 1803152323500*

24. New Zealand

Bank of New Zealand (NZD)
Wellington
BIC: BKNZNZ22985
A/C: 2659680000 and 2690700000*

A. United Kingdom

Brac Saajan Exchange Ltd.
Currency Exchange Corp Ltd.
Earthport PLC
GCC Exchange Uk Ltd.
Global Exchange Ltd.
LCC Trans-Sending Ltd

B. Italy

Commex Srilanka S R L
National Exchange Co

C. Israel

S T B Union Ltd.
Unigiros Ltd.

D. Kuwait

Al Mulla Int Exchange Co
Al Muzaini Exchange Co
Al Sultan Exchange Company Wll
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 Centre

E. Baharain

Ezremit Limited – Bfc
Modern Exchange Co. Bscc
National Finance & Exchange Co
Nonoo Exchange Co
Zenj Exchange

F. Jordan

Al Alami Exchange Co
Al Nasir Establishment For Exchange
Alawneh Exchange Co
Kalil Al Rahman Exchange Co

G. Saudi Arabia

Alrajhi Banking & Inv Corp
Arab National Bank
Bank Albilad
The National Commercial Bank

H. United Arab Emirates

Al Ahalia Money Exchange Bureau
Al Ansari Exchange Co
Al Dahab Exchange
Al Faud Exchange
Al Ghurair Exchange Llp
Al Razouki Int Exchange Co
Al Rosatamani Exchange
Alukkas Exchange
Delma Exchange
Desert Exchange
G C C Exchange
Habib Exchange Co
Lari Exchange
Leela Megh Exchange LLC
Lulu International Exchange
Noor Ahalia Exchange
Orient Exchange Co
Saad Exchange
UAE Exchange Centre
Universal Exchange Centre
Wall Street Exchange Centre

I. Qatar

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

J. Oman

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

K. Maldives

Commercial Bank of Maldives Pvt Ltd.

L. Malaysia

Ria International

M. Singapore

Ameertech Remittance & Exchange

N. Australia

Ceylon Exchange Pvt Ltd.
Direct Forex Foreign Exchange
Foreign Exchange Central Pvt Ltd
Kapruka Pvt Ltd
Lanka Currency Converter Pvt Ltd

P. Lebanan

Crystal Exchange Company SAL

Global

Ezremit Ltd.
Instant Cash
Moneygram
Payoneer Inc
Placid Nk Corporation
Prabhu Group Inc
Ria Financial Services
Royal Exchange (USA) Inc
Transfast Remittance LLC
Xpress Money

e *e-Exchange Agent Network*

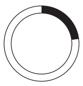
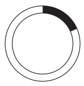
* *Accounts of Bangladesh Operations.*

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	CBC Myanmar Microfinance Company Limited
Company Profile						
Relationship to the Bank	Subsidiary	Subsidiary	Subsidiary	Subsidiary	Subsidiary	Subsidiary
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	April 4, 2017 in Myanmar
Bank's Holding	92.97%	100%	100%	100%	55%	100%
Principal Business Activities	Property Development	Provision of IT Related Services	Money Transfer and Money Exchange	Leasing and Hire Purchase Financing	Banking	Microfinancing
Business Address	4th floor, No. 8-4/2, York Arcade Building, Leyden Bastian Road, 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.	42A, Pantra Street, Dagon Township, Yangon.
Contact Numbers	2447300	2430420	+39 06 48905707	081 2213498, 081 2200272	+96 03332668	+95 1378975
Board of Directors						
Chairman	B R L Fernando	Prof A K W Jayawardane	K G D D Dheerasinghe	K G D D Dheerasinghe	Hussain Afeef	K G D D Dheerasinghe
Managing Director/CEO	J Durairatnam			E M P Edirisinghe	D D J Rajapakse	R C P Kalugamage
Director	A L Gooneratne	K D N Buddhipala	K D N Buddhipala	Dr (Mrs) J P Kuruppu	S Renganathan	Mrs S A Walgama
Director	A T P Edirisinghe	S C U Manatunga	U K P Banduwansa	S R Pushpakumara	S C U Manatunga	D J D P Hettiarachchi
Director	L D A Jayasinghe	Mrs S A Walgama	Prof Francesco Bellini	A N P Sooriyaarachchi	U I S Thillakawardana	
Director	U I S Tillakawardana	K S A Gamage	Dr Antonia Coppola	Y S H R S Silva	Adam Saleem	
Director		S Prabagar			Dr Ibrahim Vishan	
Director						
Director						
Company Secretary	L W P Indrajith	M P Dharmasiri	U K P Banduwansa	R A P Rajapaksha	Ms Fathmath Muaza	

Summary of Financial Information

	2017 Rs. Mn.	2016 Rs. Mn.	2017 Rs. Mn.	2016 Rs. Mn.	2017 Rs. Mn.	2016 Rs. Mn.	2017 Rs. Mn.	2016 Rs. Mn.	2017 Rs. Mn.	2016 Rs. Mn.	2017 Rs. Mn.	2016 Rs. Mn.
Total assets	2,753.384	2,364.676	138.209	104.734	94.969	41.853	5,273.422	5,242.565	9,509.824	5,682.531	64.512	N/A
Total liabilities	417.129	388.810	54.450	40.135	43.379	71.443	4,071.738	4,541.251	7,695.776	3,946.301	–	N/A
Net assets	2,336.255	1,975.866	83.759	64.599	51.590	(29.590)	1,201.684	701.314	1,814.048	1,736.230	64.512	N/A
Total revenue	354.488	329.258	191.970	138.000	83.460	20.796	1,047.098	681.187	404.845	30.291	–	N/A
Profit before tax	482.538	391.653	61.320	46.616	(3.005)	(19.086)	0.118	83.064	46.485	(107.699)	–	N/A
Profit after tax	426.780	326.441	44.274	33.209	17.702	(19.086)	2.603	29.056	32.984	(107.730)	–	N/A
Dividend per share (Rs.)	5.00	5.00	50.00	50.00	–	–	0.50	–	–	–	–	N/A

Equity Investments Lanka Ltd.	Commercial Insurance Brokers (Pvt) Ltd.
Associate	Associate
August 08, 1990 in Sri Lanka	August 17, 1987 in Sri Lanka
22.92% 	18.59% 
Venture Capital Financing	Insurance Brokering
108 A, 2/1, Maya Avenue, Colombo 06.	347, Dr Colvin R De Silva Mawatha, Colombo 02.
5373745, 2507605-6	2447297, 2447299
M J C Amarasuriya	M P Jayawardena
A H M Riyaz	R A M Seneviratne
Deshamanya S E Captain	D M D K Thilakaratne
J D Peiris	U I S Tillakawardana
J B Abu Baker	S P S Ranatunga
W I Arambage	
L A Rajapakse (Alternate Director)	
H A Pieris	
K C Vignarajah	
Mrs R R Dunuwille	Ms Y A Kularathna

2017 Rs. Mn.	2016 Rs. Mn.	2017 Rs. Mn.	2016 Rs. Mn.
300.376	308.341	303.564	273.856
10.119	8.949	70.557	60.394
290.257	299.392	233.007	213.462
21.050	28.000	251.923	232.302
(6.111)	11.166	44.330	37.703
(6.716)	11.949	28.711	25.614
–	–	15.00	15.00

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 uncollectability.

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 III
The Basel Committee on Banking Supervision (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 have been incurred but have 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 intends to sell immediately or in the near term and designated as fair value through profit or loss or available for sale on initial recognition.

Liquidity Coverage Ratio (LCR)
Refers to highly liquid assets held by Banks to meet short-term obligations. The ratio represents a generic stress scenario that aims to anticipate market-wide shocks.

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.

Net Stable Funding Ratio (NSFR)
Measures the amount of longer term, stable sources of funding employed by a Bank relative to the liquidity profiles of the assets funded and the potential for contingent calls on funding liquidity arising from off-balance sheet commitments and obligations.

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.

Price to Book Value
Market price of a share divided by the net assets value of a 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 1 Capital
(Common Equity Tier 1 – CET 1)
Common Equity Tier 1 (CET 1) is a component of Tier 1 capital that consists mostly of Stated Capital. It is a capital measure that was introduced as a precautionary measure to protect the economy from a financial crisis.

Tier 1 Capital
(Additional Tier 1 Capital – AT I)
Additional Tier 1 Capital (AT I) is a component of Tier 1 Capital that comprises securities that are subordinated to most subordinated debt, which have no maturity, and their dividends can be cancelled at any time.

Tier 2 Capital
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.

ACRONYMS AND ABBREVIATIONS

AFS	Available for sale
AGM	Annual General Meeting
ALCO	Assets and Liabilities Committee
AMA	Advanced Measurement Approaches
AML	Anti Money Laundering
ASPI	All Share Price Index
BAC	Board Audit Committee
BCBS	Basel Committee on Banking Supervision
BCC	Board Credit Committee
BCMSC	Business Continuity Management Steering Committee
BCP	Business Continuity Plan
BHRRC	Board Human Resources and Remuneration Committee
BIA	Basic Indicator Approach
BIC	Board Investment Committee
BIRMC	Board Integrated Risk Management Committee
BIS	Bank for International Settlements
BNC	Board Nomination Committee
BRPTRC	Board Related Party Transactions Review Committee
BTC	Board Technology Committee
CAR	Capital Adequacy Ratio
CASA	Current Accounts and Savings Accounts
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
DBU	Domestic Banking Unit
DRP	Disaster Recovery Plan
EAR	Earnings at Risk
ECMN	Executive Committee on Monitoring NPA
EGM	Extraordinary General Meeting
EIRMC	Executive Integrated Risk Management Committee
ESOP	Employee Share Option Plan
EVE	Economic Value of Equity
FIS	Fixed Income Securities
FX	Foreign Exchange
FY	Financial Year
GDP	Gross Domestic Product
GOSL	Government of Sri Lanka
GRI	Global Reporting Initiative
HFT	Held for trading
HR	Human Resources
HTM	Held to maturity
ICAAP	Internal Capital Adequacy Assessment Process
ICASL	Institute of Chartered Accountants of Sri Lanka
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 Credit Risk Indicators
KIRI	Key IT Risk Indicators
KMP	Key Management Personnel
KORI	Key Operational Risk Indicators
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
NBT	Nation Building Tax
NII	Net Interest Income
NIM	Net Interest Margin
NOP	Net Open Position
NPA	Non-Performing Assets
NPL	Non-Performing Loans
NSFR	Net Stable Funding Ratio
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
SLAR	Statutory Liquid Assets Ratio
SLDB	Sri Lanka Development Bonds
SME	Small and Medium Enterprises
TMO	Treasury Middle Office
UNGC	United Nations Global Compact
VaR	Value at Risk
YoY	Year on Year

ALPHABETICAL INDEX

NOTICE OF MEETING – ANNUAL GENERAL MEETING

Notice is hereby given that the Forty-Ninth (49th) Annual General Meeting ("AGM") of the Commercial Bank of Ceylon PLC (the "Company") will be held at the Galadari Hotel, "Grand Ballroom", No. 64, Lotus Road, Colombo 01, on **Wednesday, March 28, 2018 at 2.00pm** 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, 2017 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. 2.00 per issued and fully-paid ordinary (voting) and (non-voting) share constituting a total sum of Rs. 1,993,400,858.00 based on the issued ordinary (voting) and (non-voting) shares as at February 22, 2018 [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") Employee Share Option Plan ("ESOP") schemes] be and is hereby declared for the financial year ended December 31, 2017 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%).

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) Limited, No. 101, Inner Flower Road, Colombo 03] and also those shareholders whose names appear on the Central Depository Systems (Pvt) Limited ("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. 2.00 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 22, 2018 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. 1,993,400,858.00 (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. 1,865,545,636.00 (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. 127,855,222.00 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 77.7777802052 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 22, 2018; and
- 01 new fully-paid ordinary (non-voting) share for every 58.8889000454 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 22, 2018.

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 11,992,793 new ordinary (voting) shares, based on the issued and fully-paid ordinary (voting) shares as at February 22, 2018, (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 1,085,563 new ordinary (non-voting) shares based on the issued and fully-paid ordinary (non-voting) shares as at February 22, 2018 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 932,772,818 existing issued and fully-paid ordinary (voting) shares as at February 22, 2018 and 63,927,611 existing issued and fully-paid ordinary (non-voting) shares as at February 22, 2018 (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, 2017:

"The allotment and issue of 11,992,793 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 1,085,563 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) Limited ("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 11,992,793 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 1,085,563 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) Limited ("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 S Swarnajothi who retires by rotation in terms of Article 86 of the Articles of Association
   ii. To re-elect Mr K Dharmasiri who retires by rotation in terms of Article 86 of the Articles of Association
   iii. To elect Mr T L B Hurulle who retires by rotation in terms of Article 92 of the Articles of Association
   iv. To elect Justice K Sripavan who retires by rotation in terms of Article 92 of the Articles of Association
4. (a) To appoint Messrs Ernst & Young, Chartered Accountants, as recommended by the Board of Directors as the Company's Auditors for the financial year ending December 31, 2018; and

   (b) To authorise the Board of Directors to determine the remuneration of the Auditors for the financial year ending December 31, 2018.
5. To authorise the Board of Directors to determine donations for the year 2018.

By Order of the Board of Commercial Bank of Ceylon PLC,

Ranjani Gamage (Mrs)
Company Secretary

March 6, 2018
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 2017

Dear Shareholder/s,

Final dividend for the year ended December 31, 2017 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 a final dividend distribution of Rs. 2.00 per each existing issued and fully-paid ordinary (voting) and (non-voting) share is recommended for the financial year ended December 31, 2017 for due declaration by the shareholders at the Annual General Meeting ("AGM") to be held on March 28, 2018 (the date of the AGM) and 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, for the financial year ended December 31, 2017, which balance would be liable to a Withholding Tax of ten percent (10%).

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. 1,993,400,858.00 based on the issued and fully-paid ordinary (voting) and (non-voting) shares of the Company as at February 22, 2018 [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 Employee Share Option Plan ("ESOP") schemes].

Accordingly, and in pursuance of the aforesaid distribution scheme, the Company proposes to issue:

(a) 11,992,793 new ordinary (voting) shares, calculated based on the issued and fully-paid ordinary (voting) shares as at February 22, 2018 [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 22, 2018; and

(b) 1,085,563 new ordinary (non-voting) shares calculated based on the issued and fully-paid ordinary (non-voting) shares as at February 22, 2018 and on the basis of their market value (closing price) as at the end of trading on February 22, 2018.

An announcement will be made by the Company 3 market days prior to the date of the AGM on the final number of ordinary (voting) and (non-voting) shares to be issued in satisfaction of the said dividend.

The said shares shall be issued in the following ratios to the entitled shareholders:

(a) One new fully-paid ordinary (voting) share for every 77.7777802052 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 22, 2018; and

(b) One new fully-paid ordinary (non-voting) share for every 58.8889000454 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 22, 2018.

The above share ratio is based on a value of Rs. 140.00 per ordinary (voting) share and Rs. 106.00 per ordinary (non-voting) share [subject to ten percent (10%) Withholding Tax, as may be applicable] as at the end of trading on February 22, 2018. 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

Entitled 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) Limited ("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) Limited, 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/Central Bank 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 from the Department of Foreign Exchange of the Central Bank of Sri Lanka 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 above mentioned 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 above mentioned 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 above mentioned 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, 2017 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 dematerialisation 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 the requirements of the Department of Foreign Exchange of the Central Bank of Sri Lanka 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 28, 2018 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,

Ranjani Gamage (Mrs)
Company Secretary

March 6, 2018
Colombo

NOTICE OF MEETING – EXTRAORDINARY GENERAL MEETING

Notice is hereby given that an Extraordinary General Meeting of Commercial Bank of Ceylon PLC ("Bank") will be held immediately after the conclusion of the Annual General Meeting ("AGM") which has been convened for **March 28, 2018 at 2.00pm** at the Galadari Hotel, "Grand Ballroom", No. 64, Lotus Road, Colombo 01, for the following purpose:

To consider and if thought fit to pass the following resolutions as Special Resolutions:

1. Approval under Rule 2.2.1.k. of the Listing Rules of the Colombo Stock Exchange, Section 99 of the Companies Act No. 07 of 2007 and Articles 9 and 10 of the Articles of Association of the Bank of the PROPOSED DEBENTURE ISSUE (Resolution No. 1 – To be passed by ordinary voting shareholders):

   THAT the Board of Directors ("the Board") of Commercial Bank of Ceylon PLC ("the Bank") be and is hereby authorised:

   i. To issue and allot up to One Hundred Million (100,000,000) fully-paid, Basel III Compliant – Tier 2, Listed, Rated, Unsecured, Subordinated, Redeemable Debentures ("Debentures") with a Non-viability Conversion feature at such interest rates as may be determined by the Board at the time of issue at a par value of Rs. 100.00 each with a minimum maturity period of 5 years and a maximum maturity period of 10 years and that ordinary voting shares of the Bank be issued to the holders of such Debentures to the extent of the amounts due and payable on such Debentures (i.e. capital sum paid on the Debentures plus outstanding interest) in the event the Monetary Board of the Central Bank of Sri Lanka determines that a Trigger Event as defined in the Circular to Shareholders dated March 6, 2018 has occurred; and

   ii. To issue upon the occurrence of a Trigger Event, ordinary voting shares to the holders of the Basel III compliant Debentures at the conversion price with such price being determined based on the simple average of the daily Volume-Weighted Average Price of an ordinary voting share of the Bank as published by the Colombo Stock Exchange during the three (03) month period immediately preceding such Trigger Event;

   iii. To issue upon the occurrence of a Trigger Event such ordinary voting shares to the holders of the Debentures on the aforesaid basis in lieu of the amounts due and payable on the relevant Debentures (i.e. capital sum paid on the Debentures plus outstanding interest) without such shares being offered in the first instance to the then existing ordinary voting shareholders of the Bank *pari passu* to their shareholding subject to regulatory approvals from, namely, the Central Bank of Sri Lanka and the Colombo Stock Exchange.

2. Approval under Rule 2.2.1.k. of the Listing Rules of the Colombo Stock Exchange, Section 99 of the Companies Act No. 07 of 2007 and Articles 9 and 10 of the Articles of Association of the Bank of the PROPOSED DEBENTURE ISSUE (Resolution No. 2 – To be passed by ordinary non-voting shareholders):

   THAT the Board of Directors ("the Board") of Commercial Bank of Ceylon PLC ("the Bank") be and is hereby authorised:

   i. To issue and allot up to One Hundred Million (100,000,000) fully paid, Basel III Compliant - Tier 2, Listed, Rated, Unsecured, Subordinated, Redeemable Debentures ("Debentures") with a Non-viability Conversion feature at such interest rates as may be determined by the Board at the time of issue at a par value of Rs. 100.00 each with a minimum maturity period of 5 years and a maximum maturity period of 10 years and that ordinary voting shares of the Bank be issued to the holders of such Debentures to the extent of the amounts due and payable on such Debentures (i.e. capital sum paid on the Debentures plus outstanding interest) in the event the Monetary Board of the Central Bank of Sri Lanka determines that a Trigger Event as defined in the Circular to Shareholders dated March 6, 2018 has occurred; and

   ii. To issue upon the occurrence of a Trigger Event, ordinary voting shares to the holders of the Basel III compliant Debentures at the conversion price with such price being determined based on the simple average of the daily Volume Weighted Average Price of an ordinary voting share of the Bank as published by the Colombo Stock Exchange during the three (03) month period immediately preceding such Trigger Event;

   iii. To issue upon the occurrence of a Trigger Event such ordinary voting shares to the holders of the Debentures on the aforesaid basis in lieu of the amounts due and payable on the relevant Debentures (i.e. capital sum paid on the Debentures plus outstanding interest) without such shares being offered in the first instance to the then existing ordinary voting shareholders of the Bank *pari passu* to their shareholding subject to regulatory approvals from, namely, the Central Bank of Sri Lanka and the Colombo Stock Exchange.

By Order of the Board of
Commercial Bank of Ceylon PLC,

Ranjani Gamage (Mrs)
Company Secretary

March 6, 2018
Colombo

CIRCULAR TO SHAREHOLDERS ON PROPOSED DEBENTURE ISSUE

THIS DOCUMENT IS OF VALUE – If you are in any doubt as to the action you should take, you should consult your stockbroker or other professional adviser immediately.

Dear Shareholder/s

The Commercial Bank of Ceylon PLC ("the Bank") made a profit of Rs. 16,581.244 Mn. for the year ended December 31, 2017 (Group Rs. 16,626.507 Mn.). Total shareholders' funds increased to Rs. 107,099.360 Mn. (Group Rs. 108,866.706 Mn.) as of December 31, 2017 from Rs. 78,353.664 Mn. (Group Rs. 79,815.423 Mn.) as of December 31, 2016. Figures shown herein are extracted from published Financial Statements.

The Board of Directors of the Bank, having identified the need to strengthen the Tier 2 Capital Base of the Bank as per Basel III requirements, and in order to facilitate expansion and to reduce maturity mismatches, at their meeting held on January 26, 2018 decided to initiate, and also to recommend to shareholders,

AN ISSUE OF BASEL III COMPLIANT – TIER 2 LISTED RATED UNSECURED SUBORDINATED REDEEMABLE 5 YEAR AND 10 YEAR DEBENTURES WITH A NON-VIABILITY CONVERSION TO ORDINARY VOTING SHARES TO BE ISSUED BY THE BANK, SOLELY IF INSTRUCTED TO DO SO BY THE MONETARY BOARD OF SRI LANKA ON OCCURRENCE OF A TRIGGER EVENT.

The proposed issue is to raise a sum of Rupees Five Billion (Rs. 5,000,000,000/-) through the issuance of up to 50,000,000 Debentures, each with a par value of Rs. 100.00, with an option to raise up to a further Rupees Five Billion (Rs. 5,000,000,000.00) through the issuance of up to a further 50,000,000 Debentures, each with a par value of Rs. 100.00 in the event of an over-subscription of the initial issue (hereinafter collectively called "the Debentures").

The proposed Debentures will be redeemed after 5 years and after 10 years from the date of allotment of such Debentures and the principal sum and accrued interest (if any) payable on the redemption of such Debentures will be paid not later than three (3) market days from the date of redemption, unless a Trigger Event occurs as described in this Circular.

The proposed issue of Debentures is subject to the approval of the Colombo Stock Exchange and the Central Bank of Sri Lanka and are to be issued under rules and regulations promulgated by the Colombo Stock Exchange and the Central Bank of Sri Lanka, including guidelines issued in relation to Basel III compliance in the Banking Act Direction No. 1 of 2016 issued by the Central Bank of Sri Lanka.

The final rating for the proposed Debenture Issue with a convertibility feature in compliance with Basel III requirements will be issued by Fitch Ratings Lanka Limited. Issuance of this rating will be subject to the adoption of a Special Resolution by the shareholders of the Bank, at the Extraordinary General Meeting ("EGM") that is being convened, and receipt of approval of the Central Bank of Sri Lanka (CBSL). The final Rating Report will be incorporated in the Debenture Prospectus.

1. Objectives of the Proposed Debenture Issue

Funds raised through this Debenture Issue are expected to improve the Capital Adequacy of the Bank. The medium to long-term duration of the Debentures and the subordinated nature of the instrument issued in compliance with Basel III requirements will enable the Bank to strengthen the Tier 2 Capital Base as per Basel III requirements. Approval will be obtained from the Central Bank of Sri Lanka to include the Basel III compliant Debentures under Tier 2 capital.

The Bank expects to use the funds raised through the Debentures to expand the lending portfolio of the Bank. Since the Debentures proposed to be issued are of a medium to long-term nature, being of tenures of 5 and 10 years, the raising of funds through Debentures can be expected to reduce the mismatch between shorter term liabilities and medium to long-term assets.

The Bank intends to lend the proceeds of the Issue and thereby expand the Bank's loan book in the ordinary course of business over a period of three (3) months. The Bank has recorded net loans and advances growth of Rs. 121.428 Bn. in 2017, and therefore based on an expectation of similar credit demand in 2018 it is unlikely that a situation of not lending the Debenture proceeds within a period of three (3) months will arise.

The Bank as at date of this circular has not recognised related parties for the lending of the Debenture proceeds and therefore plans to disburse the Debenture proceeds in the ordinary course of business. However, in the event if the Bank lends funds raised through this Debenture Issue to related parties, the Bank will comply with the requirements stipulated under Section 9 of the CSE Listing Rules (as applicable). Further, in the event these Debentures are allotted to related parties, the Bank shall comply with all applicable laws/regulations in this regard.

Capital and Current Capital Adequacy Status

The Bank is in compliance with the Basel III requirements as at December 31, 2017.

Current CAR position of the Bank as at 31.12.2017		15.75%
Minimum CAR requirement to be maintained as at 01.01.2018 as per Basel III Direction No. 01 of 2016		12.875%
Minimum amount of funds the Bank is required to raise from the Debenture Issue which will have a convertible option in compliance with Basel III CAR requirements		Nil
Expected CAR position, subsequent to the Basel III compliant Debenture Issue	As at 31.12.2017 with Rs. 5 Bn.	16.32%
	As at 31.12.2017 with Rs. 10 Bn.	16.89%

The minimum Capital Adequacy requirements under Basel III are as follows:

Components of Capital	01.07.2017	01.01.2018	01.01.2019
Common Equity Tier 1 Capital with Buffers (CCB and Surcharge on D-SIB)	6.250%	7.375%	8.500%
Total Tier 1 Capital with Buffers (CCB and Surcharge on D-SIB)	7.750%	8.875%	10.000%
Total Capital Ratio (Tier 1 + Tier 2) with Buffers (CCB and Surcharge on D-SIB)	11.750%	12.875%	14.000%

CCB – Capital Conservation Buffer

D-SIB – Domestic Systemically Important Bank

Subordinated funds raised through this Debenture Issue in compliance with requirements under Basel III, are expected to further improve the Capital Adequacy of the Bank's Balance Sheet by increasing its Tier 2 Capital base thus strengthening its Total Eligible Capital as per Basel III requirements.

2. Proposed Issuance of Basel III Compliant Debentures

Regulatory aspects regarding Basel III compliant subordinated debt

As per Banking Act Direction No. 1 of 2016 issued by the Central Bank of Sri Lanka, subordinated debt issued by licensed commercial banks needs to be compliant with Basel III requirements effective from July 1, 2017 in order to qualify as Tier 2 capital. According to Basel III guidelines, all subordinated debt issuance should have either a conversion feature allowing conversion to equity or a write-down feature. The Bank is therefore of the view that a non-viability conversion feature should be included in the proposed Debentures, and that such conversion, if applicable, should be to ordinary voting shares of the Bank upon occurrence of a Trigger Event.

The conversion of Debentures to ordinary voting shares will be in accordance with the applicable laws and regulations of Sri Lanka and the new shares will, subject to the approval of the Colombo Stock Exchange, be listed and will be subject to the instructions of the Monetary Board of the Central Bank of Sri Lanka with regard to application of the Single Holder Limit at the time of conversion of the Debentures into ordinary voting shares of the Bank.

3. Benefits for the Bank in Issuing Basel III Compliant Debentures

(a) Issuance of Basel III compliant Debentures will improve the capital adequacy ratios of the Bank.

(b) Issuance of Basel III compliant Debentures will raise funds for expansion of the lending portfolio.

(c) The funds raised through the proposed Debenture Issue being of a medium to long-term nature will reduce maturity mismatches in the assets and liabilities portfolios of the Bank.

(d) The cost of capital attributable to Debentures is less than the cost of capital attributable to equity and issuance of Debentures thereby enables a reduction in the overall cost of capital relative to the situation that would prevail if an equity issuance were made instead of an issuance of Debentures.

(e) Upon the occurrence of a Trigger Event, any outstanding balance of these Debentures including the total par value of the Debentures and Debenture Interest accrued and unpaid as at that date will be converted to ordinary voting shares of the Bank. As a result, the non-viability conversion has the effect of acting as a buffer by reducing outstanding claims from liability holders (Debenture holders) in the event of an occurrence of a Trigger Event.

(f) Voting rights of existing ordinary voting shareholders are not altered as long as the Non-viability conversion Debentures are not converted into ordinary voting shares of the Bank, and to the extent that a Trigger Event does not occur the issuance of these Debentures is a suitable instrument to improve capital adequacy and fund growth without resorting to a new issue of equity.

4. Issuance of Basel III Compliant Debentures

In order for the Debentures to be recognised as Tier 2 Capital of the Bank under Basel III as described in the Banking Act Direction No. 1 of 2016 issued by the Central Bank of Sri Lanka, the Debentures are required to have the following minimum features:

- Issued and fully paid in cash
- Listed on a recognised stock exchange
- Redeemable
- Subordinated to the claims of depositors and general creditors

- Unsecured and not covered by a guarantee or any other arrangement that legally or economically enhances the seniority of the claim above the depositors and general creditors of the Bank
- Issued with the prior approval from the Monetary Board of the Central Bank of Sri Lanka for inclusion in Tier 2 capital
- A minimum tenure of 5 years
- Rated by an acceptable Rating Agency
- Have a feature through which, in the event that the Monetary Board of the Central Bank of Sri Lanka determining that it is appropriate and in the best interest of the Bank and therefore so directs the Bank to convert the Debentures into ordinary voting shares of the Bank such that through issuance of these new ordinary voting shares the new shares issued will cover the total outstanding under the Debentures (resulting from the "Trigger Event" referred to in this Circular)
- The investors in the Debentures have no rights to accelerate the repayment of future scheduled coupons, except in bankruptcy and liquidation of the Bank
- Neither the Bank nor a banking group over which the Bank exercises control or significant influence can have purchased the instrument and the Bank cannot directly or indirectly have funded the purchase of the instrument

The Bank may consider allotting up to seventy-five per centum (75%) of the issue value on a preferential basis to identified Qualified Investors of strategic importance.

5. Eligible Investors for Basel III Compliant Debentures

Investment and trading in Basel III compliant Debentures will be limited to Qualified Investors.

A Qualified Investor for the purpose of determining eligibility to invest in issuances of Basel III compliant Debentures shall be:

- A commercial bank licensed by the Central Bank of Sri Lanka in terms of the Banking Act No. 30 of 1988 (as amended)
- A specialised bank licensed by the Central Bank of Sri Lanka in terms of the Banking Act No. 30 of 1988 (as amended)
- A mutual fund, a pension fund, Employees Provident Fund or any other similar pooled fund
- A venture capital fund/company and private equity company
- A finance company licensed by the Central Bank of Sri Lanka in terms of the Finance Business Act No. 42 of 2011 (as amended)
- A company licensed by the Central Bank of Sri Lanka to carry on finance leasing business under the Finance Leasing Act No. 56 of 2000 (as amended)
- A company licensed by the Insurance Board of Sri Lanka to carry on insurance business in terms of the Regulation of the Insurance Industry Act No. 43 of 2000 (as amended)
- A corporate (listed or unlisted) which does not fall under the above categories and is incorporated under the Companies Act No. 07 of 2007
- An investment trust or investment company
- A non-resident institutional investor
- An individual with a minimum initial investment of Rs. 5,000,000.00

6. Specific Risks Considering the Objectives of the Issue

Since the proposed Debenture Issue is to raise up to Rs. 10 Bn. which is a relatively small amount as compared to the overall assets and liabilities base of the Bank, there is no specific risk factor that may lead to non-achievement of the objectives as per the stipulated timeliness, since the reliance on the Debenture proceeds for asset growth is marginal. However, an adjustment in asset growth and in maturity mismatch reduction may result to the extent that capital adequacy is not improved due to an under-subscription of the issue.

Until full disbursement of the Debenture proceeds, the funds raised through the Debenture Issue will be invested in Government Securities. Such investments in Government Securities are expected to generate a return of 7.80% p.a. at current market rates. In the event the Debenture proceeds are not fully utilized as per stated objectives, such non-utilisation can be expected to lead to a reduction in Net Interest Spread as undisbursed Debenture funds would be invested in Government Securities as opposed to being utilised in lending activities which can be expected to generate a higher Net Interest Spread.

In the event the proposed Debenture Issue is under-subscribed, the Bank may have to adjust asset growth to comply with Basel III requirements. However, under-subscription is not envisaged since there has been reasonable demand for recent Debenture Issues of the Bank. No further shareholder approval will be needed in the event the proposed Debenture Issue is not fully subscribed for or if the timeliness stated above are amended as thought fit by the Bank.

7. Continuing Disclosure Requirements

The Bank undertakes to disclose the progress of the utilisation of the proceeds of the proposed Debenture Issue in the Annual Report/s and future interim financial statements until funds raised through the proposed Debenture Issue are fully utilised. The format of the relevant disclosures to be made shall be disclosed in the Prospectus.

8. Terms and Method of Conversion

Occurrence of "Trigger Event"

A "Trigger Event" is determined by and at the sole discretion of the Monetary Board of the Central Bank of Sri Lanka (i.e. conversion of the said Debentures upon occurrence of the Trigger Event will be effected by the Bank solely upon being instructed by the Monetary Board of the Central Bank of Sri Lanka), and is defined in the Banking Act Direction No. 1 of 2016 of Web Based Return Code 20.2.3.1.1.1 (10) (iii) (a and b) as a point/event being the earlier of:

(A) "A decision that a write-down, without which the Bank would become non-viable, is necessary, as determined by the Monetary Board. OR

(B) The decision to make a public sector injection of capital, or equivalent support, without which the Bank would have become non-viable, as determined by the Monetary Board".

The Banking Act Direction No. 1 of 2016 dated December 29, 2016 on the web-based returns specify in index reference 20.2.3.1.1.1 (10) (i) that, for such Debentures to be qualified as Tier 2 Capital (under Basel III guidelines) they should have a convertibility clause which enables the Debenture to be converted to ordinary shares in the occurrence of a Trigger Event. Furthermore, the Bank is of the view that any conversion of debt to equity upon conversion should have the same rights and privileges of the existing ordinary voting shareholders (ranking equal and *pari passu* with existing ordinary voting shares) and hence consider it appropriate to effect conversion of the proposed Debentures to ordinary voting shares.

The Bank on receipt of a Trigger Event notification from the Monetary Board of the Central Bank of Sri Lanka will immediately make a market announcement of such notification and thereafter announce the "price" and "dates" (such as the Trigger Event date and the date of allotment) pertaining to the pending conversion of Debentures to ordinary voting shares.

Conversion Ratio

Upon the occurrence of the Trigger Event, the Bank shall be required and entitled to issue and allot within twenty (20) days, ordinary voting shares of the Company ranking equal and *pari passu* with the existing ordinary voting shares, to the Debenture holders up to the outstanding balance of such Debentures, including the total par value of the Debentures and the Debenture interest accrued and unpaid. This will be at a conversion price which will be based on the Simple Average of Volume Weighted Average Price of ordinary voting shares of the Bank as published by the Colombo Stock Exchange, during the three (3) month period, immediately preceding the date of the Trigger Event. The CDS upload pertaining to ordinary voting shares will be completed within ten (10) market days from the date of allotment of such ordinary voting shares. In the event if any Debenture holder being entitled to a fractional allotment of an ordinary voting share on such issuance and allotment, the Bank shall settle the resulting sums in cash, based on the conversion price within fourteen (14) market days from the date of allotment of the said ordinary voting shares.

Conversion and Trigger

The Bank has decided to use the simple average of the Volume Weighted Average Price (VWAP) as indicated above due to its practicality and equitability as a pricing formula for conversion. This formula takes into account the market price over a three month period preceding the date of the Trigger Event thereby lessening the impact of short-term price volatility and the volume impact in pricing. Due to the formula being applied using publicly available data published by the Colombo Stock Exchange, there is a high degree of transparency that results from the adoption of this method.

Ordinary voting shares arising from the non-viability conversion will be listed on the CSE.

If there is an issuance of ordinary voting shares to the Debenture holders upon the occurrence of the Trigger Event, a Debenture holder would cease to be a Debenture holder and would become a shareholder of the Bank to the extent of such issuance and will rank equal and *pari passu* with existing ordinary voting shareholders with voting rights after the allotment of new shares to such shareholders (being the previous Debenture holders) and will rank superior to the ordinary non-voting shareholders in respect of the voting rights attaching to the shares issued upon conversion.

Subsequent to the Debenture holders becoming shareholders of the Bank, due to the occurrence of the Trigger Event and the resultant conversion, they would be entitled to exercise such rights as are exercisable by the other shareholders of the Bank holding ordinary voting shares. Once the conversion of Debentures is concluded, the convertible Debentures will cease to exist.

Dilution of Shareholding upon a Conversion of Debentures

In the event of conversion to ordinary voting shares, there would be a dilution of the existing shareholding percentage held by the existing shareholders. However, the extent of the dilution will be dependent on several factors that cannot be determined at this point, due to the following:

The number of shares to be issued resulting from such a conversion will be determined by the "Conversion Price" at the "Trigger Point" as detailed below:

There will be a dilution impact on the shareholdings of the existing shareholders.

If the simple average of the Volume Weighted Average Price (VWAP) at the point of conversion is low compared to the prevailing share price, it would result in the allocation of a comparatively higher number of ordinary voting shares by the Bank to the Debenture holders, which will dilute the shareholding of existing shareholders.

If the simple average of Volume Weighted Average Price (VWAP) at the point of conversion is high compared to the prevailing share price, it would result in the allocation of a comparatively lower number of ordinary voting shares by the Bank, which will dilute the shareholding of existing shareholders to a lesser extent than in the former instance described above.

In order to avoid dilution of the shareholding of the existing shareholders due to a conversion, in the event of there being a likelihood of the occurrence of the Trigger Event, prior to conversion of the said Debentures into ordinary voting shares, the then existing shareholders will be first called upon to infuse additional share capital and if such infusion is not forthcoming the proposed Debenture (i.e. Tier 2 Capital) will get converted into ordinary voting shares of the Company upon the determination of the "non-viability" point by the Monetary Board of the Central Bank of Sri Lanka and upon instructions being issued to the Bank in this regard.

The extent of dilution of existing shareholders will have to be determined by reference to the number of shares that are in issue at the time of such a conversion. The number of shares that are in issue at the time of a conversion can vary during the tenure of the Debentures due to the issuance of new shares by way of scrip dividends, rights issues, capitalisation of reserves, and/or any other relevant corporate action.

However, it is unlikely that the Trigger Point would occur given the AA (lka)/Stable credit rating of the Bank by Fitch Ratings Lanka Limited and the strong performance of the Bank.

Pre-emptive Subscription Rights and Risk Associated with Debentures

Waiver of Pre-emptive Rights

In keeping with the Central Bank regulation, it is the Bank's intention to obtain shareholder approval for the issuance of ordinary voting shares [which may be required to be issued due to the Monetary Board of Central Bank of Sri Lanka instructing the Bank to exercise the convertible feature attached to these Debentures (the occurrence of the "Trigger Event")] and to waive the pre-emptive rights of the existing ordinary voting and non-voting shareholders.

Non-occurrence of a Trigger Event

In the event of a non-occurrence of a Trigger Event these Debentures will be redeemed after 5 and 10 years from the date of allotment of such Debentures and the principal sum and unpaid and accrued interest (if any) payable on the redemption of Debentures will be paid not later than three (3) market days from the date of redemption, unless otherwise a Trigger Event occurs.

9. Reason for Convening an Extraordinary General Meeting

As per rule No. 2.2.1.k of the Listing Rules of the Colombo Stock Exchange, the Company is required to obtain the approval of the shareholders for the proposed Debenture Issue by way of a Special Resolution. It will also be necessary to obtain, by means of a duly passed Special Resolution, approval of the shareholders for the proposed share issue which arises pursuant to the conversion of Debentures, which may affect the rights attached to the Company's existing ordinary voting and non-voting shares, in compliance with Section 99 of the Companies Act No. 07 of 2007.

Therefore, an Extraordinary General Meeting of the Bank is being convened in accordance with the Notice of Meeting attached hereto, for the purpose of passing the Special Resolutions set out therein.

Shareholders who are unable to attend the meeting in person are kindly requested to complete the enclosed Form of Proxy (in accordance with the instructions specified therein) and to deposit it at the Registered Office of the Company not less than 48 hours before the time appointed for the meeting.

By Order of the Board of
Commercial Bank of Ceylon PLC

Ranjani Gamage (Mrs.)
Company Secretary

March 6, 2018
Colombo

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	whom failing
Mr Themiya Loku Bandara Hurulle	whom failing
Justice Kanagasabapathy Sripavan	

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-Ninth (49th) Annual General Meeting (AGM) of Commercial Bank of Ceylon PLC to be held on Wednesday, March 28, 2018 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, 2017 together with the Report of the Auditors thereon.	☐	☐
2. To declare a dividend as recommended by the Directors and to consider and if thought fit, to pass the following 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);	☐	☐
ii. Waiver of Pre-emption Rights (Dividend Resolution No. 2);	☐	☐
iii. Approval of an issue of ordinary (voting) and (non-voting) shares (Dividend Resolution No. 3).	☐	☐
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 S Swarnajothi who retires by rotation in terms of Article 86 of the Articles of Association	☐	☐
ii. To re-elect Mr K Dharmasiri who retires by rotation in terms of Article 86 of the Articles of Association	☐	☐
iii. To elect Mr T L B Hurulle who retires by rotation in terms of Article 92 of the Articles of Association	☐	☐
iv. To elect Justice K Sripavan who retires by rotation in terms of Article 92 of the Articles of Association	☐	☐
4. (a) To appoint Messrs Ernst & Young, Chartered Accountants as recommended by the Board of Directors, as Auditors to the Company for the Financial Year ending December 31, 2018.	☐	☐
(b) To authorise the Board of Directors to determine the remuneration of the Auditors for the Financial Year ending December 31, 2018.	☐	☐
5. To authorise the Board of Directors to determine donations for the year 2018.	☐	☐

Signed on this .... day of .... Two Thousand and Eighteen.

....	....	....
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 of 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.

FORM OF PROXY (NON-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	whom failing
Mr Themiya Loku Bandara Hurulle	whom failing
Justice Kanagasabapathy Sripavan	

as my/our proxyholder to represent me/us and to speak on my/our behalf and to vote on a show of hands or on a poll on my/our behalf as indicated below [and strictly in relation to the matters set out hereunder] at the Forty-Ninth (49th) Annual General Meeting (AGM) of Commercial Bank of Ceylon PLC which is scheduled to be held on Wednesday, March 28, 2018 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):

Item in the Notice of Meeting	For	Against
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:		
(ii) Waiver of Pre-emption Rights (Dividend Resolution No. 2);	☐	☐
(iii) Approval of an issue of ordinary (voting) and (non-voting) shares (Dividend Resolution No. 3).	☐	☐

Signed on this .... day of .... Two Thousand and Eighteen.

....	....	....
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) Shareholders of non-voting shares are entitled only to attend and speak at the Meeting and to vote only in respect of the resolutions set out in items 2 (ii) and 2 (iii) of the Notice of Meeting.

(iii) If the Form of Proxy is signed by an attorney, the relative Power of Attorney (POA) should accompany the completed Form of Proxy for registration in the event such POA has not already been registered with the Company.

(iv) If the shareholder is a company or a corporate body, the Form of Proxy should be executed under its common seal 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

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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.

(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 of 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.

FORM OF PROXY (VOTING SHAREHOLDERS) EXTRAORDINARY 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	whom failing
Mr Themiya Loku Bandara Hurulle	whom failing
Justice Kanagasabapathy Sripavan	

as my/our Proxy to represent me/us and to vote on my/our behalf and to speak at the Extraordinary General Meeting of the Company to be held on March 28, 2018 and at any adjournment thereof and at any poll which may be taken in consequence thereof. I/We the undersigned hereby authorise my/our Proxy to vote on my/our behalf in accordance with the preference as indicated below (Please indicate your preference with a "✓" in the relevant box).

	For	Against
i. To pass the Special Resolution approving the proposed Debenture Issue (Resolution No. 1 of the Notice of Meeting)		

Signed on this .... day of .... , 2018.

....	....	....
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 the 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 of 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.

FORM OF PROXY (NON-VOTING SHAREHOLDERS) EXTRAORDINARY 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	whom failing
Mr Themiya Loku Bandara Hurulle	whom failing
Justice Kanagasabapathy Sripavan	

as my/our Proxy to represent me/us and to vote on my/our behalf and to speak (and strictly in relation to the matters set out hereunder) at the Extraordinary General Meeting of the Company to be held on March 28, 2018 and at any adjournment thereof and at any poll which may be taken in consequence thereof. I/We the undersigned hereby authorise my/our Proxy to vote on my/our behalf in accordance with the preference as indicated below (please indicate your preference with a "✓" in the relevant box).

Item in the Notice of Meeting	For	Against
i. To pass the Special Resolution approving the proposed Debenture Issue (Resolution No. 2 of the Notice of Meeting)		

Signed on this .... day of .... Two Thousand and Eighteen.

....	....	....
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) Shareholders of non-voting shares are entitled only to attend and speak at the Meeting and to vote only in respect of the Resolutions set out in item 2 of the Notice of Meeting.

(iii) If the Form of Proxy is signed by an attorney, the relative Power of Attorney (POA) should accompany the completed Form of Proxy for registration in the event such POA has not already been registered with the Company.

(iv) If the Shareholder is a company or a corporate body, the Form of Proxy should be executed under its common seal 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".

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(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.

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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?	☐	☐
Would you like to receive news and press releases of Commercial Bank via e-mail?	☐	☐
Would you like to receive any news on our products/services?	☐	☐

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
931,971,691 Ordinary voting shares and 63,927,611 Ordinary non-voting shares

44,303,400 Listed Unsecured Subordinated Redeemable Fixed Rate Debentures of Rs. 100.00 each – March 2016/March 2021

17,490,900 Listed Unsecured Subordinated Redeemable Fixed Rate Debentures of Rs. 100.00 each – March 2016/March 2026

50,718,000 Listed Unsecured Subordinated Redeemable Fixed Rate Debentures of Rs. 100.00 each – October 2016/October 2021

19,282,000 Listed Unsecured Subordinated Redeemable Fixed Rate Debentures of Rs. 100.00 each – October 2016/October 2026

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: CCEYLKLX
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 (lka) was reaffirmed by Fitch Ratings Lanka Ltd. in 2017

Bangladesh Operation
– AAA was re-affirmed by Credit Rating Information Services Ltd. in 2017

Compliance Officer
Mr V S Rajasooriyar

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)

Subsidiaries and associates
Subsidiaries
Commercial Development Company PLC
ONEzero Company Ltd.
Serendib Finance Ltd.
Commex Sri Lanka S.R.L. – Italy
Commercial Bank of Maldives Private Limited
CBC Myanmar Microfinance Company Limited

Associates
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
Mr G S Jadeja
Ms N T M S Cooray
Mr T L B Hurulle *(Appointed w.e.f. April 5, 2017)*
Justice K Sripavan *(Appointed w.e.f. April 26, 2017)*

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
Justice K Sripavan

Board Integrated Risk Management Committee
Mr M P Jayawardena – *Chairman*
Mr J Durairatnam
Mr S Swarnajothi
Mr K Dharmasiri
Mr L D Niyangoda
Mr T L B Hurulle

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)

Board 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
Justice K Sripavan

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
Mr T L B Hurulle

For Investor Relations and clarification on this Report please write to:
The Chief Financial Officer
Commercial Bank of Ceylon PLC,
"Commercial House",
No. 21, Sir Razik Fareed Mawatha,
P.O. Box: 856, Colombo 01, Sri Lanka.
Telephone: 2486550
E-mail: email@combank.net

Minimise waste by informing the Commercial Bank Company Secretary to update the mailing list if you are receiving more than one copy of the Annual Report of the Bank.

This Annual Report is Carbon Neutral

This Commercial Bank of Ceylon PLC annual report has been produced by Smart Media The Annual Report Company, a certified carbon neutral organisation. Additionally, the greenhouse gas emissions resulting from activities outsourced by Smart Media in the production of this annual report, including the usage of paper and printing, are offset through verified sources.

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www.carbonfund.org

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