COMMERCIAL BANK

Rooted in History
Primed for the Future

Commercial Bank of Ceylon PLC

Annual Report 2019

(Integrated Report and Financial Statements)

Rooted in History
Primed for the Future

Sustainable success is a balancing act – between continuity and change, stability and disruption, being conservative and being adventurous. This is one of the lessons we've learned across our 100 years of operation. It is this balance that is needed to thrive in a rapidly changing environment, where unprecedented technological, social, and environmental upheavals present new risks and new opportunities. In that respect, we view our centennial as not just a celebration of our past, but an affirmation of our future. Backed by the confidence that only a rich history can provide, it is a future for which we are primed and ready.

100 YEARS COMMERCIAL BANK

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.

Contents

This Annual Report is published within three months of the date of the Statement of Financial Position. The comprehensive end-to-end online HTML version is also published online on the same date as the date of issue of this Annual Report at **http://combank2019.annualreports.lk/**

Scan to view the online version

Reference to other pages within the report

All references to the banking industry figures in this Annual Report are based on CBSL publications which is based on regulatory reporting requirements and may differ from the figures published as per the Sri Lanka Accounting Standards.

Annual Report of the Board of Directors

The Board of Directors is pleased to present to the shareholders the 51st Annual Report of the Bank comprising an Integrated Report and the Audited Financial Statements of the Group and the Bank for the year ended December 31, 2019 and the Independent Auditors' Report on the Financial Statements conforming to all relevant statutory requirements.

This Report, where applicable is presented in accordance with the Guiding Principles and Content Elements as stipulated by the International <IR> Framework issued by the International Integrated Reporting Council (IIRC).

Sections 150 (1), 151, 152 and 153 (1) & (2) of the Companies Act No. 07 of 2007 and amendments thereto make it a responsibility of the Board of Directors of the Bank to prepare 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 wishes 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 137 to 286 have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards as mandated by the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 and the Companies Act No. 07 of 2007 and amendments thereto.

This Report also provides the information as required by the Companies Act No. 07 of 2007 and amendments thereto, Banking Act No. 30 of 1988 and amendments thereto, the Directions issued thereunder including the Banking Act Direction No. 11 of 2007 and subsequent amendments thereto, the Listing Rules of the Colombo Stock Exchange (CSE) including the Rules pertaining to Related Party Transactions as required by Section 9.3.2 (d) thereof and the recommended best practice.

The Financial Statements of the Group and the Bank for the year ended December 31, 2019, including comparatives for 2018, were approved and authorised for issue by the Board of Directors in accordance with the Resolution of the Directors on February 20, 2020. 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 (SLAASMB) within the statutory deadlines.

This Report has been structured to effectively communicate the Bank's efforts to create value to all its stakeholders across short, medium and long term through its business model. Accordingly, the Bank identified the emerging developments and trends that are likely to impact its business model and value creation process. These trends were then categorised into risks and opportunities based on their importance to the Bank and importance to the stakeholders, together with the stakeholders that are likely to be affected most. The Bank identified its strategic imperatives through its annual strategic planning exercise and continued to execute the required strategies to mitigate the risks and exploit the opportunities. The Management Discussion and Analysis (pages 40 to 61) contained in this Integrated Annual Report provides a detailed account of such imperatives and strategies. The underlying governance structure and the risk management framework are detailed on pages 62 to 128 respectively.

The Bank's External Auditors, Messrs Ernst & Young, who were appointed in accordance with a resolution passed at the 50th Annual General Meeting held on March 28, 2019, have expressed their opinion, given on pages 132 to 134 of this Annual Report. The details on their remuneration are given in Note 21 on page 180 to the Financial Statements. As far as the Directors are aware, the Auditors do not have any other relationship with the Bank, or any of its subsidiaries and associate. The Auditors do not have any interest in contracts with the Bank, or any of its subsidiaries and associate.

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

The Board of Directors reviewed the business plans of the Bank and its subsidiaries and is satisfied that the Bank and its subsidiaries have adequate resources to continue their operations in the foreseeable future. Accordingly, the Financial Statements of the Group and the Bank are prepared based on going concern basis.

The Board has carefully considered matters material to the Bank and its stakeholders in preparing this Report and acknowledges that reasonable care has been exercised in the preparation and presentation of this Annual Report while preserving its integrity.

The extent of compliance with the requirements of Section 168 of the Companies Act No. 07 of 2007 and amendments thereto and other relevant statutes is given in detail on pages 97 to 102.

Signed in accordance with a resolution of the Directors.

K G D D Dheerasinghe
Chairman

M P Jayawardena
Deputy Chairman

S Renganathan
Managing Director/CEO

S Swarnajothi
Director

Prof A K W Jayawardane
Director

K Dharmasiri
Director

L D Niyangoda
Director

Ms N T M S Cooray
Director

T L B Hurulle
Director

Justice K Sripavan
Director

S C U Manatunge
Director/Chief Operating Officer

R A P Rajapaksha
Company Secretary

Colombo
February 20, 2020

Introducing our 51st Annual Report

The 51st Annual Report of Commercial Bank of Ceylon PLC covers the 12-month period from January 1 to December 31, 2019. Having commenced reporting in line with the International <IR> Framework in 2013, this Integrated Annual Report is consistent with our usual annual reporting cycle for financial and sustainability reporting and follows our most recent Report for the year ended December 31, 2018, for which comparatives are given, where applicable, within this Report.

Transcending the medium

To cater to the communications needs of the Bank's diverse stakeholder groups, this Integrated Annual Report is available in multiple mediums and formats. This approach also aims to balance the disparate imperatives of concision, comprehensiveness, and accessibility in our disclosures practices.

Strategic orientation

In addition to a focus on performance over the year, this Integrated Annual Report provides stakeholders with insights into the Bank's current and future strategies to drive growth.

Non-financial information

Recent trends make it clear that in addition to traditional forms of financial reporting, stakeholders in general, and providers of financial capital in particular, want access to non-financial information when assessing future potential of corporates. Accordingly, this Integrated Annual Report seeks to provide a holistic, integrated discussion of the Bank's performance, operations, and strategic imperatives.

Basis of preparation

This Integrated Annual Report has been prepared in line with the International <IR> Framework; and the Bank's social and environmental impacts are presented in accordance with the GRI Standards: Core option. It also comments on the Bank's contribution towards the UNDP Sustainable Development Goals.

The concepts, principles, and guidelines used in the preparation of this Integrated Annual Report are drawn from the following sources:

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

Report boundary

The financial performance of the Group includes the Bank along with seven subsidiaries – Commercial Development Company PLC, CBC Tech Solutions Limited (formerly ONEzero Company Limited), Serendib Finance Ltd., Commercial Insurance Brokers (Pvt) Ltd. (former associate Company), Commex Sri Lanka S.R.L. Italy, Commercial Bank of Maldives Private Limited and CBC Myanmar Microfinance Company Limited – and an associate – Equity Investments Lanka Ltd. (depicted in the Consolidated Financial Statements on pages 137 to 286).

The Bank's social and environmental impact, as discussed within the Management Discussion and Analysis, focuses on both Sri Lankan and Bangladesh operations of Commercial Bank of Ceylon PLC, the Parent entity of the Group which accounts for more than 98% of revenue, assets, borrowings and employees, unless stated otherwise.

During the year under review, no significant changes in the organisation type, structure, ownership, supply chain or topic boundaries took place. No changes in reporting or restatements were made of previously reported financial, social or environmental information, other than the adoption of Sri Lanka Accounting Standard – SLFRS 16 on "Leases" which became effective from January 1, 2019 and confining to GRI disclosures to the most material topics.

Responsibility for sustainability practices and external assurance

The Bank's Managing Director/Chief Executive Officer, Chief Operating Officer and other members of the Corporate Management are responsible for the sustainability practices and disclosures made in this Report. They have actively engaged with the external assurance providers on the Report content.

The Bank's external Auditors, Messrs Ernst & Young, have assured the Group's Financial Statements and non-financial information, while Messrs DNV GL Business Assurance Lanka (Pvt) Ltd., who represent DNV GL, have assured the Bank's social and environmental processes.

The Board of Directors and the Management have no other relationship with Messrs Ernst & Young, DNV GL Business Assurance Lanka (Pvt) Ltd. or DNV GL aside from their engagement as independent Assurance Service providers of the Group.

Quality assurance

Six qualitative criteria were taken into account in the production of both text and visual elements (figures, graphs, tables):

- **Completeness:** This Annual Report includes material impacts within and under the direct control of the Bank, external impacts that are indirectly influenced through our engagement with stakeholders, and broader sustainability initiatives undertaken through the Bank's own CSR Trust.
- **Comparability:** This Report includes the performance of current and previous reporting periods together with industry benchmarks where relevant and available.
- **Accuracy and Consistency:** The content of this Report is supported by inbuilt internal controls to facilitate traceability and verifiability of information.
- **Clarity:** This report incorporates both text and visual elements to enhance readability, facilitate understanding, and maintain concision.
- **Balance:** This Report makes every possible effort to present a balanced review of relevant material information.
- **Credibility and Reliability:** This Report's financial and sustainability information has been vetted by reputed external assurance service providers.

Precautionary principle

Being keenly aware of the direct and indirect social and environmental impact of our actions, the indirect consequences resulting from the business activities of our customers to whom we lend in particular, the Bank avoids or reduces any such negative impacts through credit policies, Social and Environmental Management System (SEMS) screening, post-disbursement supervision, dedicated green products and risk management processes.

Although the Bank's business model and operations do not directly create a significant negative impact on the environment, every effort is made to reduce its own carbon footprint through initiatives such as solar energy usage, energy efficient air conditioning and the elimination of paper usage in its processes. A conscious effort was made to reduce the number of pages in this Report.

Contact

Your comments or questions on this Report are welcome and we invite you to direct them to:

Chief Financial Officer
Commercial Bank of Ceylon PLC
"Commercial House"
21, Sir Razik Fareed Mawatha
Colombo 01, Sri Lanka

Pages 5-128

INTEGRATED REPORT

As permitted by The International <IR> Framework, this integrated report has been included in the Annual Report of the Bank as a distinguishable and prominent section. This Report, where applicable is presented in accordance with the Guiding Principles and Content Elements as stipulated in the Framework. As stated in the Annual Report of the Board of Directors on page 3, the Board of Directors acknowledges that reasonable care has been exercised in the preparation and presentation of this Integrated Report while preserving its integrity.

Organisational Overview

About the Bank

Largest and systemically important

Commercial Bank of Ceylon PLC is the largest private sector commercial bank – and the third largest bank overall – in Sri Lanka in terms of total assets, which stood at Rs. 1.387 Tn. (USD 7.633 Bn.) as at the end of 2019. It has been designated by the Central Bank of Sri Lanka as a higher-tier Domestic Systemically Important Bank (D-SIB) and accounts for approximately 11.1% of sector assets.

A hundred year legacy

The Bank's origins date back to 1920, and it marked a half-century of operations under its present name, Commercial Bank of Ceylon PLC. Its 5,062 employees serve over 3.5 million plus customers through a wide local and international network of branches, subsidiaries, agency arrangements, Business Promotion Officers, and correspondent banking relationships.

Growing international footprint

With the acquisition of the Bangladesh operations of Crédit Agricole Indosuez in 2003, the Bank began its expansion beyond Sri Lanka's shores. Since then, it has established subsidiaries in Italy, the Maldives and Myanmar.

Risk profile

Commercial Bank is rated AA(lka) by Fitch Ratings Lanka Ltd, the highest rating for a local private sector bank. The rating outlook was changed from stable to negative in January 2020 consequent to revision of the outlook of the Sri Lankan sovereign and the deterioration in the operating environment. Bank's risk profile reflects a restrained risk appetite, a robust funding base, a secure level of liquidity, a sound domestic franchise and stable, consistent performance.

Diversification

The Bank's business is well diversified across four main business segments: Personal Banking, Corporate Banking, Treasury, and International Operations. The latter covers operations in Bangladesh, Maldives, Italy, and Myanmar, which now account for 16% of consolidated assets and 22% of consolidated profit before taxes. Besides geographical diversification, the Bank has successfully accomplished a higher level of diversification in its operations across many other parameters such as customer profile, currency wise, products and services portfolio, funding profile, maturity profile, economic sectors and the sources of revenue.

Vibrant financial intermediation

In 2019, the Bank became the first private sector bank in Sri Lanka to cross the Rupees One Trillion threshold in deposits. Customer deposits fund 76% of total assets, demonstrating the Bank's strong role as a financial intermediary. For the past five years, the Bank's loans to deposits ratio was 87% on average, reflecting a corresponding growth between loans and deposits. The Bank's asset quality is one of the best in the industry, while its Current Accounts and Savings Accounts (CASA) make up 37.10% of total deposits, the highest among the local private sector banks.

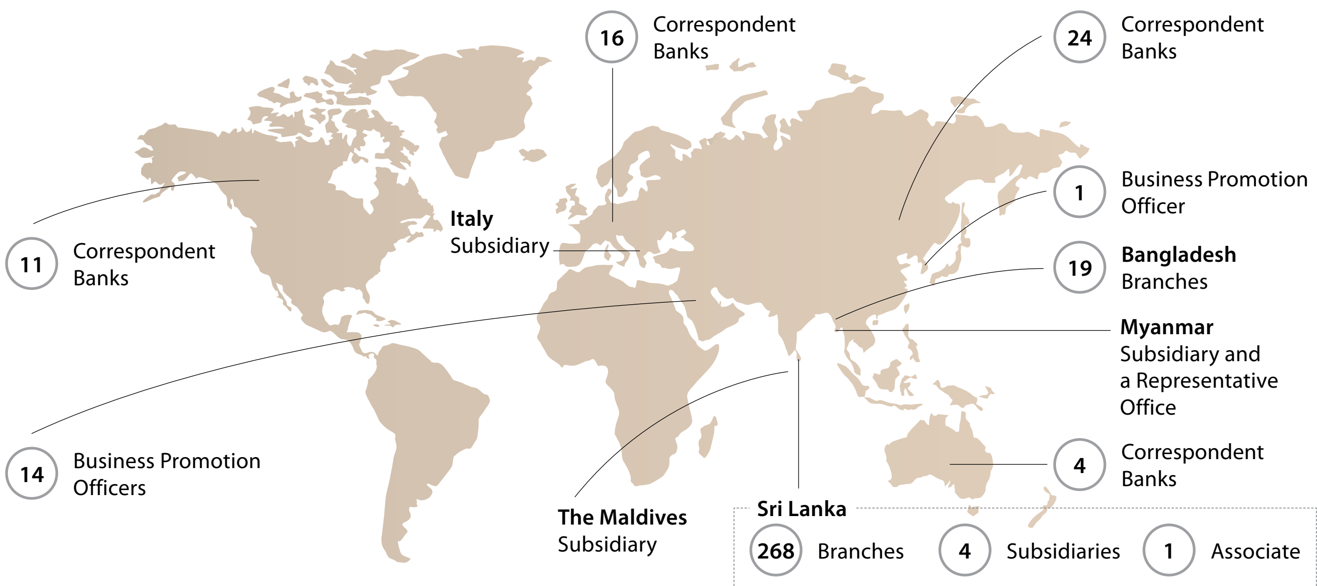
Strong capitalisation

The Bank held a Total Tier 1 ratio of 12.298% as of December 31, 2019, well above the regulatory minimum of 10%. The Bank's growth was prudent with gearing in terms of on-balance sheet assets as well as risk-weighted assets remaining at 10.42 times and 7.3 times, respectively, as of the end of 2019. Demonstrating the strength of the franchise, the Bank's shares reported the highest price to Book Value of 0.73 times and the highest market capitalisation of Rs. 97 Bn. (USD 533 Mn.) among the Bank, Finance and Insurance institutions on the Colombo Stock Exchange at end of 2019 (the Bank is the fourth largest institution listed on the CSE overall).

Ownership of the Bank

Of approximately 12,268 ordinary voting shareholders of the Bank, DFCC Bank PLC (13.54%), Employees' Provident Fund (9.63%), Insurance Corporation Ltd. (8.83%), Mr Y S H I Silva (8.07%), NTAsian Discovery Master Fund (5.52%), Melstacorp PLC (4.62%) and the International Finance Corporation (4.44%) are the major shareholders, holding a combined ownership stake of over 56%. Notably, the Bank has a substantial foreign shareholding, with foreign entities owning a combined 18% stake in the Bank.

Our regional presence and global connectivity Figure – 01



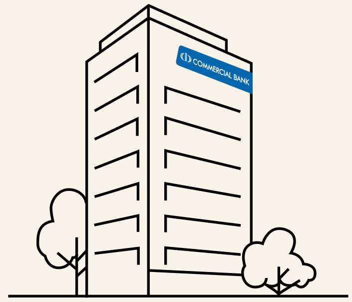
A Snapshot of the Bank's Profile

Figure – 02

7
Subsidiaries
(2018 – 6)

287
Branches
(2018 – 285)

865
ATMs
(2018 – 850)



Commercial Bank of Ceylon PLC

1
Associate
(2018 – 2)

55
Correspondent banks
(2018 – 54)

5,062
Employees
(2018 – 5,027)

Over 3.5 million Customers

Rs. 1,053 Bn.
Customer deposits
(2018 – Rs. 983 Bn.)

Rs. 920 Bn.
Gross loans and advances
(2018 – Rs. 890 Bn.)

Rs. 1,387 Bn.
Total assets
(2018 – Rs. 1,303 Bn.)

11.76%
5-year CAGR in total assets
(2018 – 16.55%)

Profitability

Rs. 17.025 Bn.
Profit After Taxation
2019 – Rs. 17.025 Bn.
2018 – Rs. 17.544 Bn.

Rs. 16.57
Earnings Per Share (Basic/Diluted)
2019 – Rs. 16.57
2018 – Rs. 17.08

1.27%
Return on Assets
2019 – 1.27%
2018 – 1.43%

13.54%
Return on Equity
2019 – 13.54%
2018 – 15.56%

Credit Quality

4.95%
Gross NPL ratio
2019 – 4.95%
2018 – 3.24%

3.00%
Net NPL ratio
2019 – 3.00%
2018 – 1.71%

39.39%
Provision cover
2019 – 39.39%
2018 – 47.21%

19.88%
Open credit exposure ratio
2019 – 19.88%
2018 – 12.38%

Stability

12.298%
Tier 1 ratio
2019 – 12.298%
2018 – 11.338%

16.146%
Total capital ratio
2019 – 16.146%
2018 – 15.603%

137.05%
Net stable funding ratio
2019 – 137.05%
2018 – 139.18%

6.45%
Leverage ratio
2019 – 6.45%
2018 – 5.82%

Liquidity

30.42%
Liquid assets ratio – DBU
2019 – 30.42%
2018 – 24.47%

224.74%
Liquidity coverage ratio (All currency)
2019 – 224.74%
2018 – 215.62%

Share Valuation

Rs. 129.60
Net Assets Value per ordinary share
2019 – Rs. 129.60
2018 – Rs. 117.15

Rs. 6.50
Dividends Per Share
2019 – Rs. 6.50
2018 – Rs. 6.50

Rs. 97 Bn.
Market capitalisation
2019 – Rs. 97 Bn.
2018 – Rs. 115 Bn.

0.73 times
Price to Book Value
2019 – 0.73 times
2018 – 0.98 times

AA(lka)
Fitch Ratings Lanka Ltd.
[2018 – AA(lka)]

Top 1000 Banks
Only Sri Lankan bank to be ranked for the 9th consecutive year

1st in Market Capitalisation
Ranked 1st in the Bank, Finance and Insurance sector on the CSE

Financial Highlights

Table – 01

	GROUP 2019	GROUP 2018	GROUP Change %	BANK 2019	BANK 2018	BANK Change %
Results for the year – (Rs. Bn.)						
Gross income	**150.741**	139.657	7.94	**148.706**	138.049	7.72
Operating profit before taxes on financial services	**30.230**	32.144	(5.96)	**29.531**	31.643	(6.68)
Taxes on financial services	**7.256**	6.052	19.89	**7.192**	6.052	18.84
Profit before taxation (PBT)	**22.984**	26.099	(11.93)	**22.339**	25.591	(12.71)
Income tax expenses	**5.564**	8.236	(32.45)	**5.314**	8.047	(33.96)
Profit after taxation (PAT)	**17.420**	17.863	(2.48)	**17.025**	17.544	(2.96)
Gross dividends	**6.679**	6.571	1.64	**6.679**	6.571	1.64
Position at the year end – (Rs. Bn.)						
Shareholders' funds (stated capital and reserves)	**134.424**	119.398	12.59	**133.162**	118.406	12.46
Financial liabilities at amortised cost – due to depositors	**1,068.983**	994.371	7.50	**1,053.308**	983.037	7.15
Gross loans and advances	**930.737**	897.956	3.65	**920.457**	890.229	3.40
Total assets	**1,408.941**	1,319.912	6.75	**1,387.345**	1,303.485	6.43
Information per ordinary share (Rs.)						
Earnings (Basic/ Diluted)	**16.80**	17.27	(2.72)	**16.57**	17.08	(2.99)
Dividends – Cash	–	–	–	**4.50**	4.50	–
Dividends – Shares	–	–	–	**2.00**	2.00	–
Net assets value	**130.83**	118.13	10.75	**129.60**	117.15	10.63
Market value at the year end – Voting	**N/A**	N/A	–	**95.00**	115.00	(17.39)
Market value at the year end – Non-voting	**N/A**	N/A	–	**83.00**	95.00	(12.63)
Ratios						
Return on average shareholders' funds – (ROE) (%)	**13.73**	15.71	(1.98)	**13.54**	15.56	(2.02)
Return on average assets – (ROA) (%)	**1.28**	1.44	(0.16)	**1.27**	1.43	(0.16)
Financial intermediation margin (%)	**N/A**	N/A	–	**11.05**	11.28	(0.23)
Total impairment provision as a % of gross loans and advances (%)	**3.96**	3.38	0.58	**3.89**	3.27	0.62
Cost of risk on loans and advances (%)	**1.11**	0.93	0.18	**1.09**	0.91	0.18
Non-performing loans ratio – Gross (%)	–	–	–	**4.95**	3.24	1.71
Non-performing loans ratio – Net (%)	–	–	–	**3.00**	1.71	1.29
Price earnings – Ordinary voting shares (times)	**N/A**	N/A	–	**5.73**	6.73	(1.00)
Dividend yield – Ordinary voting shares (%)	**N/A**	N/A	–	**6.84**	5.65	1.19
Dividend cover on ordinary shares (times)	**N/A**	N/A	–	**2.55**	2.63	(0.08)
Statutory ratios (%)						
Liquid assets ratio – Domestic Banking Unit (DBU)	**N/A**	N/A	–	**30.42**	24.47	5.95
Liquid assets ratio – Off Shore Banking Unit (OBC)	**N/A**	N/A	–	**25.25**	30.20	(4.95)
Capital Adequacy Ratios (under Basel III) (%)						
Common Equity Tier (CET) I capital ratio (minimum requirement – 2019 – 7.000% + HLA* = 8.500%, 2018 – 7.375%)	**12.399**	11.431	0.968	**12.298**	11.338	0.960
Tier I capital ratio (minimum requirement – 2019 – 8.500% + HLA* = 10.000%, 2018 – 8.875%)	**12.399**	11.431	0.968	**12.298**	11.338	0.960
Total capital ratio (minimum requirement – 2019 – 12.500% + HLA* = 14.000%, 2018 – 12.875%)	**16.182**	15.623	0.559	**16.146**	15.603	0.543
Liquidity coverage ratio (%)						
Rupee – (minimum requirement – 2019 – 100%, 2018 – 90%)	**N/A**	N/A	–	**158.79**	204.48	(45.69)
All currency – (minimum requirement – 2019 – 100%, 2018 – 90%)	**N/A**	N/A	–	**224.74**	215.62	(9.12)

** HLA – Higher Loss Absorbency (HLA applicable to the Bank is 1.5%).*

Financial Goals and Achievements – Bank

Table – 02

Financial indicator	Goal	Achievement 2019	2018	2017	2016	2015
Return on average assets – after tax (ROA) (%)	Over 2	**1.27**	1.43	1.54	1.53	1.42
Return on average shareholders' funds – after tax (ROE) (%)	Over 20	**13.54**	15.56	17.88	19.52	16.90
Growth in income (%)	Over 20	**7.72**	20.72	24.10	19.62	7.03
Growth in profit for the year (%)	Over 20	**(2.96)**	5.81	14.25	21.92	6.47
Growth in total assets (%)	Over 20	**6.43**	14.00	12.96	15.05	10.58
Dividend per share (DPS) (Rs.)	Over Rs. 5.00	**6.50**	6.50	6.50	6.50	6.50
Capital Adequacy Ratios						
CET I capital ratio (%) – (Minimum requirement as per Basel III – 2019 – 8.500%, 2018 – 7.375%)	2% buffer over the regulatory	**12.298**	11.338	12.111	N/A	N/A
Tier I capital ratio (%) – (Minimum requirement as per Basel III – 2019 – 10.000%, 2018 – 8.875%)	minimum requirement	**12.298**	11.338	12.111	N/A	N/A
Tier I capital ratio (%) – Minimum requirement as per Basel II – 5%	N/A	**N/A**	N/A	N/A	11.56	11.60
Total capital ratio (%) – (Minimum requirement as per Basel III – 2019 – 14.000%, 2018 – 12.875%)	2% buffer over the regulatory minimum requirement	**16.146**	15.603	15.746	N/A	N/A
Total capital ratio (%) – Minimum requirement as per Basel II – 10%	N/A	**N/A**	N/A	N/A	15.89	14.26

Strategic Highlights

Prudent Growth

- Expanded the footprint further by **adding two more branches each** in Sri Lanka and Myanmar.
- **Acquired a 40% stake** in Commercial Insurance Brokers Ltd. during the year 2019, increasing the stake of 58%.
- Adopted IFC developed **"Climate Assessment for Financial Institutions (CAFI)"** tool to assist in monitoring and reporting climate impact data.
- Conducted a thorough assessment to align the core business with the UN SDGs and strengthened partnerships with private, public, non-governmental, governmental and international organisations, to **drive green banking programmes**.
- Broadened the scope of SEMS to inculcate a **SEMS perspective in all the lending activities**.
- Strategically **invested the excess liquidity** generated in both LKR and FCY in Government Securities in the backdrop of slower credit growth.

Customer Centricity

- Prioritised sustaining our customer base by **re-segmenting the portfolio**, monitoring at risk accounts, and finding workable solutions to rehabilitate and sustain distressed businesses to arrest rising NPAs.
- Conducted a diagnostic study and a transformation project with the assistance of a global consultancy firm to **overhaul the Bank's SME strategy** to harness the full potential of this segment.
- Realigned the SME sales strategy by setting up a central credit processing unit for evaluation and approval of SME facilities, deploying dedicated officers at branches and providing doorstep banking services.
- Set the foundations to **introduce a more data-driven, targeted, sales culture** throughout the Bank.
- Developed **a gender-based market strategy** to support and empower women entrepreneurs at both SME and micro level.
- Initiatives were taken to **making customer service uniform across the network.**

Leading Through Innovation

- Undertook a formal exercise **to identify five key strategic sustainability themes** of focus for the Bank.
- Aligned the five areas **of focus with the 7 SGDs most relevant to the Bank's** core activities and ethos.
- **Expanded the digital footprint and upgraded the digital platforms**.
- **Initiatives are underway to launch "Combank Digital"** that will appeal to Generation Y and Z as well as providing immediate banking services to other under-banked and unbanked segments of the market promoting financial inclusion and digital adoption.
- **Established a Defined Benefit Plan** for those members of the staff who joined the Bank on or after January 1, 2000.
- Developed an **in-house software tool to monitor and maintain the condition of the off-site ATMs**.

Operational Excellence

- Undertook steps to **centralise and automate back office operations** in order to reallocate staff and resources towards sales and Customer Relationship Management (CRM).
- Implemented **a Business Process re-engineering project in the imports and exports** departments.
- **Set up of an integrated call centre** to streamline inbound and outbound calls.
- **Automated Staff User ID Management and CRIB report procurement and analysis using Robotic Process Automation**.
- **Further improved risk governance and management framework**.
- Continued the **implementation of the Bank wide "Baseline Security Standard" plan**.

Our Centennial Journey

Decade 1920

1920
Eastern Bank Ltd. (EBL) opens a Branch in Chatham Street

Decade 1930

Decade 1940

Decade 1950

Decade 1960

Decade 1970

1971
Business of EBL was completely integrated with Chartered Bank

1972
First two branches opened in Galewela and Matale

1973
CBC acquired Galle, Jaffna and Kandy branches of Mercantile Bank Ltd.

Decade 1980

1980
Commercial Development Company (CDC) formed to construct Head Office Building for CBC with 40% equity participation

1984
Head Office moved to new premises at No. 21, Sir Razik Fareed Mawatha, (formerly Bristol Street), Colombo 01

Decade 1990

1990
Introduced ATM facilities to customers

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

Decade 2000

2000
Launched Internet Banking

2001
Opened the 100th branch at Kaduruwela

2003
Acquired operations of Credit Agricole Indosuez in Bangladesh

Decade 2010

2011
- Commenced 'Sharia' compliant Islamic Banking
- Opened 200th branch in Kataragama
- Opened an exclusive 'Elite' Branch at Colombo 07 for high net worth customers
- Reached milestone 500th ATM located at the Maradana railway station

2012
- Raised USD 65 Mn., from the International Finance Corporation (IFC)
- Launched an exclusive Savings Account for Women named '*Anagi*'

2013
- Opened '24-Hour Automated Banking Centre' at Ward Place.
- Raised a 10-year subordinated debt of USD 75 Mn. from IFC

2014
- Bank acquired the 100% stake of Indra Finance Ltd.
- Became the first Sri Lankan Bank to be granted a license by the Central Bank of Myanmar to operate a Representative Office

1957
EBL was acquired by Chartered Bank

1969
Commercial Bank of Ceylon Ltd. (CBC), incorporated with EBL holding a 40% stake

1979
Offshore Banking Centre formed

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

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 07
All branches linked to ICBS except Jaffna

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

2006
Issued US $ 10 Mn. bond, becoming the first indigenous bank to do so

2008
First Sri Lankan bank to be ranked among the Top 1000 Banks in the World

2009
First Sri Lankan Bank to be certified CMMi

2015
Indra Finance, a fully-owned subsidiary of CBC, renamed Serendib Finance Ltd.

2016
- 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
- Commercial Bank of Maldives opened its second branch in Hulhumalé
- Established 100% owned CBC Myanmar Microfinance Company Limited., 3rd foreign subsidiary

2018
- The second fully-owned subsidiary of CBC outside Sri Lanka, CBC Myanmar Microfinance Company Limited was opened in Nay Pyi Taw
- Launched the country's first fully-automated cheque deposit machine at City Office Branch in York Street Colombo
- Launched UnionPay cards by a bank in Sri Lanka for the first time, making Sri Lanka the 51st country in the world to issue UnionPay cards
- Introduced Flash digital bank account

2019
- **One of the leading mobile payment solutions in China, 'WeChat Pay' acceptance launched in Sri Lanka for the first time by CBC with a partnership between Tenpay Payment Technology Ltd.**
- **CBC became PCI-DSS (Payment Card Industry Data Security Standard) certified**
- **CBC's 'Flash' becomes Sri Lanka's first multilingual Digital Banking App**
- **Launched ComBank Q+ Sri Lanka's first QR based payment app under LANKAQR**
- **Launched '*Yasasa*' savings account exclusively for pensioners**
- **CBC enables Dynamic Currency Conversion at ATMs for foreign Visa Cards**

Awards and Accolades

Prudent growth

Best Bank in Sri Lanka for 2019 – Global Finance, UK

Listed within the Top 1000 Banks in the world – The Banker Magazine, UK

Best Private Bank Sri Lanka 2019 – International Business Magazine, UAE

Best Bank – FinanceAsia Magazine, Hong Kong

Best Corporate Bank – Sri Lanka – 2019, International Finance Magazine, UK

Best Domestic Bank – Sri Lanka – 2019, International Finance Magazine, UK

Best Commercial Bank Sri Lanka 2019, International Banker, UK

Brand Excellence in BFIS – South Asian Business Excellence Awards 2019

Best Bank in Private Sector – South Asian Business Excellence Awards 2019

Brand Excellence Award – Sri Lanka CSR Awards

Asia's Greatest Brands – Asian Business and Social Forum, India

Best Commercial Bank – Sri Lanka 2019 – Global Business Awards, Global Business Outlook Magazine, UK

Most Admired Companies of Sri Lanka 2019 – ICCSL/CIMA

Bank of the Year in Sri Lanka – The Banker, UK

Customer centricity

Best Customer Service Banking Brand, Sri Lanka 2019 – Global Brands Magazine, UK

New Consumer Lending Product of the Year, Sri Lanka – Asia Banking and Finance Retail Banking Awards, Hong Kong

Best Web Site of the year – South Asian Business Excellence Awards 2019

Most Admired Social Media brand of the Year – ACEF Awards, India

Category Award – Customer Relations – Best Corporate Citizen Sustainability Award 2019

Sri Lanka Domestic Trade Finance Bank of the Year – Asia Banking and Finance Wholesale Banking Awards, Hong Kong

Merit Award for the Bank of the Year for Excellence in Customer Convenience under category A-LankaPayTechnnovation Awards 2019

Debt Deal of the Year – Sri Lanka 2019 – Asia Banking and Finance Investment Banking Awards, Hong Kong

Merit Award for the Bank of the Year for Financial Inclusivity under Category A- LankaPayTechnnovation Awards 2019

Best Trade Finance Bank in Sri Lanka 2019 – The Asian Banker Transaction Awards 2019, The Asian Banker Magazine, Singapore

Automobile Lending Product of the Year – The Asian Banker Sri Lanka Awards 2019, The Asian Banker Magazine, Singapore

Remittance Product of the Year – The Asian Banker Sri Lanka Awards 2019, The Asian Banker Magazine, Singapore

Leading through innovation

Gold Award for the Best Payment Application of the Year – LankaPay Technnovation Awards 2019

Best Internet Bank Sri Lanka 2019 – Global Banking and Finance Review Magazine, UK

Best Internet Bank Sri Lanka 2019 – Finance Derivative, Netherlands

Best Digital Transformation Initiative – Digital Banking Account "Flash" – Sri Lanka 2019 – Global Business Awards, Global Business Outlook Magazine, UK

Most Innovative Commercial Bank – Sri Lanka 2019 – Business Tabloid Magazine, UK

Mobile Banking Initiative of the Year, Sri Lanka – Asia Banking and Finance Retail Banking Awards, Hong Kong

Overall Award – Bronze Award for excellence in Interbank Payments – LankaPayTechnnovation Awards 2019

Gold Award for the Best Acquire on LankaPay Online Payment Platform – LankaPayTechnnovation Awards 2019

Triple Bottom Line Award – Social Sustainability (People) – Best Corporate Citizen Sustainability Award 2019

Operational excellence

Best Quality Leadership Award 2019 – European Society for Quality Research, Switzerland

Best Frictionless Credit Evaluation Initiative, Application or Programme – The Asian Banker Sri Lanka Awards 2019, The Asian Banker Magazine, Singapore

Best Productivity, Efficiency and Automation Initiative, Application and Programme – The Asian Banker Sri Lanka Awards 2019, The Asian Banker Magazine, Singapore

Best Corporate social Responsibility Practices – Sri Lanka CSR Awards

Sustainable Bank of the year – South Asian Business Excellence Awards 2019 (SAPS)

Overall Excellence in Annual Financial Reporting Category – CA Annual Report Awards 2019

Gold Award – Banking Institutions Category – CA Annual Report Awards 2019

Gold Award – Management Commentary – CA Annual Report Awards 2019

Gold Award – Corporate Governance Disclosure Category – CA Annual Report Awards 2019

Gold Award – Integrated Reporting – Best Disclosure on Business Model Award Category – CA Annual Report Awards 2019

1st Runner Up – Overall-Best Corporate Citizen Sustainability Award – Best Corporate Citizen Sustainability Award 2019

Sector Award – Finance Sector – Best Corporate Citizen Sustainability Award 2019

Category Award – Governance – Best Corporate Citizen Sustainability Award 2019

Sri Lanka Domestic Technology and Operations Bank of the Year – Asia Banking and Finance Wholesale Banking Awards, Hong Kong

Excellent Green Commitment Award 2019 for Banking Sector – Green Building council of Sri Lanka

United Nations Global Compact | 20 years
Uniting business for a better world

29th January 2020

Mr. S. Renganathan,
Managing Director/Chief Executive Officer,
Commercial Bank of Ceylon PLC.,
Commercial House,
No. 21, Sir Razik Fareed Mawatha,
Colombo 01.

Dear Mr. Renganathan,

100th Anniversary of Commercial Bank of Ceylon PLC.

The Board of Directors of the United Nations Global Compact (UNGC) Sri Lanka extends its warmest congratulations to the Management and staff of Commercial Bank of Ceylon PLC. on reaching the milestone of 100 years since commencement. We are delighted that Commercial Bank of Ceylon PLC. has been a member of UNGC Sri Lanka since the 23rd of September 2002, and has consistently displayed commitment to aligning its business strategy to UNGC's Principles, reporting its Sustainability performance, and continues to be an active participant in UNGC Sri Lanka and its Steering Committee.

We recognize the steps taken by the Bank to inculcate and implement the Ten principles of the UNGC on human rights, labour, environment and anti-corruption through its processes and initiatives. These actions in turn work towards the achievement of the Sustainable Development Goals (SDG's).

It is significant that Commercial Bank of Ceylon PLC. has been in the forefront of adopting Social and Environmental Management Systems based on IFC performance standards, promoting green finance facilities and offers special terms for both businesses and consumers on investments made on green projects.

We wish all key stakeholders of Commercial Bank of Ceylon PLC., the very best in its 100th year and look forward to strengthening the relationship between the UNGC Sri Lanka and Commercial Bank of Ceylon PLC. in the coming years.

Yours Sincerely

Mr. Rathika de Silva
Executive Director
United Nations Global Compact Sri Lanka

Global Compact Network Ceylon (Guarantee) Ltd, Level 3, No. 11, Castle Lane, Colombo 00400, Sri Lanka. | GL2136
T: +94 11 2308308 E: info@ungcsl.com W: www.ungcsl.com

THE BRETTON WOODS COMMITTEE

1701 K STREET, N.W., SUITE 950 • WASHINGTON, D.C. 20006 • PHONE: 202.331.1616 • WWW.BRETTONWOODS.ORG

February 19, 2020

Mr. Sivakrishnarajah Renganathan
Managing Director & Chief Executive Officer
Commercial Bank of Ceylon PLC
Commercial House #21
Sir Razik Fareed Mawatha
P.O. Box 856
Colombo 1
Sri Lanka

Dear Mr. Renganathan:

For over a decade Commercial Bank of Ceylon PLC has been a leading member, active supporter and partner to the Bretton Woods Committee, helping the Committee achieve its mission and work in demonstrating the value of international cooperation and in championing global efforts to spur economic growth, alleviate poverty and improve financial stability. We congratulate Commercial Bank of Ceylon PLC on achieving a truly extraordinary, centenary milestone and look forward to continuing our organizational collaboration to achieve this mission for today's generation and the next.

Sincerely,

Randy S. Rodgers
Executive Director
The Bretton Woods Committee

Performance Review

Chairman's Statement

The fourth industrial revolution is rapidly transforming financial systems and practices across the globe and in Sri Lanka, and the Bank aims to remain at the forefront of this evolution

Dear Friends,

In 2019, one of the most difficult years in recent history, the Bank mobilised all its experience and wisdom to build the necessary resilience to turn in an admirable performance given the adverse conditions that prevailed. We navigated the year in a manner that the outcome seen is a tribute to all stakeholders of the Bank, and affirms the strong, enduring commitment and bonds nurtured over the years.

The performance of the Bank must be viewed in the context of Sri Lanka's macroeconomic conditions and the measures undertaken by the Central Bank of Sri Lanka (CBSL) to stimulate the economy by driving credit demand. In 2019 Sri Lanka's GDP growth is estimated to have further declined from 3.2 percent in 2018, weighed down by a climate of political and economic anxiety. In contrast to the tight monetary policy followed up until the early part of 2018, the CBSL pursued a stance of monetary easing since late 2018, which was further expanded throughout 2019 to stimulate credit growth and to deal with the country's ailing economy. The CBSL reduced the Statutory Reserve Ratio (SRR) from 7.5 percent to 6.00 percent in November 2018, and to 5.00 percent in March 2019. Furthermore, the CBSL imposed limits on bank Rupee deposit interest rates in April 2019 and reduced the policy rates i.e. the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) by 50 basis points in April and then again in August, bringing them to 7.00 percent and 8.00 percent, respectively. In addition, when the interest rates of lending products persisted at high levels, the CBSL introduced regulations to reduce nominal interest rates of Rupee deposits, interest rate on credit card advances and pre-arranged overdrafts, and the weekly Average Weighted Primary Lending Rate (AWPR), in order to reduce high cost of borrowing.

While these regulations yielded some encouraging signs towards the end of 2019, most of the year was spent laboring under adverse conditions of low credit demand and rising non-performing assets across the financial sector. In this context, our strategy centered on prudent growth through a commitment to our fundamentals: consolidating a well-diversified asset base, promoting pure banking products, following robust risk management and corporate governance practices, and maintaining adequate funding and liquidity levels.

Consequently, the Bank managed to maintain its momentum by growing its core business volumes of deposits by 7.15 percent, total assets by 6.43 percent, and loans and advances portfolio by 2.73 percent, which we consider reasonable when viewed in the context of the operating environment that prevailed. A noteworthy achievement of the year was becoming the first private sector bank to cross the Rupees One Trillion milestone in deposits. Profit before tax, however, decreased by 12.71 percent to Rs. 22.339 Bn. from Rs. 25.591 Bn. in 2018 as a result of the growth in operating income not been sufficient to offset the increase in impairment charges arising from the deterioration in asset quality witnessed across the industry on one hand and the increase in operating expenses on the other. Nevertheless, the decrease in profit after tax was only 2.96 percent to Rs. 17.024 Bn. this year compared to Rs. 17.544 Bn. in 2018 due to changes to tax legislation announced by the Government recently with retrospective effect.

Commercial Bank's reputation as a bank that complies with the spirit – and not merely the letter – of the law is well established. During the year, the Board further strengthened the corporate governance structure by adopting high ethical standards and practices, which are all the more important to maintain during difficult times. The Board took positive note of policy directions and guidance received from regulatory authorities and deliberated extensively to be supportive and compliant.

Responding to the formidable challenge of high and growing non-performing loans throughout 2019 that became a primary focus of the Board and other relevant sub-committees, much time was spent with the management on formulating and implementing strategies to arrest this trend by strengthening recovery efforts and lending practices. Other highlights of the Board's activities during the year included a review of all major policy documents, Board and Board Committee Charters, and the Terms of Reference of all Board Committees, and a productive annual strategy meeting with the Corporate Management Team. In terms of expanding the Bank's and the Group's business, a 40 percent stake in Commercial Insurance Brokers (Pvt) Ltd. was acquired making it the Bank's fourth local subsidiary, further diversifying the Bank's assets base, which we believe should be a long term strategy.

Furthermore, the Board adopted a new dividend policy, taking into account the growing regulatory requirements, meeting shareholder expectations and enabling business expansion. Accordingly, the Board approved two interim dividends for the year 2019 (Rs. 1.50 per share paid on November 18, 2019 and Rs. 3.00 per share payable on February 24, 2020) totalling to Rs. 4.624 Bn. and proposed a final dividend of Rs. 2.00 per share amounting to Rs. 2.055 Bn. payable in the form of a scrip dividend, subject to shareholder approval at the forthcoming Annual General Meeting. In addition, the Board approved an Employee Share Option Plan covering all executive officers. It should also be noted that to ensure that our corporate governance practices are fully abreast of the changes in the evolving digital banking ecosystem, the Board participated in a session on Technology Risk/Cyber Security during the year.

The fourth industrial revolution is rapidly transforming financial systems and practices across the globe and in Sri Lanka, and the Bank aims to remain at the forefront of this evolution. We understand that to thrive in the contemporary banking landscape, we need to connect with our customers efficiently and effectively, offering them a winning digital banking proposition.

Our digital footprint was further expanded during the year by adding a host of new digital products, services, and partnerships to cater to the evolving requirements and expectations of our customers along with major initiatives to digitalise and centralise our operations. Appreciable performance has been observed in key goals set for the year, which include customer onboarding for digital applications and growth in digital penetration. With this progress, we are poised to cross 30 percent digital penetration by mid 2020, and multiple studies have shown adoption accelerates swiftly after this threshold. The Bank also recognises the role and potential of digital banking to connect with under-banked and unbanked segments of the market, thereby promoting financial inclusion across the country.

Along with these initiatives, the Bank is currently undergoing a cultural change in its approach to marketing and customer relationship management (CRM). In the contemporary environment, where the product and service shelf across the sector is largely the same, organisations distinguish themselves through the speed, accuracy, and effectiveness of delivery and through compelling and consistent brand messaging. In this context, staff development and realignment is key to our success, and the Board played an active role in shaping the overall strategy. New digital improvements enhance the Bank's cost-efficiency and streamline back-office operations, meaning that staff can be productively redeployed to more analytical and customer-centric roles.

Despite the difficulties of 2019, there is every reason for optimism for a growth rebound in 2020, both for the Bank and the sector as a whole. Our efforts in 2020 will be directed in four areas: prudent growth while bringing the deteriorating asset quality under control, driving our digitalisation and digital adoption strategy, deepening our business relationships with the SME market sector and further extending the social and environmental perspective into all our operations and activities. The Bank is rightly proud of its long history, where it has a proven track record in navigating the ups and downs of the country's economic fortunes, and we look forward to thriving in the year ahead. 2020 in particular is a monumental year for the Bank since it completes 100 years of operations in Sri Lanka. Commercial Bank's history traces back to 1920 when its forerunner Eastern Bank commenced commercial operations in Sri Lanka. Looking back at the Bank's history today, we have every right to be happy and proud and it is nothing but our courtesy that we pay our gratitude to those who took pioneering steps to ensure steady growth in the past and what it is today.

I am very grateful for my colleagues on the Board for their contribution and continued support for steering the Bank in a difficult year with a focus on long term sustainability. I thank the Managing Director/Chief Executive Officer, Chief Operating Officer, members of the Corporate Management and staff for their commitment and dedication in executing the strategies we collectively developed for the Bank. I also take this opportunity to thank leadership of Commercial Bank Branch of Ceylon Bank Employees' Union and Executives Association of the Bank whose contribution was helpful to the Board in no small measure to maintain industrial harmony and to inspire team spirit in the Bank.

Finally, I wish to convey our sincere good wishes to all our stakeholders.

Dharma Dheerasinghe
Chairman

Colombo
February 20, 2020

Managing Director's Review

We at Commercial Bank look forward to the challenge of being a catalyst for broad-based inclusive, economic growth in 2020 and beyond by consistently doing what we do best: delivering optimum value to our stakeholders

A challenging year

There is no getting around it: 2019 was a difficult year for the Bank, as it was for the entire country. The fallout from the 21/4 Easter Sunday attacks compounded an already vulnerable macroeconomic situation, and a large measure of the Bank's resources and attention were directed towards recovery and consolidation. In the context of depressed economic growth, an unfavourable credit environment, escalating non-performing assets, and the rising impairment charges, the Bank registered a marginally lower profitability than the previous year. The Bank's profit after all taxes for the year was Rs. 17.025 Bn., as against Rs. 17.544 Bn. in 2018.

The Commercial Bank Group ended 2019 with two performance milestones. Deposits surpassed Rupees One Trillion mark and gross income exceeded Rs. 150 Bn. A detailed analysis of our performance is given in the Financial Review on pages 20 to 27.

Prudence in the face of adversity

As the Bank approached its centennial, we drew confidence from our history of sustained performance through the waxing and waning of Sri Lanka's economic fortunes. The Bank has maintained, for the entirety of its tenure, an impeccable reputation for compliance, a reputation that is hard-won and well-deserved. Following this ethos in 2019, the Bank held fast to its fundamentals: a disciplined and focused approach to growth while conforming to best in class risk management and corporate governance practices, as well as the sector's broader regulatory framework.

Our commitment to a prudent approach goes above and beyond nominal adherence to the myriad compliance requirements or accounting standards. For us, prudence means finding the precise balance between maximising revenue and profitability in the present without undermining the Bank's capacity to deliver value to all its stakeholders in the medium to long term. This balance was felt important during meagre times, when the imperatives and pressures of the moment can cloud a judicious, future-oriented vision.

In this respect, our funding, liquidity, and financial capital management played a crucial role. This year, in an environment inhospitable to credit expansion, the Bank strategically invested excess liquidity in both LKR and FCY Government Securities. Similarly, the modest increase in Risk Weighted Assets meant that the Bank was able to efficiently manage its capital to facilitate the expected growth rebound in 2020. Our capital adequacy ratios were once again well in excess of regulatory minimums. Adopting this prudent approach is precisely what has allowed the Bank to deliver value year-over-year and earn the trust of over 3.5 million customers as Sri Lanka's largest private sector bank with the highest market capitalisation in the Bank, Finance and Insurance sector.

As testament to our efforts during difficult times, our team was encouraged to receive the recognition of being best bank in Sri Lanka for 2019 by both "Global Finance" and "The Banker", reflecting a broad consensus of our position at the summit of the country's financial landscape.

Renewing our social license

As a Domestic Systemically Important Bank (D-SIB), the Bank has a responsibility to promote the safety, soundness, and stability of the financial system of the country. Moreover, as an institution entrusted with the fiduciary duty of accepting and deploying vast sums of uncollateralised public funds, the Bank understands that its sustainability rests on the ongoing acceptance and approval of our business by all the stakeholders.

We believe that this 'social license to operate', unlike regulatory licenses, cannot be applied for or self-awarded, but must be earned and constantly renewed by demonstrating the Bank's commitment to ensuring productive outcomes for the society and the environment at large.

The Bank, as a self-contained institution, has a relatively limited environmental footprint; but, as a financial intermediary with a wide national reach, has a crucial role to play as an influencer and driver of sustainability. A thorough assessment was conducted to align our core business with the UN SDGs and strengthened our partnerships with private, public, non-governmental, governmental and international organisations, to drive our green banking programmes in view of our goal of increasing the green funded portfolio to 5% of the Bank's total loan book by 2030. A concerted effort was also made to adopt our Social and Environmental Management System (SEMS) framework throughout our operations. Without limiting the evaluation to credit facilities above Rs. 100 million, this year, we broadened our scope to inculcate a SEMS perspective in all our lending activities. This was especially important in our efforts at targeting SMEs, micro enterprises, and women entrepreneurs as distinct customer segments with specific banking needs.

The power of digital

While our growth efforts this year were curtailed, we forged ahead with our digital strategy, creating an infrastructure that will help facilitate our growth in future. Digital innovations are transforming economies and financial ecosystems. Customers are demanding banking that is simple, functional, reliable, and seamless. New opportunities for business growth abound – as do new risks to data security and compliance, among others. To harness the power of new technologies, during 2019, the Bank adopted a strategy of viewing digital innovation as a Transformation Change Agent – a catalyst that will redefine the relationship between the two stakeholders that are at the heart of our business model: our customers and employees.

Aimed at making a tangible difference in the lives of our customers, this year, we adopted a focussed approach to driving our digital adoption initiatives and are extremely well positioned to cross 30% digital penetration by mid 2020. While the year's economic challenges derailed our efforts at implementing our new customised banking platform, Combank Digital, before the end of the year, we hope to launch it by March 2020.

Notably, our Flash Digital Banking App showed encouraging growth during 2019 following our rollout of the Sinhala and the Tamil versions of the App, making it Sri Lanka's first trilingual mobile digital banking platform. It enables customer onboarding to financial planning and all other services required by a retail customer and represents the unique and imaginative possibilities of digital innovation.

On the surface, the presentation and full digital banking functionality of the App is designed to appeal to Generation Y and Z customers. Precisely because of its functionality, it is a powerful tool for providing immediate banking services to other under-banked and unbanked segments of the market, and for promoting financial inclusion and digital adoption throughout Sri Lanka.

Helping us help our customers

The technological improvements during 2019 to our internal operations – largely unseen by the customer – are just as important as a change agent. We conceptualise this approach as helping us help our customers, i.e. centralising, digitising, and automating our back-office operations to allow us to redeploy staff and resources towards sales and Customer Relationship Management. One of the most important initiatives this year was enhancing the SME value proposition by realigning SME sales strategy and centralisation of credit evaluation and approval process with the assistance of a global consultancy firm, deploying dedicated SME officers in branches and serving SME customers at their doorstep. Business process re-engineering in our imports and exports divisions and the card centre, introducing Robotic Process Automation (RPA) for a variety of functions, standardising service proposition across the branch network were among a host of other initiatives.

In this respect, we view enhancing productivity and profitability and supporting employee well-being as symbiotic goals. New digital improvements boost the Bank's operational efficiency while enhancing the working experience of employees by delegating repetitive, mundane tasks to RPAs and making workflows more streamlined and intuitive. This, in turn, alleviates the pressure on staff through a more streamlined distribution of workloads, reducing employee stress and fatigue while promoting a better work-life balance.

Accordingly, integrated thinking is being promoted at all levels of the Bank. While there will always be trade-offs between different capital allocations in our business model, integrated thinking has the power to reduce the friction between the different imperatives of maximising profits, catering to customers, and prioritising our employees.

Towards a banking group

During the year, we initiated various strategies to derive more contribution from our subsidiaries and seconded some of our senior staff as the MD, CEO, COO of such companies. These initiatives enabled the Bank to inculcate best practices, effect cultural changes, strengthen governance frameworks and improve systems and procedures. We expanded our footprint by opening two branches each in Sri Lanka and in Myanmar. We increased the stake in Commercial Insurance Brokers (Pvt.) Ltd. and made it a subsidiary with a view to better serve our customers in future. We are confident of reaping the benefits of these initiatives in future.

A thank you to our stakeholders

It goes without saying that our relationships with the stakeholders are the defining factor in our success. I extend my sincere appreciation to the Chairman and the Board of Directors for their invaluable advice and guidance. I also thank the capable management team and all our members of the Commercial Bank family in Sri Lanka, Bangladesh, Italy, Maldives, Myanmar and other overseas locations including those seconded at these operations, for their commitment and dedication. I also extend my heartfelt gratitude to our customers for their loyal patronage and to our shareholders for their unwavering support for the Bank. Moreover, I wish to recognise and underscore the vital role played by the banking and financial services regulatory authorities and other stakeholders in Sri Lanka, Bangladesh, Italy, Maldives, and Myanmar for their support and cooperation.

These relationships will be even more important as we forge ahead into the uncertainties of 2020. While we are eager to see our own growth and profitability rebound, our status as a D-SIB also comes with added responsibility. How the Bank, the banking sector, and the country as a whole responded to the difficulties of 2019 will have ramifications throughout our society at large. We at Commercial Bank look forward to the challenge of being a catalyst for broad-based inclusive, economic growth in 2020 and beyond by consistently doing what we do best: delivering optimum value to our stakeholders.

S Renganathan
Managing Director/Chief Executive Officer

Colombo
February 20, 2020

Financial Review 2019

Bank is highly interconnected with and interdependent on its stakeholders for its value creation. This is reflected in the duality of the value creation process, viz. delivering value to and deriving value from stakeholders. As a result, capacity to generate sustainable profitability depends on the strength and robustness of these interconnections and interdependencies. *Delivering value* demonstrates as to how the Bank conducts its operations with due consideration to the wider community and the environment, enabling all the stakeholders to enjoy positive outcomes from its existence. *Deriving value* enables the Bank to create value for itself, giving capacity to sustain its performance into the foreseeable future as a going concern. These are two mutually inclusive aspects since 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. A profitable operation is a precondition for being sustainable.

Bank continued to build both financial as well as other capitals (manufactured, intellectual, human, social and network, and natural) through its activities during the year. Details of the value creating activities are given in the Business Model on page 37. The outcomes of such activities on the various capitals are summarised in the "Statement of Capital Position" on pages 38 and 39.

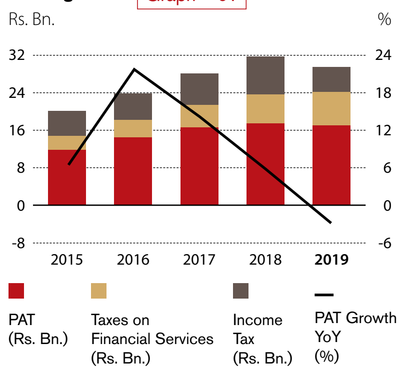
This financial review provides an analysis of how the Bank grew its financial capital during the year. This should ideally be read in conjunction with the Operating Environment given on pages 28 to 36 that provides the context within which the performance of the Bank was achieved.

An overview

Due to the headwinds that impacted the entire financial services industry as elaborated in the operating environment, the Bank recorded relatively lower rates of growth during the year in business volumes compared to those recorded in the recent past. Year on year growth in loan portfolio amounted to only Rs. 30.228 Bn. (Rs. 135.521 Bn. or 17.96% to Rs. 890.229 Bn. in 2018) to reach Rs. 920.547 Bn., mere 3.40% growth as at end of 2019. Deposits, however grew by Rs. 70.271 Bn. or 7.15% to Rs. 1,053.308 Bn. (Rs. 132.909 Bn. or 15.63% to Rs. 983.037 Bn. in 2018).

Profit after tax of the Bank decreased by 2.96% to Rs. 17.025 Bn. during the year 2019 from Rs. 17.544 Bn. reported in 2018 (Graph 01). Yet, this is a significant achievement when viewed against the magnitude of the challenges posed by the operating environment. Growth in total operating income by 3.66% was not sufficient to offset the increases in impairment provisions and operating expenses, causing the profit before tax to decrease by a significant 12.71%. However, recent changes to tax legislation which had a favourable impact on the investors in Sri Lanka Development Bonds (SLDBs), resulted in limiting the estimated tax expense for the year to Rs. 5.314 Bn., a drop of Rs. 2.733 Bn. or 33.96% compared to 2018, thereby limiting the drop in profit after tax to 2.96%.

Profit growth Graph – 01



In tandem with the lacklustre performance in the stock market during the year, share prices of the Bank also decreased. However, the price to book value and the market capitalisation of the Bank's shares remained the highest among peers in the Bank, Finance, and Insurance sector. Bank's market capitalisation ranked fourth among all listed companies on the Colombo Stock Exchange as at December 31, 2019.

With due consideration to the dividend policy, lower profitability, higher capital requirements consequent to the Bank being classified as a D-SIB, the capital required to support future growth as well as to maintain a consistent stream of dividend to shareholders, the Board of Directors has recommended a final dividend of Rs. 2.00 per share in the form of a scrip issue. This final dividend together with the two interim dividends paid/payable, amounted to a total dividend for the year of Rs. 6.50 per share which is consistent with the recent dividend track record.

Given that the Bank accounted for 98.47% of the assets and 97.73% of the profit of the Group, the analysis below provides a detailed account of the Bank's financial performance, followed by a brief commentary on performance of subsidiaries, associate and Bank's overseas operations as given on pages 25 to 27.

Income Statement

Financial intermediation

Reflecting the strength of the franchise and robust financial intermediation, gross income from fund-based and fee-based operations grew by 7.72% to Rs. 148.706 Bn. for the year 2019 from Rs. 138.049 Bn. in 2018. Average assets for the year 2019 grew by a higher 9.97% to Rs. 1,345.415 Bn. from Rs. 1,223.429 Bn. in 2018. As a result, financial intermediation margin (gross income/average total assets) decreased to 11.05% for the year from 11.28% in 2018, a drop of mere 23bps. Financial intermediation margin for the banking sector for the year 2019 was 11.03% compared to 11.38% for 2018.

Fund-based operations

Interest income which accounted for 85.93% (85.09% in 2018) of the gross income of Rs. 148.706 Bn., grew to Rs. 127.780 Bn. during the year 2019 from Rs. 117.466 Bn. in 2018 recording a growth of Rs. 10.314 Bn. or 8.78% (Rs. 14.431 Bn. or 14.01% in 2018), mainly attributable to the growth of Rs. 117.801 Bn. (10.70%) in average interest earning assets. However, this positive impact was partly offset by the drop in the average rate of interest on interest earning assets by 18 bps to 10.48%. Gradual deterioration in asset quality which resulted in substantial increase in the non-performing advances and excess liquidity due to lower growth in advances being parked in the lower yielding assets, limited the growth in interest income to 8.78%.

Interest expenses, which accounted for 63.05% of the interest income (61.74% in 2018) on the other hand, grew by Rs. 8.047 Bn. or 11.10% (Rs. 8.513 Bn. or 13.30% in 2018) due to the time lag in repricing of interest-bearing liabilities compared to the repricing of interest-earning assets, to Rs. 80.571 Bn. during the year, from Rs. 72.524 Bn. in 2018. The main contributory factor for this increase was the growth in average interest-bearing liabilities by Rs. 105.320 Bn. (10.59%), a similar growth was recorded in interest expenses. In addition, interest expenses included Rs. 457.449 Mn. on account of interest accrued on lease liability consequent to the adoption of SLFRS 16 for the first time effective from January 1, 2019.

Consequently, net interest income grew by 5.04% (compared to 15.17% in 2018) to Rs. 47.208 Bn. in 2019 from Rs. 44.942 Bn. in 2018, accounting for 71.51% of the total operating income (70.57% in 2018). Net interest margin dropped to 3.51% in 2019 from 3.67% in 2018 mainly due to the adverse impact of increasing non-performing advances.

Fee-based operations

Fee and commission income recorded a growth of 3.49% to Rs. 12.407 Bn. for the year. The sources that contributed to this significant growth included services related to credit and debit cards (8.95%), trade finance and remittance (2.72%), and deposit-related services (3.19%). The Bank was able to record a significant increase in the number of credit and debit cards in issue as well as their utilisation during 2019.

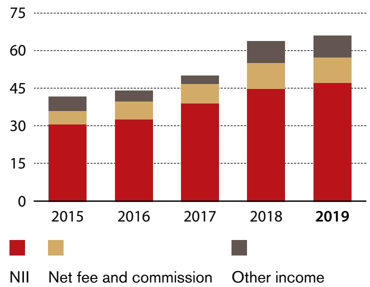
Fee and commission expenses which relate mostly to credit and debit cards-related services increased by 15.19% to Rs. 2.117 Bn. (Rs. 1.838 Bn. in 2018). Consequently, net fee and commission income increased only by 1.37% to Rs. 10.290 Bn. in 2019 and accounted for 15.59% of the total operating income (15.94% in 2018).

Total operating income

Total operating income grew by 3.66% to Rs. 66.018 Bn. compared to a growth rate of 30.56% recorded in 2018 (Graph 02). This was the combined effect of growth in net interest income of 5.04% and a lower growth in net fee and commission income of 1.37% and the substantially lower net other operating income due to gains on revaluation of foreign exchange being Rs. 5.648 Bn. only compared to Rs. 11.022 Bn. in 2018, mainly as a result of the sharp depreciation of the Sri Lankan Rupee by 16.07% against the US Dollar in 2018. However, the Bank recorded substantial gains on its treasury operations, specially foreign exchange gains on derivative financial instruments including swap transactions and higher margins earned on foreign currency transactions in 2019.

Total operating income Graph – 02

Rs. Bn.

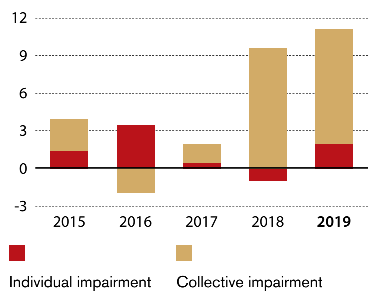


Impairment charges

Application of SLFRS 9 coupled with the significant drop in asset quality during the year resulted in the entire banking industry witnessing a substantial increase in the impairment provisions. Consequently, impairment charge for the year increased by 28.99% to Rs. 11.061 Bn. compared to Rs. 8.575 Bn. in 2018 (Graph 03). Charges o/a individual impairment for loans and advances increased to Rs. 1.932 Bn. as against a reversal of Rs. 1.002 Bn. in 2018, mainly due to deterioration of the quality of the loan portfolio across the entire banking industry. The reversal in the charge o/a individual impairment in 2018 was mainly due to the change in the threshold for identifying loans and advances assessed for individual impairment assessment. Increase in individual impairment for the year 2019 was partly off-set by a decrease in collective impairment to Rs. 9.129 Bn. from Rs. 9.576 Bn. in 2018.

Impairment charges Graph – 03

Rs. Bn.



The substantial increase in impairment provision and the lower growth in the total operating income resulted in a negative growth of 0.28% in the net operating income.

Operating expenses

Total operating expenses increased by 8.34% to Rs. 25.426 Bn. for the year 2019 from Rs. 23.469 Bn. in 2018. This was mainly due to an increase in personnel expenses by 7.74% in 2019.

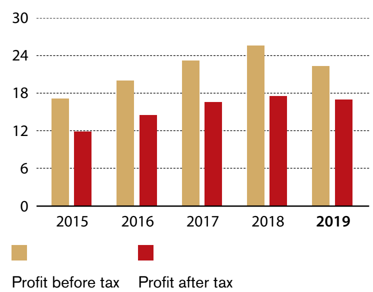
Negative growth of 0.28% in net operating income coupled with a growth in total operating expenses by 8.34% saw operating profit before taxes on financial services decreasing by 6.68%. An increase in taxes on financial services due to the full year's impact of the Debt Repayment Levy (DRL) which was imposed from October 2018, caused the operating profit after taxes on financial services to record a negative growth of 12.71%. As a result, the Bank's cost to income ratio (including taxes on financial services) increased to 49.41% in 2019 from 46.35% in 2018 and the cost to income ratio excluding taxes on financial services increased to 38.51% in 2019 from 36.85% in 2018.

Profit before tax and profit after tax

Profit before tax decreased to Rs. 22.339 Bn. for the year, down by 12.71% from Rs. 25.591 Bn. reported in 2018 (Graph 04). Due to recent changes to tax legislation that exempted interest income earned from SLDBs with retrospective effect from April 1, 2018, resulted in income tax expense for the year being reduced to Rs. 5.314 Bn. compared to the previous year's income tax expense of Rs. 8.047 Bn. This narrowed the negative growth in profit after tax for the year to 2.96%. Consequently, profit after tax for the year stood at Rs. 17.025 Bn. compared to Rs. 17.544 Bn. reported for 2018.

Profit before and after tax Graph – 04

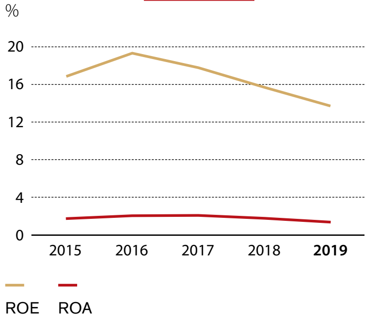
Rs. Bn.



Profitability

As a result of the negative growth in profit after tax and the increases in assets and equity in 2019, Return on Assets (ROA) and Return on Equity (ROE) reduced to 1.27% and 13.54% respectively, as against 1.43% and 15.56% reported in 2018 (Graph 05). Despite the Bank's ROA and ROE recording decreases during the year, these ratios are well above the industry averages of 0.93% and 10.26%.

ROE and ROA Graph – 05

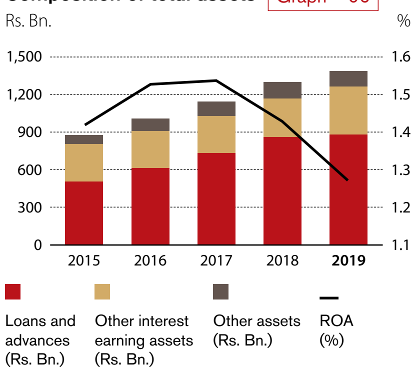


Statement of Financial Position

Assets

Total assets of the Bank reached Rs. 1.387 Tn. at the year end compared to Rs. 1.303 Tn. as at December 31, 2018, recording a growth of Rs. 83.861 Bn. in absolute terms or 6.43% during the year (Graph 06). As the net loans and advances recorded only a marginal growth of 2.73%, deposits mobilised during the year was invariably invested in Government securities that mostly accounted for the growth in assets. The asset growth of the banking industry too recorded a moderate growth of 6.18% for the year 2019.

Composition of total assets Graph – 06



Loans to customers

Despite the slowing down of the credit growth during the year, net loans and advances to other customers is the single biggest asset of the Bank on its balance sheet, which accounted for 63.77% of total assets compared to 66.06% a year ago. The net loans and advances amounted to Rs. 884.646 Bn., recorded a drop of 2.73% as at December 31, 2019, compared to Rs. 861.100 Bn. a year ago (Graph 07). This is lower than the industry growth of 5.02% for the year due to conscious decision taken by the Bank to slow down credit growth and deployment of more resources for strengthening recovery efforts. Key contributor to the loans and advances growth came mainly from term loans.

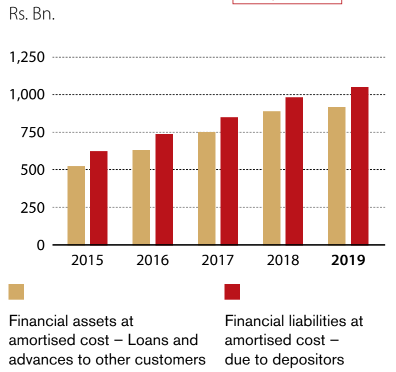
Asset quality

Quality of the loans and advances portfolio which accounts for approximately two-thirds of total assets has a significant bearing on the sustainability of the Bank's operations. Deterioration in asset quality witnessed towards the latter part of 2018 continued throughout 2019. As a result, the Bank too experienced an increase in its non-performing loans portfolio. However, the conservative risk profile with a moderate risk appetite, robust risk management framework and the strengthened recovery initiatives helped the Bank to contain the increase in the gross and the net NPL ratios to 4.95% and 3.00% as at December 31, 2019 compared to the NPL ratios of 3.24% and 1.71%, a year ago.

Cumulative impairment provision for loans and advances as a percentage of the total loans and advances portfolio as at the end of the year was 3.89% compared to 3.27% in 2018. The provision cover (as per CBSL guidelines) dropped to 39.39% in 2019 from 47.21% in 2018 while the open credit exposure ratio (which is the net exposure of NPLs as a percentage of regulatory capital) increased to 19.88% as at December 31, 2019 from 12.38% at the end of 2018.

The loans and advances portfolio of the Bank is fairly well diversified across a wide range of industry sectors with no significant exposure to any particular sector.

Deposits and advances Graph – 07



Deposits

With the solid domestic franchise in Sri Lanka, customer deposits continued to be the single biggest source of funding for the Bank, accounting for 75.92% of the total assets as at December 31, 2019 compared to 75.42% a year ago. Deposits grew by Rs. 70.270 Bn. or 7.15% during the year to cross the Rupees one trillion milestone and reached Rs. 1.053 Tn. as at December 31, 2019 compared to Rs. 983.037 Bn. as at the previous year end (Graph 07). CASA ratio marginally declined to 37.10% as at December 31, 2019 from 37.55% a year ago, mainly due to a shift in deposits towards high cost term deposits. Nevertheless, this ratio compares well with the industry CASA ratio of 31.36%.

Other liabilities

Due to growth in deposit liabilities and the sluggish growth in loans and advances, the Bank had excess liquidity during most part of the year. As a result, external borrowings during the year was limited to a loan of USD 25 Mn. obtained from PROPARCO for funding SME lending. Total other liabilities as at the end of 2019 remained around the same levels as the year before except the increase recorded due to recognition of a lease liability of Rs. 5.147 Bn. under SLFRS 16 that led to a change in the composition of other liabilities.

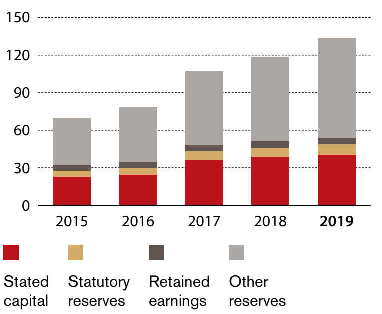
Capital

Profitability and the prudent dividend policy helped the Bank to grow its equity capital to Rs. 133.162 Bn. as at December 31, 2019 from Rs. 118.406 Bn. a year ago (Graph 08), with an on balance sheet multiplier (gearing ratio) of 10.42 times compared to the industry average of 9.02 times. The equity funded 9.60% of the assets as at the end of 2019, compared to 9.08% as at December 31, 2018. The Bank ploughed back Rs. 6.257 Bn. out of profit of the year 2018 after the payment of dividends. The risk weighted assets of the Bank grew by 2.96% to Rs. 972.679 Bn. in 2019. Consequently, both the Tier 1 ratio and the total capital ratio stood at 12.298% (minimum requirement – 10.000%) and 16.146% (minimum requirement – 14.000%), respectively as at December 31, 2019, exceeding the higher capital adequacy requirements imposed on the Bank under Basel III as a D-SIB. The equity multiplier in terms of risk weighted assets marginally declined to 7.30 times in 2019 from 7.98 times a year ago.

As per the CBSL Basel III regulations, the Bank has now been identified as a D-SIB, the highest grading currently assigned to a bank along with another Government Bank, showcasing the Bank's importance to the economy in Sri Lanka.

Shareholders' funds Graph – 08

Rs. Bn.



Liquidity

The Bank had excess liquidity during most part of the year. Lack of demand for credit together with conscious decision taken by the Bank to slow down credit growth paused challenges in optimally managing excess liquidity. The Bank invested excess liquidity in Government securities and is geared to benefit from an upturn in envisaged credit demand in the years ahead. Given its importance, review of liquidity is a permanent agenda item in the fortnightly Assets and Liabilities Committee (ALCO) meetings of the Bank.

Liquid assets ratios of the Domestic Banking Unit (DBU) and the Offshore Banking Centre (OBC) stood at 30.42% and 25.25% respectively (statutory minimum requirement is 20%) as at December 31, 2019 (24.47% and 30.20% respectively as at December 31, 2018). Gross loans to deposits ratio was 87.39% as at end 2019 (90.56% in 2018). Available stable funding based on definitions prescribed by the CBSL stood at Rs. 1.089 Tn. as at December 31, 2019, leading to a Net Stable Funding Ratio (NSFR) of 137.05%, comfortably above the statutory minimum of 100%. Demonstrating the availability of unencumbered high-quality liquid (HQL) assets at the disposal of the Bank, the Liquidity Coverage Ratio (all currency) stood at 224.74% as at December 31, 2019 (215.62% as at December 31, 2018) as against the statutory minimum of 100%.

Segmental performance

Both Corporate Banking which had a substantial drop in the impairment provision and Treasury which had a substantial increase in foreign exchange profits increased their contributions to the profit before tax of the Group compared to the last year, accounting for 18.68% and 13.70% respectively. International Operations too managed to increase their contribution to 29.46% from 24.26% last year mainly due to the higher contribution from Bangladesh and Maldivian operations. Despite recording a reasonable growth in both fee and fund-based operations, Personal Banking contribution to the Group's profit decreased to 53.85% from 57.72% in 2018, due to a substantial increase in the impairment provision.

Contribution from the International Operations now accounts for 16.06% of total assets (12.48% in 2018) and 17.67% of net operating income (15.61% in 2018) of the Group.

Core Financial Soundness Indicators (FSIs)

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

Financial soundness indicators Table – 03

Financial soundness indicator (%)	2019	2018	2017	2016	2015
Capital adequacy (under Basel II and Basel III):					
Common Equity Tier 1 ratio	**12.30**	11.34	12.11	N/A	N/A
Tier 1 capital ratio	**12.30**	11.34	12.11	10.37*	11.60*
Total capital ratio	**16.15**	15.60	15.75	14.87*	14.26*
Non-performing loans [net of interest in suspense and specific provisions] to equity	**20.48**	12.71	6.39	8.65	10.36
Asset quality:					
Gross NPL ratio	**4.95**	3.24	1.88	2.18	2.74
Net NPL ratio	**3.00**	1.71	0.92	1.09	1.41
Total provisions made against gross loans and advances	**2.37**	1.97	1.40	1.53	1.75
Provision coverage ratio	**39.39**	47.21	51.05	50.11	48.49
Earnings and profitability:					
Net interest income to total operating income	**71.51**	70.56	78.02	74.43	73.51
Financial intermediation margin	**11.05**	11.28	10.61	9.85	9.30
Interest margin (Net interest income to average assets)	**3.51**	3.67	3.62	3.47	3.62
Operating expenses to gross income	**17.10**	17.00	17.33	20.20	22.22
Impairment charge to total operating income	**16.76**	13.46	1.39	3.47	9.55
Return on assets	**1.27**	1.43	1.54	1.53	1.42
Return on equity	**13.54**	15.56	17.88	19.52	16.90
Cost to income ratio	**49.41**	46.35	51.08	51.06	48.92
Liquidity:					
Statutory liquid assets ratio (DBU)	**30.42**	24.47	27.28	27.19	26.24
Statutory liquid assets ratio (OBC)	**25.25**	30.20	30.95	30.19	49.13
Liquidity coverage ratio (All currency)	**224.74**	215.62	209.17	150.45	N/A
Net stable funding ratio	**137.05**	139.18	127.87	N/A	N/A
CASA ratio	**37.10**	37.55	39.23	41.67	49.70
Gross Loans to deposits ratio	**87.39**	90.56	88.78	85.64	84.31
Assets and funding structure:					
Deposits to total assets	**75.92**	75.42	74.35	73.06	70.94
Borrowings to total assets	**4.41**	4.86	4.28	3.37	2.50
Equity to total assets	**9.60**	9.08	9.37	7.74	8.00
Deposits to gross loans	**114.43**	110.43	112.64	116.76	118.61

**Computed under Basel II guidelines*

Performance of the subsidiaries, associate and overseas operations

Performance of the Bank's Bangladesh Operations

Bangladesh's GDP grew by 8.15% in FY 2018-19 making the country the fastest growing nation in the Asia Pacific region. The country has made substantial progress in growing its economy, lifting people out of poverty, and improving the lives of its people by boosting employment opportunities, increased access to health and education, and improved basic infrastructure.

Standard & Poor's credit rating for Bangladesh stands at BB- with stable outlook. Moody's credit rating for Bangladesh was last set at Ba3 with stable outlook while Fitch's rating BB- with stable outlook. The first ever Bangladeshi Taka denominated bond "Bangla Bond" was listed on the London Stock Exchange through International Finance Corporation (IFC) which will help Bangladesh to raise overseas investments.

During the past 16 years of operation in Bangladesh, CBC has established its position well above the other Regional Banks. Presently CBC Bangladesh operates in five main districts in the country i.e. Dhaka, Chittagong, Sylhet, Narayangonj and Gazipur through a network consisting of 11 Branches, 6 SME Centers and 2 Offshore Banking Units. The Bank has installed 20 ATM machines in Bangladesh (including three off-site locations). In addition, the Bank has introduced an Automated Banking Centre (ABC) which comprises a real time cash deposit machine, a cheque deposit machine, a KIOSK machine and a digital signage in its Motijheel Branch.

Credit Rating Information and Services Ltd. (CRISL) rated CBC Bangladesh "AAA" for the 9th consecutive year based on Financial Statements of 2018.

Key performance indicators during the year, including past statistics

The progress of the Bank's Bangladesh operations in core banking areas over the past five years is summarised below.

All information given in Table 04 below is based on Management Accounts of the Bangladesh Operation.

Subsidiaries and associate of the Group

Consequent to Bank's decision to acquire 40% stake in Commercial Insurance Brokers (Private) Limited, the Group consists of Commercial Bank of Ceylon PLC and seven subsidiaries (including three foreign subsidiaries) and an associate as depicted in Figure 23 in the Financial Statements on page 149.

Given below is a brief overview of the operations of the subsidiaries and associate of the Bank.

Local subsidiaries

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, "Commercial House", and has two other properties in Negombo and Tangalle. The Bank reduced its stake in CDC from 92.41% as at end of 2018 to 90% by end of 2019 to enable CDC to comply with the Rules on Minimum Public Holding of the CSE. CDC is the only listed Subsidiary of the Group, with a market capitalisation of Rs. 949.2 Mn. as of end 2019. The principal business activities of CDC include renting of premises, hiring of vehicles, outsourcing non-core staff and provision of other utility services to the Bank.

CDC recorded a post-tax profit of Rs. 363.217 Mn. for the year 2019, recording a 10.55% growth from Rs. 328.546 Mn. reported in 2018. The increase in profit was primarily attributable to the higher gain recognised on revaluation of the investment properties in 2019.

CBC Tech Solutions Limited (formerly ONEzero Company Ltd.)

CBC Tech Solutions Limited is a wholly-owned subsidiary and provides Information Technology Services and Solutions to the Bank. Its main lines of business are:

- Providing of hardware and software related support services
- Supply of computer hardware and licensed software
- Development of software and
- Outsourcing of professional and skilled manpower to the Bank

Company recorded a post-tax profit of Rs. 79.699 Mn. for the year 2019, a significant growth of 24.05% from Rs. 64.248 Mn. reported in 2018.

Serendib Finance Limited (SFL)

SFL is a fully owned subsidiary of the Bank and is a Licensed Finance Company (LFC) under the Finance Business Act No. 42 of 2011.

Since the acquisition of the Company in 2014 by the Bank, SFL underwent vast changes in terms of staffing, upgrading of risk management and corporate governance structures as well as development and deployment of new business plans and strategies.

As envisaged in last year, SFL implemented a twofold strategy of capitalising on business opportunities by employing professional lending staff for non-leasing business and improving the risk profile of the asset portfolio by enhanced lending to higher investment grade customers and strengthening the recovery function of the Company. This enabled the Company to improve its performance significantly in the year under review.

Accordingly, SFL has grown its asset base up to Rs. 7.432 Bn. as at December 31, 2019, compared to Rs. 5.425 Bn. at end 2018. Corresponding improvements were seen in results of operations with gross income for the year growing to Rs. 1.151 Bn. from Rs. 851.542 Mn. in 2018 and recording a post-tax profit of Rs. 79.129 Mn. for 2019 as against the loss of Rs. 30.762 Mn. reported in 2018.

Key performance indicators – Bangladesh operations Table – 04

Particulars	2019 BDT Mn.	2018 BDT Mn.	2017 BDT Mn.	2016 BDT Mn.	2015 BDT Mn.	YoY Growth (%)	5 year CAGR (%)
Total deposits	**45,362.98**	35,221.65	28,808.18	23,124.88	21,935.55	28.79	19.48
Gross advances	**47,449.60**	38,448.10	32,113.53	24,456.51	22,621.26	23.41	20.95
Profit before tax	**2,744.68**	2,439.98	1,758.56	1,381.93	1,592.10	12.46	10.98
Profit after tax	**1,697.40**	1,406.65	988.40	785.13	904.10	20.62	12.36

Commercial Insurance Brokers (Pvt) Ltd. (CIBL)

The Bank acquired a 40% stake in CIBL during the year 2019, which together with the indirect stake of 18% already held through the Bank's subsidiary, CDC, the Bank now has a stake of 58% in CIBL.

The principal business activity of CIBL is insurance brokering for all types of insurance through reputed life and general insurance companies in Sri Lanka.

CIBL recorded a post-tax profit of Rs. 45.791 Mn. for the year ended December 31, 2019 with a growth of 39.5% from Rs. 32.828 Mn. in 2018. The CIBL's total assets stood at Rs. 379.192 Mn. as at December 31, 2019.

Foreign subsidiaries

Commex Sri Lanka S.R.L. (Commex)

Commex, a fully-owned subsidiary of Bank, commenced business under the Authorised Payments Institute (API) Licence issued by the Bank of Italy in 2016. As a result, Commercial Bank became the first Sri Lankan bank to be licensed by the Central Bank of Italy to operate as a money transfer company. The license allows Commex to expand across the European Union using passporting rights.

During 2019, Commex recorded a loss of Rs. 100.829 Mn. and it is taking steps to improve its revenue in 2020.

Commercial Bank of Maldives Private Limited (CBM)

In partnership with Tree Top Investments (TTI), CBM was founded in the Republic of Maldives as the second foreign subsidiary of the Bank. TTI contributes vital local market knowledge to the Company and has a stake of 45%, while the Bank holds a 55% stake in the Company. Established during the latter part of 2016, CBM opened its Head Office and first branch in the capital, Malé. By end 2019, CBM had two branches.

While offering an extensive range of financial services, CBM's goal is to be the most technologically advanced, innovative, customer friendly, and the most sought-after financial service organisation in the Republic of Maldives. In its third year of operations, CBM was awarded for 'Excellence in Finance' in the Banking and Finance category at the 2019 Maldives Business Awards.

During the year 2019, CBM was able to record a growth in its deposits and advances by over 40% and 80% respectively. As a result, the total assets of CBM recorded a commendable growth of 37% in 2019 and stood at Rs. 19.464 Bn. as at December 31, 2019. In 2019, CBM recorded a post-tax profit of Rs. 328.948 Mn., compared to the post-tax profit of Rs. 270.671 Mn. reported in 2018 with an impressive growth rate of 21.53%.

CBC Myanmar Microfinance Company Limited (CBC Myanmar)

CBC Myanmar is a fully-owned subsidiary of the Bank, that was established as its third foreign subsidiary, to capitalise on opportunities available in the microfinance sector in Myanmar. In 2018, the CBC Myanmar obtained its microfinance business license from the Financial Regulatory Department (FRD) of Myanmar and commenced operations in Nay Pyi Taw.

Similar to the concept of Grameen banking, the operations in Myanmar presently offer group loans to customers with a compulsory saving requirement. Initially, CBC Myanmar obtained a temporary Microfinance license from FRD and during the year 2019, it was able to obtain a permanent Microfinance License from the Government of Myanmar with the recommendation of the FRD. CBC Myanmar added two more branches in 2019 and was able to grow its total assets by 34% to Rs. 432.050 Mn. as at the end of 2019 from Rs. 323.117 Mn. in 2018. During 2019, CBC Myanmar recorded a loss of Rs. 12.594 Mn.

By the end of December 2019, CBC Myanmar was able to expand its customer base to reach almost 10,000 customers, a significant improvement from 2,300 customer base served as of end of 2018.

Local associate

Equity Investments Lanka Ltd. (EQUILL)

The Bank owns a 22.92% stake in EQUILL, a venture capital company established 29 years ago. EQUILL invests in equity and equity featured debt instruments.

The Company recorded a loss of Rs. 1.480 Mn. in 2019 compared to the loss of Rs. 0.241 Mn. recorded for the previous financial year.

Bank's international operations Figure – 03

CBC Myanmar Microfinance Company Limited

Year of establishment	2015 – Representative Office and micro finance license 2017 – Myanmar Microfinance Company Limited 2018 – Commenced business operations
Bank's stake	Fully owned subsidiary
Nature of business operations	Offering microfinancing services. The Company also provides savings business development services.
Legend	Commercial operations begun in 2018
Contribution to the Group	Assets of Rs. 432.050 Mn. and loss of 12.594 Mn. in 2019

Commex Sri Lanka S. R. L. – Italy

Year of establishment	2016 – commenced business under the Authorised Payments Institute (API) Licence issued by the Bank of Italy in Rome
Bank's stake	Fully owned subsidiary
Nature of business operations	Serves the fund-transfer needs of Sri Lankan expatriates in Italy Twelve agents cover all major cities of Italy
Legend	This license allows the Bank to expand further across Europe and plans to do so are currently being laid out. One of the first Sri Lankan banks to launch money transfer facilities in Italy
Contribution to the Group	Assets of Rs. 240.854 Mn. and loss of Rs. 100.829 Mn. in 2019.

Commercial Bank of Maldives Private Limited (CBM)

Year of establishment	2015
Bank's stake	55% Tree Top Investments is the Bank's Maldivian Partner which was founded in 2013 and holds the balance 45% stake in CBM. It provides the Bank with vital local market knowledge
Nature of business operations	Fully-fledged Tier 1 bank under the license issued by the Maldives Monetary Authority offering an extensive range of financial services using advanced technology and the regional expertise of our Treasury arm
Legend	Two branches – in Malé and Hulhumalé
Contribution to the Group	Assets of Rs. 19.464 Bn. Profit before tax of Rs. 450.343 Mn. in 2019

Commercial Bank's Bangladesh Operation

Year of acquisition	2003 – banking business of Crédit Agricole Indosuez acquired
Bank's stake	Branch operation
Nature of business operations	Fully-fledged commercial banking license [Reaffirmed at AAA] in May 2019 by Credit Rating Information and Services Limited
Legend	• The Bank's first overseas venture • First among regional banks and third among the nine foreign banks in Bangladesh in terms of profitability • Includes 11 branches, 6 SME centres, 2 offshore banking units, and 20 ATM machines (including three off-site)
Contribution to the Group	Accounted for 10.82% of our assets and 20.18% of our profit before tax in 2019

Operating Environment

Connecting with Stakeholders

In a rapidly changing environment, maintaining a constant dialogue with all our stakeholders is pivotal to shape our strategy to be fit for the time and for the future. The emerging trends, some of which are unprecedented in terms of magnitude and impact, affect our ability to sustainably deliver value to our stakeholders and in turn derive value from them.

When an individual or a group is significantly impacted by our actions, products, or services, we consider that party a stakeholder. At the same time, we are keenly aware that the stakeholders' perceptions and behaviour can powerfully impact our ability to carry on our activities and meet strategic goals.

Accordingly, we consider the following to be our stakeholders –

- Investors
- Customers
- Employees
- Society and environment
- Business partners
- Government institutions and regulators

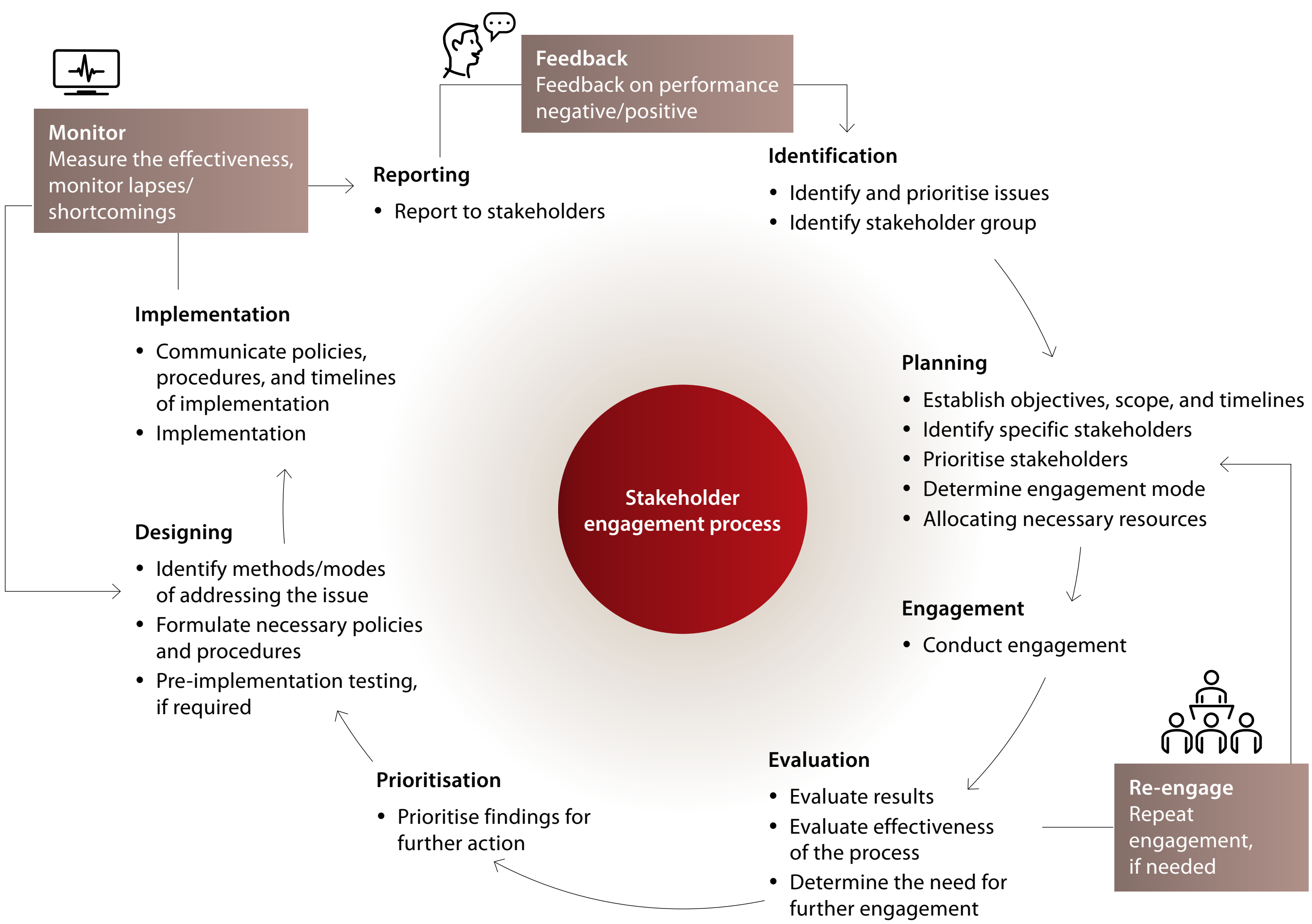
Though the range of stakeholders that may directly or indirectly impact our performance are vast, above grouping helps the Bank to effectively manage the interactions with the stakeholders that matter most in our operations.

While formal mechanisms are in place to connect with our stakeholder groups (Figure 04), responsibility for such engagement is shared across the Bank at every stakeholder point of contact.

We strongly believe that by engaging with our stakeholders we are able to better gear ourselves for the future, adapt our business model, drive innovation, and garner invaluable insights for our strategic planning process for long-term value creation.

The mechanisms through which we engage with our stakeholders and our understanding on their aspirations are given in Figure 05 on page 29.

Our stakeholder engagement process Figure – 04



How we connect with our stakeholders Figure – 05

Investors

Stakeholder aspirations

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

Mode and frequency

Engagement mechanism	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
Feedback surveys	As required

Customers

Stakeholder aspirations

- Swift service
- Customer security and privacy
- Service quality
- Financial inclusion
- Affordability of services and convenience
- Grievance handling mechanism
- Financial education and literacy
- Financial support for revival of business

Mode and frequency

Engagement mechanism	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

Employees

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 mechanism	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

Society 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 mechanism	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

Business partners

Stakeholder aspirations

- Contractual performance
- Future business opportunities
- Maintaining healthy relationships
- Timely settlement of dues
- Ease of working
- Growth potential
- Collaboration for new technological advances in the financial sector

Mode and frequency

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

Government institutions and regulators

Stakeholder aspirations

- Compliance with directives and codes
- Local and overseas expansion
- Microfinance and SME development
- Supporting economic growth

Mode and frequency

Engagement mechanism	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

Operating Environment

Material Matters

Sustaining success and staying primed for the future requires shaping the Bank's strategy for growth today, adapting to change, identifying opportunities in challenges, and seizing the opportunities that change itself may present. In a rapidly changing environment, where unprecedented technological, social, and environmental upheavals present new risks and new opportunities, the wealth of intellect the Bank has built over a century plays a pivotal role in formulating a strategy primed for the future. A strategy that continues to deliver value to all our stakeholders and, in turn, derive value from them.

In formulating a strategy fit for the time, the Bank analysed its external environment to identify matters arising from emerging trends and their relevance to key stakeholder groups, as given below:

Analysis of Commercial Bank's external environment Figure – 06

	Political	Economic	Social	Technological	Environmental	Legal/Regulatory
Investors	1 Instability and lack of policy consistency	2 Economic slowdown	3 Growing influence of social media	4 Unorthodox competition and financial disintermediation		5 Implementation of SLFRS 16 – Leases
	6 Directed lending	7 Depreciating currencies against USD	8 Demand for non-financial information and long termism			9 Basel III compliance requirements
		10 Negative rating outlook for sector	11 Demand for more transparency and accountability			12 Higher regulatory capital
		13 High CAPEX requirements				14 New Banking Act
		15 New tax reforms				16 Pending Basel IV compliance requirements
Customers		17 Envisaged upturn in private sector credit and improvement in asset quality	18 Changing customer expectations	19 New technological advances such as AI, Robotics and Blockchain		20 Compliance requirements and regulations such as Foreign Account Tax Compliance Act (FATCA), General Data Protection Regulation (GDPR), and Base Erosion and Profit Shifting (BEPS).
		21 Import restrictions		22 Cybersecurity threats		
Employees		23 Need to enhance productivity	24 Staff recruitment and retention becoming more challenging	25 Technology driving change in job skills		

	Political	Economic	Social	Technological	Environmental	Legal/Regulatory
Society and environment	26 Geopolitical conflicts	27 Declining worker remittances	28 Need to commit to Sustainable Development Goals (SDGs)		29 Increasing frequency and magnitude of natural disasters and poor disaster preparedness	
	30 Increasing levels of corruption	31 Sri Lanka's global competitiveness declining	32 Increasing conflicts		33 Increasing demand for green banking and green lending	
		34 Increasing drug pedaling and drug and alcohol addiction	35 Viral outbreaks hampering world trade and economy			
		36 Infrastructure out of sync with development needs				
Business partners		37 A more collaborative approach				

These emerging trends presents risks, opportunities or both and their impact is felt by the stakeholders and the Bank alike on varying degrees. The topics that stem from these trends and are material to the Bank according to their impact on stakeholders and the Bank itself are portrayed in the matrices that follow. For the purpose of this study, the Bank defined material matters as those that significantly affect the Bank's ability to create value over the short, medium and long term. Materiality of each matter is determined by its relevance, the magnitude of its impact, and the probability of occurrence.

Opportunities to be seized

Importance to stakeholder / Importance to the Bank	Low	Moderate	High
High		6 15 23 28 37	17 18
Moderate		3 4 7 11 25 36	19 33
Low		13	

Risks to be mitigated

Importance to stakeholder / Importance to the Bank	Low	Moderate	High
High	34	23 25 36	1 2 6 12 17 18 22
Moderate	14 20 26 35	5 7 8 9 10 21 27 30 31 32	4 10 19 24 29
Low	16	3 13	

Following this study, the Bank formulated strategies necessary to seize opportunities, mitigate risks and continue its value creation journey under the four strategic imperatives as outlined in the section on Management Discussion and Analysis. These strategies were then embedded in the Corporate Plan for execution by the Management together with underlying KPIs for measuring successful achievement.

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 achieves 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 approved 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.

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

While majority of material matters affect the Bank's economic performance (GRI 201: Economic Performance) following are matters identified by the Bank as material and are discussed within this report. Where relevant GRI disclosures are mapped to the material matter as given below:

Material matters Table – 05

	Materiality topic	GRI Disclosure	Page
1	Instability and lack of policy consistency	GRI 201: Economic Performance	20 to 27, 33 to 35
2	Economic slowdown		
4	Unorthodox competition and financial disintermediation		
6	Directed lending		
10	Negative rating outlook for sector		
12	Higher regulatory capital		
15	New tax reforms		
17	Envisaged upturn in private sector credit and improvement in asset quality		
18	Changing customer expectations		47
19	New technological advances such as AI, Robotics, blockchain		52
22	Cyber security threats	GRI 418: Customer Privacy	56
23	Need to enhance productivity	GRI 404: Training and Education	58
		GRI 405: Diversity and Equal Opportunity	58
24	Staff recruitment and retention becoming more challenging	GRI 401: Employment	58
25	Technology driving change in job skills	GRI 404: Training and Education	58
		GRI 405: Diversity and Equal Opportunity	58
28	Need to commit to Sustainable Development Goals (SDGs)		53
29	Increasing frequency and magnitude of natural disasters and poor disaster preparedness	GRI 302: Energy	57
		GRI 305: Emissions	57
33	Increasing demand for green banking and green lending		54
36	Infrastructure out of sync with development needs	GRI 203: Indirect Economic Impact	51
37	A more collaborative approach		54

Context for Our Performance

Global economy

Global growth was estimated at 2.9% for 2019, representing a significant drop from 3.7% in 2018. This downturn can be traced to a unique confluence of factors. Much of 2019 was defined by the intermittent trade conflict between China and the United States – and heightened trade, social and geopolitical tensions more generally. These tensions have raised concerns and anxieties around the future of established global trading systems and patterns of international cooperation; in turn, business confidence eroded and market sentiment flagged throughout the year. Apart from influencing conditions in the United States and China, these tensions have had spillover effects across the Euro areas and advanced Asian economies, including Hong Kong, Korea, and Singapore.

The impacts on manufacturing and global trade, in particular, have been acute. Weaker external demand has seen a broad-based slowdown in industrial output, and manufacturing declined to levels not seen since the global financial crisis. The services sector across much of the globe, however, continued to remain strong, bolstering labour markets and supporting healthy wage growth in advanced economies, particularly in the United States.

In addition to these pressures, emerging market economies were bedevilled by a range of idiosyncratic factors causing macroeconomic strain. Large emerging economies like Argentina, Iran, Turkey, and Venezuela faced significant economic distress, while countries like Brazil, Mexico, Russia and Saudi Arabia underperformed in comparison to their recent averages. Growth in India, too, slowed, weighed down by corporate and environmental regulatory uncertainty. In addition to the macroeconomic repercussions of the trade conflict, China implemented regulatory measures to rein in debt – all contributing to a growth of 6.1%, its lowest figure in 29 years.

Notably, the United States as well as many other advanced and emerging market economies made a pronounced shift towards increased monetary easing, reversing the trend towards tightening in 2018. The US Federal Reserve, in particular, cut interest rates three times in a span of four months ending October 2019. This accommodative strategy has served to cushion the negative impacts of the US-China trade tensions.

Overview of the world economic outlook projections Table – 06

	Estimated		Projected	
	2018 %	**2019 %**	2020 %	2021 %
World output	3.6	**2.9**	3.3	3.4
Advanced economies	2.2	**1.7**	1.6	1.6
United States	2.9	**2.3**	2.0	1.7
Euro Area	1.9	**1.2**	1.3	1.4
Japan	0.3	**1.0**	0.7	0.5
United Kingdom	1.3	**1.3**	1.4	1.5
Emerging market and developing economies	4.5	**3.7**	4.4	4.6
China	6.6	**6.1**	6.0	5.8
India	6.8	**4.8**	5.8	6.5
ASEAN-5	5.2	**4.7**	4.8	5.1
Russia	2.3	**1.1**	1.9	2.0

Source: IMF World Economic Outlook Update January 2020

Sri Lankan economy

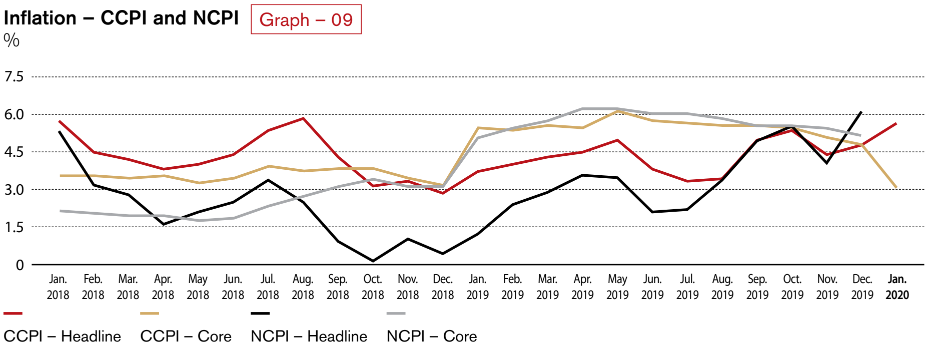
The pressures of these global developments, coupled with a turbulent domestic environment, posed major challenges to the Sri Lankan economy throughout the year. The growth rate declined from a sub-par 3.2% in 2018 to a troubling 2.8% in 2019. While the legacy effects of tight fiscal and monetary policy, stagnant fixed investment, and flagging aggregate demand carried over from 2018 meant that the conditions were already precarious, the sharp downturn was exacerbated by the unfortunate Easter Sunday attacks and the subsequent climate of political and economic anxiety. The attacks had repercussions across all spheres of economic activity, livelihoods of people and the aftershocks continue to reverberate.

Headline and core inflation remained under control in single digits, but there is concern that these figures are more reflective of weakened aggregate demand and, thus, of a negative output gap denoting an economy performing well below its potential. Nevertheless, forecasts suggest that inflation will hold around 5% in 2020 and beyond.

A marked contraction in imports and a slight increase in exports over the year led to a reduction of the trade deficit from USD 9,642 Mn. to USD 7,214 Mn. (measured from November 2018 – November 2019); this in turn, resulted in a notable contraction of the current account deficit. While tourist arrivals and earnings remained below 2018 levels, the sector showed signs of recovery towards the end of the year, offering some relief from the spillover effects of the Easter Sunday attacks. On the other hand, workers' remittances declined slightly following trends over the recent past.

Subdued levels of foreign direct investment (FDI) continued to cast a shadow over the financial inflows into the country. Foreign investment in rupee denominated government securities and in the CSE recorded net outflows of USD 234 Mn. and USD 30 Mn., respectively (as of November 2019). In the face of continual current account deficits and inadequate non debt-creating capital inflows, the economy remained reliant on debt-creating

Inflation – CCPI and NCPI Graph – 09



facilities. Sri Lanka made two issuances of International Sovereign Bonds (ISBs) in 2019, totaling USD 4.4 Bn. In addition, Sri Lanka successfully underwent the fifth and sixth reviews of the Extended Fund Facility (EFF) of the International Monetary Fund (IMF), consequently receiving the sixth and seventh tranches of disbursements.

The Sri Lankan rupee demonstrated greater stability in foreign exchange markets, and after a substantial depreciation in 2018, appreciated by 0.6% against the USD to close at Rs. 181.75, the first such appreciation since 2010. Gross official reserves are estimated at USD 7.6 billion as of the end of 2019, providing an import cover of 4.6 months.

Sri Lankan banking sector

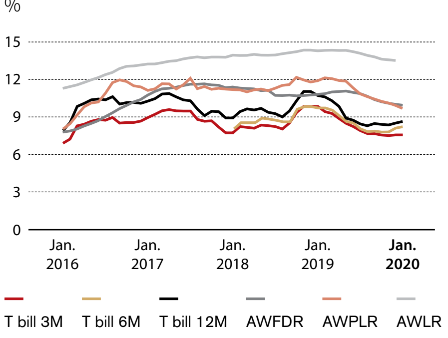
The macroeconomic environment had major ramifications on the banking sector. A complete assessment of the sector's performance must begin with trends that emerged in 2018 along with CBSL policy responses to the evolving situation.

For most of 2018, the CBSL adopted a tight monetary policy, as it had done in the previous year. However, when Open Market Operations proved inadequate to address persistent liquidity deficits in the domestic money market that had taken hold in mid-September 2018, the CBSL reduced the Statutory Reserve Ratio (SRR) applicable on all rupee deposit liabilities of commercial banks from 7.5% to 6.00% in November 2018. In order to counterbalance the effects of the substantial amount of liquidity this measure would release to the banking system – namely, a potential decline in interest rates, excess aggregate demand, and inflationary instability – the CBSL simultaneously raised the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) to 8.00% and 9.00% respectively. The CBSL reduced the SRR by a further 1.00% in March 2019, and together, these cuts injected approximately Rs. 150 Bn. of additional liquidity into the financial market. These measures represented a subtle shift to a neutral monetary policy stance by the end of 2018 and early 2019.

It is in this context that the turn to an accommodative monetary policy stance in mid-2019 must be understood, when the deterioration in private sector credit growth and asset quality was further exacerbated by the Easter Sunday attacks. Contending that Sri Lanka's excessively high nominal and real lending rates – especially in comparison to peer economies – were a key reason for the economic slowdown, the CBSL imposed caps on interest rates on Sri Lankan Rupee Deposits in Licensed Commercial Banks (LCBs) and Licensed Specialised Banks (LSBs) in April 2019 in an effort to induce a correlative reduction in lending rates. Similarly, SDFR and SLFR were further reduced by 50 basis points each in May and August 2019.

Despite these adjustments, however, interest rates of lending products remained stubbornly high. To more swiftly and decisively trigger a reduction in market lending rates, the CBSL removed the deposit caps and replaced them with caps on lending rates in September 2019.

Interest rates Graph – 10



The regulations mandated reductions in nominal interest rates on advances, credit card receivables, and weekly Average Weighted Prime Rates (AWPRs). These measures prompted a marked reduction in lending rates towards the end of the year, and credit flows to the private sector increased in December. Policy rates at the end of the year for SDFR, SLFR, and SRR stood at 7.00%, 8.00%, and 5.00%, respectively.

When compared to 2018, however, overall expansion in credit to both private and public sectors in 2019 remained modest. The assets of the sector grew by only 6.18% to reach Rs. 12.50 Tn. as of end 2019, indicating a trend of growth well below the 2018 rate of 14.60%. Total loans and advances grew by 5.58% to reach a total of Rs. 8.12 Tn., also well below 2018 growth rate of 19.60%. Moreover, loans and advances accounted for 64.86% of total assets, compared with a figure of 65.20% for 2018.

The sector experienced a pronounced deterioration in asset quality – from the already high levels witnessed in 2018 – with the gross and net Non-Performing Loans (NPL) ratios of the banking sector rising to 4.70% and 2.80%, respectively, compared with 3.40% and 2.00% at the end of the previous year requiring higher impairment provisions. Deposit growth of the sector, at 7.89%, was well below the growth rate of 14.78% in 2018 and reached Rs. 9.16 Tn. Furthermore, with low deposit rates in effect throughout the year, there was only a marginal decrease in the CASA ratio from 31.97% in 2018 to 31.36% in 2019.

In this difficult scenario, the profitability of the banking sector, understandably, was negatively affected.

Bangladesh economy

With the incumbent Prime Minister, Sheikh Hasina, securing her third consecutive term as prime minister on December 30, 2018, and her Awami League party winning almost every parliamentary seat on offer, the economy of Bangladesh appears to be in a strong, stable position. The current account deficit in USD terms improved further in the first half of the FY 2019-20 (which runs from July 2019 to June 2020), largely propelled by a robust increase of 17.89% of inflows of workers' remittances. Bangladesh is projecting inward remittances of USD 20 Bn. in 2020 as against USD 18 Bn in 2019. Revenue collection edged up in the first half of FY 2019-20 by 7.30% YOY. Exports for the first half of the FY 2019-20 was USD 19.3 Bn. against USD 25.0 Bn. for the same period in FY 2018-19, indicating a negative growth of 5.84%. This was largely due to a downturn in the garment sector.

For the second half of the FY 2019-20, Bangladesh Bank kept private sector credit growth targets unchanged at 14.80% against the first half performance of around 10.00%. Inflation for the FY 2019-20 was 5.59% against the target of 5.50% which has been maintained at fairly consistent levels over the past several years. Foreign direct investment rose by 19.47% in FY 2018-19, and the FDI flow has maintained a rising trend in recent years. The government is targeting a FDI/GDP ratio of 3.00% for FY 2019-20.

Bangladesh's GDP grew by 8.15% in the FY 2018-19 against the target of 7.80%, making the country the fastest growing nation in the Asia Pacific region. The higher-than-expected growth came in spite of headwinds from slowing exports and the drying banking sector liquidity. For the FY 2019-20, the GDP is expected to grow at 8.20%. However, risks of natural disasters, a shaky global trade environment and a struggling domestic banking system (with an NPL of around 11%) may cloud prospects.

Standard & Poor's credit rating for Bangladesh stands at BB- with a stable outlook. Moody's credit rating for Bangladesh was last set at Ba3 with a stable outlook, while Fitch credit rating was last reported at BB- with a stable outlook.

Outlook

Global economy

Global growth is projected to rise to 3.3% in 2020 and 3.4% in 2021, and there are positive – though tentative – signs that manufacturing and global trade are bottoming out amidst encouraging news on US-China trade negotiations and a decisive Conservative Party victory in the UK general elections, diminishing anxiety over a 'no-deal' Brexit.

Nevertheless, the situation remains volatile, and elevated downside risks taint the outlook. The coronavirus outbreak originating in China has already had damaging effects, with plummeting manufacturing disrupting global supply chains and heightened anxieties over travel. Simmering tensions between the United States and Iran persist, and conflict in the middle east could disrupt oil supply, weaken market confidence, and hamper investment and growth. Furthermore, widespread social unrest in many countries across the world can erode faith in governmental and financial institutions. This is particularly significant in the case of already stressed and under-performing emerging market economies such as India, the Middle East, and Latin America, since the anticipated rebound in global growth is heavily contingent on the projected improvement of these economies.

In addition, there is widespread acknowledgement that weather and climate-related disasters can no longer afford to be discounted. Floods in eastern Africa, drought in southern Africa, bushfires in the Amazon, and, most recently, drought and bushfires in Australia all have the potential to impose significant macroeconomic stress and trigger spillover effects. The years ahead may also see the intensified manifestation of factors such as low productivity and aging demographics in advanced economies. Moreover, forecasted stagnant or moderated growth in a group of systemically important economies together comprising almost half of the global GDP – the 'Group of Four': United States, China, Euro area and Japan – means that the global economic context will remain precarious, for the near future.

Sri Lankan economy

The outlook for 2020 and beyond is contingent on the economic agenda of the newly-elected regime – along with a hoped-for climate of political and social stability. In November 2019, the new regime introduced a host of tax concessions, including reductions to the Value Added Tax (VAT) and upward revisions to the VAT registration threshold, abolition of Economic Service Charge (ESC), Nation Building Tax (NBT), Pay As You Earn (PAYE) tax, Withholding Tax (WHT) on interest, rent, service fees, dividend, widening of Income Tax slabs of individuals and reduction in Corporate Income Tax rates. These measures are intended to stimulate aggregate demand and consumption with the increase in disposable income, which accounts for roughly 70% of the GDP (2018). In addition, a bundle of incentives together with moratoriums were extended to reinvigorate the construction, tourism and SME sectors. The new regime's overarching ambition of the National Policy Framework, 'Vistas of Prosperity and Splendour', is to achieve a per capita income of USD 6,500 by 2025 and an economic growth rate of 6.5% per annum across 2020-2025 while maintaining macroeconomic stability.

Despite these initiatives, however, assessments of Sri Lanka's outlook remain sober. Forecasts for growth in 2020 by various organisations occupy a wide range between 4.5% (CBSL) to 3.3% (World Bank) with Fitch and World Bank projections for 2021 both standing at 3.7%. There is wide spread hope for short-term growth acceleration, propelled by fiscal stimulus measures, higher agricultural outputs, recovering investments, exports, and tourism, along with strong remittances.

Nevertheless, managing the debt dynamics over the next few years may prove to be a very difficult balancing act for Sri Lanka. This expectation has led Fitch Ratings to revise the Outlook on Sri Lanka's Long-Term Foreign-Currency Issuer Default Rating (IDR) to Negative from Stable, while affirming the IDR at "B" on December 18, 2019. S&P Global Ratings similarly downgraded its outlook on Sri Lanka's credit rating from stable to negative, affirming "B" long-term and "B" short-term foreign and local currency credit ratings for Sri Lanka. It should be noted that the CBSL strongly disputes these downwards revisions, arguing that insufficient recognition has been given to offsetting mechanisms aimed at compensating for revenue loss from the tax cuts, nor to the positive effects these stimulus measures would have on the macroeconomic environment. As such, the overall outlook seems to be one of guarded optimism.

Sri Lankan banking sector

Despite the subdued performance in 2019, the year ended with some signs of encouragement, and there is a measure of optimism for 2020. Private sector credit growth is expected to rebound to around 12-13% by the end of 2020, which augurs well for the economic revival and will also be aided by the reduction in SDFR and SLFR by a further 50 basis points from January 30, 2020.

There is some cautious hope, too, for a rise in sector profitability. As part of the new government's November 2019 stimulus initiatives, the 7% Debt Repayment Levy (DRL), imposed in the fourth quarter of 2018, was abolished.

On the other hand, the CBSL announced, with immediate effect, Higher Loss Absorbency Requirements (HLA) for designated Domestic Systemically Important Banks (D-SIBs) in December 2019. The four banks that got so classified, of which Commercial Bank is in the second highest bucket (with no bank in bucket 1), will have to contend with the effects of more stringent demands on regulatory capital relative to the rest of the other players in the industry.

A key focus for 2020 is on the recovery of small and medium scale enterprises (SMEs), driven by the implementation of a relief package launched in January 2020. This package, in which interested firms must voluntarily enroll, applies to SMEs that had an annual turnover of between Rs. 16 Mn. – 750 Mn. in 2019 and with total outstanding loans of up to Rs. 300 Mn. as of the end of 2019. Borrowers covered by the scheme will be offered a moratorium on capital repayments on all eligible Sri Lankan rupee loans until the end of 2020 (though they will still be required to service loan interest during the year); other relief measures include concessionary short-term working capital loans, interest payment waivers, and suspension of legal action against delinquent accounts. While there are some concerns over the reduced liquidity engendered by the delay in capital repayments, observers have noted that the depressed loan growth in 2019 means that there is already sufficient liquidity in the banking system, and shortfalls are unlikely. Moreover, in an effort to direct more credit towards new entrepreneurship ventures, the CBSL has called for banks to reconsider their credit disbursement policies with a view towards a less risk-averse orientation.

Bangladesh economy

Bangladesh economy is forecasted to grow at 8% in 2020, putting it ahead of other Asian countries, including India which will help it to shed its "least developed country" status in five years. Further, a decline in population growth is also helping an increase in per capita income. The number of employed workers living below the poverty line has dropped from 73.5% in 2010 to 10.4% in 2018. The success of the IT industry will be critical to the digital transformation and ongoing economic growth of the country which exports nearly USD 1 Bn. of technology products every year. The World Bank has painted a bright picture for Bangladesh's economy for the next two fiscal years, pinning hopes on strong domestic demand, exports, investment and remittances. However, the country needs to address certain challenges such as pollution and environmental degradation, unplanned urbanisation and industrialisation leading to wetland encroachment and a more effective policy and legal framework with stronger institutions at both the national and local level to achieve and sustain the potential growth.

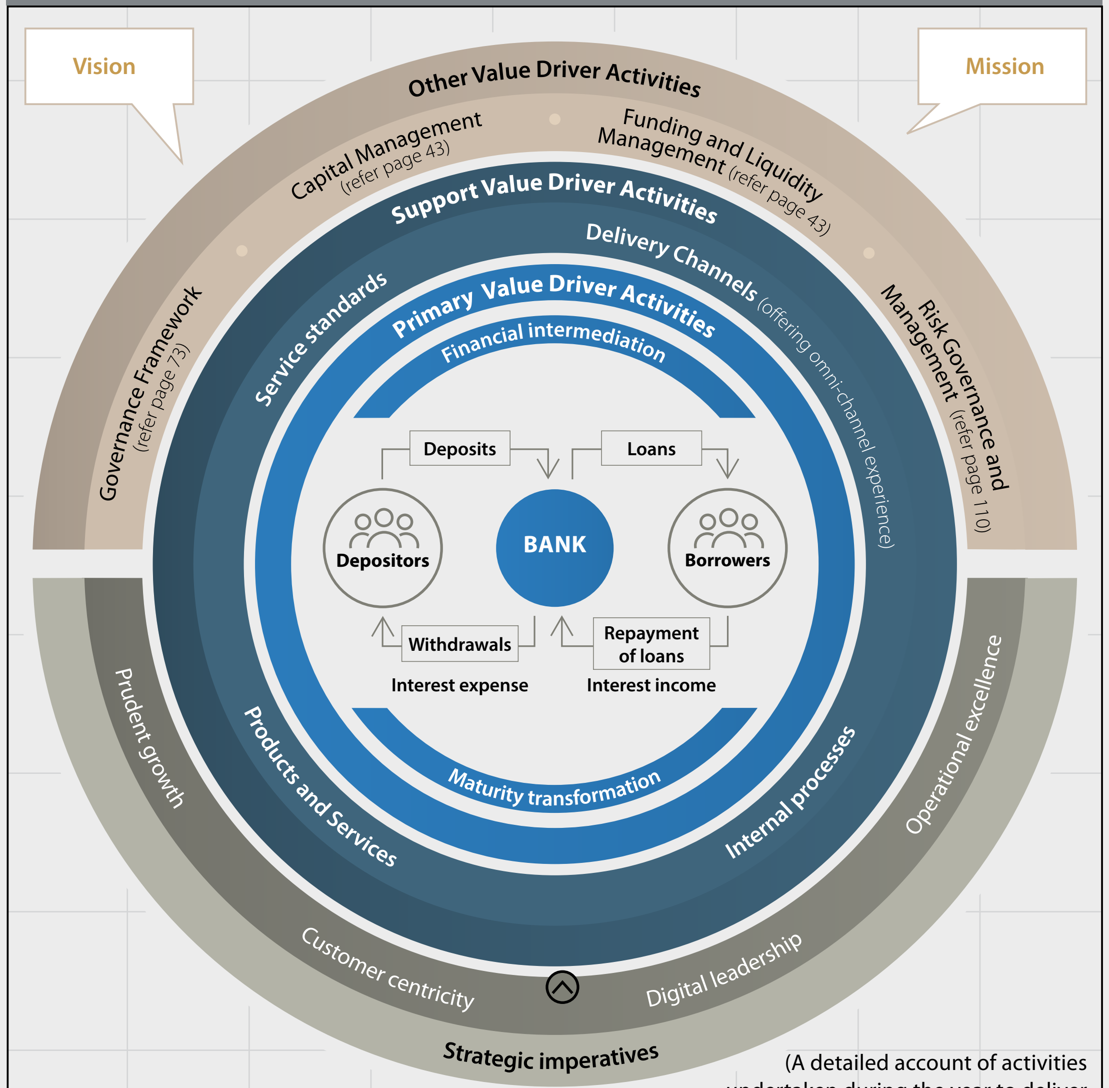
The Bank's business model that delivers value to and derives value from the stakeholders, leading to sustainable value creation

Figure – 07

1. INPUTS

Capital	Inputs
Financial capital	• Shareholders' funds • Borrowed funds • Financial covenants • Customer deposits
Manufactured capital	• Property, plant & equipment • Information & Communication Technology • Public goods • Investments in process improvements
Intellectual capital	• Institutionalised knowledge • Best practices • Social & Environmental Management System (SEMS) • Data analytics
Human capital	• Skills • Competencies • Creativity • Commitment
Social & network capital	• Services and supplies • Relationships • Assurance services • Collaborations & alliances
Natural capital	• Utilities • Refinance funding for solar/digitisation projects • Contribution to the Bank's CSR Trust

2. VALUE DRIVER ACTIVITIES



(A detailed account of activities undertaken during the year to deliver value to stakeholders that enhanced capitals are given in the MD&A on pages 40 to 61)

3. OUTPUTS

Loans & advances, investments, deposits, forex products, remittance services, fee based services, International Trade related products & services, unfunded facilities, REPO transactions, advisory services

4. OUTCOMES

Capital	Outcomes
Financial capital	• Prudent growth • Profits, taxes and dividends • Being well capitalised, funded and liquid • Optimum risk-return trade-off • Market capitalisation
Manufactured capital	• Digital leadership • Omni-channel presence • Growth in capacity • Safe work environment • Enhanced productivity
Intellectual capital	• Innovativeness • Creativity • New products • Simplicity • Compliance
Human capital	• Operational excellence • Empowerment and engagement • Training & development • Motivation and productivity • Cordial industrial relations
Social & network capital	• Customer centricity • Growth in customer base • Customer satisfaction • Customer convenience • Strong supplier relationships • CSR activities
Natural capital	• Green processes and facilities • Solar power generation • Saving of non-renewable energy sources • Environmental Protection • Improvements in quality of life

OPERATING ENVIRONMENT THAT PROVIDE CONTEXT FOR VALUE CREATION

(KPIs depicting the value derived as outcomes are given in Highlights on page 39)

1. INPUTS

"Raw materials" for the value driver activities drawn from capitals. Please refer page 38 of the Statement of Capital Position for the opening capital position as at January 1, 2019 of different capitals built by the Bank over the past 100 years.

2. VALUE DRIVER ACTIVITIES

Include primary value driver activities that promoted growth, support value driver activities that promoted positive stakeholder interactions and other value driver activities that minimised risk. It is the inputs from the capitals together with relationships, interactions, interdependencies and trade-offs among capitals that generated outputs, leading to creation of value reflected in capitals.

3. OUTPUTS

Products and services and negative externalities generated through the value driver activities.

4. OUTCOMES

Consequences of our activities and outputs manifested in capitals as value created. Please refer page 39 of the Statement of Capital Position for the closing capital position as at December 31, 2019 of different capitals.

Business Model for Sustainable Value Creation

Business model of the Bank revolves around the two primary value driver activities of **financial intermediation and maturity transformation**. They directly accounted for 71.51% of the total operating income, 66.35% of total assets and 83.98% of liabilities as at December 31, 2019. However, since the Bank accommodates few walk-in customers, a substantial portion of the rest of the operating income, assets and liabilities too arose from or related to these two activities. A number of other value driver activities enhance the quality of stakeholder interactions and minimise risk.

Financial intermediation and maturity transformation

Financial intermediation refers to the intermediary role the Bank plays between various stakeholders – depositors and borrowers in particular that enable channelling savings into investments. Maturity transformation refers to the process of converting short-term funds into long term lending and investments. These are two activities essential for economic development of the countries through efficient allocation of resources by ensuring credit reaches the needy without jeopardizing the interests of those who invest such funds.

Capitals

By sustainably delivering and deriving value over a century of its existence, the Bank has been able to build a base of loyal stakeholders and "stocks of value" we respectfully call "capitals". Besides financial and intellectual capitals that reside within the Bank, these include manufactured, human, social & network and natural capitals. It is these capitals that provide "inputs" for our value driver activities that enable delivery of value to and deriving of value from the stakeholders. Similarly, it is in these capitals that the "outcomes" and consequences of our activities leading to value creation manifest.

Statement of capital position

The activities we undertake in furtherance of financial intermediation and maturity transformation and the consequent interactions among the capitals augment the capitals, a reflection of value created. See Table 07 on pages 38 and 39 for the Statement of Capital Position of the Bank as at January 1, 2019 and December 31, 2019 and growth during the year that reflect the value created during the year.

Besides the value derived as reflected in the enhanced positions of the other capitals, the two broader categories of income – net interest income from fund-based operations and fee and commission income from fee-based operations – enable the Bank to enhance its financial capital. Fund based operations involve the process of mobilising funds from depositors and borrowing from others incurring interest expenses and lending such funds to borrowers and investors earning interest income. The interest margin which is the difference between the lending rate and the borrowing rate compensates the Bank for credit risk, funding risk and interest rate risk. All other services provided by the Bank not involving funds are fee-based operations. Reflecting efficient financial intermediation, the Bank generated 71.51% of its total operating income by way of net interest income (70.57% in 2018).

Gearing

Financial intermediation and maturity transformation cause the business model of banks to substantially differ from other corporates. Principal difference is the substantially lower Return on Assets (ROA) which is less than 2% in general in stark contrast to between 10% – 20% earned by corporates in other sectors. This prompts banks to 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 foundation of our business model, which enables us to operate at around 10 times higher business volumes compared to the shareholders' equity. It is our license to mobilise deposits from the public that has made it possible. However, we are well aware that gearing exposes the Bank to a multitude of internal and external risks. In addition, certain emerging global developments are now threatening to disrupt this conventional business model. As explained later in the 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 Table 07 on pages 38 and 39, Commercial Bank has been able to improve its profitability over the years while prudently 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. The market capitalisation of the Bank's shares remained the highest among the Banking, Finance and Insurance institutions as at end 2019 while its shares ranked fourth among all listed companies in the Colombo Stock Exchange as at end 2019. Further details on the performance of the Bank's shares are found in the section on "Investor Relations" on pages 288 to 305.

While growing organically and in the domestic market, the Bank has taken steps to leverage 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. These efforts have now made the Bank a well-established regional bank.

Statement of

Financial capital

Indicator of value derived	Value derived as at January 1, 2019	Activities undertaken to create financial capital *	Value derived as at December 31, 2019	Growth in value created
Shareholders' Funds	Rs. 118.4 Bn.	Grew the business volumes prudently through robust and efficient financial intermediation and maturity transformation, thereby strengthening the leadership position	Rs. 133.2 Bn.	12.5%
Subordinated liabilities	Rs. 38.0 Bn.		Rs. 38.0 Bn.	–
Deposits from customers	Rs. 983.0 Bn.		Rs. 1,053.3 Bn.	7.1%
Borrowings from banks/other borrowings	Rs. 50.1 Bn.		Rs. 51.5 Bn.	2.8%
Market share in total assets	11.1%		11.1%	–
Market capitalisation	Rs. 114.9 Bn.		Rs. 96.8 Bn.**	-15.8%
CSE ranking in market cap	3		4	
Price to Book Value	Highest among the BFI sector		Highest among the BFI Sector	

Manufactured capital

Indicator of value derived	Value derived as at January 1, 2019	Activities undertaken to create manufactured capital *	Value derived as at December 31, 2019	Growth in value created
Branch network	285	• Maintained profitable mix of owned and rented buildings • Delivery channels • Conducted cost-efficient transport arrangements • Improved procurement services	287	0.7%
Number of ATMs	690		685	-0.7%
Number of CRM	160		200	25%
Bank on Wheels	2		3	50%
Investment in capital expenditure	Rs. 15.3 Bn.		Rs. 15.2 Bn	-0.7 bps

Intellectual capital

Indicator of value derived	Value derived as at January 1, 2019	Activities undertaken to create intellectual capital *	Value derived as at December 31, 2019	Growth in value created
Brand equity	Rs. 29.3 Bn.	• Invested in centralisation • Improved processes and procedures • Developed new products and services • Expanded network, conducted research and development • Deepened technological expertise • Supported knowledge sharing initiatives	Rs. 37.3 Bn.	27.3%
Value of intangible assets	Rs. 0.9 Bn.		Rs. 1.1 Bn.	22.2%
Receipt of awards and accolades	Most awarded bank in Sri Lanka		Most awarded bank in Sri Lanka	
World's Top 1000 Banks	Included in 2018		Included in 2019	
Fitch rating	AA (lka)		AA (lka)	
Employees serving for > 20 years	834		791	-5.2%

Capital Position Table – 07

Interactions

Human capital

Indicator of value derived	Value derived as at January 1, 2019	Activities undertaken to create Human capital *	Value derived as at December 31, 2019	Growth in value created
Number of employees	5,027	• Improved quality of new recruits • Conducted employee surveys • Invested in training and development • Enriched career development • Re-enforced performance management and appraisals	5,062	0.7%
Number of new recruits	312		264	-15.4%
Retention ratio	96%		93.8%	220 bps
Return to work from maternity	100%		100%	–
Profit per employee	Rs. 3.5 Mn.		Rs. 3.4 Mn.	-2.9%
Average service period	11 years and 10 months		12 years and 2 months	4 months

Social and Network capital

Indicator of value derived	Value derived as at January 1, 2019	Activities undertaken to create Social and Network capital *	Value derived as at December 31, 2019	Growth in value created
Number of customers	Over 3.5 Mn.	• Promoted financial inclusion • Co-created products and services • Collaborated with business partners • Improved capacity of SMEs • Expanded Bank's footprint • Supported the community	Over 3.5 Mn.	–
Market share in imports	11.3%		11.0%	-30 bps
Market share in exports	19.5%		18.3%	-120 bps
CASA ratio	37.6%		37.1%	-50 bps
Number of suppliers	Over 1,100		Over 1,200	–
Number of correspondent banks	54		55	1.8%
CSR Trust investment in society	Rs. 475.4 Mn.		Rs. 549.2 Mn.	15.5%

Natural capital

Indicator of value derived	Value derived as at January 1, 2019	Activities undertaken to create Natural capital *	Value derived as at December 31, 2019	Growth in value created
Energy consumption	49,958 GJ	• Screened loans through SEMS • Promoted paper reduction and recycling • Increased usage of renewable energy • Switched to energy-efficient appliances	50,296 GJ	0.7%
Solar panel installation locations	34		49	32.4%
Number of facilities subjected to SEMS screening	9,685		10,074	4.02%
Online banking users	279,254		280,634***	0.5%
Mobile banking users	630,030		671,699	6.6%

** Please refer Management Discussion and Analysis for details of the activities undertaken.*

*** Reflects the overall market trend*

**** Over 92,000 inactive customers were deactivated during 2019.*

Management Discussion and Analysis

Strategic Imperatives

Figure – 08

Prudent Growth

Growing the business astutely with a long-term perspective

- **Creating long-term value** by keeping the interests of all stakeholders at heart for sustainable value creation
- **Focusing on pure banking** by remaining true to our original ideals of being a banker first and foremost
- **Managing risks prudently** by strengthening risk governance and management to enhance asset quality and minimise operational losses
- **Remaining well capitalised and liquid** by maintaining sound capital and optimum liquidity in the spirit of their requirements
- **Being well diversified** by minimising concentration into any particular geography, customer, product, sector or currency

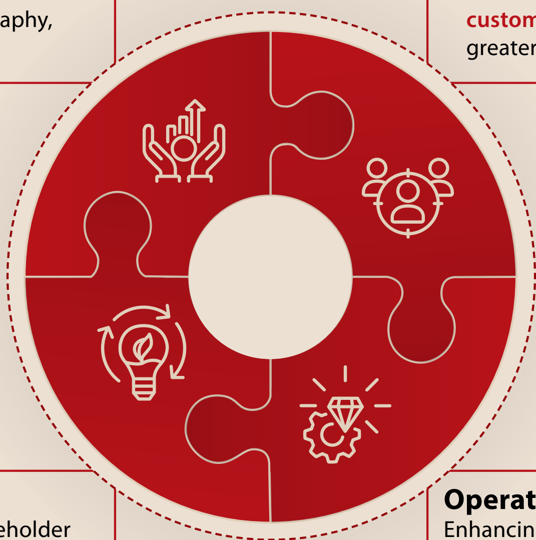
Page – 41

Customer centricity

Providing experience, simplicity and convenience that the customers value most today

- **Growing corporate customer base** by being a trusted partner and providing better business solutions
- **Remaining relevant to mass market customers** by offering a seamlessly integrated omni-channel banking experience
- **Augmenting SME customer value proposition** by providing greater opportunities for growth through networking and education
- **Strengthening ties with micro customers** by driving responsible lending and financial inclusion through closer interaction
- **Continuing to focus on high net worth customers** by driving stronger relationships and greater engagement

Page – 47



Leading through innovation

Innovating to enhance the quality of stakeholder interactions and experience

- **Fortifying digital leadership** by leveraging platforms and technologies to align with changing customer aspirations
- **Reinforcing co-creation** by collaborating with stakeholders to create mutually valued outcomes
- **Segmenting customers** to identify and serve unique banking needs of different customer segments better
- **Spreading green banking** by promoting environment-friendly investments within Sri Lanka and the region
- **Supporting the community** by investing in innovative solutions for the well-being of the communities

Page – 52

Operational excellence

Enhancing operational efficiencies for better productivity and customer service

- **Centralising work processes** to enable branches concentrate more on business development and managing customer relationships
- **Re-engineering business processes** to deploy technological advancements for meeting changing business needs and service standards
- **Optimising resources** by maintaining an optimum mix of CAPEX and OPEX models
- **Investing in employees** for better aligning them with the changing needs and improving productivity
- **Safeguarding the environment** by continuously reducing carbon footprint to contribute less towards climate change

Page – 56

Prudent Growth

The Bank's focus has always been on creating value for all its stakeholders in the short, medium, and long term. This approach requires a delicate balance of maximising our revenue and profitability in the present without compromising the Bank's ability to keep delivering value year-over-year. We conceptualise this strategy as prudent growth. It is a strategy of creating long-term value through an emphasis on pure banking and a well-diversified asset base, supported by best in class risk management and corporate governance practices and underpinned by commensurate amounts of liquidity and capital. It is a strategy that is built on closely monitoring emerging economic, social, and technological trends and developments in both local and global markets, and taking an agile, pragmatic approach to growing our business in response. A prudent outlook and a conservative risk profile, after all, have been the key to our sustained, long-term performance, and have driven our growth at an even and healthy pace.

Our very identity rests on a commitment to prudence, and this quality has always been our hallmark; the Bank is deservingly famous for its compliance to both the letter and spirit of the law. The Bank places a premium on the trust and confidence of its customers – a strength we have carefully cultivated for a century. Our rigorous Codes of Ethics & Conduct guide the decisions and actions of our Board and the staff as well as our relationships with external partners, and ensure that the Bank remains untainted by corruption or malpractice. Through on-site audits and online surveillance – whose scope and frequency are determined using a risk-based model – the Inspection Department reinforces the anti-corruption provisions of the Code. Similarly, the Bank's Anti-Money Laundering Unit, under the purview of the Compliance Officer, utilizes systems on par with global standards in its monitoring and reporting of suspicious activities to the Financial Intelligence Unit (FIU) of the CBSL.

It was our commitment to prudent growth that allowed us to stay the course in the midst of a challenging, unforgiving economic context this year, where many of our resources had to be redirected towards managing deteriorating asset quality and the consequent rising of NPAs. In this context, being prudent meant growing our business in a controlled fashion, with an emphasis on asset quality and stability, appropriate levels of deposit mobilisation, and a strong involvement from treasury to manage funding and excess liquidity. Moreover, we followed a prudent approach in all aspects of our operations, from touch-point expansion, cost management, recruitment, and upgrading our technology to support value creation in the future.

Given the capital intensive business the Bank is in, profitability is a key determinant of its future well-being and is the deciding factor of the extent to which it is able to sustain value creation in the short, medium and long term. In order for the Bank to profitably deliver this value proposition, it promotes integrated thinking within the Organisation by creating awareness among all its staff categories

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of the role they play in this process. Social and environmental considerations too are integrated into all the Bank's core business activities while employees are encouraged to pursue activities that range from responsible lending, investments, new product development, procurement etc. to social and environmental initiatives such as recycling, use of renewable energy, and the support of culture, health, and education etc. This ensures that the Bank successfully achieves its role as an intermediary by balancing the conflicting interests of stakeholders and optimising the trade-off between risk and return.

The Social and Environmental Management System (SEMS), an integral part of the loan approval process, is pivotal for managing the Bank's risk profile and making the lending and investment activities responsible. It evaluates the feasibility of projects based on cash flows while also screening all business and project loans to ensure that they are monitored on an ongoing basis. This process has proved to be efficient in helping entrepreneurs and customers maintain the sustainability of their operations. In addition, the Bank also offers facilities for the adoption of environment-friendly technologies on concessionary terms and conditions.

For further details on our wider approach to prudent growth, please see discussions under the strategic imperatives of Customer Centricity, Leading through innovation and Operational Excellence on pages 47 to 61.

Creating Long-Term Value

During the year under review, the total assets of the Bank grew by 6.43%, rising from Rs. 1.303 Tn. at the end of 2018 to Rs. 1.387 Tn. at December 31, 2019. Our market share in total assets, which stood at 11.1% at the end of 2018, remained flat at the end of 2019. In this context, the Bank's International Operations played an increasingly vital role in our bottom line by contributing 16.06% to the Group's total assets and 29.45% of profit before tax (refer to pages 20 to 27 of the Financial Review for further details).

Loans to customers grew by a modest 2.73% this year; notably, however, loans as a proportion of total assets decreased to 63.77% from 66.06% in 2018, as rising NPLs and declining demand for credit meant heightened investment in Treasury bills and bonds. And, reflecting the wider trends, the Bank's Non-Performing Loans (NPLs) ratio increased to 4.95% at end of the year, though there were encouraging signs that this rise had crested both for the Bank and the sector.

Deposits grew from Rs. 983.04 Bn. in 2018 to Rs. 1,053.31 Bn. this year, making the Commercial Bank the only private sector bank to cross Rupees one trillion. Deposits was the Bank's largest source of funding, accounting for 75.92% of the total liabilities and equity (compared with 75.42% in 2018), signifying the stability of its financial intermediation role.

While balancing the shareholder returns, the Bank's dividend policy takes into account the capital-intensive nature of the business and seeks to support its business expansion in the long-term. A final dividend of Rs. 2.00 per share was proposed for 2019, which, together with Rs. 4.50 per share in interim dividends, amounted to a total dividend of Rs. 6.50 per share for the year. Following the lackluster performance, indices on the Colombo Stock Exchange (CSE) ended the year on a mixed note. ASPI gained marginal 1.27% to close the year at 6,129 (6,052 in 2018) and S&P SL20 lost 6.32% to 2,937 (3,135 in 2018). Banking, Finance and Insurance sector too followed a similar trend, losing 1.04%. Accordingly, the Bank's shares were trading at a discount to its book value throughout the year. The price to book value stood at 0.73 times as of December 31, 2019 (0.98 times as at end 2018), the highest among the peer banks listed on the CSE.

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.

Segmental composition of total assets

Personal Banking
34%
5 year CAGR **14.1%**

Corporate Banking
24%
5 year CAGR **16.9%**

Treasury
26%
5 year CAGR **4.5%**

International Operations
16%
5 year CAGR **18.3%**

Financial Soundness Indicators relating to capital adequacy, asset quality, earnings & profitability, liquidity and assets & funding structure Table 03 on page 24 in Financial Review bear testimony to the Bank's prudent growth.

Remaining Well Capitalised

A strong base of capital is vital for a bank's sustainability. It helps a bank acquire property and equipment to establish and perpetuate business, and offers protection against uninsured depositors; and, perhaps most importantly, it acts as a buffer to absorb unanticipated losses and serves as a regulatory restraint on unjustified asset expansion. But tightening regulatory requirements and more stringent reporting standards, while necessary and justifiable, have created new impediments to the growth of the banking industry.

As a result of more restrictive capital definitions, difficulty in raising fresh capital due to lacklustre market conditions, comparatively higher risk-weighted assets, additional capital buffers and higher capital adequacy ratios (CARs) required under Basel III regulations, higher impairment provisioning under SLFRS 9, and higher taxes, banks are being forced to take less risks and are bearing the brunt of higher costs and lower returns.

To remain solvent in such a landscape, the Bank considers it a priority to pro-actively manage the capital at its disposal. The Bank assesses its capital requirements through the Internal Capital Adequacy Assessment Process (ICAAP) and the annual strategic planning and budgeting exercise. The tools it deploys include: Risk Adjusted Return on Capital (RAROC), prudent capital allocation, controlled growth in risk-weighted assets, timely pricing, dividend policy, products and services portfolio and capital instruments. The Bank also recognises that a crucial aspect of its success is the loyal base of shareholders whom the Bank can rely on for more capital whenever the need for a capital infusion arises. Over the last five years, the Bank consistently maintained capital adequacy ratios well in excess of minimum requirements (see page 24 for further details).

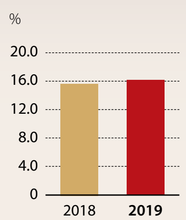
Capital management objectives

The objectives of the Bank's Capital Management efforts are:

- Compliance with the regulatory requirements
- Maintaining internal capital targets that are more stringent than the regulatory requirements
- Optimum capital usage for maximum profitability (which meets investor expectations)
- 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 the expected credit loss model which requires provisions on loan commitments/off balance sheet exposures and foreign currency denominated Government securities as well.

During the year under review, the Bank's core objective was to be compliant with the regulatory capital requirements, satisfying the BASEL III and absorbing the additional impact of SLFRS 9. This was carried out prudently, taking into consideration the business requirements while optimising profitability. Even though the Bank had initially planned to raise capital via BASEL III compliant debentures in 2019, the plans were shelved as the Bank's capital remained at comfortable levels throughout the year. The CET 1 capital ratio stood at 12.30% (as against the regulatory requirement of 8.50%) and Total Capital ratio at 16.15% (as against the regulatory requirement of 14.00%) as of end December 2019.

Capital adequacy ratio Graph – 11



16.15%
Total capital adequacy ratio

Total RWA for Credit Risk of the Bank registered only a minimal increase of 1.69% during 2019, due to the lackluster economic performance and lower growth in loans and advances. The RWA for Operational Risk meanwhile increased to Rs. 41.12 Bn. during 2019 compared to Rs. 38.53 Bn. in 2018. The overall increase in RWA during 2019 was Rs. 28.00 Bn., compared with Rs. 167.30 Bn. in 2018. Since the business environment was not conducive for expansion of the asset book, the Bank strategically invested the excess liquidity generated in both LKR and FCY in Government Securities that did not attract a capital charge.

Overall, due to lower growth in credit, there was less pressure on capital and as a result, the Bank ended the year with sufficient level of capital to accommodate the expected credit growth rebound in 2020, while meeting the Higher Loss Absorbency ratio required of a Domestic Systemically Important Bank (see pages 35 to 36 of the Operating Environment – Outlook for further details).

For further details on our Capital Management and Risk Control Self Assessment (ICAAP), please see pages 110 to 128.

Please also see page 332 for Disclosure 7 – Summary discussion on adequacy/meeting current and future capital requirements.

Managing Funding and Liquidity

The circumstances that led to the financial crisis in 2007 and the events that followed underscored the fact that funding and liquidity are as important, if not more so, than capital for the financial services industry. Yet, unlike for capital, there had been no internationally agreed-upon standards for funding and liquidity. As a result, Basel III included provisions to strengthen the funding and liquidity risk management of banks. Its aim was to promote resilience in a bank's short-term and long-term liquidity risk profile through the introduction of the Liquidity Coverage Ratio (LCR, 2015) and the Net Stable Funding Ratio (NSFR, 2019), respectively. In addition to the conventional Statutory Liquid Assets Ratio, these measures are designed to prevent banks from relying excessively on short-term wholesale funding to support long-term assets.

The Bank accords as much importance to funding and liquidity as it does to capital, ensuring that it has sustainable sources of funding and that it maintains adequate levels of liquidity at all times. The Bank will not compromise on liquidity in its drive to generate returns for investors, and this tenet has contributed greatly towards public trust in the Bank.

The Bank accords as much importance to funding and liquidity as it does to capital, ensuring that it has sustainable sources of funding and that it maintains adequate levels of liquidity at all times.

To actively monitor the funding, liquidity requirements and pricing of assets and liabilities, the Assets and Liabilities Committee (ALCO) of the Bank meets fortnightly. It extensively deliberates on developments such as market liquidity, current and perceived interest rates, changes in policy rates, credit growth and facilities in the pipeline, capital market developments, projected capital expenditure etc. that affect funding and liquidity.

Over the past several years, the Bank has further strengthened its funding and liquidity by encouraging the use of electronic cash and cards to reduce cash holdings and establishing credit lines with strong overseas counterparties (enabling it to access foreign currency funds at attractive prices). Funding sources of the Bank for onward lending, in order of their assessed stability, include:

1. Retail deposits through the branch network
2. Low-cost foreign currency borrowing (provided the interest and swap cost attached to such borrowing is cheaper as compared to the cost of wholesale deposits)
3. Selected long-term wholesale deposits

Funding and Liquidity Management Objectives

Objectives of the Bank's funding and liquidity management efforts are:

- Honouring customer deposit maturities/withdrawals and other cash commitments efficiently under both normal as well as challenging 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 to maximise profitability

- Funding future business expansion at optimum cost
- Supporting desired credit rating
- Ensuring smooth transition to Basel III funding and liquidity requirements

Client Deposits remained the main source of funding for the Bank's assets. Along with the slowdown of loans to customers and the healthy, above industry average deposit growth, the Bank did not require large funding sources during the year. As such, the Bank only borrowed USD 25 Mn. from the multilateral lending agency, PROPARCO, a French Development Financial Institution, meeting its funding requirements through USD/LKR swaps and other short to medium term borrowings.

The Bank managed its funding and liquidity ratios on a daily basis and monitored the Liquid Assets Ratio to ensure adequate sources of funding to maintain liquidity at the desired levels. The Bank's Asset and Liability Management Committee also deliberates on pricing strategy, interest rate view, changes in policy rates, Bank and market liquidity positions, credit growth and other important economic indicators, along with local and international market developments to arrive at the most prudent method to manage funding and liquidity requirements.

The Bank has heavily relied on retail deposits generated by the extensive branch network as a stable source of funding. In addition, the Bank was also able to raise low cost Foreign Currency (FCY) funding by way of overseas borrowings, repurchase of FCY investment book and trade-backed funding lines. In 2019, the Bank has also managed to widen its relationships and now has established counterparties covering Asia, Middle East and Europe for funding requirements. In addition, the Bank has lined up contingency reciprocal funding lines for any stressed liquidity situation. The Bank has classified substantial amount of its liquid assets under the Fair Value Through Other Comprehensive Income (FVOCI) category which will enable the Bank to realise the assets in the liquid secondary market in a stressed scenario.

Both LCR and NSFR were much higher than the required levels in 2019, indicating that the Bank has high quality liquid assets at its disposal. The Bank maintained LCR (all currencies) at 224.74% and NSFR at 137.05% as of December 31, 2019 as against the minimum requirements of 100% for both ratios, respectively.

Being a Truly Diversified Entity

Another dimension of the Bank's prudent growth is its commitment to diversification. Apart from it being a risk management tool to avoid excessive concentrations, diversification has helped the Bank in responding better to the changing market conditions and generating better returns, thereby reducing volatility of performance and augmenting the sustainability of its value creation.

The Bank has successfully accomplished a higher level of diversification in its operations across many parameters which, inter alia, include;

- Geographically
- Customer profile
- Banking channels
- Currency wise
- Products and services portfolio
- Funding profile
- Maturity profile
- Economic sector
- Sources of revenue

Apart from it being a risk management tool to avoid excessive concentrations, diversification has helped the Bank in responding better to the changing market conditions and generating better returns, thereby reducing volatility of performance and augmenting the sustainability of its value creation.

Diversification in the Bank Figure – 09

Customer

Year-on-year growth in deposits

Minors
- *Isuru*
- *Arunalu*

13.00%

Youth
- Dot Com
- Spin Junior
- Youth Savings

15.75%

Women
- *Anagi*

23.38%

Senior Citizens
- *Udara*
- Senior Citizen Special FD

8.34%

General
- Other savings

6.57%

Industry

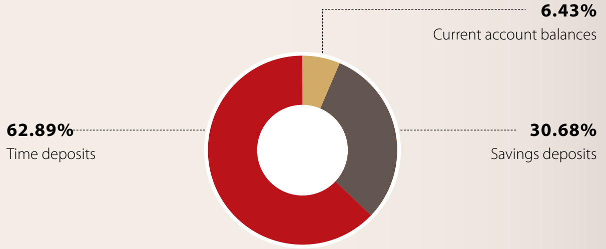
Sector-wise contribution to loans and advances

	%
Agriculture and fishing	7.4
Arts, entertainment and recreation	0.1
Construction	4.9
Consumption and other*	21.8
Education	0.3
Financial services	4.1
Healthcare, social services and support services	2.0
Information technology and communication services	1.2
Infrastructure development	1.9
Lending to overseas entities	11.2
Manufacturing	13.1
Professional, scientific, and technical activities	2.6
Tourism	6.8
Transport and storage	1.4
Wholesale and retail trade	21.2
	100.0

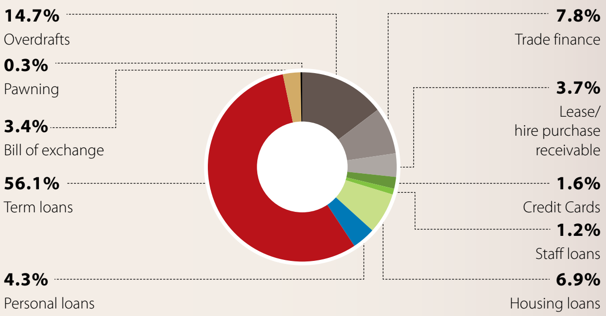
** Consumption and other include housing loans, leasing, credit cards etc.*

Products and Services

Deposit mix



Loans and advances mix



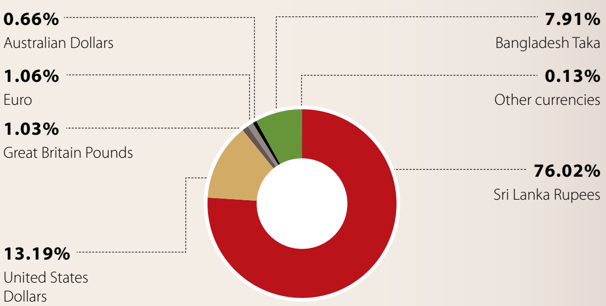
Geography

Contribution from International operations

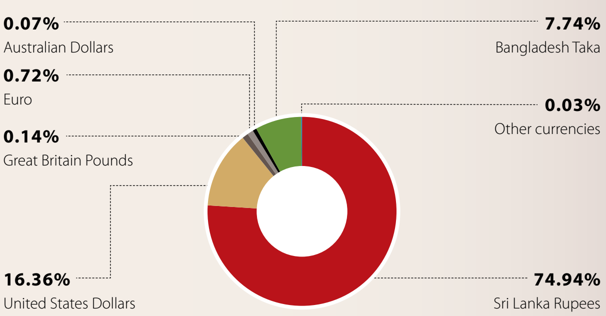
16%	13.6%	29.5%
Assets	Net interest income	Operating profit before tax

Currency

Deposits



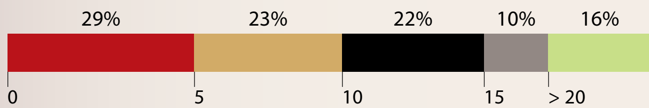
Loans and advances



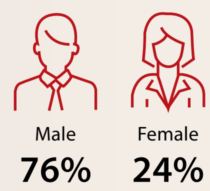
Employees

Composition of employees

Service years



Gender



Age

Anti Money Laundering

Commercial Bank of Ceylon PLC is committed to maintaining the highest ethical standards and integrity in its business activities. The Bank takes a zero-tolerance approach for corruption, bribery and fraud. The Bank, its Board of Directors and all of the employees are dedicated to act professionally, ethically and with integrity in all business dealings and relationships with all stakeholders.

The Bank has established formal policies and procedures with regard to ethics, gifts and hospitality, facilitation payments, duty of secrecy, conduct of staff accounts etc. These policies and procedures are periodically reviewed in order to ensure its suitability, adequacy and appropriateness for an effective anti-corruption program.

The Bank also conducts its Money Laundering and Terrorist Financing (ML/ TF) Risk assessment as per the established ML/TF Risk Assessment Policy. Risk reviews are conducted and reported to the Board on a quarterly basis considering the risk exposures arising from its customers, delivery channels, products and services and geographical locations in which it operates business.

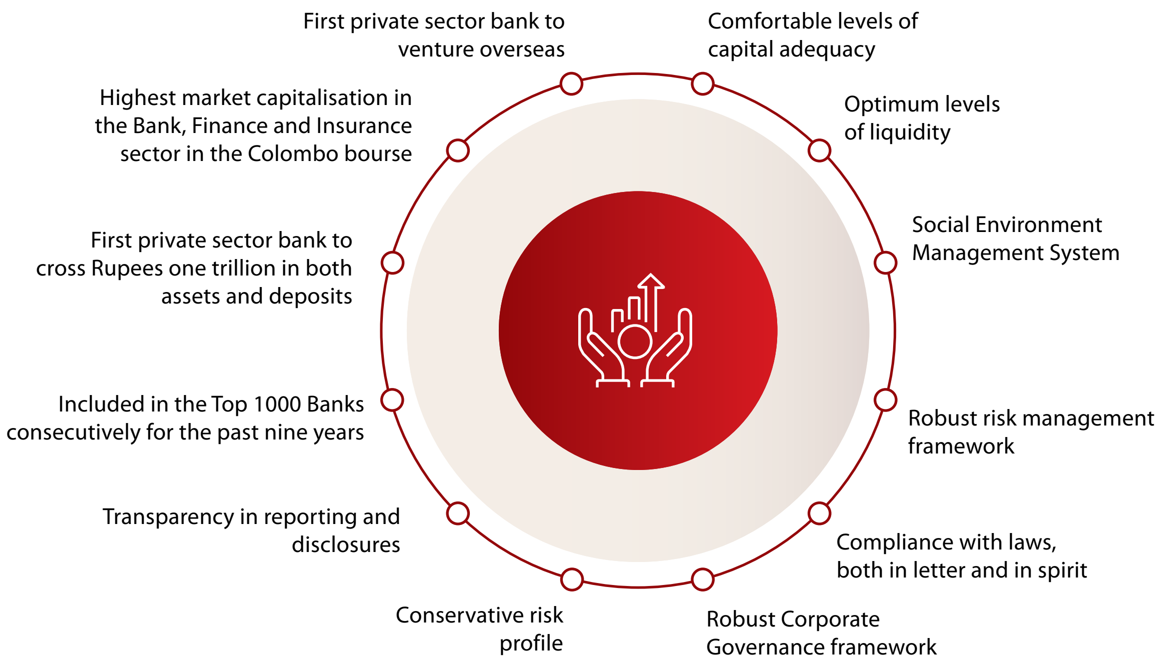
Training is provided to all employees and the members of the Board of Directors on AML/CFT, Compliance and Anti Bribery & Corruption from time to time.

Employees of the Bank are responsible and accountable to uphold the reputation of the Bank and to conduct business in a professional and ethical manner with utmost commitment to comply with laws and regulations applicable in all jurisdictions in which the Bank conducts its business.

Through on-site audits and online surveillance, the Inspection Department reinforces the provisions of the Code of Ethics. 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.

In addition to the above, a Whistle Blower Charter is in place to allow employees to report unethical or any known or suspected frauds or misappropriations by staff members to the Compliance Officer of the Bank to safeguard the interest of the Bank and all its stakeholders.

Our commitment to prudent growth Figure – 10



Customer Centricity

Our customers are at the centre of all our activities, and we aim to provide them with an unparalleled banking experience. This calls for deeply understanding our customer – their needs, their preferences, their concerns – and responding with products and services that meet and even exceed their expectations. It also involves transforming our own processes and remaining agile in a rapidly changing environment. Accordingly, the Bank carefully segments its diverse customer base and identifies and tailors its services to serve each group. This targeted approach is what allows us to differentiate our value proposition and build customer loyalty.

Customer segmentation Table – 08

Criteria	High net-worth	Corporate	SME	Micro customers	Mass market
Income/Size of relationship/Business turnover/Exposure	Individuals with banking relationships above set thresholds	Annual business turnover> Rs. 750 Mn./ Exposure> Rs. 250 Mn.	Annual business turnover< Rs. 750 Mn./ Exposure< Rs. 250 Mn.	Exposure< Rs. 500,000	Individuals not falling into other categories
Price sensitivity	High	High	Moderate	Low	Low
Products of interest	Investment	Transactional, trade finance, and project finance	Factoring, leasing and project financing	Transactional	Transactional
Number of transactions	Low	High	Moderate	Low	Low
Level of engagement	High	High	Moderate	Low	Low
Objective	Wealth maximisation	Funding and growth	Funding and growth	Funding and advice	Personal financial needs
Background	Business community/ Professionals	Rated, large to medium corporates	Medium business	Self-employed	Salaried employees
Number of banking relationships	Many	Many	Many	A few	A few
Level of competition from banks	High	High	Moderate	Low	Moderate

The type of segmentation illustrated here enables the Bank to gain greater knowledge and understanding of the customer and better align with their unique banking requirements (refer Table 09).

Channel mix and target market on perceived customer preference Table – 09

Customer segment	Branches	Internet banking	ATMs	Call centre	Mobile Banking	Relationship managers	Business promotion officers	Premier banking units
Corporates	√	√	√	√	√	√	X	X
SMEs	√	√	X	√	X	X	√	X
Micro	√	X	√	X	√	X	X	X
Mass:								
Millennials	X	√	√	√	√	X	X	X
Others	√	√	√	√	√	X	√	X
High net-worth	√	√	√	√	√	√	√	√

Mass Market Customers

Remaining relevant in difficult times

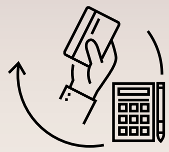
In the midst of an unfavourable economic environment, our personal banking loan book growth was predictably hampered with a marginal growth of 2.73%. As the year progressed, our resources were directed towards addressing rising NPAs and debt recovery. We guarded against the tendency to constrict all lending activities, instead taking a long-term approach with this customer segment. We emphasised on asset quality and measured growth by consistently monitoring and tweaking our credit assessment criteria. Deposits, on the other hand, remained strong, and we finished the year with the highest CASA ratio of 37.10% within local private sector banks.

Throughout the year, we rolled out several new products and campaigns in an effort to enhance a visible presence in the mass market. We took a targeted approach to various demographics: for example, introducing the *Yasasa* Pensioners Savings Account exclusively for government pensioners and relaunching the *Udara* Senior Citizen's Account encouraging children of Senior citizens to save for their parents; conducting new promotions for our women's brand *Anagi* and our children's savings account *Arunalu*; rolling out a new salary savings account for upwardly-mobile executives under the Bank's 'Achiever' brand, offering benefits including salary advance facilities as well as loans and leasing facilities at lower interest rates; and tying up with education institutes to offer various education loans. We also carried out a variety of leasing, personal loan, and home loan campaigns, and re-launched our Gold Loans Pawning facility which posted a growth of 88.51% during the year. While the success of these ventures was, understandably, limited, we believe that they exposed a wide new segment of retail customers to the Bank, and this places us in a strong position for 2020.

Cards continue to thrive

The growth in card spends did not expand at the expected levels due to the negative customer sentiments that prevailed in the market in 2019. However, the Bank managed to continue to remain the industry leader in the Debit Card market. We also strengthened our overall position as the market leader in both Debit and Credit Card spends on purchases. We continued to expand our POS network with over 12,000 POS machines across the country along with our Internet Payment Gateway (IPG) payment acceptance where we were able to establish ourselves as the market leader in IPG acquiring. The services offered through our ATM network for foreign Visa Cardholders were bolstered with the offering of Dynamic Currency Conversion (DCC) services.

Growth highlights of our card operations



16%
Credit Card base grew by

17%
Credit Card Spend grew by

48%
IPG Acquiring volumes grew by

18%
Debit Card Spend grew by

47%
POS Acquiring volumes grew by

Making a difference through innovations

We strengthened our market position with a slew of new technologies, products, and services, all aimed at making a tangible difference in the lives of our customers. A major first was our launch of ComBank Q+, the first Quick Response (QR) based payment App launched under LANKAQR. This App allows the Bank's Credit and Debit cardholders to make a payment simply by scanning the merchant presented QR code with their mobile phones and selecting one of their registered cards.

In addition, we saw an exponential, 'hockey-stick' growth in 'Tap n Go' NFC (Near-Field Communication) transactions, rising from about 45,000 transactions a month in June 2019 to about 175,000 transactions by December. We are currently the largest NFC card issuer in the market, and our entire cardholder base has been already upgraded to NFC cards. Based on available statistics, around 40% of the total NFC transactions in the market originates through Combank cards. Both QR and NFC technology represent a new trend of 'contactless' card usage, eliminating the time and hassle of swiping cards and signing slips along with minimising the opportunities of card losses and card theft.

To support these innovations, Bank launched Sri Lanka's first-ever Android-based Payment acceptance solution. This POS is a multi-function smart terminal through which merchants can accept standard Credit and Debit card-based payments, contactless 'Tap and Go' payments and QR code based payments. A particular highlight of the year was partnering with One Galle Face Mall – Colombo's most prestigious retail development – to provide these Android-based payment acceptance solutions throughout the mall as the preferred acquiree.

Our pioneering efforts with both technologies place us in a prime position to capitalise on these emerging trends in 2020, and we expect our exponential growth to continue, aided by customer and merchant awareness and education efforts.

Productive partnerships

This year continued to be one of many firsts in our partnership with Asian payment brands. We became one of the first banks in Sri Lanka to have its point-of-sale (POS) network accept LankaPay-JCB (Japan Credit Bureau) co-branded cards issued under the national card scheme programme. Correspondingly, we upgraded our entire network of ATMs to enable worldwide holders of JCB Credit and Debit Cards to withdraw money from the Bank's ATMs in Sri Lanka. We also continued to lead the market in creating multiple payment options through international payment platforms for our retail customers and vendors. We entered into an agreement with Tenpay Payment Technology Ltd. to enable payments through WeChat Pay and obtained the license to acquire payments through Alipay, for both leading Chinese mobile payment platforms (in partnership with Wells Digital Infrastructure (Pvt) Ltd., and Swift Pass Technologies Co. Ltd., a leading electronic payments solutions provider). These QR based payment solutions enable Chinese tourists and expatriates the benefit of purchasing and paying for goods and services through these platforms.

WeChat Pay acceptance launched in Sri Lanka for the first time by the Bank.

This year, we also launched Mastercard Send™, a facility that utilizes Mastercard's global payment network and card products, to provide Sri Lankan Mastercard cardholders with a convenient, fast, safe and reliable way to receive money through cross-border, person-to-person money transfers. We also introduced pre-paid cards that can be topped up with funds online, allowing their users to better manage spending and their risk exposure. Overall, in a difficult year, our robust efforts to add new products and services positions us for strong growth in 2020.

We also partnered with Western Union during the year expanding our global footprint largely in the remittance business. With this tie up, the Bank ensured to be connected with all major global remittance players.

Growing Corporate Customer Base

11.1%

Net Interest Income

5 year CAGR

7.3%

Net Fee and Commission Income

5 year CAGR

The prevailing challenge for the banking sector this year was the buildup of NPAs, a trend that started in late 2018 but was greatly exacerbated by Easter Sunday attacks in April 2019. To address this deteriorating situation in our corporate portfolio, we pursued a multifaceted approach that allowed us to finish the year on a strong note and created a template for the years ahead.

Consolidating our portfolio

The first initiative was a systematic analysis of our current portfolio and processes with a view of improving our credit quality. We considered both internal factors, like our own canvassing and evaluation procedures, as well as wider currents and cascading effects within the market to identify the segments under high stress.

This exercise revealed deeper insights into the problem and its contextual nature. We believe our customer base is the strongest, and most durable set of accounts in the market; we found, for example, in many cases, clients were experiencing payment difficulties for the first time in our relationship with them. In an effort to productively sustain this customer base, we focused on re-segmenting our portfolio, monitoring at-risk accounts, and finding workable solutions to rehabilitate and sustain our assets.

This exercise had other carry-over benefits as well. With increased portfolio identification and de-cluttering, we are now able to better customise services to our clients (e.g. taking a closer look at their working capital cycles etc).

Considered, incremental growth

This portfolio consolidation flowed into our efforts at careful, incremental growth throughout the year. As a part of our analysis, we worked on deepening and expanding our relationships with existing customers, as well as targeting and canvassing new accounts in market segments in which we had low penetration (and, in particular, market segments that our analysis revealed had remained profitable in spite of the difficult economic situation in the country). Our emphasis was on quality growth, which was driven at all levels and supported by specialised training for our lending officers.

Our assets were further boosted this year by selectively taking over a portfolio of a bank, which closed down its Colombo operations, and we look to build on these new accounts in the coming year. Additionally, we prioritised on enhancing our fee-based income as a buffer against rising NPA and falling NIMs.

A Process-driven approach

Our efforts in a difficult environment were bolstered by improvements to our processes. This year, we invested in a new Document Tracking System (DTS) that notifies our corporate customers (via SMS alerts) at each stage of their documents' journey through the processing circuit. After implementing DTS, it will then allow us to move to an Robotic Process Automation (RPA) system in the near future. Our automated Postdated Cheque Handling System also went online this year, allowing for a fully integrated and mapped process. We also conducted a resource optimisation exercise to streamline our workflow, infrastructure and back office processes. One of the first outcomes of this exercise is the concentration of document handling in a new Trade Administration landscape, freeing up personnel for Customer Relationship Management (CRM). We intend to build on these processes next year and streamline them to provide a more efficient and effective service to our corporate clients.

For further details on digital innovations for our corporate customers, please see Fortifying Digital Leadership, page 52.

Supporting SME and Micro Customers

SMEs was a customer segment badly affected by the country's economic climate. As a result, our overall performance in this sector over the year was constrained and hampered.

However, during the year, we made some major strides that will revolutionise our approach to this sector. Our efforts revolved around a diagnostic study and transformation project conducted by a reputed global consultancy firm. While over the past several years our growth in the SME sector has been steady, we felt that an overhaul in our approach was needed to exponentially increase our portfolio. Here, our difficulties were a testament to our success. The Bank has a proven track record of graduating large SMEs to the corporate tier; the challenge has been to not simply replenish these accounts, but to develop our SME customer base as a whole.

The Bank's financial literacy programme for a group of micro entrepreneurs consisting of green leaf suppliers in the Pitigala area.

A new sales culture

Our strategy this year was two-pronged. The first was to centralising our credit evaluation operations at our new processing centre at Maradana. Having released branch staff from the duties of evaluation, the second prong was to initiate a hands-on, target-driven sales culture throughout the Bank to drive the SME loan book growth. The benefits of this approach are many. Apart from the enhanced consistency and uniformity of evaluation – and more robust governance – that centralisation offers, the most immediate reward for our SME customers is the speed of credit delivery.

In addition, we set up SME units in each of our 14 regions this year to supplement our branch network with the specialized expertise needed in developing SME clients and canvassing for new business. To date, we have staffed these clusters with a first batch of specially selected and trained staff, and by next year, we plan to broaden this SME sales focus to every branch. This is particularly important in the case of smaller SMEs (particularly those we have graduated from our micro customer segment). With intensified competition in the SME financing market, we believe that the kind of rapid, customised service delivered by our new processes is exactly what is needed for the Bank to carve out a unique niche in this segment.

A data-driven approach

Centralisation also means that we can make much more productive use of the data at hand. This year, we prioritised a data-driven approach, taking a granular look at our portfolio for insights on growing our existing accounts as well as targeting new customers by sector and region. From this central point, leads were generated and then disseminated to the branches to pursue. Branches, in turn, delivered feedback and further information on these leads. This began the process of creating an institutional body of knowledge and data that will be an invaluable resource for the Bank going forward.

Responding to the demands of the sector

SMEs have a specific set of challenges that requires the Bank to take a broad, holistic approach. This year, we continued to support SMEs through a range of educational programs and networking opportunities. We conducted eight Financial Literacy and Entrepreneurial Skill Development programmes for Micro and Small & Medium Enterprises. We also conducted five networking events aimed at connecting SMEs to partners both upstream and downstream the value chain. Many of these events were organised through our Biz Club, a forum dedicated to providing a broad range of support services to SME clients. Instituted in 2017, this forum has grown from strength to strength, and we have seen marked increase in attendance at these events.

The Bank also encouraged the SME sector through value chain support offered by the AMFUs to tea small holders, dairy, and fishing communities while also funding them through a special loan scheme dedicated for SMEs with attractive interest rates launched under the brand 'Biz Loans for SMEs from ComBank' at reduced interest rates.

Part of our approach was to listen to and respond to the demands of our SME clients. For example, to alleviate some of the macroeconomic pressures on our SME clients post Easter Sunday attack in April 2019, we reduced interest rates on loans of up to Rs. 250 Mn. for this customer segment. To address SME-specific issues with financial reporting and Employee Group Protection, we partnered with Bileeta (Pvt) Ltd. and Janashakthi Insurance to provide customised solutions for our clients. We also partnered with a few corporates to offer entrepreneurs in the agriculture sector an opportunity to purchase new equipment or upgrade existing machinery at concessionary rates.

A focus on women entrepreneurs

We also placed a concerted effort on women entrepreneurs at both SME and micro level, through the development of a gender based market strategy and worked to combat the specific challenges faced by this demographic. This year, we partnered with IFC to build a model to onboard SMEs and micros headed by women and provide them with resources to build their enterprises. Special focus is to be given to assisting Women SMEs in developing their skills and to increase their awareness in specialised areas such as business sustainability. To this end we conducted capacity building programmes on a range of useful topics, from succession planning to financial management, working closely with CBSL on several events. The first programme of this series titled 'Womentrepreneurs: Your Vision Towards a Sustainable Business' was held in collaboration with the Women's Chamber of Industry and Commerce in November this year. We also worked to develop our women-specific brand *Anagi* to specifically highlight women entrepreneurs within its reach. This long term view, we believe, allows the Bank to form productive, mutually beneficial, and durable partnerships, as well as more broadly strengthen financial inclusion and gender equality in the country.

Bank continues to encourage women entrepreneurs.

The Bank was successful in assisting women entrepreneurs through the We- Fi grant made available under the ADB funded SME line of credit, through which, funds were distributed to 42 women entrepreneurs as a grant for their project expansions.

Developing new products

Our increased data mining this year made it clear to us that, as far as the SME sector is concerned, we need to think of collateralisation differently. SMEs, especially at the lower tiers of the segment, do not always have access to the kinds of securities banks have traditionally demanded. There is a sector-wide shift internationally towards considering cash flow as the more acceptable form of collateral, and Commercial Bank is also evolving with these trends. To that end, we have, over the latter part of 2019, developed a new, semi-secured product along the lines of models that have been successful in Bangladesh and other parts of Asia and Africa. We plan to roll this product out early 2020, and it promises to be a pilot in how we approach the difficult question of securitisation in the SME sector.

Strengthening ties with micro customers

Our approach to micro customers was closely aligned to our activities in the SME sector. As more top-tier SME customers move into the Bank's corporate customer segment, new micro customers are graduated into the group while others are groomed to do so in the near future, a process of upward mobility that is a part of a larger vision of the country's economic development. Our focus on financial inclusion over the years has already provided us with a wealth of potential customers for the micro customer segment. The Bank's Agricultural and Micro Finance Units (AMFUs) have extended banking services to the unbanked and under-banked in the rural areas of the country and this year we added a new unit to our operations taking the total to 17. We also added a new mobile banking unit, bringing our total fleet to 3. This unit provides a full range of services and operates in the Uva-Sabaragamuwa Region. Taking into account the particular needs of micro customers, the most vulnerable segment of our customer base, we held eight awareness and education programmes across the country to aid in their development.

The Bank introduced the "*Divisaru*" account in 2015, as an exclusive savings account designed to support micro and agriculture entrepreneurs while promoting financial inclusivity. This is the only such product among private banks, which provides opportunities for those who have limited access to funds by linking savings to loans offered to micro entrepreneurs as a compulsory value addition. The year saw an increase in the *Divisaru* deposit base by 35% together with an increase in accounts of over 6,500.

With the intention of offering a digital experience and reducing the opportunity cost to micro entrepreneurs in rural and semi urban areas, an Automated Field Cash Collection (AFCC) process was introduced in 2019 through the AMFUs of the Bank. This system allows micro entrepreneurs to repay their loan instalments and make deposits to their savings accounts without having to visit a branch. This process will help rural communities to save time and cost, and overcome transport difficulties faced in visiting a branch location.

Leading through Innovation

While the Bank prioritises prudence in its fundamentals, it pursues a complete innovative approach in enhancing its Social and Network Capital (relationships with customers, suppliers, business partners and the community) and Intellectual Capital (internal knowledge, systems, and processes). Our efforts here encompass both digital transformations as well as sustainability initiatives that align with the United Nations Sustainable Development Goals (SDGs). We make a deliberate attempt to consider these two spheres of innovation as interlinked; after all, the implicit promise of technological innovation is to improve the lives and livelihoods of all our stakeholders. This is especially relevant in a banking environment that is more interconnected and interdependent to the wider world than ever.

Fortifying Digital Leadership

Digital penetration and engagement

It is clear that we are living through a digital revolution, a period of rapid change to the country's economy and financial ecosystem. Technological developments are upending conventional business models and competition in the financial sector is intense and unforgiving. The operating environment is beset with new risks, including threats to data protection and cyber security, compliance breaches, and damage to institutional reputations. The potential impact of failing to manage these risks may be devastating.

This period of transition requires us to be mindful of the different sensibilities and demands across all our stakeholders, as various segments adjust to change at different rates. We continued to view digital innovation as a Transformation Change Agent or, in other words, as a catalyst for transforming our relationships with our customers as well as our internal processes. We employed a staggered approach throughout the year that aimed at increasing the rates of adoption and usage of digital platforms by our customers. This approach also allowed us to engage in a process of co-creation in our products and services by responding to customer feedback and expectations.

	2019	2018
Digital Penetration (%)	23	18
Electronic FD vs Total FD (%)	23	16

Despite these challenges, our progress reflects that we are well positioned to cross 30% digital penetration on online and mobile platforms in terms of transaction volumes by mid 2020. Multiple studies have shown that once this threshold of digital penetration has been passed, adoption escalates exponentially thereafter. More than two thirds of transaction volumes are currently taking place on electronic channels. Moreover, crossing this threshold will provide us with a comprehensive pool of data from which we can build on our digital analytic initiatives.

Innovating and strengthening our platforms

Currently, our online banking is the most subscribed platform in the country. Our online platform already enables customer services such as fund transfers across all banks instantly, real-time cross-currency transactions, and a wide array of bill payments. Throughout the year under review, we progressively enhanced the available features of this platform, aiming at providing the customer all the features of a bank branch on their laptop or mobile phone, from applying for facilities online, setting up fixed deposits and investing in treasury bills, to effecting share trading payments 24/7, 365 days of the year. We also added new features enabling both personal and corporate customers to make payments of charges to the Sri Lanka Ports Authority and Electronic Tolls via our platform. To encourage our customers to make the move to digital banking, our entire ATM network has been upgraded this year to allow registration for online and mobile Banking accounts.

In addition, we launched two new apps this year as part of our digital strategy. 'ComBank RemitPlus' is an App for our migrant customers to familiarise on remittance-related information, services and products on offer for the segment and helps us further consolidate our position as one of the market leaders in this field. ComBank e-Slips, a QR-based trilingual App available to Bank customers as well the wider public, allows cash to be deposited to savings or current accounts without the use of deposit slips. We also plan to launch a mobile App aggregator to house the full suite of mobile Apps on our customers' phones.

The tumultuous economic challenges of the year, however, derailed our efforts at implementing our new customised banking platform, Combank Digital, before the end of the year, however we hope to launch it by April 2020. This platform will amalgamate our various portals, providing customers with a seamless 'omni-channel' experience across all devices (and will be available in all three local languages, as well as in Bengali and Dhivehi to serve our Bangladesh and Maldivian markets, respectively). Combank Digital represents an upgrade to industry-leading security standards, something of vital concern for both current and prospective customers. Encompassing such features as integration with voice interactive virtual assistants like Amazon Alexa and host-to-host connectivity for Corporate online banking, Combank Digital provides us with the infrastructure and functionality for our future growth in the expanded digital banking ecosystem.

Targeting generation Y and Z

Our Flash Digital Banking App, launched in middle of 2018, showed encouraging growth during 2019 with over 20,000 customer registrations. The Flash App is positioned as a 'digital only bank', i.e. complete digital functionality that obviates the need for the customer to visit the Bank for transactions. This functionality, together with its unique personal financial management tools, addresses the demands of Generation Y and Z customers. This year, we launched

Sinhala and Tamil versions of Flash, making it Sri Lanka's first trilingual digital banking App, which will allow us to appeal and cater to other under-banked and unbanked segments of the market. We envision Flash as a tool of financial inclusion and democratisation, accelerating the pace of digital adoption throughout Sri Lanka. Flash currently offers 100% digital, customer on-boarding, with the exception of a single visit to a branch of the Bank to comply with Sri Lanka's current KYC requirements. As the country's regulatory environment changes in line with the increased digital penetration, Flash has positioned the Bank as a market leader in digital banking. We also launched a unique insurance scheme via Flash.

With the launch of Blockchain technology for remittances in April 2019 by partnering with RippleNet, both inward and regulator-enabled outward blockchain technology-powered remittances became reality.

Joining RippleNet ensures that remittances are received instantly with an end-to-end tracing and tracking solution, ensuring that the process is transparent and tamper-proof, and that remittances of lower denominations are viable due to the application of lower rates.

RippleNet's technology facilitates a simplified experience for customers by offering a simple remittance process with the removal of multiple steps. Blockchain also provides the ability to move money on real time basis, leading to improved productivity.

Sri Lanka's first trilingual digital banking App – "Flash"

Creating a Sustainability Strategy

Given the magnitude of certain emerging trends such as technological advancements, demographic changes, regulatory developments, changing customer and stakeholder expectations, the Bank takes a holistic and innovative view of sustainability that foregrounds creating value for all our stakeholders across the short, medium and long term. A pre-condition for the Bank's ability to sustain its performance as a going concern is, of course, its profitability. Currently there is widespread acknowledgement throughout the corporate world for the traditional mantra of maximising immediate shareholder returns to be weighed against wider responsibilities to the society and environment. This, in turn, requires us to balance trade-offs and tensions in the investment and expenditures of our various capitals. The emphasis on various time frames reflects an understanding that these relationships are symbiotic; when viewed from the perspective of sustainability, ensuring productive outcomes for the society and environment is completely consistent with the interests of the shareholder in the long term. Therefore, our sustainability strategy is thoroughly integrated into our core business activities and inculcated to the ethos of our Bank staff.

During the year under review, the centerpiece of the Bank's sustainability efforts was a formal exercise to identify and prioritise our key strategic sustainability themes. The outcome of this exercise was a mandate to focus on five key areas:

1. Advancing Financial Inclusion and Literacy
2. Social and Environmental Risk Assessment
3. Promoting Green Finance
4. Environmental Conservation
5. Supporting Education

We then correlated these five areas of focus with the 7 SDGs most relevant to the Bank's activities:

4 QUALITY EDUCATION – Quality Education

5 GENDER EQUALITY – Gender Equality

7 AFFORDABLE AND CLEAN ENERGY – Affordable and Clean Energy

8 DECENT WORK AND ECONOMIC GROWTH – Decent work and Economic Growth

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE – Industry, Innovation and Infrastructure

12 RESPONSIBLE CONSUMPTION AND PRODUCTION – Responsible Consumption and Production

17 PARTNERSHIPS FOR THE GOALS – Partnerships for the Goals

While all 17 UN SDGs potentially bear on the Bank's activities, we believe that prioritising these 7 SDGs allows us to build a clear, coherent, and targeted strategy to concentrate our efforts in key areas.

To drive this strategy, we also established a Cross-Functional Steering Committee to coordinate the Bank's array of sustainability initiatives. This committee represents our understanding that sustainability considerations cannot simply be regarded as the domain of a dedicated unit or department, but must be deeply integrated within our core decision-making processes and business activities.

This exercise paved way for us to map the areas through which the Bank can drive its sustainability strategy. Given the multifaceted nature of our sustainability initiatives, this section of the Management Discussion and Analysis will discuss our efforts during the year in collaboration with other partners for sustainability goals, green financing, and special social and environmental projects. The reader of this report will find the discussion of various other aspects of our 2019 sustainability strategy and performance in the following sections:

- accelerating financial inclusion and literacy, particularly of underserved communities and youth segments (see pages 49 to 51);
- actively supporting the development of SMEs and Micros (see pages 49 to 51);
- empowering women in the broader economy through targeted products and services (see page 50), as well as ensuring that the working environment is free of any forms of discrimination (see pages 57 to 59)
- establishing industry leading data security and customer information protection standards mechanisms (see page 56)
- managing the direct environmental risks and impacts resulting from the Bank's operations (see page 53)
- ensuring safe and fair working conditions by adhering to recognised standards and principles for labour practices (see page 57)

Partnerships for the Goals

Banking, as an industry in itself, has a comparatively small environmental footprint; it consumes a minimal amount of natural resources and creates small quantities of waste and emissions. Due to the nature of banks' relationships and networks, they are in a position to be a crucial influencer and driver of sustainability on a wider societal scale. As one of the country's premier banking institutions, we recognise and assume this responsibility, both within our own operations as well as in the financial sector as a whole. Establishing partnerships with private, public, non-governmental, governmental and international organisations is a key element of the Bank's sustainability strategy. This holistic and synergistic view of sustainability itself is enshrined in SDG 17 (Partnerships for the Goals).

In the year under review, the Bank continued to productively collaborate on a leadership level as a Core Group Member of the Sustainable Banking Initiative of the Sri Lanka Bankers' Association (SLBA-SBI), a signatory of the United Nations Global Compact (as well as a Steering Committee member of the UNGC Sri Lanka Network), and a Founder Member of the Business and Biodiversity Platform Sri Lanka. Our efforts with the SLBA-SBI, in 2019 in particular, were directed towards aligning the sector with the CBSL's Roadmap for Sustainable Finance in Sri Lanka, a national initiative to provide guidance to the financial sector on effectively managing environmental, social and governance (ESG) risks in their business activities and increase support for greener, climate-friendly and socially inclusive businesses towards building a green and inclusive economy. We were a pioneer amongst Sri Lankan banks, to implement a SEMS in 2010, a robust due diligence and implementation process and a monitoring mechanism which ensures all our lending activities are environmentally and socially sustainable. This process has been inculcated at all levels of the Bank's operations, including our new processes within our SME loan approval centralisation, along with our directives to both credit officers and sales staff. As part of our periodic review of the system towards continuous development, we engage IFC and other key stakeholders for feedback on improvements and take onboard their recommendations. Furthermore, our partnership this year with IFC to develop our capacities in Green Finance (see below) and Women Entrepreneurs (see page 50) was very sustainable.

At an operational level, the Bank continued to evaluate the sustainability practices of its business partners to ensure conformity to the Bank's specified standards of conduct. Where concerns were identified, we worked to open productive lines of dialogue and encourage and instill sustainability values and best practices.

The Bank engages with estimated 1,200 number of business partners and has created a value of Rs. 10,426 Mn. during the year. Over 90% of value so created has been for the suppliers of local origin in both Sri Lanka and Bangladesh.

Driving green financing

Green goals

a carbon neutral business operation by end 2020

a paperless banking environment by 2030

an increase in our green financing segment to account for 5% of the Bank's total Loan book by 2030

As part of our goal to increase our green loan portfolio to 5% of the Bank's total loan book by the end of the decade, we continued our progress in green banking, even during a difficult year. Particular strides have been made in terms of the composition of our Green Loans, reflecting our initiatives to broaden our scope from focusing solely on facilities for renewable energy to now including energy and resource efficiency, smart agriculture, co-processing and other environmentally friendly projects.

A key objective of promoting green financing is to contribute towards the fight against climate change thereby supporting Sustainable Development Goals 7 and 12, Affordable and Clean Energy and Responsible Consumption and Production respectively.

Reflecting the difficult macro-economic conditions that prevailed during the year, the Green Loan portfolio declined from Rs. 15.97 Bn. in 2018 to Rs. 14.70 Bn. as at December 31, 2019.

Steps were taken to diversify the Bank's Green Loan portfolio composition, to reflect our broader scope of Green Financing activities. The composition as of December 31, 2019 is given as follows.

Renewable Energy
33%

Resource efficiency and recycling projects – Energy, Water and Material
32%

Environmentally friendly transportation and related services
14%

Water saving – consultancy and related service providers
13%

Other Green Financing advances
8%

The Bank's robust SEMS, which was upgraded in 2018 with the assistance of the IFC, continued to guide our assessment and management of social and environmental risks and ensures that the Bank follows responsible and sustainable lending and investment activities. All facilities above Rs. 100 million in value are evaluated by the SEMS Manager; but additionally, during the year under review, we broadened our approach to implementing a SEMS perspective in all our lending activities. This approach was inculcated to all levels of our operations, including the new processes within our SME loan approval centralisation, along with directives to both loan officers and sales staff. This represents a fundamental cultural change that will be crucial to our efforts at sustainable value creation.

These initiatives were supplemented by our adoption of an IFC developed tool, the Climate Assessment for Financial Institutions (CAFI) tool that assists in monitoring and reporting climate impact data. This tool provides an assessment of the environmental impact of proposed and ongoing projects. This tool allows us to invite our customers to participate in this process of climate impact assessment, creating a sense of transparency in our sustainability measures. CAFI was implemented in 2019. The Bank has established a reporting mechanism whereby the climate impact data of the Green Financing portfolio is reported and logged via the CAFI tool.

As part of continuous improvements to the process, the Bank continued to develop capacity and strengthen internal knowledge and skills by conducting four training programmes for credit and lending officers and relationship managers on both Green Finance and SEMS, this year.

Special projects

Taking our innovative approach beyond banking, the Bank carried out a series of special projects that broadly focused on education, healthcare and environment conservation throughout the year. These initiatives are expected to make an impact on a range of stakeholders and equip them with the required skills, competencies and attitudes for the emerging future.

Some highlights include:

Supporting education and employability:

- An entrepreneurship development programme for Vocational Training students in Badulla; a donation of computers and furniture to a newly opened Vocational Training Centre in Waradala, Mellawagedara; an innovative computer coding promotion programme in Kotte; setting up of a Math Lab at the four-day *Shilpa Sena* Exhibition; providing financial assistance to the *Sasnaka Sansada* Foundation to conduct a 'Training of Teachers' (ToT) programme for Mathematics teachers; donating our 180th and 181st IT Lab to the School of Sri Lanka Corps of Military Police and the School of Artillery in Minneriya, respectively; providing financial support for the construction of Sri Lanka's first model vocational training centre for children and youth with Autism.

The Bank donates it's 180th IT lab to school of Sri Lanka Corps of Military Police in Giritale.

Promoting environmental conservation

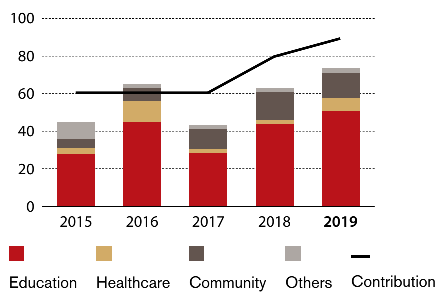
- A mangrove restoration in Koggala in collaboration with Wildlife and Ocean Resource Conservation (WORC) of Sri Lanka; A mangrove planting and beach clean-up in Mannar; a country-wide tree-planting campaign involving 40 schools; built a 15,000-litre water storage and supply project to address the water shortages affecting the forest monastery of *Nimalawa Aranya*.

Healthcare

Bank donates a CRRT machine to the National Hospital's Nephrology Unit.

- Donated and installed a complete water treatment plant at the Passara District Hospital; donated a Continuous Renal Replacement Therapies (CRRT) machine to the Nephrology Unit of the National Hospital of Sri Lanka (NHSL); provided aid to 2,000 families affected by floods in the Mullaitivu and Kilinochchi districts.

Contribution and utilisation of CSR funds Graph – 12
Rs. Mn.



Operational Excellence

The backbone of our success has always been our commitment to operational excellence. This commitment is more important in today's world of heightened competition and flux. Today, the market is more saturated with an array of similar pure banking products and services; what sets an organisation apart is its speed, accuracy, and quality of delivery. Meeting these expectations of the customer while remaining cost efficient is a balancing act that requires us to continuously assess and streamline our processes while making the most productive use of our resources.

The general trend of our efforts during the year under review responds to this environment by placing an emphasis on centralising and automating our back office operations, thus allowing us to reallocate staff and resources towards sales and Customer Relationship Management (CRM). Our efforts and these innovations in centralising our SME credit assessment operations (see page 50 for further details) provides a blueprint for how the Bank needs to evolve going forward.

Our industry leading cost to income ratio has been a long standing hallmark of the Bank's performance, allowing us to maintain a competitive edge year on year. This year, our cost income ratio reflected our need to dedicate a large number of resources towards managing NPLs and saw an increase from 2018, as indicated below:

- The Bank's Cost to income ratio (including taxes on financial services) deteriorated to 49.41% from 46.35% in 2018.
- Cost to income ratio (excluding taxes on financial services) deteriorated to 38.51% from 36.85% in 2018.

A Commitment to Continuous Improvement

Service standards

One of the Bank's major ongoing initiatives is striving for superior service standards. During the year under review, we completed the Stage I audit of ISO/IEC 20000 – the most globally recognised standard for exceptional IT Service Management – and we expect to complete the Stage II audit by February 2020. The implementation of this standard will enable us to deliver IT services more efficiently and effectively, both internally and to our customers, and, in turn, allow us to derive more value from our IT investments. We anticipate being awarded the ISO/IEC 20000 Practitioner Qualification Certificate during 2020.

The Bank also obtained the prestigious Payment Card Industry Data Security Standard (PCI-DSS) v3.2.1 certification after an in-depth assessment from SISA, a global Payment Security Specialist and Qualified Security Assessor. PCI-DSS is the global data security standard adopted by payment card brands for all entities that process, store or transmit cardholder data and sensitive authentication data, and the certification confirms that the Bank follows security best practices in all its card operations. This certification was especially significant in supporting the Bank's strong card growth during the year despite adverse conditions, and will mitigate the risks of security breaches and data theft as we continue to rapidly expand our card base in the coming years.

The Bank understands the need to continuously strengthen its guard against the foreseeable threats that are rapidly evolving. Going well beyond mere compliance, our effort is to ensure data is protected and customer information is secure at all times. Implementation of the Bank wide "Baseline Security Standard" plan initiated in 2018 is progressing well and is to be completed by 2020. This is to be supplemented with a software solution for data leakage prevention which is being currently evaluated for implementation in 2020.

Plans are underway to strengthen the Disaster Recovery Centre making it more dependable in the time of need. Disaster Recovery Centre akin to the live data centre is tested on a regular basis through well structured and co-ordinated drills to warrant its reliance and the outcome is reported to the CBSL and where shortcomings are observed corrective action is taken to avoid repetition.

Enhancing internal processes

The Bank conducted a range of internal process improvements throughout the year which focused on centralisation and automation, resulting in increased efficiency and productivity in our back office operations. The projects concluded this year include centralising the processing of outward cheque clearing and of transfer cheque handling, the automation of post-dated cheque handling, and the bank-wide digitalisation (scanning) of daily vouchers. Continuing our strategy of having our internal customers lead the way in migrating completely to digital banking, we converted all staff current, savings and credit card accounts to e-statements and the automation of staff loan processing has been completed. We hope to automate the staff housing loans during the year 2020.

This year, in addition, we commenced several major projects. We conducted process mapping and re-engineering exercises at the Imports Department and the Card Centre, replacing the traditional ledger-based customer handling systems with a process automation workflow system. In the Card Centre, these efforts were coupled with upgrading the card management system with the latest version, giving us further functionality for data analytics, customer segmentation and targeted promotion. We also implemented a new foreign exchange rate platform that allows branch and department personnel to request special rates from dealers directly through an online portal.

Furthermore, we continued our forays in the adoption of Robotic Process Automation (RPA). This year we automated the staff USER ID management and CRIB report procurement and analysis. We also conducted a variety of initiatives that will serve as essential precursors to accelerate RPA in 2020, including data cleansing, purging and data repository creation.

Transforming our branch network

Reflecting our focus on alternate channels and the decision to slow down expansion/ consolidate our branch network, we limited the opening of new branches to two, our 266th (Embuldeniya) and 267th (Hettipola). Construction on new buildings for our Jaffna and Trincomalee branches progressed well, as did the refurbishment of our historic Galle branch in the Dutch Fort; all three buildings are scheduled to be opened in 2020 to coincide with our 100th year of operations. Notably, we commissioned a state-of-the-art Automated Banking Centre (ABC) at One Galle Face Mall. Moreover, our ATM and CRM network increased by 35 units this year, bringing our total to 865 units. We are particularly proud of the in-house development of a software tool that helps us monitor and maintain the conditions of our 210 ATMs located outside the branch network. Even at the smallest touch point, we want to provide our customers with the visual sensibility and attention to detail that they expect from the Bank. This tool is provided on a tab to cash officers who can produce a report when they conduct their rounds, which means that no additional staff resources are expended in the monitoring of these ATMs. Service staff can then be deployed efficiently when necessary.

Bank 266th branch opening at Embuldeniya.

In our efforts to productively allocate our resources, we continued our branch re-organisation and renovation programme that commenced in 2017. Under this programme, we are converting our branches to feature a standardised facade and layout that presents an ABC as the first point of contact with customers as they enter the premises. The ABCs feature Automated Teller Machines (ATM), Cash Recycler Machines (CRM), and Cheque Deposit Machines (CDM), offering customers 24-hour access to the Bank's services. This layout enables and encourages our customers to conduct a range of transactions conveniently and swiftly without needing to proceed further into the Bank's interior. With counter traffic drastically reduced, our staff can more efficiently turn their attention to customers with complex or non-conventional banking needs. This year, we renovated 26 branches, bringing the total number of branches with this standardised layout to 114. We have seen a reduction in counter traffic and anticipate a further reduction next year as customers increasingly avail themselves of the convenience of our automated facilities.

To promote digital adoption, we launched Digital Experience Zones at selected branches. These zones have a staff member serving as a Digital Assistant to enroll and familiarise customers with our online and mobile banking facilities. They have proven to be a great success; we find that for customers who may be wary or hesitant of digital banking, an in-person demonstration of the functionality and benefits of our apps instils confidence and generates enthusiasm for digital adoption.

A converted bank branch featuring a state-of-the-art Automated Banking Centre (ABC).

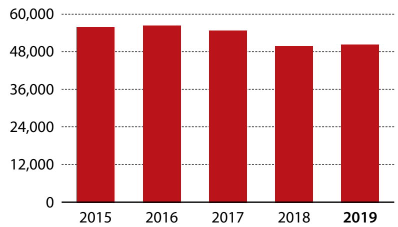
Safeguarding the environment

Our efforts at continuous improvement and resource optimisation, along with initiatives to promote digital banking, intrinsically have a positive effect on the natural environment by reducing our carbon footprint. In addition, we place a strong emphasis on managing the direct environmental risks and impacts of our internal operations as part of our ambitious goals of becoming the first bank in Sri Lanka with a carbon neutral business operation by end 2020 and completely paperless operation by 2030.

During the year, we expanded our renewable energy programme by installing solar panels in 13 new branches. This brings our number of branches powered partially or entirely by solar energy to 49.

The energy consumption within the organisation saw a marginal increase of 338 gigajoules year-on-year flattening the downward trajectory to record 50,296 gigajoules as opposed to 49,958 gigajoules in 2018. Expansion in the branch network and increased business volumes have contributed to the flattening of the curve. During the year however, the Bank's exports to the national grid increased to 1,510 gigajoules from 555 gigajoules in 2018, evincing the effectiveness of our renewable energy programme.

Energy consumption Graph – 13
Gigajoules



A major part of our focus this year was in transforming the culture of sustainability within the Bank. This was important specially for service industries, given their need to provide a superior experience to customers, despite their hesitance to take on such initiatives. This year, we expanded and developed our assessment programme which was introduced in 2018. Under this programme, we meticulously tracked the usage of high-value and high-usage items across our branch network. This provides a holistic picture of the usage of the Bank, and leads to healthy debate and cross-departmental efforts to reduce consumption. A subtle but important aspect of this programme is our publication of 'Top Ten' usage lists, which promotes a spirit of positive competition among the staff and best practices throughout the Bank. We also set up a comprehensive e-waste management policy under the rules and guidance of the Ministry of Environment that brings our e-recycling and disposal practices in line with the regulations of the Sri Lanka Data Protection Act.

Investing in Our Employees

Driving our value creation model is our workforce, also referred to, with the utmost respect, as our Human Capital. The latter term is meant to acknowledge that our employees are a resource that needs to be meticulously nourished; just as our 5,062 strong team creates value for the Bank and its stakeholders, the Bank, in turn, is mindful of delivering value to our team.

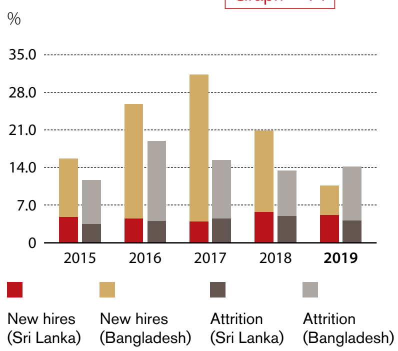
Our people are tasked with achieving the Bank's vision and embodying and representing our strong customer-focused culture. They execute the strategy which essentially involves delighting the customer and maintaining operational excellence. They are at the heart of our legacy of success and our future strategy. However, the rapidly changing banking environment also places new demands on our employees. Our team risks obsolescence if they are not well-equipped with the evolving skillsets required in this new digital age. Failure to attract and retain talent hampers succession planning and expansion into new spheres. During the year under review, we concentrated our efforts on assessing and mitigating the new risks to our human capital in order to continue deriving value from and delivering value to them.

Employees by contract and gender Table – 10

	Sri Lanka		Bangladesh		Total	
	Count	Percentage	Count	Percentage	Count	Percentage
Female	**1,314**	**24.77**	**78**	**27.56**	**1,392**	**24.91**
Permanent	1,117	21.06	65	22.97	1,182	21.16
Contract	1	0.02	13	4.59	14	0.25
Outsourced	196	3.70	–	–	196	3.51
Male	**3,990**	**75.23**	**205**	**72.44**	**4,195**	**75.09**
Permanent	3,660	69.00	180	63.60	3,840	68.73
Contract	1	0.02	25	8.83	26	0.47
Outsourced	329	6.20	–	–	329	5.89
Total	**5,304**	**100.00**	**283**	**100.00**	**5,587**	**100.00**

Employee recruitment and retention

New hires and attrition Graph – 14



Employee recruitment, for the past several years, has proved to be challenging. Young adults entering the workforce are not attracted to banking as a career; indeed, they tend to prefer flexibility and movement rather than being tied to a single institution or sector, and are seeking to rise through the professional ranks more swiftly than the previous generations.

This year, we tackled this challenge with three major recruitment initiatives. First, we raised the intake age of candidates upto 24 years, especially targeting university graduates and those with professional qualifications (rather than only school leavers). We find that candidates in their early 20s, with higher educational qualifications and work and life experience, have a more mature and stable outlook, and are more likely to be invested in building a career with the Bank.

Secondly, we re-started our management trainee programme to attract top-level graduates/professionals by offering them a clear pathway towards career development and advancement. This programme had remained dormant since 2008 because we had a well-established talent advancement pipeline of our own. But we find that precisely because of our robust training programmes, experienced Commercial Bank employees under the age of 30 are in high demand, and attrition rates are higher than average among this group. Therefore, in an era when millennial employees tend to shift careers often, we understood that we needed a new source of young personnel to replace the current tier of middle-management as they graduate to higher positions.

In addition, this year we were more open to recruiting mid-career professionals from outside the banking sector to supplement our intellectual capital and address expertise and capacity gaps. The challenge of any employee strategy is to carefully balance the retention and development of internal talent with the appropriate and healthy infusion of external talent. We believe that a diversified, multigenerational workforce, with varied perspectives and viewpoints contributing to innovation and decision-making at all levels, has the power to boost the Bank's competitiveness.

The Bank introduced a retirement readiness programme for employees reaching retirement in 2019 and 2020, with the aim of preparing retirees to be able to manage the financial and personal consequences of a post-retirement life. Under this initiative two programmes were conducted during the year titled "New Life after Retirement".

Employee training, development, and advancement

Our training initiatives this year revolved around the crucial need of the moment: converting our employees into digital bankers. Our focus is on structured talent development, and we are particularly sensitive to the learning patterns of our millennial employees. Studies have shown that in this digital age, when information is just a quick internet search away, employees retain information in varying form. For this reason, the Bank utilises a variety of innovative learning tools and channels like chat bots, apps, artificial intelligence, Branch TV programmes, and online training modules so that employees have information and guidance material at their finger tips. The emphasis is on a continuous 'anywhere-anytime' learning experience, rather than isolated training activities. We are in constant process of evolving our approach to training and development in order to provide our employees with agile and future-proofed skill-sets.

Enhancing employee experience

5 GENDER EQUALITY 8 DECENT WORK AND ECONOMIC GROWTH

In this rapidly changing environment, we believe that upholding recognised standards and principles for labour practices, human rights and occupational health and safety is vital. We strive to ensure safe and fair working conditions and practices, and to create an environment that allows our employees to flourish.

In this respect, we see our efforts at enhancing productivity and profitability as entirely compatible with employee well-being. Centralisation, automation, and digitalisation enable the Bank to become cost-efficient by facilitating our growth while maintaining current staff numbers. But they also provide many benefits to the working experience of employees by delegating mundane, repetitive tasks to RPAs and making operational processes more streamlined. This reduces the demands and pressures on our people, enabling them to work more efficiently and productively; and in turn, staff fatigue and exhaustion is reduced, while enabling morale and motivation to remain high. And in line with this increased emphasis on employee well-being, for the first time we provided staff with the facilities of external counselors. We believe that in the fast-paced business context of banking, promoting mental health is paramount.

Employees by category and gender Table – 11

	Age 18-30 years		Age 31-50 years		Age over 50 years		Total	Percentage
	Male	Female	Male	Female	Male	Female		
Corporate Management	–	–	5	–	19	4	28	0.55
Executive Officers	113	42	1,407	345	158	79	2,144	42.35
Junior Executive Assistants and Allied Grades	1,006	307	752	258	21	62	2,406	47.53
Banking Trainees	324	98	4	–	–	–	426	8.42
Office Assistants and Others	–	–	20	1	37	–	58	1.15
Total	1,443	447	2,188	604	235	145	5,062	
Percentage	28.51	8.83	43.22	11.93	4.64	2.86		

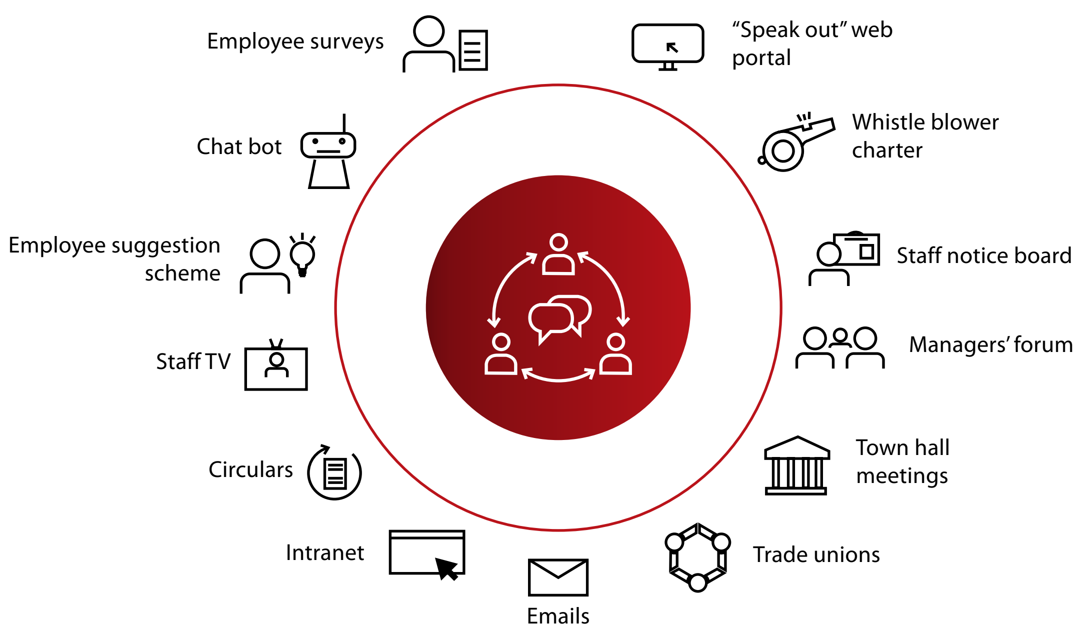
The Bank remained committed to the principles of equal opportunity irrespective of gender, age, race or religion in all our processes from recruitment to career development and progression. Here, our focus on women's empowerment in our external customers (see page 50) extends to our internal staff as well. Improving female representation on our team has been difficult; issues like transferability have normally deterred recruitment of women into the banking sector. Nevertheless, the proportion of female employees receiving training, promotion and representation at Senior Management levels in comparison to the overall staff mix demonstrates our commitment to equal opportunity. In addition, the Bank continues to ensure that the ratio of basic salary and remuneration of women and men across all locations of operation and all employee categories remains equal.

We engage with our staff on an ongoing basis at all levels through a variety of forums and channels including staff circulars, magazines, etc. Feedback and input from our staff members assist us in understanding and responding to their needs and concerns, and improving their working environment and experience. Regular communication also provides our team with strategic direction and keeps them abreast of the latest innovations in technology and processes. We believe that these open lines of communication are vital in creating a unified culture within the Bank.

We maintain a healthy relationship with our branch of Ceylon Bank Employees' Union and the Association of Commercial Bank Executives which plays a pivotal role paving the way for an effective engagement with our staff. 68% of our employees in the Sri Lankan operation are members of the Ceylon Bank Employees' Union (CBEU) while 19% are members of the Association of Commercial Bank Executives. Our employees in Bangladesh operations do not hold membership in any trade association. All members of the branch union of the CBEU are covered by the Collective Agreement which is reviewed every three years.

Arrangements to re-establish a pension fund for employees recruited after the year 2000 (shortly before the previous pension scheme was discontinued) are being finalised. The Bank is confident of having this in place during the year 2020.

Employee communication channels Figure – 11



Network of delivery points in Sri Lanka Figure – 12

	Branches	ATMs	CRMs
Northern Province	**18**	**38**	**13**
1. Jaffna District	12	24	9
2. Kilinochchi District	2	5	1
3. Mannar District	1	1	1
4. Mullaitivu District	1	2	–
5. Vavuniya District	2	6	2

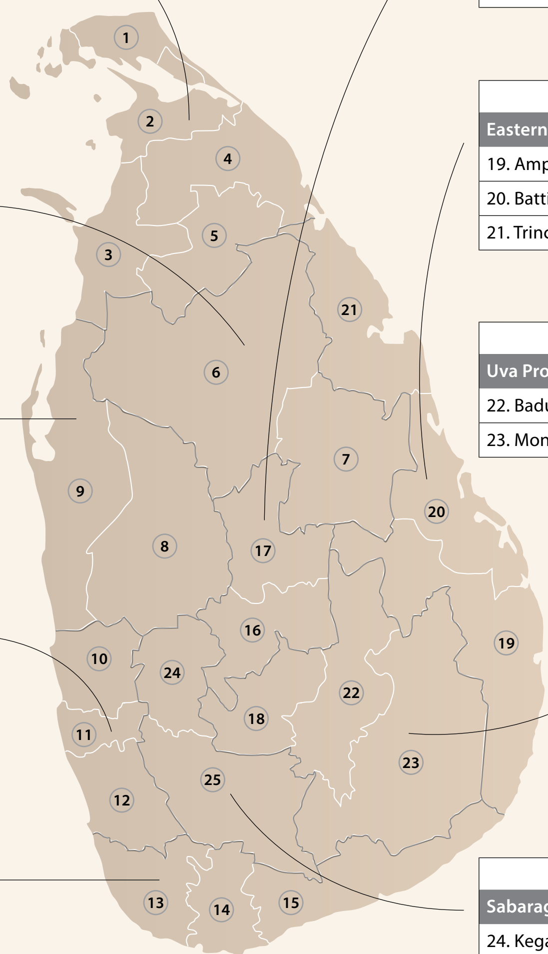
	Branches	ATMs	CRMs
Central Province	**22**	**51**	**15**
16. Kandy District	15	31	10
17. Matale District	3	11	3
18. Nuwara Eliya District	4	9	2

	Branches	ATMs	CRMs
North-Central Province	**8**	**20**	**6**
6. Anuradhapura District	6	13	4
7. Polonnaruwa District	2	7	2

	Branches	ATMs	CRMs
Eastern Province	**10**	**19**	**10**
19. Ampara District	4	7	4
20. Batticaloa District	5	10	5
21. Trincomalee District	1	2	1

	Branches	ATMs	CRMs
North-Western Province	**23**	**65**	**20**
8. Kurunegala District	14	47	13
9. Puttalam District	9	18	7

	Branches	ATMs	CRMs
Uva Province	**9**	**18**	**5**
22. Badulla District	6	12	3
23. Monaragala District	3	6	2



	Branches	ATMs	CRMs
Western Province	**133**	**360**	**98**
10. Gampaha District	42	130	30
11. Colombo District	78	200	60
12. Kalutara District	13	30	8

	Branches	ATMs	CRMs
Southern Province	**29**	**66**	**18**
13. Galle District	13	35	7
14. Matara District	10	21	5
15. Hambantota District	6	10	6

	Branches	ATMs	CRMs
Sabaragamuwa Province	**16**	**28**	**15**
24. Kegalle District	6	10	6
25. Ratnapura District	10	18	9

Number of Branches		268
Automated Teller Machines (Off-site = 210)	ATMs	665
Cash Recycler Machines (Off-site = 6)	CRMs	200

Cash Deposit Machines	CDMs	38
Envelop Deposit Machines (for cheques)	EDMs	34
Automated Cheque Deposit Units	ACDs	20

Banking hours is given online.
http://combank2019.annualreports.lk/bn.html

Network of delivery points in Bangladesh Figure – 13

Narayanganj District
Narayanganj Branch

Sylhet District
Sylhet Branch

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

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

Gazipur District
Tongi SME Centre

SME: Small and Medium Enterprise
OBU: Off-Shore Banking Unit

Maps are not drawn to scale.

Governance and Risk Management

Board of Directors and Profiles

Mr M P Jayawardena
Deputy Chairman

Mr K G D D Dheerasinghe
Chairman

Mr R A P Rajapaksha
Company Secretary

Justice K Sripavan
Director

Mr T L B Hurulle
Director

Mr L D Niyangoda
Director

Mr S C U Manatunge
Director/Chief Operating Officer

Mr S Renganathan
Managing Director/Chief Executive Officer

Mr S Swarnajothi
Director

Mr K Dharmasiri
Director

Prof A K W Jayawardane
Director

Ms N T M S Cooray
Director

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 Strategy Development Committee (BSDC). Independent Non-Executive Director since December 2011.

Skills and experience:
An eminent Economist with a distinguished career of over 45 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.Com and B.Phil. (Econ) 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 the Sri Lanka Institute of Directors since December 2015.

Other current appointments:
Chairman, Serendib Finance Ltd., Chairman, CBC Myanmar Microfinance Company Limited (The above companies are subsidiaries of the Bank).

Previous appointments:
Senior Deputy Governor of the Central Bank of Sri Lanka. Chairman, Monetary Policy Committee and 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, Director, Fitch Ratings Lanka Limited, Council Member, University of Sri Jayewardenepura, Chairman, Commex S. R. L. (Italy). Chairman, Skills Development Fund Limited and Commissioner, Local Loans & Development Fund.

Shareholding of Bank:
Holds 24,254 voting shares.

Mr M P Jayawardena

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 of The Institute of Chartered Accountants of Sri Lanka. Fellow of the Institute of Chartered Professional Managers of Sri Lanka. Member of the Sri Lanka Institute of Directors.

Other current appointments:
Group Director, CIC Holdings PLC, Chairman, Commercial Insurance Brokers (Pvt) Ltd., and serves on the Boards of many other private companies. He is also a member of the high level advocacy group for IFC led women in work programme, Sri Lanka.

Previous appointments:
Head of Treasury, Zambia Consolidated Copper Mines Ltd., Immediate past President of Sri Lanka Institute of Directors, Member of the Council of The Institute of Chartered Accountants of Sri Lanka, Member of the Monitory Policy Consultative Committee of the Central Bank of Sri Lanka, Past Chairman of the Ceylon National Chamber of Industries.

Shareholding of Bank:
Nil

Mr S Renganathan

Appointed as the Managing Director and Chief Executive Officer in July 2018.

Skills and experience:
A senior banker counting over 39 years, he led the Bank's acquisition of the Bangladesh operations of Credit Agricole Indosuez (CAI), Commercial Bank's first ever acquisition of a banking operation, subsequently building up the same as Country Manager. He has also held several other key positions at the Bank including Chief Operating Officer, Deputy General Manager – Personal Banking, and the first Chief Risk Officer of the Bank.

Fellow of the Chartered Institute of Management Accountants, UK (FCMA), Chartered Global Management Accountant (CGMA), Fellow of the London Institute of Banking and Finance, UK (FLIBF), and a Fellow of the Institute of Bankers of Sri Lanka (FIB).Member of Sri Lanka Institute of Directors.

Other current appointments:
Managing Director of Commercial Development Company PLC, Deputy Chairman of Commercial Bank of Maldives (Pvt) Ltd., Director of Lanka Financial Services Bureau Ltd., Director of Sri Lanka Bank's Association (Guarantee) Ltd., Vice Chairman of International Chamber of Commerce Sri Lanka, Executive Member of The Ceylon Chamber of Commerce, Executive Member of The Council for Business with Britain.

Previous appointments:
Member of the General Council of the Institute of Bankers of Bangladesh, Founder President of the Sri Lanka-Bangladesh Chamber of Commerce and Industry, Executive Member of the Foreign Investors Chamber of Commerce and Industry in Bangladesh.

Shareholding of Bank:
Holds 353,736 voting and 12,143 non-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.

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

Member of the Governing Council of Moratuwa University – from August 2016 to April 2019.

Member of the National Salaries and Cadre Commission – from March 2016 to April 2019.

Shareholding of Bank:
Holds 11,152 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.

Graduate Member of the Sri Lanka Institute of Directors since January 2018.

Other current appointments:
Director of Sierra Cables PLC, Chairman of CBC Tech Solutions Ltd. (a subsidiary of the Bank), Director of Mother Lanka Foundation, Member of the Board of Sri Lanka Engineering Council, and a member of the Board of the Management of several other institutions, Director General of National Science Foundation.

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 Ltd., Sabaragamuwa Development Bank, Merchant Bank of Sri Lanka PLC, BOC Travels (Pvt) Ltd., BOC Property Development & Management (Pvt) Ltd., Ceybank Holiday Homes (Pvt) Ltd., Hotels Colombo (1963) Ltd., Ceybank Asset Management Ltd., Lanka Securities (Pvt) Ltd., Institute of Bankers of Sri Lanka, Lanka Financial Services Bureau Ltd., Lanka Clear (Pvt) Ltd., Bank of Ceylon (UK) Ltd., 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 32 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 37 years.

Holds a Bachelor's Degree in Agricultural Science 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:
Chairman of A Baur & Co. (Pvt) Ltd.

Previous appointments:
Managing Director/Chief Executive Officer of A Baur & Co. (Pvt) Ltd., Chief Operating Officer, A Baur & Co. (Pvt) Ltd., Director of Baur Asia (Pte) Ltd., Singapore.

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 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:
Chairman and Managing Director of Jetwing Travels (Pvt) Ltd., and Chairman Jetwing Hotels Ltd.

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 served on the Boards of many other private and public companies. Member, Advisory Council for Tourism and a member of the Board of the Management of several other institutions.

Shareholding of Bank:
Holds 193,062 voting and 51,540 non-voting shares.

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) London, Southbank University, and Engineering Apprentices I & II Programmes, University of Moratuwa. Certificate in Science and Technology of Refrigeration – City & Guilds Institute, London.

Member of Sri Lanka Institute of Directors since August 2017.

Other current appointments:
Director of Kanrich Finance Ltd.

Previous appointments:
Senior Manager/Engineer, Tudawe Trading Co. (Pvt) Ltd., Director-General, Telecommunications Regulatory Commission of Sri Lanka, (TRCSL), Design and Applications Engineer, Metropolitan Air Conditioning & Refrigeration Ltd., London, Divisional Manager/Chief Engineer, Walker Sons & Co. Ltd., Corporate Member (M. Inst.R) of the Institute of Refrigeration, Surrey, United Kingdom (1977/1978).

Awarded the INFOTEL "92 Pioneering" award at INFOTEL 2017 and was a member of the Public Representations Committee (PRC-CR) on Constitutional Reform 2016/2017.

Shareholding of Bank:
Nil

Justice K Sripavan

Appointed as an Independent Non-Executive Director in April 2017.

Chairman of the Board Related Party Transactions Review Committee (BRPTRC)

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 01, 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, Chairman of the Superior Court Complex, Board of Management, and Chairman of the Mahapola Trust Fund.

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.

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

Mr S C U Manatunge

Appointed as an Executive/Non-Independent Director and Chief Operating Officer in July 2018.

Skills and experience:
He was the former Deputy General Manager – Corporate Banking. He counts for 30 years of experience at the Bank, having held corporate management/senior positions such as Chief Risk Officer, Head of Credit Risk and Chief Manager – Corporate Banking prior to being appointed as the Deputy General Manager – Corporate Banking.

He is a Fellow of the Chartered Institute of Management Accountants, UK (FCMA) and has obtained a Master of Business Administration (MBA) Degree from the University of Sri Jayewardenepura with a Merit Pass. He is also a Fellow Member of the Institute of Bankers – Sri Lanka (FIB) and a Fellow of the Institute of Certified Management Accountants of Sri Lanka (FCMA).

He was instrumental in forming the Association of Banking Sector Risk Professionals, Sri Lanka and was the President in the year 2014. He has also served as a Council Member of the Association of Professional Bankers (APB), and a member of the CIMA – "Thought Leadership Committee".

He was a visiting lecturer for the MBA Degree Programme at the University of Colombo. Also a resource person at the Training Centre of Central Bank of Sri Lanka, and Institute of Bankers of Sri Lanka.

He was adjudged the "Chief Information Security Officer of the Year" at the EC – Council Global CISO Forum held in Atlanta – USA in September 2013 in recognition of his outstanding contribution in strengthening and promoting information security practices and IT Risk Management.

Other current appointments:
Director, Commercial Bank of Maldives Private Ltd. (Subsidiary of the Bank).

Previous appointments:
Director, CBC Tech Solutions Ltd. (Subsidiary of the Bank).

Shareholding of Bank:
Holds 69,778 voting shares.

Mr R A P Rajapaksha

Appointed as Company Secretary in April 2019.

Skills and experience:
An Associate of the Chartered Governance Institute, UK (formerly known as Institute of the Chartered Secretaries and Administrators, UK) and a Graduate of the Institute of Chartered Corporate Secretaries (ICCS) of Sri Lanka, counting over 16 years of experience in the field of Company Secretarial Practice including 9 years of experience at the Bank. He held the position of Assistant Company Secretary of Bank from February 2011 to March 2019 prior to being appointed as the Company Secretary.

He is a member of Sri Lanka Institute of Directors since September 2017.

Other current appointments:
Vice President of the Chartered Governance Institute, Sri Lanka Branch.

Previous appointments:
Company Secretary of Serendib Finance Ltd. from November 2014 to March 2019.

Shareholding of Bank:
Nil

Corporate Management and Profiles

S Renganathan
Managing Director/Chief Executive Officer

FCMA (UK)/CGMA/Fellow of the Ifs School of Finance (UK)/FIB (SL)

39 years in Banking

Sanath Manatunge
Chief Operating Officer

FCMA (UK)/CGMA/FCMA (SL)/FIB (SL)/MBA Merit (University of Sri Jayewardenepura)

30 years in Banking

Nandika Buddhipala
Chief Financial Officer

FCA/FCCA (UK)/FCMA/CMA (Aus)/MCISI (UK)/SA Fin (Aus)/IMA (USA)/BSc, BAd (Special) (University of Sri Jayewardenepura)/PG Dip in Management (University of Sri Jayewardenepura)/MBA (University of Colombo)/MA in Financial Economics (University of Colombo)/MSc in Financial Mathematics (University of Colombo)

29 years post-qualifying experience including 12 years in Banking

Isuru Tillakawardena
Deputy General Manager – Human Resource Management

LL.B(University of Colombo)/MBA (University of Sri Jayewardenepura)/MA (University of Colombo)/Diploma in International Affairs (BCIS)/GSLID (SLID)/Fellow of the Association of HR Professionals

29 years of experience including 10 years in Banking

Krishan Gamage
Assistant General Manager – Information Technology

BSc (Eng.) in Electronic and Telecommunication (University of Moratuwa)

21 years experience in Information Technology including 13 years in Banking

Prasanna Indrajith
Assistant General Manager – Finance

FCA/FCCA (UK)/FCMA (SL)/AIB(SL)/BSc BAd (Special) (University of Sri Jayewardenepura)/Postgraduate Dip. in Business and Financial Admin. (CA Sri Lanka)

25 years post qualifying experience in Finance-related fields including 23 years in Banking

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

18 years of experience in Manufacturing and Supply Chain Management and 8 years in Banking

Selva Rajasooriyar
Assistant General Manager – Compliance

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

39 years in Banking

Delakshan Hettiarachchi
Assistant General Manager – Personal Banking I/SME

MBA (Cardiff Metropolitan University)/AIB (SL)

36 years in Banking

Kapila Hettihamu
Chief Risk Officer

BSc (University of Colombo)/MBA (University of Colombo)/Member (Association Cambiste Internationale)

24 years in Banking

John Premanath
Assistant General Manager – Management Audit

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

29 years in Banking

Mrs Mithila Shamini
Assistant General Manager – Personal Banking II

AIB (SL)/Dip. in Business Mgmt. (SLBDC)/Postgraduate Dip. in Business and Financial Admin. (CA Sri Lanka)/MBA (Griffith University, Aus)

33 years in Banking

Hasrath Munasinghe
Deputy General Manager – Marketing
FIB (SL)/FCIM (Chartered Institute of Marketing, UK)/FSLIM (Sri Lanka Institute of Marketing)/MSc in Information Technology (University of Moratuwa, SL)/MBA (University of Southern Queensland, Aus)/CMA (Institute of Certified Management Accountants, Aus)/PGDBFA (CA Sri Lanka)/CPM (Asia Pacific Marketing Federation, Sing)/GSLID (SLID)/Certificate in Risk (CISI, UK)
26 years of experience including 9 years in Banking

Mrs Sandra Walgama
Deputy General Manager – Personal Banking
AIB (SL)/Associate (The Institute of Administrative Accounting, UK)/Level 3 Certificate in Wealth Management (CISI, UK)
40 years in Banking

Prins Perera
Deputy General Manager – Treasury
FCMA(UK)/CGMA/CPA (Aus)/Master of Financial Economics (University of Colombo)/FIB(SL)
30 years in Banking

Naveen Sooriyaarchchi
Deputy General Manager – Corporate Banking
MBA (University of Colombo)/AIB (SL)/Humphrey Fellowship in Investment Banking (Boston University, USA)
39 years in Banking

S Prabagar
Assistant General Manager – Operations
MBA (University of London), AIB (SL)/BCom (Bharathidasan University, India)/DISSCA (Diploma in System Security and Control Audit – CA Sri Lanka)/CISA (Certified Information Systems Auditor – USA pending certification)
24 years in Banking

Asela Wijesiriwardane
Assistant General Manager – Treasury
BSc (University of Colombo)/MA-Econ/ACMA
23 years in Banking

Priyantha De Silva
Assistant General Manager – Credit Supervision and Recoveries
AIB (SL)/CIMA-Finalist
39 years in Banking

B A H S Preena
Assistant General Manager – Corporate Banking I
MBA (University of Colombo)/AIB (SL)
32 years in Banking

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 BAd (Special) (University of Sri Jayewardenepura)
30 years in Banking

Mrs Dharshanie Perera
Assistant General Manager – Personal Banking III
AIB (SL)
35 years in Banking

Ms Tamara Bernard
Assistant General Manager – Corporate Banking II
AIB (SL)/Masters in Development Studies (University of Colombo)/MBA (University of Sri Jayewardenepura)
30 years in Banking

Senior Management

Corporate Banking

Sidath Pananwala
Head of Corporate Banking

Kelum Amarasinghe
Head of Foreign Operations and Travels

Dilrukshi Nanayakkara
Head of Corporate Banking

Dr Shanthikumar Fernando
Chief Manager – Research and Development

Feroza Ameen
Chief Manager – Islamic Banking

Sushara Vidyasagara
Chief Manager – Investment Banking

Prasad Fernando
Chief Manager – Imports

Lawrian Somanader
Chief Manager – Exports

Personal Banking

Amal Alles
Head of Centralized Credit Processing Unit

S Ganeshan
Senior Regional Manager – Colombo Inner

Saneth Jayasundara
Regional Manager – Central

S B Wasala
Regional Manager – Colombo Outer

Sanath Perera
Regional Manager – Colombo North

Dharshanee Keerthirathne
Regional Manager – Colombo South

Janaka Sooriyaarachchi
Regional Manager – Colombo Metro

Elmo Sooriyaarachchi
Regional Manager – Uva-Sabaragamuwa

Shanthapriya Withanage
Regional Manager – Greater Colombo

Sriyan Fernando
Chief Manager – City Office

Support Services

Vajira Thotagammana
Head of Information Technology

Thusitha Suraweera
Head of Card Centre

Sujeeva Ranasinghe
Head of Human Resources

Pradeep Banduwansa
Head of Digital Banking

Namal Gamage
Head of Legal

Thayalan Gnanapragasam
Chief Manager – Central Administration and Staff Advances

Sampath Weerasuriya
Chief Manager – Security and Safety

Tilak Wakista
Chief Manager – Premises

Nalin Samaranayake
Chief Manager – Recoveries

Pushpa Chandrasiri
Chief Manager – Human Resource Development

Upulani Gunapala
Chief Manager – AML/Compliance

Sanath Elpitiya (Deceased)
Chief Manager – Retail Deposits and Delivery Channels

Najith Meewanage
Chief Manager – Operations

Priyantha Perera
Chief Manager – Logistics

Nishantha De Silva
Chief Manager – Card Centre

Keerthi Mediwake
Chief Manager/Chief Executive Officer – CBC Tech Solutions Limited

Treasury

Chandrima Leelaratne
Chief Manager – Treasury Processing

Tivanka Damunupola
Chief Dealer

Bangladesh Operation

Varuna Kolamunna
Country Manager

D Das Gupta
Senior General Manager

Kapila Liyanage
Chief Operations 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

Maldivian Operation

Dilan Rajapakse
Managing Director – Commercial Bank of Maldives Private Limited

Myanmar Operation

Chamenda Kalugamage
Managing Director/Country Head – CBC Myanmar Microfinance Company Limited

How We Govern

Bank's approach to governance

Commercial Bank firmly believes in and values good corporate governance - the system of rules, practices and processes that guides corporate behaviour – which leads to a disciplined approach to making decisions and executing them with the interests of all stakeholders at heart. Its relevance to maintaining public trust and confidence in an institution that is entrusted with the fiduciary duty of accepting and deploying vast sums of uncollateralised public funds which has resulted in the Bank gaining domestic systemically important bank (D-SIB) stature, which cannot be overemphasised. It is in fact the bedrock of 100 years of existence and sustainable value creation of the Bank.

Good corporate governance is a necessary condition above and beyond the legal and regulatory requirements. It is the foundation for financial integrity, sustainable performance and investor confidence. It is a risk management tool and also enables the Bank to exploit opportunities. Accordingly, the Bank is committed to good corporate governance, conducting its affairs with the utmost intellectual honesty, integrity and diligence, being mindful of its obligations to the society and the environment. A culture that resonates such values prevails across the Bank.

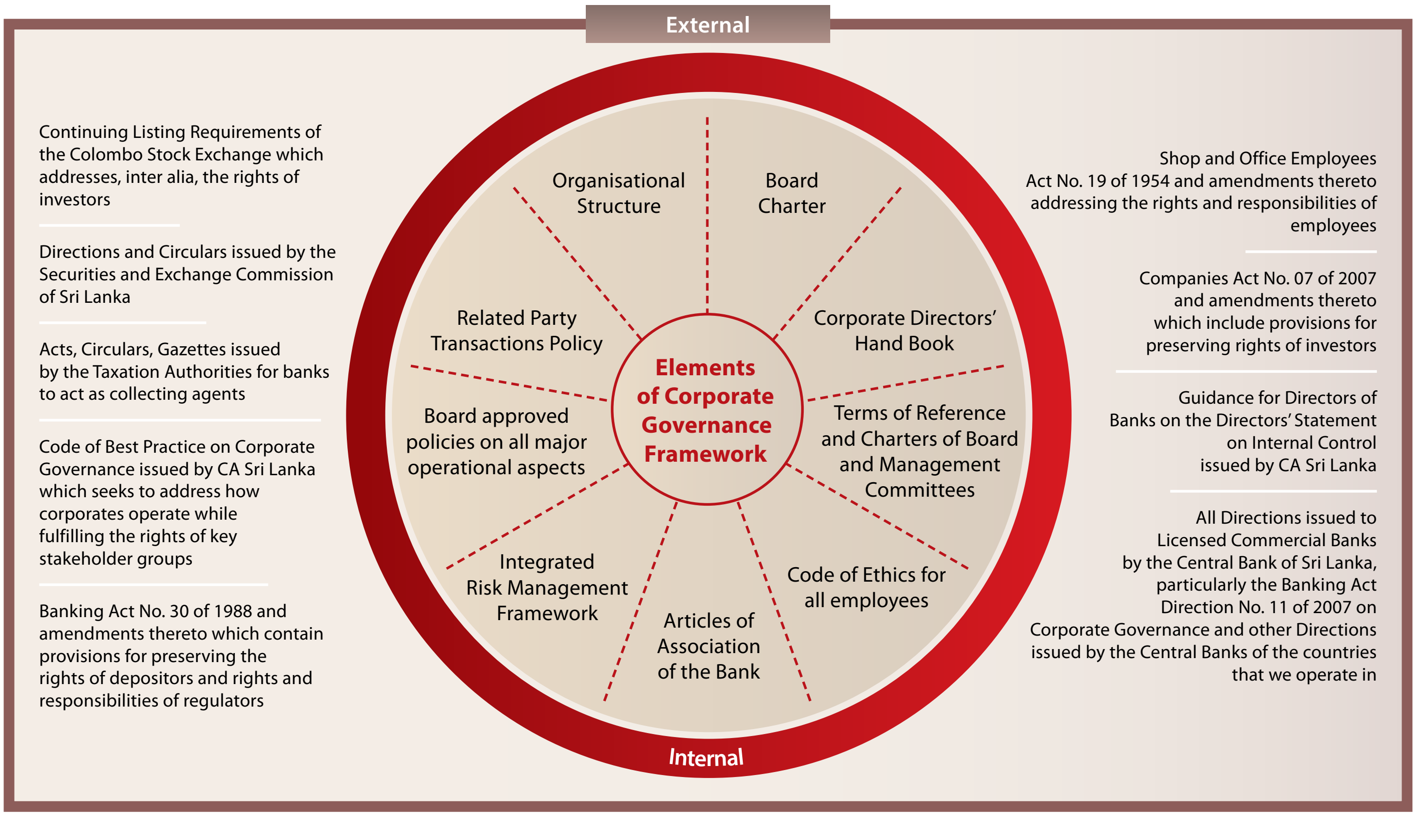
A time-tested corporate governance framework is in place in the Bank. It is being regularly reviewed and updated in line with the evolving regulations and best practice, to guide the Board, Board Committees, Management and staff in performing their stewardship roles. This framework is underpinned by governance principles of leadership, integrity, effectiveness, accountability, transparency, sustainability and shareholder engagement. These principles guide the Bank in all its decisions relating to Board oversight, delegation of authority, division of responsibilities, resource allocation, risk management, compliance, performance appraisal and compensation, related party transactions, and financial reporting. It is this commitment to good corporate governance that enabled the Bank to accomplish many an achievement.

The Bank's corporate governance system is structured to ensure the following;

- Roles and responsibilities are distributed among the Board, Management and Committees
- Establishing clear reporting lines and frequency of reporting
- Legitimate needs, interests and expectations of all the stakeholders are taken into consideration
- Upholding the highest degree of fairness, transparency and accountability
- Creating value sustainably for all stakeholders over the short, medium and long term
- Minimising negative externalities to the society and the environment
- Making the Bank more stable, resilient and future ready
- Living by the claims made and values associated with the Bank's brand reputation

Key regulatory requirements and voluntary codes relevant to the Bank and its Corporate Governance Framework are depicted in Figure 14 below:

Key regulatory requirements, voluntary codes, and Corporate Governance Framework elements Figure – 14



Annual Corporate Governance Report

The annual corporate governance report of the Bank included on pages 62 to 109 elaborates the structure, overarching principles and components of the Bank's corporate governance framework, as required to be published as per the Banking Act Direction No. 11 of 2007 on Corporate Governance (Direction). Messrs Ernst & Young, External Auditors of the Bank, following a review of the Bank's compliance in line with the Direction, have submitted their Assurance Statement thereon to the Central Bank of Sri Lanka (CBSL).

Extent of compliance in line with the Direction and the Code of Best Practice on Corporate Governance (Code) of CA Sri Lanka is given in Annex 2.1 on pages 306 to 316 and Annex 2.2 on pages 317 to 321, respectively. Further, the Bank has complied with all disclosure requirements under the prescribed format issued by the CBSL for publication of Annual Financial Statements and a comprehensive disclosure statement is given in Annex 2.3 on pages 322 to 326. As the Bank is fully compliant with all the applicable requirements of the Direction, the Colombo Stock Exchange (CSE) has exempted the Bank from disclosure of compliance with the regulations stipulated in Section 7.10 of the Continuing Listing Requirements on Corporate Governance.

The Bank has complied with all the applicable laws, rules, regulations, and codes with integrity to the letter as well as in the true spirit of good governance.

The Bank has in place the Board approved "Internal Rules applicable on the Bank share purchases/disposals by employees of the Bank" which govern the transactions on the Bank's shares by employees. In addition, the Code of Ethics issued to all the employees also include guidelines with regard to insider dealing in securities.

With a view to motivate employees to commit to long term value creation, improve overall performance and increase staff retention while raising equity funding, the Bank has structured many Employee Share Option Plans (ESOPs) since 1997. This entitles the eligible employees to buy a fixed number of shares at a price to be determined based on pre-agreed formula over the vesting period. Bank has duly obtained approval of the shareholders for all these ESOPs at Extraordinary General Meetings (EGMs).

Governance structure

The Board, Board Committees, Management and Management Committees with well-defined roles and responsibilities, greater accountability and clear reporting lines form the bedrock of the governance structure of the Bank. The Board and Board Committees, assisted by consultants where necessary, are responsible for setting strategy, defining risk appetite and exercising oversight while Management and Management Committees are responsible for executing strategy and driving performance. Responsibility and accountability for conducting operations and assuming risk under the purview of the Management lies with the strategic business units and support functions.

An overview of the governance structure of the Bank is given in Figure 15 on page 75.

Board of Directors

The Board of Directors plays a pivotal role in demonstrating good corporate citizenship, ethical behaviour, transparency and accountability and in warding against all forms of corporate malfeasance. The Board of Directors, the highest decision-making authority with responsibility for the sustainability of the Bank, provides leadership by setting strategic direction, defining risk appetite and approving strategies. Under the due diligence and oversight of the Board, Corporate Management is responsible for the day-to-day operations and for implementing an effective system of internal control. Board and the Corporate Management have a clear mutual understanding of their respective roles, delegations and boundaries. Based on trust and respect, the Board and the Management work within a productive and harmonious relationship which is a pre-requisite for good corporate governance and organisational effectiveness.

At end of 2019, the Board comprised of eleven Directors who are all eminent professionals in their respective fields with the skills and expertise necessary to constructively challenge the Management and enrich deliberations on matters set before the Board. They understand and appreciate the dynamism and complexity of the Bank's operations, particularly in the wake of emerging global developments threatening to challenge conventional business models. Nine of the Directors are Independent Non-Executive Directors (INEDs), ensuring more autonomy. Directors act in the best interest of the shareholders avoiding any conflicts of interest.

The Board of Directors comprises of members with expertise in accounting, banking and finance, economics, engineering, information technology and law. Having risen to the highest echelons of Government institutions or commercial organisations, they 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. The Company Secretary assists the Board in discharging its responsibilities.

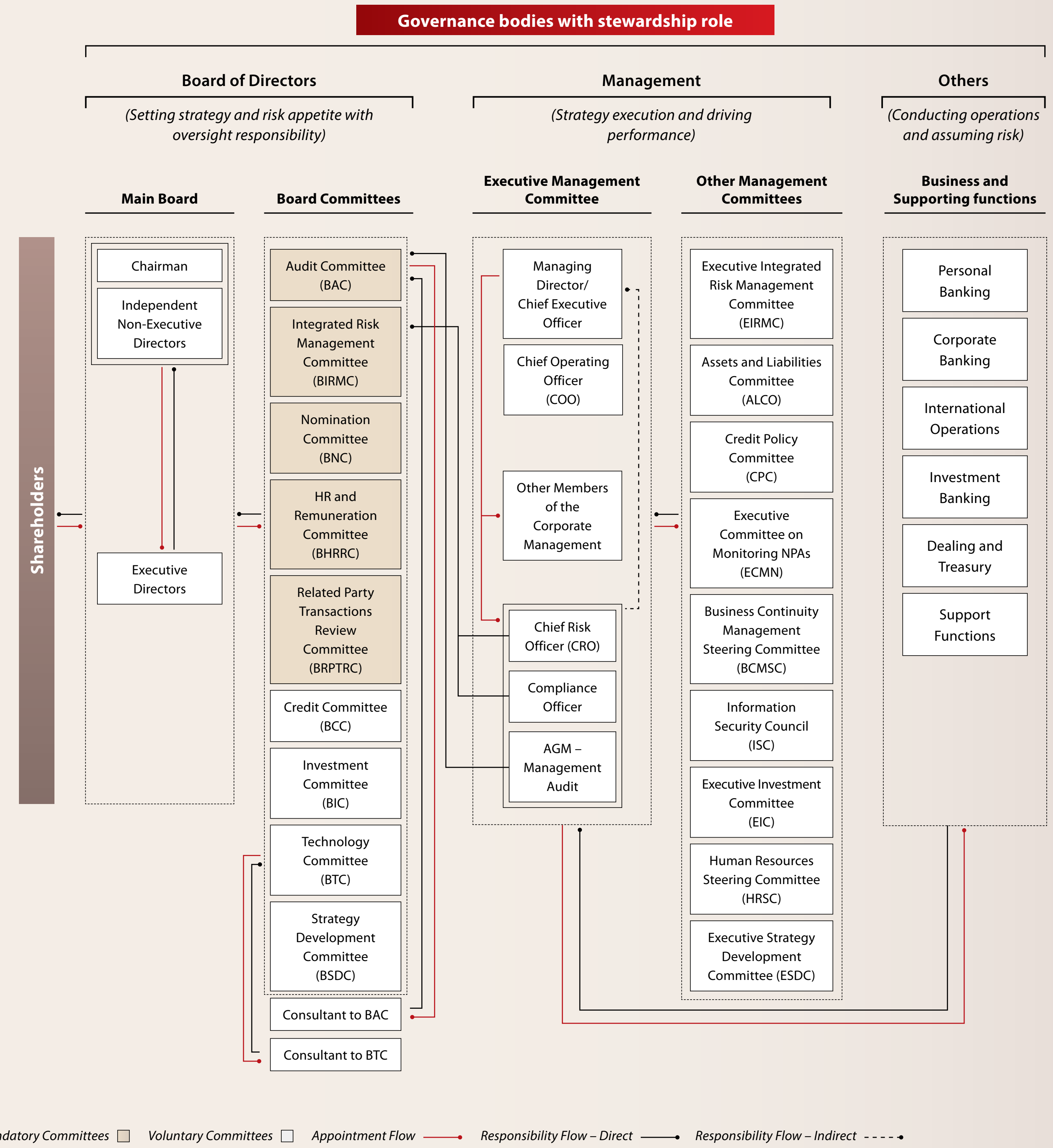
Profiles of Board members including their qualifications, memberships in Board Committees and other significant appointments and the profile of the Company Secretary are given on pages 64 to 67.

Board process

The Board agrees on a schedule of meetings at the beginning of each year and meets at least once a month. Additional meetings are also convened if the circumstances so require. The Chairman is responsible for determining and preparation of the agenda for the meetings in consultation with the Managing Director/Chief Executive Officer and with the assistance of the Company Secretary. Board members too can request items to be included in the agenda for discussion. The agenda is circulated to the members of the Board by the Company Secretary together with the accompanying Board papers one week in advance of the meetings, allowing adequate time for Board members to study, call for additional information if required, and be prepared for productive deliberations. Directors regularly attend the meetings and actively participate in deliberations. Urgent Board papers are submitted at short notice or tabled at the meetings on an exceptional basis. Board members typically spend at least seven days a month on Board-related matters. Details of attendance at Board meetings are given in the Table 12 on page 76.

The diversity in the composition of the Board has enabled to bring unique perspectives

Governance structure Figure – 15



to the boardroom, enhancing dynamics and effectiveness while promoting healthy and constructive exchange of views, leaving no room for groupthink. Minutes of deliberations and decisions made at the meetings are maintained in sufficient detail. 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. The Bank has taken a Directors' and Officers' Liability Insurance Policy.

Conflicts of interest

Members of the Board avoid any conflict of interest by declaring such interest and withdrawing from taking part in deliberations on/exercising influence over matters where there is conflict of interest or the appearance of conflict of interest and these actions are appropriately minuted. Affiliations and transactions of Directors are regularly reviewed to ensure that there are no conflicts or relationships that might impair Directors' independence. Any banking facilities provided to the Directors, their close family members and entities in which the Directors hold directorships are as permitted by the rules and regulations of the CBSL and within the terms and conditions such facilities are provided to other customers of the Bank. Such facilities, if any, are reviewed and recommended by the BCC and are submitted to the Board for approval. Once approved, details of such facilities are tabled at the immediately following meetings of the BRPTRC for information. Directors at the time of joining and 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 which is available for inspection by shareholders or their authorised representatives as required by Section 119 (1) (d) of the Companies Act No. 07 of 2007 and amendments thereto.

Board meetings

During 2019, the Board held fourteen scheduled meetings of which one meeting was devoted exclusively to deliberations on strategy with all members of Corporate Management being present. Twelve meetings were devoted to matters including large and material transactions, review of performance, review of policy frameworks, strategy and risk. Another meeting was held for reviewing the composition of the Board committees subsequent to election/re-election of Directors at the AGM. Meetings provided an effective forum for discharging the oversight responsibility of the Board. Board continued to play an active role in strategy formulation, providing directions to the Management for the preparation of the Bank's five-year strategic plan. The plan was then reviewed and approved at a meeting specifically convened for the purpose. Board explored and evaluated alternative strategies prior to approval and allocation of resources for execution of same. Board continued to give prominence to the capital management strategy in the wake of the ever-increasing capital requirements of banks and to support growth. One of the regular agenda items at the monthly Board meetings is to review performance against the strategic plans with sufficient attention and time being devoted to reviewing progress made and identifying areas of concern requiring further attention of the Board. The views of Directors on issues under consideration are ascertained and a record of such deliberations reflected in minutes. Further, Board paid heightened attention to credit quality and resolving distressed credit facilities. Proceedings of the Board Committees were regularly reported to the Board and any concerns identified in relation to specialised areas too were referred to them for their oversight.

Composition of the Board during and at the end of the year and attendance of members at Board meetings during the year are given below:

Composition of the Board and attendance Table – 12

Name of Director	Age (Years)	Membership Status		Meeting attendance DOA	Eligible to attend	Attended
Mr K G D D Dheerasinghe (Chairman)	67	NED	ID	20.12.2011	14	14
Mr M P Jayawardena (Deputy Chairman)	67	NED	ID	28.12.2011	14	14
Mr S Renganathan (Managing Director/CEO)	57	ED	NID	17.07.2014	14	14
Mr S Swarnajothi	69	NED	ID	20.08.2012	14	14
Prof A K W Jayawardane	59	NED	ID	21.04.2015	14	14
Mr K Dharmasiri	66	NED	ID	21.07.2015	14	14
Mr L D Niyangoda	63	NED	ID	26.08.2016	14	14
Ms N T M S Cooray	61	NED	ID	19.09.2016	14	14
Mr T L B Hurulle	67	NED	ID	05.04.2017	14	13
Justice K Sripavan	67	NED	ID	26.04.2017	14	13
Mr S C U Manatunge	49	ED	NID	27.07.2018	14	13
Mr G S Jadeja*	60	NED	NID	19.09.2016	04	04

Composition (as at 31.12.2019)	No.
Executive Directors	2
Non-Executive Directors	9
Independent Directors	9
Non-Independent Directors	2
Male	10
Female	1
Age – below 50 years	1
Age – above 50 years	10

** Resigned with effect from April 1, 2019*

Status

ED – Executive Director, NED – Non-Executive Director, ID – Independent Director, NID – Non-Independent Director, DOA – Date of Appointment

Board Committees

Nine Board Committees have been appointed with delegated authority to strengthen governance and to deal with/decide on certain subject-specific and specialised matters. The Board, however, retains responsibility for Committee decisions. Four out of five mandatory Committees were formed as required by the Direction, while the Board Related Party Transactions Review Committee was formed as required by the provisions of the Securities and Exchange Commission of Sri Lanka (SEC). The other four voluntary Board Committees have been established considering the business, governance and risk management needs of the Bank as permitted by the Bank's Articles of Association. Constituted with Board-approved terms of reference, these Committees hold regular meetings and report proceedings to the Board for information/approval.

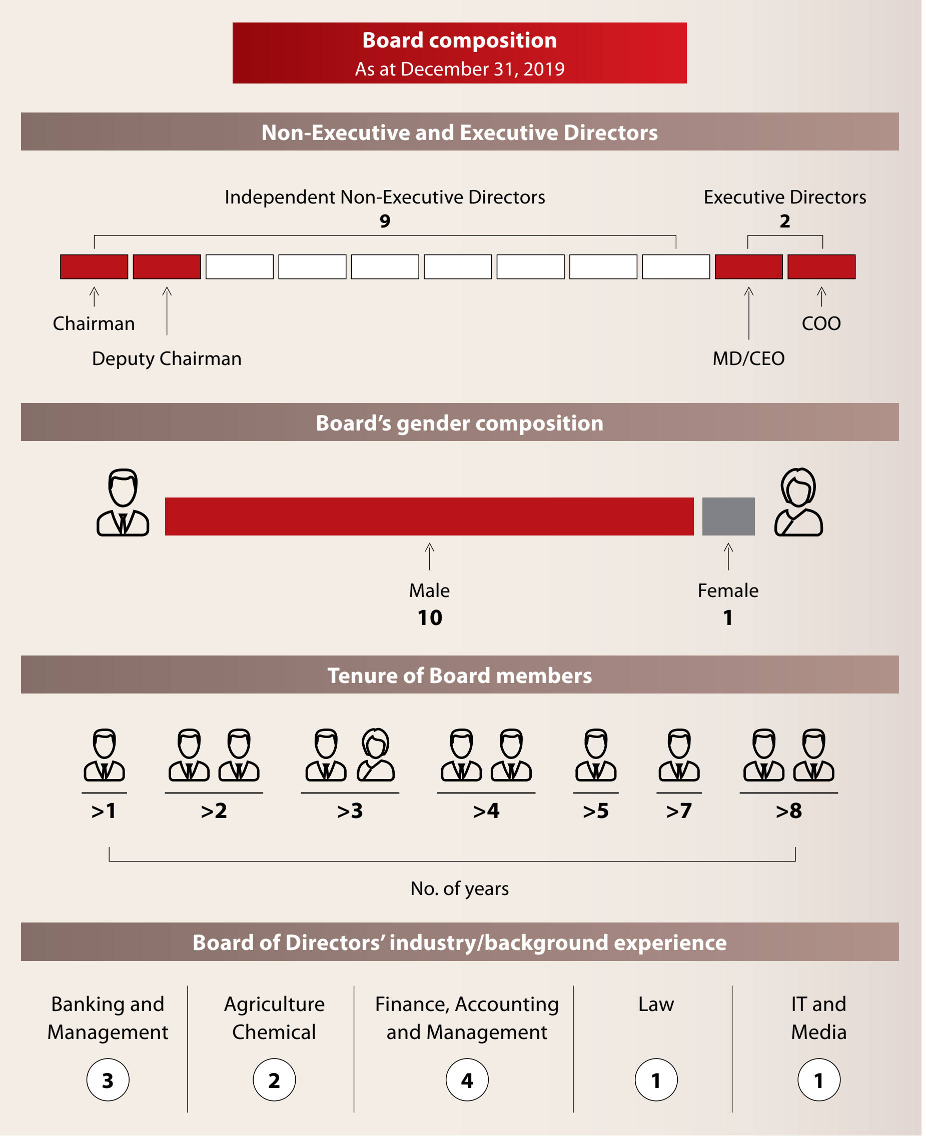
During the year, Board Committees sought guidance and advice of external consultants on several occasions. Each of the Directors serves in a minimum of two Committees.

The composition, areas of oversight responsibility, and activities in 2019 and attendance of members at the Board Committee meetings are given in the respective Board Committee reports on pages 83 to 96.

Executive Management Committee

All members of the Corporate Management including the Managing Director/Chief Executive Officer and the Chief Operating Officer who are the two EDs are members of the Executive Management Committee (EMC). Qualifications and experience of the EMC members are given in the section on Corporate Management and Profiles on pages 68 to 69. The primary responsibility of the EMC is to implement the strategy as approved by the Board under the leadership of the Managing Director/Chief Executive Officer and deliver on the performance objectives while ensuring that the risks undertaken by the Bank are within the risk profile approved by the Board. The EMC lays down policies, makes operational decisions, monitors and manages financial performance, allocates capital, manages risk and solves operational and customer issues. It also reviews and deliberates on information to be submitted to the Board ensuring that all material information is shared with the Board in a timely manner to effectively fulfil their obligations as Directors.

Board composition Figure – 16



The meetings of the EMC provide an opportunity for all members of the Executive Management to gain a 360° view of the Bank's operations.

Names of the members of the Senior Management of the Bank's operations in Sri Lanka, Bangladesh, the Maldives and Myanmar are given on pages 70 to 72.

Other Management Committees

In addition to the Board Committees and the EMC, several other Management Committees have been constituted under delegated authority from the Managing Director/Chief Executive Officer on specific subjects to facilitate decision-making in relation to the execution of the Board-approved strategies. During 2019, the Bank formed the Executive Strategy Development Committee to monitor and oversee the overall strategy of the Bank to ensure that business strategies are in line with vision and mission of the Bank.

Based on approved terms of reference, these Management Committees operate under a structure and process similar to the Board Committees. Secretaries of each of the Committees record minutes of the proceedings in sufficient detail which are submitted to the Managing Director/Chief Executive Officer for approval. These Committees undertake extensive deliberations, co-operate across departments and debate on matters considered critical for the Bank's operations as described in the Figure 17 given on page 78.

Other management committees Figure – 17

Executive Integrated Risk Management Committee (EIRMC)

Purpose and tasks
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.

Composition
Managing Director/Chief Executive Officer, Chief Operating Officer and key members of Integrated Risk Management, Personal Banking, Corporate Banking, Treasury, Inspection, Compliance, and Finance Divisions.

Assets and Liabilities Committee (ALCO)

Purpose and tasks
Optimises the Bank's economic goals whilst maintaining liquidity and market risk within the Bank's predetermined risk appetite.

Composition
Managing Director/Chief Executive Officer, Chief Operating Officer and key members of Treasury, Corporate Banking, Personal Banking, Integrated Risk Management, and Finance Divisions.

Credit Policy Committee (CPC)

Purpose and tasks
Reviews and approves credit policies and procedures pertaining to the effective management of all credit portfolios within the lending strategy of the Bank.

Composition
Managing Director/Chief Executive Officer, Chief Operating Officer and key members of Corporate Banking, Personal Banking, Integrated Risk Management, Inspection, Credit Supervision and Recoveries, and Branch Credit Monitoring Divisions.

Executive Committee on Monitoring NPAs (ECMN)

Purpose and tasks
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.

Composition
Managing Director/Chief Executive Officer, Chief Operating Officer and key members of the Corporate Banking, Personal Banking, Credit Supervision and Recoveries, and Integrated Risk Management Divisions.

Business Continuity Management Steering Committee (BCMSC)

Purpose and tasks
Directs, guides, and oversees the activities of the Business Continuity Plan of the Bank in accordance with the Bank's strategy.

Composition
Key members of the Bank's Corporate Management covering all business lines.

Information Security Council (ISC)

Purpose and tasks
Focuses continuously on meeting the information security objectives and requirements of the Bank in line with emerging technology and Bank Strategy.

Composition
Key members of Integrated Risk Management, Information Systems Audit, Operations, and IT Divisions.

Executive Investment Committee (EIC)

Purpose and tasks
Oversees investment activities by providing guidance to the management on significant investment decisions and reviews performance.

Composition
Managing Director/Chief Executive Officer, Chief Operating Officer and key members of Investment Banking, Treasury, and Finance Divisions.

Human Resources Steering Committee (HRSC)

Purpose and tasks
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 BHRRC and/or address any issues that may need to be reviewed at Board level.

Composition
Managing Director/Chief Executive Officer, Chief Operating Officer, and key members of Human Resource Management, Personal Banking, Corporate Banking and Finance Divisions.

Executive Strategy Development Committee (ESDC)

Purpose and tasks
Based on overall insights provided by the BSDC, formulates strategies geared for the sustainable development of the Bank. Monitors the implementation of the approved strategic plan and the progress made against strategic milestones and goals.

Composition
Managing Director/Chief Executive Officer, Chief Operating Officer and key members of Human Resource Management, Marketing, Personal Banking, Corporate Banking, Treasury, Finance and Planning Divisions.

Roles, responsibilities and powers of the Board

The role of the Board of Directors and their responsibilities are set out in the Board Charter which includes a schedule of powers reserved for the Board as detailed below:

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 Managing Director/ 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

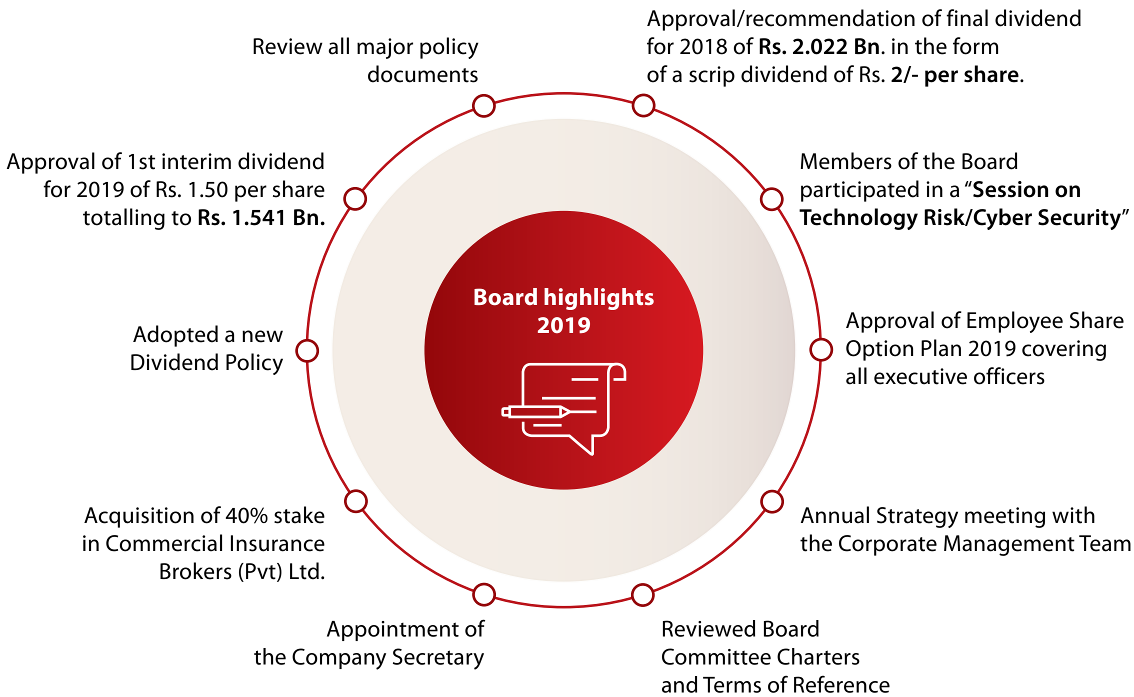
- Approving major capital expenditure, acquisitions and divestitures and monitoring capital management
- Appointing the Board Secretary in accordance with Section 43 of the Banking Act No. 30 of 1988
- Seeking professional advice in appropriate circumstances at the Bank's expense
- Reviewing, amending and approving governance structures and policies

Board's role in risk management

Being the highest decision making authority of the Bank, the Board is responsible for implementing an effective risk management function in the Bank. In this regard, the Board with the support of the BIRMC has devised an effective risk management framework, which set the risk appetite and tolerance limits and enabling monitoring the risk profile on a regular basis, through risk reports submitted to it. Risk management was one of the key and regular agenda items of all Board and Committee deliberations. Clarifications were sought from the Management for any deviations from the agreed risk profile and necessary guidance was given for taking mitigatory action. Risks related to the business strategies were carefully reviewed at the special Board meeting held to deliberate on the strategic plan [refer Risk Governance and Management on pages 110 to 128 for further details].

A synopsis of the important matters deliberated and decided upon by the Board during the year 2019 is given below:

Board highlights 2019 Figure – 18



Segregation of roles of Chairman and Chief Executive Officer

Adhering to the best practice in Corporate Governance, the positions of Chairman and Chief Executive Officer are separated, facilitating balance of power and authority. The Chairman is a Non-Executive Independent Director while the Chief Executive Officer is an Executive Director appointed by the Board. Their respective roles are clearly set out in an approved Board paper and in the Board Charter of the Bank.

Accordingly, as set out in the said Board paper and the Board Charter, clear and effective separation of accountability and responsibility has made the role of the Chairman distinctive. The Chairman promotes good corporate governance and the highest standards of integrity and probity throughout the Group by providing leadership to the Board, preserving order and facilitating the effective discharge of its duties. The Chairman ensures that the Board receives all information necessary for making informed decisions by the Board in discharging its responsibilities. He also ensures the effective participation of all Directors in Board deliberations and maintains open lines of communication with members of Corporate Management, acting as a sound Board on strategic and operational matters.

As set out in the Board Charter, the role of the Chief Executive Officer is to conduct the management functions as directed by the Board. Corporate objectives for the Chief Executive Officer and boundaries of his authority are set by the Board while his duties and responsibilities are jointly developed.

The Chief Executive Officer leads the Management team in the day-to-day operations and implements strategies, plans, and budgets approved by the Board. The Chief Executive Officer conducts the affairs of the Group upholding good corporate governance and the highest standards of integrity and probity as established by the Board.

The Chairman and the Managing Director/ Chief Executive Officer regularly meet to set the Board agenda, to deliberate on current and future developments and any material issues impacting the Bank.

Role of Independent Non-Executive Directors

The Bank has a strong element of independence on the Board, with nine of the eleven Directors as at December 31, 2019 being independent NEDs. Directorships constitute the only connection of the independent Directors with the Bank and with other Companies in the Group and therefore their judgement is unlikely to be influenced by external considerations. The presence of independent NEDs is expected to complement the skills and experience of the other members of the Board by conveying an objective and independent view on matters, challenging the Board and the Management constructively using their expertise and assisting in providing guidance on strategy.

Role of the Company Secretary

The Company Secretary plays a vital role in facilitating good Corporate Governance and his primary responsibilities are summarised below:

- Assisting the Chairman for conducting the Board Meetings, AGMs and EGMs in accordance with the Articles of Association, the Board Charter of the Bank, and relevant legislation;
- Maintaining statutory registers;
- Communicating promptly with the regulators;
- Maintaining cordial relationships with share and debenture holders;
- Filing statutory returns in time;
- Facilitating best practice of Corporate Governance including assisting the Directors with respect to their duties and responsibilities;
- Facilitating access to legal and independent professional advice in consultation with the Board, where necessary;
- Keeping the electronic support system and the Induction Pack for Directors up to date;
- Monitoring that all Board Committees are properly constituted and are having clearly defined Terms of Reference.

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

Appointments/retirements and resignations of Directors

The Bank has in place a formal and transparent procedure formulated by the BNC for nomination of candidates for appointment as Directors. The resume of potential candidates are carefully evaluated by the BNC before making its recommendation to the Board for their consideration as Non-Executive Directors. Such nominations may include an interview with the candidate. The appointment of new Directors 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 added perspectives to ensure its effectiveness at all times.

A similar process is followed when appointing Executive Directors except that candidates are selected from amongst the members of the Corporate Management of the Bank.

As required by the Listing Rules, appointments of new Directors to the Board are promptly communicated to the CSE through announcements subsequent to obtaining approval from the CBSL for their Fitness and Propriety. The announcements typically include a brief resume of new Directors, relevant expertise, key appointments, shareholdings and status of independence.

There was no change in the composition of the Board of Directors during the year 2019, except the resignation of Mr G S Jadeja, with effect from April 1, 2019.

Re-election of Directors

In terms of the Articles of Association of the Bank, the two longest serving NEDs are required to offer themselves for re-election at each Annual General Meeting (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 after considering the contents of the affidavits and declarations submitted by them and all other relevant issues or draw lots to determine the Directors who will offer themselves for re-election. Accordingly, Mr M P Jayawardena and Mr L D Niyangoda, the two longest serving Directors since last re-election will be seeking re-election at the forthcoming AGM to be held on March 30, 2020. 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/herself for election at the immediately succeeding AGM. No appointments were made to the Board subsequent to the AGM held in March 2019.

Induction and training of Directors

On appointment, Directors are provided with 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 issued by CA Sri Lanka, the Bank's organisational structure, Board Charter and the most recent Annual Report of the Bank and the access to the electronic support system which has archived minutes of meetings for the past six years. All Directors are encouraged to obtain membership of the Sri Lanka Institute of Directors which conducts useful programmes to support Directors. It is mandatory for the Directors to attend Director Forums organised by the CBSL. 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 which enables newly appointed directors to get familiarised on banking operations.

Remuneration and Benefits Policy

The Remuneration and Benefits 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 also provides a framework for the employer to design, administer, and evaluate effective reward programmes, inspiring and motivating desired behaviours.

Directors' and Executive remuneration

The BHRRC which comprises entirely of NEDs who also meet the criteria for independence as set out in the relevant regulations on corporate governance, is responsible for making recommendations to the Board regarding the remuneration of the Directors and executives.

They consult the Chairman and the Chief Executive Officer regarding the same and also seek professional advice whenever it is deemed necessary. Remuneration for EDs is set out with reference to the Remuneration and Benefit Policy while the remuneration for NEDs is set by the Board as a whole. 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.

The level and make up of remuneration

It is the responsibility of the BHRRC to ensure that the remuneration of both EDs and NEDs is sufficient to attract eminent professionals to the Board and retain them for driving the performance of the Bank. The Bank has remuneration policies that are attractive, motivating and capable of retaining high performing, qualified and experienced employees at the Bank.

The total remuneration of EDs and other members of the Corporate Management includes three components – guaranteed remuneration (the fixed component), annual performance bonus (a variable component) and the ESOP (a variable component). Special emphasis is paid to make the basis of granting ESOPs and their features transparent prior to seeking approval from the shareholders. The EDs, being employees of the Bank, are also eligible for these ESOPs. The BHRRC structures the remuneration packages and benchmarks it with the market on a regular basis with the assistance of professionals to ensure that total remuneration levels remain competitive in order to attract and retain key talent whilst balancing the interests of the shareholders. The Bank's two employee associations – the Association of Commercial Bank Executives and the Ceylon Bank Employees' Union (CBEU) with whom a regular dialogue is maintained – are also consulted when necessary.

Guaranteed remuneration comprises the monthly salary and allowances determined with due reference to the qualifications, experience, levels of competencies, skills, roles and responsibilities of each employee which are reviewed annually and adjusted for such factors as promotions, performance and inflation. The annual performance bonus is determined based on the degree of achievement of a multi-layered performance criteria matrix which is clearly communicated to the employees in relevant categories at the beginning of each year. Details of the ESOPs and the eligibility criteria are given in Note 54 to the Financial Statements on "Share-based Payment" on pages 237 to 239 respectively.

Employment contracts do not contain any commitments for compensation or early terminations. There were no instances of early termination during the year that required compensation.

Board and Board Committee evaluations

As set out in the Direction, Code and the other applicable regulations, the Board and Board Committees annually appraise their own performance to ensure that they are discharging their responsibilities satisfactorily in accordance with the Board Charter. 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 for consideration and are subsequently discussed at a Board meeting. Board evaluations for 2018 and 2019 were taken up at the January 2019 and February 2020 Board meetings, respectively.

Appraisal of the Chief Executive Officer

The Board with the assistance of the BHRRC assesses the performance of the Chief Executive Officer annually, based on criteria agreed with the Chief Executive Officer at the beginning of each year which consist of short, medium and long-term objectives with financial and non-financial targets, while taking into account the changes in operating environment. The Chairman discusses the evaluation with the Chief Executive Officer and provides him with formal feedback. Chief Executive Officer's responses to the appraisal are given due consideration prior to same being approved. This exercise is finalised within three months from the financial year end.

Shareholder engagement and voting

The Bank actively engages with shareholders and potential investors as a part and parcel of good corporate governance and has put in place a structured process to facilitate same. Provision of meaningful information to the shareholders on a timely basis plays an important role in this regard. Accordingly, a Board approved Shareholder Communication Policy is in place to ensure that there is effective and timely communication of material matters to shareholders. The Bank maintains a number of communication channels with the shareholders which includes the Annual Report, AGMs and EGMs, Interim Financial Statements, Announcements to the CSE, press releases, Bank's website, shareholder surveys as well as the Investor Feedback form in the Annual Report. During the year shareholders were notified of quarterly results, dividend declarations, resignation of a Director, retirement of the Company Secretary and the appointment of a new Company Secretary through announcements made to the CSE and in the media, where applicable. 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, giving a choice of mediums to the reader. The Interactive Report also has a tab for investor feedback. The Board is fully committed to treat all shareholders equitably, recognise, protect, and facilitate the exercise of their rights through open communication.

The Bank always encourages shareholders to participate at the AGMs and EGMs and exercise their votes. In this regard, the Bank arranges to circulate clear instructions on procedures governing voting along with every notice of AGM/EGM. Shareholders play a key role in the re-election of Directors and the External Auditor and vote on all matters for which Notice is given including the adoption of the Annual Report and Accounts. A total of 242 Voting and 130 Non-voting shareholders attended the Fiftieth AGM held on March 28, 2019 while a further 104 Voting shareholders and 15 Non-voting shareholders exercised their right to vote through proxy.

A summary of the details of attendance of the shareholders at AGMs during the past five years is given in the Table below:

Attendance at AGMs Table – 13

AGM of the year	Voting shareholders (including proxies)			Non-voting shareholders (including proxies)		
	Number of attendees	Shareholding	% of total shareholding	Number of attendees	Shareholding	% of total shareholding
2019	**346**	**703,703,954**	**73.21**	**145**	**12,048,304**	**18.18**
2018	317	713,801,082	75.52	119	14,344,030	22.06
2017	387	688,571,770	81.41	126	5,694,130	9.80
2016	653	694,342,969	83.40	131	3,430,841	6.00
2015	348	634,680,194	77.49	127	4,334,271	7.70

Board Committee Reports

Board Audit Committee Report

Composition of the Committee

The Board Audit Committee (the BAC) consists of the following members whose profiles are given on pages 62 to 67.

Board members

Mr S Swarnajothi* *(Chairman)*
Prof A K W Jayawardane* *(Director)*
Mr K Dharmasiri* *(Director)*
Ms N T M S Cooray* *(Director)*
Justice K Sripavan* *(Director)*

Regular attendees by invitation

Mr S Renganathan
(Managing Director/Chief Executive Officer)
Mr S C U Manatunge
(Director/ Chief Operating Officer)
Mr K D N Buddhipala
(Chief Financial Officer)
Mr S K K Hettihamu
(Chief Risk Officer)
Mr V S Rajasooriyar
(Assistant General Manager – Compliance)
Mr J Premanath
(Assistant General Manager – Management Audit)
Mr Reyaz Mihular
(Senior practicing Chartered Accountant, serves the BAC in the capacity of a Consultant and is invited to attend meetings) Independent Consultant appointed to the Committee to provide necessary assistance and enable the Committee to discharge its functions properly

Secretary to the Committee
Mr J Premanath
(Assistant General Manager – Management Audit)

**Independent Non-Executive Director*

Attendance at Meetings

Name	Eligible to attend/ Attended
Mr S Swarnajothi	08/07
Prof A K W Jayawardane	08/08
Mr K Dharmasiri	08/08
Ms N T M S Cooray	08/08
Justice K Sripavan	08/08
Mr S Renganathan	08/08
Mr S C U Manatunge	08/08

The Committee reviewed the risk-based audit approach adopted for assessing the effectiveness of the internal control procedures in place to identify and manage all significant risks.

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 September 2019.

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

The Committee has full access to information, cooperation from Management and discretion to invite any Director or Executive Officer to attend its meetings.

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 2019

The Committee held eight (08) meetings during the financial year ended December 31, 2019. Proceedings of these meetings with adequate details of matters discussed are regularly reported to the Board.

Representatives of the Bank's External Auditors, Messrs Ernst & Young also participated in seven (07) 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.

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. In fulfilling its oversight responsibilities, the Committee reviewed and discussed the Interim and Consolidated Financial Statements, including the acceptability of the accounting principles, the reasonableness of significant estimates and judgements.

The Committee reviewed the Tax Assessments outstanding and action initiated for follow up for resolution through regular reports submitted by the Chief Financial Officer.

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.

The Committee reviewed the Policy Manual on principles and methodologies including Expected Credit Losses (ECL) computation under SLFRS 9 – "Financial Instruments" adopted by the Management during the year 2019.

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 2018, 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 also ensured that the Bank complies with all regulatory and legal requirements and closely scrutinised compliance with mandatory banking and other statutory requirements and the systems and procedures that are in place. 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.

The Committee monitored the progress on implementation of the recommendations made in the Statutory Examination Reports of Central Bank of Sri Lanka (CBSL) through regular follow up reports tabled during the year 2019.

Identification of risks and control measures:

The Bank has adopted a risk-based audit approach towards assessing the effectiveness of the internal control procedures in place to identify and manage all significant risks and that these are being reviewed by the Committee.

The risk rating of Branches and certain business Units of the Bank has been reviewed to capture current risk profiles of such business units while providing insights to emerging and potential risks. Reviewed Risk Rating Methodology had been approved by the Committee during the year 2019 and adopted for assessing and measuring 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 scope of work was enhanced to include credit audits including that of credit administration at Corporate Banking Unit and Branches.

The Bank's Inspection Department carried out, online and onsite inspection of business units including 04 subsidiaries in Sri Lanka and overseas operations namely Bangladesh and overseas subsidiaries Commercial Bank of Maldives Private Limited and CBC Myanmar Microfinance Co. Ltd. Commex Sri Lanka S. R. L. subsidiary incorporated in Italy was monitored through an offsite surveillance. With the concurrence of the Board, the Bank continued to engage the services of four (4) firms of Chartered Accountants approved by the CBSL in order to supplement Bank's Inspection Department in carrying out inspection assignments.

ISAU conducted onsite/off site audits including monitoring through System based audit tools, reviews of change management activities and verification of compliance with industry standards such as ISO 27001:2013/ PCI-DSS/ Baseline Security Standards (BSS) to ensure safeguarding IT assets of the Bank. The work of ISAU included all Bank's subsidiaries and Bangladesh operations. The Committee received the attention of significant findings and recommendations made in the reports submitted by ISAU. The Committee also reviewed the reports on findings relating to Business Continuity Planning and Roles Swap exercises conducted during the year 2019.

Six hundred and fifty-five (655) inspection reports on Business Units and Departments including subsidiaries and overseas operations received the attention of the Committee which highlighted the Operational deficiencies, risks and the recommendations. The Committee evaluated the Bank's system of internal controls and duly reported its findings to the Board.

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 reviewed the Inspection/ Information Systems Audit operational manual and evaluated the Internal Audit Function covering key areas such as scope, quality of internal audits, independence and resources.

Members of the Committee also made periodic visits to the Branches personally to gather information in regard to the operations, controls implemented and follow up action taken for significant audit findings.

External audit:

With 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 Ernst & Young covering key areas such as scope and delivery of audit, resources and quality assurance initiatives, during the year 2019.

Mechanism of internal controls:

Sections 3 (8) (ii) (b) and (c) of the Banking Act Direction No. 11 of 2007, stipulates the requirements to be complied with by the Bank to ensure reliability of the financial reporting system in place at the Bank.

The Committee is assisted by the External Auditor and Inspection Department to closely monitor the procedures designed to maintain an effective internal control mechanism to provide reasonable assurance that this requirement is being complied with.

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

The 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 recommendations 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 20, 2020

Board Integrated Risk Management Committee Report

Composition of the Committee

The Board Integrated Risk Management Committee (the BIRMC) consists of the following Board members, whose profiles are given on pages 62 to 67.

Board members

- Mr M P Jayawardena * *(Chairman)*
- Mr S Renganathan *(Managing Director/Chief Executive Officer)*
- Mr S Swarnajothi* *(Director)*
- Mr K Dharmasiri * *(Director)*
- Mr L D Niyangoda * *(Director)*
- Mr T L B Hurulle* *(Director)*

Mr S K K Hettihamu *(Chief Risk Officer)* *(Non-Board Member)*

Regular attendees by invitation

- Mr S C U Manatunge *(Director/Chief Operating Officer)*
- Mr V S Rajasooriyar *(Assistant General Manager – Compliance)*
- Mr K S A Gamage *(Assistant General Manager – Information Technology)*

Secretary to the Committee
Mr K D N Buddhipala *(Chief Financial Officer)*

**Independent Non-Executive Director*

Attendance at Meetings

Name	Eligible to attend/ Attended
Mr M P Jayawardena	05/05
Mr S Renganathan	05/05
Mr S Swarnajothi	05/05
Mr K Dharmasiri	05/05
Mr L D Niyangoda	05/04
Mr T L B Hurulle	05/05
Mr S C U Manatunge	05/05

The Committee regularly reviewed key risk indicators and assisted the Board in addressing deterioration in asset quality and improving Risk Management Framework.

Charter of the Committee

The BIRMC has been 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 line with the same, as set out in the BIRMC Charter which was reviewed during December 2019, and clearly sets out the membership, authority, duties and responsibilities of the BIRMC as described in the "Risk Governance and Management" Section of this report on pages 110 to 128.

The BIRMC assists the Board of Directors in fulfilling its responsibilities for overseeing the Bank's risk management framework and activities, including the review of major risk exposures and the steps taken to monitor and control those exposures pertaining to the myriad of risks faced by the Bank in its business operations. 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.

All key risks such as Credit, Operational, Market, Liquidity, Information Technology, Strategic, etc. are assessed by the BIRMC regularly through a set of defined 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. The risk profile of the Bank is communicated to the Board of Directors periodically through the Risk Assessment report submitted to the Board following each BIRMC meeting.

Activities in 2019

In discharging the above duties and responsibilities vested on the BIRMC, the Committee reviewed significant risks comprising of Strategic, Operational, Credit, Market, Cyber and other Emerging risk categories during the year. The activities carried out by the Committee include below;

- Main focus area for the year 2019 was on the deterioration of credit quality level of the industry amidst deteriorating socio-economic factors of the country during 2019. Deliberations on factors that are within the control of the Bank given due cognisance with a view to improve credit quality of the portfolios through stringent measures and guidelines.
- Approval of parameters and limits set by the Management against various categories of risk upon 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.
- Reviewed periodic reports from the Management on the metrics used to measure, monitor and manage risks, including acceptable and appropriate levels of risk exposures. The reviews covered movements from inherent to residual risk levels which indicate the progress in implementing controls and assessing the effectiveness of measures for addressing the sources of risk.
- Improvements were recommended to the Bank's Risk Management Framework and related policies and procedures as deemed suitable, in consideration of anticipated changes in the economic and business environment, including consideration for emerging risks, legislative or regulatory changes and other factors considered relevant to the Group's risk profile.
- Local and global macro-economic factors were discussed with a view to identify impact of such factor related changes on the Banking sector as a whole and the Bank, in order to initiate remedial action in a proactive manner.

- The Key Risk Indicators (KRIs) designed to monitor the level of specific risks were reviewed regularly, 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. The actual results computed monthly were reviewed against each risk indicator and prompt corrective action was initiated to mitigate the effects of specific risks, in case such risks exceeded the prudent thresholds defined by the Board of Directors.
- An exercise to validate internal ratings through external consultants initiated to support SLFRS 9 implementation and to support more robust Probability of Default (PD) evaluations.
- 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, the Asset and Liability Committee, etc. Actions initiated by the Senior Management were monitored periodically to verify the effectiveness of the measures taken by these respective Committees.
- The annual work plans, related strategies, policies and frameworks of the above Committees were reviewed, 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.
- Reviewed and approved the Internal Capital Adequacy Assessment Process (ICAAP) results related to Commercial Bank Group entities to ensure that the Group maintains an appropriate level and quality of capital in line with the risks inherent in its activities and projected business performance.
- 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.
- Initiated appropriate action against failures of the Risk Owners through the Management, in order to improve the overall effectiveness of the Risk Management of the Bank.
- The risk profiles of the Subsidiaries of the Bank were monitored through periodic review of KRIs and comprehensive annual risk reviews.
- Conducted the annual review of the adequacy of the Business Continuity and Disaster Recovery plans of the Bank, in line with the statutory requirements.
- Findings from the bi-annual Risk Control Self-Assessment (RCSA) exercise were reviewed.
- The BIRMC members participated in knowledge enhancing session covering technology risk resilience cyber and information security, conducted by an industry expert.

The BIRMC held four (4) meetings on a quarterly basis and one additional meeting specifically to discuss and recommend ICAAP as at December 31, 2018, during the year under review. The proceedings of the Committee meetings were regularly reported to the Board of Directors.

During the year 2019, 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 20, 2020

Board Nomination Committee Report

Composition of the Committee

The Board Nomination Committee (the BNC) consists of the following members whose profiles are given on pages 62 to 67.

Board members
- Mr K G D D Dheerasinghe* *(Chairman)*
- Mr M P Jayawardena* *(Director)*
- Mr S Swarnajothi* *(Director)*
- Mr G S Jadeja *(Resigned w.e.f. March 28, 2019)*

Regular attendee by invitation
- Mr S Renganathan *(Managing Director/Chief Executive Officer)*

Secretary to the Committee
Mr R A P Rajapaksha
(Company Secretary)

**Independent Non-Executive Director*

Attendance at Meetings

Name	Eligible to attend/ Attended
Mr K G D D Dheerasinghe	2/2
Mr M P Jayawardena	2/2
Mr S Swarnajothi	2/2
Mr G S Jadeja	1/1
Mr S Renganathan	2/2

The Committee reviewed its Terms of Reference in November 2019 and a revised version was introduced with a broader scope and outlook.

Terms of reference of the Committee

The Board Nomination Committee was established by the Board of Directors in compliance with the Section 3 (6) (iv) of Banking Act Direction No. 11 of 2007 on "Corporate Governance for Licensed Commercial Banks in Sri Lanka" issued by the Monetary Board of the Central Bank of Sri Lanka (CBSL) under powers vested in the Monetary Board in terms of Section 46 (1) of the Banking Act No. 30 of 1988, as amended. The Committee was established to ensure Board's oversight and control over selection of Directors, Chief Executive Officer and Key Management Personnel.

The Composition and the scope of work of the Committee are in line with the same as set out in the Terms of Reference.

Charter of the Committee

The Committee shall;

- review the structure, size and composition of the Board and make recommendations to the Board with regard to any change.
- review the leadership needs of the organisation, both executive and non-executive with a view to ensure long term sustainability of the organisation to compete effectively in the market place.
- implement a procedure for the appointment and re-appointment of Directors to the Board taking into account factors such as fitness, propriety including qualifications, competencies, independence and relevant statutory provisions and regulations.
- implement a procedure for the selection/ appointment of Managing Director/Chief Executive Officer, Chief Operating Officer and other Key Management Personnel.
- set the criteria such as qualifications, competencies, experience, independence, conflict of interest and other key attributes required for the eligibility to be considered for the appointment or promotion to the position of Managing Director/Chief Executive Officer, Chief Operating Officer and Key Management Personnel.
- prior to any appointment is made by the Board, evaluate the balance of skills, knowledge, experience and diversity on the Board and in the light of this evaluation, prepare a description of the role and capabilities required for a particular appointment.
- consider in respect of the Executive Directors and Key Management Personnel proposal for their appointment or promotion and any proposal for their dismissal or any substantial change in their duties or responsibilities or the term of their appointment.
- prior to the appointment of a Director ensure that the proposed appointee would disclose any other business interests that may result in a conflict of interest and report any future business interests that could result in a conflict of interest.
- consider and recommend from time to time, the requirements of additional/ new expertise for Directors and other Key Management Personnel.
- propose the maximum number of listed Company Board representations which any Director may hold in accordance with relevant statutory provisions and regulations.
- peruse duly completed Affidavits and Declarations of all Directors and Key Management Personnel and recommend same for approval of the Board.
- formulate plans for succession for Key Management Personnel, Executive and Non-Executive Directors in the Board and in particular for the key roles of Chairman and Chief Executive Officer and Chief Operating Officer taking into account challenges and opportunities facing the Company and skills needed in the future.

- monitor the progress of any relevant Corporate Governance or Regulatory Developments, that may impact the Committee and recommend any actions or changes it considers necessary for Board approval and ensure compliance with existing Laws and regulations.
- be authorised 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.
- be authorised to express their independent views when making decisions.
- be authorised by the Board to obtain, at the Bank's expense, outside legal or other professional advice on any matters within its Terms of Reference.
- make recommendations to the Board concerning an indemnity and insurance cover to be taken in respect of all Directors and Key Management Personnel in accordance with the Articles of Association, relevant statutory provisions and regulations.
- invite any member of the Corporate Management, any member of the Bank staff or any external advisers to attend meetings as and when appropriate and necessary.

Activities in 2019

The Terms of Reference were reviewed by the Committee in November 2019 and a revised version was introduced with a broader scope and outlook. The Revised version of Terms of Reference clearly sets out the membership of the Committee, duties of the secretary, quorum, attendance, frequency, notice and minutes of meetings, duties of the Committee, succession planning, regulatory developments, performance appraisal, review and reporting procedures, resources and training and authority of the Committee.

Two (02) Committee meetings were held during the year under review. The proceedings of the Committee meetings are regularly reported to Board of Directors.

The Committee recommended the election/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 20, 2020

Board Human Resources and Remuneration Committee Report

Composition of the Committee

The Board Human Resources and Remuneration Committee (the BHRRC) consists of the following members whose profiles are given on pages 62 to 67.

Board members
- Mr K G D D Dheerasinghe* *(Chairman)*
- Mr M P Jayawardena* *(Director)*
- Mr S Swarnajothi* *(Director)*

Regular attendee by invitation
- Mr S Renganathan
(Managing Director/Chief Executive Officer)
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)

**Independent Non-Executive Director*

Attendance at Meetings

Name	Eligible to attend/ Attended
Mr K G D D Dheerasinghe	03/03
Mr M P Jayawardena	03/03
Mr S Swarnajothi	03/03
Mr S Renganathan	03/03

The Committee evaluated the performance of the Corporate Management in 2018 and made recommendations to the Board on Variable Pay Plan and annual increments.

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 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 are regularly reported to 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, 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 of the Bank.

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.

Activities in 2019

The Committee held three (3) meetings during the year under review.

The Committee determined the bonus payable for 2018 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 the Collective Agreement. Performance of the members of the Corporate Management during the financial year 2018 including that of the Managing Director/Chief Executive Officer, and the Chief Operating Officer were reviewed. At the conclusion of the review process for 2018, the Key Performance Areas and the respective KPIs of the Corporate Management members set for 2019 were carefully perused by the Committee and agreed on, subject to changes.

In keeping with practice, the staff loans applicable to all grades of permanent staff were revised with the approval of the Committee and the Board. This was done in consultation with the Employee Associations. Requests by the Pensioners for a revision of pension was considered and granted during the year. The Terms of Reference for the BHRRC was reviewed and recommended for final approval by the Board of Directors. The Succession Plan for the Treasury Department was reviewed by the BHRRC.

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

Colombo
February 20, 2020

Board Related Party Transactions Review Committee Report

Composition of the Committee

The Board-Related Party Transactions Review Committee (the BRPTRC) consists of the following Independent Non-Executive Directors (in conformity with the requirements of the Code of Best Practice on Corporate Governance issued by CA Sri Lanka), whose profiles are given on pages 62 to 67.

Board members

Justice K Sripavan* *(Chairman)*
Mr S Swarnajothi* *(Director)*
Mr L D Niyangoda* *(Director)*
Mr T L B Hurulle* *(Director)*
(Appointed w.e.f. March 28, 2019)

Regular attendees by invitation

Mr S Renganathan
(Managing Director/Chief Executive Officer)
Mr S C U Manatunge
(Director/Chief Operating Officer)

Secretary to the Committee
Mr L W P Indrajith
(Assistant General Manager – Finance)

**Independent Non-Executive Director*

Attendance at Meetings

Name	Eligible to attend/ Attended
Justice K Sripavan	04/04
Mr S Swarnajothi	04/04
Mr L D Niyangoda	04/04
Mr T L B Hurulle	03/02
Mr S Renganathan	04/04
Mr S C U Manatunge	04/04

The Committee was further strengthened by appointing one more Independent Non-Executive Director.

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 subsidiaries in the Group by early adoption of the Code of Best Practice on Related Party Transactions (RPT) as issued by the SEC of Sri Lanka which became mandatory from January 01, 2016.

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

- Developing, updating and recommending for adoption by the Board of Directors of the Bank and its listed subsidiaries, a 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 the Section 9.3.1 of the Listing Rules of the CSE.
- Advising the Board in making appropriate disclosures on RPT in the Annual Report as required by the Section 9.3.2 of the Listing Rules of the CSE.

Methodology adopted by the Committee

- Reviewing the mechanisms 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) and on obtaining further declarations on a quarterly basis in the event of any change during the year to the position previously disclosed.
- Reviewing the mechanisms 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' as disclosed on page 109 of this Annual Report.
- Reviewing the mechanisms 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 2019

During 2019, the Committee was further strengthened by appointing one more Independent Non-Executive Director. In addition, as a part of Bank's annual review of policies, the RPT Policy was further reviewed and updated. The amended RPT Policy was approved by the Board of Directors in November 2019 and implemented. Arrangements were also made to disseminate the amended RPT Policy among all relevant stakeholders and obtained their acknowledgements that they have read and understood the applicable regulatory requirements relating to identifying, capturing and reporting of RPT.

The Committee held four (4) meetings during the year under review as required by Section 9.2.4 of the Listing Rules of the CSE. The Committee reviewed all RPT carried out during the year at its quarterly meetings and the proceedings of the Committee meetings which also included activities under its Terms of Reference were regularly reported to the Board of Directors with its comments and observations.

Justice K Sripavan
Chairman
Board Related Party Transactions Review Committee

Colombo
February 20, 2020

Board Credit Committee Report

Composition of the Committee

The Board Credit Committee (the BCC) consists of the following members whose profiles are given on pages 62 to 67.

Board members

- Mr K G D D Dheerasinghe* *(Chairman)*
- Prof A K W Jayawardane* *(Director)*
- Justice K Sripavan* *(Director)* *(Appointed w.e.f. March 28, 2019)*
- Mr S Renganathan *(Managing Director/Chief Executive Officer)*
- Mr S C U Manatunge *(Director/Chief Operating Officer)*

Secretary to the Committee
Mr R A P Rajapaksha
(Company Secretary)

**Independent Non-Executive Director*

Attendance at Meetings

Name	Eligible to attend/ Attended
Mr K G D D Dheerasinghe	12/12
Prof A K W Jayawardane	12/10
Justice K Sripavan	09/09
Mr S Renganathan	12/11
Mr S C U Manatunge	12/12

The Committee ensured 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.

Charter of the Committee

The 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 prudent lending standards and practices while ensuring 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 that credit proposals are within relevant internal policies and regulatory frameworks.
- Evaluate, assess, and approve credit proposals which fall within the delegated authority.
- Evaluate and recommend sector exposures and cross border 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 2019

The Committee held twelve (12) meetings during the year under review. The proceedings of the committee meetings were regularly reported to the Board of Directors.

In a challenging environment, the Committee set the Lending Directions of the Bank for a prudent management of credit growth, while aiming at improving asset quality.

The Committee approved credit proposals above a predetermined limit, 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 20, 2020

Board Investment Committee Report

Composition of the Committee

The Board Investment Committee (the BIC) consists of the following members whose profiles are given on pages 62 to 67.

Board members

- Mr K G D D Dheerasinghe* *(Chairman)*
- Mr S Renganathan *(Managing Director/Chief Executive Officer)*
- Mr S C U Manatunge *(Director/Chief Operating Officer)*
- Mr K Dharmasiri* *(Director)*
- Ms N T M S Cooray* *(Director) (Appointed w.e.f. March 28, 2019)*
- Mr G S Jadeja *(Director) (Resigned w.e.f. March 28, 2019)*

Regular attendees by invitation

- Mr K D N Buddhipala *(Chief Financial Officer)*
- Mr K A P Perera *(Deputy General Manager – Treasury)*
- Ms T A Bernard *(Assistant General Manager – Corporate and Investment Banking)*
- Mr S K K Hettihamu *(Chief Risk Officer)*

Secretary to the Committee
Mr A Wijesiriwardane
(Assistant General Manager-Treasury)

**Independent Non-Executive Director*

Attendance at Meetings

Name	Eligible to attend/ Attended
Mr K G D D Dheerasinghe	12/12
Mr S Renganathan	12/12
Mr S C U Manatunge	12/11
Mr K Dharmasiri	12/12
Ms N T M S Cooray	09/08
Mr G S Jadeja	03/03

The Committee assisted the Board in developing the strategy relating to investment of foreign currency, investments in subsidiaries and associate companies and other strategic investments.

Charter of the Committee

The BIC oversees the Bank's investment activities which fall within its responsibilities. The Committee provides guidance by evaluating the relevance and feasibility of various investment proposals in equity, debt and subsidiary operations. Further, the Committee evaluates the Bank's overall liquidity management operations and the borrowing activities in accordance with the charter of the Committee.

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 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 2019

- Review of the Bank's Foreign Currency Investment Limit from time to time in alignment with the growth in foreign currency balance sheet and investment opportunities.
- Evaluation of the impact of regulatory framework for Primary Dealers on the Bank's operations.
- Evaluation and approval of strategic equity investments by the Bank.
- Approval of investments in the Bank's subsidiaries and associate companies.
- Approval of investment in foreign currency bonds issued by local banks.

The Committee held twelve (12) meetings during the year under review. The proceedings of the Committee meetings which also included activities under its Terms of Reference were regularly reported to the Board of Directors.

K G D D Dheerasinghe
Chairman
Board Investment Committee

Colombo
February 20, 2020

Board Technology Committee Report

Composition of the Committee

The Board Technology Committee (the BTC) consists of the following members whose profiles are given on pages 62 to 67.

Board members

- Prof A K W Jayawardane* *(Chairman)*
- Mr S Renganathan *(Managing Director/Chief Executive Officer)*
- Mr S C U Manatunge *(Director/Chief Operating Officer)*
- Mr T L B Hurulle* *(Director)*
- Mr K Dharmasiri* *(Director)*

Regular attendees by invitation

- Mr L H Munasinghe *(Deputy General Manager – Marketing)*
- Mr D B Saparamadu *(Consultant)*
- Mr U K P Banduwansa *(Head of digital banking)*
- Mr K Mediwake *(Chief Executive Officer – CBC Tech Solutions Limited)*

Secretary to the Committee
Mr K S A Gamage
(Assistant General Manager – Information Technology)

**Independent Non-Executive Director*

Attendance at Meetings

Name	Eligible to attend/ Attended
Prof A K W Jayawardane	5/5
Mr S Renganathan	5/5
Mr S C U Manatunge	5/3
Mr K Dharmasiri	5/5
Mr T L B Hurulle	5/5

The Committee focused on adopting technologies to enhance operational efficiency, customer centricity and IT governance, the key drivers of the Bank to digital era.

Charter of the Committee

The purpose of the BTC is to assist the Board of Directors in fulfilling its oversight responsibilities with respect to the overall role of technology in executing the business strategy of the Bank including, but not limited to, major technology investment, technology strategy, operational performance and technology trends that may affect future banking.

The Committee has been empowered to:

- Set the overall technology strategy and track progress of the activities to meet the corporate objectives.
- 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 2019

The Committee held five (5) meetings during 2019. The proceedings of the Committee meetings were regularly reported to the Board of Directors. The Committee focused to improve the following areas, which are the key drivers of the Bank to digital era.

Customer Centricity by creating a positive customer experience at the point of acquisition and post-acquisition utilising the evolving technologies and trends in order to enhance day-to-day operations with greater convenience.

- Widen the cash depositing facility by extending Cash Recycle (CRM), Cash Deposit (CDM) machines and ATMs
- Implement paper less banking through eSlips mobile application
- Enhance customer convenience through Digital Channels

Adopt Disruptive Technologies to create a new market and value network to delight customer experience and convenience.

- Adopt Artificial Intelligence (AI) and Machine learning (ML) technology for increased personalised customer service
- Establish Agile methodology
- Process Automation and Robotic Process Automation to reduce staff
- Implement Blockchain Technology for Remittances (Ripple/xCurrent)

Operational Excellency to build a sustainable and competitive uninterrupted service through operations management to cater ever-increasing customer demands using emerging technology.

- Infrastructure upgrade along with main system upgrade with high availability and disaster recovery
- High availability architecture to increase service uptime for critical systems
- Storage capacity enhancements to cater ever growing application needs

IT Governance to engage the processes that ensure the effective and efficient use of IT in enabling the bank to achieve its goals and objectives. The IT processes (Development/ Operational) were reviewed regularly to cater the bank's dynamic needs with higher transparency.

- Adhering to ISO 27001 service standards and Certification
- Adhering to PCIDSS service standards and Certification
- Adhering to BSS service standards
- JIRA Project Management tool implementation

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 20, 2020

Board Strategy Development Committee Report

Composition of the Committee

The Board Strategy Development Committee (the BSDC) consists of the following members whose profiles are given on pages 62 to 67.

Board members

Mr K G D D Dheerasinghe* *(Chairman)*
Mr M P Jayawardena* *(Director)*
Mr S Renganathan
(Managing Director/Chief Executive Officer)
Prof A K W Jayawardane* *(Director)*
Mr K Dharmasiri* *(Director)*
Mr L D Niyangoda* *(Director)*
Ms N T M S Cooray* *(Director)*
(Appointed w.e.f. March 28, 2019)
Mr G S Jadeja
(Resigned w.e.f. March 28, 2019)

Secretary to the Committee
Mr R A P Rajapaksha *(Company Secretary)*

**Independent Non-Executive Director*

Attendance at Meetings

Name	Eligible to attend/ Attended
Mr K G D D Dheerasinghe	11/11
Mr M P Jayawardena	11/11
Mr S Renganathan	11/11
Prof A K W Jayawardane	11/10
Mr K Dharmasiri	11/11
Mr L D Niyangoda	11/10
Mr G S Jadeja	02/02
Ms N T M S Cooray	09/07

The Committee assisted the Board by evaluating the business strategies and strengthening core competencies.

Charter of the Committee

The Committee was established to have an overall Bank-wide strategic management oversight.

The Committee is empowered:

- To assist the Board in performing its oversight responsibilities relating to the Bank's strategy.
- To advise and monitor the Management on:
  - Defining of business strategies geared for the sustainable development of the Bank; and
  - Establishment of processes for planning, implementing, assessing, and adjusting of the business strategy.
- To oversee the Management's engagement on the strategic perspective, direction and development of the strategy for the Bank and its business units.
- To oversee the Management's implementation of the approved strategic plan and the progress against strategic milestones and goals.
- To oversee the Management's implementation of major business transformation projects and their execution.
- To engage in detail discussion and provide guidance to the Management on:
  - Governance, risk appetite, financial and capital planning, liquidity and fund management, control environment and resources required to support the Bank's strategic objectives.
  - Divestitures, Mergers and Acquisition strategies including post transaction performance tracking.
  - The impact of changes in the competitive environment.

Activities in 2019

The BSDC assisted the Board by evaluating the business strategies and strengthening core competencies of the Bank.

The BSDC met frequently than the minimum number of meetings as per Terms of Reference (11 meetings in 2019) and was able to offer greater responsiveness in the strategic decision-making process of the Bank.

In addition, the BSDC reviewed matters related to capital planning, dividend policy, acquisition and investment opportunities.

Corporate Plan and strategies planned by the management were reviewed against the achievement and necessary directions were provided to management to achieve the desired results.

K G D D Dheerasinghe
Chairman
Board Strategy Development Committee

Colombo
February 20, 2020

Statement of Compliance

Further to the Annual Report of the Board of Directors on the Affairs of the Company on page 3, given below is the extent of compliance with the requirements of Section 168 of the Companies Act No. 07 of 2007 and amendments thereto and other relevant statutes.

Statement of compliance Table – 14

	Disclosure requirement	Reference to the relevant statute/rule	Page reference for compliance and other necessary disclosures	Page/s
Mandatory disclosures as required by the Companies Act No. 07 of 2007 and amendments there to (CA)				
1.	The nature of the business of the Group and the Bank together with any changes thereof during the accounting period	Section 168 (1) (a)	Notes to the Financial Statements: Item 1.3: Principal business activities, nature of operations of the Group and ownership by the Bank in its subsidiaries and associate	149 and 150
2.	Signed Financial Statements of the Group and the Bank for the accounting period completed in accordance with Section 152	Section 168 (1) (b)	Financial Statements of the Group and the Bank for the year ended December 31, 2019	137 to 286
3.	Auditors' Report on the Financial Statements of the Group and the Bank	Section 168 (1) (c)	Independent Auditors' Report	132 to 134
4.	Accounting Policies of the Group and the Bank and any changes therein	Section 168 (1) (d)	Notes to the Financial Statements: Significant Accounting Policies adopted in the preparation of the Financial Statements of the Group and the Bank	149 to 171
5.	Particulars of the entries made in the Interests Registers 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 the Sections 192 (1) and (2) of the Companies Act aforesaid and all related entries were made in the Interests Registers during the year under review The Interests Registers are available for inspection by shareholders or their authorised representatives as required by the Section 119 (1) (d) of the Companies Act No. 07 of 2007	
6.	Remuneration and other benefits paid to Directors of the Bank and its subsidiaries during the accounting period	Section 168 (1) (f)	Note 21 to the Financial Statements: Other operating expenses	180 and 181
			Board Human Resources and Remuneration Committee Report	90 and 91
7.	Total amount of donations made by the Bank and its subsidiaries during the accounting period	Section 168 (1) (g)	Note 21 to the Financial Statements: Other operating expenses	180 and 181
8.	Information on directorate of the Bank and its subsidiaries during and at the end of the accounting period	Section 168 (1) (h)	Governance and Risk Management	62 to 109
			Refer "Board of Directors and Profiles" for details of members of the Board of Directors of the Bank	62 to 67
			Refer "Group Structure" for details of members of the Board of Directors of the Group	358 to 359
			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, who, in terms of the Company's Articles of Association retire by rotation, after considering the contents of the affidavits and declarations submitted by them and all other related issues: • Mr M P Jayawardena • Mr L D Niyangoda	
			(iii) Directors who served on the Board for over nine years – None [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].	

	Disclosure requirement	Reference to the relevant statute/rule	Page reference for compliance and other necessary disclosures	Page/s
9.	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)	Note 21 to the Financial Statements: Other operating expenses	180 to 181
10.	Auditors' relationship or any interest with the Bank and its subsidiaries (Lead Auditor's independence)	Section 168 (1) (j)	Independence confirmation has been provided by Messrs Ernst & Young as required by Section 163 (3) of the Companies Act No. 07 of 2007 and amendments thereto, in connection with the audit for the year ended December 31, 2019 confirming that Ernst & Young is not aware of any relationship with or interest in the Bank or any of its subsidiaries 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 CA Sri Lanka, applicable as at the reporting date No prohibited non-audit services have been provided by Messrs Ernst & Young as per the Direction issued by the CBSL on "Guidelines for External Auditors relating to their Statutory Duties". The Directors are satisfied as the BAC 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 Ernst & Young	
11.	Acknowledgement of the contents of this report/signatures on behalf of the Board of Directors	Section 168 (1) (k)	The Board of Directors have acknowledged the contents of this Annual Report as disclosed	3
Other Disclosures as required by Recommended Best Practices (RBP) or Listing Rules (LR) of the Colombo Stock Exchange				1
12.	Vision, Mission and Corporate Conduct	RBP	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	
13.	Review of business operations of the Group and the Bank and future developments	RBP	"Chairman's Statement" and "Managing Director's Review"	16 to 19
			Management Discussion and Analysis	40 to 61
			Note 63 to the Financial Statements: Operating segments	249 to 251
14.	Gross income	RBP	Notes 12 and 63 to the Financial Statements: Gross income and operating segments	172 and 249 to 251
15.	Dividends on ordinary shares	RBP	Notes 25 and 70 to the Financial Statements: Dividends and Events after the reporting period	184 and 286
			Item 4 of the Section on "Investor Relations"	288 to 305
16.	Reserves and appropriations	RBP	Statement of Changes in Equity	140 to 147
			Notes 55, 56 and 57 to the Financial Statements: Statutory reserves, Retained earnings and other reserves	239 to 243
17.	Corporate Social Responsibility (CSR)	RBP	Creating a sustainability strategy	53 to 55
18.	Extents, locations, valuations, and the number of buildings of the entity's land holdings, investment properties and leasehold properties	LR 7.6 (VIII)	Note 39 to the Financial Statements: Property plant and equipment and right-of-use assets	208 to 218
			Note 40 to the Financial Statements: Investment property	219 to 220
			Note 42 to the Financial Statements: Leasehold property	222
			Note 59.2 to the Financial Statements: Capital commitments	245
19.	Market value of properties	LR 7.6 (XII)	Notes 39.5 (b) to the Financial Statements: Information on valuation of freehold land and buildings of the Bank	213 to 217
			Note 40.1 (b) to the Financial Statements: Information on Investment properties of the Group – valuations	219

	Disclosure requirement	Reference to the relevant statute/rule	Page reference for compliance and other necessary disclosures	Page/s
20.	Issue of shares and debentures			
20.1	Issue of shares by the Bank	LR 7.6 (XIII)	Notes 53 and 53.1 to the Financial Statements: Stated capital and movements in number of shares	236 and 237
20.2	Issue of debentures by the Bank	LR 7.6 (XIII)	Note 52 to the Financial Statements: Subordinated liabilities item 10 of the section on "Investor Relations"	235 to 236 and 298 to 299
20.3	Issue of shares and debentures by the subsidiaries and associates	CA S.168 (1) (e)	During the year 2019, Serendib Finance Ltd., issued 12,491,070 shares (11,689,070 shares and 73,937,153 shares in 2018) at Rs. 14.01 per share (at Rs. 17.11 per share and Rs. 10.82 per share in 2018) for total considerations of Rs. 175 Mn. (Rs. 200 Mn. and Rs. 800 Mn. in 2018) in order to raise required funds to meet the shortfall in statutory minimum core capital requirement During the year 2019, the Bank invested in 500,000 shares of CBC Mynmar Microfinance Company Limited at USD 1 per share for a total consideration of USD 500,000/- (Rs. 90,750,000/-) During the year 2019, the Bank acquired 40% ownership in Commercial Insurance Brokers (Pvt) Ltd. (CIBL) by investing in 239,999 shares at Rs. 10/- per share for a total consideration of Rs. 250 Mn. Hence, with the direct holding of 40% and indirect holding of 18% (via the investment in Commercial Development Company PLC) the Bank established a controlling interest of 58% in CIBL by the end of year 2019. During the year 2019, the Bank infused additional capital to Commex Sri Lanka S.R.L of EURO 1,182,500/- (Rs. 238,907,000/-) Except for the above share issues, the other subsidiaries and associate of the Bank did not make any debenture or share issues during the year	
21.	Share information and substantial shareholdings			
21.1	Distribution schedule of shareholdings, 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, Float adjusted Market Capitalisation, public holding percentage, number of public shareholders and the option under which the Bank complies with the minimum public holding requirement	LR 7.6 (X) LR 7.6 (III) LK 7.6 (IV) LR 7.13.1	Item 5 of the section on "Investor Relations"	295 to 297
21.2	Financial ratios and market price information	LR 7.6 (XI)	Financial Highlights	8
	Information on earnings, dividend, net assets and market value per share		Item 4 of the section on "Investor Relations"	294
	Information on listed debt		Item 10 of the section on "Investor Relations"	298 to 299
21.3	Information on shares traded and the number of shares represented by the stated capital	LR 7.6 (IX)	Items 1 – 3 of the Section on "Investor Relations"	290 to 294
21.4	Own share purchases	CA S.64	The Bank does not purchase its own shares	
21.5	Equitable treatment to shareholders	RBP	Statement of Directors' Responsibility – item (k)	104
22.	Information on Directors' meetings and Board Committees			
22.1	Directors' meetings	CGR	Details of the meetings of the Board of Directors	76
22.2	Board committees	CGR	Board committees reports	83 to 96

	Disclosure requirement	Reference to the relevant statute/rule	Page reference for compliance and other necessary disclosures	Page/s
23.	Disclosure of Directors' dealings in shares and debentures			
23.1	Directors' interests in ordinary voting and non-voting shares of the Bank	LR 7.6 (V)	Item 5.4 of the section on "Investor Relations"	297
			Directors' shareholdings in ordinary voting shares and ordinary non-voting shares have not changed subsequent to the date of the Statement of Financial Position up to February 05, 2020, the date being one month prior to the date of Notice of the Annual General Meeting	
23.2	Directors' interests in debentures	LR 7.6 (V) & RBP	Mr S Renganathan, MD/CEO, held 20,000 debentures of the Bank as at December 31, 2019. 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	
24.	Employee share option plans and profit sharing plans	LR 7.6 (XIV)	Note 53.2 to the Financial Statements: Employee share option plan – 2008	237
			Note 54 to the Financial Statements: Share-based payments	237 to 239
			The Bank and any of its subsidiaries have not, directly or indirectly, provided funds for the ESOPs	
			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	

Description	2019		2018	
	Mr S Renganathan	**Mr S C U Manatunge**	Mr S Renganathan	Mr S C U Manatunge
As at January 1	**184,633**	**110,355**	98,986	57,370
Vested during the year	**–**	**–**	85,647	52,985
Additional options granted due to the rights issue	**N/A**	**N/A**	N/A	N/A
Exercised during the year	**(24,222)**	**(11,119)**	Nil	Nil
Expired during the year	**(36,831)**	**(22,784)**	Nil	Nil
As at December 31	**123,580**	**76,452**	184,633	110,355

	Disclosure requirement	Reference to the relevant statute/rule	Page reference for compliance and other necessary disclosures	Page/s
25.	Directors' interests in contracts or proposed contracts and remuneration and other benefits of Directors during the year under review	CA S.192	Directors' interest in contracts with the Bank	109
			Note 21 to the Financial Statements: Other operating expenses	180 to 181
			Note 64 to the Financial Statements: Related party disclosures	251 to 255
		RBP	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	
		CA S.168 (1) (e) LR 7.6 (XIV)	There are no arrangements that enable 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	
		CA S.217 (2) (d)	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	
26.	Directors' and officers' insurance	CA S.218	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	
27.	Environmental protection	RBP	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 disclosed in the section on "Operational Excellence"	56 to 61

	Disclosure requirement	Reference to the relevant statute/rule	Page reference for compliance and other necessary disclosures	Page/s
28.	Declaration on statutory payments	RBP	Statement of Directors' responsibility – item (h)	103
29.	Events after the reporting period	RBP	Note 70 to the Financial Statements: Events after the reporting period	286
30.	Going concern	RBP	Statement of Directors' responsibility – item (m)	104
31.	Directors' responsibility for financial reporting	CBSL Direction 3.8. (ii) (a)	Statement of Directors' responsibility – Compliance Report	103 and 104
32.	Appointment of Auditors and their remuneration	RBP	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 Ernst & Young were appointed as Auditors of the Bank, at the last AGM held on March 28, 2019 to carry out the audit for the year ended December 31, 2019 and will hold the office until the conclusion of the next AGM of the Bank which is to be held on March 30, 2020. Accordingly, Messrs Ernst & Young will serve for a maximum period of five years consecutively, subject to them being re-elected by shareholders, upon a recommendation of the Board of Directors, annually	
			The retiring Auditors, Messrs Ernst & Young have signified their willingness to continue to function as the Auditor to the Bank	
		CA S.168 (1) (I)	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 AGM to be held on March 30, 2020 for shareholder approval	
			Expenses incurred in respect of Audit fees and fees for other services rendered during the year are given in Note 21 to the Financial Statements: Other operating expenses	180 and 181
33.	Material issues relating to employees and industrial relations	LR 7.6 (VII)	Item 8 of Section on "Investor Relations"	298
34.	Risk management and system of internal controls	LR 7.6 (VI)	Risk Governance and Management	110 to 128
			Board Integrated Risk Management Committee report	86 and 87
			Note 69 to the Financial Statements: Financial risk review	257 to 286
			The Directors' Statement on Internal Control over financial reporting	105 and 106
			The Independent Auditors' Report	132 to 134
			Independent Assurance Report	107
35.	Corporate governance	RBP	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) they have complied with the Code of Best Practices on Corporate Governance; (d) 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; (e) the Bank has complied with the Code of Best Practices on related party transactions and has made the required disclosures in the Financial Statements and to the market when applicable; (f) 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	

	Disclosure requirement	Reference to the relevant statute/rule	Page reference for compliance and other necessary disclosures	Page/s
36.	Focus on new regulations	RBP	Requirements of the Sri Lanka Accounting Standard SLFRS 16 on "Leases", became effective for Annual Financial periods from January 01, 2019. SLFRS 16 requires the recognition of lease liabilities and right of use of assets for leases previously classified as operating leases in accordance with LKAS 17 on "Leases". As permitted by the paragraph 5 (b) of the Appendix C of SLFRS 16, the Bank opted not to restate Financial Statements of prior periods, and to recognise lease liability and the right of use asset in line with paragraphs 8 (a) and 8 (b) ii of the Appendix C of SLFRS 16, respectively. Accordingly, the difference arising from reversal of deferred tax assets created on liability o/a straight lining of lease rentals have been recognised directly in equity as at January 01, 2019. Accordingly, comparative information has not been amended to comply with the current presentation	
37.	Sustainability	RBP	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	
			Annex 4: GRI Content Index	341 and 342
38.	Human resources	RBP	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"	90 and 91
39.	Technology	RBP	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 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"	95
40.	Operational excellence	RBP	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	
41.	Outstanding litigation	RBP	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	
			Note 61 to the Financial Statements: Litigation against the Bank	246 and 247
42.	Disclosure on Related Party Transactions	LR 9.3.2 (a) & (b)	Note 64 to the Financial Statements: Related Party Disclosures	251 to 255
		LR 9.3.2 (c)	Board Related Party Transactions Review Committee Report	92
		LR 9.3.2 (d)	Statement of Annual Report of the Board of Directors	3
43.	Annual General Meeting and the Notice of Meeting	CA S.133 and CA S.135 (a)	The 51st AGM of the Bank will be held at the Galadari Hotel, "Grand Ballroom", No. 64, Lotus Road, Colombo 01, on Monday, March 30, 2020 at 3.00pm Notice relating to the 51st AGM of the Bank is enclosed at the end of the Annual Report	

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 pages 132 to 134.

In terms of Sections 150 (1), 151, 152 and 153 (1) & (2) of the Companies Act No. 07 of 2007 and amendments thereto, 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 the end of each financial year and of the financial performance of the Group and the Bank for each financial year and place them before a General Meeting. The Financial Statements comprise of the Statement of Financial Position as at December 31, 2019, 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 of the Group and the Bank.

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, 2019 ; 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 137 to 286 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 2019, 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 and amendments thereto (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 CBSL for the preparation of annual Financial Statements of licensed commercial banks;

(d) proper accounting records which correctly record and explain the Group's and 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 Group's and 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 BAC, the Report of the said Committee is given on pages 83 to 85. The Board of Directors also approves the Interim Financial Statements prior to their release, following a review and recommendation by the BAC;

(f) they accept responsibility for the integrity and objectivity of the Financial Statements presented in this Annual Report;

(g) they have taken reasonable measures to safeguard the assets of the Group and the Bank and to prevent and detect frauds and other irregularities. In this regard, the Board of Directors have instituted an effective and comprehensive system of internal controls comprising of internal checks, internal audit and financial and other controls required to carry on the business of banking in an orderly manner and safeguard its assets and secure as far as practicable, the accuracy and reliability of the records. The "Directors' Statement on Internal Control over Financial Reporting" is given on pages 105 and 106;

(h) to the best of their knowledge, all taxes, duties and levies payable by the Bank and its subsidiaries, all contributions, levies and taxes payable on behalf of and in respect of the employees of the Bank and its subsidiaries, and all other known statutory dues as were due and payable by the Bank and its subsidiaries as at the reporting date have been paid or, where relevant, provided for, except as specified in Note 61 to the Financial Statements on "Litigation against the Bank" on pages 246 and 247.

(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 20, 2020 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 Ernst & Young 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 pages 132 to 134;

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,

R A P Rajapaksha
Company Secretary

Colombo
February 20, 2020

Directors' Statement on Internal Control over Financial Reporting

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 issued by CA Sri Lanka (Code) 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 has been in place for the year under review which 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 CA Sri Lanka. 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 conducted 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 recommended by Board-appointed Committees and are approved by the Board. 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 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 "On Line" during the year 2016 on a limited scope, was enhanced to cover all Branches in Sri Lanka and Bangladesh, Corporate Banking Unit, Digital Banking Unit, Card Centre, Treasury, Finance, and Subsidiaries – Serendib Finance Ltd (SFL), Commercial Bank of Maldives (CBM) and CBC Myanmar Microfinance Co. Ltd. during 2019 as well. 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 sample selected on a random basis. The findings were tabled at the meetings of the BAC for review. The "Online Auditing" initiative has further strengthened the review of the design and effectiveness of the internal control system of the Bank.
- The BAC 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 are set out in the "Board Audit Committee Report" which appears on pages 83 to 85.
- 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 continued to verify the suitability of design and effectiveness of these procedures and controls on an ongoing basis. The assessment included both local and foreign 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 and the Sri Lanka Accounting Standard – SLFRS 9 on "Financial Instruments" which became effective from January 1, 2018, processes that are required to comply with new requirements of recognition, measurement, presentation and disclosures were introduced and implemented. 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 2019 as well. The test results were tabled regularly for review by the BAC during the year 2019.

The comments made by the External Auditors in connection with the internal control system during the financial year 2018 were taken into consideration and appropriate steps have been taken to address them where appropriate.

The Assurance Report of the External Auditors in connection with internal control over financial reporting is appearing on page 107.

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.

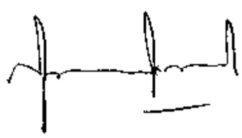
Review of the Statement by External Auditors

The External Auditors, Messrs. Ernst & Young, have reviewed the above Directors' Statement on Internal Control included in this Annual Report of the Bank for the year ended December 31, 2019 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 over Financial Reporting" is given on page 105 and 106 of this Annual Report.

By Order of the Board,

K G D D Dheerasinghe
Chairman

M P Jayawardena
Deputy Chairman



S Swarnajothi
Chairman – Board Audit Committee

S Renganathan
Managing Director /Chief Executive Officer

Colombo
February 20, 2020

Independent Assurance Report
To the Board of Directors of Commercial Bank of Ceylon PLC

Building a better working world

Ernst & Young
Chartered Accountants
201 De Saram Place
P.O. Box 101
Colombo 10
Sri Lanka

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eysl@lk.ey.com
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HMAJ/WDPL

Report on the Director's Statement on Internal Control

We were engaged by the Board of Directors of Commercial Bank of Ceylon PLC ("the Bank") to provide assurance on the Directors' Statement on Internal Control over Financial Reporting ("Statement") included in the annual report for the year ended December 31, 2019.

Management's responsibility

Management is responsible for the preparation and presentation of the Statement in accordance with the "Guidance for Directors of Banks on the Directors' Statement on Internal Control" issued in compliance with Section 3 (8) (ii) (b) of the Banking Act Direction No. 11 of 2007, by The Institute of Chartered Accountants of Sri Lanka.

Our Independence and Quality Control

We have complied with the independence and other ethical requirement of the Code of Ethics for Professional Accountants issued by The Institute of Chartered Accountants of Sri Lanka, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Sri Lanka Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Our responsibilities and compliance with SLSAE 3050 (Revised)

Our responsibility is 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 design and effectiveness of the internal control of the Bank.

We conducted our engagement in accordance with Sri Lanka Standard on Assurance Engagements (SLSAE) 3050 (Revised), Assurance Report for Banks on Directors' Statement on Internal Control, issued by The institute of Charted Accountants of Sri Lanka.

This Standard required that we plan and perform procedures to obtain limited assurance about whether Management has prepared, in all material respects, the Statement on Internal Control.

For purpose of this engagement, we are not responsible for updating or reissuing any reports, nor have we, in the course of this engagement, performed an audit or review of the financial information.

Summary of work performed

We conducted our engagement to assess whether the Statement is supported by the documentation prepared by or for directors; and appropriately reflected the process the directors have adopted in reviewing the system of internal control over financial reporting of the Bank.

The procedures performed were limited primarily to inquiries of bank personnel and the existence of documentation on a sample basis that supported the process adopted by the Board of Directors.

SLSAE 3050 (Revised) does not require us to consider whether the Statement covers all risks and controls or to form an opinion on the effectiveness of the Bank's risk and control procedures. SLSAE 3050 (Revised) 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.

The procedures selected depend on our judgement, having regard to our understanding of the nature of the Bank, the event or transaction in respect of which the Statement has been prepared.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Our conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the Statement included in the annual report is inconsistent with our understanding of the process the Board of Directors has adopted in the review of the design and effectiveness of internal control over financial reporting of the Bank.

Chartered Accountants

Colombo
February 20, 2020

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, 2019 are prepared and presented in conformity with the requirements of the following:

- Sri Lanka Accounting Standards issued by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka);
- Companies Act No. 07 of 2007 and amendments thereto;
- Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995;
- Banking Act No. 30 of 1988 and amendments thereto and the Directions, Determinations and Guidelines issued by the Central Bank of Sri Lanka (CBSL);
- Listing Rules of the Colombo Stock Exchange (CSE); and
- Code of Best Practice on Corporate Governance issued by the CA Sri Lanka

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 BAC and Bank's External Auditors. Comparative information has been amended to comply with the current presentation, where applicable.

There were no changes to the Accounting Policies and methods of computation since the publication of the Annual Report for the year ended December 31, 2018, except for the Accounting Policies and methods of computation adopted to be in compliant with the requirements of the Sri Lanka Accounting Standard SLFRS 16 on "Leases", which became effective for Annual Financial periods from January 1, 2019. SLFRS 16 requires the recognition of lease liabilities and right-of-use of assets for leases previously classified as operating leases in accordance with LKAS 17 on "Leases". As permitted by the paragraph 5 (b) of the Appendix C of SLFRS 16, the Bank opted not to restate Financial Statements of prior periods, and to recognise lease liability and the right of use asset in line with the paragraph 8 (a) and 8 (b) ii of the Appendix C of SLFRS 16, respectively. Accordingly, the difference arising from reversal of deferred tax asset created on liability o/a straight lining of lease rentals have been recognised directly in equity as at January 01, 2019, the date of initial application of SLFRS16, as disclosed in Statement of Changes in Equity on page 140 to 147. Accordingly, comparative information has not been amended to comply with the current presentation.

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 Ernst & Young, Chartered Accountants and their Report is given on page 132 to 134. The BAC pre-approves the audit and non-audit services provided by Messrs Ernst & Young, in order to ensure that the provision of such services does not contravene with the guidelines issued by the CBSL on permitted non-audit services or impair Ernst & Young'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 83 to 85. The Bank engaged the services of four 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 and the Bank other than those disclosed in Note 61 on pages 246 and 247 of the Financial Statements.
- All taxes, duties, levies and all statutory payments payable by the Group and the Bank and all contributions, levies and taxes payable on behalf of and in respect of the employees of the Group and the Bank as at December 31, 2019 have been paid, or where relevant provided for.

S Renganathan
Managing Director/Chief Executive Officer

K D N Buddhipala
Chief Financial Officer

Colombo
February 20, 2020

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 251 to 255 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.

Directors' Interest in Contracts with the Bank Table – 15

Director/Company	Accommodation granted/Deposits		Current limit as at 31.12.2019 Rs '000	Balance/Outstanding as at 31.12.2019 Rs '000	Balance/Outstanding as at 31.12.2018 Rs '000
(a) **Mr M P Jayawardena**					
CIC Holdings PLC	Loans and advances	Combined	**750,000**	**700,000**	750,000
	Off-balance sheet accommodation	Limits available	**250,000**	**4,462**	421,704
	Deposits		**–**	**7,827**	8,741
CIC Vetcare (Pvt) Ltd.	Loans and advances	Combined	**100,000**	**42,993**	136,975
	Off-balance sheet accommodation	Limits available	**155,000**	**67,152**	44,954
	Deposits		**–**	**2,532**	1,640
CIC Poultry Farms Ltd.	Loans and advances	Combined	**600,000**	**556,012**	584,947
	Off-balance sheet accommodation	Limits available	**100,000**	**–**	–
	Deposits		**–**	**24**	25
Cal Exports Lanka (Pvt) Ltd.	Loans and advances		**21,814**	**10,241**	9,748
	Off-balance sheet accommodation		**109,050**	**8,942**	–
	Deposits		**–**	**20**	7
Rainforest Ecolodge (Pvt) Ltd.	Deposits		**–**	**58**	115
(b) **Prof A K W Jayawardena**					
Sierra Cables PLC	Loans and advances	Combined	**1,773,312**	**704,897**	467,088
	Off-balance sheet accommodations	Limits available	**997,922**	**1,300,728**	1,355,594
	Deposits		**–**	**77,847**	50,984
Mother Lanka Foundation	Deposits		**–**	**2,247**	3,450
(c) **Mr S Renganathan**					
International Chamber of Commerce – Sri Lanka	Deposits		**–**	**28,626**	26,238
(d) **Ms N T M S Cooray**					
The Solutions Group (Pvt) Ltd.	Deposits		**–**	**1,813**	7,038
Ceylon Tea Brokers PLC	Deposits		**–**	**29,067**	3,140
Jetwing Hotels Ltd.	Deposits		**–**	**2,666**	2,526
Negombo Hotels Ltd.	Deposits		**–**	**2,248**	2,338
The Lighthouse Hotel PLC	Deposits		**–**	**5,841**	11,825
Jetwing Travels (Pvt) Ltd.	Loans and advances		**38,394**	**11,562**	11,303
	Off-balance sheet accommodation		**46,421**	**46,421**	49,655
	Deposits		**–**	**410,385**	1,043,843
Jetwing Air (Pvt) Ltd.	Loans and advances		**20,000**	**–**	–
	Off-balance sheet accommodation		**36,906**	**36,906**	36,906
	Deposits		**–**	**193,697**	87,343
Jetwing Hotel Management Services (Pvt) Ltd.	Deposits		**–**	**126**	127
Jetwing Events (Pvt) Ltd.	Off-balance sheet accommodation			**–**	100
	Deposits			**–**	17,652
Allianz Insurance Lanka Ltd.	Loans and advances		**–**	**1**	–
	Off-balance sheet accommodation		**–**	**–**	13,002
	Deposits		**–**	**69,392**	197,351
Go Vacation Lanka Co. (Pvt) Ltd.	Off-balance sheet accommodation		**–**	**–**	100
	Deposits		**–**	**4,046**	11,012
Allianz Life Insurance Ltd.	Deposits		**–**	**1,172**	745
Yarl Hotels (Pvt) Ltd.	Deposits		**–**	**438**	812
Jetwing Symphony Ltd.	Deposits		**–**	**425**	488
Capital Alliance Holdings Ltd.	Deposits		**–**	**1,147**	79
(e) **Mr L D Niyangoda**					
A Baur & Company (Pvt) Ltd.	Loans and advances	Combined	**8,745,250**	**8,570,744**	7,587,503
	Off-balance sheet accommodation	Limits available	**5,890,000**	**3,864,218**	2,923,910
	Deposits		**–**	**7,754,799**	7,628,927
(f) **Mr T L B Hurulle**					
Kanrich Finance Ltd.	Loans and advances		**11,565**	**9,322**	9,678
	Deposits		**–**	**3,612**	9,247

Risk Governance and Management

Business model and risk

The business model of the Bank is centered around financial intermediation and maturity transformation (refer Business Model for Sustainable Value Creation on pages 37 and 38). This enabled the Bank to operate at a much higher level of assets (Rs. 1,387.35 Bn. as at December 31, 2019) relative to the capital available (Rs. 133.16 Bn.), leading to an on balance sheet gearing of 10.42 times. This exposed the Bank to a multitude of risks. While credit risk continues to be the dominant risk followed by operational and market risks based on the amount of capital allocated as per Basel capital adequacy requirements, a host of other risks also have arisen from various emerging developments. Some of these developments are threatening to disrupt the business model of the Bank built on playing an intermediary role (refer page 35 for a list of such emerging developments). As a result, it is imperative that the Bank has a robust risk governance framework and a rigorous risk management function to manage the associated risks, enabling it to optimise the trade-off between risk and return, and continue to create value sustainably into the future.

Bank has taken such context and outlook into account when formulating its risk management strategy in terms of the underlying risk governance and risk management framework.

From a risk management perspective, year 2019 was characterised by lacklustre economic growth, a sharp deterioration in asset quality following the April terrorist attack, stifled credit growth and the resulting excess liquidity, import restrictions and political instability.

Objectives

The primary objectives of the Bank's risk governance framework and the risk management function are:

- to establish the necessary organisational structure for the management and oversight of risk;
- to define the desired risk profile in terms of risk appetite and risk tolerance levels;
- to institutionalise a strong risk culture within the Bank;
- to establish functional responsibility for decisions relating to accepting, transferring, mitigating and minimising risks and recommending ways of doing so;
- to evaluate the risk profile against the approved risk appetite on an ongoing basis;
- to estimate potential losses that could arise from risk exposures assumed;
- to periodically conduct stress testing to ensure that the Bank holds sufficient buffers of capital and liquidity to meet unexpected losses and honour contractual obligations; and
- to integrate risk management with strategy development and execution.

Key developments in 2019

Major initiatives relating to risk governance and risk management during the year included:

- **Getting the internally developed credit risk rating model validated by an external party.**
  The validation process led to further improvements and calibrations to the statistical and qualitative parameters of the models and provided the required confirmation that methods used to develop the models are conceptually sound, that rating models effectively capture the risk and that the underlying data is reasonably accurate. Rating models are currently being used for the evaluation of credit risk at the individual facility level, for the aggregation of credit risk at the portfolio level, assessment of the relative stability of the portfolio including stress testing on impact of rating migration on the Bank's performance and assessment of adequacy of regulatory capital, etc. Upon approval of the CBSL, the internal credit risk ratings can be used for the computation of regulatory capital requirements of the Bank under the advanced approaches of Basel III guidelines. Further, availability of robust credit rating models act as a precursor for adoption of risk-based pricing, sensitivity analysis, stress testing and computing statistical measurements for expected credit loss evaluation.
- **A project initiated for implementing an early warning signals (EWS) framework with a view to further enhancing credit quality.**
  Based on a combination of financial and market intelligence, EWS will enable detection of financially stressed borrower accounts in the existing loan/lending portfolio across all segments. Further, it will provide alerts/signals in case of potential lending opportunities that are in application/evaluation stage, predict and prompt for proactive corrective actions on deteriorating borrowing relationships based on their health as against the defined directive of measurement of such assets and be used in reporting, monitoring and as a follow-up mechanism.
- **Establishment of Centralised Credit Processing Unit (CCPU) for advances.**
  The CCPU was established during the year (described in detail in the section on Operational Excellence on pages 56 to 60) to improve operational efficiency. The same contributed to the fundamental segregation of duties of credit analysis function from the marketing activities to ensure independence in assessment and do away with biases that will invariably assist underwriting activities towards high quality portfolio in the future.
- **Introduced Risk Adjusted Return on Capital (RAROC) framework.**
  Having recognised the need for standard economic-risk measures derived from internally available data, the Bank initiated introduction of RAROC framework in 2019 under the consultancy of an external expert. With this, the Bank is optimistic about implementing performance tracking and a pricing tool that incorporates economic cost of risk and to capture the contribution of each business to the Bank's cost of capital. This would significantly contribute for making improvements in capital allocation, business performance tracking and overall risk management. In addition, RAROC will add to the armoury of important strategic decision-making tools, further strengthening the risk management framework of the Bank.
- **Enhanced information security governance in line with CBSL directions.**
  The Information Security Council of the Bank, which is the apex management-level body responsible for information security of the Bank was reconstituted in line with the CBSL Direction for Technology Risk Management (Consultation Paper), with the Managing Director as its Chairman, with periodic reporting to the BIRMC and the Board of Directors. In order to enable the Board of Directors to have effective oversight on the adequacy and effectiveness of information security and technology risk management procedures of the Bank, the Board participated in a knowledge enhancing session covering cyber security and technology risk resilience conducted by an industry expert.

- **Intensified focus on information and cyber security.**
  Baseline Security Standard (BSS) was rolled-out across the branch network and in the Head Office departments. All information security related policies and procedures were independently reviewed under the BSS implementation and a draft framework for information security Key Performance Indicators was developed.

  Bank commenced work towards fulfilling requirements prescribed in the CBSL Direction for Technology Risk Management (Consultation Paper) through the information security road map devised for the Bank – with focus for 2019 being on Security Operations Centre, Privilege Access Management and Data Loss Prevention. Bank also initiated work towards establishing a proper data protection unit under a dedicated Data Protection Officer with responsibility for developing and implementing the Bank's data protection strategy covering such aspects as data classification, data leakage prevention, maintaining comprehensive records of all data processing activities, managing/ controlling outgoing data, etc.

Other key developments and outcomes relating to risk management during the year included;

- Intensified focus on maintaining asset quality;
- Conducted meetings of the Executive Committee on Monitoring NPAs on a monthly basis with the participation of Line Heads of Corporate/Personal Banking and Recoveries Department to discuss strategies to turnaround NPA portfolio;
- Achieved credit risk review coverage of 39.8% of the total portfolio during the year (as compared to the CBSL minimum requirement of 30% – 40%);
- Enhanced the scope of operational risk reviews on the subsidiaries of Commercial Bank Group by including CBC Myanmar Microfinance Ltd;
- Successfully renewed the ISO27001:2013 and the PCI DSS certifications of the Bank for 2019, with the re-validation of the Information Security Management System and the PCI DSS implementation by external auditors;
- Completed the pilot roll-out of the SEMS e-learning platform for staff training under the Sustainable Banking Initiative of the Sri Lanka Banks' Association.

In line with the industry-wide trend experienced, overall credit risk of the Bank heightened with a deterioration in asset quality as reflected in the gross and net non-performing loans ratios of 4.95% and 3.00% respectively as at 31.12.2019 as against 3.24% and 1.71% a year before. As a result of interest rate reduction that took place in the market and excess liquidity prevailed in the Bank, market risk too increased slightly during the year. Operational risk however did not undergo any major changes compared to the previous year. Despite the formidable challenges in the operating environment, the Bank was able to successfully maintain its stability, resilience and profitability during the year as evident from the operating results and financial position, as a result of the strategic responses to these developments and the robust risk governance and the rigorous risk management function in place.

Risk profile

Risk profile of the Bank as at December 31, 2019 and December 31, 2018 compared to the risk appetite as defined by the policy parameters is given below:

Risk profile Table – 16

Risk category and parameter	Key risk indicator	Policy parameter	Actual position 31.12.2019	Actual position 31.12.2018
Credit risk:				
Quality of lending portfolio	Gross NPA ratio	4% – 7%	**4.95%**	3.24%
	Net NPA ratio	3% – 4%	**3.00%**	1.71%
	Impairment percentage over total NPA	40% – 60%	**42.39%**	54.67%
	Weighted average rating score of the overall lending portfolios	35% – 40%	**53.44%**	56.62%
Concentration	Loans and advances by product – Highest exposure to be maintained as a percentage of the total loan portfolio	30% – 40%	**19.73%**	20.43%
	Advances by economic sub sector (using HHI-Herfindahl-Hirschman-Index)	0.015 – 0.025	**0.015**	0.015
	Exposures exceeding 5% of the eligible capital (using HHI)	0.05 – 0.10	**0.006**	0.006
	Exposures exceeding 15% of the eligible capital (using HHI)	0.10 – 0.20	**0.004**	0.007
	Exposure to any sub sector	4% – 5%	**3.97%**	4.75%
	Aggregate of exposures exceeding 15% of the eligible capital	20% – 30%	**12.61%**	20.32%
Cross border exposure	Rating of the highest exposure of the portfolio on S&P Investment Grade AAA to BBB	AA	**AAA**	AAA
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. 2,500 Mn.	**Rs. 932.75 Mn.**	Rs. 1,560.76 Mn.
	Re-pricing gaps (RSA/RSL in each maturity bucket – up to one-year period)	<1.5 Times (other than for 1 month bucket which is <2.5 Times)	**1.39 Times (2.56 Times for 1 month bucket)**	0.98 Times (2.99 Times for 1 month bucket)
Operational risk	Operational loss tolerance limit (as a percentage of last three years average gross income)	3% – 5%	**0.78%**	1.70%
Strategic risk:	Capital adequacy ratios:			
	CET 1	Over 11%	**12.298%**	11.338%
	Total capital	Over 15%	**16.146%**	15.603%
	ROE	Over 20%	**13.54%**	15.56%
	Creditworthiness – Fitch Rating	AA(lka)	**AA(lka)**	AA(lka)

(RSA – Rate Sensitive Assets, RSL – Rate Sensitive Liabilities)

Risk appetite and risk profile

The Bank has a clearly defined Risk Appetite Statement incorporating the strategic focus, the types of risk and the maximum amount of aggregate risk exposure the Bank is prepared to assume at any given point in time. Taking into account the regulatory requirements, the ability to withstand losses and stress with the available capital, funding and liquidity positions and the quality of the risk management framework, risk appetite has been expressed in terms of desired asset quality, maximum operational losses, maximum loss on forex trading operations, minimum liquid assets ratio and maximum re-pricing gaps on interest rate risk, among other exhaustive list of risk parameters in use to ascertain overall risk profile of the Bank.

Aided by the solid risk management function, the Bank monitors its risk profile which is the actual risk exposures across all the risk categories on an ongoing basis and takes swift remedial action for any deviations to ensure that it is kept within the risk appetite. With a strong capital adequacy and a strong liquidity position which define the capacity to assume risk, the Bank's risk profile is characterised by a portfolio of high-quality assets and stable sources of funding fairly diversified in terms of geographies, sectors, products, currencies, size and tenors.

Credit ratings

The Bank was rated AA(lka)/Stable by Fitch Ratings Lanka Limited during 2019, but the outlook was revised to negative in January 2020 consequent to revision of the outlook of the Sri Lankan sovereign and the deterioration in the operating environment. Bank's Bangladesh operations is rated AAA by Credit Rating Information and Services Limited (CRISL). The rating of AA(lka) is the strongest rating given to a Sri Lankan non-state sector bank while AAA is the highest credit rating given to any financial institution in Bangladesh by CRISL. These credit ratings depict the creditworthiness of the Bank and its ability to borrow which in turn takes into account the underlying risk profile.

Outlook and plans for 2020 and beyond

Please refer Operating Environment on pages 28 to 37 for an analysis of the outlook for the Sri Lankan economy and the financial services sector for 2020 and beyond.

The Bank envisages the importance of risk governance and risk management function to increase in the wake of the widening and deepening banking regulation, pervasive technological advances and macroeconomic shocks. Hence, the Bank will continue to strengthen the risk governance and risk management function further through the necessary changes to the mandate, structure, resourcing, competencies, technologies, MIS, data analytics etc., thereby aligning business strategies with sound risk management practices and making risk management function more forward looking and proactive.

Specific initiatives in this regard will include:

- Implementing a Security Incident and Event Management solution and extending it towards a proper Security Operations Centre;
- Complete the implementation of the identified Privilege Access Management solution and operationalise same by establishing required policy/procedure for independent review of privilege user access;
- Active participation of risk management function in strategy setting and planning process;
- Adopting a more forward-looking approach to risk management.

Risk management framework

In order to ensure a structured approach to managing all its risk exposures, the Bank has developed an overarching risk management framework based on the Three Lines of Defence model. Underpinned by rigorous organisational structures, systems, processes, procedures and industry best practices, Risk Management Framework (RMF) takes into account all plausible risks and uncertainties the Bank is exposed to. The Three Lines of Defence model, which is the international standard, enables the Bank to have specific skills for managing risk and guides its day-to-day operations with the optimum balance of responsibilities.

RMF is subject to an annual review or more frequently if the circumstances so warrant, taking into account changes in the regulatory and operating environments.

Three lines of defence Figure – 19

1st Line of 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

2nd Line of 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

3rd Line of 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

Risk Governance

Risk governance is the responsibility of the Board for establishing the necessary organisational structure for the management and oversight of risk, defining the risk profile in terms of the risk appetite and the risk tolerance levels and institutionalising a strong risk culture.

Applying the best practice in corporate governance to risk management, Board of Directors has established a robust governance structure comprising Board committees, executive functions and executive committees through which authority is exercised and decisions are taken and implemented. It facilitates accountability for risk at all levels of the Bank and across all risk types the Bank is faced with, enabling a disciplined approach to managing risk. The organisation of the Bank's risk governance is given in Figure 20. Given the highly specialised nature and also in the interest of an integrated and consistent approach, decision-making on risk management is centralised to a greater extent in several risk management committees.

Board of Directors

As the body responsible for strategy and policy formulation, objective setting and for overseeing executive functions, the Board of Directors (refer pages 64 to 67 for the profiles of the members) has the overall responsibility for understanding the risks assumed by the Bank and the Group and for ensuring that they are appropriately managed. The Board discharges this responsibility directly by determining the risk appetite of the Bank which is strongly correlated to achieving its strategic goals and indirectly by delegating oversight responsibility to four Board committees (listed below) which work closely with the executive functions and 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 plays a key role in managing risk at the Bank.

Besides the tone at the top and the Three Lines of Defence model (refer page 112), the ethical conduct of the business too plays a significant role in managing risk in the Bank. The Bank's Code of Ethics sets out the Bank's unwavering commitment and expectations of all the employees to undertaking business in a responsible, transparent and disciplined manner and demands the highest level of honesty, integrity and accountability from all employees.

Apart from the Bank, the Board of Directors closely monitors the risk profile of all the subsidiaries in the Group (refer page 150 for the list of subsidiaries).

Board committees

The Board has setup four Board committees as given below to assist it in discharging its oversight responsibilities for risk management;

- Board Audit Committee (BAC)
- Board Integrated Risk Management Committee (BIRMC)
- Board Credit Committee (BCC)
- Board Strategy Development Committee (BSDC)

Among other things, these committees periodically review and make recommendations to the Board on risk appetite, risk profile, strategic decisions, risk management and internal controls framework, risk policies, limits and delegated authority.

Details relating to composition, terms of reference, authority, meetings held and attendance, activities undertaken during the year etc., of each of these Board committees are given on pages 83 to 96.

Executive committees

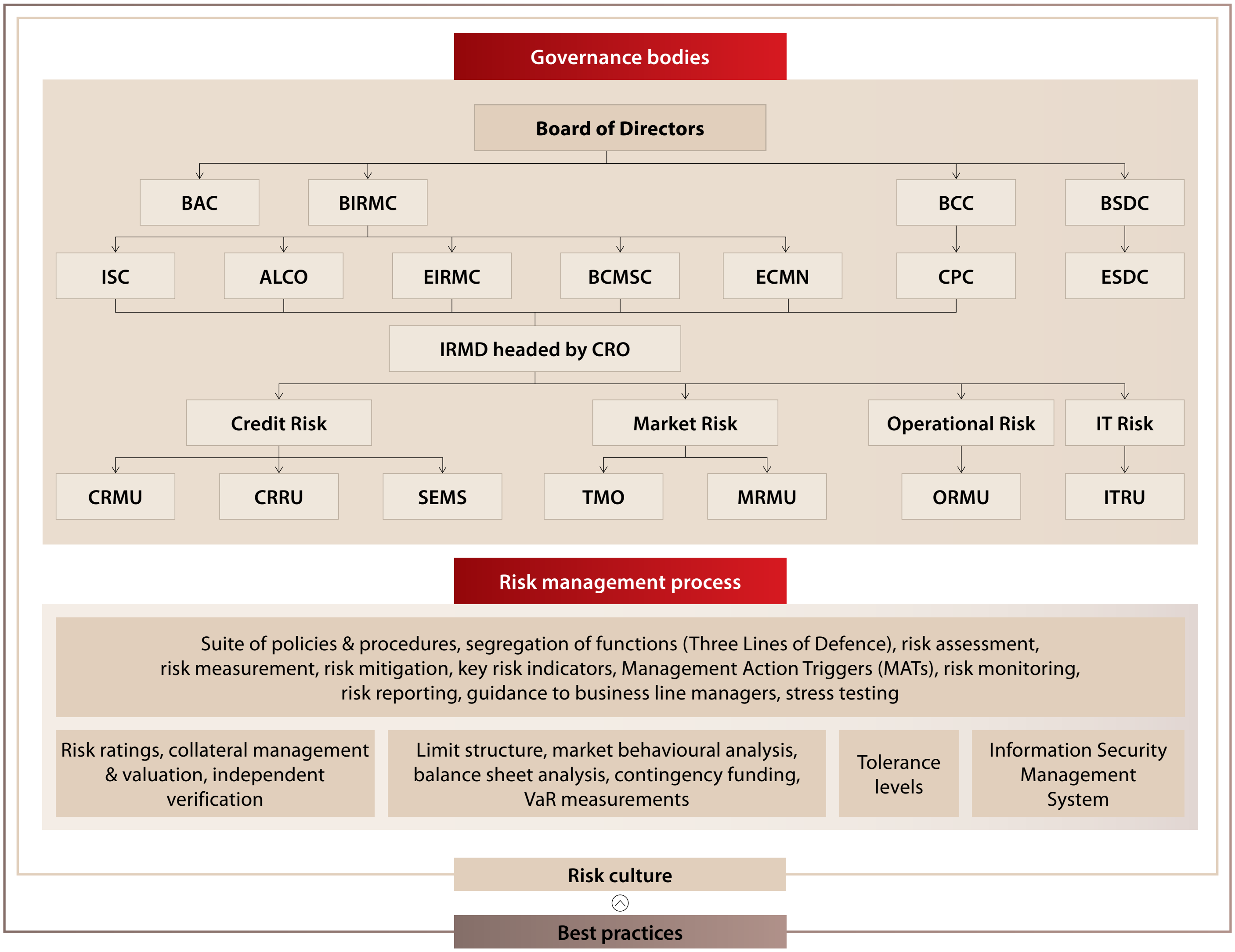
Responsibility for the execution of the strategies and plans in accordance with the mandate of the Board of Directors while maintaining the risk profile within the approved risk appetite, rests with the Executive Management. Spearheaded by the Executive Integrated Risk Management Committee (EIRMC), a number of committees (listed below) on specific aspects of risk have been set up to facilitate risk management across the First and the Second Lines of Defence.

- Asset and Liability Committee (ALCO)
- Credit Policy Committee (CPC)
- Executive Committee on Monitoring Non-Performing Advances (ECMN)
- Information Security Council (ISC)
- Business Continuity Management Steering Committee (BCMSC)

Comprising members from units responsible for credit risk, market risk, liquidity risk, social and environmental risk, operational risk and IT risk, EIRMC coordinates communication with the BIRMC to ensure that risk is managed within the risk appetite. Details relating to composition of each of the executive committees are given in the section on "How We Govern" on pages 77 and 78.

Integrated Risk Management Department (IRMD) is headed by the Chief Risk Officer who participates in the executive committees listed above and the BIRMC, BCC and BAC. The IRMD independently monitors compliance of the First Line of Defence (LOD) to the laid down policies, procedures and limits and escalates deviations to the relevant executive committees. It also provides the perspective on all types of risk for the above committees to carry out independent risk evaluations and share their findings with the Line Managers and Senior Management enabling effective communication of material issues and to initiate deliberations and necessary action.

Risk governance structure Figure – 20



BAC – Board Audit Committee, BIRMC – Board Integrated Risk Management Committee, BCC – Board Credit Committee, BSDC – Board Strategy Development Committee,
ISC – Information Security Council, ALCO – Asset & Liability Committee, EIRMC – Executive Integrated Risk Management Committee, BCMSC – Business Continuity Management Steering Committee,
ECMN – Executive Committee on Monitoring NPAs, CPC – Credit Policy Committee, ESDC – Executive Strategy Development Committee, IRMD – Integrated Risk Management Department,
CRMU – Credit Risk Management Unit, CRRU – Credit Risk Review Unit, SEMS – Social & Environmental Management System, TMO – Treasury Middle Office, MRMU – Market Risk Management Unit,
ORMU – Operational Risk Management Unit, ITRU – IT Risk Management Unit

Risk Management

Risk management is the functional responsibility for identifying, assessing and mitigating risks, finding risk mitigation methods, monitoring early warning signs, forecasting potential for future losses and implementing plans to contain losses/ risk transfer.

Risk management infrastructure

Risk management infrastructure of the Bank includes both human and physical resources that enhance the preparedness to identify and manage risk including the mandate, policies and procedures, limits, tools, databases, competencies, communication etc. Significant investments were made in resources to build capacity in risk management infrastructure and to maintain it up to date by embracing international best practices.

Given that managing risk is a responsibility of each and every employee of the Bank for which each and every employee needs to understand the risks the Bank is exposed to, IRMD provides appropriate training/ awareness to the employees, risk owners in particular, disseminating knowledge and enhancing skills on all aspects related to risk, inculcating the desired risk culture.

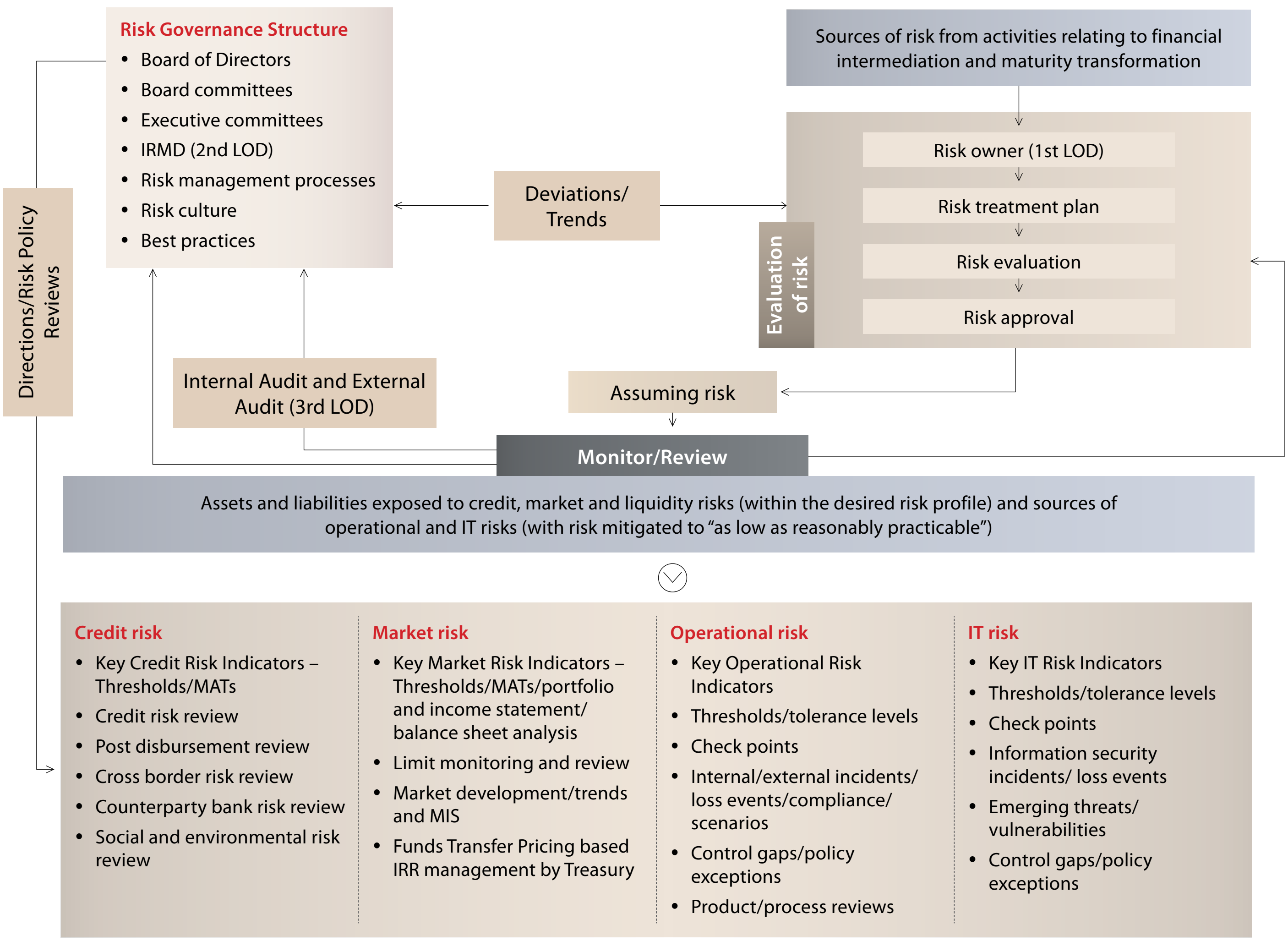
Risk management policy, procedures and limits

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 and subsequent directives issued by the CBSL. Apart from institutionalising the risk knowledge base, this helps to minimise bias and subjectivity in risk decisions. This key document clearly defines the objectives, outlines priorities and processes as well as the 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 and Board of Directors 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.

The 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 conducts business, providing clarity to the employees in their day-to-day work.

Risk management framework Figure – 21



Risk management tools

The Bank employs a combination of qualitative and quantitative 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 early warning signs, threat analysis, risk policies, risk registers, risk maps, risk dashboards, RCSA, diversification, covenants, Social and Environmental Management System, workflow-based operational risk management system, insurance and benchmarking to limits, gap analysis, NPV analysis, swaps, caps and floors, hedging, risk rating, risk scoring, risk modelling, Duration, scenario analysis, marking to market, stress testing and VaR analysis.

Summary of key risks Figure – 22

Internal

	Our objective	Mitigation
Credit risk	Safeguard the asset quality and reduce exposures to high risk segments	Robust and rigorous risk assessment and pricing of loans in line with risk appetite and collateral support
People and operational risk	Creating an environment that enables performance while safeguarding the business	Succession plans, code of conduct and business ethics, competency, policy frameworks, segregation of duties and internal controls
Market risk	Safeguard against adverse movement of market factors arising out of price sensitivities of funding sources, investments, lending or trading portfolios	Monitoring, predicting and controlling through stringent limits and Management Action Triggers
Model risk	Develop predictive capability to support the decision making process	Assumptions based models and behavioural testing through internal/external independent validation
Liquidity risk	Safeguard against funding constraints that prevent growth and meet demands of depositors/investors	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

Mitigation	Our objective	
Guiding business strategy and resource allocation communicated to business lines	Safeguard stable funding sources, asset quality and returns	Economic growth and trade cycles
Specialised teams within the risk management function (in addition to the First Line of Defence) and continued investments in enhancing cyber security	Safeguard information and ensure business continuity	Cyber threat
A dedicated compliance function and an independent internal audit function facilitate compliance	Dynamic approach to comply with regulations	Increased regulations
Close monitoring of trends for possible ramifications on economy and business strategy which could impact asset quality and profitability		Fiscal and monetary policy
Offering unparalleled and unprecedented convenience by adopting latest banking technology	To satisfy the rising expectations of stakeholders and to be future ready	Other emerging risks

Increasing trend in risk   Decreasing trend in risk   No significant change

Types of risks

Conventionally, the Bank is exposed to credit, market, liquidity, operational, reputational, IT, legal and strategic risks which taken together determine the risk profile of the Bank. The Bank manages these risks through its robust risk management framework. Changes in various external and internal factors affect the risk profile on an ongoing basis. External factors include movements in macroeconomic variables, political instability, changes in Government fiscal and monetary policies, regulatory developments mounting stakeholder pressures and growing sustainability concerns. Such developments could impact public perceptions, disposable income of people, demand for banking products and services, funding mix, interest margins and tax liabilities of the Bank. Internal factors may include strategic miscalculations, lapses in implementing the risk management framework, assumptions about macroeconomic variables turning out to be different, execution gaps in internal processes etc. These factors, if not properly managed, may affect the risk profile of the Bank, hampering the objective of sustainable value creation for all its stakeholders in the short, medium and long term.

In addition, certain potentially disruptive emerging risks and uncertainties have made the operating environment even more volatile and unpredictable, leading to some of the long-standing assumptions about markets, competition and even business fundamentals to be less valid today. These call for the Bank to better understand the customer and deliver on their expectations while achieving execution excellence in internal processes. Believing that these offer opportunities to differentiate its value proposition for future growth, the Bank deals with these developments through appropriate strategic responses. Summary of key risks is given in Figure 22 on page 116.

All these developments have made the operating environment very complex, dynamic and competitive 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 value in the short, medium and long term for all its stakeholders. Hence, deliberations on risk management were on top of the agenda in all Board, Board Committee and Executive Committee meetings of the Bank.

A description of the different types of risks managed by the risk management function of the Bank and risk mitigation measures adopted are as follows:

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 may arise from direct lending activities as well as from commitments and contingencies. Total credit risk of the Bank constitutes counterparty risk, concentration risk and settlement risk.

Maximum credit risk exposure Table – 17

	As at December 31, 2019	
	Rs. Mn.	**%**
Net carrying amount of credit exposure		
Cash and cash equivalents	**52,535**	**2.9**
Placements with banks	**24,527**	**1.3**
Financial assets at amortised cost – Loans and advances to banks	**758**	**0.0**
Financial assets at amortised cost – Loans and advances to other customers	**884,646**	**48.1**
Financial assets at amortised cost – Debt and other financial instruments	**101,145**	**5.5**
Financial assets measured at fair value through other comprehensive income	**197,568**	**10.7**
Total (a)	**1,261,179**	
Off-balance sheet maximum exposure		
Lending commitments	**109,046**	**5.9**
Contingencies	**469,308**	**25.6**
Total (b)	**578,354**	
Total of maximum credit exposure (a + b)	**1,839,533**	**100.0**
Gross carrying amount of loans and advances to other customers	**920,457**	
Stage 3 (credit impaired) loans and advances to other customers	**96,663**	
Impaired loans as a % of gross loans and advances to other customers		**10.5**
Allowance for impairment – loans and advances to other customers	**35,811**	
Allowance for impairment as a % of gross loans and advances to other customers		**3.9**
Impairment charge – loans and advances to other customers	**10,043**	

The maximum credit exposure of the Bank (Rs. 1,839.5 Bn. In 2019) remained more or less the same levels as of previous year (Rs. 1,839.2 Bn. in 2018), amidst the very challenging economic environment prevailed in the country.

According to the SLFRS 9 classification, the credit impaired (Stage 3) loans to customers stood at Rs. 96.6 Bn. (Rs. 52.9 Bn. in 2018) which is 10.5% (5.9% in 2018) of the gross loans and advances to other customers portfolio of the Bank.

Further, the increasing trend experienced in loans and advances to other customers getting classified as impaired has resulted in a cumulative impairment allowance of Rs. 35.8 Bn. (Rs. 29.1 Bn. in 2018) and an impairment charge of Rs.10.0 Bn. (Rs. 8.1 Bn. In 2018). for the year under discussion.

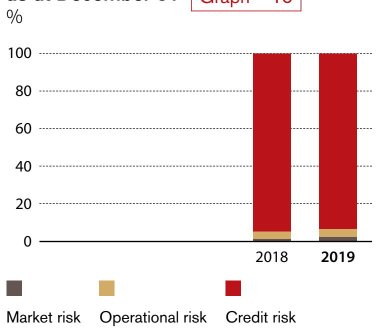
74.3% – Distribution of borrower ratings
Borrowers with investment Grade Ratings where default risk is considered to be very low, comprised 74.3% of the total loans and advances to other customers.

85.2% – Distribution of country rating
Exposure to countries which are rated AAA to BBB – (S&P or equivalent) accounted for 85.2% of the total cross – border exposure of the Bank.

Managing credit risk

Given that the lending portfolio accounts for 63.8% of total assets and credit risk accounts for over 90% of the risk-weighted assets, management of credit risk is critical to the Bank. We endeavour to manage credit risk management going beyond mere regulatory compliance in order to enhance value. It is managed through the credit risk management framework approved by the Board which comprises a robust risk governance structure and a comprehensive suite of risk management processes which include policies and procedures, risk ratings, collateral management and valuation, segregation of credit risk management functions, social and environmental risk management, independent verification of risk assessments, credit risk monitoring, post disbursement review, providing direction to business line managers and sharing information with internal audit.

Risk weighted assets composition (Group) as at December 31 Graph – 15



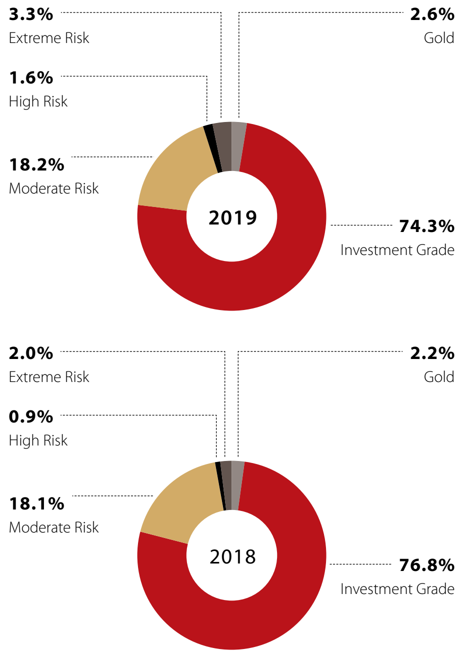
Review of credit risk

Deterioration in the operating environment led to a heightening of credit risk and a drop in asset quality across the financial services industry during the year. Similar impact was experienced by the Bank, but NPL ratios remained within the established policy parameters by the year end (refer risk profile on page 111). The elevated levels of attention given to loan approvals and post-sanction monitoring and recovery efforts will assist the Bank to bring down these ratios in 2020.

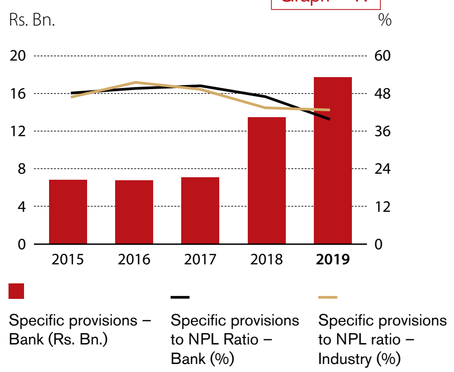
Besides the effective credit risk management framework referred to above that guides the Bank throughout the process of on-boarding new exposure and monitoring existing exposure contributing immensely to preserve the quality of the loan book, the Bank is cautious and exercises restraint in the choice 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.

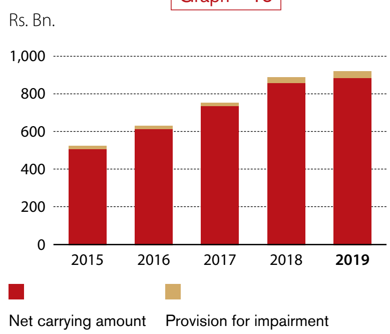
Risk ratings-wise distribution of loans and advances to other customers Graph – 16



Provision cover of the Bank Graph – 17



Gross loans and advances to other customers Graph – 18



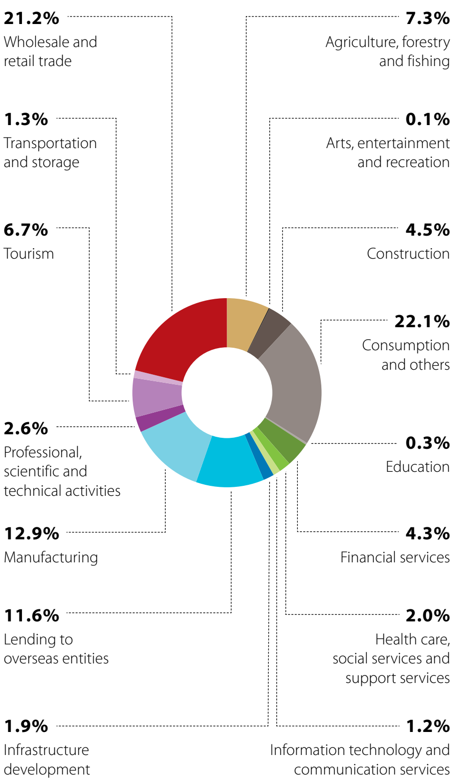
Concentration risk

Management of concentration risk is primarily through diversification of business across industry sectors, products, counterparties and geographies. The Bank's RAS defines the limits for these segments and the Board, BIRMC, EIRMC and the CPC monitor these exposures to ensure compliance. Based on the trends and events shaping the business environment, they also make recommendations on modifications to specified limits.

The stage 3 credit impaired loans and advances to other customers distribution to identified industry sectors as at year end is given in Table 18.

Graph 20 depicts that the tenor-wise breakdown of the portfolio of total loans and advances to other customers is within the risk appetite of the Bank.

Industry-wise analysis of loans and advances to other customers as at December 31, 2019 Graph – 19

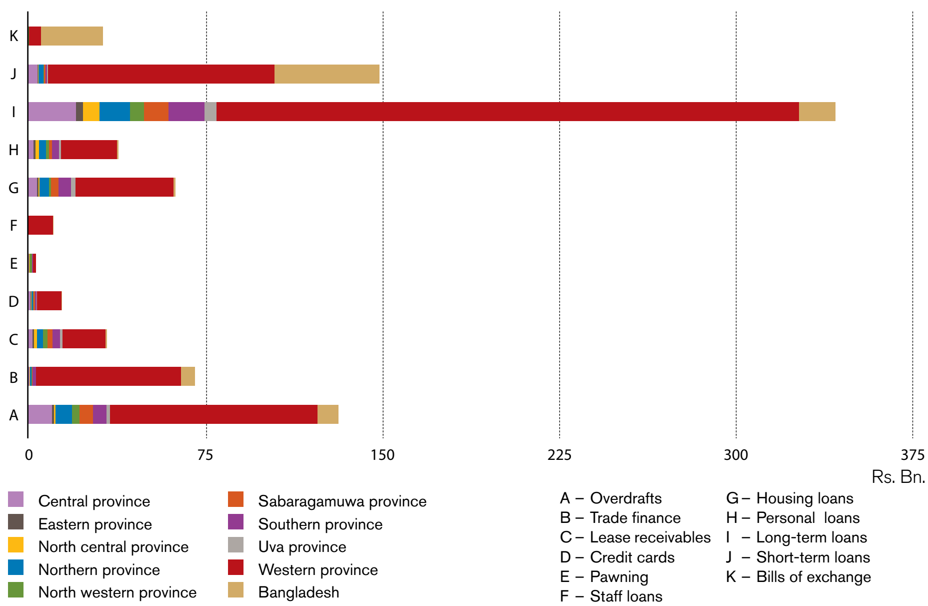


Distribution of stage 3 credit impaired loans and advances to other customers as at December 31, 2019 Table – 18

Industry category	Stage 3 loans and advances Rs. '000	Allowance for individual impairment Rs. '000	Allowance for collective impairment Rs. '000	ECL Allowance Rs. '000	Amount written off Rs. '000
Agriculture, forestry and fishing	10,281,037	796,991	2,170,744	2,967,735	159,230
Arts, entertainment and recreation	131,929	–	43,329	43,329	–
Construction	6,906,267	3,365,552	1,228,750	4,594,302	61,599
Consumption and others	9,980,125	20,991	3,901,378	3,922,369	381,953
Education	177,245	–	80,882	80,882	44
Financial services	736,196	8,690	98,122	106,812	11,041
Healthcare, social services and support services	994,571	258	256,972	257,230	9,875
Information technology and communication services	2,026,312	22,829	282,040	304,869	64,254
Infrastructure development	2,777,205	279,567	131,746	411,313	182
Lending to overseas entities	797,869	81,626	200,278	281,904	221,472
Manufacturing	21,236,871	1,114,014	3,723,377	4,837,391	46,935
Professional, scientific and technical activities	464,211	–	169,350	169,350	17,337
Tourism	17,978,163	223,879	1,181,237	1,405,116	1,123,961
Transportation and storage	3,226,779	966,696	306,835	1,273,531	23,629
Wholesale and retail trade	18,948,203	513,859	3,709,188	4,223,047	121,727
Total	96,662,983	7,394,952	17,484,228	24,879,180	2,243,239

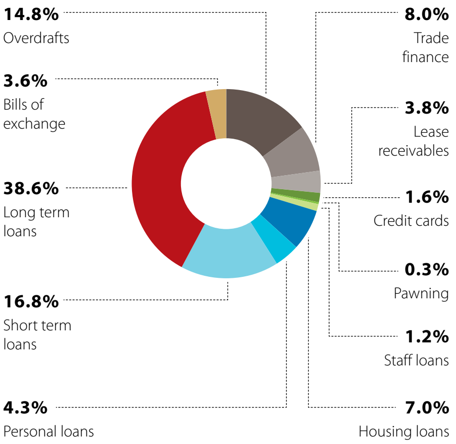
A geographical analysis (Graph 18) reflects a high concentration of loans and advances in the Western Province which is due to concentration of economic activities in that province and the headquarters of most borrowing entities being located there.

Geographical analysis of loans and advances to other customers by product-wise as at 31, December 2019 Graph – 20



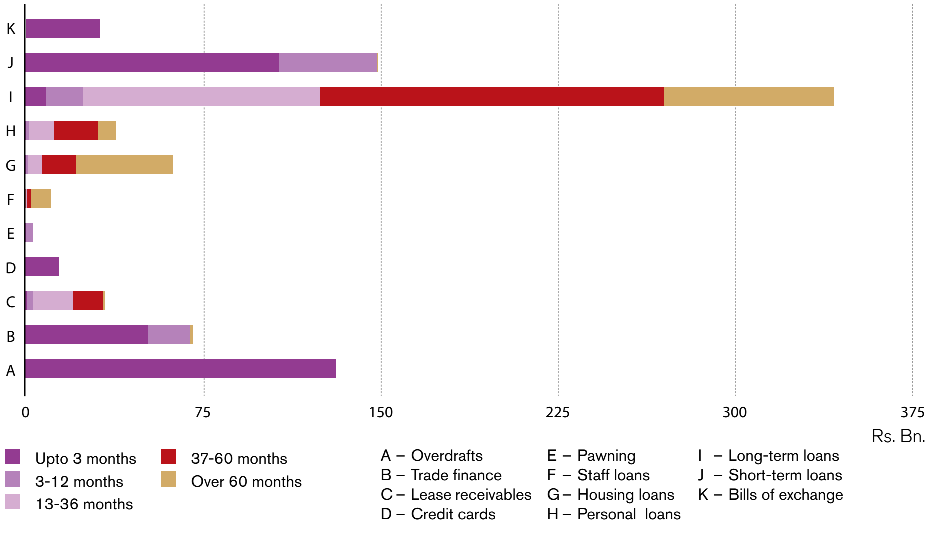
Product-wise analysis of loans and advances (Graph 19) also reflects the effectiveness of the Bank's credit policies with risk being diversified across the Bank's range of credit products.

Product-wise analysis of loans and advances to other customers as at December 31, 2019 Graph – 21



The relatively high exposure of 38,6% to long-term loans is rigorously monitored and mitigated with collateral.

Loans and advances to other customers by tenor-wise as at December 31, 2019 (based on residual maturity) Graph – 22



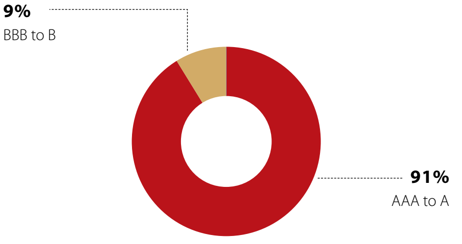
Counterparty risk

Counterparty risk is managed through the laid down policies/procedures and limit structures including single borrower limits and Group exposure limits with sub-limits for products etc. 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.

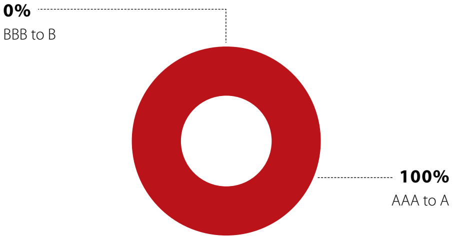
Loans and receivables to banks, both local and foreign, constitute a key component of counterparty risk. It is being monitored through a specific set of policies, procedures and a limit structure. At frequent intervals, the counterparty bank exposures are monitored against the established prudent limits 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 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 91% (Graph 21) whilst 100% of exposure of local banks in Bangladesh consisted of AAA to A rated counterparty banks (Graph 22).

The concentration of counterparty bank exposures in Sri Lanka as at December 31, 2019 (Fitch ratings-wise) Graph – 23



The concentration of counterparty bank exposures in Bangladesh as at December 31, 2019 (CRAB ratings-wise*) Graph – 24



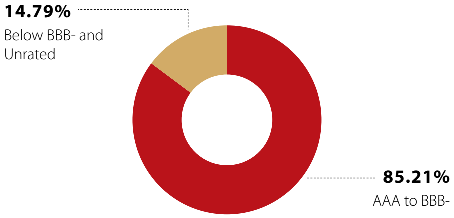
Cross-border risk

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 structures in place to minimise risk arising from over concentration, the Bank continuously monitors macroeconomic 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/revise limits to countries with adverse economic/ political developments.

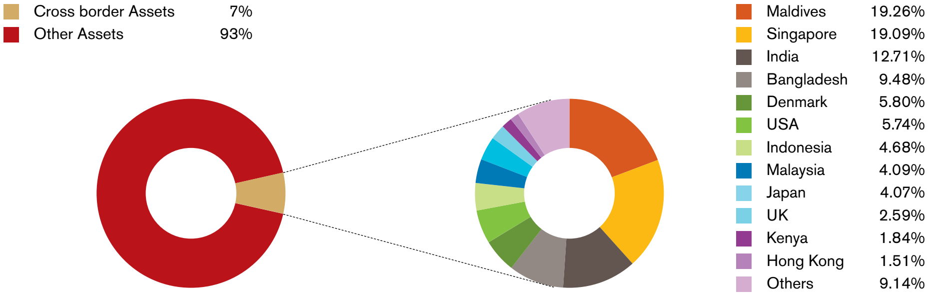
Total cross-border exposure is only 7% of total assets of the Bank (Graph 24). The Bank has cross-border exposures to a spread of countries which primarily include the Maldives, Singapore, India, Bangladesh, Denmark, etc.

The concentration of cross-border exposure (Sri Lanka and Bangladesh operations) – S & P Rating wise as at December 31, 2019 Graph – 25



Note: Excluding the investment in Bangladesh operations and direct lending in Maldives/Bangladesh.

Cross border exposure of the Bank (Sri Lankan and Bangladesh operations) Graph – 26



Market risk

Market risk is the risk of loss arising from movements in market driven variables such as interest rates, exchange rates, commodity prices, equity and debt prices and their correlations. The Bank's operations are exposed to these variables and correlations in varying magnitudes.

Market risk categories Table – 19

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 for Fair Value Through Profit and Loss (FVTPL) and Fair Value Through Other Comprehensive Income (FVOCI) portfolios	Low	Low	Negligible
Commodity		Exposures to changes in prices and volatilities of individual commodities	Mark to market calculations	Low	Low	Negligible

Managing market risk

The market risk is managed through the market risk management framework approved by the Board, which comprises a robust risk governance structure and a comprehensive suite of risk management processes which include policies, market risk limits, Management Action Triggers (MATs), risk monitoring and risk assessment.

Review of market risk

Market risk arises mainly from the Non-Trading Portfolio (Banking Book) which accounted for 90.82% of the total assets and 93.54% of the total liabilities as at December 31, 2019. 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 10% 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 Note 69.3.1on pages 279 and 280.

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 they are fixed rates) or time remaining to their next re-pricing (if they are floating rates). Balances of savings deposits are distributed in line with the findings of a behavioural analysis conducted by the Bank. Vulnerability of the Bank to interest rate volatility is indicated by the gap between RSA and RSL. (Refer Table 21)

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 interest-bearing 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 FVTPL and FVOCI categories due to abnormal market movements is measured using both Economic Value of Equity (EVE) and Earnings At Risk (EAR) perspectives. Results of stress tests on IRR are analysed to identify the impact of such scenarios on the 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 Table 20)

Sensitivity of NII to rate shocks Table – 20

	2019		2018	
	Parallel increase Rs. '000	**Parallel decrease Rs. '000**	Parallel increase Rs. '000	Parallel decrease Rs. '000
As at December 31,	**932,750**	**(911,553)**	1,560,756	(1,557,263)
Average for the year	**1,425,767**	**(1,413,235)**	1,493,675	(1,490,832)
Maximum for the year	**1,646,844**	**(1,643,315)**	1,646,558	(1,639,199)
Minimum for the year	**932,750**	**(911,553)**	1,269,334	(1,267,132)

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 marginally appreciated by 0.844% (Source Bloomberg) during the year under review.

Please refer to Note 69.3.3 – Exposure to currency risk - non trading portfolio on pages 283 and 284.

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 Table 25 on page 128). The impact of a 1% change in exchange rate on the foreign currency position indicated a loss of Rs. 267.68 Mn. on the positions as at December 31, 2019. (Refer Graph 43 on page 284)

Interest rate sensitivity gap analysis of assets and liabilities of the banking book as at December 31, 2019 – Bank Table – 21

Description	Up to 3 Months Rs. '000	3-12 months Rs. '000	1-3 years Rs. '000	3-5 years Rs. '000	More than 5 years Rs. '000	Non-sensitive Rs. '000	Total as at December 31, 2019 Rs. '000
Total financial assets	**623,167,324**	**215,364,964**	**201,320,952**	**120,456,961**	**71,528,976**	**81,948,135**	**1,313,787,312**
Total financial liabilities	**446,889,518**	**438,751,543**	**82,755,244**	**50,421,177**	**128,908,291**	**69,443,286**	**1,217,169,059**
Period gap	**176,277,806**	**(223,386,579)**	**118,565,708**	**70,035,784**	**(57,379,315)**	**12,504,849**	**96,618,253**
Cumulative gap	**176,277,806**	**(47,108,773)**	**71,456,935**	**141,492,719**	**84,113,404**	**96,618,253**	
RSA/RSL	**1.39**	**0.49**	**2.43**	**2.39**	**0.55**		

Equity price risk

Although the Bank's exposure to equity price risk is negligible, mark to market calculations are conducted daily on FVTPL and FVOCI portfolios. The Bank has also calculated VaR on equity portfolio. Note 69.3.4 on page 284 summarises the impact of a shock of 10% on equity price on profit, other comprehensive income (OCI) and equity.

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.

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 mismatches in maturities of assets and liabilities. 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.

Liquid asset ratios as at December 31, 2019 are given below:

Liquid asset ratios Table – 22

	Domestic Banking Unit (DBU) %	Off-Shore Banking Unit (OBC) %
Statutory Liquid Assets Ratio (SLAR)	30.42	25.25
	Local currency %	All currency %
Liquidity Coverage Ratio (LCR)	158.79	224.74

Managing liquidity risk

The Bank manages liquidity risk through policies and procedures, measurement approaches, mitigation measures, stress testing methodologies and contingency funding arrangements. As experienced across the industry, poor credit growth caused the Bank to have an excess liquidity situation throughout the year, as can be seen by the ratios given in Table 22. It was a challenge for the Bank to manage such liquidity to generate an optimum return. Major portion of the excess liquidity had to be invested in Government securities, both denominated in LKR and USD at optimum yields to minimise adverse effects on profitability.

224.74% Liquidity Coverage Ratio

Liquidity Coverage Ratio of the Bank stood at 224.74% as at December 31, 2019, well above the minimum statutory requirement of 100%.

137.05% – Net Stable Funding Ratio

Net Stable Funding Ratio of the Bank stood at 137.05% as at December 31, 2019, well above the minimum statutory requirement of 100%.

Liquidity risk review

The net loans to deposits ratio is regularly monitored by the ALCO to ensure that the asset and liability portfolios of the Bank are geared to maintain a healthy liquidity position. NSFR 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 given in Table 23 below:

Table – 23

Liquidity ratios %	As at December 31, 2019	As at December 31, 2018
Loans to customer deposits	**0.87**	0.91
Net loans to total assets	**0.64**	0.66
Liquid assets to short-term liabilities	**0.48**	0.26
Purchased funds to total assets	**0.21**	0.26
(Large liabilities – Temporary Investments) to (Earning assets – Temporary Investments)	**0.18**	0.19
Commitment to total loans	**0.19**	0.19

Maturity gap analysis

Maturity gap analysis of assets and liabilities of the Bank as at December 31, 2019 is given in Note 69.2.2 (a) to the Financial Statements on pages 275 to 277.

Maturity analysis of financial assets and liabilities of the Bank indicates sufficient funding for foreseeable adverse situations based on prescribed behavioural patterns observed.

Maturity analysis of financial assets and financial liabilities of the Bank 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

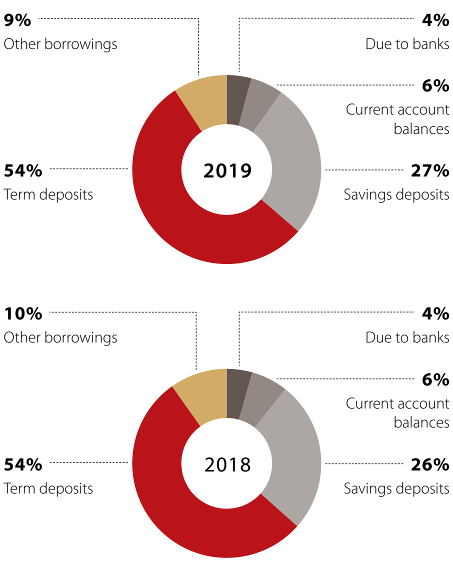
In the absence of a contractual agreement about maturity, savings deposits are treated as a non-maturing demand deposit. There is no exact re-pricing frequency for the product and the Bank resets rate offered on these deposits based on re-pricing gap, liquidity and profitability etc. Since, there is no exact re-pricing frequency and that it is not sensitive to market interest rates, segregation of savings products among the predefined maturity buckets in the maturity gap report is done based on the regular simulations carried out by the Bank in line with a 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 and other borrowings. The Graph 25 provides a product-wise analysis of the Bank's funding diversification as at end of 2019 and 2018.

Funding diversification by product Graph – 27



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 Bank's objective is to control it in a cost-effective manner. Operational risk includes legal risk but excludes strategic and reputational risk.

Managing operational risk

The Bank manages operational risk through policies, risk assessment, risk mitigation including insurance coverage, procedures relating to outsourcing of business activities, managing technology risk, a comprehensive Business Continuity Plan (BCP) and Disaster Recovery Plan (DRP), creating a culture of risk awareness across the Bank, stress testing and monitoring and reporting.

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 the CBSL annually. Due diligence tests on outsourced vendors are carried out by respective risk owners prior to executing new agreements and renewal of existing agreements. Further, bi-annual review meetings are conducted with key IT service providers to monitor service performance levels and to verify adherence to the agreements.

Business continuity management

Business Continuity Management (BCM) framework of the Bank encompasses business continuity, disaster recovery, crisis management, incident management, emergency management and contingency planning activities. These activities will ensure that the Bank is committed to serve its customers, employees, shareholders and suppliers with minimum business interruptions in the event of an unforeseen disruption to its business activities arising from man-made, natural or technical disasters.

The scope of the BCM includes programme initiation and management, risk evaluation and business impact analysis, developing business continuity strategies, emergency preparedness and response, developing and implementing business continuity plans, awareness building and training, business continuity plan exercise, audit and maintenance, crisis communications and coordination with external agencies.

During previous year (2018), the BCP of the Bank was revamped in line with industry best practices in consultation with an external BCP expert. IT Disaster Recovery Plan, which is a key component of BCP was also reviewed and approved by the Board of Directors. IT system recovery capabilities of core banking and other critical systems of the Bank has been further strengthened by way of introducing a secondary high-availability set-up leading to improved redundancy.

A BCP exercise was carried out in September 2019, which was conducted over a period of one week, beyond the current requirement of CBSL to carry out a BCP exercise on a working day. During the week of the BCP drill, the core banking and other critical systems were running from the DR systems. The exercise was a great success with very minimum disruptions, which bears testimony to the maturity attained by the Bank by conducting such exercises over the years. The BCM Unit of the Bank continued with other regular tasks that included on-going alternate site testing, workshops/awareness sessions on BCP conducted for business units, etc.

Review of operational risk

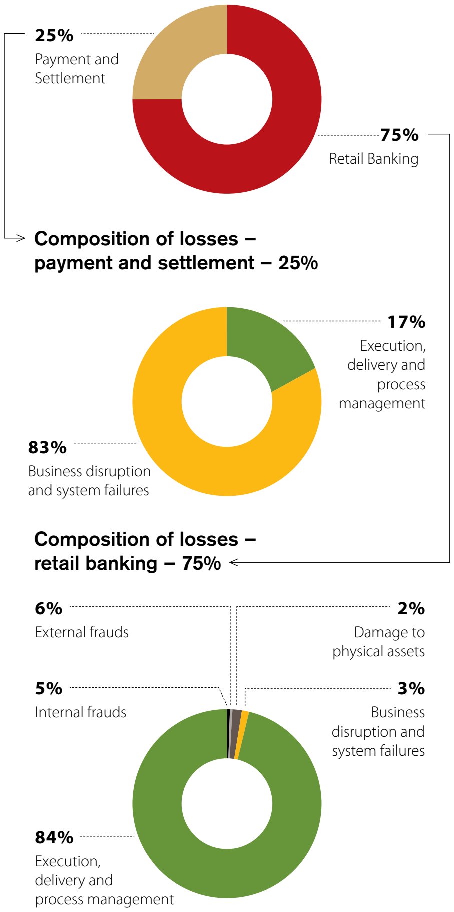
The Bank has a low appetite for operational risks and has established tolerance levels for all types of material operational risk losses based on historical loss data, budgets and forecasts, performance of the Bank, existing systems and controls governing Bank operations etc. Following thresholds have been established based on audited financial statements 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

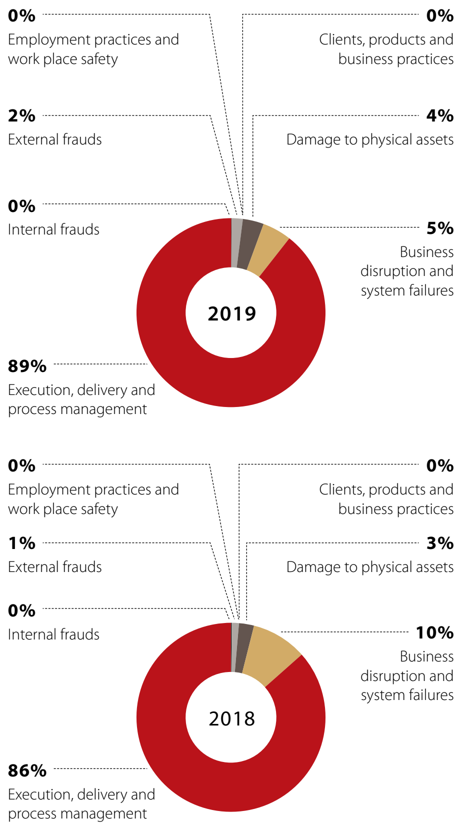
Operational losses for the financial year 2019 were below the internal alert level at 0.78% (of average audited gross income for the past three years). The Bank has been consistently maintaining operational losses below the alert level for the past ten years, reflecting the "tone at the top", effectiveness of the governance structures and the rigour of processes and procedures in place to manage operational risk.

The Graph 26 analyses the operational risk losses incurred by the Bank in 2019 under each business line/category.

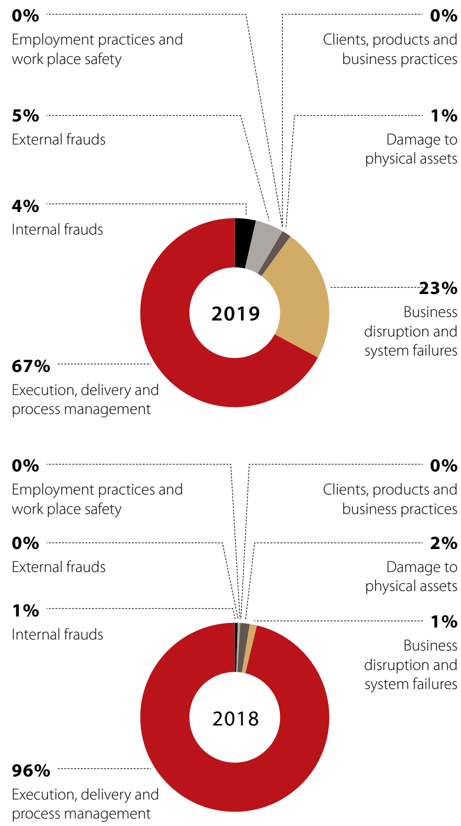
Composition of losses – 2019 Graph – 28



Operational loss events by category – % of total losses by number of events Graph – 29



Operational loss events by category – % of total losses by value Graph – 30



When analysing the losses incurred during 2019 under the Basel II defined business lines, it is evident that the majority (75%) of losses with financial impact falls under the business line of "Retail Banking", followed by the losses reported under the "Payment and Settlement" business line (25%). Losses relating to other business lines remain negligible.

The Graphs 27 and 28 depict the comparison of operational losses reported during 2019 and 2018 under each Basel II loss event type, both in terms of number of occurrences and value.

As typical with operational risk losses, majority of the losses encountered by the Bank during 2019 consisted 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 accounted for more than 93% 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 0.0057%.

When considering the values of the losses incurred by the Bank during the year, they can mainly be 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 these two categories majority of which the Bank managed to resolve through subsequent recovery/rectification with minimum financial impact to the Bank. Further, necessary process improvements and system changes have been introduced to prevent recurrence. Capital allocation pertaining to operational risk for 2019 under Alternative Standardised Approach as per Basel III is Rs. 5.76 Bn., where as the net loss after discounting the subsequent recoveries amounts to a mere 0.75% of this capital allocation. 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

IT risk is the business risk associated with use, ownership, operation, involvement, influence and adoption of IT within an organisation. It is a major component of operational risk comprising 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 affect the whole business. Given the uncertainty with regard to frequency and magnitude, managing IT risk poses challenges. Hence, the Bank has accorded top priority to addressing IT risk, giving more focus to cyber security strategies and continually investing on improving the cyber security capabilities. The Bank's 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.

The IT Risk Unit of the IRMD 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. The IT Risk Management Policy, aligned with the Operational Risk Management Policy complements the Information Security Policy, the related processes, objectives and procedures relevant for managing risk and improving information security of the Bank.

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 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 has a multi-layered approach of building controls into 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 controls. Being the first local bank to be certified under the ISO/IEC 27001 information security standard in 2010, the Bank has maintained the certification throughout, by successfully under-going the annual audits.

The Bank has continued to invest in information security, by enhancing information security governance in line with the CBSL directions and intensifying focus on information and cyber security with the Baseline Security Standard (BSS) being rolled-out across the branch network and in the Head Office. Initiatives taken in this regard are given under Key Developments in 2019 on pages 100 and 111 of this report.

Given that risk management relies heavily on an effective monitoring mechanism, the IT Risk Unit carries out continuous, independent monitoring of the Bank's IT risk profile using a range of tools and techniques including Key IT Risk Indicators (KIRIs).

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. 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.

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 on an ongoing basis. A comprehensive compliance policy specifies how this key risk is identified, monitored and managed by the Bank in a structured manner. The Bank's culture and the Code of Ethics too play a key role in managing this risk.

Strategic risk

Strategic risk is associated with the strategic decisions and may manifest in the Bank not being able to keep up with the changing market dynamics, leading to loss of market share and failure to achieve strategic goals. 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 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 relating to the "conduct" of the Bank 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 that prohibit unethical behaviour and promote employees to live by the claims made. 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 Adequacy and ICAAP Framework

In line with the Basel requirements and as prescribed in the ICAAP framework, the Bank used internal models to assess and quantify the risk profile, to stress test risk drivers and to assess capital requirements to support them. Internal limits which are more stringent than the regulatory requirement provide early warnings with regard to capital adequacy.

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.

The Bank is compliant with both regulatory and its own prudential requirements of capital adequacy. With a loyal base of shareholders and profitable operations, the Bank is also well positioned to meet capital requirements in the longer term to cover its material risks and to support business expansion, as a domestic systemically important bank. (D-SIB)

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 gradually increase minimum capital ratios to be fully implemented by January 1, 2019.

A comparison of the position as at December 31, 2019 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.

Please refer the Basel computation given on pages 327 and 328 for the Bank's position as at December 31, 2019 against the minimum requirements stipulated by the CBSL.

The Bank periodically evaluates the capital requirements of the next 05 years through the ICAAP, develops capital augmentation plans based thereon and submits same for the CBSL review. Accordingly, despite the significant impact on the internal capital generation capabilities of the Bank in 2018 and 2019 from SLFRS 9 adoption and the Debt Repayment Levy, the Bank has been able to secure availability of capital to fund its expansion plans and meet Higher Loss Absorbency (HLA) requirements recently prescribed by the CBSL for D-SIBs.

"Basel Workgroup" of the Bank consists of representatives from a cross section of business and support units 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 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 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.

Target and actual capital Table – 24

Capital ratios	Regulatory minimum %	HLA %	Total %	Goal (Internal requirement)	**2019 (%)**	2018 (%)
CET 1	7.0	1.5	8.5	>11	**12.298**	11.338
Total	12.5	1.5	14.0	>15	**16.146**	15.603

(📖 Refer pages 327 to 328 in Annex 3 for the detailed capital adequacy computation)

Stress testing

As an integral part of ICAAP under Pillar II, the Bank conducted stress testing for severe but plausible shocks on its major risk exposures on a periodic basis to evaluate the sensitivity of the current and forward risk profile relative to risk appetite and their impact on resilience of capital, funding, liquidity and earnings.

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 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 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 as Moderate risk. If the impact results in the capital falling below the statutory requirement such a level will be considered as 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 25.

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 is given regular training, enabling them to develop and refine their skills. They are well aided by IT systems which enabled extraction of data, analysis and modelling. Regular and ad-hoc reports are generated on Key Risk Indicators and risk matrices of the Bank as well as the subsidiaries, for review by the senior management, Executive and Board Committees, and the Board which rely on such reports for evaluating risk and provides strategic direction. The reports provide information on aggregate measures of risks across products, portfolios, tenures and geographies compared against agreed policy parameters, providing a clear representation of the risk profile and sensitivities of the risks assumed by the Bank and the Group.

Basel III – Market Discipline

Please refer Annex 3 on pages 327 to 340 for the minimum disclosure requirements under Pillar III as per the Banking Act Direction No. 01 of 2016.

Please refer pages 339 and 340 on Annex 3 for the D-SIB Assessment Exercise disclosed as required by the Banking Act Direction No. 10 of 2019.

Impact on CAR at Minor, Moderate and Severe stress levels:

Table – 25

Particulars	Description	2019 Minor %	2019 Moderate %	2019 Severe %	2018 Minor %	2018 Moderate %	2018 Severe %
Credit risk – asset quality downgrade	Increasing the direct non-performing facilities over the direct performing facilities for the entire portfolio	**-0.15**	**-0.38**	**-0.74**	-0.14	-0.36	-0.68
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	**-0.05**	**-0.13**	**-0.25**	-0.06	-0.14	-0.27
Foreign exchange risk	Percentage shock in the exchange rates for the Bank and Maldives operations (gross positions in each Book without netting)	**-0.06**	**-0.13**	**-0.29**	-0.05	-0.09	-0.14
Liquidity risk (LKR) – Sri Lanka	1. Withdrawal of percentage 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	**-0.03**	**-0.11**	**-0.26**	-0.02	-0.10	-0.28
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	**-0.15**	**-0.30**	**-0.44**	-0.30	-0.58	-0.86

Pages 129 - 286

Financial Statements

The Financial Statements including Accounting Policies and accompanying notes provide a true and fair view of our results of operation, 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 "Independent Auditors' Report" to the shareholders.

Financial Calendar – 2019 and 2020

Dividend Calendar

	2019	2020
Final dividend for the previous year paid/payable	**On April 08, 2019**	On April 09, 2020
First interim dividend for the year paid/payable	**On November 18, 2019**	in the fourth quarter of 2020
Second interim dividend for the year paid/payable	**On February 24, 2020**	in the first quarter of 2021
Final dividend for the year to be proposed	**On March 30, 2020**	in March 2021
Final dividend for the current year to be paid	**On April 09, 2020**	in April 2021

Annual General Meeting (AGM) Calendar

Annual Report and Accounts signed/to be signed

For the year 2019 –	For the year 2020 –
On February 20, 2020	In February 2021

Annual General Meeting to be held

For the year 2019 –	For the year 2020 –
On March 30, 2020	In March 2021

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)

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)

	Submission to the CSE		Publication in the Newspapers			
	2019 Submitted on	2020 To be submitted on or before	**2019 Published on/to be published on or before**			2020 To be published on or before
			English	**Sinhala**	**Tamil**	In all three languages
For the three months ended/ending March 31, (unaudited)	**May 14, 2019**	May 15, 2020	**May 23, 2019**	**May 30, 2019**	**May 30, 2019**	May 31, 2020
For the six months ended/ending June 30, (audited)	**August 15, 2019**	August 14, 2020	**August 23, 2019**	**August 30, 2019**	**August 30, 2019**	August 31, 2020
For the nine months ended/ending September 30, (unaudited)	**November 15, 2019**	November 13, 2020	**November 22, 2019**	**November 28, 2019**	**November 29, 2019**	November 30, 2020
For the year ended/ending December 31, (audited)	**On February 24, 2020**	February 26, 2021	**March 31, 2020**	**March 31, 2020**	**March 31, 2020**	March 31, 2021

Independent Auditors' Report

Building a better working world

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Chartered Accountants
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HMAJ/WDPL

TO THE SHAREHOLDERS OF COMMERCIAL BANK OF CEYLON PLC

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Commercial Bank of Ceylon PLC ("the Bank") and the consolidated financial statements of the Bank and its subsidiaries ("the Group"), which comprise the statement of financial position as at December 31, 2019, and the income statement, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements of the Bank and the Group gives a true and fair view of the financial position of the Bank and the Group as at December 31, 2019, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards ("SLAuSs"). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the Code of Ethics issued by CA Sri Lanka ("Code of Ethics") and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of our financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Key audit matter	How our audit addressed the key audit matter
Impairment allowance for Loans and advances to other customers. Our audit considered impairment allowance for loans and advances to other customers as a key audit matter. The materiality of the reported amounts for loans and advances to other customers (and impairment allowance thereof), the subjectivity associated with management's impairment estimation, involvement of complex manual calculations and overarching economic conditions in Sri Lanka underpinned our basis for considering it as a Key Audit Matter. As at 31 December 2019, 63 % of its total assets of the Group consisted of loans and advances to other customers amounting to Rs. 893,919 Mn., net of impairment allowance of Rs. 36,818 Mn. (Note 34). Significant estimates and assumptions used by the management in such calculations, its sensitivities and the basis for impairment allowance are disclosed in Note 7.1.12 and 18 and 69.1.3.	To assess the reasonableness of the impairment allowance, our audit procedures (among others) were designed to obtain sufficient and appropriate audit evidences, included the following: • We evaluated design effectiveness of controls over estimation of impairment loans and advances to other customers, which included assessing the level of oversight, review and approval of impairment policies by the Board Audit Committees and management. • We test-checked the underlying calculations and data. • In addition to the above, following focused procedures were performed: For a sample of loans to and receivables from other customers individually assessed for impairment: – We assessed the main criteria used by the management for determining whether an impairment event had occurred; – Where impairment indicators existed. We obtained an understanding of the latest developments in the borrower's situation and the factors impacting the measurement of provisions; – We assessed the reasonableness of management's estimated future recoveries including the expected future cash flows, discount rates and the valuation of collateral held. We also compared the actual recoveries against previously estimated amounts of future recoveries. – We involved our internal specialists to assess the market value of a sample of collateral valuations. For loans to and receivables from other customers collectively assessed for impairment: – We assessed Management's key assumptions, such as: definition of default, probability of default ("PD"), loss given default, significant increases in credit risk and the staging applied by Management, forward looking assumptions and the determination of lifetime PD curves; – We assessed the completeness of the underlying information in loans and advances used in the impairment calculations by agreeing details to the Group's source documents and information in IT systems. – We also considered reasonableness of macro-economic and other factors used by management in their judgemental overlays for various types of loan portfolios, by comparing them with publicly available data and information sources. – We assessed the management procedure over identification and staging of modified loans. • We assessed the adequacy of the related financial statement disclosures as set out in Note 34.
Bank's financial reporting process and related IT systems and Controls Bank uses multitude complex IT systems in its operations. As a result, preparation of financial statements inclusive of key disclosures are heavily dependent on information derived from multiple systems that are being used. The process of preparing key disclosures involve running multiple system reports, collation and spread sheet based calculations. Accordingly we considered the risk of any control lapses of the preparation of accounting and financial information as a Key Audit Matter.	We performed the following procedures, among others. • Understanding and evaluation of design effectiveness of key automated, IT dependent or manual controls implemented by management over generation of multiple system reports and collation of required information underpinning the significant financial statement disclosures. • Examining Management's reconciliations between source systems and the general ledgers through to the consolidation spreadsheet, including substantiation of the source system balances; • Test-checking; – the system report generation functionalities that were deemed key to financial statement disclosures; – source data with those of the related systems; – calculations and categorisations performed by management to ensure accuracy and reasonability of functions and procedures respectively; and • Assessing if the significant disclosures are being made in line with applicable accounting standards. – Where we considered necessary, performing additional substantive audit procedures on specific account reconciliations underpinning significant financial statements disclosures. • Testing material post-closing adjustments to appropriate supporting evidence.

Other information included in the 2019 Annual Report

Other information consists of the information included in the Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's and the Group's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SLAuSs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 internal controls of the Bank and the Group.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with ethical requirements in accordance with the Code of Ethics regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, 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 Bank.

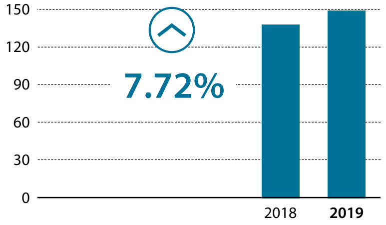
CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is 1884.

Chartered Accountants

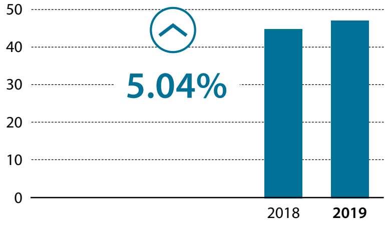
February 20, 2020
Colombo

Financial Statements Highlights – Bank

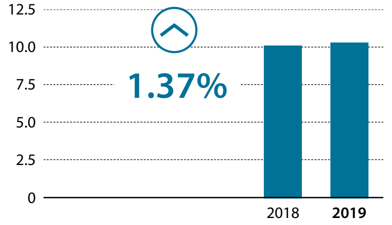
Gross income Graph – 31
Rs. Bn.



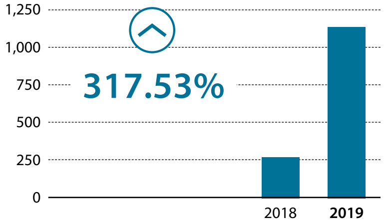
Net interest income Graph – 32
Rs. Bn.



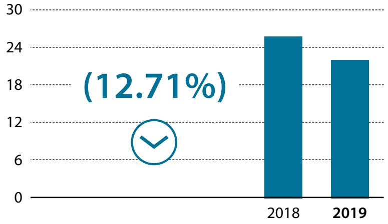
Net fee and commission income Graph – 33
Rs. Bn.



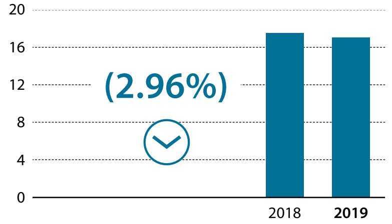
Net gains/(losses) from derecognition of financial assets Graph – 34
Rs. Mn.



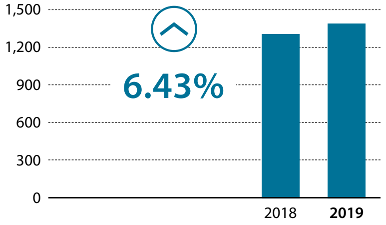
Profit before tax Graph – 35
Rs. Bn.



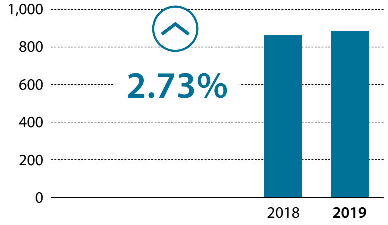
Profit after tax Graph – 36
Rs. Bn.



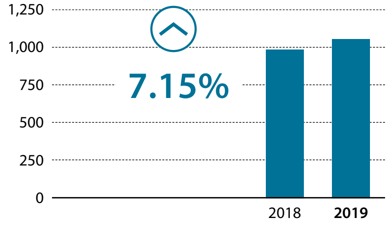
Total assets Graph – 37
Rs. Bn.



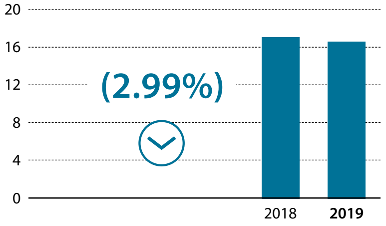
Financial assets at amortised cost – Loans and advances to other customers Graph – 38
Rs. Bn.



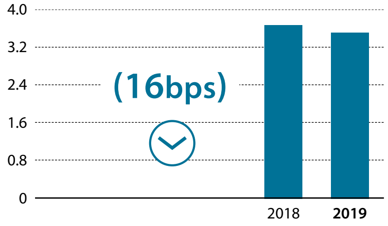
Financial liabilities at amortised cost – Due to depositors Graph – 39
Rs. Bn.



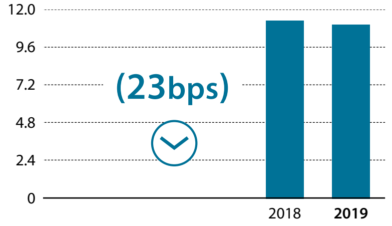
Earnings per share – Basic Graph – 40
Rs.



Interest margin Graph – 41
%



Financial intermediation margin Graph – 42
%



Financial Statements – Table of Content

Income Statement

For the year ended December 31,	Note	Page No.	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	GROUP Change %	BANK 2019 Rs. '000	BANK 2018 Rs. '000	BANK Change %
Gross income	12	172	150,741,129	139,657,195	7.94	148,706,284	138,049,307	7.72
Interest income	13.1	172	129,287,743	118,551,239	9.06	127,779,540	117,465,670	8.78
Less: Interest expense	13.2	173	80,931,352	72,933,030	10.97	80,571,268	72,523,912	11.10
Net interest income	13	172	48,356,391	45,618,209	6.00	47,208,272	44,941,758	5.04
Fee and commission income	14.1	174	12,874,966	12,494,090	3.05	12,406,584	11,988,070	3.49
Less: Fee and commission expense	14.2	175	2,123,128	1,859,698	14.17	2,117,072	1,837,900	15.19
Net fee and commission income	14	174	10,751,838	10,634,392	1.10	10,289,512	10,150,170	1.37
Net gains/(losses) from trading	15	175	1,360,833	(3,033,236)	144.86	1,360,858	(3,033,236)	144.86
Net gains/(losses) from derecognition of financial assets	16	175	1,135,711	272,004	317.53	1,135,711	272,004	317.53
Net other operating income	17	176	6,081,876	11,373,098	(46.52)	6,023,591	11,356,799	(46.96)
Total operating income			67,686,649	64,864,467	4.35	66,017,944	63,687,495	3.66
Less: Impairment charges and other losses	18	176	11,331,523	8,833,362	28.28	11,061,466	8,575,199	28.99
Net operating income			56,355,126	56,031,105	0.58	54,956,478	55,112,296	(0.28)
Less: Expenses								
Personnel expenses	19	179	14,408,914	13,289,668	8.42	14,082,659	13,070,939	7.74
Depreciation and amortisation	20	179	2,841,264	1,603,118	77.23	2,754,521	1,469,109	87.50
Other operating expenses	21	180	8,875,316	8,993,958	(1.32)	8,588,456	8,929,179	(3.82)
Total operating expenses			26,125,494	23,886,744	9.37	25,425,636	23,469,227	8.34
Operating profit before taxes on financial services			30,229,632	32,144,361	(5.96)	29,530,842	31,643,069	(6.68)
Less: Taxes on financial services	22	181	7,255,728	6,051,861	19.89	7,191,737	6,051,861	18.84
Operating profit after taxes on financial services			22,973,904	26,092,500	(11.95)	22,339,105	25,591,208	(12.71)
Share of profits of associates, net of tax	38.1	207	9,992	6,048	65.21	–	–	–
Profit before tax			22,983,896	26,098,548	(11.93)	22,339,105	25,591,208	(12.71)
Less : Income tax expense	23	181	5,563,500	8,235,717	(32.45)	5,314,138	8,047,380	(33.96)
Profit for the year			17,420,396	17,862,831	(2.48)	17,024,967	17,543,828	(2.96)
Profit attributable to:								
Equity holders of the Bank			17,263,259	17,734,706	(2.66)	17,024,967	17,543,828	(2.96)
Non-controlling interest	58	243	157,137	128,125	22.64	–	–	–
Profit for the year			17,420,396	17,862,831	(2.48)	17,024,967	17,543,828	(2.96)
Earnings per share								
Basic earnings per ordinary share (Rs.)	24.1	183	16.80	17.27	(2.72)	16.57	17.08	(2.99)
Diluted earnings per ordinary share (Rs.)	24.1	183	16.80	17.27	(2.72)	16.57	17.08	(2.99)

The Notes appearing on pages 149 to 286 form an integral part of these Financial Statements.

Financial Statements

Statement of Profit or Loss and Other Comprehensive Income

For the year ended December 31,	Note	Page No.	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	GROUP Change %	BANK 2019 Rs. '000	BANK 2018 Rs. '000	BANK Change %
Profit for the year			17,420,396	17,862,831	(2.48)	17,024,967	17,543,828	(2.96)
Other comprehensive income, net of tax								
Items that will never be reclassified to profit or loss								
Net actuarial gains/(losses) on defined benefit plans			(57,336)	104,581	(154.82)	(56,940)	107,376	(153.03)
Gains/(losses) on remeasurement of defined benefit liability/asset			(65,354)	149,721	(143.65)	(64,804)	153,602	(142.19)
Less: Deferred tax charge/(reversal) on actuarial gains/(losses)			(8,018)	45,140	(117.76)	(7,864)	46,226	(117.01)
Net change in revaluation surplus	57.1	241	–	(10,010)	–	–	–	–
Changes in revaluation surplus/(deficit)			–	–	–	–	–	–
Less: Deferred tax charge/(reversal) on revaluation surplus			–	10,010	–	–	–	–
Net change in fair value on investments in equity			(26,547)	(17,314)	(53.33)	(26,547)	(17,314)	(53.33)
Change in fair value on investments in equity at fair value through other comprehensive income			(26,547)	(17,314)	(53.33)	(26,547)	(17,314)	(53.33)
Less: Deferred tax charge/(reversal) on change in fair value on investments in equity			–	–	–	–	–	–
Realised gains/(losses) from disposal of investments in equity			–	2,909	–	–	2,909	–
Share of other comprehensive income of associates			38,633	(8,432)	558.17	–	–	–
Items that are or may be reclassified to profit or loss								
Net gains/(losses) arising from translating the Financial Statements of foreign operations	57.5	242	(396,201)	3,003,952	(113.19)	(399,787)	2,557,517	(115.63)
Net gains/(losses) on investment in financial assets at fair value through other comprehensive income			3,197,347	(1,043,629)	406.37	3,196,970	(1,042,248)	406.74
Fair value gains/(losses) that arose during the year, net of tax			3,865,752	(1,203,677)	421.16	3,865,375	(1,202,296)	421.50
Fair value gains/(losses) realised to the Income Statement on disposal, net of tax			(816,182)	(169,275)	(382.16)	(816,182)	(169,275)	(382.16)
Fair value gains/(losses) recycled to the Income Statement as impairement, net of tax			147,777	329,323	(55.13)	147,777	329,323	(55.13)
Cash flow hedges – effective portion of changes in fair value, net of tax	57.7	243	(62,391)	27,231	(329.12)	(62,391)	27,231	(329.12)
Other comprehensive income for the year, net of tax			2,693,505	2,059,288	30.80	2,651,305	1,635,471	62.11
Total comprehensive income for the year			20,113,901	19,922,119	0.96	19,676,272	19,179,299	2.59
Attributable to:								
Equity holders of the Bank			19,961,841	19,598,286	1.86	19,676,272	19,179,299	2.59
Non-controlling interest			152,060	323,833	(53.04)	–	–	–
Total comprehensive income for the year			20,113,901	19,922,119	0.96	19,676,272	19,179,299	2.59

Statement of Financial Position

As at December 31,	Note	Page No.	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	GROUP Change %	BANK 2019 Rs. '000	BANK 2018 Rs. '000	BANK Change %
Assets								
Cash and cash equivalents	28	190	**53,681,118**	44,355,962	21.02	**52,534,730**	39,534,476	32.88
Balances with Central Banks	29	191	**46,101,232**	55,406,535	(16.79)	**39,461,127**	54,384,590	(27.44)
Placements with banks	30	191	**24,903,809**	19,898,515	25.15	**24,527,241**	19,898,515	23.26
Securities purchased under resale agreements			**13,147,534**	9,513,512	38.20	**13,147,534**	9,513,512	38.20
Derivative financial assets	31	192	**1,830,927**	7,909,962	(76.85)	**1,830,927**	7,909,962	(76.85)
Financial assets recognised through profit or loss – measured at fair value	32	192	**21,468,033**	5,520,167	288.90	**21,468,033**	5,520,167	288.90
Financial assets at amortised cost – Loans and advances to banks	33	195	**757,787**	763,074	(0.69)	**757,787**	763,074	(0.69)
Financial assets at amortised cost – Loans and advances to other customers	34	196	**893,919,311**	867,611,976	3.03	**884,645,744**	861,100,315	2.73
Financial assets at amortised cost – Debt and other financial instruments	35	199	**107,059,021**	89,274,413	19.92	**101,144,819**	83,855,436	20.62
Financial assets measured at fair value through other comprehensive income	36	201	**197,825,017**	176,760,611	11.92	**197,568,330**	176,506,729	11.93
Investments in subsidiaries	37	204	**–**	–	–	**5,011,284**	4,263,631	17.54
Investments in associates	38	207	**56,821**	105,320	(46.05)	**44,331**	44,331	–
Property, plant and equipment and right-of-use assets	39	208	**22,423,046**	17,015,236	31.78	**20,436,493**	15,301,246	33.56
Investment properties	40	219	**46,350**	–	–	**–**	–	–
Intangible assets	41	220	**1,645,714**	1,433,931	14.77	**1,080,010**	906,112	19.19
Leasehold property	42	222	**101,612**	103,064	(1.41)	**70,710**	71,652	(1.31)
Deferred tax assets	43	222	**530,165**	188,487	181.27	**294,059**	–	–
Other assets	44	224	**23,443,869**	24,051,472	(2.53)	**23,322,247**	23,911,122	(2.46)
Total assets			**1,408,941,366**	1,319,912,237	6.75	**1,387,345,406**	1,303,484,870	6.43
Liabilities								
Due to banks	45	225	**53,807,425**	52,362,052	2.76	**51,505,694**	50,101,081	2.80
Derivative financial liabilities	46	225	**1,495,317**	8,021,783	(81.36)	**1,495,317**	8,021,783	(81.36)
Securities sold under repurchase agreements			**51,117,342**	48,951,394	4.42	**51,220,023**	49,104,462	4.31
Financial liabilities at amortised cost – due to depositors	47	226	**1,068,982,587**	994,370,875	7.50	**1,053,307,660**	983,037,314	7.15
Financial liabilities at amortised cost – other borrowings	48	227	**23,248,893**	25,361,912	(8.33)	**23,248,893**	25,361,912	(8.33)
Current tax liabilities	49	227	**5,197,188**	6,735,997	(22.84)	**4,967,644**	6,566,358	(24.35)
Deferred tax liabilities	43	222	**416,458**	971,424	(57.13)	**–**	646,248	–
Other liabilities	50	228	**30,775,884**	24,547,513	25.37	**30,496,709**	24,206,351	25.99
Due to subsidiaries	51	235	**–**	–	–	**54,292**	40,955	32.57
Subordinated liabilities	52	235	**37,886,789**	37,992,457	(0.28)	**37,886,789**	37,992,457	(0.28)
Total liabilities			**1,272,927,883**	1,199,315,407	6.14	**1,254,183,021**	1,185,078,921	5.83
Equity								
Stated capital	53	236	**40,916,958**	39,147,882	4.52	**40,916,958**	39,147,882	4.52
Statutory reserves	55	239	**8,387,701**	7,444,178	12.67	**8,205,391**	7,354,143	11.58
Retained earnings	56	240	**5,182,185**	4,949,955	4.69	**5,144,433**	5,063,076	1.61
Other reserves	57	240	**79,937,405**	67,855,834	17.80	**78,895,603**	66,840,848	18.04
Total equity attributable to equity holders of the Bank			**134,424,249**	119,397,849	12.59	**133,162,385**	118,405,949	12.46
Non-controlling interest	58	243	**1,589,234**	1,198,981	32.55	**–**	–	–
Total equity			**136,013,483**	120,596,830	12.78	**133,162,385**	118,405,949	12.46
Total liabilities and equity			**1,408,941,366**	1,319,912,237	6.75	**1,387,345,406**	1,303,484,870	6.43
Contingent liabilities and commitments	59	244	**580,961,807**	604,021,400	(3.82)	**579,999,273**	603,883,119	(3.96)
Net assets value per ordinary share (Rs.)	60	246	**130.83**	118.13	10.75	**129.60**	117.15	10.63
Memorandum information								
Number of employees						**5,062**	5,027	
Number of customer service centres						**287**	285	

The Notes appearing on pages 149 to 286 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

S Renganathan
Managing Director/ Chief Executive Officer

S Swarnajothi
Independent Non-Executive Director

R A P Rajapaksha
Company Secretary

February 20, 2020
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 December 31, 2017			37,143,541	6,492,552	5,086,609
Impact of adoption of SLFRS 9			–	–	(5,140,993)
Recognition of SLFRS 9 ECLs including those measured at FVOCI			–	–	(5,749,369)
Deferred tax on transitional adjustments			–	–	1,855,263
Transfer of AFS reserve build o/a reclassification of AFS portfolio to HTM portfolio (net of tax)			–	–	(1,587,069)
Impact of reclassifying financial investment from AFS to FVTPL			–	–	340,182
Re-measurement impact of reclassifying financial investment from L&R to FVOCI			–	–	–
Transfer of AFS reserve to fair value reserve			–	–	–
Balance as at January 1, 2018			37,143,541	6,492,552	(54,384)
Total comprehensive income for the year 2018					
Profit for the year			–	–	17,734,706
Other comprehensive income, net of tax			–	–	99,246
Net actuarial gains/(losses) on defined benefit plans			–	–	104,769
Realised gain/(loss) from disposal of investment in equity			–	–	2,909
Share of other comprehensive income of associates, net of tax			–	–	(8,432)
Deferred tax charge reversal on revaluation surplus			–	–	–
Net fair value gains/(losses) on remeasuring financial assets measured at fair value through other comprehensive income			–	–	–
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 2018			–	–	17,833,952
Transactions with owners, recognised directly in equity, contributions and distributions to owners					
Issue of ordinary shares under employee share option plans	53	236	203,083	–	–
Transfer o/a share-based payment transactions	53	236	6,414	–	–
Dividends to equity holders			1,794,844	–	(6,498,747)
Second interim dividend for 2017	25	184	–	–	(2,989,996)
Final cash dividend for 2017			–	–	–
Final dividend for 2017 satisfied in the form of issue and allotment of new shares	53	236	1,794,844	–	(1,994,271)
Unclaimed dividend absorbed/(dividend paid) in respect of previous years			–	–	1,604
First interim dividend for 2018	25	184	–	–	(1,516,084)
Share-based payment transactions	57.6	243	–	–	–
Profit due to change in ownership	17	276	–	–	3,344
Movement due to change in ownership			–	–	(2,584)
Transfers during the year	55 to 57	239 to 243	–	951,626	(6,331,626)
Total transactions with equity holders			2,004,341	951,626	(12,829,613)
Balance as at December 31, 2018			39,147,882	7,444,178	4,949,955
Impact of adoption of SLFRS 16			–	–	(57,627)
Reversal of deferred tax asset created on liability o/a straight lining of lease rentals			–	–	(57,627)
Balance as at January 1, 2019			39,147,882	7,444,178	4,892,328

Other reserves									
Revaluation reserve	Available-for-sale reserve	Fair value reserve	Foreign currency translation reserve	Hedging reserve	General reserve	Employee share option reserve	Shareholders' funds	Non-controlling interest	Total equity
Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
7,834,003	(1,707,486)	–	348,973	(3,212)	52,270,003	529,817	107,994,800	871,906	108,866,706
–	1,707,486	(325,412)	–	–	–	–	(3,758,919)	–	(3,758,919)
–	–	194,256	–	–	–	–	(5,555,113)	–	(5,555,113)
–	–	(47,775)	–	–	–	–	1,807,488	–	1,807,488
–	1,587,069	–	–	–	–	–	–	–	–
–	(340,182)	–	–	–	–	–	–	–	–
–	–	(11,294)	–	–	–	–	(11,294)	–	(11,294)
–	460,599	(460,599)	–	–	–	–	–	–	–
7,834,003	–	(325,412)	348,973	(3,212)	52,270,003	529,817	104,235,881	871,906	105,107,787
–	–	–	–	–	–	–	17,734,706	128,125	17,862,831
(10,010)	–	(1,060,943)	2,808,079	27,231	–	–	1,863,603	195,685	2,059,288
–	–	–	–	–	–	–	104,769	(188)	104,581
–	–	–	–	–	–	–	2,909	–	2,909
–	–	–	–	–	–	–	(8,432)	–	(8,432)
(10,010)	–	–	–	–	–	–	(10,010)	–	(10,010)
–	–	(1,060,943)	–	–	–	–	(1,060,943)	–	(1,060,943)
–	–	–	2,808,079	–	–	–	2,808,079	195,873	3,003,952
–	–	–	–	27,231	–	–	27,231	–	27,231
(10,010)	–	(1,060,943)	2,808,079	27,231	–	–	19,598,309	323,810	19,922,119
–	–	–	–	–	–	–	203,083	–	203,083
–	–	–	–	–	–	(6,414)	–	–	–
–	–	–	–	–	–	–	(4,703,903)	(4,181)	(4,708,084)
–	–	–	–	–	–	–	(2,989,996)	–	(2,989,996)
–	–	–	–	–	–	–	–	(2,531)	(2,531)
–	–	–	–	–	–	–	(199,427)	–	(199,427)
–	–	–	–	–	–	–	1,604	37	1,641
–	–	–	–	–	–	–	(1,516,084)	(1,687)	(1,517,771)
–	–	–	–	–	–	68,581	68,581	–	68,581
–	–	–	–	–	–	–	3,344	–	3,344
(4,862)	–	–	–	–	–	–	(7,446)	7,446	–
–	–	–	–	–	5,380,000	–	–	–	–
(4,862)	–	–	–	–	5,380,000	62,167	(4,436,341)	3,265	(4,433,076)
7,819,131	–	(1,386,355)	3,157,052	24,019	57,650,003	591,984	119,397,849	1,198,981	120,596,830
–	–	–	–	–	–	–	(57,627)	–	(57,627)
–	–	–	–	–	–	–	(57,627)	–	(57,627)
7,819,131	–	(1,386,355)	3,157,052	24,019	57,650,003	591,984	119,340,222	1,198,981	120,539,203

Statement of Changes in Equity – Group (Contd.)

	Note	Page No.	Stated capital Rs. '000	Statutory reserve fund Rs. '000	Retained earnings Rs. '000
Total comprehensive income for the year 2019					
Profit for the year			–	–	17,263,259
Other comprehensive income, net of tax			–	–	(57,400)
Net actuarial gains/(losses) on defined benefit plans			–	–	(57,400)
Share of other comprehensive income of associates, net of tax			–	–	–
Net fair value gains/(losses) on remeasuring financial assets measured at fair value through other comprehensive income			–	–	–
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 2019			–	–	17,205,859
Transactions with owners, recognised directly in equity, contributions and distributions to owners					
Issue of ordinary shares under employee share option plans	53	236	30,128	–	–
Transfer o/a share-based payment transactions	53	236	–	–	–
Transfer of value of expired ESOP	56 & 57.6	240 & 243	–	–	88,913
Dividends to equity holders			1,738,948	–	(6,596,511)
Second interim dividend for 2018	25	184	–	–	(3,032,869)
Final cash dividend for 2018			–	–	–
Final dividend for 2018 satisfied in the form of issue and allotment of new shares	53	236	1,738,948	–	(2,022,032)
Unclaimed dividend absorbed/(dividend paid) in respect of previous years			–	–	(350)
First interim dividend for 2019	25	184	–	–	(1,541,260)
Share-based payment transactions	57.6	243	–	–	–
Profit due to change in ownership	17	276	–	–	14,498
Movement due to change in ownership			–	–	(9,379)
Acquisition of a subsidiary with non-controlling interest			–	–	–
Transfers during the year	55 to 57	239 to 243	–	943,523	(10,413,523)
Total transactions with equity holders			1,769,076	943,523	(16,916,002)
Balance as at December 31, 2019			40,916,958	8,387,701	5,182,185

The Notes appearing on pages 149 to 286 form an integral part of this Financial Statements.

Other reserves									
Revaluation reserve	Available-for-sale reserve	Fair value reserve	Foreign currency translation reserve	Hedging reserve	General reserve	Employee share option reserve	Shareholders' funds	Non-controlling interest	Total equity
Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
–	–	–	–	–	–	–	17,263,259	157,137	17,420,396
39,575	–	3,169,858	(391,060)	(62,391)	–	–	2,698,582	(5,077)	2,693,505
–	–	–	–	–	–	–	(57,400)	64	(57,336)
39,575	–	(942)	–	–	–	–	38,633	–	38,633
–	–	3,170,800	–	–	–	–	3,170,800	–	3,170,800
–	–	–	(391,060)	–	–	–	(391,060)	(5,141)	(396,201)
–	–	–	–	(62,391)	–	–	(62,391)	–	(62,391)
39,575	–	3,169,858	(391,060)	(62,391)	–	–	19,961,841	152,060	20,113,901
–	–	–	–	–	–	–	30,128	–	30,128
–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	(123,490)	(34,577)	–	(34,577)
–	–	–	–	–	–	–	(4,857,563)	(4,988)	(4,862,551)
–	–	–	–	–	–	–	(3,032,869)	–	(3,032,869)
–	–	–	–	–	–	–	–	(3,188)	(3,188)
–	–	–	–	–	–	–	(283,084)	–	(283,084)
–	–	–	–	–	–	–	(350)	22	(328)
–	–	–	–	–	–	–	(1,541,260)	(1,822)	(1,543,082)
–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	14,498	–	14,498
(20,921)	–	–	–	–	–	–	(30,300)	30,300	–
–	–	–	–	–	–	–	–	212,881	212,881
–	–	–	–	–	9,470,000	–	–	–	–
(20,921)	–	–	–	–	9,470,000	(123,490)	(4,877,814)	238,193	(4,639,621)
7,837,785	–	1,783,503	2,765,992	(38,372)	67,120,003	468,494	134,424,249	1,589,234	136,013,483

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 December 31, 2017			37,143,541	6,476,952	4,987,446
Impact of adoption of SLFRS 9			–	–	(4,822,089)
Recognition of SLFRS 9 ECLs including those measured at FVOCI			–	–	(5,305,558)
Deferred tax on transitional adjustments			–	–	1,730,356
Transfer of AFS reserve build o/a reclassification of AFS portfolio to HTM portfolio (net of tax)			–	–	(1,587,069)
Impact of reclassifying financial investment from AFS to FVTPL			–	–	340,182
Re-measurement impact of reclassifying financial investment from L&R to FVOCI			–	–	–
Transfer of AFS reserve to fair value reserve			–	–	–
Balance as at January 1, 2018			37,143,541	6,476,952	165,357
Total comprehensive income for the year 2018					
Profit for the year			–	–	17,543,828
Other comprehensive income, net of tax			–	–	110,285
Net actuarial gains/(losses) on defined benefit plans			–	–	107,376
Realised gains/(losses) from disposal of investment in equity			–	–	2,909
Net change in revaluation surplus			–	–	–
Net fair value gains/(losses) on remeasuring financial assets measured at fair value through other comprehensive income			–	–	–
Net gains/(losses) arising from translating the Financial Statements of the foreign operations			–	–	–
Cash flow hedges – effective portion of changes in fair value, net of tax			–	–	–
Total comprehensive income for the year 2018			–	–	17,654,113
Transactions with owners, recognised directly in equity, contributions and distributions to owners					
Issue of ordinary shares under employee share option plans	53	236	203,083	–	–
Transfer o/a share-based payment transactions	53	236	6,414	–	–
Dividends to equity holders			1,794,844	–	(6,499,203)
Second interim dividend for 2017	25	184	–	–	(2,989,996)
Final dividend for 2017 satisfied in the form of issue and allotment of new shares	53	236	1,794,844	–	(1,994,271)
Unclaimed dividend absorbed/(dividend paid) in respect of previous years			–	–	1,148
First interim dividend for 2018	25	184	–	–	(1,516,084)
Share-based payment transactions	57.6	243	–	–	–
Transfers during the year	55 to 57	239 to 243	–	877,191	(6,257,191)
Total transactions with equity holders			2,004,341	877,191	(12,756,394)
Balance as at December 31, 2018			39,147,882	7,354,143	5,063,076

Other reserves							
Revaluation reserve	Available-for-sale reserve	Fair value reserve	Foreign currency translation reserve	Hedging reserve	General reserve	Employee share option reserve	Total equity
Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
7,088,054	(1,707,494)	–	314,253	(3,212)	52,270,003	529,817	107,099,360
–	1,707,494	(325,420)	–	–	–	–	(3,440,015)
–	–	194,256	–	–	–	–	(5,111,302)
–	–	(47,775)	–	–	–	–	1,682,581
–	1,587,069	–	–	–	–	–	–
–	(340,182)	–	–	–	–	–	–
–	–	(11,294)	–	–	–	–	(11,294)
–	460,607	(460,607)	–	–	–	–	–
7,088,054	–	(325,420)	314,253	(3,212)	52,270,003	529,817	103,659,345
–	–	–	–	–	–	–	17,543,828
–	–	(1,059,562)	2,557,517	27,231	–	–	1,635,471
–	–	–	–	–	–	–	107,376
–	–	–	–	–	–	–	2,909
–	–	–	–	–	–	–	–
–	–	(1,059,562)	–	–	–	–	(1,059,562)
–	–	–	2,557,517	–	–	–	2,557,517
–	–	–	–	27,231	–	–	27,231
–	–	(1,059,562)	2,557,517	27,231	–	–	19,179,299
–	–	–	–	–	–	–	203,083
–	–	–	–	–	–	(6,414)	–
–	–	–	–	–	–	–	(4,704,359)
–	–	–	–	–	–	–	(2,989,996)
–	–	–	–	–	–	–	(199,427)
–	–	–	–	–	–	–	1,148
–	–	–	–	–	–	–	(1,516,084)
–	–	–	–	–	–	68,581	68,581
–	–	–	–	–	5,380,000	–	–
–	–	–	–	–	5,380,000	62,167	(4,432,695)
7,088,054	–	(1,384,982)	2,871,770	24,019	57,650,003	591,984	118,405,949

Statement of Changes in Equity – Bank (Contd.)

	Note	Page No.	Stated capital Rs. '000	Statutory reserve fund Rs. '000	Retained earnings Rs. '000
Impact of adoption of SLFRS 16			–	–	(57,627)
Reversal of deferred tax asset created on liability o/a straight lining of lease rentals			–	–	(57,627)
Balance as at January 1, 2019			39,147,882	7,354,143	5,005,449
Total comprehensive income for the year 2019					
Profit for the year			–	–	17,024,967
Other comprehensive income, net of tax			–	–	(56,940)
Net actuarial gains/(losses) on defined benefit plans			–	–	(56,940)
Realised gains/(losses) from disposal of investment in equity			–	–	–
Net change in revaluation surplus			–	–	–
Net fair value gains/(losses) on remeasuring financial assets measured at fair value through other comprehensive income			–	–	–
Net gains/(losses) arising from translating the Financial Statements of the foreign operations			–	–	–
Cash flow hedges – effective portion of changes in fair value, net of tax			–	–	–
Total comprehensive income for the year 2019			–	–	16,968,027
Transactions with owners, recognised directly in equity, contributions and distributions to owners					
Issue of ordinary shares under employee share option plans	53	236	30,128	–	–
Transfer o/a share-based payment transactions	53	236	–	–	–
Transfer of value of expired ESOP	56 & 57.6	240 & 243	–	–	88,913
Dividends to equity holders			1,738,948	–	(6,596,708)
Second interim dividend for 2018	25	184	–	–	(3,032,869)
Final dividend for 2018 satisfied in the form of issue and allotment of new shares	53	236	1,738,948	–	(2,022,032)
Unclaimed dividend absorbed/(dividend paid) in respect of previous years			–	–	(547)
First interim dividend for 2019	25	236	–	–	(1,541,260)
Share-based payment transactions	57.6	243	–	–	–
Transfers during the year	55 to 57	239 to 243	–	851,248	(10,321,248)
Total transactions with equity holders			1,769,076	851,248	(16,829,043)
Balance as at December 31, 2019			40,916,958	8,205,391	5,144,433

The Notes appearing on pages 149 to 286 form an integral part of these Financial Statements.

Other reserves							
Revaluation reserve	Available-for-sale reserve	Fair value reserve	Foreign currency translation reserve	Hedging reserve	General reserve	Employee share option reserve	Total equity
Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
–	–	–	–	–	–	–	(57,627)
–	–	–	–	–	–	–	(57,627)
7,088,054	–	(1,384,982)	2,871,770	24,019	57,650,003	591,984	118,348,322
–	–	–	–	–	–	–	17,024,967
–	–	3,170,423	(399,787)	(62,391)	–	–	2,651,305
–	–	–	–	–	–	–	(56,940)
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
–	–	3,170,423	–	–	–	–	3,170,423
–	–	–	(399,787)	–	–	–	(399,787)
–	–	–	–	(62,391)	–	–	(62,391)
–	–	3,170,423	(399,787)	(62,391)	–	–	19,676,272
–	–	–	–	–	–	–	30,128
–	–	–	–	–	–	–	–
–	–	–	–	–	–	(123,490)	(34,577)
–	–	–	–	–	–		(4,857,760)
–	–	–	–	–	–	–	(3,032,869)
–	–	–	–	–	–	–	(283,084)
–	–	–	–	–	–	–	(547)
–	–	–	–	–	–	–	(1,541,260)
–	–	–	–	–	–	–	–
–	–	–	–	–	9,470,000	–	–
–	–	–	–	–	9,470,000	(123,490)	(4,862,209)
7,088,054	–	1,785,441	2,471,983	(38,372)	67,120,003	468,494	133,162,385

Statement of Cash Flows

For the year ended December 31,	Note	Page No.	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Cash flows from operating activities						
Profit before income tax			**22,983,896**	26,098,548	**22,339,105**	25,591,208
Adjustments for:						
Non-cash items included in profit before tax	65	255	**14,014,272**	12,380,685	**13,702,213**	12,056,211
Change in operating assets	66	256	**(84,218,375)**	(169,379,105)	**(74,749,286)**	(167,137,925)
Change in operating liabilities	67	256	**69,879,669**	138,876,499	**65,515,273**	135,473,881
(Gains)/losses on sale of property, plant and equipment	17	176	**(19,731)**	(9,311)	**(7,958)**	3,633
Share of profits in associates, net of tax	38.1	207	**(9,992)**	(6,048)	**–**	–
Dividend income from subsidiaries	17	176	**–**	–	**(85,397)**	(80,575)
Interest expense on subordinated liabilities	13.2	173	**3,848,979**	3,105,553	**3,848,979**	3,105,553
Net unrealised gains/(losses) arising from translating the Financial Statements of foreign operations	57.5	242	**(396,201)**	3,003,952	**(399,787)**	2,557,517
Profit due to change in ownership	17	176	**–**	–	**(14,498)**	(3,344)
Benefits paid on defined benefit plans			**(198,799)**	(382,409)	**(194,728)**	(376,995)
Income tax paid	49	227	**(8,301,839)**	(5,971,026)	**(8,087,930)**	(5,856,270)
Net cash from/(used in) operating activities			**17,581,879**	7,717,338	**21,865,986**	5,332,894
Cash flows from investing activities						
Net purchase of property, plant and equipment	39.1 to 39.4	209 to 212	**(1,372,832)**	(2,079,875)	**(1,307,244)**	(1,936,205)
Proceeds from sale of property, plant and equipment			**24,189**	53,314	**11,025**	18,954
Purchase of financial investments			**(95,031)**	(697,591)	**(95,031)**	(697,591)
Proceeds from sale and maturity of financial investments			**3,428,080**	2,096,712	**3,428,080**	2,096,712
Net purchase of intangible assets	41.1 & 41.2	221	**(415,088)**	(406,641)	**(387,432)**	(333,181)
Proceeds due to change in ownership			**21,503**	4,962	**21,503**	4,962
Acquisition of a subsidiary, net of cash acquired			**(91,716)**	–	**(754,657)**	(1,255,800)
Dividends received from investments in subsidiaries	17	176	**–**	–	**85,397**	80,575
Net cash from/(used in) investing activities			**1,499,105**	(1,029,119)	**1,001,641**	(2,021,574)
Cash flows from financing activities						
Net proceeds from issue of ordinary voting shares	53	236	**30,128**	203,083	**30,128**	203,083
Proceeds from issue of subordinated liabilities	52	235	**–**	10,000,000	**–**	10,000,000
Interest paid on subordinated liabilities			**(3,873,107)**	(2,496,230)	**(3,873,107)**	(2,496,230)
Repayment of principal portion of lease liabilities	50.1	228	**(1,049,004)**	–	**(1,165,340)**	–
Dividend paid to non-controlling interest	58	243	**(4,988)**	(4,218)	**–**	–
Dividend paid to shareholders of the Bank			**(4,857,563)**	(4,703,903)	**(4,857,760)**	(4,703,903)
Net cash from/(used in) financing activities			**(9,754,534)**	2,998,732	**(9,866,079)**	3,002,950
Net increase/(decrease) in cash and cash equivalents			**9,326,450**	9,686,951	**13,001,548**	6,314,270
Cash and cash equivalents as at January 1,			**44,360,375**	34,673,424	**39,538,889**	33,224,619
Gross cash and cash equivalents as at December 31,	28	190	**53,686,825**	44,360,375	**52,540,437**	39,538,889
Less: Impairment charges	28.1	190	**(5,707)**	(4,413)	**(5,707)**	(4,413)
Cash and cash equivalents as per Statement of Financial Position	28	190	**53,681,118**	44,355,962	**52,534,730**	39,534,476

The Notes appearing on pages 149 to 286 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 (both Ordinary Voting and Non-Voting shares) have a primary listing on the CSE. The unsecured subordinated debentures of the Bank are also listed on the CSE.

The staff strength of the Group and the Bank was as follows:

As at December 31,	**2019**	2018
Group	**5,656**	5,457
Bank	**5,062**	5,027

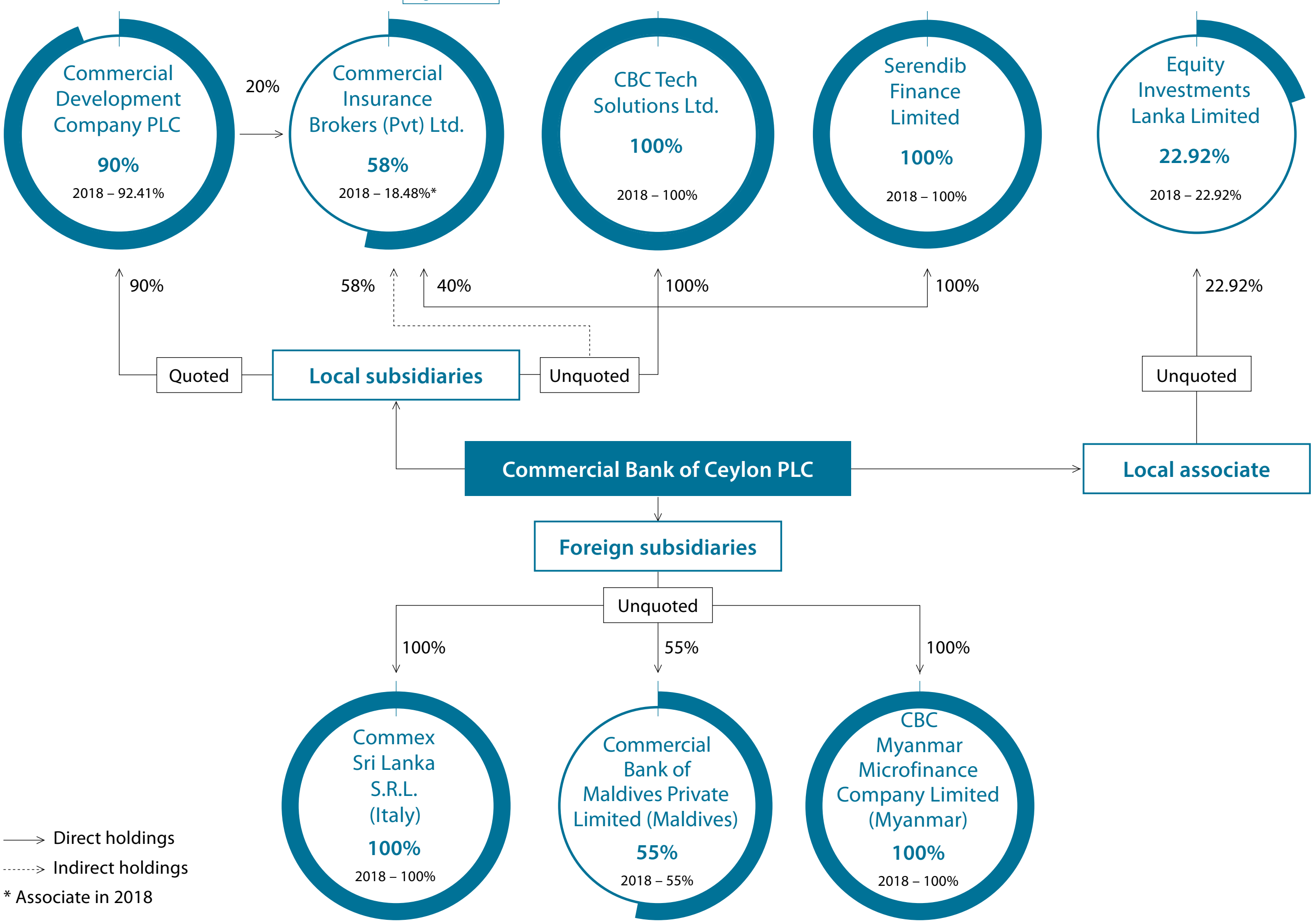
Corporate information is presented in the inner back cover of this Annual Report.

1.2 Consolidated Financial Statements

The Consolidated Financial Statements as at and for the year ended December 31, 2019, 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 Associate.

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 associate Figure – 23



During the year, the Bank acquired 40% stake in Commercial Insurance Brokers (Private) Limited, from Chemanex PLC, for a purchase consideration of Rupees Two Hundred and Fifty Million (Rs. 250,000,000/-). As the Bank's subsidiary, Commercial Development Company PLC too has a stake of 20% in Commercial Insurance Brokers (Private) Limited, it makes the Group's stake in Commercial Insurance Brokers (Private) Limited to be 58% as at December 31, 2019.

Principal business activities and nature of business operations of the Group Table – 26

Entity	Principal business activities
Commercial Bank of Ceylon PLC	Banking and related activities such as accepting deposits, personal banking, trade financing, offshore banking, RFC & NRFC operations, travel-related services, corporate and retail credit, syndicated financing, project financing, development banking, lease & hire purchase, rural credit, issuing of local and international debit and credit cards, 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, digital banking services, bancassurance and Islamic banking products and services etc.
Subsidiaries	
Commercial Development Company PLC (CDC)	Property development, related ancillary services and outsourcing of staff for non-critical functions of the Bank (parent).
CBC Tech Solutions Limited	Providing Information & Communication Technology (ICT) related products, services and solutions to corporate sector.
Serendib Finance Limited (SFL)	Providing financial services including leasing, hire purchase, loans etc.
Commercial Insurance Brokers (Pvt) Limited (CIB)	Providing professional service and handling all insurance portfolios of individuals as well as many leading and reputed organizations in Sri Lanka engaged in diverse business activities.
Commex Sri Lanka S.R.L. (Commex)	Operating as an agent to the Bank (parent) for opening accounts, providing money transfer services, issuance and encashment of foreign currencies and travelers cheques, collecting applications for credit facilities and handling of ATM cards etc.
Commercial Bank of Maldives Private Limited (CBM)	Offering of extensive range of banking and related financial services.
CBC Myanmar Microfinance Company Limited	Providing microfinance services to the people of Myanmar. The company also provides savings, business/livelihood development services for the clients adopting a credit plus approach.
Associate	
Equity Investments Lanka Limited	Providing investment services, risk capital and venture capital management

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 the website of CA Sri Lanka – 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 158 to 171.

The formats used in the preparation and presentation of the Financial Statements and the disclosures made therein also comply with the specified formats prescribed by the Central Bank of Sri Lanka (CBSL) in the Circular No. 02 of 2019 dated January 18, 2019, on "Publication of Annual and Quarterly Financial Statements and Other Disclosures by Licensed 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 amendments thereto (Companies Act) 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 03, 103 and 139, 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 137 and 138;
- a Statement of Financial Position (SOFP) providing the information on the financial position of the Group and the Bank as at the year end. Refer page 139;
- 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 140 to 147;
- 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 148;

- Notes to the Financial Statements comprising Significant Accounting Policies and other explanatory information.
Refer pages 149 to 286.

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, 2019 (including comparatives for 2018), were approved and authorised for issue by the Board of Directors in accordance with Resolution of the Directors on February 20, 2020 (The Financial Statements of the Group and the Bank for the year ended December 31, 2018, were approved and authorised for issue by the Board of Directors on February 22, 2019).

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 SOFP.

Basis of measurement Table – 27

Items	Basis of measurement	Note No./s	Page/s
Financial instruments measured at fair value through profit or loss including derivative financial instruments	Fair value	31, 32 & 46	192 & 225
Financial assets measured at fair value through other comprehensive income	Fair value	36	201
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	208
Investment property	Measured at cost at the time of acquisition and subsequently at Fair value.	40	219
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	228
Equity settled share-based payment arrangements	Fair value on grant date	54	237

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 354 and 355 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 SOFP 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 more than 12 months from the Reporting date is presented in Note 62 on pages 247 and 249.

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" (LKAS 1).

2.9 Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the SOFP, 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 IFRS Interpretations Committee and Standard Interpretations Committee) and as specifically disclosed in the Significant Accounting Policies of the Bank.

2.10 Materiality and aggregation

Each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature or function are presented separately, unless they are immaterial as permitted by the LKAS 1 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. The Group/Bank has not restated the comparative information for contracts within the scope of Sri Lanka Accounting Standard – SLFRS 16 on "Leases" (SLFRS 16). Therefore, the comparative information is reported under Sri Lanka Accounting Standard – LKAS 17 on "Leases" (LKAS 17) and is not comparable with the information presented for 2019. Due to adoption of SLFRS 16, deferred tax asset created under LKAS 17 on the liability of straight lining of lease rentals has been transferred directly to equity as of January 1, 2019 and are disclosed in Statement of Changes in Equity on pages 140 to 147.

2.12 Use of significant accounting judgements and assumptions 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 the Accounting Policies that have most significant effects on the amounts recognised in the Financial Statements of the Group are as follows:

A. Significant accounting judgements

Information about judgements made in applying the Accounting Policies that have most significant effects on the amounts recognised in these Financial Statements is included in Notes 2.12.1 and 2.12.3 below.

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 204 indicates that the Group controls the investees.

2.12.2 Classification of financial assets and liabilities

The Significant Accounting Policies of the Group provides scope for financial assets to be classified and subsequently measured into different categories, namely, at Amortised Cost (AC), Fair Value through Other Comprehensive Income (FVOCI) and Fair Value Through Profit or Loss (FVTPL) based on the following criteria;

- The entity's business model for managing the financial assets as set out in Note 7.1.3.1 on page 159.
- The contractual cash flow characteristics of the financial assets as set out in Note 7.1.3.2 on page 160.

2.12.3 Classification of investment property

Management uses its judgment to determine whether a property qualifies as an investment property. A property that is held either to earn rental income or for capital appreciation or both and thus generates cash flows largely independently of the other assets held by the Group are classified as investment property. On the other hand, a property used in production or supply of goods and services or administrative purposes and thus generates cash flows that are attributable not only to property but also to other assets used in the production or supply process are classified as property, plant & equipment. The Group assesses on an annual basis, the accounting classification of its investment properties, taking into consideration the current use of such properties.

B. Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in material adjustments are included in Notes 2.12.4 to 2.12.13 below:

2.12.4 Fair Value of financial instruments

The fair values of financial assets and financial liabilities recognised on the SOFP, 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 27 on pages 186 to 190.

2.12.5 Impairment losses on financial assets

The measurement of impairment losses across the categories of financial assets under Sri Lanka Accounting Standard – SLFRS 9 on "Financial Instruments" (SLFRS 9) requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses.

Accordingly, 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. 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. These estimates are based on assumptions about a number of factors and hence actual results may differ, resulting in future changes to the impairment allowance made.

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.

As per SLFRS 9, the Group's Expected Credit Loss (ECL) calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Group's criteria for qualitatively assessing whether there has been a significant increase in credit risk and if so allowances for financial assets measured on a Life Time Expected Credit Loss (LTECL) basis.
- The segmentation of financial assets when their ECL is assessed on a collective basis.
- Development of ECL models, including the various statistical formulas and the choice of inputs.
- Determination of associations between macro-economic inputs, such as GDP growth, inflation, interest rates, exchange rates and unemployment and the effect on Probability of Default (PDs), Exposure At Default (EAD) and Loss Given Default (LGD).
- Selection of forward-looking macro-economic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

The accuracy of the provision depends on the model assumptions and parameters used in determining the ECL calculations.

Refer Note 18 on page 176 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 7.6 on page 166 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 in terms of Sri Lanka Accounting Standard – SLFRS 13 on "Fair Value Measurement" (SLFRS 13). The key assumptions used to determine the fair value of the land and building and sensitivity analyses are provided in Notes 39.5 (b) and 39.5 (c) on pages 213 to 217.

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 179.

2.12.9 Fair valuation of investment property

Fair valuation of the investment property is ascertained by independent valuations carried out by Chartered valuation surveyors, who have recent experience in valuing properties of similar location and category. They have made reference to market evidence of transaction prices for similar properties, with appropriate adjustments for size and location. The key assumptions used to determine the fair value of investment property are provided in detail in Note 40 on page 219.

2.12.10 SLFRS 16 – Leases (Applicable from January 1, 2019)

2.12.10.1 Determination of the lease term for lease contracts with renewal and termination options (Group as a lessee)

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination option. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control that affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation of the leased asset).

2.12.10.2 Estimating the incremental borrowing rate

As the Group cannot readily determine the interest rate implicit in the lease, it uses its incremental borrowing rate ("IBR") to measure the lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (or when they need to be adjusted to reflect the terms and conditions of the lease).The Group estimates the IBR using observable input when available and is required to make certain entity-specific adjustments.

2.12.11 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 43 on page 222 for details.

2.12.12 Defined benefit obligation

The costs of the defined benefit plans are 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 increase, etc. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

Refer Note 50 on pages 228 to 234 for the assumptions used.

2.12.13 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 7.10 to 7.15 on page 168.

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 286, where necessary.

3. Financial Risk Management

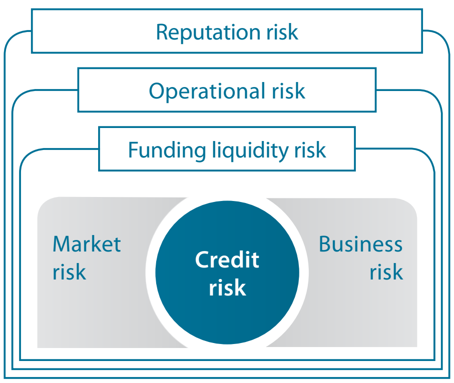
3.1 Introduction and overview

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.

Types of risk Figure – 24



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 Policy, Market Risk 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.

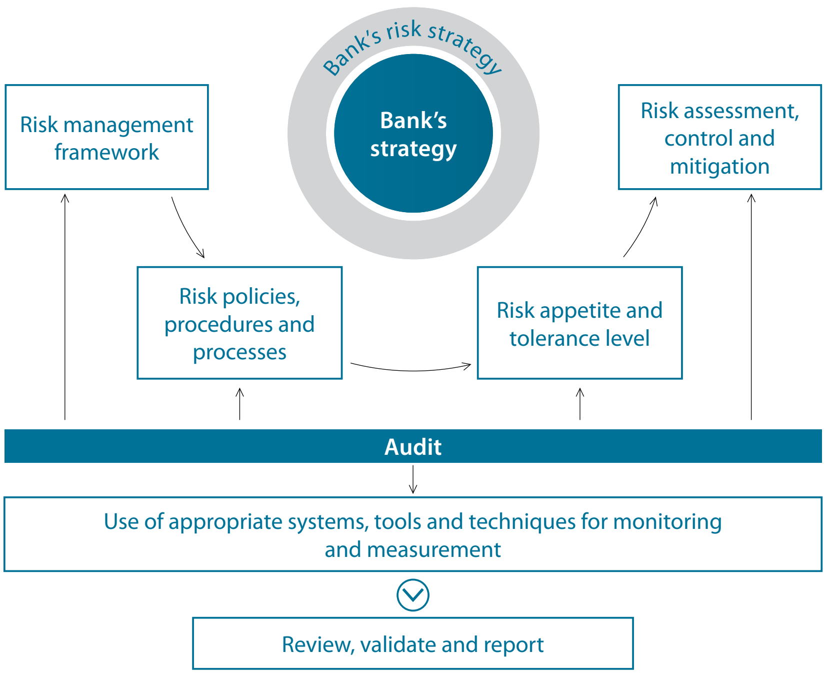
The Board of Directors of the Bank has formed a mandatory Board Committee namely, the Board Integrated Risk Management Committee (BIRMC) as per Banking Act Direction No. 11 of 2007 on Corporate Governance. The performance of the Committee and the duties and roles of members are reviewed by the Board annually.

The meetings of the Executive Integrated Risk Management Committee (EIRMC) are conducted on a monthly basis to discuss Credit, Operational and IT 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.

Risk and Control Self-Assessment (RCSA) framework is adopted to identify risks involved in business activities of the Bank and to implement appropriate risk mitigatory measures after assessing criticality of such risks. The Integrated Risk Management Department carries out semi-annual Bank-wide RCSA function focusing on adherence to laws, regulations, and regulatory guidelines as well as internal controls and approved policies.

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 (BAC).

Bank's Financial Risk Management Framework Figure – 25



Credit risk

The risk that the Bank will incur a loss due to 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, ALM 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 challenged the 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 internally carried out by the Bank on a regular basis. 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 not observed in the major currency, compared to previous year 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 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 ALM 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 and Net Stable Funding Ratio as per the CBSL Directions that recorded very healthy results as compared to regulatory minimum threshold levels.

The Bank has experienced accumulation of liquidity above the minimum regulatory requirements as a result of slowness of economic performance of the country in 2019. However, the Bank has adopted many strategies to invest excess liquidity at optimum yields and thereby to minimise the negative impact on the bottom line.

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.

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 257 to 286 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 "Risk Governance and Management" on pages 110 to 128. The said write-up 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 27 on pages 186 to 190.

5. Changes in Accounting Policies

The Group has consistently applied the Accounting Policies as set out in Notes 6 to 10 on pages 158 to 171 to all periods presented in these Financial Statements, except for changes arising out of transition to SLFRS 16 as set out below:

5.1 New and amended standards and interpretations

In these Financial Statements, the Group has applied SLFRS 16, which is effective for the annual reporting periods beginning on or after January 1, 2019 for the first time. The Group has not early adopted any other accounting standard, interpretation or amendment that has been issued but not effective.

5.1.1 SLFRS 16 – Leases

SLFRS 16 issued in 2016, supersedes LKAS 17, IFRIC 4 on "Determining whether an arrangement contains a Lease", SIC-15 on "Operating Leases – Incentives" and SIC-27 on "Evaluating the substance of transactions involving the legal form of a lease". SLFRS 16 sets out the principles for the recognition, measurement, presentation, and disclosure of leases and requires lessees to recognise most leases on the SOFP.

One of the most notable aspects of SLFRS 16 is that the lessee and lessor accounting models are asymmetrical. SLFRS 16 has retained LKAS 17's finance lease/operating lease distinction for lessors but this distinction is no longer relevant for lessees. Hence, the changes introduced in SLFRS 16 are not significant in respect of contracts in which the Group is the lessor. However, SLFRS 16 has introduced fundamental changes to accounting principles when the Group becomes the lessee of the contract.

The Group adopted SLFRS 16 using the modified retrospective method of adoption with the date of initial application being January 1, 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard being recognised at the date of initial application. Due to the adoption of SLFRS 16, deferred tax asset created under LKAS 17 on the liability of straight lining of lease rentals has been transferred directly to equity as of January 1, 2019.

The Group recognises a lease liability at the date of initial application for leases previously classified as operating leases applying LKAS 17. The lessee shall measure that lease liability at the present value of the remaining lease payments, discounted using the lessee's IBR at the date of initial application.

The Group recognises as right-of-use asset at the date of initial application for leases previously classified as operating leases applying LKAS 17. The Group opted to measure the right-of-use asset at an amount equal to the lease liability, on a lease-by-lease basis, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the SOFP immediately before the date of initial application.

The key changes of SLFRS 16 are as set out below:

5.1.1.1 Changes to identification of leases

SLFRS 16 has changed the recognition of leases by replacing the 'risk and reward' model in LKAS 17 with a 'right-of-use' model for lessees. The Group determines whether a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

SLFRS 16 introduces a single on-balance sheet model for lessees similar to the accounting for finance lease under LKAS 17. Accordingly, leases within the scope of SLFRS 16 are brought on to the balance sheet recognising a 'right-of-use' asset and related lease liability. As a result, the portion of off-balance sheet finance kept in the form of operating lease is recognised on balance sheet, except for short-term leases (lease term 12 months or less) and leases of low value.

5.1.1.2 Separating components of a contract

The Group determines, the right to use an underlying asset is a separate lease component if both of the following criteria are met.

- The lessee can benefit from use of the asset either on its own or together with other resources that are available to the lessee.
- The underlying asset is neither dependent on, nor highly interrelated with, the other underlying assets in the contract.

For contracts in which the Group becomes the lessee, the consideration in the contract is allocated to each lease component on the basis of the relative standalone price of the lease component and the aggregate standalone price of the non-lease components. On the other hand, when the Group is the lessor, the guidance given in Sri Lanka Accounting Standard – SLFRS 15 on "Revenue from Contracts with Customers" (SLFRS 15) is applied to allocate transaction price to separate components.

5.1.1.3 Determination of lease term

All lease liabilities are to be measured with reference to the estimate of lease term. Accordingly, the Group determines the lease term as the non-cancellable period of a lease, together with both periods covered by an option to extend the lease if the Group is reasonably certain to exercise that option; and periods covered by an option to terminate the lease if the Group is reasonably certain not to exercise that option. In this assessment, the Group considers all relevant facts and circumstances that create an economic incentive for the Group to exercise the option to extend the lease, or not to exercise the option to terminate the lease.

The Group reassesses whether it is reasonably certain to exercise an extension option, or not to exercise a termination option, only upon the occurrence of a significant event or significant change in circumstances that are within the control of the Group as a lessee. In addition, as per SLFRS 16, the Group revises lease term only if there is a change in the non-cancellable period of lease.

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 except as specified in Note 2.11 on page 152.

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:

Index of significant accounting policies Table – 28

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" (SLFRS 10) 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" (LKAS 28). 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 as per Sri Lanka Accounting Standard – SLFRS 3 on "Business Combinations" (SLFRS 3). 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 7.6 on page 166). 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 243.

6.1.3 Subsidiaries

Details of the Bank's subsidiaries, how they are accounted in the Financial Statements of the Bank and their contingencies are set out in Notes 37 and 59.4 (a) on pages 204 and 246.

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, how they are accounted in the Financial Statements of the investee, 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 207 and 246.

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:

- Equity instruments measured at fair value through other comprehensive income
- 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 foreign 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 re-attributed 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 cash flow characteristics and the business model for managing the instruments. Refer Notes 7.1.3 and 7.1.4 for further details on classification of financial instruments.

A financial asset or financial liability is measured initially at fair value plus or minus transaction costs that are directly attributable to its acquisition or issue, except in the case of financial assets and financial liabilities at fair value through profit or loss as per SLFRS 9 and trade receivables that do not have a significant financing component as defined by SLFRS 15.

Transaction cost in relation to financial assets and financial liabilities at fair value through profit or loss are dealt with through the Income Statement.

Trade receivables that do not have significant financing component are measured at their transaction price at initial recognition as defined in SLFRS 15.

When the fair value of financial instruments (except trade receivables that do not have significant financing component) at initial recognition differs from the transaction price, the Group accounts for the Day 1 profit or loss, as described below.

7.1.2.1 "Day 1" profit or loss

When the transaction price of the instrument differs from the fair value at origination and fair value is based on a valuation technique using only inputs observable in market transactions, the Group recognises the difference between the transaction price and fair value in net gains/(losses) from trading. In those cases, where the fair value is based on models for which some inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in 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) in "Interest income" and "Personnel expenses" over the remaining service period of the employees or tenure of the loan whichever is shorter.

Refer Notes 13 and 19 on pages 172 and 179.

7.1.3 Classification and subsequent measurement of financial assets

As per SLFRS 9, the Group classifies all of its financial assets based on the business model for managing the assets and the assets' contractual terms measured at either;

- Amortised cost
- Fair value through other comprehensive income (FVOCI)
- Fair value through profit or loss (FVTPL)

The subsequent measurement of financial assets depends on their classification.

7.1.3.1 Business model assessment

The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level and not assessed on instrument-by-instrument basis because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realized.

The business model assessment is based on reasonably expected scenarios without taking "worst case" or "stress case" scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

7.1.3.2 Assessment of whether contractual cash flows are solely payments of principal and interest (SPPI test)

As a second step of its classification process the Group assesses the contractual terms of financial assets to identify whether they meet the SPPI test.

For the purposes of this assessment, "principal" is defined as the fair value of the financial asset on initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

"Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as profit margin.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

In assessing whether the contractual cash flows are solely payments of principal and interest on principal amount outstanding, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets; and
- features that modify consideration of the time value of money.

The Group holds a portfolio of long-term fixed rate loans for which the Group has the option to propose to revise the interest rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The Group has determined that the contractual cash flows of these loans are solely payments of principal and interest because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

Refer Notes 7.1.3.3 to 7.1.3.5 below for details on different types of financial assets recognised on the SOFP.

7.1.3.3 Financial assets measured at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at amortised cost are given in Notes 7.1.3.3.1 to 7.1.3.3.6 below:

7.1.3.3.1 Loans and advances to banks and other customers

Loans and advances to banks and other customers include amounts due from banks, loans and advances and lease receivables of the Group.

Details of "Loans and advances to banks and other customers" are given in Notes 33 and Note 34 on pages 195 to 199.

7.1.3.3.2 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 SOFP 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 income/receivable being recognised as interest income in profit or loss.

Details of "Securities purchased under resale agreements" are given in the SOFP on page 139.

7.1.3.3.3 Debt and other financial instruments measured at amortised cost

Details of "Debt and other financial instruments measured at amortised cost" are given in Note 35 on page 199.

7.1.3.3.4 Cash and cash equivalents

Details of "Cash and cash equivalents" are given in Note 28 on page 190.

7.1.3.3.5 Balances with central banks

Details of "Balances with central banks" are given in Note 29 on page 191.

7.1.3.3.6 Placements with banks

Details of "Placements with banks" are given in Note 30 on page 191.

7.1.3.4 Financial assets measured at FVOCI

Financial assets at FVOCI include debt and equity instruments measured at fair value through other comprehensive income.

For financial assets measured at FVOCI refer Notes 7.1.3.4.1 and 7.1.3.4.2.

7.1.3.4.1 Debt instruments measured at FVOCI

Debt instruments are measured at FVOCI if they are held within a business model whose objective is to hold for collection of contractual cash flows and selling financial assets, where the asset's contractual cash flows represent payments that are solely payments of principal and interest on principal outstanding. Details of "Debt instruments at FVOCI" are given in Note 36 on page 201.

7.1.3.4.2 Equity instruments designated at FVOCI

Upon initial recognition, the Group elects to classify irrevocably some of its equity instruments held for strategic and regulatory purposes as equity instruments at FVOCI. Details of "Equity instruments at FVOCI" are given in Note 36 on page 201.

7.1.3.5 Financial assets measured at FVTPL

All financial assets other than those classified at amortised cost or FVOCI are classified as measured at FVTPL. Financial assets measured at FVTPL include financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets. Financial assets measured at FVTPL are discussed in Notes 7.1.3.5.1 and 7.1.3.5.2 below.

7.1.3.5.1 Financial assets held for trading

Details of "Financial Assets held for trading" are given in Note 32 on page 192.

7.1.3.5.1.1 Derivatives recorded at FVTPL

Details of "Derivative financial assets" recorded at fair value through profit or loss are given in Note 31 on page 192.

7.1.3.5.2 Financial assets designated FVTPL

On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL when such designation eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis.

Financial assets designated at FVTPL are recorded in the SOFP at fair value. Changes in fair value are recorded in "Net gain or loss on financial assets and liabilities designated at FVTPL". 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 FVTPL as at the end of the reporting period.

7.1.4 Classification and subsequent measurement of financial liabilities

The Group classifies financial liabilities, other than financial guarantees and loan commitments into one of the following categories:

- Financial liabilities at FVTPL, and within this category as –
  - – Held-for-trading; or
  - – Designated at FVTPL;
- Financial liabilities measured at amortised cost.

The subsequent measurement of financial liabilities depends on their classification.

Refer Notes 7.1.4.1 and 7.1.4.2 as detailed below:

7.1.4.1 Financial liabilities at FVTPL

Financial liabilities at FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as at FVTPL. 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 46 on page 225.

7.1.4.1.2 Financial liabilities designated at FVTPL

Financial liabilities designated at FVTPL are recorded in the SOFP at fair value when

- The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis, or
- A group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided on that basis to entity's key management personnel, or
- The liabilities containing one or more embedded derivatives, unless they do not significantly modify the cash flows that would otherwise be required by the contract, or it is clear with little or no analysis when a similar instrument is first considered that separation of the embedded derivative(s) is prohibited.

Changes in fair value are recorded in "Net fair value gains/ (losses) from financial instruments at FVTPL" with the exception of movements in fair value of liabilities designated at FVTPL due to changes in the Bank's own credit risk. Such changes in fair value are recorded in the own credit reserve through OCI and do not get recycled to profit or loss. Interest paid/payable is accrued in "Interest expense", using the EIR.

The Group has not designated any financial liabilities as at FVTPL as at the end of the reporting period.

7.1.4.2 Financial liabilities at amortised cost

Financial liabilities issued by the Group that are not designated at FVTPL are classified as financial liabilities at amortised cost under "Due to banks", "Due to depositors", "Securities sold under repurchase agreements", "Other borrowings" 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 fee 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 45 on page 225.

7.1.4.2.2 Due to depositors

Details of "Due to depositors" are given in Note 47 on page 226.

7.1.4.2.3 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 SOFP 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 SOFP on page 139.

7.1.4.2.4 Other Borrowings

Details of "Other Borrowings" are given in Note 48 on page 227.

7.1.4.2.5 Subordinated liabilities

Details of "Subordinated liabilities" are given in Note 52 on page 235.

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 SOFP.

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 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 in the same line item as the hedged item that is 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 of 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 31.1 and Note 46.1 on pages 192 and 225.

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 hedging instrument is 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 FVTPL.

7.1.5.5 Embedded derivatives

An embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract. A derivative that is attached to a financial instrument, but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument.

Derivatives may be embedded in another contractual arrangement (a host contract). The Group treats derivatives embedded in financial liabilities and non-financial host contracts as separate derivatives, if:

- The host contract is not itself carried at FVTPL;
- The terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and
- The economic characteristics and risks of the embedded derivative are 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 form part of a qualifying cash flow or net investment hedging relationship. Separated embedded derivatives are presented in the SOFP together with the host contract. Derivatives embedded in financial assets are classified based on the business model and their contractual terms and are not separated as explained in Notes 7.1.3.1 and 7.1.3.2 on pages 159 and 160.

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 SOFP 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 and only in those rare circumstances when the Group changes its objective of the business model for managing such financial assets which may include the acquisition, disposal or termination of a business line.

Financial Liabilities are not reclassified as such reclassifications are not permitted by SLFRS 9.

7.1.6.1 Timing of reclassification of financial assets

Consequent to the change in the business model, the Bank reclassifies all affected assets prospectively from the first day of the first reporting period following the change in the business model (the reclassification date). Accordingly, prior periods are not restated.

7.1.6.2 Measurement of reclassification of financial assets

7.1.6.2.1 Reclassification of Financial Instruments at 'FVTPL'

- To Fair value through other comprehensive income

  The fair value on reclassification date becomes the new gross carrying amount. The EIR is calculated based on the new gross carrying amount. Subsequent changes in the fair value is recognised in OCI.

- To Amortised Cost

  The fair value on reclassification date becomes the new carrying amount. The EIR is calculated based on the new gross carrying amount.

7.1.6.2.2 Reclassification of Financial Instruments at 'FVOCI'

- To Fair value through profit or loss

  The accumulated balance in OCI is reclassified to profit and loss on the reclassification date.

- To Amortised Cost

  The financial asset is reclassified at fair value. The cumulative balance in OCI is removed and is used to adjust fair value on the reclassification date. The adjusted amount becomes the amortised cost.

  EIR determined at initial recognition and gross carrying amount are not adjusted as a result of reclassification.

7.1.6.2.3 Reclassification of Financial Instruments at 'Amortised Cost'

- To FVOCI

  The asset is remeasured to fair value, with any difference recognised in OCI. EIR determined at initial recognition is not adjusted as a result of reclassification.

- To FVTPL

  The fair value on the reclassification date becomes the new carrying amount. The difference between amortised cost and fair value is recognised in profit and loss.

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.

However, cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities.

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 SOFP, 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.

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.

7.1.7.2 Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

7.1.8 Modification of financial assets and financial liabilities

7.1.8.1 Modification of Financial assets

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are 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 a new financial asset is recognised at fair value.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses measured using pre modification interest rate. In other cases, it is presented as interest income.

7.1.8.2 Modification of Financial Liabilities

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. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

7.1.9 Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the SOFP 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.

7.1.10 Amortised cost and gross carrying amount

The "amortised cost" of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the EIR method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any ECL allowance.

The "gross carrying amount of a financial asset" is the amortised cost of a financial asset before adjusting for any ECL allowance.

7.1.11 Fair value of financial instruments

Fair value measurement of financial instruments including the fair value hierarchy is explained in Notes 4 and 27 on pages 156 and 186.

7.1.12 Identification and measurement of impairment of financial assets

7.1.12.1 Overview of the ECL principles

The Group records an allowance for expected credit losses (ECL) for loans & advances from banks and other customers, debt and other financial instruments measured at amortised cost, debt instruments measured at FVOCI, loan commitments and financial guarantee contracts.

SLFRS 9 outlines a "three-stage" model for impairment based on changes in credit quality since initial recognition.

- Stage 1: A financial asset that is not originally credit-impaired on initial recognition is classified in Stage 1. Financial instruments in Stage 1 have their ECL measured at an amount equal to the proportion of lifetime expected credit losses (LTECL) that result from default events possible within next 12 months (12M ECL).
- Stage 2: If a significant increase in credit risk (SICR) since origination is identified financial asset is moved to Stage 2 and the Group records an allowance for LTECL. Refer Note 7.1.12.2 for a description on how the Group determines when a SICR has occurred.
- Stage 3: If a financial asset is credit-impaired, it is moved to Stage 3 and the Group recognises an allowance for LTECL, with probability of default at 100%. Refer Note 7.1.12.3 for a description on how the Group defines default and credit impaired assets

Purchased or originated credit impaired (POCI) financial assets: Financial assets which are credit impaired on initial recognition are categorised within Stage 3 with a carrying value already reflecting the LTECL. The Group does not have POCI loans as at the reporting date.

The key judgements and assumptions adopted by the Group in addressing the requirements of SLFRS 9 are discussed below:

7.1.12.2 Significant increase in credit risk (SICR)

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information analysis, based on the Group's historical experience and expert credit assessment and including forward looking information.

The Group considers an exposure to have significantly increased credit risk when contractual payments of a customer are more than 30 days past due in accordance with the rebuttable presumption in SLFRS 9.

The Group individually reviews at each reporting date, loans and advances above a predefined threshold to identify whether the credit risk has increased significantly since origination, before an exposure is in default. Such indicators include, *inter-alia:*

- When reasonable and supportable forecasts of future economic conditions directly affect the performance of a customer/group of customers, portfolios or instruments.
- When there is a significant change in the geographical locations or natural catastrophes that directly impact the performance of a customer/group of customers or instruments.
- When the value of collateral is significantly reduced and/or realisibility of collateral is doubtful.

- When a customer is subject to litigation, that significantly affects the performance of the credit facility.
- Frequent changes in the senior management of an institutional customer.
- Delay in the commencement of business operations/projects by more than two years from the originally agreed date.
- Modification of terms resulting in concessions, including extensions, deferment of payments, waiver of covenants
- When the customer is deceased/insolvent.
- When the Bank is unable to contact or find the customer.
- A fall of 50% or more in the turnover and/or profit before tax of the customer when compared to the previous year
- Erosion in net-worth by more than 25% when compared to the previous year.

Credit facilities/exposures which have one or more of the above indicators are treated as facilities with SICR and assessed accordingly in ECL computations. The Group regularly monitors the effectiveness of the criteria used to identify SICR to confirm that the criteria is capable of identifying SICR before an exposure is in default.

For debt instruments having an external credit rating, which are measured at amortised cost or at FVOCI, the Group determines SICR based on the generally accepted investment/non-investment grade definitions published by international rating agencies. Debt instruments are moved to Stage 2 if their credit risk increases to the extent that they are no longer considered investment grade.

7.1.12.3 Definition of default and credit impaired assets

The Group considers loans and advances to other customers be defaulted when:

- The borrower is unlikely to pay its obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- The borrower becomes 90 days past due on its contractual payments.

In addition, the Group classifies the financial investments under Stage 3 when the external credit rating assigned to the particular investment is "default".

In assessing whether a borrower is in default, Group reviews its individually significant loans and advances above a predefined threshold at each reporting date. The Group considers non performing credit facilities/customers with one or more of indicators set out in Note 7.1.12.2 above as credit impaired. Further, as per "CBSL Guidelines to Licensed Banks on the Adoption of Sri Lanka Accounting Standard – SLFRS 9: Financial Instruments", all the credit facilities/customers classified as non-performing as per CBSL Directions are assessed as Stage 3 exposure.

7.1.12.4 Movement between the stages

Financial assets can be transferred between the different categories (other than POCI) depending on their relative change in credit risk since initial recognition. Financial instruments are transferred out of Stage 2 if their credit risk is no longer considered to be significantly increased since initial recognition based on the assessments described in Note 7.1.12.2. Financial instruments are transferred out of Stage 3 when they no longer exhibit any evidence of credit impairment as described above.

7.1.12.5 Grouping financial assets measured on collective basis

The Group calculates ECL either on a collective or an individual basis. Asset classes where the Group calculates ECL on individual basis include;

- Credit impaired facilities of individually significant customers
- The treasury, trading and interbank relationships (such as due from Banks, money at call and short notice, placements with Banks, government securities, investments in debentures etc.)

Those financial assets for which, the Group determines that no provision is required under individual impairment are then collectively assessed for ECL. For the purpose of ECL calculation on collective basis, financial assets are grouped on the basis of similar risk characteristics. Loans and advances to other customers are grouped in to homogeneous portfolios, based on a combination of product and customer characteristics.

Details of the ECL calculation are given in Note 18 on pages 176 to 179.

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", (SLFRS 5) 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 208 to 218.

7.3.1 Depreciation

Details of "Depreciation" are given in Note 20 on pages 179 and 180.

7.3.2 Borrowing costs

As per the Sri Lanka Accounting Standard – LKAS 23 on "Borrowing Costs" (LKAS 23), 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 Investment Property

Investment properties are initially measured at cost, including transaction costs. The Group subsequently measures investment properties under fair value model. Any gain or loss arising from a change in fair value and the rental income from the investment property is recognised under Net other operating income.

Details of "Investment Property" are given in Note 40 on pages 219 and 220.

7.5 Intangible assets

Details of "Intangible assets" are given in Note 41 on pages 220 and 221.

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 179 and 180.

7.6 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.

7.7 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" (LKAS 10) in Note 70 on page 286.

7.8 Employee benefits

7.8.1 Defined Benefit Plans (DBPs)

A DBP is a post-employment benefit plan other than a Defined Contribution Plan (DCP) as defined in the Sri Lanka Accounting Standard – LKAS 19 on "Employee Benefits" (LKAS 19).

7.8.1.1 Defined benefit pension plans

7.8.1.1.1 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 DBP to a 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 LKAS 19 as detailed in Note 50 on pages 228 to 234.

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.

7.8.1.1.2 Recognition of actuarial gains or losses

Actuarial gains or losses are recognised in the OCI in the period in which they arise.

7.8.1.1.3 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 DBPs 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 DBP 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 179 and 228 to 234, respectively.

7.8.2 Defined Contribution Plans (DCPs)

A DCP 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 7.8.2.1, 7.8.2.2 and 7.8.2.3.

Amounts recognised in profit or loss as expenses on DCPs are given in Note 19 on page 179.

7.8.2.1 Defined contribution pension plan

As explained in Note 7.8.1.1.1(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.

7.8.2.2 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 local entities of the Group and their employees contribute at the same percentages as above to the Employees' Provident Fund managed by the CBSL.

7.8.2.3 Employees' Trust Fund

The Bank and other local entities of the Group contribute at the rate of 3% of the salaries of each employee to the Employees' Trust Fund managed by the CBSL.

7.8.3 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.

7.8.4 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.

7.8.5 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.

7.8.6 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. 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" (SLFRS 2) 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 SLFRS 2, 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 Note 53.2 and Note 54 on page 237.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted Earnings per Share as disclosed in Note 24.1 and Note 24.2 on page 183.

7.9 Other liabilities

Details of "Other liabilities" are given in Note 50 on pages 228 to 234.

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, letters of credit and undrawn 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. Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer.

Financial guarantees are initially recognised in the Financial Statements (within other liabilities) at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement and ECL provision if appropriate.

The premium received is recognised in profit or loss in Note 14.1 on "Fee and commission income" on a straight line basis over the life of the guarantee.

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded on in the SOFP. The nominal values of these instruments together with the corresponding ECLs are disclosed in Note 59 on page 244.

Loan commitments at below market interest rates drawdown are initially measured at fair value and subsequently measured at the higher of the amount of the ECL allowance and the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

7.14 Commitments

All discernible risks are accounted for in determining the amount of known liabilities as explained in Note 7.9 above.

Details of the Commitments are given in Note 59 on page 244.

7.15 Contingent liabilities and commitments

A detailed list of "Contingent liabilities and commitments" and "Litigation against the Bank" are given in Notes 59 and 61 on pages 244 and 246.

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 236 to 237 and 239 to 243.

7.17 Earnings per Share (EPS)

Details of "Basic and Diluted EPS" are given in Note 24 on page 183.

7.18 Operating segments

Details of "Operating segments" are given in Note 63 on pages 249 to 251.

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 172 to 181.

8.1 Interest income and expense

Details of "Interest income and expense" are given in Note 13 on page 191.

8.2 Fee and commission income and expense

Details of "Fee and commission income and expense" are given in Note 14 on pages 174 and 175.

8.3 Net gains/(losses) from trading

Details of "Net gains/(losses) from trading" are given in Note 15 on page 175.

8.4 Net gains/ (losses) from derecognition of financial assets

Details of "Net gains/ (losses) from derecognition of financial assets" are given in Note 16 on page 175.

8.5 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 and 17 on pages 175 and 176.

8.6 Leases

8.6.1 Application as per SLFRS 16 (Applicable from January 1, 2019)

With effect from January 1, 2019, the Group applies this standard to contracts that were previously identified as leases applying LKAS 17 and IFRIC 4, without reassessing whether a contract contains a lease at the date of initial application as a practical expedient. For the contracts entered on or after the effective date of transition, the Group assesses at the inception of a contract, whether a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration as per the guidelines of SLFRS 16. This assessment considers whether, throughout the period of use, the lessee has both the right to obtain all of the economic benefits from the use of the identified asset and the right to direct how and for what purpose the identified asset is used.

After the assessment of whether a contract is, or contains, a lease, the Group determines whether it contains additional lease or non-lease (service) components based on the detailed guidance provided in SLFRS 16. Accordingly, the right to use of an identifying asset is a separate lease component if the lessee can benefit from the use of underlying asset either on its own or together with other resources readily available to the lessee and the underlying asset is neither highly dependent on, nor highly interrelated with, the other underlying assets in the contract.

8.6.1.1 Group as a lessee

As per SLFRS 16, when the Group has determined that a contract contains a lease component and one or more additional lease components or non-lease components, the consideration in the contract is allocated to each lease component on the basis of relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

At the commencement date, the Group recognises right-of-use of an asset and a lease liability which is measured at the present value of the lease payments that are payable on that date. Lease payments are discounted using the IBR.

After initial recognition, the Group applies cost model for the right-of-use of an asset and depreciate the asset from commencement date to the end of the useful life of the underlying asset. Where the right does not transfer the ownership of the asset, the Group depreciates it from commencement date to the earlier of the end of the useful life of the right-of-use asset or end of the lease term. In addition, interest expense on the lease liability is recognised in the profit or loss.

Details of "Right-of-use asset" and "Lease liability" are given in Notes 39 and 50 respectively on pages 208 to 218 and 228 to 234.

8.6.1.2 Group as a lessor

Similar to above, at the commencement of the contract, the Group determines whether the contract contains a lease component and one or more additional lease components or non-lease components. When there is one or more additional lease or non-lease component, the Group allocates consideration based on the guidelines given in SLFRS 15.

However, SLFRS 16 largely retains the lessor accounting requirements in LKAS 17 and classification of leases is based on the extent to which risks and rewards incidental to ownership of leased asset lie with the lessor or lessee.

8.6.1.2.1 Finance leases – Group as a lessor

As per SLFRS 16, a lease which transfers substantially all the risks and rewards incidental to ownership of an underlying asset is classified as a finance lease. At the commencement date, the Group recognises assets held under finance lease in the SOFP and present them as a lease receivable at an amount equal to the net investment in the lease. Net investment in the lease is arrived by discounting lease payments receivable at the interest rate implicit in the lease, i.e. the rate which causes present value of lease payments to equal to the fair value of the underlying asset and initial direct costs. The Group's net investment in lease is included in Note 33 on "Loans and advances to banks" or Note 34 "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.

8.6.1.2.2 Operating leases – Group as a lessor

As per SLFRS 16, a lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset. The Group recognises lease payments from operating leases as income on straight-line basis. 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 257.

8.6.2 Application as per LKAS 17 (Applicable up to December 31, 2018)

8.6.2.1 Group as a lessee

The classification of leases under LKAS 17, is based on the extent to which risks and rewards incidental to ownership of a leased asset lie with lessor or lessee.

8.6.2.1.1 Finance leases – Group as a lessee

As per LKAS 17, 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.

8.6.2.1.2 Operating leases – Group as a lessee

As per LKAS 17, assets held under leases other than finance leases are classified as operating leases and are not recognised in the Group's SOFP. 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.

Details of "Operating leases" are given in Note 68 on page 257.

8.6.2.2 Group as a lessor

The classification of leases adopted under LKAS 17, is based on the extent to which risks and rewards incidental to ownership of a leased asset lie with lessor or lessee.

8.6.2.2.1 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 Note 33 on "Loans and advances to banks" or Note 34 "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.

8.6.2.2.2 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 257.

8.7 Rental income and expenses

Rental income and expense are recognised in profit or loss on an accrual basis.

9. Significant Accounting Policies –Tax Expense

9.1 Income tax expense

9.1.1 Current tax

Details of "Income tax expense" are given in Note 23 on pages 181 and 182.

9.1.2 Deferred tax

Details of "Deferred tax assets and liabilities" are given in Note 43 on pages 222 to 224.

9.1.3 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.

9.1.4 Changes proposed to Income Tax from Government Tax Proposals

As per the Notice to tax payers and withholding agents on "Implementation of Proposed Changes to the Inland Revenue Act No. 24 of 2017" dated February 12, 2020 issued by the Department of Inland Revenue, Income Tax rates of Corporates has been revised to 24% from 28% effective from January 1, 2020, pending formal amendments to be made to the Inland Revenue Act .

9.2 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.

9.3 Withholding Tax (WHT) on dividends distributed by the Bank, subsidiaries and associates

9.3.1 WHT 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. As per Notice dated February 18, 2020 published by the Department of Inland Revenue, requirement to deduct WHT on dividends has been removed effective January 1, 2020.

9.3.2 WHT on dividends distributed by the subsidiaries and associates

Dividends received by the Bank from its subsidiaries and associates, have attracted a 14% deduction at source upto December 31,2019. Effective from January 1, 2020, requirement to deduct WHT had been removed (as mentioned under Note 9.3.1 above).

9.4 Economic Service Charge (ESC)

As per the provisions of the Finance Act No. 11 of 2004, and amendments thereto, the ESC was introduced with effect from April 1, 2004. ESC was payable at 0.5% of the total turnover and is deductible from the income tax payments. Unclaimed ESC, if any, could be carried forward and set-off against the income tax payable in the three subsequent years including the current year of assessment.

As per Notice published dated January 1, 2020 by the Department of Inland Revenue, ESC was abolished with effect from January 01, 2020.

9.5 Value Added Tax on Financial Services (VAT FS)

The value addition attributable to the supply of 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.

The amount of VAT charged in determining the profit or loss for the period is given in Note 22 on page 181.

9.6 Nation Building Tax on Financial Services (NBT FS)

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. Upto November 30, 2019, NBT was chargeable on the same base used for calculation of VAT on financial services as explained in Note 9.5 above. As per Notice published by the Department of Inland Revenue dated November 29, 2019, NBT was abolished with effect from December 01, 2019.

The amount of NBT charged in determining the profit or loss for the period is given in Note 22 on page 181.

9.7 Debt Repayment Levy on Financial Services (DRL FS)

As per the Finance Act No. 35 of 2018, with effect from October 1, 2018, DRL of 7% was introduced on the value addition attributable to the supply of financial services by each financial institution. DRL is chargeable on the same base used for calculation of VAT on financial services as explained in Note 9.5 above. As per notice published by the Department of Inland Revenue dated January 20, 2020, DRL was abolished with effect from January 01, 2020.

The amount of DRL charged in determining the profit or loss for the period is given in Note 22 on page 181.

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 (LKAS 7)". Gross 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 28 on page 190.

The Statement of Cash Flows is given on page 148.

11. Amendments to Accounting Standards issued but not yet effective

Several amendments to Accounting Standards are effective for annual financial periods beginning on or after January 1, 2020, and earlier application is permitted. However, the Group has not early adopted the following amendments to Accounting Standards in preparing these Consolidated Financial Statements as they are not expected to have a significant impact on the Group's Consolidated Financial Statements.

11.1 Amendments to SLFRS 3: Definition of a Business

In November 2018, the CA Sri Lanka issued amendments to the definition of a business in SLFRS 3 to help entities determine whether an acquired set of activities and assets is a business or not. These amendments clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments.

The Group shall apply these amendments to business combinations prospectively for annual financial periods beginning on or after January 1, 2020, if the asset acquisitions occurs on or after the beginning of that period.

11.2 Amendments to LKAS 1 and LKAS 8: Definition of Material

In November 2018, the CA Sri Lanka issued amendments to LKAS 1 and Sri Lanka Accounting Standard – LKAS 8 on "Accounting Policies, Changes in Accounting Estimates and Errors" to align the definition of 'material' across the standards and to clarify certain aspects of the term 'definition'. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose Financial Statements make on the basis of those Financial Statements, which provide financial information about a specific reporting entity.' The Group shall apply those amendments prospectively for annual financial periods beginning on or after January 1, 2020.

11.3 Amendments to the conceptual framework for financial reporting

CA Sri Lanka has issued a revised Conceptual Framework which will be used in standard-setting decisions with immediate effect. Key changes include:

- increasing the prominence of stewardship in the objective of financial reporting
- reinstating prudence as a component of neutrality
- defining a reporting entity, which may be a legal entity, or a portion of an entity
- revising the definitions of an asset and a liability
- removing the probability threshold for recognition and adding guidance on derecognition
- adding guidance on different measurement basis, and
- stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements.

No changes will be made to any of the current Accounting Standards. However, if the Group rely on the framework in determining certain accounting policies for transactions, events or conditions that are not otherwise dealt with under the accounting standards will need to apply the revised framework from January 1, 2020. The Group will need to consider whether those accounting policies are still appropriate under the revised Framework.

12. Gross income

Accounting policy

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 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Interest income	13.1	172	**129,287,743**	118,551,239	**127,779,540**	117,465,670
Fee and commission income	14.1	174	**12,874,966**	12,494,090	**12,406,584**	11,988,070
Net gains/(losses) from trading	15	175	**1,360,833**	(3,033,236)	**1,360,858**	(3,033,236)
Net gains/(losses) from derecognition of financial assets	16	175	**1,135,711**	272,004	**1,135,711**	272,004
Net other operating income	17	176	**6,081,876**	11,373,098	**6,023,591**	11,356,799
Total			**150,741,129**	139,657,195	**148,706,284**	138,049,307

13. Net interest income

Accounting policy

Interest income and expense are recognised in the Income Statement using the effective interest rate (EIR) method.

Interest income and expense presented in the Income Statement include:

- Interest on financial assets measured at amortised cost calculated using EIR method;
- Interest on financial assets measured at fair value through other comprehensive income (FVOCI) calculated using EIR method;
- Interest on financial assets measured at fair value through profit or loss (FVTPL) calculated using EIR method;
- Interest on financial liabilities measured at amortised cost calculated using EIR method.

Effective interest rate (EIR)

The EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the EIR for financial instruments other than credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses (ECLs). For credit-impaired financial assets which are classified under Stage 3, a credit-adjusted EIR is calculated using estimated future cash flows including ECLs.

The credit-adjusted EIR is the interest rate that, at original recognition, discounts the estimated future cash flows (including credit losses) to the amortised cost.

The calculation of the EIR includes transaction costs and fees and points paid or received that are an integral part of the EIR.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted EIR to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

For the year ended December 31,	Note	Page No.	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Interest income	13.1	172	**129,287,743**	118,551,239	**127,779,540**	117,465,670
Less: Interest expense	13.2	173	**80,931,352**	72,933,030	**80,571,268**	72,523,912
Net interest income			**48,356,391**	45,618,209	**47,208,272**	44,941,758

13.1 Interest income

For the year ended December 31,	Note	Page No.	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Cash and cash equivalents			**1,290,697**	411,412	**1,281,772**	392,932
Balances with central banks			**62,572**	26,734	**34,632**	23,613
Placements with banks			**931,571**	529,738	**918,690**	529,738
Securities purchased under resale agreements			**1,906,902**	508,616	**1,906,667**	508,616
Financial assets recognised through profit or loss			**474,478**	323,335	**474,478**	323,335
Derivative financial instruments			**67,453**	56,173	**67,453**	56,173
Other financial instruments			**407,025**	267,162	**407,025**	267,162
Financial assets at amortised cost – Loans and advances to other customers			**100,444,369**	95,081,154	**99,263,719**	94,238,090

For the year ended December 31,	Note	Page No.	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Financial assets at amortised cost – Debt and other financial instruments			**7,819,563**	6,828,671	**7,572,183**	6,626,740
Financial assets measured at fair value through other comprehensive income			**15,091,368**	14,478,042	**15,067,335**	14,457,491
Interest accrued on impaired loans and advances to other customers	34.2 (a) & 34.2 (b)	197 & 198	**1,258,339**	360,876	**1,258,339**	360,876
Other interest income			**7,884**	2,661	**1,725**	4,239
Total			**129,287,743**	118,551,239	**127,779,540**	117,465,670

13.2 Interest expense

For the year ended December 31,	Note	Page No.	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Due to banks			**2,484,166**	2,313,673	**2,201,489**	1,953,745
Derivative financial liabilities			**63,161**	57,860	**63,161**	57,860
Securities sold under repurchase agreements			**3,256,622**	3,815,335	**3,267,124**	3,828,078
Financial liabilities at amortised cost – due to depositors			**69,503,417**	62,397,741	**69,387,322**	62,335,808
Refinance borrowings			**472,813**	427,958	**472,813**	427,958
Foreign currency borrowings			**872,931**	814,910	**872,931**	814,910
Subordinated liabilities			**3,848,979**	3,105,553	**3,848,979**	3,105,553
Interest expense on lease liabilities	50.1	228	**429,263**	–	**457,449**	–
Total			**80,931,352**	72,933,030	**80,571,268**	72,523,912

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 income 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

For the year ended December 31,	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Interest income	**23,158,214**	20,458,655	**23,133,946**	20,438,104
Securities purchased under resale agreements	**1,629,021**	423,571	**1,628,786**	423,571
Financial assets recognised through profit or loss	**277,760**	219,287	**277,760**	219,287
Financial assets at amortised cost – Debt and other financial instruments	**6,160,065**	5,337,755	**6,160,065**	5,337,755
Financial assets measured at fair value through other comprehensive income	**15,091,368**	14,478,042	**15,067,335**	14,457,491
Less: Interest expense	**3,252,089**	3,815,115	**3,262,591**	3,827,858
Securities sold under repurchase agreements	**3,252,089**	3,815,115	**3,262,591**	3,827,858
Net interest income	**19,906,125**	16,643,540	**19,871,355**	16,610,246

Notional tax credit on secondary market transactions

Interest income from Sri Lankan Rupee denominated Government Securities were subjected to withholding tax at source (Notional Tax) as per the Inland Revenue Act No. 10 of 2006, effective up to March 31, 2018. Accordingly, interest income accrued or received on outright or reverse repurchase transactions on Government Securities, less interest expense accrued or paid on repurchase transactions with such Government Securities was grossed up by the amount of notional tax.

However, as per the provision of the Inland Revenue Act No. 24 of 2017, which became effective from April 1, 2018, interest income from Government Securities was excluded from the requirement to withhold tax. Hence, notional tax credit hitherto claimed by the Bank was discontinued since April 1, 2018 with implementation of Inland Revenue Act No. 24 of 2017.

Accordingly, interest income from Government Securities for the period from January 1, 2018 to March 31, 2018 has been grossed up by notional tax amounting to Rs. 348.978 Mn. and Rs. 348.311 Mn. by the Group and the Bank respectively.

13.3 (b) Net interest income from Bangladesh Government Securities

For the year ended December 31,	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Interest income	**1,318,173**	727,417	**1,318,173**	727,417
Securities purchased under resale agreements	**277,881**	85,045	**277,881**	85,045
Financial assets recognised through profit or loss	**129,265**	47,875	**129,265**	47,875
Financial assets at amortised cost – Debt and other financial instruments	**911,027**	594,497	**911,027**	594,497
Less: Interest expense	**4,533**	220	**4,533**	220
Securities sold under repurchase agreements	**4,533**	220	**4,533**	220
Net interest income	**1,313,640**	727,197	**1,313,640**	727,197

13.3 (c) Net interest income from Maldives Government Securities

For the year ended December 31,	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Interest income	**247,379**	201,931	**–**	–
Financial assets at amortised cost – Debt and other financial instruments	**247,379**	201,931	**–**	–
Net interest income	**247,379**	201,931	**–**	–

14. Net fee and commission income

Accounting policy

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, and placement 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.

As per SLFRS 15, the Bank adopts principles based five step model for revenue recognition. Accordingly, revenue is recognised only when all of the following criteria are met:

- The parties to the contract have approved the contract/s;
- The entity can identify each party's rights regarding the goods or services to be transferred;
- The entity can identify the payment terms for the goods or services to be transferred;
- The contract has commercial substance;
- It is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.

The scope of SLFRS 15 is limited to fees and commission revenue of the Bank.

For the year ended December 31,	Note	Page No.	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Fee and commission income	14.1	174	**12,874,966**	12,494,090	**12,406,584**	11,988,070
Less: Fee and commission expense	14.2	175	**2,123,128**	1,859,698	**2,117,072**	1,837,900
Net fee and commission income			**10,751,838**	10,634,392	**10,289,512**	10,150,170

14.1 Fee and commission income

For the year ended December 31,	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Loans and advances related services	**881,213**	944,858	**813,785**	873,137
Credit and debit cards related services	**4,566,923**	4,191,679	**4,566,923**	4,191,679
Trade and remittances related services	**3,998,926**	3,812,516	**3,783,596**	3,683,242
Deposits related services	**1,852,565**	1,952,323	**1,788,810**	1,733,475
Guarantees related services	**942,615**	1,063,585	**936,720**	1,062,969
Other financial services	**632,724**	529,129	**516,750**	443,568
Total	**12,874,966**	12,494,090	**12,406,584**	11,988,070

14.2 Fee and commission expense

For the year ended December 31,	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Loans and advances related services	**54,028**	66,131	**51,637**	49,769
Credit and debit cards related services	**1,877,797**	1,631,600	**1,877,797**	1,631,600
Trade and remittances related services	**62,299**	47,204	**58,634**	43,990
Other financial services	**129,004**	114,763	**129,004**	112,541
Total	**2,123,128**	1,859,698	**2,117,072**	1,837,900

15. Net gains/(losses) from trading

Accounting policy

"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, related capital gains and losses, dividend income from trading assets, and foreign exchange differences.

For the year ended December 31,	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Derivative financial instruments	**1,078,749**	(3,121,949)	**1,078,749**	(3,121,949)
Foreign exchange gains/(losses) from banks and other customers	**1,078,749**	(3,121,949)	**1,078,749**	(3,121,949)
Financial assets recognised through profit or loss – measured at fair value				
Government Securities	**67,548**	(4,839)	**67,548**	(4,839)
Net mark-to-market gains/(losses)	**26,386**	(24,572)	**26,386**	(24,572)
Net capital gains	**41,162**	19,733	**41,162**	19,733
Equities	**214,536**	93,552	**214,561**	93,552
Net mark-to-market gains/(losses)	**200,299**	80,151	**200,327**	80,151
Net capital gains	**916**	1,026	**919**	1,026
Dividend income	**13,321**	12,375	**13,315**	12,375
Total	**1,360,833**	(3,033,236)	**1,360,858**	(3,033,236)

16. Net gains/(losses) from derecognition of financial assets

Accounting policy

As per SLFRS 9, "Net gains/(losses) from derecognition of financial assets" comprises all realised gains less losses related to debt instruments measured at FVOCI and financial assets measured at amortised cost.

For the year ended December 31,	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Financial assets measured at fair value through other comprehensive income				
Government Securities	**1,135,711**	272,004	**1,135,711**	272,004
Net capital gains	**1,135,711**	272,004	**1,135,711**	272,004
Total	**1,135,711**	272,004	**1,135,711**	272,004

17. Net other operating income

Accounting policy

Net other operating income includes foreign exchange gains and losses, dividend income from ordinary shares classified as fair value through other comprehensive income financial assets, dividend income from group entities, gains/losses on disposal of property, plant and equipment, and rental income.

			GROUP		BANK	
For the year ended December 31,	Note	Page No.	2019 Rs. '000	2018 Rs. '000	2019 Rs. '000	2018 Rs. '000
Gains/(losses) on sale of property, plant and equipment	17.1	176	19,731	9,311	7,958	(3,633)
Gains on revaluation of foreign exchange			5,783,595	11,185,438	5,647,577	11,022,107
Recoveries o/a loans written off			20,360	21,288	20,360	21,288
Dividend income from subsidiaries			–	–	85,397	80,575
Dividend income from other equity securities			40,076	34,119	39,796	33,879
Profit due to change in ownership			14,498	3,344	14,498	3,344
Rental and other income	17.2	176	218,114	122,942	208,005	199,239
Less: Profit due to change in ownership			(14,498)	(3,344)	–	–
Total			6,081,876	11,373,098	6,023,591	11,356,799

17.1 Gains/(losses) on sale of property, plant and equipment

Accounting policy

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 in "other income" in the year in which the Bank transfers control of the asset to the buyer.

17.2 Rental income

Accounting policy

Rental income is recognised in the Income Statement on an accrual basis.

18. Impairment charges and other losses

Accounting policy

Impairment charges as per SLFRS 9

The Group recognises loss allowances for expected credit loss (ECL) on the following financial instruments that are not measured at FVTPL:

- Cash and cash equivalents;
- Placements with banks;
- Loans and advances to banks;
- Loans and advances to other customers;
- Financial assets at amortised cost – Debt and other financial instruments;
- Debt instruments at fair value through other comprehensive income;
- Loan commitments and financial guarantee contracts.

No impairment loss is recognised on equity investments.

The assessment of credit risk and the estimation of ECL are required to be unbiased and probability-weighted, and should incorporate all available information relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money.

Impairment charges on loans and advances to customers

For loans and advances above a predefined threshold, the Group individually assesses for significant increase in credit risk. If a particular loan is credit-impaired, 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. If the Group determines that no provision is required under individual impairment, such financial assets are then collectively assessed for any impairments along with the remaining portfolio.

The Group computes ECL using three main components; a probability of default (PD), a loss given default (LGD) and the exposure at default (EAD) under the collective assessment. These parameters are generally derived from internally developed statistical models and historical data and then adjusted to reflect forward-looking information.

- PD – The probability of default represents the likelihood of a borrower defaulting on its financial obligation (as per Note 7.1.12.3) either over the next 12 months (12mPD) or over the remaining lifetime (Lifetime PD) of the obligation. PD estimates are estimates at a certain date and days past due is the primary input into the determination of the term structure of PD for exposures. Days past due are determined by counting the number of days since the due date. The Group employs statistical models to analyse the data collected and generates estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.
- LGD – The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. The Group estimates LGD parameters based on historical recovery rates of claims against defaulted counterparties. They are calculated on a discounted cash flow basis using EIR as the discounting factor. LGD is usually expressed as a percentage of the EAD.
- EAD – The exposure at default represents the expected exposure in the event of a default. The Group estimates EAD, taking into account the repayment of principal and interest from the reporting date to the default event together with any expected

drawdowns of committed facilities.
To calculate EAD for a Stage 1 loan, the Group assesses the possible default events within 12 months. For all other loans, the EAD is considered for default events over the lifetime of the financial instrument.

Impairment charges on financial investments

Impairment charges on financial investments include ECL on debt instruments at FVOCI and financial assets at amortised cost.

The Group does not have historical loss experience on debt instruments at amortised cost and debt instruments at FVOCI. Thus the Group considers PDs published by the external sources. (i.e. Bloomberg)

LGD for debt securities issued by the Government of Sri Lanka in rupees is considered as 0%, LGD for foreign currency denominated securities issued by the Government [Sri Lanka Development Bonds (SLDBSs) and Sri Lanka Sovereign Bonds (SLSBs)] is considered as 20% and for all other instruments LGD is considered as 45% in accordance with the guideline issued by the Central Bank of Sri Lanka.

EAD of a debt instrument is its gross carrying amount.

Credit cards and revolving facilities

The Group's product offering includes a variety of corporate and retail overdraft and credit cards facilities. The Group reviews the sanction limits at least annually and therefore has the right to cancel and/or reduce the limits. Therefore, the Group calculates only the 12-month ECL (12mECL) allowance on these facilities. The EAD is arrived by taking the maximum of either sanction limit adjusted for Credit Conversion Factor (CCF) and the gross carrying amount of the loan (utilised amount). EAD of Stage 3 contracts are limited to the gross carrying amount which is the utilised amount since it is assumed that the Group freeze the limits of those contracts up to the utilised amount. The expected 12-month default probabilities are applied to EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR.

Undrawn loan commitments

When estimating life-time ECL (LTECL) for undrawn loan commitments, the Group estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan. For loan commitments and letters of credit, the ECL is recognised within "other liabilities".

Financial guarantee contracts

The Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the Income statement, and the ECL provision. For this purpose, the Bank estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The ECLs related to financial guarantee contracts are recognised within "other liabilities".

Forward-looking information

The Group incorporates forward-looking information into both its assessment as to whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The Group also obtained experienced credit judgement from economic experts and Credit and Risk Management Departments to formulate a base case, a best case and a worst case scenario. The base case represents a most-likely outcome and is aligned with information used by the Group for strategic planning and budgeting. The Group has identified and documented key drivers of credit risk both quantitative and qualitative for various portfolio segments. Quantitative economic factors are based on economic data and forecasts published by CBSL and other reliable sources.

Quantitative drivers of credit risk	Qualitative drivers of credit risk
GDP growth	Status of industry business
Unemployment rate	Regulatory impact
Interest rate (AWPLR)	Government policies
Rate of inflation	
Exchange rate	

The calculation of ECLs

The Group measures loss allowance at an amount equal to LTECL, except for following, which are measured as 12mECL.

- Loans and advances on which credit risk has not increased significantly since the initial recognition.
- Debt instruments that are determined to have low credit risk at the reporting date.

The Group considers a debt instrument to have a low credit risk when they have an "investment grade" credit risk rating.

ECLs are measured as follows:

- Financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of expected cash flows;
- Undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive;
- Financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.

Financial assets that are not credit-impaired at the reporting date

As described above, the Group calculates 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to EAD and multiplied by the economic factor adjustment, expected LGD and discounted by an approximation to the original EIR. When loan has shown a significant increase in credit risk since origination, the Group records an allowance for LTECLs based on PDs estimated over the lifetime of the instrument.

Financial assets that are credit-impaired at the reporting date

Impairment allowance on credit-impaired financial assets assessed on individual basis is computed as the difference between the asset's gross carrying amount and the present value of estimated future cash flows. The expected future cash flows are based on the estimates made by the credit risk officers' as at the reporting date, reflecting reasonable and supportable assumptions and projections of future recoveries and expected future receipts of interest. The Group regularly reviews the assumptions for projecting future cash flows.

Further, for loans and advances identified as credit impaired in Note 7.1.12.3 will be assessed for impairment with 100% PD.

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.

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 of financial assets

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

For the year ended December 31,	Note	Page No.	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Loans and advances to other customers	34.2 (a) & 34.2 (b)	197 & 198	**10,309,857**	8,379,540	**10,043,643**	8,123,248
Individual impairment			**1,938,437**	(1,002,000)	**1,931,678**	(1,002,000)
Collective impairment			**8,371,420**	9,381,540	**8,111,965**	9,125,248
Other financial assets and off balance sheet credit exposures			**1,020,414**	452,856	**1,016,571**	450,985
Total impairment charges	18.1 & 18.2	178 179	**11,330,271**	8,832,396	**11,060,214**	8,574,233
Direct write-offs			**1,252**	966	**1,252**	966
Total			**11,331,523**	8,833,362	**11,061,466**	8,575,199

18.1 Impairment charge to the Income Statement – Group

For the year ended December 31,	Note	Page No.	2019 Stage 1 Rs. '000	2019 Stage 2 Rs. '000	2019 Stage 3 Rs. '000	2019 Total Rs. '000	2018 Stage 1 Rs. '000	2018 Stage 2 Rs. '000	2018 Stage 3 Rs. '000	2018 Total Rs. '000
Cash and cash equivalents	28.1	190	**1,350**	**–**	**–**	**1,350**	(1,450)	–	–	(1,450)
Placements with banks	30.1	191	**(2,120)**	**–**	**–**	**(2,120)**	(21,553)	–	–	(21,553)
Financial assets at amortised cost – Loans and advances to banks	33.1	195	**75**	**–**	**–**	**75**	(103)	–	–	(103)
Financial assets at amortised cost – Loans and advances to other customers	34.2 (a)	197	**(108,915)**	**2,511,088**	**7,907,684**	**10,309,857**	(324,074)	1,632,467	7,071,147	8,379,540
Individual impairment			**–**	**–**	**1,938,437**	**1,938,437**	–	–	(1,002,000)	(1,002,000)
Collective impairment			**(108,915)**	**2,511,088**	**5,969,247**	**8,371,420**	(324,074)	1,632,467	8,073,147	9,381,540
Financial assets at amortised cost – Debt and other financial instruments	35.1 (a)	200	**8,569**	**–**	**152,870**	**161,439**	198,443	–	–	198,443
Financial assets measured at fair value through other comprehensive income	36.2	202	**265,999**	**–**	**–**	**265,999**	401,438	–	–	401,438
Contingent liabilities and commitments	59.3 (a)	245	**239,399**	**98,060**	**256,212**	**593,671**	(130,732)	(22,769)	29,582	(123,919)
Total			**404,357**	**2,609,148**	**8,316,766**	**11,330,271**	121,969	1,609,698	7,100,729	8,832,396

18.2 Impairment charge to the Income Statement – Bank

For the year ended December 31,	Note	Page No.	2019 Stage 1 Rs. '000	2019 Stage 2 Rs. '000	2019 Stage 3 Rs. '000	2019 Total Rs. '000	2018 Stage 1 Rs. '000	2018 Stage 2 Rs. '000	2018 Stage 3 Rs. '000	2018 Total Rs. '000
Cash and cash equivalents	28.1	190	**1,350**	**–**	**–**	**1,350**	(1,450)	–	–	(1,450)
Placements with banks	30.1	191	**(2,144)**	**–**	**–**	**(2,144)**	(21,553)	–	–	(21,553)
Financial assets at amortised cost – Loans and advances to banks	33.1	195	**75**	**–**	**–**	**75**	(103)	–	–	(103)
Financial assets at amortised cost – Loans and advances to other customers	34.2 (b)	197	**(41,669)**	**2,447,313**	**7,637,999**	**10,043,643**	(393,953)	1,704,548	6,812,653	8,123,248
Individual impairment			**–**	**–**	**1,931,678**	**1,931,678**	–	–	(1,002,000)	(1,002,000)
Collective impairment			**(41,669)**	**2,447,313**	**5,706,321**	**8,111,965**	(393,953)	1,704,548	7,814,653	9,125,248
Financial assets at amortised cost – Debt and other financial instruments	35.1 (b)	200	**7,940**	**–**	**152,870**	**160,810**	196,572	–	–	196,572
Financial assets measured at fair value through other comprehensive income	36.2	202	**265,999**	**–**	**–**	**265,999**	401,438	–	–	401,438
Contingent liabilities and commitments	59.3 (b)	245	**236,209**	**98,060**	**256,212**	**590,481**	(130,732)	(22,769)	29,582	(123,919)
Total			**467,760**	**2,545,373**	**8,047,081**	**11,060,214**	50,219	1,681,779	6,842,235	8,574,233

19. Personnel expenses

Accounting policy

See Note 7.8 on pages 166 to 168.

For the year ended December 31,	Note	Page No.	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Salary and bonus	19.1	179	**11,141,489**	10,154,809	**10,865,886**	9,963,292
Pension costs	19.1	179	**1,882,058**	1,800,395	**1,843,048**	1,778,443
Contributions to defined contribution/benefit plans – Funded schemes			**1,396,492**	1,439,123	**1,373,102**	1,428,776
Contributions to defined benefit plans – Unfunded schemes	50.2 (c) & 50.3 (c)	229 230	**485,566**	361,272	**469,946**	349,667
Equity-settled share-based payment expense	19.2 & 57.6	179 243	**–**	68,581	**–**	68,581
Other expenses	19.3	179	**1,385,367**	1,265,883	**1,373,725**	1,260,623
Total			**14,408,914**	13,289,668	**14,082,659**	13,070,939

19.1 Salary, bonus, and pension costs

Salary, bonus, and contributions to defined contribution/benefit plans, reported above also include amounts paid to and contributions 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 237.

19.3 Other expenses

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

Accounting policy

Depreciation

Depreciation is calculated to write-off the cost of items of property, plant and equipment and right-of-use assets less their estimated residual values using the straight-line method over their estimated useful lives and is recognised in the Income Statement. Freehold land is not depreciated. As per LKAS 17, upto December 31, 2018, leased assets under finance leases were depreciated over the shorter of lease term and their useful lives. As per SLFRS 16, effective from January 1, 2019, right-of-use assets are depreciated over the useful lives of the assets. However, if there is no reasonable certainty that the Group will obtain the ownership by end of the lease term, the assets are depreciated over the shorter of the estimated useful lives and the lease terms.

The estimated useful lives of the property, plant and equipment of the Bank as at December 31, 2019 are as follows:

Class of asset	Depreciation percentage per annum	Period (years)
Freehold and leasehold buildings	2.5	40
Motor vehicles	20	5
Computer equipment	20	5
Office equipment, furniture, and fixtures		
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, and these rates have not been changed during the year.

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 together with other relevant information are given in Note 39 on pages 208 to 218.

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 rates specified below:

Class of asset	Amortisation percentage per annum	Period (years)
Computer software	20	5
Trademarks	20	5

The above rates are compatible with the rates used by all Group entities, and these rates have not changed during the year.

The unamortised balances of intangible assets with finite lives are reviewed for impairment whenever there is an indication for impairment and recognised in the Income Statement 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 reviewed at each reporting date and adjusted, if required.

For the year ended December 31,	Note	Page No.	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Depreciation of property, plant and equipment	39.1 & 39.3	209 & 211	**1,541,788**	1,383,581	**1,415,096**	1,279,378
Depreciation of right-of-use assets	39.1 & 39.3	209 & 211	**1,045,623**	–	**1,125,243**	–
Amortisation of computer software	41.1	221	**252,392**	218,076	**213,240**	188,789
Amortisation of trademarks			**9**	9	**–**	–
Amortisation of leasehold property	42	222	**1,452**	1,452	**942**	942
Total			**2,841,264**	1,603,118	**2,754,521**	1,469,109

21. Other operating expenses

Accounting policy

These expenses are recognised in the Income Statement on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenses incurred in running the business and in maintaining the property, plant and equipment in a state of efficiency are charged to the Income Statement.

For the year ended December 31,	Note	Page No.	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Directors' emoluments	21.1	181	**80,247**	79,801	**52,448**	52,316
Auditors' remuneration			**32,574**	33,855	**22,530**	22,536
Audit fees and expenses			**21,188**	21,719	**11,500**	10,780
Audit-related fees and expenses			**7,655**	7,040	**7,600**	6,920
Non-audit fees and expenses			**3,731**	5,096	**3,430**	4,836
Professional and legal expenses			**1,073,590**	550,885	**1,403,364**	823,904
Deposit insurance premium paid to the Central Banks			**839,685**	774,100	**839,313**	773,891
Donations including contribution made to the CSR Trust Fund			**94,010**	82,985	**93,991**	82,975
Establishment expenses			**1,878,292**	2,900,280	**1,748,143**	2,918,044
Maintenance of property, plant, and equipment			**1,649,310**	1,297,628	**1,638,747**	1,295,365
Office administration expenses			**3,227,608**	3,274,424	**2,789,920**	2,960,148
Total			**8,875,316**	8,993,958	**8,588,456**	8,929,179

21.1 Directors' emoluments

Directors' emoluments represent the salaries paid to both Executive and Non-Executive Directors of the Group and the Bank.

22. Taxes on financial services

Accounting policy

Refer Notes 9.5 to 9.7 on pages 170 and 171.

For the year ended December 31,	Note	Page No.	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Value Added Tax	9.5	170	**4,233,302**	4,759,005	**4,191,758**	4,759,005
Nation Building Tax (Abolished w.e.f. December 1, 2019)	9.6	171	**553,802**	642,858	**548,708**	642,858
Debt Repayment Levy (Introduced w.e.f. October 1, 2018)	9.7	171	**2,468,624**	649,998	**2,451,271**	649,998
Total			**7,255,728**	6,051,861	**7,191,737**	6,051,861

23. Income tax expense

Accounting policy

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 (up to March 31, 2018) thereto, and the Inland Revenue Act No. 24 of 2017, effective from April 1, 2018. This 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.

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.

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.

Entity-wise breakup of income tax expense in the Income Statement is as follows:

For the year ended December 31,	Note	Page No.	Applicable Income Tax Rate %	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Current year tax expense				**8,600,748**	9,648,955	**8,308,597**	9,453,100
Income tax expense of Domestic Banking Unit			28	**4,877,077**	6,434,902	**4,877,077**	6,434,902
Income tax expense of Offshore Banking Centre			28	**882,204**	916,565	**882,204**	916,565
Income tax expense of Bangladesh operation			40	**2,209,134**	2,024,177	**2,209,134**	2,024,177
Profit remittance tax of Bangladesh operation			20	**325,672**	64,972	**325,672**	64,972
Withholding tax on dividends received			14	**14,930**	12,684	**14,510**	12,484
Income tax expense of Commercial Development Company PLC			28	**44,289**	37,843	**–**	–
Income tax expense of CBC Tech Solutions Limited			28	**32,113**	25,333	**–**	–
Income tax expense of Serendib Finance Limited			28	**59,057**	2,697	**–**	–
Income tax expense of Commercial Bank of Maldives Private Limited			25	**147,259**	129,782	**–**	–
Income tax expense of Commex Sri Lanka S.R.L. – Italy			24	**–**	–	**–**	–
Income tax expense of CBC Myanmar Micro Finance Company Limited			25	**417**	–	**–**	–
Income tax expense of Commercial Insurance Brokers Private Limited			28	**8,596**	–	**–**	–
Prior years							
Under/(Over) provision of taxes in respect of prior years	49	227		**(989,148)**	(537,943)	**(991,884)**	(564,363)
Deferred tax expense	43.1	222		**(2,048,100)**	(875,295)	**(2,002,575)**	(841,357)
Effect of change in tax rates				**–**	(10,455)	**–**	(10,455)
Origination and reversal of temporary differences				**(2,048,100)**	(864,840)	**(2,002,575)**	(830,902)
Total				**5,563,500**	8,235,717	**5,314,138**	8,047,380
Effective tax rate (including deferred tax) (%)						**23.79**	31.45
Effective tax rate (excluding deferred tax) (%)						**32.75**	34.73

Interest income from Sri Lanka Development Bonds (SLDB) as an exempt income for income tax calculation

As per the Notice published by the Department of Inland Revenue on February 18, 2020, interest income earned from SLDB has been exempted from income tax with effect from April 1, 2018. Accordingly, the over provision made o/a of income tax liability in 2018 was reversed to the income statement of the current year, while, income tax liability for the year ended December 31, 2019 too was calculated by considering the interest income from SLDB as an exempt source of income.

23.1 Reconciliation of the accounting profit to income tax expense

A reconciliation between taxable income and the accounting profit multiplied by the statutory tax rates is given below:

For the year ended December 31,	Note	Page No.	Applicable Income Tax Rate %	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Accounting profit before tax from operations				**22,983,896**	26,098,548	**22,339,105**	25,591,208
Tax effect at the statutory income tax rate				**7,299,517**	7,827,455	**6,914,931**	7,664,509
Domestic banking operation of the Bank			28	**3,567,991**	4,884,657	**3,567,991**	4,884,657
Offshore banking operation of the Bank			28	**1,007,313**	852,915	**1,007,313**	852,915
Bangladesh operation of the Bank			40	**2,339,627**	1,926,937	**2,339,627**	1,926,937
Subsidiaries			24, 25 & 28	**384,586**	162,946	**–**	–
Tax effect of exempt income				**(1,844,454)**	(959,495)	**(1,844,454)**	(959,495)
Tax effect of non-deductible expenses				**10,410,356**	10,414,248	**10,237,579**	10,321,800
Tax effect of deductible expenses				**(7,605,273)**	(7,710,255)	**(7,339,641)**	(7,650,516)
Qualifying payments				**–**	(654)	**–**	(654)
Profit remittance tax of Bangladesh operation				**325,672**	64,972	**325,672**	64,972
Under/(over) provision of taxes in respect of prior years	49	227		**(989,148)**	(537,943)	**(991,884)**	(564,363)
Withholding tax on dividends received				**14,930**	12,684	**14,510**	12,484
Deferred tax expense	43.1	222		**(2,048,100)**	(875,295)	**(2,002,575)**	(841,357)
Income tax expense reported in the Income Statement at the effective income tax rate				**5,563,500**	8,235,717	**5,314,138**	8,047,380

24. Earnings Per Share (EPS)

Accounting policy

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 under Employee Share Option Plans (ESOP).

Details of Basic and Diluted EPS are given below:

24.1 Basic and diluted earnings per ordinary share

			GROUP		BANK	
	Note	Page No.	2019	2018	2019	2018
Amount used as the numerator:						
Profit for the year attributable to equity holders of the Bank (Rs. '000)			**17,263,259**	17,734,706	**17,024,967**	17,543,828
Number of ordinary shares used as the denominator:						
Weighted average number of ordinary shares for Basic EPS	24.2	183	**1,027,479,888**	1,026,919,750	**1,027,479,888**	1,026,919,750
Weighted average number of ordinary shares for diluted EPS	24.2	183	**1,027,479,888**	1,027,041,533	**1,027,479,888**	1,027,041,533
Basic earnings per ordinary share (Rs.)			**16.80**	17.27	**16.57**	17.08
Diluted earnings per ordinary share (Rs.)			**16.80**	17.27	**16.57**	17.08

24.2 Weighted average number of ordinary shares for basic and diluted earnings per share

			Outstanding number of shares		Weighted average number of shares	
	Note	Page No.	2019	2018	2019	2018
Number of shares in issue as at January 1,			**1,010,722,577**	995,899,302	**1,010,722,577**	995,899,302
Add: Number of shares satisfied in the form of issue and allotment of new shares from final dividend for 2017	53.1	237	–	13,083,951	–	13,083,951
Add: Number of shares satisfied in the form of issue and allotment of new shares from final dividend for 2018	53.1	237	**16,490,624**	–	**16,490,624**	16,490,624
			1,027,213,201	1,008,983,253	**1,027,213,201**	1,025,473,877
Add: Number of shares issued under ESOP 2008	53.1	237	**293,385**	1,568,665	**266,687**	1,315,042
Add: Number of shares issued under ESOP 2015	53.1	237	–	170,659	–	130,831
Weighted average number of ordinary shares for basic earnings per ordinary share calculation			**1,027,506,586**	1,010,722,577	**1,027,479,888**	1,026,919,750
Add: Bonus element on number of outstanding options under ESOP 2008 as at the year end			–	–	–	121,783
Add: Bonus element on number of outstanding options under ESOP 2015 as at the year end			–	–	–	–
Weighted average number of ordinary shares for diluted earnings per ordinary share calculation (*)			**1,027,506,586**	1,010,722,577	**1,027,479,888**	1,027,041,533

(*) 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, 2019 and December 31, 2018 over the offer price.

25. Dividends on ordinary shares

Accounting policy

Refer Note 7.7 on page 166.

	2019 Second interim Rs. 3.00 per share for 2018 (paid on February 15, 2019) Rs. '000	2018 Second interim Rs. 3.00 per share for 2017 (paid on February 20, 2018) Rs. '000	2019 First interim Rs. 1.50 per share for 2019 (paid on November 18, 2019) Rs. '000	2018 First interim Rs. 1.50 per share for 2018 (paid on November 21, 2018) Rs. '000	GROUP & BANK 2019 Total Dividend Paid Rs. '000	2018 Total Dividend Paid Rs. '000
Net dividend paid to the ordinary shareholders out of normal profits	**2,638,304**	2,714,372	**1,334,442**	1,312,647	**3,972,746**	4,027,019
Withholding tax deducted at source	**394,565**	275,624	**206,818**	203,437	**601,383**	479,061
Gross ordinary dividend paid	**3,032,869**	2,989,996	**1,541,260**	1,516,084	**4,574,129**	4,506,080

The Board of Directors of the Bank 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, 2019 and this dividend will be paid on February 24, 2020.

Further, 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, 2019 (Bank declared a final dividend of Rs. 2.00 per share for 2018 in 2019 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 30, 2020. In accordance with provisions of the Sri Lanka Accounting Standard – LKAS 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, 2019 have not been recognised as liabilities as at the year end. Final dividend payable for the year 2019 has been estimated at Rs. 2,055.013 Mn. (Actual final dividend for 2018 amounted to Rs. 2,022.032 Mn.).

Accordingly, the dividend per ordinary share (for both voting and non-voting) for the year 2019 would be Rs. 6.50 (2018 – Rs. 6.50).

26. 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:

26.1 Classification of financial assets and financial liabilities – Group

			As at December 31, 2019				As at December 31, 2018			
	Note	Page No.	Financial instruments recognised through profit or loss (FVTPL) Rs. '000	Financial instruments at amortised cost (AC) Rs. '000	Financial instruments at fair value through other comprehensive income (FVOCI) Rs. '000	Total Rs. '000	Financial instruments recognised through profit or loss (FVTPL) Rs. '000	Financial instruments at amortised cost (AC) Rs. '000	Financial instruments at fair value through other comprehensive income (FVOCI) Rs. '000	Total Rs. '000
Financial assets										
Cash and cash equivalents	28	190	–	**53,681,118**	–	**53,681,118**	–	44,355,962	–	44,355,962
Balances with Central Banks	29	191	–	**46,101,232**	–	**46,101,232**	–	55,406,535	–	55,406,535
Placements with banks	30	191	–	**24,903,809**	–	**24,903,809**	–	19,898,515	–	19,898,515
Securities purchased under resale agreements			–	**13,147,534**	–	**13,147,534**	–	9,513,512	–	9,513,512
Derivative financial assets	31	192	**1,830,927**	–	–	**1,830,927**	7,909,962	–	–	7,909,962
Financial assets recognised through profit or loss – Measured at fair value	32	192	**21,468,033**	–	–	**21,468,033**	5,520,167	–	–	5,520,167
Financial assets at amortised cost – Loans and advances to banks	33	195	–	**757,787**	–	**757,787**	–	763,074	–	763,074

	Note	Page No.	As at December 31, 2019				As at December 31, 2018			
			Financial instruments recognised through profit or loss (FVTPL)	Financial instruments at amortised cost (AC)	Financial instruments at fair value through other comprehensive income (FVOCI)	Total	Financial instruments recognised through profit or loss (FVTPL)	Financial instruments at amortised cost (AC)	Financial instruments at fair value through other comprehensive income (FVOCI)	Total
			Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Financial assets at amortised cost – Loans and advances to other customers	34	196	–	893,919,311	–	893,919,311	–	867,611,976	–	867,611,976
Financial assets at amortised cost – Debt and other financial instruments	35	199	–	107,059,021	–	107,059,021	–	89,274,413	–	89,274,413
Financial assets measured at fair value through other comprehensive income	36	201	–	–	197,825,017	197,825,017	–	–	176,760,611	176,760,611
Total financial assets			23,298,960	1,139,569,812	197,825,017	1,360,693,789	13,430,129	1,086,823,987	176,760,611	1,277,014,727
Financial liabilities										
Due to banks	45	225	–	53,807,425	–	53,807,425	–	52,362,052	–	52,362,052
Derivative financial liabilities	46	225	1,495,317	–	–	1,495,317	8,021,783	–	–	8,021,783
Securities sold under repurchase agreements			–	51,117,342	–	51,117,342	–	48,951,394	–	48,951,394
Financial liabilities at amortised cost – Due to depositors	47	226	–	1,068,982,587	–	1,068,982,587	–	994,370,875	–	994,370,875
Financial liabilities at amortised cost – Other borrowings	48	227	–	23,248,893	–	23,248,893	–	25,361,912	–	25,361,912
Subordinated liabilities	52	235	–	37,886,789	–	37,886,789	–	37,992,457	–	37,992,457
Total financial liabilities			1,495,317	1,235,043,036	–	1,236,538,353	8,021,783	1,159,038,690	–	1,167,060,473

26.2 Classification of financial assets and financial liabilities – Bank

	Note	Page No.	As at December 31, 2019				As at December 31, 2018			
			Financial instruments recognised through profit or loss (FVTPL)	Financial instruments at amortised cost (AC)	Financial instruments at fair value through other comprehensive income (FVOCI)	Total	Financial instruments recognised through profit or loss (FVTPL)	Financial instruments at amortised cost (AC)	Financial instruments at fair value through other comprehensive income (FVOCI)	Total
			Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Financial assets										
Cash and cash equivalents	28	190	–	52,534,730	–	52,534,730	–	39,534,476	–	39,534,476
Balances with Central Banks	29	191	–	39,461,127	–	39,461,127	–	54,384,590	–	54,384,590
Placements with banks	30	191	–	24,527,241	–	24,527,241	–	19,898,515	–	19,898,515
Securities purchased under resale agreements			–	13,147,534	–	13,147,534	–	9,513,512	–	9,513,512
Derivative financial assets	31	192	1,830,927	–	–	1,830,927	7,909,962	–	–	7,909,962
Financial assets recognised through profit or loss – Measured at fair value	32	192	21,468,033	–	–	21,468,033	5,520,167	–	–	5,520,167
Financial assets at amortised cost – Loans and advances to banks	33	195	–	757,787	–	757,787	–	763,074	–	763,074
Financial assets at amortised cost – Loans and advances to other customers	34	196	–	884,645,744	–	884,645,744	–	861,100,315	–	861,100,315

			As at December 31, 2019				As at December 31, 2018			
			Financial instruments recognised through profit or loss (FVTPL)	Financial instruments at amortised cost (AC)	Financial instruments at fair value through other comprehensive income (FVOCI)	Total	Financial instruments recognised through profit or loss (FVTPL)	Financial instruments at amortised cost (AC)	Financial instruments at fair value through other comprehensive income (FVOCI)	Total
	Note	Page No.	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Financial assets at amortised cost – Debt and other financial instruments	35	199	–	101,144,819	–	101,144,819	–	83,855,436	–	83,855,436
Financial assets measured at fair value through other comprehensive income	36	201	–	–	197,568,330	197,568,330	–	–	176,506,729	176,506,729
Total financial assets			23,298,960	1,116,218,982	197,568,330	1,337,086,272	13,430,129	1,069,049,918	176,506,729	1,258,986,776
Financial liabilities										
Due to banks	45	225	–	51,505,694	–	51,505,694	–	50,101,081	–	50,101,081
Derivative financial liabilities	46	225	1,495,317	–	–	1,495,317	8,021,783	–	–	8,021,783
Securities sold under repurchase agreements			–	51,220,023	–	51,220,023	–	49,104,462	–	49,104,462
Financial liabilities at amortised cost – Due to depositors	47	226	–	1,053,307,660	–	1,053,307,660	–	983,037,314	–	983,037,314
Financial liabilities at amortised cost – Other borrowings	48	227	–	23,248,893	–	23,248,893	–	25,361,912	–	25,361,912
Subordinated liabilities	52	235	–	37,886,789	–	37,886,789	–	37,992,457	–	37,992,457
Total financial liabilities			1,495,317	1,217,169,059	–	1,218,664,376	8,021,783	1,145,597,226	–	1,153,619,009

27. Fair value measurement

Accounting policy

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.

27.1 Assets and liabilities measured at fair value and fair value hierarchy

The following table provides an analysis of assets and liabilities measured at fair value as at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised. These amounts were based on the values recognised in the Statement of Financial Position:

As at December 31, 2019	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	39	208	–	–	11,810,606	11,810,606	–	–	11,078,500	11,078,500
Investment properties	40	219	–	–	46,350	46,350	–	–	–	–
Total non-financial assets at fair value			–	–	11,856,956	11,856,956	–	–	11,078,500	11,078,500
Financial assets										
Derivative financial assets	31	192								
Currency swaps			–	1,410,476	–	1,410,476	–	1,410,476	–	1,410,476
Interest rate swaps			–	–	–	–	–	–	–	–
Forward contracts			–	411,958	–	411,958	–	411,958	–	411,958
Spot contracts			–	8,493	–	8,493	–	8,493	–	8,493
Financial assets recognised through profit or loss – measured at fair value	32	192								
Government Securities			20,484,895	–	–	20,484,895	20,484,895	–	–	20,484,895
Equity shares			983,138	–	–	983,138	983,138	–	–	983,138
Financial assets measured at fair value through other comprehensive income	36	201								
Government Securities			141,456,023	57,009,964	–	198,465,987	141,199,460	57,009,964	–	198,209,424
Equity securities			169,013	–	51,710	220,723	169,013	–	51,586	220,599
Total financial assets at fair value			163,093,069	58,840,891	51,710	221,985,670	162,836,506	58,840,891	51,586	221,728,983
Total assets at fair value			163,093,069	58,840,891	11,908,666	233,842,626	162,836,506	58,840,891	11,130,086	232,807,483
Financial liabilities										
Derivative financial liabilities	46	225								
Currency swaps			–	1,140,261	–	1,140,261	–	1,140,261	–	1,140,261
Interest rate swaps			–	53,295	–	53,295	–	53,295	–	53,295
Forward contracts			–	295,838	–	295,838	–	295,838	–	295,838
Spot contracts			–	5,923	–	5,923	–	5,923	–	5,923
Total liabilities at fair value			–	1,495,317	–	1,495,317	–	1,495,317	–	1,495,317

As at December 31, 2018	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	39	208	–	–	11,566,268	11,566,268	–	–	11,224,488	11,224,488
Total non-financial assets at fair value			–	–	11,566,268	11,566,268	–	–	11,224,488	11,224,488
Financial assets										
Derivative financial assets	31	192								
Currency swaps			–	4,534,509	–	4,534,509	–	4,534,509	–	4,534,509
Interest rate swaps			–	33,359	–	33,359	–	33,359	–	33,359
Forward contracts			–	3,340,657	–	3,340,657	–	3,340,657	–	3,340,657
Spot contracts			–	1,437	–	1,437	–	1,437	–	1,437
Financial assets recognised through profit or loss – Measured at fair value	32	192								
Government Securities			4,751,360	–	–	4,751,360	4,751,360	–	–	4,751,360
Equity shares			768,807	–	–	768,807	768,807	–	–	768,807
Financial assets measured at fair value through other comprehensive income	36	201								
Government Securities			117,577,351	59,534,461	–	177,111,812	117,323,593	59,534,461	–	176,858,054
Equity securities			195,149	–	49,344	244,493	195,149	–	49,220	244,369
Total financial assets at fair value			123,292,667	67,444,423	49,344	190,786,434	123,038,909	67,444,423	49,220	190,532,552
Total assets at fair value			123,292,667	67,444,423	11,615,612	202,352,702	123,038,909	67,444,423	11,273,708	201,757,040
Financial liabilities										
Derivative financial liabilities	46	225								
Currency swaps			–	5,946,484	–	5,946,484	–	5,946,484	–	5,946,484
Interest rate swaps			–	–	–	–	–	–	–	–
Forward contracts			–	2,069,807	–	2,069,807	–	2,069,807	–	2,069,807
Spot contracts			–	5,492	–	5,492	–	5,492	–	5,492
Total liabilities at fair value			–	8,021,783	–	8,021,783	–	8,021,783	–	8,021,783

27.2 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 given in Notes 39.1 to 39.4 on pages 209 to 211.

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 140 to 147.

Note 39.5 (b) on page 213 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 217 provides details of valuation techniques used and sensitivity of fair value measurement to changes in significant unobservable inputs.

Investment properties

Reconciliation from the beginning balance to the ending balance for the investment properties in the Level 3 of the fair value hierarchy is available in Note 40 on page 219.

Note 40.1 (b) on page 219 provides information on significant unobservable inputs used as at August 5, 2019 in measuring fair value of investment properties categorised as level 3 in the fair value hierarchy.

Note 40.1 (c) on page 220 provides details of valuation techniques used and the sensitivity of fair value measurement to changes in significant unobservable inputs.

27.3 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 advances, due to depositors, 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, 2019	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	28	190	–	53,681,118	–	53,681,118	53,681,118	–	52,534,730	–	52,534,730	52,534,730
Balances with central banks	29	191	–	46,101,232	–	46,101,232	46,101,232	–	39,461,127	–	39,461,127	39,461,127
Placements with banks	30	191	–	24,903,809	–	24,903,809	24,903,809	–	24,527,241	–	24,527,241	24,527,241
Securities purchased under resale agreements			–	13,147,534	–	13,147,534	13,147,534	–	13,147,534	–	13,147,534	13,147,534
Financial assets at amortised cost – Loans and advances to banks	33	195	–	757,787	–	757,787	757,787	–	757,787	–	757,787	757,787
Financial assets at amortised cost – Loans and advances to other customers	34	196	–	–	896,280,708	896,280,708	893,919,311	–	–	887,007,141	887,007,141	884,645,744
Financial assets at amortised cost – Debt and other financial instruments	35	199	105,056,577	–	–	105,056,577	107,059,021	99,142,375	–	–	99,142,375	101,144,819
Total financial assets not at fair value			105,056,577	138,591,480	896,280,708	1,139,928,765	1,139,569,812	99,142,375	130,428,419	887,007,141	1,116,577,935	1,116,218,982
Financial liabilities												
Due to banks	45	225	–	–	53,807,425	53,807,425	53,807,425	–	–	51,505,694	51,505,694	51,505,694
Securities sold under repurchase agreements			–	51,117,342	–	51,117,342	51,117,342	–	51,220,023	–	51,220,023	51,220,023
Financial liabilities at amortised cost – Due to depositors	47	226	–	–	1,067,138,675	1,067,138,675	1,068,982,587	–	–	1,051,463,748	1,051,463,748	1,053,307,660
Financial liabilities at amortised cost – Other borrowings	48	227	–	–	23,248,893	23,248,893	23,248,893	–	–	23,248,893	23,248,893	23,248,893
Subordinated liabilities	52	235	–	–	39,479,119	39,479,119	37,886,789	–	–	39,479,119	39,479,119	37,886,789
Total financial liabilities not at fair value			–	51,117,342	1,183,674,112	1,234,791,454	1,235,043,036	–	51,220,023	1,165,697,454	1,216,917,477	1,217,169,059

As at December 31, 2018	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	28	190	–	44,355,962	–	44,355,962	44,355,962	–	39,534,476	–	39,534,476	39,534,476
Balances with central banks	29	191	–	55,406,535	–	55,406,535	55,406,535	–	54,384,590	–	54,384,590	54,384,590
Placements with banks	30	191	–	19,898,515	–	19,898,515	19,898,515	–	19,898,515	–	19,898,515	19,898,515
Securities purchased under resale agreements			–	9,513,512	–	9,513,512	9,513,512	–	9,513,512	–	9,513,512	9,513,512
Financial assets at amortised cost – Loans and advances to banks	33	195	–	763,074	–	763,074	763,074	–	763,074	–	763,074	763,074
Financial assets at amortised cost – Loans and advances to other customers	34	196	–	–	867,999,907	867,999,907	867,611,976	–	–	861,488,246	861,488,246	861,100,315
Financial assets at amortised cost – Debt and other financial instruments	35	199	84,744,366	–	–	84,744,366	89,274,413	79,325,389	–	–	79,325,389	83,855,436
Total financial assets not at fair value			84,744,366	129,937,598	867,999,907	1,082,681,871	1,086,823,987	79,325,389	124,094,167	861,488,246	1,064,907,802	1,069,049,918
Financial liabilities												
Due to banks	45	225	–	–	52,362,052	52,362,052	52,362,052	–	–	50,101,081	50,101,081	50,101,081
Securities sold under repurchase agreements			–	48,951,394	–	48,951,394	48,951,394	–	49,104,462	–	49,104,462	49,104,462
Financial liabilities at amortised cost – due to depositors	47	226	–	–	994,649,810	994,649,810	994,370,875	–	–	983,316,249	983,316,249	983,037,314
Financial liabilities at amortised cost – other borrowings	48	227	–	–	25,361,912	25,361,912	25,361,912	–	–	25,361,912	25,361,912	25,361,912
Subordinated liabilities	52	235	–	–	38,170,028	38,170,028	37,992,457	–	–	38,170,028	38,170,028	37,992,457
Total financial liabilities not at fair value			–	48,951,394	1,110,543,802	1,159,495,196	1,159,038,690	–	49,104,462	1,096,949,270	1,146,053,732	1,145,597,226

27.4 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 27.1 on page 187.

Type of financial instruments	Fair value as at December 31, 2019 (Rs. '000)	Valuation technique	Significant valuation inputs
Derivative financial assets	1,830,927	**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	1,495,317		• Interest rate differentials between currencies under consideration

28. Cash and cash equivalents

Accounting policy

Cash and cash equivalents include cash in hand, demand 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. These 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,	Note	Page No.	**2019 Rs. '000**	2018 Rs. '000	**2019 Rs. '000**	2018 Rs. '000
Cash in hand			**26,592,518**	24,585,211	**26,094,112**	24,272,784
Coins and notes held in local currency			**22,633,898**	19,489,030	**22,636,242**	19,488,100
Coins and notes held in foreign currency			**3,958,620**	5,096,181	**3,457,870**	4,784,684
Balances with banks			**9,420,183**	10,892,192	**8,857,498**	10,392,621
Local banks			**172,295**	–	**–**	–
Foreign banks			**9,247,888**	10,892,192	**8,857,498**	10,392,621
Money at call and at short notice			**17,674,124**	8,882,972	**17,588,827**	4,873,484
Gross cash and cash equivalents (*)			**53,686,825**	44,360,375	**52,540,437**	39,538,889
Less: Provision for impairment	28.1	190	**5,707**	4,413	**5,707**	4,413
Net cash and cash equivalents			**53,681,118**	44,355,962	**52,534,730**	39,534,476

(*) Gross cash and cash equivalents are reported in the Statement of Cash Flows.

28.1 Movement in provision for impairment during the year

			GROUP		BANK	
	Note	Page No.	**2019 Rs. '000**	2018 Rs. '000	**2019 Rs. '000**	2018 Rs. '000
Movement in Stage 1 Impairment						
Balance as at January 1,			**4,413**	5,286	**4,413**	5,286
Charge/(write back) to the Income Statement	18.1 & 18.2	178 & 179	**1,350**	(1,450)	**1,350**	(1,450)
Exchange rate variance on foreign currency provisions			**(56)**	577	**(56)**	577
Balance as at December 31,			**5,707**	4,413	**5,707**	4,413

The maturity analysis of cash and cash equivalents is given in Note 62 on pages 247 to 249.

29. Balances with Central Banks

Accounting policy

Balances with Central Banks consist of statutory balances with central banks and are carried at amortised cost in the Statement of Financial Position.

As at December 31,	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Balances with Central Bank of Sri Lanka	**31,213,972**	39,866,912	**31,213,972**	39,866,912
Balances with Bangladesh Bank	**8,247,155**	14,517,678	**8,247,155**	14,517,678
Balances with Maldives Monetary Authority – Statutory	**1,481,327**	1,021,945	**–**	–
Balances with Maldives Monetary Authority – Non Statutory	**5,158,778**	–	**–**	–
Total	**46,101,232**	55,406,535	**39,461,127**	54,384,590

The maturity analysis of balances with Central Banks is given in Note 62 on pages 247 to 249.

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, 2019, the minimum cash reserve requirement was 5.00% of the rupee deposit liabilities and this rate was applicable from March 1, 2019 (6.00% in 2018 and this rate was applicable up to February 28, 2019). There is no reserve requirement for foreign currency deposits liabilities of the Domestic Banking Unit (DBU) and the deposit liabilities of the Offshore 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, 2019 was 18.50% (18.50% in 2018) on time and demand liabilities (both local and foreign currencies), which includes a 5.50% (5.50% in 2018) cash reserve requirement and the balance 13.00% (13.00% in 2018) 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, 2019 was 10.00% (10.00% in 2018). 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.

30. Placements with banks

As at December 31,	Note	Page No.	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Placements – Within Sri Lanka			**14,395,454**	10,727,288	**14,018,861**	10,727,288
Placements – Outside Sri Lanka			**10,516,976**	9,182,011	**10,516,976**	9,182,011
Gross placements with banks			**24,912,430**	19,909,299	**24,535,837**	19,909,299
Less: Provision for impairment	30.1	191	**8,621**	10,784	**8,596**	10,784
Net placements with banks			**24,903,809**	19,898,515	**24,527,241**	19,898,515

30.1 Movement in provision for impairment during the year

	Note	Page No.	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Movement in Stage 1 impairment						
Balance as at January 1,			**10,784**	31,533	**10,784**	31,533
Charge/(write back) to the Income Statement	18.1 & 18.2	178 & 179	**(2,120)**	(21,553)	**(2,144)**	(21,553)
Exchange rate variance on foreign currency provisions			**(43)**	804	**(44)**	804
Balance as at December 31,			**8,621**	10,784	**8,596**	10,784

The maturity analysis of placements with banks is given in Note 62 on pages 247 to 249.

31. Derivative financial assets

Accounting policy

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.

Under SLFRS 9, embedded derivatives are not separated from a host financial asset and are classified entirely based on the business model and their contractual terms.

Derivatives embedded in non-financial host contracts are treated separately and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, a separate instrument with the same terms as embedded derivative would meet the definition of derivative 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 Income Statement.

As at December 31,	Note	Page No.	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Derivative financial assets – Held for trading						
Foreign currency derivatives			**1,830,927**	7,876,603	**1,830,927**	7,876,603
Currency swaps			**1,410,476**	4,534,509	**1,410,476**	4,534,509
Forward contracts			**411,958**	3,340,657	**411,958**	3,340,657
Spot contracts			**8,493**	1,437	**8,493**	1,437
Derivative financial assets – Cash flow hedges held for risk management						
Interest rate swaps	31.1	192	**–**	33,359	**–**	33,359
Total			**1,830,927**	7,909,962	**1,830,927**	7,909,962

The maturity analysis of derivative financial assets is given in Note 62 on pages 247 to 249.

31.1 Derivative financial assets – 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.

During the year, loss (net of tax) of Rs. 62.391 Mn., [2018 – gain (net of tax) of Rs. 27.231 Mn.] relating to the effective portion of cash flow hedges was recognised in OCI.

32. Financial assets recognised through profit or loss – Measured at fair value

Accounting policy

This includes financial assets that are held for trading purposes. The 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 are held as part of 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 financial guaranteed contracts or designated as hedging instruments in effective hedging relationships.

Financial assets held for trading are measured at fair value through profit or loss in the SOFP. 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.

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.

Further as per SLFRS 9, financial assets recognised through profit or loss includes all financial assets other than those classified under FVOCI and amortised cost.

As at December 31,	Note	Page No.	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Government Securities	32.1	193	**20,484,895**	4,751,360	**20,484,895**	4,751,360
Equity securities	32.2	193	**983,138**	768,807	**983,138**	768,807
Total			**21,468,033**	5,520,167	**21,468,033**	5,520,167

32.1 Government Securities

As at December 31,	GROUP 2019 Rs. 000	GROUP 2018 Rs.'000	BANK 2019 Rs.'000	BANK 2018 Rs.'000
Treasury Bills	**15,715,187**	3,669,706	**15,715,187**	3,669,706
Treasury Bonds	**4,769,708**	1,081,654	**4,769,708**	1,081,654
Total	**20,484,895**	4,751,360	**20,484,895**	4,751,360

The maturity analysis of financial assets recognised through profit or loss is given in Note 62 on pages 247 to 249.

32.2 Equity securities – Group and Bank

Sector/Name of the Company	As at December 31, 2019 Number of shares	Market price Rs.	Market value Rs. '000	Cost of the investment Rs. '000	As at December 31, 2018 Number of shares	Market price Rs.	Market value Rs. '000	Cost of the investment Rs. '000
Bank, Finance and Insurance								
Central Finance Company PLC	**199,734**	**104.00**	**20,772**	**18,937**	197,911	88.70	17,555	18,937
Citizens Development Business Finance PLC (Non-voting)	**105,390**	**67.50**	**7,114**	**3,398**	101,965	70.00	7,138	3,398
Hatton National Bank PLC	**85**	**172.20**	**15**	**12**	84	214.00	18	12
Lanka Ventures PLC	**100,000**	**40.00**	**4,000**	**3,033**	100,000	42.10	4,210	3,033
National Development Bank PLC	**226,595**	**100.00**	**22,660**	**34,381**	214,865	106.80	22,948	34,381
People's Insurance PLC	**126,500**	**21.70**	**2,745**	**1,898**	126,500	19.10	2,416	1,898
Sampath Bank PLC	**59,973**	**162.40**	**9,740**	**9,756**	44,165	235.00	10,379	7,853
VISA Inc.	**19,424**	**USD 187.90**	**663,346**	**–**	19,424	USD 131.94	468,993	–
Subtotal			**730,392**	**71,415**			533,657	69,512
Beverage, Food and Tobacco								
Lanka Milk Foods (CWE) PLC	**250,000**	**100.10**	**25,025**	**27,866**	250,000	130.00	32,500	27,866
Renuka Foods (Non-voting)	**1,000**	**12.30**	**12**	**15**	1,000	10.50	11	15
Subtotal			**25,037**	**27,881**			32,511	27,881
Chemicals and Pharmaceuticals								
Chemical Industries Colombo Holding PLC (Non-voting)	**161,400**	**47.60**	**7,683**	**11,692**	161,400	30.00	4,842	11,692
Haycarb PLC	**107,100**	**190.00**	**20,349**	**15,914**	107,100	130.00	13,923	15,914
Subtotal			**28,032**	**27,606**			18,765	27,606
Construction and Engineering								
Colombo Dockyard PLC	**75,000**	**62.00**	**4,650**	**16,685**	75,000	55.60	4,170	16,685
Subtotal			**4,650**	**16,685**			4,170	16,685
Diversified Holdings								
Aitken Spence PLC	**350,000**	**46.50**	**16,275**	**14,157**	–	–	–	–
Hayleys PLC	**68,313**	**174.90**	**11,948**	**19,269**	68,313	187.00	12,775	19,269
Hemas Holdings PLC	**62**	**80.00**	**5**	**2**	60	88.80	5	2
John Keells Holdings PLC	**130,611**	**167.60**	**21,890**	**20,527**	130,611	159.70	20,859	20,527
Melstacorp PLC	**245,960**	**43.50**	**10,699**	**9,814**	245,960	50.30	12,372	9,814
Subtotal			**60,817**	**63,769**			46,011	49,612
Healthcare								
Ceylon Hospitals PLC	**121,900**	**78.00**	**9,508**	**12,868**	121,900	71.10	8,667	12,868
Ceylon Hospitals PLC (Non-voting)	**61,100**	**67.40**	**4,118**	**4,423**	61,100	69.00	4,216	4,423
Subtotal			**13,626**	**17,291**			12,883	17,291

Sector/Name of the Company	As at December 31, 2019				As at December 31, 2018			
	Number of shares	Market price Rs.	Market value Rs. '000	Cost of the investment Rs. '000	Number of shares	Market price Rs.	Market value Rs. '000	Cost of the investment Rs. '000
Hotels and Travels								
John Keells Hotels PLC	267,608	11.60	3,104	3,473	267,608	7.80	2,087	3,473
Tal Lanka Hotels PLC	212,390	14.40	3,058	6,625	212,390	13.00	2,761	6,625
Subtotal			6,162	10,098			4,848	10,098
Investment Trusts								
Renuka Holdings PLC	117,158	19.30	2,261	3,180	117,158	16.60	1,945	3,180
Renuka Holdings PLC (Non-voting)	265,368	13.50	3,582	4,958	265,368	14.70	3,901	4,958
Subtotal			5,843	8,138			5,846	8,138
Land and Property								
CT Land Development PLC	25,000	30.00	750	531	25,000	28.10	703	531
Overseas Reality (Ceylon) PLC	183,320	16.00	2,933	2,717	183,320	16.50	3,025	2,717
RIL Property PLC	3,333,333	5.90	19,667	26,667	3,333,333	6.90	23,000	26,667
Subtotal			23,350	29,915			26,728	29,915
Manufacturing								
ACL Cables PLC	100,000	57.50	5,750	3,676	100,000	37.00	3,700	3,676
Ceylon Grain Elevators PLC	250,000	68.50	17,125	18,156	250,000	59.50	14,875	18,156
Dipped Products PLC	200,000	84.00	16,800	24,239	200,000	85.00	17,000	24,239
Lanka Walltiles PLC	60	72.50	4	5	60	71.00	4	5
Pelwatte Sugar Industries PLC	12,300	0.10	1	351	12,300	0.10	1	351
Royal Ceramics Lanka PLC	155,927	88.50	13,800	18,057	155,927	74.60	11,632	18,057
Subtotal			53,480	64,484			47,212	64,484
Plantations								
Kotagala Plantations PLC	302,625	7.20	2,179	9,172	302,625	6.70	2,028	9,172
Subtotal			2,179	9,172			2,028	9,172
Power and Energy								
Hemas Power PLC	–	–	–	–	106,249	21.10	2,242	2,053
Lanka IOC PLC	685,984	19.00	13,034	15,013	685,984	24.60	16,875	15,013
LVL Energy Fund PLC	648,100	7.50	4,861	6,481	648,100	8.40	5,444	6,481
Subtotal			17,895	21,494			24,561	23,547
Telecommunications								
Dialog Axiata PLC	949,172	12.30	11,675	6,300	949,172	10.10	9,587	6,300
Subtotal			11,675	6,300			9,587	6,300
Total			983,138	374,248			768,807	360,241
Mark to market gains/(losses)				608,890				408,566
Market value of equity securities				983,138				768,807

32.3 Industry/Sector composition of equity securities – Group and Bank

Industry/Sector	As at December 31, 2019			As at December 31, 2018		
	Market value Rs. '000	Cost of the investment Rs. '000	%	Market value Rs. '000	Cost of the investment Rs. '000	%
Bank, Finance and Insurance	730,392	71,415	74.28	533,657	69,512	69.41
Beverage, Food and Tobacco	25,037	27,881	2.55	32,511	27,881	4.23
Chemicals and Pharmaceuticals	28,032	27,606	2.85	18,765	27,606	2.44
Construction and Engineering	4,650	16,685	0.47	4,170	16,685	0.54
Diversified Holdings	60,817	63,769	6.19	46,011	49,612	5.99
Healthcare	13,626	17,291	1.39	12,883	17,291	1.68
Hotels and Travels	6,162	10,098	0.63	4,848	10,098	0.63
Investment Trusts	5,843	8,138	0.59	5,846	8,138	0.76
Land and Property	23,350	29,915	2.38	26,728	29,915	3.48
Manufacturing	53,480	64,484	5.44	47,212	64,484	6.14
Plantations	2,179	9,172	0.22	2,028	9,172	0.26
Power and Energy	17,895	21,494	1.82	24,561	23,547	3.19
Telecommunications	11,675	6,300	1.19	9,587	6,300	1.25
Subtotal	**983,138**	**374,248**	**100.00**	768,807	360,241	100.00
Mark to market gains/(losses)		**608,890**		–	408,566	
Market value of equity securities	**983,138**	**983,138**	**100.00**	768,807	768,807	100.00

33. Financial assets at amortised cost – Loans and advances to banks

Accounting policy

"Financial assets at amortised cost – Loans and advances to banks" include amounts due from banks.

As per SLFRS 9, Loans and advances to banks are assets that are held within a business model whose objective is to hold the assets in order to collect contractual cash flows and the contractual terms of the assets give rise on specific dates to cash flows that are solely payment of principal and interest on the principal outstanding.

After initial measurement, loans and advances to banks are subsequently measured at gross carrying amount using the EIR, less provision for impairment, except when the Group designates at fair value through profit or loss. EIR is calculated by taking into account any discount or premium on acquisition and fees and costs. The amortisation is included in "Interest Income" while the losses arising from impairment are recognised in "Impairment charges and other losses" in the Income Statement.

As at December 31,	Note	Page No.	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Gross loans and advances (Currency – United States Dollar)			**757,898**	763,110	**757,898**	763,110
Less: Provision for impairment	33.1	195	**111**	36	**111**	36
Net loans and advances			**757,787**	763,074	**757,787**	763,074

33.1 Movement in provision for impairment during the year

	Note	Page No.	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Movement in Stage 1 impairment						
Balance as at January 1,			**36**	139	**36**	139
Charge/(write back) to the income statement	18.1 & 18.2	178 & 179	**75**	(103)	**75**	(103)
Balance as at December 31,			**111**	36	**111**	36

The maturity analysis of loans and advances to banks is given in Note 62 on pages 247 to 249.

The Bank did not make any payments to counterparty banks for the oil hedging transactions with effect from June 2, 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. 757.898 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.

34. Financial assets at amortised cost – Loans and advances to other customers

Accounting policy

Financial assets at amortised cost – Loans and advances to other customers includes, loans and advances and lease receivables of the Group.

As per SLFRS 9, "Loans and advances to other customers" are assets that are held within a business model whose objective is to hold the assets in order to collect contractual cash flows and the contractual terms of the assets give rise on specific dates to cash flows that are solely payment of principal and interest on the principal outstanding.

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 advances to other customers" in the Statement of Financial Position.

After initial measurement, "Loans and advances to other customers" are subsequently measured at gross carrying amount using the EIR, less provision for impairment, except when the Group designates loans and advances at fair value through profit or loss. EIR is calculated by taking into account any discount or premium on acquisition and fees and costs. The amortisation is included in "Interest Income", while the losses arising from impairment are recognised in "Impairment charges and other losses" in the Income Statement.

			GROUP		BANK	
As at December 31,	Note	Page No.	2019 Rs. '000	2018 Rs. '000	2019 Rs. '000	2018 Rs. '000
Gross loans and advances			**930,737,391**	897,955,796	**920,457,235**	890,229,368
Stage 1			**726,626,174**	750,597,718	**720,005,896**	745,651,617
Stage 2			**105,913,673**	92,317,199	**103,788,356**	91,600,192
Stage 3*			**98,197,544**	55,040,879	**96,662,983**	52,977,559
Less: Provision for impairment	34.2 (a) & 34.2 (b)	197 & 198	**36,818,080**	30,343,820	**35,811,491**	29,129,053
Stage 1			**2,702,070**	2,814,943	**2,613,480**	2,659,185
Stage 2			**8,494,001**	5,984,306	**8,318,831**	5,873,226
Stage 3			**25,622,009**	21,544,571	**24,879,180**	20,596,642
Net loans and advances			**893,919,311**	867,611,976	**884,645,744**	861,100,315

**As at December 31, 2019, gross loans and advances in stage 3 include Rs. 940.059 Mn. granted against guarantees issued by the Government of Sri Lanka.*

The maturity analysis of Loans and advances to other customers is given in Note 62 on pages 247 to 249.

34.1 Analysis of financial assets at amortised cost – Loans and advances to other customers

34.1 (a) By product

			GROUP		BANK	
As at December 31,	Note	Page No.	2019 Rs. '000	2018 Rs. '000	2019 Rs. '000	2018 Rs. '000
Loans and advances						
Overdrafts			**137,643,817**	141,993,985	**135,717,795**	140,966,522
Trade finance			**72,194,299**	77,680,497	**71,729,612**	77,599,050
Lease/hire purchase receivable	34.3	198	**36,147,829**	41,233,899	**34,169,283**	38,635,036
Credit cards			**14,975,902**	12,975,517	**14,975,902**	12,975,517
Pawning			**2,973,662**	1,577,472	**2,973,662**	1,577,472
Staff loans			**10,624,199**	9,311,033	**10,602,640**	9,300,749
Housing loans			**63,569,094**	62,534,866	**63,569,094**	62,388,165
Personal loans			**39,742,048**	36,968,592	**39,395,743**	34,832,746
Term loans						
Short term			**150,536,419**	136,652,308	**150,257,462**	136,353,991
Long term			**370,852,399**	352,283,284	**365,588,319**	350,881,443
Bills of exchange			**31,477,723**	24,744,343	**31,477,723**	24,718,677
Total			**930,737,391**	897,955,796	**920,457,235**	890,229,368

34.1 (b) By currency

As at December 31,	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Sri Lankan Rupee	694,387,671	692,648,484	689,748,758	687,970,789
United States Dollar	152,785,345	137,588,618	150,573,125	136,516,513
Great Britain Pound	1,297,284	952,806	1,297,284	952,806
Euro	6,671,660	1,850,804	6,671,660	1,850,804
Australian Dollar	609,115	611,436	609,115	611,436
Japanese Yen	286,695	176,039	286,695	176,039
Singapore Dollar	2,512	–	2,512	–
Bangladesh Taka	71,252,778	62,142,187	71,252,778	62,142,187
Maldivian Rufiyaa	3,141,714	1,909,104	–	–
Others	302,617	76,318	15,308	8,794
Total	**930,737,391**	897,955,796	**920,457,235**	890,229,368

34.1 (c) By industry

As at December 31,	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Agriculture and fishing	68,775,119	84,646,406	68,549,963	84,363,522
Arts, entertainment and recreation	1,118,938	949,302	1,118,243	949,302
Construction	45,439,269	39,767,556	45,032,791	39,405,660
Consumption and other	201,412,039	175,991,944	200,919,556	173,937,599
Education	3,225,133	2,670,021	2,964,160	2,670,021
Financial services	35,777,329	38,654,814	37,831,333	39,756,387
Healthcare, social services and support services	18,605,625	18,546,251	18,525,490	18,546,251
Information technology and communication services	11,403,418	13,856,776	11,403,418	13,856,776
Infrastructure development	17,083,131	19,215,514	17,083,131	19,215,514
Lending to overseas entities	108,985,813	88,601,256	103,344,570	85,552,523
Manufacturing	123,625,669	103,027,653	120,321,445	102,830,411
Professional, scientific, and technical activities	23,782,598	23,318,540	23,486,651	23,318,540
Tourism	62,811,790	59,495,850	62,198,466	59,495,850
Transport and storage	12,906,113	11,446,731	12,758,129	11,315,073
Wholesale and retail trade	195,785,407	217,767,182	194,919,889	215,015,939
Total	**930,737,391**	897,955,796	**920,457,235**	890,229,368

34.2 Movement in provision for impairment during the year

34.2 (a) Group

	Note	Page No.	Stage 1 2019 Rs. '000	Stage 1 2018 Rs. '000	Stage 2 2019 Rs. '000	Stage 2 2018 Rs. '000	Stage 3 2019 Rs. '000	Stage 3 2018 Rs. '000	Total 2019 Rs. '000	Total 2018 Rs. '000
Balance as at January 1,			2,814,943	3,126,167	5,984,306	4,348,188	21,544,571	15,136,256	30,343,820	22,610,611
Charge/(write back) to the Income Statement	18.1	178	(108,915)	(324,074)	2,511,088	1,632,467	7,907,684	7,071,147	10,309,857	8,379,540
Net write-off during the year			(2,396)	(800)	(1,150)	(819)	(2,596,520)	(590,601)	(2,600,066)	(592,220)
Exchange rate variance on foreign currency provisions			(1,562)	13,650	(243)	4,470	6,035	278,179	4,230	296,299
Interest accrued/(reversals) on impaired loans and advances	13.1	172	–	–	–	–	(1,258,339)	(360,876)	(1,258,339)	(360,876)
Other movements			–	–	–	–	18,578	10,466	18,578	10,466
Balance as at December 31,			**2,702,070**	2,814,943	**8,494,001**	5,984,306	**25,622,009**	21,544,571	**36,818,080**	30,343,820

34.2 (b) Bank

			Stage 1		Stage 2		Stage 3		Total	
			2019	2018	2019	2018	2019	2018	2019	2018
	Note	Page No.	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at January 1,			2,659,185	3,041,886	5,873,226	4,165,027	20,596,642	14,211,504	29,129,053	21,418,417
Charge/(write back) to the income statement	18.2	179	(41,669)	(393,953)	2,447,313	1,704,548	7,637,999	6,812,653	10,043,643	8,123,248
Net write-off during the year			(2,396)	(800)	(1,118)	(819)	(2,121,615)	(355,284)	(2,125,129)	(356,903)
Exchange rate variance on foreign currency provisions			(1,640)	12,052	(590)	4,470	5,915	278,179	3,685	294,701
Interest accrued/(reversals) on impaired loans and advances	13.1	172	–	–	–	–	(1,258,339)	(360,876)	(1,258,339)	(360,876)
Other movements			–	–	–	–	18,578	10,466	18,578	10,466
Balance as at December 31,			2,613,480	2,659,185	8,318,831	5,873,226	24,879,180	20,596,642	35,811,491	29,129,053

34.3 Lease/Hire purchase receivable

			GROUP		BANK	
As at December 31,			2019	2018	2019	2018
	Note	Page No.	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gross lease/hire purchase receivable			36,147,829	41,233,899	34,169,283	38,635,036
Within one year	34.3 (a) & (b)	198 & 199	15,538,778	16,540,861	14,604,341	15,678,711
From one to five years	34.3 (a) & (b)	198 & 199	20,526,109	24,492,495	19,483,941	22,865,357
After five years	34.3 (a) & (b)	198 & 199	82,942	200,543	81,001	90,968
Less: Provision for impairment	34.3 (c) (i) & 34.3 (c) (ii)	199	1,054,982	1,125,076	844,229	818,897
Stage 1			81,705	108,543	75,055	79,063
Stage 2			269,760	191,150	199,872	108,098
Stage 3			703,517	825,383	569,302	631,736
Net lease receivable			35,092,847	40,108,823	33,325,054	37,816,139

34.3 (a) Lease/Hire purchase receivable – Group

	Within one year		One to five years		After five years	
As at December 31,	2019	2018	2019	2018	2019	2018
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Total lease/hire purchase receivable	19,887,838	21,381,158	23,713,231	28,796,807	91,506	211,729
Less: Unearned lease/hire purchase income	4,349,060	4,840,297	3,187,122	4,304,312	8,564	11,186
Gross lease/hire purchase receivable	15,538,778	16,540,861	20,526,109	24,492,495	82,942	200,543
Less: Provision for impairment	580,227	565,361	473,804	546,121	951	13,594
Stage 1	35,818	42,240	45,727	65,008	160	1,295
Stage 2	103,822	64,097	165,278	122,738	660	4,315
Stage 3	440,587	459,024	262,799	358,375	131	7,984
Subtotal	14,958,551	15,975,500	20,052,305	23,946,374	81,991	186,949

34.3 (b) Lease/Hire purchase receivable – Bank

As at December 31,	Within one year 2019 Rs. '000	Within one year 2018 Rs. '000	One to five years 2019 Rs. '000	One to five years 2018 Rs. '000	After five years 2019 Rs. '000	After five years 2018 Rs. '000
Total lease/hire purchase receivable	18,698,793	20,175,028	22,424,947	26,725,184	89,478	100,556
Less: Unearned lease/hire purchase income	4,094,452	4,496,317	2,941,006	3,859,827	8,477	9,588
Gross lease/hire purchase receivable	14,604,341	15,678,711	19,483,941	22,865,357	81,001	90,968
Less: Provision for impairment	491,048	467,528	352,651	350,398	530	971
Stage 1	32,680	32,820	42,222	46,163	153	80
Stage 2	81,116	37,560	118,379	69,647	377	891
Stage 3	377,252	397,148	192,050	234,588	–	–
Subtotal	14,113,293	15,211,183	19,131,290	22,514,959	80,471	89,997

34.3 (c) Movement in provision for impairment during the year

34.3 (c) (i) Group

	Stage 1 2019 Rs. '000	Stage 1 2018 Rs. '000	Stage 2 2019 Rs. '000	Stage 2 2018 Rs. '000	Stage 3 2019 Rs. '000	Stage 3 2018 Rs. '000	Total 2019 Rs. '000	Total 2018 Rs. '000
Balance as at January 1,	108,543	133,155	191,150	145,397	825,383	584,884	1,125,076	863,436
Charge/(write back) to the Income Statement	(24,747)	(24,612)	79,340	46,359	201,764	497,133	256,357	518,880
Net write-off during the year	(2,091)	–	(730)	(606)	(307,099)	(255,622)	(309,920)	(256,228)
Interest accrued/(reversals) on impaired loans and advances	–	–	–	–	(16,395)	(889)	(16,395)	(889)
Other movements	–	–	–	–	(136)	(123)	(136)	(123)
Balance as at December 31,	81,705	108,543	269,760	191,150	703,517	825,383	1,054,982	1,125,076

34.3 (c) (ii) Bank

	Stage 1 2019 Rs. '000	Stage 1 2018 Rs. '000	Stage 2 2019 Rs. '000	Stage 2 2018 Rs. '000	Stage 3 2019 Rs. '000	Stage 3 2018 Rs. '000	Total 2019 Rs. '000	Total 2018 Rs. '000
Balance as at January 1,	79,063	98,055	108,098	59,536	631,736	267,196	818,897	424,787
Charge/(write back) to the Income Statement	(1,917)	(18,992)	92,472	49,168	106,476	434,640	197,031	464,816
Net write-off during the year	(2,091)	–	(698)	(606)	(152,379)	(69,088)	(155,168)	(69,694)
Interest accrued/(reversals) on impaired loans and advances	–	–	–	–	(16,395)	(889)	(16,395)	(889)
Other movements	–	–	–	–	(136)	(123)	(136)	(123)
Balance as at December 31,	75,055	79,063	199,872	108,098	569,302	631,736	844,229	818,897

35. Financial assets at amortised cost – Debt and other financial instruments

Accounting policy

As per SLFRS 9, "Financial Investments" are measured at amortised cost if it meets both of the following conditions and is not designated at FVTPL:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial measurement, these assets are subsequently measured at amortised cost (gross carrying amount 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.

As at December 31,	Note	Page No.	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Government Securities – Sri Lanka			83,350,413	68,228,143	82,986,575	67,948,005
Treasury Bonds			47,278,715	32,982,542	47,278,715	32,982,542
Sri Lanka Sovereign Bonds			36,071,698	35,245,601	35,707,860	34,965,463
Government Securities – Bangladesh			15,284,770	9,539,364	15,284,770	9,539,364
Treasury Bills			4,080,152	4,368,976	4,080,152	4,368,976
Treasury Bonds			11,204,618	5,170,388	11,204,618	5,170,388
Government Securities – Maldives			5,553,077	5,140,927	–	–
Treasury Bills			5,553,077	5,140,927	–	–
Other instruments			3,300,536	6,634,319	3,300,536	6,634,319
Debentures	35.2	201	2,520,350	5,952,635	2,520,350	5,952,635
Trust certificates	35.3	201	777,994	680,203	777,994	680,203
Corporate investments in Bangladesh	35.4	201	2,192	1,481	2,192	1,481
Less: Provision for impairment	35.1(a) & 35.1(b)	200	429,775	268,340	427,062	266,252
Total			107,059,021	89,274,413	101,144,819	83,855,436

35.1 Movement in provision for impairment during the year

35.1 (a) Group

	Note	Page No.	Stage 1 2019 Rs. '000	Stage 1 2018 Rs. '000	Stage 2 2019 Rs. '000	Stage 2 2018 Rs. '000	Stage 3 2019 Rs. '000	Stage 3 2018 Rs. '000	Total 2019 Rs. '000	Total 2018 Rs. '000
Balance as at January 1,			268,340	69,680	–	–	–	–	268,340	69,680
Charge/(write back) to the Income Statement	18.1	178	8,569	198,443	–	–	152,870	–	161,439	198,443
Net write-off during the year			–	–	–	–	–	–	–	–
Exchange rate variance on foreign currency provisions			(4)	217	–	–	–	–	(4)	217
Balance as at December 31,			276,905	268,340	–	–	152,870	–	429,775	268,340

35.1 (b) Bank

	Note	Page No.	Stage 1 2019 Rs. '000	Stage 1 2018 Rs. '000	Stage 2 2019 Rs. '000	Stage 2 2018 Rs. '000	Stage 3 2019 Rs. '000	Stage 3 2018 Rs. '000	Total 2019 Rs. '000	Total 2018 Rs. '000
Balance as at January 1,			266,252	69,680	–	–	–	–	266,252	69,680
Charge/(write back) to the Income Statement	18.2	179	7,940	196,572	–	–	152,870	–	160,810	196,572
Net write-off during the year			–	–	–	–	–	–	–	–
Exchange rate variance on foreign currency provisions			–	–	–	–	–	–	–	–
Balance as at December 31,			274,192	266,252	–	–	152,870	–	427,062	266,252

The maturity analysis of financial assets at amortised cost – Debt and other financial instruments is given in Note 62 on pages 247 to 249.

35.2 Debentures

As at December 31,	GROUP				BANK			
	2019		2018		**2019**		2018	
	Number of debentures	**Carrying value Rs. '000**	Number of debentures	Carrying value Rs. '000	**Number of debentures**	**Carrying value Rs. '000**	Number of debentures	Carrying value Rs. '000
Bogawantalawa Tea Estate PLC	**919,100**	**80,317**	–	–	**919,100**	**80,317**	–	–
Commercial Leasing and Finance PLC	**10,000,000**	**1,097,500**	10,000,000	1,097,500	**10,000,000**	**1,097,500**	10,000,000	1,097,500
Dunamis Capital PLC	**500,000**	**50,403**	500,000	50,403	**500,000**	**50,403**	500,000	50,403
Hayleys PLC	**8,000,000**	**820,130**	10,878,400	1,114,983	**8,000,000**	**820,130**	10,878,400	1,114,983
MTD Walkers PLC	**1,528,701**	**152,870**	1,528,701	156,627	**1,528,701**	**152,870**	1,528,701	156,627
Singer Finance (Lanka) PLC	**2,902,500**	**319,130**	2,902,500	319,130	**2,902,500**	**319,130**	2,902,500	319,130
Hemas Holdings PLC	**–**	**–**	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
Orient Finance PLC	**–**	**–**	1,968,800	197,173	**–**	**–**	1,968,800	197,173
Richard Pieris and Company PLC	**–**	**–**	2,111,400	217,127	**–**	**–**	2,111,400	217,127
Singer (Sri Lanka) PLC	**–**	**–**	4,672,900	482,582	**–**	**–**	4,672,900	482,582
Softlogic Finance PLC	**–**	**–**	2,123,400	217,692	**–**	**–**	2,123,400	217,692
Subtotal		**2,520,350**		5,952,635		**2,520,350**		5,952,635

35.3 Trust certificates

As at December 31,	GROUP		BANK	
	2019	2018	**2019**	2018
	Carrying value Rs. '000	Carrying value Rs. '000	**Carrying value Rs. '000**	Carrying value Rs. '000
Richard Pieris Arpico Finance Ltd.	**777,994**	680,203	**777,994**	680,203
Subtotal	**777,994**	680,203	**777,994**	680,203

35.4 Corporate investments in Bangladesh

As at December 31,	GROUP		BANK	
	2019	2018	**2019**	2018
	Carrying value Rs. '000	Carrying value Rs. '000	**Carrying value Rs. '000**	Carrying value Rs. '000
Prize bonds	**2,192**	1,481	**2,192**	1,481
Subtotal	**2,192**	**1,481**	**2,192**	**1,481**

36. Financial assets measured at fair value through other comprehensive income

Accounting policy

As per SLFRS 9, this comprises debt instruments measured at FVOCI and equity instruments designated at FVOCI.

Debt instruments at FVOCI

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated at FVTPL:

- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and foreign exchange gains and losses and ECL and reversals are recognised in profit or loss. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

Equity instruments at FVOCI

Upon initial recognition, the Bank occasionally elects to classify irrevocably some of its equity investments held for strategic purpose, as equity instruments at FVOCI when they meet the definition of Equity under LKAS 32 "Financial Instruments: Presentation" and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Gains and losses on these equity instruments are never recycled to profit or loss instead directly transferred to retained earnings at the time of derecognition. Dividends are recognised in profit or loss in "Net other operating income" when the right of the payment has been established. Equity instruments at FVOCI are not subject to an impairment assessment.

			GROUP		BANK	
As at December 31,	Note	Page No.	**2019 Rs. '000**	2018 Rs. '000	**2019 Rs. '000**	2018 Rs. '000
Government Securities						
Government Securities – Sri Lanka	36.1	202	**198,465,987**	177,111,812	**198,209,424**	176,858,054
Less: Provision for impairment	36.2	202	**861,693**	595,694	**861,693**	595,694
			197,604,294	176,516,118	**197,347,731**	176,262,360
Equity securities	36.3 (a) & 36.3 (b)	203 & 204	**220,723**	244,493	**220,599**	244,369
Quoted shares – (Market value)			**169,013**	195,149	**169,013**	195,149
Unquoted shares			**51,710**	49,344	**51,586**	49,220
Total			**197,825,017**	176,760,611	**197,568,330**	176,506,729

The maturity analysis of financial assets measured at fair value through other comprehensive income is given in Note 62 on pages 247 to 249.

36.1 Government Securities

	GROUP		BANK	
As at December 31,	**2019 Rs. '000**	2018 Rs. '000	**2019 Rs. '000**	2018 Rs. '000
Treasury Bills	**9,472,297**	21,770,401	**9,215,734**	21,516,643
Treasury Bonds	**74,818,967**	73,941,454	**74,818,967**	73,941,454
Sri Lanka Sovereign Bonds	**57,164,759**	21,865,496	**57,164,759**	21,865,496
Sri Lanka Development Bonds	**57,009,964**	59,534,461	**57,009,964**	59,534,461
Subtotal	**198,465,987**	177,111,812	**198,209,424**	176,858,054

36.2 Movement in provision for impairment during the year

			GROUP		BANK	
	Note	Page No.	**2019 Rs. '000**	2018 Rs. '000	**2019 Rs. '000**	2018 Rs. '000
Movement in Stage 1 Impairment						
Balance as at January 1,			**595,694**	194,256	**595,694**	194,256
Charge/(write back) to the income statement	18.1 & 18.2	178 & 179	**265,999**	401,438	**265,999**	401,438
Balance as at December 31,			**861,693**	595,694	**861,693**	595,694

36.3 Equity securities

36.3 (a) Equity securities – As at December 31, 2019

Sector/Name of the Company	GROUP Number of shares	Market price Rs.	Market value Rs. '000	Cost of investment Rs. '000	BANK Number of shares	Market price Rs.	Market value Rs. '000	Cost of investment Rs. '000
Quoted shares:								
Bank, Finance and Insurance								
DFCC Bank PLC	3,496	91.90	321	155	3,496	91.90	321	155
Hatton National Bank PLC	12,383	172.20	2,132	373	12,383	172.20	2,132	373
Nations Trust Bank PLC	1,396	80.00	112	27	1,396	80.00	112	27
National Development Bank PLC	6,144	100.00	614	249	6,144	100.00	614	249
Sampath Bank PLC	6,464	162.40	1,050	664	6,464	162.40	1,050	664
Seylan Bank PLC	1,085	52.50	57	26	1,085	52.50	57	26
Subtotal			4,286	1,494			4,286	1,494
Land and Property								
RIL Property PLC	26,128,266	5.90	154,157	209,026	26,128,266	5.90	154,157	209,026
Subtotal			154,157	209,026			154,157	209,026
Manufacturing								
Alumex PLC	714,200	14.80	10,570	9,999	714,200	14.80	10,570	9,999
Subtotal			10,570	9,999			10,570	9,999
Total – quoted shares			169,013	220,519			169,013	220,519
Unquoted shares:								
Bank, Finance and Insurance								
Central Depository of Bangladesh Ltd.	3,427,083	BDT 2.75	20,267	20,267	3,427,083	BDT 2.75	20,267	20,267
Credit Information Bureau of Sri Lanka	5,637	100.00	564	564	4,400	100.00	440	440
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	500,000	10.00	5,000	5,000	500,000	10.00	5,000	5,000
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 – unquoted shares			51,710	51,710			51,586	51,586
Total equity securities			220,723	272,229			220,599	272,105

36.3 (b) Equity securities – As at December 31, 2018

Sector/Name of the Company	GROUP Number of shares	Market price Rs.	Market value Rs. '000	Cost of investment Rs. '000	BANK Number of shares	Market price Rs.	Market value Rs. '000	Cost of investment Rs. '000
Quoted shares:								
Bank, Finance and Insurance								
DFCC Bank PLC	3,496	93.00	325	155	3,496	93.00	325	155
Hatton National Bank PLC	12,202	214.00	2,611	337	12,202	214.00	2,611	337
Nations Trust Bank PLC	1,367	89.20	122	25	1,367	89.20	122	25
National Development Bank PLC	5,826	106.80	622	215	5,826	106.80	622	215
Sampath Bank PLC	6,209	235.00	1,459	327	6,209	235.00	1,459	327
Seylan Bank PLC	1,060	78.00	83	24	1,060	78.00	83	24
Subtotal			5,222	1,083			5,222	1,083
Land and Property								
RIL Property PLC	26,128,266	6.90	180,285	209,026	26,128,266	6.90	180,285	209,026
Subtotal			180,285	209,026			180,285	209,026

Sector/Name of the Company	GROUP Number of shares	GROUP Market price Rs.	GROUP Market value Rs. '000	GROUP Cost of investment Rs. '000	BANK Number of shares	BANK Market price Rs.	BANK Market value Rs. '000	BANK Cost of investment Rs. '000
Manufacturing								
Alumex PLC	714,200	13.50	9,642	9,999	714,200	13.50	9,642	9,999
Subtotal			9,642	9,999			9,642	9,999
Total – quoted shares			195,149	220,108			195,149	220,108
Unquoted shares:								
Bank, Finance and Insurance								
Central Depository of Bangladesh Limited	3,427,083	BDT 2.75	20,651	20,651	3,427,083	BDT 2.75	20,651	20,651
Credit Information Bureau of Sri Lanka	5,637	100.00	564	564	4,400	100.00	440	440
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 – unquoted shares			49,344	49,344			49,220	49,220
Total equity securities			244,493	269,452			244,369	269,328

37. Investments in subsidiaries

Accounting policy

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., and CBC Myanmar Microfinance Company Limited, 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 Serendib Finance Ltd., 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 the format prescribed by the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka. Similarly, the financial year of CBC Myanmar Microfinance Company Limited ends on March 31, due to requirements imposed by the Financial Regulatory Department of Myanmar.

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., Commercial Bank of Maldives Private Limited, and CBC Myanmar Microfinance Company Limited which were incorporated in Italy, Republic of Maldives and Myanmar respectively.

As at December 31,	Note	Page No.	Holding (***) %	GROUP 2019 **Cost** **Rs. '000**	GROUP 2019 **Market value/ Directors' valuation** **Rs. '000**	GROUP 2018 Cost Rs. '000	GROUP 2018 Market value/ Directors' valuation Rs. '000	BANK 2019 **Cost** **Rs. '000**	BANK 2019 **Market value/ Directors' valuation** **Rs. '000**	BANK 2018 Cost Rs. '000	BANK 2018 Market value/ Directors' valuation Rs. '000
Local subsidiaries:											
Quoted:											
Commercial Development Company PLC (*)			90.00	**–**	**–**	–	–	**261,198**	**877,196**	268,203	777,388
(10,800,000 Ordinary shares)									**(@Rs.79.10)**		(@ Rs. 70.10)
(11,089,705 Ordinary shares as at December 31, 2018)			(92.41 in 2018)								

As at December 31,	Note	Page No.	Holding (***) %	GROUP 2019 Cost Rs. '000	GROUP 2019 Market value/ Directors' valuation Rs. '000	GROUP 2018 Cost Rs. '000	GROUP 2018 Market value/ Directors' valuation Rs. '000	BANK 2019 Cost Rs. '000	BANK 2019 Market value/ Directors' valuation Rs. '000	BANK 2018 Cost Rs. '000	BANK 2018 Market value/ Directors' valuation Rs. '000
Unquoted:											
CBC Tech Solutions Limited (formerly known as 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, 2018)											
Commercial Insurance Brokers (Pvt) Ltd. (239,999 Ordinary shares)			58	–	–	–	–	**250,000**	**250,000**	–	–
									(@Rs.10.00)		
Unquoted:											
Serendib Finance Ltd.			100	–	–	–	–	**2,791,046**	**2,791,046**	2,616,046	2,616,046
(151,469,986 Ordinary shares)											
(138,978,909 Ordinary shares as at December 31, 2018)											
Foreign subsidiaries:											
Unquoted:											
Commex – Sri Lanka S.R.L.(incorporated in Italy) (**)			100	–	–	–	–	**370,633**	**327,855**	131,725	88,947
(300,000 Ordinary shares) (300,000 Ordinary shares as at December 31, 2018)											
Commercial Bank of Maldives Private Limited			55	–	–	–	–	**984,707**	**984,707**	984,707	984,707
(104,500 Ordinary shares)											
(104,500 Ordinary shares as at December 31, 2018)											
CBC Myanmar Microfinance Co. Limited			100	–	–	–	–	**391,478**	**391,478**	300,728	300,728
(2,420,000 Ordinary shares)											
(1,920,000 Ordinary shares as at December 31, 2018)											
Gross Total				–	–	–	–	**5,054,062**	**5,627,282**	4,306,409	4,772,816
Provision for impairment	37.1	205						**(42,778)**	**–**	(42,778)	–
Net total				–	–	–	–	**5,011,284**	**5,627,282**	4,263,631	4,772,816

(*) 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 545,705 shares since November 2015 through the Colombo Stock Exchange and reduced the shareholding in the above Company to 90.00% by December 31, 2019.

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.

(***) Unless otherwise indicated, holding percentage remains unchanged from 2018 to 2019.

The maturity analysis of investment in subsidiaries is given in Note 62 on pages 247 to 249.

37.1 Movement in provision for impairment o/a subsidiaries during the year

	Note	Page No.	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Balance as at January 1,			–	–	**42,778**	42,778
Charge/(write back) to the Income Statement			–	–	–	–
Balance as at December 31,			–	–	**42,778**	42,778

37.2 Acquisition of subsidiary

Bank acquired 40% stake in Commercial Insurance Brokers (Private) Limited, from Chemanex PLC, for a purchase consideration of Rupees Two Hundred and Fifty Million (Rs. 250 Mn.) on August 5, 2019.

As the Bank's subsidiary, Commercial Development Company PLC too has a stake of 20% in Commercial Insurance Brokers (Private) Limited, it makes the Group's stake in Commercial Insurance Brokers (Private) Limited to be 58.00% as at December 31, 2019 and total purchase consideration of Rs. 343.955 Mn. The Bank obtained all relevant regulatory approvals prior to the acquisition of this company.

37.2.1 Consideration transferred

Total purchase consideration stated above was satisfied in the form of cash and fair value of investments in associates in Group's books.

37.2.2 Identifiable assets acquired and liabilities assumed

The recognised amounts of assets acquired and liabilities assumed of Commercial Insurance Brokers (Private) Limited as at the date of acquisition were as follows.

	Note	Page No.	Fair value recognised on acquisition Rs. '000
Assets			
Cash and cash equivalents			158,284
Loans and advances to other customers			4,960
Property, plant and equipment (Net)	39.1	209	435,428
Investment properties	40	219	46,350
Intangible assets (Net)	41.1	221	5,802
Other assets			28,218
Total assets			**679,042**
Liabilities			
Current tax liabilities	49	227	(13,660)
Deferred tax liabilities	43.1	222	(88,884)
Provision for gratuity payable	50.2 (b)	229	(30,253)
Other liabilities			(34,511)
Total liabilities			**(167,308)**
Fair value of identifiable net assets at the date of acquisition			**511,734**
Fair value of identifiable net assets at the date of acquisition attributable to Bank			**298,853**

Fair value of the land and buildings and investment properties acquired was obtained using the valuations carried out by an independent professional valuer.

37.2.3 Goodwill

Goodwill arising from the acquisition has been recognised as the excess of the consideration transferred over the net identifiable assets acquired and liabilities assumed.

	Note	Page No.	Rs. '000
Consideration transferred	37.2.4	206	343,955
Fair value of identifiable net assets at the date of acquisition attributable to Bank	37.2.2	206	(298,853)
Goodwill			45,102

37.2.4 Cost of the acquisition of a subsidiary, net of cash acquired

	GROUP Rs. '000	BANK Rs. '000
Total purchase consideration transferred	343,955	250,000
Fair value of investments in associates in Group books	93,955	–
Cash consideration	250,000	250,000
Cash and cash equivalents acquired on business combination	(158,284)	–
Cost of the acquisition of a subsidiary, net of cash acquired	91,716	250,000

The maturity analysis of investment in subsidiaries is given in Note 62 on pages 247 to 249.

38. Investments in associates

Accounting Policy

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 Standards – 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 – SLFRS 9 on "Financial Instruments".

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 Profit of Associate" in the Income Statement.

In the separate Financial Statements, Investments in associates are accounted at cost.

As at December 31,				2019		2018	
	Incorporation and operation	Ownership interest %	No. of shares	**Cost Rs. '000**	**Carrying value Rs. '000**	Cost Rs. '000	Carrying value Rs. '000
Equity Investments Lanka Ltd.	Sri Lanka	22.92	4,110,938	**44,331**	**56,821**	44,331	58,102
Commercial Insurance Brokers (Pvt) Ltd.	Sri Lanka	18.48*	120,000	**–**	**–**	100	47,218
				44,331	**56,821**	44,431	105,320

(*) As mentioned under Accounting Policy 1.3, the Bank acquired 40% Stake in Commercial Insurance Brokers (Private) Limited (CIBL) during 2019. As the Bank's subsidiary, Commercial Development Company PLC, too has a stake of 20% in CIBL, the Group's stake in CIBL as at December 31, 2019 increased to 58%. The Group's stake in CIBL as at December 31, 2018 was 18.48%.

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:

			2019			2018		
	Note	Page No.	**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,			**13,771**	**47,118**	**60,889**	22,197	43,216	65,413
Total comprehensive income			**(1,281)**	**49,906**	**48,625**	(8,426)	6,042	(2,384)
Profit/(loss) for the period recognised in income statement, net of tax			**(339)**	**10,331**	**9,992**	(55)	6,103	6,048
Profit or loss and other comprehensive income, net of tax			**(942)**	**39,575**	**38,633**	(8,371)	(61)	(8,432)
Movement due to change in equity			**–**	**(409)**	**(409)**	–	(281)	(281)
Dividend received			**–**	**(2,760)**	**(2,760)**	–	(1,859)	(1,859)
Acquisition of the control of the associate	37.2.4	206	**–**	**(93,955)**	**(93,955)**	–	–	–
Balance as at December 31,			**56,821**	**–**	**56,821**	58,102	47,218	105,320

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,	2019			2018		
	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
Revenue	22,672	213,059	235,731	23,265	294,872	318,137
Expenses	(24,051)	(140,126)	(164,177)	(22,425)	(243,439)	(265,864)
Income tax	(101)	(16,786)	(16,887)	(1,081)	(18,605)	(19,686)
Profit from continuing operations, net of tax	(1,480)	56,147	54,667	(241)	32,828	32,587
Group's share of profit from continuing operations, net of tax	(339)	10,331	9,992	(55)	6,103	6,048
Other comprehensive income, net of tax	(4,109)	215,080	210,971	(36,522)	(327)	(36,849)
Group's share of other comprehensive income from continuing operations, net of tax	(942)	39,575	38,633	(8,371)	(61)	(8,432)
Share of results of equity accounted investee recognised in Income Statement and Statement of Profit or Loss and Other Comprehensive Income	(1,281)	49,906	48,625	(8,426)	6,042	(2,384)

38.2 (b) Summarised Statement of Financial Position

As at December 31,	2019		2018	
	Equity Investments Lanka Ltd. Rs. '000	Commercial Insurance Brokers (Pvt) Ltd. Rs. '000	Equity Investments Lanka Ltd. Rs. '000	Commercial Insurance Brokers (Pvt) Ltd. Rs. '000
Non-current assets	156,161	486,820	161,215	144,361
Current assets	97,190	191,035	96,838	199,648
Non-current liabilities	(1,472)	(119,058)	(1,810)	(27,235)
Current liabilities	(3,967)	(48,172)	(2,743)	(61,267)
Net assets	247,912	510,625	253,500	255,507
Group's share of net assets	56,821	93,955	58,102	47,218
Acquisition of the control of the associate	–	(93,955)	–	–
Carrying amount of interest in associates	56,821	–	58,102	47,218

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 in associates is given in Note 62 on pages 247 to 249.

39. Property, plant and equipment and right-of-use assets

Accounting policy

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 and 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, freehold and 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, freehold and leasehold and buildings of the Group 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, freehold and leasehold buildings will be carried out on or before December 31, 2020.

  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 amounts written down previously. 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 its freehold land, 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).

  The Bank carried out a revaluation of its freehold land, freehold and leasehold 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 CBSL and recognised the revaluation gains/(losses) in the Financial Statements.

Subsequent expenditure

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 "Net other operating income" 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 capital nature directly incurred in the construction of buildings, major plant and machinery and system development, awaiting capitalisation. These are stated in the Statement of Financial Position at cost less any accumulated impairment losses. Capital work-in-progress is transferred to the relevant asset when it is in the location and condition necessary for it to be capable of operating in the manner intended by Management (i.e., available for use).

Right-of-use assets

In accordance with SLFRS 16, effective from January 1, 2019, Right-of-use assets are presented together with property, plant and equipment in the Statement of Financial Position.

39.1 Group – 2019

	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	Right of use assets Rs. '000	**Total 2019 Rs. '000**	Total 2018 Rs. '000
Cost/valuation												
Balance as at January 1,			7,465,645	4,294,255	1,240,759	5,957,479	480,508	6,363,950	330,646	–	**26,133,242**	24,218,194
Effect of adoption of SLFRS 16			–	–	–	–	–	–	–	4,948,144	**4,948,144**	–
Property, plant and equipment acquired on business combination	37.2.2	206	337,000	83,712	–	19,459	54,506	30,460	–	–	**525,137**	–
Additions/transfers during the year			–	6,525	–	589,097	39,990	560,785	183,157	1,294,192	**2,673,746**	2,081,002
Disposals during the year			–	–	–	(36,097)	(23,832)	(82,761)	–	–	**(142,690)**	(296,116)
Exchange rate variance			–	–	–	(4,643)	(2,045)	(8,898)	–	(44,772)	**(60,358)**	131,362
Transfers/adjustments			(10,448)	10,448	–	(1,537)	–	(71,665)	–	–	**(73,202)**	(1,200)
Balance as at December 31,			7,792,197	4,394,940	1,240,759	6,523,758	549,127	6,791,871	513,803	6,197,564	**34,004,019**	26,133,242

	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	Right of use assets Rs. '000	**Total 2019 Rs. '000**	Total 2018 Rs. '000
Accumulated depreciation and impairment losses												
Balance as at January 1,			–	193,632	47,983	3,992,128	273,940	4,610,323	–	–	**9,118,006**	7,901,150
Accumulated depreciation assumed on business combination	37.2.2	206	–	26,925	–	12,313	22,623	27,848	–	–	**89,709**	–
Charge for the year	20	179	–	155,974	35,581	669,307	68,141	612,785	–	1,045,623	**2,587,411**	1,383,581
Impairment loss			–	–	–	–	–	–	–	–	**–**	–
Disposals during the year			–	–	–	(35,612)	(22,621)	(79,999)	–	–	**(138,232)**	(265,704)
Exchange rate variance			–	–	–	(2,390)	(1,125)	(5,926)	–	–	**(9,441)**	99,052
Transfers/adjustments			–	–	–	(1,355)	–	(65,125)	–	–	**(66,480)**	(73)
Balance as at December 31,			–	376,531	83,564	4,634,391	340,958	5,099,906	–	1,045,623	**11,580,973**	9,118,006
Net book value as at December 31, 2019			7,792,197	4,018,409	1,157,195	1,889,367	208,169	1,691,965	513,803	5,151,941	**22,423,046**	–
Net book value as at December 31, 2018			7,465,645	4,100,623	1,192,776	1,965,351	206,568	1,753,627	330,646	–	–	17,015,236

39.2 Group – 2018

	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 2018 Rs. '000	Total 2017 Rs. '000
Cost/valuation											
Balance as at January 1,			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
Additions/transfers during the year			102,916	4,162	720	1,039,612	177,210	603,155	153,227	2,081,002	2,163,733
Transfer of accumulated depreciation on assets revalued			–	–	–	–	–	–	–	–	(356,903)
Surplus on revaluation of property			–	–	–	–	–	–	–	–	3,845,981
Disposals during the year			–	–	–	(98,158)	(59,437)	(138,500)	(21)	(296,116)	(284,381)
Exchange rate variance			–	–	–	34,006	9,401	87,955	–	131,362	(11,367)
Transfers/adjustments			–	92,065	(92,065)	(1,200)	–	–	–	(1,200)	–
Balance as at December 31,			7,465,645	4,294,255	1,240,759	5,957,479	480,508	6,363,950	330,646	26,133,242	24,218,194
Accumulated depreciation and impairment losses											
Balance as at January 1,			–	1,701	50,447	3,506,201	253,608	4,089,193	–	7,901,150	7,291,465
Charge for the year	20	179	–	154,847	34,620	556,860	48,812	588,442	–	1,383,581	1,185,698
Transfer of accumulated depreciation on assets revalued			–	–	–	–	–	–	–	–	(356,903)
Disposals during the year			–	–	–	(97,384)	(38,361)	(129,959)	–	(265,704)	(207,575)
Exchange rate variance			–	–	–	26,524	9,881	62,647	–	99,052	(11,535)
Transfers/adjustments			–	37,084	(37,084)	(73)	–	–	–	(73)	–
Balance as at December 31,			–	193,632	47,983	3,992,128	273,940	4,610,323	–	9,118,006	7,901,150
Net book value as at December 31, 2018			7,465,645	4,100,623	1,192,776	1,965,351	206,568	1,753,627	330,646	17,015,236	–
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

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,	2019			2018		
	Cost	**Accumulated Depreciation**	**Net book value**	Cost	Accumulated Depreciation	Net book value
	Rs. '000	**Rs. '000**	**Rs. '000**	Rs. '000	Rs. '000	Rs. '000
Class of asset						
Freehold land	**1,121,538**	**–**	**1,121,538**	1,131,986	–	1,131,986
Freehold buildings	**1,710,894**	**492,927**	**1,217,967**	1,693,921	449,795	1,244,126
Leasehold buildings	**330,470**	**297,059**	**33,411**	330,470	292,304	38,166
Total	**3,162,902**	**789,986**	**2,372,916**	3,156,377	742,099	2,414,278

39.3 Bank – 2019

	Note	Page No.	Freehold land	Freehold buildings	Leasehold buildings	Computer equipment	Motor vehicles	Office equipment, furniture and fixtures	Capital work-in-progress	Right-of-use assets	**Total 2019**	Total 2018
			Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
Cost/valuation												
Balance as at January 1,			7,243,410	4,170,205	100,037	5,902,923	201,175	6,205,242	326,660	–	**24,149,652**	22,338,222
Effect of adoption of SLFRS 16			–	–	–	–	–	–	–	5,124,625	**5,124,625**	–
Additions/transfers during the year			–	6,525	–	567,689	7,890	549,005	182,857	1,294,192	**2,608,158**	1,937,332
Disposals during the year			–	–	–	(35,508)	(5,270)	(81,940)	–	–	**(122,718)**	(235,151)
Exchange rate variance			–	–	–	(4,512)	(2,045)	(8,711)	–	(41,812)	**(57,080)**	110,449
Transfers/adjustments			(10,448)	10,448	–	(1,537)	–	(71,665)	–	–	**(73,202)**	(1,200)
Balance as at December 31,			7,232,962	4,187,178	100,037	6,429,055	201,750	6,591,931	509,517	**6,377,005**	**31,629,435**	24,149,652
Accumulated Depreciation and Impairment Losses												
Balance as at January 1,			–	189,127	16,295	3,963,596	134,197	4,545,191	–	–	**8,848,406**	7,703,512
Charge for the year	20	179	–	152,513	2,934	657,936	17,359	584,354	–	1,125,243	**2,540,339**	1,279,378
Disposals during the year			–	–	–	(35,071)	(5,270)	(79,310)	–	–	**(119,651)**	(226,155)
Exchange rate variance			–	–	–	(2,427)	(1,125)	(6,120)	–	–	**(9,672)**	91,744
Transfers/adjustments			–	–	–	(1,355)	–	(65,125)	–	–	**(66,480)**	(73)
Balance as at December 31,			–	341,640	19,229	4,582,679	145,161	4,978,990	–	1,125,243	**11,192,942**	8,848,406
Net book value as at December 31, 2019			7,232,962	3,845,538	80,808	1,846,376	56,589	1,612,941	509,517	5,251,762	**20,436,493**	–
Net book value as at December 31, 2018			7,243,410	3,981,078	83,742	1,939,327	66,978	1,660,051	326,660	–	–	15,301,246

39.4 Bank – 2018

	Note	Page No.	Freehold land	Freehold buildings	Leasehold buildings	Computer equipment	Motor vehicles	Office equipment, furniture and fixtures	Capital work-in-progress	Total 2018	Total 2017
			Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cost/valuation											
Balance as at January 1,			7,144,134	4,073,978	192,102	4,937,841	124,853	5,691,860	173,454	22,338,222	17,374,681
Additions/transfers during the year			99,276	4,162	–	1,034,115	67,576	578,976	153,227	1,937,332	1,959,075
Transfer of accumulated depreciation on assets revalued			–	–	–	–	–	–	–	–	(277,190)
Surplus on revaluation of property			–	–	–	–	–	–	–	–	3,542,214
Disposals during the year			–	–	–	(97,495)	(655)	(136,980)	(21)	(235,151)	(246,416)
Exchange rate variance			–	–	–	29,662	9,401	71,386	–	110,449	(14,142)
Transfers/adjustments			–	92,065	(92,065)	(1,200)	–	–	–	(1,200)	–
Balance as at December 31,			7,243,410	4,170,205	100,037	5,902,923	201,175	6,205,242	326,660	24,149,652	22,338,222

	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 2018 Rs. '000	Total 2017 Rs. '000
Accumulated depreciation and impairment losses											
Balance as at January 1,			–	–	50,445	3,486,636	114,223	4,052,208	–	7,703,512	7,066,856
Charge for the year	20	179	–	152,043	2,934	548,794	10,748	564,859	–	1,279,378	1,097,096
Transfer of accumulated depreciation on assets revalued			–	–	–	–	–	–	–	–	(277,190)
Disposals during the year			–	–	–	(96,721)	(655)	(128,779)	–	(226,155)	(169,990)
Exchange rate variance			–	–	–	24,960	9,881	56,903	–	91,744	(13,260)
Transfers/adjustments			–	37,084	(37,084)	(73)	–	–	–	(73)	–
Balance as at December 31,			–	189,127	16,295	3,963,596	134,197	4,545,191	–	8,848,406	7,703,512
Net book value as at December 31, 2018			7,243,410	3,981,078	83,742	1,939,327	66,978	1,660,051	326,660	15,301,246	–
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

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,	2019			2018		
	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	**958,572**	**–**	**958,572**	969,020	–	969,020
Freehold buildings	**1,655,373**	**481,833**	**1,173,540**	1,638,400	440,206	1,198,194
Leasehold buildings	**98,138**	**64,727**	**33,411**	98,138	59,972	38,166
Total	**2,712,083**	**546,560**	**2,165,523**	2,705,558	500,178	2,205,380

The maturity analysis of Property, plant and equipment is given in Note 62 on pages 147 to 149.

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	Number of buildings	Extent (perches)	Buildings (square feet)	Revalued amounts land Rs. '000	Revalued amounts buildings Rs. '000	Net book value/ revalued amount Rs. '000	Net book value before revaluation Rs. '000
CEO's Bungalow – No. 27, Queens Road, Colombo 03	1	64	5,616	961,000	39,000	992,200	550,910
Holiday Bungalow – Bandarawela, Ambatenne Estate, Bandarawela	1	423	5,649	72,100	17,000	87,740	66,613
Holiday Bungalow – Haputale, No. 23, Lilly Avenue, Welimada Road, Haputale	1	258	5,662	41,200	21,300	60,370	43,650
Branch Buildings							
Battaramulla – No. 213, Kaduwela Road, Battaramulla	1	14	11,216	52,500	99,000	141,600	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 08	1	16	16,880	196,000	216,000	394,720	333,711
Chilaw – No. 44, Colombo Road, Chilaw	1	35	9,420	91,754	42,390	132,025	98,672
City Office – No. 98, York Street, Colombo 01	1	–	24,599	–	–	40,836	–
Duplication Road – Nos. 405, 407, R A De Mel Mawatha, Colombo 03	1	20	4,194	220,400	10,000	228,355	231,814
Galewela – No. 49/57, Matale Road, Galewela	1	99	5,632	29,700	16,300	46,787	36,358
Galle City – No. 59, Wackwella Road, Galle	1	7	3,675	54,000	9,150	62,387	47,850
Galle Fort – No. 22, Church Street, Fort, Galle	1	100	11,625	255,650	45,000	298,400	247,000
Gampaha – No. 51, Queen Mary's Road, Gampaha	1	33	4,775	74,025	11,595	84,451	67,208

Location	Number of buildings	Extent (perches)	Buildings (square feet)	Revalued amounts land Rs. '000	Revalued amounts buildings Rs. '000	Net book value/ revalued amount Rs. '000	Net book value before revaluation Rs. '000
Hikkaduwa – No. 217, Galle Road, Hikkaduwa	1	37	7,518	35,670	27,780	61,816	49,184
Ja-Ela – No. 140, Negombo Road, Ja-Ela	1	13	7,468	33,000	26,000	57,514	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	1	45	44,500	396,000	256,600	634,271	560,250
Karapitiya – No. 89, Hirimbura Cross Road, Karapitiya	1	38	3,627	–	–	103,838	–
Kegalle – No. 186, Main Street, Kegalle	1	85	2,650	156,700	7,200	163,324	134,250
Keyzer Street – No. 32, Keyzer Street, Colombo 11	1	7	6,100	82,000	24,000	104,703	80,050
Kollupitiya – No. 285, Galle Road, Colombo 03	1	17	16,254	225,000	68,000	287,560	173,036
Kotahena – No. 198, George R De Silva Mawatha, Kotahena, Colombo 13	1	28	26,722	197,000	210,000	396,500	331,845
Kurunegala – No. 4, Suratissa Mawatha, Kurunegala	1	50	10,096	236,800	43,200	277,840	231,399
Maharagama – No. 154, High Level Road, Maharagama	1	18	8,440	93,000	47,000	136,240	82,619
Matale – No. 70, King Street, Matale	1	51	8,596	125,000	61,000	182,514	130,000
Matara – No. 18, Station Road, Matara	1	38	8,137	60,080	28,770	87,206	73,990
Minuwangoda – No. 9, Siriwardena Mawatha, Minuwangoda	1	25	5,550	56,250	17,483	72,567	47,541
Narahenpita – No. 201, Kirula Road, Narahenpita, Colombo 05	1	22	11,193	176,000	104,000	272,571	210,604
Narammala – No. 55, Negombo Road, Narammala	1	41	5,353	61,605	19,910	80,523	69,094
Negombo – Nos. 24, 26, Fernando Avenue, Negombo	1	37	11,360	136,000	36,000	169,120	100,280
Nugegoda – No. 100, Stanley Thilakaratne Mawatha, Nugegoda	1	39	11,150	150,000	60,000	205,200	193,925
Nuwara Eliya – No. 36/3, Buddha Jayanthi Mawatha, Nuwara Eliya	1	42	10,184	124,800	74,400	194,949	147,243
Panadura – No. 375, Galle Road, Panadura	1	12	6,168	36,900	42,400	75,060	64,828
Peliyagoda Stores – No. 37, New Nuge Road, Peliyagoda	1	–	14,676	–	–	8,440	–
Pettah – People's Park Shopping Complex, Colombo 11	1	–	3,147	–	67,000	61,640	50,091
Pettah-Stores – People's Park Shopping Complex, Colombo 11	1	–	225	–	5,500	5,000	4,145
Pettah – Main Street – No. 280, Main Street, Pettah, Colombo 11	1	20	22,760	360,000	190,000	537,421	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 02	1	30	63,385	500,000	1,000,000	1,420,000	1,119,643
Wellawatte – No. 343, Galle Road, Colombo 06	1	45	51,225	650,000	1,100,000	1,679,950	715,791
Wennappuwa – Nos. 262, 264, Colombo Road, Wennappuwa	1	36	9,226	54,000	31,000	82,862	67,103
Total	38			7,144,134	4,073,978	11,078,500	7,675,898

39.5 (b) Information on freehold land and buildings of the Bank – Valuations

[As required by the Rule No. 7.6 (viii) of the "Continuing Listing Requirements" of the Colombo Stock Exchange]

Date of valuation: December 31, 2017

Name of professional valuer/ location and address	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 No. 44, Colombo Road, Chilaw	Market comparable method		63,522	35,150	91,754	42,390	28,232	7,240
	• 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 No. 51, Queen Mary's Road, Gampaha	Market comparable method		57,575	9,633	74,025	11,595	16,450	1,962
	• 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%						

Name of professional valuer/ location and address	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
Minuwangoda No. 9, Siriwardena Mawatha, Minuwangoda	Market comparable method		31,250	16,291	56,250	17,483	25,000	1,192
	• 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 No. 32, Keyzer Street, Colombo 11	Market comparable method		56,000	24,050	82,000	24,000	26,000	(50)
	• 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 No. 285, Galle Road, Colombo 03	Market comparable method		115,000	58,036	225,000	68,000	110,000	9,964
	• 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 No. 198, George R De Silva Mawatha, Kotahena, Colombo 13	Investment method		140,000	191,845	197,000	210,000	57,000	18,155
	• 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 No. 213, Kaduwela Road, Battaramulla	Market comparable method		52,500	74,269	52,500	99,000	–	24,731
	• Price per perch for land	Rs. 3,750,000 p.p.						
	• Price per square foot for building	Rs. 8,500 p.sq.ft.						
Battaramulla No. 213, Kaduwela Road, Battaramulla	Market comparable method		50,000	–	50,000	–	–	–
	• Price per perch for land	Rs. 3,750,000 p.p.						
Panadura No. 375, Galle Road, Panadura	Market comparable method		30,750	34,078	36,900	42,400	6,150	8,322
	• Price per perch for land	Rs. 3,000,000 p.p.						
	• Price per square foot for building	Rs. 6,500 p.sq.ft.						
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%						

Name of professional valuer/ location and address	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
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%						
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.						
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.						

Name of professional valuer/ location and address	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
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.						
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.						

Name of professional valuer/ location and address	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
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%						
Kurunegala No. 4, Suratissa Mawatha, Kurunegala	Market comparable method		199,325	32,074	236,800	43,200	37,475	11,126
	• 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 No. 55, Negombo Road, Narammala	Market comparable method		53,391	15,703	61,605	19,910	8,214	4,207
	• 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 and 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 purchsed currently charactorised 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 at the reporting date of the Bank is as follows:

As at December 31,	**2019 Rs. '000**	2018 Rs. '000
Total claims lodged	**6,654**	11,649
Total claims received	**(3,619)**	(4,059)
Total claims rejected	**–**	–
Total claims receivable	**3,035**	7,590

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,	**2019 Rs. '000**	2018 Rs. '000
Computer equipment	**1,982,684**	1,699,267
Office equipment, furniture and fixtures	**2,652,359**	2,273,634
Motor vehicles	**54,870**	60,140

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,	**2019 Rs. '000**	2018 Rs. '000
Computer equipment	**214,063**	94,636
Office equipment, furniture and fixtures	**92,110**	102,653

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,		**2019 Rs. '000**	2018 Rs. '000
Computer equipment	Cost	**343,177**	302,799
	Depreciation	**329,144**	283,466
	NBV	**14,033**	19,333
Office equipment, furniture and fixtures	Cost	**113,758**	112,046
	Depreciation	**109,372**	105,588
	NBV	**4,386**	6,458

39.12 Borrowing costs

There were no capitalised borrowing costs related to the acquisition of property, plant and equipment during the year 2019 (2018 – Nil).

40. Investment properties

Accounting policy

Investment Properties are those which are held either to earn rental income or for capital appreciation or for both.

An investment property is recognised, if it is probable that future economic benefits that are associated with the investment property will flow to the Group and cost of the investment property can be reliably measured.

The Group states the Investment properties at its fair value.

When a portion of the property is held to earn rentals or for capital appreciation and another portion is held for use in the production or supply of goods or services or for administrative purposes, the Group accounts for the portions separately if these portions could be sold separately (or leased out separately under a finance lease). If the portions could not be sold separately, the property is treated as investment property, only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the net other operating income.

			GROUP		BANK	
	Note	Page No.	**2019 Rs. '000**	2018 Rs. '000	**2019 Rs. '000**	2018 Rs. '000
Cost/Valuation						
Balance as at January 1,			**–**	–	**–**	–
Investment properties acquired on business combination	37.2.2	206	**46,350**	–	**–**	–
Additions during the year			**–**	–	**–**	–
Fair value gains/(losses)*			**–**	–	**–**	–
Balance as at December 31,			**46,350**	–	**–**	–

(*) The Investment property was fair valued at the time of acquisition of CIB. There was no material change to its fair value from the acquisition date to the reporting date. The details of the valuation are mentioned in Note 40.1(a) and 40.1(b).

The maturity analysis of investment properties is given in Note 62 on pages 247 to 249.

There were no capitalised borrowing cost related to the acquisition of Investment properties during the year 2019 (2018 – Nil).

40.1 (a) Information on investment properties of the Group – Extents and Locations

[As required by the Rule No. 7.6 (viii) of the "Continuing Listing Requirements" of the Colombo Stock Exchange]

Location	Number of buildings	Extent (Perches)	Buildings (Square feet)	Fair value of the investment property Rs. '000
No. 347, Dr Colvin R De Silva Mawatha, Colombo 2, Sri Lanka	1	–	8,616	46,350

40.1 (b) Information on investment properties of the Group – Valuations

[As required by the Rule No. 7.6 (viii) of the "Continuing Listing Requirements" of the Colombo Stock Exchange]

Date of valuation: August 5, 2019

Name of professional valuer/ location and address	Method of valuation and significant unobservable inputs	Range of estimates for unobservable inputs	Fair value of the investment property Building Rs. '000
G J Sumanasena No. 347, Dr Colvin R De Silva Mawatha, Colombo 02, Sri Lanka	Market comparable method • Price per square foot • Depreciation rate	 Rs. 8,250 p.sq.ft. 30%	46,350

40.1 (c) Valuation techniques and sensitivity of the fair value measurement of the Investment properties of the Group

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		Estimated fair value would increase/(decrease) if;
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 and 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 square foot for building Depreciation rate for building	Price per square foot would increase/(decrease) Depreciation rate for building would decrease/(increase)

41. Intangible assets

Accounting policy

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.

As at December 31,	Note	Page No.	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Computer software	41.1	221	**824,816**	698,913	**712,596**	579,486
Software under development	41.2	221	**375,742**	334,954	**367,414**	326,626
Goodwill arising on business combination			**445,147**	400,045	**–**	–
Trademarks			**9**	19	**–**	–
Total			**1,645,714**	1,433,931	**1,080,010**	906,112

41.1 Computer software

	Note	Page No.	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Cost/valuation						
Balance as at January 1,			**2,134,021**	1,942,915	**1,948,436**	1,847,585
Computer software acquired on business combination	37.2.2	206	**17,328**	–	**–**	–
Additions during the year			**339,200**	378,969	**311,544**	305,509
Disposals/write-off during the year			**–**	(215,892)	**–**	(215,892)
Exchange rate variance			**(2,697)**	26,829	**(1,261)**	10,034
Transfers/adjustments			**35,100**	1,200	**35,100**	1,200
Balance as at December 31,			**2,522,952**	2,134,021	**2,293,819**	1,948,436
Accumulated amortisation and impairment losses						
Balance as at January 1,			**1,435,108**	1,403,507	**1,368,950**	1,374,195
Accumulated amortisation assumed on business combination	37.2.2	206	**11,526**	–	**–**	–
Amortisation for the year	20	179	**252,392**	218,076	**213,240**	188,789
Impairment loss			**–**	–	**–**	–
Disposals/write-off during the year			**–**	(202,301)	**–**	(202,301)
Exchange rate variance			**(890)**	15,753	**(967)**	8,194
Transfers/adjustments			**–**	73	**–**	73
Balance as at December 31,			**1,698,136**	1,435,108	**1,581,223**	1,368,950
Net book value as at December 31,			**824,816**	698,913	**712,596**	579,486

41.2 Software under development

	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Cost/valuation				
Balance as at January 1,	**334,954**	311,748	**326,626**	303,420
Additions during the year	**75,888**	27,672	**75,888**	27,672
Disposals during the year	**–**	–	**–**	–
Transfers/adjustments	**(35,100)**	(4,466)	**(35,100)**	(4,466)
Balance as at December 31,	**375,742**	334,954	**367,414**	326,626

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 2019 (2018 – Nil).

The maturity analysis of intangible assets is given in Note 62 on pages 247 to 249.

42. Leasehold property

	Note	Page No.	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 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,			**25,636**	24,184	**13,188**	12,246
Amortisation for the year	20	179	**1,452**	1,452	**942**	942
Balance as at December 31,			**27,088**	25,636	**14,130**	13,188
Net book value as at December 31,			**101,612**	103,064	**70,710**	71,652

The carrying amount of revalued assets that would have been included in the Financial Statements had the assets been carried at cost less depreciation/amortisation is as follows:

As at December 31,	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Class of asset: leasehold land				
Cost	**23,715**	23,715	**14,846**	14,846
Accumulated amortisation	**17,442**	16,411	**14,129**	13,187
Net book	**6,273**	7,304	**717**	1,659

The maturity analysis of leasehold property is given in Note 62 on pages 247 to 249.

43. Deferred tax assets and liabilities

Accounting policy

Net deferred tax (assets)/liabilities of an entity cannot be set-off against another entity's deferred tax (assets)/liabilities as there is no legally enforceable right to set-off.

	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Recognised under deferred tax assets	**530,165**	188,487	**294,059**	–
Recognised under deferred tax liabilities	**416,458**	971,424	**–**	646,248
Summary of net deferred tax liability	**(113,707)**	782,937	**(294,059)**	646,248

43.1 Summary of net deferred tax liability

	Note	Page No.	GROUP 2019 Temporary difference Rs. '000	GROUP 2019 Tax effect Rs. '000	GROUP 2018 Temporary difference Rs. '000	GROUP 2018 Tax effect Rs. '000	BANK 2019 Temporary difference Rs. '000	BANK 2019 Tax effect Rs. '000	BANK 2018 Temporary difference Rs. '000	BANK 2018 Tax effect Rs. '000
Balance as at January 1,			**2,965,274**	**782,937**	13,035,986	3,565,215	**2,490,485**	**646,248**	12,013,759	3,274,826
Deferred tax liabilities assumed on business combination	37.2.2	206	**317,443**	**88,884**	–	–	**–**	**–**	–	–
Amount originating/(reversing) to income statement	23	181	**(7,144,426)**	**(2,048,100)**	(3,367,030)	(875,295)	**(6,969,438)**	**(2,002,575)**	(3,236,067)	(841,357)
Amount originating/(reversing) to statement of profit or loss and other comprehensive income			**3,460,011**	**968,803**	(248,368)	(69,543)	**3,459,896**	**968,771**	(277,989)	(77,837)

			GROUP				BANK			
			2019		2018		2019		2018	
			Temporary difference	Tax effect	Temporary difference	Tax effect	Temporary difference	Tax effect	Temporary difference	Tax effect
	Note	Page No.	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Amount originating/(reversing) to retained earnings (Deferred tax on SLFRS 16 and SLFRS 9 Transitional adjustments)			**205,811**	**57,627**	(6,455,314)	(1,807,488)	**205,811**	**57,627**	(6,009,218)	(1,682,581)
Amount originating/(reversing) to retained earnings on expired ESOP			**123,489**	**34,577**	–	–	**123,489**	**34,577**	–	–
Exchange rate variance			**–**	**1,565**	–	(29,952)	**–**	**1,293**	–	(26,803)
Balance as at December 31,			**(72,398)**	**(113,707)**	2,965,274	782,937	**(689,757)**	**(294,059)**	2,490,485	646,248

43.2 Reconciliation of net deferred tax liability – Group

For the year ended/as at December 31,	Statement of financial position		Profit or loss		Other comprehensive income	
	2019	2018	2019	2018	2019	2018
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Deferred tax liabilities on:						
Accelerated depreciation for tax purposes – Own assets	**600,169**	603,379	**8,684**	(101,990)	**–**	–
Accelerated depreciation for tax purposes – Leased assets	**1,539,687**	2,048,376	**508,689**	202,469	**–**	–
Revaluation surplus on freehold buildings	**1,162,121**	1,109,315	**38,230**	37,587	**–**	–
Revaluation surplus on freehold land (*)	**1,772,750**	1,772,750	**–**	–	**–**	(10,009)
Tax effect on actuarial gains on defined benefit plans	**20,479**	2,762	**–**	–	**(17,590)**	(24,331)
Effective interest rate on deposits	**–**	–	**–**	1,432	**–**	–
Effect of exchange rate variance	**–**	–	**1,802**	(31,802)	**(237)**	1,850
	5,095,206	5,536,582	**557,405**	107,696	**(17,827)**	(32,490)
Deferred tax assets on:						
Defined benefit plans	**640,669**	532,058	**100,858**	97,822	**–**	–
Tax effect on actuarial losses on defined benefit plans	**87,511**	78,403	**–**	–	**9,108**	(7,335)
Unrealised gain/(loss) on financial assets measured at fair value through other comprehensive income	**(175,938)**	825,146	**–**	–	**(1,001,084)**	135,282
Specific provision on lease receivable	**–**	–	**–**	(56,254)	**–**	–
Leave encashment	**134,209**	130,824	**3,385**	(50,407)	**–**	–
Tax effect on actuarial losses on leave encashment	**84,571**	67,835	**–**	–	**16,736**	(15,324)
Straight lining of lease rentals	**–**	57,627	**–**	9,887	**–**	–
Derecognision of commission income	**–**	–	**–**	(131,046)	**–**	–
Equity-settled share-based payments	**131,178**	165,755	**–**	17,406	**–**	–
Impairment provision	**4,049,843**	2,827,014	**1,222,829**	826,863	**–**	–
Carried forward tax loss on leasing business	**–**	–	**–**	–	**–**	–
Hedging reserve	**14,923**	(9,341)	**–**	–	**24,264**	(10,590)
Deferred tax on previous losses	**28,089**	73,522	**(45,433)**	48,526	**–**	–
Performance bonus	**5,795**	4,802	**993**	4,802	**–**	–
Deferred tax on specific provision	**157,428**	–	**157,428**	–	**–**	–
Operating leases	**50,635**	–	**50,635**	–	**–**	–
	5,208,913	4,753,645	**1,490,695**	767,599	**(950,976)**	102,033
Deferred tax effect on profit or loss and other comprehensive income for the year			**2,048,100**	875,295	**(968,803)**	69,543
Net deferred tax liability as at December 31,	**(113,707)**	782,937				

(*) As per the Inland Revenue Act No. 24 of 2017, which became 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.

43.3 Reconciliation of net deferred tax liability – Bank

For the year ended/as at December 31,	Statement of financial position		Profit or loss		Other comprehensive income	
	2019	2018	**2019**	2018	**2019**	2018
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000	**Rs. '000**	Rs. '000
Deferred tax liabilities on:						
Accelerated depreciation for tax purposes – Own assets	**526,086**	531,123	**5,037**	(82,274)	**–**	–
Accelerated depreciation for tax purposes – Leased assets	**1,435,404**	1,913,755	**478,351**	213,515	**–**	–
Revaluation surplus on freehold buildings	**782,631**	820,530	**37,899**	37,255	**–**	–
Revaluation surplus on freehold land (*)	**1,756,155**	1,756,155	**–**	–	**–**	–
Tax effect on actuarial gains on defined benefit plans	**20,602**	2,858	**–**	–	**(17,744)**	(25,350)
Effective interest rate on deposits	**–**	–	**–**	1,432	**–**	–
Effect of exchange rate variance	**–**	–	**1,530**	(28,653)	**(237)**	1,850
	4,520,878	5,024,421	**522,817**	141,275	**(17,981)**	(23,500)
Deferred tax assets on:						
Defined benefit plans	**614,716**	517,921	**96,795**	95,902	**–**	–
Tax effect on actuarial losses on defined benefit plans	**87,167**	78,059	**–**	–	**9,108**	(7,402)
Unrealised gain/(loss) on financial assets measured at fair value through other comprehensive income	**(176,355)**	824,543	**–**	–	**(1,000,898)**	134,653
Specific provision on lease receivable	**–**	–	**–**	(56,254)	**–**	–
Leave encashment	**134,209**	130,824	**3,385**	(50,407)	**–**	–
Tax effect on actuarial losses on leave encashment	**84,571**	67,835	**–**	–	**16,736**	(15,324)
Straight lining of lease rentals	**–**	57,627	**–**	9,887	**–**	–
Derecognition of commission income	**–**	–	**–**	(131,046)	**–**	–
Equity-settled share-based payments	**131,178**	165,755	**–**	17,406	**–**	–
Impairment provision	**3,720,404**	2,544,950	**1,175,454**	814,594	**–**	–
Hedging reserve	**14,923**	(9,341)	**–**	–	**24,264**	(10,590)
Deferred tax on specific provision	**157,428**	–	**157,428**	–	**–**	–
Operating leases	**46,696**	–	**46,696**	–	**–**	–
	4,814,937	4,378,173	**1,479,758**	700,082	**(950,790)**	101,337
Deferred tax effect on profit or loss and other comprehensive income for the year			**2,002,575**	841,357	**(968,771)**	77,837
Net deferred tax liability as at December 31,	**(294,059)**	646,248				

(*) As per the Inland Revenue Act No. 24 of 2017, which became 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 given in Note 62 on pages 247 to 249.

44. Other assets

As at December 31,	GROUP		BANK	
	2019	2018	**2019**	2018
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
Receivables	**101,395**	17,081	**101,395**	17,081
Deposits and prepayments	**1,540,458**	2,250,371	**1,540,811**	2,260,494
Clearing account balance	**5,005,006**	7,777,825	**5,005,006**	7,777,825
Unamortised cost on staff loans (Day 1 difference)	**4,886,941**	4,081,846	**4,886,941**	4,081,846
Other accounts	**11,910,069**	9,924,349	**11,788,094**	9,773,876
Total	**23,443,869**	24,051,472	**23,322,247**	23,911,122

The maturity analysis of other assets is given in Note 62 on pages 247 to 249.

45. Due to banks

Accounting policy

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 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Borrowings	**50,717,387**	52,273,032	**48,415,656**	50,012,061
Local currency borrowings	**2,806,443**	2,260,971	**504,712**	–
Foreign currency borrowings	**47,910,944**	50,012,061	**47,910,944**	50,012,061
Securities sold under repurchase (Repo) agreements (*)	**3,090,038**	89,020	**3,090,038**	89,020
Total	**53,807,425**	52,362,052	**51,505,694**	50,101,081

(*) 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 247 to 249.

46. Derivative financial liabilities

Accounting policy

Derivative financial liabilities – Held for trading

Derivative financial liabilities are classified as held for trading. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships.

Derivatives embedded in financial liabilities are treated separately and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, a separate instrument with the same terms as embedded derivative would meet the definition of derivative 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.

Derivatives are recorded at fair value with corresponding gains or losses are recognised in net gains/(losses) on trading in the Income Statement.

As at December 31,	Note	Page No.	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Derivative financial liabilities – Held for trading						
Foreign currency derivatives			**1,442,022**	8,021,783	**1,442,022**	8,021,783
Currency swaps			**1,140,261**	5,946,484	**1,140,261**	5,946,484
Forward contracts			**295,838**	2,069,807	**295,838**	2,069,807
Spot contracts			**5,923**	5,492	**5,923**	5,492
Derivative financial liabilities – Cash flow hedges held for risk management						
Interest rate swaps	46.1	225	**53,295**	–	**53,295**	–
Total			**1,495,317**	8,021,783	**1,495,317**	8,021,783

46.1 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.

During the year, loss (net of tax) of Rs. 62.391 Mn., [2018 – gain (net of tax) of Rs. 27.231 Mn.] 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 247 to 249.

47. Financial liabilities at amortised cost – Due to depositors

Accounting policy

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 "Interest expense" in the Income Statement.

	GROUP		BANK	
As at December 31,	**2019**	2018	**2019**	2018
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
Local currency deposits	**800,224,277**	747,951,765	**800,688,240**	748,142,891
Current account balances	**43,981,795**	45,166,224	**44,009,507**	45,177,113
Savings deposits	**248,903,630**	227,412,160	**249,181,306**	227,493,335
Time deposits	**507,284,805**	475,290,328	**507,443,380**	475,389,390
Certificates of deposit	**54,047**	83,053	**54,047**	83,053
Foreign currency deposits	**268,758,310**	246,419,110	**252,619,420**	234,894,423
Current account balances	**31,851,740**	32,286,978	**23,694,078**	26,476,915
Savings deposits	**77,548,427**	72,501,383	**73,941,830**	69,972,029
Time deposits	**159,358,143**	141,630,749	**154,983,512**	138,445,479
Total	**1,068,982,587**	994,370,875	**1,053,307,660**	983,037,314

47.1 Analysis of due to customers/deposits from customers

	GROUP		BANK	
As at December 31,	**2019**	2018	**2019**	2018
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
(a) By product				
Current account balances	**75,833,535**	77,453,202	**67,703,585**	71,654,028
Savings deposits	**326,452,057**	299,913,543	**323,123,136**	297,465,364
Time deposits	**666,642,948**	616,921,077	**662,426,892**	613,834,869
Certificates of deposit	**54,047**	83,053	**54,047**	83,053
Total	**1,068,982,587**	994,370,875	**1,053,307,660**	983,037,314
(b) By currency				
Sri Lankan Rupee	**800,224,277**	747,951,765	**800,688,240**	748,142,891
United States Dollar	**150,545,610**	144,023,443	**138,953,807**	136,589,435
Great Britain Pound	**10,844,928**	12,321,533	**10,842,070**	12,318,915
Euro	**11,276,248**	12,725,445	**11,163,481**	12,644,251
Australian Dollar	**6,990,874**	8,836,477	**6,990,874**	8,836,477
Bangladesh Taka	**83,280,562**	62,620,046	**83,280,562**	62,620,046
Maldivian Rufiyaa	**4,476,756**	4,058,311	**–**	–
Other currencies	**1,343,332**	1,833,855	**1,388,626**	1,885,299
Total	**1,068,982,587**	994,370,875	**1,053,307,660**	983,037,314
(c) By institution/customers				
Deposits from banks	**2,731,885**	2,425,725	**2,731,885**	2,425,725
Deposits from finance companies	**5,632,555**	8,303,951	**5,448,671**	8,340,126
Deposits from other customers	**1,060,618,147**	983,641,199	**1,045,127,104**	972,271,463
Total	**1,068,982,587**	994,370,875	**1,053,307,660**	983,037,314

The maturity analysis of financial liabilities at amortised cost – Due to depositors is given in Note 62 on pages 247 to 249.

48. Financial liabilities at amortised cost – Other borrowings

As at December 31,	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Refinance borrowings	**7,917,888**	7,210,334	**7,917,888**	7,210,334
Borrowings from International Finance Corporation (IFC)	**15,331,005**	18,151,578	**15,331,005**	18,151,578
Total	**23,248,893**	25,361,912	**23,248,893**	25,361,912

The maturity analysis of financial liabilities at amortised cost – Other borrowings is given in Note 62 on pages 247 to 249.

49. Current tax liabilities

	Note	Page No.	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Balance as at January 1,			**6,735,997**	4,202,850	**6,566,358**	4,143,911
Tax payable assumed on business combination	37.2.2	206	**13,660**	–	**–**	–
Provision for the year			**8,600,747**	9,648,955	**8,308,597**	9,453,100
Reversal of (over)/under provision	23	181	**(989,148)**	(537,943)	**(991,884)**	(564,363)
Self-assessment payments			**(8,301,839)**	(5,971,026)	**(8,087,930)**	(5,856,270)
Notional tax credits (*)			**–**	(348,978)	**–**	(348,311)
Withholding tax/other credits			**(841,251)**	(750,000)	**(805,060)**	(733,426)
Exchange rate variance			**(20,978)**	492,139	**(22,437)**	471,717
Balance as at December 31,			**5,197,188**	6,735,997	**4,967,644**	6,566,358

(*) Notional tax credit on secondary market transactions

Interest income from Sri Lankan Rupee denominated Government Securities were subjected to withholding tax at source (Notional Tax) as per Inland Revenue Act No. 10 of 2006, effective up to March 31, 2018. Accordingly, interest income accrued or received on outright or reverse repurchase transactions on Government Securities, less interest expense accrued or paid on repurchase transactions with such Government Securities, was grossed up by the amount of Notional Tax.

However, as per the provision of the Inland Revenue Act No. 24 of 2017 effective from April 1, 2018, interest income from Government Securities was excluded from the requirement to withholding tax. Hence, notional tax credit hitherto claimed by the Bank was discontinued since April 1, 2018 with implementation of Inland Revenue Act No. 24 of 2017.

Accordingly, interest income from Government Securities for the period from January 1, 2018 to March 31, 2018 been grossed up by notional tax amounting to Rs. 348.978 Mn. and Rs. 348.311 Mn. by the Group and the Bank respectively.

The maturity analysis of current tax liabilities is given in Note 62 on pages 247 to 249.

50. Other liabilities

Accounting policy

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 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Accrued expenditure			**2,112,034**	2,724,062	**2,016,803**	2,658,304
Cheques sent on clearing			**5,005,006**	7,774,059	**5,005,006**	7,774,059
Lease liability	50.1	228	**5,055,939**	–	**5,146,689**	–
Provision for gratuity payable	50.2 (b)	229	**2,114,432**	1,778,016	**2,020,984**	1,726,920
Provision for unfunded pension scheme	50.3 (b)	230	**257,031**	242,819	**257,031**	242,819
Provision for leave encashment	50.4 (b)	231	**781,362**	709,495	**781,362**	709,495
Payable on oil hedging transactions			**1,127,571**	1,135,326	**1,127,571**	1,135,326
Impairment provision in respect of off-balance sheet credit exposures	59.3 (a) & 59.3 (b)	245	**1,320,080**	726,640	**1,316,837**	726,640
Other payables			**13,002,429**	9,457,096	**12,824,426**	9,232,788
Total			**30,775,884**	24,547,513	**30,496,709**	24,206,351

The maturity analysis of other liabilities is given in Note 62 on pages 247 to 249.

50.1 Lease liability

	Note	Page No.	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Operating lease commitments as at December 31, 2018			**6,455,090**	–	**6,432,570**	–
Weighted average incremental borrowing rate as at January 1, 2019 (%)			**9.06**	–	**9.39**	–
Discounted operating lease commitments balance as at January 1, effect of adoption of IFRS 16			**4,418,459**	–	**4,594,604**	–
Additions			**1,294,192**	–	**1,294,192**	–
Exchange rate variance			**(36,971)**	–	**(34,216)**	–
Accretion of interest	13.2	173	**429,263**	–	**457,449**	–
Payments			**(1,049,004)**	–	**(1,165,340)**	–
Balance as at December 31,			**5,055,939**	–	**5,146,689**	–

The maturity analysis of lease liability is given in Note 62 on pages 247 to 249.

50.1 (a) Sensitivity Analysis on lease liability

The following table illustrates the impact arising from the possible changes in the incremental borrowing rate on the lease liability of the Bank as at December 31, 2019.

Variable	GROUP Sensitivity effect on Statement of Financial Position (Lease liability) Rs. '000	GROUP Sensitivity effect on Income Statement Rs. '000	BANK Sensitivity effect on Statement of Financial Position (Lease liability) Rs. '000	BANK Sensitivity effect on Income Statement Rs. '000
1% increase in incremental borrowing rate	**(162,538)**	**7,401**	**(153,998)**	**6,501**
1% decrease in incremental borrowing rate	**172,498**	**(8,700)**	**163,512**	**(7,690)**

50.2 Provision for gratuity payable

An actuarial valuation of the retirement gratuity payable was carried out as at December 31, 2019 by Mr M Poopalanathan, AIA, of Messrs Actuarial & Management Consultants (Pvt) Ltd., a firm of professional Actuaries. The valuation method used by the actuaries to value the liability is the "Projected Unit Credit Method (PUC)", the method recommended by the Sri Lanka Accounting Standard – LKAS 19 on "Employee Benefits".

50.2 (a) Actuarial assumptions

Type of assumption	Criteria	Description
Demographic	Mortality – in service	A 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, 2018) to determine the liabilities of the active employees in the gratuity, were used in the actuarial valuation carried out as at December 31, 2019.
	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 10.50% p.a. (2018 – 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 8.00% p.a. (2018 - 8.00% p.a.) has been used to discount future liabilities considering anticipated long-term rate of inflation.
	Salary increases	**Sri Lankan operation** A salary increment of 10.00% p.a. (2018 – 11.00% p.a.) has been used in respect of the active employees.
		Bangladesh operation A salary increment of 10.00% p.a. (2018 – 10% p.a.) has been used in respect of the active employees.

50.2 (b) Movement in the provision for gratuity payable

			GROUP		BANK	
	Note	Page No.	2019 Rs. '000	2018 Rs. '000	2019 Rs. '000	2018 Rs. '000
Balance as at January 1,			**1,778,016**	1,515,410	**1,726,920**	1,474,387
Gratuity payable assumed on business combination	37.2.2	206	**30,253**	–	**–**	–
Expense recognised in the Income Statement	50.2 (c)	229	**457,642**	328,544	**442,022**	316,939
Exchange rate variance			**(5,750)**	52,568	**(5,750)**	52,568
Amount paid during the year			**(80,511)**	(51,231)	**(76,440)**	(45,817)
Actuarial (gains)/losses recognised in other comprehensive income			**(65,218)**	(67,275)	**(65,768)**	(71,157)
Balance as at December 31,			**2,114,432**	1,778,016	**2,020,984**	1,726,920

50.2 (c) Expense recognised in the income statement – Gratuity

For the year ended December 31,	GROUP 2019 Rs. '000	 2018 Rs. '000	BANK 2019 Rs. '000	 2018 Rs. '000
Interest cost	**192,671**	159,617	**185,649**	155,673
Current service cost	**264,971**	168,927	**256,373**	161,266
Total	**457,642**	328,544	**442,022**	316,939

50.2 (d) Sensitivity analysis on actuarial valuation

The following table illustrates the impact arising from the possible changes in the discount rate and salary escalation rates on the gratuity valuation of the Group and the Bank as at December 31, 2019.

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	**(286,205)**	**(282,001)**
1% decrease in discount rate	**353,191**	**348,409**
1% increase in salary	**360,079**	**355,231**
1% decrease in salary	**(296,034)**	**(291,703)**

50.3 Provision for unfunded pension scheme

An actuarial valuation of the unfunded pension liability was carried out as at December 31, 2019 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".

50.3 (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, 2018) to determine the liabilities of the active employees in the funded scheme, were used in the actuarial valuation carried out as at December 31, 2019.
	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 opted by the 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 10.50% p.a. (2018 – 11.50% p.a.) has been used to discount future liabilities considering anticipated long-term rate of inflation.
	Salary increases	A salary increment of 10.00% p.a. (2018 – 11.00% p.a.) has been used in respect of the active employees.
	Post retirement pension increase rate	There is no agreed rate of increase even though the pension payments are subject to periodic increases, and increases are granted solely at the discretion of the Bank. Therefore, no specific rate was assumed for this valuation.

50.3 (b) Movement in the provision for unfunded pension scheme

	Note	Page No.	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Balance as at January 1,			**242,819**	285,095	**242,819**	285,095
Expense recognised in the Income Statement	50.3 (c)	230	**27,924**	32,728	**27,924**	32,728
Amount paid during the year			**(48,789)**	(47,283)	**(48,789)**	(47,283)
Transfers			**–**	12,435	**–**	12,435
Actuarial (gains)/losses recognised in other comprehensive income			**35,077**	(40,156)	**35,077**	(40,156)
Balance as at December 31,			**257,031**	242,819	**257,031**	242,819

50.3 (c) Expense recognised in the Income Statement – Unfunded pension scheme

For the year ended December 31,	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Interest cost	**27,924**	32,728	**27,924**	32,728
Total	**27,924**	32,728	**27,924**	32,728

50.3 (d) Sensitivity analysis on actuarial valuation – Unfunded pension scheme

The following table illustrates the impact arising from the possible changes in the discount rate and salary escalation rates on the unfunded pension scheme of the Bank as at December 31, 2019.

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	**(10,783)**	**(10,783)**
1% decrease in discount rate	**11,780**	**11,780**
1% increase in salary	–	–
1% decrease in salary	–	–

50.4 Provision for leave encashment

An actuarial valuation of the leave encashment liability was carried out as at December 31, 2019 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".

50.4 (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 disable 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 10.50% p.a. (2018 – 11.50% p.a.) has been used to discount future liabilities considering anticipated long-term rate of inflation.
	Salary increases	A salary increment of 10.00% p.a. (2018 – 11.00% p.a.) has been used in respect of the active employees.

50.4 (b) Movement in the provision for leave encashment

	Note	Page No.	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Balance as at January 1,			**709,495**	944,251	**709,495**	944,251
Expense recognised in the Income Statement	50.4 (c)	231	**81,592**	103,868	**81,592**	103,868
Amount paid during the year			**(69,499)**	(283,895)	**(69,499)**	(283,895)
Actuarial (gains)/losses recognised in other comprehensive income			**59,774**	(54,729)	**59,774**	(54,729)
Balance as at December 31,			**781,362**	709,495	**781,362**	709,495

50.4 (c) Expense recognised in the income statement – Leave encashment

For the year ended December 31,	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Interest cost	**81,592**	103,868	**81,592**	103,868
Current service cost	**–**	–	**–**	–
Total	**81,592**	103,868	**81,592**	103,868

50.4 (d) Sensitivity analysis on actuarial valuation – Leave encashment

The following table illustrates the impact arising from the possible changes in the discount rate and salary escalation rates on the leave encashment liability valuation of the Bank as at December 31, 2019.

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	(94,453)	(94,453)
1% decrease in discount rate	115,065	115,065
1% increase in salary	118,074	118,074
1% decrease in salary	(98,371)	(98,371)

50.5 Employee retirement benefit

50.5.1 Pension fund – Defined benefit plan

An actuarial valuation of the Retirement Pension Fund was carried out as at December 31, 2019 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.

50.5.1 (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, 2018) 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, 2019.
	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 opted by the 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 10.50% p.a. (2018 – 11.50% p.a.) has been used to discount future liabilities considering anticipated long-term rate of inflation.
	Salary increases	A salary increment of 10.00% p.a. (2018 – 11.00% p.a.) has been used in respect of the active employees.
	Post-retirement pension increase rate	There is no agreed rate of increase even though the pension payments are subject to periodic increases and increases are granted solely at the discretion of the Bank. Therefore, no specific rate was assumed for this valuation.

50.5.1 (b) Movement in the present value of defined benefit obligation – Bank

	2019 Rs. '000	2018 Rs. '000
Balance as at January 1,	217,829	204,441
Interest cost	25,050	22,489
Current service cost	4,400	3,823
Benefits paid during the year	(19,101)	(17,619)
Actuarial (gains)/losses	19,583	4,695
Balance as at December 31,	**247,761**	217,829

50.5.1 (c) Movement in the fair value of plan assets

	2019 Rs. '000	2018 Rs. '000
Fair value as at January 1,	204,860	160,530
Expected return on plan assets	23,559	17,658
Contribution paid into plan	2,145	46,001
Benefits paid by the plan	(19,101)	(17,619)
Actuarial (gains)/losses on plan assets	2,735	(1,710)
Fair value as at December 31,	**214,198**	204,860

50.5.1 (d) Liability recognised in the statement of financial position

	Note	Page No.	2019 Rs. '000	2018 Rs. '000
Present value of defined benefit obligations as at December 31,	50.5.1 (b)	232	247,761	217,829
Fair value of plan assets	50.5.1 (c)	233	(214,198)	(204,860)
Net liability recognised under other liabilities			**33,563**	12,969

50.5.1 (e) Plan assets consist of the following:

	2019 Rs. '000	2018 Rs. '000
Deposits held with the Bank	214,198	204,860
Total	**214,198**	204,860

50.5.2 W&OP Fund – Defined benefit plan

An actuarial valuation of the Retirement Pension W&OP Fund was carried out as at December 31, 2019 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.

50.5.2 (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, 2018) 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, 2019.
	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 opted by the 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 10.50% p.a. (2018 – 11.50% p.a.) has been used to discount future liabilities considering anticipated long-term rate of inflation.
	Salary increases	A salary increment of 10.00% p.a. (2018 – 11.00% p.a.) has been used in respect of the active employees.
	Post-retirement pension increase rate	There is no agreed rate of increase even though the pension payments are subject to periodic increases and increases are granted solely at the discretion of the Bank. Therefore, no specific rate was assumed for this valuation.

50.5.2 (b) Movement in the present value of defined benefit obligation – Bank

	2019 Rs. '000	2018 Rs. '000
Balance as at January 1,	**61,287**	67,534
Interest cost	**7,048**	6,061
Current service cost	**415**	348
Transfers	**–**	(12,435)
Benefits paid during the year	**(5,786)**	(5,589)
Actuarial (gains)/losses	**5,896**	5,368
Balance as at December 31,	**68,860**	61,287

50.5.2 (c) Movement in the fair value of plan assets

	2019 Rs. '000	2018 Rs. '000
Fair value as at January 1,	**66,848**	48,270
Expected return on plan assets	**7,687**	5,310
Contribution paid into plan	**280**	19,524
Benefits paid by the plan	**(5,786)**	(5,589)
Actuarial gains/(losses) on plan assets	**(12,976)**	(667)
Fair value as at December 31,	**56,053**	66,848

50.5.2 (d) Liability recognised in the Statement of Financial Position

	Note	Page No.	2019 Rs. '000	2018 Rs. '000
Present value of defined benefit obligations as at December 31,	50.5.2 (b)	234	**68,860**	61,287
Fair value of plan assets	50.5.2 (c)	234	**(56,053)**	(66,848)
Net liability recognised under other liabilities			**12,807**	(5,561)

50.5.2 (e) Plan assets consist of the following:

	2019 Rs. '000	2018 Rs. '000
Deposits held with the Bank	**56,053**	66,848
Total	**56,053**	66,848

50.5.3 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 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Local subsidiaries				
Commercial Development Company PLC	–	–	19,724	23,400
CBC Tech Solutions Limited	–	–	34,568	17,555
Serendib Finance Limited	–	–	–	–
Commercial Insurance Brokers (Private) Limited			–	–
Subtotal	–	–	54,292	40,955
Foreign subsidiaries				
Commex Sri Lanka S.R.L. – Italy	–	–	–	–
Commercial Bank of Maldives Private Limited	–	–	–	–
CBC Myanmar Microfinance Co. Limited	–	–	–	–
Subtotal	–	–	–	–
Total	–	–	54,292	40,955

The maturity analysis of Due to subsidiaries is given in Note 62 on pages 247 to 249.

52. Subordinated liabilities

Accounting policy

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 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Balance as at January 1,			36,904,430	24,699,430	36,904,430	24,699,430
Amount borrowed during the year			–	10,000,000	–	10,000,000
Repayments/redemptions during the year			–	–	–	–
Subtotal			36,904,430	34,699,430	36,904,430	34,699,430
Exchange rate variance			(93,750)	2,205,000	(93,750)	2,205,000
Balance as at December 31, (before adjusting for amortised interest and transaction cost)	52.1	236	36,810,680	36,904,430	36,810,680	36,904,430
Unamortised transaction cost			(39,174)	(51,384)	(39,174)	(51,384)
Net effect of amortised interest payable			1,115,283	1,139,411	1,115,283	1,139,411
Adjusted balance as at December 31,			37,886,789	37,992,457	37,886,789	37,992,457

52.1 Categories of subordinated liabilities

Categories	Colombo Stock Exchange Listing	Interest payable frequency	Allotment date	Maturity date	Effective annual yield 2019 %	Effective annual yield 2018 %	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Fixed Rate Debentures										
2016/2021 – 10.75% p.a.	Listed	Biannually	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	Biannually	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	Biannually	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	Biannually	28.10.2016	27.10.2026	**12.63**	12.63	**1,928,200**	1,928,200	**1,928,200**	1,928,200
2018/2023 – 12.00% p.a.	Listed	Biannually	23.07.2018	22.07.2023	**12.36**	12.36	**8,393,840**	8,393,840	**8,393,840**	8,393,840
2018/2028 – 12.50% p.a.	Listed	Biannually	23.07.2018	22.07.2028	**12.89**	12.89	**1,606,160**	1,606,160	**1,606,160**	1,606,160
Floating rate subordinated loans										
IFC Borrowings – 6 M LIBOR + 5.75%		Biannually	13.03.2013	14.03.2023	**8.388**	8.385	**13,631,250**	13,725,000	**13,631,250**	13,725,000
Total							**36,810,680**	36,904,430	**36,810,680**	36,904,430

52.2 Subordinated liabilities by maturity

As at December 31,	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Payable within one year	**–**	–	**–**	–
Payable after one year	**36,810,680**	36,904,430	**36,810,680**	36,904,430
Total	**36,810,680**	36,904,430	**36,810,680**	36,904,430

The maturity analysis of subordinated liabilities is given in Note 62 on pages 247 to 249.

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, 2019.

53. Stated capital

Accounting policy

Ordinary shares in the Bank are recognised at the amount paid per ordinary share net of directly attributable issue cost.

	Note	Page No.	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Balance as at January 1,			**39,147,882**	37,143,541	**39,147,882**	37,143,541
Issue of ordinary voting shares under the employee share option plan			**30,128**	203,083	**30,128**	203,083
Transfer from employee share option reserve	57.6	243	**–**	6,414	**–**	6,414
Issue of ordinary shares as part of the final dividend satisfied in the form of issue and allotment of new shares			**1,738,948**	1,794,844	**1,738,948**	1,794,844
Ordinary voting shares			**1,627,125**	1,679,774	**1,627,125**	1,679,774
Ordinary non-voting shares			**111,823**	115,070	**111,823**	115,070
Balance as at December 31,			**40,916,958**	39,147,882	**40,916,958**	39,147,882

53.1 Movement in number of shares

	Number of ordinary voting shares		Number of ordinary non-voting shares	
	2019	2018	**2019**	2018
Balance as at January 1,	**945,709,403**	931,971,691	**65,013,174**	63,927,611
Issue of ordinary voting shares under the employee share option plan	**293,385**	1,739,324	**–**	–
Issue of ordinary shares as part of the final dividend satisfied in the form of issue and allotment of new shares	**15,249,529**	11,998,388	**1,241,095**	1,085,563
Balance as at December 31,	**961,252,317**	945,709,403	**66,254,269**	65,013,174

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 see Note 53.2 below 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.

One-third of the options offered under each tranche is vested to eligible employees after one year from the date of offer, second One-third of the options after two years from the date of offer and final One-third after three years from the date of offer, as detailed below:

Details relating to Tranche III are given below. (Both Tranche I and II have lapsed due to options being vested and exercised, options cancelled before vesting and options cancelled due to non-acceptance.)

	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
Options cancelled due to non-acceptance	(210,926)	(325,903)	(844,314)	(1,381,143)
Number of options exercised up to December 31, 2019	(2,385,632)	(2,241,356)	(1,699,063)	(6,326,051)
Number of options to be exercised as at December 31, 2019	–	–	–	–

(*) Adjusted on account of rights issue of shares and sub division of shares.

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 I	Tranche II	Tranche III
Percentage of issue of new voting shares (Maximum)		0.50%	0.50%	1.0%
Date granted		April 1, 2015	April 1, 2015	April 1, 2015
Exercise price (Rs.)		120.46	134.74	136.35
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		1 ½ years of service from the grant date and the fulfilment of performance conditions stated above for the financial year 2015	2 ½ years of service from the grant date and the fulfilment of performance conditions stated above for the financial year 2016	3 ½ years of service from the grant date and the fulfilment of performance conditions stated above for the financial year 2017
Number of options vested on the date of vesting				
Options granted to key management personnel		59,615	61,400	138,632
Option granted to other executive officers		4,096,243	4,167,461	9,313,432
Total options vested on the date of vesting		4,155,858	4,228,861	9,452,064

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 practise 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 I	Tranche II	Tranche III
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
Original expected exercise price (Rs.)	206.90	227.54	250.24

Growths in share prices stated above have been based on evaluation of the historical volatility of the Bank's share price over past 10 years, adjusted for post-war growth in All Share Price Index published by the Colombo Stock Exchange.

54.3 Reconciliation of outstanding share options

The number and weighted-average exercise prices of share options are as follows:

Tranche	Tranche I		Tranche II		Tranche III	
Exercise price	120.46		134.74		136.35	
Year	**2019**	2018	**2019**	2018	**2019**	2018
No. of voting shares vested and to be vested as at January 1,	**3,228,021**	3,345,110	**4,048,728**	4,102,298	**9,451,610**	8,292,926
Granted during the year	**–**	–	**–**	–	**–**	1,158,684
Exercised during the year	**–**	(117,089)	**–**	(53,570)	**–**	–
Number of options expired	**(3,228,021)**		**–**	–	**–**	–
No. of voting shares vested and to be vested as at December 31,	**–**	3,228,021	**4,048,728**	4,048,728	**9,451,610**	9,451,610

54.4 Expense recognised in income statement

The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date, reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. Accordingly, the expense in the Income Statement represents the movement in cumulative expense recognised as at the beginning and end of that period and is recognised in employee benefits expense [Refer Note 19].

55. Statutory reserves

Accounting policy

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 239 to 243.

As at December 31,	Note	Page No.	GROUP **2019** **Rs. '000**	GROUP 2018 Rs. '000	BANK **2019** **Rs. '000**	BANK 2018 Rs. '000
Statutory reserve fund	55.1	239	**8,387,701**	7,444,178	**8,205,391**	7,354,143
Total			**8,387,701**	7,444,178	**8,205,391**	7,354,143

55.1 Statutory reserve fund

As at December 31,	GROUP **2019** **Rs. '000**	GROUP 2018 Rs. '000	BANK **2019** **Rs. '000**	BANK 2018 Rs. '000
Balance as at January 1,	**7,444,178**	6,492,552	**7,354,143**	6,476,952
Transfers made during the year	**1,017,536**	1,012,527	**851,248**	877,191
Statutory reserve attributable to non-controlling interest	**(74,013)**	(60,901)	**–**	–
Balance as at December 31,	**8,387,701**	7,444,178	**8,205,391**	7,354,143

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

	Note	Page No.	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Balance as at January 1,			4,949,955	5,086,609	5,063,076	4,987,446
Impact of adopting SLFRS 16/ SLFRS 9			(57,627)	(5,140,993)	(57,627)	(4,822,089)
Balance as at January 1, – Adjusted			4,892,328	(54,384)	5,005,449	165,357
Total comprehensive income			17,205,859	17,833,952	16,968,027	17,654,113
Profit for the year			17,263,259	17,734,706	17,024,967	17,543,828
Other comprehensive income, net of tax			(57,400)	99,246	(56,940)	110,285
Dividends paid			(6,596,161)	(6,500,351)	(6,596,161)	(6,500,351)
Unclaimed dividend absorbed/(dividend paid) in respect of previous years			(350)	1,604	(547)	1,148
Transfer of value of expired ESOP			88,913	–	88,913	–
Transfers to other reserves			(10,413,523)	(6,331,626)	(10,321,248)	(6,257,191)
Profit on sale of partial disposal of a subsidiary			14,498	3,344	–	–
Reinstatement of non-controlling interest due to partial disposal of a subsidiary			(9,379)	(2,584)	–	–
Balance as at December 31,			5,182,185	4,949,955	5,144,433	5,063,076

57. Other reserves

57. (a) Current year – 2019

	Note	Page No.	GROUP Balance as at January 1, Rs. '000	GROUP Movement/ transfers Rs. '000	GROUP Balance as at December 31, Rs. '000	BANK Balance as at January 1, Rs. '000	BANK Movement/ transfers Rs. '000	BANK Balance as at December 31, Rs. '000
Revaluation reserve	57.1	241	7,819,131	18,654	7,837,785	7,088,054	–	7,088,054
General reserve	57.2	241	57,650,003	9,470,000	67,120,003	57,650,003	9,470,000	67,120,003
Available-for-sale reserve	57.3	242	–	–	–	–	–	–
Fair value reserve	57.4	242	(1,386,355)	3,169,858	1,783,503	(1,384,982)	3,170,423	1,785,441
Foreign currency translation reserve	57.5	242	3,157,052	(391,060)	2,765,992	2,871,770	(399,787)	2,471,983
Employee share option reserve	57.6	243	591,984	(123,490)	468,494	591,984	(123,490)	468,494
Hedging reserve	57.7	243	24,019	(62,391)	(38,372)	24,019	(62,391)	(38,372)
Total			67,855,834	12,081,571	79,937,405	66,840,848	12,054,755	78,895,603

57. (b) i Previous year – 2018

	Note	Page No.	GROUP Balance as at January 1, Rs. '000	GROUP Impact of adopting SLFRS 9 Rs. '000	GROUP Balance as at January 1, Adjusted Rs. '000	GROUP Movement/ Transfers Rs. '000	GROUP Balance as at December 31, Rs. '000
Revaluation reserve	57.1	241	7,834,003	–	7,834,003	(14,872)	7,819,131
General reserve	57.2	241	52,270,003	–	52,270,003	5,380,000	57,650,003
Available-for-sale reserve	57.3	242	(1,707,486)	1,707,486	–	–	–
Fair value reserve	57.4	242	–	(325,412)	(325,412)	(1,060,943)	(1,386,355)
Foreign currency translation reserve	57.5	242	348,973	–	348,973	2,808,079	3,157,052
Employee share option reserve	57.6	243	529,817	–	529,817	62,167	591,984
Hedging reserve	57.7	243	(3,212)	–	(3,212)	27,231	24,019
Total			59,272,098	1,382,074	60,654,172	7,201,662	67,855,834

57. (b) ii Previous year – 2018

	Note	Page No.	Balance as at January 1, Rs. '000	Impact of adopting SLFRS 9 Rs. '000	Balance as at January 1, Adjusted Rs. '000	Movement/ Transfers Rs. '000	Balance as at December 31, Rs. '000
							BANK
Revaluation reserve	57.1	241	7,088,054	–	7,088,054	–	7,088,054
General reserve	57.2	241	52,270,003	–	52,270,003	5,380,000	57,650,003
Available-for-sale reserve	57.3	242	(1,707,494)	1,707,494	–	–	–
Fair value reserve	57.4	242	–	(325,420)	(325,420)	(1,059,562)	(1,384,982)
Foreign currency translation reserve	57.5	242	314,253	–	314,253	2,557,517	2,871,770
Employee share option reserve	57.6	243	529,817	–	529,817	62,167	591,984
Hedging reserve	57.7	243	(3,212)	–	(3,212)	27,231	24,019
Total			58,491,421	1,382,074	59,873,495	6,967,353	66,840,848

57.1 Revaluation reserve

Accounting policy

The revaluation reserve relates to revaluation of freehold land and buildings and represents the fair value changes of the land and buildings as at the date of revaluation.

	GROUP		BANK	
	2019 Rs. '000	2018 Rs. '000	**2019 Rs. '000**	2018 Rs. '000
Balance as at January 1,	**7,819,131**	7,834,003	**7,088,054**	7,088,054
Surplus on revaluation of freehold land and buildings	**–**	–	**–**	–
Deferred tax effect on revaluation surplus on freehold land and buildings	**–**	(10,010)	**–**	–
Revaluation gain on disposal of freehold land and buildings	**–**	–	**–**	–
Share of other comprehensive income of associate	**39,575**	–	**–**	–
Movement due to changes in equity	**(20,921)**	(4,862)	**–**	–
Balance as at December 31,	**7,837,785**	7,819,131	**7,088,054**	7,088,054

57.2 General reserve

Accounting policy

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	
	2019 Rs. '000	2018 Rs. '000	**2019 Rs. '000**	2018 Rs. '000
Balance as at January 1,	**57,650,003**	52,270,003	**57,650,003**	52,270,003
Transfers during the year	**9,470,000**	5,380,000	**9,470,000**	5,380,000
Balance as at December 31,	**67,120,003**	57,650,003	**67,120,003**	57,650,003

57.3 Available-for-sale reserve

Accounting policy

The available-for-sale reserve is comprised of the cumulative net change in fair value of financial investments available for sale until such investments are derecognised or impaired.

	GROUP		BANK	
	2019 Rs. '000	2018 Rs. '000	**2019** Rs. '000	2018 Rs. '000
Balance as at January 1,	–	(1,707,486)	–	(1,707,494)
Impact of adopting SLFRS 9	–	1,707,486	–	1,707,494
Balance as at January 1, – Adjusted	–	–	–	–
Net fair value gains/(losses) on remeasuring financial investments available-for-sale	–	–	–	–
Balance as at December 31,	–	–	–	–

57.4 Fair value reserve

Accounting policy

The fair value reserve comprises the cumulative net change in fair value of financial assets measured at fair value through other comprehensive income until such investments are derecognised or impaired.

	GROUP		BANK	
	2019 Rs. '000	2018 Rs. '000	**2019** Rs. '000	2018 Rs. '000
Balance as at January 1,	**(1,386,355)**	–	**(1,384,982)**	–
Impact of adopting SLFRS 9	–	(325,412)	–	(325,420)
Balance as at January 1, – Adjusted	**(1,386,355)**	(325,412)	**(1,384,982)**	(325,420)
Net fair value gains/(losses) on remeasuring financial assets at fair value through other comprehensive income	**3,170,800**	(1,060,943)	**3,170,423**	(1,059,562)
Share of other comprehensive income of associate	**(942)**	–	–	–
Balance as at December 31,	**1,783,503**	(1,386,355)	**1,785,441**	(1,384,982)

57.5 Foreign currency translation reserve

Accounting Policy

The foreign currency translation reserve comprises all foreign currency differences arising from the translation of the Financial Statements of foreign operations.

As at the reporting date, the assets and liabilities of the Bank's Bangladesh Operation and the foreign subsidiaries 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	
	2019 Rs. '000	2018 Rs. '000	**2019** Rs. '000	2018 Rs. '000
Balance as at January 1,	**3,157,052**	348,973	**2,871,770**	314,253
Net gains/(losses) arising from translating the Financial Statements of foreign operations	**(396,201)**	3,003,952	**(399,787)**	2,557,517
Foreign Currency Translation Reserve attributable to non-controlling Interest	**5,141**	(195,873)	–	–
Balance as at December 31,	**2,765,992**	3,157,052	**2,471,983**	2,871,770

57.6 Employee share option reserve

Accounting policy

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	
			2019	2018	2019	2018
	Note	Page No.	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at January 1,			591,984	529,817	591,984	529,817
Transfers during the year	19	179	–	68,581	–	68,581
Transfers to stated capital	53	236	–	(6,414)	–	(6,414)
Transfer to retained earnings on expired ESOP			(123,490)	–	(123,490)	–
Balance as at December 31,			468,494	591,984	468,494	591,984

57.7 Hedging reserve

Accounting policy

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 hedge cash flows affect profit or loss.

	GROUP		BANK	
	2019	2018	2019	2018
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at January 1,	24,019	(3,212)	24,019	(3,212)
Transfers during the year	(62,391)	27,231	(62,391)	27,231
Balance as at December 31,	(38,372)	24,019	(38,372)	24,019

58. Non-controlling interest

Accounting policy

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 in three subsidiaries namely, Commercial Development Company PLC (NCI of 10%), Commercial Insurance Brokers (Pvt) Limited (NCI of 42%) and Commercial Bank of Maldives Private Limited (NCI of 45%) as at the reporting date as follows:

	2019	2018
	Rs. '000	Rs. '000
Balance as at January 1,	1,198,981	871,906
Profit for the year	157,137	128,125
Other comprehensive income, net of tax	(5,077)	195,685
Dividends paid for the year	(5,010)	(4,218)
Unclaimed dividend absorbed/(dividend paid) in respect of previous years	22	37
Reinstatement of non-controlling interest due to partial disposal of a subsidiary	30,300	7,446
Acquisition of subsidiary with non-controlling interest	212,881	–
Balance as at December 31,	1,589,234	1,198,981

59. Contingent liabilities and commitments

Accounting policy

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.

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 below.

In the normal course of business, the Bank makes various irrevocable commitments and incurs certain contingent liabilities with legal recourse to its customers.

As at December 31,	Note	Page No.	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Contingencies			**470,935,864**	497,339,745	**470,624,684**	497,201,464
Guarantees			**58,619,708**	48,466,580	**58,463,720**	48,412,151
Performance bonds			**38,704,636**	45,115,711	**38,606,887**	45,112,151
Documentary credits			**52,361,670**	49,478,564	**52,317,807**	49,398,272
Other contingencies	59.1	244	**321,249,850**	354,278,890	**321,236,270**	354,278,890
Commitments			**110,025,943**	106,681,655	**109,374,589**	106,681,655
Undrawn commitments on direct advances			**109,676,108**	106,223,235	**109,046,521**	106,223,235
Capital commitments	59.2	245	**349,835**	458,420	**328,068**	458,420
Total			**580,961,807**	604,021,400	**579,999,273**	603,883,119

59.1 Other contingencies

As at December 31,	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Forward exchange contracts:	**57,627,084**	98,922,263	**57,627,084**	98,922,263
Forward exchange sales	**30,265,726**	52,853,513	**30,265,726**	52,853,513
Forward exchange purchases	**27,361,358**	46,068,750	**27,361,358**	46,068,750
Interest Rate Swap agreements/currency swaps	**188,772,874**	182,984,415	**188,772,874**	182,984,415
Interest rate swaps	**–**	–	**–**	–
Currency swaps	**188,772,874**	182,984,415	**188,772,874**	182,984,415
Others	**74,849,892**	72,372,212	**74,836,312**	72,372,212
Acceptances	**44,018,170**	41,931,557	**44,007,816**	41,931,557
Bills for collection	**29,272,988**	29,200,428	**29,269,762**	29,200,428
Stock of Travellers' Cheques	**1,547,390**	1,230,582	**1,547,390**	1,230,582
Bullion on consignment	**11,344**	9,645	**11,344**	9,645
Subtotal	**321,249,850**	354,278,890	**321,236,270**	354,278,890

59.2 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:

	GROUP		BANK	
As at December 31,	**2019** **Rs. '000**	2018 Rs. '000	**2019** **Rs. '000**	2018 Rs. '000
Commitments in relation to property, plant and equipment	**134,473**	406,011	**112,706**	406,011
Approved and contracted for	**97,273**	215,011	**75,506**	215,011
Approved but not contracted for	**37,200**	191,000	**37,200**	191,000
Commitments in relation to intangible assets	**215,362**	52,409	**215,362**	52,409
Approved and contracted for	**215,362**	52,409	**215,362**	52,409
Approved but not contracted for	**–**	–	**–**	–
Subtotal	**349,835**	458,420	**328,068**	458,420

59.3 Movement in provision for impairment during the year

59.3 (a) Group

			Stage 1		Stage 2		Stage 3		Total	
	Note	Page No.	**2019 Rs. '000**	2018 Rs. '000	**2019 Rs. '000**	2018 Rs. '000	**2019 Rs. '000**	2018 Rs. '000	**2019 Rs. '000**	2018 Rs. '000
Balance as at January 1,			**528,932**	656,764	**89,177**	111,946	**108,531**	78,949	**726,640**	847,659
Charge/(write back) to the Income Statement	18.1	178	**239,399**	(130,732)	**98,060**	(22,769)	**256,212**	29,582	**593,671**	(123,919)
Net write-off during the year			**–**	–	**–**	–	**–**	–	**–**	–
Exchange rate variance on foreign currency provisions			**(231)**	2,900	**–**	–	**–**	–	**(231)**	2,900
Interest accrued/(reversals) on impaired loans and advances			**–**	–	**–**	–	**–**	–	**–**	–
Other movements			**–**	–	**–**	–	**–**	–	**–**	–
Balance as at December 31,			**768,100**	528,932	**187,237**	89,177	**364,743**	108,531	**1,320,080**	726,640

59.3 (b) Bank

			Stage 1		Stage 2		Stage 3		Total	
	Note	Page No.	**2019 Rs. '000**	2018 Rs. '000	**2019 Rs. '000**	2018 Rs. '000	**2019 Rs. '000**	2018 Rs. '000	**2019 Rs. '000**	2018 Rs. '000
Balance as at January 1,			**528,932**	656,764	**89,177**	111,946	**108,531**	78,949	**726,640**	847,659
Charge/(write back) to the Income Statement	18.2	179	**236,209**	(130,732)	**98,060**	(22,769)	**256,212**	29,582	**590,481**	(123,919)
Net write-off during the year			**–**	–	**–**	–	**–**	–	**–**	–
Exchange rate variance on foreign currency provisions			**(284)**	2,900	**–**	–	**–**	–	**(284)**	2,900
Interest accrued/(reversals) on impaired loans and advances			**–**	–	**–**	–	**–**	–	**–**	–
Other movements			**–**	–	**–**	–	**–**	–	**–**	–
Balance as at December 31,			**764,857**	528,932	**187,237**	89,177	**364,743**	108,531	**1,316,837**	726,640

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 Associate of the Group, namely, Equity Investments Lanka (Private) Limited does not have any contingencies as at the reporting date.

(The Associates of the Group, namely, Equity Investments Lanka (Private) Limited and Commercial Insurance Brokers (Private) Limited did not have any contingencies as at December 31, 2018.)

60. Net assets value per ordinary share

	GROUP		BANK	
As at December 31,	**2019**	2018	**2019**	2018
Amounts used as the numerator:				
Total equity attributable to equity holders of the Bank (Rs. '000)	**134,424,249**	119,397,849	**133,162,385**	118,405,949
Number of ordinary shares used as the denominator:				
Total number of shares	**1,027,506,586**	1,010,722,577	**1,027,506,586**	1,010,722,577
Net assets value per share (Rs.)	**130.83**	118.13	**129.60**	117.15

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, 2019 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.

Plaintiff	Nature of the case	Courts and case No.	Value of the action (Rs. '000)	Description of the case	Present status
Customer	Damages	High Court Colombo Civil Case No. 306/2011/MR [Previous number is DC Colombo Case No. 57970/MR]	35,000	Action has been filed against the Bank and two other officers of the Bank and also against the other partner of a partnership concern for an alleged unauthorised transfer of funds.	There was no appearance by or on behalf of the plaintiff on November 14, 2011. Since, the plaintiff had failed to take steps, a motion was filed and supported for abatement. Notices have been issued on the plaintiff and the Attorney-at-Law for the plaintiff returnable on January 20, 2020.
Customer	Recovery of money	District Court Colombo DMR 974/2016	27,000	The plaintiff has filed action to recover a sum together with interest being the amount held by the Bank and failing to pay to the plaintiff due to attaching incorrect documents for a telegraphic transfer.	Further trial on May 13, 2020 and June 16, 2020.
Security service provider	Recovery of money	High Court Colombo Civil Case No. 591/17/MR	109,000	The plaintiff has filed action to recover a total sum of Rs.14,873,798.56 being the increment of salaries given to the workers by the Budgetary Relief Allowance of Workers Act No. 4 of 2016.	Further trial is fixed for March 5, 2020.

Plaintiff	Nature of the case	Courts and case No.	Value of the action (Rs. '000)	Description of the case	Present status
Customer	Claim on forward exchange contract	Commercial High Court 36/96(1)	183,050	Court action has been initiated by a customer 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.	Next hearing is fixed for March 30, 2020.
Counter party Bank	Hedging transaction	Commercial High Court 571/08	100,000	Court action has been initiated by the plaintiff to prevent the Bank from exercising the inherent rights of the Bank to set off a deposit of the plaintiff amounting to USD 15 Mn. against a sum due from the plaintiff in terms of a hedging agreement.	Order was delivered in favour of the Bank and awaiting to obtain a copy of the Order.
Customer	Recovery of money	District Court Colombo DMR 2855/18	55,000	Court action has been initiated by the plaintiff to claim 10% of the sale price deposited at a property auction held by the Bank, since the balance 90% was not deposited within 30 days of the auction.	Written submission on February 24, 2020

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:

	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 31.12.2019 Rs. '000**	Total as at 31.12.2018 Rs. '000
Interest earning assets							
Financial assets							
Cash and cash equivalents	17,668,417	–	–	–	–	**17,668,417**	13,737,957
Balances with central banks	8,988,153	408,274	8,824	–	–	**9,405,251**	8,999,536
Placements with banks	11,686,456	13,217,353	–	–	–	**24,903,809**	19,898,515
Securities purchased under resale agreements	8,125,007	5,022,527	–	–	–	**13,147,534**	9,513,512
Derivative financial assets	–	–	–	–	–	**–**	–
Financial assets recognised through profit or loss – Measured at fair value	20,484,892	–	–	–	–	**20,484,892**	4,751,360
Financial assets at amortised cost – Loans and advances to banks	–	–	–	–	–	**–**	–
Financial assets at amortised cost – Loans and advances to other customers	326,725,665	220,858,552	203,513,342	98,480,803	44,340,949	**893,919,311**	867,611,976
Financial assets at amortised cost – Debt and other financial instruments	10,961,069	11,492,110	58,194,601	25,287,071	1,124,170	**107,059,021**	89,274,413
Financial assets measured at fair value through other comprehensive income	12,297,540	9,511,003	87,750,385	61,234,101	26,811,389	**197,604,418**	176,516,118
Total interest earning assets as at 31.12.2019	**416,937,199**	**260,509,819**	**349,467,152**	**185,001,975**	**72,276,508**	**1,284,192,653**	
Total interest earning assets as at 31.12.2018	404,094,462	268,971,680	281,262,449	185,228,766	50,746,030		1,190,303,387

	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 31.12.2019 Rs. '000**	Total as at 31.12.2018 Rs. '000
Non-interest earning assets							
Financial assets							
Cash and cash equivalents	36,012,701	–	–	–	–	**36,012,701**	30,618,005
Balances with Central Banks	22,036,524	12,773,753	821,014	511,274	553,416	**36,695,981**	46,406,999
Placements with banks	–	–	–	–	–	**–**	–
Securities purchased under resale agreements	–	–	–	–	–	**–**	–
Derivative financial assets	1,128,833	553,047	149,047	–	–	**1,830,927**	7,909,962
Financial assets recognised through profit or loss – measured at fair value	983,141	–	–	–	–	**983,141**	768,807
Financial assets at amortised cost – Loans and advances to banks	–	–	–	–	757,787	**757,787**	763,074
Financial assets at amortised cost – Loans and advances to other customers	–	–	–	–	–	**–**	–
Financial assets at amortised cost – Debt and other financial instruments	–	–	–	–	–	**–**	–
Financial assets measured at fair value through other comprehensive income	–	–	–	20,267	200,332	**220,599**	244,493
Non-Financial Assets							
Investments in associates	–	–	–	–	56,821	**56,821**	105,320
Property, plant and equipment and right-of-use assets	–	–	–	–	22,423,046	**22,423,046**	17,015,236
Investment properties	–	–	–	–	46,350	**46,350**	–
Intangible assets	–	–	–	–	1,645,714	**1,645,714**	1,433,931
Leasehold property	–	–	–	–	101,612	**101,612**	103,064
Deferred tax assets	–	–	530,165	–	–	**530,165**	188,487
Other assets	16,898,498	133,104	2,022,823	573,803	3,815,641	**23,443,869**	24,051,472
Total non-interest earning assets as at 31.12.2019	77,059,697	13,459,904	3,523,049	1,105,344	29,600,719	**124,748,713**	
Total non-interest earning assets as at 31.12.2018	80,074,079	20,513,461	4,479,819	1,360,329	23,181,162		129,608,850
Total assets – as at 31.12.2019	**493,996,896**	**273,969,723**	**352,990,201**	**186,107,319**	**101,877,227**	**1,408,941,366**	
Total assets – as at 31.12.2018	484,168,541	289,485,141	285,742,268	186,589,095	73,927,192		1,319,912,237
Percentage – as at 31.12.2019 (*)	**35.06**	**19.45**	**25.05**	**13.21**	**7.23**	**100.00**	
Percentage – as at 31.12.2018(*)	36.68	21.93	21.65	14.14	5.60		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 31.12.2019 Rs. '000**	Total as at 31.12.2018 Rs. '000
Interest-bearing liabilities							
Financial liabilities							
Due to banks	17,450,496	19,958,064	9,948,588	4,740,417	–	**52,097,565**	30,535,441
Derivative financial liabilities	–	–	–	–	–	**–**	–
Securities sold under repurchase agreements	41,896,794	9,214,840	5,708	–	–	**51,117,342**	48,951,394
Financial liabilities at amortised cost – due to depositors	561,752,865	378,059,803	23,634,642	12,976,062	16,697,968	**993,121,340**	916,117,592
Financial liabilities at amortised cost – Other borrowings	1,414,641	3,414,344	8,484,475	5,310,021	4,625,412	**23,248,893**	25,361,912
Subordinated liabilities	739,330	363,741	9,477,720	22,022,547	5,283,451	**37,886,789**	37,992,457
Total interest – bearing liablities as at 31.12.2019	**623,254,126**	**411,010,792**	**51,551,133**	**45,049,047**	**26,606,831**	**1,157,471,929**	
Total Interest – bearing liabilities as at 31.12.2018	558,299,590	380,423,746	47,024,444	45,214,600	27,996,416		1,058,958,796

	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 31.12.2019 Rs. '000**	Total as at 31.12.2018 Rs. '000
Non-interest bearing liabilities							
Financial liabilities							
Due to banks	1,709,860	–	–	–	–	**1,709,860**	21,826,611
Derivative financial liabilities	1,106,950	330,515	4,557	–	53,295	**1,495,317**	8,021,783
Securities sold under repurchase agreements	–	–	–	–	–	**–**	–
Financial liabilities at amortised cost – Due to depositors	75,861,247	–	–	–	–	**75,861,247**	78,253,283
Financial liabilities at amortised cost – Other borrowings	–	–	–	–	–	**–**	–
Subordinated liabilities	–	–	–	–	–	**–**	–
Non-financial liabilities							
Current tax liabilities	2,166,445	3,030,743	–	–	–	**5,197,188**	6,735,997
Deferred tax liabilities	–	–	416,458	–	–	**416,458**	971,424
Other liabilities	20,176,158	3,090,450	3,575,261	1,500,250	2,433,765	**30,775,884**	24,547,513
Equity							
Stated capital	–	–	–	–	40,916,958	**40,916,958**	39,147,882
Statutory reserves	–	–	–	–	8,387,701	**8,387,701**	7,444,178
Retained earnings	–	–	–	–	5,182,185	**5,182,185**	4,949,955
Other reserves	–	–	–	–	79,937,405	**79,937,405**	67,855,834
Non-controlling Interest					1,589,234	**1,589,234**	1,198,981
Total non-interest-bearing liabilities and equity as at 31.12.2019	**101,020,660**	**6,451,708**	**3,996,276**	**1,500,250**	**138,500,543**	**251,469,437**	
Total non-interest-bearing liabilities and equity as at 31.12.2018	120,554,617	11,787,528	1,720,637	990,630	125,900,029		260,953,441
Total liabilities and equity – as at 31.12.2019	**724,274,786**	**417,462,500**	**55,547,409**	**46,549,297**	**165,107,374**	**1,408,941,366**	
Total liabilities and equity – as at 31.12.2018	678,854,207	392,211,274	48,745,081	46,205,230	153,896,445		1,319,912,237
Percentage – as at 31.12.2019 (*)	**51.41**	**29.63**	**3.94**	**3.30**	**11.72**	**100.00**	
Percentage – as at 31.12.2018 (*)	51.44	29.71	3.69	3.50	11.66		100.00

(*) Total liabilities and shareholders' funds of each maturity bucket as a percentage of total liabilities and shareholders' funds employed by the Group.

63. Operating segments

Accounting policy

An operating segment is a component of the Group that engages in business activities from which it may earn revenue and incur expenses, including revenue 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 (operating segments) which are reportable segments, namely:

- Personal banking
- 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 and asset and liability information on the Group's strategic business divisions for the year ended December 31, 2019 and comparative figures for the year ended December 31, 2018.

For the year ended December 31,	Personal banking		Corporate banking	
	2019 Rs. '000	2018 Rs. '000	**2019 Rs. '000**	2018 Rs. '000
External operating income:				
Net interest income	**30,380,744**	28,043,793	**8,215,095**	7,631,402
Foreign exchange profit	**293,563**	340,879	**(197,352)**	377,715
Net fee and commission income	**7,132,948**	6,952,468	**2,021,781**	2,140,757
Other income	**101,604**	204,482	**4,005**	20,088
Total operating income	**37,908,859**	35,541,622	**10,043,529**	10,169,962
Impairment charges and other losses	**(8,464,789)**	(4,178,709)	**(2,462,978)**	(4,123,622)
Net operating income	**29,444,070**	31,362,913	**7,580,551**	6,046,340
Segment result	**12,370,434**	15,059,939	**4,290,767**	2,453,781
Profit from operations				
Share of profit of associates (net of tax)				
Income tax expense				
Non-controlling interest				
Net profit for the year, attributable to equity holders of the parent				

As at December 31,	Personal banking		Corporate banking	
	2019 Rs. '000	2018 Rs. '000	**2019 Rs. '000**	2018 Rs. '000
Other information				
Segment assets	**453,435,388**	488,427,548	**297,863,844**	303,406,929
Investment in associates	**–**	–	**–**	–
Total assets	**453,435,388**	488,427,548	**297,863,844**	303,406,929
Segment liabilities	**798,045,682**	744,120,759	**170,142,385**	171,867,079
Total liabilities	**798,045,682**	744,120,759	**170,142,385**	171,867,079

For the year ended December 31,	Personal banking		Corporate banking	
	2019 Rs. '000	2018 Rs. '000	**2019 Rs. '000**	2018 Rs. '000
Information on cash flows				
Cash flows from operating activities	**56,038,002**	78,859,644	**(8,255,367)**	(44,494,188)
Cash flows from investing activities	**–**	–	**–**	–
Cash flows from financing activities	**(787,379)**	–	**–**	–
Capital expenditure –				
Property, plant and equipment				
Intangible assets				
Net cash flow generated during the year				

International operations		Investment banking		Dealing/treasury		Unallocated/eliminations		Total/consolidated	
2019 Rs. '000	2018 Rs. '000	**2019 Rs. '000**	2018 Rs. '000	**2019 Rs. '000**	2018 Rs. '000	**2019 Rs. '000**	2018 Rs. '000	**2019 Rs. '000**	2018 Rs. '000
6,583,197	5,534,068	**237,804**	310,750	**(1,091,945)**	1,721,872	**4,031,496**	2,376,324	**48,356,391**	45,618,209
1,777,036	1,697,686	**–**	–	**4,705,294**	1,876,109	**283,803**	3,771,099	**6,862,344**	8,063,488
1,567,198	1,501,710	**25,905**	35,718	**4,006**	3,739	**–**	–	**10,751,838**	10,634,392
10,310	16,889	**20,214**	(19,418)	**1,214,550**	267,165	**365,393**	59,172	**1,716,076**	548,378
9,937,741	8,750,353	**283,923**	327,050	**4,831,905**	3,868,885	**4,680,692**	6,206,595	**67,686,649**	64,864,467
22,271	(2,128)	**(147,884)**	(2,287)	**(278,143)**	(526,616)	**–**	–	**(11,331,523)**	(8,833,362)
9,960,012	8,748,225	**136,039**	324,763	**4,553,762**	3,342,269	**4,680,692**	6,206,595	**56,355,126**	56,031,105
6,768,966	6,330,706	**60,606**	156,239	**3,147,297**	1,339,758	**(3,664,166)**	752,077	**22,973,904**	26,092,500
								22,973,904	26,092,500
								9,992	6,048
								(5,563,500)	(8,235,717)
								(157,137)	(128,125)
								17,263,259	17,734,706

International operations		Investment banking		Dealing/treasury		Unallocated/eliminations		Total/consolidated	
2019 Rs. '000	2018 Rs. '000	**2019 Rs. '000**	2018 Rs. '000	**2019 Rs. '000**	2018 Rs. '000	**2019 Rs. '000**	2018 Rs. '000	**2019 Rs. '000**	2018 Rs. '000
226,294,630	164,746,018	**10,571,965**	15,076,223	**365,530,712**	283,021,383	**55,188,006**	65,128,816	**1,408,884,545**	1,319,806,917
–	–	**–**	–	**–**	–	**56,821**	105,320	**56,821**	105,320
226,294,630	164,746,018	**10,571,965**	15,076,223	**365,530,712**	283,021,383	**55,244,827**	65,234,136	**1,408,941,366**	1,319,912,237
176,807,747	147,762,473	**10,628,786**	15,181,543	**73,802,848**	74,683,675	**43,500,435**	45,699,878	**1,272,927,883**	1,199,315,407
176,807,747	147,762,473	**10,628,786**	15,181,543	**73,802,848**	74,683,675	**43,500,435**	45,699,878	**1,272,927,883**	1,199,315,407

International operations		Investment banking		Dealing/treasury		Unallocated/eliminations		Total/consolidated	
2019 Rs. '000	2018 Rs. '000	**2019 Rs. '000**	2018 Rs. '000	**2019 Rs. '000**	2018 Rs. '000	**2019 Rs. '000**	2018 Rs. '000	**2019 Rs. '000**	2018 Rs. '000
479,677	6,033,177	**125,707**	465,912	**(30,806,140)**	(33,147,207)	**–**	–	**17,581,879**	7,717,338
–	–	**3,262,836**	1,404,083	**–**	–	**–**	–	**3,262,836**	1,404,083
(261,625)	–	**–**	–	**–**	–	**(8,705,530)**	2,998,732	**(9,754,534)**	2,998,732
								(1,348,643)	(2,026,561)
								(415,088)	(406,641)
								9,326,450	9,686,951

64. Related party disclosures

Accounting policy

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 on "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 Transactions with Key Management Personnel (KMP)

According to Sri Lanka Accounting Standard – LKAS 24 on "Related Party Disclosures", 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 (including Executive and Non-Executive Directors) has been classified as KMP of the Bank.

KMP of the Group

As the Bank is the ultimate parent of the subsidiaries listed out in Note 1.3 on page 149, 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 Compensation of KMP

	GROUP		BANK	
For the year ended December 31,	**2019**	2018	**2019**	2018
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
Short-term employment benefits	**200,452**	194,031	**195,959**	191,982
Post-employment benefits	**8,342**	8,481	**8,342**	8,481
Total	**208,794**	202,512	**204,301**	200,463

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 Bank. 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

	Year-end balance		Annual average balance	
	2019	2018	**2019**	2018
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
Assets				
Financial assets at amortised cost – Loans and advances	**54,026**	53,700	**56,942**	32,930
Total	**54,026**	53,700	**56,942**	32,930
Liabilities				
Securities sold under repurchase agreements	**–**	–	**–**	2,534
Financial liabilities at amortised cost – Due to depositors	**351,104**	262,328	**307,150**	265,877
Subordinated liabilities	**2,000**	2,000	**2,000**	2,000
Total	**353,104**	264,328	**309,150**	270,411

64.2.2.2 Commitments and contingencies – Bank

	Year-end balance		Annual average balance	
	2019	2018	**2019**	2018
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
Undrawn facilities	**13,740**	16,293	**14,581**	15,429
Total	**13,740**	16,293	**14,581**	15,429

64.2.2.3 Direct and indirect accommodation – Bank

	Year-end balance	
	2019	2018
Direct and indirect accommodation as a percentage of the Bank's regulatory capital	**0.04**	0.05

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.	2019 Rs. '000	2018 Rs. '000
Interest income			**5,937**	3,597
Interest expense			**25,212**	24,594
Compensation to KMP	64.2.1		**204,301**	200,463

64.2.2.5 Share-based transactions of KMP and CFM

	Year-end balance	
	2019	2018
Number of ordinary shares held by KMP and CFM	**932,543**	866,367
Dividends paid (in Rs. '000)	**5,900**	7,353

	ESOP 2008		ESOP 2015	
As at the year end	**2019**	2018	**2019**	2018
Number of cumulative exercisable options under the Employee Share Option Plan (ESOP)				
Tranche I	–	–	–	59,615
Tranche II	–	–	**61,400**	61,400
Tranche III	–	35,341	**138,632**	138,632

64.2.3 Transactions, arrangements and agreements involving entities which are controlled, and/or jointly controlled by the KMP or their CFM

No significant transactions during the year.

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		Annual average balance	
	2019 Rs. '000	2018 Rs. '000	**2019 Rs. '000**	2018 Rs. '000
Assets				
Financial assets at amortised cost – Loans and advances	**2,839,838**	1,185,846	**2,095,752**	835,121
Other assets	**101,197**	32,226	**66,318**	31,833
Total	**2,941,035**	1,218,072	**2,162,070**	866,954
Liabilities				
Securities sold under repurchase agreements	**102,680**	153,068	**116,167**	140,023
Financial liabilities at amortised cost – Due to depositors	**538,099**	244,403	**306,010**	258,565
Other liabilities	**72,409**	18,293	**69,277**	46,039
Total	**713,188**	415,764	**491,454**	444,627

64.3.1.2 Commitments and contingencies

	Year-end balance		Annual average balance	
	2019 Rs. '000	2018 Rs. '000	**2019 Rs. '000**	2018 Rs. '000
Undrawn facilities	**101,232**	100,299	**98,388**	96,552
Total	**101,232**	100,299	**98,388**	96,552

64.3.1.3 Direct and indirect accommodation

	Year-end balance	
	2019	2018
Direct and indirect accommodation as a % of the Bank's Regulatory Capital	**1.94**	0.89

64.3.1.4 Income Statement

For the year ended December 31,	**2019** **Rs. '000**	2018 Rs. '000
Interest income	**270,867**	109,490
Interest expense	**36,458**	36,329
Other income	**192,369**	176,633
Other expenses	**730,982**	596,795

64.3.1.5 Other transactions

For the year ended December 31,	**2019** **Rs. '000**	2018 Rs. '000
Payments made to CBC Tech Solutions Limited in relation to purchase of computer hardware and software	**93,007**	760

64.3.2 Transactions with associates

64.3.2.1 Statement of Financial Position

	Year-end balance		Annual average balance	
	2019 **Rs. '000**	2018 Rs. '000	**2019** **Rs. '000**	2018 Rs. '000
Assets				
Financial assets at amortised cost – Loans and advances	**–**	2	**–**	74
Total	**–**	2	**–**	74
Liabilities				
Securities sold under repurchase agreements	**–**	–	**–**	16,,399
Financial liabilities at amortised cost – Due to depositors	**5,695**	33,261	**2,843**	17,367
Total	**5,695**	33,261	**2,843**	33,766

64.3.2.2 Commitments and contingencies

	Year-end balance		Annual average balance	
	2019 **Rs. '000**	2018 Rs. '000	**2019** **Rs. '000**	2018 Rs. '000
Undrawn facilities	**–**	1,000	**–**	1,000
Total	**–**	1,000	**–**	1,000

64.3.2.3 Income Statement

For the year ended December 31,	**2019** **Rs. '000**	2018 Rs. '000
Interest income	**–**	21
Interest expense	**1,052**	3,178
Other income	**5,730**	14,428
Other expenses	**420**	–

64.3.2.4 Other transactions

	2019	2018
Number of ordinary shares of the Bank held by the associates as at the year-end	**2,439**	4,741
Dividend paid (Rs. '000)	**23**	144

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 post-employment benefit plans for the employees of the Bank

64.4.1.1 Statement of Financial Position

	Year-end balance		Annual average balance	
	2019	2018	**2019**	2018
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
Assets				
Financial assets at amortised cost – Loans and advances	**–**	–	**39**	15
Total	**–**	–	**39**	15
Liabilities				
Financial liabilities at amortised cost – Due to depositors	**5,316,692**	10,478,031	**8,644,796**	9,971,838
Securities sold under repurchase agreements	**–**	–	**–**	–
Total	**5,316,692**	10,478,031	**8,644,796**	9,971,838

64.4.1.2 Income Statement

For the year ended December 31,	**2019**	2018
	Rs. '000	Rs. '000
Interest income	**11**	4
Interest expense	**991,990**	1,204,076
Contribution made/taxes paid by the Bank	**1,108,193**	1,114,613

64.5 Recurrent related party transactions

There are no recurrent related party transactions which in aggregate exceeds more than 10% of the gross revenue of the Bank.

64.6 Non-recurrent related party transactions

There are no non-recurrent related party transactions which exceeds 10% of equity or 5% of total assets, whichever is lower.

65. Non-cash items included in profit before tax

	GROUP		BANK	
For the year ended December 31,	**2019**	2018	**2019**	2018
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
Depreciation of property, plant and equipment	**2,587,411**	1,383,581	**2,540,339**	1,279,378
Amortisation of leasehold property	**1,452**	1,452	**942**	942
Amortisation of intangible assets	**252,392**	218,076	**213,240**	188,789
Impairment charges and other losses	**11,330,271**	8,832,396	**11,060,214**	8,574,233
Accretion of interest on lease liability	**429,263**	–	**457,449**	–
Contributions to defined benefit plans – Unfunded schemes	**485,566**	361,272	**469,946**	349,667
Provision made o/a of leave encashment	**81,592**	103,868	**81,592**	103,868
Equity-settled share-based payments	**–**	68,581	**–**	68,581
Unamortised interest payable o/a subordinated liabilities	**12,210**	12,210	**12,210**	12,210

64
65

For the year ended December 31,	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Mark to market on other financial instruments at fair value through profit or loss	(226,686)	(55,580)	(226,713)	(55,580)
Effect of exchange rate variances on investment in subsidiaries	–	–	–	56,485
Effect of exchange rate variances on loans and receivables to banks	5,212	(122,562)	5,212	(122,562)
Effect of exchange rate variances on property, plant and equipment and right-of-use assets	50,917	(32,310)	47,408	(18,705)
Effect of exchange rate variances on intangible assets	1,807	(11,076)	294	(1,840)
Effect of exchange rate variances on defined benefit plans	(5,750)	52,568	(5,750)	52,568
Effect of exchange rate variances on subordinated liabilities	(93,750)	2,205,000	(93,750)	2,205,000
Net effect of exchange rate variances on net deferred tax liability	1,565	(29,952)	1,293	(26,803)
Net effect of exchange rate variances on income tax liability	(20,978)	492,139	(22,437)	471,717
Net effect of exchange rate variance on lease liability	(36,971)	–	(34,216)	–
Grossed up notional tax and withholding tax credits	(841,251)	(1,098,978)	(805,060)	(1,081,737)
Total	**14,014,272**	12,380,685	**13,702,213**	12,056,211

66. Change in operating assets

For the year ended December 31,	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Net (increase)/decrease in derivative financial instruments	6,045,676	(5,542,067)	6,045,676	(5,542,067)
Net (increase)/decrease in balances with central banks	9,305,303	(9,860,186)	14,923,463	(9,583,144)
Net (increase)/decrease in placements with banks	(5,003,174)	(2,276,030)	(4,626,582)	(2,276,030)
Net (increase)/decrease in securities purchased under resale agreements	(3,634,022)	(9,513,512)	(3,634,022)	(9,513,512)
Net (increase)/decrease in other financial assets recognised through profit or loss	(15,707,023)	(1,068,607)	(15,706,996)	(1,068,607)
Net (increase)/decrease in loans and receivables to customers	(36,612,232)	(138,148,203)	(33,589,071)	(135,934,002)
Net (increase)/decrease in financial assets measured at fair value through other comprehensive income	(17,155,771)	(23,381,080)	(17,153,529)	(23,324,699)
Net (increase)/decrease in financial assets at amortised cost – Debt and other financial instruments	(21,296,002)	27,099,075	(20,800,149)	26,717,096
Net (increase)/decrease in other assets	(161,130)	(6,688,495)	(208,076)	(6,612,960)
Total	**(84,218,375)**	(169,379,105)	**(74,749,286)**	(167,137,925)

67. Change in operating liabilities

For the year ended December 31,	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Net increase/(decrease) in due to banks	1,445,373	(7,882,840)	1,404,613	(7,019,910)
Net increase/(decrease) in derivative financial instruments	(6,579,761)	4,347,751	(6,579,761)	4,347,751
Net increase/(decrease) in securities sold under repurchase agreements	2,165,948	(580,991)	2,115,561	(572,305)
Net increase/(decrease) in deposits from banks, customers and debt securities issued	74,611,712	137,100,894	70,270,346	132,909,803
Net increase/(decrease) in other borrowings	(2,113,019)	1,575,818	(2,113,019)	1,575,818
Net increase/(decrease) in other liabilities	349,416	4,315,867	404,196	4,266,292
Net increase/(decrease) in due to subsidiaries	–	–	13,337	(33,568)
Total	**69,879,669**	138,876,499	**65,515,273**	135,473,881

68. Operating leases

68.1 Operating lease commitments (payables)

Accounting policy

The Group has taken a number of branches and office premises under operating leases. These leases have an average life of between five to ten 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.

As per LKAS 17, effective up to December 31, 2018 future minimum rentals payable under non-cancellable operating leases were considered as operating lease commitment, as follows:

	GROUP		BANK	
As at December 31,	**2019**	2018	**2019**	2018
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
Less than one year	–	1,068,724	–	1,175,639
Between one to five years	–	3,018,540	–	2,991,293
Over five years	–	2,367,826	–	2,265,638
Total	–	6,455,090	–	6,432,570

The Group adopted SLFRS 16 w.e.f. January 1, 2019 and recognises a lease liability for leases previously classified as operating leases applying LKAS 17. Movement of lease liability is given in Note 50.1 on page 228 and maturity analysis of the lease liability is given in Note 62 on page 247.

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 branch). Lease agreements include clauses to enable upward revision of the rental income on a periodic basis to reflect market conditions. These leases have an average life of between five to ten 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:

	GROUP		BANK	
As at December 31,	**2019**	2018	**2019**	2018
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
Less than one year	**6,783**	9,597	**4,793**	6,380
Between one to five years	**25,140**	20,471	**14,168**	15,840
Over five years	**11,872**	6,941	**11,261**	6,941
Total	**43,795**	37,009	**30,222**	29,161

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 3.2 on page 154 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). The risk management framework of the Bank 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 of the Bank. 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 advances to banks and other customers, investments in debt securities and other financial instruments. 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 ensures stringent credit risk management practices to manage overall elements of credit risk exposures (such as individual obliger default risk, country and sector concentration risks).

69.1.1 Credit quality analysis

69.1.1 (a) Maximum exposure to credit risk by risk rating

The following tables set out information about the credit quality of financial assets measured at amortised cost, measured at FVOCI and contingent liabilities and commitments.

As at December 31, 2019	Note	Page No.	Carrying amount Rs. '000	Not subject to ECL Rs. '000	Subject to – 12-month ECL (Stage 1) Rs. '000	Subject to – Lifetime ECL – not credit impaired (Stage 2) Rs. '000	Subject to – Lifetime ECL – credit impaired (Stage 3) Rs. '000
Cash and cash equivalents							
Risk free Investments			26,094,112	26,094,112	–	–	–
Rating 0-4: Investment grade			22,822,901	–	22,822,901	–	–
Rating 5-6: Moderate risk			3,623,424	–	3,623,424	–	–
Rating 7-8: High risk			–	–	–	–	–
Rating 9: Extreme risk			–	–	–	–	–
Gross carrying amount			52,540,437	26,094,112	26,446,325	–	–
Less: Provision for impairment			5,707	–	5,707	–	–
Net carrying amount	28	190	52,534,730	26,094,112	26,440,618	–	–
Placements with banks							
Government Securities (Risk free investments)							
Rating 0-4: Investment grade			21,583,795	–	21,583,795	–	–
Rating 5-6: Moderate risk			2,952,042	–	2,952,042	–	–
Rating 7-8: High risk			–	–	–	–	–
Rating 9: Extreme risk			–	–	–	–	–
Gross carrying amount			24,535,837	–	24,535,837	–	–
Less: Provision for impairment			8,596	–	8,596	–	–
Net carrying amount	30	191	24,527,241	–	24,527,241	–	–
Financial assets at amortised cost – Loans and advances to banks							
Government Securities (Risk free investments)			–	–	–	–	–
Rating 0-4: Investment grade			–	–	–	–	–
Rating 5-6: Moderate risk			757,898	–	757,898	–	–
Rating 7-8: High risk			–	–	–	–	–
Rating 9: Extreme risk			–	–	–	–	–
Gross carrying amount			757,898	–	757,898	–	–
Less: Provision for impairment			111	–	111	–	–
Net carrying amount	33	195	757,787	–	757,787	–	–
Financial assets at amortised cost – Loans and advances to other customers							
Government Securities (Risk free investments)			–	–	–	–	–
Rating 0-4: Investment grade (*)			688,520,415	–	597,141,302	68,922,076	22,457,037
Rating 5-6: Moderate risk			165,599,864	–	119,783,738	30,295,524	15,520,602
Rating 7-8: High risk			15,647,140	–	2,974,898	4,354,799	8,317,443
Rating 9: Extreme risk			50,689,816	–	105,958	215,957	50,367,901
Gross carrying amount			920,457,235	–	720,005,896	103,788,356	96,662,983
Less: Provision for impairment			35,811,491	–	2,613,480	8,318,831	24,879,180
Net carrying amount	34	196	884,645,744	–	717,392,416	95,469,525	71,783,803

As at December 31, 2019	Note	Page No.	Carrying amount Rs. '000	Not subject to ECL Rs. '000	Subject to 12-month ECL (Stage 1) Rs. '000	Subject to Lifetime ECL – not credit impaired (Stage 2) Rs. '000	Subject to Lifetime ECL – credit impaired (Stage 3) Rs. '000
Financial assets at amortised cost – Debt and other financial instruments							
Government Securities (Risk free investments)			62,563,485	62,563,485	–	–	–
Rating 0-4: Investment grade			38,853,334	–	38,853,334	–	–
Rating 5-6: Moderate risk			2,192	–	2,192	–	–
Rating 7-8: High risk			–	–	–	–	–
Rating 9: Extreme risk			152,870	–	–	–	152,870
Gross carrying amount			101,571,881	62,563,485	38,855,526	–	152,870
Less: Provision for impairment			427,062	–	274,192	–	152,870
Net carrying amount	35	199	101,144,819	62,563,485	38,581,334	–	–
Financial assets measured at fair value through other comprehensive income							
Government Securities (Risk free investments)			84,034,701	84,034,701	–	–	–
Rating 0-4: Investment grade			114,179,009	4,286	114,174,723	–	–
Rating 5-6: Moderate risk			216,313	216,313	–	–	–
Rating 7-8: High risk			–	–	–	–	–
Rating 9: Extreme risk			–	–	–	–	–
Gross carrying amount			198,430,023	84,255,300	114,174,723	–	–
Less: Provision for impairment			861,693	–	861,693	–	–
Net carrying amount	36	201	197,568,330	84,255,300	113,313,030	–	–
Off-balance sheet							
Contingent liabilities and commitments							
(i) Lending commitments							
Grade 0-6: Investment grade to moderate risk			109,046,521	–	107,481,309	816,932	748,280
Grade 7-9: High risk to extreme risk			–	–	–	–	–
Gross carrying amount			109,046,521	–	107,481,309	816,932	748,280
(ii) **Contingencies**							
Grade 0-6: Investment grade to moderate risk			470,624,684	277,228,454	191,275,266	2,111,794	9,170
Grade 7-9: High risk to extreme risk			–	–	–	–	–
Gross carrying amount			470,624,684	277,228,454	191,275,266	2,111,794	9,170
Total contingent liabilities and commitments	59	244	579,671,205	277,228,454	298,756,575	2,928,726	757,450
Provision for impairment	59.3 (b)	245	1,316,837	–	764,857	187,237	364,743

As at December 31, 2018	Note	Page No.	Carrying amount Rs. '000	Not subject to ECL Rs. '000	Subject to 12-month ECL (Stage 1) Rs. '000	Subject to Life time ECL – not credit impaired (Stage 2) Rs. '000	Subject to Life time ECL – credit impaired (Stage 3) Rs. '000
Cash and cash equivalents							
Risk free Investments			24,272,784	24,272,784	–	–	–
Rating 0-4: Investment grade			10,392,621	–	10,392,621	–	–
Rating 5-6: Moderate risk			4,873,484	–	4,873,484	–	–
Rating 7-8: High risk			–	–	–	–	–
Rating 9: Extreme risk			–	–	–	–	–
Gross carrying amount			39,538,889	24,272,784	15,266,105	–	–
Less: Provision for impairment			4,413	–	4,413	–	–
Net carrying amount	28	190	39,534,476	24,272,784	15,261,692	–	–

As at December 31, 2018	Note	Page No.	Carrying amount Rs. '000	Not subject to ECL Rs. '000	Subject to: 12-month ECL (Stage 1) Rs. '000	Subject to: Life time ECL – not credit impaired (Stage 2) Rs. '000	Subject to: Life time ECL – credit impaired (Stage 3) Rs. '000
Placements with banks							
Government Securities (Risk free investments)			–	–	–	–	–
Rating 0-4: Investment grade			15,471,661	–	15,471,661	–	–
Rating 5-6: Moderate risk			4,437,638	–	4,437,638	–	–
Rating 7-8 : High risk			–	–	–	–	–
Rating 9: Extreme risk			–	–	–	–	–
Gross carrying amount			19,909,299	–	19,909,299	–	–
Less: Provision for impairment			10,784	–	10,784	–	–
Net carrying amount	30	191	19,898,515	–	19,898,515	–	–
Financial assets at amortised cost – Loans and advances to banks							
Government Securities (Risk free investments)			–	–	–	–	–
Rating 0-4: Investment grade			–	–	–	–	–
Rating 5-6: Moderate risk			763,110	–	763,110	–	–
Rating 7-8: High risk			–	–	–	–	–
Rating 9: Extreme risk			–	–	–	–	–
Gross carrying amount			763,110	–	763,110	–	–
Less: Provision for impairment			36	–	36	–	–
Net carrying amount	33	195	763,074	–	763,074	–	–
Financial assets at amortised cost – Loans and advances to other customers							
Government Securities (Risk free investments)			–	–	–	–	–
Rating 0-4: Investment grade (*)			686,400,750	–	622,743,394	56,950,508	6,706,848
Rating 5-6: Moderate risk			159,144,668	–	119,388,804	32,390,548	7,365,316
Rating 7-8: High risk			8,209,350	–	3,485,765	1,911,451	2,812,134
Rating 9: Extreme risk			36,474,600	–	33,654	347,685	36,093,261
Gross carrying amount			890,229,368	–	745,651,617	91,600,192	52,977,559
Less: Provision for impairment			29,129,053	–	2,659,185	5,873,226	20,596,642
Net carrying amount	34	196	861,100,315	–	742,992,432	85,726,966	32,380,917
Financial assets at amortised cost – Debt and other financial instruments							
Government Securities (Risk free investments)			42,521,906	42,521,906	–	–	–
Rating 0-4: Investment grade (*)			41,026,809	–	41,026,809	–	–
Rating 5-6: Moderate risk			416,346	–	416,346	–	–
Rating 7-8: High risk			156,627	–	–	156,627	–
Rating 9: Extreme risk			–	–	–	–	–
Gross carrying amount			84,121,688	42,521,906	41,443,155	156,627	–
Less: Provision for impairment			266,252	–	262,381	3,871	–
Net carrying amount	35	199	83,855,436	42,521,906	41,180,774	152,756	–
Financial assets measured at fair value through other comprehensive income							
Government Securities (Risk free investments)			95,458,096	95,458,096	–	–	–
Rating 0-4: Investment grade			81,405,180	5,222	81,399,958	–	–
Rating 5-6: Moderate risk			239,147	239,147	–	–	–
Rating 7-8: High risk			–	–	–	–	–

As at December 31, 2018	Note	Page No.	Carrying amount Rs. '000	Not subject to ECL Rs. '000	Subject to 12-month ECL (Stage 1) Rs. '000	Life time ECL – not credit impaired (Stage 2) Rs. '000	Life time ECL – credit impaired (Stage 3) Rs. '000
Rating 9: Extreme risk			–	–	–	–	–
Gross carrying amount			177,102,423	95,702,465	81,399,958	–	–
Less: Provision for impairment			595,694	–	595,694	–	–
Net carrying amount	36	201	176,506,729	95,702,465	80,804,264	–	–
Off-balance sheet (**)							
Contingent liabilities and commitments							
(i) Lending commitments							
Grade 0-6: Investment grade to moderate risk			106,223,235	–	104,605,989	1,142,946	474,300
Grade 7-9: High risk to extreme risk			–	–	–	–	–
Gross carrying amount			106,223,235	–	104,605,989	1,142,946	474,300
(ii) **Contingencies**							
Grade 0-6: Investment grade to moderate risk			497,201,464	312,347,334	183,121,065	1,643,105	89,960
Grade 7-9: High risk to extreme risk			–	–	–	–	–
Gross carrying amount			497,201,464	312,347,334	183,121,065	1,643,105	89,960
Total contingent liabilities and commitments	59	244	603,424,699	312,347,334	287,727,054	2,786,051	564,260
Provision for impairment	59.3 (b)	245	726,640	–	528,932	89,177	108,531

(*) Investment grade also include Cash and Gold.

(**) Amounts reported above does not include capital commitments by the Bank disclosed in the Note 59 on "Contingent Liabilities and Commitments" on pages 244 to 246.

Financial assets at amortised cost – Loans and advances to other customers and contingent liabilities and commitments categorised based on Bank's internal risk rating and other financial assets are categorised based on external credit rating of respective counterparties.

69.1.1 (b) Credit exposure movement – ECL stage-wise

The following tables show reconciliations from the opening to closing balance of the gross carrying amounts by class of financial instrument.

As at December 31, 2019	Carrying amount Rs. '000	Not subject to ECL Rs. '000	12-month ECL (Stage 1) Rs. '000	Lifetime ECL not credit impaired (Stage 2) Rs. '000	Lifetime ECL credit impaired (Stage 3) Rs. '000
Cash and cash equivalents					
Gross carrying amount as at January 1, 2019	**39,534,476**	**24,272,784**	**15,261,692**	–	–
Transfer to Stage 1	–	–	–	–	–
Transfer to Stage 2	–	–	–	–	–
Transfer to Stage 3	–	–	–	–	–
New assets originated or purchased	**17,879,445**	**1,821,328**	**16,058,117**	–	–
Financial assets derecognised or repaid (excluding write-offs)	**(4,873,484)**	–	**(4,873,484)**	–	–
As at December 31, 2019	**52,540,437**	**26,094,112**	**26,446,325**	–	–
Placements with banks					
Gross carrying amount as at January 1, 2019	**19,909,299**	–	**19,909,299**	–	–
Transfer to Stage 1	–	–	–	–	–
Transfer to Stage 2	–	–	–	–	–
Transfer to Stage 3	–	–	–	–	–
New assets originated or purchased	**24,535,837**	–	**24,535,837**	–	–
Financial assets derecognised or repaid (excluding write-offs)	**(19,909,299)**	–	**(19,909,299)**	–	–
As at December 31, 2019	**24,535,837**	–	**24,535,837**	–	–

As at December 31, 2019	Carrying amount Rs. '000	Not subject to ECL Rs. '000	12-month ECL (Stage 1) Rs. '000	Lifetime ECL not credit impaired (Stage 2) Rs. '000	Lifetime ECL credit impaired (Stage 3) Rs. '000
Financial assets at amortised cost – Loans and advances to banks					
Gross carrying amount as at January 1, 2019	763,074	–	763,074	–	–
Transfer to Stage 1	–	–	–	–	–
Transfer to Stage 2	–	–	–	–	–
Transfer to Stage 3	–	–	–	–	–
Foreign exchange adjustments	(5,176)	–	(5,176)	–	–
As at December 31, 2019	757,898	–	757,898	–	–
Financial assets at amortised cost – Loans and advances to other customers					
Gross carrying amount as at January 1, 2019	890,229,368	–	745,651,617	91,600,192	52,977,559
Transfer to Stage 1	–	–	15,468,853	(15,127,558)	(341,295)
Transfer to Stage 2	–	–	(40,641,620)	43,510,087	(2,868,467)
Transfer to Stage 3	–	–	(22,437,790)	(22,065,001)	44,502,791
New assets originated or purchased	400,415,183	–	370,525,403	20,535,833	9,353,947
Financial assets derecognised or repaid (excluding write-offs)	(399,373,750)	–	(348,543,034)	(36,985,925)	(13,844,791)
Write-offs	(3,932,317)	–	(17,533)	(28,672)	(3,886,112)
Changes to contractual cash flows due to modifications not resulting in derecognition	33,118,751	–	–	22,349,400	10,769,351
As at December 31, 2019	920,457,235	–	720,005,896	103,788,356	96,662,983
Financial assets at amortised cost – Debt and other financial instruments					
Gross carrying amount as at January 1, 2019	84,121,688	42,521,906	41,443,155	156,627	–
Transfer to Stage 1	–	–	–	–	–
Transfer to Stage 2	–	–	–	–	–
Transfer to Stage 3	–	–	–	(152,870)	152,870
New assets originated or purchased	52,520,358	35,054,020	17,466,338	–	–
Financial assets derecognised or repaid (excluding write-offs)	(35,062,340)	(15,130,626)	(19,927,957)	(3,757)	–
Foreign exchange adjustments	(7,825)	118,185	(126,010)	–	–
As at December 31, 2019	101,571,881	62,563,485	38,855,526	–	152,870
Financial assets measured at fair value through other comprehensive income					
Gross carrying amount as at January 1, 2019	177,102,423	95,702,465	81,399,958	–	–
Transfer to Stage 1	–	–	–	–	–
Transfer to Stage 2	–	–	–	–	–
Transfer to Stage 3	–	–	–	–	–
New assets originated or purchased	113,896,437	63,846,493	50,049,944	–	–
Financial assets derecognised or repaid (excluding write-offs)	(96,337,023)	(77,666,054)	(18,670,969)	–	–
Foreign exchange adjustments	(430,569)	–	(430,569)	–	–
Change in fair value due to remeasurement	4,198,755	2,372,396	1,826,359	–	–
As at December 31, 2019	198,430,023	84,255,300	114,174,723	–	–
Contingent liabilities and commitments					
Gross carrying amount as at January 1, 2019	603,424,699	312,347,333	287,727,054	2,786,052	564,260
Transfer to Stage 1	–	–	1,496,348	(1,495,102)	(1,246)
Transfer to Stage 2	–	–	(2,553,974)	2,558,608	(4,634)
Transfer to Stage 3	–	–	(444,019)	(130,489)	574,508
Net change in new assets originated or purchased/Financial assets derecognised or repaid (excluding write-offs)	(23,753,494)	(35,118,879)	12,531,166	(790,343)	(375,438)
As at December 31, 2019	579,671,205	277,228,454	298,756,575	2,928,726	757,450

As at December 31, 2018	Carrying amount Rs. '000	Not subject to ECL Rs. '000	12-month ECL (Stage 1) Rs. '000	Life time ECL not credit impaired (Stage 2) Rs. '000	Life time ECL credit impaired (Stage 3) Rs. '000
Cash and cash equivalents					
Gross carrying amount as at January 1, 2018	33,224,619	23,280,599	9,944,020	–	–
Transfer to Stage 1	–	–	–	–	–
Transfer to Stage 2	–	–	–	–	–
Transfer to Stage 3	–	–	–	–	–
New assets originated or purchased	9,557,624	992,185	8,565,439	–	–
Financial assets derecognised or repaid (excluding write-offs)	(3,243,354)	–	(3,243,354)	–	–
As at December 31, 2018	39,538,889	24,272,784	15,266,105	–	–
Placements with banks					
Gross carrying amount as at January 1, 2018	17,633,269	–	17,633,269	–	–
Transfer to Stage 1	–	–	–	–	–
Transfer to Stage 2	–	–	–	–	–
Transfer to Stage 3	–	–	–	–	–
New assets originated or purchased	19,909,299	–	19,909,299	–	–
Financial assets derecognised or repaid (excluding write-offs)	(17,633,269)	–	(17,633,269)	–	–
As at December 31, 2018	19,909,299	–	19,909,299	–	–
Financial assets at amortised cost – Loans and advances to banks					
Gross carrying amount as at January 1, 2018	640,512	–	640,512	–	–
Transfer to Stage 1	–	–	–	–	–
Transfer to Stage 2	–	–	–	–	–
Transfer to Stage 3	–	–	–	–	–
Foreign exchange adjustments	122,598	–	122,598	–	–
As at December 31, 2018	763,110	–	763,110	–	–
Financial assets at amortised cost – Loans and advances to other customers					
Gross carrying amount as at January 1, 2018	754,707,977	–	653,127,277	69,036,479	32,544,221
Transfer to Stage 1	–	–	18,306,726	(18,002,628)	(304,098)
Transfer to Stage 2	–	–	(31,715,554)	37,146,989	(5,431,435)
Transfer to Stage 3	–	–	(11,470,573)	(12,389,882)	23,860,455
New assets originated or purchased	422,014,584	–	389,231,399	29,382,680	3,400,505
Financial assets derecognised or repaid (excluding write-offs)	(308,833,738)	–	(271,826,591)	(27,858,893)	(9,148,254)
Write-offs	(1,107,207)	–	(1,067)	(9,567)	(1,096,573)
Changes to contractual cash flows due to modifications not resulting in derecognition	23,447,752	–	–	14,295,014	9,152,738
As at December 31, 2018	890,229,368	–	745,651,617	91,600,192	52,977,559
Financial assets at amortised cost – Debt and other financial instruments					
Gross carrying amount as at January 1, 2018	71,708,527	48,683,362	23,025,165	–	–
Transfer to Stage 1	–	–	–	–	–
Transfer to Stage 2	–	–	(156,627)	156,627	–
Transfer to Stage 3	–	–	–	–	–
New assets originated or purchased	23,331,446	5,578,738	17,752,708	–	–
Financial assets derecognised or repaid (excluding write-offs)	(14,583,193)	(12,252,573)	(2,330,620)	–	–
Foreign exchange adjustments	3,664,908	512,379	3,152,529	–	–
As at December 31, 2018	84,121,688	42,521,906	41,443,155	156,627	–

As at December 31, 2018	Carrying amount Rs. '000	Not subject to ECL Rs. '000	12-month ECL (Stage 1) Rs. '000	Life time ECL not credit impaired (Stage 2) Rs. '000	Life time ECL credit impaired (Stage 3) Rs. '000
Financial assets measured at fair value through other comprehensive income					
Gross carrying amount as at January 1, 2018	195,279,170	151,910,811	43,368,359	–	–
Transfer to Stage 1	–	–	–	–	–
Transfer to Stage 2	–	–	–	–	–
Transfer to Stage 3	–	–	–	–	–
New assets originated or purchased	85,700,610	34,181,954	51,518,656	–	–
Financial assets derecognised or repaid (excluding write-offs)	(108,535,424)	(90,390,300)	(18,145,124)	–	–
Foreign exchange adjustments	4,897,118	–	4,897,118	–	–
Change in fair value due to remeasurement	(239,051)	–	(239,051)	–	–
As at December 31, 2018	177,102,423	95,702,465	81,399,958	–	–
Contingent liabilities and commitments					
Gross carrying amount as at January 1, 2018	543,124,432	237,658,814	300,521,203	3,932,984	1,011,431
Transfer to Stage 1	–	–	2,382,299	(2,322,013)	(60,286)
Transfer to Stage 2	–	–	(3,329,668)	3,335,220	(5,552)
Transfer to Stage 3	–	–	(530,422)	(175,917)	706,339
Net assets originated or purchased/Financial assets derecognised or repaid (excluding write-offs)	60,300,267	74,688,519	(11,316,358)	(1,984,222)	(1,087,672)
As at December 31, 2018	603,424,699	312,347,333	287,727,054	2,786,052	564,260

69.1.1 (c) Provision for impairment (ECL) movement

The following tables show reconciliations from the opening to closing balance of the provision for impairment by class of financial instrument.

As at December 31, 2019	Note	Page No.	12-month ECL (Stage 1) Rs. '000	Lifetime ECL – not credit impaired (Stage 2) Rs. '000	Lifetime ECL – credit impaired (Stage 3) Rs. '000	Total Rs. '000
Cash and cash equivalents						
Provision for impairment (ECL) as at January 1, 2019			**4,413**	–	–	**4,413**
Transfer to Stage 1			–	–	–	–
Transfer to Stage 2			–	–	–	–
Transfer to Stage 3			–	–	–	–
Net remeasurement of impairment			**(252)**	–	–	**(252)**
New assets originated or purchased			**5,261**	–	–	**5,261**
Financial assets derecognised or repaid (excluding write-offs)			**(3,659)**	–	–	**(3,659)**
Foreign exchange adjustments			**(56)**	–	–	**(56)**
As at December 31, 2019	28.1	190	**5,707**	–	–	**5,707**
Placements with banks						
Provision for impairment (ECL) as at January 1, 2019			**10,784**	–	–	**10,784**
Transfer to Stage 1			–	–	–	–
Transfer to Stage 2			–	–	–	–
Transfer to Stage 3			–	–	–	–
New remeasurement of impairment			–	–	–	–
New assets originated or purchased			**8,640**	–	–	**8,640**
Financial assets derecognised or repaid (excluding write-offs)			**(10,784)**	–	–	**(10,784)**
Foreign exchange adjustments			**(44)**	–	–	**(44)**

As at December 31, 2019	Note	Page No.	12-month ECL (Stage 1) Rs. '000	Lifetime ECL – not credit impaired (Stage 2) Rs. '000	Lifetime ECL – credit impaired (Stage 3) Rs. '000	Total Rs. '000
As at December 31, 2019	30.1	191	8,596	–	–	8,596
Financial assets at amortised cost – Loans and advances to banks						
Provision for impairment (ECL) as at January 1, 2019			36	–	–	36
Transfer to Stage 1			–	–	–	–
Transfer to Stage 2			–	–	–	–
Transfer to Stage 3			–	–	–	–
Net remeasurement of impairment			75	–	–	75
As at December 31, 2019	33.1	195	111	–	–	111
Financial assets at amortised cost – Loans and advances to other customers						
Provision for impairment (ECL) as at January 1, 2019			2,659,185	5,873,226	20,596,642	29,129,053
Transfer to Stage 1			484,038	(390,805)	(93,233)	–
Transfer to Stage 2			(347,364)	571,627	(224,263)	–
Transfer to Stage 3			(158,257)	(1,937,954)	2,096,211	–
Net remeasurement of impairment			(812,498)	1,928,580	4,084,352	5,200,434
New assets originated or purchased			1,133,490	657,598	901,476	2,692,564
Financial assets derecognised or repaid (excluding write-offs)			(341,078)	(1,077,825)	(1,109,306)	(2,528,209)
Write-offs and recoveries			(2,396)	(1,118)	(2,121,615)	(2,125,129)
Foreign exchange adjustments			(1,640)	(590)	5,915	3,685
Unwinding of discount			–	–	(1,258,339)	(1,258,339)
Other movements			–	–	18,578	18,578
Changes to contractual cash flows due to modifications not resulting in derecognition			–	2,696,092	1,982,762	4,678,854
As at December 31, 2019	34.2 (b)	198	2,613,480	8,318,831	24,879,180	35,811,491
Financial assets at amortised cost – Debt and other financial instruments						
Provision for impairment (ECL) as at January 1, 2019			262,381	3,871	–	266,252
Transfer to Stage 1			–	–	–	–
Transfer to Stage 2			–	–	–	–
Transfer to Stage 3			–	(3,871)	3,871	–
Net remeasurement of impairment			3,020	–	148,999	152,019
New assets originated or purchased			10,064	–	–	10,064
Financial assets derecognised or repaid (excluding write-offs)			(1,273)	–	–	(1,273)
As at December 31, 2019	35.1 (b)	200	274,192	–	152,870	427,062
Financial assets measured at fair value through other comprehensive income						
Provision for impairment (ECL) as at January 1, 2019			595,694	–	–	595,694
Transfer to Stage 1			–	–	–	–
Transfer to Stage 2			–	–	–	–
Transfer to Stage 3			–	–	–	–
Net remeasurement of impairment			18,066	–	–	18,066
New assets originated or purchased			383,005	–	–	383,005
Financial assets derecognised or repaid (excluding write-offs)			(135,072)	–	–	(135,072)
As at December 31, 2019	36.2	202	861,693	–	–	861,693

As at December 31, 2019	Note	Page No.	12-month ECL (Stage 1) Rs. '000	Lifetime ECL – not credit impaired (Stage 2) Rs. '000	Lifetime ECL – credit impaired (Stage 3) Rs. '000	Total Rs. '000
Contingent liabilities and commitments						
Provision for impairment (ECL) as at January 1, 2019			**528,932**	**89,177**	**108,531**	**726,640**
Transfer to Stage 1			**15,568**	**(15,167)**	**(401)**	**–**
Transfer to Stage 2			**(9,055)**	**10,952**	**(1,897)**	**–**
Transfer to Stage 3			**(7,807)**	**(8,846)**	**16,653**	**–**
Net remeasurement of impairment			**(10,100)**	**8,776**	**1,607**	**283**
Net change in new assets originated or purchased/Financial assets derecognised or repaid (excluding write-offs)			**247,603**	**102,345**	**240,250**	**590,198**
Foreign exchange adjustments			**(284)**	**–**	**–**	**(284)**
As at December 31, 2019	59.3 (b)	245	**764,857**	**187,237**	**364,743**	**1,316,837**

As at December 31, 2018	Note	Page No.	12-month ECL (Stage 1) Rs. '000	Lifetime ECL – not credit impaired (Stage 2) Rs. '000	Lifetime ECL – credit impaired (Stage 3) Rs. '000	Total Rs. '000
Cash and cash equivalents						
Provision for impairment (ECL) as at January 1, 2018			5,286	–	–	5,286
Transfer to Stage 1			–	–	–	–
Transfer to Stage 2			–	–	–	–
Transfer to Stage 3			–	–	–	–
Net remeasurement of impairment			(1,577)	–	–	(1,577)
New assets originated or purchased			4,989	–	–	4,989
Financial assets derecognised or repaid (excluding write-offs)			(4,862)	–	–	(4,862)
Foreign exchange adjustments			577	–	–	577
As at December 31, 2018	28.1	190	4,413	–	–	4,413
Placements with banks						
Provision for impairment (ECL) as at January 1, 2018			31,533	–	–	31,533
Transfer to Stage 1			–	–	–	–
Transfer to Stage 2			–	–	–	–
Transfer to Stage 3			–	–	–	–
New assets originated or purchased			9,980	–	–	9,980
Financial assets derecognised or repaid (excluding write-offs)			(31,533)	–	–	(31,533)
Foreign exchange adjustments			804	–	–	804
As at December 31, 2018	30.1	191	10,784	–	–	10,784
Financial assets at amortised cost – Loans and advances to banks						
Provision for impairment (ECL) as at January 1, 2018			139	–	–	139
Transfer to Stage 1			–	–	–	–
Transfer to Stage 2			–	–	–	–
Transfer to Stage 3			–	–	–	–
Net remeasurement of impairment			(103)	–	–	(103)
As at December 31, 2018	33.1	195	36	–	–	36
Financial assets at amortised cost – Loans and advances to other customers						
Provision for impairment (ECL) as at January 1, 2018			3,041,886	4,165,027	14,211,503	21,418,416
Transfer to Stage 1			631,565	(552,887)	(78,678)	–

As at December 31, 2018	Note	Page No.	12-month ECL (Stage 1) Rs. '000	Lifetime ECL – not credit impaired (Stage 2) Rs. '000	Lifetime ECL – credit impaired (Stage 3) Rs. '000	Total Rs. '000
Transfer to Stage 2			(360,245)	627,849	(267,604)	–
Transfer to Stage 3			(96,237)	(852,199)	948,436	–
Net remeasurement of impairment			(1,174,547)	611,267	2,971,392	2,408,112
New assets originated or purchased			1,148,995	643,753	1,595,640	3,388,388
Financial assets derecognised or repaid (excluding write-offs)			(543,484)	(891,569)	(660,184)	(2,095,237)
Write-offs and recoveries			(800)	(819)	(355,284)	(356,903)
Foreign exchange adjustments			12,052	4,470	278,179	294,701
Unwinding of discount			–	–	(360,876)	(360,876)
Other movements			–	–	10,466	10,466
Changes to contractual cash flows due to modifications not resulting in derecognition			–	2,118,334	2,303,652	4,421,986
As at December 31, 2018	34.2 (b)	198	2,659,185	5,873,226	20,596,642	29,129,053
Financial assets at amortised cost – Debt and other financial instruments						
Provision for impairment (ECL) as at January 1, 2018			69,680	–	–	69,680
Transfer to Stage 1			–	–	–	–
Transfer to Stage 2			(691)	691	–	–
Transfer to Stage 3			–	–	–	–
Net remeasurement of impairment			65,916	3,180	–	69,096
New assets originated or purchased			128,049	–	–	128,049
Financial assets derecognised or repaid (excluding write-offs)			(573)	–	–	(573)
As at December 31, 2018	35.1 (b)	200	262,381	3,871	–	266,252
Financial assets measured at fair value through other comprehensive income						
Provision for impairment (ECL) as at January 1, 2018			194,256	–	–	194,256
Transfer to Stage 1			–	–	–	–
Transfer to Stage 2			–	–	–	–
Transfer to Stage 3			–	–	–	–
Net remeasurement of impairment			109,424	–	–	109,424
New assets originated or purchased			372,576	–	–	372,576
Financial assets derecognised or repaid (excluding write-offs)			(80,562)	–	–	(80,562)
As at December 31, 2018	36.2	202	595,694	–	–	595,694
Contingent liabilities and commitments						
Provision for impairment (ECL) as at January 1, 2018			656,764	111,946	78,949	847,659
Transfer to Stage 1			52,852	(27,051)	(25,801)	–
Transfer to Stage 2			(9,201)	9,557	(356)	–
Transfer to Stage 3			(559)	(3,920)	4,479	–
Net remeasurement of impairment			(47,426)	20,362	24,163	(2,901)
New assets originated or purchased/Financial assets derecognised or repaid (excluding write-offs)			(126,398)	(21,717)	27,097	(121,018)
Foreign exchange adjustments			2,900	–	–	2,900
As at December 31, 2018	59.3 (b)	245	528,932	89,177	108,531	726,640

69.1.1 (d) Financial assets recognised through profit or loss measured at fair value

Held-for-trading investments in debt and equity securities

The table below sets out the credit quality of debt and equity securities classified through profit or loss measured at fair value. Debt securities include investments made by the Bank in Government Securities of Sri Lanka and Bangladesh. The analysis of equity securities is based on Fitch Rating Nomenclature or Equivalent Ratings, where applicable.

	Note	Page No.	2019 Rs. '000	2018 Rs. '000
Debt instruments at FVTPL				
Government Securities – Sri Lanka				
Treasury bills			2,875,977	1,947,069
Treasury bonds			3,318,057	729,974
Government Securities – Bangladesh				
Treasury bills			12,839,210	1,722,637
Treasury bonds			1,451,651	351,680
Subtotal – Debt instruments at FVTPL			20,484,895	4,751,360
Equity instruments at FVTPL				
Rated AAA			22,374	21,958
Rated AA+ to AA-			20	12,798
Rated A+ to A			736,960	523,574
Rated BBB+			7,114	7,138
Unrated			216,670	203,339
Subtotal – Equity instruments at FVTPL			983,138	768,807
Total	32	192	21,468,033	5,520,167

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, 2019	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)	32,709,682	411,958	115,126,783	1,410,476	4,882,897	8,493	152,719,362	1,830,927
Derivative financial liabilities (Note 2)	15,832,082	(295,838)	73,646,091	(1,193,556)	4,202,423	(5,923)	93,680,596	(1,495,317)
Note 1								
Derivative financial assets by counterparty type								
With banks	18,185,745	231,682	110,022,152	1,194,014	2,713,575	1,631	130,921,472	1,427,327
Other customers	14,523,937	180,276	5,104,631	216,462	2,169,322	6,862	21,797,890	403,600
Total	32,709,682	411,958	115,126,783	1,410,476	4,882,897	8,493	152,719,362	1,830,927
Note 2								
Derivative financial liabilities by counterparty type								
With banks	10,359,497	(57,569)	72,964,528	(1,144,838)	2,246,011	(2,139)	85,570,036	(1,204,546)
Other customers	5,472,585	(238,269)	681,563	(48,718)	1,956,412	(3,784)	8,110,560	(290,771)
Total	15,832,082	(295,838)	73,646,091	(1,193,556)	4,202,423	(5,923)	93,680,596	(1,495,317)

As at December 31, 2018	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)	53,846,072	3,340,657	97,890,850	4,567,868	4,189,939	1,437	155,926,861	7,909,962
Derivative financial liabilities (Note 2)	38,630,808	(2,069,807)	85,093,565	(5,946,484)	2,255,444	(5,492)	125,979,817	(8,021,783)
Note 1								
Derivative financial assets by counterparty type								
With banks	11,448,568	502,967	97,019,953	4,560,325	1,808,638	613	110,277,159	5,063,905
Other customers	42,397,504	2,837,690	870,897	7,543	2,381,301	824	45,649,702	2,846,057
Total	53,846,072	3,340,657	97,890,850	4,567,868	4,189,939	1,437	155,926,861	7,909,962
Note 2								
Derivative financial liabilities by counterparty type								
With banks	24,576,549	(1,219,725)	79,194,194	(5,308,624)	703,977	(474)	104,474,720	(6,528,823)
Other customers	14,054,259	(850,082)	5,899,371	(637,860)	1,551,467	(5,018)	21,505,097	(1,492,960)
Total	38,630,808	(2,069,807)	85,093,565	(5,946,484)	2,255,444	(5,492)	125,979,817	(8,021,783)

69.1.2 Credit-impaired financial assets

Reconciliation of changes in the net carrying amount of lifetime ECL credit impaired (Stage 3) loans and advances as detailed below:

As at December 31,	**2019 Rs. '000**	2018 Rs. '000
Stage 3 loans and advances to other customers as at January 1,	**32,380,918**	18,332,717
Newly classified as impaired loans and advances during the year	**51,874,936**	23,569,470
Net change in already impaired loans and advances during the year	**(3,535,574)**	(1,055,006)
Net payment, write-off and recoveries and other movement during the year	**(8,936,477)**	(8,466,264)
Impaired loans and advances to customers as at December 31,	**71,783,803**	32,380,917

Refer Note 18 for methodology of impairment assessment, on "Impairment losses on loans and advances to other customers" on pages 176 to 179.

Details of provision for impairment for loans and advances to other customers, are detailed in Note 34 on pages 196 to 199.

Set out below is an analysis of the gross and net carrying amounts of life time ECL credit impaired (Stage 3) loans and advances to other customers by risk rating:

As at December 31,	**2019**		2018	
	Gross carrying amount Rs. '000	**Net carrying amount Rs. '000**	Gross carrying amount Rs. '000	Net carrying amount Rs. '000
Rating 0-4: Investment grade	**22,457,037**	**21,337,995**	6,706,848	6,473,040
Rating 5-6: Moderate risk	**15,520,602**	**14,105,391**	7,365,316	7,093,268
Rating 7-8 : High risk	**8,317,443**	**7,549,750**	2,812,134	2,320,231
Rating 9: Extreme risk	**50,367,901**	**28,790,667**	36,093,261	16,494,378
Total	**96,662,983**	**71,783,803**	52,977,559	32,380,917

69.1.3 Sensitivity of impairment provision on loans and advances to other customers

The Bank has estimated the impairment provision on loans and advances to other customers as at December 31, 2019, subject to various assumptions. The changes to such assumptions may lead to changes in the impairment provision recorded in the Statement of Financial Position.

The following table demonstrates the sensitivity of the impairment provision of the Bank as at December 31, 2019 to a feasible change in PDs, LGDs and forward looking information.

Sensitivity on ECL	Sensitivity effect on Statement of Financial Position [Increase/(Decrease) in impairment provision]				Sensitivity effect on Income Statement
	Stage 1 (Rs. '000)	Stage 2 (Rs. '000)	Stage 3 (Rs. '000)	Total (Rs. '000)	(Rs. '000)
PD 1% increase across all age buckets	1,673,097	292,910	–	1,966,007	(1,966,007)
PD 1% decrease across all age buckets (*)	(1,273,899)	(292,913)	–	(1,566,812)	1,566,812
LGD 5% increase	415,885	1,361,055	1,860,567	3,637,507	(3,637,507)
LGD 5% decrease (*)	(415,872)	(1,361,057)	(1,860,532)	(3,637,461)	3,637,461
Probability weighted forward looking Macro Economic Indicators (**)					
– Base case 10% increase, worst case 5% decrease and best case 5% decrease	(3,121)	(7,975)	–	(11,096)	11,096
– Base case 10% decrease, worst case 5% increase and best case 5% increase	3,119	7,964	–	11,083	(11,083)

(*) The PD/LGD decrease is capped to 0%, if applicable.
(**) Please refer Note 18 for explanation on forward looking Macro Economic Indicators.

69.1.4 Collateral held

Loan-to-value ratio of residential mortgage lending

The table below stratifies eligible credit exposures 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 Adequecy Ratios. The value of the collateral for residential mortgage loan is based on the forced sale value determined by professional valuers.

As at December 31,	2019		2018	
	Rs. '000	Composition (%)	Rs. '000	Composition (%)
LTV ratio				
Less than 50%	**15,557,191**	**30.28**	10,948,270	27.20
51% – 70%	**11,349,831**	**22.09**	8,888,518	22.08
71% – 90%	**13,776,666**	**26.81**	11,025,696	27.39
91% – 100%	**1,906,063**	**3.71**	1,807,976	4.49
More than 100% *	**8,792,924**	**17.11**	7,576,759	18.84
Total	**51,382,675**	**100.00**	40,247,219	100.00

** LTV ratio of more than 100% has been arisen due to subsequent disbursements made to the borrower after the initial valuation of the property (the denominator).*

The total amount mentioned above does not tally to the total of residential mortgage lending by the Bank, as some of the residential mortgage lending are not eligible to apply preferential risk weight in the Capital Adequacy Ratio.

Assets obtained by taking the possession of collaterals

Repossession of collaterals is resorted to in extreme situations where action is necessitated to recover the dues. The repossessed assets are disposed, in an orderly and transparent manner and the proceeds are used to reduce or recover the outstanding claims and the amount recovered in excess of the dues is refunded to the customer.

69.1.5 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:

69.1.5 (a) Industry wise distribution

As at December 31, 2019	Agriculture, Forestry and Fishing Rs. '000	Manufacturing Rs. '000	Tourism Rs. '000	Transportation and storage Rs. '000	Construction Rs. '000
Financial assets					
Cash and cash equivalents	–	–	–	–	–
Balances with central banks	–	–	–	–	–
Placements with banks	–	–	–	–	–
Securities purchased under resale agreements	–	–	–	–	–
Derivative financial assets	7,615	25,238	–	34	101
Financial assets measured at FVTPL	2,179	53,480	6,163	–	28,000
Government securities	–	–	–	–	–
Quoted equity securities	2,179	53,480	6,163	–	28,000
Financial assets at AC – Loans and advances to banks	–	–	–	–	–
Financial assets at AC – Loans and advances to other customers (*)	64,700,883	114,177,649	59,561,360	11,299,849	39,599,580
Financial assets at AC – Debt and other financial instruments	–	–	–	–	–
Government securities	–	–	–	–	–
Other investments	–	–	–	–	–
Financial assets measured at FVOCI	–	10,570	–	–	154,157
Government securities	–	–	–	–	–
Equity securities	–	10,570	–	–	154,157
Total	**64,710,677**	**114,266,937**	**59,567,523**	**11,299,883**	**39,781,838**

As at December 31, 2018	Agriculture, Forestry and Fishing Rs. '000	Manufacturing Rs. '000	Tourism Rs. '000	Transportation and storage Rs. '000	Construction Rs. '000
Financial assets					
Cash and cash equivalents	–	–	–	–	–
Balances with central banks	–	–	–	–	–
Placements with banks	–	–	–	–	–
Securities purchased under resale agreements	–	–	–	–	–
Derivative financial assets	144,810	1,850,312	9,420	–	12
Financial assets measured at FVTPL	2,028	47,212	4,848	–	30,897
Government securities	–	–	–	–	–
Quoted equity securities	2,028	47,212	4,848	–	30,897
Financial assets at AC – Loans and advances to banks	–	–	–	–	–
Financial assets at AC – Loans and advances to other customers (*)	81,667,447	98,451,570	56,566,467	10,892,443	38,586,302
Financial assets at AC – Debt and other financial instruments	–	–	–	–	152,756
Government securities	–	–	–	–	–
Other investments	–	–	–	–	152,756
Financial assets measured at FVOCI	–	9,642	–	–	180,285
Government securities	–	–	–	–	–
Equity securities	–	9,642	–	–	180,285
Total	81,814,285	100,358,736	56,580,735	10,892,443	38,950,252

(*) Loans and advances to other customers referred above do not agree with the Note 34.1 (c) on page 197 due to impairment provisions.

Infrastructure development Rs. '000	Wholesale and retail trade Rs. '000	Information technology and communication services Rs. '000	Financial services Rs. '000	Professional, scientific and technical activities Rs. '000	Arts, entertainment and recreation Rs. '000	Education Rs. '000	Healthcare, social services and support services Rs. '000	Consumption Rs. '000	Lending to overseas entities Rs. '000	Total Rs. '000
–	–	–	52,534,730	–	–	–	–	–	–	52,534,730
–	–		39,461,127	–	–	–	–	–	–	39,461,127
–	–	–	24,527,241	–	–	–	–	–	–	24,527,241
–	–	–	13,147,534	–	–	–	–	–	–	13,147,534
956	22,375	3,492	1,764,089	–	–	–	3,509	3,518	–	1,830,927
–	103,749	11,675	21,221,129	–	–	–	41,658	–	–	21,468,033
–	–	–	20,484,895	–	–	–	–	–	–	20,484,895
–	103,749	11,675	736,234	–	–	–	41,658	–	–	983,138
–	–	–	757,787	–	–	–	–	–	–	757,787
16,573,720	187,378,381	10,962,266	37,625,681	23,098,483	1,055,882	2,838,314	17,915,228	194,885,712	102,972,756	884,645,744
–	900,363	–	100,244,456	–	–	–	–	–	–	101,144,819
–	–	–	97,997,976	–	–	–	–	–	–	97,997,976
–	900,363	–	2,246,480	–	–	–	–	–	–	3,146,843
–	–	–	197,394,983	8,620	–	–	–	–	–	197,568,330
–	–	–	197,347,730	–	–	–	–	–	–	197,347,730
–	–	–	47,253	8,620	–	–	–	–	–	220,600
16,574,676	188,404,868	10,977,433	488,678,757	23,107,103	1,055,882	2,838,314	17,960,395	194,889,230	102,972,756	1,337,086,272

Infrastructure development Rs. '000	Wholesale and retail trade Rs. '000	Information technology and communication services Rs. '000	Financial services Rs. '000	Professional, scientific and technical activities Rs. '000	Arts, entertainment and recreation Rs. '000	Education Rs. '000	Healthcare, social services and support services Rs. '000	Consumption Rs. '000	Lending to overseas entities Rs. '000	Total Rs. '000
–	–	–	39,534,476	–	–	–	–	–	–	39,534,476
–	–	–	54,384,590	–	–	–	–	–	–	54,384,590
–	–	–	19,898,515	–	–	–	–	–	–	19,898,515
–	–	–	9,513,512	–	–	–	–	–	–	9,513,512
–	254,533	5	5,636,056	–	–	13,913	–	901	–	7,909,962
–	103,084	9,587	5,290,863	–	–	–	31,648	–	–	5,520,167
–	–	–	4,751,360	–	–	–	–	–	–	4,751,360
–	103,084	9,587	539,503	–	–	–	31,648	–	–	768,807
–	–	–	763,074	–	–	–	–	–	–	763,074
18,888,958	208,633,620	13,204,339	39,550,148	22,979,537	917,964	2,573,713	18,134,481	164,968,496	85,084,830	861,100,315
–	1,868,572	–	81,834,108	–	–	–	–	–	–	83,855,436
–	–	–	77,226,928	–	–	–	–	–	–	77,226,928
–	1,868,572	–	4,607,180	–	–	–	–	–	–	6,628,508
–	–	–	176,308,182	8,620	–	–	–	–	–	176,506,729
–	–	–	176,262,360	–	–	–	–	–	–	176,262,360
–	–	–	45,822	8,620	–	–	–	–	–	244,369
18,888,958	210,859,809	13,213,931	432,713,524	22,988,157	917,964	2,587,626	18,166,129	164,969,397	85,084,830	1,258,986,776

69.1.5 (b) Geographical distribution of loans and advances

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, 2019. 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 diversified geographical concentration as given below:

As at December 31, 2019

Country/province	Loans and advances 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	10,049,902	284,646	1,616,704	766,640	144,333	–	3,617,224	2,049,482	20,126,857	3,839,193	202,364	42,697,345
Eastern	748,261	204,269	685,050	206,609	77,540	–	532,202	912,380	2,917,815	98,277	–	6,382,403
North Central	630,769	26,535	1,348,528	207,722	37,215	–	618,886	1,533,266	6,948,927	305,832	–	11,657,680
Northern	6,910,590	700,407	2,595,462	721,724	203,929	–	3,837,414	2,853,801	13,038,530	2,010,925	34,031	32,906,813
North Western	3,308,388	100,211	1,765,571	254,640	1,017,355	–	1,003,830	1,248,949	5,804,502	302,681	–	14,806,127
Sabaragamuwa	5,709,310	466,018	2,205,118	471,712	110,154	–	2,982,905	1,399,948	10,479,333	662,420	18,904	24,505,822
Southern	5,749,944	1,490,619	3,162,717	783,286	217,087	–	5,391,117	2,840,717	15,300,888	709,959	11,288	35,657,622
Uva	1,392,727	–	921,024	232,828	51,521	–	1,917,260	909,923	5,056,787	402,788	834	10,885,692
Western	87,970,695	61,370,750	18,370,920	10,264,794	1,082,599	10,427,419	41,414,923	23,701,281	246,676,120	95,927,470	5,026,119	602,233,090
Bangladesh	8,745,766	5,858,158	555,807	140,684	–	172,903	855,800	592,775	15,449,817	44,423,486	26,117,954	102,913,150
Total	**131,216,352**	**70,501,613**	**33,226,901**	**14,050,639**	**2,941,733**	**10,600,322**	**62,171,561**	**38,042,522**	**341,799,576**	**148,683,031**	**31,411,494**	**884,645,744**

As at December 31, 2018

Country/province	Loans and advances 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	12,368,967	324,872	1,712,947	733,356	53,850	–	3,501,982	1,800,433	22,507,179	1,877,627	77,610	44,958,823
Eastern	837,297	80,053	706,974	198,809	35,451	–	497,996	747,745	2,216,533	564,293	–	5,885,151
North Central	805,965	82,445	1,494,023	204,983	15,137	–	634,625	1,332,540	4,770,804	937,344	–	10,277,866
Northern	3,143,610	87,895	1,693,133	253,598	533,642	–	1,019,034	1,026,339	4,751,635	794,454	–	13,303,340
North Western	6,935,115	1,108,179	3,074,187	675,442	127,025	–	3,600,616	2,381,712	13,177,842	1,840,553	29,935	32,950,606
Sabaragamuwa	5,642,132	557,051	2,605,371	436,668	52,130	–	2,959,708	1,234,729	9,822,913	734,262	43,195	24,088,159
Southern	6,295,802	1,595,289	3,810,335	728,965	97,658	–	5,478,350	2,456,355	14,566,446	977,492	27,975	36,034,667
Uva	1,554,385	4,711	1,014,336	223,610	21,940	–	2,058,215	827,396	5,039,094	474,082	–	11,217,769
Western	91,827,217	67,267,786	21,210,246	8,698,453	608,281	9,127,287	40,600,871	21,432,269	241,468,259	89,931,190	5,127,244	597,299,103
Bangladesh	7,358,447	5,808,033	493,995	100,803	–	171,191	821,429	541,227	13,970,300	36,430,294	19,389,112	85,084,831
Total	**136,768,937**	**76,916,314**	**37,815,547**	**12,254,687**	**1,545,114**	**9,298,478**	**61,172,826**	**33,780,745**	**332,291,005**	**134,561,591**	**24,695,071**	**861,100,315**

Please refer Note 34 on page 196 for the gross carrying amount of the loans and advances to other customers.

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 Banks' liquidity at healthy levels, whilst satisfying the regulatory requirements.

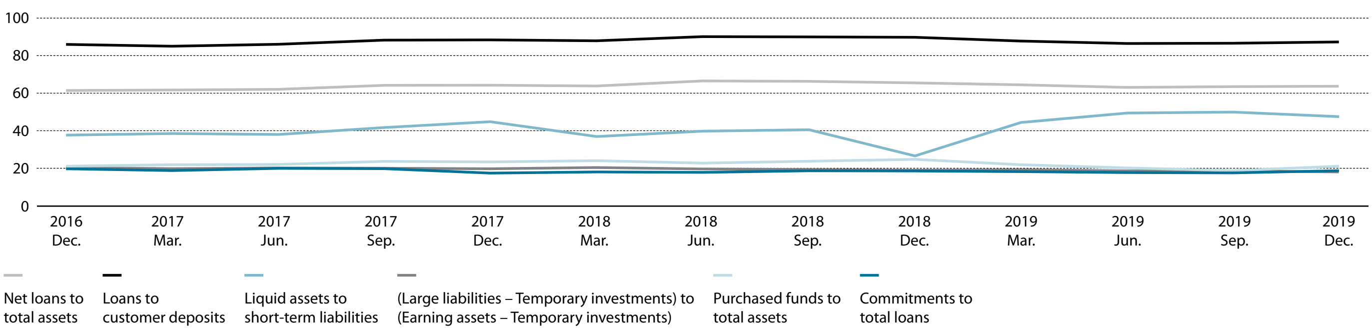
69.2.1 Exposure to liquidity risk

The key measure used by the Bank for managing liquidity risk is the Liquid Assets Ratio (LAR) which calculates the percentage of liquid assets to total liabilities excluding shareholders' funds. For this purpose, "liquid assets" include cash and cash equivalents, placements with banks and Government Securities (net). Details of the reported ratio of liquid assets to external liabilities of the Domestic Banking Unit (DBU) and the Off shore Banking Centre (OBC) as at reporting dates are as follows:

	Domestic Banking Unit		Off shore Banking Centre	
	2019 %	2018 %	**2019 %**	2018 %
As at December 31,	**30.42**	24.47	**25.25**	30.20
Average for the period	**29.27**	25.43	**28.28**	30.81
Maximum for the period	**31.10**	28.82	**34.27**	39.21
Minimum for the period	**25.01**	23.80	**25.25**	27.30
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 2016 to December 2019:

Liquidity ratios Graph – 43



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 December 31, 2019 Rs. '000**	Total as at December 31, 2018 Rs. '000
Interest earning financial assets:							
Cash and cash equivalents	21,770,015	–	–	–	–	**21,770,015**	8,959,135
Balances with central banks	2,348,047	408,274	8,825	–	–	**2,765,146**	7,977,591
Placements with banks	11,686,456	12,840,785	–	–	–	**24,527,241**	19,898,515
Securities purchased under resale agreements	8,125,007	5,022,527	–	–	–	**13,147,534**	9,513,512
Financial assets recognised – Measured at FVTPL	20,484,892	–	–	–	–	**20,484,892**	4,751,360
Financial assets at amortised cost – Loans and advances to other customers	323,651,589	220,150,964	200,465,425	97,174,333	43,203,434	**884,645,744**	861,100,315
Financial assets at amortised cost – Debt and other financial instruments	7,432,594	9,452,605	58,194,601	24,940,848	1,124,171	**101,144,819**	83,855,436
Financial assets measured at FVOCI	12,312,029	9,271,385	87,850,068	61,164,958	26,749,291	**197,347,731**	176,262,360
Total interest earning assets as at December 31, 2019	**407,810,629**	**257,146,540**	**346,518,919**	**183,280,139**	**71,076,896**	**1,265,833,122**	
Total Interest earning assets as at December 31, 2018	393,194,108	265,266,803	279,332,389	184,649,577	49,875,347		1,172,318,224

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 December 31, 2019 Rs. '000**	Total as at December 31, 2018 Rs. '000
Non-interest earning financial assets:							
Cash and cash equivalents	30,764,715	–	–	–	–	**30,764,715**	30,575,341
Balances with central banks	22,036,524	12,773,753	821,014	511,274	553,416	**36,695,981**	46,406,999
Derivative financial assets	1,128,833	553,047	149,047	–	–	**1,830,927**	7,909,962
Financial assets measured at FVTPL	983,141	–	–	–	–	**983,141**	768,807
Financial assets at amortised cost – Loans and advances to banks	–	–	–	–	757,787	**757,787**	763,074
Financial assets measured at FVOCI	–	–	–	20,267	200,332	**220,599**	244,369
Non-financial assets							
Investments in subsidiaries	–	–	–	–	5,011,284	**5,011,284**	4,263,631
Investments in associates	–	–	–	–	44,331	**44,331**	44,331
Property, plant and equipment and right-of-use assets	–	–	–	–	20,436,493	**20,436,493**	15,301,246
Intangible assets	–	–	–	–	1,080,010	**1,080,010**	906,112
Leasehold property	–	–	–	–	70,710	**70,710**	71,652
Deferred tax assets	–	–	294,059	–	–	**294,059**	–
Other assets	16,776,875	133,104	2,022,823	573,803	3,815,642	**23,322,247**	23,911,122
Total Non-interest earning assets as at December 31, 2019	**71,690,088**	**13,459,904**	**3,286,943**	**1,105,344**	**31,970,005**	**121,512,284**	
Total Non-interest earning assets as at December 31, 2018	79,702,578	20,513,461	4,479,819	1,360,329	25,110,459		131,166,646
Total assets – As at December 31, 2019	**479,500,717**	**270,606,444**	**349,805,862**	**184,385,483**	**103,046,901**	**1,387,345,406**	
Total assets – As at December 31, 2018	472,896,686	285,780,264	283,812,208	186,009,906	74,985,806		1,303,484,870
Percentage – As at December 31, 2019 (*)	**34.56**	**19.51**	**25.21**	**13.29**	**7.43**	**100.00**	
Percentage – As at December 31, 2018 (*)	36.29	21.92	21.77	14.27	5.75		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 December 31, 2019 Rs. '000**	Total as at December 31, 2018 Rs. '000
Interest-bearing financial liabilities:							
Due to banks	17,444,085	18,720,500	9,087,500	4,543,749	–	**49,795,834**	28,274,470
Securities sold under repurchase agreements	41,970,123	9,244,191	5,709	–	–	**51,220,023**	49,104,462
Financial liabilities at amortised cost – Due to depositors	556,550,231	375,746,085	23,634,513	12,975,282	16,697,964	**985,604,075**	911,383,286
Financial liabilities at amortised cost – Other borrowings	1,414,641	3,414,344	8,484,475	5,310,021	4,625,412	**23,248,893**	25,361,912
Subordinated liabilities	739,330	363,741	9,477,720	22,022,547	5,283,451	**37,886,789**	37,992,457
Total interest-bearing liabilities as at December 31, 2019	**618,118,410**	**407,488,861**	**50,689,917**	**44,851,599**	**26,606,827**	**1,147,755,614**	
Total Interest-bearing liabilities as at December 31, 2018	555,595,433	377,694,645	46,105,839	44,724,254	27,996,416		1,052,116,587

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 December 31, 2019 Rs. '000**	Total as at December 31, 2018 Rs. '000
Non-interest bearing financial liabilities:							
Due to banks	1,709,860	–	–	–	–	**1,709,860**	21,826,611
Derivative financial liabilities	1,106,950	330,515	4,557	–	53,295	**1,495,317**	8,021,783
Financial liabilities at amortised cost – Due to depositors	67,703,585	–	–	–	–	**67,703,585**	71,654,028
Non-financial liabilities							
Current tax liabilities	2,016,462	2,951,182	–	–	–	**4,967,644**	6,566,358
Deferred tax liabilities	–	–	–	–	–	**–**	646,248
Other liabilities	20,176,158	2,811,275	3,575,261	1,500,250	2,433,765	**30,496,709**	24,206,351
Due to subsidiaries	54,292	–	–	–	–	**54,292**	40,955
Equity							
Stated capital	–	–	–	–	40,916,958	**40,916,958**	39,147,882
Statutory reserves	–	–	–	–	8,205,391	**8,205,391**	7,354,143
Retained earnings	–	–	–	–	5,144,433	**5,144,433**	5,063,076
Other reserves	–	–	–	–	78,895,603	**78,895,603**	66,840,848
Total non-interest bearing liabilities and equity as at December 31, 2019	**92,767,307**	**6,092,972**	**3,579,818**	**1,500,250**	**135,649,445**	**239,589,792**	
Total non-Interest bearing liabilities and equity as at December 31, 2018	113,169,834	11,783,968	1,714,703	990,630	123,709,148		251,368,283
Total liabilities and equity – as at December 31, 2019	**710,885,717**	**413,581,833**	**54,269,735**	**46,351,849**	**162,256,272**	**1,387,345,406**	
Total liabilities and equity – as at December 31, 2018	668,765,267	389,478,613	47,820,542	45,714,884	151,705,564		1,303,484,870
Percentage – as at December 31, 2019 (*)	**51.24**	**29.81**	**3.91**	**3.34**	**11.70**	**100.00**	
Percentage – as at December 31, 2018 (*)	51.30	29.88	3.67	3.51	11.64		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,	**2019 Rs. '000**	2018 Rs. '000
Financial assets		
Non-derivative financial assets		
Balances with central banks	**1,894,529**	2,919,770
Financial assets at amortised cost – Loans and advances to banks	**757,787**	763,074
Financial assets at amortised cost – Loans and advances to other customers	**340,843,192**	338,952,233
Financial assets at amortised cost – Debt and other financial instruments	**84,259,620**	64,193,017
Financial assets measured at fair value through other comprehensive income	**175,984,916**	110,887,882
Total	**603,740,044**	517,715,976

As at December 31,	2019 Rs. '000	2018 Rs. '000
Financial liabilities		
Non-derivative financial liabilities		
Securities sold under repurchase agreements	5,709	3,272,071
Financial liabilities at amortised cost – Due to depositors	53,307,759	55,093,510
Financial liabilities at amortised cost – Other borrowings	18,419,908	23,595,671
Subordinated liabilities	36,783,718	36,865,257
Total	108,517,094	118,826,509

69.2.3 Liquidity reserves

The table below sets out the components of the Bank's liquidity reserves:

As at December 31,	2019		2018	
	Carrying amount Rs. '000	Fair value Rs. '000	Carrying amount Rs. '000	Fair value Rs. '000
Balances with central banks	39,461,127	39,461,127	54,384,590	54,384,590
Balances with other banks	26,446,325	26,446,325	15,266,105	15,266,105
Coins and notes held	26,094,112	26,094,112	24,272,784	24,272,784
Unencumbered debt securities issued by sovereigns	275,803,138	267,118,926	219,416,814	211,112,417
Total	367,804,702	359,120,490	313,340,293	305,035,896

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, 2019			Encumbered		Unencumbered		
	Note	Page No.	Pledged as collateral Rs. '000	Other Rs. '000	Available as collateral Rs. '000	Other Rs. '000	Total Rs. '000
Cash and cash equivalents	28	190	–	–	52,534,730	–	52,534,730
Balances with Central Banks	29	191	–	29,240,407	10,220,720	–	39,461,127
Placements with banks	30	191	–	–	24,527,241	–	24,527,241
Securities purchased under resale agreements			–	–	13,147,534	–	13,147,534
Derivative financial assets	31	192	–	–	1,830,927	–	1,830,927
Financial assets recognised through profit or loss – measured at fair value	32	192	–	–	21,468,033	–	21,468,033
Financial assets at amortised cost – Loans and advances to banks (*)	33	195	–	757,787	–	–	757,787
Financial assets at amortised cost – Loans and advances to other customers	34	196	–	–	884,645,744	–	884,645,744
Financial assets at amortised cost – Debt and other financial instruments	35	199	–	–	101,144,819	–	101,144,819
Financial assets measured at fair value through other comprehensive income (**)	36	201	57,104,657	–	140,463,673	–	197,568,330
Total			57,104,657	29,998,194	1,249,983,421	–	1,337,086,272

As at December 31, 2018	Note	Page No	Encumbered – Pledged as collateral Rs. '000	Encumbered – Other Rs. '000	Unencumbered – Available as collateral Rs. '000	Unencumbered – Other Rs. '000	Total Rs. '000
Cash and cash equivalents	28	190	–	–	39,534,476	–	39,534,476
Balances with central banks	29	191	–	39,412,442	14,972,148	–	54,384,590
Placements with banks	30	191	–	–	19,898,515	–	19,898,515
Securities purchased under resale agreements			–	–	9,513,512	–	9,513,512
Derivative financial assets	31	192	–	–	7,909,962	–	7,909,962
Financial assets recognised through profit or loss/ Held for trading – measured at fair value	32	192	–	–	5,520,167	–	5,520,167
Financial assets at amortised cost – Loans and advances to banks (*)	33	195	–	763,074	–	–	763,074
Financial assets at amortised cost – Loans and advances to other customers	34	196	–	–	861,100,315	–	861,100,315
Financial assets at amortised cost – Debt and other financial instruments	35	199	–	–	83,855,436	–	83,855,436
Financial assets measured at fair value through other comprehensive income (**)	36	201	49,267,013	–	127,239,716	–	176,506,729
Total			**49,267,013**	**40,175,516**	**1,169,544,247**	**–**	**1,258,986,776**

(*) 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 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 on an ongoing basis.

69.3.1 Exposure to market risk - Trading and non-trading portfolio

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, 2019	Note	Page No.	Carrying amount Rs. '000	Market risk measurement – Trading portfolios Rs. '000	Market risk measurement – Non-trading portfolios Rs. '000
Assets subject to market risk					
Cash and cash equivalents	28	190	**29,904,195**	**–**	**29,904,195**
Balances with central banks	29	191	**8,247,155**	**–**	**8,247,155**
Placements with banks	30	191	**24,527,241**	**–**	**24,527,241**
Securities purchased under resale agreements			**13,147,534**	**–**	**13,147,534**
Derivative financial assets	31	192	**1,830,927**	**1,830,927**	**–**
Financial assets recognised through profit or loss – Measured at fair value	32	192	**21,468,033**	**21,468,033**	**–**
Financial assets at amortised cost – Loans and advances to banks	33	195	**757,787**	**–**	**757,787**
Financial assets at amortised cost – Loans and advances to other customers	34	196	**884,645,744**	**–**	**884,645,744**
Financial assets at amortised cost – Debt and other financial instruments	35	199	**101,144,819**	**–**	**101,144,819**
Financial assets measured at fair value through other comprehensive income	36	201	**197,568,330**	**–**	**197,568,330**
Total			**1,283,241,765**	**23,298,960**	**1,259,942,805**

As at December 31, 2019				Market risk measurement	
	Note	Page No.	Carrying amount Rs. '000	Trading portfolios Rs. '000	Non-trading portfolios Rs. '000
Liabilities subject to market risk					
Due to banks	45	225	**51,505,694**	**–**	**51,505,694**
Derivative financial liabilities	46	225	**1,495,317**	**1,495,317**	**–**
Securities sold under repurchase agreements			**51,220,023**	**–**	**51,220,023**
Financial liabilities at amortised cost – Due to depositors	47	226	**1,009,298,153**	**–**	**1,009,298,153**
Financial liabilities at amortised cost – Other borrowings	48	227	**23,248,893**	**–**	**23,248,893**
Subordinated liabilities	52	235	**37,886,789**	**–**	**37,886,789**
Total			**1,174,654,869**	**1,495,317**	**1,173,159,552**

As at December 31, 2018				Market risk measurement	
	Note	Page No.	Carrying amount Rs. '000	Trading portfolios Rs. '000	Non-trading portfolios Rs. '000
Assets subject to market risk					
Cash and cash equivalents	28	190	20,050,789	–	20,050,789
Balances with central banks	29	191	14,517,678	–	14,517,678
Placements with banks	30	191	19,898,515	–	19,898,515
Securities purchased under resale agreements			9,513,512	–	9,513,512
Derivative financial assets	31	192	7,909,962	7,909,962	–
Financial assets recognised through profit or loss – Measured at fair value	32	192	5,520,167	5,520,167	–
Financial assets at amortised cost – Loans and advances to banks	33	195	763,074	–	763,074
Financial assets at amortised cost – Loans and advances to other customers	34	196	861,100,315	–	861,100,315
Financial assets at amortised cost – Debt and other financial instruments	35	199	83,855,436	–	83,855,436
Financial assets measured at fair value through other comprehensive income	36	201	176,506,729	–	176,506,729
Total			1,199,636,177	13,430,129	1,186,206,048
Liabilities subject to market risk					
Due to banks	45	225	50,101,081	–	50,101,081
Derivative financial liabilities	46	225	8,021,783	8,021,783	–
Securities sold under repurchase agreements			49,104,462	–	49,104,462
Financial liabilities at amortised cost – Due to depositors	47	226	937,860,201	–	937,860,201
Financial liabilities at amortised cost – Other borrowings	48	227	25,361,912	–	25,361,912
Subordinated liabilities	52	235	37,992,457	–	37,992,457
Total			1,108,441,896	8,021,783	1,100,420,113

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 give 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.

As at December 31, 2019	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 Rs. '000
Financial assets							
Cash and cash equivalents	9,215,666	12,554,349	–	–	–	30,764,715	52,534,730
Balances with central banks	2,765,146	–	–	–	–	36,695,981	39,461,127
Placements with banks	3,261,491	21,265,750	–	–	–	–	24,527,241
Securities purchased under resale agreements	8,125,007	5,022,527	–	–	–	–	13,147,534
Financial assets at amortised cost – Loans and advances to Banks	–	–	–	–	–	757,787	757,787
Financial assets at amortised cost – Loans and advances to other customers	527,618,048	158,915,759	93,319,369	48,269,822	43,013,693	13,509,053	884,645,744
Financial assets at amortised cost – Debt and other financial instruments	5,291,577	9,518,320	59,585,280	25,605,926	1,143,716	–	101,144,819
Financial assets measured at FVOCI	66,890,389	8,088,259	48,416,303	46,581,213	27,371,567	220,599	197,568,330
Total financial assets	623,167,324	215,364,964	201,320,952	120,456,961	71,528,976	81,948,135	1,313,787,312
Financial liabilities							
Due to banks	11,128,331	38,667,503	–	–	–	1,709,860	51,505,694
Securities sold under repurchased agreements	42,163,827	9,056,196	–	–	–	–	51,220,023
Financial liabilities at amortised cost – Due to depositors	562,780,000	374,502,486	22,665,149	11,978,066	13,648,530	67,733,429	1,053,307,660
Financial liabilities at amortised cost – Other borrowings	16,503,973	618,815	1,101,040	797,397	4,227,668	–	23,248,893
Subordinated liabilities	14,707,359	–	9,502,140	8,393,840	5,283,450	–	37,886,789
Total financial liabilities	647,283,490	422,845,000	33,268,329	21,169,303	23,159,648	69,443,289	1,217,169,059
Interest rate sensitivity gap	(24,116,166)	(207,480,036)	168,052,623	99,287,658	48,369,328	12,504,846	96,618,253
Cumulative gap	(24,116,166)	(231,596,202)	(63,543,579)	35,744,079	84,113,407	96,618,253	

As at December 31, 2018	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 Rs. '000
Financial assets							
Cash and cash equivalents	7,899,330	–	–	–	–	31,635,146	39,534,476
Balances with central banks	7,977,591	–	–	–	–	46,406,999	54,384,590
Placements with banks	19,898,515	–	–	–	–	–	19,898,515
Securities purchased under resale agreements	9,513,512	–	–	–	–	–	9,513,512
Loans and receivables to banks	–	–	–	–	–	763,074	763,074
Financial assets at amortised cost – Loans and advances to other customers	533,135,000	150,322,969	84,367,436	45,455,860	39,873,228	7,945,822	861,100,315
Financial assets at amortised cost – Debt and other financial instruments	6,809,951	11,418,870	25,792,972	36,441,801	3,391,842	–	83,855,436
Financial assets measured at FVOCI	71,642,547	50,504,487	48,380,556	4,477,494	1,257,276	244,369	176,506,729
Total financial assets	656,876,446	212,246,326	158,540,964	86,375,155	44,522,346	86,995,410	1,245,556,647

As at December 31, 2018	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 Rs. '000
Financial liabilities							
Due to banks	26,297,708	4,574,999	7,320,000	7,320,000	–	4,588,374	50,101,081
Securities sold under repurchase agreements	39,075,611	6,771,810	3,257,041	–	–	–	49,104,462
Financial liabilities at amortised cost – Due to depositors	512,016,994	351,834,901	23,818,232	13,279,035	13,153,783	68,934,369	983,037,314
Financial liabilities at amortised cost – Other borrowings	19,559,972	514,797	1,005,084	737,950	3,544,109	–	25,361,912
Subordinated liabilities	14,566,489	–	9,748,678	8,393,840	5,283,450	–	37,992,457
Total financial liabilities	611,516,774	363,696,507	45,149,035	29,730,825	21,981,342	73,522,743	1,145,597,226
Interest rate sensitivity gap	45,359,672	(151,450,181)	113,391,929	56,644,330	22,541,004	13,472,667	99,959,421
Cumulative gap	45,359,672	(106,090,509)	7,301,420	63,945,750	86,486,754	99,959,421	

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.

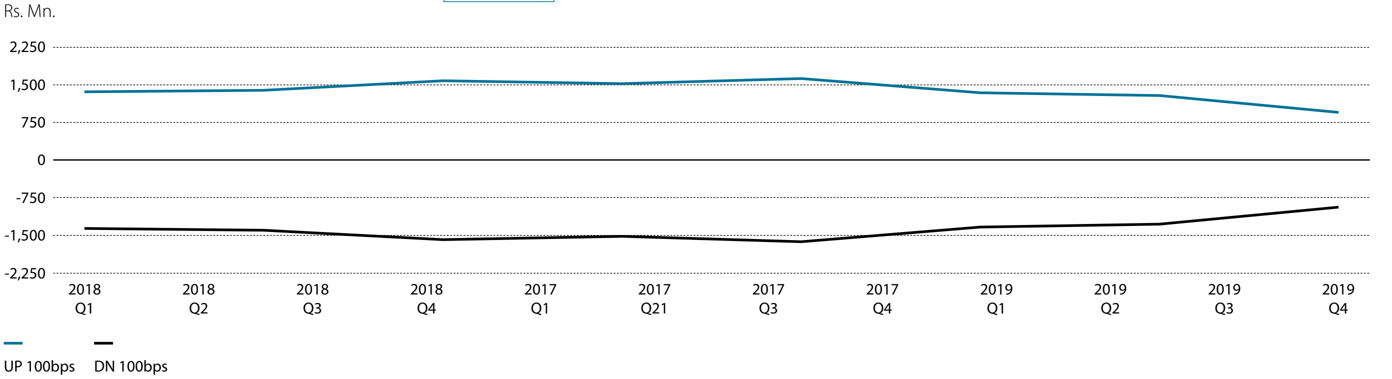
The following table demonstrates the sensitivity of the Bank's Income Statement (net impact) due to change in interest rates by 100 bps on rupee denominated assets and liabilities and 25bps on FCY denominated assets and liabilities with all other variables held constant as at the reporting date.

Sensitivity of projected net interest income

Net Interest Income (NII)	2019		2018	
	Parallel increase Rs. '000	**Parallel decrease Rs. '000**	Parallel increase Rs. '000	Parallel decrease Rs. '000
At at December 31,	**932,750**	**(911,553)**	1,560,756	(1,557,263)
Average for the period	**1,425,767**	**(1,413,235)**	1,493,675	(1,490,832)
Maximum for the period	**1,646,844**	**(1,643,315)**	1,646,558	(1,639,199)
Minimum for the period	**932,750**	**(911,553)**	1,269,334	(1,267,132)

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 shocks of 100 bps is applied on LKR denominated assets and liabilities and 25 bps is applied on FCY 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.

Impact of a rate shock on the net interest income Graph – 44



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. The Bank has established 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, 2019 and 2018 and the exposure as a percentage of the total capital funds:

Foreign exchange position as at December 31, 2019

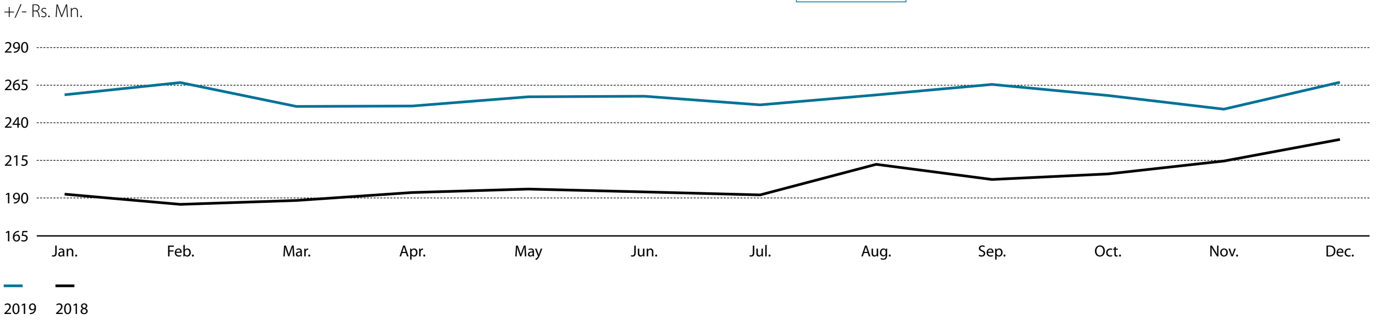
Currency	Spot			Forward			Net open position	Net position in other exchange contracts	Overall exposure in respective foreign currency	Overall exposure in Rs.
	Assets	Liabilities	Net	Assets	Liabilities	Net				
	2	3	4=2-3	5	6	7=5-6	8	9	10=4+7+8	11
	'000	'000	'000	'000	'000	'000	'000	'000	'000	'000
United States Dollar	42,226	16,831	25,395	5,161	30,147	(24,986)	4,076	–	4,485	815,099
Great Britain Pound	280	139	141	–	100	(100)	62	–	102	24,242
Euro	1,344	1,194	150	1,100	1,109	(9)	6	–	147	29,926
Japanese Yen	27,545	516,294	(488,749)	494,703	–	494,703	(2,657)	–	3,297	5,515
Australian Dollar	235	159	76	–	125	(125)	72	–	23	2,883
Canadian Dollar	109	147	(38)	–	–	–	82	–	44	6,169
Other currencies in USD	429	149	280	100	21	79	267	–	626	113,826
Total exposure							USD 4,519		USD 5,489	997,660
Total capital funds (capital base) as per the audited Basel III computation – Bank										157,045,547
Total exposure as a percentage of total capital funds (%)										0.64

Foreign exchange position as at December 31, 2018

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	3	4=2-3	5	6	7=5-6	8	9	10=4+7+8	11
	'000	'000	'000	'000	'000	'000	'000	'000	'000	'000
United States Dollar	18,716	20,365	(1,649)	2,829	6,225	(3,396)	10,854	–	5,809	1,063,097
Great Britain Pound	666	101	566	30	604	(574)	(7)	–	(15)	(3,466)
Euro	3,522	2,435	1,087	461	1,550	(1,089)	(8)	–	(11)	(2,308)
Japanese Yen	14,126	3,320	10,806	38,645	47,696	(9,051)	(968)	–	787	1,304
Australian Dollar	468	79	389	150	534	(384)	–	–	6	747
Canadian Dollar	50	42	8	–	–	–	(7)	–	1	177
Other currencies in USD	300	189	111	17	63	(46)	73	–	138	25,243
Total exposure							USD 10,896		USD 5,928	1,084,794
Total capital funds (capital base) as per the audited Basel III computation – Bank										147,398,341
Total exposure as a percentage of total capital funds (%)										0.74

The Bank regularly carries out 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 Lankan Operation) Graph – 45



69.3.4 Exposure to equity price risk

Equity price risk arises as a result of any change in market prices and volatilities of individual equities. The Bank conducts mark-to-market calculations on a daily, quarterly and on a need basis to identify the impact due to changes in equity prices.

The table below summarises the impact (both to Income Statement and to equity) due to a change of 10% on equity prices.

	2019			2018		
	Financial assets recognised through profit or loss Rs. '000	Financial assets fair value through other comprehensive income Rs. '000	Total Rs. '000	Financial assets recognised through profit or loss Rs. '000	Financial assets fair value through other comprehensive income Rs. '000	Total Rs. '000
Market value of equity securities as at December 31,	983,138	169,013	1,152,151	768,807	195,149	963,956
Stress Level	Impact on Income Statement	Impact on OCI	Impact on equity	Impact on Income Statement	Impact on OCI	Impact on equity
Shock of 10% on equity prices (upward)	98,314	16,901	115,215	76,881	19,515	96,396
Shock of 10% on equity prices (downward)	(98,314)	(16,901)	(115,215)	(76,881)	(19,515)	(96,396)

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 backup 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 10.00% with minimum Tier 1 capital with buffers in relation to total risk weighted assets and a minimum total CAR with buffers of 14.00% in relation to total risk weighted assets.

As at December 31,	2019 Rs. '000	2018 Rs. '000
Common equity Tier 1 (CET1) capital after adjustments	**119,622,141**	107,110,518
Total common equity Tier 1 (CET1) capital	**123,941,618**	110,822,797
Equity capital (stated capital)/assigned capital	**40,916,957**	39,147,882
Reserve fund	**8,205,391**	7,354,143
Published retained earnings/(accumulated retained losses)	**4,714,691**	5,726,294
Published accumulated other comprehensive income (OCI)	**2,516,082**	352,491
General and other disclosed reserves	**67,588,497**	58,241,987
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	**4,319,477**	3,712,279
Goodwill (net)	**–**	
Other intangible assets (net)	**1,080,011**	906,114
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% of the issued ordinary share capital of the entity	**2,941,594**	2,802,352
Deferred tax assets (net)	**294,059**	–
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	**37,423,406**	40,287,823
Total Tier 2 Capital	**37,423,406**	40,287,823
Qualifying Tier 2 capital instruments	**26,704,378**	33,103,574
Revaluation gains	**3,087,658**	3,087,658
General provisions/Eligible impairment	**7,631,370**	4,096,591
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	**119,622,141**	107,110,518
Total Tier 1 capital	**119,622,141**	107,110,518
Total capital	**157,045,547**	147,398,341

69.5.2 Capital allocation

Management monitors the capital adequacy ratio on a regular basis to 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 return on 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 risks 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

Disclosures 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 disclose the templates specified by the Central Bank of Sri Lanka as per Basel III – Minimum disclosure requirements with effective from July 1, 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 – 2019

The Bank declared a second interim dividend of Rs. 3.00 per share on January 31, 2020 to both the voting and non-voting ordinary shareholders of the Bank for the year ended December 31, 2019 and this dividend will be paid on February 24, 2020.

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, 2019. As per the Notice published by the Inland Revenue Department dated February 18, 2020, withholding tax will not be deducted from dividend declared.

70.2 Final dividend – 2019

The Board of Directors of the Bank has recommended the payment of a final dividend of Rs. 2.00 per share which will be satisfied in the form of issue and allotment of new shares for both the voting and non-voting ordinary shareholders of the Bank for the year ended December 31, 2019.

This final dividend is yet to be approved at the Annual General Meeting to be held on March 30, 2020. 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, 2019. As per the Notice published by the Inland Revenue Department dated February 18, 2020, withholding tax will not be deducted from dividend 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 20, 2020 has been audited by Messrs Ernst & Young.

70.3

Following proposals were announced as per the Notice dated February 18, 2020 issued by the Inland Revenue Department on "Implementation of Proposed Changes to the Inland Revenue Act No. 24 of 2017" (pending formal amendments to the Act).

(i) Income Tax rate of Corporates has been revised to 24% from 28% and dividend income will be taxed at 14% effective from January 1, 2020.

However, the Bank continued to apply the Income Tax rate of 28% in calculating the deferred tax liabilities/assets as at December 31, 2019 as the legislature has not been substantively enacted as at the reporting date. The Bank recorded a net deferred tax asset of Rs. 294.059 Mn. as at December 31, 2019. If the Income Tax rate was revised to 24% from 28%, the deferred tax impact to the Bank's Income Statement and Statement of Profit or Loss and Other Comprehensive Income would have been an expense of Rs. 381.785 Mn. and a reversal of Rs. 387.840 Mn., respectively.

Entities in the Group also continued to apply the prevailing Income Tax rates for calculation of the net deferred tax asset/liability.

(ii) Income tax exemption on Interest Income from Sri Lanka Development Bonds (SLDB), effective from April 1, 2018.

The income tax liability recognised as at December 31, 2018 was without considering interest income from SLDB as an exempt source. Accordingly, the over provision made o/a of income tax liability in 2018 was reversed to the Income Statement of the current year. Further, Income Tax liability for the year ended December 31, 2019 too was calculated by considering the interest income from SLDB as an exempt source of income.

Pages 287-372

Supplementary Information

This Annual Report details the Bank's performance during the 12-month period from January 1, 2019 to December 31, 2019. To ensure brevity and concentrated focus, all extraneous information has been posted within this section.

Annex 1: Investor Relations

Dear Stakeholder,

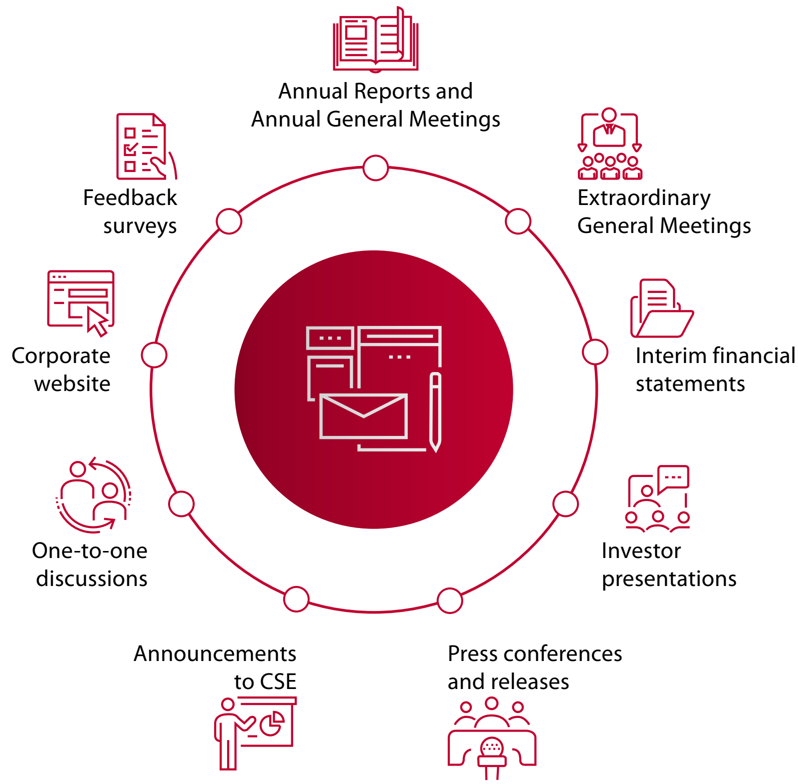
We wish to convey our sincere gratitude to you for electing to invest in the Bank's capital, both equity and debt, and wish to assure you that we are determined to optimise returns for your investments through sustained and prudent growth. As a Domestic systemically important Bank, it is our responsibility to present you with timely, relevant, and balanced view of the Bank's fundamentals in terms of operational results, financial position, and cash flows. We trust that this Report helps investors to comprehend the Bank's underlying strengths and it also bolsters confidence and loyalty, bringing together a loyal group of investors with a long-term view of their investment.

The Bank always strives to encourage effective two-way communication with our investors promoting mutual trust and confidence besides ensuring the rights conferred on the investors by various statutes. We take every effort to ensure that all our investors are sufficiently informed of relevant information so that they are able to make informed decisions. This has enabled the Bank to actively engage with its investors in a consistent, comprehensive and accurate manner, often going beyond the minimum regulations promoting its reputation.

The Bank follows a multi-faceted approach to engage with its stakeholders, including the Annual Report, which is the Bank's main investor communications tool, and the Annual General Meeting which is an opportunity available for the investor community to engage with the Bank. These engagements will certainly help our investors to gain insight into the Bank's performance, strategic direction, and approach to governance and risk management strategies adopted.

The Bank took several initiatives to produce a concise integrated Annual Report which can be seen throughout each section of this Report, with due consideration being given to the valuable feedback given by our shareholders in response to the results of the survey conducted on the future direction of the Bank in 2018. Continuing this journey, this year too we have made arrangements to enclose a stakeholder feedback form in this Annual Report in order to seek your valuable suggestions and opinion for further improvements. Your comments and opinions are of great value to us. Many are taken on board and incorporated into our strategies for long-term value creation. The investor relations section of our website is another popular channel available for stakeholders and the Bank continues to ensure that its pages are updated in a timely manner along with the rest of the site.

Investor relations channels Figure – 26



We firmly believe that the Bank's efforts to have an effective communication and active engagement with important stakeholder groups have made the Bank's shares a creditable investment proposition. As a result of a very challenging economic environment witnessed throughout the year, the stock market too witnessed mixed results, with the ASPI increasing marginally by 1.27% and both S&P SL20 and BFI dropping by 6.32% and 1.04%, respectively. These results contributed to the decline in the Bank's share price which traded at a discount at 0.73 times to book value at the end of December 2019 (0.98 times in 2018). However, it continued to remain the highest among the peers in the Bank, Finance and Insurance sector, and is a testament to our policy of sharing relevant information about our future prospects in addition to our current performance.

The Bank's public holding (free float) as at December 31, 2019 was 99.76% in voting shares and 86.62% in non-voting shares while float-adjusted market capitalisation [compliant under option-1 of the Rules on minimum public holding requirement of the Colombo Stock Exchange (CSE)] amounted to Rs. 96 Bn. With its shares actively traded in the CSE, investors are provided with a convenient "entry and exit" mechanism.

Compliance report on the contents of Annual Report in terms of the Listing Rules of the CSE

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

Please refer Table 29 on page 289 for a complete list of disclosure requirements and references to the relevant sections of this Annual Report where Bank's compliance is disclosed together with the relevant page numbers.

The pages that follow contain information on the performance of the Bank's listed securities.

Compliance with requirements of the Section 7.6 of the Listing Rules of the CSE

Table – 29

Rule No.	Disclosure requirement	Section/reference	Page/s
7.6 (i)	Names of persons who during the financial year were Directors of the Bank	Corporate Governance Report	76
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	149 358
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	Item 5.3 of the "Investor Relations"	296
7.6 (iv)	The float adjusted market capitalisation, public holding percentage (%), number of public shareholders and under which option the listed entity complies with the minimum public holding requirement	Item 5.3 of the "Investor Relations"	296
7.6 (v)	A statement of each Directors' holding and Chief Executive Officer's holding in shares of the entity at the beginning and end of each financial year	Item 5.4 of the "Investor Relations"	297
7.6 (vi)	Information pertaining to material foreseeable risk factors of the Bank	Item 7 of the "Investor Relations"	298
7.6 (vii)	Details of material issues pertaining to employees and industrial relations of the Bank	Item 8 of the "Investor Relations"	298
7.6 (viii)	Extents, locations, valuations and the number of buildings of the entity's land holdings and investment properties	Note 39.5 (a) and (b) to the Financial Statements on "Property, Plant and Equipment"	212 & 213
7.6 (ix)	Number of shares representing the Bank's stated capital	Note 53 to the Financial Statements on "Stated Capital" Item 3 of the "Investor Relations"	236 292
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"	295
7.6 (xi)	Ratios and market price information:		
	Equity – Dividend per share, dividend payout ratio, net asset value per share, market value per share	Items 2, 4 and 10.2 of the "Investor Relations"	291, 294 & 299
	Debt – Interest rate of comparable Government Securities, debt/equity ratio, interest cover and quick asset ratio, market prices and yield during the year	Items 10.1 and 10.2 of the "Investor Relations"	298 & 299
	Any changes in credit rating	Items 10.3 and 10.4 of the "Investor Relations"	299
7.6 (xii)	Significant changes in the Bank's or its subsidiaries' fixed assets and the market value of land, if the value differs substantially from the book value	Note 39.5 (b) to the Financial Statements on "Property, plant and equipment"	213
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" Not applicable since the Bank has not raised funds through share issue during the year	236
7.6 (xiv)	a. Information in respect of Employee Share Option Schemes (ESOP) The number of options granted to each category of employees during the financial year. Total number of options vested but not exercised by each category of employees during the financial year. Total number of options exercised by each category of employees and the total number of shares arising therefrom during the financial year. Options cancelled during the financial year and the reasons for such cancellation. The exercise price. A declaration by the directors of the entity confirming that the Entity or any of its subsidiaries has not, directly or indirectly, provided funds for the ESOS.	Note 53.2 and 54 to the Financial Statements on "Employee Share Option Plans"	237

Rule No.	Disclosure requirement	Section/reference	Page/s
	b. Information in respect of Employee Share Purchase Schemes (ESPS) The total number of shares issued under the ESPS during the financial year The number of shares issued to each category of employees during the financial year The price at which the shares were issued to the employees A declaration by the Directors of the entity confirming that the entity or any of its subsidiaries has not, directly or indirectly, provided funds for the ESPS	Not applicable as the Bank does not have Employee Share Purchase Schemes	–
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 Rules.	Not applicable since the Bank received an exemption in terms of Section 7.10 (c) of the Listing Rules	–
7.6 (xvi)	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 2019	–
	Details of investments in a related party and/or amounts due from a related party to be set out separately The details shall include, as a minimum: i. The date of the transaction; ii. The name of the related party; iii. The relationship between the entity and the related party; iv. The amount of the transaction and terms of the transaction; v. The rationale for entering into the transaction	Item 20.3 of Annual Report of Board of Directors	99

1. Our Listed Securities

The Bank's ordinary shares (both voting and non-voting) are listed on the Main Board of the CSE under the ticker symbol "COMB". All debentures issued are also listed on the CSE. (Refer Table 30 for a summary of listed securities of the Bank).

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 using the abbreviation of Commercial Bank or COMB.

Summary of listed securities of the Bank Table – 30

	Number in issue as at		Stock symbol
	December 31, 2019	December 31, 2018	
Equity			
Ordinary shares – Voting	**961,252,317**	945,709,403	COMB-N0000
Ordinary shares – Non-voting	**66,254,269**	65,013,174	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%
Fixed rate debentures July 2018/23	**83,938,400**	83,938,400	COMB/BD/22/07/23-C2404-12.00%
Fixed rate debentures July 2018/28	**16,061,600**	16,061,600	COMB/BD/22/07/28-C2405-12.50%

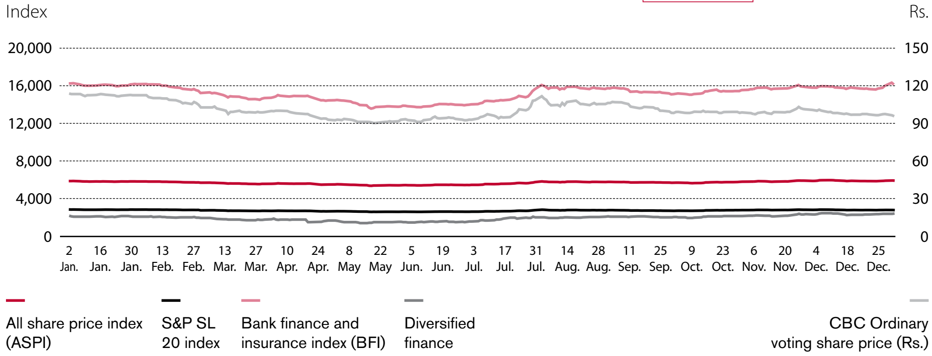
2. Performance of Securities and Returns to Shareholders

Despite the continuous lacklustre performance of the bourse, there was continued investor interest in the shares of the Bank during the year, as depicted in the increased number of transactions (Ordinary shares – Voting 60% and Ordinary shares – Non-voting 20%) compared to 2018 (Refer Table 35 on page 292). The CSE concluded 2019 on a mixed note owing to political and economic uncertainty. The ASPI gained slightly by 1.27 % from 6,052 in 2018 to 6,129 by the end of 2019, while the S&P SL20 closed 2019 on a negative note, decreasing by 6.32% from 3,135 in 2018 to 2,937 by the end of 2019. Foreign activities recorded a net outflow of Rs. 11.73 Bn. However, the total market capitalisation of the CSE was at Rs. 2,851.31 Bn. and was above the level at the end of 2018. Foreign companies were net sellers, while local companies and foreign and local individuals were net buyers.

The Bank, Finance and Insurance sector index reflected a marginal drop during the year.

The market price of an ordinary voting share of the Bank decreased by 17.39% from Rs. 115 at the end of 2018 to Rs. 95 at the end of 2019 (Table 31). The Bank maintained its policy of issuing scrip dividends and continued with its Employee Share Option Plans. Market capitalisation for both voting and non-voting shares in turn decreased from Rs. 115 Bn. (USD 628.415 Mn.) in 2018 to Rs. 97 Bn. (USD 532.699 Mn.) in 2019, accounting for 3.40% of the total market capitalisation. The Bank's shares ranked fourth among all listed entities and first among the listed corporates in the Bank, Finance and Insurance sector. During most of 2019, the movement of the non-voting share price followed the trend of the voting shares.

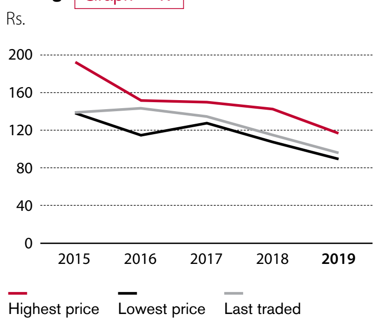
Performance of the Commercial Bank's ordinary voting share in 2019 Graph – 46



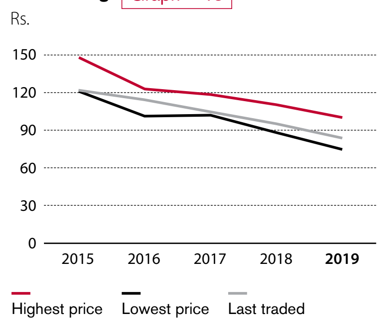
Share price of last five years Table – 31

	2019 Rs.	2018 Rs.	2017 Rs.	2016 Rs.	2015 Rs.
Ordinary shares – Voting					
Highest price during the year	**115.90**	142.50	150.00	151.90	194.00
Lowest price during the year	**88.60**	107.50	128.50	115.00	139.90
Last traded price	**95.00**	115.00	135.80	145.00	140.20
Ordinary shares – Non-voting					
Highest price during the year	**99.40**	110.00	118.50	123.00	149.00
Lowest price during the year	**74.00**	88.00	102.30	101.50	122.10
Last traded price	**83.00**	95.00	105.00	115.00	123.00

Share price trend – Ordinary Shares – Voting Graph – 47



Share price trend – Ordinary Shares – Non-voting Graph – 48



Sustainable value for investors Table – 32

	Ordinary shares – Voting			Ordinary shares – Non-voting		
	Trade date	2019 Rs.	2018 Rs.	Trade date	2019 Rs.	2018 Rs.
Highest price	2.01.2019	**115.90**		23.01.2019	**99.40**	
	10.01.2018 & 11.01.2018		142.50	12.01.2018		110.00
Lowest price	17.05.2019	**88.60**		16.05.2019	**74.00**	
	25.10.2018		107.50	1.10.2018 & 2.10.2018		88.00
Year end price		**95.00**	115.00		**83.00**	95.00

Information on shareholders' funds and Bank's market capitalisation Table – 33

As at December 31,	Shareholders' funds	Commercial Bank's market capitalisation (*)	Total market capitalisation of the CSE	Commercial Bank's market capitalisation as a % of CSE market capitalisation	Commercial Bank's market capitalisation ranking	Commercial Bank's market capitalisation (*)
	Rs. Bn.	Rs. Bn.	Rs. Bn.	%	Rank	USD Mn.
2019	**133**	**97**	**2,851**	**3.40**	**4**	**532.699**
2018	118	115	2,839	4.05	3	628.415
2017	107	133	2,899	4.60	4	867.670
2016	78	127	2,745	4.64	3	851.019
2015	70	115	2,938	3.92	3	798.009

**Market capitalisation as at December 31, 2019 and 2018 includes both voting and non-voting shares.*

Number of transactions (No.) Table – 34

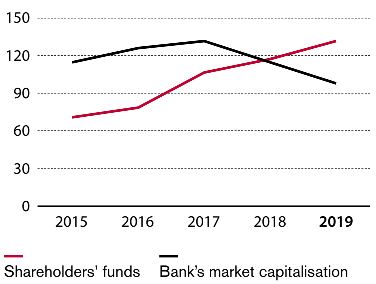
	2019	2018	2017	2016	2015
Ordinary shares – Voting	**21,481**	13,364	11,811	15,189	15,575
Ordinary shares – Non-voting	**5,452**	4,553	4,432	3,721	5,073

Number of shares traded (No. '000) Table – 35

	2019	2018	2017	2016	2015
Ordinary shares – Voting	**89,289**	95,286	144,205	96,146	117,373
Ordinary shares – Non-voting	**5,893**	10,637	6,717	5,396	9,553

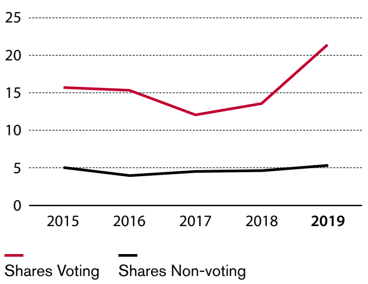
Shareholders' funds and Bank's market capitalisation Graph – 49

Rs. Bn.



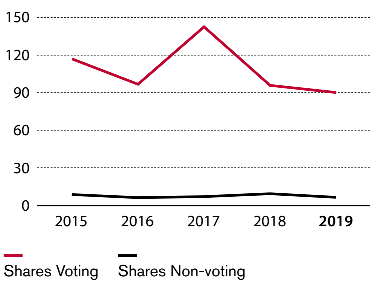
Number of transactions Graph – 50

No. '000



Number of shares traded Graph – 51

No. Mn.



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 CSE) Table – 36

Year			Basis	Number of shares issued/ (redeemed)	Number 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	–

Year			Basis	Number of shares issued/ (redeemed)	Number of shares: Ordinary shares voting	Ordinary shares non-voting	Cumulative redeemable preference shares
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	–
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	–

Year			Basis	Number of shares issued/ (redeemed)	Number of shares		
					Ordinary shares voting	Ordinary shares non-voting	Cumulative redeemable preference shares
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	–
2018	Scrip issue for final dividend 2017	Voting	Rs. 2.00 per share	11,998,388	943,970,079	63,927,611	–
	Scrip issue for final dividend 2017	Non-voting		1,085,563	943,970,079	65,013,174	–
	ESOP	Voting		1,739,324	945,709,403	65,013,174	–
2019	Scrip issue for final dividend 2018	Voting	Rs. 2.00 per share	15,249,529	960,958,932	65,013,174	–
	Scrip issue for final dividend 2018	Non-voting		1,241,095	960,958,932	66,254,269	–
	ESOP	Voting		293,385	961,252,317	66,254,269	–

4. Dividends

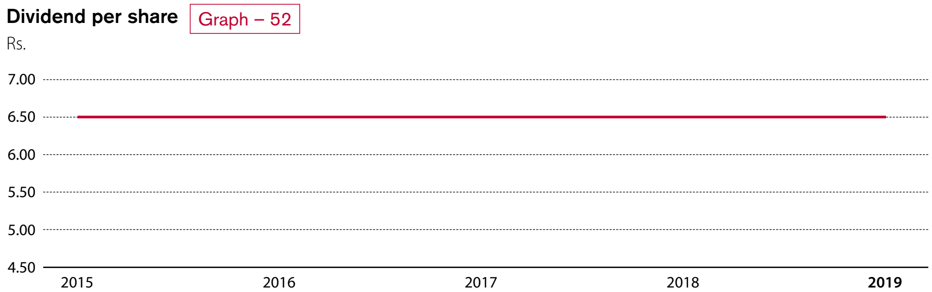
The declaration of a dividend should always ensure that a balance between the shareholders' needs and the business needs of the Bank. For the year under review, the Bank paid two interim dividends totalling to Rs. 4.50 per share in cash. A final dividend of Rs. 2.00 per ordinary share has now been recommended 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, 2019. It will be submitted for the approval of the shareholders at the 51st AGM, to be held on March 30, 2020.

(A dividend of Rs. 6.50 per share was declared and paid by the Bank for the year ended December 31, 2018. 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 information Table – 37

Dividends	2019	2018	2017	2016	2015
Cash – Rs. Per share					
First interim paid	**1.50**	1.50	1.50	1.50	1.50
Second interim paid	**3.00**	3.00	3.00	3.00	–
Final proposed/paid	**–**	–	–	–	3.00
Total	**4.50**	4.50	4.50	4.50	4.50
Scrip – Rs. Per share					
Final proposed/alloted	**2.00**	2.00	2.00	2.00	2.00
Total	**6.50**	6.50	6.50	6.50	6.50
Dividend payout ratio (%)					
Cash	**27.16**	25.92	26.42	27.64	33.15
Total (cash and shares)	**39.23**	37.44	38.17	39.94	47.89

Dividend per share Graph – 52



5. Shareholders

The Bank had 12,268 ordinary voting shareholders and 4,673 ordinary non-voting shareholders as at December 31, 2019 compared to 10,615 and 4,437 voting and non-voting shareholders as at December 31, 2018 (Tables 38 and 39). With five new investors joining ranks, the percentage of ordinary voting shares held by the 20 largest shareholders increased to 68.82% from 67.21% in 2018. A rise was also recorded in the non-voting ordinary shares held by the 20 largest shareholders to 45.62% in 2019 from 43.57% in 2018.

Number of ordinary shareholders Table – 38

As at December 31,	2019	2018
Ordinary shareholders – Voting	**12,268**	10,615
Ordinary shareholders – Non-voting	**4,673**	4,437
Total	**16,941**	15,052

5.1 Composition of shareholders Table – 39

	As at December 31, 2019				As at December 31, 2018			
	No. of shareholders	%	No. of shares	%	No. of shareholders	%	No. of shares	%
Ordinary shares – Voting								
Resident	**11,979**	**97.64**	**680,500,179**	**70.79**	10,336	97.37	640,513,129	67.73
Non-resident	**289**	**2.36**	**280,752,138**	**29.21**	279	2.63	305,196,274	32.27
Total	**12,268**	**100.00**	**961,252,317**	**100.00**	10,615	100.00	945,709,403	100.00
Individuals	**11,599**	**94.55**	**217,888,250**	**22.67**	10,055	94.72	203,708,919	21.54
Institutions	**669**	**5.45**	**743,364,067**	**77.33**	560	5.28	742,000,484	78.46
Total	**12,268**	**100.00**	**961,252,317**	**100.00**	10,615	100.00	945,709,403	100.00
Ordinary shares – Non-voting								
Resident	**4,600**	**98.44**	**52,731,695**	**79.59**	4,360	98.26	49,852,293	76.68
Non-resident	**73**	**1.56**	**13,522,574**	**20.41**	77	1.74	15,160,881	23.32
Total	**4,673**	**100.00**	**66,254,269**	**100.00**	4,437	100.00	65,013,174	100.00
Individuals	**4,448**	**95.19**	**37,265,740**	**56.25**	4,221	95.13	34,430,243	52.96
Institutions	**225**	**4.81**	**28,988,529**	**43.75**	216	4.87	30,582,931	47.04
Total	**4,673**	**100.00**	**66,254,269**	**100.00**	4,437	100.00	65,013,174	100.00

5.2 Distribution schedule of number of shareholders and percentage of holding in each class of equity securities

(As per Rule No. 7.6 (x) of the Listing Rules of CSE) Table – 40

	As at December 31, 2019				As at December 31, 2018			
	Number of shareholders	%	Number of shares	%	Number of shareholders	%	Number of shares	%
Ordinary shares – Voting								
1 – 1,000	**6,587**	**53.69**	**1,561,344**	**0.16**	5,619	52.93	1,269,681	0.13
1,001 – 10,000	**3,687**	**30.05**	**13,254,119**	**1.38**	3,241	30.53	11,833,928	1.25
10,001 – 100,000	**1,628**	**13.27**	**45,723,643**	**4.76**	1,435	13.52	41,064,271	4.34
100,001 – 1,000,000	**282**	**2.30**	**74,521,795**	**7.75**	244	2.30	68,631,856	7.26
Over 1,000,000	**84**	**0.69**	**826,191,416**	**85.95**	76	0.72	822,909,667	87.02
Total	**12,268**	**100.00**	**961,252,317**	**100.00**	10,615	100.00	945,709,403	100.00
Ordinary shares – Non-voting								
1 – 1,000	**2,561**	**54.80**	**608,395**	**0.92**	2,462	55.49	580,673	0.89
1,001 – 10,000	**1,480**	**31.67**	**5,037,000**	**7.60**	1,363	30.72	4,597,203	7.07
10,001 – 100,000	**532**	**11.38**	**15,054,584**	**22.72**	514	11.58	14,812,051	22.78
100,001 – 1,000,000	**93**	**1.99**	**23,501,033**	**35.47**	92	2.07	23,303,602	35.84
Over 1,000,000	**7**	**0.16**	**22,053,257**	**33.29**	6	0.14	21,719,645	33.42
Total	**4,673**	**100.00**	**66,254,269**	**100.00**	4,437	100.00	65,013,174	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 CSE)

Voting shareholders Table – 41

As at December 31, Ordinary shares – Voting		2019 Number of shares	2019 %	2018* Number of shares	2018* %
1.	Employees Provident Fund	**92,558,649**	**9.63**	91,090,278	9.63
2.	DFCC Bank PLC A/C 1	**82,560,377**	**8.59**	128,215,649	13.56
3.	Mr Y S H I Silva	**77,604,815**	**8.07**	76,373,675	8.08
4.	Deutsche Bank AG Singapore – DSS A/C NTAsian Discovery Master Fund	**53,015,739**	**5.52**	53,948,136	5.70
5.	DFCC Bank PLC A/C No. 02	**47,628,006**	**4.95**	–	–
6.	Sri Lanka Insurance Corporation Ltd. – Life Fund	**47,345,380**	**4.93**	42,927,124	4.54
7.	Melstacorp PLC	**44,444,324**	**4.62**	43,550,677	4.61
8.	CB NY S/A International Finance Corporation	**42,651,626**	**4.44**	41,974,991	4.44
9.	Sri Lanka Insurance Corporation Ltd. – General Fund	**37,506,430**	**3.90**	36,911,420	3.90
10.	Citibank Newyork S/A Norges Bank Account 2	**21,973,486**	**2.29**	18,395,709	1.94
11.	Employees Trust Fund Board	**18,020,355**	**1.87**	16,783,623	1.77
12.	Mrs L E M Yaseen	**16,538,000**	**1.72**	15,765,606	1.67
13.	JPMCB – T Rowe New Asia Fund	**15,163,496**	**1.58**	14,922,939	1.58
14.	BNYMSANV RE – First State Investments ICVC – Stewart Investors Indian Subcontinent Sustainability Fund	**14,184,363**	**1.48**	12,243,878	1.29
15.	BPSS LUX – Aberdeen Standard SICAV I – Asia Pacific Equity Fund	**9,720,591**	**1.01**	–	–
16.	Renuka Hotels PLC	**9,666,942**	**1.01**	8,513,584	0.90
17.	Mr M J Fernando	**9,181,964**	**0.96**	9,036,300	0.96
18.	Renuka Consultants & Services Limited	**8,414,742**	**0.88**	8,031,249	0.85
19.	BNYMSANV RE – LF Ruffer Investment Funds: LF Ruffer Pacific and Emerging Market Fund	**7,054,298**	**0.73**	6,942,387	0.73
20.	SSBT-BMO Investments II (Ireland) Public Limited Company	**6,290,471**	**0.65**	9,989,558	1.06
	Sub total	**661,524,054**	**68.82**	635,616,783	67.21
	Other shareholders	**299,728,263**	**31.18**	310,092,620	32.79
	Total	**961,252,317**	**100.00**	945,709,403	100.00

** Comparative shareholdings as at December 31, 2018 of the twenty largest shareholders as at December 31, 2019.*

Public shareholding
(As per Rule No. 7.6 (iv) and 7.13.1of the Listing Rules of CSE) Table – 42

	2019 Number	2019 %	2018 Number	2018 %
Number of shareholders representing the public holding (Voting)	**12,234**	**99.76**	10,580	99.77
Number of shareholders representing the public holding (Non-voting)	**4,663**	**86.62**	4,427	84.41
Float Adjusted Market Capitalisation Rs. Bn. (Compliant under option 1)	**96**		114	

Non-voting shareholders Table – 43

As at December 31, Ordinary shares – Non-voting	2019 Number of shares	2019 %	2018* Number of shares	2018* %
1. Citibank Newyork S/A Norges Bank Account 2	**8,714,210**	**13.15**	9,990,652	15.37
2. Employees Trust Fund Board	**5,154,149**	**7.78**	5,057,600	7.78
3. Akbar Brothers (Pvt) Ltd. A/C No. 01	**2,756,839**	**4.16**	2,411,894	3.71
4. GF Capital Global Limited	**1,712,928**	**2.59**	1,680,841	2.59
5. Serendip Investments Limited	**1,494,489**	**2.26**	–	–
6. M J F Exports (Pvt) Ltd.	**1,133,395**	**1.71**	1,112,164	1.71
7. Mr M F Hashim	**1,087,247**	**1.64**	920,197	1.42
8. Saboor Chatoor (Pvt) Ltd.	**909,646**	**1.37**	887,700	1.37
9. Mrs L V C Samarasinha	**891,208**	**1.35**	874,514	1.35
10. Mr T W A Wickramasinghe	**740,000**	**1.12**	645,000	0.99
11. Mr M J Fernando	**730,734**	**1.10**	349,598	0.54
12. Mr J D Bandaranayake, Ms N Bandaranayake & Dr V Bandaranayake (Joint)	**648,153**	**0.98**	618,135	0.95
13. Mr J D Bandaranayake, Dr V Bandaranayake & Ms I Bandaranayake (Joint)	**627,619**	**0.95**	615,863	0.95
14. Mr R Gautam	**623,919**	**0.94**	574,560	0.88
15. Mr K S M De Silva	**567,298**	**0.86**	520,176	0.80
16. Mr G R Mallawaaratchy & Mrs B G P Mallawaaratchy (Joint)	**555,582**	**0.84**	545,175	0.84
17. Mr J G De Mel	**523,547**	**0.79**	473,519	0.73
18. Mr A P Somasiri	**463,685**	**0.70**	455,000	0.70
19. Mr A L Gooneratne	**446,072**	**0.67**	437,717	0.67
20. Mr E Chatoor	**434,381**	**0.66**	144,345	0.22
Sub total	**30,215,101**	**45.62**	28,314,650	43.57
Other shareholders	**36,039,168**	**54.38**	36,698,524	56.43
Total	**66,254,269**	**100.00**	65,013,174	100.00

** Comparative shareholdings as at December 31, 2018 of the twenty largest shareholders as at December 31, 2019.*

5.4 Directors' shareholding including the Chief Executive Officer's shareholding (As per Rule No. 7.6 (v) of the Listing Rules of CSE) Table – 44

	Ordinary shares – Voting 2019	Ordinary shares – Voting 2018	Ordinary shares – Non-voting 2019	Ordinary shares – Non-voting 2018
Mr K G D D Dheerasinghe – *Chairman*	**24,254**	23,870	**Nil**	Nil
Mr M P Jayawardena – *Deputy Chairman*	**Nil**	Nil	**Nil**	Nil
Mr S Renganathan – *Managing Director/Chief Executive Officer*	**353,736**	323,903	**12,143**	11,916
Mr S C U Manatunga	**69,778**	57,553	**Nil**	Nil
Mr S Swarnajothi	**Nil**	Nil	**11,152**	10,944
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	**193,062**	190,000	**51,540**	50,575
Mr G S Jadeja*	**Nil**	Nil	**Nil**	Nil
Mr T L B Hurulle	**Nil**	Nil	**Nil**	Nil
Justice K Sripavan	**Nil**	Nil	**Nil**	Nil

**Resigned w.e.f April 1, 2019*

6. Engaging with shareholders

During the year, the Bank 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 300 to 305 It also records significant events that may reasonably be expected to impact the share price. (More details are given in Financial Calendar on page 131)

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 "Risk Governance and Management" on pages 110 to 128.

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 2019 compared to 2018

(As per Rule No. 7.4 (a) (i) of the Listing Rules of the CSE)
The Bank duly submitted the Interim Financial Statements for the year 2019 to the CSE within applicable statutory deadlines. (The Bank duly complied with this requirement for 2018). The Interim Financial Statements were prepared in compliance with the requirements of the Sri Lanka Accounting Standard – LKAS 34 on "Interim Financial Reporting" and provided the information as required in items of the Rule 7.4 of the CSE.

Please refer "Financial Calendar" on page 131 for further details. A Summary of the Income Statement and the Statement of Financial Position depicting quarterly performance during 2019 together with comparatives for 2018 is given on pages 300 to 305 for the information of stakeholders.

Interim Financial Statements for the first three quarters of 2018 has been restated by incorporating the impact on adopting Sri Lanka Accounting Standard "SLFRS 9 – Financial Instruments" which become effective from January 1, 2018. The Bank has previously prepared Interim Financial Statements for the first three quarters of 2018 based on "LKAS 39 – Financial Instruments: Recognition and Measurement" as permitted by the Statement of Alternative Treatment (SoAT) on the figures in the Interim Financial Statements issued by CA Sri Lanka.

The Audited Income Statement for the year ended December 31, 2019 and the Audited Statement of Financial Position as at December 31, 2019 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 2018).

This Annual Report in its entirety is available on the Bank's website (http://www.combank.lk/newweb/en/investors).

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.

10. Debt securities

Details of debentures issued by the Bank is as shown below:

10.1 Debenture Composition

Table – 45

	Fixed Interest Rate 2019					
Type of Issue	Public	Public	Public	Public	Public	Public
Debenture Type	Type "A"	Type "B"	Type "A"	Type "B"	Type "A"	Type "B"
CSE Listing	Listed	Listed	Listed	Listed	Listed	Listed
Issue Date	March 9, 2016	March 9, 2016	October 28, 2016	October 28, 2016	July 23, 2018	July 23, 2018
Maturity Date	March 8, 2021	March 8, 2026	October 27, 2021	October 27, 2026	July 22, 2023	July 22, 2028
Interest Payable Frequency	Bi-Annually	Bi-Annually	Bi-Annually	Bi-Annually	Bi-Annually	Bi-Annually
Offered Interest Rate	10.75% p.a.	11.25% p.a.	12.00% p.a.	12.25% p.a.	12.00% p.a.	12.50% p.a.
Amount (Rs. Mn.)	4,430.34	1,749.09	5,071.80	1,928.20	8,393.84	1,606.16
Market Values						
– Highest (Rs.)	90.00	100.00	90.00	Not traded during the year	Not traded during the year	Not traded during the year
– Lowest (Rs.)	90.00	100.00	90.00			
– Year-end (Rs.)	90.00	100.00	90.00			
Interest Rates						
– Coupon Rate (%)	10.75	11.25	12.00	12.25	12.00	12.50
– Effective Annual Yield (%)	11.04	11.57	12.36	12.63	12.36	12.89
Interest rate of comparable Government Security (%)	8.55	9.90	8.70	9.90	9.40	10.10
Other Ratios as at date of last trade						
– Interest Yield (%)	16.57	11.24	16.86	N/A	N/A	N/A
– Yield to Maturity (%)	16.32	11.25	16.64	N/A	N/A	N/A

10.2 Other ratios

Table – 46

	2019	2018
Debt equity ratio (%)	**38.97**	45.39
Net assets value per share (Rs.)	**129.60**	117.15
Interest cover (Times)	**8.54**	10.00
Liquid assets ratio (%) (Minimum 20%)		
Domestic Banking Unit (DBU)	**30.42**	24.47
Off-shore Banking Unit (OBU)	**25.25**	30.20

10.3 Credit ratings

The Bank's credit rating, AA (lka) was reaffirmed by Fitch Ratings Lanka Ltd. in September 2019. The Bank's Bangladesh Operation's credit rating was reaffirmed at AAA by Credit Rating Information Services Ltd. in May 2019.

10.4 Credit ratings – Debentures

The credit rating of the Bank's Subordinated Debentures affirmed in September 2019 at AA-(lka) by Fitch Ratings Lanka Ltd.

Fixed Interest Rate 2018						Fixed Interest Rate 2017			
Public	Public	Public	Public	Public	Public	Public	Public	Public	Public
Type "A"	Type "B"	Type "A"	Type "B"	Type "A"	Type "B"	Type "A"	Type "B"	Type "A"	Type "B"
Listed	Listed	Listed	Listed	Listed	Listed	Listed	Listed	Listed	Listed
March 9, 2016	March 9, 2016	October 28, 2016	October 28, 2016	July 23, 2018	July 23, 2018	March 9, 2016	March 9, 2016	October 28, 2016	October 28, 2016
March 8, 2021	March 8, 2026	October 27, 2021	October 27, 2026	July 22, 2023	July 22, 2028	March 8, 2021	March 8, 2026	October 27, 2021	October 27, 2026
Bi-Annually	Bi-Annually	Bi-Annually	Bi-Annually	Bi-Annually	Bi-Annually	Bi-Annually	Bi-Annually	Bi-Annually	Bi-Annually
10.75% p.a.	11.25% p.a.	12.00% p.a.	12.25% p.a.	12.00% p.a.	12.50% p.a.	10.75% p.a.	11.25% p.a.	12.00% p.a.	12.25% p.a.
4,430.34	1,749.09	5,071.80	1,928.20	8,393.84	1,606.16	4,430.34	1,749.09	5,071.80	1,928.20
Not traded during the year	100.00	102.66	Not traded during the year	Not traded during the year	Not traded during the year	85.33	Not traded during the year	96.00	Not traded during the year
	90.00	99.96				81.40		87.17	
	90.00	102.66				81.40		87.17	
10.75	11.25	12.00	12.25	12.00	12.50	10.75	11.25	12.00	12.25
11.04	11.57	12.36	12.63	12.36	12.89	11.04	11.57	12.36	12.63
11.30	11.65	11.50	11.80	11.65	11.85	9.70	10.10	9.80	10.10
N/A	13.45	11.02	N/A	N/A	N/A	17.96	N/A	15.98	N/A
N/A	13.30	11.06	N/A	N/A	N/A	17.52	N/A	15.74	N/A

Summary of the Income Statements – Group and Bank – 2019

Table – 47

	1st Quarter March 31 Rs. '000	2nd Quarter June 30 Rs. '000	3rd Quarter September 30 Rs. '000	4th Quarter December 31 Rs. '000	Total (Audited) Rs. '000
Group					
Net interest income	12,119,820	12,025,716	12,277,968	11,932,887	48,356,391
Net fee and commission income	2,447,840	2,390,610	2,840,646	3,072,742	10,751,838
Other operating income (net)	550,539	2,583,027	2,670,120	2,774,733	8,578,419
Less: Impairment charges and other losses	1,896,313	3,630,501	3,017,776	2,786,933	11,331,523
Net operating income	13,221,886	13,368,852	14,770,958	14,993,429	56,355,125
Less: Expenses	8,204,593	8,041,586	8,380,022	8,755,020	33,381,221
Operating profit	5,017,293	5,327,266	6,390,936	6,238,409	22,973,904
Add: Share of profits/(losses) of associate companies	1,343	4,529	3,636	484	9,992
Profit before income tax	5,018,636	5,331,795	6,394,572	6,238,893	22,983,896
Less: Income tax expense	1,827,824	1,850,007	1,548,871	336,798	5,563,500
Profit for the period	3,190,812	3,481,788	4,845,701	5,902,095	17,420,396
Quarterly profit as a percentage of the profit after tax	18.3	20.0	27.8	33.9	100.0
Cumulative quarterly profit as a percentage of the profit after tax	18.3	38.3	66.1	100.0	–

	1st Quarter March 31 Rs. '000	2nd Quarter June 30 (Audited) Rs. '000	3rd Quarter September 30 Rs. '000	4th Quarter December 31 Rs. '000	Total (Audited) Rs. '000
Bank					
Net interest income	11,881,071	11,758,079	11,991,650	11,577,472	47,208,272
Net fee and commission income	2,335,343	2,337,977	2,741,978	2,874,214	10,289,512
Other operating income (net)	460,042	2,573,614	2,641,059	2,845,445	8,520,160
Less: Impairment charges and other losses	1,852,370	3,515,041	2,955,795	2,738,260	11,061,466
Net operating income	12,824,086	13,154,629	14,418,892	14,558,871	54,956,478
Less: Expenses	8,049,713	7,882,695	8,177,767	8,507,198	32,617,373
Profit before income tax	4,774,373	5,271,934	6,241,125	6,051,673	22,339,105
Less: Income tax expense	1,751,497	1,828,428	1,484,148	250,065	5,314,138
Profit for the period	3,022,876	3,443,506	4,756,977	5,801,608	17,024,967
Quarterly profit as a percentage of the profit after tax	17.8	20.2	27.9	34.1	100.0
Cumulative quarterly profit as a percentage of the profit after tax	17.8	38.0	65.9	100.0	–

Summary of the Income Statements – Group and Bank – 2018

Table – 48

	1st Quarter March 31 Rs. '000	2nd Quarter June 30 Rs. '000	3rd Quarter September 30 Rs. '000	4th Quarter December 31 Rs. '000	Total (Audited) Rs. '000
Group					
Net interest income	10,974,263	11,392,684	11,476,809	11,774,453	45,618,209
Net fees and commission income	2,446,387	2,545,663	2,594,603	3,047,739	10,634,392
Other operating income (net)	474,851	1,350,590	3,073,497	3,712,928	8,611,866
Less: Impairment charges for loans and other losses	1,126,250	2,240,276	3,682,829	1,784,007	8,833,362
Net operating income	12,769,251	13,048,661	13,462,080	16,751,113	56,031,105
Less: Expenses	6,876,351	7,097,937	7,420,454	8,543,863	29,938,605
Operating profit	5,892,900	5,950,724	6,041,626	8,207,250	26,092,500
Add: Share of profits/(losses) of associate companies	1,616	3,564	663	205	6,048
Profit before income tax	5,894,516	5,954,288	6,042,289	8,207,455	26,098,548
Less: Income tax expense	1,755,985	2,067,671	2,044,353	2,367,708	8,235,717
Profit for the period	4,138,531	3,886,617	3,997,936	5,839,747	17,862,831
Quarterly profit as a percentage of the profit after tax	23.2	21.8	22.4	32.7	100.0
Cumulative quarterly profit as a percentage of the profit after tax	23.2	44.9	67.3	100.0	–

	1st Quarter March 31 Rs. '000	2nd Quarter June 30 (Audited) Rs. '000	3rd Quarter September 30 Rs. '000	4th Quarter December 31 Rs. '000	Total (Audited) Rs. '000
Bank					
Net interest income	10,813,322	11,232,272	11,302,758	11,593,406	44,941,758
Net fees and commission income	2,342,420	2,437,339	2,469,070	2,901,341	10,150,170
Other operating income (net)	492,173	1,290,882	2,968,470	3,844,042	8,595,567
Less: Impairment charges for loans and other losses	967,720	2,005,887	3,506,310	2,095,282	8,575,199
Net operating income	12,680,195	12,954,606	13,233,988	16,243,507	55,112,296
Less: Expenses	6,780,114	6,966,930	7,274,723	8,499,321	29,521,088
Profit before income tax	5,900,081	5,987,676	5,959,265	7,744,186	25,591,208
Less: Income tax expense	1,746,189	2,075,536	2,007,972	2,217,683	8,047,380
Profit for the period	4,153,892	3,912,140	3,951,293	5,526,503	17,543,828
Quarterly profit as a percentage of the profit after tax	23.7	22.3	22.5	31.5	100.0
Cumulative quarterly profit as a percentage of the profit after tax	23.7	46.0	68.5	100.0	–

Statement of Financial Position – Group – 2019 Table – 49

As at	March 31 Rs. '000	June 30 Rs. '000	September 30 Rs. '000	December 31 (Audited) Rs. '000
Assets				
Cash and cash equivalents	51,197,799	53,188,327	49,275,010	53,681,118
Balances with central banks	51,599,785	45,126,978	42,467,189	46,101,232
Placements with banks	28,158,636	24,883,478	24,213,930	24,903,809
Securities purchased under resale agreements	23,988,458	18,497,618	16,020,541	13,147,534
Derivative financial assets	4,510,499	3,253,835	2,055,696	1,830,927
Financial assets recognised through profit or loss – measured at fair value	10,668,315	12,252,492	16,413,151	21,468,033
Financial assets at amortised cost – Loans and advances to banks	731,801	736,299	758,397	757,787
Financial assets at amortised cost – Loans and advances to other customers	861,142,772	854,238,500	865,095,075	893,919,311
Financial assets at amortised cost – Debt and other financial instruments	85,428,291	98,761,011	98,104,929	107,059,021
Financial assets measured at fair value through other comprehensive income	176,527,583	208,698,513	205,397,219	197,825,017
Investments in subsidiaries	–	–	–	–
Investments in associates	101,888	105,388	55,632	56,821
Property, plant and equipment	16,980,540	16,882,420	17,289,059	22,423,046
Investment properties	–	–	46,350	46,350
Intangible assets	1,473,609	1,505,196	1,573,573	1,645,714
Leasehold property	102,705	102,343	101,977	101,612
Deferred tax assets	132,577	180,225	196,965	530,165
Other assets	30,631,819	27,674,083	31,289,510	23,443,869
Total assets	1,343,377,077	1,366,086,706	1,370,354,203	1,408,941,366
Liabilities				
Due to banks	42,694,636	62,009,934	49,473,621	53,807,425
Derivative financial liabilities	3,961,272	2,411,810	2,314,173	1,495,317
Securities sold under repurchase agreements	41,381,747	40,649,376	38,023,739	51,117,342
Financial liabilities at amortised cost – due to depositors	1,025,585,219	1,037,150,823	1,047,138,415	1,068,982,587
Financial liabilities at amortised cost – other borrowings	25,312,923	24,188,447	24,414,671	23,248,893
Current tax liabilities	7,009,677	7,480,547	5,861,745	5,197,188
Deferred tax liabilities	1,043,580	1,031,229	646,670	416,458
Other liabilities	37,467,290	27,250,407	32,521,860	30,775,884
Due to subsidiaries	–	–	–	–
Subordinated liabilities	37,444,838	37,494,509	37,960,312	37,886,789
Total Liabilities	1,221,901,182	1,239,667,082	1,238,355,206	1,272,927,883
Equity				
Stated capital	40,916,957	40,916,957	40,916,957	40,916,958
Statutory reserves	7,444,178	7,445,163	7,445,163	8,387,701
Retained earnings	2,965,210	6,416,457	11,357,570	5,182,185
Other reserves	68,936,039	70,392,367	70,754,689	79,937,405
Total equity attributable to equity holders of the Bank	120,262,384	125,170,944	130,474,379	134,424,249
Non-controlling interest	1,213,511	1,248,680	1,524,618	1,589,234
Total Equity	121,475,895	126,419,624	131,998,997	136,013,483
Total liabilities and equity	1,343,377,077	1,366,086,706	1,370,354,203	1,408,941,366
Contingent liabilities and commitments	623,050,857	585,207,963	628,720,426	580,961,807
Net assets value per ordinary share (Rs.)	117.04	121.82	126.98	130.83
Quarterly growth (%)				
Financial assets at amortised cost – Loans and advances to banks and loans and advances to other customers	-0.75	-0.80	1.27	3.33
Financial liabilities at amortised cost – due to depositors	3.14	1.13	0.96	2.09
Total assets	1.78	1.69	0.31	2.82

Statement of Financial Position – Group – 2018 Table – 50

As at	March 31 Rs. '000	June 30 Rs. '000	September 30 Rs. '000	December 31 (Audited) Rs. '000
Assets				
Cash and cash equivalents	53,879,303	31,059,073	30,983,162	44,355,962
Balances with central banks	49,971,990	52,267,614	55,917,066	55,406,535
Placements with banks	5,831,754	13,115,949	10,486,952	19,898,515
Securities purchased under resale agreements	6,042,033	–	3,002,093	9,513,512
Derivative financial assets	2,301,690	1,214,820	4,948,856	7,909,962
Financial assets recognised through profit or loss – measured at fair value	4,653,855	6,657,345	8,455,135	5,520,167
Financial assets at amortised cost – Loans and advances to banks	650,103	660,945	705,773	763,074
Financial assets at amortised cost – Loans and advances to other customers	784,976,048	813,725,784	840,068,096	867,611,976
Financial assets at amortised cost – Debt and other financial instruments	143,333,674	139,529,807	142,720,252	89,274,413
Financial assets measured at fair value through other comprehensive income	140,771,111	117,699,965	117,833,039	176,760,611
Investments in subsidiaries	–	–	–	–
Investments in associates	108,089	107,669	104,043	105,320
Property, plant and equipment	16,249,842	16,301,595	16,681,518	17,015,236
Investment properties	–	–	–	–
Intangible assets	1,248,310	1,267,002	1,410,755	1,433,931
Leasehold property	104,157	103,795	103,429	103,064
Deferred tax assets	–	–	–	188,487
Other assets	20,599,871	19,771,975	21,866,481	24,051,472
Total assets	1,230,721,830	1,213,483,338	1,255,286,650	1,319,912,237
Liabilities				
Due to banks	49,388,076	44,660,704	46,632,555	52,362,052
Derivative financial liabilities	1,970,672	1,706,183	4,914,552	8,021,783
Securities sold under repurchase agreements	75,886,269	53,526,353	35,031,678	48,951,394
Financial liabilities at amortised cost – due to depositors	913,144,030	920,077,634	952,331,708	994,370,875
Financial liabilities at amortised cost – other borrowings	24,301,153	23,768,936	24,885,897	25,361,912
Current tax liabilities	4,722,488	5,617,467	5,915,150	6,735,997
Deferred tax liabilities	3,458,398	3,187,652	3,067,150	971,424
Other liabilities	21,987,015	20,227,936	24,055,688	24,547,513
Due to subsidiaries	–	–	–	–
Subordinated liabilities	25,600,771	25,565,239	36,949,882	37,992,457
Total Liabilities	1,120,458,872	1,098,338,104	1,133,784,260	1,199,315,407
Equity				
Stated capital	39,086,211	39,144,134	39,147,882	39,147,882
Statutory reserves	6,492,778	6,492,778	6,492,778	7,444,178
Retained earnings	4,441,436	8,656,988	13,771,531	4,949,955
Other reserves	59,342,906	59,924,046	61,090,874	67,855,834
Total equity attributable to equity holders of the Bank	109,363,331	114,217,946	120,503,065	119,397,849
Non-controlling interest	899,627	927,288	999,325	1,198,981
Total Equity	110,262,958	115,145,234	121,502,390	120,596,830
Total liabilities and equity	1,230,721,830	1,213,483,338	1,255,286,650	1,319,912,237
Contingent liabilities and commitments	552,478,758	618,594,182	656,790,941	604,021,400
Net assets value per ordinary share (Rs.)	108.26	113.01	119.22	118.13
Quarterly growth (%)				
Financial assets at amortised cost – Loans and advances to banks and loans and advances to other customers	5.72	3.66	3.24	3.28
Financial liabilities at amortised cost – due to depositors	6.52	0.76	3.51	4.41
Total assets	6.48	-1.40	3.44	5.15

Statement of Financial Position – Bank – 2019 Table – 51

As at	March 31 Rs. '000	June 30 (Audited) Rs. '000	September 30 Rs. '000	December 31 (Audited) Rs. '000
Assets				
Cash and cash equivalents	40,490,801	44,719,754	43,628,405	52,534,730
Balances with central banks	49,591,644	43,450,379	40,888,289	39,461,127
Placements with banks	27,972,963	24,386,003	23,774,064	24,527,241
Securities purchased under re-sale agreements	23,988,458	18,497,618	16,020,541	13,147,534
Derivative financial assets	4,510,499	3,253,835	2,055,696	1,830,927
Financial assets recognised through profit or loss – measured at fair value	10,668,315	12,252,492	16,413,151	21,468,033
Financial assets at amortised cost – Loans and advances to banks	731,801	736,299	758,397	757,787
Financial assets at amortised cost – Loans and advances to other customers	853,891,574	847,364,012	857,595,286	884,645,744
Financial assets at amortised cost – Debt and other financial instruments	79,286,240	93,363,847	91,286,998	101,144,819
Financial assets measured at fair value through other comprehensive income	176,288,466	208,459,018	205,157,059	197,568,330
Investments in subsidiaries	4,304,032	4,303,814	4,619,287	5,011,284
Investments in associates	44,331	44,331	44,331	44,331
Property, plant and equipment	15,271,969	15,185,135	15,176,692	20,436,493
Investment properties	–	–	–	–
Intangible assets	959,417	999,066	1,016,676	1,080,010
Leasehold property	71,421	71,186	70,948	70,710
Deferred tax assets	–	–	–	294,059
Other assets	30,526,679	27,545,229	31,117,533	23,322,247
Total assets	1,318,598,610	1,344,632,018	1,349,623,353	1,387,345,406
Liabilities				
Due to banks	40,274,885	59,867,706	47,631,147	51,505,694
Derivative financial liabilities	3,961,272	2,411,810	2,314,173	1,495,317
Securities sold under repurchase agreements	41,531,673	40,747,726	38,133,178	51,220,023
Financial liabilities at amortised cost – due to depositors	1,006,076,868	1,020,918,723	1,031,733,089	1,053,307,660
Financial liabilities at amortised cost – other borrowings	25,312,923	24,188,447	24,414,671	23,248,893
Current tax liabilities	6,777,712	7,232,866	5,696,943	4,967,644
Deferred tax liabilities	716,986	702,188	226,978	–
Other liabilities	37,229,335	26,895,743	32,098,371	30,496,709
Due to subsidiaries	41,719	50,544	138,081	54,292
Subordinated liabilities	37,444,838	37,494,509	37,960,312	37,886,789
Total liabilities	1,199,368,211	1,220,510,262	1,220,346,943	1,254,183,021
Equity				
Stated capital	40,916,957	40,916,957	40,916,957	40,916,958
Statutory reserves	7,354,143	7,354,143	7,354,143	8,205,391
Retained earnings	2,973,293	6,416,384	11,296,851	5,144,433
Other reserves	67,986,006	69,434,272	69,708,459	78,895,603
Total equity attributable to equity holders of the Bank	119,230,399	124,121,756	129,276,410	133,162,385
Non-controlling Interest	–	–	–	–
Total equity	119,230,399	124,121,756	129,276,410	133,162,385
Total liabilities and equity	1,318,598,610	1,344,632,018	1,349,623,353	1,387,345,406
Contingent liabilities and commitments	622,647,488	584,832,875	628,260,614	579,999,273
Net assets value per ordinary share (Rs.)	116.04	120.80	125.82	129.60
Quarterly growth (%)				
Financial assets at amortised cost – Loans and advances to banks & Loans and advances to other customers	-0.84	-0.76	1.21	3.15
Financial Liabilities at amortised cost – Due to depositors	2.34	1.48	1.06	2.09
Total assets	1.16	1.97	0.37	2.80

Statement of Financial Position – Bank – 2018 Table – 52

As at	March 31 Rs. '000	June 30 (Audited) Rs. '000	September 30 Rs. '000	December 31 (Audited) Rs. '000
Assets				
Cash and cash equivalents	52,043,922	26,619,059	28,361,740	39,534,476
Balances with central banks	49,174,180	51,380,853	54,988,756	54,384,590
Placements with banks	5,831,754	13,115,949	10,250,010	19,898,515
Securities purchased under re-sale agreements	6,042,033	–	3,002,093	9,513,512
Derivative financial assets	2,301,690	1,214,820	4,948,856	7,909,962
Financial assets recognised through profit or loss – measured at fair value	4,653,855	6,657,345	8,455,135	5,520,167
Financial assets at amortised cost – Loans and advances to banks	650,103	660,945	705,773	763,074
Financial assets at amortised cost – Loans and advances to other customers	779,615,283	808,394,470	834,289,997	861,100,315
Financial assets at amortised cost – Debt and other financial instruments	138,132,644	135,484,485	138,002,348	83,855,436
Financial assets measured at fair value through other comprehensive income	140,576,594	117,460,848	117,593,922	176,506,729
Investments in subsidiaries	3,081,857	3,556,707	3,650,198	4,263,631
Investments in associates	44,331	44,331	44,331	44,331
Property, plant and equipment	14,585,348	14,637,781	14,987,794	15,301,246
Investment properties	–	–	–	–
Intangible assets	766,140	775,632	883,621	906,112
Leasehold property	72,363	72,128	71,890	71,652
Deferred tax assets	–	–	–	–
Other assets	20,503,432	19,639,599	21,394,473	23,911,122
Total assets	1,218,075,529	1,199,714,952	1,241,630,937	1,303,484,870
Liabilities				
Due to banks	46,513,272	41,970,534	44,182,639	50,101,081
Derivative financial liabilities	1,970,672	1,706,183	4,914,552	8,021,783
Securities sold under repurchase agreements	76,030,848	53,672,210	35,178,841	49,104,462
Financial liabilities at amortised cost – due to depositors	905,633,678	911,180,396	943,615,158	983,037,314
Financial liabilities at amortised cost – other borrowings	24,301,153	23,768,936	24,885,897	25,361,912
Current tax liabilities	4,624,854	5,443,229	5,781,089	6,566,358
Deferred tax liabilities	3,192,493	3,008,375	2,898,350	646,248
Other liabilities	21,687,211	19,955,103	23,471,502	24,206,351
Due to subsidiaries	20,109	33,251	51,867	40,955
Subordinated liabilities	25,600,771	25,565,239	36,949,882	37,992,457
Total liabilities	1,109,575,061	1,086,303,456	1,121,929,777	1,185,078,921
Equity				
Stated capital	39,086,211	39,144,134	39,147,882	39,147,882
Statutory reserves	6,476,952	6,476,952	6,476,952	7,354,143
Retained earnings	4,384,170	8,650,605	13,765,504	5,063,076
Other reserves	58,553,135	59,139,805	60,310,822	66,840,848
Total equity attributable to equity holders of the Bank	108,500,468	113,411,496	119,701,160	118,405,949
Non-controlling Interest	–	–	–	–
Total equity	108,500,468	113,411,496	119,701,160	118,405,949
Total liabilities and equity	1,218,075,529	1,199,714,952	1,241,630,937	1,303,484,870
Contingent liabilities and commitments	552,215,683	618,494,579	656,592,358	603,883,119
Net assets value per ordinary share (Rs.)	107.40	112.21	118.43	117.15
Quarterly growth (%)				
Financial assets at amortised cost – Loans and advances to banks & Loans and advances to other customers	5.71	3.69	3.21	3.22
Financial liabilities at amortised cost – Due to depositors	6.53	0.61	3.56	4.18
Total assets	6.53	–1.51	3.49	4.98

Annex 2: Compliance with Governance Directions and Codes

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**	
3 (1) (i)	The Board has strengthened the security 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 pages 37 to 39. 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 via 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 2019-2023 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 2020-2024 was approved on December 20, 2019 by the Board at a special Board meeting with the presence of all the members of Corporate Management.	✓
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. Risk Governance and Management on pages 110 to 128 and the Report of the BIRMC on pages 86 and 87 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 with stakeholders: • **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 60 days 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 Annual General Meeting (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 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 policy set out by the Bank to handle customer complaints, provides contact numbers to reach the Bank as well as the Financial Ombudsman. There is a 24-hour trilingual customer hotline set up for this purpose and reports are reviewed by both the EIRMC and 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 (KMP)** KMP are defined in the Sri Lanka Accounting Standards, as the persons who significantly influence policy, direct activities and exercise control over business activities, operations and risk management. All appointments of designated KMP are recommended by the BNC and approved by the Board. Further, for corporate governance reporting and monitoring purposes, the Bank has included all members of the Corporate Management in addition to the KMP identified for financial reporting purposes.	✓
g.	**Define areas of authority and key responsibilities for Directors and KMP** 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 KMP** The Board reviews the performance of the Bank vis-à-vis the strategic plan and receives reports from its Committees on financial reporting, internal control, risk management, changes in KMP and other relevant matters delegated to the Committees. Additionally, KMP 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 2019 for review 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 KMP** There is a formal succession plan in place with named successors for KMP together with development plans to ensure their readiness.	✓
k.	**Regular meetings with KMP** Progress towards corporate objectives is a regular agenda item for the Board and members of the Corporate Management 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 Committees 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 KMP 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. Board members attend the Director Forums arranged by the CBSL 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, External Auditors submit a statement annually confirming their independence as required by Section 163 (3) of the Companies Act No. 07 of 2007 (as amended) in connection with external audit.	✓
3 (1) (ii)	**Appointment of Chairman and CEO and defining and approving their functions and responsibilities** Positions of the Chairman and the Managing Director/Chief Executive Officer are separated in the Board Charter to maintain a balance of power. Further, functions and responsibilities of the Chairman and the CEO are defined and approved in line with Section 3 (5) of this Direction as given on page 310.	✓
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 at the meeting actively participate in deliberating matters set before the Board. Attendance at Board meetings is given on page 76 together with the number of meetings of the Board. The Bank has minimised obtaining approval via circular resolutions and it is carried out only on an exceptional basis and such resolutions are ratified by the Board at the next meeting.	✓

Section	Principle, compliance, and implementation	Complied
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 providing Directors adequate time to attend and submit any urgent proposals.	✓
3 (1) (vi)	**Directors' attendance** The Directors are apprised of their attendance in accordance with the Banking Act Direction No. 11 of 2007 (the Direction). Details of the Directors' attendance are set out on page 76. 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 Bank 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 past Board papers and minutes through a secure electronic link.	✓
3 (1) (x)	**Maintaining minutes with sufficient details to 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; (f) the decisions and Board resolutions including reports and minutes of all Board Committees; and (g) the actions to be taken by the KMP.	✓
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. A quarterly report is sent to the Board on possible areas of conflict (if any). Directors withdraw from the meeting, 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 62 to 67.	✓
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 on probable solvency issues** The Bank is solvent and no situations have arisen to challenge its solvency. 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.	✓

Section	Principle, compliance, and implementation	Complied
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 adequacy 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 306 to 316 and pages 73 to 82.	✓
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 (7) and not more than thirteen (13). The Bank's Board comprised eleven (11) Directors as at December 31, 2019.	✓
3 (2) (ii)	**Period of service of a Director** The period of service of a Director is limited to nine (9) years excluding the Executive Directors as per the Direction issued to Licensed Commercial Banks. Details of their tenures of service are given on page 77.	✓
3 (2) (iii)	**Board balance** There are two (2) Executive Directors and nine (9) 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 (9) 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.	✓
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. Directors nominate names of eminent professionals or academics from various disciplines to the BNC who peruse 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 76.	✓
3 (2) (ix)	**Formal and transparent procedure for appointments to the Board** The Board has established a BNC, Terms of Reference of which comply with the specimen given in the Code of Best Practice on Corporate Governance. 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)	**Election of Directors filling casual vacancies** All Directors appointed to the Board are subject to 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.	✓

Section	Principle, compliance, and implementation	Complied
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/entities/institutions inclusive of subsidiaries or associate companies of the Bank.** No Director holds directorships in excess of 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) and (ii) above.	✓
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 62. 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 the Chairman but may be delegated to the 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: (a) Circulation of Board papers including minutes of the previous meeting seven days prior to meeting (b) Clarification of matters by KMP 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** Nine (9) members of the Board are NEDs which creates a conducive environment for active participation by the NEDs. Additionally, NEDs chair the Committees of the Board providing further opportunity for active participation.	✓

Section	Principle, compliance, and implementation	Complied
3 (5) (ix)	**Refrain from direct supervision of KMP and executive duties** The Chairman does not get involved in the supervision of KMP or any other executive duties.	✓
3 (5) (x)	**Ensure effective communication with shareholders** The Bank historically has active shareholder participation at the AGM. At the AGM 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 by the Board of Directors.	✓
3 (6)	**Board appointed committees**	
3 (6) (i)	**Establishing Board Committees, their functions and reporting** The Board has established nine (9) committees with written Terms of Reference for each of which five (5) 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 Board Committees are given on pages 83 to 96. The Chairpersons of the Committees 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 and at least one member of the Audit Committee has qualifications and experience in accountancy and/or audit** Chairman of the Committee, Mr S Swarnajothi is an Independent Non-Executive Director with qualifications and experience in accountancy. Mr S Swarnajothi's profile is given on page 65.	✓
b.	**Committee to comprise solely of Non-Executive Directors** All members of the BAC are Independent Non-Executive Directors.	✓
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 (5) years, and that the particular audit partner is not re-engaged for the audit before the expiry of three (3) 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 (5) 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 Auditors by the Bank: (i) 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. (ii) 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.	✓
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. (iii) the co-ordination between the audit firms, when more than one audit firm is involved within the Group.	✓

Section	Principle, compliance, and implementation	Complied
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 (2) occasions with the External Auditor 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 requirements relating to the Audit Plan. The services of four 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 also ensure that the recommendations of such investigations were implemented.	✓
l.	**Attendees at Board Audit Committee meetings** The Managing Director/CEO, Chief Financial Officer, Assistant General Manager – 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 (2) occasions during the year.	✓
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 83 to 85.	✓
n.	**Regular meetings** The BAC has scheduled regular quarterly meetings and additional meetings are scheduled when required. Accordingly, the Committee met eight (8) 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.	✓

Section	Principle, compliance, and implementation	Complied
o.	**Disclosure in Annual Report** The Report of the BAC on pages 83 to 85 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** Assistant General Manager – 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 a fair and independent investigation and appropriate follow-up action regarding any concerns raised by the employees of the Bank, in relation to possible improprieties in 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 External Auditor on a regular basis to discharge this function.	✓
3 (6) (iii)	**Human Resources and Remuneration Committee (BHRRC)** **Charter of the Committee** The BHRRC is responsible for: (a) determining the remuneration policy relating to Directors, CEO and KMP; (b) setting goals and targets for the Directors, CEO and KMP; and (c) evaluating performance of the CEO and KMP against agreed targets and goals and determining the basis for revising remuneration, benefits and other payments of performance-based incentives. (d) The CEO attends all meetings of the Committee, except when matters relating to the CEO are being discussed.	✓
3 (6) (iv)	**Nomination Committee**	
a.	**Appointment of Directors, CEO and KMP** The Committee has developed and implemented a procedure to appoint new Directors, CEO and KMP. The Committee is chaired by the Chairman of the Bank and comprises two other NEDs, whom are independent. The CEO may be present at meetings by invitation. Refer the BNC Report on page 88.	✓
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 KMP 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 and KMP. The need for new expertise may be identified by the Board or its Committees and brought to the attention of the BNC who will take appropriate action.	✓

Section	Principle, compliance, and implementation	Complied
f.	**Committee to be chaired by an independent Director** The Committee was chaired by an Independent Non-Executive Director and the CEO was attended 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 (CRO) who serves as a non-board member. Other KMP 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 EIRMC, ALCO, CPC and ECMN 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.	✓
e.	**Frequency of meetings** The Committee meets quarterly 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 2019.	✓
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 with observations and suggestions.	✓
g.	**Risk Assessment Report to the 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 oversees the processes relating to this subject and their Report is on page 92. 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, 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 251 to 255. 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 page 109 for more details.	✓

Section	Principle, compliance, and implementation	Complied
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 prescribed 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.	✓
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 a close relation/Close Family Member (CFM) of Directors. Such accommodation requires approval at a meeting of the Board of Directors, by not less than two-third 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. Refer section on "Conflicts of Interest" on page 76 for more details.	✓
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 2019 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" and "Managing Director's and Chief Financial Officer's Statement of Responsibility". Refer pages 103, 104 and 108 respectively.	✓

Section	Principle, compliance, and implementation	Complied
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: Annual Report of the Board of Directors on page 3. Statement of Compliance on pages 97 to 102. Statement of Directors' Responsibility on pages 103 and 104. Directors' Statement on Internal Control over Financial Reporting on pages 105 and 106.	✓
c.	**External Auditors 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 107.	✓
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 62 to 67. • Directors' Interests in Contracts with the Bank on page 109. • Details of remuneration paid by the Bank are given in Note 21 to the Financial Statements on pages 180 and 181.	✓
e.	**Total accommodation granted to each category of related party and as a percentage of the Bank's regulatory capital** The net accommodation granted to each category of related party as a percentage of the Bank's Regulatory Capital are given below: Direct and indirect accommodation to related parties as at December 31, 2019.	✓

Category of related party	Rs. Mn.	%
Directors and their close relations	**34.31**	**0.02**
Key Management Personnel and their close relations	**236.57**	**0.15**
Subsidiaries	**2,889.52**	**1.84**
Associates	–	–
Entities in which Directors/KMP or their close relations have a substantial interest	**4,248.81**	**2.71**

Section	Principle, compliance, and implementation	Complied
f.	**Aggregate values of remuneration to and transactions with Key Management Personnel** The aggregate values of remuneration paid to KMPs amounted to Rs. 552.24 Mn. The total deposits and repurchase agreements held and total net accommodations obtained, as at December 31, 2019 by the KMP amounted to Rs. 469.81 Mn. (Rs. 422.19 Mn. in 2018) and Rs. 250.25 Mn. (Rs. 264.26 Mn. in 2018), respectively.	✓
g.	**External Auditors Certification of Compliance** The factual findings report has been issued by the External Auditors 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 103 and 104 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 concerns on lapses in the Bank's Risk Management Systems or non-compliance with the Direction 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 (the Code) issued by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka)

Code ref.	Compliance and implementation	Complied
A.	**Directors**	
A.1	**The Board** The Board of Commercial Bank comprises eleven (11) eminent professionals drawn from multiple fields and nine (9) out of them are NEDs. They bring diverse perspectives and independent judgement to deliberate 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 Committee 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 12 on page 76. 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 on page 79.	✓
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.	✓
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. 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 KMP.	✓
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 which 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 presentations 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. The NEDs dedicate approximately eighty four (84) days per annum for the affairs of the Bank and those Directors who are also on the BAC and the BIRMC dedicate at least further eight (8) 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.**	✓
A.1.8	**Board induction and training** Refer the Section on "Induction and Training of Directors" on page 81.	✓
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 approved Board paper and the Board Charter.	✓

Code ref.	Compliance and implementation	Complied
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 KMP, 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 on time. Both Executive and NEDs ensure the balance of power on the Board, for the benefit of the Bank, by effectively participating in decision making. 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 vast experience on matters of finance.	✓
A.5	**Board balance** The Board comprises nine (9) NEDs and two (2) Executive Directors facilitating an appropriate balance within the Board. 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. There are no alternate Directors appointed to represent the Directors of the Bank.	✓
A.6	**Provision of appropriate and timely information** Board members receive information regarding matters set before the Board seven days prior to the meetings. The Chairman ensures that all Directors are properly briefed on same by requiring the presence of members of the Corporate Management when deemed necessary. Management also makes presentations on regular agenda items to the Board and its Committees. Additionally, the Directors have access to members of the Corporate Management 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 (2) weeks after the meeting date.	✓
A.7	**Appointments to the Board and re-election** Refer Sections on "Appointment of Directors", "Re-Election of Directors" and BNC report on pages 80 and 88 to 89.	✓
A.8	**All Directors should submit themselves for re-election at regular intervals** Refer Sections on "Re-Election of Directors" and Annual Report of the Board of Directors on page 80. In the event of resignation of a Director prior to completion of his/her appointed term, such resignation including reasons for decision shall be communicated in writing. Mr G S Jadeja resigned from the Board w.e.f. April 01, 2019.	✓
A.9	**Appraisal of Board and Committee performance** Refer Section on "Board and Board Committee Evaluations" on page 81.	✓
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 62 to 67. Remuneration paid to Directors in Note 21 to the Financial Statements on page 180. Related Party Transactions and other business interests in Note 64 on pages 251 to 255. Membership of committees and attendance at Board meetings and Committee meetings on page 76 and pages 83 to 96.	✓
A.11	**Appraisal of the CEO** Refer section on "Appraisal of the CEO" on page 81.	✓

Code ref.	Compliance and implementation	Complied
B.	**Directors' remuneration**	
B.1	**Remuneration procedure** Refer section on "Directors' and Executive Remuneration", and BHRRC Report on pages 81, 90 and 91.	✓
B.2	**Level and make-up of remuneration** Refer section on "Level and make up of remuneration" on page 81.	✓
B.3	**Disclosures related to remuneration in Annual Report** (i) Statement of Remuneration Policy – Refer page 81. (ii) Details of remuneration of the Board as a whole – Refer Note 21 to the Financial Statements on page 180. (iii) Names of the members of the BHRRC and their Report – Refer pages 90 and 91.	✓
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 (as amended). Separate resolutions are proposed for each substantially separate issue. The Chairman ensures the presence of the Chairmen of the BAC, BHRRC, BNC and BRPTRC to respond to any questions that may be directed to them. 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 fifteen (15) working days in advance. The Bank ensures that all valid proxy appointments received for the AGM are counted and properly recorded. A summary of the procedures governing voting at General Meetings is included on page 369 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/en/investors*, 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 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 assets nor any major related party transactions apart from those disclosed in the: • Annual Report of the Board of Directors on page 3. • Statement of Compliance pages 97 to 102. • Note 64 to the Financial Statements on pages 251 to 255.	✓

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. Due care has been exercised to ensure that all statutory requirements are complied within the Annual Report and the issue of interim communications on financial performance which are reviewed by the BAC and recommended prior to publication. The following disclosures as required by the Code are included in this Report: • Management Discussion and Analysis – Refer pages 40 to 61. • Annual Report of the Board of Directors – Refer page 3. • Statement of Compliance – Refer pages 97 to 102. • Statement of Directors' Responsibility – Refer pages 103 and 104. • Statement of Going Concern of the Company is set out in the Statement of Directors' Responsibility – Refer pages 103 and 104. • Directors' Statement on Internal Control over Financial Reporting – Refer pages 105 and 106 and Independent Auditors' Report – Refer pages 132 to 134. • Managing Director's and Chief Financial Officer's Statement of Responsibility on page 108. • Related Party Transactions disclosed on page 100 of the Statement of Compliance, Note 64 in the Financial Statements on pages 251 to 255 and the process in place is described in the Report of the BRPTRC page 92. 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 20 to 27.	✓
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 which in turn is supported by the Inspection Department. Their responsibilities are summarised in the respective Committee 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 Integrated Risk Management function of the Bank and a comprehensive report of how the Bank manages risk is included on pages 110 to 128 and the Committee Reports on pages 86 and 87.	✓
D.3	**Audit Committee** The BAC of the Board comprises five (5) 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 CA Sri Lanka and a former Auditor General of Sri Lanka. The Committee has also appointed Mr Reyaz Mihular FCA, FCMA, Managing Partner of Messrs KPMG as a Consultant to the Committee who 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 given on page 107.	✓
D.4	**Related Party Transactions Review Committee (BPRTRC)** The Bank formed a BRPTRC 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 four (4) Independent Non-Executive Directors. The two Executive Directors also attend the meetings by invitation. A summary of responsibilities and activities of the BRPTRC are given in the report of the BPRTRC on page 92. The Bank has a Board-approved Related Party Transactions Policy in place which addresses requirements under this section.	✓

Code ref.	Compliance and implementation	Complied
D.5	**Code of Ethics** The Bank has an internally-developed Code of Business Conduct and Ethics which is applicable to Directors, other KMP, 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. The Code of Conduct is in compliance with the requirements of the Schedule J of the Code 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 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. "Chairman's Statement" on pages 16 and 17 provides confirmation of the Bank's adherence to the code of Business Conduct and Ethics. 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 Executive Offices and members of the Corporate Management 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 him to inform such transactions to the CSE. The Bank's Chief Financial Officer too monitors daily share transactions list to identify whether Directors, other KMP or employees involved in financial reporting are dealing in shares.	✓
D.6	**Corporate governance disclosures** This Corporate Governance Report from pages 62 to 109 and pages 322 to 326 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 12,268 ordinary voting shareholders of which 669 are institutional shareholders. The Bank has regular 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. The Bank facilitates the analysis of its securities 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 Information Security Policy (ISP) based on ISO/IEC 27001:2013 information security standard is in place, and the Bank's Information Security Management System (ISMS) is established as per the ISP. Performance of the ISMS and any deviations, as well as the information security risk profile of the Bank is regularly reported to the Information Security Council (ISC), and the BIRMC is kept updated periodically through risk indicators and other reports. Bank's ISMS is independently validated on an annual basis by the ISO 27001 ISMS external auditors. Further, sufficient time is allocated in the agenda of the BTC for discussion on cyber risk management. Minutes of both the BIRMC and the BTC meetings are submitted to the Board for information. Refer reports of the BIRMC and BTC on pages 86 and 87 for further information. Four external and four internal vulnerability assessments were conducted during the year under review. In addition two external Penetration Testing (PT) exercises, one internal PT exercise and a web application PT on critical applications were conducted by independent, external parties during 2019.	✓
H.	**Environment, Society and Governance (ESG)**	
H.1	**ESG reporting** 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 as reported in this Report. Information required by the Code is given in the following sections of the Annual Report: Refer Management Discussion and Analysis on pages 40 to 61. Refer Governance and Risk Management on pages 110 to 128. Refer Connecting with Stakeholders and Materiality Matters on pages 28 to 32. This Annual Report has been prepared in accordance with the IIRC Framework, the GRI Guidelines and "A Preparer's Guide to Integrated Corporate Reporting" published by CA Sri Lanka. Refer "Introducing our 51st Annual Report" on page 4.	✓

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 26 – Classification of financial assets and financial liabilities	184
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:* The Bank has not designated any financial asset/liability at fair value through profit or loss.	–
	(ii)	Reclassifications of financial instruments from one category to another.	*Significant Accounting Policies:* Note 7.1.6 – Reclassification of financial assets and liabilities	163
	(iii)	Information about financial assets pledged as collateral and about financial or non-financial assets held as collateral.	*Notes to the Financial Statements:* Note 69.1.4 – Collateral Held	271
	(iv)	Reconciliation of the impairment allowance account for credit losses by class of financial assets.	*Notes to the Financial Statements:* Movement in provision for impairment during the year for each classes of assets are given in Notes 28.1 – Cash and cash equivalents, 30.1 – Placements with banks, 33.1 – Financial assets at amortised cost – Loans and advances to banks, 34.2 and 34.3 (c) – Financial assets at amortised cost – Loans and advances to other customers and Lease/hire purchase receivable, 35.1 – Financial assets at amortised cost – Debt and other financial instruments, 36.2 – Financial assets measured at fair value through other comprehensive income	190 191 & 195 197 199 200 202
	(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 to 23 to the Financial Statements	172 to 182
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	172
	(ii)	Fee income and expense.	*Notes to the Financial Statements:* Note 14 – Net fee and commission income	174
	(iii)	Amount of impairment losses by class of financial assets.	*Notes to the Financial Statements:* Note 18 – Impairment charges and other losses	176
	(iv)	Interest income on impaired financial assets.	*Notes to the Financial Statements:* Note 13.1 – Interest income	172
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	159
1.3.2	Information on financial liabilities designated at FVTPL.		The Group/Bank has not designated any financial liability at FVTPL	–
1.3.3	Investments in equity instruments designated at FVOCI		*Notes to the Financial Statements:*	
	(i)	Details of equity instruments that have been designated at FVOCI and the reasons for the designation.	Note 36 – Financial assets measured at fair value through other comprehensive income	201
	(ii)	Fair value of each investment at the reporting date.	*Notes to the Financial Statements:* Note 36.3 (a) and 36.3 (b) – Equity securities	203
	(iii)	Dividends recognised during the period, separately for investments derecognised during the reporting period and those held at the reporting date.	*Notes to the Financial Statements:* Note 17 – Net other operating income	176
	(iv)	Transfer of cumulative gain or loss within equity during the period and the reasons for those transfers.	Statement of Profit or Loss and Other Comprehensive Income and Statement of Changes in Equity.	137, 138 & 140-147

Disclosure requirements		Description	Page No/s.
	(v) If investments in equity instruments measured at FVOCI are derecognised during the reporting period, – reasons for disposing of the investments – fair value of the investments at the date of derecognition – the cumulative gain or loss on disposal.	Statement of Profit or Loss and Other Comprehensive Income and Statement of Changes in Equity.	137,138 & 140-147
1.3.4	Reclassification of financial assets (i) For all reclassifications of financial assets in the current or previous reporting period – date of reclassification – detailed explanation of the change in the business model and a qualitative description of its effect on the financial statements – the amount reclassified into and out of each category	During the current or previous reporting period, the Bank did not reclassify financial assets	–
	(ii) For reclassifications from FVTPL to amortised cost or FVOCI – the effective interest rate (EIR) determined on the date of reclassification – the interest revenue recognised	During the year, the Bank did not reclassify financial instruments from FVTPL to amortised cost or FVOCI.	–
	(iii) For reclassifications from FVOCI to amortised cost, or from FVTPL to amortised cost or FVOCI – the fair value of the financial assets at the reporting date – the fair value gain or loss that would have been recognised in profit or loss or OCI during the reporting period if the financial assets had not been reclassified	During the year, the Bank did not reclassify financial instruments from FVOCI to amortised cost or from FVTPL to amortised cost or FVOCI.	–
1.3.5	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 purposes and hedge accounting *Notes to the Financial Statements:* Note 31.1 – Derivative financial assets – cash flow hedges for risk management.	 162 192
1.3.6	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 27.1 – Assets and liabilities measured at fair value and fair value hierarchy, Note 27.3 – Financial instruments not measured at fair value and fair value hierarchy	187 188
	(ii) Description of how fair value was determined.	*Significant Accounting Policies:* Note 4 – Fair value measurement	156
	(iii) The level of inputs used in determining fair value.	*Notes to the Financial Statements:* Note 27.3 – Financial instruments not measured at fair value and fair value hierarchy, Note 27.4 – Valuation techniques and inputs in measuring fair values, Note 39.5 (b) and 39.5 (c) – Information on valuations of freehold land and buildings of the Bank	188 190 213 & 217
	(iv) a. Reconciliations of movements between levels of fair value measurement hierarchy. b. Additional disclosures for financial instruments that fair value is determined using level 3 inputs.	There were no movements between levels of fair value hierarchy during the period under review. *Notes to the Financial Statements:* Note 27.2 – Level 3 Fair value measurement	– 188
	(v) Information if fair value cannot be reliably measured.	*None*	–
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 *Notes to the Financial Statements:* Note 69 – Financial Risk Review	154 257
2.1.2	Management's objectives, policies and processes for managing those risks.	*Significant Accounting Policies:* Note 3 – Financial Risk Management Refer the Section on "Risk Governance and Management" for comprehensive disclosure of Management's objectives, policies and processes.	154 110-128
2.1.3	Changes from the prior period.	There were no major policy changes during the period under review.	–

Disclosure requirements			Description	Page No/s.
2.2	**Quantitative disclosures**			
2.2.1	Summary of quantitative data about exposure to each risk at the reporting date.		*Notes to the Financial Statements:* Note 69 – Financial Risk Review	257
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 Note 69.1.4 – Collateral Held	259 271
	(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 – Credit Quality Analysis Note 18 – Impairment charges and other losses – collateral valuation for description on collaterals Note 69.1.4 – Collateral Held *Significant Accounting Policies:* Note 7.1.12 – Identification and measurement of impairment of financial assets for factors considered in determining the financial assets as impaired	259 176 271 164
	(c)	Information about collateral or other credit enhancements obtained or called.	*Notes to the Financial Statements:* Note 69.1.4 – Collateral held	271
	(d)	Credit risk management (CRM) practices		
		– CRM practices and how they relate to the recognition and measurement Expected Credit Losses (ECL), including the methods, assumptions and information used to measure ECL	*Significant Accounting Policies:* Note 7.1.12.1 – Overview of ECL principles *Notes to the Financial Statements:* Note 18 – Impairment charges and other losses	164 176
		– Quantitative and qualitative information to evaluate the amounts in the Financial Statements arising from ECL, including changes and the reasons for those changes.	*Notes to the Financial Statements:* Note 18 – Impairment charges and other losses	176
		– How the Bank determines whether the credit risk of financial instruments has increased significantly since initial recognition	*Significant Accounting Policies:* Note 7.1.12.2 – Significant increase in credit risk	164
		– The Bank's definitions of default for different financial instruments, including the reasons for selecting those definitions	*Significant Accounting Policies:* Note 7.1.12.3 – Definition of default and credit impaired assets	165
		– How instruments are grouped if ECL are measured on a collective basis	*Notes to the Financial Statements:* Note 18 – Impairment charges and other losses	176
		– How the Bank determines that financial assets are credit-impaired	*Significant Accounting Policies:* Note 7.1.12 – Identification and measurement of impairment of financial assets	164
		– The Bank's write-off policy, including the indicators that there is no reasonable expectation of recovery	*Notes to the Financial Statements:* Refer "Write-off of financial assets" in Note 18 – Impairment charges and other losses	176
		– How the modification requirements have been applied	*Significant Accounting Policies:* Note 7.1.8 – Modification of financial assets and financial liabilities	164
	(e)	ECL calculations		
		– Basis of the inputs, assumptions and the estimation techniques used when estimating ECL	*Notes to the Financial Statements:* Note 18 – Impairment charges and other losses	176
		– How forward-looking information has been incorporated into the determination of ECL.	"Forward-looking information" in Note 18 – Impairment charges and other losses	176
		– Changes in estimation techniques or significant assumptions made during the reporting period	*Significant Accounting Policies:* Note 5 – Changes in Accounting Policies Note 7.1.12 – Identification and measurement of impairment of financial assets	156 164

Disclosure requirements	Description	Page No/s.
(f) Amounts arising from ECL – Reconciliation for each class of financial instrument of the opening balance to the closing balance of the impairment loss allowance. – Explain the reasons for changes in the loss allowances in the reconciliation.	*Notes to the Financial Statements:* Movement in provision for impairment during the year for each classes of assets are given in Notes 28.1 – Cash and cash equivalents, 30.1 – Placements with banks, 33.1 – Financial assets at amortised cost – Loans and advances to banks, 34.2 and 34.3 (c) – Financial assets at amortised cost – Loans and advances to other customers and Lease/hire purchase receivables, 35.1 – Financial assets at amortised cost – Debt and other financial instruments, 36.2 – Financial assets measured at fair value through other comprehensive income.	190 191 195 197 199 200 202
(g) Collateral – Bank's maximum exposure to credit risk at the reporting date – Description of collateral held as security and other credit enhancements	*Notes to the Financial Statements:* Note 69.1 – Credit risk	258
(h) Written-off assets	*Notes to the Financial Statements:* Note 34.2 – Movement in provision for impairment during the year Note 17 – Net other operating income	176
(i) Pillar III disclosures of the Banking Act Directions No. 1 of 2016 on Capital requirements under Basel III for Licensed Banks	*Notes to the Financial Statements:* Note 69.5 – Capital management and Pillar III disclosures as per Basel III	284
(ii) Liquidity risk		
(a) A maturity analysis of financial liabilities.	*Notes to the Financial Statements:* Note 62 – Maturity Analysis – Group Note 69.2.2 – Maturity analysis of financial assets and financial liabilities – Bank	247 275
(b) Description of approach to risk management.	*Significant Accounting Policies:* Note 3 – Financial Risk Management Refer the Section on "Risk Governance and Management"	154
(c) Pillar III disclosures of the Banking Act Directions No. 1 of 2016 on Capital requirements under Basel III for Licensed Banks	Refer the Section on "Risk Governance and Management"	110-128
(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 69.3.2 – Exposure to interest rate risk – sensitivity analysis	280
(b) Additional information, if the sensitivity analysis is not representative of the Bank's risk exposure.	*Notes to the Financial Statements:* Note 69.3.3 – Exposure to currency risk – Non-trading portfolio	283
(c) Pillar III disclosures of the Banking Act Directions No. 1 of 2016 on Capital requirements under Basel III for Licensed Banks	Refer the Section on "Risk Governance and Management"	110-128
(iv) Operational risk		
Pillar III disclosures of the Banking Act Directions No. 1 of 2016 on Capital requirements under Basel III for Licensed Banks	Refer the Section on "Risk Governance and Management"	110-128
(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.	*Notes to the Financial Statements:* Note 32 – Financial assets recognised through profit or loss – measured at fair value Note 36 – Financial assets measured at fair value through other comprehensive income	192 201
• Discussion of important policies covering the valuation and accounting of equity holdings in the banking book.	Note 69.3.4 – Exposure to equity price risk	284
(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.	*Notes to the Financial Statements:* Note 32 – Financial assets recognised through profit or loss – measured at fair value Note 36 – Financial assets measured at fair value through other comprehensive income	192 201
• 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 Note 16 – Net gains/(losses) from derecognition of financial assets	175 175

Disclosure requirements		Description	Page No/s.
	(vi) Interest rate risk in the banking book		
	(a) Qualitative Disclosures	*Notes to the Financial Statements:*	
	• Nature of interest rate risk in the banking book (IRRBB) and key assumptions.	Note 69.3.2 – Exposure to Interest Rate Risk – Sensitivity analysis	280
		Refer the Section on "Risk Governance and Management"	110-128
	(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	280
		Refer the Section on "Risk Governance and Management"	110-128
2.2.3	Information on concentrations of risk.	*Notes to the Financial Statements:*	
		Note 69.1.5 – Concentration of credit risk	271
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 and Pillar III disclosures as per Basel III	284
(ii)	**Quantitative disclosure**		
	(a) The amount of Tier 1 capital, with separate disclosure of:	*Notes to the Financial Statements:*	
	• Paid-up share capital/common stock	Note 69.5 – Capital Management and Pillar III disclosures as per Basel III	284
	• Reserves	Refer the Section on "Risk Governance and Management"	110-128
	• 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		
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 and Pillar III disclosures as per Basel III	284
		Refer the Section on "Risk Governance and Management"	110-128
	(ii) Quantitative disclosures		
	(a) Capital requirements for credit risk, market risk, and operational risk	Refer the Section on "Risk Governance and Management"	110-128
	(b) Total and Tier 1 capital ratio		

Annex 3: Basel III – Disclosures under Pillar 3 as per the Banking Act Direction No. 01 of 2016

Disclosure 1

Key regulatory ratios – Capital and liquidity

As at December 31,	GROUP 2019	GROUP 2018	BANK 2019	BANK 2018
Regulatory capital				
Common equity (Rs. '000)	**123,239,984**	109,879,697	**119,622,141**	107,110,518
Tier 1 capital (Rs. '000)	**123,239,984**	109,879,697	**119,622,141**	107,110,518
Total capital (Rs. '000)	**160,842,808**	150,167,520	**157,045,547**	147,398,341
Regulatory capital ratios				
Common equity Tier 1 capital ratio (minimum requirement – 7.00%+HLA*=8.50%) (w. e. f. January 1, 2019) (%)	**12.399**	11.431	**12.298**	11.338
Tier 1 capital ratio (minimum requirement – 8.50%+HLA=10.00%) (w. e. f. January 1, 2019) (%)	**12.399**	11.431	**12.298**	11.338
Total capital ratio (minimum requirement – 12.50%+HLA=14.00%) (w. e. f. January 1, 2019) (%)	**16.182**	15.623	**16.146**	15.603
Regulatory liquidity				
Statutory liquid assets (Rs. '000)			**330,684,193**	257,020,724
Statutory liquid assets ratio (minimum requirement – 20%)				
Domestic Banking Unit (%)			**30.42**	24.47
Offshore Banking Unit (%)			**25.25**	30.20
Liquidity coverage ratio (%) – Rupee (minimum requirement – 100%) (w. e. f. January 1, 2019)			**158.79**	204.48
Liquidity coverage ratio (%) – All currency (minimum requirement – 100%) (w. e. f. January 1, 2019)			**224.74**	215.62

**HLA – Higher Loss Absorbency (Requirement applicable to the Bank is 1.500%.)*

Disclosure 2

Basel III computation of capital ratios

As at December 31,	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Common equity Tier 1 (CET1) capital after adjustments	123,239,984	109,879,697	119,622,141	107,110,518
Total common equity Tier 1 (CET1) capital	125,003,216	111,316,894	123,941,618	110,822,797
Equity capital (stated capital)	**40,916,957**	39,147,882	**40,916,957**	39,147,882
Reserve fund	**8,387,701**	7,444,403	**8,205,391**	7,354,143
Published retained earnings	**4,688,718**	5,499,654	**4,714,691**	5,726,294
Published accumulated other comprehensive Income (OCI)	**2,691,325**	522,284	**2,516,082**	352,491
General and other disclosed reserves	**67,588,497**	58,241,987	**67,588,497**	58,241,987
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	**730,018**	460,684	–	–

As at December 31,	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Total adjustment to CET1 capital	**1,763,232**	1,437,197	**4,319,477**	3,712,279
Goodwill (net)	**445,147**	400,045	–	–
Intangible assets (net)	**1,200,565**	1,033,339	**1,080,011**	906,114
Revaluation losses of property, plant and equipment	**3,813**	3,813	**3,813**	3,813
Significant investments in the capital of financial institutions where the Bank owns more than 10% of the issued ordinary share capital of the entity	–	–	**2,941,594**	2,802,352
Deferred tax assets (net)	**113,707**	–	**294,059**	–
Additional Tier 1 (AT1) capital after adjustments	–	–	–	–
Total additional Tier 1 (AT1) capital	–	–	–	–
Qualifying additional Tier I capital instruments	–	–	–	–
Instruments issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	–	–	–	–
Total adjustments to 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% 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% of the issued ordinary share capital of the entity	–	–	–	–
Regulatory adjustments applied to AT1 due to insufficient Tier 2 capital to cover adjustments	–	–	–	–
Tier 2 capital after adjustments	**37,602,824**	40,287,823	**37,423,406**	40,287,823
Total Tier 2 capital	**37,602,824**	40,287,823	**37,423,406**	40,287,823
Qualifying Tier 2 capital instruments	**26,704,378**	33,103,574	**26,704,378**	33,103,574
Revaluation gains	**3,087,658**	3,087,658	**3,087,658**	3,087,658
General provision/eligible impairment	**7,810,788**	4,096,591	**7,631,370**	4,096,591
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	–	–	–	–
CET 1 capital	**123,239,984**	109,879,697	**119,622,141**	107,110,518
Total Tier 1 capital	**123,239,984**	109,879,697	**119,622,141**	107,110,518
Total capital	**160,842,808**	150,167,520	**157,045,547**	147,398,341
Total risk weighted amount (RWA)	**993,941,563**	961,218,800	**972,679,405**	944,682,441
Risk weighted amount for credit risk	**925,876,884**	906,681,121	**905,525,098**	890,440,654
Risk weighted amount for market risk	**26,506,850**	15,786,211	**26,032,471**	15,707,609
Risk weighted amount for operational risk	**41,557,829**	38,751,468	**41,121,836**	38,534,178
CET1 capital ratio (including capital conservation buffer, countercyclical capital buffer and surcharge on D-SIBs) (%)	**12.399**	11.431	**12.298**	11.338
Of which: capital conservation buffer (%)	**2.500**	1.875	**2.500**	1.875
Of which: countercyclical buffer (%)				
Of which: capital surcharge on D-SIBs (%)	**1.500**	1.000	**1.500**	1.000
Total Tier 1 capital ratio (%)	**12.399**	11.431	**12.298**	11.338
Total capital ratio (including capital conservation buffer,countercyclical capital buffer and surcharge on D-SIBs) (%)	**16.182**	15.623	**16.146**	15.603
Of which: capital conservation buffer (%)	**2.500**	1.875	**2.500**	1.875
Of which: countercyclical buffer (%)	–	–	–	–
Of which: capital surcharge on D-SIBs (%)	**1.500**	1.000	**1.500**	1.000

Disclosure 3

Leverage ratio

As at December 31,	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Tier 1 capital	**123,239,984**	109,879,697	**119,622,141**	107,110,518
Total exposures	**1,880,168,663**	1,857,698,877	**1,855,954,448**	1,841,358,688
On-balance sheet items (excluding derivatives and securities financing transactions, but including collateral)	**1,390,884,732**	1,307,181,461	**1,366,732,527**	1,290,856,264
Derivative exposures	**349,780,784**	398,880,824	**349,780,784**	398,880,824
Securities financing transaction exposures	**49,182,189**	52,188,205	**49,182,189**	52,188,205
Other off-balance sheet exposures	**90,320,958**	99,448,387	**90,258,948**	99,433,395
Basel III leverage ratio (%) (minimum requirement 3%) (w. e. f. January 1, 2019)	**6.55**	5.91	**6.45**	5.82

Disclosure 4

Liquidity coverage ratio (LCR)

As at December 31,	2019 Total unweighted value Rs. '000	2019 Total weighted value Rs. '000	2018 Total unweighted value Rs. '000	2018 Total weighted value Rs. '000
Total stock of High Quality Liquid Assets (HQLA)	**199,777,341**	**193,108,535**	160,707,217	153,018,792
Total adjusted level 1 assets	**119,969,825**	**119,969,825**	110,660,676	110,660,676
Level 1 assets	**119,797,458**	**119,797,458**	110,448,524	110,448,524
Total adjusted level 2A assets	**86,000,609**	**73,100,518**	49,831,202	42,356,522
Level 2A assets	**86,000,609**	**73,100,518**	49,831,202	42,356,522
Total adjusted level 2B assets	**421,118**	**210,559**	427,491	213,746
Level 2B assets	**421,118**	**210,559**	427,491	213,746
Total cash outflows	**1,359,817,438**	**221,042,723**	1,304,126,474	219,126,881
Deposits	**829,166,765**	**82,916,676**	767,129,947	76,712,994
Unsecured wholesale funding	**235,893,678**	**100,802,482**	233,365,717	106,526,815
Secured funding transaction	–	–	–	–
Undrawn portion of committed (irrevocable) facilities and other contingent funding obligations	**294,756,995**	**37,323,565**	303,630,810	35,887,072
Additional requirements	–	–	–	–
Total cash inflows	**228,350,709**	**135,116,096**	246,589,006	148,161,577
Maturing secured lending transactions backed by collateral	**66,627,280**	**55,004,733**	61,274,814	54,621,691
Committed facilities	–	–	–	–
Other inflows by counterparty which are maturing within 30 calender days	**102,126,336**	**57,827,782**	109,687,516	64,171,184
Operational deposits	**17,102,782**	–	24,920,222	–
Other cash inflows	**42,494,311**	**22,283,581**	50,706,454	29,368,702
Liquidity coverage ratio (%) (stock of high quality liquid assets/ total net cash outflows over the next 30 calendar days) *100		**224.74**		215.62

Disclosure 5

Net stable funding ratio (NSFR)

As at December 31,	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Total available stable funding (ASF)	**1,088,884,310**	N/A
Required stable funding – On balance sheet assets	**788,401,681**	N/A
Required stable funding – Off balance sheet items	**6,134,840**	N/A
Total required stable funding (RSF)	**794,536,521**	N/A
NSFR (%) (minimum requirement – 100%) (w. e. f. July 1, 2019)	**137.05**	N/A

Disclosure 6

Main features of regulatory capital instruments

Description of the capital Instrument	Stated capital	2016-2021 listed rated unsecured subordinated redeemable debentures	2016-2026 listed rated unsecured subordinated redeemable debentures	2016-2021 listed rated unsecured subordinated redeemable debentures
Issuer	Commercial Bank	Commercial Bank	Commercial Bank	Commercial Bank
Unique Identifier				
Governing law(s) of the instrument	Sri Lanka	Sri Lanka	Sri Lanka	Sri Lanka
Original date of issuance	Not Applicable	March 9, 2016	March 9, 2016	October 28, 2016
Par value of instrument		Rs. 100/-	Rs. 100/-	Rs. 100/-
Perpetual or dated	Perpetual	Dated	Dated	Dated
Original maturity date, if applicable	Not Applicable	March 8, 2021	March 8, 2026	October 27, 2021
Amount recognised in regulatory capital (in Rs. '000 as at the reporting date)	40,916,957	1,772,136	1,749,090	2,028,720
Accounting classification (equity/liability)	Equity	Liability	Liability	Liability
Issuer call subject to prior supervisory approval				
Optional call date, contingent call dates and redemption amount (Rs. '000)	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Subsequent call dates, if applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Coupons/dividends:				
Fixed or floating dividend/coupon	Not Applicable	Fixed	Fixed	Fixed
Coupon rate and any related index		10.75% p.a.	11.25% p.a.	12.00% p.a.
Non-cumulative or cumulative	Non-cumulative	Cumulative	Cumulative	Cumulative
Convertible or non-convertible				
If convertible, conversion trigger (s)	Not Applicable	Not Convertible	Not Convertible	Not Convertible
If convertible, fully or partially	Not Applicable	Not Applicable	Not Applicable	Not Applicable
If convertible, mandatory or optional	Not Applicable	Not Applicable	Not Applicable	Not Applicable
If convertible, conversion rate	Not Applicable	Not Applicable	Not Applicable	Not Applicable

2016-2026 Listed rated unsecured subordinated redeemable debentures	2018-2023 Basel III compliant – Tier 2 listed rated unsecured subordinated redeemable debentures with a non-viability conversion	2018-2028 Basel III Compliant – Tier 2 listed rated unsecured subordinated redeemable debentures with a non-viability Conversion	2013-2023 Floating rate subordinated loans – Tier 2 IFC borrowing
Commercial Bank	Commercial Bank	Commercial Bank	International Finance Corporation
Sri Lanka	Sri Lanka	Sri Lanka	United States
October 28, 2016	July 23, 2018	July 23, 2018	March 13, 2013
Rs. 100/-	Rs. 100/-	Rs. 100/-	
Dated	Dated	Dated	Dated
October 27, 2026	July 22, 2023	July 22, 2028	March 14, 2023
1,928,200	6,715,072	1,606,160	10,905,000
Liability	Liability	Liability	Liability
Not Applicable	Not Applicable	Not Applicable	Not Applicable
Not Applicable	Not Applicable	Not Applicable	Not Applicable
Fixed	Fixed	Fixed	Floating
12.25% p.a.	12.00% p.a.	12.50% p.a.	6 Months LIBOR + 5.75%
Cumulative	Cumulative	Cumulative	Cumulative
Not Convertible	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 affected 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&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."	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 Directions No. 1 of 2016 of Web Based Return Code 20.2.3.1.1.1.(10) (iii) (a&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."	Not Convertible
Not Applicable	Fully	Fully	Not Applicable
Not Applicable	Optional. At the discretion of the monetary board of the Central Bank of Sri Lanka upon occurance of trigger points as detailed above.	Optional. At the discretion of the monetary board of the Central Bank of Sri Lanka upon occurance of trigger points as detailed above.	Not Applicable
Not Applicable	The price based on the simple average of the daily volume of weighted average price (VWAP) of an ordinary voting share of the Bank during the three (03) months period, immediately preceding the date of the Trigger Event.	The price based on the simple average of the daily volume of weighted average price (VWAP) of an ordinary voting share of the Bank during the three (03) months period, immediately preceding the date of the Trigger Event.	Not Applicable

Disclosure 7

Summary discussion on adequacy/meeting current and future capital requirements

The Bank prepares the Corporate Plan and Budget for a period of 5 years which is rolled over every year and contains the forecast for certain ratios mentioned under Basel III accord including the Capital Adequacy ratios (CARs).

As part of the budgeting process the CARs are analysed against increases in risk-weighted assets underlying the budgeted expansion of assets including business volumes. The Bank has set up an internal threshold on minimum CARs and ensures that appropriate measures are employed to maintain the CARs above the said threshold when preparing the Budget.

Budgeting process of the Bank encapsulates all future capital requirements including the estimated capital expenditure and the business growth, while ensuring that the Bank remains solvent. Based on these requirements, the Budget captures the capital augmentation plan covering both internal and external capital sources. The Bank has a well established process to monitor the level of achievement against the pre-determined targets and corrective action is taken for any deviations.

Additionally, the Bank has a dynamic ICAAP process with rigorous stress testing embodied in addition to taking into consideration the qualitative aspects such as reputational and strategic risks. The ICAAP process also computes the concentration risk ensuring that the Bank has a well-diversified assets portfolio which is not overly exposed to any counterparty or any individual sector. This process also proactively identifies the possible gaps in CARs in advance, allowing the Bank to take informed decisions to optimise utilisation of capital.

Methods of improving the CARs are being evaluated on an ongoing basis and in extreme situations, the Bank will deliberate on strategically curtailing the expansion of risk weighted assets. Prior to taking such decisions, the Bank will assess the impact on the internally developed thresholds of minimum CARs resulting from the short-term asset expansion plans.

The dividend policy of the Bank is formulated to achieve the twin objectives of satisfying the shareholder expectation of a stable dividend payout while retaining part of the profit for future business expansion. Capital generated through retained profits over the years is one of the primary sources of internal capital to the Bank, which is also augmented by the scrip dividend paid to shareholders.

A comprehensive analysis of "Managing Funding and Liquidity" given on pages 43 and 44.

Disclosure 8

Credit risk under standardised approach

Credit risk exposures and credit risk mitigation (CRM) effects

As at December 31, 2019	GROUP					
	Exposures before credit conversion factor (CCF) and CRM		Exposures post CCF and CRM		RWA and RWA density (%)	
	On-balance sheet amount (a)	Off-balance sheet amount (b)	On-balance sheet amount (c)	Off-balance sheet amount (d)	RWA (e)	RWA density {e/(c+d)}
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	(%)
Claims on Central Government and Central Bank of Sri Lanka	**327,498,652**	**25,445,000**	**327,498,652**	**508,900**	**29,420,135**	**8.97**
Claims on foreign sovereigns and their central banks	**35,112,468**	**–**	**35,112,468**	**–**	**35,112,468**	**100.00**
Claims on public sector entities (PSEs)	**5,243**	**–**	**5,243**	**–**	**5,243**	**100.00**
Claims on Official Entities and Multilateral Development Banks (MDBs)	**1,377,858**	**–**	**1,377,858**	**–**	**–**	**–**
Claims on Banks exposures	**52,075,455**	**214,449,923**	**52,075,455**	**14,404,770**	**29,035,741**	**43.68**
Claims on financial institutions	**19,801,538**	**–**	**19,801,538**	**–**	**10,737,613**	**54.23**
Claims on corporates	**476,440,105**	**304,078,948**	**429,307,750**	**59,144,829**	**468,044,369**	**95.82**
Retail claims	**313,459,583**	**30,976,995**	**268,486,114**	**13,210,141**	**239,451,562**	**85.00**
Claims secured by residential property	**70,009,098**	**–**	**70,009,098**	**–**	**50,172,041**	**71.67**
Non-performing assets (NPAs)	**30,562,373**	**–**	**30,562,373**	**–**	**36,380,754**	**119.04**
Cash items and other assets	**58,118,971**	**–**	**58,118,971**	**–**	**27,516,958**	**47.35**
Total	**1,384,461,344**	**574,950,866**	**1,292,355,520**	**87,268,640**	**925,876,884**	**67.11**

Credit risk exposures and credit risk mitigation (CRM) effects (Contd.)

As at December 31, 2019	BANK					
	Exposures before credit conversion factor (CCF) and CRM		Exposures post CCF and CRM		RWA and RWA density (%)	
	On-balance sheet amount (a) Rs. '000	Off-balance sheet amount (b) Rs. '000	On-balance sheet amount (c) Rs. '000	Off-balance sheet amount (d) Rs. '000	RWA (e) Rs. '000	RWA density {e/(c+d)} (%)
Claims on Central Government and Central Bank of Sri Lanka	327,242,088	25,445,000	327,242,088	508,900	29,420,135	8.98
Claims on foreign sovereigns and their central banks	22,558,160	–	22,558,160	–	22,558,160	100.00
Claims on public sector entities (PSEs)	5,243	–	5,243	–	5,243	100.00
Claims on Official Entities and Multilateral Development Banks (MDBs)	1,377,858	–	1,377,858	–	–	–
Claims on Banks exposures	51,050,904	214,449,918	51,050,904	14,404,770	28,011,190	42.79
Claims on financial institutions	19,801,538	–	19,801,538	–	10,737,613	54.23
Claims on corporates	469,712,386	303,941,616	422,580,031	59,082,819	461,254,640	95.76
Retail claims	313,459,583	30,976,995	268,486,114	13,210,141	239,451,562	85.00
Claims secured by residential property	70,009,098	–	70,009,098	–	50,172,041	71.67
Non-performing assets (NPAs)	29,687,629	–	29,687,629	–	35,518,937	119.64
Higher-risk Categories	1,225,637	–	1,225,637	–	3,064,093	250.00
Cash items and other assets	55,435,091	–	55,435,091	–	25,331,484	45.70
Total	**1,361,565,215**	**574,813,529**	**1,269,459,391**	**87,206,630**	**905,525,098**	**66.75**

Disclosure 9

Credit risk under standardised approach

Exposures by asset classes and risk weights (Post CCF and CRM)

As at December 31, 2019	GROUP								
	0% Rs. '000	20% Rs. '000	50% Rs. '000	60% Rs. '000	75% Rs. '000	100% Rs. '000	150% Rs. '000	>150% Rs. '000	Total credit exposures amount Rs. '000
Claims on Central Government and Central Bank of Sri Lanka	180,906,876	147,100,676	–	–	–	–	–	–	328,007,552
Claims on foreign sovereigns and their central banks	–	–	–	–	–	35,112,468	–	–	35,112,468
Claims on public sector entities (PSEs)	–	–	–	–	–	5,243	–	–	5,243
Claims on official entities and multilateral development banks (MDBs)	1,377,858	–	–	–	–	–	–	–	1,377,858
Claims on Banks exposures	–	36,325,810	16,767,673	–	–	13,386,742	–	–	66,480,225
Claims on financial institutions	–	–	18,127,851	–	–	1,673,687	–	–	19,801,538
Claims on corporates	–	17,823,214	12,299,278	–	–	458,330,087	–	–	488,452,579
Retail claims	838,247	1,974,057	–	7,491,815	147,321,896	124,070,240	–	–	281,696,255
Claims secured by residential property	–	–	39,674,114	–	–	30,334,984	–	–	70,009,098
Non-performing assets (NPAs)	–	–	610,133	–	–	17,705,347	12,246,893	–	30,562,373
Cash items and other assets	26,592,518	5,011,869	–	–	–	26,514,584	–	–	58,118,971
Total	**209,715,499**	**208,235,626**	**87,479,049**	**7,491,815**	**147,321,896**	**707,133,382**	**12,246,893**	**–**	**1,379,624,160**

Exposures by asset classes and risk weights (post CCF and CRM) (Contd.)

As at December 31, 2019									BANK
	0%	20%	50%	60%	75%	100%	150%	>150%	Total credit exposures amount
	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	**180,650,312**	**147,100,676**	–	–	–	–	–	–	**327,750,988**
Claims on foreign sovereigns and their central banks	–	–	–	–	–	**22,558,160**	–	–	**22,558,160**
Claims on Public Sector Entities (PSEs)	–	–	–	–	–	**5,243**	–	–	**5,243**
Claims on official entities and Multilateral Development Banks (MDBs)	**1,377,858**	–	–	–	–	–	–	–	**1,377,858**
Claims on Banks exposures	–	**36,325,810**	**16,767,673**	–	–	**12,362,191**	–	–	**65,455,674**
Claims on financial institutions	–	–	**18,127,851**	–	–	**1,673,687**	–	–	**19,801,538**
Claims on corporates	–	**17,823,214**	**12,299,278**	–	–	**451,540,358**	–	–	**481,662,850**
Retail claims	**838,247**	**1,974,057**	–	**7,491,815**	**147,321,896**	**124,070,240**	–	–	**281,696,255**
Claims secured by residential property	–	–	**39,674,114**	–	–	**30,334,984**	–	–	**70,009,098**
Non-performing assets (NPAs)	–	–	**584,279**	–	–	**16,856,457**	**12,246,893**	–	**29,687,629**
Higher-risk categories	–	–	–	–	–	–	–	**1,225,637**	**1,225,637**
Cash items and other assets	**26,094,112**	**5,011,869**	–	–	–	**24,329,110**	–	–	**55,435,091**
Total	**208,960,529**	**208,235,626**	**87,453,195**	**7,491,815**	**147,321,896**	**683,730,430**	**12,246,893**	**1,225,637**	**1,356,666,021**

Disclosure 10

Market risk under standardised measurement method

As at December 31,		GROUP		BANK
	2019	2018	**2019**	2018
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
(a) Capital charge for interest rate risk	**2,461,836**	339,612	**2,461,836**	339,612
General interest rate risk	**460,969**	72,544	**460,969**	72,544
(i) Net long or short position	**460,969**	72,544	**460,969**	72,544
(ii) Horizontal disallowance	–	–	–	–
(iii) Vertical disallowance	–	–	–	–
(iv) Options	–	–	–	–
Specific interest rate risk	**2,000,867**	267,068	**2,000,867**	267,068
(b) Capital charge for equity	**271,988**	73,975	**271,988**	73,975
(i) General equity risk	**137,639**	38,601	**137,639**	38,601
(ii) Specific equity risk	**134,349**	35,374	**134,349**	35,374
(c) Capital charge for foreign exchange and gold	**977,135**	1,618,888	**910,722**	1,608,768
(d) Capital charge for market risk [(a) + (b) + (c)]	**3,710,959**	2,032,475	**3,644,546**	2,022,355
Total RWA for market risk [(d) * 100/14]	**26,506,850**	15,786,211	**26,032,471**	15,707,609

Disclosure 11

Operational risk under the Alternative Standardised Approach (ASA) – Group

As at December 31,			2019			2018		
			Gross income			Gross income		
	Capital charge factor	Fixed factor	1st year	2nd year	3rd year	1st year	2nd year	3rd year
	%		Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Corporate finance	18		**273,038**	**210,049**	**167,464**	402,396	273,037	210,049
Trading and sales	18		**844,325**	**3,956,306**	**3,852,135**	880,078	844,325	3,956,308
Payment and settlement	18		**591,811**	**651,440**	**690,845**	511,789	591,811	651,440
Agency services	15		**–**	**–**	**–**	–	–	–
Asset management	12		**–**	**–**	**–**	–	–	–
Retail brokerage	12		**–**	**–**	**–**	–	–	–
Total (a)			**1,709,174**	**4,817,795**	**4,710,444**	1,794,263	1,709,173	4,817,797
Retail banking (Loans and advances)	12	0.035	**382,107,206**	**452,610,049**	**487,202,436**	322,099,624	382,107,206	452,610,049
Commercial banking (Loans and advances)	15	0.035	**556,018,749**	**606,642,106**	**719,146,950**	477,587,106	556,018,749	606,642,106
Total (b)			**938,125,955**	**1,059,252,155**	**1,206,349,386**	799,686,730	938,125,955	1,059,252,155
Total (a) + (b)			**939,835,129**	**1,064,069,950**	**1,211,059,830**	801,480,993	939,835,128	1,064,069,952
Capital charge for operational risk			**4,831,600**	**5,953,036**	**6,669,652**	4,183,118	4,831,600	5,953,036
Average capital charge (c)					**5,818,096**			4,989,252
RWA for operational risk [(c)*100/14]					**41,557,829**			38,751,468

Operational risk under the Alternative Standardised Approach (ASA) – Bank

As at December 31,			2019			2018		
			Gross income			Gross income		
	Capital charge factor	Fixed factor	1st year	2nd year	3rd year	1st year	2nd year	3rd year
	%		Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Corporate finance	18		**273,038**	**210,049**	**167,464**	402,396	273,037	210,049
Trading and sales	18		**766,079**	**3,911,019**	**3,661,995**	897,167	766,080	3,911,019
Payment and settlement	18		**591,811**	**651,440**	**690,845**	511,789	591,811	651,440
Agency services	15		**–**	**–**	**–**	–	–	–
Asset management	12		**–**	**–**	**–**	–	–	–
Retail brokerage	12		**–**	**–**	**–**	–	–	–
Total (a)			**1,630,928**	**4,772,508**	**4,520,304**	1,811,352	1,630,928	4,772,508
Retail banking (Loans and advances)	12	0.035	**378,807,792**	**448,200,815**	**481,442,015**	318,400,031	378,807,792	448,200,815
Commercial banking (Loans and advances)	15	0.035	**555,303,148**	**604,168,024**	**708,987,024**	477,566,554	555,303,148	604,168,024
Total (b)			**934,110,940**	**1,052,368,839**	**1,190,429,039**	795,966,585	934,110,940	1,052,368,839
Total (a) + (b)			**935,741,868**	**1,057,141,347**	**1,194,949,343**	797,777,937	935,741,868	1,057,141,347
Capital charge for operational risk			**4,799,901**	**5,913,377**	**6,557,893**	4,170,548	4,799,901	5,913,377
Average capital charge (c)					**5,757,057**			4,961,275
RWA for operational risk [(c)*100/14]					**41,121,836**			38,534,178

Disclosure 12

Differences between accounting and regulatory scopes and mapping of financial statement categories with regulatory risk categories – Bank

As at December 31, 2019	a Carrying values as reported in published financial statements Rs. '000	b Carrying values under scope of regulatory reporting Rs. '000	c Subject to credit risk framework Rs. '000	d Subject to market risk framework Rs. '000	e Not subject to capital requirements or subject to deduction from capital Rs. '000
Assets	1,387,345,406	1,385,669,389	1,361,565,215	21,468,033	4,315,663
Cash and cash equivalents	52,534,730	52,144,064	52,144,064	–	–
Balances with Central Banks	39,461,127	39,461,127	39,461,127	–	–
Placements with banks	24,527,241	24,241,559	24,241,559	–	–
Securities purchased under re-sale agreements	13,147,534	13,147,534	13,147,534	–	–
Derivative financial assets	1,830,927	–	–	–	–
Financial assets recognised through profit or loss – Measured at fair value	21,468,033	21,468,033	–	21,468,033	–
Financial assets at amortised cost – Loans and advances to banks	757,787	757,898	757,898	–	–
Financial assets at amortised cost – Loans and advances to other customers	884,645,744	887,451,489	888,836,952	–	–
Financial assets at amortised cost – Debt and other financial instruments	101,144,819	100,163,480	100,163,480	–	–
Financial assets measured at fair value through other comprehensive income	197,568,330	195,925,649	195,925,649	–	–
Investments in subsidiaries	5,011,284	5,011,284	2,069,690	–	2,941,594
Investments in associates	44,331	44,331	44,331	–	–
Property, plant and equipment and right-of-use assets	20,436,493	15,184,731	15,184,731	–	–
Intangible assets	1,080,010	1,080,010	–	–	1,080,010
Leasehold property	70,710	70,710	70,710	–	–
Deferred tax assets	294,059	–	–	–	294,059
Other assets	23,322,247	29,517,490	29,517,490	–	–
Liabilities	1,254,183,021	1,249,998,411	–	–	–
Due to banks	51,505,694	51,148,065	–	–	–
Derivative financial liabilities	1,495,317	–	–	–	–
Securities sold under repurchase agreements	51,220,023	51,225,771	–	–	–
Financial liabilities at amortised cost – Due to depositors	1,053,307,660	1,030,276,182	–	–	–
Financial liabilities at amortised cost – Other borrowings	23,248,893	23,224,888	–	–	–
Current tax liabilities	4,967,644	4,782,140	–	–	–
Deferred tax liabilities	–	2,823,769	–	–	–
Other liabilities	30,496,709	49,691,798	–	–	–
Due to subsidiaries	54,292	54,292	–	–	–
Subordinated liabilities	37,886,789	36,771,506	–	–	–
Off-balance sheet liabilities	579,999,273	579,999,273	574,813,529	–	–
Guarantees	58,463,720	58,463,720	55,164,778	–	–
Performance bonds	38,606,887	38,606,887	38,606,887	–	–
Letter of credit	52,317,807	52,317,807	52,317,807	–	–
Other contingent items	321,236,270	321,236,270	319,677,536	–	–
Undrawn loan commitments	109,046,521	109,046,521	109,046,521	–	–
Other commitments	328,068	328,068	–	–	–

Differences between accounting and regulatory scopes and mapping of financial statements categories with regulatory risk categories – Bank (Contd.)

As at December 31, 2019	a Carrying values as reported in published financial statements Rs. '000	b Carrying values under scope of regulatory reporting Rs. '000	c Subject to credit risk framework Rs. '000	d Subject to market risk framework Rs. '000	e Not subject to capital requirements or subject to deduction from capital Rs. '000
Shareholders' equity	**133,162,385**	**135,670,978**	–	–	–
Equity capital (stated capital)/assigned capital:					
Of which amount eligible for CET1	40,916,958	40,916,958	–	–	–
Of which amount eligible for AT1	–	–	–	–	–
Retained earnings	5,144,433	9,438,466	–	–	–
Accumulated other comprehensive income	1,747,068	(38,372)	–	–	–
Other reserves	85,353,926	85,353,926	–	–	–

Disclosure 13

Explanations of Differences between Accounting and Regulatory Exposure Amounts

As at December 31, 2019	Differences observed between accounting carrying value and amounts considered for regulatory purposes	Reasons for differences						
		Net impact arising from Impairment (Stage 1,2 and 3)	Fair Value Adjustment	Effective Interest Rate (EIR) Adjustment	Re-classification of Interest Receivable/ Payable and others	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	390,666	(5,707)	–	–	396,373	–	–	–
Placements with banks	285,682	(8,597)	–	–	294,279	–	–	–
Derivative financial assets	1,830,927	–	–	–	1,830,927	–	–	–
Financial assets at amortised cost – Loans and advances to banks	(111)	(111)	–	–	–	–	–	–
Financial assets at amortised cost – Loans and advances to other customers	(2,805,745)	(6,604,237)	–	–	8,685,433	(4,886,941)	–	–
Financial assets at amortised cost – Debt and other financial instruments	981,339	360,980	–	–	620,359	–	–	–
Financial assets measured at fair value through other comprehensive income	1,642,681	1,638,115	–	–	4,566	–	–	–
Property, plant and equipment and right-of-use of assets	5,251,762	–	–	–	–	–	5,251,762	–
Deferred tax assets	294,059	–	–	–	–	–	–	294,059
Other assets	(6,195,243)	–	–	–	(10,390,336)	4,886,941	(691,848)	–

Explanation of Differences between Accounting and Regulatory Exposure Amounts (Contd.)

As at December 31, 2019	Differences observed between accounting carrying value and amounts considered for regulatory purposes	Reasons for differences						
		Net impact arising from Impairment (Stage 1,2 and 3)	Fair Value Adjustment	Effective Interest Rate (EIR) Adjustment	Re-classification of Interest Receivable/ Payable and others	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
Liabilities								
Due to banks	357,629	–	–	–	357,629	–	–	–
Derivative financial liabilities	1,495,317	–	–	–	1,495,317	–	–	–
Securities sold under repurchase agreements	(5,748)	–	–	(5,748)	–	–	–	–
Financial liabilities at amortised cost – due to depositors	23,031,478	–	–	(602,660)	23,634,138	–	–	–
Financial liabilities at amortised cost – other borrowings	24,005	–	–	–	24,005	–	–	–
Current tax liabilities	185,504	–	–	–	–	–	–	185,504
Deferred tax liabilities	(2,823,769)	–	–	–	–	–	–	(2,823,769)
Other liabilities	(19,195,089)	5,996,516	–	–	(25,191,605)	–	–	
Subordinated liabilities	1,115,283	–	–	(6,833)	1,122,116	–	–	–
Shareholders' equity								
Retained earnings	(4,294,033)	(7,341,019)	–	1,250,414	–	–	(1,024,467)	2,821,039
Accumulated other comprehensive income	1,785,440	–	1,785,440	–	–	–	–	–

Explanations of Differences between Accounting and Regulatory Exposure Amounts

Under SLFRS 9: "Financial Instruments: Recognition & Measurement", the Bank assess the impairment of loans and advances individually or collectively based on the principles of "expected credit loss" (Refer Note 18 on page 176 for details) model which is expected to capture future trends in the economy. However, the regulatory provisions are made on loans and advances under the Direction No. 03 of 2008 on "Classification of loans and advances, Income Recognition and Provisioning" (and subsequent amendments thereof) issued by the CBSL are "time/delinquency base". Further, under SLFRS 9, other debt financial assets not held at FVTPL, together with loan commitments and other off balance sheet exposures such as financial guarantees and letter of credits, are subjected to impairment provision, whereas no such regulatory provision is required for those financial assets as per the CBSL Direction. As a result, SLFRS 9 recognises higher impairment provisions compared to CBSL guidelines.

Financial investments and financial liabilities (other than FVTPL) are carried at "cost" for regulatory reporting purposes while they are classified as "Financial assets measured at fair value through other comprehensive income" carried at fair value or Financial assets/liabilities at amortised cost under SLFRS 9. 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 and financial liabilities under SLFRS 9 is different to the carrying value for regulatory reporting which is the "cost".

As per SLFRS 9, 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. Eg: Employee below market loans. Refer Note 7.1.2.1 on page 159 for details. However, the carrying value of such transactions for regulatory reporting purposes is equal to cost/transaction price.

As per SLFRS 16, the Bank recognises a lease liability for leases previously classified as operating leases. Accordingly, the Bank measures the lease liability at the present value of the remaining lease payments, discounted using the Incremental Borrowing Rate (IBR). In addition, the Bank recognises right-of-use asset at an amount equal to the lease liability, on a lease by lease basis, adjusted by the amount of any period or accrued lease payments relating to that lease. However as per regulatory reporting, the Bank charges the operating lease rentals as expense to profit or loss on an accrual basis.

Disclosure 14

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 in the section on "Risk Governance and Management" on pages 110 to 128.

Disclosure 15

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 Section on "Risk Governance and Management" on pages 110 to 128 and in Note 69 of the Financial Statements on Financial Risk Review on pages 257 to 286.

D-SIB Assessment Exercise – 2019 (As per the CBSL Direction w. e. f. 2019)

	GROUP Rs. '000
Size Indicator	
Section 1 – Total Exposures	
Total exposures measure	1,880,168,663
Interconnectedness Indicators	
Section 2 – Intra-Financial System Assets	
a. Funds deposited with or lent to other financial institutions (including unused portion of committed lines extended) (i + ii)	75,054,977
(i) Funds deposited	54,228,026
(ii) Lending	20,826,951
b. Holdings of securities issued by other financial institutions	1,985,584
c. Net positive current exposure of securities financing transactions (SFTs) with other financial institutions	1,126,958
d. Over-the-counter (OTC) derivatives with other financial institutions that have a net positive mark to market value	132,348,801
Intra-financial system assets (a + b + c + d)	210,516,320
Section 3 – Intra-Financial System Liabilities	
a. Funds deposited by or borrowed from other financial institutions (including unused portion of committed lines obtained) (i + ii)	82,321,479
(i) Funds deposited	8,626,228
(ii) Borrowings	73,695,251
b. Net negative current exposure of securities financing transactions with other financial institutions	1,917,412
c. Over-the-counter derivatives with other financial institutions that have a net negative mark to market value	84,365,490
Intra-financial system liabilities (a + b + c)	168,604,381
Section 4 – Securities Outstanding	
Securities outstanding	23,179,430

	GROUP Rs. '000
Substitutability/Financial Institution Infrastructure Indicators	
Section 5 – Payments made in the reporting year (excluding intragroup payments)	
Payments activity	8,629,722,562
Section 6 – Assets Under Custody	
Assets under custody	5,231,877
Section 7 – Underwritten Transactions in Debt and Equity Markets	
Underwriting activity	–
Section 8 – Trading Volume	
a. number of shares or securities	470
b. value of the transactions	19,031
Complexity indicators	
Section 9 – Notional Amount of Over-the-Counter (OTC) Derivatives	
OTC derivatives	246,399,959
Section 10 – Level 2 Assets	
Level 2 assets	86,421,727
Section 11 – Trading and available for sale (AFS) securities	
a. debt instruments	198,465,987
b. equity instruments	220,723
c. derivatives	1,830,927
Section 12 – Cross-Jurisdictional Liabilities	
Cross-jurisdictional liabilities (excluding derivatives and intragroup liabilities)	150,058,988
Section 13 – Cross-Jurisdictional Claims	
Cross-jurisdictional claims (excluding derivatives and intragroup claims)	58,471,275

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	379	Corporate information
102-2	Activities, brands, products and services	150	Note 1.3 – Principle business activities (Table 26)
102-3	Location of headquarters	379	Corporate information
102-4	Location of operations	6	About the Bank
102-5	Ownership and legal form	6, 379	About the Bank/Corporate information
102-6	Markets served	6, 60 and 61	About the Bank
102-7	Scale of the organisation	7	A snapshot of the Bank's profile
102-8	Information on employees and other workers	57 and 58	Investing in our employees
102-9	Supply chain	54	Partnerships for the goals
102-10	Significant changes to the organisation and its supply chain	4	Report boundary
102-11	Precautionary principle or approach	4	Precautionary principle
102-12	External initiatives	54	Partnerships for the goals
102-13	Membership of associations	54	Partnerships for the goals
Strategy			
102-14	Statement from senior decision-maker	16 to 17	Chairman's Statement
Ethics and integrity			
102-16	Values, principles, standards, and norms of behaviour	42, 306	
Governance			
102-18	Governance structure	75	Governance structure (Figure 15)
102-19	Delegating authority	74	Governance structure
102-22	Composition of the highest governance body and its committees	62 to 67, 76	Composition of the Board and attendance (Table 12)
102-23	Chair of the highest governance body	80	Segregating roles of Chairman and CEO
102-24	Nominating and selecting the highest governance body	80, 88 to 89	Appointment of Directors
102-25	Conflicts of interest	76	Conflicts of interest
102-35	Remuneration policies	81	Remuneration and benefits policy
102-36	Process for determining remuneration	81	Remuneration and benefits policy
Stakeholder engagement			
102-40	List of stakeholder groups	28	Connecting with stakeholders
102-41	Collective bargaining agreements	59	Enhancing employee experience
102-42	Identifying and selecting stakeholders	28	Connecting with stakeholders
102-43	Approach to stakeholder engagement	29	Connecting with stakeholders
102-44	Key topics and concerns raised	29	How we connect with our stakeholders (Figure 05)
Reporting practice			
102-45	Entities included in the consolidated financial statements	4	Report boundary
102-46	Defining report content and topic boundaries	4, 30 to 32	Report boundary/Material matters
102-47	List of material topics	32	Material matters (Table 05)
102-48	Restatements of information	4	Report boundary
102-49	Changes in reporting	4	Report boundary
102-50	Reporting period	4	Introducing our 51st Annual Report
102-51	Date of most recent report	4	Introducing our 51st Annual Report
102-52	Reporting cycle	4	Introducing our 51st Annual Report
102-53	Contact point for questions regarding the report	4	Introducing our 51st Annual Report

GRI Standard/Disclosure		Page No.	Report commentary title
102-54	Claims of reporting in accordance with the GRI Standards	4	Basis of preparation
102-55	GRI content index	341 to 342	
102-56	External assurance	4, 343 to 347	
GRI 103: Management Approach 2016			
103-1	Explanation of the material topic and its boundary	32, 38 to 40	Material matters/Business model
103-2	The management approach and its components	32, 38 to 40	Material matters/Business model
103-3	Evaluation of the management approach	32, 38 to 40	Material matters/Business model
GRI 200: Economic			
GRI 201: Economic performance 2016		20 to 27, 33 to 39	Prudent growth
201-1	Direct economic value generated and distributed	348	Our sustainability footprint
GRI 203: Indirect economic impact 2016		51	Strengthening ties with micro customers
203-1	Infrastructure investments and services supported	51	Strengthening ties with micro customers
GRI 300: Environmental 2016			
GRI 302: Energy 2016		57	Safeguarding the environment
302-1	Energy consumption within the organisation	348	Our sustainability footprint
302-4	Reduction of energy consumption	348	Our sustainability footprint
GRI 305: Emissions		57	Safeguarding the environment
305-1	Direct (Scope 1) GHG emissions	348	Our sustainability footprint
305-2	Energy indirect (Scope 2) GHG emissions	348	Our sustainability footprint
GRI 400: Social			
GRI 401: Employment 2016		57 and 58	Employee recruitment and retention
401-1	New employee hires and employee turnover	58, 348	Our sustainability footprint
401-3	Parental leave	349	Our sustainability footprint
GRI 404: Training and education 2016		58 and 59	Employee training, development, and advancement
404-1	Average hours of training per year per employee	58, 349	Our sustainability footprint
404-3	Percentage of employees receiving regular performance and career development reviews	349	Our sustainability footprint
GRI 405: Diversity and equal opportunity 2016		58 to 59	Enhancing employee experience
405-1	Diversity of governance bodies and employees	59, 349	Our sustainability footprint
405-2	Ratio of basic salary and remuneration of women to men	349	Our sustainability footprint
GRI 418: Customer privacy 2016		56	Service standards
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	349	Our sustainability footprint
Non GRI disclosures			
	Instability and lack of policy consistency	33-35	Context for performance/Outlook
	Economic slowdown	33-35	Context for performance/Outlook
	Directed lending	33-35	Context for performance/Outlook
	Higher regulatory capital	33-35	Context for performance/Outlook
	Envisaged upturn in private sector credit and improvement in asset quality	33-35	Context for our performance
	Changing customer expectations	47 to 51	Customer centricity

Annex 5: Independent Assurance Reports

Annex 5.1: Independent Assurance Report to Commercial Bank of Ceylon PLC on the Sustainability Reporting Criteria Presented in the Integrated Annual Report – 2019

Building a better working world

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Introduction and scope of the engagement

The management of Commercial Bank of Ceylon PLC ("the Company") engaged us to provide an independent assurance on the following elements of the sustainability reporting criteria presented in the annual report- 2019 ("the Report").

- Reasonable assurance on the information on financial performance as specified on page 348 of the Report.
- Limited assurance on other information presented in the Report, prepared in accordance with the requirements of the Global Reporting Initiative GRI Standards: "In accordance" – Core guidelines.

Basis of our work and level of assurance

We performed our procedures to provide limited assurance in accordance with Sri Lanka Standard on Assurance Engagements (SLSAE 3000): "Assurance Engagements Other than Audits or Reviews of Historical Financial Information", issued by The Institute of Chartered Accountants of Sri Lanka ("CASL").

The evaluation criteria used for this limited assurance engagement are based on the Sustainability Reporting Guidelines ("GRI Guidelines") and related information in particular, the requirements to achieve GRI Standards "In accordance" – Core guideline publication, publicly available at GRI's global website at "www.globalreporting.org".

Our engagement provides limited assurance as well as reasonable assurance. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement conducted in accordance with SLSAE-3000 and consequently does not enable to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express an opinion providing reasonable assurance.

Management of the Company's responsibility for the Report

The management of the Company is responsible for the preparation of the self-declaration, the information and statements contained within the Report, and for maintaining adequate records and internal controls that are designed to support the sustainability reporting process in line with the GRI Sustainability Reporting Guidelines.

Ernst & Young's responsibility

Our responsibility is to express a conclusion as to whether we have become aware of any matter that causes us to believe that the Report is not prepared in accordance with the requirements of the Global Reporting Initiative, GRI Standards: "In accordance" - Core guidelines. This report is made solely to the Company in accordance with our engagement letter dated February 11, 2020.

We disclaim any assumption of responsibility for any reliance on this report to any person other than the Company or for any purpose other than that for which it was prepared. In conducting our engagement, we have complied with the independence requirements of the Code for Ethics for Professional Accountants issued by the CASL.

Key assurance procedures

We planned and performed our procedures to obtain the information and explanations considered necessary to provide sufficient evidence to support our limited assurance conclusions. Key assurance procedures included:

- Interviewing relevant the company's personnel to understand the process for collection, analysis, aggregation and presentation of data.
- Reviewing and validation of the information contained in the Report.
- Checking the calculations performed by the Company on a sample basis through recalculation.
- Reconciling and agreeing the data on financial performance are properly derived from the Company's Audited Financial Statements for the year ended December 31, 2019.
- Comparison of the content of the Report against the criteria for a Global Reporting Initiative, GRI Standards: "In accordance" – Core guidelines.

Our procedures did not include testing electronic systems used to collect and aggregate the information.

Limitations and considerations

Environmental and social performance data are subject to inherent limitations given their nature and the methods used for determining, calculating and estimating such data.

Conclusion

Based on the procedures performed, as described above, we conclude that;

- The information on financial performance as specified on page 348 of the Report are properly derived from the audited Financial Statements of the Company for the year ended December 31, 2019.
- Nothing has come to our attention that causes us to believe that other information presented in the Report are not fairly presented, in all material respects, in accordance with the Company's sustainability practices and policies some of which are derived from Sustainability Reporting Guideline, GRI Standards – "In accordance" Core.

Ernst & Young
Chartered Accountants

February 24, 2020
Colombo

ANNEX 5.2: Independent Assurance Statement on Non-Financial Reporting – DNV GL

DNV·GL

Independent Assurance Statement

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', Company Registration Number PQ116) to carry out an independent assurance engagement for the non-financial - qualitative and quantitative information (sustainability performance) reported in Commercial Bank's Annual Report 2019 ('the Report') in its printed format for the financial year ending 31st December 2019. The non-financial disclosures in this Report have been 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 a Type 2, Moderate level of assurance using AccountAbility's AA1000 Assurance Standard 2008 (AA1000AS), with 2018 addendum and DNV GL's assurance methodology VeriSustain™, which is based on our professional experience, international assurance best practice including International Standard on Assurance Engagements 3000 (ISAE 3000) Revised* and GRI's Principles for Defining Report Content and Quality. Our assurance engagement was planned and carried out during January 2020 - February 2020 for the identified material topics and covering the non-financial performance related to activities undertaken by the Company during the reporting period 1st January 2019 to 31st December 2019. The intended user of this assurance statement is the Management of Bank ("the Management").

The reporting topic boundaries of sustainability/non-financial 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 seven subsidiaries – Commercial Development Co. PLC, CBC Tech Solutions Limited (Formerly ONEzero Co. Ltd.), Serendib Finance Ltd., Commercial Insurance Brokers (Pvt.) Ltd., Commex Sri Lanka S.R.L. Italy, Commercial Bank of Maldives (Private) Limited, CBC Myanmar Microfinance Company Limited and the operations of its associates, Equity Investments Lanka Ltd., as the results of their operations are not significant (<2 % 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 Provider

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 and are free from any misstatements. 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 and Bangladesh. We adopted a risk-based approach, i.e. we concentrated our verification efforts on the issues of high material relevance to Bank and its key stakeholders. We undertook the following activities:

- Review of Commercial Bank's approach to non-financial reporting based on <IR> Framework including stakeholder relationships and materiality determination process and its outcome as presented in this Report. We did not have any direct engagement with external stakeholders;
- Conducted interviews with selected senior managers responsible for management of sustainability issues and reviewed 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;
- Conducted site visits to sample branch operations at Hanwella, Kaduwela and Malabe in Sri Lanka and Dhaka in Bangladesh to review processes and systems in place for preparing site level sustainability/non-financial data and implementation of sustainability strategy. We were free to choose the sites we visited.

[1] *The VeriSustain protocol is available on www.dnvgl.com*

** Assurance Engagements other than Audits or Reviews of Historical Financial Information.*

DNV·GL

- Reviewed supporting evidence related to qualitative and quantitative non-financial disclosures within the Report for identified material matters.
- 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.

Opinion and Observations

On the basis of the verification undertaken, nothing has come to our attention that causes us to believe that the Report does not properly describe Commercial Bank's adherence to the criteria of reporting (Guiding Principles and Content Elements) related to the <IR> Framework, representation of the material topics, business model, disclosures on value creation through six capitals, related strategies and management approach and chosen topic-specific disclosures from the GRI Standards for identified material topics as below:

- GRI 201: Economic Performance 2016 – 201-1;
- GRI 203: Indirect Economic Impacts 2016 – 203-1;
- GRI 205: Anti-Corruption 2016 - 205-1, 205-3;
- GRI 302: Energy 2016 - 302-1, 302-4;
- GRI 305: Emissions 2016 - 305-1, 305-2;
- GRI 401: Employment 2016 – 401-1, 401-3;
- GRI 404: Training and Education 2016 – 404-1, 404-3;
- GRI 405: Diversity and Equal Opportunity 2016 - 405-1, 405-2;
- GRI 418: Customer Privacy 2016 – 418-1.

Without affecting our assurance opinion, we also provide the following observations.

AA1000 AccountAbility Principles Standard (2018)

Materiality

The process of determining the issues that is most relevant to an organisation and its stakeholders.

The Report brings out the process of application of <IR> materiality principles to arrive at significant material topics for the Bank considering its nature of business. As part of assurance, we reviewed the process of materiality assessment and effectiveness of processes of revalidation of materiality based on inputs from key stakeholders such as employees, customers, investors, regulators and society. Though nothing has come to our attention to suggest that the Bank has not missed out key material issues related to its operations in Sri Lanka and Bangladesh, we are of the opinion that the Bank may benchmark its sustainability/ non-financial performance with respect to identified material topic with its peers to further strengthen its material determination process based on changing external business environment.

Inclusivity

The participation of stakeholders in developing and achieving an accountable and strategic response to Sustainability.

We reviewed the application of the principle of stakeholder inclusivity i.e. the process of stakeholder identification and engagement including review of the process effectiveness in identifying, engaging and responding to key sustainability concerns of significant stakeholders. Nothing has come to our attention to suggest that the Report does not meet the requirements related to the Principle of Inclusivity i.e. the Bank carries out regular stakeholder engagement to identify critical and emerging issues based on the changes in external environment through formal stakeholder engagement process, however the stakeholder engagement process could be further strengthened to collect proactive inputs, ideas and suggestions through structured customer feedback mechanism.

Responsiveness

The extent to which an organisation responds to stakeholder issues.

Nothing has come to our attention to suggest that the Report does not meet the requirements related to the Principle of Responsiveness i.e. the key stakeholder concerns are fairly responded to within the Report. The Report also brings out disclosures such as Bank's business model, policies, management systems, governance mechanisms and disclosures on management approach for identified material topics. However, we are of the opinion that the adherence to this principle may further enhanced in future reporting periods by disclosing the Bank's short, medium and long-term goals with respect to identified material topics.

Impact

The level to which an organisation monitors, measures and is accountable for how its actions affect its broader ecosystems.

Nothing has come to our attention to suggest that the Report does not meet the requirements related to the Principle of Impact i.e. Bank has a defined process in place for monitoring, measurement and evaluation of key non-financial impacts on its internal and external stakeholders. The Report also describes both positive and negative impacts during the reporting period and related approaches to mitigate risks as applicable, to constantly create and change value for the Bank, and its key stakeholders.

DNV·GL

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 were evaluated during our visits to Commercial Bank's Head Office and branch operations in Sri Lanka and Bangladesh; the sample data and information verified as part of verification was found to be reliable. Nothing has come to our attention to suggest that the Report does not meet the requirements related to the Principle of Reliability.

Specific Evaluation of the Information on Sustainability Performance

We consider the methodology and process for gathering information developed by Bank for its sustainability/non-financial performance reporting to be appropriate, and the qualitative and quantitative data included in the Report was found to be identifiable and traceable; the personnel responsible were able to demonstrate the origin and interpretation of the data and its reliability.

Additional Principles as per DNV GL VeriSustain

Completeness

How much of all the information that has been identified as material to the organization and its stakeholders is reported.

Nothing has come to our attention to suggest that the Report does not meet the requirements related to the Principle of Completeness i.e. the Report has brought out the Content Elements and Guiding Principles of the <IR> Framework and has included the non-financial performance of the entities within the chosen reporting boundary considering the Bank's sphere of control and influence.

Neutrality

The extent to which a report provides a balanced account of an organisation's performance, delivered in a neutral tone.

Nothing has come to our attention to suggest that the Report does not meet the requirements related to the Principle of Neutrality i.e. the Report presents its non-financial disclosures and performance in a neutral and balanced tone.

For DNV GL

Bhargav Lankalapalli
Lead Assessor

DNV GL Business Assurance India Private Limited, India

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February 24, 2020
Colombo,
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Annex 6: Our Sustainability Footprint
GRI Disclosures – 5 Year Summary

Disclosure		Unit of Measure	2019		2018		2017		2016		2015	
201-1	Direct economic value:											
	– Generated	Rs. Mn.	**148,706**		138,049		114,357		93,143		77,868	
	– Distributed to		**124,544**		117,032		102,268		81,712		66,580	
	– Depositors		**80,571**		72,524		64,011		47,915		35,685	
	– Employees		**14,083**		13,071		11,268		10,794		10,181	
	– Business partners		**10,426**		10,497		8,819		7,773		4,127	
	– Government		**12,691**		14,286		11,609		9,368		10,824	
	– Shareholders		**6,679**		6,571		6,478		5,800		5,700	
	– Community		**94**		83		83		62		63	
	– Retained		**24,162**		21,017		12,089		11,431		11,288	
302-1	Energy consumption within the organisation	Gigajoules	**50,296**		49,958		54,820		56,359		55,877	
302-4	Reduction of energy consumption	Gigajoules	**(338)**		4,862		1,539		(482)		67	
305-1	Direct (Scope 1) GHG emissions	CO_2 Tonnes.	**Not finalised**		1,305		Not measured					
305-2	Energy indirect (Scope 2) GHG emissions	CO_2 Tonnes.	**Not finalised**		8,735		Not measured					
401-1	New employee hires		**Nos.**	**%**	Nos.	%	Nos.	%	Nos.	%	Nos.	%
	Female		**57**	**1.13**	70	1.41	46	0.92	46	0.93	21	0.43
	– 18-30 Years		**52**	**1.03**	67	1.34	43	0.86	42	0.85	16	0.33
	– 31-50 Years		**5**	**0.10**	3	0.06	3	0.06	4	0.08	5	0.10
	– Above 50 Years		–	–	–	–	–	–	–	–	–	–
	Male		**207**	**4.12**	242	4.86	214	4.29	225	4.54	225	4.64
	– 18-30 Years		**197**	**3.92**	233	4.68	211	4.23	210	4.24	219	4.51
	– 31-50 Years		**9**	**0.18**	8	0.16	2	0.04	14	0.28	6	0.12
	– Above 50 Years		**1**	**0.02**	1	0.02	1	0.02	1	0.02	–	–
	Total		**264**	**5.25**	312	6.26	260	5.21	271	5.47	246	5.07
	Attrition											
	Female		**73**	**1.45**	72	1.44	55	1.10	54	1.09	25	0.51
	– 18-30 Years		**31**	**0.61**	10	0.20	24	0.48	16	0.32	12	0.24
	– 31-50 Years		**18**	**0.36**	41	0.82	21	0.42	16	0.32	8	0.16
	– Above 50 Years		**24**	**0.48**	21	0.42	10	0.20	22	0.44	5	0.10
	Male		**154**	**3.05**	191	3.82	187	3.75	175	3.52	160	3.26
	– 18-30 Years		**91**	**1.80**	107	2.14	94	1.89	91	1.83	83	1.69
	– 31-50 Years		**43**	**0.85**	51	1.02	46	0.92	43	0.87	44	0.90
	– Above 50 Years		**20**	**0.40**	33	0.66	47	0.94	41	0.83	33	0.67
	Total		**227**	**4.50**	263	5.26	242	4.86	229	4.61	185	3.77

Disclosure		Unit of Measure	2019	2018	2017	2016	2015
401-3	Parental leave						
	– Entitled to leave	Nos.	**1,196**	1,189	1,213	1,227	1,240
	– Availed for leave	Nos.	**84**	58	52	65	53
	– Due to return	Nos.	**64**	48	57	65	53
	– Return to work	Nos.	**64**	48	53	62	53
	– Still employed	Nos.	**45**	51	57	53	54
	– Return ratio	%	**100.00**	100.00	92.98	95.38	100.00
	– Retained ratio	%	**93.75**	96.23	91.94	100.00	100.00
404-1	Average training hours	Hours					
	Female		**19**	20	17	20	21
	– Corporate management		**32**	29	2	4	92
	– Executive officers		**23**	22	19	20	18
	– Junior executive assistants & allied grades		**10**	10	10	11	15
	– Banking & graduate trainees		**64**	86	98	85	59
	Male		**27**	26	25	25	28
	– Corporate management		**34**	35	32	30	47
	– Executive officers		**28**	25	24	19	21
	– Junior executive assistants & allied grades		**16**	16	15	18	24
	– Banking and graduate trainees		**83**	79	78	71	71
404-3	Percentage of employees receiving performance and career development reviews	%					
	– Female		**100.00**	100.00	100.00	100.00	100.00
	– Male		**100.00**	100.00	100.00	100.00	100.00
405-1	Diversity and equal opportunity	%					
	Gender						
	– Female		**23.63**	24.08	24.35	24.60	25.05
	– Male		**76.37**	75.92	75.65	75.40	74.95
	Age group						
	– 18-30 Years		**37.34**	39.94	41.17	43.62	45.87
	– 31-50 Years		**55.15**	52.93	52.27	50.07	47.79
	– Above 50 Years		**7.51**	7.13	6.56	6.31	6.34
405-2	Remuneration ratio women to men	Male:Female					
	– Corporate management		**1 : 0.97**	1:0.75	1:0.75	1:0.95	1:0.94
	– Executive officers		**1 : 1.09**	1:1.11	1:0.90	1:1.10	1:1.09
	– Junior executive assistants and allied grades		**1 : 1.10**	1:1.09	1:0.92	1:1.08	1:1.10
	– Banking and graduate trainees		**1 : 1.01**	1:1.02	1:0.97	1:1.01	1:1.04
	– Office assistants and other		**1 : 0.79**	1:0.82	1:1.05	1:1.01	1:N/A
418-1	Substantiated complaints	The Bank did not come across any complaint that had resulted in a reputational damage or significant financial loss.					

Supplementary Information

Annex 7: Decade at a Glance

As at December 31, Rs. Mn.	CAGR %	2019	2018
Assets			
Cash and cash equivalents		**52,535**	39,534
Balances with Central Banks		**39,461**	54,385
Placements with banks		**24,527**	19,899
Government treasury bills, bonds and other securities		–	–
Securities purchased under resale agreements		**13,148**	9,514
Derivative financial assets		**1,831**	7,910
Dealing securities		–	–
Other financial instruments – Held for trading		–	–
Financial assets recognised through profit or loss – Measured at fair value		**21,468**	5,520
Loans and receivables to banks	15.13	–	–
Financial assets at amortised cost – Loans and advances to banks		**758**	763
Loans and receivables to other customers		–	–
Financial assets at amortised cost – Loans and advances to other customers		**884,646**	861,100
Bills of exchange		–	–
Lease receivable		–	–
Loans and advances		–	–
Investments held to maturity		–	–
Financial investments – Held to maturity		–	–
Financial investments – Loans and receivables		–	–
Financial assets at amortised cost – Debt and other financial instruments		**101,145**	83,855
Financial investments – Available for sale		–	–
Financial assets measured at fair value through other comprehensive income		**197,568**	176,507
Total financial assets		**1,337,087**	1,258,987
Investments in subsidiaries		**5,011**	4,264
Investments in associates		**44**	44
Property, plant & equipment		**20,436**	15,301
Intangible assets		**1,080**	906
Leasehold property		**71**	72
Deferred tax assets		**294**	–
Other assets		**23,323**	23,911
Total assets	15.39	**1,387,346**	1,303,485
Liabilities			
Due to banks		**51,506**	50,101
Derivative financial liabilities		**1,495**	8,022
Securities sold under repurchase agreements		**51,220**	49,104
Due to other customers/deposits from customers	15.89	–	–
Financial liabilities at amortised cost – due to depositors		**1,053,308**	983,037
Other borrowings		–	–
Financial liabilities at amortised cost – other borrowings		**23,249**	25,362
Current tax liabilities		**4,968**	6,566
Deferred tax liabilities		–	646
Other provisions		–	–
Other liabilities		**30,497**	24,208
Due to subsidiaries		**54**	41
Subordinated liabilities		**37,887**	37,992
Total liabilities		**1,254,184**	1,185,079
Shareholders' funds			
Stated capital		**40,917**	39,148
Statutory reserves		**8,205**	7,354
Retained earnings		**5,144**	5,063
Other reserves		**78,896**	66,841
Total liabilities and shareholders' funds	15.39	**1,387,346**	1,303,485
Commitments and contingencies		**579,999**	658,722

CAGR – Compounded Annual Growth Rate

LKASs and SLFRSs							SLAS
2017	2016	2015	2014	2013	2012	2011	2010
33,225	30,194	20,044	20,592	14,262	19,733	12,911	6,137
44,801	43,873	28,221	19,634	18,432	18,168	17,343	12,189
17,633	11,718	17,194	14,508	4,132	16,163	11,674	4,420
–	–	–	–	–	–	–	114,541
–	–	8,002	41,198	8,946	3,697	1,542	68
2,335	1,053	4,118	460	838	1,351	40	–
–	–	–	–	–	–	–	283
4,411	4,988	7,656	6,327	6,379	6,041	6,418	–
–	–	–	–	–	–	–	–
641	624	601	551	546	629	580	–
–	–	–	–	–	–	–	–
737,447	616,018	508,115	405,431	353,062	337,247	286,314	–
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	5,291
–	–	–	–	–	–	–	11,019
–	–	–	–	–	–	–	200,729
–	–	–	–	–	–	–	2,366
63,563	60,981	–	–	–	–	–	–
48,712	51,824	57,724	50,436	48,943	31,971	26,630	–
–	–	–	–	–	–	–	–
154,714	160,023	204,244	214,208	131,757	57,963	61,415	–
–	–	–	–	–	–	–	–
1,107,482	981,296	855,919	773,345	587,297	492,963	424,867	357,043
3,066	2,435	1,237	1,211	289	303	315	354
44	44	44	44	44	44	44	44
14,635	10,308	9,969	9,953	8,387	8,221	7,907	5,930
777	641	466	439	468	497	467	419
73	74	74	75	76	77	78	79
–	964	–	–	–	449	360	–
17,297	16,439	12,096	10,543	9,426	9,189	7,291	6,191
1,143,374	1,012,201	879,805	795,610	605,987	511,743	441,329	370,060
57,121	67,609	30,319	25,261	14,194	4,894	11,574	–
3,678	1,515	1,891	1,193	1,412	84	435	–
49,677	69,867	112,385	124,564	45,519	31,760	41,235	45,774
850,128	739,563	624,102	529,361	451,153	390,612	323,755	259,779
–	–	–	–	–	–	–	–
23,786	9,270	9,986	11,637	8,654	15,823	8,368	14,371
–	–	–	–	–	–	–	–
4,144	3,441	3,002	1,998	1,759	2,802	1,305	2,448
3,275	–	231	2,574	1,563	1,698	1,594	892
–	2	2	2	2	2	1	–
19,225	17,710	15,547	17,444	9,827	10,363	8,162	11,367
75	20	26	19	16	22	30	–
25,166	24,850	11,973	11,045	10,944	1,106	1,106	2,127
1,036,275	933,847	809,464	725,098	545,043	459,166	397,565	336,758
37,144	24,978	23,255	21,458	19,587	18,009	16,474	10,811
6,477	5,648	4,922	4,327	4,035	3,433	2,890	2,472
4,987	4,464	4,389	4,258	4,233	4,178	2,547	1,516
58,491	43,264	37,775	40,469	33,089	26,957	21,853	18,503
1,143,374	1,012,201	879,805	795,610	605,987	511,743	441,329	370,060
564,795	498,305	521,232	352,453	295,452	279,593	234,551	196,617

For the year ended December 31, Rs. Mn.		CAGR %	2019	2018
Operating results				
Gross income		15.84	**148,706**	138,049
Interest income			**127,780**	117,466
Interest expenses			**(80,571)**	(72,524)
Foreign exchange profit			**6,726**	7,900
Commission and other income			**12,082**	12,683
Operating expenses and impairment			**(43,678)**	(39,934)
Profit before tax		9.39	**22,339**	25,591
Income tax expenses			**(5,314)**	(8,047)
Profit for the year		10.10	**17,025**	17,544
Ratios				
Return on average-shareholders' funds (%)			**13.54**	15.56
Income growth (%)			**7.72**	20.72
Return on average assets (%)			**1.27**	1.43
Dividend per share			**6.50**	6.50
Ordinary share dividend cover (times)			**2.55**	2.67
Gross Dividends (Rs. Mn.) to ordinary shareholders			**6,678.79**	6,570.96
Advances to deposits and refinance (%)			**86.74**	86.96
Property, plant and equipment to shareholders' funds (%)			**16.21**	13.75
Total assets to shareholders' funds (times)			**10.42**	11.01
Capital funds to liabilities including contingent liabilities (%)			**7.26**	6.42
Cost/income ratio (%)			**49.41**	46.35
Liquid assets ratio – Domestic Banking Unit (DBU) (%)			**30.42**	24.47
Liquid assets ratio – Offshore Banking Centre (OBC) (%)			**25.25**	30.20
(As specified in the Banking Act No. 30 of 1988)				
Group capital adequacy (%)	Tier I		**N/A**	N/A
	Tier I & II		**N/A**	N/A
Group capital adequacy (%) (under Basel III)				
	Common equity Tier I capital ratio		**12.40**	11.43
	Tier I capital ratio		**12.40**	11.43
	Total capital ratio		**16.18**	15.62
Share information				
Market value of a voting ordinary share (Rs.)			**95.00**	115.00
Earnings per share (Rs.)			**17**	17
Price earnings ratio (times)			**5**	7
Net assets value per share (Rs.)			**130**	117
Earnings yield (%)			**17**	15
Dividend payout ratio (%) – Cash			**27**	26
Total dividend payout ratio (%)			**39**	37
Other information				
Number of employees			**5,062**	5,027
Number of delivery points – Sri Lanka		2.81	**268**	266
Number of delivery points – Bangladesh			**19**	19
Number of automated teller machines		7.03	**885**	850

CAGR – Compounded Annual Growth Rate

LKASs and SLFRSs							SLAS
2017	2016	2015	2014	2013	2012	2011	2010
114,357	93,143	77,868	72,753	73,736	63,395	45,860	41,522
103,034	80,738	66,030	61,832	62,764	52,685	38,356	34,740
(64,011)	(47,915)	(35,685)	(34,610)	(36,879)	(29,830)	(19,650)	(18,328)
588	2,326	2,877	1,481	1,996	4,687	2,322	1,741
10,735	10,079	8,961	9,440	8,976	6,023	5,182	5,041
(28,400)	(25,177)	(25,040)	(22,407)	(22,347)	(19,270)	(15,313)	(13,876)
23,183	20,051	17,143	15,736	14,510	14,295	10,897	9,318
(6,602)	(5,539)	(5,240)	(4,556)	(4,065)	(4,197)	(3,014)	(3,794)
16,581	14,512	11,903	11,180	10,445	10,098	7,883	5,524
17.88	19.52	16.90	17.01	18.40	20.96	20.28	17.87
24.10	19.62	7.03	0.96	16.31	38.24	10.45	(5.07)
1.54	1.53	1.42	1.60	1.87	2.12	1.94	1.60
6.50	6.50	6.50	6.50	6.50	6.50	6.00	7.00
2.62	2.25	2.09	1.99	1.89	1.86	1.61	2.09
6,477.12	5,769.02	5,700.24	5,700.24	5,522.47	5,421.42	4,904.70	2,642.25
86.07	82.69	80.84	75.89	77.48	82.01	83.30	80.97
14.46	14.07	14.94	14.85	14.65	16.73	19.31	19.30
10.68	12.92	12.51	11.28	9.94	9.73	9.92	11.11
6.69	5.47	5.29	6.54	7.25	7.12	6.92	6.26
51.08	51.06	48.92	49.26	45.59	47.02	50.70	54.69
27.28	27.19	26.24	33.15	33.66	25.40	25.70	29.93
30.95	30.19	49.13	31.43	29.38	34.16	27.77	30.57
N/A	11.59	11.55	13.07	13.30	12.63	12.11	10.86
N/A	16.01	14.28	16.22	16.93	13.84	13.01	12.26
12.12	–	–	–	–	–	–	–
12.12	–	–	–	–	–	–	–
15.70	–	–	–	–	–	–	–
135.80	145.00	140.20	171.00	120.40	103.00	100.00	259.90
17	16	13	13	12	12	9	7
8	9	10	13	10	9	11	18
108	88	80	81	72	63	54	44
13	11	10	8	10	12	9	6
26	28	33	35	37	37	42	34
38	40	48	50	53	54	62	48
4,982	4,987	4,951	4,852	4,730	4,602	4,524	4,321
261	255	246	239	235	227	213	187
19	19	18	18	18	17	17	17
775	677	640	625	604	572	514	414

Annex 8: Financial Statements (US Dollars)
Income Statement

For the year ended December 31,	GROUP 2019 USD '000	GROUP 2018 USD '000	GROUP Change %	BANK 2019 USD '000	BANK 2018 USD '000	BANK Change %
Gross income	**829,387**	768,403	7.94	**818,191**	759,556	7.72
Interest income	**711,349**	652,276	9.06	**703,051**	646,304	8.78
Less: Interest expense	**445,289**	401,282	10.97	**443,308**	399,031	11.10
Net interest income	**266,060**	250,994	6.00	**259,743**	247,273	5.04
Fee and commission income	**70,839**	68,743	3.05	**68,262**	65,959	3.49
Less: Fee and commission expense	**11,682**	10,232	14.17	**11,648**	10,112	15.19
Net fee and commission income	**59,157**	58,511	1.10	**56,614**	55,847	1.37
Net gains/(losses) from trading	**7,487**	(16,689)	144.86	**7,488**	(16,689)	144.87
Net gains/(losses) from derecognition of financial assets	**6,249**	1,497	317.43	**6,249**	1,497	317.43
Net other operating income	**33,463**	62,576	(46.52)	**33,142**	62,486	(46.96)
Total operating income	**372,416**	356,889	4.35	**363,236**	350,414	3.66
Less: Impairment charges and other losses	**62,347**	48,602	28.28	**60,861**	47,181	28.99
Net operating income	**310,069**	308,287	0.58	**302,375**	303,233	(0.28)
Less: Expenses						
Personnel expenses	**79,279**	73,121	8.42	**77,484**	71,917	7.74
Depreciation and amortisation	**15,633**	8,820	77.24	**15,156**	8,083	87.50
Other operating expenses	**48,833**	49,485	(1.32)	**47,254**	49,129	(3.82)
Total operating expenses	**143,744**	131,426	9.37	**139,893**	129,129	8.34
Operating profit before taxes on financial services	**166,324**	176,861	(5.96)	**162,481**	174,104	(6.68)
Less: Taxes on financial services	**39,921**	33,298	19.89	**39,569**	33,298	18.83
Operating profit after taxes on financial services	**126,403**	143,563	(11.95)	**122,912**	140,806	(12.71)
Share of profits of associates, net of tax	**55**	33	66.67	–	–	–
Profit before tax	**126,458**	143,596	(11.93)	**122,912**	140,806	(12.71)
Less: Income tax expense	**30,611**	45,313	(32.45)	**29,239**	44,277	(33.96)
Profit for the year	**95,847**	98,283	(2.48)	**93,673**	96,529	(2.96)
Profit attributable to:						
Equity holders of the Bank	**94,982**	97,578	(2.66)	**93,673**	96,529	(2.96)
Non-controlling interest	**865**	705	22.70	–	–	–
Profit for the year	**95,847**	98,283	(2.48)	**93,673**	96,529	(2.96)
Earnings per share						
Basic earnings per ordinary share (USD)	**0.09**	0.10	(2.72)	**0.09**	0.09	(2.99)
Diluted earnings per ordinary share (USD)	**0.09**	0.10	(2.72)	**0.09**	0.09	(2.99)

US Dollar Accounts

The Income Statement and the Statement of Financial Position given on pages 354 and 355 are solely for the convenience of stakeholders and do not form part of the Financial Statements.

Statement of Financial Position

As at December 31,	GROUP 2019 USD '000	2018 USD '000	Change %	BANK 2019 USD '000	2018 USD '000	Change %
Assets						
Cash and cash equivalents	**295,357**	244,049	21.02	**289,049**	217,521	32.88
Balances with Central Banks	**253,652**	304,850	(16.79)	**217,118**	299,227	(27.44)
Placements with banks	**137,022**	109,483	25.15	**134,950**	109,483	23.26
Securities purchased under resale agreements	**72,339**	52,344	38.20	**72,339**	52,344	38.20
Derivative financial assets	**10,074**	43,521	(76.85)	**10,074**	43,521	(76.85)
Financial assets recognised through profit or loss – Measured at fair value	**118,118**	30,372	288.90	**118,118**	30,372	288.90
Financial assets at amortised cost – Loans and advances to banks	**4,169**	4,198	(0.69)	**4,169**	4,198	(0.69)
Financial assets at amortised cost – Loans and advances to other customers	**4,918,401**	4,773,656	3.03	**4,867,377**	4,737,828	2.73
Financial assets at amortised cost – Debt and other financial instruments	**589,046**	491,193	19.92	**556,505**	461,378	20.62
Financial assets measured at fair value through other comprehensive income	**1,088,446**	972,548	11.92	**1,087,033**	971,151	11.93
Investments in subsidiaries	–	–	–	**27,572**	23,459	17.53
Investments in associates	**313**	579	(45.94)	**244**	244	–
Property, plant and equipment and right-of-use assets	**123,373**	93,619	31.78	**112,443**	84,188	33.56
Investment properties	**255**	–	–	–	–	–
Intangible assets	**9,055**	7,890	14.77	**5,942**	4,985	19.19
Leasehold property	**559**	567	(1.41)	**389**	394	(1.27)
Deferred tax assets	**2,917**	1,037	181.29	**1,618**	–	–
Other assets	**128,989**	132,335	(2.53)	**128,322**	131,563	(2.46)
Total assets	**7,752,085**	7,262,241	6.75	**7,633,262**	7,171,856	6.43
Liabilities						
Due to banks	**296,052**	288,099	2.76	**283,388**	275,659	2.80
Derivative financial liabilities	**8,227**	44,136	(81.36)	**8,227**	44,136	(81.36)
Securities sold under repurchase agreements	**281,251**	269,334	4.42	**281,816**	270,176	4.31
Financial liabilities at amortised cost – Due to depositors	**5,881,610**	5,471,091	7.50	**5,795,365**	5,408,734	7.15
Financial liabilities at amortised cost – Other borrowings	**127,917**	139,543	(8.33)	**127,917**	139,543	(8.33)
Current tax liabilities	**28,595**	37,062	(22.85)	**27,332**	36,129	(24.35)
Deferred tax liabilities	**2,291**	5,345	(57.14)	–	3,556	–
Other liabilities	**169,331**	135,062	25.37	**167,793**	133,184	25.99
Due to subsidiaries	–	–	–	**299**	225	32.89
Subordinated liabilities	**208,455**	209,037	(0.28)	**208,456**	209,037	(0.28)
Total liabilities	**7,003,729**	6,598,709	6.14	**6,900,593**	6,520,379	5.83
Equity						
Stated capital	**225,128**	215,394	4.52	**225,128**	215,394	4.52
Statutory reserves	**46,150**	40,958	12.68	**45,147**	40,463	11.58
Retained earnings	**28,513**	27,235	4.69	**28,305**	27,857	1.61
Other reserves	**439,821**	373,347	17.80	**434,089**	367,763	18.03
Total equity attributable to equity holders of the Bank	**739,612**	656,934	12.59	**732,669**	651,477	12.46
Non-controlling interest	**8,744**	6,597	32.55	–	–	–
Total equity	**748,356**	663,531	12.78	**732,669**	651,477	12.46
Total liabilities and equity	**7,752,085**	7,262,241	6.75	**7,633,262**	7,171,856	6.43
Contingent liabilities and commitments	**3,196,489**	3,323,364	(3.82)	**3,191,193**	3,322,603	(3.96)
Net assets value per share (USD)	**0.72**	0.65	10.75	**0.71**	0.64	10.63

An exchange rate of 1 USD equals 181.75 LKR for both the years, has been used to facilitate comparison.

Annex 9: Correspondent Banks and Agent Network

01. Canada

Bank of Montreal (CAD)
Toronto
BIC: BOFMCAM2
A/C: 31441044203 and 31441044190*

02. United States of America

Bank of America NT and 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, 01270435801* and 01271474401*

05. Norway

Den Norske Bank (NOK)
Oslo
BIC: DNBANOKK
A/C: 7002.02.04808

06. Sweden

Skandinaviska Enskilda Banken (SEK)
Stockholm
BIC: ESSESESS
A/C: 52018529803

07. Denmark

Nordea Bank Denmark A/S (DKK)
Copenhagen
BIC: NDEADKKK
A/C: 5000408909

08. Germany

Commerz Bank AG (EUR)
Frankfurt
BIC: COBADEFF
A/C: 400872103701 and 400871436200*

Landesbank Baden – Wuerttemberg (EUR)
Stuttgart
BIC: SOLADEST
A/C: 2808451

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

09. Switzerland

UBS AG (CHF)
Zurich
BIC: UBSWCHZH
A/C: 0230000008540805000OW

12. Pakistan

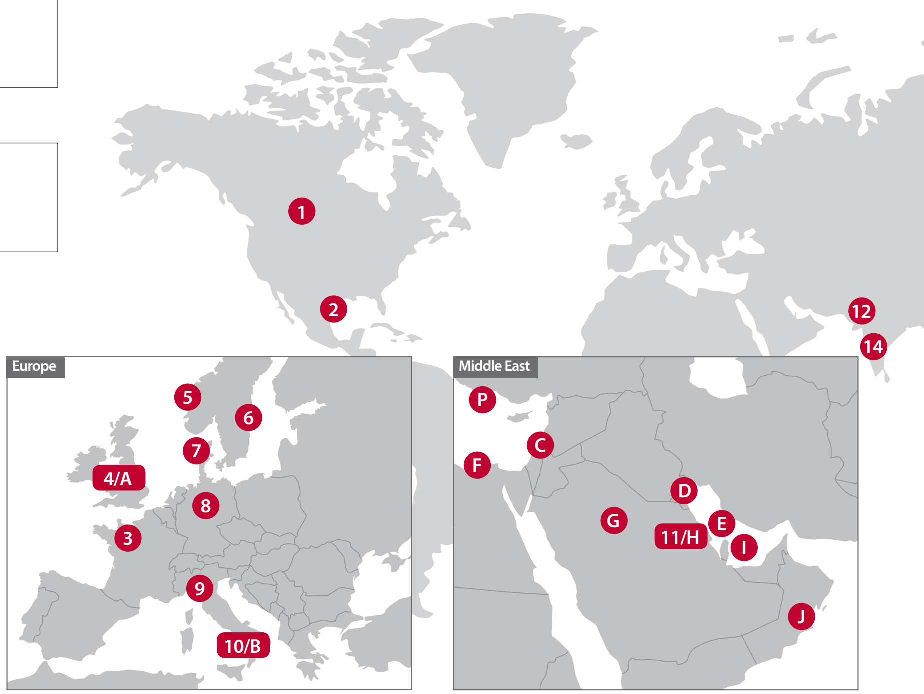
Standard Chartered Bank (ACU$)
Karachchi
BIC: SCBLPKK
A/C: 15000297601USD and 15000288701USD*

13. Maldives

Commercial Bank of Maldives Private Limited (ACU$)
Malé
BIC: CBMVMVMV
A/C: 1600100051

16. Sri Lanka

Commercial Bank of Ceylon PLC (ACU$)
Colombo
BIC: CCEYLKLX
A/C: 1420825031*



10. 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

11. United Arab Emirates

Mashreq Bank (AED)
Dubai
BIC: BOMLAEAD
A/C: AE270330000010195511268

14. 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

15. Bangladesh

Commercial Bank of Ceylon PLC (ACU$)
Dhaka
BIC: CCEYBDDH
A/C: 2802000017

17. Singapore

Citibank NA
BIC: CITISGSG
A/C: (USD) 851122001,
(EUR) 851122028 and (GBP) 851122036

Oversea – Chinese Banking Corp Ltd.
BIC: OCBCSGSG
A/C: (USD) 503212862301,
(SGD) 695703165001

Standard Chartered Bank (SGD)
BIC: SCBLSGSG
A/C: 109344561 and 102318735*

18. China

Standard Chartered Bank (CNY)
Shanghai
BIC: SCBLCNSX
A/C: 501510533540

19. Korea

Kookmin Bank (USD)
Seoul
BIC: CZNBKRSE
A/C: 7598USD010 and 7618USD013*

KEB Hana Bank
Seoul
BIC: KOEXKRSE
A/C: 0963THR051080010

Woori Bank (USD)
Seoul
BIC: HVBKKRSE
A/C: W1027001US

22. Australia

National Australia Bank (AUD)
Melbourne
BIC: NATAAU33
A/C: 1803020052500 and 1803152323500*

23. 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
Global Exchange Ltd.
LCC Trans-Sending Ltd.

B. Italy

Commex Srilanka S R L
National Exchange Co

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

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

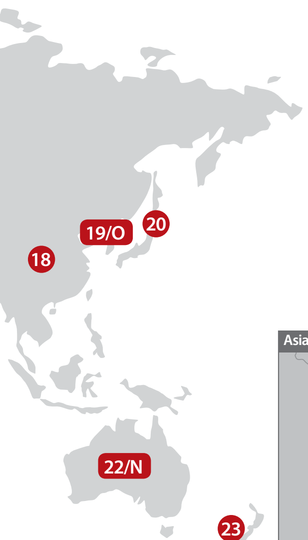
Commercial Bank of Maldives Pvt Ltd.

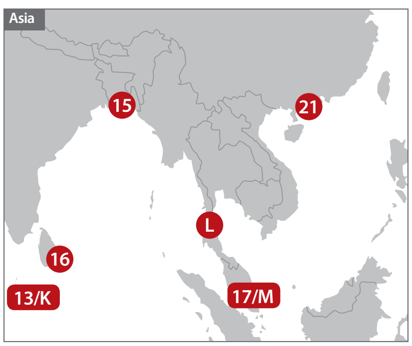
L. Malaysia

IME (M) SDN

M. Singapore

Ameertech Remittance & Exchange





20. Japan

Mufg Bank (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

21. Hong Kong

Standard Chartered Bank
BIC: SCBLHKHH
A/C: (HKD) 41109468048,
(HKD) 44709419107* and
(CNY) 44709448344

C. Israel

S T B Union Ltd.

D. Kuwait

Al Mulla Int Exchange Co
Al Muzaini Exchange Co
Aman Exchange Company Wll
Bahrain Exchange Co
City Int Exchange Co
Dollarco Exchange Co
Etemadco Company Ltd.
Joy Alukkas Exchange Co Wll
Kuwait Bahrain Exchange Co
Kuwait National Exchange Co
Lulu Exchange Company Wll
National Exchange Co
National Money Exchange Co
Oman Exchange Co
UAE Exchange Centre

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
Arab Link Money Transfer PSC
Delma Exchange
Desert Exchange
G C C Exchange
Habib Exchange Co
Leela Megh Exchange LLC
Lulu International Exchange
Multinet Trust Exchange LLC
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.

N. Australia

Colombo Money Transfer Services
Ceylon Exchange Pvt Ltd.
Direct Forex Foreign Exchange
Foreign Exchange Central Pvt Ltd.
Kapruka Pvt Ltd.
Lanka Currency Converter Pvt Ltd.
Remittance Plus Pvt Ltd.

O. Korea

KEB Hana Bank
Kookmin Bank
Hana Bank
Woori Bank

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-Exchange Agent Network*

* *Accounts of Bangladesh Operations.*

Supplementary Information

Annex 10: Group Structure

	Local Subsidiaries			
	Commercial Development Co. PLC	CBC Tech Solutions Ltd.	Serendib Finance Ltd.	Commercial Insurance Brokers (Pvt) Ltd.
Incorporated on	March 14, 1980 in Sri Lanka	February 17, 2003 in Sri Lanka	February 18, 1987 in Sri Lanka	August 17, 1987 in Sri Lanka
Bank's Holding	**90.00%** (92.41% as at December 31, 2018)	**100%**	**100%**	**58.00%*** (18.48% as at December 31, 2018)
Principal Business Activities	Property Development	Provision of IT Related Services	Leasing and Hire Purchase Financing	Insurance Brokering
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. 187, Katugastota Road, Kandy.	No. 347, Dr Colvin R De Silva Mawatha, Colombo 02.
Contact Numbers	+94 11 330 1877 +94 11 330 1878	+94 11 257 4417	+94 81 221 3498 +94 81 220 0272	+94 11 760 0600
Board of Directors				
Chairman	B R L Fernando	Prof A K W Jayawardane	K G D D Dheerasinghe	M P Jayawardena
Managing Director/CEO	S Renganathan	Keerthi Mediwake	D M U N Dissanayaka	R A M Seneviratne
Director	A L Gooneratne	K D N Buddhipala	A N P Sooriyaarachchi	D M D K Thilakaratne
Director	A T P Edirisinghe	Mrs S A Walgama	Dr (Ms) J P Kuruppu	U I S Tillakawardana
Director	L D A Jayasinghe	A N P Sooriyarachchi	S R Pushpakumara	W M N S K Weerapana
Director	U I S Tillakawardana	K S A Gamage	S M S C Jayasuriya	D J D P Hettiarachchi
Director		S Prabagar	D S Bandara	
Director				
Company Secretary	L W P Indrajith	M P Dharmasiri	W R U N Wijesundara	Ms Y A Kularathna

Summary of Financial Information

	2019 Rs. Mn.	2018 Rs. Mn.	**2019 Rs. Mn.**	2018 Rs. Mn.	**2019 Rs. Mn.**	2018 Rs. Mn.	**2019 Rs. Mn.**	2018 Rs. Mn.
Total assets	**3,343.931**	3,024.791	**250.715**	171.254	**7,431.856**	5,425.100	**379.192**	344.009
Total liabilities	**443.223**	422.475	**73.151**	48.420	**5,308.109**	3,555.235	**92.824**	88.502
Net assets	**2,900.708**	2,602.316	**177.564**	122.834	**2,123.748**	1,869.864	**286.368**	255.507
Total revenue	**453.849**	396.770	**350.985**	212.438	**1,150.666**	851.542	**255.178**	268.139
Profit before tax	**412.990**	368.786	**110.861**	89.123	**116.417**	(38.913)	**62.891**	56.965
Profit after tax	**363.217**	328.546	**79.699**	64.248	**78.859**	(30.762)	**45.791**	32.828
Dividend per share (Rs.)	6.00	5.50	**50.00**	50.00	–	–	–	16.67

(*) Acquired on August 5, 2019

Local Associates	Foreign Subsidiaries			
Equity Investments Lanka Ltd.	**Commex Sri Lanka S.R.L. – Italy**	**Commercial Bank of Maldives Private Limited**	**CBC Myanmar Microfinance Company Limited**	
August 8, 1990 in Sri Lanka	December 2, 2008 in Italy	March 24, 2015 in Maldives	April 4, 2017 in Myanmar	Incorporated on
22.92%	**100%**	**55%**	**100%**	Bank's Holding
Venture Capital Financing	Money Transfer and Money Exchange	Banking	Microfinancing	Principal Business Activities
No. 108 A, 2/1, Maya Avenue, Colombo 06.	No. 34, Via Giacomo Leopardi, Rome, Italy.	H Filigasdhoshuge, Ameer Ahmed Magu, K. Male 20066, Maldives.	No. 15, Office Street, Ward 4, Lewe Township, Naypyitaw, Myanmar.	Business Address
+94 11 537 3746 +94 11 250 7605 +94 11 250 7606	+39 06 4885838 +39 06 48986390	+96 03332668	+95 6730566	Contact Numbers
				Board of Directors
M J C Amarasuriya	K D N Buddhipala	Ahmed Nazeer	K G D D Dheerasinghe	Chairman
A H M Riyaz		S Renganathan	R C P Kalugamage	Managing Director/CEO
Deshamanya S E Captain	J Premanath	S C U Manatunge	Mrs S A Walgama	Director
J D Peiris	U K P Banduwansa	U I S Tillakawardana	D J D P Hettiarachchi	Director
J B Abu Baker	Daniele Rodia	Dr Ibrahim Vishan		Director
W I Arambage	Dr (Ms) Antonia Coppola	Adam Saleem		Director
K C Vignarajah				Director
M H Wijewaradene				Director
Mrs R R Dunuwille	Mrs N Gamage	Ms Fathmath Muaza	R C P Kalugamage	Company Secretary

2019 Rs. Mn.	2018 Rs. Mn.	**2019 Rs. Mn.**	2018 Rs. Mn.	**2019 Rs. Mn.**	2018 Rs. Mn.	**2019 Rs. Mn.**	2018 Rs. Mn.	
253.351	258.053	**240.854**	128.555	**19,464.317**	14,240.806	**432.050**	323.117	Total assets
5.439	4.553	**65.411**	90.782	**16,680.741**	11,774.754	**19.256**	4.215	Total liabilities
247.912	253.500	**175.443**	37.773	**2,783.575**	2,466.052	**412.794**	318.902	Net assets
22.672	23.265	**16.230**	81.867	**657.374**	821.711	**40.013**	5.461	Total revenue
(1.379)	0.840	**(100.829)**	(38.555)	**450.343**	427.243	**(13.122)**	12.696	Profit before tax
(1.480)	(0.241)	**(100.829)**	(38.199)	**328.948**	270.671	**(12.594)**	12.696	Profit after tax
–	–	**–**	–	**–**	–	**–**	–	Dividend per share (Rs.)

Annex 11: 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.

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.

Business Model Assessment
Business model assessment is carried out as the first step of the financial assets classification process. Business model refers to how an entity manages its financial assets in order to generate cash flows. It is determined at a level that reflects how groups of financial assets are managed rather than at an instrument level. SLFRS 9 identifies three types of business models: "hold to collect", "hold to collect and sell" and "other". In order to determine the business model, it is necessary to understand the objectives of each business model. An entity would need to consider all relevant information including, for example, how business performance is reported to the entity's key management personnel and how managers of the business are compensated.

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 CBSL 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.

Domestic Systemically Important Banks (D-SIBs)
Systemically Important Banks (SIBs) are perceived as banks that are "Too Big To Fail". D-SIBs are critical for the uninterrupted availability of essential banking services to the country's real economy even during crisis. The CBSL has designated LCBs with total assets equal to or greater than Rs. 500 Bn. as D-SIBs.

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 Instrument
An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all its liabilities.

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.

ESOP (Employee Share Ownership Plan)
A method of giving employees shares in the business for which they work.

Exposure at Default (EAD)
EAD is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal & interest and expected drawdowns of committed facilities.

Expected Credit Losses (ECLs)
ECL approach is the loan loss impairment method under SLFRS 9 on "Financial Instruments". ECLs are the discounted product of the Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). ECL measurements are unbiased and are determined by evaluating a range of possible outcomes.

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.

Finance Lease
A lease in which the lessee acquires all 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.

Financial Assets Measured at Amortised Cost
A financial asset is measured at amortised cost if the asset is held within a business model whose objective is to hold assets to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial Assets Measured at Fair Value through Other Comprehensive Income (FVOCI)
FVOCI include debt and equity instruments measured at fair value through other comprehensive income. A debt instrument is measured at FVOCI, if it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Equity investments may be irrevocably classified as FVOCI when they meet the definition of Equity under LKAS 32 Financial Instruments: Presentation, and are not held for trading.

Financial Assets Measured at Fair Value through Profit or Loss (FVTPL)
All financial assets other than those classified at Amortised Cost or FVOCI are classified as measured at FVTPL. These are held for trading or managed and their performance is evaluated on a fair value basis as they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Financial Intermediation Margin
Used to measure the robustness of financial intermediation process, it is gross income expressed as a percentage of average total assets.

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 Initiatives (GRI)
The GRI is an international independent standards organisation that helps businesses, governments and other organisations to 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.).

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 under a finance lease) to earn rentals or 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.

Lessee's incremental borrowing rate (IBR)
The rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

Lifetime Expected Credit Losses (LTECL)
Lifetime ECL are the expected credit losses that result from all possible default events over the expected life of the financial instrument. According to SLFRS 9 on "Financial instruments", the ECL allowance should be based on LTECL unless there has been no significant increase in credit risk since origination.

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 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 a 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.

Right-of-Use Asset (RUA)
An asset that represents a lessee's right to use an underlying asset for the lease term.

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 the Bank's assets, income and other information, broken down by activity and geographical area.

Significant Increase in Credit Risk (SICR)
According to SLFRS 9, an entity should assess whether the risk of default on a financial instrument has increased significantly since initial recognition. The assessment should consider reasonable and supportable information that is relevant and available without undue cost or effort. There is a rebuttable presumption in the Standard that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due.

SPPI Test
Solely payments of Principal and Interest Test (SPPI) is carried out as the second step of the classification process. "Principal" is defined as the fair value of the financial asset at initial recognition and may change due to repayments of principal or amortisation of the premium or discount. "Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding. If a financial asset passes the SPPI test, then it will either be classified at amortised cost if the "hold to collect" business model test is met, or at Fair Value Through Other Comprehensive Income (FVOCI) if the "hold to collect and sell" business model test is met. If a financial asset fails the SPPI test it must be classified at Fair Value Through Profit or Loss (FVTPL) in its entirety.

Subsidiary
An entity that is controlled by another entity.

Substance over Form
The consideration that the accounting treatment and presentation of Financial Statements of transactions and events should be governed by their substance and financial reality and not merely by legal form.

T

Tier I Capital (Common Equity Tier 1 – CET 1)
Common Equity Tier 1 (CET1) 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 I Capital (Additional Tier 1 Capital – AT 1)
Additional Tier 1 Capital (AT1) is a component of Tier 1 capital that comprises securities that are subordinated to most subordinated debt, which have no maturity, and their dividend can be cancelled at any time.

Tier II 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.

Twelve Month Expected Credit Losses (12 Month ECL)
The portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

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.

Annex 12: Acronyms and Abbreviations

AC	Amortised Cost
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
BSDC	Board Strategy Development 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
CET 1	Common Equity Tier 1
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
DPD	Days Past Due
DRL	Debt Repayment Levy
DRP	Disaster Recovery Plan
EAD	Exposure at Default
EAR	Earnings at Risk
ECL	Expected Credit Loss
ECMN	Executive Committee on Monitoring NPA
EGM	Extraordinary General Meeting
EIR	Effective Interest Rate
EIRMC	Executive Integrated Risk Management Committee
ESOP	Employee Share Option Plan
EVE	Economic Value of Equity
FIS	Fixed Income Securities
FVOCI	Financial assets measured at Fair Value through Other Comprehensive Income
FVTPL	Financial assets measured at Fair Value through Profit or Loss
FX	Foreign Exchange
FY	Financial Year
GDP	Gross Domestic Product
GOSL	Government of Sri Lanka
GRI	Global Reporting Initiatives
HFT	Held-for-trading
HR	Human Resources
IBR	Incremental Borrowing Rate
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 Risk Indicators
KIRI	Key IT Risk Indicators
KMP	Key Management Personnel
KORI	Key Operational Risk Indicators
LCB	Licensed Commercial Bank
LCR	Liquidity Coverage Ratio
LGD	Loss Given Default
LSB	Licensed Specialised Bank
LTECL	Life Time Expected Credit Loss
LTV	Loan to Value Ratio
MATs	Management Action Triggers
MRMU	Market Risk Management Unit
NBT	Nation Building Tax
NCI	Non-Controlling Interest
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
PD	Probability of Default
POCI	Purchased or Originated Credit Impaired (Financial Assets)
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
SEMS	Social and Environment Management System
SICR	Significant Increase in Credit Risk
SLAR	Statutory Liquid Assets Ratio
SLDB	Sri Lanka Development Bond
SLFRS	Sri Lanka Financial Reporting Standards
SME	Small and Medium Enterprise
SOFP	Statement of Financial Position
SPPI	Solely Payment of Principal and Interest
TMO	Treasury Middle Office
UNGC	United Nations Global Compact
VaR	Value at Risk
YoY	Year-on-Year
12mECL	12 months Expected Credit Loss

Annex 13: Alphabetical Index

Annex 14: Index of Figures, Tables and Graphs

Figures

Tables

Graphs

Notice of Meeting – Annual General Meeting

Notice is hereby given that the Fifty-First (51st) 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 Monday, March 30, 2020 at 3.00pm 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, 2019 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. 2,055,013,172.00 based on the issued ordinary (voting) and (non-voting) shares as at February 14, 2020 [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, 2019 on the issued and fully-paid ordinary (voting) and (non-voting) shares of the Company;

THAT such dividend so declared be paid out of the profits of the Company, which would be liable to any applicable government taxes.

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 14, 2020 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. 2,055,013,172.00 (less any applicable government taxes).

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. 1,922,504,634.00 (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 applicable government taxes); and
- Rs. 132,508,538.00 to which the ordinary (non-voting) shareholders are entitled (less any applicable government taxes), 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:

- One new fully-paid ordinary (voting) share for every 42.750000600 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 14, 2020; and
- One new fully-paid ordinary (non-voting) share for every 38.599996387 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 14, 2020.

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 after applying the formulas referred to in the subheading "Residual fractions of shares" in the "Circular to the shareholders on the final dividend for 2019" dated March 5, 2020, 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 22,485,434 new ordinary (voting) shares, based on the issued and fully-paid ordinary (voting) shares as at February 14, 2020 (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 1,716,432 new ordinary (non-voting) shares based on the issued and fully-paid ordinary (non-voting) shares as at February 14, 2020 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 961,252,317 existing issued and fully-paid ordinary (voting) shares as at February 14, 2020 and 66,254,269 existing issued and fully-paid ordinary (non-voting) shares as at February 14, 2020 (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, 2019:

"The allotment and issue of 22,485,434 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 1,716,432 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]:

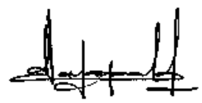
THAT the proposed allotment and issue of 22,485,434 new ordinary (voting) shares [subject however to the necessary amendments being made to such number to include the dividend on the options that may be exercised by the employees under the Commercial Bank of Ceylon PLC (the "Company") ESOP schemes], and 1,716,432 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 (as amended) 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 the following Directors who, in Terms of the Company's Articles of Association, retire by rotation as given below:
   (i) To re-elect Mr M P Jayawardena who retires by rotation in Terms of Article 86 of the Articles of Association
   (ii) To re-elect Mr L D Niyangoda who retires by rotation in Terms of Article 86 of the Articles of Association
4. (a) To reappoint Messrs Ernst & Young, Chartered Accountants, as recommended by the Board of Directors as the Company's Auditors for the financial year ending December 31, 2020; and

   (b) To authorise the Board of Directors to determine the remuneration of the Auditors for the financial year ending December 31, 2020.
5. To authorise the Board of Directors to determine donations for the year 2020.

By Order of the Board of Commercial Bank of Ceylon PLC,



R A P Rajapaksha
Company Secretary

March 5, 2020
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 2019

Dear Shareholder/s,

Final dividend for the year ended December 31, 2019 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, 2019 for due declaration by the shareholders at the Annual General Meeting ("AGM") to be held on March 30, 2020 (the date of the AGM) and such dividend so declared be paid out of the profits of the Company, for the financial year ended December 31, 2019, which would be liable to any applicable government taxes.

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 (as amended) immediately post-payment of such dividend. A certificate of solvency has been provided by the Company's Auditors, Messrs Ernst & Young, 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 dividend entitlement, constituting a total sum of Rs. 2,055,013,172.00 based on the issued and fully-paid ordinary (voting) and (non-voting) shares of the Company as at February 14, 2020 [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) 22,485,434 new ordinary (voting) shares, calculated based on the issued and fully-paid ordinary (voting) shares as at February 14, 2020 [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 14, 2020; and

(b) 1,716,432 new ordinary (non-voting) shares calculated based on the issued and fully-paid ordinary (non-voting) shares as at February 14, 2020 and on the basis of their market value (closing price) as at the end of trading on February 14, 2020.

An announcement will be made by the Company three 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 42.750000600 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 14, 2020; and

(b) One new fully-paid ordinary (non-voting) share for every 38.599996387 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 14, 2020.

The above share ratio is based on a value of Rs. 85.50 per ordinary (voting) share and Rs. 77.20 per ordinary (non-voting) share [subject to any applicable government taxes] as at the end of trading on February 14, 2020. The Board of Directors is satisfied that the aforementioned values which constitutes the consideration for which the new shares are to be allotted and issued is fair and reasonable to the Company and to all its existing shareholders.

Entitled shareholders

Shareholders entitled to participate in the said dividend (the "entitled shareholders") are those who are duly registered in the Company's Share Register and also those shareholders whose names appear on the Central Depository Systems (Pvt) 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 stockbrokers, the shares held with multiple stockbrokers 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 therefore, 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 therefore, 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.

Residual fractions of ordinary (voting) and (non-voting) shares above-mentioned shall mean the fractions arising after applying the following formulas respectively:

For voting shareholders –

$$\frac{\text{Number of shares held by a shareholder as at end of trading on the AGM date X 1}}{42.750000600}$$

For non-voting shareholders –

$$\frac{\text{Number of shares held by a shareholder as at end of trading on the AGM date X 1}}{38.599996387}$$

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 therefore 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 provisions of the Companies Act No. 7 of 2007 (as amended) 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 Companies Act No. 7 of 2007 (as amended) 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 Companies Act No. 7 of 2007 (as amended).

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, 2019 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.

Annual General Meeting (AGM)

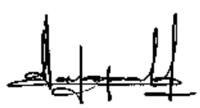
Attached hereto is the Annual Report comprising the Notice convening the AGM for March 30, 2020 and setting out in item 2 thereof, the relevant resolutions to be passed by the shareholders in the above regard.

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,



R A P Rajapaksha
Company Secretary

March 5, 2020
Colombo.

Form of Proxy (Voting Shareholders)

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 Sivakrishnarajah Renganathan	whom failing
Mr Sembakuttige Swarnajothi	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 Themiya Loku Bandara Hurulle	whom failing
Justice Kanagasabapathy Sripavan	whom failing
Mr Sanath Chandima Udayakumara Manatunge	

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 Fifty First (51st) Annual General Meeting (AGM) of Commercial Bank of Ceylon PLC to be held on Monday, March 30, 2020 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, 2019 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 the following Directors who, in terms of the Company's Articles of Association, are retiring by rotation as given below:		
(i) To re-elect Mr M P Jayawardena who retires by rotation in terms of Article 86 of the Articles of Association		
(ii) To re-elect Mr L D Niyangoda who retires by rotation in terms of Article 86 of the Articles of Association		
4. (a) To reappoint Messrs Ernst & Young, Chartered Accountants as recommended by the Board of Directors, as Auditors to the Company for the Financial Year ending December 31, 2020.		
(b) To authorise the Board of Directors to determine the remuneration of the Auditors for the Financial Year ending December 31, 2020.		
5. To authorise the Board of Directors to determine donations for the year 2020.		

Signed on this ………………………………… day of ……………………………………… Two Thousand and Twenty.

……………………	………………………………	……………………………
Folio Number	Signature/s of shareholder/s	NIC/PP/Co. Reg. No. of shareholder/s

Notes

(i) Instructions as to completion of this Form of Proxy are given overleaf.

(ii) As regards voting on the Resolutions indicated in the Form of Proxy, if no words are struck out or there is in the view of the proxyholder doubt (by reason of the way in which the instructions in the Form of Proxy have been stated by the shareholder) as to the way in which the proxyholder should vote, the proxyholder will vote as he/she thinks fit.

(iii) If the Form of Proxy is signed by an attorney, the relative Power of Attorney (POA) should accompany the completed Form of Proxy for registration in the event such POA has not already been registered with the Company.

(iv) If the shareholder is a company or a corporate body, the Form of Proxy should be executed under its common seal or in such other manner as provided for in its Constitutional documents, if any, or be signed by its attorney or by an officer on behalf of the company/corporate body, in accordance with its Articles of Association/Statute.

(v) Every alteration or addition to the Form of Proxy must be duly authenticated by the full signature of the shareholder signing the Form of Proxy. Such signature should as far as possible be placed in proximity to the alteration or addition intended to be authenticated.

(vi) The use of the word "Member/s" herein is a reference to "Shareholder/s".

Instructions as to completion of Form of Proxy

(a) Article 68 of the Articles of Association of the Company provides that: "An instrument appointing a proxy shall be in writing, and

(i) In the case of an individual shall be signed by the appointor or by his attorney; or in the case of a corporation shall be either under the common seal or signed by its attorney or by an officer authorised to do so on behalf of the corporation. The Company may, but shall not be bound to require evidence of the authority of any such attorney or officer.

(ii) A proxy need not be a member of the Company".

(b) In terms of Article 63 of the Articles of Association of the Company:

"In the case of joint holders of a share, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose, seniority shall be determined by the order in which the name stands in the Register of Members in respect of the joint holding".

(c) The full name and address of the proxyholder and of the shareholder appointing the proxyholder should be entered legibly in the Form of Proxy.

(d) The completed Form of Proxy should be deposited at the Registered Office of the Company, "Commercial House", No. 21, Sir Razik Fareed Mawatha, Colombo 01, not less than forty-eight (48) hours before the time appointed for the holding of the Meeting.

(e) Articles 57 to 60 of the Articles of Association of the Company, dealing with voting are quoted below, for information of Shareholders:

"57. Method of voting

At any General Meeting, a resolution put to the vote of the Meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands) demanded by:

(i) The Chairman of the meeting; or

(ii) Not less than five persons present in person or by attorney or representative or by proxy and entitled to vote; or

(iii) A member or members present in person or by attorney or representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the Meeting.

A demand for a poll may be withdrawn. Unless a poll be demanded (and the demand be not withdrawn), a declaration by the Chairman of the meeting that a resolution has been carried or carried unanimously, or by a particular majority, or lost and an entry to that effect in the minute book, shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded for or against such resolution.

58. How a Poll is to be Taken

If a poll is duly demanded (and the demand be not withdrawn), it shall be taken in such manner (including the use of ballot or voting papers or tickets) as the Chairman of the Meeting may direct, and the result of the poll shall be deemed to be the resolution of the Meeting at which the poll was demanded. The Chairman may (and if so requested shall), appoint scrutineers and may adjourn the Meeting to some place and time fixed by him for the purpose of taking and declaring the result of the poll.

59. Chairman's Casting Vote

In the case of an equality of votes, whether on a show of hands or poll, the Chairman of the Meeting at which the show of hands takes place or at which the poll is demanded shall be entitled to a second or casting vote.

60. Time for Taking a Poll

A poll demanded on the election of a Chairman of the Meeting or on a question of adjournment shall be taken forthwith. A poll demanded on any other question shall be taken either immediately or at such subsequent time (not being more than thirty days from the date of the Meeting) and place as the Chairman may direct. No notice need be given of a poll not taken immediately."

REQUEST TO SHAREHOLDERS

SHAREHOLDERS ARE KINDLY REQUESTED TO INDICATE THE "FOLIO NUMBER" APPEARING IN THE ADDRESS LABEL (PASTED ON THE ENVELOPE CONTAINING THE ANNUAL REPORT) IN THE SPACE PROVIDED FOR "FOLIO NUMBER" IN THE FORM OF PROXY. THIS IS FOR THE CONVENIENCE OF THE REGISTRARS. PLEASE NOTE THAT NON-INDICATION OF THE "FOLIO NUMBER" WILL NOT INVALIDATE THE FORM OF PROXY, UNDER ANY CIRCUMSTANCES.

Form of Proxy (Non-Voting Shareholders)

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 Sivakrishnarajah Renganathan	whom failing
Mr Sembakuttige Swarnajothi	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 Themiya Loku Bandara Hurulle	whom failing
Justice Kanagasabapathy Sripavan	whom failing
Mr Sanath Chandima Udayakumara Manatunge	

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 Fifty First (51st) Annual General Meeting (AGM) of Commercial Bank of Ceylon PLC which is scheduled to be held on Monday, March 30, 2020 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 Twenty.

……………………
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

(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.

Stakeholder Feedback Form

Dear Reader,
Your opinion matters. Please share your views with us

WHICH STAKEHOLDER GROUPS DO YOU BELONG TO? (You may tick more than one)

☐ Shareholder	☐ Customer	☐ Community	☐ Public Authority
☐ Investor	☐ Employee	☐ Student	☐ Regulatory Body
☐ Journalist	☐ Supplier	☐ Analyst	☐ NGO
☐ Service Provider	☐ Special Interest Group	☐ Other	

DOES THE REPORT ADDRESS ISSUES OF GREATEST INTEREST TO YOU?

☐ Comprehensively ☐ Partially ☐ Not at all

RATE YOUR OVERALL IMPRESSION OF THIS REPORT IN TERMS OF:

	Excellent	Good	Fair	Poor
Informative	☐	☐	☐	☐
Transparent	☐	☐	☐	☐
Trustworthy	☐	☐	☐	☐
Comprehensive	☐	☐	☐	☐
User friendly	☐	☐	☐	☐
Design and layout	☐	☐	☐	☐

PLEASE IDENTIFY ANY ADDITIONAL ISSUES THAT YOU THINK SHOULD BE REPORTED ON:

....

....

....

....

DO YOU HAVE ANY ADDITIONAL COMMENTS ON THE REPORT – OR ON BANK'S PERFORMANCE IN GENERAL?

....

....

....

....

To request information or submit a comment/query to the Bank, please provide the following details and return this page to –

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

- Phone :
- Fax :
- Email :

Name of Company (If applicable) :

Designation (If applicable) :

Company address (If applicable) :

Please tick (✓) the appropriate box

	Yes	No
Would you like to receive soft copies of the Commercial Bank's Interim Financial Reports via email?	☐	☐
Would you like to receive news and press releases of Commercial Bank via email?	☐	☐
Would you like to receive any news on our products/services?	☐	☐

Corporate Information

General

Name of Company

Commercial Bank of Ceylon PLC

Company registration number

PQ 116

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.

Accounting year end

December 31

Tax Payer Identification Number (TIN)

124006007

Registered office

"Commercial House",
No. 21, Sir Razik Fareed Mawatha,
P.O. Box 856
Colombo 01, Sri Lanka
Telephone (General):
+94 11 248 6000-3 (4 lines), 4486000, 7486000, 5486000, 2430420, 2336700, 2445010-15 (6 lines),
Facsimile: +94 11 2449889
SWIFT Code –
Sri Lanka: CCEYLKLX
SWIFT Code –
Bangladesh: CCEYBDDH
Email: 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.

Stock exchange listing

The Ordinary Shares and the Unsecured Subordinated Redeemable Debentures of the Bank are listed on the Colombo Stock Exchange.

Compliance Officer

Mr V S Rajasooriyar

Information Centre

Telephone: +94 11 235 3333, 7353333

Credit Ratings

Sri Lanka Operation
- AA(lka) was re-affirmed by Fitch Ratings Lanka Ltd. in September 2019.

Bangladesh Operation
- AAA was re-affirmed by Credit Rating Information & Services Limited in May 2019.

Professional Expertise

Lawyers

Messrs Julius & Creasy,
No. 371, R A de Mel Mawatha,
Colombo 03, Sri Lanka.

Auditors

Messrs Ernst & Young
Chartered Accountants,
No. 201, De Saram Place,
Colombo 10, Sri Lanka.

Registrars

Messrs S S P Corporate Services (Pvt) Ltd.
No. 101, Inner Flower Road,
Colombo 03, Sri Lanka.
Telephone: +94 11 257 3894, 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

Local Subsidiaries

Commercial Development Company PLC
CBC Tech Solutions Limited
Serendib Finance Limited
Commercial Insurance Brokers (Pvt) Ltd.

Foreign Subsidiaries

Commex Sri Lanka S.R.L – Italy
Commercial Bank of Maldives Private Limited
CBC Myanmar Microfinance Company Limited

Associates

Equity Investments Lanka Ltd.

Board of Directors and Committees

Board of Directors

Mr K G D D Dheerasinghe – *Chairman*
Mr M P Jayawardena – *Deputy Chairman*
Mr S Renganathan – *Managing Director/CEO*
Mr S Swarnajothi
Mr S C U Manatunge – *Director/Chief Operating Officer*
Prof A K W Jayawardane
Mr K Dharmasiri
Mr L D Niyangoda
Ms N T M S Cooray
Mr T L B Hurulle
Justice K Sripavan

Company Secretary

Mr R A P Rajapaksha

Mandatory Board 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
Mr S Renganathan (By invitation)
Mr S C U Manatunge (By invitation)

Board Integrated Risk Management Committee
Mr M P Jayawardena – *Chairman*
Mr S Swarnajothi
Mr K Dharmasiri
Mr S Renganathan
Mr L D Niyangoda
Mr T L B Hurulle
Mr S C U Manatunge (By invitation)

Board Nomination Committee
Mr K G D D Dheerasinghe – *Chairman*
Mr M P Jayawardena
Mr S Swarnajothi
Mr S Renganathan (By invitation)

Board Human Resources and Remuneration Committee
Mr K G D D Dheerasinghe – *Chairman*
Mr M P Jayawardena
Mr S Swarnajothi
Mr S Renganathan (By invitation)

Board Related Party Transactions Review Committee
Justice K Sripavan – *Chairman*
Mr S Swarnajothi
Mr L D Niyangoda
Mr T L B Hurulle
(Appointed w.e.f. March 28, 2019)
Mr S Renganathan (By invitation)
Mr S C U Manatunge (By invitation)

Voluntary Board Committees

Board Credit Committee
Mr K G D D Dheerasinghe – *Chairman*
Mr S Renganathan
Prof A K W Jayawardane
Mr S C U Manatunge
Justice K Sripavan
(Appointed w.e.f. March 28, 2019)

Board Investment Committee
Mr K G D D Dheerasinghe – *Chairman*
Mr S Renganathan
Mr K Dharmasiri
Mr S C U Manatunge
Ms N T M S Cooray
(Appointed w.e.f. March 28, 2019)

Board Technology Committee
Prof A K W Jayawardane – *Chairman*
Mr S Renganathan
Mr T L B Hurulle
Mr K Dharmasiri
Mr S C U Manatunge

Board Strategy Development Committee
Mr K G D D Dheerasinghe – *Chairman*
Mr M P Jayawardena
Mr S Renganathan
Prof A K W Jayawardane
Mr K Dharmasiri
Mr L D Niyangoda
Ms N T M S Cooray
(Appointed w.e.f. March 28, 2019)

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