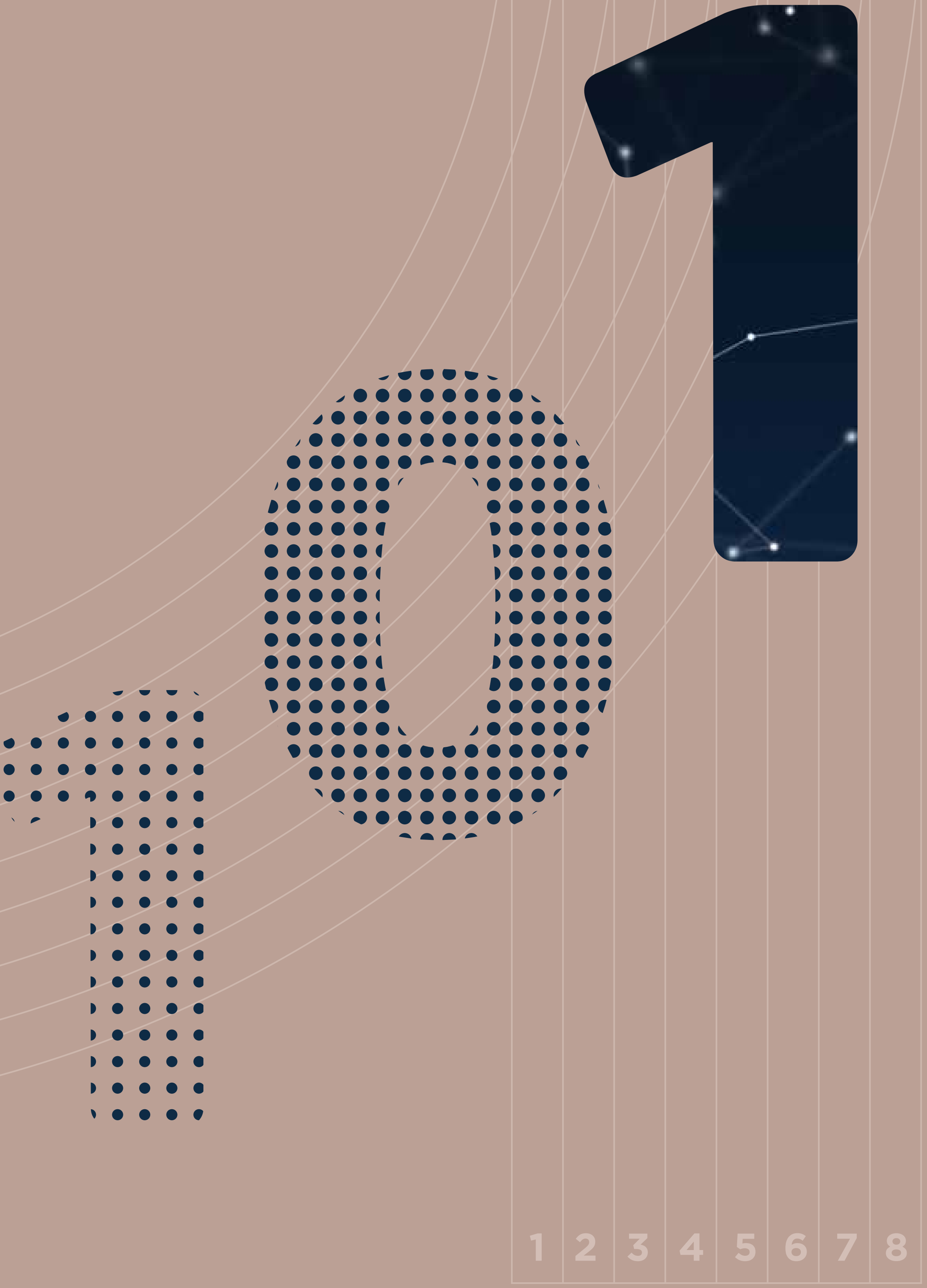
Commercial Bank of Ceylon PLC

Annual Report 2020

(Integrated Report and Financial Statements)

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.

A century of experience. A year of reinvention.

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In the COVID-19 pandemic recovery process, the Bank has played a significant role leading the private sector banks in supporting affected sectors.

Justice K Sripavan
Chairman

K G D D Dheerasinghe
Former Chairman


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The question constantly on our minds, animating every decision taken, was: when the pandemic finally subsides, how will our stakeholders judge the conduct of the Bank during this most challenging of periods?

S Renganathan
Managing Director/Chief Executive Officer

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://combank2020.annualreports.lk/

Scan to view the online version

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 52nd Annual Report of the Bank comprising an integrated report, the Audited Financial Statements of the Group and the Bank for the year ended December 31, 2020, and the Independent Auditors' Report on the Financial Statements conforming to all applicable 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, and Significant Accounting Policies and Notes thereto appearing on pages 143 to 290 have been prepared and presented 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 and disclosures 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 (c) and (d) thereof and the recommended best practice.

The Financial Statements of the Group and the Bank for the year ended December 31, 2020, including comparatives for 2019, were approved and authorised for issue by the Board of Directors in accordance with the Resolution of the Directors on February 24, 2021. 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 and soft copies of same will be hosted in the website of the Bank, www.combank.net. This Report has been structured to effectively communicate the Bank's efforts to create value to all its stakeholders across the short, medium and long term through its business model (pages 36 and 37). 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 its 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 risks and exploit opportunities.

The Management Discussion and Analysis (pages 41 to 62) contained in this Report provides a detailed account of such imperatives and strategies. The underlying governance structure and the risk management framework are detailed on pages 77 and 120.

The Bank's External Auditors, Messrs Ernst & Young, who were appointed in accordance with a resolution passed at the 51st Annual General Meeting held on June 25, 2020 (which was postponed to the above date from its originally planned date of March 30, 2020, due to curfew and lockdowns in many parts of the country following the outbreak of COVID-19), have expressed their opinion, given on pages 138 to 140 of this Annual Report. The details on the remuneration of External Auditors are given in Note 21 on page 186 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 its associate. The External Auditors do not have any interest in contracts with the Bank, or any of its subsidiaries and its associate.

The Directors, to the best of their knowledge and belief are satisfied that all statutory payments to the Government, other regulatory institutions, and to 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 a 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 Integrated Annual Report while preserving its integrity.

The extent of compliance with the requirements of Section 168 of the Companies Act No. 7 of 2007 and amendments thereto and other relevant statutes is disclosed in detail on pages 101 to 106.

Signed in accordance with a resolution of the Directors.

Justice K Sripavan
Chairman

Prof A K W Jayawardane
Deputy Chairman

S Renganathan
Managing Director/Chief Executive Officer

K Dharmasiri
Director

L D Niyangoda
Director

Ms N T M S Cooray
Director

T L B Hurulle
Director

S C U Manatunge
Director/Chief Operating Officer

Judy Lee

Ms J Lee
Director

R Senanayake
Director

S Muhseen
Director

R A P Rajapaksha
Company Secretary

February 24, 2021

Introducing our 52nd Annual Report

The 52nd Annual Report of Commercial Bank of Ceylon PLC covers the 12-month period from January 1 to December 31, 2020. Having commenced reporting in line with the International <IR> Framework in 2013, this integrated 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, 2019, 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 Report is available in multiple mediums and formats. This approach also aims to balance the disparate imperatives of conciseness, comprehensiveness, and accessibility in our disclosure practices.

Strategic orientation

In addition to a focus on performance over the year, this Annual Report also 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 Annual Report seeks to provide a holistic, integrated discussion of the Bank's performance, operations, and strategic imperatives.

Basis of preparation

This 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 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, CBC Finance Limited (formally Serendib Finance Ltd.), Commercial Insurance Brokers (Pvt) Ltd., 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 143 and 290).

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, and borrowings 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 significant changes in reporting or restatements were made of previously reported financial, social or environmental information, other than the inclusion of GRI disclosures GRI 207: Tax (2019) and GRI 403: Occupational health and safety (2018).

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, and 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, SMES 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 offering digital products/channels, solar energy usage, energy efficient air conditioning and the minimisation of paper usage in its processes.

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 1
Sri Lanka

INTEGRATED REPORT

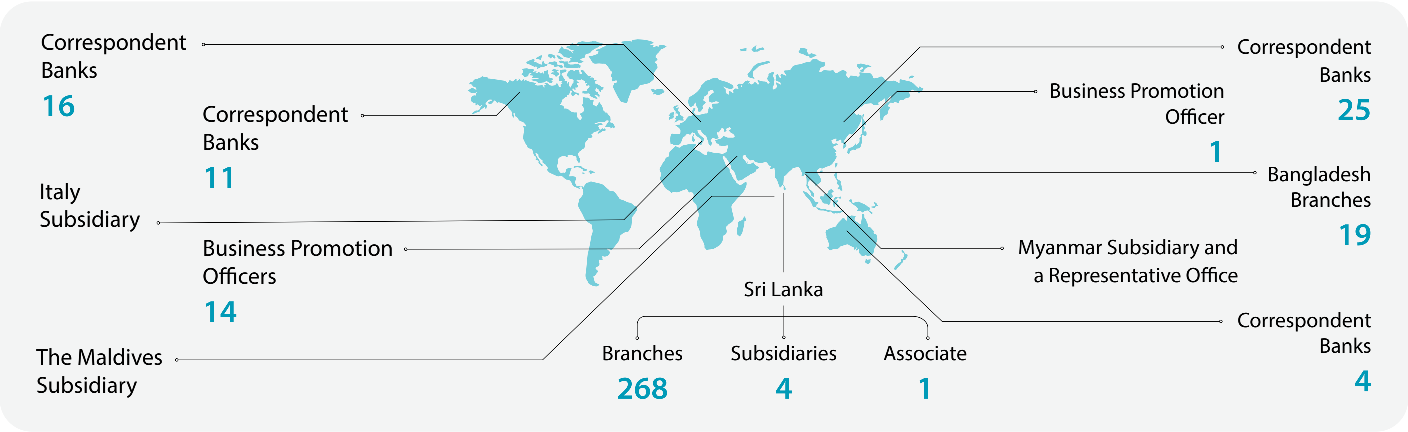
This Integrated Report has been prepared in accordance with the Guiding Principles and Content Elements outlined in the International <IR> Framework. It forms a discrete section within the Annual Report of the Bank, and is given pride of place because it presents a multi-dimensional view of the Bank's performance over the year 2020. 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

Our regional presence and global connectivity

Figure – 01



Largest and Systemically Important Bank

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. 1.736 Tn. (USD 9.285 Bn.) as at the end of 2020. It is the only private sector Bank that has been designated by the Central Bank of Sri Lanka as a higher-tier Domestic Systemically Important Bank (D-SIB). The Bank accounts for approximately 10.7%, 11.2% and 11.8% of sector loans and advances, deposits and assets, respectively.

Over Hundred Year Legacy

The Bank's origins date back to 1920, and it marked just over a half-century of operations under its present name in 2020. The total staff cadre of the Bank stood at 5,057 as at end 2020 and they 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 and became the first private sector bank to establish a branch operation outside the country. Since then, it has established three subsidiaries in Italy, the Maldives and Myanmar.

Risk Profile

Fitch Ratings Lanka Ltd., (Fitch) revised the National Long-term Rating of the Sri Lankan financial institutions following the recalibration of its Sri Lankan national rating scale. As a result, Fitch revised the National Long-term of the Bank to AA-(lka) from AA+(lka) and its outlook from negative to stable in January 2021 and it is on par with the highest rating for any local private sector bank. The Bank's Bangladesh Operations' credit rating was reaffirmed at AAA by Credit Rating Information Services Ltd in June 2020 for the 10th consecutive year. The 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 International Operations of the Bank covers operations in Bangladesh, Maldives, Italy, and Myanmar, which now account for 11.79% of consolidated assets and 20.46% of consolidated profit before taxes. Besides geographical diversification, the Bank has successfully accomplished a high level of diversification in its operations across many other parameters such as customer profile, currency, products and services portfolio, funding profile, maturity profile, economic sectors and the sources of revenue.

Vibrant financial intermediation

Having being the first private sector Bank to cross Rs. 1 Tn. mark in assets and deposits in 2016 and 2019 respectively, during the first half of 2020, the Bank became the first private sector bank in Sri Lanka to cross the Rs. 1.5 Tn. mark in total assets which reached to Rs. 1.736 Tn. at the end of 2020. Customer deposits fund 72.92% 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 over 80% on average, reflecting a growth in loans commensurate with the growth in deposits. The Bank's asset quality is one of the best in the industry, while its Current Accounts and Savings Accounts (CASA) make up 42.72% of total deposits, the highest among the peer banks.

Strong capitalisation

The Bank's Tier 1 Capital ratio and Total Capital Ratio stood at 13.217% and 16.819%, respectively, as at December 31, 2020, compared to the regulatory minimum ratios of 9% and 13% applicable for the year. The Bank's growth was prudent with gearing in terms of on-balance sheet assets as well as risk-weighted assets remaining at 11.05 times and 5.94 times, respectively, as of the end of 2020. Demonstrating the strength of the franchise, the Bank's shares reported the highest price to Book Value of 0.60 times and the highest market capitalisation of Rs. 94 Bn. (USD 500 Mn.) among banking, finance and insurance institutions on the Colombo Stock Exchange at year's end (the Bank is the fifth largest institution listed on the CSE overall).

Ownership of the Bank

Of the 16,820 ordinary voting shareholders of the Bank at end of 2020, DFCC Bank PLC held 12.02% and entities related to the State, including Employees' Provident Fund, Employees' Trust Fund Board and Sri Lanka Insurance Corporation, collectively held 19.49% of Bank's shares. While Mr Y S H I Silva (8.87%), the International Finance Corporation (7.12%), Citibank New York S/A Norges Bank Account 2 (4.16%), Melstacorp PLC (4.14 %), CB NY S/A IFC Emerging Asia Fund LP (3.67%) and CB NY S/A IFC Financial Institutions Growth Fund LP (3.67%) are the other major shareholders, holding a combined ownership stake of 31.63%. Notably, the Bank has a substantial foreign shareholding, with foreign shareholders owning a combined 23.66% stake in the Bank.

A Snapshot of the Bank's Profile

Figure – 02

Profitability

Profit After Taxation
- **2020 – Rs. 16.373 Bn.**
- 2019 – Rs. 17.025 Bn.

Earnings Per Share (Basic/Diluted)
- **2020 – Rs. 15.18**
- 2019 – Rs. 16.19

Return on Assets
- **2020 – 1.05%**
- 2019 – 1.27%

Return on Equity
- **2020 – 11.28%**
- 2019 – 13.54%

Credit Quality

Gross NPL ratio
- **2020 – Rs. 5.11%**
- 2019 – Rs. 4.95%

Net NPL ratio
- **2020 – 2.18%**
- 2019 – 3.00%

Provision cover ratio
- **2020 – 57.42%**
- 2019 – 39.39%

Open credit exposure
- **2020 – 11.88%**
- 2019 – 17.37%

Stability

Tier 1 ratio
- **2020 – 13.217%**
- 2019 – 12.298%

Total capital ratio
- **2020 – 16.819%**
- 2019 – 16.146%

Net stable funding ratio
- **2020 – 157.49%**
- 2019 – 137.05%

Leverage ratio
- **2020 – 5.74%**
- 2019 – 6.45%

Rs. 1,266 Bn.
Customer deposits
(2019 – Rs. 1,053 Bn.)

Financial Intermediation

maturity transformation

Rs. 948 Bn.
Gross loans and advances
(2019 – Rs. 920 Bn.)

Rs. 1.736 Tn.
Total Assets

Over 3.5 million
Customers

5,057
Employees

287
Branches

56
Correspondent banks

906
ATMs

8
Subsidiaries and Associate

AA-(lka)

Fitch Ratings Lanka Ltd.
[2019 – AA(lka)]

Top 1000 Banks

Only Sri Lankan bank to be ranked for the 10th consecutive year

1st in Market Capitalisation

Ranked 1st in the Banking sector on the CSE

Liquidity

Statutory liquid assets ratio – DBU
- **2020 – 44.99%**
- 2019 – 30.42%

Liquidity coverage ratio (All currency)
- **2020 – 258.06%**
- 2019 – 224.74%

Share Valuation

Net Assets Value per ordinary share
- **2020 – Rs. 134.67**
- 2019 – Rs. 129.60

Dividends Per Share
- **2020 – Rs. 6.50**
- 2019 – Rs. 6.50

Market capitalisation
- **2020 – Rs. 94 Bn.**
- 2019 – Rs. 97 Bn.

Price to Book Value
- **2020 – 0.60 times**
- 2019 – 0.73 times

Financial Highlights

Table – 01

	GROUP			BANK		
As at December 31,	**2020 Rs. '000**	2019 Rs. '000	Change %	**2020 Rs. '000**	2019 Rs. '000	Change %
Results for the year – (Rs. Bn.)						
Gross income	**151.966**	150.741	0.81	**149.711**	148.706	0.68
Operating profit before taxes on financial services	**29.047**	30.230	(3.91)	**28.017**	29.531	(5.13)
Taxes on financial services	**4.531**	7.256	(37.56)	**4.505**	7.192	(37.36)
Profit before taxation (PBT)	**24.520**	22.984	6.68	**23.511**	22.339	5.25
Income tax expenses	**7.433**	5.564	33.59	**7.138**	5.314	34.32
Profit after tax (PAT)	**17.087**	17.420	(1.91)	**16.373**	17.025	(3.83)
Gross Dividends	**7.586**	6.679	13.58	**7.586**	6.679	13.58
Position at the year end – (Rs. Bn.)						
Shareholders' Funds (Stated capital and reserves)	**159.193**	134.424	18.43	**157.146**	133.162	18.01
Financial liabilities at amortised cost - due to depositors	**1,286.616**	1,068.983	20.36	**1,265.966**	1,053.308	20.19
Gross loans and advances	**961.859**	930.737	3.34	**947.842**	920.457	2.98
Total Assets	**1,762.496**	1,408.941	25.09	**1,736.218**	1,387.345	25.15
Information per Ordinary Share (Rs.)						
Earnings (Basic)	**15.70**	16.41	(4.33)	**15.18**	16.19	(6.24)
Earnings (Diluted)	**15.70**	16.41	(4.33)	**15.18**	16.19	(6.24)
Dividends – Cash	**–**	–	–	**4.50**	4.50	–
Dividends – Shares	**–**	–	–	**2.00**	2.00	–
Net Assets Value	**136.42**	130.83	4.27	**134.67**	129.60	3.91
Market value at the year end – Voting	**N/A**	N/A	–	**80.90**	95.00	(14.84)
Market value at the year end – Non-voting	**N/A**	N/A	–	**70.10**	83.00	(15.54)
Ratios						
Return on average shareholders' funds – (ROE) (%)	**11.64**	13.73	(2.09)	**11.28**	13.54	(2.26)
Return on average assets – (ROA) (%)	**1.08**	1.28	(0.20)	**1.05**	1.27	(0.22)
Financial intermediation margin (%)	**N/A**	N/A	–	**9.59**	11.05	(1.47)
Total impairment provision as a % of gross loans and advances (%)	**5.41**	3.96	1.45	**5.38**	3.89	1.49
Cost of risk on loans and advances (%)	**1.88**	1.11	0.77	**1.88**	1.09	0.79
Non-performing loans ratio – Gross (%)	**–**	–	–	**5.11**	4.95	0.16
Non-performing loans ratio – Net (%)	**–**	–	–	**2.18**	3.00	(0.82)
Price Earnings – Ordinary Voting Shares – (times)	**N/A**	N/A	–	**5.33**	5.87	(0.54)
Dividend Yield – Ordinary Voting Shares (%)	**N/A**	N/A	–	**8.03**	6.84	1.19
Dividend Cover on Ordinary Shares (times)	**N/A**	N/A	–	**2.34**	2.49	(0.16)
Statutory Ratios %						
Liquid assets ratio – Domestic Banking Unit (DBU)	**N/A**	N/A	–	**44.99**	30.42	14.57
Liquid assets ratio – Off Shore Banking Unit (OBC)	**N/A**	N/A	–	**32.70**	25.25	7.45
Capital Adequacy Ratios (Under Basel III) (%)						
Common Equity Tier (CET) I capital ratio (Minimum Requirement – 2020 – 7.500%, 2019 – 8.500%)	**13.356**	12.399	0.957	**13.217**	12.298	0.919
Tier I capital ratio (Minimum Requirement – 2020 – 9.000%, 2019 – 10.000%)	**13.356**	12.399	0.957	**13.217**	12.298	0.919
Total capital ratio (Minimum Requirement – 2020 – 13.000%, 2019 – 14.000%)	**16.882**	16.182	0.700	**16.819**	16.146	0.673
Liquidity Coverage Ratio (%)						
Rupee – (Minimum Requirement – 2019 – 100%, 2018 – 90%)	**N/A**	N/A	–	**330.84**	158.79	172.05
All Currency – (Minimum Requirement – 2019 – 100%, 2018 – 90%)	**N/A**	N/A	–	**258.06**	224.74	33.32

Financial Goals and Achievements – Bank

Financial Indicator	Goal	Achievement				
		2020	2019	2018	2017	2016
Return on average assets ROA (After Tax) (%)	Over 2%	**1.05**	1.27	1.43	1.54	1.53
Return on average shareholders' funds (After Tax) (%)	Over 20%	**11.28**	13.54	15.56	17.88	19.52
Growth in income (%)	Over 20%	**0.68**	7.72	20.72	24.10	19.62
Growth in profit for the year (%)	Over 20%	**(3.83)**	(2.96)	5.81	14.25	21.92
Growth in total assets (%)	Over 20%	**25.15**	6.43	14.00	12.96	15.05
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 – 2020 – 7.500%, 2019 – 8.500%)	2% buffer over the regulatory minimum requirement	**13.217**	12.298	11.338	12.111	N/A
Tier I capital ratio (%) (Minimum requirement As per Basel III – 2020 – 9.000%, 2019 – 10.000%)		**13.217**	12.298	11.338	12.111	N/A
Tier I capital ratio (%) Minimum requirement per Basel II – 5%	N/A	**N/A**	N/A	N/A	N/A	11.56
Total capital ratio (%) (Minimum requirement As per Basel III – 2020 – 13.000%, 2019 – 14.000%)	2% buffer over the regulatory minimum requirement	**16.819**	16.146	15.603	15.746	N/A
Total capital ratio (%) Minimum requirement as per Basel II – 10%	N/A	**N/A**	N/A	N/A	N/A	15.89

Strategic Highlights

Strategic Highlights for the year 2020 are organised around the Bank's four Strategic Imperatives (see page 41 for further details). While the Financial Highlights captures the key details of the Bank's financial performance, the Strategic Highlights encapsulates how this performance was achieved in the context of the Bank's long-term vision. The Financial Highlights provide the reader of this report with a snapshot of the Financial Review (pages 20 to 26), and the Strategic Highlights are a summary of the Management Discussion and Analysis (pages 41 to 62), which is similarly structured around the four Strategic Imperatives.

Prudent Growth

- Made a **private placement of shares with the IFC** amounting to **USD 50 Mn. (Rs. 9.215 Bn.)**, the first foreign equity placement by the Bank.
- Bank's **overseas operations** now contribute over 11% of the assets and 20% of the pre-tax profits.
- Increased the **provision for impairment** to Rs. 21.484 Bn. for the year 2020, the highest ever annual provision in the history of the Bank.
- Further strengthened the systems, processes and controls relating to the **ethics and conduct** of the Bank during the year.
- Increased **Credit Card Usage** Market share by 11.55% and **Debit Card Usage** Market share by 32%.
- Grew **Point-of-Sale (POS) volumes** by 20%, becoming the fastest growing POS network in the country.
- Increased **Imports and Exports market share** to 10.17% and 19.0%, respectively.
- Issued a **Position Statement on Climate Change**, affirming its commitment to combating Climate change at the highest level of the Bank.

Operational excellence

- Integrated online and mobile banking channels on a single omni-channel platform with the **launch of "ComBank Digital".**
- Upgraded **Flash**, the Bank's ground-breaking, **trilingual digital wallet**, with various features including a module (integrated with the UN-approved Environment Impact Index for financial transactions) to allow customers to track the carbon footprint of their spending habits.
- Initiated a **Digital Roadmap** up to 2023 that prioritises redesigning conventional banking processes as digital processes, integrating with other ecosystems, upgrading internal systems to be prepared to capitalise on changes in the regulatory environment, and developing talent and building partnerships.
- Increased **digital onboarding** of existing customers by 140%.
- Launched **ComBank Simple Pay**, a new platform to help SMEs digitise their business and engage in e-commerce.

Customer centricity

- Launched **"*Arunella*", a Financial Support Scheme** that integrated multiple relief initiatives, guided by CBSL directives but going above and beyond them to cover as many struggling customers as possible.
- Remained **the leading lender** amongst the private sector banks in the ***Saubagya* loan** scheme.
- **Extent of loans under moratorium** during wave 1 of the pandemic was approximately Rs. 290 Bn. and loans under moratorium at the end of 2020 was approximately Rs. 132 Mn.
- Initiated **two major loan programmes for SMEs** affected by the pandemic: a Rs. 10 Bn. scheme funded through a loan of USD 50 Mn. from the International Finance Corporation (IFC), and a working capital scheme, *Dirishakthi*, for Micro enterprises.
- Deployed **"Bank-on-Wheels" Mobile Banking Units**, and increased existing fleet from 5 to 11 by outfitting vehicles with mobile POS units.
- Established **seven new SME sales units** and introduced the **SME Lead Management System (SME LMS)** to drive SME initiatives in the Northern, Eastern and North Central Regions.
- Increased membership in **BizClub from** 1,613 to 4,076.
- Launched **one-stop trilingual Integrated Contact Centre** to serve customers and other stakeholders 24/7.

Leading through innovation

- Implemented **a range of operational measures**, including: splitting teams and setting up protocols for working at alternate sites and from home; providing food, lodging, transport, and personal protective equipment to ensure the safety of all staff; and outfitting branches with partitions, sanitisers and instituting other best practices for social distancing and hygiene to safeguard customers.
- Adopted **an industry leading remote access solution**, which offers multiple layers of security, to facilitate remote working and working from home.
- Paid all scheduled **increments and bonuses** in full, affirming financial commitments to the staff.
- Concluded successful **negotiation of the Bank's collective bargaining agreement** with the Bank branch of the Ceylon Bank Employees' Union (CBEU).
- Launched **pension fund for employees recruited after 2000**.
- Became the first bank in Sri Lanka to achieve **carbon neutral status**.

Our Centennial Journey

1920 - 1979

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

1957
- EBL was acquired by Chartered Bank

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

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.

1979
- Offshore Banking Centre formed

1980 - 1998

1998
- First 365 Day Branch opened in Colombo 07
- All branches linked to ICBS except Jaffna

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

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

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

1990
- Introduced ATM facilities to customers

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

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

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

2000 - 2009

2000
- Launched Internet Banking

2001
- Opened the 100th branch at Kaduruwela

2003
- Acquired operations of Credit Agricole Indosuez in Bangladesh

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

2006
- Issued USD 10 Mn. bond, becoming the first indigenous bank to do so

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

2011 - 2015

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

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

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

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

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

2016 - 2020

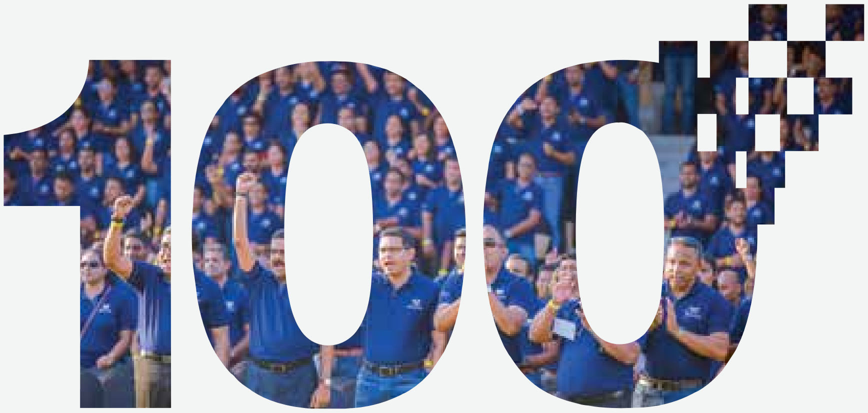
2016
- Commenced Commercial operations of Commex Sri Lanka S.R.L. Italy, our fully owned subsidiary
- Opened Commercial Bank of Maldives Private Limited, 2nd foreign subsidiary with a 55% stake
- The Bank became a Trillion Rupee Asset company

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

2020
- Celebrated 100 years of banking in Sri Lanka with a series of events including a staff gathering of unprecedented scale.
- Private placement of shares with the IFC for USD 50 Mn.
- Launched "ComBank Digital" powered by Fiserv, the US-based global provider of financial services technology.
- Commenced a project to donate smart STEM classes to 100 schools to mark the Bank's centenary.
- Moved up 51 places on the World's Top 1000 Banks ranking and became the only Sri Lankan bank to be on this prestigious list for 10 years in a row.
- ComBank declared the "Strongest Bank Brand" in Sri Lanka by Brand Finance.

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



Celebrating a Century of Operations

In 2020, the Bank celebrated a century of banking in Sri Lanka, a century during which the Bank has become an integral part of the economic and social fabric of the country. The centrepiece of the celebrations was a massive staff gathering, held in early January prior to the rise of COVID-19 infections in the country. The dreams of the future and the history of the past were interwoven when more than 4,000 staff members from all over Sri Lanka came together in Colombo. To mark the occasion, a Bank anthem was composed, intended to serve as a motivator and a rallying call in the years ahead

After the surge of the COVID-19 pandemic, the calendar of centenary events, especially those involving large gatherings, were curtailed, but the Bank still marked moments of commemoration, celebration and further commitment to its stakeholders. Highlights included a series of religious ceremonies representing the four major denominational faiths in the country, events to felicitate stakeholders, a country-wide community initiative that will benefit 100 schools, and a large scale reforestation project. A coffee table book depicting the Bank's history, Seasons of Change: Commercial Bank of Ceylon PLC 1920-2020, was released towards the end of the year.

Joint Message from the Chairman and his Predecessor

In the COVID-19 pandemic recovery process, the Bank has played a significant role leading the private sector banks in supporting affected sectors.

Justice K Sripavan

K G D D Dheerasinghe

Dear friends,

In 2020, under extremely challenging conditions that negatively impacted the business environment locally and globally, the Bank performed appreciably well in key areas of its business activities. It goes without saying that the adverse impact of COVID-19 affected all business operations of the Bank and took a heavy toll on the growth that was sustained by the Bank over the past several years. The Board devoted its time and energy providing necessary guidance and direction to the management to ensure uninterrupted service to our customers while being fully compliant with directions issued by regulators and other authorities. Measures were also taken to ensure the utmost safety of the staff who were invariably exposed to the elements while performing their duties.

In spite of these most taxing and unfavourable conditions, which hindered operations, income growth and profitability, the Commercial Bank Group successfully ended 2020 on a strong footing with substantial deposits growth, better liquidity and higher provision cover compared to most peers. This will undoubtedly enable the Bank to benefit from an upturn in envisaged credit demand in the years ahead. However, the multi-dimensional impact of the pandemic on the performance of the Bank, its subsidiaries, and the associate may continue to be reflected in most areas of business in the immediate future. Nevertheless, the Bank has gone from strength to strength to ensure its growth while supporting the needs and aspirations of our customers as well as being a responsible corporate that plays a role in achieving national economic goals. We wish to place on record our sincere appreciation of the effort taken by the authorities to contain the outbreak of the pandemic, and we look forward to doing our part to drive the country's economic recovery in the coming year. This includes, in particular, a commitment to supporting the SME sector and the empowerment of women entrepreneurs.

All matters pertaining to the policies and procedures of the Bank are adequately deliberated at the Board and Board Sub-Committee levels and our discussions and decisions have been unanimous. The decision to make the highest provision ever for impairment during the year under review was to ensure that the Bank would have a cushion against the continuing effects of the COVID-19 pandemic on most areas of business. We feel that it is our responsibility to take adequate measures to mitigate any negative effects arising from the pandemic situation in the future, particularly the rising and higher than normal NPL portfolio. The high liquidity level we maintain will also bolster the efforts to face any cash flow shortages arising from deferred recoveries due to moratoriums and other concessions granted to the borrowers.

In our effort to strengthen the capital base of the Bank, we were able to infuse USD 50 Mn. of Tier 1 capital via an equity investment by the International Finance Corporation

Group during the year. The Bank's Tier 1 capital adequacy ratio at 13.217% is much higher than the revised minimum level of 9% imposed by the regulator consequent to the COVID-19 pandemic, while both Tier 1 and Tier 2 together stands at 16.819%, comfortably above the revised regulatory minimum capital requirement of 13%.

The Bank reported a profit after tax for the year of Rs. 16.373 Bn., compared to Rs. 17.025 Bn. in 2019, a marginal decline of 3.83% when viewed in the context of the highest ever single-year impairment provision of Rs. 21.484 Bn. Deposits recorded the highest-ever single year growth of Rs. 212.658 Bn. to end the year at Rs. 1,265.966 Bn., which contributed to increasing the total asset base to Rs. 1,736.218 Bn. as at December 31, 2020, a remarkable increase of 25.15%. Taking into account the shareholder expectations, the dividend policy of the Bank and the potentially difficult times ahead, the Board of Directors decided to maintain the dividends per share at the same level as in the recent past. Accordingly, a dividend per share of Rs. 6.50 has been recommended for shareholder approval at the Annual General Meeting to be held on March 30, 2021.

The history of Commercial Bank can be traced back to 1920 when its forerunner, Eastern Bank, established a branch and began its operations in Sri Lanka (then Ceylon). After being incorporated locally in 1969, Commercial Bank grew over the decades to its current position as the country's largest private sector bank, and the most recognised and awarded bank, including becoming the first Sri Lankan bank to be ranked among the top 1000 banks in the world. In its status as a domestic systemically important bank, Commercial Bank has been a driving force in partnering and cooperating with national economic development efforts. In the COVID-19 pandemic recovery process, the Bank has played a significant role leading the private sector banks in granting working capital loans and providing concessions to affected sectors. The Bank has implemented programmes under 11 different categories for affected sectors and individuals as part of the "Arunella" Finance Support Scheme, and extended these relief measures beyond the mandated debt moratorium. These concessions included, among other things, flexible payment options, upto 20% rebates on accrued interest during the moratorium period, and extensions of mandated moratorium periods for a further six months.

Crisis can, however, sometimes provide an opportunity for reinvention. It is patently clear that we are living through a digital revolution, where conventional business models and ecosystems are in rapid transformation, and new entrants to the financial landscape have heightened competition and risk. The COVID-19 pandemic accelerated customer demand for digital products and services, and has spurred the rapid development of our own digital strategy. The initiatives taken and investments made over the past five years in building its digital capacities – its portfolio of customer facing platforms, digital products, and services, and back-end processes and infrastructure – have provided the Bank with a strong foundation to meet these new challenges. Nevertheless, the Bank recognises that there are further opportunities to be seized, both within the Bank and in the sector as a whole. The Bank has implemented a digital strategy that will take it towards its goal of becoming a comprehensive 'digital bank' – i.e. a complete banking ecosystem – by 2025. As this process unfolds, the traditional 'brick and mortar' model will gradually shift. Innovative, integrated thinking, guided by the Board, will be the order of the day.

The COVID-19 pandemic has brought to the fore a new kind of risk – what has been referred to recently as conduct risk, a form of reputational risk. While the Bank's fundamental business of financial intermediation requires adherence to government regulations, operating in a community of stakeholders means that it also needs a 'Social Licence'. The latter has to be earned from the public through sustained ethical and conscientious behaviour. And, at a time when so many are struggling under the effects of the pandemic, anything less than conducting business with integrity can result in this Social Licence being revoked. To supplement the Bank's robust efforts in this arena, the Bank is developing, as we draft this message, a formal Anti-Bribery and Corruption Policy, which will be submitted for the approval of the Board during the first quarter of 2021. The Bank's longstanding, widespread reputation for compliance to not just the letter but sprit of the law is one of our most important intangible assets, and one which the Board considers imperative to safeguard and nourish.

Vote of thanks from Mr Dharma Dheerasinghe

As I conclude my six-and-a-half-year tenure as the Chairman of the Bank, and nine years service on the Board overall, I want to extend my profound thanks and gratitude to several crucial people whose support was invaluable. During the last two years, across which Sri Lanka has faced unprecedented economic challenges, I have worked closely with the outgoing Deputy Chairman Mr M P Jayawardena, the current Managing Director/Chief Executive Officer, Mr S Renganathan, and the current Chief Operating Officer, Mr S Manatunge. Their dedication and acuity have helped guide the Bank through difficult waters, and left it poised for even greater success in the future. The Board during these challenging times has showed an admirable spirit of unanimity, working creatively and productively to arrive at decisions through consensus, providing sound and unified leadership at the head of the Bank, and I wish to thank them for their service. I also wish to recognise the previous Deputy Chairmen, Managing Directors and Chief Operating Officers I have had the pleasure of working with during my tenure as Chairman and Board Member, as well as previous Board members, all of whom have immensely contributed to the Bank's success and left their imprint on the Bank. My experience at the Bank has reinforced that when committed, passionate, and talented people work together, mutual success always follows. As I welcome the incoming Chairman, Deputy Chairman, and Board members, I am supremely confident that the Bank is in good hands, and I look forward to the Bank's continued ascent.

Vote of thanks from Justice K Sripavan

As I assume my position as Chairman of the Bank, I wish to extend my sincere gratitude to Mr Dharma Dheerasinghe and Mr M P Jayawardena, former Chairman and Deputy Chairman, respectively. Under their visionary leadership, the Bank has navigated difficult times and ascended to new heights. They leave big shoes to fill, and the current Board looks forward to building on their considerable achievements. I am glad to have at the helm of the management team Managing Director/Chief Executive Officer Mr S Renganathan and Executive Director/ Chief Operating Officer Mr S Manatunge. Their tireless efforts and agile, resourceful management across an unprecedented year were nothing short of remarkable.

I also wish to thank our shareholders, valued customers, indefatigable staff, and other stakeholders for their continued support in an extremely challenging environment across 2020. Given the context, the Bank's performance was commendable, and I recognise that we have a significant role to play in the country's recovery from the COVID-19 pandemic. At times like these, the Bank relies on the strength of the stakeholder relationships it has built over the years, and it is on this foundation of mutual trust that the Board and the Corporate Management approach the coming year with determination and confidence.

Justice K Sripavan
Chairman

K G D D Dheerasinghe
Former Chairman

Colombo
February 24, 2021

Managing Director/ Chief Executive Officer's Review

The question constantly on our minds, animating every decision taken, was: when the pandemic finally subsides, how will our stakeholders judge the conduct of the Bank during this most challenging of periods?

S Renganathan

The Bank began 2020 in a spirit of euphoria with celebrations to mark a century of operations in Sri Lanka, a period during which the Bank has become an integral part of the economic and social landscape of the country. A renewed sense of optimism for recovery from the difficulties of the previous year abounded, but soon we were confronted by an epochal event unlike any in memory. As we reach a year of living with the COVID-19 pandemic globally and locally, it is clear that we are in a world that is being transformed.

Unlike the global financial crisis of 2007-2008, however, the shocks to the financial sector brought about by the pandemic are exogenous. The hard-earned lessons of the last decade demonstrated the need for a more stringent regulatory regime, and the financial sector, both internationally and in Sri Lanka, was much better placed in terms of capital and liquidity at the outset of the present crisis. This time, the financial sector has a vital role to play in the recovery process, both through its own efforts and as a channel for government support to affected households and businesses.

Moments of crisis display true character, true identity. The question constantly on our minds, animating every decision taken, was: when the pandemic finally subsides, how will our stakeholders – our customers, our investors, our employees and business partners, the government, and the wider society – judge the conduct of the Bank during this most challenging of periods? As a domestic systemically important bank, we take our wider responsibilities seriously – and these responsibilities are entirely consistent with the Bank's raison d'être as a creator of value in the short, medium, and long term. A myopic focus on immediate returns would threaten the future profitability and sustainability of the Bank. A long-term perspective, driven by faith in our relationships with our stakeholders and a commitment to our identity as a bank with integrity, was the order of the day.

While we pride ourselves on our preparedness and BCM processes, the full scale of the logistical operations necessitated by the pandemic could not have been anticipated or tested. As the first wave of COVID-19 infections surged in late March 2020 and lockdowns ensued, the Bank moved swiftly into action, implementing a range of operational measures, including: splitting teams and setting up protocols for working at alternate sites and from home; providing food, lodging, transport, and personal protective equipment to ensure the safety of all our staff; and outfitting our branches with partitions, sanitisers and instituting other best practices for social distancing and hygiene to safeguard our customers. These measures enabled the Bank to provide customers with urgently required services, from opening the majority of our branches during the curfew, to deploying our fleet of 'Bank-on-Wheels' Mobile Banking Units to provide access to cash, to keeping our Imports and Exports department operational throughout to play our part in facilitating the country's trade, to fast-tracking digital products and services to allow customers to conduct transactions remotely.

As the urgency of the first wave ebbed, the focus of the financial sector turned from providing access to banking to offering relief and support for recovery. Many of our customers were in urgent and desperate need of financial assistance, and the Bank knew it was imperative to do everything within its capacity to aid them. The Bank consolidated its efforts under the umbrella of '*Arunella*', a Financial Support Scheme that integrated multiple initiatives including debt moratoriums, flexible payment options, up to 20% rebates on accrued interest during

Instead of a single-minded focus on profitability targets, we as a team wanted to stand shoulder-to-shoulder with our respected customers and support them during these unprecedented times.

the moratorium periods, reductions on credit card repayments and applicable interest rates, and debt consolidation plans. These initiatives were guided by CBSL directives, but went above and beyond them to cover as many struggling customers as possible. Our goal was not to exclude, but to include – not to narrowly interpret eligibility criteria to limit applications, but find ways to bring people into the fold. Instead of a single-minded focus on profitability targets, we as a team wanted to stand shoulder-to-shoulder with our respected customers and support them during these unprecedented times.

Furthermore, the Bank prioritised efforts to offer assistance to the SME and Micro enterprises sector, the engine of the national economy. This is reflected in the fact that as much as 24% of the applications for the Saubagya scheme were submitted by the Bank and 32% of the value of the total scheme was granted for customers of the Bank as of June 2020. By the year's end, the Bank remained the leading lender for COVID-19 relief amongst the private sector banks. Beyond the CBSL schemes, the Bank initiated two major loan programmes for SMEs affected by the pandemic: an Rs. 10 Bn. scheme funded through a loan of USD 50 Mn. from the International Finance Corporation (IFC), and a working capital scheme for Micro enterprises. This year, the Bank also placed an emphasis on SME acquisition, and will seek to play an even greater role in supporting this sector in the years to come.

The Bank's growth and profitability for the year must be placed in this context. We view our efforts in supporting customers as an investment in relationship capital, and one that will hold the Bank in good stead in the future. Profit for the year of the Group was Rs. 17.087 Bn, a 1.91% drop compared to Rs. 17.420 Bn. in 2019. The Group's profit is remarkable given two important factors. First, interest refunds, Day One losses and concessionary interest to be charged on EMI facilities as per the directions of the regulator coupled with the Bank's own voluntary rebate scheme amounted to a loss of interest income of approximately Rs. 3.0 Bn. Second, the Bank made its highest ever single-year impairment provision of Rs. 21.484 Bn., which included COVID-19 overlays of Rs. 5.189 Bn. for reasons of prudence taking into account the potential for credit losses that existing impairment models may not be able to capture.

Deposits grew by 20.36% during the year to Rs. 1,286.616 Bn. as at December 31, 2020, recording the highest ever growth for any financial year todate. However, the lending portfolio recorded only a nominal growth of 1.78%, causing the excess liquidity to be diverted to the Treasury for productive deployment. Total assets reached Rs. 1,762.496 Bn. as at December 2020, recording a growth of 25.09% over Rs. 1,408.941 Bn. reported a year ago. It also deserves a special mention that our overseas operations and subsidiaries, in particular in Bangladesh and Maldives, made substantial contributions to the Bank/Group profits. A detailed analysis of our performance is given in the Financial Review on page 20.

Continuing on the trend in 2019, it should also be highlighted that the Treasury made a significant contribution to the bottom line of the Bank in 2020, too. Treasury accounted for 33.95% of the total assets of the Group as at December 31, 2020, funded through both the excess liquidity channeled to them from Corporate and Retail banking business units as well as its own borrowings. This performance was a key reason that the Bank was able to maintain the reported level of performance even after higher impairment provisioning, lower credit growth and shrinking net interest margins.

Despite the challenges of the year, the Bank received an unreserved vote of confidence: a private placement of shares with the IFC amounting to USD 50 Mn. (Rs. 9.216 Bn.). This investment is the first foreign equity placement by the Bank and collectively makes the IFC, the IFC Financial Institutions Growth Fund LP (FIG Fund), and the IFC Emerging Asia Fund LP (EA Fund) the largest shareholder of the Bank (and increases the Bank's foreign shareholder composition to 23.66%). Importantly, this is the first post-pandemic equity placement by the IFC, and represents one of the largest foreign investments into Sri Lanka since the start of the pandemic – a clear indication of positive sentiment for the Bank's future.

And indeed, there are promising signs for the future. The demand for digital products and services during the pandemic has acted as a catalyst, spurring on our digital transformation. During the year under review, the Bank integrated online and mobile banking channels on a single omni-channel platform with the launch of 'ComBank Digital', positioning the Bank as a market leader in the digital space. The app is highly functional and customisable, bringing the Bank closer to its digital vision of being able to create user experiences that are personal and tailored. In addition, we upgraded Flash, the Bank's ground-breaking, trilingual digital wallet, with several features that are revolutionary in the local context, launched a new WhatsApp banking tool that is positioned as a low-barrier-to-entry digital solution, and made great strides in our QR and other cashless offerings.

But the pandemic has also exposed limitations and areas for improvement in the digital space – both within the Bank and throughout the sector. Here, it is important to always keep in mind that innovation and digitalisation is, ironically, not about technology as much as it is about people. The objective of digitalisation is to create superior customer experiences and deliver digital services that are faster, more agile, cost-effective, personalised, and secure. Front-end digital solutions are not enough, however. The pandemic has revealed, more than ever, that end-to-end digital processes are needed wherein the whole chain of events that occur in a transaction or service increasingly become digitalised and integrated. To that end, the Bank has adopted a Digital Strategy for 2025 that prioritises redesigning conventional banking processes as digital processes, integrating with other ecosystems, upgrading internal systems to be prepared to capitalise on changes in the regulatory environment, and developing talent and building partnerships.

The promise of digitalisation also opens new avenues for our sustainability initiatives. During the year under review, the Bank issued a Position Statement on Climate Change, affirming its commitment to combating Climate change at the highest level of the Bank. The Bank is also proud to announce that it met its goal of carbon neutrality by the end of 2020. While the Bank has a relatively small environmental footprint of its own, in its capacity as a major corporate and financial intermediary, it can act as an influencer. Beyond implementing a Social and Environmental Management System (SEMS) to assess and manage social and environmental risks and building a robust Green Financing portfolio, the Bank also seeks to give its customers the tools to play a part in addressing climate change. During 2020, the Bank's Flash app was upgraded with a new module that analyses user data to estimate the carbon footprint of each transaction made through Card payments, QR code scanning, the Flash app, and other sources, revealing the hidden environmental and social costs of the user's consumption habits. The Bank is the first company in the region and the fourth bank in the world to introduce a customer-centric tool integrated with the UN-approved Environment Impact Index (Aland Index) for financial transactions, and is the first step in our journey of raising collective awareness about climate change.

Special mention should also be made of our Galle Fort Branch, which was restored as part of the 100th anniversary celebrations of the Bank. The building was constructed in the 19th century, and the restoration sought to preserve the unique architectural and cultural elements of the space and was carried out in consultation with the relevant authorities. The restoration process used only locally sourced, environmentally preferable building materials and specifications, and the Branch was designed to be extremely energy efficient and use renewable energy sources. The Branch received a Platinum Award, the highest achievable rating, from the Green Building Council of Sri Lanka (GBCSL), and is now a popular tourist attraction as an eco-friendly heritage site. In a sense, the Branch stands as a symbol of the Bank itself; an institution that combines a rich history and tradition with an ability to adapt to the demands of a new era.

The Board has been a source of support throughout this testing year. The outgoing Chairman, Mr Dharma Dheerasinghe, has provided sound stewardship and guidance over the past 9 years, a period during which the Bank has weathered major storms and gone from strength to strength. I extend my profound thanks to him, and to the Deputy Chairman, Mr Preethi Jayawardena and Mr S Swarnajothi, Director, who also retired from the Board during the year, for their invaluable service to the Bank. I would like to welcome our new Chairman, Justice K Sripavan and the Deputy Chairman, Prof Ananda Jayawardane, together with our new Board members, Ms Judy Lee and Mr Raja Senanayake. Their leadership will be much needed as the country commences its recovery from the pandemic.

I also wish to thank the Country Head of IFC for Sri Lanka and the Maldives, Ms Amena Arif for her spontaneous and unstinted support to our call for assistance when we were faced with pandemic challenges and for the historic equity infusion through a private placement.

I want to reserve my last word of tribute to our staff – across Sri Lanka, as well as Bangladesh, Italy, Maldives, Myanmar and other overseas locations. Our success during the year under review is a testament to their resilience, dedication, and tirelessness. Our staff does not operate in a vacuum – they too were gripped by the sense of anxiety and uncertainty that pervaded the country and the globe through waves of COVID-19 infections, and their work and life rhythms were disrupted in unprecedented ways. Yet, they continued to represent the Bank with care and integrity. Despite the financial challenges, the Bank paid all scheduled increments and bonuses, affirming its commitment to its staff in a time of crisis. Also noteworthy was the successful negotiation of the Bank's collective bargaining agreement with the Bank branch of the Ceylon Bank Employees' Union (CBEU) and the introduction of a new pension fund – all indications that the Bank's relationship with its internal customers has never been stronger.

Viewed with honesty and clarity, the year ahead will be demanding, both for the Bank and the country. Continued downgrades to lending rates, implementation of special loan schemes, and rising investor sentiment is expected to drive credit growth in all sectors of the economy in 2021. But, for the financial services sector, the full force of the true NPL position will only be felt in 2021. A prolonged low-rate environment will mean anemic NIMs, and business models will need to shift to maintain profitability.

But if the pandemic has taught us anything, it is that all of us – our stakeholders, our country, our planet – are connected and our fates are intertwined. Driving the Bank's profitability will always be our central concern, but no longer can success or value creation be defined in a narrow, short-term frame. The world after COVID-19 will be different in so many ways, some of which we cannot completely anticipate, offering both risks and opportunities. Whatever challenges lie ahead, however, the Bank is confident that it has the experience, agility, and resourcefulness to rise to the occasion, as it has always done throughout its 101-year history.

S Renganathan

Managing Director/Chief Executive Officer

Colombo
February 24, 2021

CSR Initiatives 2020

The Bank carried out a series of special projects that broadly focused on education, healthcare, and environmental conservation throughout the year. Driven by a larger vision of creating a thriving society and safeguarding the environment, these initiatives were primarily channeled through the Bank's Corporate Social Responsibility (CSR) Trust, which was established in 2004 under a Deed of Trust.

Supporting education and employability

The Bank donates laptops to visually-impaired undergraduates (CSR)

The Bank donated 21 laptop computers to visually-handicapped university students in response to a request by the 'Centre for Sight' of the Kandy Teaching Hospital's Department of Ophthalmology, the institution that handles ophthalmic disorders and helps visually handicapped students to gain admissions to universities in Sri Lanka.

The latest presentation takes the number of undergraduates in this category that have received laptops from the Bank to 62.The Bank previously donated laptops to two groups of vision-impaired students attending universities around the country in 2014 and 2015.

Bank-supported STEMup project helps set up Software Coding Clubs in 50 schools

Software Coding Clubs were set up in 50 schools under a STEMup Educational Foundation project supported by the Bank. The project aims to set up 100 such clubs to advance computer programming knowledge among school children and inspire students to pursue Scientific, Technological, Engineering, and Mathematical (STEM) degrees and careers.

The Bank commences a project to donate smart STEM classes in 100 schools as centenary year project

Smart classrooms that focus on Science, Technology, Engineering and Mathematics (STEM) was established in 100 schools across Sri Lanka, with the backing of the Bank to commemorate the centenary of the country's benchmark private bank.

Drawing synergies from several ongoing education-centered initiatives supported by the Bank, this project aims to transform orthodox educational institutions to STEM centres, using digital learning content developed for the "*Sipnena*" online education website also funded by the Bank, thereby giving the project its name: the "100 *Sipnena* Smart STEM Schools" initiative.

Welioya School receives IT Lab via Bank and Sri Lanka Army initiative

The Commercial Bank of Ceylon has funded the construction of an IT lab at the Paranagamawewa Vidyalaya, Welioya in collaboration with the Security Forces Headquarters, Wanni. The contribution of the Bank includes financial support for the purchase of building materials to construct a building for the lab, and donations of furniture, solar panels to power the school, and computers. The engineering services and labour required for this operation were provided free of charge by the Sri Lanka Army.

The Bank donates 200th IT Lab to Janadhipathi Vidyalaya, Matara

The Bank's nationally-scaled community initiative to elevate computer literacy levels in Sri Lanka reached an important milestone with the opening of the 200th IT lab donated by the Bank, a landmark achievement in the year that the Bank celebrated its 100th anniversary.

The recipient of the fully-equipped and furnished IT Lab was the Janadhipathi Vidyalaya, Matara, which also received a STEM (Science, Technology, Engineering and Mathematics) classroom from the Bank.

Promoting environmental conservation

The Bank plants trees in Kandy City

The Bank engaged in a tree planting project in the hill country capital as part of its centenary celebrations.

The Bank supports marine turtle conservation programme in Panama

The Commercial Bank of Ceylon has pledged support to a marine turtle conservation project in Panama, a village on the east coast of Sri Lanka, to enable the expansion of the scope of the project from the Kumana village to Panakala Lagoon.

The immediate objective of the programme is to protect the nests and eggs of four endangered species of sea turtles from predators such as pigs, foxes, mongoose, spotted iguana and dogs.

Healthcare

The Bank supports the battle against COVID-19

The CSR Trust of the bank made a series of donations of essential equipment to hospitals to support doctors and healthcare personnel battling to treat victims and prevent the spread of COVID-19.

The Bank donated Personal Protection Equipment (PPE) kits, N95 protective masks, surgical masks, surgical suits and hand sanitiser in bulk as well as in dispenser form to the hospitals based on identified needs. The Bank also made a cash donation to the COVID-19 fund established by the government.

The Bank donates life-saving equipment to Children's Heart Centre of LRH

The Bank donated an Activated Clotting Time (ACT) machine and 20 syringe pumps to the Children's Heart Centre of the Lady Ridgeway Hospital in Colombo to be used in three Cardiac Theatres and two Intensive Care Units.

Other

The Bank joins Sri Lanka Army "*Thuru Mithuru*" project to drive Sri Lanka towards self sufficiency in food

The Bank announced a partnership with the Sri Lanka Army to financially support the second phase of the "*Thuru Mithuru Nawa Ratak*" initiative designed to transform Sri Lanka into a country self-sufficient in essential food.

The Bank provides water and sanitation facilities to Sri Nagarukkarama Temple

The Bank provided the 135-year old Sri Nagarukkarama Temple in Kotikawatte, Angoda with water and sanitation facilities. Following a request from the custodian of the temple, the Bank constructed a 50-foot water tank storage tower with the capacity to hold 20,000 litres of water and accommodate four washrooms.

Financial Review 2020

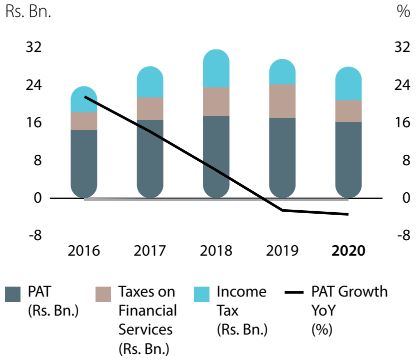
This financial review provides details of the Bank's financial performance across the year. It is meant to be read in conjunction with the Operating Environment (pages 27 to 34), which explains the broader global, local, and sector trends that contextualise the Bank's performance, and the Management Discussion and Analysis (pages 41 to 62), which analyses how the Bank grew its financial and other capitals in relation to its strategic imperatives.

An overview

The Bank recorded the highest ever single-year growth in assets of Rs. 348.873 Bn. or 25.15% (2019: 6.43%) during the year under review and recorded Rs. 1,736.218 Bn. as at December 31, 2020. This was mainly funded by the growth in deposits of Rs. 212.658 Bn. or 20.19% (2019: 7.15%), which reached Rs. 1,265.966 Bn. as at the year end. However, as witnessed across the industry, net lending portfolio had only a marginal growth of 1.38% (2019: 2.73%) for the year.

The profit after tax of the Bank decreased by 3.83% (2019: -2.96%) to Rs. 16.373 Bn. from the Rs. 17.025 Bn. reported in 2019. Yet, this can be considered a significant achievement when viewed against the magnitude of the challenges posed by the operating environment and the significant increase in impairment provision. Growth in total operating income by 13.52% was not sufficient to offset the increases in impairment provisions, causing the operating profit before taxes to decrease by 5.13% (2019: -6.68%).

Profit growth Graph – 01



In tandem with the lacklustre performance in the stock market during most part of the year, share prices of the Bank also decreased. However, the price to book value and the market capitalisation of the Bank remained the highest among peers in the Banking sector. The Bank's market capitalisation ranked fifth among all listed companies on the Colombo Stock Exchange as at December 31, 2020.

With due consideration to the dividend policy and the Bank's commitment to maintaining a consistent stream of dividends to shareholders, the Board of Directors has recommended a first and final dividend of Rs. 6.50 per share, which is in line with the rate of dividend the Bank has been paying over the past eight years.

Given that the Bank accounted for 98.51% of the total assets and 95.83% 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 the performance of the Bank's overseas operations, subsidiaries and the associate as given on pages 24 to 26.

Income Statement

Financial intermediation

Gross income grew by only 0.68% (2019: 7.72%) to Rs. 149.711 Bn. for the year from Rs. 148.706 Bn. in 2019. Both interest income and the fee and commission income recorded a negative growth, which was more than off-set by other sources of income mainly due to the exceptional performance of the Treasury. Average assets for the year grew by a higher 16.08% (2019: 9.97%) to Rs. 1,561.782 Bn. from Rs. 1,345.415 Bn. in 2019. As a result, the financial intermediation margin (gross income/average total assets) decreased to 9.59% (2019: 11.05%), a drop of 146 bps. The financial intermediation margin for the banking sector for the year was 9.57% compared to 11.03% for 2019.

Fund-based operations

Interest income, which accounted for 81.71% (85.93% in 2019) of the gross income of Rs. 149.711 Bn., decreased to Rs. 122.330 Bn. during the year from Rs. 127.780 Bn. in 2019, recording a negative growth of 4.26% (2019: 8.78%). This was mainly attributable to the decline in the average rate of interest on interest-earning assets by 1.98%, partly off-set by a growth in average interest-earning assets of Rs. 220.975 Bn. The drop in market interest rates, the reduction in policy rates, and modification losses (Day One losses) as per the SLFRS 09 on Financial Instruments due to concessions granted to the borrowers affected by COVID-19 (including concessions prescribed by the regulator, as well as concessions and interest rebates granted at the Bank's discretion) all combined to exert pressure on the average rate of interest. The combined effect of the modification loss and interest rebates amounted to Rs. 2.641 Bn. Gradual deterioration in asset quality, which resulted in an increase of non-performing advances, and excess liquidity due to lower growth in advances being channelled to low interest earning assets also impacted the interest income.

Interest expenses, which accounted for 59.48% of the interest income (63.05% in 2019), decreased to Rs. 72.759 Bn. during the year from Rs. 80.571 Bn. in 2019, recording a negative growth of 9.70% (2019: 11.10%). This was mainly due to timely repricing of liabilities to reflect the decreasing interest rate regime and a significant improvement of the CASA ratio by 562 bps. Accordingly, the decline in the average rate of interest on interest-bearing liabilities by 1.66%, partly off-set by a growth in average interest-bearing liabilities by Rs. 186.405 Bn.

Consequently, net interest income grew by 5.01% (2019: 5.04%) to Rs. 49.571 Bn. from Rs. 47.208 Bn. in 2019, accounting for 66.15% of the total operating income (2019: 71.51%). Net interest margin dropped by 34 bps to 3.17% from 3.51% in 2019.

Fee-based operations

Fee and commission income recorded a negative growth of 9.17% (2019: 3.49%) to Rs. 11.269 Bn. from Rs. 12.407 Bn. for the year due to fee waivers and relatively lower card spending during the lockdown periods. However, the impact was partly off-set by an increase in the Bank's market share in both the trade finance and remittance businesses during the year.

Fee and commission expenses, which relate mostly to credit and debit cards related services, decreased by 4.96% (2019 :15.19%) to Rs. 2.012 Bn. from Rs. 2.117 Bn. for the year. Consequently, net fee and commission income decreased by 10.04% (2019: 1.37%) to Rs. 9.256 Bn. from Rs. 10.290 Bn. accounting for 12.35% of the total operating income (2019: 15.59%).

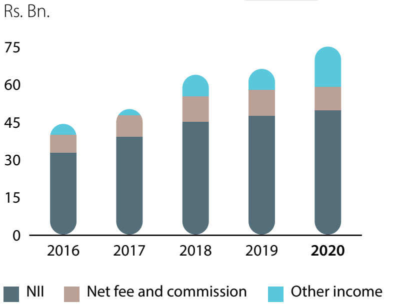
Other income

The Bank recorded a substantial increase in other income for the year of 89.11% (2019: -0.88%) to Rs. 16.113 Bn., from Rs. 8.520 Bn. in 2019. This was made possible by net gains of Rs. 6.390 Bn. on derecognition of financial assets, growth of 462.66% (2019: 317.53%), net gains from trading increasing by 38.01% (2019: 144.86%) to Rs. 1.878 Bn. and net other operating income increasing by 30.23% (2019: -46.96%) to Rs. 7.844 Bn. from Rs. 6.024 Bn. as a result of foreign exchange income growing by 30.34% to Rs. 7.361 Bn. due to a 2.81% depreciation of the Sri Lankan Rupee against the US Dollar during 2020.

Total operating income

Total operating income grew by 13.52% (2019: 3.66%) to Rs. 74.940 Bn. from Rs. 66.018 Bn. in 2019. This was consequent to the increase in other income and net interest income being partly off-set by a decrease in net fee and commission income.

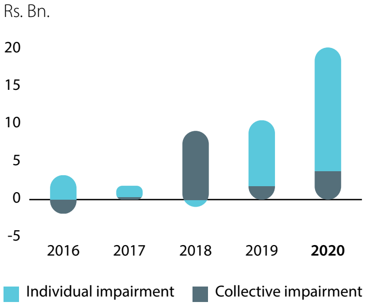
Total operating income Graph – 02



Impairment charges

Impairment charges and other losses for the year increased by Rs. 10.422 Bn. or 94.22% (2019: 28.99%) to Rs. 21.484 Bn. from Rs. 11.061 Bn in 2019 due to deterioration in asset quality as a result of the lacklustre economic activities and uncertainties associated with loan portfolio under moratorium. This is the highest ever Impairment provision the Bank has ever made for a single year in its history. This includes additional provisions made for expected credit losses as a management overlay of Rs. 5.189 Bn. to account for potential losses that the existing impairment models may not be capturing due to high level of uncertainty and volatility created by COVID-19 pandemic. The total impairment charge for the year includes Rs. 17.865 Bn. for individual and collective impairment of loans & advances and Rs. 3.287 Bn for other financial assets and off-balance sheet exposures. The provision for other financial assets includes a provision of Rs. 2.497 Bn. on account of FCY denominated securities issued by the Government of Sri Lanka consequent to the downgrading of the sovereign rating.

Impairment charges Graph – 03



The substantial increase in impairment provision and the lower growth in the total operating income resulted in a negative growth in the net operating income by 2.73% (2019: -0.28%) to Rs. 53.457 Bn. from Rs. 54.956 Bn. in 2019.

Operating expenses

Total operating expenses increased marginally by Rs. 14.330 Mn or 0.06% (2019: 8.34%) to Rs. 25.440 Bn. for the year from Rs. 25.426 Bn. in 2019. This was as a result of the increase in personnel expenses and depreciation and amortisation being off-set to a greater extent by a reduction in other operating expenses. Consequent to the substantial increase in total operating income and efforts taken to limit the increase in operating expenses, the Bank's Cost to Income ratio for the year 2020 excluding taxes on financial services improved to 33.95% (2019 : 38.51%).

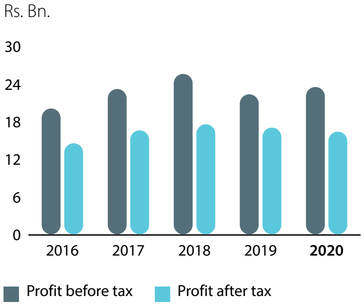
Profit before and after taxes

Negative growth in net operating income by 2.73% coupled with a marginal increase in total operating expenses by 0.06% saw operating profit before taxes on financial services decreased by 5.13% (2019: -6.68%). However, the decrease in taxes on financial services due to the timely abolition of the Debt Repayment Levy (effective from January 1, 2020) and the Nations Building Tax (effective from December 1, 2019), enabled the Bank to post an increase in the operating profit after taxes on financial services (Profit before tax) by 5.25% (2019: -12.71%) to Rs. 23.511 Bn. compared to Rs. 22.339 Bn. in 2019.

The Bank's Cost to Income ratio for the year 2020 including taxes on financial services also improved to 39.96% (2019: 49.41%).

Income tax expense for the year increased by 34.32% (2019: -33.96%) to Rs. 7.138 Bn. from Rs. 5.314 Bn. in 2019. This was as a result of the tax expense for 2019 being considerably lower due to the favourable impact the entire banking industry enjoyed arising from the exemption of interest income from investments in Sri Lanka Development Bonds (SLDBs) retrospectively with effect from April 1, 2018. Consequently, the profit after tax for the year reported a negative growth of 3.83% (2019: -2.96%) and stood at Rs. 16.373 Bn. compared to Rs. 17.025 Bn. reported for 2019.

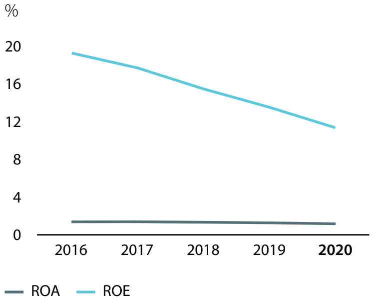
Profit before and after tax Graph – 04



Profitability

Reflecting the drop in profit after tax and the substantial increases in assets and equity during the year, Return on Assets (ROA) and Return on Equity (ROE) reduced to 1.05% (2019: 1.27%) and 11.28% (2019: 13.54%), respectively. Nevertheless, these ratios compare well with the industry averages of 0.99% (2019: 0.93%) and 11.34% (2019: 10.26%).

ROA and ROE Graph – 05

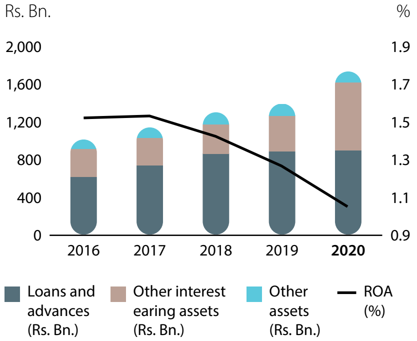


Statement of Financial Position

Assets

Total assets of the Bank grew substantially by 25.15% (2019: 6.43%) during the year to reach Rs. 1.736 Tn. from Rs. 1.387 Tn. at the previous year end. This growth is well in excess of the industry growth of 17.12%. Given that the net loans and advances to customers recorded only a marginal growth of 1.38%, deposits mobilised during the year had to be invested in Government securities, which mostly accounted for the growth in assets.

Composition of total assets Graph – 06



Loans and advances to customers

Reflecting the continued slowdown in credit to the private sector and the significant increase in impairment provisioning, the growth in net loans and advances to customers was limited to 1.38% (2019: 2.73%) for the year. Accordingly, net loans and advances as at December 31, 2020 was Rs. 896.845 Bn. compared to Rs. 884.646 Bn. a year ago. Net loans and advances accounted for 51.66% (2019: 63.77%) of total assets as at December 31, 2020. The Bank's efforts during the year were mostly directed towards granting concessions and accommodating moratorium requests to the borrowers affected by both the Easter Sunday attack and the COVID-19 pandemic, following the relief packages extended by the regulator as well as through the Bank's own initiatives.

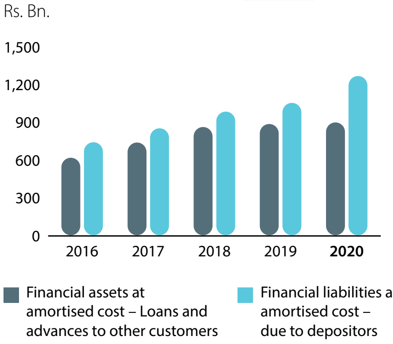
Asset quality

Quality of the loans and advances portfolio is a key determinant of the sustainability of the Bank's operations. Deterioration in asset quality witnessed industry-wide during most of the year caused the Bank to also experience a further increase in NPLs. The Bank's conservative risk profile, with a moderate risk appetite and a robust risk management framework, helped the Bank end the year with the gross and the net NPL ratios at 5.11% (2019: 4.95%) and 2.18% (2019: 3.00%), respectively, compared to industry averages of 4.93% and 2.44%, respectively.

Cumulative impairment provisions for loans and advances as a percentage of the total loans and advances portfolio as at the end of the year amounted to 5.38% (2019: 3.89%). Further, total regulatory provisions to gross loans and advances portfolio stood at 3.32% (2019: 2.37%) as at the year end. Specific provision coverage ratio (based on regulatory provisions) increased to 57.42% (2019: 39.39%) in 2020 compared to 51.72% for the industry. This together with the increase in the Bank's capital improved the open credit exposure ratio (which is net exposure on NPLs as a percentage of regulatory capital) to 11.88% (2019: 17.37%) at end 2020.

The loans-to-customers 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 a solid domestic franchise in Sri Lanka, customer deposits continued to be the single biggest source of funding for the Bank, accounting for 72.92% (2019: 75.92%) of the total assets as at December 31, 2020. Deposits grew by 20.19% (2019: 7.15%) to Rs. 1,265.966 Bn. as at December 31, 2020. The growth in deposits during the year was Rs. 212.658 Bn., which was the highest ever growth for any financial year in the history of the Bank. The CASA ratio also improved significantly to 42.72% (2019: 37.10%) as at December 31, 2020 compared to the industry average of 34.77%.

Other liabilities

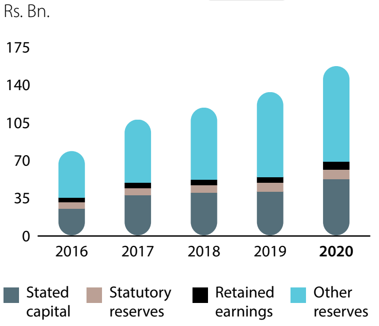
The significant increase in deposit liabilities in contrast to the sluggish growth in loans and advances meant that the Bank had excess liquidity during most part of the year. As a result, external borrowings during the year was mainly limited to refinance borrowings of approximately Rs. 20 Bn. from the Central Bank of Sri Lanka under the Saubgaya – COVID-19 Renaissance facility to assist businesses affected by COVID-19 and a borrowing of USD 50 Mn. from the IFC to help small and medium businesses, with one third being earmarked to help Woman Entrepreneurs deal with the adverse impacts of COVID-19. This together with Repo and short-term borrowings from banks increased total other liabilities as at the current year end to Rs. 313.106 Bn. from Rs. 200.875 Bn. in 2019.

Capital

The Bank is guided by its Internal Capital Adequacy Assessment Plan and the Board approved dividend policy in maintaining capital commensurate with its current and projected business volumes. Accordingly, a capital infusion of Rs. 9.216 Bn. by way of the landmark private equity placement with IFC, which was a first for the Bank, profitability and the prudent dividend policy helped the Bank to significantly grow its equity capital by 18.01% (2019: 12.46%) from Rs. 133.162 Bn. as at December 31, 2019 to Rs. 157.146 Bn. as at December 31, 2020. With an on-balance sheet multiplier (gearing ratio) of 11.05 times, compared to the industry average of 11.69 times, equity funded 9.05% (2019: 9.60%) of the assets as at the current year end. The Bank ploughed back Rs. 12.401 Bn. out of profit for the year in 2019 after the payment of cash dividends and is expected to plough back Rs. 11.122 Bn. after the payment of cash dividends for the year 2020. Profits ploughed back include scrip dividends as well.

However, risk weighted assets of the Bank grew only by 4.77% (2019: 2.96%) to Rs. 1,019.068 Bn. as at December 2020. Consequently, both the Tier 1 and the total capital ratios improved to 13.217% (2019: 12.298%) (minimum requirement – 9.000% for 2020 and 10.000% for 2019) and 16.819% (2019 : 16.146%) (minimum requirement 13.000% for 2020 and 14.000% for 2019), respectively, as at December 31, 2020, which are in excess of the higher capital adequacy requirements imposed on the Bank under Basel III requirements as a Domestic Systemically Important Bank (D-SIB). The equity multiplier in terms of risk weighted assets to regulatory total capital marginally declined to 5.95 times from 6.19 times a year ago. As per the CBSL Basel III regulations, the Bank is 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



Liquidity

Excess liquidity, a result of substantial growth in deposits coupled with limited lending opportunities, posed major challenges in optimal liquidity management, ultimately leading the Bank to invest excess liquidity in Government securities. Nevertheless, at a time of unprecedented uncertainty such as what we currently experience, excess liquidity provides a high level of comfort to the Bank and also, enables the Bank to benefit from the upturn envisaged in credit demand in the years ahead. Given its importance, review of liquidity is a permanent agenda item in the fortnightly ALCO meetings of the Bank.

Liquid assets ratios of the Domestic Banking Unit (DBU) and the Off-shore Banking Centre (OBC) were 44.99% (2019: 30.42%) and 32.70% (2019: 25.25%), respectively, as at end of 2020, compared to the statutory minimum requirement of 20%. Gross loans to deposits ratio stood at 74.87% (2019: 87.39%). Available stable funding based on definitions prescribed by the CBSL stood at Rs. 1,288.574 Bn. as at December 31, 2020, leading to a Net Stable Funding Ratio (NSFR) of 157.49% (2019: 137.05%), comfortably above the statutory minimum of 90% (2019: 100%). Demonstrating the availability of unencumbered high-quality liquid assets at the disposal of the Bank, the Liquidity Coverage Ratio (all currency) stood at 258.06% (2019: 224.74%) as at December 31, 2020 as against the statutory minimum of 90% (2019: 100%).

Segmental performance

The contributions of the Corporate Banking and Personal Banking divisions to the profit before tax of the Group significantly reduced to 11.95% (2019: 25.78%) and 25.11% (2019: 37.18%), respectively, mainly due to higher impairment charges and other losses and reduction in total operating income. However, the Bank's Treasury division made a significant contribution to the profit before tax of the Group of 40.78% (2019: 14.77%) via capital gains on the sale of Government securities, trading activities, and foreign exchange profits. In the meantime, the Bank's International Operations managed to maintain its contribution at the 20% level mainly due to the higher contribution from the Bangladesh and the Maldivian operations. The contribution from the International Operations accounted for 11.79% (2019: 12.06%) of total assets and 20.46% (2019: 20.84%) of the pre-tax profit of the Group.

(All the industry related figures mentioned above have been extracted/computed based on the information published by the CBSL as at December 31, 2020)

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 – 02

Financial soundness indicator (%)	**2020**	2019	2018	2017	2016
Capital Adequacy (under Basel II and Basel III)					
Common Equity Tier 1 ratio (Under Basel III)	**13.22**	12.30	11.34	12.11	N/A
Tier 1 capital ratio (Under Basel III)	**13.22**	12.30	11.34	12.11	10.37 *
Total capital ratio (Under Basel III)	**16.82**	16.15	15.60	15.75	14.87*
Non-performing loans [net of interest in suspense and specific provisions] to equity	**12.96**	20.48	12.71	6.39	8.65
Asset quality:					
Gross NPL ratio	**5.11**	4.95	3.24	1.88	2.18
Net NPL ratio	**2.18**	3.00	1.71	0.92	1.09
Total regulatory provisions ratio on gross loans and receivables (Based on regulatory provisions)	**3.32**	2.37	1.97	1.40	1.53
Specific provision coverage ratio (Based on regulatory provisions)	**57.42**	39.39	47.21	51.05	50.11
Provision coverage ratio (Based on SLFRS provisions)	**5.38**	3.89	3.27	2.29	2.74
Cost of risk of loans and advances	**1.88**	1.09	0.91	0.25	0.24
Open credit exposure ratio	**11.88**	17.37	10.21	5.59	6.55
Earnings and profitability:					
Net interest income to total operating income	**66.15**	71.51	70.56	80.00	74.43
Net fee and commission income to total operating income	**12.35**	15.59	15.95	17.64	15.91
Other income to total operating income	**21.50**	12.91	13.50	2.37	9.66
Financial intermediation margin (Gross income to average assets)	**9.59**	11.05	11.28	10.61	9.85
Interest margin (Net interest income to average assets)	**3.17**	3.51	3.67	3.62	3.47
Operating expenses to gross income	**16.99**	17.10	17.00	17.33	20.20
Impairment charge to total operating income	**28.67**	16.76	13.46	1.39	3.47
Return on assets (ROA) – before income tax	**1.51**	1.66	2.09	2.15	2.12
Return on assets (ROA) – after income tax	**1.05**	1.27	1.43	1.54	1.53
Return on equity (ROE)	**11.28**	13.54	15.56	17.88	19.52
Cost to income ratio (including taxes on financial services)	**39.96**	49.41	46.35	51.08	51.06
Cost to income ratio (excluding taxes on financial services)	**33.95**	38.51	36.85	41.08	42.67
Liquidity:					
Statutory liquid assets ratio (Domestic Banking Unit)	**44.99**	30.42	24.47	27.28	27.19
Statutory liquid assets ratio (Offshore Banking Unit)	**32.70**	25.25	30.20	30.95	30.19
Liquidity Coverage Ratio (LCR) – Rupee	**330.84**	158.79	236.20	272.15	196.34
Liquidity Coverage Ratio (LCR) – All currency	**258.06**	224.74	238.69	209.17	150.45
Net Stable Funding Ratio (NSFR)	**157.49**	137.05	139.18	127.87	N/A
CASA ratio (Current and Saving deposits as a % of total deposits)	**42.72**	37.10	37.55	39.23	41.67
Gross Loans and receivables to deposits ratio	**74.87**	87.39	90.56	88.78	85.64
Assets and funding structure:					
Deposits to gross loans and receivables	**133.56**	114.43	110.43	112.64	116.76
Deposits to total assets	**72.92**	75.92	75.42	74.35	73.06
Borrowings to total assets	**5.35**	4.41	4.86	4.28	3.37
Equity to total assets	**9.05**	9.60	9.08	9.37	7.74

** Computed under Basel II guidelines.*

Performance of the subsidiaries, associate and overseas operations

Performance of the Bank's Bangladesh Operations

Performance of the Bangladesh Operations will have to be reviewed in the context of the operating environment given on page 34 of this report.

Commercial Bank of Ceylon PLC (CBC) commenced its operations in Bangladesh (CBC Bangladesh) by acquiring the banking business of Crédit Agricole Indosuez, a French multi-national Bank, in November 2003.

During the past 17 years of operations, CBC Bangladesh has established its position well above the other Regional Banks operating in the country with 11 Branches, 6 SME Centers and 2 Offshore Banking Units. Presently, CBC Bangladesh has its presence in five main districts in the country i.e. Dhaka, Chittagong, Sylhet, Narayanganj and Gazipur. Despite severe competition among international and large local banks, CBC Bangladesh has recorded a consistent growth in business especially by catering to multinationals and large local corporates by offering better services and commitments. With the expansion of branch network, CBC Bangladesh operations has managed to attract more SME and Retail clientele to the Bank, allowing it to improve its low-cost deposit base, which has resulted in lower cost of funds and improved profitability.

Twenty ATM machines have been installed in Bangladesh (including three in off-site locations). In addition, an Automated Banking Centre (ABC) which comprises a real time Cash Deposit Machine, Cheque Deposit Machine, KIOSK machine and a digital signage in its Motijheel Branch.

During the year 2020, the Bank's Bangladesh Operations has been adjudged the Best Foreign Bank 2019 in Bangladesh by "The Global Economics Ltd.", a UK based financial publication. A comparison of the performance of Regional Banks operating in the country reveals that the performance of our Bangladesh Operations is ahead of its peers in many aspects including deposits, advances, asset quality and profitability, a reflection of our excellent service and commitment.

Credit Rating Information and Services Ltd (CRISL) rated CBC Bangladesh operations AAA for the 10th consecutive year based on financial performance for 2019.

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

Key Performance Indicators - Bangladesh Operations Table – 03

Indicator	2020 BDT Mn.	2019 BDT Mn.	2018 BDT Mn.	2017 BDT Mn.	2016 BDT Mn.	5-year CAGR %
Total Deposits	50,997.50	45,362.98	35,221.65	28,808.18	23,124.88	18.38
Gross Advances	55,039.33	47,449.60	38,448.10	32,113.53	24,456.51	19.46
Profit Before Tax	2,898.24	2,744.68	2,440.56	1,758.56	1,381.93	12.72
Profit After Tax	1,709.47	1,697.40	1,407.23	988.40	785.13	13.58

Key Financial Ratios – Bangladesh Operations Table – 04

Indicator	2020	2019	2018	2017	2016
Cost to Income ratio (%)	24.76	24.74	25.27	28.62	32.76
Net Interest Margin (%)	4.01	4.27	4.53	4.46	5.11
NPL ratio (%)	1.04	0.70	0.96	1.22	2.03
ROA (%)	3.46	3.53	4.31	3.81	3.74
ROE (%)	13.32	14.82	13.97	11.18	9.90

All information given in Tables 03 and 04 above is based on Management Accounts of the Bangladesh Operations.

Commercial Bank Bangladesh marks a decade at the top with 10th successive "AAA" rating.

CBC Bangladesh has planned the automation of the Treasury department, automation of Central Bank reporting, Card personalisation, implementing a call centre solution, Fiserv Digital Access, e-Leave and e-attendance in 2021.

Subsidiaries and associate of the Group

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

Local subsidiaries

Commercial Development Company PLC (CDC)

Established in 1980 as the Bank's first subsidiary, CDC owns the Head Office building of Commercial Bank, "Commercial House", and has two other properties in Negombo and Tangalle. The Bank holds a stake of 90% in CDC.

CDC is the only listed Subsidiary of the Group, with a market capitalisation of Rs. 1.404 Bn. as of end 2020. 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. 122.582 Mn. for the year 2020, recording a drop of 66.25% from Rs. 363.217 Mn. reported in 2019. The decrease in profit was primarily attributable to the fair value loss recognised on revaluation of investment property in 2020.

CBC Tech Solutions Limited

CBC Tech Solutions Limited is a fully owned subsidiary of the Bank and provides Information Technology services and solutions to the Bank, its subsidiaries and to a few selected corporates.

The main lines of business of CBC Tech Solutions are providing Information Technology support, supply of hardware, licensed software, hardware maintenance, Point of Sale (POS) Maintenance, software development, and outsourcing of professional and skilled manpower to the Bank. Presently, the company operates from four regional support centers in Colombo, Galle, Kandy, and Jaffna to ensure prompt service. The Company is mainly focused on the contemporary technologies such as mobile apps, data analytics, dynamic websites, IOT and cloud computing to further strengthen its business in the future.

CBC Tech Solutions recorded a post-tax profit of Rs. 94.648 Mn. for the year 2020, recording a growth of 18.76% from Rs. 79.699 Mn. reported in 2019.

CBC Finance Limited (CBCF) (Formerly Serendib Finance Ltd.)

CBC Finance Limited 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, business plans and strategies of the Company were aligned with the Bank's strategies, governance and risk management policies and practices.

The Company name and logo change from Serendib Finance Limited to CBC Finance Limited was one of the strategically important milestones during the year, and will enable the Company to establish its presence more visibly as a fully-owned subsidiary of the Bank.

Another remarkable accomplishment of the Company during the year was being rated AA-(lka) by Fitch Ratings Lanka Limited. This rating will enable CBCF to be one of the highest-rated Finance Companies in the country on the strength of the parent.

2020 was one of the most challenging years in the recent past for the Company due to COVID-19-related business disruptions and adverse impacts on its customer base. Being a responsible corporate entity, the Company has identified the importance of assisting its customers who were affected due to the pandemic and accommodated a substantial number of capital and interest moratorium requests. As a result, the Company recorded a post-tax profit of Rs. 58.477 Mn. compared to Rs.79.129 Mn. recorded last year. However, the Company managed to reduce the impact to the bottom line by significantly growing its business volumes.

Since the commencement of accepting of public deposits from the latter part of 2019, the Company managed to increase its deposits portfolio to Rs. 3.357 Bn. as at December 31, 2020, thereby changing the main funding source of the Company from bank borrowings to customer deposits and enabling the Company to gradually reduce its funding cost during the year under review.

In continuation with the Company's growth strategy, advancing towards becoming a larger player has been the focus for this year despite unprecedented challenges in the business and macro-economic environment. Total assets grew by Rs. 1.051 Bn., which is a notable 14.14% growth over 2019. The Company's net loans grew by 15.27% despite the growth of our core product - finance leasing – being curtailed with the regulatory restrictions on the Loan to Value ratio. However, timely shifting towards other products such as mortgage and business loans paved the way to overcome possible unfavourable impacts. Furthermore, the gross NPL ratio of the Company significantly improved from 22.56% in 2019 to 16.52% as at December 31, 2020.

Commercial Bank launches CBC Finance as successor to Serendib Finance.

Commercial Insurance Brokers (Pvt) Ltd. (CIBL)

The Bank acquired the 20% stake in CIBL held by the Bank's subsidiary, CDC, during the year 2020, which, together with the stake of 40% already by the Bank, increased the Bank's total stake in CIBL to 60%. 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. 32.078 Mn. for the year ended December 31, 2020, a negative growth of 47.33% from Rs. 60.903 Mn. in 2019. The CIBL's total assets stood at Rs. 711.027 Mn. as at December 31, 2020.

Local associate

Equity Investments Lanka Ltd. (EQUILL)

The Bank owns a 22.92% stake in EQUILL, a venture capital company established 30 years ago. EQUILL invests in equity and equity-featured debt instruments.

The Company recorded a post-tax profit of Rs. 17.006 Mn. in 2020 as against a loss of Rs. 1.480 Mn. reported for the previous financial year.

Foreign subsidiaries

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

Commex, a fully-owned subsidiary of the 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 Bank of Italy to operate as a money transfer company. The license allows Commex to expand across the European Union using passporting rights.

During 2020, Commex recorded a loss of Rs. 104.460 Mn. and it is taking steps to improve its performance once normalcy returns after COVID-19 related disruptions subside.

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 the end 2020, 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.

As a tourism-based economy, the Maldives was severely affected due to the COVID-19 pandemic. The Government of Maldives initiated a nation-wide lockdown from April 2020 for two months. The Maldives Monetary Authority (MMA) has announced several measures to ease the stress on its financial system, including enhancing system liquidity, moratoriums of six months on loan repayments for specific borrower segments, freezing asset classification of overdue accounts for which moratoriums have been granted and relaxation in the liquidity coverage requirement. The impact of the COVID-19 pandemic on the Bank's performance, including credit quality and provisions, remains uncertain and dependent on the spread of COVID-19 and the ultimate economic recovery once the pandemic subsides. The Bank's capital and liquidity position remains strong and will continue to be a focus area for the Bank during this period.

Commercial Bank Maldives honoured for Excellence in Finance at Maldives Business Awards.

During the year 2020, CBM was able to record a growth in its deposits and advances by 9.19% and 12.97% respectively. Total assets of CBM recorded a growth of 8.42% in 2020 and stood at MVR 1.790 Bn. as at December 31, 2020. In 2020, CBM recorded a post-tax profit of MVR 22.723 Mn., compared to the post-tax profit of MVR 28.368 Mn. reported in 2019. Given the extremely challenging operating environment, the performance can be considered remarkable compared to other peer banks in the country.

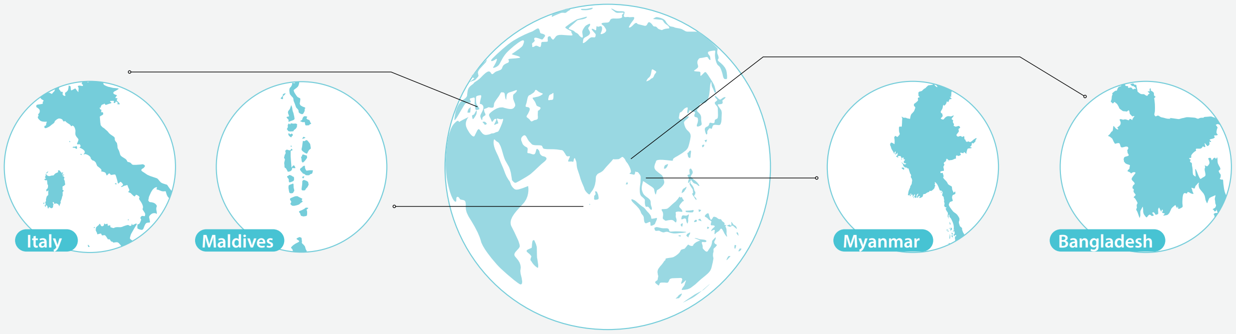
CBC Myanmar Microfinance Company (CBC Myanmar)

CBC Myanmar was established in July 2018 with the opening of its Head Office and a Branch in Lewe Township in Naypyitaw as a fully owned subsidiary of the Bank with the focus of capitalising on opportunities in the Microfinance sector. A temporary Microfinance license from the Financial Regulatory Department (FRD) of Myanmar was obtained initially. The Company was subsequently able to secure a permanent microfinance license from the government of Myanmar with the recommendation of the Financial Regulatory Department (FRD).

CBC Myanmar now operates with four total branches, including a newly opened branch. The microfinance industry was badly affected due to the COVID-19 pandemic and the suspension of recovery activities for one month by the regulators. The Company was able to robustly manage the effects of the pandemic by the tireless efforts of our staff members in recoveries and by providing COVID-19 special repayment arrangements. The Company opened the Pyinmana branch in July 2020 and was able to break even in November 2020. The loan book grew by USD 784,920 in 2020, a 49.91% YoY growth. CBC Myanmar was able to expand its customer base to over 19,000 by December 2020 compared to about 10,000 customers a year ago.

Bank's international operations

Figure – 03



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. 588.994 Mn. and loss of Rs. 75.019 Mn. in 2020.

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. 21.713 Bn. Profit before tax of Rs. 382.717 Mn. in 2020

Commercial Bank's Bangladesh Operation

Year of establishment

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 11.73% of our assets and 20.46% of our profit before tax in 2020

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. 524.172 Mn. and profit before tax of Rs. 17.181 Mn. in 2020

Operating Environment

Connecting with Stakeholders

In a rapidly changing environment, maintaining a constant dialogue with all our stakeholders helps shape our strategy. 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 can be significantly impacted by our actions, products, and services, we consider that party a stakeholder. At the same time, we are keenly aware that our stakeholders' perceptions and behaviour can powerfully impact our ability to carry on our activities and meet our strategic goals.

Accordingly, our stakeholders are:

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

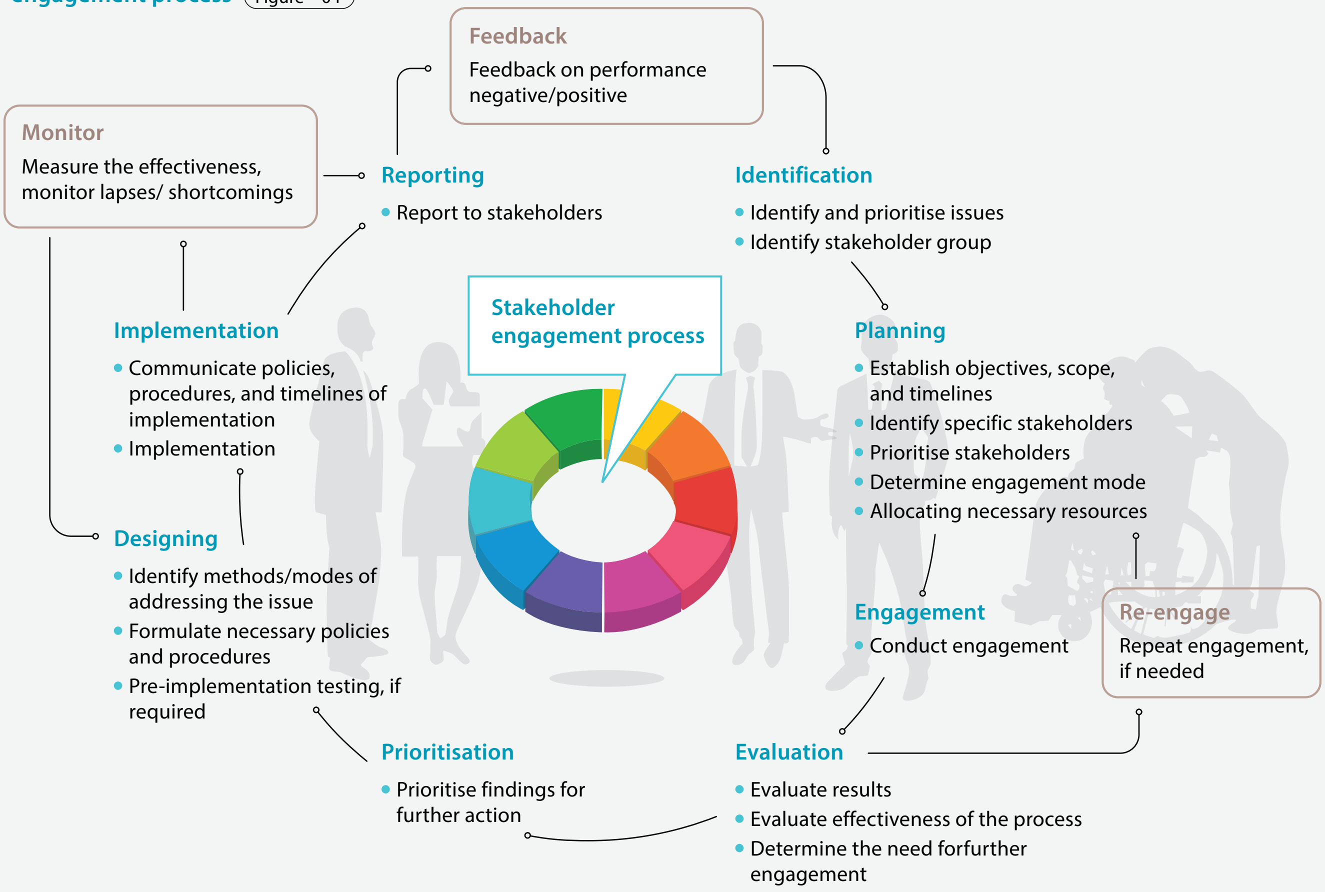
The above grouping helps the Bank effectively manage interactions with the stakeholders in terms of priority and relevance.

While formal mechanisms are in place to connect with our stakeholder groups, responsibility for such engagement is shared across the Bank at every stakeholder point of contact. The changes brought about by the pandemic had an impact on the way, the level and the frequency in which we engage with our stakeholders as well. Given that large gatherings were curtailed during the year, we resorted to digital mediums in engaging with our stakeholders. Understanding their aspirations and maintaining open channels of communication, especially in the context of the pandemic, was vital in developing mutually beneficial solutions across the year.

We strongly believe that by engaging with our stakeholders, we are able to better adapt ourselves to meet the challenges of today and to sustain and improve our business model, drive innovation, and garner invaluable insights for our strategic planning process.

Our stakeholder engagement process

Figure – 04



Stakeholder engagement process

Identification
- Identify and prioritise issues
- Identify stakeholder group

Planning
- Establish objectives, scope, and timelines
- Identify specific stakeholders
- Prioritise stakeholders
- Determine engagement mode
- Allocating necessary resources

Engagement
- Conduct engagement

Re-engage
Repeat engagement, if needed

Evaluation
- Evaluate results
- Evaluate effectiveness of the process
- Determine the need forfurther engagement

Prioritisation
- Prioritise findings for further action

Designing
- Identify methods/modes of addressing the issue
- Formulate necessary policies and procedures
- Pre-implementation testing, if required

Implementation
- Communicate policies, procedures, and timelines of implementation
- Implementation

Monitor
Measure the effectiveness, monitor lapses/ shortcomings

Reporting
- Report to stakeholders

Feedback
Feedback on performance negative/positive

How we connect with our stakeholders

Figure – 05

Investors

Stakeholder aspirations

- Financial performance
- Governance
- Transparency and disclosure
- Business expansion plans
- Risk management
- Sustainable growth
- Resilience to the effects of the pandemic
- Rising NPA and impairment charges
- Dividend payments

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
- Affordability of services and convenience
- Grievance handling mechanism
- Financial education and literacy
- Financial support for revival of business
- Access to financial services
- Enrollment to digital platforms
- Operationalising of CBSL directives

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
- Diversity and inclusion
- Safety at workplace
- Stable performance of 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
- Continued business opportunities
- Maintaining healthy relationships
- Timely settlement of dues
- Collaboration for new technological advances in the financial sector
- Opportunities in the new normal

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
- Microfinance and SME development
- Stability of the financial system
- Migration to cashless payment platforms
- Supporting economic recovery and growth

Mode and frequency

Engagement mechanism	Frequency
Supplier relationship management	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

Material Matters

The COVID-19 global pandemic has reshaped many aspects of the business environment, compelling organisations to transform to stay profitable and relevant. Sustaining success during turbulent times requires fresh analysis, nimble adaptations of strategies and business models, and creativity in confronting challenges and seizing new opportunities presented by the changing environment.

Figure – 06

In adapting the Bank's strategy to face this 'new normal', the Bank analysed its external environment to identify matters arising from changes that were brought about by the pandemic and emerging trends that were relevant to key stakeholder groups, as given below:

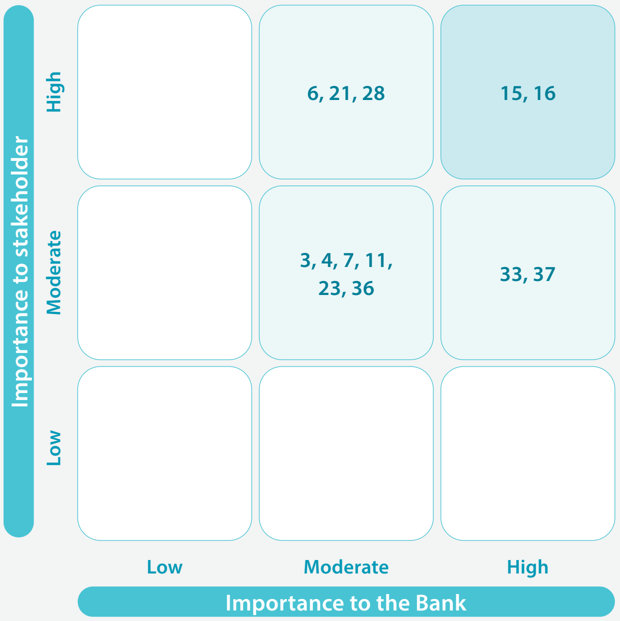
	Political	Economic	Social	Technological	Environmental	Legal/Regulatory
Investors	① Lack of desired level of policy consistency	② Economic slowdown due to pandemic	③ Growing influence of social media	④ Unorthodox competition and financial disintermediation		⑤ Directions and guideline to counter impacts of the pandemic
	⑥ Lack of desired level of transparency and accountability	⑦ Depreciating currencies against USD	⑧ Demand for non-financial information and long termism			⑨ Compliance with new Basel requirements
		⑩ Downgrading of the Sovereign rating and its cascading effect on the Banking industry	⑪ Demand for more transparency and accountability			⑫ Higher regulatory capital
		⑬ High CAPEX requirements				⑭ New Banking Act
Customers		⑮ Envisaged upturn in private sector credit and improvement in asset quality	⑯ Changing customer expectations	⑰ Migration towards digital platforms		⑱ Compliance requirements and regulations such as FATCA[1], GDPR[2], and BEPS[3].
		⑲ Import restrictions		⑳ Cybersecurity threats		
Employees		㉑ Need to enhance productivity	㉒ Staff recruitment and retention becoming more challenging	㉓ Technology driving change in job skills		
		㉔ Health and Safety		㉕ New working cultures		

	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 Corruption	㉛ Declining global competitiveness of Sri Lanka	㉜ Increasing conflicts		㉝ Increasing demand for green banking and green lending	
		㉞ Increasing drug pedaling and drug and alcohol addiction	㉟ Pandemics hampering world trade and economy			
Business partners		㊱ A more collaborative approach		㊲ New technological advances such as AI, Robotics, blockchain		

1-FATCA: Foreign Account Tax Compliance Act, 2-GDPR: General Data Protection Regulation, 3-BEPS: Base Erosion and Profit Shifting

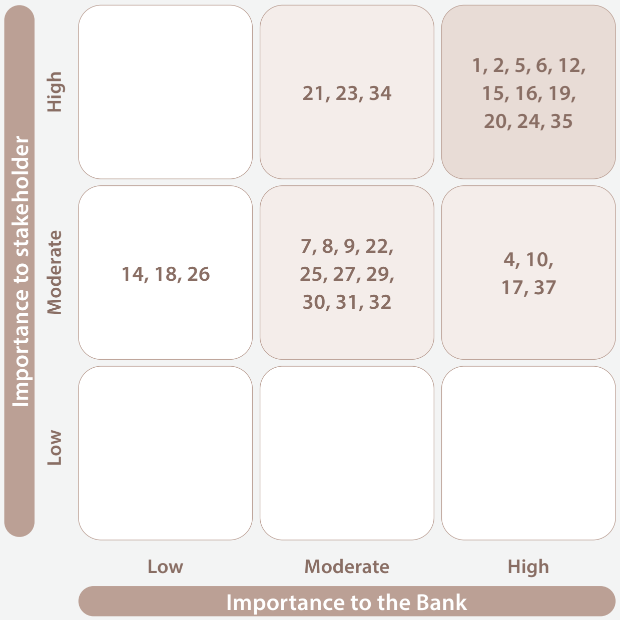
These trends present risks, opportunities or both and their impact is felt by the stakeholders and the Bank alike on varying degrees. The risks that presented from the pandemic outweighed the risks presented by other emerging trends and its impact was felt across all of our stakeholders at different magnitudes. 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. The Bank defines 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. The pandemic is primarily responsible for the repositioning of topics by pushing them up or down the axes of the materiality matrix.

Opportunities to be seized



Importance to stakeholder	Low	Moderate	High
High		6, 21, 28	15, 16
Moderate		3, 4, 7, 11, 23, 36	33, 37
Low			

Risks to be mitigated



Importance to stakeholder	Low	Moderate	High
High		21, 23, 34	1, 2, 5, 6, 12, 15, 16, 19, 20, 24, 35
Moderate	14, 18, 26	7, 8, 9, 22, 25, 27, 29, 30, 31, 32	4, 10, 17, 37
Low			

Following this study the Bank re-shaped its strategies to fit for the time and were then embedded in the Corporate Plan for execution by the Management together with underlying KPIs for measurement of successful implementation. Success in the Bank's value creation journey under the four strategic imperatives is outlined in the section on Management Discussion and Analysis on pages 41 to 62.

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 adopted by the Board of Directors and are reviewed at predetermined intervals to stay current with the changing environment. Timely revision of these policies are monitored by the Integrated Risk Management Unit and is reported to BIRMC.

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 respective Management Committees on a periodic basis for information and corrective action where necessary.

The effectiveness of the management approach is amply demonstrated by the awards and accolades received by the Bank over the years.

Material matters

Table – 05

	Material topic	GRI Disclosure	Page No.
1	Lack of desired level of policy consistency	GRI 201: Economic Performance GRI 203: Indirect Economic Impact GRI 207: Tax	20 to 26, 42 to 47 49 to 52 187 to 188
2	Economic slowdown due to pandemic		
4	Unorthodox competition and financial disintermediation		
5	Directions and guideline to counter impacts of the pandemic		
6	Lack of desired level of transparency and accountability		
10	Downgrading of the Sovereign rating and its cascading effect on the Banking industry		
12	Higher regulatory capital		
15	Envisaged upturn in private sector credit and improvement in asset quality		
16	Changing customer expectations		48 to 52
17	Migration towards digital platforms		53 to 56
19	Import restrictions	GRI 201: Economic Performance	20 to 26
20	Cyber security threats	GRI 418: Customer Privacy	56
21	Need to enhance productivity	GRI 404: Training and Education	61
		GRI 405: Diversity and Equal Opportunity	60
23	Technology driving change in job skills	GRI 404: Training and Education	61
		GRI 405: Diversity and Equal Opportunity	60
24	Health and Safety	GRI 403: Occupational Health and Safety	57 to 59
28	Need to commit to Sustainable Development Goals (SDGs)		62
29	Increasing frequency and magnitude of natural disasters and poor disaster preparedness	GRI 302: Energy	62
		GRI 305: Emission	61
33	Increasing demand for green banking and green lending		61
35	Pandemics hampering world trade and economy		32
37	New technological advances such as AI, Robotics, blockchain		53 to 56

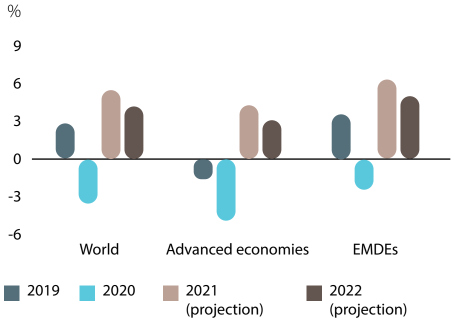
Operating Context and Outlook

Global economy

The COVID-19 global pandemic has been nothing short of an epochal event. It has precipitated a global recession that can only be compared to the two World Wars and the Great Depression of the twentieth century. At the time of the writing of this report, the virus had claimed over 2.4 million lives and infected over 110 million people across the globe. While there has been no segment of the population that has not been affected economically, the most vulnerable – women, youth, the poor, the informally employed, those employed in contact-intensive sectors – have been the most ravaged. Estimates fear that close to 90 million people will fall into extreme deprivation in the coming years, reversing gains made in poverty alleviation in the past decades, exacerbating economic equality, and leaving lasting scars on society. While some signs of recovery were evident during the middle of the year – a result of partial easing of lockdowns – resurgent waves of infection have made forecasting a difficult prospect. The roll out of vaccines offers some hope, but global recovery will be unevenly distributed due to emerging variants of the virus in many parts of the world and countries' access to medical interventions, along with broader structural factors.

Nevertheless, bolstered by stronger than expected momentum in the second half of 2020, current estimates by the IMF puts global growth contraction at -3.5%, an upwards revision of 0.9% from 2020 third-quarter projections. The global economy is projected to rebound with 5.5% growth in 2021 (an upward revision of 0.3%) and then moderate to 4.2% in 2022. Global trade volumes are projected to grow by 8.1% in 2021 though services are expected to lag behind, a pattern consistent with restricted cross-border travel until transmission of the virus declines across the globe. It should also be noted that while some industries, like airlines and tourism, will continue to face challenges, others, such as telecommunications and pharmaceuticals, are expected to surge even higher. Subdued inflation is expected to be seen across 2021–22, with advanced economies projected to remain below 1.5% and emerging market and developing economies at just over 4.0%, which is lower than the historical average of the group. 2021 Oil prices are expected to increase to just over 20% of their low base in 2020, but will still remain well below their average for 2019. Non-oil commodity prices are also expected to rise, reflecting the projected global recovery. Major central banks are expected to maintain their current policy rate stances for the foreseeable future, promoting financial stability for advanced economies and improvement for emerging market and developing economies.

Global economic growth Graph – 09



Source: World Economic Outlook Update – January 2021, International Monetary Fund

Sri Lankan economy

Just as it was starting to show signs of recovery from the shocks of the Easter Sunday 2019 attacks, the Sri Lanka economy was pummeled by the COVID-19 pandemic and contracted by 1.7% and 16.3% in the first and second quarters of 2020, respectively. Downward trends in the global economy had swift repercussions locally. Lockdowns during April-May impeded economic activity, the closure of airports to tourists from March 2020 to January 2021 brought the industry to a standstill, and global demand remained weak throughout. As a result, the country experienced reduced tourism and export earnings, capital outflows, and heightened pressure on government finances, and the rupee depreciated by 2.6% against the US dollar in 2020.

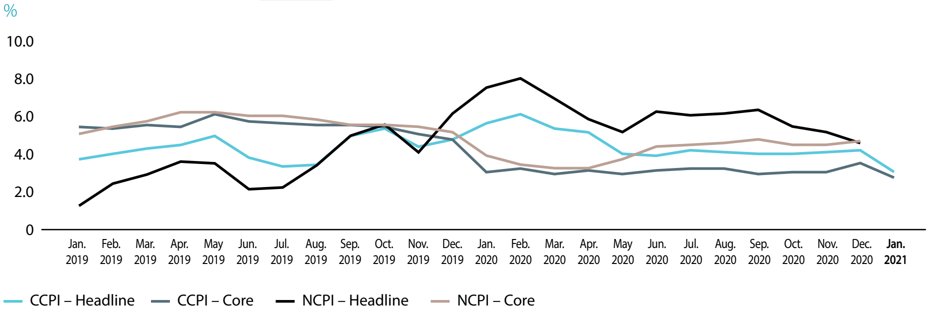
The economy rebounded in the third quarter of 2020 with a GDP growth of 1.5% as a result of monetary easing, government stimulus measures, lower global petroleum prices, and larger than expected remittances from migrant workers. The trade deficit contracted significantly during the year with a reduction in merchandise imports (in particular, fuel imports), contributing to a strengthened external current account balance.

Despite some acceleration in food inflation, headline inflation remained muted in 2020. Under the current flexible inflation targeting framework, the Colombo Consumer Price Index (CCPI) based headline inflation remained broadly within 4-6% across the year, and low levels of demand-drive inflationary pressures meant that core inflation remained subdued. This enabled the CBSL to ease monetary policy to historic levels to buoy the ailing economy. The Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) were both reduced 5 times during the year by a total of 250 bps (4.5% and 5.5%, respectively, at year's end) and the Statutory Reserve Ratio (SRR) was reduced twice by a total of 300 bps (2% at year's end). In addition, the CBSL introduced loan moratoriums, special lending schemes at concessionary rates, and interest rate caps on selected lending products to quicken the transmission of the monetary policy.

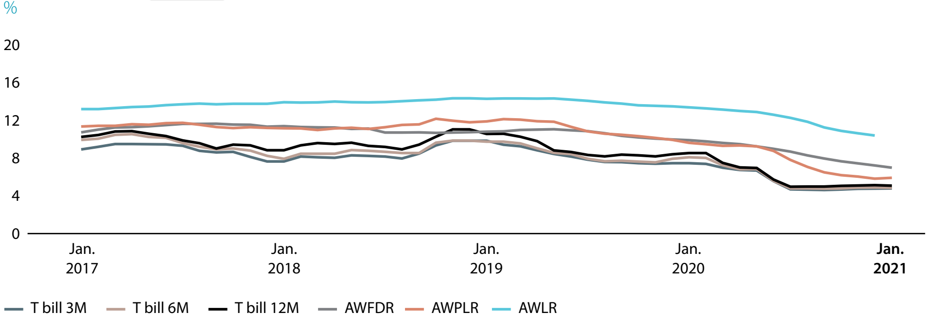
The economy is projected to have contracted by around 3.9% according to the Central Bank of Sri Lanka (CBSL) in 2020, though other sources project a more severe impact in a range from 4.6% (IMF) to 6.7% (World Bank). While the second wave of COVID-19 infections from October onwards hampered momentum, the CBSL anticipates a strong growth of 6% in 2021. The CBSL envisages continuing its accommodative monetary policy stance to drive the country's economic recovery. In this low inflation, low-interest rate environment, credit to the private sector is expected to expand by around 14.0% in 2021 and by about 12.0 -12.5% annually over the medium-term. Particular attention will be given to the micro, small and medium scale enterprises (MSME) sector, which is the backbone of the country's economy.

> The global economy is projected to rebound with 5.5% growth in 2021 (an upward revision of 0.3%) and then moderate to 4.2% in 2022.

Inflation – CCPI and NCPI Graph – 10



Interest rates Graph – 11



It is of some concern, however, that Fitch, Moody's and S&P downgraded Sri Lanka's sovereign rating in 2020, highlighting Sri Lanka's increasingly challenging external debt repayment position. The government's external debt obligations amount to USD 23.2 bn between 2021 and 2025 (about USD 4 bn annually). Fitch is of the view that Sri Lanka's financing and debt service challenges are exacerbated by its existing financing model, which has resulted in high government interest to revenues ratios. The average interest to revenue ratio from 2016 to 2020 is about 50%. The downgrading of Sri Lanka's sovereign credit rating will increase the country's external borrowing costs, though it should be noted that the Government has challenged these downgrades.

Sri Lanka's Sovereign Ratings Table – 06

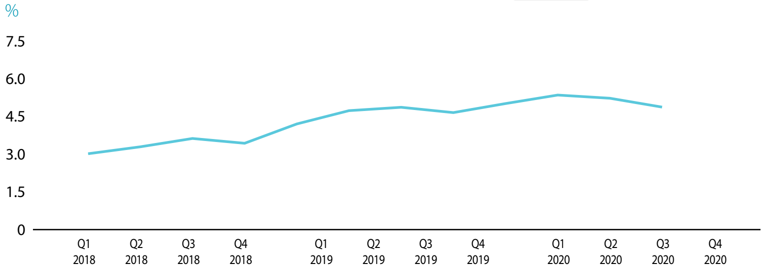
Rating Agency	Newly assigned Rating	Previous Rating
Fitch	CCC in Nov 2020	B (-) (Negative) – Apr 20
S&P	CCC+ (Stable) in Dec 2020	B (-) (Stable) – May 20
Moody's	Caa1 (Stable) in Sep 2020	B2 (Negative) – Nov 18

Sri Lankan Banking Sector

As a result of the implementation of prudent regulatory requirements, the banking sector was well placed with capital and liquidity buffers at the start of the year. The sector recorded an overall expansion in credit, although much of this must be attributed to the increase in loans and advances to the Government and State-Owned Enterprises (SOEs). Credit was concentrated in six sectors, comprising 73.1% of loans (as of the end of September 2020): consumption, construction, trade, manufacturing, infrastructure and agriculture. Rupee loans and Foreign Currency (FC) loans (in USD terms) grew at 13.5% and 15.1%, respectively, on a year-on-year basis as of the end of September 2020 compared to 6.9% and 13.0% growth recorded at the end of September 2019.

The overall NPL ratio of the banking sector reached 5.3% in September 2020, with the manufacturing sector reporting the highest NPL ratio of 9.0%, followed by agriculture (7.3%), trade (7.3%), tourism (7.1%), construction (6.7%), and consumption (5.2%). The specific provision coverage ratio increased from 38.2% as of the end of September 2019 to 45.9% by end September 2020.

Non-performing Loans to Total Loans and Advances Graph – 12



Source: Central Bank of Sri Lanka

Rupee deposits were the major source of funding for the banking sector and showed a marked increased over the year. This increase was driven by the drop in discretionary spending due to the pandemic and by the movement of deposits from the Non Bank Financial Institution (NFBI) Sector to the banking sector. The growth in rupee deposits increased from 7.9% in 2019 to 19.3% in September 2020 YoY (foreign currency deposits showed a growth from 14.0% to 14.3% across the same period). This surge of deposits meant that the loan-to-deposit ratio fell from 88.2% in December 2019 to 84.8% in September 2020. The overall profitability of the banking sector declined due to the falling Net Interest Margin resulting from policy measures taken by the Monetary Board, though this was balanced somewhat by an increase in non-interest income and a decrease in non-interest expenses and taxes during the nine month period ending September 2020 (compared to the corresponding period of the previous year). In spite of the difficult macroeconomic climate, the sector maintained healthy capital adequacy ratios (CAR), recording a Tier 1 CAR of 13.0% and a total CAR of 16.5% as of the end of September 2020. Return on Assets (ROA) of the sector increased marginally from 0.93% to 0.97% YoY in September 2020, while Return on Equity (ROE) increased from 10.5% to 10.9% YoY during the same period. Continued drops in lending rates, implementation of special loan schemes, and improving investor sentiment is expected to drive credit growth in all sectors of the economy in 2021.

Bangladesh Economy and Banking

The economy of Bangladesh faced challenges during the year 2020 especially from the second quarter on. Before the pandemic hit the country, Bangladesh's economy maintained a steady 6% plus growth rate during FY10-FY15, 7.0% plus growth rate during FY16-FY18, and 8.15% in FY19. However, the COVID-19 pandemic severely impacted nationwide mobility since early March and slowed the GDP growth rate to 5.24%. Despite the government's optimistic projections of 8.2% GDP growth for FY21, experts foresee Bangladesh's annual rate of GDP growth to be approximately 7% between 2021 and 2025.

The Dhaka Stock Exchange (DSEX) generated a 21.3% return in 2020 after two bearish years (2018: -13.8%, 2019: -17.3%) which is the second-highest return of the world (after USA NASDAQ 43.4%). UK's Centre for Economics and Business Research (CEBR) has made a recent projection that Bangladesh's economy will be the 28th largest in the world by 2030 and the 25th largest by 2035. Moreover, Goldman Sachs forecasts Bangladesh as one of the countries in "N11" after BRICS who will dominate the future world economy.

The government debt to GDP ratio rose to 39.6% in 2020, which was 35.80% of the GDP in 2019. The Bangladesh Bank injected BDT 540 Bn. into the market through buying around USD 6.37 Bn. from the banks in 2020. The foreign currency reserve stood at USD 43 Bn. in December 2020 in contrast to USD 32.68 Bn. a year ago. The exchange rate for USD/BDT had been quite stable at 84.95 for entire 2020. The country's current account balance recorded a surplus for the fifth consecutive month, reaching USD 4.10 Bn. in November 2020. Bangladesh issued the Islamic shariah compliant instrument, Sukuk Bond for the first time in December 2020.

The COVID-19 pandemic which engulfed Bangladesh's economy and society is expected to be brought under control in 2021. Market experts anticipate the country's exports to revive along with a leap in the private sector credit growth, which was hovering at 8.37% by the end of 2020 against the fiscal target of 14.80%. The confidence factor is returning to the capital market with a number of firm and directed regulatory measures and is expected to touch 6,500 points. The internally funded Padma multi-purpose bridge is expected to be open in 2022 and will contribute around 2.00% to the annual GDP growth. Liquidity is expected to remain excess in the market allowing the interest rates to be in the lower single digits. The foreign exchange market is also expected to be steady throughout 2021.

Bangladesh Bank has given the nod to two new privately owned commercial bank, raising the total number of banks to 61. Agent Banking – which provides limited scale banking and financial services to the mostly underserved population – is booming in Bangladesh. Banks in the country are now focusing on agent banking for its popularity among people, especially in remote areas. Bangladesh is also receiving a significantly large portion of the remittance through agent banking.

Climate change is a priority for Bangladesh's development objectives, as it is one of the countries most vulnerable to extreme weather events. Increased investments in adaptation have made the country more resilient to natural disasters.

Business Model for Sustainable Value Creation

The specification of an organisation's business model is a crucial aspect of the integrated reporting process. An organisation's business model is its system for creating value, i.e. its system for transforming inputs, through its essential business activities, into outputs and outcomes that realise the organisation's strategic objectives. For the reader of this report, it is helpful to briefly clarify each of those four terms to provide a guide for following the visual depiction of the Bank's business model on page 36.

Inputs refer to the "capitals" – stocks of value – the organisation uses as resources, or, in other words, the capitals from which an organisation derives value. These input capitals include not only financial capital reflected in the Statement of Financial Position, but also what might be termed "off-balance sheet" or "hidden" capitals, like the tacit knowledge of an organisation, the brand and reputation an organisation has built over years, or the strength of its stakeholder relationships. These inputs are then put to work in the organisation's business activities – literally capitalised – to generate outputs (the organisation's key products and services) and outcomes (the value created by the organisation for itself and for its stakeholders as a consequence of the outputs). As the Bank's business model demonstrates, this is a dynamic process where capitals are constantly circulating and value is continuously being created and transformed. An integrated report is nothing but the story of this dynamic process across a single year and a snapshot of an organisation's capital position at the year's end (see page 38).

Financial intermediation and maturity transformation

The business model of the Bank revolves around the two primary value driver activities of financial intermediation and maturity transformation. Financial intermediation refers to the role the Bank plays as a conduit between depositors and borrowers, allowing savings (liabilities) to be channeled into investments and assets. Maturity transformation refers to the process of converting short-term funds into long-term lending and investments. By ensuring the efficient allocation of financial resources, these two activities are essential for the economic development of the society at large.

Statement of capital position

The activities the Bank undertakes in furtherance of financial intermediation and maturity transformation, and the consequent interactions and trade-off among the capitals in this dynamic process, serve to augment the capitals and reflect the value created over the year. The Statement of the Capital Position of the Bank as at January 1, 2020 and December 31, 2020 is provided on pages 38 and 39.

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 borrowings from other sources in order to lend and invest; this process generates interest income and incurs interest expenses. The interest margin, which is the difference between the lending rate and the borrowing rate, compensates the Bank for the 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 66.15% of its total operating income by way of net interest income (2019 : 71.51%).

Gearing

Financial intermediation and maturity transformation cause the business model of banks to substantially differ from other corporates. The 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 the Bank's 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 2020 while its shares ranked fifth among all listed companies in the Colombo Stock Exchange as at end 2020. Further details on the performance of the Bank's shares are found in the section on "Investor Relations" on pages 291 to 309.

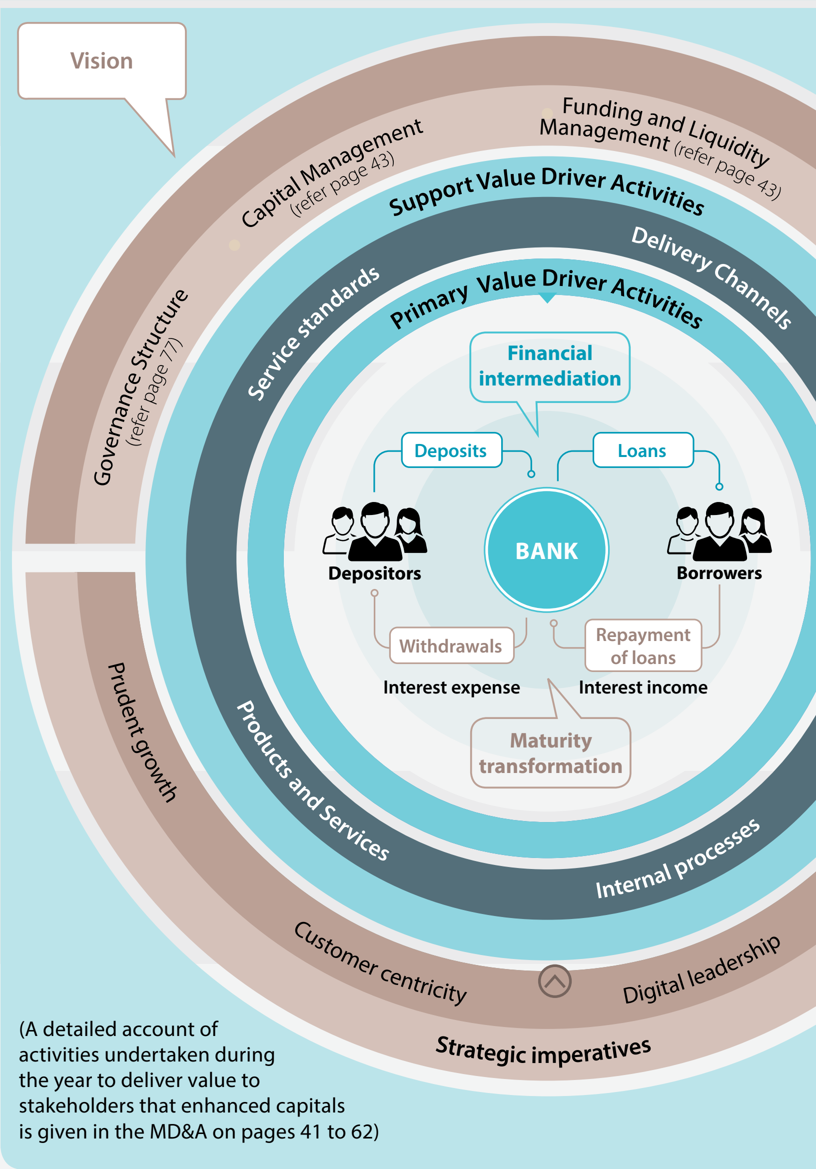
While growing organically in the domestic market, the Bank has taken steps to leverage inorganic and regional growth opportunities, primarily to geographically diversify its risk exposures and sources of revenue and thereby enhance its sustainability of operations and long-term value creation. These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

The Bank's business model that delivers value to and derives value from the stakeholders, leading to sustainable value creation Figure – 07

1. 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 is given in the MD&A on pages 41 to 62)

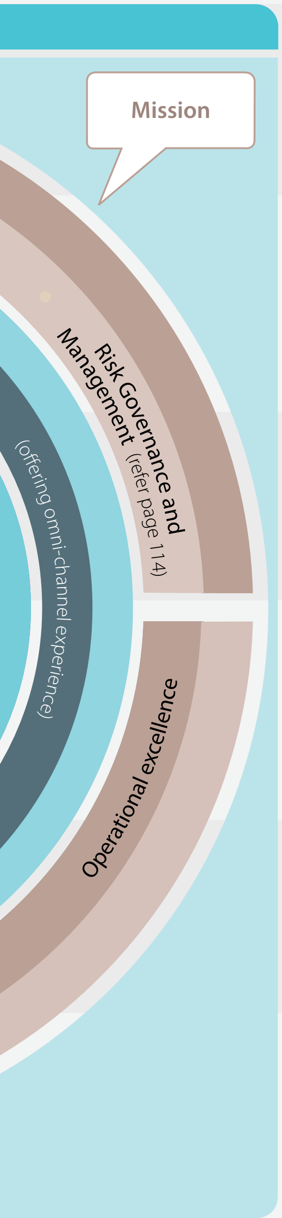
OPERATING ENVIRONMENT THAT PROVIDES CONTEXT FOR VALUE CREATION

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, 2020 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

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

4. 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

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

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, 2020 of different capitals.

Statement of Capital Position Table – 07

Financial capital

Indicator of value derived	Value derived as at January 1, 2020	Activities undertaken to create financial capital *	Value derived as at December 31, 2020	Growth in value created
Shareholders' Funds (Rs. Bn.)	133.20	Grew the business volumes prudently through robust and efficient financial intermediation and maturity transformation, thereby strengthening the leadership position	157.00	17.87%
Subordinated liabilities (Rs. Bn.)	37.90		38.20	0.79%
Deposits from customers	1,053.30		1,265.90	20.18%
Borrowings from banks/ other borrowings (Rs. Bn.)	51.50		87.50	69.90%
Market share in total assets (%)	11.10		11.90	7.21%
Market capitalisation (Rs. Bn.)	96.80		93.66	-3.24%
CSE ranking in market cap (No.)	4		5	
Price to Book Value	Highest among the Banking Sector		Highest among the Banking Sector	

Manufactured capital

Indicator of value derived	Value derived as at January 1, 2020	Activities undertaken to create manufactured capital *	Value derived as at December 31, 2020	Growth in value created
Branch network (No.)	287	● Maintained profitable mix of owned and rented buildings ● Delivery channels ● Conducted cost-efficient transport arrangements ● Improved procurement services	287	0
Number of ATMs	685		656	-4.23%
Number of CRM	200		250	0.25
Bank on Wheels (No.)	3		11	266.67%
Investment in capital expenditure (Rs. Bn.)	15.20		18.40	21.05%

Interactions

Intellectual capital

Indicator of value derived	Value derived as at January 1, 2020	Activities undertaken to create intellectual capital *	Value derived as at December 31, 2020	Growth in value created
Brand equity (Rs. Bn.)	37.30	● 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	44.01	17.99%
Value of intangible assets (Rs. Bn.)	1.10		1.20	9.09%
Receipt of awards and accolades	Most awarded bank in Sri Lanka		Most awarded bank in Sri Lanka	
World's Top 1000 Banks	Included in 2019		Included in 2020	
Fitch rating	AA(lka)		AA-(lka)	
Employees serving for > 20 years	791		809	2.28%

** Please refer Management Discussion and Analysis for details of the activities undertaken.*
*** Reflects the overall market trend*
**** Over 500,000 inactive customers were deactivated during 2020.*

Human capital

Indicator of value derived	Value derived as at January 1, 2020	Activities undertaken to create Human capital *	Value derived as at December 31, 2020	Growth in value created
Number of employees	5,062	● Improved quality of new recruits ● Conducted employee surveys ● Invested in training and development ● Enriched career development ● Re-enforced performance management and appraisals	5,057	-0.10%
Number of new recruits	264		158	-40.15%
Retention ratio (%)	95.50		96.78	128 bps
Return to work from maternity (%)	100.0		100.0	–
Profit per employee (Rs. Mn.)	3.4		3.2	-5.88%
Average service period	12 years and 2 months		14 years and 5 months	27 months

Natural capital

Indicator of value derived	Value derived as at January 1, 2020	Activities undertaken to create Natural capital *	Value derived as at December 31, 2020	Growth in value created
Energy consumption (GJ)	50,296	● Screened loans through SEMS ● Promoted paper reduction and recycling ● Increased usage of renewable energy ● Switched to energy-efficient appliances	45,045	-10.44%
Solar panel installation locations (No.)	49		60	22.45%
Number of facilities subjected to SEMS screening	10,074		9,807	-2.65%
Online banking users	280,634		418,992	49.30%
Mobile banking users	671,699		517,378	-22.97%

Social and Network capital

Indicator of value derived	Value derived as at January 1, 2020	Activities undertaken to create Social and Network capital *	Value derived as at December 31, 2020	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 (%)	11.00		11.34	34 bps
Market share in exports (%)	18.30		18.77	47 bps
CASA ratio (%)	37.10		42.72	562 bps
Number of suppliers	Over 1,200		Over 1,250	–
Number of correspondent banks	55		56	1.82%
CSR Trust investment in society (Rs. Mn.)	549.2		633.6	15.37%

The Most Awarded Bank

Prudent Growth

1. Best Bank in Sri Lanka 2020 – Global Finance Magazine, USA
2. Best Commercial Bank – Sri Lanka 2020, Global Business Outlook Magazine, UK
3. Best Foreign Bank – Bangladesh 2020, Global Business Outlook Magazine, UK
4. Best Domestic Bank – Sri Lanka, 2020 – Global Economics Magazine, UK
5. Best Commercial Bank – Sri Lanka, 2020 – Global Economics Magazine, UK
6. Best Bank in Sri Lanka 2020 – Euromoney, Hong Kong
7. Listed within the Top 1000 Banks of the World for the 10th Time – The Banker Magazine, UK
8. Best Commercial Bank – Sri Lanka – 2020 – International Finance Magazine, UK
9. Best Commercial Bank – Sri Lanka 2020, Cosmopolitan The Daily Magazine, UK
10. 1st in Financial Performance – LMD Most Respected Entities

Customer Centricity

1. Decade of Excellence in Retail Banking Sri Lanka 2020 – Global Banking and Finance Review Magazine, UK
2. Best Corporate Bank Sri Lanka 2020 – International Business Magazine, UAE
3. Best Trade Finance Bank Sri Lanka 2020 – International Business Magazine, UAE
4. Best Bank for SMEs – AsiaMoney, Hong Kong
5. Best SME Bank Partner 2020 – The European, UK
6. SME bank of the Year – Asia Banking and Finance (ABF) Investment Banking Awards, Singapore
7. Best Corporate Bank – Sri Lanka – 2020 – International Finance Magazine, UK
8. Best Trade Finance Bank in Sri Lanka – Transaction Finance Awards by Country, The Asian Banker, Singapore

Leading Through Innovation

1. Best Digital Bank Sri Lanka 2020 – Finance Derivative, Netherlands
2. Most Innovative Banking Services – Sri Lanka 2020 – Business Tabloid Magazine, UK
3. Most Innovative Bank – Sri Lanka, 2020 – Global Economics Magazine, UK
4. Innovative Digital Bank of the Year 2020 – The European, UK
5. Winner in Banking and Financial services Category of SLASSCOM Awards – Sri Lanka Association for Software Services Companies (SLASSCOM)

Operational Excellence

1. Best Bank for CSR– AsiaMoney, Hong Kong
2. Best Brand – Sri Lanka Leadership Awards
3. Most Admired Companies of Sri Lanka 2020 – ICCSL/CIMA
4. 1st in Honesty – LMD Most Respected Entities
5. No 1 in the Business Today's Top 30 Corporates and Conglomerates in Sri Lanka
6. Voted the Most Respected Bank for the 16th consecutive years – LMD Most Respected Entities
7. No 1 in "Most Awarded 2019/20 Hall of Fame" – LMD Magazine

Management Discussion and Analysis

Strategic Imperatives

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
- **Making responsible investments** by financing Green projects and employing a Social and Environmental Management System to assess sustainability in all lending activities

Customer Centricity

Providing the experience, simplicity and convenience that 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 omnichannel 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
- **Enhancing focus on high networth customers** by driving stronger relationships and greater engagement
- **Supporting the community** by investing in innovative solutions for the well-being of both existing and potential customers

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
- **Creating complete digital banking platforms** integrated with all system networks and eco-systems to provide a one-stop-shop experience for customers across all segments
- **Increasing the proportion of digital usage** by facilitating and encouraging digital transactions and interactions
- **Segmenting customers through data analytics** to identify and serve unique banking needs and deliver personalised user experiences
- **Redesigning conventional banking processes** as digital processes to create end-to-end digital solutions

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** to better align them with the changing needs and to improve productivity
- **Safeguarding the environment** by continuously reducing carbon footprint to contribute to the fight against climate change

Prudent Growth

The strategic imperative of Prudent Growth represents the Bank's recognition that value creation for all its stakeholders must be viewed through different time frames – the short, medium, and long term. Prudent Growth provides the orientation for the Bank's other three strategic imperatives covered in this discussion – Customer Centricity, Leading Through Innovation, and Operational Excellence – and is realised and actualised by them in turn.

As such, Prudent Growth is fundamentally about balance: maximising current profitability without hindering the Bank's capacity for prolonged success into the future. Put in terms of the contemporary language of Integrated Reporting, Prudent Growth is about balancing trade-offs between capitals. A disproportionate focus on immediate gains in financial capital without sound investments in institutional or human capital will compromise the Bank's ability to adapt to a changing financial landscape. Investments made without regard to social and environmental justice can have spillover effects, adversely impacting the wider society in which the Bank operates and manifesting a risk to Bank's reputation.

Prudent growth thus signifies growth that is: healthy, sustainable, resilient, responsible, and ethical. The elements of such an approach include an emphasis on pure banking; a well-diversified asset and customer base; sound capital, liquidity, and risk management; astute corporate governance; socially and environmentally-responsible lending and operating practices; and conducting business with transparency, honesty and integrity.

Figure – 08

Our commitment to prudent growth

First private sector bank to venture overseas

Highest market capitalisation in the Bank, Finance and Insurance sector in the Colombo Bourse

First private sector bank to cross Rupees One Trillion in both assets and deposits

Included in the Top 1000 Banks consecutively for ten years

Transparency in reporting and disclosures

Conservative risk profile

Comfortable levels of capital adequacy

Optimum levels of liquidity

Social and Environmental Management System

Robust Risk Management Framework

Compliance with laws, both in letter and in spirit

Robust Corporate Governance Framework

Creating Long Term Value

Prudent Growth is the foundation of the Bank's success, and has allowed it to build a strong deposit and lending franchise with a wide national footprint and a regional presence. This economy of scale provides the Bank with the ability to access resources unavailable to its competitors in order to offer a unique value proposition to its stakeholders. As an acceptor of deposits, the Bank's moderate risk appetite has created a reputation for stability, earning the trust and confidence of the public. This year, the Bank's deposits grew to Rs. 1.266 Tn., a growth of 20.19% over 2019. As a result, the Bank's CASA ratio increased from 37.10% in 2019 to 42.72% in 2020. This surge in deposits was driven by the drop in discretionary spending due to the pandemic, the prolonged low-interest rate environment, and the movement of deposits from the Non-Bank Financial Institution (NBFI) sector to the banking sector. Deposits were the Bank's largest source of funding, funding 72.92% of the total assets (compared with 75.92% in 2019), indicating the robustness of its financial intermediation role.

As a lender, the Bank is able to cater to the largest corporates (with one of the highest single borrower limits in the banking sector), to SMEs and Micros (with a suite of customised financial solutions and capacity-building programs), and to the ordinary citizen (through a wide range of pure, uncomplicated banking products for every demographic, from infant to senior citizen).

Gross Loans and advances grew by a modest 2.98% given the low demand for credit throughout the year. Consequent channelling of excess liquidity to the Treasury heightened emphasis on investment in Treasury bills and bonds, resulting in net loans and advances as a proportion of total assets decreasing to 51.66% as at December 31, 2020 from 63.77% a year ago. The Bank's Non-Performing Loans (NPLs) ratio increased to 5.11% at end of the year. Yet, the Bank made the highest ever single-year impairment provision of Rs. 21.484 Bn., including COVID-19 management overlays of Rs. 5.189 Bn. This calculation stemmed from the Bank's prudent approach, anticipating the potential for credit losses that might remain unrecognised by existing impairment models.

Growth in Deposit base and Lending portfolio

Table – 08

	2020 (Rs. Mn.)	2010 (Rs. Mn.)	10-year CAGR
Deposit base	1,265,966	259,779	17.16%
Gross Loans	947,842	224,021	15.52%

During the year under review, the total assets of the Bank grew by by 25.15%, rising from Rs. 1.387 Tn. at the end of 2019 to Rs. 1.736 Tn. at December 31, 2020. Our market share in total assets, which stood at 11.08% at the end of 2019, improved to 11.84% at the end of 2020. The Bank's International Operations played an increasingly vital role in our bottom line by contributing 11.79% to the Group's total assets and 20.46% of profit before tax (refer to pages 20 to 26 of the "Financial Review" for further details).

The Bank's prudent approach also applies to its dividend policy, which seeks to balance providing substantial shareholder returns while supporting long-term business expansion. Maintaining a consistent track record, the Bank declared a first and final dividend of Rs. 6.50 per share for the year, which will be paid by way of a cash dividend of Rs. 4.50 and scrip dividend of Rs. 2.00 per share, leading to a dividend payout ratio of 46.33%.

Following the lacklustre performance, indices on the Colombo Stock Exchange (CSE) ended the year on a mixed note. ASPI gained 10.52% to close the year at 6,774 points (6,129 in 2019) and S&P SL20 lost 10.18% to 2,638 points (2,937 in 2019). The Bank index followed a similar trend, losing 16.11%. Accordingly, the Bank's shares were trading at a discount to its book value throughout the year. Yet, the price-to-book value of 0.60 times as of December 31, 2020 (0.73 times as at end 2019), was the highest among the peer banks listed on the CSE.

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, perpetuate, and expand 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. However, 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 more conservative in their approach and are therefore 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, expansion of fee-based services, timely pricing/re-pricing, prudent dividend policy, products and services portfolio and capital instruments. The Bank also recognises that a crucial aspect of its success is the base of confident shareholders whom the Bank can rely on for more capital whenever the need for a capital infusion arises. The Bank consistently maintains capital adequacy ratios well in excess of minimum requirements (see page 131 to 133 for further details).

Capital management objectives

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

- Remaining compliant with regulatory requirements by maintaining internal capital targets that are more stringent than the requirements
- Optimum capital usage for maximum profitability
- Supporting future business expansion
- Supporting desired credit rating

The Bank received a strong affirmation with the completion of a private placement of shares with the IFC amounting to USD 50 Mn. (Rs. 9.216 Bn.). This investment is the first foreign equity placement of shares by the Bank and collectively makes the IFC, the IFC Financial Institutions Growth Fund, LP (FIG Fund), and the IFC Emerging Asia Fund, LP (EA Fund) a holder of a14.45% stake. Also crucial to note that this is the first post-pandemic equity placement by the IFC, and it is one of the largest foreign investments into Sri Lanka since the start of the pandemic. This is a clear sign of optimism for the Bank's future.

For further details on our Capital Management, please see Note 68.5 on pages 289 to 290 and page 336 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 regulations introduced measures 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 confidence in the Bank.

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 and exchange rates, changes in policy rates, credit growth and facilities in the pipeline, capital market developments, projected capital expenditure and alternative funding options 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:

- Retail deposits mobilised through the branch network
- 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)
- Selected long-term wholesale deposits
- Re-purchase agreements

Funding and Liquidity Management Objectives

The 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
- Remaining compliant with regulatory requirements by maintaining internal funding and liquidity targets which are more stringent than the requirements
- Optimum usage of liquid assets to maximise profitability
- Funding future business expansion at optimum cost
- Supporting desired credit rating
- Ensuring compliance with to Basel III funding and liquidity requirements

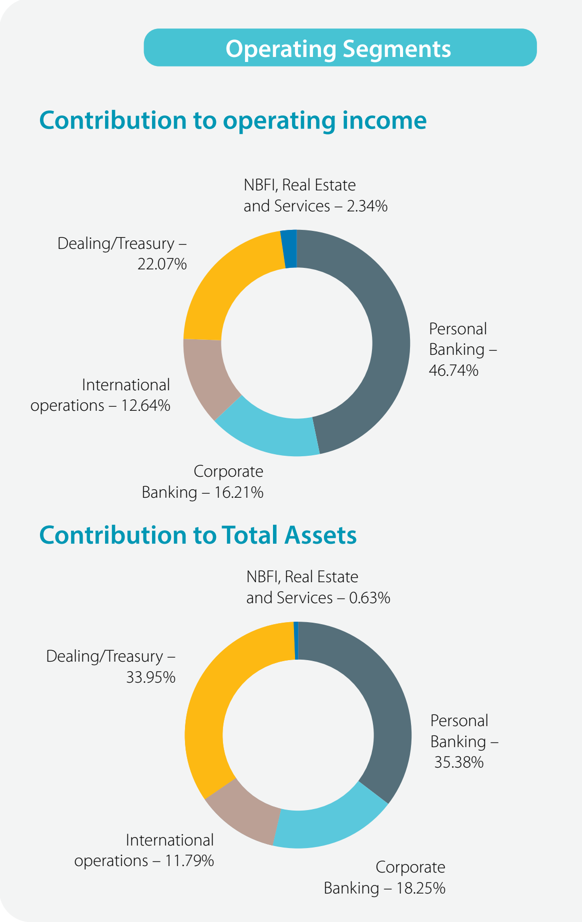
The Bank manages its funding and liquidity ratios on a daily basis and monitors the Liquid Assets Ratio to ensure adequate funding to maintain liquidity at the desired levels.

Being a Truly Diversified Entity

Another important dimension of the Bank's prudent growth is its commitment to diversification. Apart from being a risk management tool to avoid excessive concentrations, diversification has helped the Bank remain more agile in weathering and responding to changing market conditions, thereby reducing performance volatility and ensuring stable, sustainable value creation. The Bank has successfully accomplished a high level of diversification in its operations across many parameters, including:

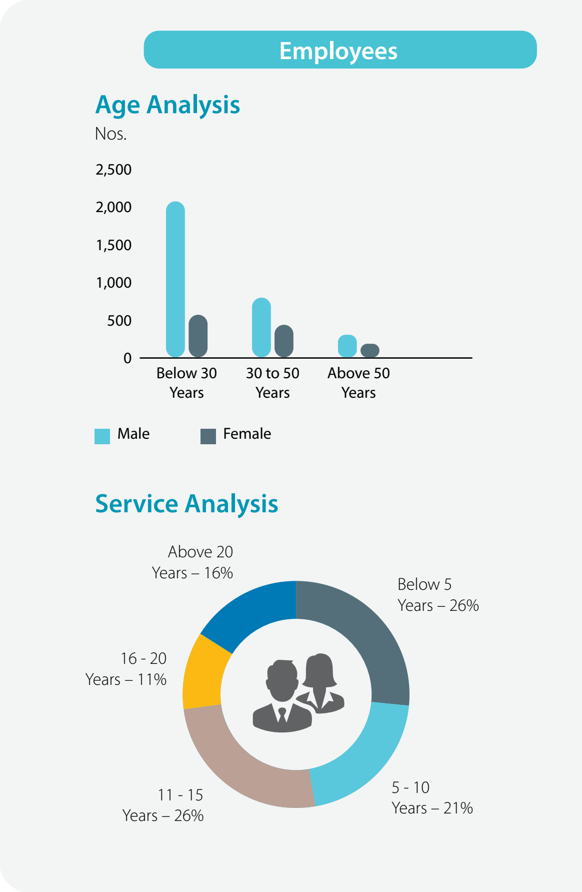
- Geographically (Sri Lanka, Bangladesh, The Maldives, Myanmar, Italy and BPOs in several other countries)
- Customer profile (See customer segmentation – Table 10 on page 48)
- Banking channels (See channel mix – Table 11 on page 49)
- Currency wise product mix (See Note 34.1 (b) on page 203 and Note 46.1 (b) on page 232)
- Products and services portfolio (A complete suite catering to the requirements of all segments of customers from infants to senior citizens).
- Funding profile (Please refer the figure 09 on page 44 for details)
- Maturity profile (No serious mismatches in maturity profile, particularly given the growing core component of CASA balances – See Note 61 to the Financial Statements on pages 251 to 253).
- Economic sector (A well-spread sector diversification of assets by economic sector with no excessive concentration to any particular sector – See Note 34.1 (c) to the Financial Statements on page 203).
- Sources of revenue (An acceptable mix of fund-based and fee-based revenue with significant market share in country's imports and exports as well as a market maker in Treasury operations – See Note 13.1 and 14.1 to the Financial Statements on pages 178 and 180).

Figure – 09


Operating Segments

Contribution to operating income

Contribution to Total Assets


Employees

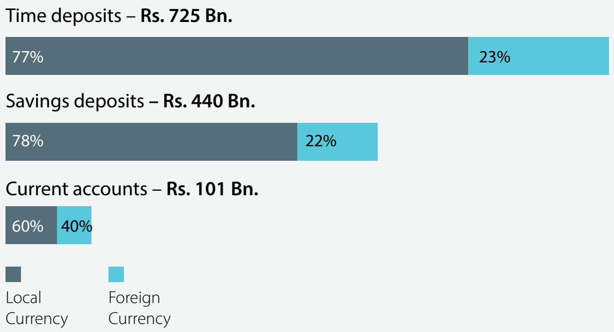
Age Analysis

Service Analysis

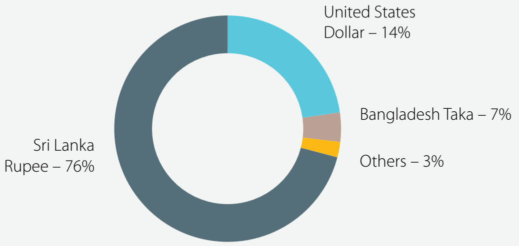
Deposits and Funding

CASA
42.72% (2020)
2019 - 37.10%

Deposits Mix



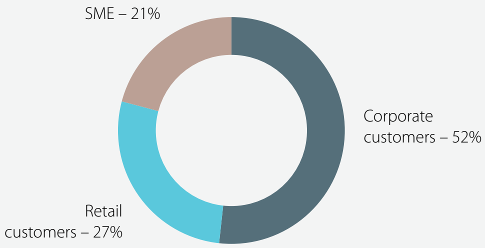
Deposits by Currency



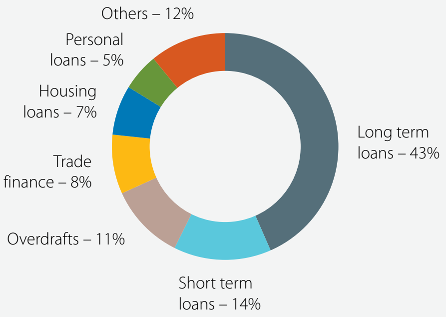
Funding Structure

Loans and Advances

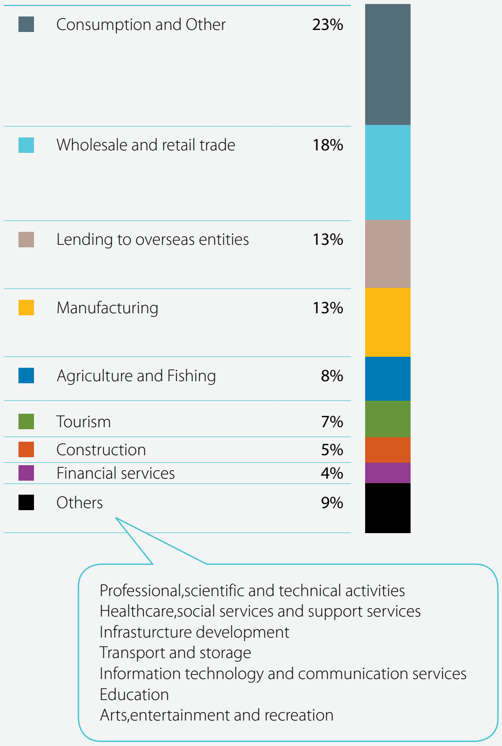
Loans and advances by customer



Loans and advances by product



Loans and Advances by Industry



Professional,scientific and technical activities
Healthcare,social services and support services
Infrasturcture development
Transport and storage
Information technology and communication services
Education
Arts,entertainment and recreation

Socially and Environmentally Responsible Lending

Banking, in comparison to many other industries, has a minute environmental footprint of its own. It consumes few natural resources and creates minimal emissions and waste, evidenced by the fact that there are no mandatory requirements for environmental certifications that banks have to obtain. But the Bank, in its capacity as a Domestic Systemically Important Bank, is a financial intermediary with a wide national reach and influence. As such, it recognises that it has a vital role to play as an advocate and driver of sustainability in Sri Lanka. The Bank was involved in the formulation of a Sustainable Banking Initiative (SBI) in the country in partnership with 18 members of the Sri Lanka Banks' Association, and social and environmental concerns are integrated into the Bank's core business activities. The Bank has been a member of the UN Global Compact since 2002.

As part of its strategic pillar of prudent growth, the Bank is mindful that its funding activities can have a major influence on issues of sustainability both inside and outside the Bank. The Bank has played a pioneering role in Green Financing in Sri Lanka over the past decade, financing the first commercially viable wind power project and the first commercial scale solar power project in Sri Lanka. The Green Financing portfolio support projects that focus on renewable energy, energy and water efficiency, waste management, emission reductions, drip irrigation, and rain water harvesting. In 2018, the Bank partnered with the IFC to strengthen its Green Financing strategy.

During the year under review, the Bank issued a Position Statement on Climate Change, affirming its commitment to combating climate change at the highest level of the Bank. It is against the backdrop of strong consensus amongst the scientific community that human influence, particularly the burning of fossil fuels and deforestation, has been the dominant cause of observed warming in the global climate system since the mid-20th century. This Position Statement of the Bank is, in fact, an articulation and an unification of a multitude of actions the Bank has been implementing and committing to over the past decade, and underscores its added resolve to fight this challenge in the future.

Furthermore, the Bank utilises a Social and Environmental Management System (SEMS) to assess and manage social and environmental risks in a strategic and systematic manner. Procedures and work flows within the framework of SEMS ensure that the Bank's lending is to environmentally sustainable, socially acceptable and economically viable projects. The Bank's SEMS is supplemented by the adoption of an IFC developed tool, the Climate Assessment for Financial Institutions (CAFI) tool, that assists in monitoring and reporting climate impact data. In its implementation of SEMS, the Bank adopts an approach of partnership with its stakeholders with the objective of encouraging positive changes instead of merely rejecting proposals that do not meet the Bank's social and environmental standards. The goal of the Bank is to be a leader that seeks to build partnerships across ecosystems, and every attempt is made to assist customers and suppliers to become compliant with relevant requirements and regulations.

The Bank's Green Financing, some of which is supported by international lines of credit, contributes towards the fight against climate change in alignment with the UN Sustainable Development Goals 7 (Affordable and Clean Energy) and 12 (Responsible Consumption and Production). The Bank's Green Financing Vision prioritises 2 goals:

1. To become the No. 1 Green Financing institution in Sri Lanka
2. To grow the Green Financing portfolio to be 3% of the loan book by 2025

Initiatives taken during the recent past towards achieving these goals include:

- Engaging in multiple capacity building programs.
- Over 500 staff members have participated in internal training programmes.
- Over 60 staff members have participated in training programs conducted by external industry experts.
- Guidelines & Circulars have been issued on Green Financing.
- The climate impact of these Green facilities has been calculated via the IFC developed CAFI tool. The Bank's Green Financing portfolio has resulted in reducing 180,933 tonnes of CO_2 equivalent emissions to the atmosphere.
- A Green Financing Performance Award for Personal Banking and Corporate Banking has been introduced.
- Special rates have been offered by the Bank on Green Leases and Loans to incentivise growth in the Green Financing sphere.

During the year, the Bank made particular strides in terms of the composition of its Green Loans portfolio by including a wider array of projects.

Table – 09

Green Purpose	(end of 2020) %
Renewable Energy Projects (Solar, Hydro, Wind, Biomass)	38
Resource efficiency and recycling projects - Energy, Water and Material	19
Climate smart agriculture	17
Environmentally friendly transportation and related services	10
Water saving consultancy and related service providers	7
Others	8

Concessionary Green Loans for Renewable Energy

> The Bank, in its capacity as a Domestic Systemically Important Bank, is a financial intermediary with a wide national reach and influence. As such, it recognises that it has a vital role to play as an advocate and driver of sustainability in Sri Lanka.

Ethics and Conduct

While the Bank's fundamental business of financial intermediation requires adherence to government regulations, operating in a community of stakeholders means that it also needs a 'Social Licence' – in other words, tangible evidence of ethical and conscientious behaviour. The Bank has long been renowned 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 and stakeholders – a strength it has carefully cultivated for over a century – and recognises that it has a responsibility to maintain 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.

Through on-site audits and online surveillance, the Inspection Department of the Bank 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 Whistleblower 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. Training is provided to all employees and the members of the Board of Directors on Anti Money Laundering (AML)/ Combating the Financing of Terrorism (CFT), Compliance and Anti Bribery and Corruption from time to time.

The Bank continued to further strengthen the related systems, processes and controls during the year.

Anti-Money Laundering

The Bank 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 conducts business.

Anti-Bribery and Corruption

Bribery and corruption is illegal, dishonest and damages the reputation of the Bank. Therefore, the Bank is committed to countering bribery and corruption in all forms, and promotes a culture of compliance and genuine engagement with anti-bribery and corruption standards. The Bank also recognises that different jurisdictions, sectors, transactions, business opportunities and business partnerships pose greater bribery and corruption risks and seeks to identify and manage these risks. Accordingly, the Bank seeks to establish rigorous policies, procedures and controls to assist it to operate within its risk appetite at all times and expects all its employees to refrain from giving or accepting bribes, kickbacks or commissions or taking part in any form of corruption. The Bank has developed a comprehensive Anti-Bribery and Corruption Policy which will be submitted for approval of the Board during the first quarter of 2021. Once approved, it will be made available at the Bank's web site.

In addition, the Bank has a Whistleblowers Charter and guidelines on accepting and offering gifts or other illegal gratification, collection and borrowing of funds/obtaining undue favours from customers and suppliers, and holding a Directorship/being a Partner/Shareholder in private companies enumerated in the Code of Ethics and administrative circulars. In implementing the Code of Ethics and affirming its commitment to the 10th Principle of the UN Global Compact, the Bank expects all employees not only to fight corruption, but also to demonstrate that they do not abuse the power of their position as employees for personal financial or non-financial gain, solicit or accept gifts, compromise employees or the Bank. No employee of the Bank should offer any bribe or other illegal gratification in order to obtain business for the Bank.

The Bank also aims to encourage and influence all of its non-controlled interests (such as non-controlled joint ventures, partners, contractors, sub-contractors, vendors, suppliers, service providers, consultants, representatives and others performing work or services for or on behalf of the Bank or any other person associated with the subsidiaries and associate of the Bank) to have and implement anti-bribery and corruption policies and procedures to an equivalent standard of the proposed Policy of the Bank.

Figure – 10

★ Values that support the Bank's brand;

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.

Customer Centricity

Providing an unparalleled banking experience calls for a deep understanding of our customers – their needs, their preferences, their concerns – and responding with products and services that meet and even exceed their expectations. It also involves transforming internal mindsets and processes to remain agile and relevant in a rapidly changing environment. Accordingly, the Bank carefully segments its diverse customer base and tailors its services to cater to each group. This targeted approach is about viewing relationships with customers as more than simply a sum of transactions, and it allows the Bank to differentiate its value proposition, build customer loyalty, and enhance its brand. And in 2020, this approach was more vital than ever.

Customer Segmentation Table – 10

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

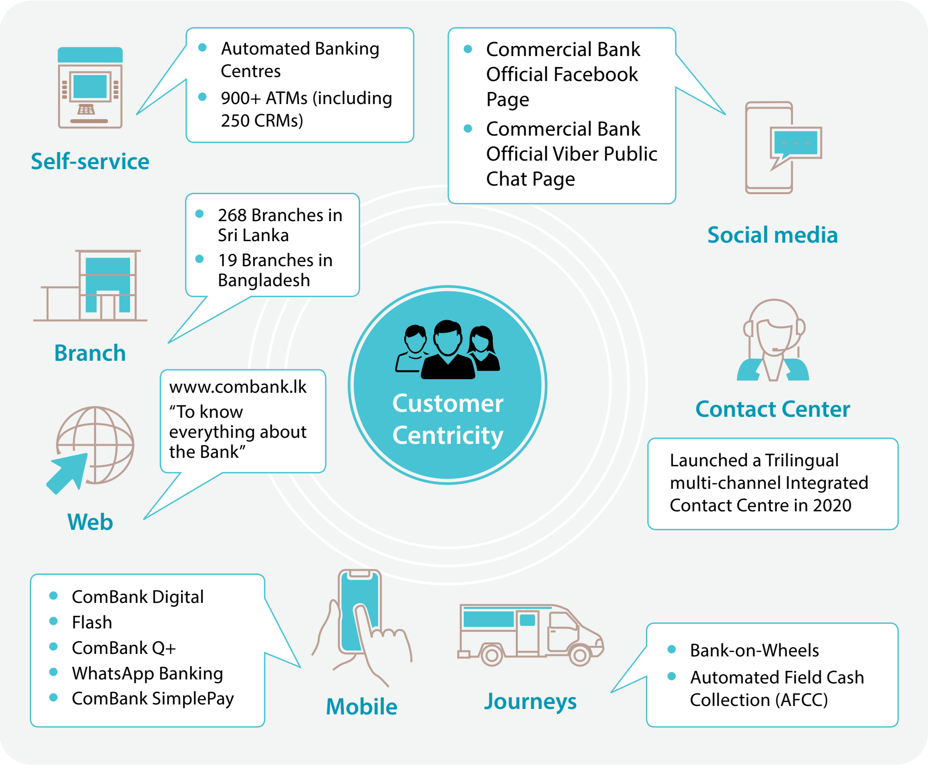
The type of segmentation illustrated here enables the Bank to gain greater knowledge and understanding of the customer and better align with their unique banking requirements.

Channel mix and target market on perceived customer preference

Table – 11

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	√	√	√	√	√	√	√	√

Figure – 11



Responding to the Need of the Hour

While it is commonplace to speak about the symbiotic relationship between a company and its stakeholders, this year provided ample evidence that the Bank and its customers genuinely depend on each other for their survival and success. There was no aspect of the local economy left untouched by the COVID-19 pandemic, and financial relief was urgently and desperately needed by many customer segments and business sectors. The banking industry itself was similarly impacted, but as a Domestic Systemically Important Bank (D-SIB), it was crucial that the Bank do everything within its capacity to ease the burden on customers and the national economy. The Bank viewed this as an opportunity to affirm its commitment to its customers and make a tangible difference in their lives at a moment of crisis.

Cash at the Customer's Doorstep

During the first wave of COVID-19 infections in late March 2020 and the ensuing lockdowns, nearly 70% of the Bank's branches in areas under curfew were kept open to provide uninterrupted service to customers in spite of the many challenges faced by the staff. Departments such as Imports, Exports and Treasury were operational throughout to ensure continuity of service for the Bank's corporate clients. Online customer registration for Digital Banking was expedited to enable customers to conduct their transactions without visiting a branch. Social media played a critical role as the main channel for urgent communiqués to the Bank's customers when print media was not available.

For customers in urgent need of cash, the Bank deployed its "**Bank-on-Wheels**" Mobile Banking Units immediately, and increased its existing fleet from 5 to 11 by outfitting vehicles with mobile POS units. A schedule with details of the routes of these units was posted daily on the Bank's website and social media pages. Because card delivery was not possible during the lockdowns, expired cards were enabled for use at Bank ATMs for a limited period. Beginning in early April, the mobile units processed over 13,000 transactions to the value of over Rs. 175 Mn. in little over a month.

Financial Relief Initiatives

The Bank consolidated its efforts under the umbrella of "*Arunella*", a Financial Support Scheme that integrated multiple initiatives to provide sharper and more efficient relief to customers. These initiatives were guided by the CBSL directives, but went above and beyond them to capture as many pandemic-affected customers as possible. A crucial element of the Bank's initiatives was a proactive communication campaign across all channels and forums to encourage customers to apply for relief schemes. The Bank's goal was not to narrowly interpret eligibility criteria and strictly restrict borrowers but to take a deeper, holistic view of all customers affected by the pandemic and come to their aid. Between the two waves of the pandemic across the year, nearly 35% of the Bank's portfolio was classified under moratorium, and by the year's end, 16% still remained in this position.

Commercial Bank's
Arunella
Financial Support Scheme

Segment analysis of Moratoriums Granted Under COVID-19 – As of December 31, 2020 (Wave –1 and 2) Table – 12

	Value (Rs. Bn.)	No of Advances
Corporate	176.315	2,673
SME	136.156	15,045
Retail	127.580	59,431
Agriculture	3.180	768
Micro	0.642	3,470
Total	443.873	81,387

Moratoriums granted under COVID-19 – As of December 31, 2020 (Wave –1 and 2) Table – 13

	Value (Rs. Bn.)	No. of Advances
Personal Banking	311.810	2,716
Corporate Banking	132.063	78,671
Total	443.873	81,387

In addition to debt moratoriums, concessions included flexible payment options, up to 20% rebates on accrued interest during the moratorium periods, reductions on minimum credit card repayments and applicable interest rates, waiving and reduction of fees charged, and debt consolidation plans. The Bank also reduced lending rates throughout the year (matching the downward trend of interest rates in Sri Lanka) in an effort to provide customers facing revenue losses with affordable access to funds. The rate cut encompassed all categories of new loans offered by the Bank, including loans for SMEs and micro enterprises, and even pawning, leases and overdrafts.

Helping SMEs and Micro Enterprises

The Bank, who has been a pioneer in providing financial solutions to SME and Micro enterprises, recognised that these sectors were in desperate need of relief. Already under severe pressure after the diminished economic growth in 2019, SMEs and Micros were pummelled by the effects of the pandemic. The veritable backbone of Sri Lanka's economy, these sectors also remain the most vulnerable to economic shocks, and Bank sought to help bolster businesses at the grass-roots level.

Between both the CBSL-mandated schemes and Bank initiated schemes for COVID-19 support loans, the Bank disbursed a total of Rs. 29.6 Bn. to affected businesses throughout the year. Under the CBSL working capital loan scheme ***Saubagya* COVID-19 Renaissance facility**, the Bank registered 5,637 applications with a total value of Rs. 28 Bn. over the three phases of the programme and disbursed 5,387 loans with a value of Rs. 26.6 Bn. at the close of 2020. The Bank lent another Rs. 1.4 Bn. under the CBSL Liquidity Facility for eligible contractors in the construction sector and other suppliers to the Government.

Concessionary funding programmes

Table – 14

Loan Scheme	No. of loans	Value (Rs. Bn.)
Saubagya C-19 Renaissance Facility		
Phase I	708	2.817
Phase II	3,878	17.711
Phase III	801	6.126
Subtotal	5,387	26.654
Liquidity Facility Scheme for Contractors	30	1.467
Total	5,417	28.121

The Bank facilitated easy access to loans and swifter processing with simple documentation supplied over e-mail or WhatsApp. The Bank's website listed the names and mobile numbers of two senior officers (who frequently received in excess of 200 calls a day). The efficacy of the Bank's response was reflected in the fact that in a market comprising 26 licensed banks, as much as 24% of the applications for the *Saubagya* scheme were submitted by the Bank and as much as 32% of the value of the total scheme was granted for customers of the Bank as of June 2020. By the year's end, the Bank remained the leading lender for COVID-19 relief amongst the private sector banks.

Disbursement of loans under *Saubagya* Scheme Table – 15

	Registered	Disbursed
Total Value of Loans under *Saubagya* Scheme (Rs. Bn.)	72.07	45.77
Value of Loans applied for by for Commercial Bank's customers (Rs. Bn.)	17.18	14.76
% of Loans applied for by for Commercial Bank's customers	23.83	32.25
Total Number of Loans under *Saubagya* Scheme	26,291	18,007
Number of Loans applied for by Commercial Bank's customers	3,958	3,557
% of loans applied by Commercial Bank's customers	15.05	19.75

The above figures have been extracted as per the CBSL press release dated July 23, 2020.

Beyond the CBSL schemes, the Bank also initiated two major loan programmes for SMEs affected by the pandemic. The first was a commitment of Rs 10 billion funded via a loan of USD 50 million from the International Finance Corporation (IFC), who, throughout its 50 years of operations in Sri Lanka, has been a longstanding partner of the Bank. IFC has supported the Bank through multiple investments and advisory support, and currently holds a 14.45% equity stake in the Bank. This scheme was used to expand lending to SMEs, with over a third dedicated to businesses owned by women. This scheme also focused on those who were not eligible for the *Saubagya* Facility.

The second Bank-funded loan scheme, the ***Dirishakthi* COVID-19 Support Loan Scheme**, targeted micro enterprises. This scheme was designed to meet the working capital requirements and revive operations of businesses whose annual turnover was below Rs. 15 Mn. The scheme was implemented under the purview of the Bank's 19 Agriculture & Micro Finance Units (AMFUs), which play a key role in helping the Bank identify specific needs of entrepreneurs who require assistance to develop their agriculture or micro businesses.

Bank funded relief Schemes Table – 16

Loan Scheme	No. of loans	Value (Rs. Bn.)
"COVID-19 Support Loan" Scheme	102	1.454
"*Dirishakthi* COVID-19 Support Loan" Scheme	313	0.034

In addition, the Business Rehabilitation Unit worked with 15 businesses to keep Rs. 2.15 Bn. worth of assets from falling into a non-performing category.

The Bank is supportive of the national initiative to build the SME sector for sustainable growth and developed its own SME strategy after a review by McKinsey Consultants. During 2020, seven new SME sales units were established to drive SME Sales initiatives in the Northern, Eastern and North Central Regions. Over 50 Tab devices were provided to SME Managers and SME Sales units to improve SME acquisition and expedite credit delivery.

To assist sales units, the Bank introduced the SME Lead Management System (SME LMS) in July 2020. This system will help manage the lead cycle in an effective manner while improving the conversion ratio and credit delivery, and will facilitate the collecting of information required for credit evaluation in a structured way in the field itself. With swifter migration to credit evaluation, credit delivery times will be reduced. Indeed, the results are already extremely promising. During the year under review, the average Turnaround Time (TAT) has been reduced through the Centralised Credit evaluation process from 50 days to 28 days as of December 2020. In addition, a new Credit Scoring Model was introduced for SME facilities below Rs. 10 Mn. to expedite credit delivery, and the end-to-end TAT under this evaluation was reduced to just 13 days.

Investing in Customer Relationships

The total array of moratoriums and concessions understandably impacted the Bank's profitability. As described on pages 20 to 26) in "Financial Review", interest income declined by 4.26% from Rs. 127.780 Bn. to Rs. 122.330 Bn., due in part to the Bank's own decisions for the customers' benefit. Fee income dropped by 9.17% from Rs. 12.407 Bn. to Rs. 11.269 Bn. as a result of the impact of the COVID-19 pandemic on import and export income, the waivers and reductions of fees and charges by the Bank and a drop in commissions on credit cards. The Bank does not, however, view this as a mere loss. The Bank views this decline in profitability as a trade-off – redirecting financial capital towards building customer and relationship capital. The Bank believes that to focus on immediate profitability is to compromise the long-term mutual success of the Bank and its customer base.

Non-Financial Support for SMEs and Micros

Beyond direct financial assistance, the Bank continued to cater to the SME sector in several other ways. Membership in **BizClub,** a Bank forum dedicated to providing a broad range of support services to SME clients, grew to 4,076, representing an increase of 1,613 SMEs during 2020. An SME Dashboard, which monitors the account performance of Biz Club members, was developed and introduced to the Branches in December 2020. The dashboard allows early warning signals to be detected and identifies new borrowing needs. In addition, two new AMFUs were established (at Nawalapitiya and Maravila).

A major step for the Bank's SME customer base was the launch of **ComBank Simple Pay**, a new platform to help SMEs digitise their business and engage in e-commerce (also see pages 53 to 56). This product, the first of its kind in Sri Lanka, enables SMEs to create their own online store without a large outlay on web development and design. The Bank also launched a MasterCard-branded credit card for entrepreneurs that fall into the SME category.

Nevertheless, around 70%-80% of the country's population is rural. Despite the rapid increase in demand for digital products and services after the onset of the pandemic, rural demographics remain reluctant to adopt digital channels for a variety of reasons. Though the Bank is committed to providing and promoting the benefits of digital to its rural customer base, it also understands that it needs to meet current customer expectations. During the year under review, the Bank introduced the "**Automated Field Cash Collection**" (AFCC) process to better serve the micro and small businesses segment, and two AFCC sites were opened at Chankani and Kodikaman. This initiative was launched with the intention of reducing customer transaction costs and it opportunity costs of visiting a branch, and is also expected to strengthen the doorstep operation of the AMFUs.

The Bank continued its partnership with Hayleys Agriculture Holdings Ltd to provide a series of joint leasing promotions to enable farmers to purchase new agricultural machinery at low rentals with special discounts and flexibility. The Bank also joined hands with Associated Motorways (Private) Limited for an "Agri Lease" promotion offering farmers an opportunity to enjoy the lowest monthly lease rentals and other benefits when purchasing tractors.

> The Bank's goal was not to narrowly interpret eligibility criteria and strictly restrict borrowers but to take a deeper, holistic view of all customers affected by the pandemic and come to their aid.

The Bank, through a variety of channels, has conducted awareness, vocational training, and financial literacy programmes and workshops for SMEs and micros in different sectors of business across the country for many years. The Bank organised three Skill Development Programs during the 1st quarter of 2020 covering the Northern, Eastern, South-Western regions of the country, which benefitted more than 300 SMEs. As in-person gatherings were subsequently curtailed, the Bank continued to provide support to the sector through webinars. The Bank conducted a webinar on "Financial Literacy and Banking Solutions for Small, Medium and Micro Entrepreneurs" in collaboration with the Institute of Certified Management Accountants (CMA) of Sri Lanka, and a webinar exclusively for women entrepreneurs to help them adapt to the requisites of the 'new normal' after the COVID-19 pandemic in collaboration with the Women's Chamber of Industry and Commerce (WCIC). The latter built on the success of an in-person programme held in January 2020, prior to the wave of lockdowns and restrictions, titled "WomEntrepreneur," also in collaboration with the Women's Chamber of Industry & Commerce (WCIC). This programme was aimed at women entrepreneurs engaged in SMEs with an emphasis on steering a vision towards sustainable business. The Bank also organised a webinar in collaboration with the National Chamber of Exporters to support SME exporters during the pandemic.

Women Entrepreneurship Programme

The Bank itself worked on developing its own internal capacities by participating in a United Nations Development Programme (UNDP) webinar on supporting the SME sector – and was the only Sri Lankan bank to participate in this discussion. The Bank also participated in the INNEX 2020 SME Exhibition and Workshop in Kandy organised by Central Province Industrial Ministry in collaboration with Ministries of Youth Affairs, Women's Affairs, Rural Development, Cooperative Development & Industries, and in an economic summit in Hambantota organised by the CMA under the theme of "Solutions to meet challenges faced by SMEs in Financial Management, Bank Funding and Entrepreneurial Leadership in the Post COVID New Economy". At the latter event, the Bank set up a Help Desk to provide information and banking solutions for the more than 400 SMEs who were in attendance. The Bank also provided funding for two programmes organised by Women in Management (WIM) together with the Ministry of Women's Affairs, which provided support for more than 90 micro-level women entrepreneurs.

Banking on Women

The Bank has recognised the importance of having a more gender-specific approach, as evidenced by the number of seminars and webinars conducted by the Bank described above. Women make up the majority of Sri Lanka's population, and the Bank realises that meeting their aspirations for empowerment and success also benefits the economic growth of the country.

During the year under review, the Bank opened a special Women Vertical and is in the process of formulating a 360-degree approach to serve requirements of this demographic. This all-inclusive approach will involve all segments from Women SMEs and micros to housewives and working women.

Prioritising Customer Experience

Despite the trying conditions, the Bank continued to develop new products and services that catered to different customer segments. A full description of the Bank's digital projects is provided in the next section, but some of the broader customer initiatives conducted during 2020 are noted here.

The centrepiece of the Bank's efforts was the launch, early in the year, of its one-stop trilingual Integrated Contact Centre to serve its customers and stakeholders 24/7. The Centre is staffed by customer service representatives to handle both inbound and outbound, calls, written communication, and requests and feedback routed through social media, and includes a robust leadership and training group to provide better supervision and monitoring. The aim of the Centre is to ensure that customers receive a positive experience in each and every interaction with the Bank. Despite the many challenges of staffing during the lockdowns and beyond, the Centre was able to provide uninterrupted service to customers throughout the year.

Card and Cashless Initiatives

The Bank made significant strides in championing credit and debit card and other cashless payments during the year under review. While the move to cashless transactions was already an exponentially growing practice across the world, this year it took on additional significance since the use of currency notes was discouraged to reduce COVID-19 spread. The Bank, together with PAYable (Pvt) Ltd, launched an all-in-one, fully integrated Android POS machine, one of the first devices to accept contactless payment card transactions in Sri Lanka. The NFC-enabled machine supports the highest number of card payment options available in the country as well as the QR-based payments of LankaQR, VisaQR, Masterpass (MasterCard QR), WechatPay and Alipay. The Bank also introduced an Android Mini Point-of-Sale (POS) device, which features similar functionality, to enable merchants anywhere in Sri Lanka to accept card payments. This mini-POS is strategically positioned to cater to the Micro and SME industry, providing them with a cost-effective mechanism to access the cashless ecosystem.

Other card-related customer initiatives include:

- Converting the Bank's entire debit and credit card base to NFC Technology.
- Introducing a "**Card Balance by Missed Call**" service for credit card holders.
- Enabling credit and debit card holders to automate payments to the Ceylon Electricity Board (CEB).
- Allowing credit card holders to self-register for e-statements, thus reducing the use of paper statements (this initiative was promoted by entering all registered users into a prize draw).
- Launching a **Pre-Paid Travel Card** with the latest NFC and PIN technology.

Other initiatives of note include:

- Introducing a "**Cash on Fixed Deposits**" facility that enables depositors to withdraw against their FD value through a debit or credit card linked to their accounts. This facility was especially designed to allow customers facing unforeseen financial issues to be able to withdraw funds from their FD without terminating the entire contract.
- Launching "***Vibe***", a youth savings account that can be opened by any Sri Lankan between the ages of 18-35 years with a range of attractive rates and concessions.
- Offering free Accident Cover of up to Rs. 500,000 to holders of "***Anagi***" Women's Savings Accounts, subject to maintaining a minimum account balance.

Vibe Account launch

Leading Through Innovation

That we have been living through a digital revolution over the last few years is self-evident. Conventional business models and ecosystems are being rapidly transformed, and the rate of technological change and the rush of new, agile, entrants to the financial landscape has intensified competition and risk. The Bank has welcomed these challenges as a trigger for meaningful innovation, spurring it to emerge as a pioneer in the digital banking space.

In 2020, one side effect of the COVID-19 pandemic is that it has acted as a catalyst for digitalisation out of necessity, and has accelerated the pace of digital change and adoption. During April-May, when the entire country was on a lockdown and banking was made one of the essential services in the country, demand for continuity of service through digital channels escalated. The initiatives and investments the Bank has made over the last five years in building its digital ecosystem – its portfolio of customer facing platforms, digital products, and services, as well as back-end processes and infrastructure – provided it with a strong foundation to meet these new challenges.

The pandemic has also served to expose limitations and areas of weakness in the current digital banking space. Despite the strides made towards building a digital banking ecosystem, the mass demand for increased digital services makes it clear that there is much work to be done both within the Bank and in the wider landscape. From the opening of new accounts, to on-boarding customers to digital platforms, to applications for loans, to authorising identities, the system is still very reliant on the brick and mortar model. Existing KYC and AML policies, for example, typically require face-to-face identity verification for customer onboarding, which became challenging under the circumstances. But the response of the Bank in its digital initiatives and the CBSL in relaxing regulations (such as in-person KYC) are all positive developments that augur well for the future.

Digital Roadmap up to 2023

The Bank has set its sights on three Digital Goals for 2023:

Becoming a Digital Bank by 2023

Figure – 12

Introducing Digital Technology to Improve User Experience & Convenience

Creating complete digital banking platforms integrated with all system networks and eco-systems to provide a one-stop-shop experience for all customers from Retail to SME to Corporates.

Increasing Digital User Base and Usage

Increasing the proportion of digital usage by facilitating and encouraging digital transactions and Interactions

Downsize Brick & Mortar Model and Increase Semi-Digitised Branch Model

Digitising conventional banking customer journeys

Accordingly, the Bank will continue to invest in redesigning its conventional banking processes as digital processes, integrating with other ecosystems (such as connecting with internal workflows for less manual intervention), and upgrading internal systems to be ready to adapt to anticipated changes in the regulatory environment (open APIs, digital KYC, etc.) and risk management. The Bank is also placing an emphasis on 'developing the future bank', i.e. re-skilling staff and attracting specialised talent, building further partnerships, and developing its data analytics capabilities.

Investments in IT infrastructure Table – 17

Indicator/Year	**2020** **Rs. Mn.**	2019 Rs. Mn.	2018 Rs. Mn.	2017 Rs. Mn.	2016 Rs. Mn.
Investments in Hardware (Computer Equipment)	505.742	567.689	1,034.115	791.165	620.541
Investments in Software (Licenses etc.)	409.322	387.432	333.181	449.354	416.816

In the year under review, digital onboarding of existing customers grew at 140.17%, a 22.47% increase over the general trend over the last two years. The Bank also introduced 100% digital onboarding for new customers via its groundbreaking Flash app, adhering to the CBSL guidelines for digital KYC during the lockdowns.

Migration to digital channels Table – 18

Indicator/year	**2020**	2019	2018
Digital Adoption (Existing Customer Onboarding)	333,941 customers (140.17% YoY growth)	139,040 customers (110.21% average YoY growth)	66,143 customers (39.92% average YoY growth)
New Customer acquisition/ Onboarding (Digital KYC)	9,680 customers	N/A	N/A
Percentage of total customer transactions conducted digitally	31.75%*	32.18%*	N/A

**Average Figure obtained*

ComBank Digital

Currently, the Bank's online platform stands as the most subscribed online platform in the country. During the year under review, the Bank integrated online and mobile banking channels on a single omni-channel platform with the launch of "**ComBank Digital**", powered by Fiserv, the US-based global provider of financial services technology. Another industry first, ComBank Digital brings together all the Bank's digital banking channels, including online banking, mobile banking app, and mobile (WAP), on a new, highly-secure, user-friendly, responsive web application catering to both retail and corporate users. ComBank Digital is not only more vibrant and elegant, but features a range of built-in options that allow users to self-manage their digital banking preferences, thus offering an unparalleled level of functionally and customisability. This moves the Bank closer to its digital ethos of greater segmentation and granularity, enabling unique user experiences.

ComBank Digital launch - Email

Standard services such as checking balances of current, savings, investment, loan, and credit card accounts, Fixed Deposits investments, Personal Loans and Housing Loans, investing in Treasury Bills and effecting payments for share trading can all be carried out securely via ComBank Digital. The platform effects all transactions between user accounts, third-party Commercial Bank accounts, and accounts in other banks on a real-time basis, and supports bill payments to about 70 entities in nine categories such as telephone, electricity, water, credit cards, insurance, Pay TV, education, school fees and rates. Additionally, the Bank has also been successful in accommodating income tax payments to the Inland Revenue Department on this platform. This platform places the Bank at the forefront of the digital banking space.

Combank Digital has been launched in the Maldivian market and is expected to be rolled out in Bangladesh in 2021. Additionally, the Bank plans to make this app tri-lingual (for Sri Lankan operations), and include Bengali (for Bangladesh customers) and Divehi (for Maldivian customers) options in the near future. The Bank also introduced an umbrella app that houses the full suite of the Bank's mobile apps on our customers' phones.

Total Financial Transactions Initiated Through Digital Channels Table – 19

	Volume	Value
2019	25,741,711	Rs. 1,822.49 Bn.
2020	**33,959,505**	**Rs. 2,411.39 Bn.**
Growth	31.92%	32.31%

Flash Digital Account

In 2020, **Flash**, the Bank's ground-breaking, trilingual banking app, was upgraded with several features that are revolutionary in the local banking context, pushing the Bank further in its efforts to digitalise the customer journey. A **QR Payment module** was added to the app that enables Flash users to scan a Lanka QR code of any merchant to make payments direct from either Commercial Bank accounts or accounts with other banks. Subsequently, a QR code upgrade, made possible by the Bank's partnership with PickMe and the integration of the respective apps of the two organisations, made it possible for Flash users to pay digitally for their rides on the PickMe ridesharing service. A partnership with with Tenaga Car Parks (Pvt Ltd) enabled users to pay for parking via the app at Tenaga managed on-street and off-street parking spaces without having to visit a payment booth or locate a fee collector.

CBSL recognised the Bank as an active supporter for LANKAQR initiative

Flash App Screen

This year, the Bank also introduced an advanced budgeting module to the Flash app that includes several tools that facilitate and promote personal financial discipline and management. **The Flash Spend Tracker Module** with a Payment Categorisation Option enables users to categorise their purchases. A dashboard presents an overall picture of a user's spending habits and provides a downloadable history of monthly transactions in the form of an eStatement.

But the truly novel centerpiece of this module is the "**Save the Environment" tool**, which allows users to calculate the environmental impact of their spending. The Bank is the first company in the region and the fifth bank in the world to introduce a tool developed based on the leading climate impact index, approved by United Nations Framework Convention on Climate Change (UNFCC), the Aland Index 1.0. This tool analyses transactional data to estimate the carbon footprint of each transaction made through Flash in app payment options including through the Flash Debit Card and QR code scanning. This reveals to the user not simply financial costs, but the hidden environmental and social costs of the user's consumption pattern. Understanding this data can help Flash app users to transform their habits or make choices to invest in the environment as a means of offsetting the impacts of their consumption.

Flash usage Table – 20

	Growth in 2020 %
YoY User base growth	92.68
YoY Usage growth	
Value growth	468.52
Volume growth	323.31
Investments through Flash App (eFDs)	up by 145.4
Life insurance applications	up by 45.3
Funds transfers	up by 354
Bill Payments	up by 260

Combank Q+

During the year under review, the Bank was recognised by the CBSL for its pioneering efforts in enhancing the digital payments landscape of the country. In 2019, the Bank launched **ComBank Q+**, the first Quick Response (QR) based Payment App to be certified and launched under LANKAQR, which allows the entire debit and credit card base of the Bank to make QR payments. This year, the app was re-launched with new features to improve user experience. Both the Consumer and Merchant applications of ComBank Q+ were upgraded to include biometric authentication login and self-registration. Customers of the Bank can now pay a range of bills instantly via the app following the introduction of an In-App Bill Payments feature. Furthermore, the Bank became the first bank in Sri Lanka to enable its Credit Card holders to settle their Credit Card outstanding balance by scanning a QR code appearing on their monthly Credit Card statements. In yet another initiative, the Bank partnered with Mobitel to allow mCash merchants to accept QR code based payments from any mobile payment App registered under LANKAQR, with the transaction processed through the Q+ engine.

ComBank extends self-registration for online and digital banking

Online Payments

Within the burgeoning e-commerce sphere, the Bank has swiftly established itself as a market leader with its payment processing services now accounting for approximately two out of five transactions. This market share of 40% is a testament to the role the Bank has played in supporting the country's retail industry and promoting online sales for customers. The Bank currently supports the online payment processing of over 500 merchants through MasterCard Payment Gateway Services (MPGS) and Visa Cybersource (launched by the Bank in Sri Lanka during 2020), two of the world's leading payment gateway platforms that are fully-compliant with Payment Card Industry Data Security Standard (PCI-DSS) requirements. The third IPG solution of the Bank, **ComBank SimplePay**, was also introduced in 2020. This product is a local adaptation of the MasterCard product Simplified Commerce, and provides local entrepreneurs and SMEs the opportunity to create their own online store.

IPG usage Table – 21

	2020 Annualised	2019	2018	2017	2016
IPG Volumes (Rs. Bn.)	17.338	17.288	11.649	6.972	4.058
YoY Growth Rate (%)	0.28	48	67	72	
IPG Merchants	375	229	190	151	129
YoY Growth Rate (%)	63	21	26	17	48

Remit Plus

The Bank's remittance app, **ComBank RemitPlus**, which was launched to commemorate International Migrant Day on December 18, 2019, was developed and upgraded in its first full year of use in 2020. Remittances from Sri Lankan expatriates is one of the country's major sources of income. The Bank also upgraded the Blockchain based remittance channel, which the Bank launched in partnership with RippleNet, and expanded this service to South Korea and Middle East through further RippleNet partnerships.

Western Union (WU) Cash to Account was introduced in 2020 and is yet another example of how the pandemic acted as a catalyst for the technological progress of the Bank. **WU Cash to Account** was introduced during the lockdown period in the first half of the year to permit customers to claim WU cash remittances without visiting branch counters. Since then it has seen significant growth.

WhatsApp Banking

The Bank launched its **WhatsApp banking** solution in December 2020, and this product represents perhaps the easiest and fastest form of mobile banking. By sending a simple 'Hi' to a designated WhatsApp number, the user will receive a simple set of instructions on how to access several services including viewing account balance and account history, requesting a cheque book, information about fixed deposits, housing loans, and foreign exchange rates, and self-registration with ComBank Digital. Another crucial feature of this product is the ability for potential customers to complete registration to open a new account with the Flash app. This product is positioned as a simple pathway to the world of digital banking for customers that can subsequently lead to deeper and more sustained forms of digital engagement. Within just six weeks of use, the app has had 8,167 new registrations and 35,411 total transactions.

ePassbook

The Bank upgraded its **ePassbook** app to include features like self-registration, real-time transaction notifications, and biometric login, significantly increasing the flexibility of account management, user-autonomy and convenience. The app, which was introduced in 2016, was the first Digital Passbook in the Sri Lankan banking industry and remains the only mobile application of its genre to date.

Process Improvements

While the Bank's efforts were concentrated on responding to the contingent and shifting situation brought about by the pandemic, it introduced several new automated processes focused on building robust back-end digital processes. Noteworthy developments include:

- Introduction of **e-slips** for cash and cheque deposits improved the customer turn-around time and also increased the accuracy.
- Through **centralisation of Transfer Cheque** process, the Bank managed to reduce operational cost through staff reduction at branches and improve the operating efficiency by speeding up the process.
- The **automation of Post-Dated Cheque handling process**, through which the Bank managed to increase the efficiency of a normally cumbersome process.
- Launched the Bank's first ever **Hyper Automation project** to fully automate the User ID Management of the Bank using IBM BAW (Business Automation Workflow) and IBM RPA (Robotic Process Automation). This has drastically reduced the response time for password resets as well as reduced the number of staff required at the User ID Management Department.
- Fully automated the **staff e-loan module**, which will help minimise human intervention as the system itself screens applicants to identify eligible requests.
- The introduction, in Treasury, of a **Foreign Exchange Rate Request Port**, which has been fully integrated with the Treasury system. Instead of calling Treasury, branch personnel can now request rates and receive confirmation over the portal, which has reduced the average time of an FX transaction from approximately 8 minutes to 2 minutes. Plans are underway to create a client interface for this platform and, ultimately, to automate the rate quoting and confirmation process using AI.
- The adoption, in the Card Centre and in Digital Banking, of the industry-leading data-analytics tool Qlick Sense. Both units used this tool to develop real-time digital dashboards to support every-day business decisions with a 360-degree view of the customer.
- Building the host-to-host connectivity and framework for corporate customers. The Bank enabled CAMSO (one of its priority business customers) to integrate smoothly with the Bank's internal banking systems, allowing for seamless financial transactions.

IT Operations and Security

The Bank places the highest priority on maintaining uninterrupted data services for all stakeholders, managing the increasing vulnerability to cyber-crimes and loss of information, and ensuring preparedness for the future. The IT Support unit monitors and maintains the uptime and SLAs of the entire Branch network for Sri Lanka, Bangladesh, Myanmar, and the Maldives, which includes:

10,000+
IT Equipment

900+
Bank touch points

Managing BCP Centers

The Network & Communication unit is responsible for providing secure and reliable communication channels for all stakeholders, both internal and external, across the entire Branch network. In 2020, the uptime of defined critical systems (Priority 1) of the Data centre was 99.97%, and the uptime of the network was 99.98%.

In 2020, the Bank successfully maintained the PCI DSS and ISO 27001:2103 certifications and was awarded the ISO 20000 certification. The ISO 27001:2013 is a key international standard on information security management, which specifies requirements for establishing, implementing, maintaining, and continuously assessing and improving an information security management system. The Bank has successfully maintained ISO 27001 for nearly 10 years.

The Bank has also maintained the prestigious Payment Card Industry Data Security Standard (PCI-DSS) V3.2.1 certification for three consecutive years. 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. It is one of the most technical standards and its maintenance requires significant expertise and resources. This certification, which also covers the Bangladesh operations, facilitates the Bank's rapid card growth while mitigating the risks of security breaches and data theft.

In 2019, the Bank completed the Stage I audit of ISO/IEC 20000 – the most globally recognised standard for exceptional IT Service Management. The Stage II audit was successfully completed in 2020 and the Bank was awarded the ISO/IEC 20000 Practitioner Qualification Certificate. The implementation of this standard will enable the Bank to enhance the efficiency and effectiveness of the IT Services that are being delivered to the internal and external customers, and allow the Bank to derive more value from its IT investments.

The Bank completed implementation of the Baseline Security Standard in 2020, the outcome of which was the development of Risk Treatment Plans for each department. The Bank also implemented a cutting-edge Anti-Money Laundering (AML) solution for operations in Sri Lanka, the Maldives, and Bangladesh. This initiative is more powerful than the previous AML solution and it enables the Bank to identify AML-related use cases and filters aligned with world standards. In addition, this system is capable of integrating other peripheral systems, most importantly the CBSL GOAML application.

Operational Excellence

The COVID-19 pandemic brought with a host of unprecedented challenges. At the heart of it was balancing the Bank's wider societal duty to provide continuity of service to our customers while, at the same time, fulfilling its responsibility to safeguard the health and wellbeing of Bank employees. The Bank's efforts across the year – as indicated by the number of branches that remained open during lockdowns, the number of transactions conducted, the number of moratoriums and other relief measures processed and disbursed, etc. – led the way in the banking sector. This stands as a testament to the efficacy of our emergency response processes and the commitment, attitude, and energy of our people.

The backbone of the Bank's success has long been its emphasis on operational excellence, and it is a crucial factor in its sustained profitability. In today's banking landscape, where competition is fierce and an array of similar banking products and services saturate the market, speed, accuracy, and quality of delivery is a key differentiator. Meeting customer expectations while remaining cost efficient requires that the Bank continuously assess and streamline processes and make the most productive use of its resources.

Furthermore, while the Bank's fundamental business of financial intermediation requires adherence to government regulations, operating in a community of stakeholders means that we also need a "Social Licence" – in other words, tangible evidence of ethical and conscientious behaviour. In this context, operational excellence cannot be narrowly defined, but requires, among other things, investments in the well-being of our stakeholders and environment. This balance of short-term and long-term interests is the very essence of the Bank's profitability.

Highlights:

- Cost to income ratio and Revenue per Employee have improved during 2020.
- Recorded an average profit per employee of above Rs. 3 Mn. throughout the five years' period.

A Transformed Working Environment

At the onset of the first wave of COVID-19 infections and ensuing lockdown in March 2020, the Government declared banking as an Essential Service. The Bank's response

Productivity and efficiency ratios Table – 22

Indicator	**2020**	2019	2018	2017	2016	5 Year average
Cost to Income ratio (Including taxes on financial services) (%)	**39.96**	49.41	46.35	49.82	51.06	47.32
Cost to Income ratio (Excluding taxes on financial services) (%)	**33.95**	38.51	36.85	40.06	42.67	38.41
Revenue per Employee (Rs. Mn.)	**29.605**	29.377	27.462	22.954	18.677	25.61
Profit per Branch (Rs. Mn.)	**57.050**	59.320	61.557	59.219	52.965	58.02
Profit per Employee (Rs. Mn.)	**3.238**	3.363	3.490	3.328	2.910	3.27

to the pandemic was spearheaded by the Business Continuity Management (BCM) Steering Committee, which is comprised of members of the Corporate Management team and comes under the strategic guidance of the Board. The Corporate Management team members represent all the different functions of the Bank from Personal and Corporate Banking to Operations, IT, HR, Services and Security. The Committee devised a plan providing guidance for maintaining essential functions and services during the pandemic that focused on three key areas:

(1) Infection Prevention and Control;

(2) Operational Support and Logistics; and

(3) Pandemic related Case/Incident Management.

The implementation of this plan was then tasked to the Business Continuity Management Unit (BCMU) and a specially-formed seven-member Special Pandemic Management Committee (SPMC).

The robust Pandemic Plan, which is a sub-section of the Bank's Business Continuity Plan (BCP), enabled the Committee to swiftly identify the Bank's mission critical operations that needed to be continued without interruption: Treasury, Digital Banking, Card Center, Contact Center, Data Centre, and certain designated branches, along with Trade Services (which was added to the Bank's BCP list of mission critical operations after government directives, given the country's requirement for trade under lockdown conditions). Banking functions were also prioritised according to need within this plan to enable the most efficient allocation of resources (for example, enabling cash withdrawals was considered essential).

Continuing operations while limiting exposure

To ensure continuity of operations and prevent infection exposure and spread, the most urgent task was for business units to split critical teams into smaller units and establish protocols for

(1) working at alternate sites;

(2) working from remote sites; and

(3) working from home.

While the Bank has periodically updated and tested its Business Continuity Plan (BCP), such protocols have not been tested in scenarios of the scale and impact as those arising out of the pandemic. The proportion of staff that was required to work remotely exceeded what was envisaged while developing these protocols, and this brought with it a whole new realm of logistical needs (such as the provision of food, lodging, transport, medical safety equipment, etc). However, the Bank managed to promptly deploy effective and secure remote working solutions in order to provide uninterrupted services to customers. Some key elements of Bank's immediate operational response to the pandemic included:

- Providing food, lodging, and transport for all mission critical staff throughout the lockdowns to ensure continuity of operations and business.
- Setting up three alternate operational sites, with support from IT, Logistics, Premises and the Business Continuity Management Unit (BCMU) to set up infrastructure, facilities, IT systems, networks.
- Providing food, lodging, and transport as needed for branch staff to commute during the curfew.
- Communicating with employees through an automated Call Tree System, which is capable of triggering SMS alerts to the entire Bank staff, to generate awareness, convey instructions on logistics on short notice, and mobilise staff for shift-based work.

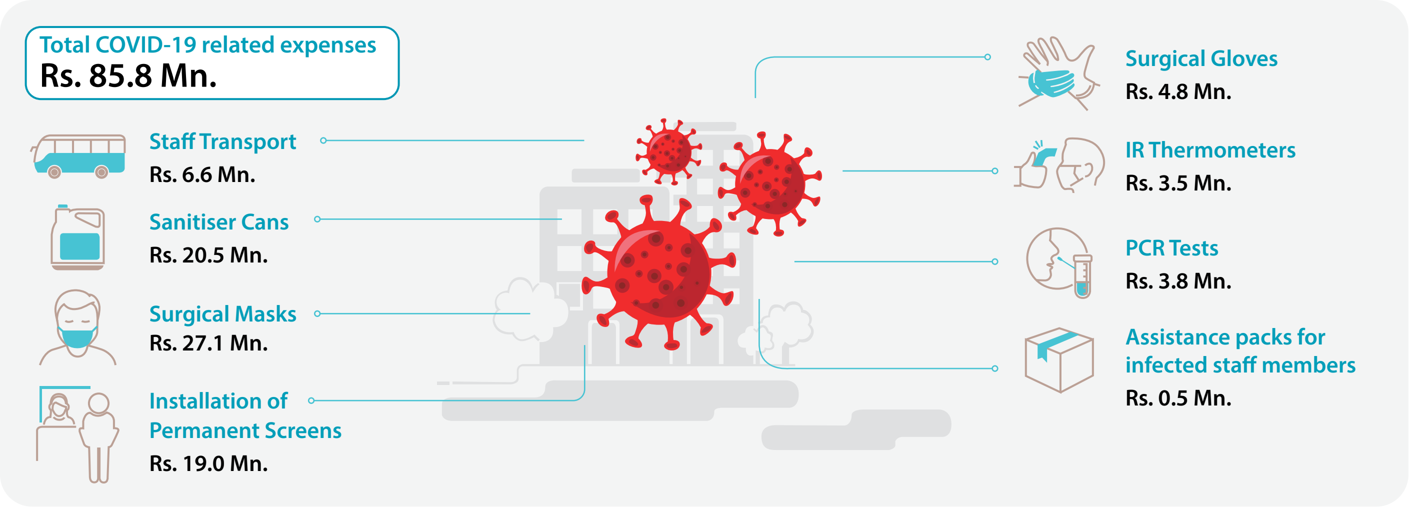
Readiness of BCP Sites
Table – 23

Location	Seating Capacity
Mount Lavinia	38
Piliyandala	56
Maradana	40

The COVID-19 pandemic also necessitated that health and safety measures be adopted across all locations of the Bank. These measures included the installation of sanitisation equipment such as foot-pedalled sanitisers at entry points and other locations of all buildings, mandatory temperature checks, and measures to minimise physical contact points and maintain social distancing. Anticipating that the pandemic situation would become the 'new normal', the Bank was among the first to install permanent glass partitions/screens at branches to safeguard staff who came into contact with external parties such as customers and suppliers. The Bank also devised other creative in-house solutions, such as providing toothpicks in elevators to press buttons, thereby minimising direct surface contact.

The Bank was very proactive in the early acquisition of Personal Protective Equipment (PPE) for employee and customer safety, and stocks were continuously replenished to ensure that all staff had ready access to items such as masks, hand sanitisers, and gloves. Since the second wave, the Bank also pays for a regimen of random PCR testing among head office and branch staff, and provides assistance to staff members infected by COVID-19. Branches and head office departments that have been exposed are thoroughly disinfected.

COVID-19 related expenses
Figure – 13



Furthermore, the Bank cancelled all social events that involve large gatherings, and encouraged all meetings to be conducted via virtual forums. The Bank also closed its lunch rooms at the Head Office and Union Place buildings to prevent large groupings of staff in confined spaces. When in-person meetings were necessary, they were conducted strictly according to social distancing guidelines.

Working securely from home

To facilitate remote working and working from home, the Bank identified an industry leading remote access solution, which offers multiple layers of security such as encrypted channels for communication between Bank and users, multi-factor based login authentication, restrictions on the transferring of data between user devices and Bank systems to control data loss and malware propagation, and centralised management and monitoring of remote users. Over 100 laptops and IP connectivity were provided to staff members along with Office 365, and Microsoft Teams was used as the primary virtual forum for regional and corporate meetings.

Our people rising to the occasion

The engine of the Bank's successful value creation has always been its workforce. Our 5,057-strong team puts the Bank's strategy into action, represents the Bank's values and mission, and ensures that the Bank consistently delivers on its promises to its stakeholders. In turn, the Bank seeks to deliver value to and empower its employees. The Bank recognises that how its people think and feel about their work directly correlates with how satisfied its customers are. The Bank strives to create an environment where employees can perform exceptionally, fulfill their potential, and feel connected to their purpose, their colleagues, and the organisation. The Bank also works to enable its people to be adaptive to remain relevant in a rapidly evolving banking landscape by promoting a culture of continuous learning. These are the crucial elements in the Bank's strategy to build a strong employee brand and be the preferred employer in the sector.

Retention Rate (Maternity Leave)

Table – 24

Number of Employees	**2020**	2019
Availed for leave during the year	**69**	84
Due to return during this year	**73**	64
Returned during the year	**73**	64
Returned during prior year	**64**	48
Still employed after 12 months	**61**	45
Return ratio (%)	**100.00**	100.00
Retained ratio (%)	**95.31**	93.75

Focusing on Employee Morale and safety

During the year under review, the commitment, resilience, and perseverance of the Bank's staff was on full display. While details of the logistical challenges and health and safety precautions are provided above, it is worth commenting on the well-being and morale of the staff, which the Bank was mindful of during the year. Staff members were certainly not immune to the sense of confusion and uncertainty that gripped the wider society. Work and life rhythms were disrupted in unprecedented ways.

Beyond doing the utmost to ensure the safety of all employees, the Bank emphasised two aspects: clear communication and flexibility. The senior leadership took a hands-on approach, regularly communicating with staff, being personally available, and promoting a culture of openness and honesty about the situation. An important aspect of communication is, of course, listening to employees and enabling them to share their insights to help co-create a positive and productive work environment. Every effort was made to accommodate employee preferences in working environment in both location and hours. The Bank recognised that in a diverse, multi-generational workforce, employees will have different family situations, health conditions, etc. and a flexible approach was needed. Even with the pressures of the year and need to remain productive, the Bank believes that upholding recognised standards and principles for labour practices, human rights and occupational health and safety is essential. More than ever, it was important to prevent burnout and exhaustion and bolster morale, and provide employees with an environment where they could flourish and drive the success of the Bank. It is a powerful testament to the camaraderie and team spirit of the staff that even during these difficult circumstances, productivity remained high and consistent throughout the year.

> More than ever in the year under review, it was important to ensure safe and fair working conditions and practices, to prevent burnout and exhaustion and bolster morale, and provide employees with an environment where they could flourish and drive the success of the Bank.

Employee communication channels Figure – 14

Remuneration and Job Security

The Bank also placed the highest importance on continuing remuneration and ensuring job security to its employees. This year, all appraisals were conducted, and all increments and bonuses paid. The Bank believes that passing on any share of its burden to its employees can have a corrosive effect on their motivation, which, in turn, can impact performance and service standards – and ultimately damage the Bank's profitability down the line. In a time of crisis, more than ever, the Bank felt it important to affirm its financial commitments to its staff. A special bonus was also paid to all employees to mark the 100th anniversary of the Bank.

Collective Bargaining

A major success of the year was the timely negotiation of the Bank's collective agreement with the Bank branch of the Ceylon Bank Employees' Union (CBEU). The Bank and the CBEU were able to arrive at a package of increases spread over the span of the three-year agreement, which will last until December 2023. It must be noted that the negotiations were conducted in a spirit of compromise in light of the financial situation brought about by the pandemic. This once again demonstrates the strong and collaborative partnership that the Bank and CBEU have built over decades.

New Pension Fund

Another crucial initiative was the launch of the Defined Contribution Pension Fund for employees recruited after the year 2000, timed to coincide with the Bank's 100th anniversary celebration event for employees. Employees' outstanding balances in the gratuity provision is transferred to the fund of this new scheme and thereafter the Bank commenced to make a monthly contribution to this fund. Employees are required to remain in employment for over five years to claim the benefits of the fund and are guaranteed a return equal or above the existing gratuity scheme. Payment is made through a lump sum at resignation or retirement from employment. It is expected that with the accumulation of interest over the years, employees will receive a substantial benefit due to this initiative.

Diversity

The Bank believes that a diverse workforce broadens perspectives, enhances resilience, and drives performance, and it remained committed to the principles of equal opportunity irrespective of gender, age, race or religion in all its HR management processes.

Employee by type and gender Table – 25

	Sri Lanka		Bangladesh		Total	
	Count	Percentage	Count	Percentage	Count	Percentage
Female	**1,106**	**23.19**	**79**	**27.43**	**1,185**	**23.43**
Permanent	1,105	23.17	63	21.88	1,168	23.10
Contract	1	0.02	16	5.55	17	0.33
Male	**3,663**	**76.81**	**209**	**72.57**	**3,872**	**76.57**
Permanent	3,662	76.79	174	60.42	3,836	75.86
Contract	1	0.02	35	12.15	36	0.71
Employees-Bank	**4,769**	**100.00**	**288**	**100.00**	**5,057**	**100.00**
Outsourced Employees						
Female	203	37.66	–	–	203	37.66
Male	336	62.34	–	–	336	62.34
Employees-Outsourced	**539**	**100.00**	**–**	**–**	**539**	**100.00**

All employees of the Bank are full time employees.

Employee by category and gender

Table – 26

	Age 18-30 years		Age 31-50 years		Age over 50 years		Total	Percentage
	Male	Female	Male	Female	Male	Female		
Corporate Management	–	–	5	–	17	5	27	0.53
Executive Officers	104	53	1,413	335	172	86	2,163	42.78
Junior Executive Assistants & Allied Grades	942	271	845	282	22	57	2,419	47.83
Banking Trainees	298	95	5	–	–	–	398	7.87
Office Assistants & Others	–	–	15	1	34	–	50	0.99
Total	**1,344**	**419**	**2,283**	**618**	**245**	**148**	**5,057**	**100.00**

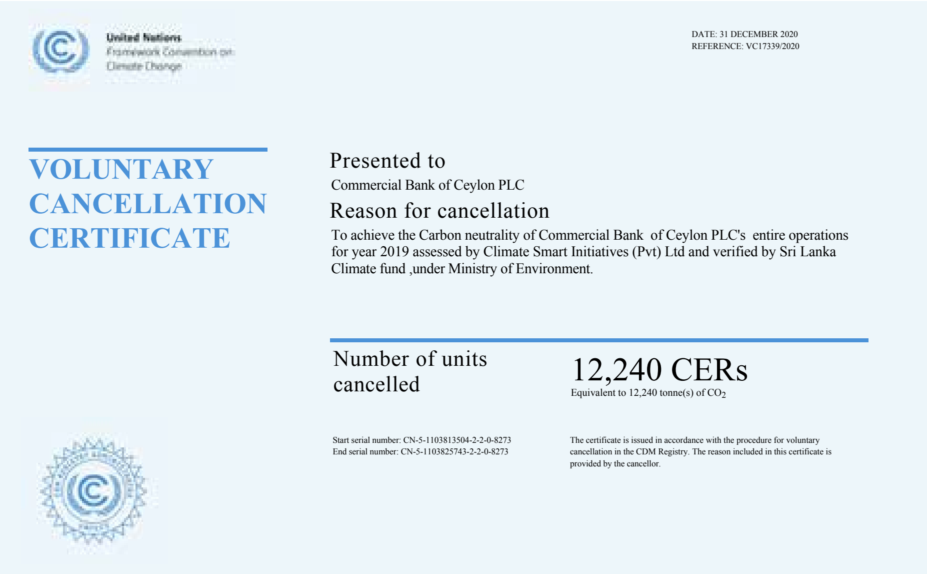
Training and Development

The rapidly changing banking environment places new demands on Bank employees. In an increasingly digital age, our people risk obsolescence if they are not well-equipped with up-to-date, relevant skill-sets. Failure to keep pace with the necessary competencies can hamper succession planning and delay expansion into new spheres. This year, with all its contingencies and pressures, was not conducive for robust training programmes. With in-person sessions not possible, several modules were shifted online. The Bank plans to now switch the majority of its training to online forums in 2021, which, in addition to following social distancing guidelines, has the added benefit of following a more "anytime, anywhere" approach of providing multiple continuous training experiences for staff.

Attaining Carbon Neutral Status

In 2017, the Bank took a significant step in its environmental agenda by commissioning a study by an external consultant to measure its carbon footprint. The study measured all three realms (Scope 1, 2 and 3) of Direct Fuel use, Purchased Electricity and Indirect Transportation. The calculations covered the Head Office as well as the branches through a regionally representative sample and the report was concluded for 2018 and 2019. Based on this study, the Bank set out an ambitious goal to become the first bank in Sri Lanka with a carbon neutral business operation by the end of 2020 and a completely paperless operation by 2030.

The Bank is proud to announce that it met its goal of carbon neutrality on December 31, 2020.



United Nations
Framework Convention on
Climate Change

DATE: 31 DECEMBER 2020
REFERENCE: VC17339/2020

VOLUNTARY CANCELLATION CERTIFICATE

Presented to
Commercial Bank of Ceylon PLC

Reason for cancellation
To achieve the Carbon neutrality of Commercial Bank of Ceylon PLC's entire operations for year 2019 assessed by Climate Smart Initiatives (Pvt) Ltd and verified by Sri Lanka Climate fund ,under Ministry of Environment.

Number of units cancelled

12,240 CERs
Equivalent to 12,240 tonne(s) of CO_2

Start serial number: CN-5-1103813504-2-2-0-8273
End serial number: CN-5-1103825743-2-2-0-8273

The certificate is issued in accordance with the procedure for voluntary cancellation in the CDM Registry. The reason included in this certificate is provided by the cancellor.

In 2019, the Bank acquired carbon credit of 12,240 tCO_2e to become carbon neutral.

Emission category [GHG emissions (tCO_2e)]

Table – 27

	2017	2018	2019
Total direct emissions	1,304.99	1,369.27	1,282.32
Total indirect emissions	12,395.08	10,838.46	10,957.05
Total emission	13,700.07	12,207.73	12,239.37

Green Buildings and initiatives

During the year under review, the Bank was presented with the "Excellent Green Commitment Award" for the Banking Sector for 2019 by the Green Building Council of Sri Lanka (GBCSL), the country's leading authority on implementing green concepts and green building practices. The award recognises the Bank's leadership in multifaceted Green initiatives encompassing lending to support eco-friendly operations, migrating customers to paperless banking, reducing consumption of non-renewable energy, water and other resources in its own operations, and support to community initiatives that help conserve habitats and the environment. The Bank was the only bank to receive this special award in the banking industry, establishing once again its pioneering efforts in this field.

Following the construction of the Bank's first Green Building in 2015, the Bank commenced the construction of three more Green Buildings during 2019: the Galle Fort Branch, the Jaffna Branch, and the Trincomalee Branch (which was opened in February 2021), all of which target Platinum level certifications from the GBCSL. The restoration of the Galle Fort Branch was completed during the year under review and uses natural material, maximises natural lighting, and has VRV air conditioners installed, and was awarded Platinum Status by the GBCSL.

Managing our Footprint

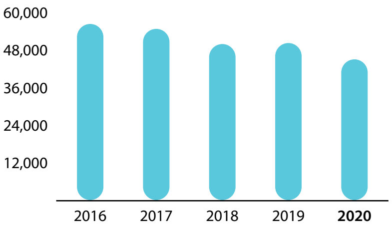
The Bank adopts a two-pronged effort to manage its energy footprint: reducing its energy consumption and adopting and promoting renewable energy sources. Additionally, the Bank conducts initiatives to migrate customers to digital platforms, invests in automated technology that minimise the use of paper and encourages paperless banking, and only contracts with waste management companies that follow international standards in the disposal of e-waste and paper. During 2020, the Bank expanded its renewable energy programme by installing solar panels in 13 new branches, including Head Office. This brings the number of branches powered partially or entirely by solar energy to 64; 28% of our branch network is either completely or partially powered by solar energy. As a result, the Bank's energy consumption has reduced by 5,251 gigajoules in 2020. However, reduced working hours due to lockdown has also contributed towards this reduction.

Energy consumption Table – 28

Indicator (Gigajoules)	**2020**	2019	2018
Energy consumption	**45,045**	50,296	49,958
Solar Power Generated	**5,613**	6,530	1,767
Solar Power Generated as a % of Energy Consumption	**12.46**	12.98	3.54

Energy consumption Graph – 13

Gigajoules



Aligning with the UN Sustainable Development Goals (SDGs)

As a leader in the country's banking sector, the Board of Directors and Management of the Bank recognises its position of responsibility as a financial institution in influencing and shaping the transition to a more sustainable green, and inclusive economy. Thus, we have also committed to the global mandate of achieving the United Nation's Sustainable Development Goals (SDGs) by the year 2030, agreed on by 193 countries, and have also aligned our sustainability priorities and operations with the SDGs. The Bank's commitment is based on a process of principled prioritisation. To that end, it has identified the following SDGs as most aligned to its sustainability and responsible banking ethos and operations, allowing for a more focused and targeted approach yielding a greater impact:

Partnership for the Goals

The Bank's business partners facilitate the smooth operations of our business, providing technology platforms, market access and necessary materials and other services. We engage with a wide range of firms, SMEs and individuals in support of our business activities – they may be routine or ad hoc, small or large-scale, critical or non-critical to the normal course of business – but all create important links in the supply chain that ultimately delivers value to our stakeholders. The Bank has been able to build strong relationships with them over the years, which was proven by the Bank being able to sustain its operations without any major disruption during the pandemic.

During the year, the Bank engaged with an over 1,250 business partners and delivered Rs. 9.6 Bn. worth of value, with over 90% of value being delivered to suppliers of local origin in both Sri Lanka and Bangladesh.

The Bank always seeks to enhance partnerships of mutual interest for the greater good of society and the environment, and takes pride in being an active member of the following platforms:

- Sri Lanka Banks' Association Sustainable Banking Initiative – Core Group Member since inception
- UN Global Compact Sri Lanka – Steering Committee Member
- Biodiversity Sri Lanka – Founder Member

The Bank's Business Partners Figure – 15

Our business partners

Critical to Operations

- Utility services providers
- Software suppliers
- Material suppliers
- Travel and Transport

Maintenance

- Staff welfare
- Waste management
- Communication
- Human Resource providers
- Asset suppliers
- Debt collection agencies

Extend our reach

- Correspondence banks
- Franchise partners
- Exchange houses
- FinTech companies

Infrequent engagement

- Premises providers
- Contractors
- Professional services providers

Project Summary

Date of commencement
June 1, 2018

Date of completion
November 2, 2020

Total project period
29 months

Total project cost
Rs. 141 Mn. + taxes

Land extent
40.3 perches

Floor area
13,875 sq. ft.

Galle Fort Branch Restoration Project

The Galle Fort Branch was restored to its original grandeur as part of the 100th anniversary celebrations of the Bank in 2020. Built in the early 19th century, the Bank came into possession of the Branch in 1973 when the Bank acquired three branches of the Mercantile Bank of India (MBI). The renovations sought to preserve the building's unique architectural and cultural elements, and were carried out in consultation with the Galle Heritage Foundation, the Department of Archeology, the Galle Municipal Council, and the Urban Development Authority.

The restoration process used only locally sourced, specified Green-rated raw material in the renovation, and all imperishable material was recycled in an environmentally-friendly manner and all debris disposed of in compliance with Department of Archeology and the Galle Heritage Foundation regulations. The building features a 15kW rooftop solar energy generation system, a rain water harvesting system, eco-friendly food recyclers for all meal rooms, a fire protection system, a back-up generator, an energy efficient Variable Flow Refrigerant (VFR) air conditioning system, and an LED lighting and electrical system.

The building has achieved 45% energy savings compared to the American Society of Heating, Refrigerating and Air-Conditioning Engineers (ASHRAE) standard baseline and consumes minimal potable water. Furthermore, in adherence to the Bank's Green agenda, the mechanically ventilated areas of the building are fitted with energy-efficient air conditioners and the carbon dioxide levels of office area are continuously measured to maintain a healthy indoor environment for its occupants.

The Branch also features a mini-museum with items used since the inception of branch, and it has now become a popular tourist attraction within the Galle Fort. The Bank is seeking to obtain recognition for the site from the World Heritage Committee.

For the Bank's efforts, the Branch was awarded a Platinum Rating from the Green Building Council of Sri Lanka (GBCSL), the highest achievable rating based on a set of performance standards used to certify the operations and maintenance of a building. Key aspects taken into consideration by the GBCSL to bestow this rating on a commercial or institutional building includes management, sustainable sites, energy and atmosphere, materials and resources, indoor environmental quality, innovation and design process, and social and cultural awareness.

Governance and Risk Management

Board of Directors and Profiles

Mr S Renganathan
Managing Director/Chief Executive Officer

Mr K Dharmasiri
Director

Mr S C U Manatunge
Director and Chief Operating Officer

Ms N T M S Cooray
Director

Mr L D Niyangoda
Director

Justice K Sripavan
Chairman

Prof A K W Jayawardane
Deputy Chairman

Mr T L B Hurulle
Director

Ms J Lee
Director

Mr R Senanayake
Director

Mr S Muhseen
Director
(Appointed on February 15, 2021)
Not in the picture

Mr R A P Rajapaksha
Company Secretary

Justice K Sripavan

Chairman

Appointed as the Chairman of the Board of Directors w.e.f. December 21, 2020.

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

Chairman of the Board Related Party Transactions Review Committee (BRPTRC). Appointed as the Chairman of Board Nomination Committee (BNC), Board Human Resources and Remuneration Committee (BHRRC), Board Credit Committee (BCC) and Board Strategy Development Committee (BSDC) w.e.f. December 31, 2020.

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:

Having joined the Attorney General's Department in February 1978, he held the posts of State Counsel, Senior State Counsel, and Deputy Solicitor General. While being the Deputy Solicitor General he functioned as the 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:

Holds 14,000 voting shares.

Prof A K W Jayawardane

Appointed as the Deputy Chairman of the Board of Directors w.e.f. December 29, 2020.

Appointed as an Independent Non-Executive Director in April 2015.

Chairman of the Board Technology Committee (BTC). Appointed as the Chairman of the Board Integrated Risk Management Committee (BIRMC) w.e.f. December 31, 2020.

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. Degree in Civil Engineering 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) and a life member of Sri Lanka Association for Advancement of Science.

Member of Sri Lanka Institute of Directors since December 2015.

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

Other current appointments:

Director of Sierra Cables PLC, Chairman of CBC Tech Solutions Limited (a subsidiary of the Bank), Director of Mother Lanka Foundation, a Commission Member of the University Grants Commission, Board Member of National Science Foundation, Arthur C Clarke Institute for Modern Technologies and has served as a member of the Board of Management of several other institutions.

Previous appointments:

Dean, Faculty of Engineering for six years, First NDB Bank Endowed Professor in Entrepreneurship at the University of Moratuwa, President of the Institution of Engineers, Sri Lanka (IESL) and Director General of National Science Foundation.

Shareholding of Bank:

Holds 12,792 voting shares.

Mr S Renganathan

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

Appointed as an Executive/ Non-Independent Director in July 2014.

Skills and experience:

A senior banker counting over 40 years, led the Bank's acquisition of the Bangladesh operations of Crédit Agricole Indosuez (CAI), Commercial Bank's first ever acquisition of a banking operation, subsequently building up the same as the first 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 & Finance, UK (FLIBF) and a Fellow of the Institute of Bankers 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 Private Limited, Director of Lanka Financial Services Bureau Limited, 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, Executive Member of Sri Lanka India Society, Council Member of the Employers' Federation of Ceylon and an All-Island Justice of the Peace since 2000.

Previous appointments:

Director of Sri Lanka Banks' Association (Guarantee) Limited, 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 362,010 voting and 12,457 non-voting shares.

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 PLC, 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., Credit Information Bureau of Sri Lanka and Managing Director of Nepal Bank of Ceylon Limited in 2002.

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 33 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 38 years.

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

Former 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, Member of Board of 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 & Company (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. A member of the Board of the Management of several other institutions.

Shareholding of Bank:

Holds 342,465 voting and 52,875 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 from the Southbank University, London, Engineering Apprentices I & II Programmes of the University of Moratuwa, Certificate in Science and Technology of Refrigeration, City & Guilds Institute, London and obtained Membership of the Institute of Refrigeration, UK in 1977.

Member of Sri Lanka Institute of Directors since August 2017.

Other current appointments:

Independent Non-Executive Director, Kanrich Finance Limited.

Hony. Secretary of Anuradhapura Jaya Sri Maha Bodhi Development Fund.

Appointed as an All-Island Justice of the Peace in 2002.

Previous appointments:

Director-General, Telecommunications Regulatory Commission, Designs and Applications Engineer, Metropolitan Refrigeration and Air Conditioning, London, Divisional Manager/Chief Engineer, Walker, Sons & Co. Ltd. and Senior Manager/Engineer at Tudawe Trading Co. (Pvt) Ltd.

Awarded the INFOTEL '92 Pioneers award at INFOTEL 2017, was a Member of The Public Representations Committee on Constitutional Reform 2016/17 and a Resource Person in the Budget Committee of Parliament (2017).

Shareholdings 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 31 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 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 the Central Bank of Sri Lanka and the 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.

Member of Sri Lanka Institute of Directors since August 2017.

Other current appointments:

Director of the Bank's Maldivian subsidiary – Commercial Bank of Maldives Private Limited

Previous appointments:

Director of Bank's IT subsidiary, CBC Tech Solutions Limited.

Shareholding of Bank:

Holds 71,410 voting shares.

Ms J Lee

Appointed as an Independent Non-Executive Director in August 2020.

Appointed as the Chairperson of the Board Investment Committee w.e.f. December 31, 2020.

Skills and experience:

A pioneer and leading expert in quantitative risk management and its applications to strategy, with over 30 years of experience as a banker, capital markets expert and partner in management consulting firms serving CEOs and Boards in the USA and Asia.

Holds an MBA from the Wharton School, a BSc from NYU Stern School of Business and has attended the Advanced Management Program and Women on Boards Program at Harvard Business School.

Other current appointments:

Managing Director of Dragonfly LLC which is a New York based consulting firm providing strategy, risk management, and investment advice to Boards, CEOs, and Business heads in the USA, Europe, and Asia, covering all sectors, corporates, financial institutions, and governments.

CEO of Dragonfly Capital Ventures which develops and invests in renewable energy in South East Asia.

Serves on the Board of Directors of Temasek Life Sciences Accelerator and is an Entrepreneur-in-Residence. A member of the Executive Board of NYU Stern School of Business.

Co-author of the books "What Every CEO Must Know About Risk" and "RAROC and Risk Management".

Previous appointments:

A key member of the pioneering team at Bankers Trust in the late 1980s, that developed the first comprehensive daily risk quantification and risk capital methodology in the banking industry.

Served as Board Director of Solar Frontier, a renewable energy subsidiary of Japan-listed Showa Shell Sekiyu KK.

Adjunct Professor at Singapore Management University, developed and taught Enterprise Risk Management for 10 years and has also taught Risk Management at Columbia University, New York.

Shareholding of Bank:

Nil.

Mr R Senanayake

Appointed as an Independent Non-Executive Director in September 2020.

Appointed as the Chairman of the Board Audit Committee w.e.f. September 25, 2020.

Skills and experience:

A Fellow Member of CA Sri Lanka with 30 years of post-qualifying experience and holds a B.Com (Special) Degree from the University of Sri Jayewardenepura and a Postgraduate Diploma in Business Management from the PIM of the University of Sri Jayewardenepura.

Possesses extensive domain knowledge on the financial services industry, financial management and corporate reporting in particular, including such aspects as risk management, capital management, corporate governance, compliance, sustainability and integrated reporting. Has undergone training on banking and finance with Euromoney and on general management with the National University of Singapore besides many other local and overseas training programmes.

Other current appointments:

An Independent Non-Executive Director of CBC Finance Ltd. (formerly Serendib Finance Ltd.), a fully-owned subsidiary of Commercial Bank of Ceylon PLC since October 2014, an Independent Non-Executive Director of Senkadagala Finance PLC since April 2017 and a Director of Virtual Capital Technologies (Pvt) Ltd., a software development company that specialises in enterprise solutions in the real estate, retail and telecom spaces catering to the New Zealand and the Australian markets since August 2017. Heads the Smart Academy of Smart Media The Annual Report Company.

Previous appointments:

Financial Accountant, Singer Industries (Ceylon) PLC, held several positions from Senior Manager Finance up to Assistant General Manager (Finance & Planning) at Commercial Bank of Ceylon PLC and Chief Financial Officer at Nations Trust Bank PLC.

Shareholding of Bank:

Nil.

Mr S Muhseen

Appointed to the Board as an Independent Non-Executive Director in February 2021.

Skills and experience:

Senior Investment Banker with extensive experience in areas of Mergers and Acquisitions, Corporate Finance and Capital Markets, who has served in a senior capacity working with company boards and senior leadership teams of financial institutions across Asia to help drive their strategic corporate agenda and roadmap.

In his career spanning over 20 years in Investment Banking, he has completed landmark mergers and capital raising transactions in excess of USD 100 Bn. The Asia FIG sectors team at Merrill Lynch and Credit Suisse has won the "FIG Asia House of the Year" award from the Asset magazine for several years under his leadership. Multiple transactions he led have been awarded as best country deals and best financial sector capital raise transactions.

Holds a Masters in Economics from the University of Colombo, a Bachelor of Business Administration (Hons) from Western Michigan University and has completed the Corporate Finance training program with JPMorgan in New York.

Other current appointments:

Chairman, Platinum Advisors Pte Ltd, Non-Independent Director H2O One Pte Ltd, Director, Canary Wharf Holdings Pte Ltd.

Previous appointments:

Previously worked in best-in-class global investment banks, Credit Suisse, Bank of America Merrill Lynch and JPMorgan in leading regional coverage roles. His most immediate previous role was as Managing Director, Head of South East Asia Financial Institutions Group (FIG) and Head of Asia Insurance at Credit Suisse based in Singapore. He was an Associate Director of Deloitte. He was the Team Leader at the National Council for Economic Development (NCED) under the Ministry of Finance as well as a Director at the TAFREN Presidential Task Force for rebuilding the economy after the 2004 Tsunami.

Shareholdings of Bank:

Nil.

Mr R A P Rajapaksha

Appointed as Company Secretary in April 2019.

Skills and experience:

An Associate of Chartered Governance Institute – UK formerly known as Institute of Chartered Secretaries and Administrators (ICSA – UK) and a Graduate of the Institute of Chartered Corporate Secretaries (ICCS) of Sri Lanka counting over 17 years of experience in the field of Company Secretarial Practice including 10 years of experience at the Bank.

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

Other current appointments:

Vice President of the Chartered Governance Institute (UK), Sri Lanka Branch. Appointed as an All-Island Justice of the Peace in 2019.

Previous appointments:

Company Secretary of Bank's fully owned subsidiary-CBC Finance Ltd. (formerly known as Serendib Finance Ltd.) from November 2014 to March 2019. Assistant Company Secretary of the Bank from February 2011 to March 2019.

Shareholding of Bank:

Nil.

Corporate Management and Profiles

S Renganathan

Managing Director/Chief Executive Officer

FCMA (UK)/CGMA/FLIBF (Fellow of the London Institute of Banking & Finance) U.K./FIB (SL)

40 years in Banking

Sanath Manatunge

Chief Operating Officer

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

31 years in Banking

Nandika Buddhipala

Chief Financial Officer

FCA/FCCA (UK)/FCMACMA (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)

30 years post qualifying experience including 13 years in Banking

Isuru Thilakawardena

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

30 years of experience including 11 years in Banking

Krishan Gamage

Assistant General Manager – Information Technology

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

22 years experience in Information Technology including 14 years in Banking

Prasanna Indrajith

Assistant General Manager – Finance

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

26 years post qualifying experience in Finance related fields including 24 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

19 years of experience in Manufacturing and Supply Chain Management and 9 years in Banking

Asela Wijesiriwardane

Assistant General Manager – Treasury

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

24 years in Banking

John Premanath

Assistant General Manager – Management Audit

FCCA (UK)/CISA (USA)/BSc Applied Accounting (Oxford Brookes – UK)/AIB (SL)/DISSCA (CA Sri Lanka)/ISO 27001:2013 ISMS Lead Auditor/GSLID (SLID)

30 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)

34 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)

31 years in Banking

Mrs Dharshanie Perera

Assistant General Manager – Personal Banking III

AIB (SL)

36 years in Banking

Hasrath Munasinghe

Deputy General Manager – Marketing

FIB (Institute of Bankers of Sri Lanka)/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)/CIMA (Chartered Institute of Management Accountants, UK), CMA (Institute of Certified Management Accountants, Aus)/PGDBFA (CA Sri Lanka)/ CPM (Asia Pacific Marketing Federation, Sing)/GSLID (SLID)/Advanced Diploma in Credit Management (Institute of Bankers, of Sri Lanka)/Certificate in Risk (Chartered Institute for Securities & Investments, UK)

27 years of experience including 10 years in Banking

Mrs Sandra Walgama

Deputy General Manager – Personal Banking (promoted to the grade of Senior Deputy General Manager – Personal Banking, w.e.f. February 01, 2021)

AIB (SL)/Associate (The Institute of Administrative Accounting, UK)/Level 3 Certificate in Wealth Management (CISI, UK)

41 years in Banking

Prins Perera

Deputy General Manager – Treasury (promoted to the grade of Senior Deputy General Manager – Treasury, w.e.f. February 01, 2021)

FCMA (UK)/CGMA/CPA (Aus)/Master of Financial Economics (University of Colombo)/FIB (SL)

31 years in Banking

S Prabagar

Deputy General Manager – Corporate Banking

FCMA (UK), CGMA, MBA (University of London), AIB (SL), BCom, DISSCA (Diploma in System Security and Control Audit – CA Sri Lanka)/CISA (Certified Information Systems Auditor)

25 years in Banking

Priyantha De Silva

Assistant General Manager – Credit Supervision and Recoveries (Retired w.e.f. January 31, 2021)

AIB (SL)/CIMA-Finalist

40 years in Banking

B A H S Preena

Assistant General Manager – Corporate Banking I

MBA (University of Colombo)/AIB (SL)

33 years in Banking

Delakshan Hettiarachchi

Assistant General Manager – Personal Banking I/SME

ACIM (Chartered Institute of Marketing, UK)/MBA (Cardiff Metropolitan University)/AIB (SL)

37 years in Banking

Kapila Hettihamu

Chief Risk Officer

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

25 years in Banking

Ms Tamara Bernard

Assistant General Manager – Corporate Banking II

AIB (SL)/Master's in Development Studies (University of Colombo)/MBA (University of Sri Jayewardenepura)

31 years in Banking

Ms Kelum Amarasinghe

Assistant General Manager – Compliance

Intermediate Diploma in Banking & Finance (Institute of Bankers, SL) Postgraduate Diploma in Strategic Management and Leadership (UK)

32 years in Banking

Senior Management

Corporate Banking

Sidath Pananwala
Head of Corporate Banking I

Dilrukshi Nanayakkara
Head of Corporate Banking II

Feroza Ameen
Head of Islamic Banking

Dr Shanthikumar Fernando
Chief Manager –
Research and Development

Sushara Vidyasagara
Chief Manager – Investment Banking

Prasad Fernando
Chief Manager – Imports

Lawrian Somanader
Chief Manager – Exports

Dharshini Gunatilleke
Chief Manager – Corporate Banking

Personal Banking

Amal Alles
Head of Centralised Credit
Processing Unit

S Ganeshan
Senior Regional Manager –
Colombo Inner

S B Wasala
Senior Regional Manager –
Colombo Outer

Sanath Perera
Senior Regional Manager –
Colombo North

Saneth Jayasundara
Regional Manager – Central

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

Michael De Silva
Regional Manager – North Central

Hemantha Sooriyabandara
Regional Manager – South Western

Ramachandren Sivagnanam

Regional Manager – Nothern

Chandani Siyambalagastenne

Regional Manager – Wayamba

Treasury

Chandrima Leelaratne

Chief Manager – Treasury Processing

Tivanka Damunupola

Chief Dealer

Hemal Jayasekera

Chief Dealer

Support Services

Vajira Thotagammana

Head of Information Technology

Thusitha Suraweera

Head of Card Centre
(promoted to the grade of Assistant General Manager – Operations, w.e.f. February 01, 2021)

Pradeep Banduwansa

Head of Retail Products and Digital Channels

Namal Gamage

Head of Legal
(promoted to the grade of Assistant General Manager – Legal, w.e.f. February 01, 2021)

Nalin Samaranayake

Head of Recoveries
(promoted to the grade of Assistant General Manager – Credit Supervision and Recoveries, w.e.f. February 01, 2021)

Thayalan Gnanapragasam

Chief Manager – Central Administration and Staff Advances
(Retired w.e.f. February 10, 2021)

Sampath Weerasuriya

Chief Manager – Security and Safety

Tilak Wakista

Chief Manager – Premises

Pushpa Chandrasiri

Chief Manager –
Human Resource Management

Upulani Gunapala

Chief Manager – AML/Compliance

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

Saman Ratnayake
Chief Manager –
Super Market Banking Unit

Charika Jayasekera
Chief Manager –
Retail Credit Approval Unit

Mohan Fernando
Chief Manager – SME Banking Unit

Upul Dissanayake
Chief Manager/Chief Executive Officer – CBC Finance Limited

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

Chirantha Caldera
Head of Treasury

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

Annual Corporate Governance Report

How we govern (Principles D.5 and D.6)[1]

This report on pages 64 to 113 elaborates the objectives, 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). Further, the Bank has complied with the principles enumerated in the Code of Best Practice on Corporate Governance – 2017 (Code) issued by CA Sri Lanka.

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 is disclosed in Annex 2.1 on pages 310 to 320 and Annex 2.2 on pages 321 to 325, respectively. Further, the Bank has complied with all the disclosure requirements under the prescribed format issued by the CBSL for publication of Annual Financial Statements and a comprehensive disclosure statement thereon is given in Annex 2.3 on pages 326 to 330. 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.

Bank's approach to governance

Given the fiduciary responsibility of accepting and deploying vast sums of uncollateralised public funds, importance of maintaining public trust and confidence for the long-term success and sustainability of the Bank cannot be overemphasised. Exemplary conduct on the part of everyone representing the Bank from the members of the Board of Directors at the highest governing body to the members of Corporate Management and from senior management to the office assistants is a sine qua non in this regard. Hence, Commercial Bank has put in place a system of good corporate governance - the system of rules, practices and processes that guides corporate behaviour – which ensures a disciplined approach to making decisions and executing them with the interests of all stakeholders at heart. It is in fact the bedrock of over 100 years of existence and sustainable value creation.

Good corporate governance is a collective responsibility that goes above and beyond the letter of the legal and regulatory requirements. It is the foundation for financial integrity, sustainable performance and investor confidence. It is a strong and highly effective risk management tool and at the same time, paves the way for the Bank to exploit opportunities. Accordingly, the Bank has an unwavering commitment to good corporate governance and conducts its affairs with the utmost intellectual honesty, integrity and diligence, being mindful of its obligations to the society and the environment. Tone at the top and a culture that resonate such values prevails across the Bank.

It is a corporate governance framework that has withstood the test of time for over a century. It has been regularly reviewed and updated to be 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's Management 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. Being a Domestic - Systemically Important Bank and many other awards and accolades that enabled it to be the most awarded bank in the country bear testimony to our commitment to good corporate governance.

Objectives of the Bank's Corporate Governance System

As the largest private sector bank in Sri Lanka touching the lives of millions of Sri Lankans in various capacities who have high expectations of their interactions with the Bank and whose trust is an imperative for its long-term success, the Corporate Governance system has been designed with a view to ensure the following;

- Adequate oversight on Management to ensure due diligence on key decisions and implementation of strategies as intended
- Establishing clear ownership and accountability on key and emerging risks
- Systems and processes are working well and any issues, incidents and risks are identified, assessed and escalated
- Efficient decision making for timely and effective outcomes and achieving results as expected
- Business as well as support service functions are sufficiently resourced with required competencies and maturity
- Remuneration framework is properly aligned to the long-term success of the Bank
- Activities comply with policies, laws, regulations, and ethical standards to the letter as well as in spirit
- Assets have been safeguarded
- Ensuring the Bank is more stable, resilient and future ready
- Creating value sustainably for all stakeholders over the short, medium and long term

In order to achieve the objectives stated above, the Board has ensured the following;

- Roles and responsibilities are clearly distributed among the Board, Management and Committees with approved charters and Terms of Reference
- Clear reporting lines and frequency of reporting have been established
- Legitimate needs, interests and expectations of all the stakeholders have been taken into consideration
- The highest degree of fairness, transparency and accountability has been upheld
- Negative externalities to the society and the environment are minimised
- Lives 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 16 on page 76.

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[1] *Principles referred to here are the principles in the Code of Best Practice on Corporate Governance – 2017 issued by CA Sri Lanka*

Key regulatory requirements, voluntary codes, and elements of Corporate Governance Framework (Figure – 16)

External

- Continuing Listing Requirements of the Colombo Stock Exchange which addresses, inter alia, the rights of investors
- Directions and Circulars issued by the Securities and Exchange Commission of Sri Lanka
- Acts, Circulars, Gazettes issued by the Taxation Authorities for banks to act as collecting agents
- Code of Best Practice on Corporate Governance issued by CA Sri Lanka which seeks to address how corporates operate while fulfilling the rights of key stakeholder groups
- Banking Act No. 30 of 1988 and amendments thereto which contain provisions for preserving the rights of depositors and rights and responsibilities of regulators

Internal

Elements of Corporate Governance Framework

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

- Shop and Office Employees Act No. 19 of 1954 and amendments thereto addressing the rights and responsibilities of employees
- Companies Act No. 07 of 2007 and amendments thereto which include provisions for preserving rights of investors
- Guidance for Directors of Banks on the Directors' Statement on Internal Control issued by CA Sri Lanka
- All Directions issued to Licensed Commercial Banks by the Central Bank of Sri Lanka, particularly the Banking Act Direction No. 11 of 2007 on Corporate Governance and other Directions issued by the Central Banks of the countries within which the Bank operates.

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 17 on page 77.

Board of Directors (Principles A.1, A.1.5, A.4 and A.10)

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, approving remuneration policies and appointments to the Board and Management. 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. The 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. This has proved to be one of the key reasons for the many achievements of the Bank which has contributed to positioning the Bank to be the benchmark private sector bank of the country.

At end of 2020, the Board comprised of ten Directors (eleven as at end 2019) 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. Eight of the Directors (nine as at end 2019) are Independent Non-Executive Directors (INEDs), ensuring more autonomy. Directors act in the best interest of the shareholders avoiding any conflicts of interest.

Diversity and inclusion

Diversity is having a wide array of voices and people in the conversation and inclusion is an environment where all those voices really are heard. Accordingly, the Board of Directors comprises members with expertise in accounting, banking and finance, economics, agriculture and chemical industry, engineering, information technology, law, risk management and international capital markets. 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.

The diversity in the Board's composition has enabled it to bring a unique perspective to the Boardroom, enhancing dynamics and effectiveness while promoting healthy and constructive exchange of views, leaving no room for groupthink.

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 69.

Board process (Principles A.1.6, A.1.7 and A.6)

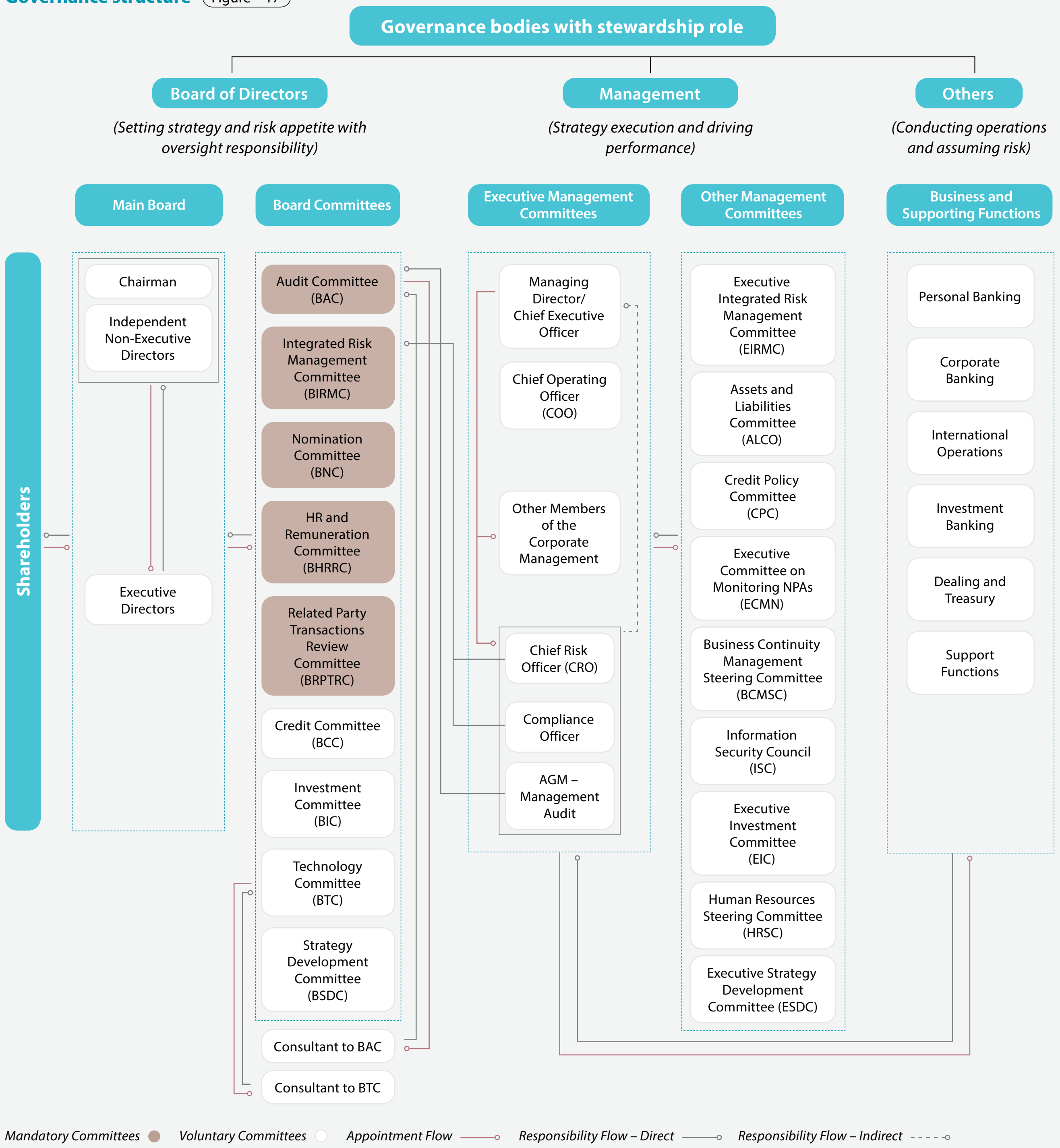
The Board agrees on a schedule of meetings at the beginning of each year and meets at least once a month. Additional meetings are also convened if the circumstances so require. The Chairman is responsible for determining and preparation of the agenda for the meetings in consultation with the Managing 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. The agenda and all Board Papers are circulated electronically to Board members via the BoardPAC which ensures absolute confidentiality of the information, cost saving on printing of papers, and delivering same instantaneously, yet another green initiative of the Bank. The 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. 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.

Details of attendance at Board meetings are given in Table 29 on page 79.

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 obtained a Directors' and Officers' Liability Insurance Policy.

Governance structure Figure – 17



Conflicts of interest (Principle A.10)

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. The details of transactions carried out in the ordinary course of business on an arm's length basis with entities where the Bank's Chairman or Directors serve as the Chairman or as a Director in another entity are disclosed in the disclosure made on "Directors' Interest in Contracts with the Bank" on page 113 while Note 63 to the Financial Statements on pages 255 to 259 carries information on Related Party Disclosures. At the time of joining and annually, Directors declare their interests and necessary procedures are also 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 (Principle A.1.1)

During 2020, the Board held 17 scheduled meetings (fourteen in 2019) of which one meeting (one meeting in 2019) was devoted exclusively to deliberations on strategy with all members of Corporate Management being present. Fifteen meetings (Twelve meetings in 2019) were devoted to matters including large and material transactions, review of performance, review and approval of a revised budget for 2020, review of policy frameworks, raising new capital, strategy and risk. Another meeting was held for reviewing the composition of the Board committees subsequent to election/re-election of Directors at the Annual General Meeting (AGM) in place of those who retired by rotation. Meetings provided an effective forum for discharging the oversight responsibility of the Board.

Although the outbreak of COVID-19 had many challenges, all Meetings of the Board and Board Committees were conducted adopting to the new normal conditions by having such meetings with limited physical attendance with some of the Directors connected via virtual platforms in conformity with the guidelines issued by the health authorities.

The 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 2021-2025. The plan was then reviewed and approved at a meeting specifically convened for this purpose, in December 2020. At the meeting, members of the Corporate Management made presentations on plans for areas coming under their purview and had extensive deliberations thereon. The Board explored and evaluated alternative strategies prior to approval and allocation of resources for execution of same. In June 2020, the Board held a special meeting to review and approve a revised budget for the year 2020 taking into account the unprecedented operating environment following the COVID-19 pandemic outbreak. The Board continued to give prominence to the capital management strategy in the wake of the increasing capital requirements, potential for higher credit losses following moratoriums and difficulties faced by the borrowers 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, the Board paid heightened attention to credit quality, closely monitored exposures to risk elevated industries, reviewed reasonableness of the impairment methodology, movements in staging of exposures 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 (Principle A.4 and A.5) Table – 29

	DOA	Age (Years)	Membership Status		Meeting Attendance Eligible to attend/ Attended	Mode of Participation	Board Sub Committee Membership									Tenor on the Board (Years)
							BAC	BIRMC	BNC	BHRRC	BRPTRC	BCC	BTC	BIC	BSDC	
Justice K Sripavan Chairman*	26.04.2017	68	NED	ID	17/17	👤 17 📹 0			C	C	C	C			C	3+
Prof A K W Jayawardane Deputy Chairman**	21.04.2015	60	NED	ID	17/17	👤 16 📹 1		C	M	M			C		M	5+
Mr S Renganathan Managing Director/CEO	17.07.2014	58	ED	NID	17/17	👤 17 📹 0	BI	M	BI	BI	BI	M	M	M	M	6+
Mr K Dharmasiri Director	21.07.2015	67	NED	ID	17/17	👤 13 📹 4	M	M				M	M	M	M	5+
Mr L D Niyangoda Director	26.08.2016	64	NED	ID	17/17	👤 16 📹 1		M			M				M	4+
Ms N T M S Cooray Director	19.09.2016	62	NED	ID	17/17	👤 14 📹 3	M							M	M	4+
Mr T L B Hurulle Director	05.04.2017	68	NED	ID	17/17	👤 16 📹 1		M			M		M			3+
Mr S C U Manatunge Executive Director/COO	27.07.2018	50	ED	NID	17/17	👤 16 📹 1	BI	BI			BI	M	M	M		2+
Ms J Lee Director	13.08.2020	53	NED	ID	6/6	👤 0 📹 6	M	M	M	M				C	M	<1
Mr R Senanayake Director	16.09.2020	59	NED	ID	5/5	👤 4 📹 1	C	M			M				M	<1
Mr K G D D Dheerasinghe Former Chairman#	20.12.2011	68	NED	ID	17/17	👤 17 📹 0										
Mr M P Jayawardena Former Deputy Chairman##	28.12.2011	68	NED	ID	17/17	👤 15 📹 2										
Mr S Swarnajothi Former Director###	20.08.2012	70	NED	ID	12/12	👤 12 📹 0										

** Appointed as the Chairman with effect from December 21, 2020.*

*** Appointed as the Deputy Chairman with effect from December 29, 2020.*

 # Relinquished office with effect from December 21, 2020.

Relinquished office with effect from December 29, 2020.

Retired with effect from August 20, 2020.

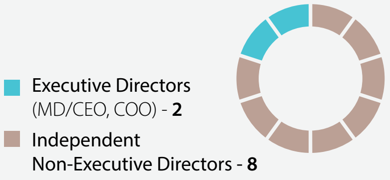
DOA – Date of Appointment, ED – Executive Director, NED – Non-Executive Director, ID – Independent Director, NID – Non-Independent Director

👤 *In Person participation* 📹 *Virtual participation*

C - *Chairman* M - *Member* BI - *By Invitation*

Composition of the Board (As at December 31, 2020) Figure – 18

Non-Executive and Executive Directors



Board's gender composition

Tenure on the Board (Years)

Board of Directors' industry/background experience

Banking and Management	Agriculture/ Chemical	Finance and Accounting	Law	Science, Engineering and IT	Risk Management and International Capital Markets
5	1	4	1	2	3

The diversity in the Board's composition has enabled it to bring a unique perspective to the Boardroom, enhancing dynamics and effectiveness while promoting healthy and constructive exchange of views, leaving no room for groupthink.

Board Committees (Principles A.7.1, D.3 and D.4)

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 have been formed as required by the Direction, while the Board Related Party Transactions Review Committee has been 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.

Board Committees seek guidance and advice of external consultants on several occasions. Each of the Directors serves in a minimum of three Committees.

The composition, areas of oversight responsibility, and activities in 2020 and attendance of members at the Board Committee meetings are given in the respective Board Committee reports on pages 86 to 100.

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). 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 against budgets, reviews achievement of strategic goals set for business divisions, 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. 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, qualifications and experience of the EMC members are given in the section on Corporate Management and Profiles on pages 70 and 71.

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 72 to 74.

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.

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 19 given on page 81.

Management committees

Figure – 19

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, Management Audit, Compliance, and Finance Divisions.

Meeting Frequency: Monthly

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, Marketing and Finance Divisions.

Meeting Frequency: Fortnightly

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, Management Audit, Marketing, Credit Supervision & Recoveries, and Branch Credit Monitoring Divisions.

Meeting Frequency: Fortnightly and as and when required

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

Chief Operating Officer and key members of the Bank's Corporate Management covering all business lines.

Meeting Frequency: Quarterly

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 & Recoveries, and Integrated Risk Management Divisions.

Meeting Frequency: Monthly

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's Strategy.

Composition

Managing Director/Chief Executive Officer, Chief Operating Officer and key members of Human Resources Management, Integrated Risk Management, Information Systems Audit, Services, Operations, and IT Divisions.

Meeting Frequency: Monthly

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 Corporate and Personal Banking, Investment Banking, Treasury, and Finance Divisions.

Meeting Frequency: Quarterly

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 matters 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, Marketing and Finance Divisions.

Meeting Frequency: Quarterly

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.

Meeting Frequency: Monthly

Roles, responsibilities and powers of the Board (Principles A.1.2 and A.1.3)

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
- To review the performance of the business against the goals and objectives at regular intervals;

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
- Reviewing the performance of the Bank and the Group companies
- Appointment of members to the Board of Directors to fill casual vacancies
- Appointment of members of the Corporate Management 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 (Principle D.2)

Being the highest decision-making authority of the Bank, the Board is responsible for implementing an effective risk management function in the Group. 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 enables 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 a special Board meeting held to review the Budget for the year 2020 and deliberate on the strategic plan 2021-2025 (refer Risk Governance and Management on pages 114 to 133 for further details).

A synopsis of the important matters deliberated and decided upon by the Board during the year 2020 is given below:

Segregation of roles of Chairman and Chief Executive Officer (Principle A.2 and A.3)

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 sounding board on strategic and operational matters.

Board highlights – 2020

Figure – 20

- Approval of 2nd interim dividend for 2019 of Rs. 3/- per share totalling to Rs. 3.083 Bn
- Acquisition of a further 20% stake in Commercial Insurance Brokers (Private) Limited (CIB) from Commercial Development Company PLC, increasing the Bank's stake in CIB to 60%
- Approval/recommendation of final dividend for 2019 of Rs. 2.055 Bn in the form of a scrip dividend of Rs. 2/- per share
- Approval to issue new shares through a private placement to International Finance Corporation (IFC) and related funds and obtaining approval of the shareholders at an Extraordinary General Meeting
- Appointed two independent non-executive Directors to strengthen the Board
- Appointed new Chairman and Deputy Chairman in place of the former Chairman and Deputy Chairman who relinquished their office as per the CBSL Directions of Corporate Governance after serving the Board for nine years
- Reviewed the Composition of all Board Committees, respective Committee Charters and Terms of Reference
- Conducted the first ever virtual AGM of the Bank in line with the guidelines issued by the regulators
- Reviewed all major policy documents
- Annual strategy meeting with Corporate Management team

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 ensures implementation of 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 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 eight of the ten Directors as at December 31, 2020 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 (Principle A.1.4)

The Company Secretary plays a vital role in facilitating good Corporate Governance. His responsibilities encompass activities relating to Board meetings, general meetings, Articles of Association, reports, accounts and documentation, Corporate Governance and Stock Exchange requirements. Primary responsibilities include:

- Assisting the Chairman in conducting the Board Meetings, AGMs and EGMs in accordance with the Articles of Association, the Board Charter, and relevant legislation;
- Maintaining minutes of meetings and statutory registers and filing statutory returns in time;
- Monitoring all Board Committees to ensure they are properly constituted and have clearly defined Terms of Reference;
- 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;
- Ensuring that the Bank complies with its Articles of Association with required amendments being incorporated in it following proper procedure;
- Coordinating the publication and distribution of the Bank's Annual Reports and Accounts and interim financial statements and preparing the Directors' Report;
- Monitoring and ensuring compliance with Listing Rules including required disclosure on related parties and related party transactions and maintaining cordial relationships with the Colombo Stock Exchange, share and debenture holders
- Communicating promptly with the regulators;

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

Appointments/retirements and resignations of Directors (Principle A.7)

The Bank has in place a formal and transparent procedure formulated by the BNC for nomination of candidates for appointment as Directors. The resumés of potential candidates are carefully evaluated by the BNC before it makes recommendations 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 within 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 resumé of new Directors, relevant expertise, key appointments, shareholdings and status of independence.

There were several changes to the composition of the Board of Directors during the year, the details of which are given in Table 29 on page 79, Composition of the Board and attendance.

Re-election/election of Directors (Principles A.8)

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 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 K Dharmasiri and Ms N T M S Cooray, the two longest serving Directors since last re-election will be seeking re-election at the forthcoming AGM to be held on March 30, 2021. 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. Accordingly, Ms J Lee and Mr R Senanayake who were appointed to the Board during the year 2020 and Mr S Muhseen who was appointed to the Board on February 15, 2021 to fill casual vacancies will offer themselves for re-election at the forthcoming AGM to be held on March 30, 2021.

Induction and training of Directors (Principle A.1.8)

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 seven 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 Bank to design, administer, and evaluate effective reward programmes, inspiring and motivating desired behaviours, enabling proper alignment of remuneration with the long-term success of the Bank.

Directors' and Executive remuneration (Principles A.10, B.1 and B.3)

The BHRRC which consists 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 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.

Details of the Remuneration paid to Directors is given in Note 21 to the Financial Statements on page 186.

The level and make up of remuneration (Principle B.2)

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 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 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.

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. 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. The Bank after extensive deliberations signed the Collective Agreement with the CBEU which covers a three year period from 2021 -2023 in early January 2021.

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. The Bank has duly obtained approval of the shareholders for all these ESOPs at Extraordinary General Meetings (EGMs). The EDs, being employees of the Bank, are also eligible for these ESOPs.

Details of the ESOPs and the eligibility criteria are given in Note 53 to the Financial Statements on "Share-based Payment" on pages 241 to 244.

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 (Principle A.9)

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 2019 and 2020 were taken up at the Board Meetings held in February 2020 and February 2021 respectively.

Appraisal of the Chief Executive Officer (Principle A.11)

The Board with the assistance of the BHRRC assesses the performance of the Chief Executive Officer annually, based on criteria agreed 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 the 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 (Principles C.1, C.2, E and F)

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. The 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 on need basis as well as the Investor Feedback form in the Annual Report.

During the year shareholders were notified of quarterly results, dividend declarations for 2019, annual financial statements for 2019, disclosure regarding impact of COVID-19 on listed companies, disclosure on Fitch Ratings Preview, issue of shares by way of a private placement to IFC, retirement of a Director, appointment of new directors, relinquishment of the former Chairman and the Deputy Chairman and the appointment of the new Chairman and the Deputy Chairman through announcements made to the CSE and in the media, where applicable. The Bank's website also has a dedicated area – Investor Relations - for 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 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 made arrangements to publish Interim and Annual Financial Statements in Newspapers in all three mediums within statutory deadlines as per the Directions issued by the CBSL and also submitted Interim and Annual Financial Statements to the CSE within stipulated timeframes in terms of the Listing Rule 7.4 of the CSE amidst challenges faced due to the pandemic.

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. Although the Bank could not conduct the AGM with physical presence of our shareholders due to the outbreak of COVID-19 as per the Notice of Meeting published in the Annual Report 2019, the Bank after giving due Notice and publicity successfully conducted the Fifty First AGM as a virtual meeting, fully adhering to the guidelines issued by the Government health authorities and the regulators while ensuring maximum shareholder participation and providing every opportunity for shareholders to clarify matters of interest to them. A total of 32 Voting and 13 Non-voting shareholders participated at the Fifty First AGM held virtually on June 25, 2020 while a further 87 Voting shareholders and 6 Non-voting shareholders exercised their right to vote through proxy. The six Non-Voting shareholders exercised their right to vote through proxy strictly in relation to matters designated for their vote.

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 – 30

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
2020	119	672,118,061	69.92	19	3,132,256	4.72
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

An EGM was held on August 12, 2020 with physical participation of the shareholders to seek shareholder approval to raise new equity capital for augmenting Tier I capital and to support future lending growth of the Bank, by the issue of shares by way of a private placement to IFC and two IFC related funds. Shareholders granted approval to the proposed placement of shares and shares were accordingly issued on October 5, 2020 raising Rs. 9.216 Bn. in equity capital.

Whistleblowing

The Bank has adopted a Whistleblowers' Charter in order to deter and detect malpractices and unethical behaviour and to ensure any genuine concerns of malpractices and unethical behaviour,

The Bank's Compliance Officer has been appointed to manage the Bank's Whistleblowing processes.

Measures are in place to protect Whistleblowers' who act in good faith in the interest of the Bank. The Bank undertakes to maintain the utmost confidentiality of staff who raise concerns or make serious specific allegations of malpractices or unethical behaviour.

Anti-Bribery and Corruption

The Bank has issued guidelines in the form of a booklet - Code of Ethics- to each and every employee of the Bank. These guidelines encompass a wide range of aspects, inter-alia, prevention of insider dealing in securities, internal rules on the purchase/sale of the Bank's shares, Gift Policy, managing conflicts of interest, combating financial crimes, respecting communities and environment etc.

A detailed discussion is given in the section of "Prudent Growth" on page 47.

Board Committee Reports

Report of the Board Audit Committee

Composition of the Committee

During the year, the Board Audit Committee (the BAC) consisted of the following members. Profiles of the members as at December 31, 2020, are indicated on pages 64 to 69.

Board members	Attendance
Mr R Senanayake* (Chairman) *(Appointed as a Member/Chairman w.e.f. September 25, 2020)*	02/02
Mr S Swarnajothi* (Former Chairman) *(Retired w.e.f. August 20, 2020)*	05/05
Mr K Dharmasiri* (Director)	07/07
Ms N T M S Cooray* (Director)	07/06
Prof A K W Jayawardane* (Director) *(Resigned from BAC w.e.f. December 31, 2020)*	07/07
Justice K Sripavan* (Director) *(Resigned from BAC w.e.f. December 31, 2020)*	07/07
Ms J Lee* (Director) *(Appointed to BAC w.e.f. December 31, 2020)*	00/00

*Independent Non-Executive Director

Regular attendees by invitation	Attendance
Mr S Renganathan (Managing Director/Chief Executive Officer)	07/07
Mr S C U Manatunge (Director/Chief Operating Officer)	07/07
Mr K D N Buddhipala (Chief Financial Officer)	
Mr S K K Hettihamu (Chief Risk Officer)	
Ms A V P K T Amarasinghe (Assistant General Manager – Compliance) – *(Appointed w.e.f. November 25, 2020)*	
Mr V S Rajasooriyar (Assistant General Manager – Compliance) – *(Retired w.e.f. November 11, 2020)*	
Mr J Premanath (Assistant General Manager – Management Audit)	
Mr R 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)


R Senanayake
Chairman – Board Audit 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 2020."***

Charter of the Committee

The Board approved Charter of the BAC, (the Committee) clearly defines the Terms of Reference of the Committee. It 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 December 2020.

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

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 Practices on Corporate Governance", issued by The Institute of Chartered Accountants of Sri Lanka further regulate the composition, role and functions of the Committee.

The Committee is empowered by the Board to:

- Ensure that financial reporting systems in place are effective and well managed in order to provide accurate, appropriate and timely information to the Board, Regulatory Authorities, the Management and other stakeholders.
- Review the appropriateness of accounting policies and ensure adherence to statutory and regulatory compliance requirements and applicable accounting standards.
- Ensure that the Bank adopts and adheres to high standards of corporate governance practices, conforming to the highest ethical standards and good industry practices in the best interest 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 2020

The Committee held seven (7) meetings during the financial year ended December 31, 2020. 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 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 effective from January 01, 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 2020.

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 2019, as per the Section 10 (in Pillar II – Supervisory Review Process) of the 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 2020.

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 Committee sought and obtained 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/IS Audit for the year 2020 formulated by the Inspection Department and the Information Systems Audit Unit (ISAU). The progress and scope of Inspections/IS Audits were continuously reviewed to ensure that appropriate corrective actions have been taken to manage risks identified during the lockdown period and curtailed business operations during the first and second waves of the COVID-19 pandemic. The scope of work was enhanced/realigned to include credit audits and remote, work from home business operations through online and Off-site audit procedures.

The Bank's Inspection Department carried out, online and on-site inspection of business units including four (4) subsidiaries in Sri Lanka and operations in Bangladesh. Overseas subsidiaries namely Commercial Bank of Maldives Private Limited and CBC Myanmar Microfinance Co. Ltd. and Commex Sri Lanka S. R. L., a subsidiary incorporated in Italy were monitored through an off-site surveillance. With the concurrence of the Board, the Bank continued to engage the services of five (5) firms of Chartered Accountants approved by the CBSL in order to supplement the Bank's Inspection Department in carrying out inspection assignments.

ISAU conducted on-site/off-site audits (Bank and Group) covering local and overseas operations. Audits conducted through system-based audit tools, reviews of systems change management activities under the agile approach 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 Committee received the attention of significant findings and recommendations related to IT Governance, Cyber Security, Network Security, Physical and Logical Access Management, End point Security and IT Systems Administration made in the reports submitted by ISAU. The Committee also reviewed the reports on findings relating to business continuity planning and disaster recovery arrangements during the year 2020.

Five hundred and forty-seven (547) inspection reports on Business Units 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.

During the year, members of the Committee personally visited the branches in the South Western and Southern regions 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 agreeing on their remuneration with the approval of the shareholders.
- Monitoring and evaluating the independence, objectivity, and effectiveness of the 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 Auditor's 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 Auditor's Management Letter and the Management responses thereto.

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

At the conclusion of the audit, the Committee also met the Auditors to review the Auditor's Management Letter before it was submitted to the Board and the 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 2020.

Mechanism of internal controls:

Sections 3 (8) (ii) (b) and (c) of the Banking Act Direction No. 11 of 2007 stipulate 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 the 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, the Bank has a Code of Ethics and Whistle-blower's Charter in place which is followed for educating and encouraging all members of staff to resort to whistle-blowing if they suspect any wrongdoings 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 necessary 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 to the overall performance of the Bank, the Committee has been rated as effective.

R Senanayake
Chairman – Board Audit Committee
February 24, 2021

Report of the Board Integrated Risk Management Committee

Composition of the Committee

During the year, the Board Integrated Risk Management Committee (the BIRMC) consisted of the following members. Profiles of the members as at December 31, 2020, are indicated on pages 64 to 69.

		Attendance
Board members	**Prof A K W Jayawardane*** (Chairman) *(Appointed as a Member/Chairman w.e.f. December 31, 2020)*	00/00
	Mr M P Jayawardena* (Former Chairman) *(Relinquished office w.e.f. December 29, 2020)*	05/05
	Mr S Renganathan (Managing Director/ Chief Executive Officer)	05/05
	Mr K Dharmasiri* (Director)	05/05
	Mr L D Niyangoda* (Director)	05/05
	Mr T L B Hurulle* (Director)	05/04
	Mr S Swarnajothi* (Director) *(Retired w.e.f. August 20, 2020)*	03/03
	Ms J Lee * (Director) *(Appointed to BIRMC w.e.f. August 13, 2020)*	02/02
	Mr R Senanayake* (Director) *(Appointed to BIRMC w.e.f. September 27, 2020)*	01/01

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

**Independent Non-Executive Director*

		Attendance
Regular attendees by invitation	**Mr S C U Manatunge** (Director/Chief Operating Officer)	05/05
	Ms A V P K T Amarasinghe (Assistant General Manager – Compliance) *(Appointed w.e.f. November 25, 2020)*	
	Mr V S Rajasooriyar (Assistant General Manager – Compliance) – *(Retired w.e.f. November 11, 2020)*	
	Mr K S A Gamage (Assistant General Manager – Information Technology)	

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

Prof A K W Jayawardane
Chairman – Board Integrated Risk Management Committee

> ***"Deliberated on sectors affected by the pandemic and the factors that are within the control of the Bank to mitigate the risks. These were given due cognisance with a view to arresting deterioration of credit quality."***

Charter of the Committee

The BIRMC has been established by the Board of Directors, in compliance with 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 2020, and clearly sets out the membership, authority, duties and responsibilities of the BIRMC as described in the "Risk Governance and Management" Section of this Annual Report on pages 114 to 133.

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 2020

In discharging the above duties and responsibilities vested on the BIRMC, the Committee reviewed significant risks comprising strategic, operational, credit, market, cyber and other emerging risk categories during the year. The activities carried out by the Committee are include below;

- Main focus area for the year 2020 was on the deteriorated credit quality level of the industry amidst socio-economic challenges that the country is facing due to the COVID-19 global pandemic situation. Deliberations on sectors affected and the factors that are within the control of the Bank to mitigate the risks were given due cognisance with a view to arresting deterioration of credit quality.

- Excess liquidity arising out of mediocre credit growth, challenges stemming from decreasing interest rates, as well as shift in risk appetite of counterparts linked to sovereign rating down grading by international credit rating agencies which had exacerbated the operating environment related risk factors, attracted the attention of the Committee in most of the deliberations leading to formulation of strategies by the Management.
- Another focus area of the Committee under the prevailing conditions was the information and cybersecurity ramifications arising out of the rapid shift to the "Work-From-Home" environment and the enhancements required to ensure strong security for the remote access arrangements in terms of management, technical and physical controls.

Amid the heightened cyberthreats in the Pandemic environment, the BIRMC focused on the progress of the key information security projects planned for the year 2020 as part of the Bank's information security roadmap which included Privilege Access Management (PAM), Data Loss Prevention (DLP) and Security Operations Centre (SOC) initiatives.

- 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.
- The Key Risk Indicators (KRIs) designed to monitor the level of specific risks were reviewed regularly, with a view to 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 actions were recommended 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 concluded with a focus on adoption of rating migration as a way of ascertaining probability of default (PD) at a future date, instead of current proxies adopted by all the financial institutions in Sri Lanka.
- 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, Executive Committee on Monitoring NPLs, Credit Policy Committee, Information Security Council, 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 through the Management against failures of the risk owners 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.
- Reviewed the adequacy of the business continuity and disaster recovery plans of the Bank, in line with the statutory requirements.
- Findings from the biannual Risk Control Self-Assessment (RCSA) exercise were reviewed.

During the year under review, the BIRMC held four (04) meetings on quarterly basis and one (01) additional meeting specifically to discuss the impact of COVID-19 pandemic on risk profile of the Bank. The proceedings of the Committee meetings were regularly reported to the Board of Directors.

During the year 2020, the BIRMC supported execution of the overall business strategy of the Bank within a set of prudent risk parameters that are reinforced by an effective risk management framework.

Proceedings of the Committee meetings which also included activities under its Charter were regularly reported to the Board of Directors.

Prof A K W Jayawardane
Chairman – Board Integrated Risk Management Committee
February 24, 2021

Report of the Board Nomination Committee

Composition of the Committee

During the year, the Board Nomination Committee (the BNC) consisted of the following members. Profiles of the members as at December 31, 2020, are given on pages 64 to 69.

Board members	Attendance
Justice K Sripavan* (Chairman) *(Appointed to BNC w.e.f. October 27, 2020 and appointed as the Chairman w.e.f. December 31, 2020)*	04/04
Mr K G D D Dheerasinghe* (Former Chairman) – *(Relinquished office w.e.f. December 21, 2020)*	11/11
Mr M P Jayawardena* (Director) *(Relinquished office w.e.f. December 29, 2020)*	11/11
Mr S Swarnajothi* (Director) – *(Retired w.e.f. August 20, 2020)*	07/07
Ms J Lee* (Director) *(Appointed to BNC w.e.f. August 13, 2020)*	04/04
Prof A K W Jayawardane* (Director) *(Appointed to BNC w.e.f. October 27, 2020)*	04/04

**Independent Non-Executive Director*

Regular attendees by invitation	Attendance
Mr S Renganathan (Managing Director/ Chief Executive Officer)	11/11

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

Justice K Sripavan
Chairman – Board Nomination Committee

> ***"The Committee having identified suitable persons to fill the vacancies arising in the Board, recommended the appointment of three new Non Executive/Independent Directors to the Board."***

Terms of reference of the Committee

The Board Nomination Committee was established by the Board of Directors in compliance with the Clause 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 being made by the Board, evaluate the balance of skills, knowledge, experience and diversity on the Board and in light of this evaluation, prepare a description of the role and capabilities required for a particular appointment.
- in respect of the Executive Directors and Key Management Personnel consider proposals for their appointment or promotion and any proposal for their dismissal or any substantial change in their duties or responsibilities or the terms 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.
- make recommendations to the Board concerning, suitable candidates for the role of Senior Independent Director in instances where Chairman is not an Independent Director, membership of other Board Committees as appropriate in consultation with the Chairpersons of those Committees and the re-election of Directors at the Annual General Meeting by the Shareholders or the retirement by rotation according to the provisions of the Articles of Association of the Bank.
- 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 2020

Eleven (11) Committee meetings were held during the year under review. The proceedings of the Committee meetings are regularly reported to Board of Directors.

In consideration of the Terms of Reference revised in the year 2019, the Committee was entrusted to set the criteria such as qualifications, experience and key attributes required for eligibility to be considered for the appointment/ promotion of the Key Management Personnel, which task was previously administered by the Board Human Resources and Remuneration Committee of the Bank. Accordingly, during the year 2020 the Committee carried out the relevant reviews and interviews pertaining to the appointment/promotion of the Key Management Personnel of the Bank.

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 identified suitable persons to fill the vacancies arising in the Board and after carefully evaluating several candidates, recommended the appointment of three (03) new Non Executive/ Independent Directors to the Board during the year.

The Committee was also responsible for recommending the appointment of Justice K Sripavan as the Chairman of the Bank and Prof A K W Jayawardane as the Deputy Chairman of the Bank after careful consideration, w.e.f. December 21, 2020 and December 29, 2020, respectively, pursuant to Mr K G D D Dheerasinghe (Former Chairman of the Bank) and Mr M P Jayawardane (Former Deputy Chairman of the Bank) relinquishing their offices w.e.f. December 21, 2020 and December 29, 2020, respectively, upon the completion of nine years as Non-Executive/ Independent Directors of the Bank, in terms of Clause 3(2)(ii)A of the Banking Act Direction No 11 of 2007, Corporate Governance for Licensed Commercial Banks in Sri Lanka.

The Committee obtained declarations from all the Directors through a prescribed format confirming their status of independence.

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.

Justice K Sripavan
Chairman – Board Nomination Committee
February 24, 2021

Report of the Board Human Resources and Remuneration Committee

Composition of the Committee

During the year, the Board Human Resources and Remuneration Committee (the BHRRC) consisted of the following members. Profiles of the members as at December 31, 2020, are indicated on pages 64 to 69.

Board members	Attendance
Justice K Sripavan* (Chairman) *(Appointed to the BHRRC w.e.f. October 27, 2020 and Appointed as the Chairman w.e.f. December 31, 2020)*	01/01
Mr K G D D Dheerasinghe* (Former Chairman) *(Relinquished office w.e.f. December 21, 2020)*	05/05
Mr M P Jayawardena* (Director) *(Relinquished office w.e.f. December 29, 2020)*	05/05
Mr S Swarnajothi* (Director) *(Retired w.e.f. August 20, 2020)*	04/04
Prof A K W Jayawardena (Director)* *(Appointed to BHRRC w.e.f. October 27, 2020)*	01/01
Ms J Lee* (Director) *(Appointed to BHRRC w.e.f. December 31, 2020)*	00/00

**Independent Non-Executive Director*

Regular attendees by invitation	Attendance
Mr S Renganathan (Managing Director/Chief Executive Officer) Participated in all deliberations except those matters impacting his own terms and conditions of employment.	05/05

Secretary to the Committee
Mr U I S Tillakawardana (Deputy General Manager – Human Resource Management)


Justice K Sripavan
Chairman – Board Human Resources and Remuneration Committee

> *"Reviewed the proposals made to the management to renew the Collective Agreement with the Ceylon Bank Employees' Union (CBEU) for the years 2021, 2022 and 2023 and recommended the same for the approval of the Board of Directors."*

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 on 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.
- Formulate formal and transparent procedures for developing policy on remuneration for Executives and Directors.
- Approve 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 adopted by the committee

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 2020

The Committee held five (5) meetings during the year under review 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.

The Committee determined the bonus payable for 2019 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 2019 including that of the Managing Director/Chief Executive Officer, and the Chief Operating Officer were reviewed. At the conclusion of the review process for 2019, the Key Performance Areas and the respective KPIs of the Corporate Management members set for 2020 were carefully perused by the Committee and agreed on, subject to changes.

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 Policy on Outsourcing Services was reviewed and recommended for final approval by the Board of Directors.

The Succession Plan of the Bank was reviewed by the BHRRC and guidance was provided to the Managing Director.

The Committee reviewed the proposals made to the management to renew the Collective Agreement with the Ceylon Bank Employees' Union (CBEU) for the years 2021, 2022 and 2023 and recommended the same for the approval of the Board of Directors.

Justice K Sripavan

Chairman – Board Human Resources and Remuneration Committee

February 24, 2021

Report of the Board Related Party Transactions Review Committee

Composition of the Committee

During the year, the Board Related Party Transactions Review Committee (the BRPTRC) consisted 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). Profiles of the members as at December 31, 2020, are indicated on pages 64 to 69.

		Attendance
Board members	Justice K Sripavan* (Chairman)	04/04
	Mr L D Niyangoda* (Director)	04/04
	Mr T L B Hurulle* (Director)	04/04
	Mr S Swarnajothi* (Director) *(Retired w.e.f. August 20, 2020)*	03/03
	Mr R Senanayake* (Director)* *(Appointed w.e.f. October 27, 2020)*	01/01

**Independent Non-Executive Director*

		Attendance
Regular attendees by invitation	Mr S Renganathan (Managing Director/Chief Executive Officer)	04/04
	Mr S C U Manatunge (Director/Chief Operating Officer)	04/04

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

Justice K Sripavan
Chairman – Board Related Party Transactions Review Committee

> ***"The Committee was strengthened by the appointment of one Independent Non-Executive Director in view of the retirement of one Independent Non-Executive Director."***

Charter of the Committee

This Committee was formed by the Board in 2014 to assist the Board in reviewing all related party transactions carried out by the Bank and its listed subsidiaries in the Group by early adoption of the Code of Best Practice on Related Party Transactions (RPT) as issued by the SEC of Sri Lanka which became mandatory for all listed entities 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 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 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 positions 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 113 of this Annual Report.
- Reviewing the mechanisms in place to capture and feed relevant information on RPT which also includes information on KMP, CFM and the Bank's subsidiaries and associate into the data collection system and the accuracy of such information.
- Obtaining independent validation from the Bank's Internal Audit division for information submitted to the Committee for its review.

Activities in 2020

During 2020, the Committee was strengthened by the appointment of one Independent Non-Executive Director in view of the retirement of one Independent Non-Executive Director. Further, 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 2020 and implemented. Arrangements were also made to disseminate the amended RPT Policy among all relevant stakeholders and obtain their acknowledgements that they have read and understood the applicable regulatory requirements relating to identifying, capturing and reporting of RPT. In addition, the Terms of Reference of the Committee was reviewed and revised to capture new developments and was approved by the Board of Directors in November 2020.

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
February 24, 2021

Report of the Board Credit Committee

Composition of the Committee

During the year, the Board Credit Committee (the BCC) consisted of the following members. Profiles of the members as at December 31, 2020, are indicated on pages 64 to 69.

Board members	Attendance
Justice K Sripavan*(Chairman) – *(Appointed as the Chairman w.e.f. December 31, 2020)*	12/12
Mr K G D D Dheerasinghe* (Former Chairman) – *(Relinquished office w.e.f. December 21, 2020)*	12/12
Mr S Renganathan (Managing Director/Chief Executive Officer)	12/12
Mr S C U Manatunge (Director/Chief Operating Officer)	12/12
Prof A K W Jayawardane* – *(Resigned from BCC w.e.f. December 31, 2020)*	12/12
Mr K Dharmasiri* (Director) – *(Appointed to BCC w.e.f. December 31, 2020)*	00/00

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

**Independent Non-Executive Director*

Justice K Sripavan
Chairman – Board Credit Committee

> ***"Given the challenging environment due to the pandemic affecting the global and local business environment, the Committee set the Lending Directions of the Bank for prudent management of credit growth, while aiming at maintaining and improving asset quality."***

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.
- Review the credit risk controls in lending and pricing of lending proposals, ensure alignment with the market context and the internal policy of the Bank and the prevailing regulatory framework in order to ensure continuous maintenance and enhancement of the overall quality of the Bank's loan book.
- 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 2020

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 due to the COVID-19 pandemic affecting the global and local business environment, the Committee set the Lending Directions of the Bank for prudent management of credit growth, while aiming at maintaining and 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.

Justice K Sripavan
Chairman – Board Credit Committee
February 24, 2021

Report of the Board Investment Committee

Composition of the Committee

During the year, the Board Investment Committee (the BIC) consisted of the following members. Profiles of the members as at December 31, 2020 are indicated on pages 64 to 69.

Board members

	Attendance
Ms J Lee* (Chairperson) *(Appointed to the Committee w.e.f. August 13, 2020 and appointed as the Chairman w.e.f. December 31, 2020)*	04/04
Mr K G D D Dheerasinghe* (Former Chairman) *(Relinquished office w.e.f. December 21, 2020)*	10/10
Mr S Renganathan (Managing Director/Chief Executive Officer)	10/10
Mr S C U Manatunge (Director/Chief Operating Officer)	10/10
Mr K Dharmasiri* (Director)	10/10
Ms N T M S Cooray* (Director)	10/09

**Independent Non-Executive Director*

Regular attendees by invitation

- Mr K D N Buddhipala (Chief Financial Officer)
- Mr K A P Perera (Deputy General Manager – Treasury)
- Mr B A H S Preena (Assistant General Manager – Corporate Banking)
- Mr S K K Hettihamu (Chief Risk Officer)

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

Ms J Lee
Chairperson – Board Investment Committee

> ***"Reviewed the Bank's foreign currency investment limit given the growth in FCY balance sheet and investment opportunities."***

Charter of the Committee

The Board Investment Committee is responsible for the investment activities of the Bank. Investment proposals for debt, equity, and business ventures are evaluated by the Committee for feasibility, relevance to core banking objectives, and contribution to shareholder value. The Committee also evaluates the Bank's overall liquidity management operations, treasury investments and borrowing activities, and capital adequacy.

Within this framework the Committee performs the following duties:

- Reviews, amends, and approves investment policies and operational parameters relating to investments of the Bank
- Monitors adherence to investment policies, investment processes, and decisions of the Investment Committee
- Approves investment proposals, borrowings, and execution of agreements
- Reviews the performance of the investment portfolio
- Reviews and recommends significant investment decisions to be undertaken by the Bank to the Board of Directors

Methodology adopted by the Committee

The Committee meets monthly and reviews progress of strategic and significant investments, liquidity situation of the Bank, market developments and the economic outlook of the markets it operates in, and new investment strategies. The Committee also reviews the monthly performance of Treasury and Investment Banking Division, where the interest rate risk, repricing risk, currency 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 2020

- Reviewed the Bank's foreign currency investment limit given the growth in FCY balance sheet and investment opportunities
- Evaluated and approved strategic equity investments by the Bank
- Approved investments in the Bank's subsidiaries

The Committee held ten (10) 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.

Judy Lee

Ms J Lee
Chairperson – Board Investment Committee
February 24, 2021

Report of the Board Technology Committee

Composition of the Committee

During the year, the Board Technology Committee (the BTC) consisted of the following members. Profiles of the members as at December 31, 2020 are indicated on pages 64 to 69.

Board members

	Attendance
Prof A K W Jayawardane* (Chairman)	05/05
Mr S Renganathan (Managing Director/Chief Executive Officer)	05/05
Mr S C U Manatunge (Director/Chief Operating Officer)	05/05
Mr T L B Hurulle* (Director)	05/05
Mr K Dharmasiri* (Director)	05/05

**Independent Non-Executive 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 Retail Products and Digital Channels)
- Mr V Thotagammana (Head of IT)
- Mr K Mediwake (Chief Executive Officer – CBC Tech Solutions Limited)

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

Prof A K W Jayawardane
Chairman – Board Technology Committee

> ***"Focused on improving Mobile First, Agility, Service-oriented Culture and Operational Excellence, e-waste disposal and IT Governance, bringing key drivers to a 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 alignment 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 current and future banking.

The Committee has been empowered to:

- Set the overall technology strategy and track progress of the activities to meet the corporate objectives.
- Analyse emerging technologies and their potential use to drive corporate IT strategy.
- Review significant technology procurements, prior to them being sent to the Board of Directors for approval.

Activities in 2020

The Committee held five (5) meetings during 2020 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. The Committee focused on improving the following areas, which are the key drivers taking the Bank to a digital era.

Mobile First to create a next level banking experience by extending most of the functionalities to customers' finger tips with evolving technology trends and latest banking and financial features, such as self-registration, biometric authentication and real time notification. The Bank successfully launched the following mobile applications which were particularly useful for customers facing obstacles during the period of the COVID-19 pandemic.

- Combank Digital for the online banking customer base enabling them to perform all the monetary transactions and day to day banking.
- ePassbook re-launched with latest mobile features enabling the customers to view their accounts and transactions with greater convenience
- Q+ acts as an e-wallet where customers can securely manage card related transactions via QR. Q+ was the first app to be launched with Lanka QR in the country
- App Aggregator as one single place for all Combank related apps
- Flash with enhanced new features and the Combank Digital
- RemitPlus for workers to track their remittances

Agility to cater to the ever growing demand and to add value to the existing customer needs to delight customer experience and convenience.

- IT R&D adopted Agile SCRUM way of working with the rest of the stakeholders
- Agile way of working supported business units to deliver the right products and features at the right time, faster delivery of services with enhanced quality with high productivity
- Post implementation time has been cut down by 50% to ensure fast deployment to be the first to market

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

- System and service availability has been greatly improved adhering to ISO 20000 framework and managed to certify the Bank in 2020 by collating all the support service related stakeholders to adhere to ISO 20000 Framework
- High availability architecture and upgraded monitoring mechanism to increase service uptime for critical systems
- Proper capacity planning to cater to ever growing application needs

e-waste disposal to suppliers who follow environmental-friendly guidelines in disposing them as per international standards followed by their principles.

- **eSlip for cash and cheque deposit**

– Improved customer convenience by introducing eSlip mobile application for cash and cheque deposits. This will directly support the Banks paperless concept and will help to reduce the carbon footprint of each transaction.

– With this initiative the Bank expects to eliminate and minimise usage of paper, Pens, storage and waiting time of customers.

– This new initiative extends the convenience to the customers by enabling their mobile phones as depositing instruments which helps to generate slips "on the go".

- **eStatements for Current Savings Accounts and Credit Cards**

– The Bank has been aggressively promoting eStatements for Current Accounts, Savings Accounts and Credit Card accounts which is an initiative taken towards Banks paperless concept.

– Customers can enrol Digital Banking services with the self-registration feature without the need to visit the Bank.

– This self-registration feature was heavily used during the periods of lockdown.

IT Governance to engage the processes that ensures 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 to the Bank's dynamic needs with higher transparency.

– Implemented and certified with ISO 20000:2018 certification in the year 2020 as the first local bank in the country. ISO 20000, the international standard that enables IT organisations to ensure that their IT service management (ITSM) processes are aligned both with the needs of the business and with international best practices. This strategic implementation will help Commercial Bank to improve its service levels, create a framework for independent assessment and demonstrate an ability to meet customer requirements. It gives the Bank a competitive advantage, as it demonstrates the reliability and high quality of IT service levels.

– Adhering to Payment Card Industry Data Security Standards and Certification (PCIDSS)

– Adhering to ISO 27000:2013 Information Security Standards and Certification

– Adhering to Baseline Security Standards (BSS)

The Committee also reviewed submissions on procurements of significant technology related items for the Bank and recommended such submissions for the consideration by the Board of Directors.

Prof A K W Jayawardane

Chairman – Board Technology Committee

February 24, 2021

Report of the Board Strategy Development Committee

Composition of the Committee

During the year, the Board Strategy Development Committee (the BSDC) consisted of the following members. Profiles of the members as at December 31, 2020, are indicated on pages 64 to 69.

Board members	Attendance
Justice K Sripavan* (Chairman) – *(Appointed as a Member/Chairman w.e.f. December 31, 2020)*	00/00
Mr K G D D Dheerasinghe* (Former Chairman) *(Relinquished office w.e.f. December 21, 2020)*	11/11
Mr S Renganathan (Managing Director/Chief Executive Officer)	11/11
Prof A K W Jayawardane* (Director)	11/11
Mr K Dharmasiri* (Director)	11/11
Mr L D Niyangoda* (Director)	11/11
Ms N T M S Cooray* (Director)	11/10

**Independent Non-Executive Director*

Board members	Attendance
Mr M P Jayawardena* (Director) – *(Relinquished office w.e.f. December 29, 2020)*	11/11
Ms J Lee* (Director) – *(Appointed to BSDC w.e.f. August 13, 2020)*	05/05
Mr R Senanayake* (Director) – *(Appointed to BSDC w.e.f. December 31, 2020)*	00/00

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

Justice K Sripavan
Chairman – Board Strategy Development Committee

> ***"Reviewed matters related to capital planning, acquisition, investment opportunities and strategies to provide relief measures to borrowers affected by the pandemic in addition to actively engaging in the government relief scheme."***

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 detailed 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 2020

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

The BSDC met more frequently than the minimum of four meetings as per the Terms of Reference [eleven (11) meetings held in 2020] and was able to offer greater responsiveness in the strategic decision-making process of the Bank.

The BSDC reviewed matters related to capital planning, acquisition, investment opportunities and strategies to provide relief measures to borrowers affected by the COVID-19 pandemic in addition to actively engage in the government relief scheme. Further, the Committee provided guidance to ensure that adequate impairment cover is made while sustaining reasonable financial performance.

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

Important decisions taken at the Committee meetings which also included activities under its Terms of Reference were regularly reported to the Board of Directors for information/approval.

Justice K Sripavan
Chairman – Board Strategy Development Committee
February 24, 2021

Statement of Compliance

Further to the Annual Report of the Board of Directors on the Affairs of the Company appearing on page 3, given below is a summary of 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 – 31

	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	155 and 156
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, 2020	143 to 290
3.	Auditors' Report on the Financial Statements of the Group and the Bank	Section 168 (1) (c)	Independent Auditors' Report	138 to 140
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	164 to 177
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	
			Refer "Directors' Interest in Contracts with the Bank" disclosed in the Annual Report	113
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	186
			Report of the Board Human Resources and Remuneration Committee	93 and 94
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	186
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	64 to 133
			Refer "Board of Directors and Profiles" for details of members of the Board of Directors of the Bank	64 to 69
			Refer "Group Structure" for details of members of the Board of Directors of the Group	362 and 363
			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/election of the following Directors, after considering the contents of the Affidavits & Declarations submitted by them and all other related issues: (a) Re-election of Directors who retire by rotation ● Mr K Dharmasiri ● Ms N T M S Cooray (b) Election of Directors who were appointed to fill casual vacancies ● Ms J Lee ● Mr R Senanayake ● Mr S Muhseen	

	Disclosure requirement	Reference to the relevant statute/ rule	Page reference for compliance and other necessary disclosures	Page/s
			(iii) Directors who served on the Board for nine years - None as at end of 2020. [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) is limited to nine years. Further, under the criteria to assess the fitness and proprietry of Directors, the age of a person who serves as director of a bank has been restricted to a maximum of 70 years]. Mr K G D D Dheerasinghe (former Chairman) and Mr M P Jayawardena (former Deputy Chairman) whose tenure of service on the Board reached nine years, relinquished office w.e.f. December 21, 2020, and December 29, 2020, respectively. Mr S Swarnajothi who reached seventy years of age during the year under review, retired w.e.f. August 20, 2020.	
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	186
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, 2020 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				
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	Inner Front Cover
13.	Review of business operations of the Group and the Bank and future developments	RBP	"Joint Message from the Chairman and his predecessor" and "Managing Director/Chief Executive Officer's Review"	13 to 17
			Management Discussion and Analysis	41 to 62
			Note 62 to the Financial Statements: Operating segments	253 to 255
14.	Gross income	RBP	Notes 12 and 62 to the Financial Statements: Gross income and operating segments	178, and 253 to 255
15.	Dividends on ordinary shares	RBP	Notes 25 and 69 to the Financial Statements: Dividends and Events after the reporting period	190 and 290
			Annex I – "Investor Relations" – Item 4	299

	Disclosure requirement	Reference to the relevant statute/ rule	Page reference for compliance and other necessary disclosures	Page/s
16.	Reserves and appropriations	RBP	Statement of Changes in Equity	146 to 153
			Notes 54, 55 and 56 to the Financial Statements: Statutory reserves, Retained earnings and other reserves	244 to 248
17.	Corporate Social Responsibility (CSR)	RBP	CSR Initiatives 2020	18 and 19
18.	Extents, locations, valuations and the number of buildings of the entity's land holdings and investment properties	LR 7.6 (VIII)	Note 39 to the Financial Statements: Property, plant and equipment and right-of-use assets	214 to 225
			Note 40 to the Financial Statements: Investment property	225 and 226
			Note 58.2 to the Financial Statements: Capital commitments	249
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	219 to 223
			Note 40.1 (b) to the Financial Statements: Information on Investment properties of the Group – valuations	226
20.	Issue of shares and debentures			
20.1	Issue of shares by the Bank	LR 7.6 (XIII)	Notes 52 and 52.1 to the Financial Statements: Stated capital and movements in number of shares	241
20.2	Issue of debentures by the Bank	LR 7.6 (XIII)	Note 51 to the Financial Statements: Subordinated liabilities	240
			Annex I – "Investor Relations" – Item 10	302 and 303
20.3	Issue of shares and debentures by the subsidiaries and associate	CA S.168 (1) (e)	During the year 2020, CBC Finance Ltd. (formerly known as Serendib Finance Ltd.), issued 70,323,488 shares at Rs. 14.22 per share for a total consideration of Rupees one Billion (Rs.1 Bn.) in order to raise required funds to meet the shortfall in statutory minimum core capital requirement (In 2019, the Company issued 12,491,070 shares at Rs. 14.01 per share for a total consideration of Rupees one hundred and seventy five million (Rs. 175 Mn.) for the same purpose). During the year 2020, the Bank acquired a further 20% stake in Commercial Insurance Brokers (Pvt) Ltd., (CIBL), from Commercial Development Company PLC (which had a stake of 20% in CIBL), for a purchase consideration of Rupees one hundred and twenty five million (Rs. 125 Mn.). With this acquisition of shares, the Bank's stake in CIBL increased to 60% as at December 31, 2020. During the year 2019, the Bank acquired 40% stake in CIBL at a total purchase consideration of Rupees Two Hundred and Fifty Million (Rs. 250 Mn.) from Chemanex PLC. 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 & 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 (III) LR 7.6 (IV) LK 7.6 (X) LR 7.13.1	Annex I – "Investor Relations" – Item 5	299 to 302
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		Annex 7 – Decade at a Glance	354 to 357
	Information on listed debt		Annex I – "Investor Relations" – Item 10	302 and 303
			Annex 3 – Basel III – Disclosures under Pillar II as per Banking Act No. 01 of 2016 - Disclosure 6 – Main features of regulatory capital instruments	334 and 335
21.3	Information on shares traded and the number of shares represented by the stated capital	LR 7.6 (IX)	Annex I – "Investor Relations" - Item 1 to 3	295 to 299

	Disclosure requirement	Reference to the relevant statute/ rule	Page reference for compliance and other necessary disclosures	Page/s
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 for Financial Reporting – Item (k)	108
22.	Information on Directors' meetings and Board Committees			
22.1	Directors' meetings	RBP	Details of the meetings of the Board of Directors	79
22.2	Board committees	RBP	Board Committee Reports	86 to 100
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)	Annex I - "Investor Relations" - Item 5.5 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, 2021, the date being one month prior to the date of Notice of the Annual General Meeting	302
23.2	Directors' interests in debentures	LR 7.6 (V) and RBP	Mr S Renganathan, MD/CEO, held 20,000 debentures of the Bank as at December 31, 2020. 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 to the Financial Statements: Share-based Payment	241 to 244
			The Bank and any of its subsidiaries have not, directly or indirectly, provided funds for the ESOPs	241 to 244
			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	2020		2019	
	Mr S Renganathan	**Mr S C U Manatunge**	Mr S Renganathan	Mr S C U Manatunge
As at January 1	123,580	76,452	184,633	110,355
Vested during the year	115,353	72,844	–	–
Exercised during the year	–	–	(24,222)	(11,119)
Expired during the year	(37,933)	(23,467)	(36,831)	(22,784)
As at December 31	201,000	125,829	123,580	76,452

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	113
			Note 21 to the Financial Statements: Other operating expenses	186
			Note 63 to the Financial Statements: Related party disclosures	255 to 259
		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	

	Disclosure requirement	Reference to the relevant statute/ rule	Page reference for compliance and other necessary disclosures	Page/s
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"	57 to 63
28.	Declaration on statutory payments	RBP	Statement of Directors' responsibility – Item (h)	107
29.	Events after the reporting period	RBP	Note 69 to the Financial Statements: Events after the reporting period	290
30.	Going concern	RBP	Statement of Directors' Responsibility – Item (m)	108
31.	Directors' responsibility for financial reporting	CBSL Direction 3.8. (ii) (a)	Statement of Directors' Responsibility – Compliance Report	107 and 108
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 reappointed as Auditors of the Bank, at the last AGM held on June 25, 2020, to carry out the audit for the year ended December 31, 2020, and will hold the office until the conclusion of the next AGM of the Bank which is to be held on March 30, 2021. 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) (l)	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, 2021 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	186
33.	Material issues pertaining to employees and industrial relations	LR 7.6 (VII)	Annex I – "Investor Relations" – Item 8	302
34.	Risk management and system of internal controls	LR 7.6 (VI)	Risk Governance and Management	114 to 133
			Report of the Board Integrated Risk Management Committee	89 and 90
			Note 68 to the Financial Statements: Financial risk review	261 to 290
			The Directors' Statement on Internal Control over Financial Reporting	109 and 110
			The Independent Auditors' Report	138 to 140
			Independent Assurance Report on the Directors' Statement on Internal Control over Financial Reporting	111
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;	

	Disclosure requirement	Reference to the relevant statute/ rule	Page reference for compliance and other necessary disclosures	Page/s
			(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 associate are prepared based on the going concern assumption	
36.	Focus on new regulations	RBP	The Bank complied with the requirements of the Circulars and the Banking Act Directions issued by the CBSL to support COVID-19 affected businesses and individuals, and the requirements of the guidence notes on implications on Financial Reporting issued by CA Sri Lanka	
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	345 and 346
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 Report of the Board Human Resources and Remuneration Committee	93 and 94
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 Report of the Board Technology Committee	98 and 99
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 Bank will not have a material impact on the reported financial results or future operations.	
			Note 60 to the Financial Statements: Litigation Against the Bank	250 and 251
42.	Disclosure on related party transactions	LR 9.3.2 (a) and (b)	Note 63 to the Financial Statements: Related Party Disclosures	255 to 259
		LR 9.3.2 (c)	Report of the Board Related Party Transactions Review Committee	95
		LR 9.3.2 (d)	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 52nd AGM of the Bank will be held on Tuesday, March 30, 2021 at 10.30 a.m. at the Auditorium of Commercial Bank of Ceylon PLC, 9th Floor, Union Place Branch Building, No. 1 Union Place, Colombo 2, as a virtual meeting using a digital platform. Notice relating to the 52nd AGM of the Bank is enclosed at the end of the Annual Report.	

Statement of Directors' Responsibility for Financial Reporting

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 138 to 140.

In terms of Sections 150 (1), 151, 152 and 153 (1) and (2) of the Companies Act No. 07 of 2007 and amendments thereto, the Board of Directors of the Bank is 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, 2020, 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 confirms 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, 2020; 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 143 to 290 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 ended December 31, 2020, 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 86 to 88. 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 has 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 109 and 110;

(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 60 to the Financial Statements on "Litigation against the Bank" on pages 250 and 251.

(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, subject to complying with all the conditions imposed by the Central Bank of Sri Lanka, 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. Considering the prevailing situation in the Country, we have hosted a soft copy of this Annual Report in the Investor Relations section of the Bank's website (https://www.combank.net/newweb/en/investors), in addition to the soft copy thereof available in the CSE website, for the benefit of other shareholders within the stipulated period of time as required by the Rule No. 7.5 (a) and (b) of Continuing Listing Requirements of the Listing Rules of the CSE, instead of sending a soft copy in a CD.

(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 of 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 has 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 24, 2021 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 held on June 25, 2020, 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 in the "Independent Auditors' Report" which appears as reported by them on pages 138 to 140;

Accordingly, the Board of Directors is 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 24, 2021

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 the Code of Best Practice on Corporate Governance 2017 (Code) issued by CA Sri Lanka, 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 misstatements 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 the 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 controls 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 risks and controls 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 line 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/ IS Audit Unit of the Bank checks for compliance with policies and procedures and the effectiveness of the internal control systems/information system controls on an ongoing basis using samples and rotational procedures and highlights significant findings in respect of any non-compliance. On-site, Online and Off-site audits are carried out covering all departments, branches, subsidiaries and overseas operations in accordance with the annual audit plan reviewed and approved by the BAC. The type/frequency of audits of business units are determined by the level of risk assessed, to provide an independent and objective report. Findings of the internal audits are submitted to the BAC for review at their periodic meetings. Initiatives taken by Inspection/Internal Audit Department to audit certain selected areas of the business "online" during the year 2016 on a limited scope, were expanded to cover all branches in Sri Lanka and Bangladesh, Corporate Banking Unit, Digital Banking Unit, Card Centre, Treasury, Finance, and Subsidiaries – CBC Finance Limited, Commercial Bank of Maldives Private Limited and CBC Myanmar Microfinance Company Limited during 2020 as well. Scope of online, near time and real time audits was further enhanced to cover high risk transactions of the Bank during COVID-19 pandemic. In addition, monitoring over cybersecurity controls, modifications to core banking systems/databases was further strengthened utilising appropriate tools/techniques and resources. 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. Also Off-site/Online audit were introduced during 2020 to test and verify internal controls relating to credit area of branches. 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 the 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 the internal audit function with particular emphasis on the scope, quality, independence of internal audit, and the 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 "Report of the Board Audit Committee" which appears on pages 86 to 88.
- 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.

Effective from January 01, 2018, the Bank adopted the Sri Lanka Accounting Standard - SLFRS 9 on "Financial Instruments", which replaced the "incurred loss" model used under LKAS 39 with the forward looking "expected credit loss" model to calculate impairment provisions. This new methodology of computing impairment provisions had a significant impact on the Bank's methodology adopted on calculating the impairment losses for loans and advances. The processes that are required to comply with new requirements of recognition, measurement, presentation, and disclosures were introduced and implemented and were continuously strengthened based on the feedback received from the External Auditor, Internal Audit Department, regulators, and the BAC. Continuous monitoring is in progress and steps are being taken to make further 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. The Bank's Internal Audit Department commenced testing these processes since first quarter of 2013 and continued to do so in 2020 as well. The outcome of such exercise was tabled regularly for review by the BAC during the year 2020. Having recognised the need to introduce an automated platform for various computations required under SLFRSs and LKASs including loan impairments, the Bank signed up with a renowned software solutions provider to automate impairment calculations and this project is expected to be completed during 2021. With the implementation of the above software system, it is expected to eliminate manual intervention in calculating impairment provisions to a great extent.

The comments made by the External Auditor in connection with the internal control system over financial reporting in previous years were reviewed during the year and necessary steps have been taken to address them where appropriate. The recommendations made by the External Auditor in 2020 in connection with the internal control system over financial system will be dealt with in the future.

The Assurance Report of the External Auditors in connection with internal control over financial reporting appears on page 111.

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 Auditor, Messrs Ernst & Young, has reviewed the above Directors' Statement on Internal Control included in this Annual Report of the Bank for the year ended December 31, 2020 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 pages 109 and 110 of this Annual Report.

By Order of the Board,

Justice K Sripavan
Chairman

Prof A K W Jayawardane
Deputy Chairman

R Senanayake
Chairman – Board Audit Committee

S Renganathan
Managing Director/Chief Executive Officer

Colombo
February 24, 2021

Independent Assurance Report

To the Board of Directors of Commercial Bank of Ceylon PLC

EY
Building a better
working world

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Chartered Accountants
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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, 2020.

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 24, 2021

Partners: W R H Fernando FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA Ms. Y A De Silva FCA W R H De Silva ACA ACMA W K B S P Fernando FCA FCMA
Ms. K R M Fernando FCA ACMA Ms. L K H L Fonseka FCA A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond) H M A Jayesinghe FCA FCMA
Ms. A A Ludowyke FCA FCMA Ms. G G S Manatunga FCA A A J R Perera ACA ACMA Ms. P V K N Sajeewani FCA N M Sulaiman ACA ACMA B E Wijesuriya FCA FCMA
Principals: G B Goudian ACMA T P M Ruberu FCMA FCCA
A member firm of Ernst & Young Global Limited

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, 2020 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 members of 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, 2019. Accordingly, there was no necessity to amend the comparative information 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 pages 138 to 140. 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 "Report of the Board Audit Committee" appearing on pages 86 to 88. The Bank engaged the services of five firms of Chartered Accountants approved by the CBSL to strengthen the audit and inspection functions. The continuous inspection and audit functions, engagement of firms of Chartered Accountants and effective functioning of the BAC, ensure that the Internal Controls and Procedures are followed consistently. To ensure complete independence, the External Auditors and the Internal Auditors have full and free access to the members of the BAC to discuss any matter of substance. However, there are inherent limitations that should be recognised in weighing the assurances provided by any system of internal control and accounting.

It is also declared and confirmed that the Group and the Bank have complied with and ensured compliance with the guidelines for the audit of listed companies where mandatory compliance is required.

We confirm that to the best of our knowledge:

- The Bank and the Group have complied with all applicable laws and regulations and guidelines and there is no material litigation against the Group and the Bank other than those disclosed in Note 60 on pages 250 and 251 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, 2020 have been paid, or where relevant provided for.

S Renganathan
Managing Director/Chief Executive Officer

K D N Buddhipala
Chief Financial Officer

Colombo
February 24, 2021

Directors' Interest in Contracts with the Bank

Related party disclosures as per the Sri Lanka Accounting Standard – LKAS 24 on "Related Party Disclosures" is disclosed in Note 63 to the Financial Statements on pages 255 to 259 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.

Table – 32

Director/Company	Accommodation granted/Deposits		Current limit	Balance/outstanding	
			as at 31.12.2020	as at 31.12.2020	as at 31.12.2019
			Rs '000	Rs '000	Rs '000
(a) **Prof A K W Jayawardane**					
Sierra Cables PLC	Loans and advances	Combined Limits available	1,540,000	799,812	704,897
	Off-balance sheet accommodations		815,450	1,596,587	1,300,728
	Deposits			83,581	77,847
Mother Lanka Foundation	Loans and advances		1,620	1,620	–
	Deposits			2,855	2,247
Arthur C Clarke Institute for Modern Technologies	Deposits			27	–
(b) **Mr S Renganathan**					
International Chamber of Commerce – Sri Lanka	Deposits			24,526	28,626
The Employers' Federation of Ceylon	Deposits			238	–
(c) **Ms N T M S Cooray**					
Ceylon Tea Brokers PLC	Deposits			861	29,067
Jetwing Hotels Ltd.	Deposits			542	2,666
Negombo Hotels Ltd.	Deposits			1,579	2,248
The Lighthouse Hotel PLC	Deposits			13,840	5,841
Jetwing Travels (Pvt) Ltd.	Loans and advances		58,953	26,370	11,562
	Off-balance sheet accommodations		50,000	19,321	46,421
	Deposits			1,074,914	410,385
Jetwing Air (Pvt) Ltd.	Loans and advances		45,000	25,000	–
	Off-balance sheet accommodations		65,000	36,906	36,906
	Deposits			33,767	193,697
Jetwing Hotel Management Services (Pvt) Ltd.	Deposits			26	126
Allianz Insurance Lanka Ltd.	Loans and advances			1	1
	Deposits			98,986	69,392
Go Vacation Lanka Co. (Pvt) Ltd.	Deposits			1,243	4,046
Allianz Life Insurance Lanka Ltd.	Deposits			8,287	1,172
Yarl Hotels (Pvt) Ltd.	Deposits			21	438
Jetwing Symphony Ltd.	Deposits			181	425
Capital Alliance Holdings Ltd.	Deposits			1,880	1,147
(d) **Mr L D Niyangoda**					
A Baur & Company (Pvt) Ltd.	Loans and advances	Combined Limits available	3,281,250	281,250	8,570,744
	Off-balance sheet accommodations		5,890,000	4,589,147	3,864,218
	Deposits			2,963,406	7,754,799
(e) **Mr T L B Hurulle**					
Kanrich Finance Ltd.	Loans and advances		7,725	4,220	9,322
	Deposits			11,017	3,612
(f) **Mr R Senanayake**					
Virtual Capital Technologies (Pvt)Ltd.	Deposits			66	–

Risk Governance and Management

Navigating 2020

The COVID-19 pandemic made the year 2020 unprecedented in the recent history with a vast majority of the individuals, communities and organisations across the globe being severely affected in terms of their lives and livelihoods. Besides the demand and supply side shocks, it has shaken the financial markets with bond yields, oil, and equity prices falling sharply and trillions of dollars across most of the asset classes seeking safety. Central banks world over proactively intervened with various measures such as interest rate cuts, intervention in the repo market, injecting liquidity into the markets, easing regulatory capital and liquidity requirements, extending moratoriums and concessionary refinancing schemes, temporary waiver of rules and regulations, etc. to calm the markets, minimise the impact, maintain customer confidence and support economic growth.

Hot on the heels of the Easter Sunday attack in 2019, the pandemic caused a double whammy on the Sri Lankan economy. Deteriorating economic activity and less favourable economic outlook exerted immense pressure on certain industries, affected asset quality, and reduced demand for banking products and services. These developments aggravated the challenges faced by the financial services industry in terms of growing business and maintaining operational excellence besides addressing health and safety concerns of employees and the public in general. These coupled with the still evolving nature of the pandemic and the continuing uncertainty surrounding it elevated the risk profiles of the financial institutions, requiring them to remain extra vigilant.

The pandemic also turned out to be a digital banking ‘reality check’ for financial institutions, regulators and governments. Despite all the preparations over the past several years for a ‘digital banking ecosystem’ many came to the realisation that basic digital banking deliverables were falling short of expectations at a time when the consumer has a few options. From the opening of a new account, on-boarding customers to digital platforms, to the application for a loan or authorising identities, the existing digital banking systems were found to be inadequate to support banking without branches.

However, with the swift action by the regulator to temporarily allow opening of wallet and wallet facilitation accounts fulfilling the KYC requirements digitally, the Bank was able to utilise its fully-fledged Digital Bank Account for on-boarding new customers and allow opening of accounts 100% digitally. The Bank also facilitated self on-boarding of existing customers to online applications to support the digital drive.

From a risk management perspective, restrictions on physical movements, strict health and safety regulations, adoption of new working arrangements, relaxation of certain regulatory requirements to accommodate continuity of banking operations, lacklustre economic growth, import restrictions, a deterioration in asset quality, muted credit growth resulting in excess local currency liquidity, and a dearth in foreign currency flows due to global business disruptions, etc. posed severe challenges to financial institutions.

Managing the impact of Covid-19

Covid-19 tested the effectiveness and agility of the risk management processes and practices in place at the Bank. As a result of the Bank having formulated its risk management strategy in terms of the underlying risk governance and risk management framework by taking the context and outlook into account, the Bank was able to take meaningful and timely measures to minimise the impact of Covid-19 on its day-to-day operations, continue to service the customer with minimal disruptions and maintain asset quality and viability of its operations. These measures included activation of the business continuity and contingency plans, close monitoring of stress indicators, regular communication with the stakeholders, strict adherence to health and safety guidelines, alternative workplace arrangements such as split work sites, Working From Home (WFH), flexible working arrangements by rotating shifts for employees, self on-boarding on digital applications as permitted by the regulator, strengthening further the outreach to customers through existing means such as ‘Banking on Wheels’/ mobile ATM etc. A lot of valuable lessons have also been learned in the process on how to retain operational resilience, which can be implemented when normalcy returns. Certainly, the pandemic has further accelerated migration of financial service delivery to digital channels and connectivity.

Although business continuity and disaster recovery plans in place had not been tested for wide-scale impacting scenarios such as those arising out of the pandemic leading to a real “Black Swan” event resulting in a “Perfect Storm”, and the proportion of staff that was required to work remotely exceeded what was envisaged while developing these plans, the Bank managed to promptly deploy effective and secure remote working solutions and collaboration tools in order to keep the interruptions to customer services at a minimum. Within a very short time-span, the Bank managed to enhance its existing remote access solutions by leveraging globally-renowned, sophisticated remote access technologies fortified with multiple layers of security.

As evident from the results of operations and financial position reflected in the financial statements published in this Annual Report, the Bank was able to demonstrate resilience against the tide and successfully weather the vulnerable, uncertain, complex, and ambiguous operating environment during the year. Further, the Bank has already commenced necessary re-building and improvements to fortify itself for possible crisis situations in the future, in a far more challenging environment than in the past.

Business model and risk

Being a commercial bank, the Bank’s business model is centered around financial intermediation and maturity transformation (refer Business Model for Sustainable Value Creation on page 35), which enabled the Bank to gear its capital of Rs. 157.2 Bn. 11 times to operate with an on-balance sheet asset base of Rs. 1,736.2 Bn. as at December 31, 2020. This exposes the Bank to a multitude of risks, which conventionally include credit risk (71%), operational risk (4%) and market risk (3%) in particular, based on the amount of capital allocated as per Basel capital adequacy requirements. In addition, a host of ancillary risks also have arisen due to various emerging developments, which are threatening to disrupt the business model of the Bank (refer pages 32 to 34 for a list of such emerging developments) although many such risks are not self-made. These together with the impact of the Covid-19, which materially impacted almost all the main risk categories, elevated the risk profile of the Bank, making it imperative that it 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.

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 positive risk culture within the Bank embodying values, beliefs, attitudes, and practices that drive highly effective risk decisions;
- to establish functional responsibility for decisions relating to accepting, transferring, mitigating and minimising risks, and recommending the best 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 liquidity and capital to honour contractual obligations and meet unexpected losses; and
- to integrate risk management with strategy formulation and execution.

Key developments in 2020

Major initiatives relating to risk governance and risk management during the year included:

- **Carrying out analysis to proactively identify Risk Elevated Industries**

Given that the challenging operating environment may have a significant impact on the Bank's lending portfolio based on concentrations associated with different industries to which the Bank has exposures, it became of paramount importance to the Bank to isolate and manage industry risk by understanding its exposures most at risk. This became essential to develop capabilities and strategies to manage such exposures and to make an informed assessment of potential for expected credit losses and their impact on the Bank's capital levels.

The Bank's careful analysis revealed that, as the Government support for the economy tapers off and the Bank's own relief schemes to borrowers subside, the delinquencies are likely to increase in the subsequent years owing to the prolonged effects of the economic downturn amplified by the COVID-19 pandemic. A more proactive approach therefore was warranted by making provisions to withstand the impact of exposures to Risk Elevated Sectors on the Bank's capital base.

Accordingly, the Bank carried out an analysis to identify Risk Elevated Industries under Covid-19 related stressed operating environment based on the "Availing of Moratoria" by borrowers in the Bank's loan book. This was done by identifying and classifying the facilities for which moratoria were granted based on the Lending Sectors to which the loan proceeds were utilised and making appropriate provisions to withstand the forecasted impact. Accordingly, the Bank has taken Rs. 2.9 Bn. overlays to reflect potential for any further credit deterioration.

- **Private placement to strengthen the capital**

The Bank secured a private placement of USD 50 Mn. to further strengthen the capital through IFC, the World Bank's investment arm, demonstrating their faith in the future potential of the Bank.

- **Continuous review of the USD liquidity position**

The Bank constantly reviewed its USD liquidity position through liquidity gap reports, liquidity ratios, and forecasts. Reliance on FCY SWAPs used by the Bank as a funding tool was reduced towards the 04th quarter of 2020 as the demand for them decreased considerably in line with market movements. The Bank initiated negotiations with international banks for securing funding lines towards meeting any gaps in future commitments, while taking into account growth in FCY deposits secured by having constantly reviewed the rates offered.

- **Managing excess Rupee liquidity**

Muted credit growth and inflow of deposits caused the Bank to have excess Rupee liquidity throughout the year. Having analysed the potential movements of interest rate forecasts in coming years, the Bank rebalanced the maturity profile of its government securities portfolio in order to enhance returns.

- **Loan Review Mechanism**

The Loan Review Mechanism (LRM) was continuously carried out ensuring adherence to the regulatory Direction even during the pandemic. This was possible due to LRM which was initially implemented by the Bank as a physical activity by visiting the Lending Units/Branches being gradually transferred to a more digitalised platform in order to reduce physical interactions. The WFH service delivery channel adopted by the Bank during this period also helped the Bank to continue LRM as well as its other services to the Business Units.

- **Appointment of the Chief Information Security Officer (CISO)**

In consideration of CBSL directions, the Bank appointed a CISO during the year reporting to the Managing Director / Chief Executive Officer to provide leadership to the Bank's overall information security function.

- **Continuous process improvements to further strengthen information and cyber security**

The Bank implemented several technical solutions and process improvements to address the ever-evolving cyber security threat landscape, especially in the wake of the COVID-19 pandemic and the resulting changes to the working arrangements. These included solutions related to Data Leakage Prevention, Privileged Access Management, Security Information and Event Management, etc. The Bank was cognisant of the increased cyber security risk arising from the rapid rolling out of at-scale WFH solutions, and continuous risk assessments were carried out on the critical processes to ensure that risk levels are maintained at acceptable levels.

- **Development of a Climate Position Statement**

The Bank firmly believes that natural resources are finite and need to be used sustainably. Moreover, the Bank has duly identified its role in providing private sector financial support to customers and subsidiaries in mitigating climate change effects through "Climate Financing". It paved the way to integrate the Climate Change consideration into the Bank's governance, strategy, risk management, and external reporting requirements under the vast scope of this subject.

As part of this initiative, the Bank has identified the importance of a well-articulated approach to climate change applicable to all the Branches and Departments regardless of their geographic location. Accordingly, the Position Statement on Climate Change 2020/2021 was developed and published expressing the Bank's commitment to finance, climate change mitigation, adaptation, and environmentally beneficial activities within all main geographic locations where the Bank operates in i.e. Sri Lanka, Bangladesh, the Maldives, and Myanmar.

Other developments and outcomes relating to risk management during the year included;

- Devised tools to carry out in depth analysis of borrowers affected by the pandemic, enabling evaluation of specific aspects in detail to understand the risks stemming from the exposure to the pandemic.

- Managed reputational risk through elevated service levels under a constrained environment which included keeping the branches open for the customers, looking after the hygiene factors of all stakeholders, mobilisation of ATMs, facilitation of online on-boarding, and ensuring uninterrupted services to customers by promptly introducing necessary adjustments to the existing BCP/DRP arrangements to match the unprecedented operational changes resulting from the pandemic.
- The progress of the project initiated for implementing an Early Warning Signals (EWS) framework with a view to further enhance credit quality of the loan book of the Bank was delayed during the first half of the year due to prioritisation of pandemic related activities within the Bank. However, the evaluation of shortlisted products/vendors recommenced towards the latter part of the year considering the importance of having this capability within the Bank in the near future.

The Overall credit risk of the Bank heightened leading to a deterioration in asset quality as reflected in the gross non-performing loans ratios of 5.11% whilst the net non-performing loans ratio improved to 2.18% as at 31.12.2020 as against 4.95% and 3.00% as at 31.12.2019, a trend that was witnessed across the industry. With the still evolving nature of the pandemic and the uncertainty surrounding it, the Bank is also cognisant of the potential for further deterioration in asset quality and has made additional impairment provisions. Lacklustre economic activities, travel and other restrictions on physical movements and muted credit growth caused the Bank to have excess liquidity throughout the year under review. Relaxation of systems and procedures, alternative workplace arrangements and heavy reliance on digital channels caused operational risk too to undergo changes, but there was no increase in the operational risk profile in terms of events and losses 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 appetite and risk profile

The Bank has a well-defined Risk Appetite Statement that articulates the types and degree of risk and the maximum amount of aggregate risk exposure that the Bank is prepared to assume at any given point in time. It is expressed in terms of quantitative parameters for important risk indicators under each risk category for ease of monitoring. It manifests the desired asset quality, maximum market and operational risk losses and minimum capital and liquidity requirements, taking into account the regulatory requirements, strategic focus, ability to withstand losses and stress with the available capital, funding and liquidity positions and the robustness of the risk management framework.

The risk management function periodically reports the overall risk profile of the Bank to the Management and the Board in terms of Key Risk Indicators and a Risk Profile Dashboard. With the help of this information, the risk profile is rigourously monitored on an ongoing basis with the due consideration it deserves and swift remedial action is taken for any deviations, to ensure that the actual risk exposures across all the risk categories are kept within the risk appetite.

With strong capital adequacy and liquidity positions 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. The risk profile of the Bank as at December 31, 2020 and December 31, 2019 compared to the risk appetite as defined by the regulatory/Board approved policy parameters is given below.

Risk profile Table – 33

Risk category and parameter	Key risk indicator	Policy parameter	Actual position	
			As at December 31, 2020	As at December 31, 2019
Credit risk:				
Quality of lending portfolio	Gross NPA ratio	3% – 8%	**5.11%**	4.95%
	Net NPA ratio	2% – 6%	**2.18%**	3.00%
	Impairment percentage over total NPA	40% – 60%	**46.95%**	44.23%
	Weighted average rating score of the overall lending portfolios	35% – 40%	**52.93%**	53.44%
Concentration	Loans and advances by product – Highest exposure to be maintained as a percentage of the total loan portfolio	30% – 40%	**21.72%**	19.73%
	Advances by economic sub sector (using HHI-Herfindahl-Hirschman-index)	0.015 – 0.025	**0.0145**	0.0145
	Exposures exceeding 5% of the eligible capital (using HHI)	0.05 – 0.10	**0.0057**	0.0057
	Exposures exceeding 15% of the eligible capital (using HHI)	0.10 – 0.20	**0.0055**	0.0044
	Exposure to any sub sector to be maintained at	4% – 5%	**4.33%**	3.97%
	Aggregate of exposures exceeding 15% of the eligible capital	20% – 30%	**12.25%**	12.61%
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. 2,250 Mn.	**Rs. 267.12 Mn.**	Rs. 932.75 Mn.
	Re-pricing gaps (RSA/RSL in each maturity bucket – up to one- year period)	<1.5 Times (other than for the 1 month bucket which is <2.5 Times)	**1.11 Times (1.78 Times for 1 month bucket)**	1.39 Times (2.56 times for 1 month bucket)

Risk category and parameter	Key risk indicator	Policy parameter	Actual position	
			As at December 31, 2020	As at December 31, 2019
Liquidity risk	Statutory Liquid Asset Ratio (SLA) for Domestic Banking Unit (DBU)	20%	**44.99%**	30.42%
	Liquidity Coverage Ratio (LCR) for All Currencies	100%	**258.06%**	224.74%
	Net Stable Funding Ratio (NSFR)	100%	**157.49%**	137.05%
Foreign Exchange risk	Exchange rate shocks on Total FCY exposure	Rs. 350 Mn.	**Rs. 301.20 Mn.**	Rs. 267.68 Mn.
Operational risk	Operational loss tolerance limit (as a percentage of last three years average gross income)	3% – 5%	**0.58%**	0.78%
Strategic risk:	Capital adequacy ratios:			
	CET 1	Over 11%	**13.217%**	12.298%
	Total capital	Over 15%	**16.819%**	16.146%
	ROE	Over 20%	**11.28%**	13.54%
	Creditworthiness – Fitch Rating	AA(lka)	**AA-(lka)**	AA(lka)

(RSA – Rate Sensitive Assets, RSL – Rate Sensitive Liabilities)

Credit ratings

In January 2020 Fitch Ratings Lanka Limited revised the Bank's rating outlook of its National Long-Term Rating to negative from stable reflecting the challenging operating environment. However, following the recalibration of the agency's Sri Lankan national rating scale to reflect changes in the relative creditworthiness among Sri Lankan issuers following its downgrade of the sovereign rating to 'B-'/Negative from 'B'/Negative in April 2020, the Bank's Rating was revised upward from AA(lka) to AA+(lka) retaining the outlook at negative in June. Consequent to the downgrade of the sovereign rating by the agency in November 2020 and the recalibration of the agency's Sri Lankan rating scale again, the Bank's National Long-Term Rating was downgraded to AA-(lka)/Stable in January 2021.

The Bank's Bangladesh operations continued to be rated AAA by Credit Rating Information and Services Limited (CRISL), the highest credit rating given to any financial institution in Bangladesh by CRISL. These credit ratings coupled with the high capital and liquidity buffers available in the Bank and the steady and consistent performance even during the pandemic period depict the creditworthiness of the Bank and its conservative risk profile.

Outlook and plans for 2021 and beyond

The operating Environment on pages 27 to 34 provides an analysis of the outlook for the Sri Lankan and the Bangladesh economies and the financial services sectors for 2021 and beyond. With long-term implications of Covid-19 for financial institutions not yet precisely known, deteriorating credit quality and potential for increased impairment losses, reduced demand for banking products and services, a high degree of uncertainty will continue to prevail in the short to medium term. With further acceleration of digital channels, remote work arrangements with potential disruptions and escalating cyber security threats, non-financial risks will become more pressing. Banking regulations will be further widened and deepened amidst pervasive technological advances and macroeconomic shocks. Recovery and resolution will require heightened attention.

The context of these circumstances necessitates further strengthening of the risk governance and risk management function. Hence, the Bank will continue to make the necessary changes to the mandate, structure, resourcing, competencies, technologies, data analytics, and MIS, etc., thereby aligning business strategies with sound risk management practices and making risk management function more forward looking, value adding and proactive.

Specific initiatives planned for 2021 and beyond will include:

- Developing systems and processes for data capturing and using predictive tools in preparation for Basel IV proposed to be implemented globally in January 2023.
- Redefining risk assessment functions to suit digital platforms and using predictive capabilities for non-performing assets.
- Monitoring risk of competitor activity, entry of Fintechs and telecom giants into the banking industry in particular, and evaluation of feasibility of possible partnerships to leapfrog competition.
- Completion of implementation of the Early Warning Signals (EWS) framework capable of early detection and mitigation of credit risk to further enhance credit quality.
- Completion of implementation of Risk Adjusted Return on Capital (RAROC) Framework across the Bank and corporate counterparty levels.
- Extension of the Social and Environmental Risk Management Framework to the subsidiaries of the Group.
- Implementation of a climate risk assessment tool with a view to address potential climate related risks by reducing Carbon footprint of banking operations.

With large scale vaccination campaigns now underway and it being deemed as an effective exit strategy from the pandemic, latest predictions are that the pandemic should be brought under control in the near future, reviving hopes for a better outlook for 2021 and beyond.

Risk management framework

The Bank has developed an all-encompassing Risk Management Framework (RMF) based on the Three Lines of Defence model, which enables it a structured approach to manage all its risk exposures. It is underpinned by rigorous organisational structures, systems, processes, procedures and industry best practices and takes into account all plausible risks, potential losses, 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 and framework for managing risk and guides its day-to-day operations with the optimum balance of responsibilities.

The 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 – 21

1st Line of Defence	2nd Line of Defence	3rd Line of Defence
Business lines/Corporate functions	**Risk management and control**	**Assurance**
→ 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	→ Independently monitors effective implementation of risk management framework → Facilitates high levels of risk awareness throughout the organisation and ensures implementation of the risk management framework → Maintains a sound risk management policy framework → Carries out measurement, monitoring and reporting to the Management and Board Integrated Risk Management Committee → Objectively challenges First Line of Defence	→ 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
Line Management/Business Units	**Risk/Compliance Departments**	**Inspection/Audit**

Risk Governance

Risk governance is the necessary organisational structure for maintaining a high standard of governance. It enables decisions relating to risks to be taken and implemented for the management and oversight of risk within the risk appetite and the risk tolerance levels and for institutionalising a strong risk culture. It enables the Management to undertake risk taking activities more prudently.

The Board of Directors has established a robust governance structure by leveraging the best practice in corporate governance to risk management. It comprises Board committees, executive functions and executive committees with delegated authority, facilitating accountability for risk at all levels and across all risk types of the Bank and enabling a disciplined approach to managing risk. The organisation of the Bank's risk governance is given in Figure 22. Since it is highly specialised and also to ensure 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 apex governance body, the Board of Directors is responsible for strategy and policy formulation, objective setting and for overseeing executive functions and has the overall responsibility for understanding the risks assumed by the Bank and the Group and for ensuring that they are appropriately managed (refer pages 66 to 69 for the profiles of the members of the Board of Directors). Accordingly, the Board determines the risk appetite of the Bank with due regard to achieving its strategic goals and delegates oversight responsibility to Board committees (refer pages 82 to 84 for a list thereof). These Board committees 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 profile and 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.

In addition to the Three Lines of Defence model and the tone at the top, the Bank's commitment to conduct its business in an ethical manner too plays a significant role in managing risk in the Bank. The Code of Ethics has set 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.

In view of the potential for financial losses and reputational risk and also as required by regulatory authorities, the Board of Directors closely monitors the risk profile of all the subsidiaries in the Group apart from that of the Bank (refer page 156 for the list of subsidiaries).

Board committees

The Board has set up the following four Board committees to assist it in discharging its oversight responsibilities for risk management and for ensuring adequacy and effectiveness of internal control systems.

- Board Audit Committee (BAC)
- Board Integrated Risk Management Committee (BIRMC)
- Board Credit Committee (BCC)
- Board Strategy Development Committee (BSDC)

These committees periodically review and make recommendations to the Board on risk appetite, risk profile, strategy, 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 in the respective committee reports on pages 86 to 100.

Executive committees

Executive Management is responsible 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. Executive Integrated Risk Management Committee (EIRMC) comprises members from units responsible for credit risk, market risk, liquidity risk, social and environmental risk, operational risk and IT risk. Spearheaded by the EIRMC, the following committees have been set up on specific aspects of risk to facilitate risk management across the First and the Second Lines of Defence.

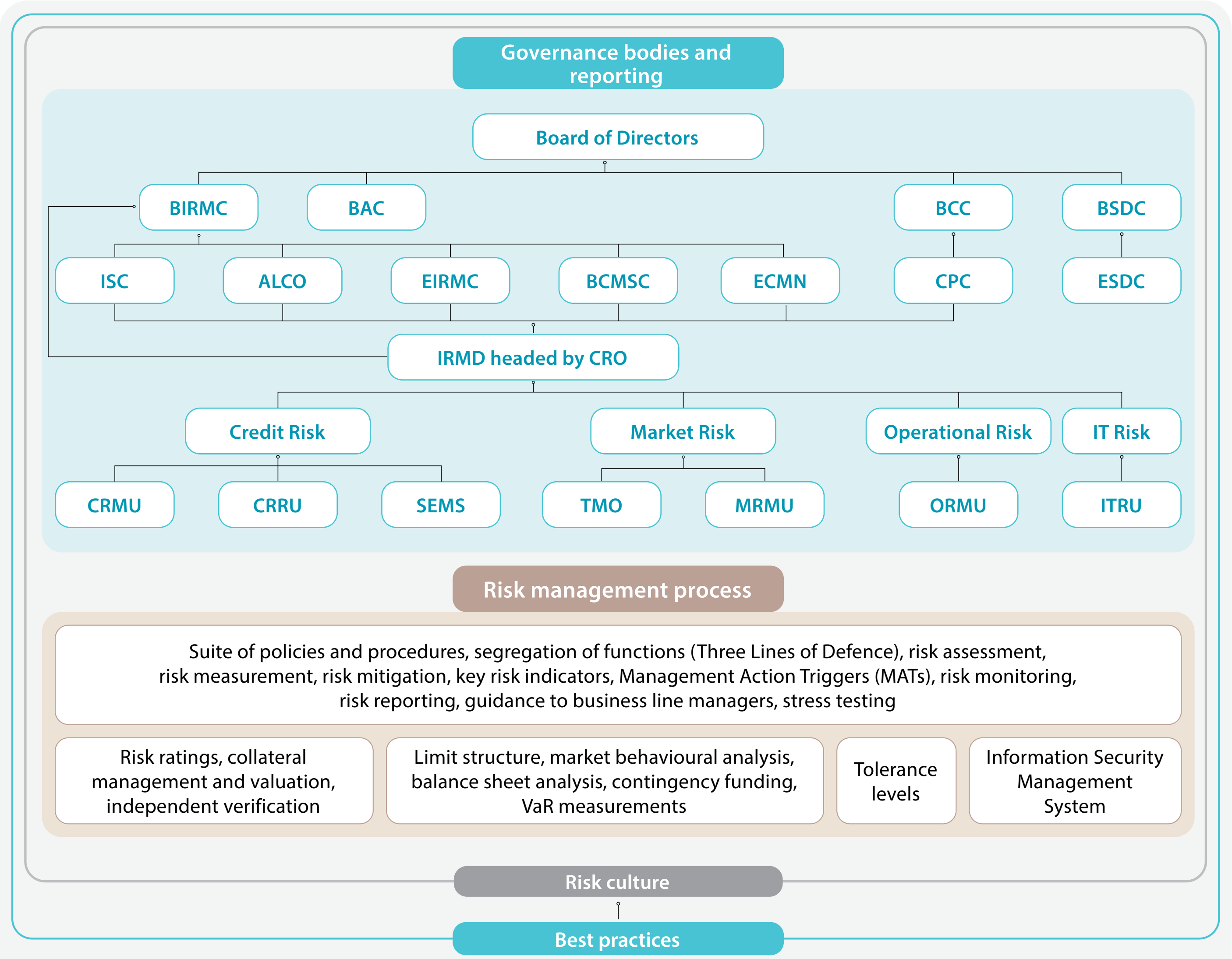
- Asset and Liability Committee (ALCO)
- Credit Policy Committee (CPC)
- Executive Committee on Monitoring Non-Performing Advances (ECMN)
- Information Security Council (ISC)
- Business Continuity Management Steering Committee (BCMSC)

EIRMC coordinates communication with the BIRMC to ensure that risk is managed within the risk appetite. In addition, the Chief Risk Officer reports directly to the BIRMC. Details relating to composition of the executive committees are given in the section on “Annual Corporate Governance Report” on pages 80 and 81.

The Chief Risk Officer, head of the Integrated Risk Management Department (IRMD) participates in the executive committees listed above as well as in BIRMC, BCC and BAC meetings. It is the responsibility of the IRMD to independently monitor compliance of the First Line of Defence to the laid down policies, procedures and limits and escalate 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 the Senior Management enabling effective communication of material issues and to initiate deliberations and necessary action.

Risk governance structure

Figure – 22



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 and 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 and 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. The risk management framework depicted on page 120 enables development and implementation of strategies, policies and procedures to manage risks, taking into account the strategic focus as defined in the Corporate Plan and the risk appetite.

The Bank has made significant investments to develop and maintain up-to-date infrastructure required in terms of both human and physical resources to strengthen detection and management of risks, including mandates, policies and procedures, limits, software, databases, expertise, communication, etc. and to adopt international best practices. Since risk management is a responsibility of each and every employee of the Bank and they need to clearly understand the risks the Bank is exposed to, IRMD provides ongoing training/awareness to the employees, risk owners in particular, disseminating knowledge and enhancing their skills on all aspects related to risk, inculcating the desired risk culture.

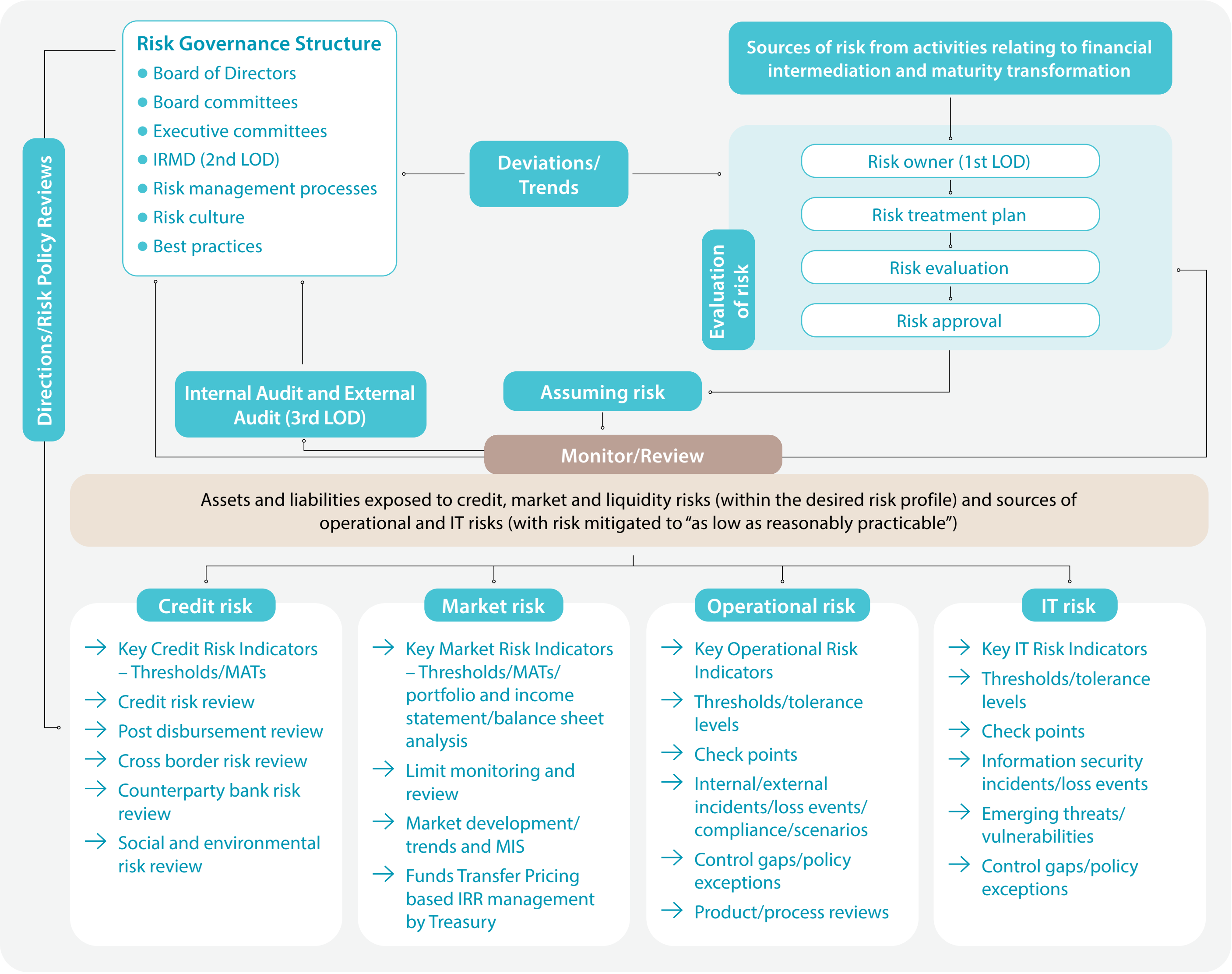
Policies, procedures and limits

The Bank has a suite of comprehensive risk management policies encompassing all the risks managed by the Bank to provide guidance to the business and support units for managing risks and for also ensuring 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. While institutionalising the risk knowledge base, this helps to minimise bias and subjectivity in risk decisions. These policy documents define the objectives, priorities and processes as well as the roles of the Board and the Management in managing risk and shape the risk culture of the Bank. The Risk Assessment Statement (RAS) sets out the risk limits and forms an integral part of the risk management framework. The RAS and all risk policies are reviewed by the BIRMC and the Board of Directors annually or more frequently, depending on the regulatory and business needs.

The Bank has taken into account the regulatory requirements of the respective countries where the Bank conducts its operations. The Bank's overall risk exposure including its overseas operations is compliant with the regulatory framework of the CBSL.

The Bank has issued comprehensive operational guidelines to facilitate implementation of the risk management policies and the limits specified in the RAS. These guidelines detail 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 – 23



Risk management tools

The Bank employs a combination of qualitative and quantitative tools to identify, measure, manage and report risks. Selection of the appropriate 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 include early warning signals, threat analysis, risk policies, risk registers, risk maps, risk dashboards, RCSA, ICAAP, diversification, covenants, Social and Environmental Management System, workflow-based operational risk management system, Information Security 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, VaR analysis etc.

Summary of key risks

Figure – 24

External

	▲ Economic performance and trade cycles	▲ Cyber threats	▼ Increased regulations	▲ Stability of fiscal and monetary policy	▲ Other emerging risks
Mitigation	Guiding business strategy and resource allocation communicated to business lines	Specialised teams within the risk management function (in addition to the First Line of Defence) and continued investments in enhancing cyber security	A dedicated compliance function and an independent internal audit function facilitate compliance	Close monitoring of trends for possible ramifications on the economy and business strategy which could impact asset quality and profitability	Offering unparalleled and unprecedented convenience by adopting the latest banking technology
Our objective	Safeguard stable funding sources, asset quality and returns	Safeguard information and ensure business continuity	Dynamic approach to comply with regulations		To satisfy the rising expectations of stakeholders and to be future ready

BANK

Internal

	▲ Credit risk	− People and operational risk	▼ Market risk	▲ Model risk	▼ Liquidity risk
Our objective	Safeguard the asset quality and reduce exposures to high risk segments	Creating an environment that enables performance while safeguarding the business	Safeguard against adverse movement of market factors arising from price sensitivities of funding sources, investments, lending or trading portfolios	Develop predictive capability to support the decision making process	Safeguard against funding constraints that prevent growth and meet demands of depositors/investors
Mitigation	Robust and rigorous risk assessment and pricing of loans in line with risk appetite and collateral support	Succession plans, code of conduct and business ethics, competency, policy frameworks, segregation of duties and internal controls	Monitoring, predicting and controlling through stringent limits and Management Action Triggers	Assumptions based models and behavioural testing through internal/ external independent validation	Retention and growth of a stable deposit base and tapping low cost funding sources locally and overseas, act as a buffer in addition to sound maintenance of the liquid asset portfolio to support contingencies

▲ Increasing trend in risk ▼ Decreasing trend in risk − No significant change

Types of risks

The Bank is exposed to financial, non-financial and strategic risks. Financial and non-financial risks can be broadly categorised into credit, market, liquidity, operational, reputational, IT, strategic and legal risks. All these risks taken together determine the risk profile of the Bank. Having a robust risk management framework in place enables the Bank to manage these risks prudently. Various external developments and internal factors may affect the risk profile on an ongoing basis.

External developments include;

- The pandemic situation
- Movements in macroeconomic variables
- Sovereign risk destabilising financial markets
- Political instability
- Demographic changes
- Changes in Government fiscal and monetary policies
- Technological advances
- Regulatory developments
- Mounting stakeholder pressures
- Competitor activities
- Unsubstantiated information being circulated in social media
- Decline in property market valuations giving rise to higher losses on defaulting loans
- Unfounded public perceptions that banks are exploiting customers
- Supply chain disruptions
- Downgrading of ratings of the Bank and
- Growing sustainability concerns

Besides limited physical movements of people and global trade due to the pandemic, the aforesaid 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 include;

- Strategic misalignments
- Lapses in implementing the risk management framework
- Improper alignment of remuneration to performance and risk
- Issues relating to third party products sold in the Bank premises
- Incorrect advice offered to customers
- Inaccurate predictions of macroeconomic variables
- Execution gaps in internal processes
- Lack of industrial harmony
- Critical accounting judgements and estimates turning to be inaccurate
- Poor data quality adversely affecting business and operational decisions and
- Subsidiaries and associates not performing upto expectations of the Bank

These factors, if not properly managed, may affect the risk profile of the Bank, reputational risk included, hampering the objective of sustainable value creation for all its stakeholders.

Furthermore, the operating environment has been made much more complex and unpredictable by some potentially disruptive emerging threats and uncertainties, resulting in some of the long-standing assumptions about markets, competition and even business fundamentals being less true today. These call for the Bank to better understand its stakeholders and meet their expectations with excellence in execution in internal processes. The Bank deals with these developments through appropriate strategic responses, believing that these provide opportunities to differentiate its value proposition for future growth. A summary of key risks is given in Figure 24 on page 121.

These developments are making the operating environment more complex, dynamic and competitive day by day and risk management very challenging. The effective management of these risks and uncertainties is nevertheless a *sine qua non* to the implementation of the Bank's strategy for value creation for all its stakeholders. Consequently, 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 given below.

Credit risk

Credit risk is the potential for loss arising from the failure of a customer/borrower or a counterparty to honour its financial or contractual obligations to the Bank. The Bank is primarily exposed to credit risk from direct lending activities as well as from commitments and contingencies. The total credit risk of the Bank constitutes counterparty risk, concentration risk and settlement risk.

Maximum credit risk exposure Table – 34

	As at December 31, 2020	
	Rs. Mn.	%
Net carrying amount of credit exposure:		
Cash and cash equivalents	50,250	2.1
Placements with central banks and other banks (excluding reserves)	110,344	4.7
Financial assets at amortised cost – Loans and advances to banks	779	0.0
Financial assets at amortised cost – Loans and advances to other customers	896,845	38.1
Financial assets at amortised cost – Debt and other financial instruments	292,727	12.5
Financial assets measured at fair value through other comprehensive income	278,461	11.8
Total (a)	1,629,406	
Off-balance sheet maximum exposure:		
Lending commitments	129,571	5.5
Contingencies	596,004	25.3
Total (b)	725,575	
Total of maximum credit exposure (a + b)	2,354,981	100.0
Gross carrying amount of loans and advances to other customers	947,842	
Stage 3 (credit impaired) loans and advances to other customers	102,575	
Impaired loans as a % of gross loans and advances to other customers		10.8
Allowance for impairment – loans and advances to other customers	50,996	
Allowance for impairment as a % of gross loans and advances to other customers		5.4
Impairment charge – loans and advances to other customers	17,865	

The maximum credit exposure of the Bank of Rs. 2,355.0 Bn. as at December 31, 2020 has grown by 28% compared to the previous year's figure of Rs. 1,839.5 Bn., largely due to parking of excess liquidity in other financial assets due to muted credit growth and moratoria extended to the borrowers in a very challenging economic environment that prevailed in the country.

According to the SLFRS 9 classification, the credit impaired (Stage 3) loans to customers stood at Rs. 102.5 Bn. (Rs. 96.6 Bn. in 2019) which is 10.8% (10.5% in 2019) 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. 50.9 Bn. (Rs. 35.8 Bn. in 2019) and an impairment charge of Rs.17.8 Bn. (Rs. 10.0 Bn. in 2019) for the year under review.

Managing credit risk

The lending portfolio accounts for 52% of total assets and credit risk accounts for over 90% of the risk-weighted assets. Hence, it is needless to overemphasise the critical importance of prudently managing the credit risk to the Bank's sustainability. In the circumstances, we endeavour to manage credit risk going beyond mere regulatory compliance in order to enhance value. It is managed through the Board approved credit risk management framework which comprises a robust risk governance structure and a comprehensive suite of risk management processes, which, among others, include policies and procedures, risk ratings, risk review mechanism, 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, dissemination of credit risk related knowledge and sharing information with internal audit.

Review of credit risk

The challenging operating environment following the Easter Sunday attack further deteriorated due to the Covid-19 pandemic related lockdowns, travel restrictions, supply chain disruptions, import restrictions and drop in exports. The consequent drop in economic activities and consequent loss of employment and disposable incomes led to a heightening of credit risk and a drop in asset quality across the financial services industry during the year, despite the numerous incentives offered by the Government to support businesses and individuals affected by the pandemic. The Bank too experienced this impact, but NPL ratios remained within the established policy parameters by the year end (refer risk profile on page 116). Continuous follow up of facilities that were subjected to moratoriums, recovery initiatives such as offering incentives and elevated levels of attention given to loan approvals and post-sanction monitoring and recovery efforts together with planned implementation of early identification of stressed borrowers through EWS will assist the Bank to gradually bring down these ratios in 2021 and minimise potential credit risk.

In addition to the effective credit risk management framework referred above that guides the Bank when on-boarding new exposure and monitoring existing exposure which makes an enormous contribution to maintain the quality of the loan book, the Bank is vigilant and exercises caution when choosing customers, products, segments and the geographies it serves. Continuous monitoring of age analysis and the underlying movement of past due loans through arrears buckets 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 – 14

		2020	2019
🟦	Gold	2.3%	2.6%
⬛	Investment Grade	73.9%	74.3%
🟦	Moderate Risk	19.1%	18.2%
🟫	High Risk	1.7%	1.6%
🟨	Extreme Risk	3.0%	3.3%

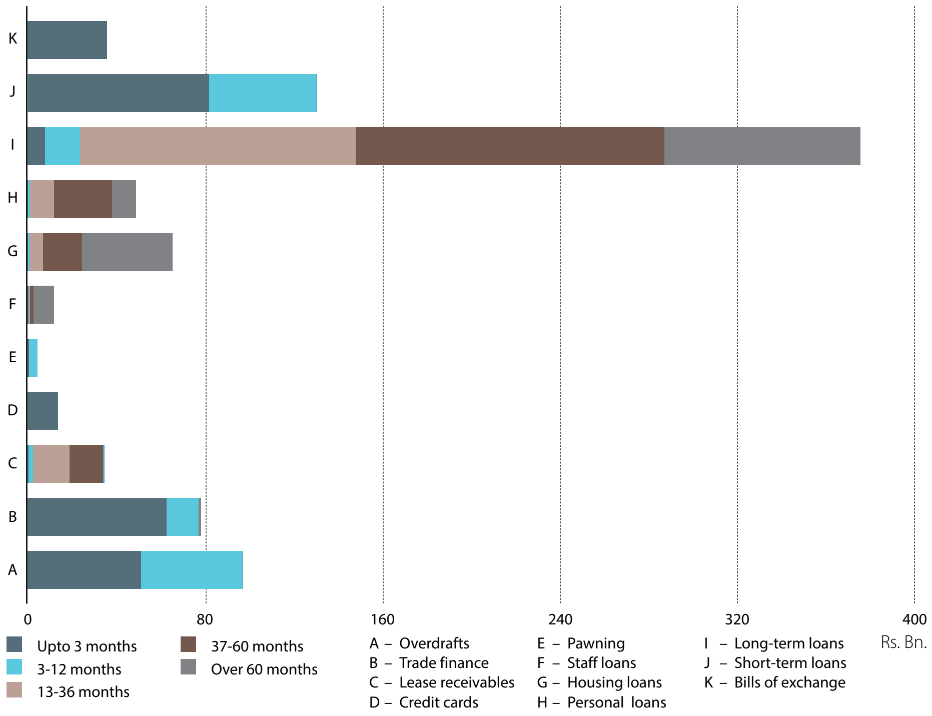
Concentration risk

It is through strategically diversifying the business across industry sectors, products, counterparties and geographies that the Bank manages concentration risk. The Bank's RAS defines the limits for these segments and to ensure compliance, the Board, BIRMC, EIRMC and the CPC monitor these exposures. They also make suggestions and recommendations on modifications to defined limits based on the trends and developments shaping the business environment.

The distribution of stage 3 credit impaired loans and advances to other customers in terms of identified industry sectors as at year end is given in Table 35 on page 124.

Graph 15 indicates that the tenor-wise breakdown of the portfolio of total loans and advances to other customers is within the risk appetite of the Bank.

Loans and advances to other customers by tenor-wise as at December 31, 2020 (based on residual maturity) Graph – 15

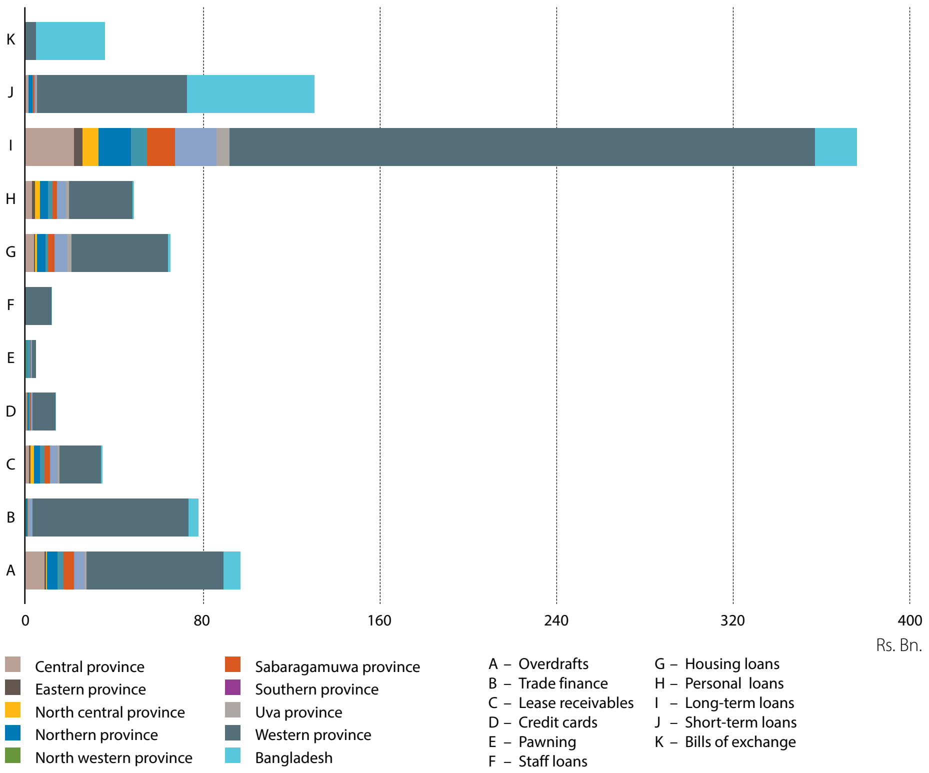


Distribution of stage 3 credit impaired loans and advances to other customers as at December 31, 2020 (Table – 35)

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	11,658,180	925,407	3,154,672	4,080,079	107,728
Arts, entertainment and recreation	282,039	9,962	50,376	60,338	63
Construction	7,052,936	3,206,972	1,373,811	4,580,783	71,041
Consumption and others	11,890,683	926,101	4,492,966	5,419,067	983,946
Education	341,000	367	114,732	115,099	19,037
Financial services	388,593	221	131,834	132,055	28
Health care, social services and support services	1,172,622	6,319	337,053	343,372	5,884
Information technology and communication services	1,796,746	3,305	287,848	291,153	2,210
Infrastructure development	3,063,165	159,252	288,633	447,885	–
Lending to overseas entities	1,599,311	151,572	241,416	392,988	–
Manufacturing	21,717,503	1,933,890	5,062,633	6,996,523	204,462
Professional, scientific and technical activities	512,312	2,104	189,685	191,789	6,430
Tourism	18,800,368	783,849	1,584,364	2,368,213	7,650
Transportation and storage	3,393,427	997,745	392,002	1,389,747	5,737
Wholesale and retail trade	18,906,548	1,038,318	4,433,730	5,472,048	63,252
Total	102,575,433	10,145,384	22,135,755	32,281,139	1,477,468

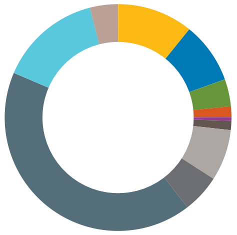
It is due to economic activities being heavily concentrated in the Western province and the headquarters of most borrowing entities being located there, that a geographical analysis (Graph 16) reflects a high concentration of loans and advances to other customers in the province.

Geographical analysis of loans and advances to other customers by product-wise as at 31, December 2020 (Graph – 16)



Product-wise analysis of the lending portfolio (Graph 17) too reveals the efficacy of the Bank's credit policies with risk being diversified across a range of credit products.

Product-wise analysis of loans and advances to other customers as at December 31, 2020 (Graph – 17)



Long-term loans	41.9%
Short-term loans	14.6%
Bills of exchange	4.0%
Overdrafts	10.8%
Trade finance	8.7%
Lease receivables	3.9%
Credit cards	1.5%
Pawning	0.5%
Staff loans	1.3%
Housing loans	7.3%
Personal loans	5.5%

The relatively high exposure of 42% to long-term loans is rigorously monitored and mitigated with collateral.

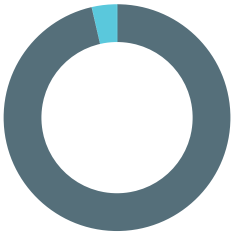
Counterparty risk

The Bank manages counterparty risk through the laid down policies/procedures and limit structures including single borrower limits and group exposure limits with sub-limits for products etc. The Bank has set limits far more stringent than those stipulated by the regulator, providing it a greater leeway in managing concentration levels with regard to the counterparty exposures.

A major component of counterparty risk is in relation to loans and receivables to banks, both local and foreign. A specific set of policies, procedures and a limit structure are in place to monitor it. Whilst market information on the financial/economic performance of these counterparties is subject to a rigorous scrutiny throughout the year, the counterparty bank exposures are monitored against the established prudent limits at frequent intervals 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) ratings for local banks in Bangladesh (Equivalent CRISL/Alpha ratings are used where CRAB ratings are not available). Exposures for local banks in Sri Lanka rated AAA to A category stood at 96% (Graph 18) whilst 100% of exposure of local banks in Bangladesh consisted of AAA to A rated counterparty banks (Graph 19).

The concentration of counterparty bank exposures in Sri Lanka as at December 31, 2020 (Fitch ratings-wise) Graph – 18



■ AAA to A	96%
■ BBB to B	4%

The concentration of counterparty bank exposures in Bangladesh as at December 31, 2020 (CRAB ratings-wise*) Graph – 19

■ AAA to A	100%
■ BBB to B	0%

**Equal CRISL/Alpha ratings are given where CRAB ratings are unavailable.*

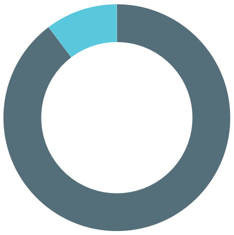
Cross-border risk

It is the risk that the Bank will not be able to secure payment from its customers or third parties on their contractual obligations due to certain actions taken by foreign governments, mainly relating to convertibility and transferability of foreign currency. Assets exposed to cross-border risk comprise loans and advances, interest-bearing deposits with other banks, trade and other bills and acceptances and those predominantly relating to short-term money market activities.

Limit structures in place, continuous monitoring of macroeconomic and market developments of the countries with exposure to counterparties and stringent evaluation of counterparties and maintaining frequent dialogue with them help minimise risk arising from over concentration to cross-borders. Timely action is taken to suspend/revise limits to countries with adverse economic/political developments.

Bank's total cross-border exposure is only 6% of its total assets (Graph 21). The Bank has cross-border exposures to a spread of countries which primarily include India, the Maldives, Singapore, USA, Denmark, Bangladesh, etc.

The concentration of cross-border exposure (Sri Lanka and Bangladesh Operations) - S&P Rating wise as at December 31, 2020 Graph – 20



■ AAA to BBB-	90%
■ Below BBB- and Unrated	10%

Note : Excluding the investment in Bangladesh Operations & Direct Lending in Maldives/Bangladesh.

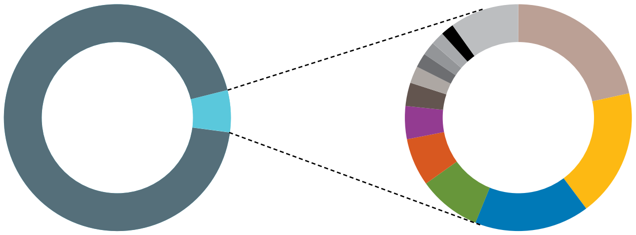
90% – Distribution of exposure country rating-wise

Exposure to countries which are rated AAA to BBB- (S&P or equivalent) accounted for 90% of the total cross-border exposure of the Bank.

73.9% – Distribution of exposure borrower rating-wise

Borrowers with Investment Grade Rating where default risk is considered to be very low, comprised 73.9% of the total loans and advances to other customers.

Cross border exposure of the Bank (Sri Lanka and Bangladesh operations) Graph – 21



■ Other Assets	94%
■ Cross border Assets	6%

■ India	21.54%
■ Maldives	18.26%
■ Singapore	16.36%
■ USA	8.97%
■ Denmark	6.81%
■ Bangladesh	4.71%
■ Malaysia	3.34%
■ Malawi	2.43%
■ Germany	2.04%
■ UK	1.93%
■ Indonesia	1.89%
■ Kenya	1.87%
■ Others	9.85%

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 against the expectations the Bank had at the time of making decisions. The Bank's operations are exposed to these variables and correlations in varying magnitudes.

Market risk categories

Table – 36

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	Medium	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

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 92.75% of the total assets and 93.50% of the total liabilities as at December 31, 2020. 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 68.3.1 on page 285.

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 37).

Interest rate sensitivity gap analysis of assets and liabilities of the Banking Book as at December 31, 2020 – Bank

Table – 37

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 31/12/2020 Rs. '000
Total financial assets	624,694,736	249,419,975	319,110,455	204,137,823	156,054,359	92,557,459	1,645,974,807
Total financial liabilities	562,661,711	549,185,169	111,889,666	57,145,938	172,692,251	84,083,172	1,537,657,907
Period gap	62,033,025	(299,765,194)	207,220,789	146,991,885	(16,637,892)	8,474,287	108,316,900
Cumulative gap	62,033,025	(237,732,169)	(30,511,380)	116,480,505	99,842,613	108,316,900	
RSA/RSL	1.11	0.45	2.85	3.57	0.90		

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 38).

Sensitivity of NII to rate shocks

Table – 38

	2020		2019	
	Parallel increase Rs. '000	Parallel decrease Rs. '000	Parallel increase Rs. '000	Parallel decrease Rs. '000
As at December 31,	267,122	(132,005)	932,750	(911,553)
Average for the year	708,924	(648,050)	1,425,767	(1,413,235)
Maximum for the year	1,060,589	(1,040,835)	1,646,844	(1,643,315)
Minimum for the year	249,878	(132,005)	932,750	(911,553)

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 depreciated by 2.84% (Source-CBSL) during the year under review.

Please refer to Note 68.3.3 – Exposure to currency risk - non trading portfolio on pages 287 and 288.

Stress testing is conducted on NOP by applying rate shocks ranging from 2% to 15% in order to estimate the impact on profitability and capital adequacy of the Bank (refer Table 42 on page 132). The impact of a 1% change in exchange rate on the foreign currency position indicated a loss of Rs. 301.20 Mn. on the positions as at December 31, 2020 (refer Graph 40 on page 288).

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 68.3.4 on page 289 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, 2020 are given below:

Liquid asset ratios

Table – 39

	2020 %	2019 %
Statutory Liquid Assets Ratio (SLAR)		
DBU	44.99	30.42
OBC	32.70	25.25
Liquidity Coverage Ratio (LCR)		
Rupee	330.84	158.79
All Currencies	258.06	224.74
Net Stable Funding Ratio (NSFR)	157.49	137.05

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 40. It was a challenge for the Bank to manage such excess 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.

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 40 below:

Table – 40

Liquidity ratios %	As at December 31, 2020	As at December 31, 2019
Loans to customer deposits	0.75	0.87
Net loans to total assets	0.52	0.64
Liquid assets to short-term liabilities	0.60	0.48
Purchased funds to total assets	0.23	0.21
(Large liabilities – Temporary Investments) to (Earning assets – Temporary Investments)	0.18	0.18
Commitment to total loans	0.24	0.19

Maturity gap analysis

Maturity gap analysis of assets and liabilities of the Bank as at December 31, 2020 is given in Note 68.2.2 (a) to the Financial Statements on pages 280 to 281.

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 22 provides a product-wise analysis of the Bank's funding diversification as at end of 2020 and 2019.

Funding diversification by product Graph – 22

		2020	2019
■	Term deposits	47%	54%
■	Other borrowings	12%	9%
■	Due to Banks	6%	4%
■	Current account balances	6%	6%
■	Saving deposits	29%	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 the 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

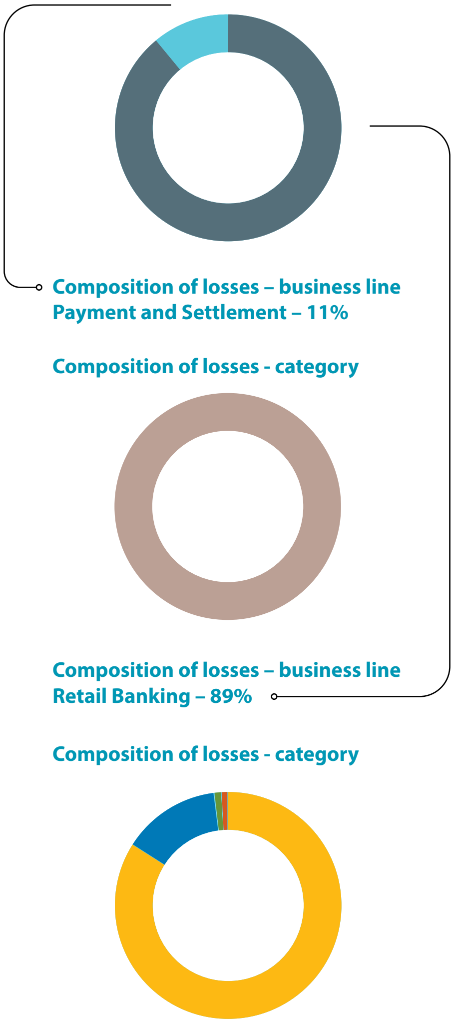
Business Continuity Management (BCM) framework of the Bank encompasses business continuity, disaster recovery, crisis management, incident management, emergency management and contingency planning activities. These activities ensure that the Bank is committed to serve its customers, employees, shareholders 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.

In 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 have been further strengthened by way of introducing a secondary high-availability set-up leading to improved redundancy.

Due to the second wave of the pandemic, the Bank was compelled to postpone the scheduled BCP exercise for 2020 to the second quarter of 2021,with the approval of the CBSL.

Composition of losses – 2020 Graph – 23



⬛	Retail Banking	89%
🟦	Payment and Settlement	11%
🟫	Business disruption and system failures	100%
🟨	Execution,delivery and process management	84%
🟦	External frauds	14%
🟩	Damage to physical assets	1%
🟧	Business disruption and system failures	1%

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 2020 were below the internal alert level at 0.58% (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 23 analyses the operational risk losses incurred by the Bank in 2020 under each business line/category.

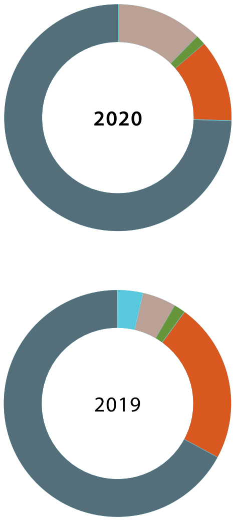
When analysing the losses incurred during 2020 under the Basel II defined business lines, it is evident that the majority (89%) of losses with financial impact falls under the business line of “Retail Banking”, followed by the losses reported under the “Payment and Settlement” business line (11%). Losses relating to other business lines remain negligible.

The Graphs 24 and 25 depict the comparison of operational losses reported during 2020 and 2019 under each Basel II loss event type, both in terms of number of occurrences and value.

Operational loss events by category – % of total losses by number of events Graph – 24

		2020	2019
⬛	Execution, delivery and process management	90%	89%
🟦	Internal frauds	0%	0%
🟫	External frauds	1%	2%
🟨	Employment practices and work place safety	0%	0%
🟦	Clients, products and business practice	0%	0%
🟩	Damage to physical assets	3%	4%
🟧	Business disruption and system failures	6%	5%

Operational loss events by category –% of total losses by value Graph – 25



		2020	2019
⬛	Execution, delivery and process management	75%	67%
🟦	Internal frauds	0%	4%
🟫	External frauds	12%	5%
🟨	Employment practices and work place safety	0%	0%
🟦	Clients, products and business practice	0%	0%
🟩	Damage to physical assets	1%	1%
🟧	Business disruption and system failures	12%	23%

As typical with operational risk losses, majority of the losses encountered by the Bank during 2020 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 0.0036%.

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, Business Disruption and System Failures and External Frauds. The losses for the year were primarily driven by a limited number of events in these three 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 2020 under Alternative Standardised Approach as per Basel III is Rs. 6.9 Bn., whereas the net loss after discounting the subsequent recoveries amounts to a mere 0.83% 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/failures, errors, frauds through system manipulations, cyberattacks, 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, and 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. The Bank is certified under the globally accepted, de-facto standard for Information Security Management System (ISMS) – ISO/IEC 27001:2013 and Payment Card Industry Data Security Standard (PCI DSS), both focusing on ensuring Confidentiality, Integrity and Availability of data/ information. The ISMS is independently validated on an annual basis by the ISO 27001 ISMS external auditors and Qualified Security Assessors of the PCI Council.

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 2020 on pages 115 and 116 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

Legal risk is an integral part of operational risk and is defined as the exposure to the adverse effects arising from inaccurately drawn up contracts, their execution, the absence of written agreements or inadequate agreements. It includes, but is not limited to, exposure to reprimanding, fines, penalties, or punitive damages resulting from supervisory actions, as well as cost of private settlements.

The Bank manages legal risk 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, supported by required documentation. Potential risk of any rules and regulations being breached is managed by the establishment and operation of an effective system for verifying conformity of operations with relevant regulations.

Compliance and regulatory risk

Compliance and regulatory risk refers to the potential risk to the Bank resulting from non compliance with applicable laws, rules and regulations and codes of conduct and could result in regulatory fines, 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 defines how this 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 related to strategic decisions and may manifest in the Bank not being able to keep up with the evolving market dynamics, resulting in 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 a number of variables into account, including the size and sophistication of the Bank, the nature and complexity of its operations and highlights the areas that require focus 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 position. 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 proliferation of 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 Code of Ethics, Communication policy and business ethics that prohibit unethical behaviour and promote employees to live by the claims made. Further, the detailed scorecard which was available to measure and monitor reputational risk under ICAAP was formalised as Reputational Risk Management Policy framework during the year.

Conduct risk

As an organisation that thrives on public trust and confidence, yet is faced with many conflicting interests and trade-offs, aligning of the Bank's interests with those of the customer is imperative for the Bank's success and sustainability. Unfair business practices, professional misbehaviour, ethical lapses, inefficient operations, bribery and corruption, compliance failures, governance weaknesses etc. dent customer confidence on the Bank. Proper conduct with fair outcomes to the customer is closely associated with the culture, governance structure and the tone at the top of the Bank. The Bank has a customer centric approach that encompasses accountability, remuneration structures, compliance with the laws, rules and regulations in spirit, learning culture, transparency, public disclosures, Service Level Agreements and monitoring thereof, customer complaint handling procedure and customer engagement to maintain high standards of behaviour and integrity with a view to minimise conduct risk.

Bribery and corruption related risks

Bribery and Corruption is illegal, dishonest and damages the reputation of the Bank and therefore, the Bank expects all its employees to refrain from giving or accepting bribes, kickbacks or commissions and taking part in any form of corruption. The Bank has developed an Anti-Bribery and Corruption Policy which will be submitted for approval of the Board in March 2021. It will be made available at www.combank.lk no sooner it is approved by the Board. In addition, the Bank has a Whistleblowers Charter and guidelines on accepting and/offering gifts or other illegal gratification, collection and borrowing of funds/obtaining undue favours from customers and suppliers, holding a Directorship/being a Partner/Shareholder in private companies enumerated in the Code of Ethics and administrative circulars. In implementing the Code of Ethics and affirming its commitment to the 10th Principle of the UN Global Compact, the Bank expects all employees not only to fight corruption, but also to demonstrate that they do not abuse the power of their position as employees for personal financial or non-financial gain, solicit or accept gifts, compromise employees or the Bank. No employee of the Bank should offer any bribe or other illegal gratification in order to obtain business for the Bank.

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 requirements 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 focus and risk management plans with the capital plan in a meaningful manner with inputs from Senior Management, Management Committees, Board Committees and the Board, and also takes into account potential risk of capital being inadequate under stressed conditions. 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 III.

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 for licensed commercial banks under Basel III starting from July 1, 2017 with specified timelines to progressively increase minimum capital ratios to be fully implemented by January 1, 2019 which included Higher Loss Absorbency component for D-SIBs. However, as an extraordinary regulatory measure for licensed banks to support businesses and individuals affected by the outbreak of COVID-19, CBSL permitted D-SIBs to draw down their Capital Conservation Buffers (CCB) by 100 basis points.

A comparison of the Bank's position as at December 31, 2020 and the minimum capital requirement prescribed by the CBSL effective from January 1, 2019 is tabulated below. This demonstrates the capital strength of the Bank and bears testimony to its ability to meet stringent requirements imposed by the regulator.

Target and actual capital

Table – 41

Capital ratios	Regulatory minimum %	HLA %	Total %	Goal (Internal requirement) %	**2020** %	2019 %
CET 1	7.0 (2019) 6.0 (2020)	1.5	8.5 (2019) 7.5 (2020)	>11	**13.217**	12.298
Total	12.5 (2019) 11.5 (2020)	1.5	14.0 (2019) 13.0 (2020)	>15	**16.819**	16.146

** Even though the CCB applicable to the Bank is 2.5% as per the original direction, with the permission granted by the CBSL to D-SIBs to draw down part of the Capital Conservation Buffer as a COVID-19 relief measure, the ratio applicable to the Bank as of December 31, 2020 was 1.5%.*

(Refer pages 331 and 332 in Annex 3 for the detailed capital adequacy computation)

The ICAAP helps the Bank to periodically evaluate the capital requirements for the next five years, develop capital augmentation plans based thereon and submit same for review by the CBSL. Consequently, despite the non-conducive operating environment, SLFRS 9 adoption and taxes that impacted internal capital generation capabilities of the Bank in 2019 and 2020, the Bank has been able to secure availability of capital to fund its expansion plans and meet Higher Loss Absorbency (HLA) requirements prescribed by the CBSL for D-SIBs. In particular, issue of upto USD 50 Mn. worth shares to IFC through a private placement enabled the Bank to increase its stated capital during the year.

"Basel Workgroup" of the Bank consists of members from a cross section of business and support units to assess capital adequacy in line with strategic direction of the Bank. While ICAAP acts as a foundation for such assessment, the Basel Workgroup is continuously searching for improvements amidst changing landscape in different frontiers, to recommend the desired way forward to the ALCO including indications on current and future capital requirements, anticipated capital expenditure-based assessments and desirable capital levels, etc.

Being in a capital-intensive business, the Bank is cognisant of the importance of capital. The Bank has access to a loyal base of shareholders who takes a long-term view of the Bank as well as profits retained over the years by adopting prudent dividend policies, etc. Moreover, in order to achieve an optimised level of capital allocation, the Bank is continuously finding ways to improve judicious allocation of capital to requirements associated with its day-to-day operations. The challenges associated with mobilising capital from external sources are also taken into account, but not excluded as a sustainable option to boost the capital in the long run. The Bank is comfortable with the available capital buffer to support its growth plans/withstand stressed market conditions. However, the Bank is never complacent with current comfort levels and believes in providing stakeholder confidence that the Bank is known for, through sound capital buffer levels.

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 strategic planning, the ICAAP including capital management, liquidity management, setting of risk appetite triggers and risk tolerance limits, mitigating risks through reviewing and adjusting limits, restricting 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 governance framework for stress testing sets out the responsibilities and approaches to stress testing activities undertaken at the Bank, business line and risk type levels. The Bank uses a range 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 evaluates various degrees of stress levels identified in the Stress Testing Policy as Minor, Moderate and Severe. The resulting impact on the capital is then carefully evaluated. Where stress tests point to a deterioration of the capital which has no impact on the policy level on capital maintenance, same is described 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 minimum, such a level would be regarded as Severe risk, warranting immediate attention of the Management to rectify the situation.

Stress testing is an effective communication tool to Senior Management, risk owners and risk managers as well as supervisors and regulators since it offers a broader view of all risks borne by the Bank in relation to its risk tolerance and strategy in hypothetical stress scenarios. The outcomes of 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 42.

Impact on CAR at Minor, Moderate and Severe stress levels: Table – 42

Particulars	Description	2020			2019		
		Minor **%**	**Moderate** **%**	**Severe** **%**	Minor %	Moderate %	Severe %
Credit risk – asset quality downgrade	Increasing the direct non- performing facilities over the direct performing facilities for the entire portfolio	**-0.14**	**-0.37**	**-0.72**	-0.15	-0.38	-0.74
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	**-0.09**	**-0.21**	**-0.43**	-0.05	-0.13	-0.25
Foreign exchange risk	Percentage shock in the exchange rates for the Bank and Maldives operations (gross positions in each Book without netting)	**-0.10**	**-0.19**	**-0.45**	-0.06	-0.13	-0.29

Particulars	Description	2020			2019		
		Minor	Moderate	Severe	Minor	Moderate	Severe
		%	%	%	%	%	%
Liquidity risk (LKR) –	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	-0.07	-0.19	-0.39	-0.03	-0.11	-0.26
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	-0.12	-0.20	-1.16	-0.15	-0.30	-0.44

Monitoring and reporting

Risk management function of the Bank is responsible for identifying, measuring, monitoring and reporting risk. To enhance the effectiveness of its role, staff attached to it are given regular training, enabling them to develop and refine their skills. They are well supported by IT systems that have made data extraction, analysis and modelling possible. 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 providing strategic direction.

The reports provide information on aggregate measures of risks across products, portfolios, tenures and geographies relative to 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 331 to 344 for the minimum disclosure requirements under Pillar III as per the Banking Act Direction No. 01 of 2016.

Please refer pages 343 and 344 in Annex 3 for the D-SIB Assessment Exercise disclosed as required by the Banking Act Direction No. 10 of 2019.

FINANCIAL STATEMENTS

The Financial Statements, including Accounting Policies and accompanying notes, provide a true and fair view of the Bank's performance, 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 – 2020 and 2021

Dividend Calendar

	2020	2021
Final dividend for the previous year paid/payable	**On July 06, 2020**	On April 05, 2021 and on April 23, 2021
First interim dividend for the year paid/payable	**Note 01**	in the fourth quarter of 2021*
Second interim dividend for the year paid/payable	**Note 01**	in the first quarter of 2022*
Final dividend for the year to be proposed	**On March 30, 2021**	in March 2022
Final dividend for the current year to be paid	**On April 05, 2021 and on April 23, 2021****	in April 2022***

**Subject to approval by Directors*

***Subject to approval by Shareholders*

****Subject to recommendation by Directors and approval by Shareholders*

Note 01: The Bank did not pay interim dividends for the year 2020 in conformity with the Banking Act Direction No. 3 of 2020 dated May 13, 2020 on " Restrictions on Discretionary Payments of Licensed Banks" issued by the CBSL.

Annual General Meeting (AGM) Calendar

Annual Report and Accounts signed/to be signed

For the year 2020 –	For the year 2021 –
On February 24, 2021	In February 2022

Annual General Meeting to be held

For the year 2020 –	For the year 2021 –
On March 30, 2021	In March 2022

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)

	2020 Submitted on	2021 To be submitted on or before	**2020 Published on/to be published on or before**			2021 To be published on or before
			English	**Sinhala**	**Tamil**	In all three languages
For the three months ended/ending March 31, (unaudited)	**May 14, 2020**	May 13, 2021	**May 22, 2020**	**May 29, 2020**	**May 29, 2020**	May 31, 2021
For the six months ended/ending June 30, (audited)	**August 17, 2020**	August 13, 2021	**August 21, 2020**	**August 28, 2020**	**August 28, 2020**	August 31, 2021
For the nine months ended/ending September 30, (unaudited)	**November 12, 2020**	November 15, 2021	**November 20, 2020**	**November 26, 2020**	**November 27, 2020**	November 30, 2021
For the year ended/ending December 31, (audited)	**On February 24, 2021**	February 28, 2022	**March 31, 2021**	**March 31, 2021**	**March 31, 2021**	March 31, 2022

Independent Auditors' Report

Building a better
working world

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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, 2020, and the income statement, statement of profit or loss, 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, 2020, and of its 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 judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of the 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.

Partners: W R H Fernando FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA Ms. Y A De Silva FCA W R H De Silva ACA ACMA W K B S P Fernando FCA FCMA
Ms. K R M Fernando FCA ACMA Ms. L K H L Fonseka FCA A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond) H M A Jayesinghe FCA FCMA
Ms. A A Ludowyke FCA FCMA Ms. G G S Manatunga FCA A A J R Perera ACA ACMA Ms. P V K N Sajeewani FCA N M Sulaiman ACA ACMA B E Wijesuriya FCA FCMA

Principals: G B Goudian ACMA T P M Ruberu FCMA FCCA

A member firm of Ernst & Young Global Limited

Key audit matter	How our audit addressed the key audit matter
Impairment allowance for Loans and advances to other customers. Loans and advances amounting to Rs. 909,829 Mn. (Note 34), net of impairment allowance of Rs. 52,030 Mn. (Note 34) and represents 52% of total assets of the Group as at December 31, 2020. As described in Note 7.1.12, impairment allowance on such financial assets carried at amortised cost is determined in accordance with Sri Lanka Accounting Standard – SLFRS 9 Financial Instruments (SLFRS 9). This was a key audit matter due to: ● materiality of the reported provision for credit impairment which involved complex manual calculations; and ● the degree of assumptions, judgements and estimation uncertainty associated with the calculations. Key areas of significant judgements, estimates and assumptions used by management in the assessment of the impairment allowance included the following: ● the probable impacts of COVID-19 and related industry responses (e.g. government stimulus packages and debt moratorium relief measures granted by the Group); ● the determination on whether or not customer contracts have been substantially modified due to such COVID–19 related stimulus and relief measures granted and related effects on the amount of interest income recognised on affected loans and advances; and ● forward-looking macroeconomic factors, including developing and incorporating macroeconomic scenarios, given the wide range of potential economic outcomes and probable impacts from COVID-19 that may impact future expected credit losses.	We assessed the alignment of the Group's impairment computations and underlying methodology with the requirements of SLFRS 9 with consideration of COVID-19 impacts and related industry responses based on the best available information up to the date of our report. Our audit procedures included amongst others the following: ● We evaluated the design effectiveness of controls where relevant over estimation of impairment of loans and advances, to other customers, which included assessing the level of oversight, review and approval of impairment policies by the Board Audit Committee and management. ● We checked the completeness and accuracy of the underlying data used in the computations by agreeing significant details to source documents and accounting records. ● We test–checked the underlying calculations. ● In addition to the above, the following focused procedures were performed: **For a sample of loans and advances individually assessed for impairment:** – Assessing the appropriateness of the criteria used by the management to determine whether there are any indicators of impairment; and – Evaluating the reasonableness of the provisions made with particular focus on the impact of COVID-19 on elevated risk industries, strategic responsive actions taken, collateral values, and the value and timing of future cashflows. **For loans and advances collectively assessed for impairment:** – Assessing the reasonableness of assumptions and estimates used by management including the reasonableness of forward-looking information and scenarios; – As relevant, assessing the basis for and data used by management to determine overlays in consideration of the probable effects of the COVID-19 pandemic; and **For loans and advances affected by government stimulus and debt moratorium relief measures granted:** – Assessing the appropriateness of judgements, reasonableness of calculations and data used to determine whether customer contracts have been substantially modified or not and to determine the resulting accounting implications; and – Evaluating the reasonableness of the interest income recognised on such affected loans and advances. ● We assessed the adequacy of the related financial statement disclosures as set out in Note 18, 34 and 68.1.3.
Bank's financial reporting process and related IT systems and controls The Bank uses multiple IT systems in its operations. The COVID-19 pandemic necessitated the Bank to adapt various operating processes and procedures including modification of relevant controls to mitigate the resulting risks. IT systems and controls relevant to financial reporting was a key audit matter due to: ● A changed working environment of increased remote access; ● The Bank's financial reporting process being heavily dependent on information derived from its IT systems; and ● Key financial statement disclosures involving the use of multiple system – generated reports, collation and spreadsheet – based calculations.	Our audit procedures included the following, amongst others: ● Understanding the security monitoring procedures over IT systems relevant to financial reporting, given the increase in remote access; ● Understanding and evaluating the design and operating effectiveness of key automated, IT dependent and manual controls implemented by management over generation of multiple system reports and collation of required information in calculating the significant information for financial statements disclosures; ● Checking the source data of the reports used to generate significant disclosures for accuracy and completeness; ● Checking the underlying calculations and the reasonableness of classifications made by management; and ● Evaluating the management's general ledger reconciliation procedures which includes cross checking to system reports and source data where relevant.

Other information included in the 2020 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.

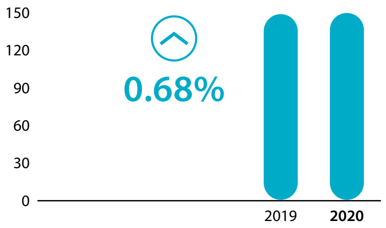
Chartered Accountants

February 24, 2021
Colombo

Financial Statements Highlights – Bank

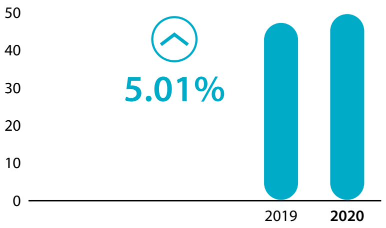
Gross income Graph – 26

Rs. Bn.



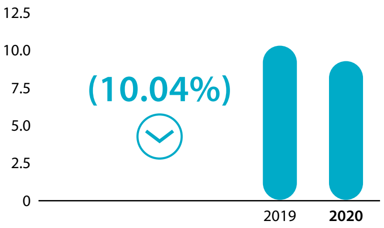
Net interest income Graph – 27

Rs. Bn.



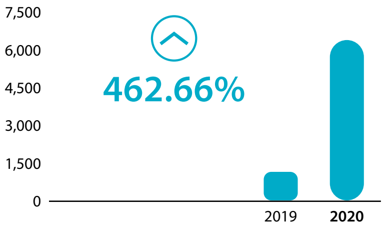
Net fee and commission income Graph – 28

Rs. Bn.



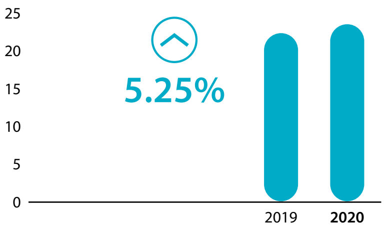
Net gains/(losses) from derecognition of financial assets Graph – 29

Rs. Mn.



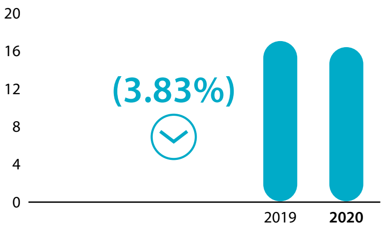
Profit before tax Graph – 30

Rs. Bn.



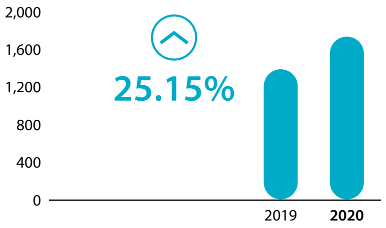
Profit after tax Graph – 31

Rs. Bn.



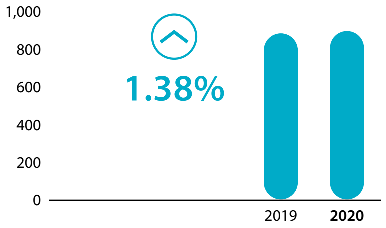
Total assets Graph – 32

Rs. Bn.



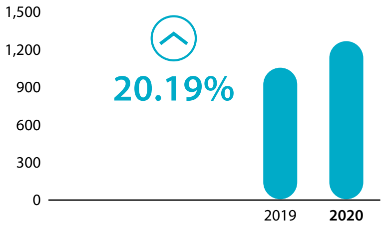
Financial assets at amortised cost – Loans and advances to other customers Graph – 33

Rs. Bn.



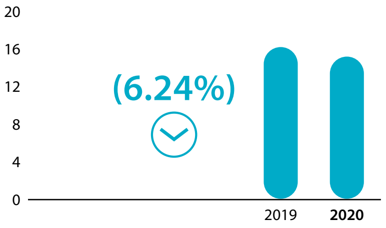
Financial liabilities at amortised cost – Due to depositors Graph – 34

Rs. Bn.



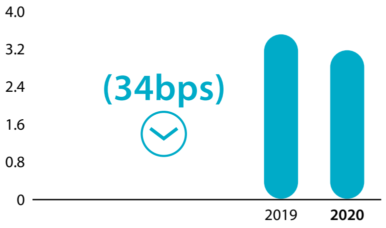
Earnings per share – Basic Graph – 35

Rs.



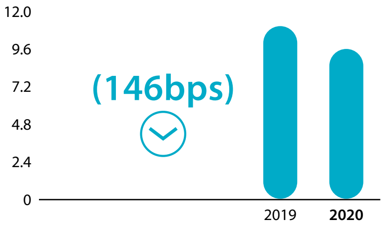
Interest margin Graph – 36

%



Financial intermediation margin Graph – 37

%



Financial Statements – Table of Content

Income Statement

			GROUP			BANK		
For the year ended December 31,	Note	Page No.	**2020 Rs. '000**	2019 Rs. '000	Change %	**2020 Rs. '000**	2019 Rs. '000	Change %
Gross income	12	178	151,966,413	150,741,129	0.81	149,711,481	148,706,284	0.68
Interest income	13.1	178	124,087,713	129,287,743	(4.02)	122,330,386	127,779,540	(4.26)
Less: Interest expense	13.2	179	73,218,911	80,931,352	(9.53)	72,759,045	80,571,268	(9.70)
Net interest income	13	178	50,868,802	48,356,391	5.20	49,571,341	47,208,272	5.01
Fee and commission income	14.1	180	11,839,689	12,874,966	(8.04)	11,268,543	12,406,584	(9.17)
Less: Fee and commission expense	14.2	181	2,018,014	2,123,128	(4.95)	2,012,138	2,117,072	(4.96)
Net fee and commission income	14	180	9,821,675	10,751,838	(8.65)	9,256,405	10,289,512	(10.04)
Net gains/(losses) from trading	15	181	1,878,060	1,360,833	38.01	1,878,086	1,360,858	38.01
Net gains/(losses) from derecognition of financial assets	16	181	6,390,197	1,135,711	462.66	6,390,197	1,135,711	462.66
Net other operating income	17	182	7,770,754	6,081,876	27.77	7,844,269	6,023,591	30.23
Total operating income			76,729,488	67,686,649	13.36	74,940,298	66,017,944	13.52
Less: Impairment charges and other losses	18	182	21,419,532	11,331,523	89.03	21,483,698	11,061,466	94.22
Net operating income			55,309,956	56,355,126	(1.85)	53,456,600	54,956,478	(2.73)
Less: Expenses								
Personnel expenses	19	185	14,992,748	14,408,914	4.05	14,563,999	14,082,659	3.42
Depreciation and amortisation	20	185	3,102,695	2,841,264	9.20	2,989,031	2,754,521	8.51
Other operating expenses	21	186	8,167,170	8,875,316	(7.98)	7,886,936	8,588,456	(8.17)
Total operating expenses			26,262,613	26,125,494	0.52	25,439,966	25,425,636	0.06
Operating profit before taxes on financial services			29,047,343	30,229,632	(3.91)	28,016,634	29,530,842	(5.13)
Less: Taxes on financial services	22	187	4,531,381	7,255,728	(37.55)	4,505,322	7,191,737	(37.35)
Operating profit after taxes on financial services			24,515,962	22,973,904	6.71	23,511,312	22,339,105	5.25
Share of profits of associate, net of tax	38.1	213	3,898	9,992	(60.99)	–	–	–
Profit before tax			24,519,860	22,983,896	6.68	23,511,312	22,339,105	5.25
Less: Income tax expense	23	187	7,433,063	5,563,500	33.60	7,137,823	5,314,138	34.32
Profit for the year			17,086,797	17,420,396	(1.91)	16,373,489	17,024,967	(3.83)
Profit attributable to:								
Equity holders of the Bank			16,939,950	17,263,259	(1.87)	16,373,489	17,024,967	(3.83)
Non-controlling interest	57	248	146,847	157,137	(6.55)	–	–	–
Profit for the year			17,086,797	17,420,396	(1.91)	16,373,489	17,024,967	(3.83)
Earnings per share								
Basic earnings per ordinary share (Rs.)	24.1	189	15.70	16.41	(4.33)	15.18	16.19	(6.24)
Diluted earnings per ordinary share (Rs.)	24.1	189	15.70	16.41	(4.33)	15.18	16.19	(6.24)

The Notes appearing on pages 155 to 290 form an integral part of these Financial Statements.

Statement of Profit or Loss and Other Comprehensive Income

			GROUP			BANK		
For the year ended December 31,	Note	Page No.	**2020 Rs. '000**	2019 Rs. '000	Change %	**2020 Rs. '000**	2019 Rs. '000	Change %
Profit for the year			**17,086,797**	17,420,396	(1.91)	**16,373,489**	17,024,967	(3.83)
Other comprehensive income, net of tax								
Items that will never be reclassified to profit or loss								
Net actuarial gains/(losses) on defined benefit plans			**(228,745)**	(57,336)	(298.96)	**(223,039)**	(56,940)	(291.71)
Gains/(losses) on remeasurement of defined benefit liability/asset			**(295,594)**	(65,354)	(352.30)	**(287,668)**	(64,804)	(343.90)
Less: Deferred tax charge/(reversal) on actuarial gains/(losses)			**(66,849)**	(8,018)	(733.74)	**(64,629)**	(7,864)	(721.83)
Net change in revaluation surplus	56.1	246	**2,674,142**	–	–	**2,574,858**	–	–
Changes in revaluation surplus/(deficit)			**3,684,535**	–	–	**3,585,430**	–	–
Less: Deferred tax charge/(reversal) on revaluation surplus			**1,010,393**	–	–	**1,010,572**	–	–
Net change in fair value on investments in equity			**72,255**	(26,547)	372.18	**72,255**	(26,547)	372.18
Change in fair value on investments in equity at fair value through other comprehensive income			**72,255**	(26,547)	372.18	**72,255**	(26,547)	372.18
Less: Deferred tax charge/(reversal) on change in fair value on investments in equity			**–**	–	–	**–**	–	–
Transfer of fair value gains/(losses) o/a reclassification of debt instruments from fair value through other comprehensive income to amortised cost, net of tax			**5,626**	–	–	**5,626**	–	–
Gain on disposal of investments in equity instruments			**1,719**	–	–	**1,719**	–	–
Share of other comprehensive income of associate			**3,436**	38,633	(91.11)	**–**	–	–
Items that are or may be reclassified to profit or loss								
Net gains/(losses) arising from translating the Financial Statements of foreign operations	56.4	247	**596,723**	(396,201)	250.61	**439,883**	(399,787)	210.03
Net gains/(losses) on investment in financial assets at fair value through other comprehensive income			**(1,400,936)**	3,197,347	(143.82)	**(1,400,991)**	3,196,970	(143.82)
Fair value gains/(losses) that arose during the year, net of tax			**1,537,097**	3,865,752	(60.24)	**1,537,042**	3,865,375	(60.24)
Fair value gains/(losses) realised to the Income Statement on disposal, net of tax			**(4,026,616)**	(816,182)	(393.35)	**(4,026,616)**	(816,182)	(393.35)
Fair value gains/(losses) recycled to the Income Statement as impairement, net of tax			**1,088,583**	147,777	636.64	**1,088,583**	147,777	636.64
Cash flow hedges – effective portion of changes in fair value, net of tax	56.6	248	**(64,139)**	(62,391)	(2.80)	**(64,139)**	(62,391)	(2.80)
Other comprehensive income for the year, net of tax			**1,660,081**	2,693,505	(38.37)	**1,406,172**	2,651,305	(46.96)
Total comprehensive income for the year			**18,746,878**	20,113,901	(6.80)	**17,779,661**	19,676,272	(9.64)
Attributable to:								
Equity holders of the Bank			**18,553,575**	19,961,841	(7.05)	**17,779,661**	19,676,272	(9.64)
Non-controlling interest			**193,303**	152,060	27.12	**–**	–	–
Total comprehensive income for the year			**18,746,878**	20,113,901	(6.80)	**17,779,661**	19,676,272	(9.64)

The Notes appearing on pages 155 to 290 form an integral part of these Financial Statements.

Statement of Financial Position

As at December 31,	Note	Page No.	GROUP			BANK		
			2020 Rs. '000	2019 Rs. '000	Change %	**2020 Rs. '000**	2019 Rs. '000	Change %
Assets								
Cash and cash equivalents	28	196	51,255,030	53,681,118	(4.52)	50,250,627	52,534,730	(4.35)
Balances with Central Banks	29	197	115,358,732	46,101,232	150.23	110,971,105	39,461,127	181.22
Placements with banks	30	197	16,421,867	24,903,809	(34.06)	15,938,982	24,527,241	(35.02)
Securities purchased under resale agreements			–	13,147,534	–	–	13,147,534	–
Derivative financial assets	31	198	2,636,717	1,830,927	44.01	2,636,717	1,830,927	44.01
Financial assets recognised through profit or loss – measured at fair value	32	198	35,189,471	21,468,033	63.92	35,189,471	21,468,033	63.92
Financial assets at amortised cost – Loans and advances to banks	33	201	779,705	757,787	2.89	779,705	757,787	2.89
Financial assets at amortised cost – Loans and advances to other customers	34	202	909,829,172	893,919,311	1.78	896,845,453	884,645,744	1.38
Financial assets at amortised cost – Debt and other financial instruments	35	206	302,059,529	107,059,021	182.14	292,727,566	101,144,819	189.41
Financial assets measured at fair value through other comprehensive income	36	207	278,716,794	197,825,017	40.89	278,461,369	197,568,330	40.94
Investments in subsidiaries	37	210	–	–	–	5,808,429	5,011,284	15.91
Investment in associate	38	212	64,155	56,821	12.91	44,331	44,331	–
Property, plant and equipment and right-of-use assets	39	214	25,386,630	22,524,658	12.71	23,212,394	20,507,203	13.19
Investment properties	40	225	67,116	46,350	44.80	–	–	–
Intangible assets	41	226	1,800,516	1,645,714	9.41	1,232,863	1,080,010	14.15
Deferred tax assets	42	228	2,735,566	530,165	415.98	2,499,860	294,059	750.12
Other assets	43	230	20,195,153	23,443,869	(13.86)	19,619,149	23,322,247	(15.88)
Total assets			1,762,496,153	1,408,941,366	25.09	1,736,218,021	1,387,345,406	25.15
Liabilities								
Due to banks	44	230	88,248,056	53,807,425	64.01	87,451,306	51,505,694	69.79
Derivative financial liabilities	45	231	1,501,262	1,495,317	0.40	1,501,262	1,495,317	0.40
Securities sold under repurchase agreements			91,411,522	51,117,342	78.83	91,437,612	51,220,023	78.52
Financial liabilities at amortised cost – due to depositors	46	231	1,286,616,399	1,068,982,587	20.36	1,265,965,918	1,053,307,660	20.19
Financial liabilities at amortised cost – other borrowings	47	232	54,555,933	23,248,893	134.66	54,555,933	23,248,893	134.66
Current tax liabilities	48	232	6,991,005	5,197,188	34.52	6,777,992	4,967,644	36.44
Deferred tax liabilities	42	228	403,846	416,458	(3.03)	–	–	–
Other liabilities	49	233	33,572,283	30,775,884	9.09	33,037,669	30,496,709	8.33
Due to subsidiaries	50	239	–	–	–	97,015	54,292	78.69
Subordinated liabilities	51	240	38,247,138	37,886,789	0.95	38,247,138	37,886,789	0.95
Total liabilities			1,601,547,444	1,272,927,883	25.82	1,579,071,845	1,254,183,021	25.90
Equity								
Stated capital	52	241	52,187,747	40,916,958	27.55	52,187,747	40,916,958	27.55
Statutory reserves	54	244	9,285,233	8,387,701	10.70	9,024,065	8,205,391	9.98
Retained earnings	55	245	8,124,261	5,182,185	56.77	7,596,260	5,144,433	47.66
Other reserves	56	245	89,595,571	79,937,405	12.08	88,338,104	78,895,603	11.97
Total equity attributable to equity holders of the Bank			159,192,812	134,424,249	18.43	157,146,176	133,162,385	18.01
Non-controlling interest	57	248	1,755,897	1,589,234	10.49	–	–	–
Total equity			160,948,709	136,013,483	18.33	157,146,176	133,162,385	18.01
Total liabilities and equity			1,762,496,153	1,408,941,366	25.09	1,736,218,021	1,387,345,406	25.15
Contingent liabilities and commitments	58	248	730,561,685	580,961,807	25.75	728,711,698	579,999,273	25.64
Net assets value per ordinary share (Rs.)	59	250	136.42	130.83	4.27	134.67	129.60	3.91
Memorandum information								
Number of employees						5,057	5,062	
Number of customer service centres						287	287	

The Notes appearing on pages 155 to 290 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.

Justice K Sripavan
Chairman

Prof A K W Jayawardane
Deputy Chairman

S Renganathan
Managing Director/
Chief Executive Officer

R A P Rajapaksha
Company Secretary

February 24, 2021
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, 2018			39,147,882	7,444,178	4,949,955
Impact arising from the 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
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 associate, 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 voting shares under employee share option plans	52	241	30,128	–	–
Transfer o/a share-based payment transactions	52	241	–	–	–
Transfer of cost o/a of expired ESOP shares (net of tax)	55 & 56.5	245 & 247	–	–	88,913
Dividends to equity holders			1,738,948	–	(6,596,511)
Second interim dividend for 2018	25	190	–	–	(3,032,869)
Final cash dividend for 2018			–	–	–
Final dividend for 2018 satisfied in the form of issue and allotment of new shares	52	241	1,738,948	–	(2,022,032)
Unclaimed dividend absorbed/(dividend paid) in respect of previous years			–	–	(350)
First interim dividend for 2019	25	190	–	–	(1,541,260)
Share-based payment transactions	56.5	247	–	–	–
Profit due to change in ownership	17	182	–	–	14,498
Movement due to change in ownership			–	–	(9,379)
Acquisition of a subsidiary with non-controlling interest			–	–	–
Transfers during the year	54 to 56	244 to 248	–	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

Other reserves								
Revaluation 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
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
–	–	–	–	–	–	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 – Group (Contd.)

	Note	Page No.	Stated capital Rs. '000	Statutory reserve fund Rs. '000	Retained earnings Rs. '000
Total comprehensive income for the year 2020					
Profit for the year			–	–	16,939,950
Other comprehensive income, net of tax			–	–	(225,018)
Net actuarial gains/(losses) on defined benefit plans			–	–	(226,737)
Gain on disposal of investments in equity instruments			–		1,719
Share of other comprehensive income of associate, net of tax			–	–	–
Net change in revaluation surplus	56.1	246	–	–	–
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 2020			–	–	16,714,932
Transactions with owners, recognised directly in equity, contributions and distributions to owners					
Proceeds on issue of ordinary voting shares to IFC parties (Private placement)	52	241	9,215,775	–	–
Issue of ordinary voting shares under employee share option plans	52	241	–	–	–
Transfer o/a share-based payment transactions	52	241	–	–	–
Transfer of cost o/a of expired ESOP Shares (net of tax)	55 & 56.5	245 & 247	–	–	105,980
Dividends to equity holders			2,055,014	–	(5,137,434)
Second interim dividend for 2019	25	190	–	–	(3,082,520)
Final cash dividend for 2019			–	–	–
Final dividend for 2019 satisfied in the form of issue and allotment of new shares	52	241	2,055,014	–	(2,055,014)
Unclaimed dividend absorbed/(dividend paid) in respect of previous years			–	–	100
First interim dividend for 2020			–	–	–
Share-based payment transactions	56.5	247	–	–	–
Movement due to change in ownership			–	–	6,130
Transfers during the year	54 to 56	244 to 248	–	897,532	(8,747,532)
Total transactions with equity holders			11,270,789	897,532	(13,772,856)
Balance as at December 31, 2020			52,187,747	9,285,233	8,124,261

The Notes appearing on pages 155 to 290 form an integral part of these Financial Statements.

Other reserves								
Revaluation 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
–	–	–	–	–	–	16,939,950	146,847	17,086,797
2,662,469	(1,319,619)	559,932	(64,139)	–	–	1,613,625	46,456	1,660,081
–	–	–	–	–	–	(226,737)	(2,008)	(228,745)
–	–	–	–	–	–	1,719	–	1,719
–	3,436	–	–	–	–	3,436	–	3,436
2,662,469	–	–	–	–	–	2,662,469	11,673	2,674,142
–	(1,323,055)	–	–	–	–	(1,323,055)	–	(1,323,055)
–	–	559,932	–	–	–	559,932	36,791	596,723
–	–	–	(64,139)	–	–	(64,139)	–	(64,139)
2,662,469	(1,319,619)	559,932	(64,139)	–	–	18,553,575	193,303	18,746,878
–	–	–	–	–	–	9,215,775	–	9,215,775
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
–	–	–	–	–	(147,194)	(41,214)	–	(41,214)
–	–	–	–	–	–	(3,082,420)	(15,996)	(3,098,416)
–	–	–	–	–	–	(3,082,520)	–	(3,082,520)
–	–	–	–	–	–	–	(13,620)	(13,620)
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	100	24	124
–	–	–	–	–	–	–	(2,400)	(2,400)
–	–	–	–	–	112,203	112,203	–	112,203
4,514	–	–	–	–	–	10,644	(10,644)	–
–	–	–	–	7,850,000	–	–	–	–
4,514	–	–	–	7,850,000	(34,991)	6,214,988	(26,640)	6,188,348
10,504,768	463,884	3,325,924	(102,511)	74,970,003	433,503	159,192,812	1,755,897	160,948,709

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, 2018			39,147,882	7,354,143	5,063,076
Impact arising from the 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 voting shares under employee share option plans	52	241	30,128	–	–
Transfer o/a share-based payment transactions	52	241	–	–	–
Transfer of cost o/a of expired ESOP Shares (net of tax)	55 & 56.5	245 & 247	–	–	88,913
Dividends to equity holders			1,738,948	–	(6,596,708)
Second interim dividend for 2018	25	190	–	–	(3,032,869)
Final dividend for 2018 satisfied in the form of issue and allotment of new shares	52	241	1,738,948	–	(2,022,032)
Unclaimed dividend absorbed/(dividend paid) in respect of previous years			–	–	(547)
First interim dividend for 2019	25	190	–	–	(1,541,260)
Share-based payment transactions	56.5	247	–	–	–
Transfers during the year	54 to 56	244 to 248	–	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

Other reserves						
Revaluation reserve Rs. '000	Fair value reserve Rs. '000	Foreign currency translation reserve Rs. '000	Hedging reserve Rs. '000	General reserve Rs. '000	Employee share option reserve Rs. '000	Total equity Rs. '000
7,088,054	(1,384,982)	2,871,770	24,019	57,650,003	591,984	118,405,949
–	–	–	–	–	–	(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 Changes in Equity – Bank (Contd.)

	Note	Page No.	Stated capital Rs. '000	Statutory reserve fund Rs. '000	Retained earnings Rs. '000
Total comprehensive income for the year 2020					
Profit for the year			–	–	16,373,489
Other comprehensive income, net of tax			–	–	(221,320)
Net actuarial gains/(losses) on defined benefit plans			–	–	(223,039)
Gain on disposal of investments in equity instruments			–	–	1,719
Net change in revaluation surplus	56.1	246	–	–	–
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 2020			–	–	16,152,169
Transactions with owners, recognised directly in equity, contributions and distributions to owners					
Proceeds on issue of ordinary voting shares to IFC parties (Private placement)	52	241	9,215,775	–	–
Issue of ordinary voting shares under employee share option plans	52	241	–	–	–
Transfer o/a share-based payment transactions	52	241	–	–	–
Transfer of cost o/a of expired ESOP Shares (net of tax)	55 & 56.5	245 & 247	–	–	105,980
Dividends to equity holders			2,055,014	–	(5,137,648)
Second interim dividend for 2019	25	190	–	–	(3,082,520)
Final dividend for 2019 satisfied in the form of issue and allotment of new shares	52	241	2,055,014	–	(2,055,014)
Unclaimed dividend absorbed/(dividend paid) in respect of previous years			–	–	(114)
Share-based payment transactions	56.5	247	–	–	–
Transfers during the year	54 to 56	244 to 248	–	818,674	(8,668,674)
Total transactions with equity holders			11,270,789	818,674	(13,700,342)
Balance as at December 31, 2020			52,187,747	9,024,065	7,596,260

The Notes appearing on pages 155 to 290 form an integral part of these Financial Statements.

Other reserves						
Revaluation reserve Rs. '000	Fair value reserve Rs. '000	Foreign currency translation reserve Rs. '000	Hedging reserve Rs. '000	General reserve Rs. '000	Employee share option reserve Rs. '000	Total equity Rs. '000
–	–	–	–	–	–	16,373,489
2,574,858	(1,323,110)	439,883	(64,139)	–	–	1,406,172
–	–	–	–	–	–	(223,039)
–	–	–	–	–	–	1,719
2,574,858	–	–	–	–	–	2,574,858
–	(1,323,110)	–	–	–	–	(1,323,110)
–	–	439,883	–	–	–	439,883
–	–	–	(64,139)	–	–	(64,139)
2,574,858	(1,323,110)	439,883	(64,139)	–	–	17,779,661
–	–	–	–	–	–	9,215,775
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	(147,194)	(41,214)
–	–	–	–	–	–	(3,082,634)
–	–	–	–	–	–	(3,082,520)
–	–	–	–	–	–	–
–	–	–	–	–	–	(114)
–	–	–	–	–	112,203	112,203
–	–	–	–	7,850,000	–	–
–	–	–	–	7,850,000	(34,991)	6,204,130
9,662,912	462,331	2,911,866	(102,511)	74,970,003	433,503	157,146,176

Statement of Cash Flows

			GROUP		BANK	
For the year ended December 31,	Note	Page No.	**2020 Rs. '000**	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000
Cash flows from operating activities						
Profit before income tax			24,519,860	22,983,896	23,511,312	22,339,105
Adjustments for:						
Non-cash items included in profit before tax	64	260	24,764,927	14,014,272	24,705,430	13,702,213
Change in operating assets	65	260	(374,761,711)	(84,218,375)	(369,030,667)	(74,749,286)
Change in operating liabilities	66	261	325,708,382	69,879,669	322,115,757	65,515,273
(Gains)/losses on sale of property, plant and equipment	17	182	(5,820)	(19,731)	(926)	(7,958)
Share of profits in associate, net of tax	38.1	213	(3,898)	(9,992)	–	–
Dividend income from subsidiaries	17	182	–	–	(98,200)	(85,397)
Interest expense on subordinated liabilities	13.2	179	3,756,921	3,848,979	3,756,921	3,848,979
Net unrealised gains/(losses) arising from translating the Financial Statements of foreign operations	56.4	247	596,723	(396,201)	439,883	(399,787)
Profit due to change in ownership	17	182	–	–	–	(14,498)
Benefits paid on defined benefit plans			(673,106)	(198,799)	(670,487)	(194,728)
Income tax paid	48	232	(7,748,870)	(8,301,839)	(7,428,411)	(8,087,930)
Net cash from/(used in) operating activities			(3,846,592)	17,581,879	(2,699,388)	21,865,986
Cash flows from investing activities						
Purchase of property, plant and equipment	39.1 to 39.4	215 to 218	(1,159,712)	(1,372,832)	(1,106,641)	(1,307,244)
Purchase of investment properties	40	225	(41)	–	–	–
Proceeds from sale of property, plant and equipment			8,901	24,189	2,829	11,025
Purchase of financial investments			(300,000)	(95,031)	(300,000)	(95,031)
Proceeds from sale and maturity of financial investments			2,368,509	3,428,080	2,368,509	3,428,080
Purchase of intangible assets	41.1 & 41.2	227 & 228	(460,053)	(415,088)	(409,322)	(387,432)
Proceeds due to change in ownership			–	21,503	–	21,503
Acquisition of a subsidiary, net of cash acquired			–	(91,716)	(1,125,000)	(754,657)
Dividends received from investments in subsidiaries	17	182	–	–	98,200	85,397
Net cash from/(used in) investing activities			457,604	1,499,105	(471,425)	1,001,641
Cash flows from financing activities						
Proceeds from issue of ordinary voting shares under employee share option plans	52	241	–	30,128	–	30,128
Proceeds from issue of ordinary voting shares to IFC parties (Private placement)	52	241	9,215,775	–	9,215,775	–
Interest paid on subordinated liabilities			(3,802,023)	(3,873,107)	(3,802,023)	(3,873,107)
Payment of lease liabilities/advance payment of right-of-use assets			(1,354,902)	(1,049,004)	(1,446,874)	(1,165,340)
Dividend paid to non-controlling interest	57	248	(15,996)	(4,988)	–	–
Dividend paid to shareholders of the Bank			(3,082,420)	(4,857,563)	(3,082,634)	(4,857,760)
Net cash from/(used in) financing activities			960,434	(9,754,534)	884,244	(9,866,079)
Net increase/(decrease) in cash and cash equivalents			(2,428,554)	9,326,450	(2,286,569)	13,001,548
Cash and cash equivalents as at January 1,			53,686,825	44,360,375	52,540,437	39,538,889
Gross cash and cash equivalents as at December 31,	28	196	51,258,271	53,686,825	50,253,868	52,540,437
Less: Impairment charges	28.1	196	(3,241)	(5,707)	(3,241)	(5,707)
Cash and cash equivalents as per Statement of Financial Position	28	196	51,255,030	53,681,118	50,250,627	52,534,730

The Notes appearing on pages 155 to 290 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,	**2020**	2019
Group	5,693	5,656
Bank	5,057	5,062

Corporate information is presented in the inner back cover of this Annual Report.

1.2 Consolidated Financial Statements

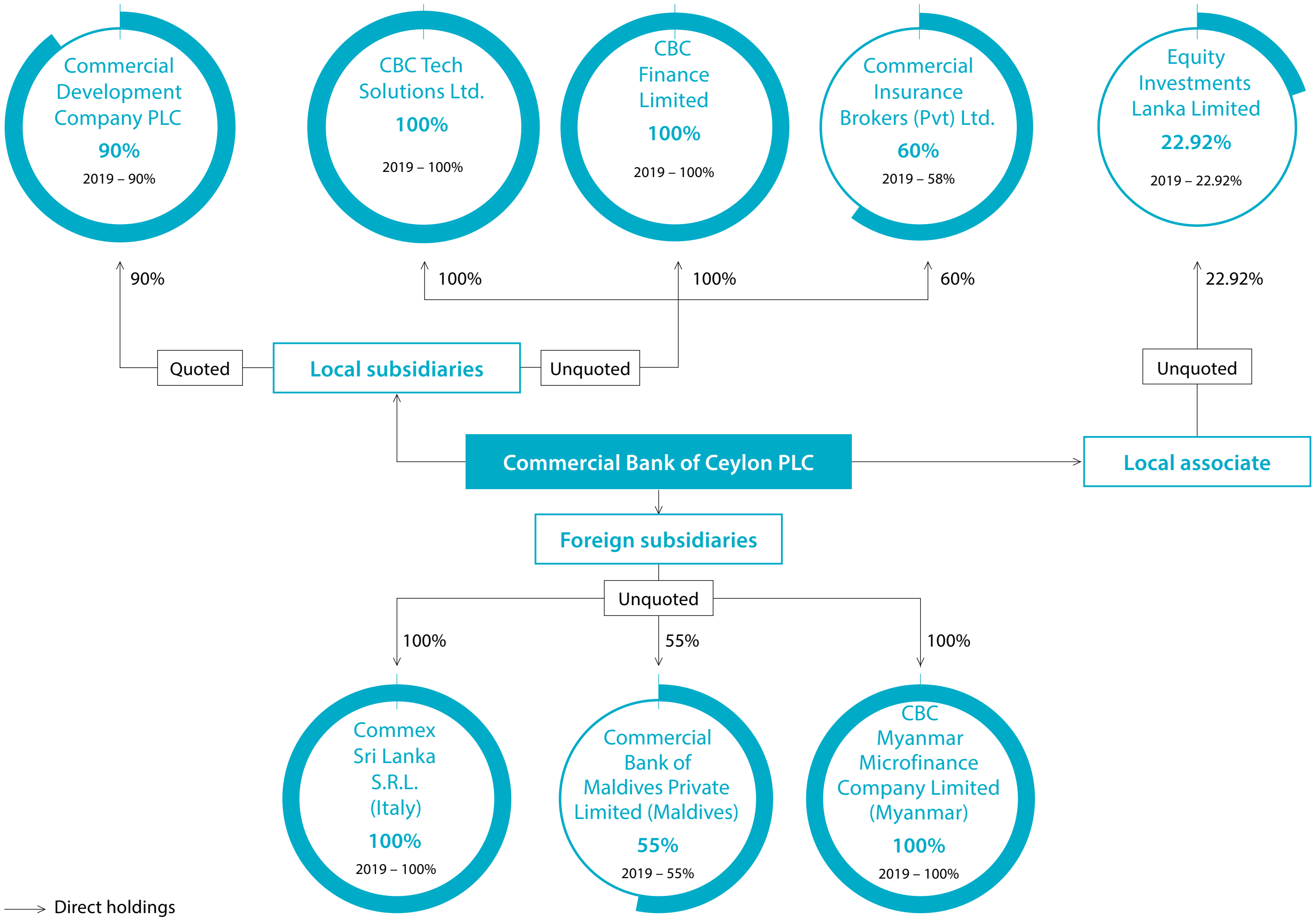
The Consolidated Financial Statements as at and for the year ended December 31, 2020, comprise the Bank (Parent Company) and its Subsidiaries (together referred to as the "Group" and individually as "Group entities") and the Group's interest in its Associate.

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 – 25

Group Structure



During 2020, the Bank acquired a further 20% stake in Commercial Insurance Brokers (Private) Limited, from the Bank's subsidiary, Commercial Development Company PLC (which had a stake of 20% in Commercial Insurance Brokers (Private) Limited), for a purchase consideration of Rupees One Hundred and Twenty-Five Million (Rs. 125,000,000/-) after obtaining necessary approvals from the Boards of both the Bank and Commercial Development Company PLC. The Bank also obtained approval of the Central Bank of Sri Lanka (CBSL) for this acquisition of shares. With this acquisition, the Bank's stake in Commercial Insurance Brokers (Private) Limited increased to 60% from 40% held as at December 31, 2019.

Principal business activities and nature of business operations of the Group Table – 43

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.
Local subsidiaries	
Commercial Development Company PLC (CDC)	Property development, related ancillary services and providing manpower needs for various support services which are unrelated to providing core banking services to the customers of the Bank (parent).
CBC Tech Solutions Limited	Providing Information & Communication Technology (ICT) related products, services and solutions to corporate sector.
CBC Finance Limited	Granting of lease facilities, hire purchase, mortgage loans and other credit facilities and accepting deposits.
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.
Foreign subsidiaries	
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.
Local 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 164 to 176.

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 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". The Bank also published annual and quarterly financial information and other disclosures in the Annual Report, Press and the Website in compliance with Section 4.2 of the aforementioned Circular.

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 3, 107 and 145, 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 143 and 144;
- 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 145;
- 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 146 to 153;

- 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 154;
- Notes to the Financial Statements comprising Significant Accounting Policies and other explanatory information. 🕮 Refer pages 155 to 290.

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, 2020 (including comparatives for 2019), were approved and authorised for issue by the Board of Directors in accordance with Resolution of the Directors on February 24, 2021 (The Financial Statements of the Group and the Bank for the year ended December 31, 2019, were approved and authorised for issue by the Board of Directors on February 20, 2020).

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 – 44

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 & 45	198 & 231
Financial assets measured at fair value through other comprehensive income	Fair value	36	207
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	214
Investment property	Measured at cost at the time of acquisition and subsequently at Fair value.	40	225
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	49	233
Equity settled share-based payment arrangements	Fair value on grant date	53	241

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.

The outbreak of COVID-19 has caused disruption to business and economic activities, and uncertainty to the global and local economy. Therefore, in the assessment of the existence of a material uncertainty, the management took into consideration the existing and anticipated effects of the Pandemic on the Group's activities based on all available information about the future that was obtained after the reporting date, up until the date on which the financial statements are issued. Subsequent to the outbreak of COVID-19 in Sri Lanka, the Group has strictly adhered to the guidelines and directions issued by both the Government and CBSL when conducting its business operations. Further, the Bank has provided reliefs for the affected businesses and individuals in line with the directions issued by the CBSL. These relief measures include deferment of repayment terms of credit facilities, offering concessionary rates of interest to eligible loan products (debt moratorium) and waiving off certain fees and charges.

The Management has considered the potential downsides that the COVID-19 pandemic could bring to the business operations of the Group, in making this assessment. However, considering a wide range of factors including history of profitable operations, strong liquidity position and stable external funding sources, diversified lending profile and the initiatives taken by the Bank for strengthening risk monitoring at borrower level, the Management satisfied itself that the going concern basis is appropriate.

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 358 and 359 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 61 on pages 251 to 253.

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.

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.

The Group considered the impact of COVID-19 in preparing the Financial Statements in line with the circulars and guidelines issued by the CBSL and the CA Sri Lanka. While the specific areas of judgement may not change, the impact of COVID-19 resulted in the application of further judgement within those areas due to the evolving nature of the pandemic and the limited recent experience of the economic and financial impacts of such an event. Further, changes to estimates were made in the measurement of Group' assets where applicable.

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 210 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 166.
- The contractual cash flow characteristics of the financial assets as set out in Note 7.1.3.2 on page 166.

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 192 to 196.

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 (SICR) 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), Loss Given Default (LGD) and Exposure At Default (EAD).
- 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.

The Bank has provided reliefs such as deferment of repayment terms of credit facilities, for the affected businesses and individuals due to COVID-19 in line with the directions issued by the CBSL. Utilization of a payment deferral program does not, all else being equal, automatically trigger a SICR. As such, key issue will be to distinguish between cases where the payment holidays provide relief from short-term liquidity constraints impacting the borrower that do not amount to a SICR. Given the high degree of uncertainty and unprecedented circumstances in the short-term economic outlook, the Management exercised judgements in the assessment of the impact of the COVID-19 outbreak on the loans and advances portfolio of the Group, relying more on the long-term outlook as evidenced by past experience and taking into consideration various relief measures including concessionary financing and payment moratorium. The impact of the outbreak has been assessed and adjusted in these Financial Statements based on the available information and assumptions made as at reporting date in line with the guidelines issued by the CBSL and the CA Sri Lanka.

In response to COVID-19 and the Group's expectations of economic impacts, key assumptions used in the Group's calculation of ECL have been revised. As at the reporting date, the expected impacts of COVID-19 have been captured via the modelled outcome as well as a separate management overlay reflecting the considerable uncertainty remaining in the modelled outcome given the unprecedented impacts of COVID-19. Although the credit model inputs and assumptions, including forward-looking macroeconomic assumptions, were revised in response to the COVID-19 pandemic, the fundamental credit model mechanics and methodology underpinning the Group's calculation of ECL have remained consistent with prior periods.

Accordingly, the Bank took steps to identify the customers showing distress signs in identifying SICR under the individual impairment assessment. Under the collective assessment, customers operating in risk elevated industries including Tourism and hospitality which includes resort hotels in the Maldives, importing Palm oil, rice and cement, passenger air transport, supplying hardware items, non-metallic mineral product, film production, fund management, venture capital, ornamental fish, tobacco related business, passenger transport and exporting jewellery were assessed for Lifetime ECL. Exposures outstanding from the borrowers operating in these industries have been classified as stage 2 unless such exposures are individually significant and have specifically been identified as stage 1 reflecting forward looking view of the economy in relation to the business.

Further, the Bank decided to increase the weightages assigned for worst case scenario while reducing the weightages assigned for base case scenario and best case scenario when assessing the probability weighted forward looking macro-economic indicators along with management overlays to qualitative indicators relating to forward looking macro-economic environment with the objective of capturing the impact of COVID-19 and uncertainties and volatilities in future outlook on the ECL computation as at the reporting date. In addition, as expert credit judgment, the Bank stressed the ECL parameters such as PDs and LGDs to reflect the real economic scenario that is not reflected due to the deferrals and concessions granted due to COVID-19.

Early observations of payment behaviour of expiries for this year were considered in the assessment of the changes in the risk of default occurring over the expected life of a financial instrument when determining staging and is a key input in determining migration.

Refer Note 18 on page 182 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 172 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 219 to 224.

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 185.

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 225.

2.12.10 SLFRS 16 – Leases

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 42 on page 228 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 49 on pages 233 to 239 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 pages 174 and 175.

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 69 on page 290, where necessary.

3. Financial Risk Management

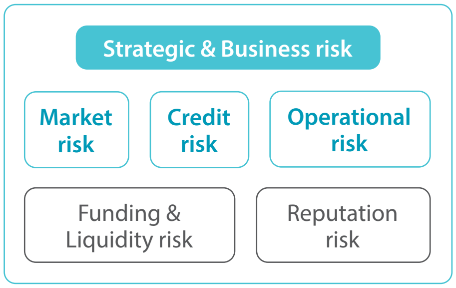
3.1 Introduction and overview

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 arising out of financial activities that are undertaken in its day to day businesses:

- Credit risk;
- Liquidity risk;
- Market risk; and
- Operational and Reputational risk.

Types of risk Figure – 26



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 Framework 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 Contingency Funding Plan, Foreign Exchange Policy, Operational Risk Policy, IT Risk Policy, Market Risk Policy, Stress Testing Policy, Environmental Risk Management Policy and Reputational Risk Management 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 deliberations and arriving at consensus arising out of multiple points of views. 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 the Board Integrated Risk Management Committee (BIRMC) as a mandatory Board Committee, 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, Market and IT risk matters of the Bank. Assets and Liabilities Committee (ALCO),that convene at least once a fortnight, gives priority for liquidity, funding and profitability in line with the changes taken place in the market.

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 (IRMD) 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 the adequacy of the Risk Management Framework to the Board Audit Committee (BAC).

Credit risk

The risk that the Bank will incur a loss due to its customers or counterparties fail to discharge their contractual obligations, considered generally under the credit risk assessment.

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 geographies and industry concentrations by monitoring exposures and possible adverse external factors in relation to such limits.

Management of credit risk

Lending Guidelines of the Bank formulated based on evolving practices of Lending to provide expected granularity of credit assessment, risk grading, their acceptability of collateral as well as limits on exposures and concentration levels to various sectors, counterparties, geographies and segments etc.

A robust risk grading system incorporating Basel guidelines on rating of facilities and counterparties is adopted by the Bank for evaluation of credit proposals. This risk grading framework consists 10 grades of varying degrees of risks 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 IRMD regularly.

Portfolio level credit risk analyses are taken up at monthly EIRMC meetings as well as quarterly at 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 them. Escalation of approving levels occurs based on Delegated Authority levels attached to exposure levels, final risk ratings as well as negative deviation of performance levels of previous facilities extended to 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 beyond the specified threshold and recommendations for approval of the Board are made based on quantum of exposures at various levels.

The IRMD 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 having paid attention to the changes on the prices of market.

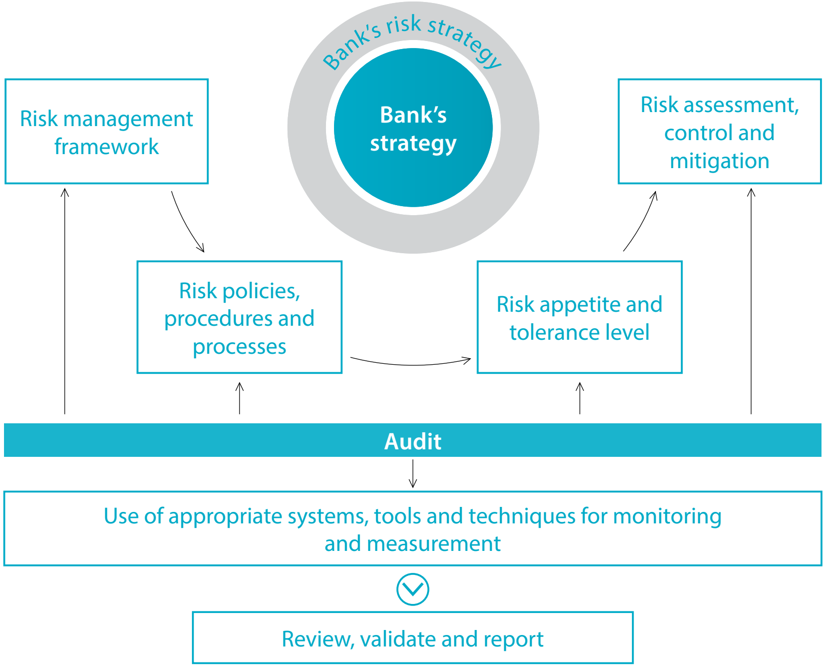
Management of market risk

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 assets and liabilities denominated in currencies other than local currency, continued to expose the Bank to associated risk elements.

Bank's Financial Risk Management Framework Figure – 27



Downward interest rate 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 is 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 in the local Market.

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 a high volatility is observed in the major currency, compared to the 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 is focussed on this risk domain. Liquidity risk arises because of the possibility that the Bank might be unable to meet its payment obligations or not receiving what is due to the Bank 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 (LCR) and Net Stable Funding Ratio (NSFR) 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 2020. However, the Bank has adopted many strategies to invest excess liquidity at optimum yields but in staggered maturities and thereby to minimise the negative impact on the bottom line as well as Liquidity. The Bank has also adopted many strategies to maintain Foreign Currency liquidity having evaluated the commitments and contingencies frequently amidst the economic conditions prevailed in the country in 2020.

Contingency funding plans in force, constant monitoring of salient liquidity ratios and scenario based stress testing being carried out regularly would enable the Bank to take proactive measures towards overcoming adverse liquidity position that may arise on a future date.

Recent downgrading of the country by Rating Agencies could pose challenges in managing foreign currency liquidity position of the financial sector amidst Global pandemic situation, a risk is that the Bank is closely monitoring and taking measures to mitigate at the moment.

Operational risk and reputational risk

The risk that the Bank will incur a loss due to failure of systems, human errors, frauds or external events is focussed on this risk domain. 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, escalating, reporting and responding to potential risks.

The risk that the Bank's reputation will damage by one or more than one reputation event, as reflected from negative publicity about the Bank's business practices, conduct or financial condition. Such negative publicity, whether true or not, may impair public confidence in the Bank, result in costly litigation, or lead to a decline in its customer base, business or revenue.

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 and reputational 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 68 on pages 261 to 290 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 114 to 133 The said write-up on "Managing Risk: An Overview" does not form part of the Financial Statements.

4. Fair value measurement

"Fair value" is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When one is available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted pricing in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The fair value of an asset or a liability is measured using the assumptions that market participants would use the fair value hierarchy when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. External professional valuers are involved for valuation of significant assets such as land and building.

An analysis of fair value measurement of financial and non-financial assets and liabilities is provided in Note 27 on pages 192 to 196.

5. Changes in Accounting Policies

The Group has consistently applied the Accounting Policies as set out in Notes 6 to 10 on pages 164 to 176 to all periods presented in these Financial Statements, except for changes arising out of amendments to Accounting Standards as set out below:

5.1 New and amended standards and interpretations

In these Financial Statements, the Group applied for the first time following amendments to Accounting Standards, which are effective for annual periods beginning on or after January 1, 2020. The Group has not early adopted any other accounting standard, interpretation or amendment that has been issued but not effective.

5.1.1 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 on "Business Combinations" (SLFRS 3) to help entities determine whether an acquired set of activities and assets is a business or not. These amendments clarified the minimum requirements for a business, removed the assessment of whether market participants are capable of replacing any missing elements and added guidance to help entities assess whether an acquired process is substantive, narrowed the definitions of a business and of outputs, and introduced an optional fair value concentration test.

These amendments had no impact on the Consolidated Financial Statements of the Group, but may impact future periods should the Group enter into any business combinations.

5.1.2 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.'

These amendments had no impact on the Consolidated Financial Statements of, nor is there expected to be any future impact to, the Group.

5.1.3 Amendments to the conceptual framework for financial reporting

CA Sri Lanka issued a revised Conceptual Framework which included some new concepts, updated definitions and recognition criteria for assets and liabilities and clarified some important concepts. 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.

These amendments had no impact on the Consolidated financial statements of the Group.

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 158.

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:

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6. Significant Accounting Policies – General

6.1 Basis of consolidation

The Group's Financial Statements comprise, Consolidated Financial Statements of the Bank and its Subsidiaries in terms of the Sri Lanka Accounting Standard – SLFRS 10 on "Consolidated Financial Statements" (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 172). 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 57 on page 248.

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 58.4 (a) on pages 210 to 212 and 250.

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 associate, 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 the associate is set out in Notes 38 and 58.4 (b) on pages 212 and 250.

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.

However, as per 'Guidance Notes on Accounting Considerations of the COVID 19 Outbreak' issued by CA Sri Lanka, for overdrafts and working capital loans offered at a concessionary rate of 4% to the borrower, which were again funded to the Bank at 1% interest rate under the government refinance scheme; the interest rate of 4% for that special product was considered as applicable market rate resulting in no fair value adjustments. Accordingly, no day 1 impact arose in case of such working capital loans and overdrafts.

Refer Notes 13 and 19 on pages 178 and 185.

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 201 to 205.

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 145.

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 206.

7.1.3.3.4 Cash and cash equivalents

Details of "Cash and cash equivalents" are given in Note 28 on page 196.

7.1.3.3.5 Balances with central banks

Details of "Balances with central banks" are given in Note 29 on page 197.

7.1.3.3.6 Placements with banks

Details of "Placements with banks" are given in Note 30 on page 197.

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 207.

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 207.

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 198.

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 198.

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 45 on page 231.

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", "Securities sold under repurchase agreements", "Due to depositors", "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 profit or loss. Gains and losses too are recognised in the profit or loss 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 44 on page 230.

7.1.4.2.2 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 145.

7.1.4.2.3 Due to depositors

Details of "Due to depositors" are given in Note 46 on page 231.

7.1.4.2.4 Other Borrowings

Details of "Other borrowings" are given in Note 47 on page 232.

7.1.4.2.5 Subordinated liabilities

Details of "Subordinated liabilities" are given in Note 51 on page 240.

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 a 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 45.1 on page 231.

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 at 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 page 166.

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.

During the year, the Bank reclassified part of its Sri Lanka Sovereign Bond (SLSB) Portfolio from Fair Value Through Other Comprehensive Income (FVOCI) to Amortised Cost, as a result of changes to the business model of managing the assets, in line with the guidelines issued by the CA Sri Lanka on Accounting Consideration with the COVID-19 Outbreak. Refer Note 36.1 on page 208 for further details.

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 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 or 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.

As per the Circular Nos. 4 and 5 of 2020 issued by CBSL dated March 24, 2020 and March 27, 2020 respectively, the Bank granted payment deferrals to eligible customers affected by COVID-19, modifying the original contract. In this regard, banks were allowed to charge upto a maximum of 7% per annum on the deferred instalments during the moratorium period of equated monthly instalments (EMI) loans. For other loans various types of interest rate concessions were given to the customers. Further, with the view of meeting the challenges faced by businesses and individuals due to the second wave of COVID-19, CBSL directed banks to extend the debt moratorium to such businesses and individuals for a further period of six months commencing from October 01, 2020. Licensed banks are expected to convert the capital and interest falling due during the moratorium period commencing from October 01, 2020 to March 31, 2021, into a term loan. Repayment period of the new loans shall be minimum of two years, however may vary based on the terms and conditions agreed with the borrower. The banks were allowed to recover interest at a rate not exceeding the latest auction rate for 364-days Treasury Bills, available by April 01, 2021, plus 1 per cent per annum.

Modifications to the original terms and conditions of the loans due to the above COVID-19 moratoriums, did not result in de-recognition of the original loans as the Management concluded that the modifications were not substantial. Accordingly, a modification loss (Day 1 Modification Loss) has been recognized under interest income in Note 13.1, representing the difference between the original carrying amount of the loan (before modification) and the discounted present value of the revised cash flows (at the Original EIR) at the date of the loan modification. The Group recognizes the interest income on recalculated gross carrying amount based on the Original EIR from the commencement of moratorium to the end of the lifetime of the instrument.

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 163 and 192.

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 182 to 185.

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 214 to 225.

7.3.1 Depreciation

Details of "Depreciation" are given in Note 20 on pages 185 and 186.

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 225 and 226.

7.5 Intangible assets

Details of "Intangible assets" are given in Note 41 on pages 226 to 228.

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 185 and 186.

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 69 on page 290.

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 those who joined the Bank before January 1, 2000, became eligible for this pension scheme.

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 before January 1, 2000, 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;

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 49 on pages 233 to 239.

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 49 on pages 185 and 233 to 239, 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 185.

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.

7.8.2.4 Defined Contribution Pension Fund (DCPF)

A DCPF was established on March 1, 2020, which is managed by a Board of Trustees consisting of representatives of Employee Organizations and the Management.

Employees who joined since the year 2000, and who are not covered under the Re-Structured Pension Scheme of the Bank and are in the service of the Bank as at March 1, 2020 are eligible for the new DCPF. The initial lump sum, based on Gratuity entitlement as at February 29, 2020, is being transferred to the accounts opened in the names of individual eligible employees. The Bank contributes monthly, a percentage equivalent of seven decimals five per centum (7.5%) of the monthly salary of each eligible employee starting from March 1, 2020 until cessation of employment to the DCPF.

Employees cannot withdraw money from the DCPF before cessation of employment. In the event of early separation prior to retirement (excluding death), eligible employees are entitled to withdraw the accumulated amounts in their respective DCPF accounts. However, the eligible employees are not entitled to receive any DCPF payment where the completed service is less than 5 years (similar to the Gratuity payments done in case of a separation as per the Gratuity Act at the point of termination and separation). In the event of death of an employee whilst in service, the accumulated funds in the members account will be released in full to the nominated parties/legal heirs as the case may be, where the completed service is more than 5 years.

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 Bank 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 Bank. Executive Employees of the Bank 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 Plans – 2015 and 2019, which granted are subjected to the above accounting treatment.

The details of Employee Share Option Plans are given in Note 53 on page 241.

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 189.

7.9 Other liabilities

Details of "Other liabilities" are given in Note 49 on pages 233 to 239.

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 58 on page 248.

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 58 on page 248.

7.15 Contingent liabilities and commitments

A detailed list of "Contingent liabilities and commitments" and "Litigation against the Bank" are given in Notes 58 and 60 on pages 248 and 250.

7.16 Stated capital and reserves

Details of the "Stated capital and reserves" are given in Notes 52, 54, 55 and 56 to the Financial Statements on pages 241 and 244 to 248.

7.17 Earnings per Share (EPS)

Details of "Basic and Diluted EPS" are given in Note 24 on page 189.

7.18 Operating segments

Details of "Operating segments" are given in Note 62 on pages 253 to 255.

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 178 to 187.

8.1 Interest income and expense

Details of "Interest income and expense" are given in Note 13 on pages 178 to 180.

8.2 Fee and commission income and expense

Details of "Fee and commission income and expense" are given in Note 14 on pages 180 and 181.

8.3 Net gains/(losses) from trading

Details of "Net gains/(losses) from trading" are given in Note 15 on page 181.

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 181.

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 181 and 182.

8.6 Leases

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 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 49 respectively on pages 214 and 233.

8.6.2 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.

8.6.2.1 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.

8.6.2.2 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 67 on page 261.

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 187 and 188.

9.1.2 Deferred tax

Details of "Deferred tax assets and liabilities" are given in Note 42 on pages 228 to 230.

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 notice dated April 08, 2020 issued by the Inland Revenue Department on "Implementation of Proposed Changes to the Inland Revenue Act No. 24 of 2017", effective from January 01, 2020;

- Corporate Income Tax rate was revised from 28% to 24%. However, such revisions were not considered in computing the income tax liabilities, pending legal enactment and formal amendments to the Inland Revenue Act.
- Exemption announced as per the aforementioned notice on interest income from Sri Lanka Development Bonds, effective from April 01, 2018 was availed by the Bank. However, other exemptions eligible to be claimed effective from January 01, 2020, were not considered in computing the income tax liability as at December 31, 2020, pending legal enactment and formal amendments 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 up to December 31, 2019. 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 associate

Dividends received by the Bank from its subsidiaries and associate, 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 FS charged in determining the profit or loss for the period is given in Note 22 on page 187.

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 FS charged in determining the profit or loss in 2019 is given in Note 22 on page 187.

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 FS of 7% was introduced on the value addition attributable to the supply of financial services by each financial institution. DRL FS was chargeable on the same base used for calculation of VAT FS 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 FS was abolished with effect from January 01, 2020.

The amount of DRL FS charged in determining the profit or loss in 2019 is given in Note 22 on page 187.

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 196.

The Statement of Cash Flows is given on page 154.

11. Amendments to Accounting Standards issued but not yet effective

The amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's Financial Statements are disclosed below. The Group/Bank intends to adopt these standards, if applicable, when they become effective.

Amendments to SLFRS 9, LKAS 39, SLFRS 7, SLFRS 4 and SLFRS 16 – Interest Rate Benchmark Reform (Phase 1 & 2) – ("IBOR reform")

The amendments to SLFRS 9 & LKAS 39 provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument.

IBOR reforms Phase 2 include number of reliefs and additional disclosures. Amendments supports companies in applying SLFRS when changes are made to contractual cash flows or hedging relationships because of the reform.

These amendments to various standards are effective for the annual reporting periods beginning on or after January 01, 2021.

The Group/Bank is currently assessing the potential impact on its Financial Statements resulting from this amendment.

Amendments to SLFRS 16 - COVID-19 Related Rent Concessions

The amendments provide relief to lessees from applying SLFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 Pandemic.

As a practical expedient, a lessee may elect not to assess whether a COVID-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from COVID-19 related rent concession the same way it would account for the change under SLFRS16, if the change were not a lease modification.

The amendment applies to annual reporting periods beginning on or after June 01, 2020.

This amendment is not expected to have a material impact on the Financial Statements of the Group/Bank in the foreseeable future.

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 **2020** **Rs. '000**	 2019 Rs. '000	BANK **2020** **Rs. '000**	 2019 Rs. '000
Interest income	13.1	178	124,087,713	129,287,743	122,330,386	127,779,540
Fee and commission income	14.1	180	11,839,689	12,874,966	11,268,543	12,406,584
Net gains/(losses) from trading	15	181	1,878,060	1,360,833	1,878,086	1,360,858
Net gains/(losses) from derecognition of financial assets	16	181	6,390,197	1,135,711	6,390,197	1,135,711
Net other operating income	17	182	7,770,754	6,081,876	7,844,269	6,023,591
Total			151,966,413	150,741,129	149,711,481	148,706,284

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 (AC) 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 **2020** **Rs. '000**	 2019 Rs. '000	BANK **2020** **Rs. '000**	 2019 Rs. '000
Interest income	13.1	178	124,087,713	129,287,743	122,330,386	127,779,540
Less: Interest expense	13.2	179	73,218,911	80,931,352	72,759,045	80,571,268
Net interest income			50,868,802	48,356,391	49,571,341	47,208,272

13.1 Interest income

For the year ended December 31,	Note	Page No.	GROUP **2020** **Rs. '000**	 2019 Rs. '000	BANK **2020** **Rs. '000**	 2019 Rs. '000
Cash and cash equivalents			1,053,757	1,290,697	1,049,426	1,281,772
Balances with central banks			1,175,509	62,572	1,149,924	34,632
Placements with banks			777,425	931,571	754,313	918,690
Securities purchased under resale agreements			836,773	1,906,902	836,773	1,906,667
Financial assets recognised through profit or loss			1,831,327	474,478	1,831,327	474,478
Derivative financial instruments			34,902	67,453	34,902	67,453
Other financial instruments			1,796,425	407,025	1,796,425	407,025
Financial assets at amortised cost – Loans and advances to other customers (*)			84,257,196	100,444,369	82,933,026	99,263,719

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			GROUP		BANK	
For the year ended December 31,	Note	Page No.	**2020** **Rs. '000**	2019 Rs. '000	**2020** **Rs. '000**	2019 Rs. '000
Financial assets at amortised cost – Debt and other financial instruments			13,194,851	7,819,563	12,891,769	7,572,183
Financial assets measured at fair value through other comprehensive income			18,053,545	15,091,368	18,031,388	15,067,335
Interest accrued on impaired loans and advances to other customers	34.2 (a) & 34.2 (b)	204	2,895,955	1,258,339	2,850,806	1,258,339
Other interest income			11,375	7,884	1,634	1,725
Total			124,087,713	129,287,743	122,330,386	127,779,540

(*) Interest concessions and refunds along with the modification losses relating to COVID-19 relief measures amounting to Rs. 2,640.810 Mn. (approx) have been netted off in the interest income.

13.2 Interest expense

			GROUP		BANK	
For the year ended December 31,	Note	Page No.	**2020** **Rs. '000**	2019 Rs. '000	**2020** **Rs. '000**	2019 Rs. '000
Due to banks			2,845,641	2,484,166	2,657,662	2,201,489
Derivative financial liabilities			65,473	63,161	65,473	63,161
Securities sold under repurchase agreements			3,516,363	3,256,622	3,524,261	3,267,124
Financial liabilities at amortised cost – due to depositors			61,416,382	69,503,417	61,120,047	69,387,322
Refinance borrowings			578,780	472,813	578,780	472,813
Foreign currency borrowings			603,597	872,931	603,597	872,931
Subordinated liabilities			3,756,921	3,848,979	3,756,921	3,848,979
Interest expense on lease liabilities	49.1	233	435,754	429,263	452,304	457,449
Total			73,218,911	80,931,352	72,759,045	80,571,268

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

	GROUP		BANK	
For the year ended December 31,	**2020** **Rs. '000**	2019 Rs. '000	**2020** **Rs. '000**	2019 Rs. '000
Interest income	31,523,186	23,158,214	31,501,029	23,133,946
Securities purchased under resale agreements	618,309	1,629,021	618,309	1,628,786
Financial assets recognised through profit or loss	662,961	277,760	662,961	277,760
Financial assets at amortised cost – Debt and other financial instruments	12,188,371	6,160,065	12,188,371	6,160,065
Financial assets measured at fair value through other comprehensive income	18,053,545	15,091,368	18,031,388	15,067,335
Less: Interest expense	3,499,898	3,252,089	3,507,796	3,262,591
Securities sold under repurchase agreements	3,499,898	3,252,089	3,507,796	3,262,591
Net interest income	28,023,288	19,906,125	27,993,233	19,871,355

13.3 (b) Net interest income from Bangladesh Government Securities

	GROUP		BANK	
For the year ended December 31,	**2020** **Rs. '000**	2019 Rs. '000	**2020** **Rs. '000**	2019 Rs. '000
Interest income	**1,823,578**	1,318,173	**1,823,578**	1,318,173
Securities purchased under resale agreements	**218,464**	277,881	**218,464**	277,881
Financial assets recognised through profit or loss	**1,133,464**	129,265	**1,133,464**	129,265
Financial assets at amortised cost – Debt and other financial instruments	**471,650**	911,027	**471,650**	911,027
Less: Interest expense	**16,465**	4,533	**16,465**	4,533
Securities sold under repurchase agreements	**16,465**	4,533	**16,465**	4,533
Net interest income	**1,807,113**	1,313,640	**1,807,113**	1,313,640

13.3 (c) Net interest income from Maldives Government Securities

	GROUP		BANK	
For the year ended December 31,	**2020** **Rs. '000**	2019 Rs. '000	**2020** **Rs. '000**	2019 Rs. '000
Interest income	**303,081**	247,379	**–**	–
Financial assets at amortised cost – Debt and other financial instruments	**303,081**	247,379	**–**	–
Net interest income	**303,081**	247,379	**–**	–

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 the 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 applicability of SLFRS 15 to the Bank is limited for fee and commission income.

			GROUP		BANK	
For the year ended December 31,	Note	Page No.	**2020** **Rs. '000**	2019 Rs. '000	**2020** **Rs. '000**	2019 Rs. '000
Fee and commission income	14.1	180	**11,839,689**	12,874,966	**11,268,543**	12,406,584
Less: Fee and commission expense	14.2	181	**2,018,014**	2,123,128	**2,012,138**	2,117,072
Net fee and commission income			**9,821,675**	10,751,838	**9,256,405**	10,289,512

14.1 Fee and commission income

	GROUP		BANK	
For the year ended December 31,	**2020** **Rs. '000**	2019 Rs. '000	**2020** **Rs. '000**	2019 Rs. '000
Loans and advances related services	**861,317**	881,213	**787,785**	813,785
Credit and debit cards related services	**3,723,129**	4,566,923	**3,723,129**	4,566,923
Trade and remittances related services	**4,431,425**	3,998,926	**4,250,211**	3,783,596
Deposits related services	**1,151,909**	1,852,565	**1,122,747**	1,788,810
Guarantees related services	**908,508**	942,615	**900,485**	936,720
Other financial services	**763,401**	632,724	**484,186**	516,750
Total	**11,839,689**	12,874,966	**11,268,543**	12,406,584

14.2 Fee and commission expense

	GROUP		BANK	
For the year ended December 31,	**2020 Rs. '000**	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000
Loans and advances related services	48,591	54,028	47,443	51,637
Credit and debit cards related services	1,811,962	1,877,797	1,811,962	1,877,797
Trade and remittances related services	55,456	62,299	50,728	58,634
Other financial services	102,005	129,004	102,005	129,004
Total	2,018,014	2,123,128	2,012,138	2,117,072

15. Net gains/(losses) from trading

Accounting policy

"Net gains/(losses) from trading" comprises gains less losses related to trading assets and trading liabilities, and also include all realised and unrealised fair value changes, related capital gains and losses, dividend income from trading assets, and foreign exchange gains/(losses).

	GROUP		BANK	
For the year ended December 31,	**2020 Rs. '000**	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000
Derivative financial instruments	977,206	1,078,749	977,206	1,078,749
Foreign exchange gains/(losses) from banks and other customers	977,206	1,078,749	977,206	1,078,749
Financial assets recognised through profit or loss – measured at fair value				
Government Securities	557,579	67,548	557,579	67,548
Net mark-to-market gains/(losses)	226,036	26,386	226,036	26,386
Net capital gains	331,543	41,162	331,543	41,162
Equities	343,275	214,536	343,301	214,561
Net mark-to-market gains/(losses)	303,612	200,299	303,612	200,327
Net capital gains	20,468	916	20,506	919
Dividend income	19,195	13,321	19,183	13,315
Total	1,878,060	1,360,833	1,878,086	1,360,858

16. Net gains/(losses) from derecognition of financial assets

Accounting policy

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.

	GROUP		BANK	
For the year ended December 31,	**2020 Rs. '000**	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000
Financial assets measured at fair value through other comprehensive income				
Government Securities	6,390,197	1,135,711	6,390,197	1,135,711
Net capital gains	6,390,197	1,135,711	6,390,197	1,135,711
Total	6,390,197	1,135,711	6,390,197	1,135,711

17. Net other operating income

Accounting policy

Net other operating income includes foreign exchange gains and losses, dividend income from equity instruments designated at fair value through other comprehensive income, 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.	**2020 Rs. '000**	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000
Gains/(losses) on sale of property, plant and equipment	17.1	182	5,820	19,731	926	7,958
Gains on revaluation of foreign exchange			7,395,513	5,783,595	7,361,099	5,647,577
Recoveries o/a loans written off			157,103	20,360	157,103	20,360
Dividend income from subsidiaries			–	–	98,200	85,397
Dividend income from other equity securities			28,739	40,076	28,419	39,796
Profit due to change in ownership			–	14,498	–	14,498
Rental and other income	17.2	182	183,579	218,114	198,522	208,005
Less: Profit due to change in ownership			–	(14,498)	–	–
Total			7,770,754	6,081,876	7,844,269	6,023,591

17.1 Gains/(losses) on sale of property, plant and equipment

Accounting policy

The gains or losses on disposal of property, plant and equipment are 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 operating income" in the year in which the Group 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 (SICR). 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 obligations (as per Note 7.1.12.3) either over the next 12 months (12m PD) or over the remaining lifetime (Lifetime PD) of the obligation. PD estimates are estimates at a certain date and days past due (DPD) is the primary input into the determination of the term structure of PD for exposures. DPD 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 (SLDBs) 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 (12m ECL) 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 allowances for ECLs are 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 allowances for 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 the 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 12m ECL.

- 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 12m ECL 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 the loan has shown a SICR 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 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, the 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.

As at the reporting date, the Bank has captured the impact on ECL due to COVID-19 via the modelled outcome as well as management overlays. Management overlays include additional ECL provisions of Rs. 2,899.290 Mn. (approx) on assessing lifetime ECL on the exposures outstanding from the borrowers operating in the risk elevated industries, impact on stressing the PDs and LGDs in the ECL model amounting to Rs. 1,182.754 Mn. (approx) and impact on changing the probability weightages assigned for multiple economic scenarios and stressing the qualitative factors used to assess forward looking macro economic indicators on ECL amounting to Rs. 1,106.486 Mn. (approx).

Scenario probability weighting (Bank)

As at December 31, 2020	Best case %	Base case %	Worst case %
Scenario probability weighting	15.00	40.00	45.00

Further, the Group is of the view that there was no significant impact of COVID-19 on the value of assets pledged as collateral and therefore no additional adjustment made to ECL in this regard.

Refer Note 2.12.5 on page 158 for detailed explanation on significant assumptions and estimates used with the objective of capturing the impact of COVID-19 to ECL provisions .

For the year ended December 31,	Note	Page No.	GROUP **2020** **Rs. '000**	GROUP 2019 Rs. '000	BANK **2020** **Rs. '000**	BANK 2019 Rs. '000
Loans and advances to other customers	34.2 (a) & 34.2 (b)	204	18,124,673	10,309,857	17,865,214	10,043,643
Individual impairment			3,983,706	1,938,437	3,967,287	1,931,678
Collective impairment			14,140,967	8,371,420	13,897,927	8,111,965
Other financial assets and off-balance sheet credit exposures			3,291,313	1,020,414	3,287,083	1,016,571
Total impairment charges	18.1 & 18.2	184 & 185	21,415,986	11,330,271	21,152,297	11,060,214
Investments in subsidiaries	37.1	211	–	–	327,855	–
Direct write-offs			3,546	1,252	3,546	1,252
Total			21,419,532	11,331,523	21,483,698	11,061,466

18.1 Impairment charge to the Income Statement – Group

For the year ended December 31,	Note	Page No.	2020 **Stage 1** **Rs. '000**	2020 **Stage 2** **Rs. '000**	2020 **Stage 3** **Rs. '000**	2020 **Total** **Rs. '000**	2019 Stage 1 Rs. '000	2019 Stage 2 Rs. '000	2019 Stage 3 Rs. '000	2019 Total Rs. '000
Cash and cash equivalents	28.1	196	(2,526)	–	–	(2,526)	1,350	–	–	1,350
Placements with banks	30.1	197	(5,633)	–	–	(5,633)	(2,120)	–	–	(2,120)
Financial assets at amortised cost – Loans and advances to banks	33.1	202	(26)	–	–	(26)	75	–	–	75
Financial assets at amortised cost – Loans and advances to other customers	34.2 (a)	204	3,863,356	3,901,554	10,359,763	18,124,673	(108,915)	2,511,088	7,907,684	10,309,857
Individual impairment			–	–	3,983,706	3,983,706	–	–	1,938,437	1,938,437
Collective impairment			3,863,356	3,901,554	6,376,057	14,140,967	(108,915)	2,511,088	5,969,247	8,371,420
Financial assets at amortised cost – Debt and other financial instruments	35.1 (a)	206	1,685,968	–	–	1,685,968	8,569	–	152,870	161,439
Financial assets measured at fair value through other comprehensive income	36.2	208	814,141	–	–	814,141	265,999	–	–	265,999
Contingent liabilities and commitments	58.3 (a)	250	767,211	57,245	(25,067)	799,389	239,399	98,060	256,212	593,671
Total			7,122,491	3,958,799	10,334,696	21,415,986	404,357	2,609,148	8,316,766	11,330,271

18.2 Impairment charge to the Income Statement – Bank

For the year ended December 31,	Note	Page No.	2020 **Stage 1** **Rs. '000**	 **Stage 2** **Rs. '000**	 **Stage 3** **Rs. '000**	 **Total** **Rs. '000**	2019 Stage 1 Rs. '000	 Stage 2 Rs. '000	 Stage 3 Rs. '000	 Total Rs. '000
Cash and cash equivalents	28.1	196	(2,526)	–	–	(2,526)	1,350	–	–	1,350
Placements with banks	30.1	197	(5,651)	–	–	(5,651)	(2,144)	–	–	(2,144)
Financial assets at amortised cost – Loans and advances to banks	33.1	202	(26)	–	–	(26)	75	–	–	75
Financial assets at amortised cost – Loans and advances to other customers	34.2 (b)	204	3,856,007	3,925,463	10,083,744	17,865,214	(41,669)	2,447,313	7,637,999	10,043,643
Individual impairment			–	–	3,967,287	3,967,287	–	–	1,931,678	1,931,678
Collective impairment			3,856,007	3,925,463	6,116,457	13,897,927	(41,669)	2,447,313	5,706,321	8,111,965
Financial assets at amortised cost – Debt and other financial instruments	35.1 (b)	206	1,681,829	–	–	1,681,829	7,940	–	152,870	160,810
Financial assets measured at fair value through other comprehensive income	36.2	208	814,141	–	–	814,141	265,999	–	–	265,999
Contingent liabilities and commitments	58.3 (b)	250	767,138	57,245	(25,067)	799,316	236,209	98,060	256,212	590,481
Total			7,110,912	3,982,708	10,058,677	21,152,297	467,760	2,545,373	8,047,081	11,060,214

19. Personnel expenses

Accounting policy

See Note 7.8 on pages 172 to 174.

For the year ended December 31,	Note	Page No.	GROUP **2020** **Rs. '000**	 2019 Rs. '000	BANK **2020** **Rs. '000**	 2019 Rs. '000
Salary and bonus	19.1	185	11,522,602	11,141,489	11,174,423	10,865,886
Pension costs	19.1	185	1,937,810	1,882,058	1,884,067	1,843,048
Contributions to defined contribution/benefit plans – Funded schemes			1,702,824	1,396,492	1,673,272	1,373,102
Contributions to defined benefit plans – Unfunded schemes	49.2 (c) & 49.3 (c)	234 & 235	234,986	485,566	210,795	469,946
Equity-settled share-based payment expense	19.2 & 56.5	185 & 247	112,203	–	112,203	–
Other expenses	19.3	185	1,420,133	1,385,367	1,393,306	1,373,725
Total			14,992,748	14,408,914	14,563,999	14,082,659

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 53 on page 241.

19.3 Other expenses

This includes expenses such as overtime payments, leave encashment benefits, 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 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. 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 the 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, 2020 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

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 214 to 225.

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 been 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.

			GROUP		BANK	
For the year ended December 31,	Note	Page No.	**2020 Rs. '000**	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000
Depreciation of property, plant and equipment	39.1 & 39.3	215 & 216	1,592,636	1,541,788	1,459,513	1,415,096
Depreciation of right-of-use assets	39.1 & 39.3	215 & 216	1,199,104	1,047,075	1,271,927	1,126,185
Amortisation of computer software	41.1	227	310,946	252,392	257,591	213,240
Amortisation of trademarks			9	9	–	–
Total			3,102,695	2,841,264	2,989,031	2,754,521

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.

			GROUP		BANK	
For the year ended December 31,	Note	Page No.	**2020 Rs. '000**	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000
Directors' emoluments	21.1	187	81,117	80,247	53,249	52,448
Auditors' remuneration			34,298	32,574	23,530	22,530
Audit fees and expenses			20,140	21,188	11,500	11,500
Audit-related fees and expenses			7,725	7,655	7,600	7,600
Non-audit fees and expenses			6,433	3,731	4,430	3,430
Professional and legal expenses			834,415	1,073,590	1,197,049	1,403,364
Deposit insurance premium paid to the Central Banks			977,846	839,685	975,824	839,313
Donations including contribution made to the CSR Trust Fund			96,925	94,010	96,855	93,991
Establishment expenses			1,644,397	1,878,292	1,482,800	1,748,143
Maintenance of property, plant, and equipment			1,797,222	1,649,310	1,814,939	1,638,747
Loss on fair valuation of investment properties	40	225	12,096	–	–	–
Loss on revaluation of land & buildings	39.1	215	39,872	–	39,872	–
Office administration expenses			2,648,982	3,227,608	2,202,818	2,789,920
Total			8,167,170	8,875,316	7,886,936	8,588,456

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 page 176.

For the year ended December 31,	Note	Page No.	GROUP **2020** **Rs. '000**	 2019 Rs. '000	BANK **2020** **Rs. '000**	 2019 Rs. '000
Value Added Tax	9.5	176	4,531,381	4,233,302	4,505,322	4,191,758
Nation Building Tax (Abolished w.e.f. December 1, 2019)	9.6	176	–	553,802	–	548,708
Debt Repayment Levy (Abolished w.e.f. January 1, 2020)	9.7	176	–	2,468,624	–	2,451,271
Total			4,531,381	7,255,728	4,505,322	7,191,737

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. 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 **2020** **Rs. '000**	 2019 Rs. '000	BANK **2020** **Rs. '000**	 2019 Rs. '000
Current year tax expense				10,178,040	8,600,748	9,866,955	8,308,597
Income tax expense of Domestic Banking Unit			28	6,547,171	4,877,077	6,547,171	4,877,077
Income tax expense of Off-shore Banking Centre			28	899,668	882,204	899,668	882,204
Income tax expense of Bangladesh operation			40	2,144,365	2,209,134	2,144,365	2,209,134
Profit remittance tax of Bangladesh operation			20	275,751	325,672	275,751	325,672

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				GROUP		BANK	
For the year ended December 31,	Note	Page No.	Applicable Income Tax Rate %	**2020** **Rs. '000**	2019 Rs. '000	**2020** **Rs. '000**	2019 Rs. '000
Withholding tax on dividends received			14	–	14,930	–	14,510
Income tax expense of Commercial Development Company PLC			28	56,035	44,289	–	–
Income tax expense of CBC Tech Solutions Limited			28	38,155	32,113	–	–
Income tax expense of CBC Finance Limited			28	83,977	59,057	–	–
Income tax expense of Commercial Bank of Maldives Private Limited			25	109,076	147,259	–	–
Income tax expense of Commex Sri Lanka S.R.L. – Italy			24	–	–	–	–
Income tax expense of CBC Myanmar Micro Finance Company Limited			25	6,714	417	–	–
Income tax expense of Commercial Insurance Brokers Private Limited			28	17,128	8,596	–	–
Prior years							
Under/(Over) provision of taxes in respect of prior years	48	232		(121,298)	(989,148)	(113,565)	(991,884)
Deferred tax reversal	42.1	228		(2,623,679)	(2,048,100)	(2,615,567)	(2,002,575)
Total				7,433,063	5,563,500	7,137,823	5,314,138
Effective tax rate (including deferred tax) (%)						30.36	23.79
Effective tax rate (excluding deferred tax) (%)						41.48	32.75

As per Notice dated April 08, 2020 issued by the Inland Revenue Department on “Implementation of Proposed Changes to the Inland Revenue Act No. 24 of 2017”, effective from January 01, 2020, Corporate Income Tax rate was revised from 28% to 24%.

However, the Bank did not consider the above revisions in computing the income tax liabilities, pending legal enactment and formal amendments to the Inland Revenue Act.

If the above proposal was considered, the impact to the Income Statement for the year ended December 31, 2020 would be an Income Tax reversal of Rs. 306.956 Mn. (reversal of Rs. 1,063.834 Mn. from Income Tax payable and a Deferred Tax expense of Rs. 756.878 Mn.).

Further, the impact to the Statement of Profit or Loss and Other Comprehensive Income would have been a Deferred Tax reversal of Rs. 445.812 Mn. Exemption announced as per the aforementioned Notice on interest income from Sri Lanka Development Bonds, effective from April 01, 2018 was availed by the Bank. However, other exemptions eligible to be claimed effective from January 01, 2020, were not considered in computing the income tax liability as at December 31, 2020, pending legal enactment and formal amendments to the Inland Revenue Act.

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:

				GROUP		BANK	
For the year ended December 31,	Note	Page No.	Applicable Income Tax Rate %	**2020** **Rs. '000**	2019 Rs. '000	**2020** **Rs. '000**	2019 Rs. '000
Accounting profit before tax from operations				24,519,860	22,983,896	23,511,312	22,339,105
Tax effect at the statutory income tax rate				7,591,619	7,299,517	7,300,199	6,914,931
Domestic banking operation of the Bank			28	4,780,070	3,567,991	4,780,070	3,567,991
Off-shore banking operation of the Bank			28	209,320	1,007,313	209,320	1,007,313
Bangladesh operation of the Bank			40	2,310,809	2,339,627	2,310,809	2,339,627
Subsidiaries			24, 25 & 28	291,420	384,586	–	–
Tax effect of exempt income				(1,528,341)	(1,844,454)	(1,528,341)	(1,844,454)
Tax effect of non-deductible expenses				10,912,337	10,410,356	10,683,266	10,237,579
Tax effect of deductible expenses				(7,070,526)	(7,605,273)	(6,861,120)	(7,339,641)
Qualifying payments				(2,800)	–	(2,800)	–
Profit remittance tax of Bangladesh operation				275,751	325,672	275,751	325,672
Under/(over) provision of taxes in respect of prior years	48	232		(121,298)	(989,148)	(113,565)	(991,884)
Withholding tax on dividends received				–	14,930	–	14,510
Deferred tax reversal	42.1	228		(2,623,679)	(2,048,100)	(2,615,567)	(2,002,575)
Income tax expense reported in the Income Statement at the effective income tax rate				7,433,063	5,563,500	7,137,823	5,314,138

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.	**2020**	2019	**2020**	2019
Amount used as the numerator:						
Profit for the year attributable to equity holders of the Bank (Rs. '000)			**16,939,950**	17,263,259	**16,373,489**	17,024,967
Number of ordinary shares used as the denominator:						
Weighted average number of ordinary shares for Basic EPS	24.2	189	**1,078,776,643**	1,051,681,754	**1,078,776,643**	1,051,681,754
Weighted average number of ordinary shares for diluted EPS	24.2	189	**1,078,776,643**	1,051,681,754	**1,078,776,643**	1,051,681,754
Basic earnings per ordinary share (Rs.)			**15.70**	16.41	**15.18**	16.19
Diluted earnings per ordinary share (Rs.)			**15.70**	16.41	**15.18**	16.19

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.	**2020**	2019	**2020**	2019
Number of shares in issue as at January 1,			**1,027,506,586**	1,010,722,577	**1,027,506,586**	1,010,722,577
Add: Number of shares satisfied in the form of issue and allotment of new shares from final dividend for 2018	52.1	241	**–**	16,490,624	**–**	16,490,624
Add: Number of shares satisfied in the form of issue and allotment of new shares from final dividend for 2019	52.1	241	**24,201,866**	–	**24,201,866**	24,201,866
Add: Number of shares issued to IFC parties (Private placement)	52.1	241	**115,197,186**	–	**27,068,191**	–
			1,166,905,638	1,027,213,201	**1,078,776,643**	1,051,415,067
Add: Number of shares issued under ESOP-2008	52.1	241	**–**	293,385	**–**	266,687
Add: Number of shares issued under ESOP-2015			**–**	–	**–**	–
Add: Number of shares issued under ESOP-2019			**–**	–	**–**	–
Weighted average number of ordinary shares for basic earnings per ordinary share calculation			**1,166,905,638**	1,027,506,586	**1,078,776,643**	1,051,681,754
Add: Bonus element on number of outstanding options under ESOP 2008 as at the year end			**–**	–	**–**	–
Add: Bonus element on number of outstanding options under ESOP 2015 as at the year end			**–**	–	**–**	–
Add: Bonus element on number of outstanding options under ESOP 2019 as at the year end			**–**	–	**–**	–
Weighted average number of ordinary shares for diluted earnings per ordinary share calculation (*)			**1,166,905,638**	1,027,506,586	**1,078,776,643**	1,051,681,754

(*) The weighted average number of ordinary shares for Basic EPS and for diluted EPS are equal, due to the market price of the ordinary voting share being below the offer price of the ESOPs as at December 31, 2020.

25. Dividends on ordinary shares

Accounting policy

Refer Note 7.7 on page 172.

	GROUP & BANK			
	2020 Second interim Rs. 3.00 per share for 2019 (paid on February 24, 2020) Rs. '000	2019 Second interim Rs. 3.00 per share for 2018 (paid on February 15, 2019) Rs. '000	**2020 Rs. '000**	2019 First interim Rs. 1.50 per share for 2019 (paid on November 18, 2019) Rs. '000
Net dividend paid to the ordinary shareholders out of normal profits	3,082,520	2,638,304	–	1,334,442
Withholding tax deducted at source	–	394,565	–	206,818
Gross ordinary dividend paid	3,082,520	3,032,869	–	1,541,260

Dividends for 2019 (Paid in 2020)

The Board of Directors of the Bank declared a second interim dividend of Rs. 3.00 per share on January 31, 2020, for both voting and non-voting ordinary shareholders of the Bank for the year ended December 31, 2019, and this dividend was paid on February 24, 2020.

Further, the Board of Directors of the Bank recommended and paid a final dividend of Rs. 2.00 per share which was 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, and these new shares were listed on July 06, 2020.

Dividends for 2020

It is pertinent to mention that although the Bank has been declaring and paying interim dividends in the form of cash dividends in the past, the Bank did not declare cash dividends during 2020 (for the year ended December 31, 2020), in conformity with the restrictions imposed by the Central Bank of Sri Lanka on payment of interim cash dividends for the financial year 2020, as per instructions issued via the Banking Act Direction No 03 of 2020, dated May 13, 2020, on "Restrictions on Discretionary Payments of Licensed Banks".

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, 2020				As at December 31, 2019			
			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										
Cash and cash equivalents	28	196	–	51,255,030	–	51,255,030	–	53,681,118	–	53,681,118
Balances with Central Banks	29	197	–	115,358,732	–	115,358,732	–	46,101,232	–	46,101,232
Placements with banks	30	197	–	16,421,867	–	16,421,867	–	24,903,809	–	24,903,809
Securities purchased under resale agreements			–	–	–	–	–	13,147,534	–	13,147,534
Derivative financial assets	31	198	2,636,717	–	–	2,636,717	1,830,927	–	–	1,830,927
Financial assets recognised through profit or loss – Measured at fair value	32	198	35,189,471	–	–	35,189,471	21,468,033	–	–	21,468,033

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	Note	Page No.	As at December 31, 2020				As at December 31, 2019			
			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 at amortised cost – Loans and advances to banks	33	201	–	779,705	–	779,705	–	757,787	–	757,787
Financial assets at amortised cost – Loans and advances to other customers	34	202	–	909,829,172	–	909,829,172	–	893,919,311	–	893,919,311
Financial assets at amortised cost – Debt and other financial instruments	35	206	–	302,059,529	–	302,059,529	–	107,059,021	–	107,059,021
Financial assets measured at fair value through other comprehensive income	36	207	–	–	278,716,794	278,716,794	–	–	197,825,017	197,825,017
Total financial assets			37,826,188	1,395,704,035	278,716,794	1,712,247,017	23,298,960	1,139,569,812	197,825,017	1,360,693,789
Financial liabilities										
Due to banks	44	230	–	88,248,056	–	88,248,056	–	53,807,425	–	53,807,425
Derivative financial liabilities	45	231	1,501,262	–	–	1,501,262	1,495,317	–	–	1,495,317
Securities sold under repurchase agreements			–	91,411,522	–	91,411,522	–	51,117,342	–	51,117,342
Financial liabilities at amortised cost – Due to depositors	46	231	–	1,286,616,399	–	1,286,616,399	–	1,068,982,587	–	1,068,982,587
Financial liabilities at amortised cost – Other borrowings	47	232	–	54,555,933	–	54,555,933	–	23,248,893	–	23,248,893
Subordinated liabilities	51	240	–	38,247,138	–	38,247,138	–	37,886,789	–	37,886,789
Total financial liabilities			1,501,262	1,559,079,048	–	1,560,580,310	1,495,317	1,235,043,036	–	1,236,538,353

26.2 Classification of financial assets and financial liabilities – Bank

	Note	Page No.	As at December 31, 2020				As at December 31, 2019			
			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	196	–	50,250,627	–	50,250,627	–	52,534,730	–	52,534,730
Balances with Central Banks	29	197	–	110,971,105	–	110,971,105	–	39,461,127	–	39,461,127
Placements with banks	30	197	–	15,938,982	–	15,938,982	–	24,527,241	–	24,527,241
Securities purchased under resale agreements			–	–	–	–	–	13,147,534	–	13,147,534
Derivative financial assets	31	198	2,636,717	–	–	2,636,717	1,830,927	–	–	1,830,927
Financial assets recognised through profit or loss – Measured at fair value	32	198	35,189,471	–	–	35,189,471	21,468,033	–	–	21,468,033
Financial assets at amortised cost – Loans and advances to banks	33	201	–	779,705	–	779,705	–	757,787	–	757,787
Financial assets at amortised cost – Loans and advances to other customers	34	202	–	896,845,453	–	896,845,453	–	884,645,744	–	884,645,744
Financial assets at amortised cost – Debt and other financial instruments	35	206	–	292,727,566	–	292,727,566	–	101,144,819	–	101,144,819

	Note	Page No.	As at December 31, 2020				As at December 31, 2019			
			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 measured at fair value through other comprehensive income	36	207	–	–	278,461,369	278,461,369	–	–	197,568,330	197,568,330
Total financial assets			37,826,188	1,367,513,438	278,461,369	1,683,800,995	23,298,960	1,116,218,982	197,568,330	1,337,086,272
Financial liabilities										
Due to banks	44	230	–	87,451,306	–	87,451,306	–	51,505,694	–	51,505,694
Derivative financial liabilities	45	231	1,501,262	–	–	1,501,262	1,495,317	–	–	1,495,317
Securities sold under repurchase agreements			–	91,437,612	–	91,437,612	–	51,220,023	–	51,220,023
Financial liabilities at amortised cost – Due to depositors	46	231	–	1,265,965,918	–	1,265,965,918	–	1,053,307,660	–	1,053,307,660
Financial liabilities at amortised cost – Other borrowings	47	232	–	54,555,933	–	54,555,933	–	23,248,893	–	23,248,893
Subordinated liabilities	51	240	–	38,247,138	–	38,247,138	–	37,886,789	–	37,886,789
Total financial liabilities			1,501,262	1,537,657,907	–	1,539,159,169	1,495,317	1,217,169,059	–	1,218,664,376

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:

			GROUP				BANK			
As at December 31, 2020	Note	Page No.	**Level 1 Rs. '000**	**Level 2 Rs. '000**	**Level 3 Rs. '000**	**Total Rs. '000**	**Level 1 Rs. '000**	**Level 2 Rs. '000**	**Level 3 Rs. '000**	**Total Rs. '000**
Non-financial assets										
Property, plant and equipment										
Land and buildings	39	214	–	–	15,417,319	15,417,319	–	–	14,616,368	14,616,368
Investment properties	40	225	–	–	67,116	67,116	–	–	–	–
Total non-financial assets at fair value			–	–	15,484,435	15,484,435	–	–	14,616,368	14,616,368
Financial assets										
Derivative financial assets	31	198								
Currency swaps			–	1,880,510	–	1,880,510	–	1,880,510	–	1,880,510
Forward contracts			–	741,521	–	741,521	–	741,521	–	741,521
Spot contracts			–	9,872	–	9,872	–	9,872	–	9,872
Currency options			–	4,814	–	4,814	–	4,814	–	4,814
Financial assets recognised through profit or loss – measured at fair value	32	198								
Government Securities			33,867,593	–	–	33,867,593	33,867,593	–	–	33,867,593
Equity shares			1,321,878	–	–	1,321,878	1,321,878	–	–	1,321,878
Financial assets measured at fair value through other comprehensive income	36	207								
Government Securities			223,589,375	56,511,184	–	280,100,559	223,334,074	56,511,184	–	279,845,258
Equity securities			239,773	–	52,296	292,069	239,773	–	52,172	291,945
Total financial assets at fair value			259,018,619	59,147,901	52,296	318,218,816	258,763,318	59,147,901	52,172	317,963,391
Total assets at fair value			259,018,619	59,147,901	15,536,731	333,703,251	258,763,318	59,147,901	14,668,540	332,579,759
Financial liabilities										
Derivative financial liabilities	45	231								
Currency swaps			–	1,132,513	–	1,132,513	–	1,132,513	–	1,132,513
Interest rate swaps			–	142,376	–	142,376	–	142,376	–	142,376
Forward contracts			–	216,709	–	216,709	–	216,709	–	216,709
Spot contracts			–	5,016	–	5,016	–	5,016	–	5,016
Currency options			–	4,648	–	4,648	–	4,648	–	4,648
Total liabilities at fair value			–	1,501,262	–	1,501,262	–	1,501,262	–	1,501,262

			GROUP				BANK			
As at December 31, 2019	Note	Page No.	**Level 1 Rs. '000**	**Level 2 Rs. '000**	**Level 3 Rs. '000**	**Total Rs. '000**	**Level 1 Rs. '000**	**Level 2 Rs. '000**	**Level 3 Rs. '000**	**Total Rs. '000**
Non-financial assets										
Property, plant and equipment										
Land and buildings	39	214	–	–	11,810,606	11,810,606	–	–	11,078,500	11,078,500
Investment properties	40	225	–	–	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	198								
Currency swaps			–	1,410,476	–	1,410,476	–	1,410,476	–	1,410,476
Forward contracts			–	411,958	–	411,958	–	411,958	–	411,958
Spot contracts			–	8,493	–	8,493	–	8,493	–	8,493

			GROUP				BANK			
As at December 31, 2019	Note	Page No.	**Level 1 Rs. '000**	**Level 2 Rs. '000**	**Level 3 Rs. '000**	**Total Rs. '000**	**Level 1 Rs. '000**	**Level 2 Rs. '000**	**Level 3 Rs. '000**	**Total Rs. '000**
Financial assets recognised through profit or loss – measured at fair value	32	198								
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	207								
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	45	231								
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

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 215 to 218.

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 146 to 153.

Note 39.5 (b) on page 219 provides information on significant unobservable inputs used as at December 31, 2020 in measuring fair value of land and buildings categorised as Level 3 in the fair value hierarchy.

Note 39.5 (c) on page 224 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 225.

Note 40.1 (b) on page 226 provides information on significant unobservable inputs used as at December 31, 2020 in measuring fair value of investment properties categorised as level 3 in the fair value hierarchy.

Note 40.1 (c) on page 226 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:

			GROUP					BANK				
As at December 31, 2020	Note	Page No.	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total fair values Rs. '000	Total carrying amount Rs. '000	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total fair values Rs. '000	Total carrying amount Rs. '000
Financial assets												
Cash and cash equivalents	28	196	–	51,255,030	–	51,255,030	51,255,030	–	50,250,627	–	50,250,627	50,250,627
Balances with Central Banks	29	197	–	115,358,732	–	115,358,732	115,358,732	–	110,971,105	–	110,971,105	110,971,105
Placements with banks	30	197	–	16,421,867	–	16,421,867	16,421,867	–	15,938,982	–	15,938,982	15,938,982
Securities purchased under resale agreements			–	–	–	–	–	–	–	–	–	–
Financial assets at amortised cost – Loans and advances to banks	33	201	–	779,705	–	779,705	779,705	–	779,705	–	779,705	779,705
Financial assets at amortised cost – Loans and advances to other customers	34	202	–	–	913,411,806	913,411,806	909,829,172	–	–	900,428,087	900,428,087	896,845,453
Financial assets at amortised cost – Debt and other financial instruments	35	206	258,101,089	10,530,450	–	268,631,539	302,059,529	248,769,126	10,530,450	–	259,299,576	292,727,566
Total financial assets			258,101,089	194,345,784	913,411,806	1,365,858,679	1,395,704,035	248,769,126	188,470,869	900,428,087	1,337,668,082	1,367,513,438
Financial liabilities												
Due to banks	44	230	–	–	88,248,056	88,248,056	88,248,056	–	–	87,451,306	87,451,306	87,451,306
Securities sold under repurchase agreements			–	91,411,522	–	91,411,522	91,411,522	–	91,437,612	–	91,437,612	91,437,612
Financial liabilities at amortised cost – Due to depositors	46	231	–	–	1,290,852,077	1,290,852,077	1,286,616,399	–	–	1,270,201,596	1,270,201,596	1,265,965,918
Financial liabilities at amortised cost – Other borrowings	47	232	–	–	54,555,933	54,555,933	54,555,933	–	–	54,555,933	54,555,933	54,555,933
Subordinated liabilities	51	240	–	–	39,803,997	39,803,997	38,247,138	–	–	39,803,997	39,803,997	38,247,138
Total financial liabilities			–	91,411,522	1,473,460,063	1,564,871,585	1,559,079,048	–	91,437,612	1,452,012,832	1,543,450,444	1,537,657,907

			GROUP					BANK				
As at December 31, 2019	Note	Page No.	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total fair values Rs. '000	Total carrying amount Rs. '000	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total fair values Rs. '000	Total carrying amount Rs. '000
Financial assets												
Cash and cash equivalents	28	196	–	53,681,118	–	53,681,118	53,681,118	–	52,534,730	–	52,534,730	52,534,730
Balances with Central Banks	29	197	–	46,101,232	–	46,101,232	46,101,232	–	39,461,127	–	39,461,127	39,461,127
Placements with banks	30	197	–	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	201	–	757,787	–	757,787	757,787	–	757,787	–	757,787	757,787
Financial assets at amortised cost – Loans and advances to other customers	34	202	–	–	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	206	105,056,577	–	–	105,056,577	107,059,021	99,142,375	–	–	99,142,375	101,144,819
Total financial assets			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	44	230	–	–	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	46	231	–	–	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	47	232	–	–	23,248,893	23,248,893	23,248,893	–	–	23,248,893	23,248,893	23,248,893
Subordinated liabilities	51	240	–	–	39,479,119	39,479,119	37,886,789	–	–	39,479,119	39,479,119	37,886,789
Total financial liabilities			–	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

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 193.

Type of financial instruments	**Fair value as at December 31, 2020 (Rs. '000)**	Valuation technique	Significant valuation inputs
Derivative financial assets	2,636,717	**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	1,501,262		● 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.	**2020 Rs.'000**	2019 Rs.'000	**2020 Rs.'000**	2019 Rs.'000
Cash in hand			26,681,454	26,592,518	26,152,779	26,094,112
Coins and notes held in local currency			24,502,554	22,633,898	24,502,675	22,636,242
Coins and notes held in foreign currency			2,178,900	3,958,620	1,650,104	3,457,870
Balances with banks			22,759,243	9,420,183	22,283,515	8,857,498
Local banks			173,152	172,295	–	–
Foreign banks			22,586,091	9,247,888	22,283,515	8,857,498
Money at call and at short notice			1,817,574	17,674,124	1,817,574	17,588,827
Gross cash and cash equivalents (*)			51,258,271	53,686,825	50,253,868	52,540,437
Less: Provision for impairment	28.1	196	3,241	5,707	3,241	5,707
Net cash and cash equivalents			51,255,030	53,681,118	50,250,627	52,534,730

(*) 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.	**2020 Rs.'000**	2019 Rs.'000	**2020 Rs.'000**	2019 Rs.'000
Movement in Stage 1 Impairment						
Balance as at January 1,			5,707	4,413	5,707	4,413
Charge/(write back) to the Income Statement	18.1 & 18.2	184 & 185	(2,526)	1,350	(2,526)	1,350
Exchange rate variance on foreign currency provisions			60	(56)	60	(56)
Balance as at December 31,			3,241	5,707	3,241	5,707

The maturity analysis of cash and cash equivalents is given in Note 61 on pages 251 to 253.

29. Balances with Central Banks

Accounting policy

Balances with Central Banks consist of Statutory/Non-statutory balances with central banks and are carried at amortised cost in the Statement of Financial Position.

As at December 31,	GROUP **2020** **Rs. '000**	 2019 Rs. '000	BANK **2020** **Rs. '000**	 2019 Rs. '000
Statutory balances with Central Banks				
Balances with Central Bank of Sri Lanka	11,241,860	31,213,972	11,241,860	31,213,972
Balances with Bangladesh Bank	5,323,929	8,247,155	5,323,929	8,247,155
Balances with Maldives Monetary Authority	1,275,457	1,481,327	–	–
Non-statutory balances with Central Banks				
Balances with Central Bank of Sri Lanka	94,405,316	–	94,405,316	–
Balances with Bangladesh Bank	–	–	–	–
Balances with Maldives Monetary Authority	3,112,170	5,158,778	–	–
Total	115,358,732	46,101,232	110,971,105	39,461,127

The maturity analysis of balances with Central Banks is given in Note 61 on pages 251 to 253.

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, 2020, the minimum cash reserve requirement was 2.00% of the rupee deposit liabilities and this rate was applicable from June 16, 2020. The minimum cash reserve requirement during the period from March 16, 2020 to June 15, 2020 was 4.00%.(5.00% in 2019 and this rate was applicable upto March 15, 2020). 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, 2020 was 17.00% (18.50% in 2019) on time and demand liabilities (both local and foreign currencies), which includes a 4.00% (5.50% in 2019) cash reserve requirement and the balance 13.00% (13.00% in 2019) 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, 2020 was 5.00% for Rufiyaa deposits while it was 7.50% for US Dollar deposits. (10.00% in 2019). 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 **2020** **Rs. '000**	 2019 Rs. '000	BANK **2020** **Rs. '000**	 2019 Rs. '000
Placements – Within Sri Lanka			10,759,821	14,395,454	10,370,393	14,018,861
Placements – Outside Sri Lanka			5,665,092	10,516,976	5,571,592	10,516,976
Gross placements with banks			16,424,913	24,912,430	15,941,985	24,535,837
Less: Provision for impairment	30.1	197	3,046	8,621	3,003	8,596
Net placements with banks			16,421,867	24,903,809	15,938,982	24,527,241

30.1 Movement in provision for impairment during the year

	Note	Page No.	GROUP **2020** **Rs. '000**	 2019 Rs. '000	BANK **2020** **Rs. '000**	 2019 Rs. '000
Movement in Stage 1 impairment						
Balance as at January 1,			8,621	10,784	8,596	10,784
Charge/(write back) to the Income Statement	18.1 & 18.2	184 & 185	(5,633)	(2,120)	(5,651)	(2,144)
Exchange rate variance on foreign currency provisions			58	(43)	58	(44)
Balance as at December 31,			3,046	8,621	3,003	8,596

The maturity analysis of placements with banks is given in Note 61 on pages 251 to 253.

31. Derivative financial assets

Accounting policy

The Bank uses derivatives such as interest rate swaps, foreign currency swaps forward foreign exchange contracts, currency options, 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.

			GROUP		BANK	
As at December 31,	Note	Page No.	**2020** **Rs. '000**	2019 Rs. '000	**2020** **Rs. '000**	2019 Rs. '000
Derivative financial assets – Held for trading						
Foreign currency derivatives			2,636,717	1,830,927	2,636,717	1,830,927
Currency swaps			1,880,510	1,410,476	1,880,510	1,410,476
Forward contracts			741,521	411,958	741,521	411,958
Spot contracts			9,872	8,493	9,872	8,493
Currency options			4,814	–	4,814	–
Total			2,636,717	1,830,927	2,636,717	1,830,927

The maturity analysis of derivative financial assets is given in Note 61 on pages 251 to 253.

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.

			GROUP		BANK	
As at December 31,	Note	Page No.	**2020** **Rs. '000**	2019 Rs. '000	**2020** **Rs. '000**	2019 Rs. '000
Government Securities	32.1	199	33,867,593	20,484,895	33,867,593	20,484,895
Equity securities	32.2	199	1,321,878	983,138	1,321,878	983,138
Total			35,189,471	21,468,033	35,189,471	21,468,033

32.1 Government securities

As at December 31,	GROUP 2020 Rs. 000	GROUP 2019 Rs.'000	BANK 2020 Rs.'000	BANK 2019 Rs.'000
Treasury Bills	7,641,631	15,715,187	7,641,631	15,715,187
Treasury Bonds	26,225,962	4,769,708	26,225,962	4,769,708
Total	33,867,593	20,484,895	33,867,593	20,484,895

The maturity analysis of financial assets recognised through profit or loss is given in Note 61 on pages 251 to 253.

32.2 Equity securities – Group and Bank

Sector/Name of the Company	As at December 31, 2020				As at December 31, 2019			
	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
Automobiles and Components								
Kelani Tyres PLC	71,000	86.50	6,142	5,836	–	–	–	–
Subtotal			6,142	5,836			–	–
Banks								
DFCC Bank PLC	3,516	65.30	230	234	–	–	–	–
Hatton National Bank PLC	152,745	126.50	19,322	17,546	85	172.20	15	12
Hatton National Bank PLC (Non-voting)	48,000	100.60	4,829	5,000	–	–	–	–
National Development Bank PLC	244,110	78.10	19,065	36,021	226,595	100.00	22,660	34,381
Nations Trust Bank PLC	1,396	60.00	84	85	–	–	–	–
Sampath Bank PLC	206,437	135.60	27,993	28,331	59,973	162.40	9,740	9,756
Seylan Bank PLC	1,107	46.00	51	51	–	–	–	–
Subtotal			71,574	87,268			32,415	44,149
Capital Goods								
ACL Cables PLC	100,000	76.60	7,660	3,676	100,000	57.50	5,750	3,676
Aitken Spence PLC	239,409	57.80	13,838	9,684	350,000	46.50	16,275	14,157
Colombo Dockyard PLC	75,000	85.30	6,398	16,685	75,000	62.00	4,650	16,685
Hayleys PLC	68,313	414.50	28,316	19,269	68,313	174.90	11,948	19,269
Hemas Holdings PLC	–	–	–	–	62	80.00	5	2
John Keells Holdings PLC	165,000	149.60	24,684	25,728	130,611	167.60	21,890	20,527
Lanka Walltiles PLC	–	–	–	–	60	72.50	4	5
Renuka Holdings PLC	117,158	15.00	1,757	3,180	117,158	19.30	2,261	3,180
Renuka Holdings PLC (Non-voting)	265,368	11.00	2,919	4,958	265,368	13.50	3,582	4,958
Royal Ceramics Lanka PLC	155,927	177.10	27,615	17,337	155,927	88.50	13,800	18,057
Subtotal			113,187	100,517			80,165	100,516
Consumer Durables and Apparel								
Teejay Lanka PLC	40,000	38.00	1,520	1,213	–	–	–	–
Subtotal			1,520	1,213			–	–
Consumer Services								
John Keells Hotels PLC	267,608	11.00	2,944	3,473	267,608	11.60	3,104	3,473
Tal Lanka Hotels PLC	212,390	16.90	3,589	6,625	212,390	14.40	3,058	6,625
Subtotal			6,533	10,098			6,162	10,098

Sector/Name of the Company	As at December 31, 2020				As at December 31, 2019			
	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
Diversified Financials								
Central Finance Company PLC	202,767	83.00	16,830	19,177	199,734	104.00	20,772	18,937
Citizen Development Business Finance PLC (Non-voting)	105,390	65.00	6,850	3,398	105,390	67.50	7,114	3,398
Lanka Ventures PLC	100,000	54.50	5,450	3,033	100,000	40.00	4,000	3,033
VISA Inc.	19,424	USD 218.73	794,490	–	19,424	USD 187.90	663,346	–
Subtotal			823,620	25,608			695,232	25,368
Energy								
Lanka IOC PLC	685,975	22.40	15,366	15,013	685,984	19.00	13,034	15,013
Subtotal			15,366	15,013			13,034	15,013
Food, Beverage and Tobacco								
Ceylon Grain Elevators PLC	250,000	111.00	27,750	18,156	250,000	68.50	17,125	18,156
Kotagala Plantations PLC	302,625	9.00	2,724	9,172	302,625	7.20	2,179	9,172
Lanka Milk Foods (CWE) PLC	250,000	148.90	37,225	27,866	250,000	100.10	25,025	27,866
Lion Brewery Ceylon PLC	10,000	585.00	5,850	5,560	–	–	–	–
Melstacorp PLC	245,960	52.00	12,790	9,814	245,960	43.50	10,699	9,814
Pelwatte Sugar Industries PLC	12,300	0.10	1	351	12,300	0.10	1	351
Renuka Foods (Non-voting)	1,000	13.90	14	15	1,000	12.30	12	15
Subtotal			86,354	70,934			55,041	65,374
Health Care Equipment and Services								
Ceylon Hospitals PLC	121,900	103.20	12,580	12,868	121,900	78.00	9,508	12,868
Ceylon Hospitals PLC (Non-voting)	61,100	90.00	5,499	4,423	61,100	67.40	4,118	4,423
Subtotal			18,079	17,291			13,626	17,291
Insurance								
People's Insurance PLC	126,500	28.20	3,567	1,898	126,500	21.70	2,745	1,898
Softlogic Life Insurance PLC	120,000	34.80	4,176	3,739	–	–	–	–
Subtotal			7,743	5,637			2,745	1,898
Materials								
Chemical Industries Colombo Holding PLC (Non-voting)	161,400	151.60	24,468	11,692	161,400	47.60	7,683	11,692
Dipped Products PLC	200,000	347.30	69,460	24,239	200,000	84.00	16,800	24,239
Haycarb PLC	90,100	568.60	51,231	13,388	107,100	190.00	20,349	15,914
Subtotal			145,159	49,319			44,832	51,845
Real Estate								
Overseas Reality Ceylon PLC	183,320	14.40	2,640	2,717	183,320	16.00	2,933	2,717
CT Land Development PLC	–	–	–	–	25,000	30.00	750	531
Subtotal			2,640	2,717			3,683	3,248
Retailing								
RIL Property PLC	–	–	–	–	3,333,333	5.90	19,667	26,667
Subtotal			–	–			19,667	26,667
Telecommunication Services								
Dialog Axiata PLC	1,399,172	12.40	17,350	11,442	949,172	12.30	11,675	6,300
Subtotal			17,350	11,442			11,675	6,300

Sector/Name of the Company	As at December 31, 2020				As at December 31, 2019			
	Number of shares	Market price	Market value	Cost of the investment	Number of shares	Market price	Market value	Cost of the investment
		Rs.	Rs. '000	Rs. '000		Rs.	Rs. '000	Rs. '000
Utilities								
LVL Energy Fund PLC	648,100	10.20	6,611	6,481	648,100	7.50	4,861	6,481
Subtotal			6,611	6,481			4,861	6,481
Total			1,321,878	409,374			983,138	374,248
Mark to market gains/(losses)				912,504				608,890
Market value of equity securities				1,321,878				983,138

32.3 Industry/Sector composition of equity securities – Group and Bank

Industry/Sector	As at December 31, 2020			As at December 31, 2019		
	Market value	Cost of the investment		Market value	Cost of the investment	
	Rs. '000	Rs. '000	%	Rs. '000	Rs. '000	%
Automobiles and Components	6,142	5,836	0.46	–	–	–
Banks	71,574	87,268	5.41	32,415	44,149	3.30
Capital Goods	113,187	100,517	8.56	80,165	100,516	8.15
Consumer Durables and Apparel	1,520	1,213	0.11	–	–	–
Consumer Services	6,533	10,098	0.49	6,162	10,098	0.63
Diversified Financials	823,620	25,608	62.33	695,232	25,368	70.71
Energy	15,366	15,013	1.16	13,034	15,013	1.33
Food, Beverage and Tobacco	86,354	70,934	6.53	55,041	65,374	5.60
Health Care Equipment and Services	18,079	17,291	1.37	13,626	17,291	1.39
Insurance	7,743	5,637	0.59	2,745	1,898	0.28
Materials	145,159	49,319	10.98	44,832	51,845	4.56
Real Estate	2,640	2,717	0.20	3,683	3,248	0.37
Retailing	–	–	–	19,667	26,667	2.00
Telecommunication Services	17,350	11,442	1.31	11,675	6,300	1.19
Utilities	6,611	6,481	0.50	4,861	6,481	0.49
Subtotal	1,321,878	409,374	100.00	983,138	374,248	100.00
Mark to market gains/(losses)		912,504			608,890	
Market value of equity securities	1,321,878	1,321,878	100.00	983,138	983,138	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" includes 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 these assets 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.	**2020** **Rs. '000**	2019 Rs. '000	**2020** **Rs. '000**	2019 Rs. '000
Gross loans and advances (Currency – United States Dollar)			779,790	757,898	779,790	757,898
Less: Provision for impairment	33.1	202	85	111	85	111
Net loans and advances			779,705	757,787	779,705	757,787

33.1 Movement in provision for impairment during the year

			GROUP		BANK	
	Note	Page No.	**2020 Rs. '000**	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000
Movement in Stage 1 impairment						
Balance as at January 1,			111	36	111	36
Charge/(write back) to the income statement	18.1 & 18.2	184 & 185	(26)	75	(26)	75
Balance as at December 31,			85	111	85	111

The maturity analysis of loans and advances to banks is given in Note 61 on pages 251 to 253.

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. 779.790 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.	**2020 Rs. '000**	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000
Gross loans and advances			961,859,118	930,737,391	947,841,905	920,457,235
Stage 1			750,494,287	726,626,174	740,254,706	720,005,896
Stage 2			106,934,723	105,913,673	105,011,766	103,788,356
Stage 3*			104,430,108	98,197,544	102,575,433	96,662,983
Less: Provision for impairment	34.2 (a) & 34.2 (b)	204	52,029,946	36,818,080	50,996,452	35,811,491
Stage 1			6,567,755	2,702,070	6,470,880	2,613,480
Stage 2			12,396,301	8,494,001	12,244,433	8,318,831
Stage 3			33,065,890	25,622,009	32,281,139	24,879,180
Net loans and advances			909,829,172	893,919,311	896,845,453	884,645,744

** As at December 31, 2020, gross loans and advances in stage 3 include Rs. 879.849 Mn. (2019 - 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 61 on pages 251 to 253.

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.	**2020 Rs. '000**	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000
Loans and advances						
Overdrafts			**104,436,468**	137,643,817	**102,957,967**	135,717,795
Trade finance			**80,580,434**	72,194,299	**80,063,332**	71,729,612
Lease/hire purchase receivable	34.3	204	**37,237,050**	36,147,829	**35,815,635**	34,169,283
Credit cards			**14,994,861**	14,975,902	**14,994,861**	14,975,902
Pawning			**4,615,697**	2,973,662	**4,615,697**	2,973,662
Staff loans			**11,941,045**	10,624,199	**11,919,726**	10,602,640
Housing loans			**67,147,827**	63,569,094	**67,147,827**	63,569,094
Personal loans			**51,145,421**	39,742,048	**50,632,378**	39,395,743
Term loans						
Short term			**135,165,669**	150,536,419	**132,098,509**	150,257,462
Long term			**418,650,469**	370,852,399	**411,651,796**	365,588,319
Bills of exchange			**35,944,177**	31,477,723	**35,944,177**	31,477,723
Total			**961,859,118**	930,737,391	**947,841,905**	920,457,235

34.1 (b) By currency

	GROUP		BANK	
As at December 31,	**2020 Rs. '000**	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000
Sri Lankan Rupee	**714,427,226**	694,387,671	**707,118,270**	689,748,758
United States Dollar	**146,750,563**	152,785,345	**144,098,079**	150,573,125
Great Britain Pound	**1,512,981**	1,297,284	**1,512,981**	1,297,284
Euro	**9,548,883**	6,671,660	**9,548,883**	6,671,660
Australian Dollar	**708,584**	609,115	**708,584**	609,115
Japanese Yen	**187,489**	286,695	**187,489**	286,695
Singapore Dollar	**–**	2,512	**–**	2,512
Bangladesh Taka	**84,659,542**	71,252,778	**84,659,542**	71,252,778
Maldivian Rufiyaa	**3,611,052**	3,141,714	**–**	–
Others	**452,798**	302,617	**8,077**	15,308
Total	**961,859,118**	930,737,391	**947,841,905**	920,457,235

34.1 (c) By industry

	GROUP		BANK	
As at December 31,	**2020 Rs. '000**	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000
Agriculture and fishing	**78,617,259**	68,775,119	**78,331,232**	68,549,963
Arts, entertainment and recreation	**1,288,474**	1,118,938	**1,288,474**	1,118,243
Construction	**46,454,293**	45,439,269	**45,374,182**	45,032,791
Consumption and other	**216,286,919**	201,412,039	**216,240,633**	200,919,556
Education	**3,470,636**	3,225,133	**3,241,612**	2,964,160
Financial services	**36,023,186**	35,777,329	**36,381,176**	37,831,333
Healthcare, social services and support services	**18,480,398**	18,605,625	**18,410,556**	18,525,490
Information technology and communication services	**11,633,615**	11,403,418	**11,633,615**	11,403,418
Infrastructure development	**17,421,563**	17,083,131	**17,421,563**	17,083,131
Lending to overseas entities	**129,398,136**	108,985,813	**122,689,880**	103,344,570
Manufacturing	**122,921,837**	123,625,669	**122,464,825**	120,321,445

	GROUP		BANK	
As at December 31,	**2020** **Rs. '000**	2019 Rs. '000	**2020** **Rs. '000**	2019 Rs. '000
Professional, scientific, and technical activities	26,000,516	23,782,598	24,789,072	23,486,651
Tourism	66,751,110	62,811,790	66,318,745	62,198,466
Transport and storage	13,055,953	12,906,113	12,954,106	12,758,129
Wholesale and retail trade	174,055,223	195,785,407	170,302,234	194,919,889
Total	961,859,118	930,737,391	947,841,905	920,457,235

34.2 Movement in provision for impairment during the year

34.2 (a) Group

			Stage 1		Stage 2		Stage 3		Total	
	Note	Page No.	**2020** **Rs. '000**	2019 Rs. '000	**2020** **Rs. '000**	2019 Rs. '000	**2020** **Rs. '000**	2019 Rs. '000	**2020** **Rs. '000**	2019 Rs. '000
Balance as at January 1,			2,702,070	2,814,943	8,494,001	5,984,306	25,622,009	21,544,571	36,818,080	30,343,820
Charge/(write back) to the Income Statement	18.1	184	3,863,356	(108,915)	3,901,554	2,511,088	10,359,763	7,907,684	18,124,673	10,309,857
Net write-off during the year			(166)	(2,396)	(982)	(1,150)	(365,444)	(2,596,520)	(366,592)	(2,600,066)
Exchange rate variance on foreign currency provisions			2,495	(1,562)	1,728	(243)	39,600	6,035	43,823	4,230
Interest accrued/(reversals) on impaired loans and advances	13.1	178	–	–	–	–	(2,895,955)	(1,258,339)	(2,895,955)	(1,258,339)
Other movements			–	–	–	–	305,917	18,578	305,917	18,578
Balance as at December 31,			6,567,755	2,702,070	12,396,301	8,494,001	33,065,890	25,622,009	52,029,946	36,818,080

34.2 (b) Bank

			Stage 1		Stage 2		Stage 3		Total	
	Note	Page No.	**2020** **Rs. '000**	2019 Rs. '000	**2020** **Rs. '000**	2019 Rs. '000	**2020** **Rs. '000**	2019 Rs. '000	**2020** **Rs. '000**	2019 Rs. '000
Balance as at January 1,			2,613,480	2,659,185	8,318,831	5,873,226	24,879,180	20,596,642	35,811,491	29,129,053
Charge/(write back) to the income statement	18.2	185	3,856,007	(41,669)	3,925,463	2,447,313	10,083,744	7,637,999	17,865,214	10,043,643
Net write-off during the year			(166)	(2,396)	(906)	(1,118)	(110,886)	(2,121,615)	(111,958)	(2,125,129)
Exchange rate variance on foreign currency provisions			1,559	(1,640)	1,045	(590)	39,274	5,915	41,878	3,685
Interest accrued/(reversals) on impaired loans and advances	13.1	178	–	–	–	–	(2,850,806)	(1,258,339)	(2,850,806)	(1,258,339)
Other movements			–	–	–	–	240,633	18,578	240,633	18,578
Balance as at December 31,			6,470,880	2,613,480	12,244,433	8,318,831	32,281,139	24,879,180	50,996,452	35,811,491

34.3 Lease/Hire purchase receivable

			GROUP		BANK	
As at December 31,	Note	Page No.	**2020** **Rs. '000**	2019 Rs. '000	**2020** **Rs. '000**	2019 Rs. '000
Gross lease/hire purchase receivable			37,237,050	36,147,829	35,815,635	34,169,283
Within one year	34.3 (a) & 34.3 (b)	205	14,897,348	15,538,778	14,144,117	14,604,341
From one to five years	34.3 (a) & 34.3 (b)	205	22,205,874	20,526,109	21,541,276	19,483,941
After five years	34.3 (a) & 34.3 (b)	205	133,828	82,942	130,242	81,001
Less: Provision for impairment	34.3 (c) (i) & 34.3 (c) (ii)	205	1,161,222	1,153,134	1,004,123	942,382
Stage 1			95,265	81,639	91,742	74,991
Stage 2			258,301	270,610	229,125	200,721
Stage 3			807,656	800,885	683,256	666,670
Net lease receivable			36,075,828	34,994,695	34,811,512	33,226,901

34.3 (a) Lease/Hire purchase receivable – Group

As at December 31,	Within one year		One to five years		After five years		Total	
	2020 **Rs. '000**	2019 Rs. '000	**2020** **Rs. '000**	2019 Rs. '000	**2020** **Rs. '000**	2019 Rs. '000	**2020** **Rs. '000**	2019 Rs. '000
Total lease/hire purchase receivable	19,329,556	19,887,838	25,702,437	23,713,231	137,042	91,506	45,169,035	43,692,575
Less: Unearned lease/hire purchase income	4,432,208	4,349,060	3,496,563	3,187,122	3,214	8,564	7,931,985	7,544,746
Gross lease/hire purchase receivable	14,897,348	15,538,778	22,205,874	20,526,109	133,828	82,942	37,237,050	36,147,829
Less: Provision for impairment	708,728	667,590	451,251	484,595	1,243	949	1,161,222	1,153,134
Stage 1	39,602	35,766	55,393	45,714	270	159	95,265	81,639
Stage 2	98,480	104,052	159,161	165,899	660	659	258,301	270,610
Stage 3	570,646	527,772	236,697	272,982	313	131	807,656	800,885
Subtotal	14,188,620	14,871,188	21,754,623	20,041,514	132,585	81,993	36,075,828	34,994,695

34.3 (b) Lease/Hire purchase receivable – Bank

As at December 31,	Within one year		One to five years		After five years		Total	
	2020 **Rs. '000**	2019 Rs. '000	**2020** **Rs. '000**	2019 Rs. '000	**2020** **Rs. '000**	2019 Rs. '000	**2020** **Rs. '000**	2019 Rs. '000
Total lease/hire purchase receivable	18,417,920	18,698,793	24,891,164	22,424,947	133,107	89,478	43,442,191	41,213,218
Less: Unearned lease/hire purchase income	4,273,803	4,094,452	3,349,888	2,941,006	2,865	8,477	7,626,556	7,043,935
Gross lease/hire purchase receivable	14,144,117	14,604,341	21,541,276	19,483,941	130,242	81,001	35,815,635	34,169,283
Less: Provision for impairment	629,680	578,412	373,618	363,442	825	528	1,004,123	942,382
Stage 1	37,736	32,629	53,745	42,209	261	153	91,742	74,991
Stage 2	87,187	81,346	141,374	119,000	564	375	229,125	200,721
Stage 3	504,757	464,437	178,499	202,233	–	–	683,256	666,670
Subtotal	13,514,437	14,025,929	21,167,658	19,120,499	129,417	80,473	34,811,512	33,226,901

34.3 (c) Movement in provision for impairment during the year

34.3 (c) (i) Group

	Stage 1		Stage 2		Stage 3		Total	
	2020 **Rs. '000**	2019 Rs. '000	**2020** **Rs. '000**	2019 Rs. '000	**2020** **Rs. '000**	2019 Rs. '000	**2020** **Rs. '000**	2019 Rs. '000
Balance as at January 1,	81,639	108,543	270,610	191,150	800,885	825,383	1,153,134	1,125,076
Charge/(write back) to the Income Statement	13,626	(24,813)	(12,233)	80,190	154,813	299,132	156,206	354,509
Net write-off during the year	–	(2,091)	(76)	(730)	(125,223)	(307,099)	(125,299)	(309,920)
Interest accrued/(reversals) on impaired loans and advances	–	–	–	–	(21,673)	(16,395)	(21,673)	(16,395)
Other movements	–	–	–	–	(1,146)	(136)	(1,146)	(136)
Balance as at December 31,	95,265	81,639	258,301	270,610	807,656	800,885	1,161,222	1,153,134

34.3 (c) (ii) Bank

	Stage 1		Stage 2		Stage 3		Total	
	2020 **Rs. '000**	2019 Rs. '000	**2020** **Rs. '000**	2019 Rs. '000	**2020** **Rs. '000**	2019 Rs. '000	**2020** **Rs. '000**	2019 Rs. '000
Balance as at January 1,	74,991	79,063	200,721	108,098	666,670	631,736	942,382	818,897
Charge/(write back) to the Income Statement	16,751	(1,981)	28,404	93,321	101,115	203,844	146,270	295,184
Net write-off during the year	–	(2,091)	–	(698)	(61,710)	(152,379)	(61,710)	(155,168)
Interest accrued/(reversals) on impaired loans and advances	–	–	–	–	(21,673)	(16,395)	(21,673)	(16,395)
Other movements	–	–	–	–	(1,146)	(136)	(1,146)	(136)
Balance as at December 31,	91,742	74,991	229,125	200,721	683,256	666,670	1,004,123	942,382

35. Financial assets at amortised cost – Debt and other financial instruments

Accounting policy

As per SLFRS 9, Financial assets 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.

			GROUP		BANK	
As at December 31,	Note	Page No.	**2020** **Rs. '000**	2019 Rs. '000	**2020** **Rs. '000**	2019 Rs. '000
Government Securities – Sri Lanka			282,664,666	83,350,413	282,294,843	82,986,575
Treasury Bonds			186,530,856	47,278,715	186,530,856	47,278,715
Sri Lanka Sovereign Bonds (*)			96,133,810	36,071,698	95,763,987	35,707,860
Government Securities – Bangladesh			11,254,899	15,284,770	11,254,899	15,284,770
Treasury Bills			–	4,080,152	–	4,080,152
Treasury Bonds			11,254,899	11,204,618	11,254,899	11,204,618
Government Securities – Maldives			8,969,091	5,553,077	–	–
Treasury Bills			8,969,091	5,553,077	–	–
Other instruments			1,286,715	3,300,536	1,286,715	3,300,536
Debentures	35.2	207	561,716	2,520,350	561,716	2,520,350
Trust certificates	35.3	207	724,589	777,994	724,589	777,994
Corporate investments in Bangladesh	35.4	207	410	2,192	410	2,192
Less: Provision for impairment	35.1(a) & 35.1(b)	206	2,115,842	429,775	2,108,891	427,062
Total			302,059,529	107,059,021	292,727,566	101,144,819

(*) Please refer Note 36.1 on page 208 for the details of reclassification of part of the Bank's Sri Lanka Sovereign Bond (SLSB) portfolio to amortised cost from Fair Value Through Other Comprehensive Income (FVOCI) category effected during the year.

35.1 Movement in provision for impairment during the year

35.1 (a) Group

			Stage 1		Stage 2		Stage 3		Total	
	Note	Page No.	**2020** **Rs. '000**	2019 Rs. '000	**2020** **Rs. '000**	2019 Rs. '000	**2020** **Rs. '000**	2019 Rs. '000	**2020** **Rs. '000**	2019 Rs. '000
Balance as at January 1,			276,905	268,340	–	–	152,870	–	429,775	268,340
Charge/(write back) to the Income Statement	18.1	184	1,685,968	8,569	–	–	–	152,870	1,685,968	161,439
Exchange rate variance on foreign currency provisions			99	(4)	–	–	–	–	99	(4)
Balance as at December 31,			1,962,972	276,905	–	–	152,870	152,870	2,115,842	429,775

35.1 (b) Bank

			Stage 1		Stage 2		Stage 3		Total	
	Note	Page No.	**2020** **Rs. '000**	2019 Rs. '000	**2020** **Rs. '000**	2019 Rs. '000	**2020** **Rs. '000**	2019 Rs. '000	**2020** **Rs. '000**	2019 Rs. '000
Balance as at January 1,			274,192	266,252	–	–	152,870	–	427,062	266,252
Charge/(write back) to the Income Statement	18.2	185	1,681,829	7,940	–	–	-	152,870	1,681,829	160,810
Balance as at December 31,			1,956,021	274,192	–	–	152,870	152,870	2,108,891	427,062

The maturity analysis of financial assets at amortised cost – Debt and other financial instruments is given in Note 61 on pages 251 to 253.

35.2 Debentures

	GROUP				BANK			
As at December 31,	**2020**		2019		**2020**		2019	
	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	919,100	80,317	919,100	80,317
MTD Walkers PLC	1,528,701	152,870	1,528,701	152,870	1,528,701	152,870	1,528,701	152,870
Singer Finance (Lanka) PLC	3,000,000	328,529	2,902,500	319,130	3,000,000	328,529	2,902,500	319,130
Commercial Leasing and Finance PLC	–	–	10,000,000	1,097,500	–	–	10,000,000	1,097,500
Dunamis Capital PLC	–	–	500,000	50,403	–	–	500,000	50,403
Hayleys PLC	–	–	8,000,000	820,130	–	–	8,000,000	820,130
Subtotal		561,716		2,520,350		561,716		2,520,350

35.3 Trust certificates

	GROUP		BANK	
As at December 31,	**2020**	2019	**2020**	2019
	Carrying value Rs. '000	Carrying value Rs. '000	**Carrying value Rs. '000**	Carrying value Rs. '000
Richard Pieris Arpico Finance Ltd.	724,589	777,994	724,589	777,994
Subtotal	724,589	777,994	724,589	777,994

35.4 Corporate investments in Bangladesh

	GROUP		BANK	
As at December 31,	**2020**	2019	**2020**	2019
	Carrying value Rs. '000	Carrying value Rs. '000	**Carrying value Rs. '000**	Carrying value Rs. '000
Prize bonds	410	2,192	410	2,192
Subtotal	410	2,192	410	2,192

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.

Debt instruments at FVOCI are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income, foreign exchange gains and losses, 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.

As at December 31,	Note	Page No.	GROUP 2020 Rs. '000	GROUP 2019 Rs. '000	BANK 2020 Rs. '000	BANK 2019 Rs. '000
Government securities						
Government Securities – Sri Lanka	36.1	208	280,100,559	198,465,987	279,845,258	198,209,424
Less: Provision for impairment	36.2	208	1,675,834	861,693	1,675,834	861,693
			278,424,725	197,604,294	278,169,424	197,347,731
Equity securities	36.3 (a) & 36.3 (b)	208 & 209	292,069	220,723	291,945	220,599
Quoted shares			239,773	169,013	239,773	169,013
Unquoted shares			52,296	51,710	52,172	51,586
Total			278,716,794	197,825,017	278,461,369	197,568,330

The maturity analysis of financial assets measured at fair value through other comprehensive income is given in Note 61 on pages 251 to 253.

36.1 Government Securities

As at December 31,	GROUP 2020 Rs. '000	GROUP 2019 Rs. '000	BANK 2020 Rs. '000	BANK 2019 Rs. '000
Treasury Bills	26,934,822	9,472,297	26,679,521	9,215,734
Treasury Bonds	174,357,979	74,818,967	174,357,979	74,818,967
Sri Lanka Sovereign Bonds (*)	22,296,574	57,164,759	22,296,574	57,164,759
Sri Lanka Development Bonds	56,511,184	57,009,964	56,511,184	57,009,964
Subtotal	280,100,559	198,465,987	279,845,258	198,209,424

(*) The Bank reclassified part of its SLSB Portfolio with the face value of Rs. 28,050.000 Mn. (USD 150 Mn.) and Rs. 32,117.250 Mn. (USD 171.750 Mn.) from FVOCI to Amortised Cost, as a result of changes to the business model of managing the assets with effect from June 30, 2020 and July 1, 2020 respectively in line with the guidelines issued by the CA Sri Lanka on Accounting Consideration with the COVID-19 outbreak. There was no change to the effective interest rate used and interest income recognised o/a reclassified SLSB Portfolio for the period under review. The fair value of the reclassified portfolio as at December 31, 2020 was Rs. 36,943.692 Mn. The fair value loss of Rs. 16,900.049 Mn. (net of tax) would have been recognised in OCI during the reporting period if the financial assets had not been reclassified.

36.2 Movement in provision for impairment during the year

	Note	Page No.	GROUP 2020 Rs. '000	GROUP 2019 Rs. '000	BANK 2020 Rs. '000	BANK 2019 Rs. '000
Movement in Stage 1 Impairment						
Balance as at January 1,			861,693	595,694	861,693	595,694
Charge/(write back) to the income statement	18.1 & 18.2	184 & 185	814,141	265,999	814,141	265,999
Balance as at December 31,			1,675,834	861,693	1,675,834	861,693

36.3 Equity securities

36.3 (a) Equity securities – As at December 31, 2020

	GROUP				BANK			
Sector/Name of the Company	Number of shares	Market price Rs.	Market value Rs. '000	Cost of investment Rs. '000	Number of shares	Market price Rs.	Market value Rs. '000	Cost of investment Rs. '000
Quoted shares:								
Materials								
Alumex PLC	714,200	21.10	15,070	9,999	714,200	21.10	15,070	9,999
Subtotal			15,070	9,999			15,070	9,999
Retailing								
RIL Property PLC	26,128,266	8.60	224,703	209,026	26,128,266	8.60	224,703	209,026
Subtotal			224,703	209,026			224,703	209,026
Total – quoted shares			239,773	219,025			239,773	219,025

	GROUP				BANK			
Sector/Name of the Company	Number of shares	Market price Rs.	Market value Rs. '000	Cost of investment Rs. '000	Number of shares	Market price Rs.	Market value Rs. '000	Cost of investment Rs. '000
Unquoted shares:								
Other financial services								
Central Depository of Bangladesh Ltd.	3,427,083	BDT 2.75	20,853	20,853	3,427,083	BDT 2.75	20,853	20,853
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			52,296	52,296			52,172	52,172
Total equity securities			292,069	271,321			291,945	271,197

36.3 (b) Equity securities – As at December 31, 2019

	GROUP				BANK			
Sector/Name of the Company	Number of shares	Market price Rs.	Market value Rs. '000	Cost of investment Rs. '000	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
Materials								
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
Retailing								
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
Total – quoted shares			169,013	220,519			169,013	220,519
Unquoted shares:								
Other financial services								
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

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 CBC 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 CBC 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.

				GROUP				BANK			
As at December 31,				**2020**		2019		**2020**		2019	
			Holding (****)	**Cost**	**Market value/ Directors' valuation**	Cost	Market value/ Directors' valuation	**Cost**	**Market value/ Directors' valuation**	Cost	Market value/ Directors' valuation
	Note	Page No.	%	**Rs. '000**	**Rs. '000**	Rs. '000	Rs. '000	**Rs. '000**	**Rs. '000**	Rs. '000	Rs. '000
Local subsidiaries:											
Quoted:											
Commercial Development Company PLC (*)			90	–	–	–	–	**261,198**	**1,263,600**	261,198	854,280
(10,800,000 Ordinary shares)									**(@ Rs. 117.00)**		(@ Rs. 79.10)
(10,800,000 Ordinary shares as at December 31, 2019)											
Unquoted:											
CBC Tech Solutions Limited (formerly known as ONEzero Company Limited)			100	–	–	–	–	**5,000**	**5,000**	5,000	5,000
(500,001 Ordinary shares)											
(500,001 Ordinary shares as at December 31, 2019)											
Commercial Insurance Brokers (Pvt) Ltd. (**)			60	–	–	–	–	**375,000**	**375,000**	250,000	250,000
(359,999 Ordinary Shares)											
(239,999 Ordinary Shares as at December 31, 2019)			(58 in 2019)								
Unquoted:											
CBC Finance Ltd. (Formally known as Serendib Finance Ltd.)			100	–	–	–	–	**3,791,046**	**3,791,046**	2,791,046	2,791,046
(221,793,474 Ordinary Shares)											
(151,469,986 Ordinary shares as at December 31, 2019)											
Foreign subsidiaries:											
Unquoted:											
Commex Sri Lanka S.R.L.(incorporated in Italy) (***)			100	–	–	–	–	**370,633**	**327,855**	370,633	327,855
(300,000 Ordinary shares) (300,000 Ordinary shares as at December 31, 2019)											

As at December 31,				GROUP				BANK			
				2020		2019		**2020**		2019	
			Holding (****)	**Cost**	**Market value/ Directors' valuation**	Cost	Market value/ Directors' valuation	**Cost**	**Market value/ Directors' valuation**	Cost	Market value/ Directors' valuation
	Note	Page No.	%	**Rs. '000**	**Rs. '000**	Rs. '000	Rs. '000	**Rs. '000**	**Rs. '000**	Rs. '000	Rs. '000
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, 2019)											
CBC Myanmar Microfinance Co. Limited			100	–	–	–	–	391,478	391,478	391,478	391,478
(2,420,000 Ordinary shares)											
(2,420,000 Ordinary shares as at December 31, 2019)											
Gross Total				–	–	–	–	6,179,062	7,138,686	5,054,062	5,604,366
Provision for impairment	37.1	211						(370,633)	–	(42,778)	–
Net total				–	–	–	–	5,808,429	7,138,686	5,011,284	5,604,366

(*) 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 was recognised in equity in 2019.

(**) The Bank acquired a further 20% stake (120,000 shares) in Commercial Insurance Brokers (Private) Limited (CIBL) for a purchase consideration of Rupees One Hundred and Twenty Five Million (Rs. 125,000,000/-) from its own subsidiary, Commercial Development Co. PLC on December 30, 2020.

Accordingly, the Bank's direct stake in CIBL increased to 60% from 40%. Prior to the above acquisition, the Bank had an effective holding of 58% (40% direct and 18% indirect) in CIBL.

(***)The investment made in Commex Sri Lanka S.R.L. Italy has been fully impaired during the year.

(****) Unless otherwise indicated, holding percentage remains unchanged from 2019 to 2020.

The maturity analysis of investment in subsidiaries is given in Note 61 on pages 251 to 253.

37.1 Movement in provision for impairment o/a subsidiaries during the year

			GROUP		BANK	
			2020	2019	**2020**	2019
	Note	Page No.	**Rs. '000**	Rs. '000	**Rs. '000**	Rs. '000
Balance as at January 1,			–	–	42,778	42,778
Charge/(write back) to the Income Statement	18	182	–	–	327,855	–
Balance as at December 31,			–	–	370,633	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 05, 2019.

As the Bank's subsidiary, Commercial Development Co. 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 acqusition of this Company.

37.2.1 Consideration transferred

Total purchase consideration stated above was satisfied in the form of cash & fair value of investments in associate in Group 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 receivables to other customers			4,960
Property, plant and equipment (Net)	39.1	215	435,428
Investment properties	40	225	46,350

	Note	Page No.	Fair value recognised on acquisition Rs. '000
Intangible assets (Net)	41.1	227	5,802
Other assets			28,218
Total assets			**679,042**
Liabilities			
Current tax liabilities	48	232	(13,660)
Deferred tax liabilities	42.1	228	(88,884)
Provision for gratuity payable	49.2 (b)	234	(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	212	343,955
Fair value of identifiable net assets at the date of acquisition attributable to Bank	37.2.2	211	(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 61 on pages 251 to 253.

38. Investment in associate

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,				**2020**		2019	
	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	64,155	44,331	56,821
				44,331	64,155	44,331	56,821

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:

			2020			2019		
	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	–	44,331	44,331	100	44,431
Add: Share of profit applicable to the Group								
Investment in associate – As at January 1,			12,490	–	12,490	13,771	47,118	60,889
Total comprehensive income	38.2 (a)	213	7,334	–	7,334	(1,281)	49,906	48,625
Profit/(loss) for the period recognised in income statement, net of tax			3,898	–	3,898	(339)	10,331	9,992
Profit or loss and other comprehensive income, net of tax			3,436	–	3,436	(942)	39,575	38,633
Movement due to change in equity			–	–	–	–	(409)	(409)
Dividend received			–	–	–	–	(2,760)	(2,760)
Acquisition of the control of the associate	37.2.4	212	–	–	–	–	(93,955)	(93,955)
Balance as at December 31,			64,155	–	64,155	56,821	–	56,821

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,	**2020**			2019		
	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	49,129	–	49,129	22,672	213,059	235,731
Expenses	(32,123)	–	(32,123)	(24,051)	(140,126)	(164,177)
Income tax	–	–	–	(101)	(16,786)	(16,887)
Profit from continuing operations, net of tax	17,006	–	17,006	(1,480)	56,147	54,667
Group's share of profit from continuing operations, net of tax	3,898	–	3,898	(339)	10,331	9,992
Other comprehensive income, net of tax	14,989	–	14,989	(4,109)	215,080	210,971
Group's share of other comprehensive income from continuing operations, net of tax	3,436	–	3,436	(942)	39,575	38,633
Share of results of equity accounted investee recognised in Income Statement and Statement of Profit or Loss and Other Comprehensive Income	7,334	–	7,334	(1,281)	49,906	48,625

38.2 (b) Summarised Statement of Financial Position

As at December 31,	2020		2019	
	Equity Investments Lanka Ltd.	**Commercial Insurance Brokers (Pvt) Ltd.**	Equity Investments Lanka Ltd.	Commercial Insurance Brokers (Pvt) Ltd.
	Rs. '000	**Rs. '000**	Rs. '000	Rs. '000
Non-current assets	**338,604**	–	156,161	486,820
Current assets	**167,505**	–	97,190	191,035
Non-current liabilities	**(216,598)**	–	(1,472)	(119,058)
Current liabilities	**(9,601)**	–	(3,967)	(48,172)
Net assets	**279,910**	–	247,912	510,625
Group's share of net assets	**64,155**	–	56,821	93,955
Acquisition of the control of the associate	–	–	–	(93,955)
Carrying amount of interest in associates	**64,155**	–	56,821	–

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 61 on pages 251 to 253.

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 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 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 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.

  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, 2020. Methods and significant assumptions including unobservable market inputs employed in estimating the fair value 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, 2020 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.

  The next revaluation exercise on the freehold land, freehold and leasehold buildings will be carried out on or before December 31, 2023.

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

Right-of-use assets are presented together with property, plant and equipment in the Statement of Financial Position.

39.1 Group – 2020

	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 2020** **Rs. '000**	Total 2019 Rs. '000
Cost/valuation												
Balance as at January 1,			7,792,197	4,394,940	1,240,759	6,523,758	549,127	6,791,871	513,803	6,326,264	34,132,719	26,133,242
Effect of adoption of SLFRS 16			–	–	–	–	–	–	–	–	–	5,076,844
Property, plant and equipment acquired on business combination	37.2.2	211	–	–	–	–	–	–	–	–	–	525,137
Additions/transfers during the year			–	3,787	10,725	516,359	11,936	414,301	202,604	789,216	1,948,928	2,673,746
Transfer of accumulated depreciation on assets revalued			–	(531,311)	(97,991)	–	–	–	–	–	(629,302)	–
Surplus on revaluation of property			1,611,745	2,046,597	26,193	–	–	–	–	–	3,684,535	–
Revaluation loss in excess of cumulative reserve	21	186	(17,508)	(22,364)	–	–	–	–	–	–	(39,872)	–
Disposals during the year			–	–	–	(116,352)	(12,894)	(57,631)	–	–	(186,877)	(142,690)
Exchange rate variance			–	–	–	8,023	3,119	20,038	–	53,546	84,726	(60,358)
Transfers/adjustments			–	141,202	–	–	–	(900)	(141,202)	–	(900)	(73,202)
Balance as at December 31,			9,386,434	6,032,851	1,179,686	6,931,788	551,288	7,167,679	575,205	7,169,026	38,993,957	34,132,719
Accumulated depreciation and impairment losses												
Balance as at January 1,			–	376,531	83,564	4,634,391	340,958	5,099,906	–	1,072,711	11,608,061	9,118,006
Effect of adoption of SLFRS 16			–	–	–	–	–	–	–	–	–	25,636
Accumulated depreciation assumed on business combination	37.2.2	211	–	–	–	–	–	–	–	–	–	89,709
Charge for the year	20	185	–	156,746	36,590	699,928	64,784	634,588	–	1,199,104	2,791,740	2,588,863
Impairment loss			–	–	–	–	–	–	–	–	–	–
Transfer of accumulated depreciation on assets revalued			–	(531,311)	(97,991)	–	–	–	–	–	(629,302)	–
Disposals during the year			–	–	–	(116,202)	(12,894)	(54,700)	–	–	(183,796)	(138,232)
Exchange rate variance			–	–	–	4,947	2,200	13,477	–	–	20,624	(9,441)
Transfers/adjustments			–	–	–	–	–	–	–	–	–	(66,480)
Balance as at December 31,			–	1,966	22,163	5,223,064	395,048	5,693,271	–	2,271,815	13,607,327	11,608,061
Net book value as at December 31, 2020			9,386,434	6,030,885	1,157,523	1,708,724	156,240	1,474,408	575,205	4,897,211	25,386,630	–
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	5,253,553	–	22,524,658

39.2 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			–	–	–	–	–	–	–	5,076,844	5,076,844	–
Property, plant and equipment acquired on business combination	37.2.2	211	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	6,326,264	34,132,719	26,133,242
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
Effect of adoption of SLFRS 16			–	–	–	–	–	–	–	25,636	25,636	–
Accumulated depreciation assumed on business combination	37.2.2	211	–	26,925	–	12,313	22,623	27,848	–	–	89,709	–
Charge for the year	20	185	–	155,974	35,581	669,307	68,141	612,785	–	1,047,075	2,588,863	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	–	1,072,711	11,608,061	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	5,253,553	22,524,658	–
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

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,	**2020**			2019		
	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	1,121,538	–	1,121,538	1,121,538	–	1,121,538
Freehold buildings	1,855,883	539,333	1,316,550	1,710,894	492,927	1,217,967
Leasehold buildings	341,196	312,540	28,656	330,470	297,059	33,411
Total	3,318,617	851,873	2,466,744	3,162,902	789,986	2,372,916

39.3 Bank – 2020

	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 2020** **Rs. '000**	Total 2019 Rs. '000
Cost/valuation												
Balance as at January 1,			7,232,962	4,187,178	100,037	6,429,055	201,750	6,591,931	509,517	6,461,845	31,714,275	24,149,652
Effect of adoption of SLFRS 16			–	–	–	–	–	–	–	–	–	5,209,465
Additions/transfers during the year			–	3,787	–	505,742	300	394,743	202,069	734,837	1,841,478	2,608,158
Transfer of accumulated depreciation on assets revalued			–	(494,319)	–	–	–	–	–	–	(494,319)	–

	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 2020** **Rs. '000**	Total 2019 Rs. '000
Surplus on revaluation of property			1,559,250	2,026,180	–	–	–	–	–	–	3,585,430	–
Revaluation loss in excess of cumulative reserve	21	186	(17,508)	(22,364)	–	–	–	–	–	–	(39,872)	–
Disposals during the year			–	–	–	(114,171)	–	(50,785)	–	–	(164,956)	(122,718)
Exchange rate variance			–	–	–	6,767	3,119	13,476	–	46,129	69,491	(57,080)
Transfers/adjustments			–	141,202	–	–	–	(900)	(141,202)	–	(900)	(73,202)
Balance as at December 31,			8,774,704	5,841,664	100,037	6,827,393	205,169	6,948,465	570,384	7,242,811	36,510,627	31,714,275
Accumulated Depreciation and Impairment Losses												
Balance as at January 1,			–	341,640	19,229	4,582,679	145,161	4,978,990	–	1,139,373	11,207,072	8,848,406
Effect of adoption of SLFRS 16			–	–	–	–	–	–	–	–	–	13,188
Charge for the year	20	185	–	152,679	2,934	686,409	17,520	599,971	–	1,271,927	2,731,440	2,541,281
Impairment loss			–	–	–	–	–	–	–	–	–	–
Transfer of accumulated depreciation on assets revalued			–	(494,319)	–	–	–	–	–	–	(494,319)	–
Disposals during the year			–	–	–	(114,051)	–	(49,002)	–	–	(163,053)	(119,651)
Exchange rate variance			–	–	–	4,302	2,200	10,591	–	–	17,093	(9,672)
Transfers/adjustments			–	–	–	–	–	–	–	–	–	(66,480)
Balance as at December 31,			–	–	22,163	5,159,339	164,881	5,540,550	–	2,411,300	13,298,233	11,207,072
Net book value as at December 31, 2020			8,774,704	5,841,664	77,874	1,668,054	40,288	1,407,915	570,384	4,831,511	23,212,394	–
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	5,322,472	–	20,507,203

39.4 Bank – 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,			7,243,410	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			–	–	–	–	–	–	–	5,209,465	5,209,465	–
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	6,461,845	31,714,275	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
Effect of adoption of SLFRS 16			–	–	–	–	–	–	–	13,188	13,188	–
Charge for the year	20	185	–	152,513	2,934	657,936	17,359	584,354	–	1,126,185	2,541,281	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	–	1,139,373	11,207,072	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	5,322,472	20,507,203	–
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

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,	2020			2019		
	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	958,572	–	958,572
Freehold buildings	1,800,362	527,085	1,273,277	1,655,373	481,833	1,173,540
Leasehold buildings	98,138	69,482	28,656	98,138	64,727	33,411
Total	2,857,072	596,567	2,260,505	2,712,083	546,560	2,165,523

The maturity analysis of Property, plant and equipment is given in Note 61 on pages 251 to 253.

39.5 (a) Information on freehold land and buildings of the Bank and 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)	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	1,150,000	50,000	1,200,000	988,300
Holiday Bungalow – Bandarawela, Ambatenne Estate, Bandarawela	1	423	5,649	90,800	18,600	109,400	87,060
Holiday Bungalow – Haputale, No. 23, Lilly Avenue, Welimada Road, Haputale	1	258	5,662	51,400	24,400	75,800	59,305
Branch Buildings							
Battaramulla – No. 213, Kaduwela Road, Battaramulla	1	14	11,216	52,500	87,375	139,875	136,650
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	246,000	254,000	500,000	386,080
Chilaw – No. 44, Colombo Road, Chilaw	1	35	9,420	114,693	37,708	152,401	130,965
City Office – No. 98, York Street, Colombo 01	1	–	24,599	–	600,000	600,000	38,687
Duplication Road – Nos. 405, 407, R A De Mel Mawatha, Colombo 03	1	20	4,194	370,000	30,000	400,000	227,332
Galewela – No. 49/57, Matale Road, Galewela	1	99	5,632	39,600	16,900	56,500	46,337
Galle Main Street – No. 130, Main Street, Galle	1	7	3,675	60,750	9,600	70,350	62,006
Galle Fort – No. 22, Church Street, Fort, Galle	1	100	11,625	262,015	98,185	360,200	438,477
Gampaha – No. 51, Queen Mary's Road, Gampaha	1	33	4,775	105,280	10,720	116,000	83,866
Hikkaduwa – No. 217, Galle Road, Hikkaduwa	1	37	7,518	43,470	29,680	73,150	60,999
Ja-Ela – No. 140, Negombo Road, Ja-Ela	1	13	7,468	43,000	30,000	73,000	56,771
Jaffna – No. 474, Hospital Road, Jaffna	–	78	Bare Land	429,825	–	429,825	1,000,000
Kandy – No. 120, Kotugodella Veediya, Kandy	1	45	44,500	521,000	272,000	793,000	625,107
Karapitiya – No. 89, Hirimbura Cross Road, Karapitiya	1	38	3,627	73,720	19,180	92,900	103,454
Kegalle – No. 186, Main Street, Kegalle	1	85	2,650	172,500	7,200	179,700	163,036
Keyzer Street – No. 32, Keyzer Street, Colombo 11	1	7	6,100	109,000	23,000	132,000	104,054
Kollupitiya – No. 285, Galle Road, Colombo 03	1	17	16,254	299,000	65,500	364,500	284,840
Kotahena – No. 198, George R De Silva Mawatha, Kotahena, Colombo 13	1	28	26,722	279,000	190,000	469,000	391,250
Kurunegala – No. 4, Suratissa Mawatha, Kurunegala	1	50	10,096	257,390	42,610	300,000	276,760
Maharagama – No. 154, High Level Road, Maharagama	1	18	8,440	133,000	67,000	200,000	134,360
Matale – No. 70, King Street, Matale	1	51	8,596	201,000	65,000	266,000	180,771
Matara – No. 18, Station Road, Matara	1	38	8,137	69,465	30,835	100,300	86,384
Minuwangoda – No. 9, Siriwardena Mawatha, Minuwangoda	1	25	5,550	71,250	14,985	86,235	71,984
Narahenpita – No. 201, Kirula Road, Narahenpita, Colombo 05	1	22	11,193	263,000	137,000	400,000	268,857
Narammala – No. 55, Negombo Road, Narammala	1	41	5,353	71,871	20,624	92,495	80,021
Negombo – Nos. 24, 26, Fernando Avenue, Negombo	1	37	11,360	167,000	39,000	206,000	167,680
Nugegoda – No. 100, Stanley Thilakaratne Mawatha, Nugegoda	1	39	11,150	485,000	115,000	600,000	202,800
Nuwara Eliya – No. 36/3, Buddha Jayanthi Mawatha, Nuwara Eliya	1	42	10,184	187,000	76,800	263,800	192,823

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
Panadura – No. 375, Galle Road, Panadura	1	12	6,168	30,750	40,092	70,842	72,940
Peliyagoda Stores – No. 37, New Nuge Road, Peliyagoda	1	–	14,676	–	116,000	116,000	7,737
Pettah – People's Park Shopping Complex, Colombo 11	1	–	3,147	–	80,000	80,000	58,960
Pettah-Stores – People's Park Shopping Complex, Colombo 11	1	–	225	–	6,670	6,670	4,750
Pettah – Main Street – No. 280, Main Street, Pettah, Colombo 11	1	20	22,760	530,000	320,000	850,000	531,132
Trincomalee – No. 474, Power House Road, Trincomalee	–	100	Bare Land	125,425	–	125,425	100,000
Union Place – No. 1, Union Place, Colombo 02	1	30	63,385	720,000	1,480,000	2,200,000	1,383,072
Wellawatte – No. 343, Galle Road, Colombo 06	1	45	51,225	818,000	1,282,000	2,100,000	1,643,410
Wennappuwa – Nos. 262, 264, Colombo Road, Wennappuwa	1	36	9,226	81,000	34,000	115,000	81,793
Total – Bank	38			8,774,704	5,841,664	14,616,368	11,070,810
Subsidiaries							
Commercial Development Company PLC							
Tangalle – No. 148, Matara Road,Tangalle	1	49	4,257	80,000	27,000	107,000	85,283
Negombo – No 18, Fernando Avenue, Negombo	1	19	9,226	93,000	–	93,000	79,386
Commercial Insurance Brokers (Private) Limited							
Colombo – No. 347, Dr. Colvin R De Silva Mawatha, Colombo 02	1	19	9,532	355,000	51,967	406,967	392,251
CBC Finance Limited.							
Kandy – No. 182, Katugastota Road, Kandy	1	4	3,714	18,100	26,900	45,000	39,768
Kandy – No. 187, Katugastota Road, Kandy	1	13	9,480	65,630	85,320	150,950	133,317
Total – Group	43			9,386,434	6,032,851	15,419,285	11,800,815

39.5 (b) Information on freehold land and buildings of the Bank and Group – 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, 2020

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		91,754	39,211	114,693	37,708	22,939	18,224
	● Price per perch for land	Rs. 3,250,000 p.p.						
	● Price per square foot for building	Rs. 5,000 p.sq.ft.						
	● Depreciation rate	20%						
Gampaha No. 51, Queen Mary's Road, Gampaha	Market comparable method		74,025	9,841	105,280	10,720	31,255	879
	● Price per perch for land	Rs. 3,200,000 p.p.						
	● Price per square foot for building	Rs. 4,500 p.sq.ft.						
	● Depreciation rate	50%						
Minuwangoda No. 9, Siriwardena Mawatha, Minuwangoda	Market comparable method		56,250	15,734	71,250	14,985	15,000	(749)
	● Price per perch for land	Rs. 2,850,000 p.p.						
	● Price per square foot for building	Rs. 4,500 p.sq.ft.						
	● Depreciation rate	40%						
P B Kalugalagedara								
Keyzer Street No. 32, Keyzer Street, Colombo 11	Market comparable method		82,000	22,054	109,000	23,000	27,000	946
	● Price per perch for land	Rs. 14,000,000 p.p.						
	● Price per square foot for building	Rs. 500 to Rs. 5,225 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
Kollupitiya No. 285, Galle Road, Colombo 03	Market comparable method		225,000	59,840	299,000	65,500	74,000	5,660
	● Price per perch for land	Rs. 19,500,000 p.p.						
	● Price per square foot for building	Rs. 1,185 to Rs. 5,225 p.sq.ft.						
Kotahena No. 198, George R De Silva Mawatha, Kotahena, Colombo 13	Investment method		197,000	194,250	279,000	190,000	82,000	(4,250)
	● Gross monthly rental	Rs. 3,306,000 p.m.						
	● Years purchase (present value of one unit per period)	18.18						
Mr R S Wijesuriya								
Battaramulla No. 213, Kaduwela Road, Battaramula	Market comparable method		52,500	84,150	52,500	87,375	–	3,225
	● Price per perch for land	Rs. 3,750,000 p.p.						
	● Price per square foot for building	Rs. 7,500 p.sq.ft.						
Battaramulla No. 213, Kaduwela Road, Battaramulla	Market comparable method		50,000	–	50,000	–	2,399	–
	● Price per perch for land	Rs. 3,750,000 p.p.						
Panadura No. 375, Galle Road, Panadura	Market comparable method		36,900	36,040	30,750	40,092	(6,150)	4,052
	● Price per perch for land	Rs. 2,500,000 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		72,100	14,960	90,800	18,600	18,700	3,640
	● Price per perch for land	Rs. 100,000 to Rs. 250,000 p.p.						
	● Price per square foot for building	Rs. 5,250 to Rs. 5,750 p.sq.ft.						
	● Depreciation rate	40%						
Holiday Bungalow – Haputale No. 23, Lilly Avenue, Welimada Road, Haputale	Market comparable method		41,200	18,105	51,400	24,400	10,200	6,295
	● Price per perch for land	Rs. 250,000 p.p.						
	● Price per square foot for building	Rs. 3,750 to Rs. 7,500 p.sq.ft.						
	● Depreciation rate	55%						
Kandy No. 120, Kotugodella Veediya, Kandy	Market comparable method		396,000	229,107	521,000	272,000	125,000	42,893
	● Price per perch for land	Rs. 12,500,000 p.p.						
	● Price per square foot for building	Rs. 7,000 to Rs. 10,500 p.sq.ft.						
	● Depreciation rate	65% and 70%						
Kegalle No. 186, Main Street, Kegalle	Market comparable method		156,700	6,336	172,500	7,200	15,800	864
	● Price per perch for land	Rs. 1,250,000 to Rs. 3,500,000 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		125,000	55,771	201,000	65,000	76,000	9,229
	● Price per perch for land	Rs. 1,750,000 to Rs. 4,000,000 p.p.						
	● Price per square foot for building	Rs. 10,750 p.sq.ft.						
	● Depreciation rate	20% and 40%						

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	Buildings	Land	Buildings	Land	Buildings
			Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Nuwara Eliya No. 36/3, Buddha Jayanthi Mawatha, Nuwara Eliya	Market comparable method		124,800	68,023	187,000	76,800	62,200	8,777
	● Price per perch for land	Rs. 3,000,000 to Rs. 4,500,000 p.p.						
	● Price per square foot for building	Rs. 10,750 p.sq.ft.						
	● Depreciation rate	30%						
Sunil Fernando Associates Pvt Ltd.								
Galle Main Street No.130, Main Street, Galle	Market comparable method		54,000	8,006	60,750	9,600	6,750	1,594
	● Price per perch for land	Rs. 9,000,000 p.p.						
	● Price per square foot for building	Rs. 2,000 to Rs. 3,250 p.sq.ft.						
Galle Fort No. 22, Church Street, Fort, Galle	Market comparable method		255,650	182,827	262,015	98,185	6,365	(82,005)
	● Price per perch for land	Rs. 6,500,000 p.p.						
	● Price per square foot for building	Rs. 6,500 p.sq.ft.						
Hikkaduwa No. 217, Galle Road, Hikkaduwa	Market comparable method		35,670	25,329	43,470	29,680	7,800	4,351
	● Price per perch for land	Rs. 900,000 to Rs. 1,350,000 p.p.						
	● Price per square foot for building	Rs. 3,250 to Rs. 4,250 p.sq.ft.						
Karapitiya No. 89, Hirimbura Cross Road , Karapitiya	Market comparable method		88,829	14,625	73,720	19,180	–	4,555
	● Price per perch for land	Rs. 2,000,000 p.p.						
	● Price per square foot for building	Rs. 4,500 p.sq.ft.						
Matara No. 18, Station Road, Matara	Market comparable method		60,080	26,304	69,465	30,835	9,385	4,531
	● Price per perch for land	Rs. 1,250,000 to Rs. 2,250,000 p.p.						
	● Price per square foot for building	Rs. 3,250 to Rs. 4,000 p.sq.ft.						
Trincomalee No. 474, Power House Road, Trincomalee	Market comparable method		100,000	–	125,425	–	25,425	–
	● Price per perch for land	Rs. 1,250,000 p.p.						
S Suresh								
Jaffna No. 474, Hospital Road, Jaffna	Market comparable method		1,000,000	–	429,825	–	(570,175)	–
	● Price per perch for land	Rs. 5,500,000 to Rs.7,000,000 p.p.						
Siri Nissanka								
Borella No. 92, D S Senanayake Mawatha, Colombo 08	Market comparable method		196,000	190,080	246,000	254,000	50,000	63,920
	● Price per perch for land	Rs. 15,750,000 p.p.						
	● Price per square foot for building	Rs. 15,000 p.sq.ft.						
City Office No. 98, York Street, Colombo 01	Market comparable method		–	38,687	–	600,000	–	561,313
	● Price per perch for land	Rs. 24,000,000 p.p.						
	● Price per square foot for building	Rs. 20,000 p.sq.ft.						
CEO's Bungalow No. 27, Queens Road, Colombo 03	Market comparable method		961,000	27,300	1,150,000	50,000	189,000	22,700
	● Price per perch for land	Rs. 18,000,000 p.p.						
	● Price per square foot for building	Rs. 10,000 p.sq.ft.						
Narahenpita No. 201, Kirula Road, Narahenpita, Colombo 05	Market comparable method		176,000	92,857	263,000	137,000	87,000	44,143
	● Price per perch for land	Rs.12,000,000 p.p.						
	● Price per square foot for building	Rs.12,500 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
Peliyagoda Warehouse No. 37, New Nuge Road, Peliyagoda	Market comparable method		–	7,737	–	116,000	–	108,263
	● Price per perch for land	Rs. 5,000,000 p.p.						
	● Price per square foot for building	Rs. 2,500 p.sq.ft to Rs. 8,500 p.sq.ft.						
Pettah – Main Street No. 280, Main Street, Pettah, Colombo 11	Market comparable method		360,000	171,132	530,000	320,000	170,000	148,868
	● Price per perch for land	Rs. 26,500,000 p.p.						
	● Price per square foot for building	Rs. 16,250 p.sq.ft.						
Union Place No. 1, Union Place, Colombo 02	Market comparable method		500,000	883,072	720,000	1,480,000	220,000	596,928
	● Price per perch for land	Rs. 24,000,000 p.p.						
	● Price per square foot for building	Rs. 23,000 p.sq.ft.						
Duplication Road Nos. 405, 407, R A De Mel Mawatha, Colombo 03	Market comparable method		220,400	6,932	370,000	30,000	149,600	23,068
	● Price per perch for land	Rs. 18,500,000 p.p.						
	● Price per square foot for building	Rs. 5,500 p.sq.ft.						
Maharagama No. 154, Highlevel Road, Maharagama	Market comparable method		93,000	41,360	133,000	67,000	40,000	25,640
	● Price per perch for land	Rs. 7,500,000 p.p.						
	● Price per square foot for building	Rs. 8,000 p.sq.ft.						
Nugegoda No. 100, Stanley Thilakaratne Mawatha, Nugegoda	Market comparable method		150,000	52,800	485,000	115,000	335,000	62,200
	● Price per perch for land	Rs. 12,500,000 p.p.						
	● Price per square foot for building	Rs. 10,650 p.sq.ft.						
Wellawatte No. 343, Galle Road, Colombo 06	Market comparable method		650,000	993,410	818,000	1,282,000	168,000	288,590
	● Price per perch for land	Rs. 18,000,000 p.p.						
	● Price per square foot for building	Rs. 25,000 p.sq.ft.						
W D P Rupananda								
Ja-Ela No. 140, Negombo Road, Ja-Ela	Market comparable method		33,000	23,771	43,000	30,000	10,000	6,229
	● Price per perch for land	Rs. 3,250,000 p.p.						
	● Price per square foot for building	Rs. 6,000 p.sq.ft.						
	● Depreciation rate	30%						
Negombo Nos. 24, 26, Fernando Avenue, Negombo	Market comparable method		136,000	31,680	167,000	39,000	31,000	7,320
	● Price per perch for land	Rs. 3,500,000 to Rs. 5,000,000 p.p.						
	● Price per square foot for building	Rs. 5,000 to Rs. 6,250 p.sq.ft.						
	● Depreciation rate	48% and 35%						
Pettah People's Park Shopping Complex, Colombo 11	Investment method		–	58,960	–	80,000	–	21,040
	● Gross monthly rental	Rs. 550,000 p.m.						
	● Years purchase (Present value of 1 unit per period)	18.18						
	● Void period	4 months p.a.						
Pettah – stores People's Park Shopping Complex, Colombo 11	Investment method		–	4,750	–	6,670	–	1,920
	● Gross monthly rental	Rs. 50,000 p.m.						
	● Years purchase (Present value of 1 unit per period)	16.67						
	● Void period	4 months p.a.						
Wennappuwa Nos. 262, 264, Colombo Road, Wennappuwa	Market comparable method		54,000	27,793	81,000	34,000	27,000	6,207
	● Price per perch for land	Rs. 2,250,000 p.p.						
	● Price per square foot for building	Rs. 4,600 to Rs. 6,200 p.sq.ft.						
	● Depreciation rate	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	Buildings	Land	Buildings	Land	Buildings
			Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
W S Pemaratne								
Galewela No. 49/57, Matale Road, Galewela	Market comparable method		29,700	16,637	39,600	16,900	9,900	263
	● Price per perch for land	Rs. 400,000 p.p.						
	● Price per square foot for building	Rs. 2,000 to Rs. 4,000 p.sq.ft.						
	● Depreciation rate	19% and 27%						
Kurunegala No. 4, Suratissa Mawatha, Kurunegala	Market comparable method		236,800	39,960	257,390	42,610	20,590	2,650
	● Price per perch for land	Rs. 4,200,000 p.p to Rs. 5,500,000 p.p.						
	● Price per square foot for building	Rs. 3,500 to Rs. 4,750 p.sq.ft.						
	● Depreciation rate	15%						
Narammala No. 55, Negombo Road, Narammala	Market comparable method		61,604	18,417	71,871	20,624	10,267	2,207
	● Price per perch for land	Rs. 1,750,000 p.p.						
	● Price per square foot for building	Rs. 4,000 p.sq.ft.						
	● Depreciation rate	8%						
Total – Bank			7,232,962	3,837,848	8,774,704	5,841,664	1,559,250	2,026,180
Subsidiaries								
Commercial Development Company PLC								
G M Gamage **Tangalle** No. 48, Matara Road, Tangalle	Investment method		66,787	18,496	80,000	27,000	13,213	8,504
	● Gross monthly rental	Rs. 320,000 p.m.						
	● Years purchase (Present value of 1 unit per period)	18.18						
	● Void period	N/A						
G H A P K Fernando **Negombo** No. 18, Fernando Avenue, Negombo	Market comparable method		79,386	–	93,000	–	13,614	–
	● Price per perch for land	Rs. 5,000,000 p.p.						
Commercial Insurance Brokers (Private) Limited								
G J Sumanasena **Colombo** No. 347, Dr. Colvin R De Silva Mawatha Colombo 02	Market comparable method		337,000	55,251	355,000	51,967	18,000	(3,284)
	● Price per perch for land	Rs. 18,500,000 p.p.						
	● Price per square foot for building	Rs. 7,500 p.sq.ft.						
	● Depreciation rate	30%						
CBC Finance Limited. (*)								
Kandy No. 182, Katugastota Road, Kandy	Market comparable method		16,400	23,368	18,100	26,900	1,700	3,532
	● Price per perch for land	Rs. 5,500,000 p.p.						
	● Price per square foot for building	Rs. 7,250 p.sq.ft.						
Kandy No. 187, Katugastota Road, Kandy	Market comparable method		59,662	73,655	65,630	85,320	5,968	11,665
	● Price per perch for land	Rs. 5,500,000 p.p.						
	● Price per square foot for building	Rs. 9,000 p.sq.ft.						
Total – Group			7,792,197	4,008,618	9,386,434	6,032,851	1,611,745	2,046,597

p.p. – per perch   p.sq.ft. – per square foot   p.m. – per month   p.a. – per annum

(*) The valuation was carried out as at the financial year ended March 31, 2020.

39.5 (c) Valuation techniques and sensitivity of the fair value measurement of the freehold land and buildings of the Bank and 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 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 for land would increase/(decrease) Price per square foot for building would increase/(decrease) Depreciation rate for building would decrease/(increase)
Investment method This method involves the capitalisation of the expected rental income at an appropriate rate of years purchased currently 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,	**2020 Rs. '000**	2019 Rs. '000
Total claims lodged	9,510	6,654
Total claims received	(4,775)	(3,619)
Total claims rejected	–	–
Total claims receivable	4,735	3,035

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,	**2020 Rs. '000**	2019 Rs. '000
Computer equipment	2,348,509	1,982,684
Office equipment, furniture and fixtures	2,983,424	2,652,359
Motor vehicles	58,828	54,870

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,	**2020 Rs. '000**	2019 Rs. '000
Computer equipment	160,704	214,063
Office equipment, furniture and fixtures	116,135	92,110

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,		**2020** **Rs. '000**	2019 Rs. '000
Computer equipment	Cost	**417,123**	343,177
	Depreciation	**400,671**	329,144
	NBV	**16,452**	14,033
Office equipment, furniture and fixtures	Cost	**182,898**	113,758
	Depreciation	**173,354**	109,372
	NBV	**9,544**	4,386

39.12 Borrowing costs

There were no capitalised borrowing costs related to the acquisition of property, plant and equipment during the year 2020 (2019 – 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.	**2020** **Rs. '000**	2019 Rs. '000	**2020** **Rs. '000**	2019 Rs. '000
Cost/Valuation						
Balance as at January 1,			**46,350**	–	**–**	–
Investment properties acquired on business combination	37.2.2	211	**–**	46,350	**–**	–
Additions resulting from acquisitions			**32,821**	–	**–**	–
Subsequent additions during the year			**41**	–	**–**	
Fair value gains/(losses)	21	186	**(12,096)**	–	**–**	–
Balance as at December 31,			**67,116**	46,350	**–**	–

The maturity analysis of investment properties is given in Note 61 on pages 251 to 253.

There were no capitalised borrowing cost related to the acquisition of Investment properties during the year 2020 (2019 – 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 – Land Rs. '000	Fair value of the investment property – Building Rs. '000	Carrying value of the investment property before fair valuation – Land Rs. '000	Carrying value of the investment property before fair valuation - Building Rs. '000
Commercial Insurance Brokers Private Ltd.							
No. 347, Dr Colvin R De Silva Mawatha, Colombo 2, Sri Lanka	1	–	8,616	–	42,750	–	46,350
C B C Finance Ltd							
Lot – 04, Plan No. 1652, Bulumulla, Kiribathkumbura	–	19	Bare Land	5,612	–	3,866	–
Lot – 01 , Land No. 1366, Boyagama, Pilimathalawa	–	312	Bare Land	18,754	–	28,996	–
Total	1			24,366	42,750	32,862	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: December 31, 2020

Name of professional valuer/ location and address	Method of valuation and significant unobservable inputs	Range of estimates for unobservable inputs	Carrying value of the investment property before fair valuation		Fair value of the investment property		Fair value gains/(losses) recognised in Income Statement	
			Land (Rs. '000)	Building (Rs. '000)	Land (Rs. '000)	Building (Rs. '000)	Land (Rs. '000)	Building (Rs. '000)
Commercial Insurance Brokers Private Ltd.								
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. 7,500 p.sq.ft. 30%	–	46,350	–	42,750	–	(3,600)
C B C Finance Ltd								
K M U Dissanayake, Lot – 04, Plan No. 1652, Bulumulla, Kiribathkumbura	Market comparable method ● Price per perch	Rs. 300,000 p.p.	3,866	–	5,612	–	1,746	–
Lot – 01, Land No. 1366, Boyagama, Pilimathalawa	Market comparable method ● Price per perch	Rs. 60,000 p.p.	28,996	–	18,754	–	(10,242)	–
Total			32,862	46,350	24,366	42,750	(8,496)	(3,600)

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 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 of land would increase/(decrease) Price per square foot for building would increase/(decrease) Depreciation rate for building would increase/(decrease)

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.

			GROUP		BANK	
As at December 31,	Note	Page No.	**2020** **Rs. '000**	2019 Rs. '000	**2020** **Rs. '000**	2019 Rs. '000
Computer software	41.1	227	773,768	824,816	659,590	712,596
Software under development	41.2	228	581,601	375,742	573,273	367,414
Goodwill arising on business combination			445,147	445,147	–	–
Trademarks			–	9	–	–
Total			1,800,516	1,645,714	1,232,863	1,080,010

41.1 Computer software

			GROUP		BANK	
	Note	Page No.	**2020** **Rs. '000**	2019 Rs. '000	**2020** **Rs. '000**	2019 Rs. '000
Cost/valuation						
Balance as at January 1,			2,522,952	2,134,021	2,293,819	1,948,436
Computer software acquired on business combination	37.2.2	211	–	17,328	–	–
Additions during the year			229,494	339,200	178,763	311,544
Disposals/write-off during the year			(280)	–	–	–
Exchange rate variance			13,062	(2,697)	2,979	(1,261)
Transfers/adjustments			24,700	35,100	24,700	35,100
Balance as at December 31,			2,789,928	2,522,952	2,500,261	2,293,819
Accumulated amortisation and impairment losses						
Balance as at January 1,			1,698,136	1,435,108	1,581,223	1,368,950
Accumulated amortisation assumed on business combination	37.2.2	211	–	11,526	–	–
Amortisation for the year	20	185	310,946	252,392	257,591	213,240
Impairment loss			–	–	–	–
Disposals/write-off during the year			(280)	–	–	–
Exchange rate variance			7,358	(890)	1,857	(967)
Transfers/adjustments			–	–	–	–
Balance as at December 31,			2,016,160	1,698,136	1,840,671	1,581,223
Net book value as at December 31,			773,768	824,816	659,590	712,596

41.2 Software under development

	GROUP		BANK	
	2020 **Rs. '000**	2019 Rs. '000	**2020** **Rs. '000**	2019 Rs. '000
Cost/valuation				
Balance as at January 1,	375,742	334,954	367,414	326,626
Additions during the year	230,559	75,888	230,559	75,888
Disposals during the year	–	–	–	–
Transfers/adjustments	(24,700)	(35,100)	(24,700)	(35,100)
Balance as at December 31,	581,601	375,742	573,273	367,414

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 2020 (2019 – Nil).

The maturity analysis of intangible assets is given in Note 61 on pages 251 to 253.

42. 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		BANK	
	2020 **Rs. '000**	2019 Rs. '000	**2020** **Rs. '000**	2019 Rs. '000
Recognised under deferred tax assets	2,735,566	530,165	2,499,860	294,059
Recognised under deferred tax liabilities	403,846	416,458	–	–
Summary of net deferred tax assets	2,331,720	113,707	2,499,860	294,059

42.1 Summary of net deferred tax assets

			GROUP				BANK			
			2020		2019		**2020**		2019	
	Note	Page No.	**Temporary difference Rs. '000**	**Tax effect Rs. '000**	Temporary difference Rs. '000	Tax effect Rs. '000	**Temporary difference Rs. '000**	**Tax effect Rs. '000**	Temporary difference Rs. '000	Tax effect Rs. '000
Balance as at January 1,			72,398	113,707	(2,965,274)	(782,937)	689,757	294,059	(2,490,485)	(646,248)
Deferred tax liabilities assumed on business combination	37.2.2	211	–	–	(317,443)	(88,884)	–	–	–	–
Amount (originating)/reversing to income statement	23	187	9,367,632	2,623,679	7,144,426	2,048,100	9,347,208	2,615,567	6,969,438	2,002,575
Amount (originating)/reversing to statement of profit or loss and other comprehensive income			(1,344,489)	(376,457)	(3,460,011)	(968,803)	(1,351,271)	(378,356)	(3,459,896)	(968,771)
Amount (originating)/reversing to retained earnings (Deferred tax on SLFRS 16 Transitional adjustment)			–	–	(205,811)	(57,627)	–	–	(205,811)	(57,627)
Amount (originating)/reversing to retained earnings on expired ESOP			(147,193)	(41,214)	(123,489)	(34,577)	(147,193)	(41,214)	(123,489)	(34,577)
Exchange rate variance			–	12,005	–	(1,565)	–	9,804	–	(1,293)
Balance as at December 31,			7,948,348	2,331,720	72,398	113,707	8,538,501	2,499,860	689,757	294,059

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42.2 Reconciliation of net deferred tax assets – Group

For the year ended/as at December 31,	Statement of financial position		Profit or loss		Other comprehensive income	
	2020	2019	**2020**	2019	**2020**	2019
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000	**Rs. '000**	Rs. '000
Deferred tax assets on:						
Defined benefit plans	630,597	640,669	(10,072)	100,858	–	–
Tax effect on actuarial losses on defined benefit plans	101,333	87,511	–	–	13,822	9,108
Unrealised gain/(loss) on financial assets measured at fair value through other comprehensive income	366,456	(175,938)	–	–	542,394	(1,001,084)
Leave encashment	119,304	134,209	(14,905)	3,385	–	–
Tax effect on actuarial losses on leave encashment	140,168	84,571	–	–	55,597	16,736
Equity-settled share-based payments	121,381	131,178	31,417	–	–	–
Impairment provision	6,461,234	4,049,843	2,411,391	1,222,829	–	–
Hedging reserve	39,865	14,923	–	–	24,942	24,264
Deferred tax on previous losses	–	28,089	(28,089)	(45,433)	–	–
Performance bonus	8,533	5,795	2,738	993	–	–
Deferred tax on specific provision	148,923	157,428	(8,505)	157,428	–	–
Operating leases	90,735	50,635	40,100	50,635	–	–
	8,228,529	5,208,913	2,424,075	1,490,695	636,755	(950,976)
Deferred tax liabilities on:						
Accelerated depreciation for tax purposes – Own assets	556,292	600,169	43,877	8,684	–	–
Accelerated depreciation for tax purposes – Leased assets	1,378,413	1,539,687	161,274	508,689	–	–
Revaluation surplus on freehold buildings	1,686,611	1,162,121	37,963	38,230	(562,453)	–
Revaluation surplus on freehold land (*)	2,220,359	1,772,750	–	–	(447,609)	–
Tax effect on actuarial gains on defined benefit plans	55,134	20,479	(31,082)	–	(3,573)	(17,590)
Effect of exchange rate variance	–	–	(12,428)	1,802	423	(237)
	5,896,809	5,095,206	199,604	557,405	(1,013,212)	(17,827)
Deferred tax effect on profit or loss and other comprehensive income for the year			2,623,679	2,048,100	(376,457)	(968,803)
Net deferred tax asset as at December 31,	2,331,720	113,707				

(*) 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.

42.3 Reconciliation of net deferred tax assets – Bank

For the year ended/as at December 31,	Statement of financial position		Profit or loss		Other comprehensive income	
	2020	2019	**2020**	2019	**2020**	2019
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000	**Rs. '000**	Rs. '000
Deferred tax assets on:						
Defined benefit plans	598,277	614,716	(16,439)	96,795	–	–
Tax effect on actuarial losses on defined benefit plans	100,911	87,167	–	–	13,744	9,108
Unrealised gain/(loss) on financial assets measured at fair value through other comprehensive income	366,288	(176,355)	–	–	542,643	(1,000,898)
Leave encashment	119,304	134,209	(14,905)	3,385	–	–
Tax effect on actuarial losses on leave encashment	140,168	84,571	–	–	55,597	16,736
Equity-settled share-based payments	121,381	131,178	31,417	–	–	–
Impairment provision	6,123,597	3,720,404	2,403,193	1,175,454	–	–
Hedging reserve	39,865	14,923	–	–	24,942	24,264
Deferred tax on specific provision	148,923	157,428	(8,505)	157,428	–	–
Operating leases	89,134	46,696	42,438	46,696	–	–
	7,847,848	4,814,937	2,437,199	1,479,758	636,926	(950,790)

For the year ended/as at December 31,	Statement of financial position		Profit or loss		Other comprehensive income	
	2020	2019	**2020**	2019	**2020**	2019
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000	**Rs. '000**	Rs. '000
Deferred tax liabilities on:						
Accelerated depreciation for tax purposes – Own assets	474,636	526,086	51,450	5,037	–	–
Accelerated depreciation for tax purposes – Leased assets	1,305,075	1,435,404	130,329	478,351	–	–
Revaluation surplus on freehold buildings	1,317,355	782,631	37,898	37,899	(572,622)	–
Revaluation surplus on freehold land (*)	2,194,104	1,756,155	–	–	(437,949)	–
Tax effect on actuarial gains on defined benefit plans	56,818	20,602	(31,082)	–	(5,134)	(17,744)
Effect of exchange rate variance	–	–	(10,227)	1,530	423	(237)
	5,347,988	4,520,878	178,368	522,817	(1,015,282)	(17,981)
Deferred tax effect on profit or loss and other comprehensive income for the year			2,615,567	2,002,575	(378,356)	(968,771)
Net deferred tax asset as at December 31,	2,499,860	294,059				

(*) As per the Inland Revenue Act No. 24 of 2017 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 assets given in Note 61 on pages 251 to 253.

43. Other assets

As at December 31,	GROUP		BANK	
	2020	2019	**2020**	2019
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
Receivables	63,195	101,395	63,195	101,395
Deposits and prepayments	1,298,651	1,540,458	1,275,498	1,540,811
Clearing account balance	5,001,397	5,005,006	5,001,397	5,005,006
Unamortised cost on staff loans (Day 1 difference)	4,965,361	4,886,941	4,965,361	4,886,941
Other accounts	8,866,549	11,910,069	8,313,698	11,788,094
Total	20,195,153	23,443,869	19,619,149	23,322,247

The maturity analysis of other assets is given in Note 61 on pages 251 to 253.

44. 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		BANK	
	2020	2019	**2020**	2019
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
Borrowings	85,263,031	50,717,387	84,466,281	48,415,656
Local currency borrowings	913,719	2,806,443	–	504,712
Foreign currency borrowings	84,349,312	47,910,944	84,466,281	47,910,944
Securities sold under repurchase (Repo) agreements (*)	2,985,025	3,090,038	2,985,025	3,090,038
Total	88,248,056	53,807,425	87,451,306	51,505,694

(*) 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 61 on pages 251 to 253.

45. 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.

			GROUP		BANK	
As at December 31,	Note	Page No.	**2020** **Rs. '000**	2019 Rs. '000	**2020** **Rs. '000**	2019 Rs. '000
Derivative financial liabilities – Held for trading						
Foreign currency derivatives			**1,358,886**	1,442,022	**1,358,886**	1,442,022
Currency swaps			**1,132,513**	1,140,261	**1,132,513**	1,140,261
Forward contracts			**216,709**	295,838	**216,709**	295,838
Spot contracts			**5,016**	5,923	**5,016**	5,923
Currency options			**4,648**	–	**4,648**	–
Derivative financial liabilities – Cash flow hedges held for risk management						
Interest rate swaps	45.1	231	**142,376**	53,295	**142,376**	53,295
Total			**1,501,262**	1,495,317	**1,501,262**	1,495,317

45.1 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. 64.139 Mn., (2019 – loss (net of tax) of Rs. 62.391 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 61 on pages 251 to 253.

46. 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,	**2020** **Rs. '000**	2019 Rs. '000	**2020** **Rs. '000**	2019 Rs. '000
Local currency deposits	**967,297,104**	800,224,277	**964,759,360**	800,688,240
Current account balances	**61,440,763**	43,981,795	**61,441,113**	44,009,507
Savings deposits	**345,520,769**	248,903,630	**345,795,367**	249,181,306
Time deposits	**560,306,283**	507,284,805	**557,493,591**	507,443,380
Certificates of deposit	**29,289**	54,047	**29,289**	54,047
Foreign currency deposits	**319,319,295**	268,758,310	**301,206,558**	252,619,420
Current account balances	**47,108,754**	31,851,740	**39,808,968**	23,694,078
Savings deposits	**97,540,150**	77,548,427	**93,773,096**	73,941,830
Time deposits	**174,670,391**	159,358,143	**167,624,494**	154,983,512
Total	**1,286,616,399**	1,068,982,587	**1,265,965,918**	1,053,307,660

46.1 Analysis of due to customers/deposits from customers

	GROUP		BANK	
As at December 31,	**2020** **Rs. '000**	2019 Rs. '000	**2020** **Rs. '000**	2019 Rs. '000
(a) By product				
Current account balances	108,549,517	75,833,535	101,250,081	67,703,585
Savings deposits	443,060,919	326,452,057	439,568,463	323,123,136
Time deposits	734,976,674	666,642,948	725,118,085	662,426,892
Certificates of deposit	29,289	54,047	29,289	54,047
Total	1,286,616,399	1,068,982,587	1,265,965,918	1,053,307,660
(b) By currency				
Sri Lankan Rupee	967,296,908	800,224,277	964,759,164	800,688,240
United States Dollar	188,476,649	150,545,610	177,515,480	138,953,807
Great Britain Pound	11,506,592	10,844,928	11,503,421	10,842,070
Euro	10,354,089	11,276,248	10,270,310	11,163,481
Australian Dollar	6,719,107	6,990,874	6,719,107	6,990,874
Bangladesh Taka	93,574,613	83,280,562	93,574,613	83,280,562
Maldivian Rufiyaa	7,037,885	4,476,756	–	–
Other currencies	1,650,556	1,343,332	1,623,823	1,388,626
Total	1,286,616,399	1,068,982,587	1,265,965,918	1,053,307,660
(c) By institution/customers				
Deposits from banks	2,740,854	2,731,885	2,837,563	2,731,885
Deposits from finance companies	7,924,439	5,632,555	7,664,420	5,448,671
Deposits from other customers	1,275,951,106	1,060,618,147	1,255,463,935	1,045,127,104
Total	1,286,616,399	1,068,982,587	1,265,965,918	1,053,307,660

The maturity analysis of financial liabilities at amortised cost – Due to depositors is given in Note 61 on pages 251 to 253.

47. Financial liabilities at amortised cost – Other borrowings

	GROUP		BANK	
As at December 31,	**2020** **Rs. '000**	2019 Rs. '000	**2020** **Rs. '000**	2019 Rs. '000
Refinance borrowings	33,159,015	7,917,888	33,159,015	7,917,888
Borrowings from International Finance Corporation (IFC)	21,396,918	15,331,005	21,396,918	15,331,005
Total	54,555,933	23,248,893	54,555,933	23,248,893

The maturity analysis of financial liabilities at amortised cost – Other borrowings is given in Note 61 on pages 251 to 253.

48. Current tax liabilities

			GROUP		BANK	
	Note	Page No.	**2020** **Rs. '000**	2019 Rs. '000	**2020** **Rs. '000**	2019 Rs. '000
Balance as at January 1,			5,197,188	6,735,997	4,967,644	6,566,358
Tax payable assumed on business combination	37.2.2	211	–	13,660	–	–
Provision for the year			10,178,040	8,600,747	9,866,955	8,308,597
Reversal of (over)/under provision	23	187	(121,298)	(989,148)	(113,565)	(991,884)
Self-assessment payments			(7,748,870)	(8,301,839)	(7,428,411)	(8,087,930)
Withholding tax/other credits			(585,419)	(841,251)	(580,871)	(805,060)
Exchange rate variance			71,364	(20,978)	66,240	(22,437)
Balance as at December 31,			6,991,005	5,197,188	6,777,992	4,967,644

The maturity analysis of current tax liabilities is given in Note 61 on pages 251 to 253.

49. Other liabilities

Accounting policy

Other liabilities include provisions made on 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 **2020** **Rs. '000**	GROUP 2019 Rs. '000	BANK **2020** **Rs. '000**	BANK 2019 Rs. '000
Accrued expenditure			3,076,619	2,112,034	3,003,243	2,016,803
Cheques sent on clearing			5,001,397	5,005,006	5,001,397	5,005,006
Lease liability	49.1	233	4,987,197	5,055,939	4,939,273	5,146,689
Provision for gratuity payable	49.2 (b)	234	1,842,918	2,114,432	1,719,971	2,020,984
Provision for unfunded pension scheme	49.3 (b)	235	280,530	257,031	280,530	257,031
Provision for leave encashment	49.4 (b)	236	926,686	781,362	926,686	781,362
Payable on oil hedging transactions			1,160,141	1,127,571	1,160,141	1,127,571
Impairment provision in respect of off-balance sheet credit exposures	58.3 (a) & 58.3 (b)	250	2,120,258	1,320,080	2,116,849	1,316,837
Other payables			14,176,537	13,002,429	13,889,579	12,824,426
Total			33,572,283	30,775,884	33,037,669	30,496,709

The maturity analysis of other liabilities is given in Note 61 on pages 251 to 253.

49.1 Lease liability

	Note	Page No.	GROUP **2020** **Rs. '000**	GROUP 2019 Rs. '000	BANK **2020** **Rs. '000**	BANK 2019 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 SLFRS 16			5,055,939	4,418,459	5,146,689	4,594,604
Additions			551,253	1,294,192	496,145	1,294,192
Exchange rate variance			60,460	(36,971)	52,316	(34,216)
Accretion of interest	13.2	179	435,754	429,263	452,304	457,449
Payments			(1,116,209)	(1,049,004)	(1,208,181)	(1,165,340)
Balance as at December 31,			4,987,197	5,055,939	4,939,273	5,146,689

The maturity analysis of lease liability is given in Note 61 on pages 251 to 253.

49.1 (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, 2020.

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	(154,808)	35,945	(148,164)	31,211
1% decrease in incremental borrowing rate	164,089	(38,757)	157,154	(33,665)

49.1 (b) Undiscounted cash flow

The followng table illustrates the maturity analysis of the lease liability on the basis of undiscounted cash flows.

As at December 31,	BANK **2020** **Rs. '000**	BANK 2019 Rs. '000
Less than one year	1,191,223	1,210,108
Between one to five years	3,968,076	4,133,391
Over five years	1,588,791	1,745,260
Total	6,748,090	7,088,759

49.2 Provision for gratuity payable

An actuarial valuation of the retirement gratuity payable was carried out as at December 31, 2020 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".

49.2 (a) Actuarial assumptions

Type of assumption	Criteria	Description
Demographic	Mortality – in service	A 1967-70 Mortality table issued by the Institute of Actuaries, London
	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, 2019) to determine the liabilities of the active employees in the gratuity, were used in the actuarial valuation carried out as at December 31, 2020.
	Normal retirement age	The employees who are aged over the specified retirement age have been assumed to retire on their respective next birthdays.
	Weighted average duration of defined benefit obligation	19 Years
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 8.00% p.a. (2019 – 10.50% p.a.) has been used to discount future liabilities considering anticipated long term rate of inflation.
		Bangladesh operation In the absence of long-term high quality corporate bonds or government bonds with the term that matches liabilities a long-term interest rate of 7.00% p.a. (2019 - 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 8.00% p.a. (2019 – 10.00% p.a.) has been used in respect of the active employees.
		Bangladesh operation A salary increment of 9.00% p.a. (2019 – 10.00% p.a.) has been used in respect of the active employees.

49.2 (b) Movement in the provision for gratuity payable

			GROUP		BANK	
	Note	Page No.	**2020** **Rs. '000**	2019 Rs. '000	**2020** **Rs. '000**	2019 Rs. '000
Balance as at January 1,			2,114,432	1,778,016	2,020,984	1,726,920
Gratuity payable assumed on business combination	37.2.2	211	–	30,253	–	–
Expense recognised in the Income Statement	49.2 (c)	234	207,998	457,642	183,807	442,022
Exchange rate variance			10,758	(5,750)	10,758	(5,750)
Amount paid during the year			(489,137)	(80,511)	(486,518)	(76,440)
Actuarial (gains)/losses recognised in other comprehensive income			(1,133)	(65,218)	(9,060)	(65,768)
Balance as at December 31,			**1,842,918**	2,114,432	**1,719,971**	2,020,984

49.2 (c) Expense recognised in the Income Statement – Gratuity

	GROUP		BANK	
For the year ended December 31,	**2020** **Rs. '000**	2019 Rs. '000	**2020** **Rs. '000**	2019 Rs. '000
Interest cost	153,018	192,671	143,141	185,649
Current service cost	54,980	264,971	40,666	256,373
Total	**207,998**	457,642	**183,807**	442,022

49.2 (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, 2020.

	GROUP	BANK
Variable	**Sensitivity effect on Statement of Financial Position (Benefit obligation)** **Rs. '000**	**Sensitivity effect on Statement of Financial Position (Benefit obligation)** **Rs. '000**
1% increase in discount rate	(43,044)	(35,152)
1% decrease in discount rate	49,669	40,765
1% increase in salary	50,552	41,426
1% decrease in salary	(44,651)	(36,421)

49.3 Provision for unfunded pension scheme

An actuarial valuation of the unfunded pension liability was carried out as at December 31, 2020 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".

49.3 (a) Actuarial assumptions

Type of assumption	Criteria	Description
Demographic	Mortality – in service	A 1967-70 Mortality table issued by the Institute of Actuaries, London
	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, 2019) to determine the liabilities of the active employees in the funded scheme, were used in the actuarial valuation carried out as at December 31, 2020.
	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 8.00% p.a. (2019 – 10.50% p.a.) has been used to discount future liabilities considering anticipated long-term rate of inflation.
	Salary increases	A salary increment of 8.00% p.a. (2019 – 10.00% 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.

49.3 (b) Movement in the provision for unfunded pension scheme

			GROUP		BANK	
	Note	Page No.	**2020** **Rs. '000**	2019 Rs. '000	**2020** **Rs. '000**	2019 Rs. '000
Balance as at January 1,			257,031	242,819	257,031	242,819
Expense recognised in the Income Statement	49.3 (c)	235	26,988	27,924	26,988	27,924
Amount paid during the year			(48,692)	(48,789)	(48,692)	(48,789)
Transfers			–	–	–	–
Actuarial (gains)/losses recognised in other comprehensive income			45,203	35,077	45,203	35,077
Balance as at December 31,			280,530	257,031	280,530	257,031

49.3 (c) Expense recognised in the Income Statement – Unfunded pension scheme

	GROUP		BANK	
For the year ended December 31,	**2020** **Rs. '000**	2019 Rs. '000	**2020** **Rs. '000**	2019 Rs. '000
Interest cost	26,988	27,924	26,988	27,924
Total	26,988	27,924	26,988	27,924

49.3 (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, 2020.

	GROUP	BANK
Variable	**Sensitivity effect on Statement of Financial Position (Benefit obligation)** **Rs. '000**	**Sensitivity effect on Statement of Financial Position (Benefit obligation)** **Rs. '000**
1% increase in discount rate	(12,842)	(12,842)
1% decrease in discount rate	14,129	14,129
1% increase in salary	–	–
1% decrease in salary	–	–

49.4 Provision for leave encashment

An actuarial valuation of the leave encashment liability was carried out as at December 31, 2020 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".

49.4 (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 8.00% p.a. (2019 – 10.50% p.a.) has been used to discount future liabilities considering anticipated long-term rate of inflation.
	Salary increases	A salary increment of 8.00% p.a. (2019 – 10.00% p.a.) has been used in respect of the active employees.

49.4 (b) Movement in the provision for leave encashment

			GROUP		BANK	
	Note	Page No.	**2020** **Rs. '000**	2019 Rs. '000	**2020** **Rs. '000**	2019 Rs. '000
Balance as at January 1,			781,362	709,495	781,362	709,495
Expense recognised in the Income Statement	49.4 (c)	236	82,043	81,592	82,043	81,592
Amount paid during the year			(135,277)	(69,499)	(135,277)	(69,499)
Actuarial (gains)/losses recognised in other comprehensive income			198,558	59,774	198,558	59,774
Balance as at December 31,			926,686	781,362	926,686	781,362

49.4 (c) Expense recognised in the Income Statement – Leave encashment

	GROUP		BANK	
For the year ended December 31,	**2020** **Rs. '000**	2019 Rs. '000	**2020** **Rs. '000**	2019 Rs. '000
Interest cost	82,043	81,592	82,043	81,592
Current service cost	–	–	–	–
Total	82,043	81,592	82,043	81,592

49.4 (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, 2020.

	GROUP	BANK
Variable	**Sensitivity effect on Statement of Financial Position (Benefit obligation) Rs. '000**	**Sensitivity effect on Statement of Financial Position (Benefit obligation) Rs. '000**
1% increase in discount rate	(113,523)	(113,523)
1% decrease in discount rate	138,846	138,846
1% increase in salary	141,729	141,729
1% decrease in salary	(117,760)	(117,760)

49.5 Employee retirement benefit

49.5.1 Pension fund – Defined benefit plan

An actuarial valuation of the Retirement Pension Fund was carried out as at December 31, 2020 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.

49.5.1 (a) Actuarial assumptions

Type of assumption	Criteria	Description
Demographic	Mortality – in service	A 1967-70 Mortality table issued by the Institute of Actuaries, London
	After retirement	A (90) Annuities table (Males and Females) issued by the Institute of Actuaries, London
	Staff turnover	The withdrawal rate at an age represents the probability of an active employee leaving within one year of that age due to reasons other than death, ill health and normal retirement. The same withdrawal rates which were used in the last valuation (as at December 31, 2019) 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, 2020.
	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 8.00% p.a. (2019 – 10.50% p.a.) has been used to discount future liabilities considering anticipated long-term rate of inflation.
	Salary increases	A salary increment of 8.00% p.a. (2019 – 10.00% 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.

49.5.1 (b) Movement in the present value of defined benefit obligation – Bank

	2020 **Rs. '000**	2019 Rs. '000
Balance as at January 1,	247,761	217,829
Interest cost	26,015	25,050
Current service cost	3,913	4,400
Benefits paid during the year	(19,405)	(19,101)
Actuarial (gains)/losses	36,401	19,583
Balance as at December 31,	**294,685**	247,761

49.5.1 (c) Movement in the fair value of plan assets

	2020 **Rs. '000**	2019 Rs. '000
Fair value as at January 1,	214,198	204,860
Expected return on plan assets	22,491	23,559
Contribution paid into plan	33,563	2,145
Benefits paid by the plan	(19,405)	(19,101)
Actuarial gains/(losses) on plan assets	4,770	2,735
Fair value as at December 31,	**255,617**	214,198

49.5.1 (d) Liability recognised in the Statement of Financial Position

	Note	Page No.	**2020** **Rs. '000**	2019 Rs. '000
Present value of defined benefit obligations as at December 31,	49.5.1 (b)	237	294,685	247,761
Fair value of plan assets	49.5.1 (c)	237	(255,617)	(214,198)
Net liability recognised under other liabilities			**39,068**	33,563

49.5.1 (e) Plan assets consist of the following:

	2020 Rs. '000	2019 Rs. '000
Deposits held with the Bank	255,617	214,198
Total	255,617	214,198

49.5.2 W&OP Fund – Defined benefit plan

An actuarial valuation of the Retirement Pension W&OP Fund was carried out as at December 31, 2020 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.

49.5.2 (a) Actuarial assumptions

Type of assumption	Criteria	Description
Demographic	Mortality – In service	A 1967-70 Mortality table issued by the Institute of Actuaries, London
	After retirement	A (90) Annuities table (Males and Females) issued by the Institute of Actuaries, London
	Staff turnover	The withdrawal rate at an age represents the probability of an active employee leaving within one year of that age due to reasons other than death, ill health and normal retirement. The same withdrawal rates which were used in the last valuation (as at December 31, 2019) 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, 2020.
	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 8.00% p.a. (2019 – 10.50% p.a.) has been used to discount future liabilities considering anticipated long-term rate of inflation.
	Salary increases	A salary increment of 8.00% p.a. (2019 – 10.00% 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.

49.5.2 (b) Movement in the present value of defined benefit obligation – Bank

	2020 Rs. '000	2019 Rs. '000
Balance as at January 1,	68,860	61,287
Interest cost	7,230	7,048
Current service cost	450	415
Transfers	–	–
Benefits paid during the year	(5,938)	(5,786)
Actuarial (gains)/losses	27,614	5,896
Balance as at December 31,	98,216	68,860

49.5.2 (c) Movement in the fair value of plan assets

	2020 Rs. '000	2019 Rs. '000
Fair value as at January 1,	56,053	66,848
Expected return on plan assets	5,886	7,687
Contribution paid into plan	12,805	280
Benefits paid by the plan	(5,938)	(5,786)
Actuarial gains/(losses) on plan assets	6,278	(12,976)
Fair value as at December 31,	75,084	56,053

49.5.2 (d) Liability recognised in the Statement of Financial Position

	Note	Page No.	2020 Rs. '000	2019 Rs. '000
Present value of defined benefit obligations as at December 31,	49.5.2 (b)	238	98,216	68,860
Fair value of plan assets	49.5.2 (c)	238	(75,084)	(56,053)
Net liability recognised under other liabilities			23,132	12,807

49.5.2 (e) Plan assets consist of the following:

	2020 Rs. '000	2019 Rs. '000
Deposits held with the Bank	75,084	56,053
Total	75,084	56,053

49.5.3 Pension fund – Defined contribution plan

During 2006, the Bank restructured its pension scheme which was a Defined Benefit Plan (DBP) to a Defined 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 10.00% 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.

49.5.3 (a) Pension fund – Defined contribution plan - 2020

The Bank converted its gratuity scheme of Sri Lankan operations, which was a Defined Benefit Plan (DBP), to a Defined Contribution Plan (DCP) during the year. Refer Note 7.8.2.4 on page 173 for further details.

50. Due to subsidiaries

	GROUP		BANK	
As at December 31,	2020 Rs. '000	2019 Rs. '000	2020 Rs. '000	2019 Rs. '000
Local subsidiaries				
Commercial Development Company PLC	–	–	31,079	19,724
CBC Tech Solutions Limited	–	–	65,936	34,568
CBC Finance Limited	–	–	–	–
Commercial Insurance Brokers (Private) Limited			–	–
Subtotal	–	–	97,015	54,292
Foreign subsidiaries				
Commex Sri Lanka S.R.L. – Italy	–	–	–	–
Commercial Bank of Maldives Private Limited	–	–	–	–
CBC Myanmar Microfinance Company Limited	–	–	–	–
Subtotal	–	–	–	–
Total	–	–	97,015	54,292

The maturity analysis of Due to subsidiaries is given in Note 61 on pages 251 to 253.

51. 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.

			GROUP		BANK	
	Note	Page No.	**2020** **Rs. '000**	2019 Rs. '000	**2020** **Rs. '000**	2019 Rs. '000
Balance as at January 1,			**36,810,680**	36,904,430	**36,810,680**	36,904,430
Amount borrowed during the year			**–**	–	**–**	–
Repayments/redemptions during the year			**–**	–	**–**	–
Subtotal			**36,810,680**	36,904,430	**36,810,680**	36,904,430
Exchange rate variance			**393,750**	(93,750)	**393,750**	(93,750)
Balance as at December 31, (before adjusting for amortised interest and transaction cost)	51.1	240	**37,204,430**	36,810,680	**37,204,430**	36,810,680
Unamortised transaction cost			**(27,473)**	(39,174)	**(27,473)**	(39,174)
Net effect of amortised interest payable			**1,070,181**	1,115,283	**1,070,181**	1,115,283
Adjusted balance as at December 31,			**38,247,138**	37,886,789	**38,247,138**	37,886,789

51.1 Categories of subordinated liabilities

Categories	Colombo Stock Exchange Listing	Interest payable frequency	Allotment date	Maturity date	Effective annual yield		GROUP		BANK	
					2020 **%**	2019 %	**2020** **Rs. '000**	2019 Rs. '000	**2020** **Rs. '000**	2019 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	**6.005**	8.388	**14,025,000**	13,631,250	**14,025,000**	13,631,250
Total							**37,204,430**	36,810,680	**37,204,430**	36,810,680

51.2 Subordinated liabilities by maturity

	GROUP		BANK	
As at December 31,	**2020** **Rs. '000**	2019 Rs. '000	**2020** **Rs. '000**	2019 Rs. '000
Payable within one year	**9,502,140**	–	**9,502,140**	–
Payable after one year	**27,702,290**	36,810,680	**27,702,290**	36,810,680
Total	**37,204,430**	36,810,680	**37,204,430**	36,810,680

In the event of the winding-up of the issuer, the above liabilities would be subordinated to the claims of depositors and all other creditors of the issuer. The Bank has not had any defaults of principal, interest, or other breaches with respect to its subordinated liabilities during the year ended December 31, 2020.

The maturity analysis of subordinated liabilities is given in Note 61 on pages 251 to 253.

52. Stated capital

Accounting policy

Ordinary shares in the Bank are recognised at the amount paid per ordinary share net of directly attributable issue cost.

			GROUP		BANK	
	Note	Page No.	**2020** **Rs. '000**	2019 Rs. '000	**2020** **Rs. '000**	2019 Rs. '000
Balance as at January 1,			40,916,958	39,147,882	40,916,958	39,147,882
Proceeds on issue of ordinary voting shares to IFC parties (Private placement)			9,215,775	–	9,215,775	–
Issue of ordinary voting shares under the employee share option plan			–	30,128	–	30,128
Transfer from employee share option reserve	56.5	247	–	–	–	–
Issue of ordinary shares as part of the final dividend satisfied in the form of issue and allotment of new shares			2,055,014	1,738,948	2,055,014	1,738,948
Ordinary voting shares			1,922,505	1,627,125	1,922,505	1,627,125
Ordinary non-voting shares			132,509	111,823	132,509	111,823
Balance as at December 31,			52,187,747	40,916,958	52,187,747	40,916,958

52.1 Movement in number of shares

	Number of ordinary voting shares		Number of ordinary non-voting shares	
	2020	2019	**2020**	2019
Balance as at January 1,	961,252,317	945,709,403	66,254,269	65,013,174
Issue of ordinary voting shares to IFC parties (Private placement)	115,197,186	–	–	–
Issue of ordinary voting shares under the employee share option plan	–	293,385	–	–
Issue of ordinary shares as part of the final dividend satisfied in the form of issue and allotment of new shares	22,485,434	15,249,529	1,716,432	1,241,095
Balance as at December 31,	1,098,934,937	961,252,317	67,970,701	66,254,269

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.

At present there are two employee share option plans. Please refer Note 53 for details.

53. Share-based payment

53.1 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%	1.00%
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
Options granted to other executive officers	4,161,150	4,167,461	9,312,978
Total options vested on the date of vesting	4,220,765	4,228,861	9,451,610
Options cancelled due to non-acceptance	(3,228,021)	(4,048,728)	–
Number of options exercised up to December 31, 2020	(992,744)	(180,133)	–
Number of options to be exercised as at December 31, 2020	–	–	9,451,610

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.

53.2 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.

53.3 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	**2020**	2019	**2020**	2019	**2020**	2019
No. of voting shares vested and to be vested as at January 1,	–	3,228,021	4,048,728	4,048,728	9,451,610	9,451,610
Exercised during the year	–	–	–	–	–	–
Number of options expired	–	(3,228,021)	(4,048,728)	–	–	–
No. of voting shares vested and to be vested as at December 31,	–	–	–	4,048,728	9,451,610	9,451,610

53.4 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].

Employee Share Option Plan – 2019

The Bank obtained the approval of the shareholders at an Extraordinary General Meeting held on January 30, 2020, to introduce an Employee Share Option Plan for the benefit of all Executive Officers in Grade 1A and above by creating up to 2% of the ordinary voting shares at the rate of 0.5% shares in the first two years and 1% shares in the last year over a period of three to five years, upon the Bank achieving specified performance targets. The performance conditions include minimum performance targets over the budget and over the industry peers and the service conditions include the fulfilment of the minimum service period 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%	1.00%
Date granted	January 30, 2020	January 30, 2020	January 30, 2020
Exercise price (Rs.)	91.65	85.13	To be decided
Exercisable between	July 01, 2020 to June 30, 2023	October 01, 2020 to September 30, 2023	October 01, 2021 to September 30, 2024
Date of vesting	June 30, 2020	September 30, 2020	September 30, 2021
Vesting conditions	6 Months of service from the grant date and the fulfilment of performance conditions stated above for the Financial Year 2018	6 Months of service from the grant date and the fulfilment of performance conditions stated above for the Financial Year 2019	6 Months of service from the grant date and the fulfilment of performance conditions stated above for the Financial Year 2020
Number of options vested on the date of vesting			
Options granted to key management personnel	89,187	99,010	–
Option granted to other executive officers	4,716,598	4,706,872	–
Total options vested on the date of vesting	4,805,785	4,805,882	–
Options cancelled due to non-acceptance	–	–	–
Number of options exercised up to December 31, 2020	–	–	–
Number of options to be exercised as at December 31, 2020	4,805,785	4,805,882	–

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.

53.5 Measurement of fair value

As required by SLFRS 2 on "Share-based Payment", the fair value of the ESOP 2019 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 2019 were as follows:

	Tranches		
Description of the valuation input	Tranche I	Tranche II	Tranche III
Expected dividend rate (%)	4.31	4.31	4.31
Risk free rate (%)	8.22	8.22	8.22
Probability of share price increase (%)	55.00	55.00	55.00
Probability of share price decrease (%)	45.00	45.00	45.00
Size of annual increase of share price (%)	19.00	19.00	19.00
Size of annual reduction in share price (%)	(12.00)	(12.00)	(12.00)
Original expected exercise price (Rs.)	100.22	100.74	101.45

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.

53.6 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	91.65		85.13		To be decided	
Year	**2020**	2019	**2020**	2019	**2020**	2019
No. of voting shares vested and to be vested as at January 1,	–	–	–	–	–	–
Granted during the year	4,805,785		4,805,882	–	–	–
Exercised during the year	–	–	–	–	–	–
Number of options expired	–	–	–	–	–	–
No. of voting shares vested and to be vested as at December 31,	4,805,785	–	4,805,882	–	–	–

53.7 Expense recognised in Income Statement

The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date, reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. Accordingly, the expense in the Income Statement represents the movement in cumulative expense recognised as at the beginning and end of that period and is recognised in employee benefits expense [Refer Note 19 on page 185].

54. 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 54, 55 and 56 on pages 244 to 248.

			GROUP		BANK	
As at December 31,	Note	Page No.	**2020** **Rs. '000**	2019 Rs. '000	**2020** **Rs. '000**	2019 Rs. '000
Statutory reserve fund	54.1	245	9,285,233	8,387,701	9,024,065	8,205,391
Total			9,285,233	8,387,701	9,024,065	8,205,391

54.1 Statutory reserve fund

As at December 31,	GROUP 2020 Rs. '000	GROUP 2019 Rs. '000	BANK 2020 Rs. '000	BANK 2019 Rs. '000
Balance as at January 1,	8,387,701	7,444,178	8,205,391	7,354,143
Transfers made during the year	959,230	1,017,536	818,674	851,248
Statutory reserve attributable to non-controlling interest	(61,698)	(74,013)	–	–
Balance as at December 31,	**9,285,233**	8,387,701	**9,024,065**	8,205,391

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.

55. Retained earnings

	Note	Page No.	GROUP 2020 Rs. '000	GROUP 2019 Rs. '000	BANK 2020 Rs. '000	BANK 2019 Rs. '000
Balance as at January 1,			5,182,185	4,949,955	5,144,433	5,063,076
Impact of adopting SLFRS 16			–	(57,627)	–	(57,627)
Balance as at January 1, – Adjusted			5,182,185	4,892,328	5,144,433	5,005,449
Total comprehensive income			16,714,932	17,205,859	16,152,169	16,968,027
Profit for the year			16,939,950	17,263,259	16,373,489	17,024,967
Other comprehensive income, net of tax			(225,018)	(57,400)	(221,320)	(56,940)
Dividends paid			(5,137,534)	(6,596,161)	(5,137,534)	(6,596,161)
Unclaimed dividend absorbed/(dividend paid) in respect of previous years			100	(350)	(114)	(547)
Transfer of cost o/a of expired ESOP Shares (net of tax)			105,980	88,913	105,980	88,913
Transfers to other reserves			(8,747,532)	(10,413,523)	(8,668,674)	(10,321,248)
Profit on sale of partial disposal of a subsidiary			–	14,498	–	–
Reinstatement of non-controlling interest due to partial disposal of a subsidiary			–	(9,379)	–	–
Movement due to change in ownership			6,130	–	–	–
Balance as at December 31,			**8,124,261**	5,182,185	**7,596,260**	5,144,433

56. Other reserves

56. (a) Current year – 2020

	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	56.1	246	7,837,785	2,666,983	10,504,768	7,088,054	2,574,858	9,662,912
General reserve	56.2	246	67,120,003	7,850,000	74,970,003	67,120,003	7,850,000	74,970,003
Fair value reserve	56.3	247	1,783,503	(1,319,619)	463,884	1,785,441	(1,323,110)	462,331
Foreign currency translation reserve	56.4	247	2,765,992	559,932	3,325,924	2,471,983	439,883	2,911,866
Employee share option reserve	56.5	247	468,494	(34,991)	433,503	468,494	(34,991)	433,503
Hedging reserve	56.6	248	(38,372)	(64,139)	(102,511)	(38,372)	(64,139)	(102,511)
Total			79,937,405	9,658,166	89,595,571	78,895,603	9,442,501	88,338,104

56. (b) Previous year – 2019

			GROUP			BANK		
	Note	Page No.	Balance as at January 1, Rs. '000	Movement/ transfers Rs. '000	Balance as at December 31, Rs. '000	Balance as at January 1, Rs. '000	Movement/ transfers Rs. '000	Balance as at December 31, Rs. '000
Revaluation reserve	56.1	246	7,819,131	18,654	7,837,785	7,088,054	–	7,088,054
General reserve	56.2	246	57,650,003	9,470,000	67,120,003	57,650,003	9,470,000	67,120,003
Fair value reserve	56.3	247	(1,386,355)	3,169,858	1,783,503	(1,384,982)	3,170,423	1,785,441
Foreign currency translation reserve	56.4	247	3,157,052	(391,060)	2,765,992	2,871,770	(399,787)	2,471,983
Employee share option reserve	56.5	247	591,984	(123,490)	468,494	591,984	(123,490)	468,494
Hedging reserve	56.6	248	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

56.1 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	
	2020 Rs. '000	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000
Balance as at January 1,	**7,837,785**	7,819,131	**7,088,054**	7,088,054
Surplus on revaluation of freehold land and buildings	**3,672,202**	–	**3,585,430**	–
Deferred tax effect on revaluation surplus on freehold land and buildings	**(1,009,733)**	–	**(1,010,572)**	–
Revaluation gain on disposal of freehold land and buildings	**–**	–	**–**	–
Share of other comprehensive income of associate	**–**	39,575	**–**	–
Movement due to change in ownership	**4,514**	(20,921)	**–**	–
Balance as at December 31,	**10,504,768**	7,837,785	**9,662,912**	7,088,054

56.2 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	
	2020 Rs. '000	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000
Balance as at January 1,	**67,120,003**	57,650,003	**67,120,003**	57,650,003
Transfers during the year	**7,850,000**	9,470,000	**7,850,000**	9,470,000
Balance as at December 31,	**74,970,003**	67,120,003	**74,970,003**	67,120,003

56.3 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	
	2020 **Rs. '000**	2019 Rs. '000	**2020** **Rs. '000**	2019 Rs. '000
Balance as at January 1,	1,783,503	(1,386,355)	1,785,441	(1,384,982)
Net fair value gains/(losses) on remeasuring financial assets at fair value through other comprehensive income	(1,323,055)	3,170,800	(1,323,110)	3,170,423
Share of other comprehensive income of associate	3,436	(942)	–	–
Balance as at December 31,	463,884	1,783,503	462,331	1,785,441

56.4 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	
	2020 **Rs. '000**	2019 Rs. '000	**2020** **Rs. '000**	2019 Rs. '000
Balance as at January 1,	2,765,992	3,157,052	2,471,983	2,871,770
Net gains/(losses) arising from translating the Financial Statements of foreign operations	596,723	(396,201)	439,883	(399,787)
Foreign Currency Translation Reserve attributable to non-controlling Interest	(36,791)	5,141	–	–
Balance as at December 31,	3,325,924	2,765,992	2,911,866	2,471,983

56.5 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	
	Note	Page No.	**2020** **Rs. '000**	2019 Rs. '000	**2020** **Rs. '000**	2019 Rs. '000
Balance as at January 1,			468,494	591,984	468,494	591,984
Transfers during the year	19	185	112,203	–	112,203	–
Transfers to stated capital	52	241	–	–	–	–
Transfer to retained earnings on expired ESOP			(147,194)	(123,490)	(147,194)	(123,490)
Balance as at December 31,			433,503	468,494	433,503	468,494

56.6 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	
	2020 **Rs. '000**	2019 Rs. '000	**2020** **Rs. '000**	2019 Rs. '000
Balance as at January 1,	(38,372)	24,019	(38,372)	24,019
Transfers during the year	(64,139)	(62,391)	(64,139)	(62,391)
Balance as at December 31,	(102,511)	(38,372)	(102,511)	(38,372)

57. 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 40%) and Commercial Bank of Maldives Private Limited (NCI of 45%) as at the reporting date as follows:

	2020 **Rs. '000**	2019 Rs. '000
Balance as at January 1,	1,589,234	1,198,981
Profit for the year	146,847	157,137
Other comprehensive income, net of tax	46,456	(5,077)
Dividends paid for the year	(16,020)	(5,010)
Unclaimed dividend absorbed/(dividend paid) in respect of previous years	24	22
Reinstatement of non-controlling interest due to partial disposal of a subsidiary	(10,644)	30,300
Acquisition of subsidiary with non-controlling interest	–	212,881
Balance as at December 31,	1,755,897	1,589,234

58. 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.

In the normal course of business, the Bank makes various irrevocable commitments and incurs certain contingent liabilities with legal recourse to its customers.

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 58.1 on page 249.

As at December 31,	Note	Page No.	GROUP		BANK	
			2020	2019	**2020**	2019
			Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
Contingencies			**599,110,072**	470,935,864	**598,121,484**	470,624,684
Guarantees			**65,796,764**	58,619,708	**65,581,771**	58,463,720
Performance bonds			**38,047,779**	38,704,636	**37,957,159**	38,606,887
Documentary credits			**75,498,646**	52,361,670	**74,875,507**	52,317,807
Other contingencies	58.1	249	**419,766,883**	321,249,850	**419,707,047**	321,236,270
Commitments			**131,451,613**	110,025,943	**130,590,214**	109,374,589
Undrawn commitments on direct advances			**130,418,187**	109,676,108	**129,571,427**	109,046,521
Capital commitments	58.2	249	**1,033,426**	349,835	**1,018,787**	328,068
Total			**730,561,685**	580,961,807	**728,711,698**	579,999,273

58.1 Other contingencies

As at December 31,	GROUP		BANK	
	2020	2019	**2020**	2019
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
Forward exchange contracts:	**86,003,856**	57,627,084	**86,003,856**	57,627,084
Forward exchange sales	**63,965,641**	30,265,726	**63,965,641**	30,265,726
Forward exchange purchases	**22,038,215**	27,361,358	**22,038,215**	27,361,358
Currency swaps/currency options:	**221,408,936**	188,772,874	**221,408,936**	188,772,874
Currency swaps	**220,259,925**	188,772,874	**220,259,925**	188,772,874
Currency options	**1,149,011**	–	**1,149,011**	–
Others:	**112,354,091**	74,849,892	**112,294,255**	74,836,312
Acceptances	**64,371,311**	44,018,170	**64,369,512**	44,007,816
Bills for collection	**46,389,435**	29,272,988	**46,331,398**	29,269,762
Bullion on consignment	**14,545**	11,344	**14,545**	11,344
Other contingencies	**1,578,800**	1,547,390	**1,578,800**	1,547,390
Subtotal	**419,766,883**	321,249,850	**419,707,047**	321,236,270

58.2 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:

As at December 31,	GROUP		BANK	
	2020	2019	**2020**	2019
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
Commitments in relation to property, plant and equipment	**548,170**	134,473	**533,531**	112,706
Approved and contracted for	**382,670**	97,273	**368,031**	75,506
Approved but not contracted for	**165,500**	37,200	**165,500**	37,200
Commitments in relation to intangible assets	**485,256**	215,362	**485,256**	215,362
Approved and contracted for	**485,256**	215,362	**485,256**	215,362
Approved but not contracted for	**–**	–	**–**	–
Subtotal	**1,033,426**	349,835	**1,018,787**	328,068

58.3 Movement in provision for impairment during the year

58.3 (a) Group

			Stage 1		Stage 2		Stage 3		Total	
	Note	Page No.	**2020 Rs. '000**	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000
Balance as at January 1,			768,100	528,932	187,237	89,177	364,743	108,531	1,320,080	726,640
Charge/(write back) to the Income Statement	18.1	184	767,211	239,399	57,245	98,060	(25,067)	256,212	799,389	593,671
Exchange rate variance on foreign currency provisions			789	(231)	–	–	–	–	789	(231)
Balance as at December 31,			1,536,100	768,100	244,482	187,237	339,676	364,743	2,120,258	1,320,080

58.3 (b) Bank

			Stage 1		Stage 2		Stage 3		Total	
	Note	Page No.	**2020 Rs. '000**	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000
Balance as at January 1,			764,857	528,932	187,237	89,177	364,743	108,531	1,316,837	726,640
Charge/(write back) to the Income Statement	18.2	185	767,138	236,209	57,245	98,060	(25,067)	256,212	799,316	590,481
Exchange rate variance on foreign currency provisions			696	(284)	–	–	–	–	696	(284)
Balance as at December 31,			1,532,691	764,857	244,482	187,237	339,676	364,743	2,116,849	1,316,837

58.4 Contingent liabilities and commitments of subsidiaries and associates

58.4 (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.

58.4 (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. (As at December 31, 2019 – Nil)

59. Net assets value per ordinary share

	GROUP		BANK	
As at December 31,	**2020**	2019	**2020**	2019
Amounts used as the numerator:				
Total equity attributable to equity holders of the Bank (Rs. '000)	159,192,812	134,424,249	157,146,176	133,162,385
Number of ordinary shares used as the denominator:				
Total number of shares	1,166,905,638	1,027,506,586	1,166,905,638	1,027,506,586
Net assets value per share (Rs.)	136.42	130.83	134.67	129.60

60. 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.

All legal cases against the Bank have been tabled at the Board Integrated Risk Management Committee and the progress has been discussed. Accordingly, set out below are the unresolved legal claims against the Bank as at December 31, 2020 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
A Bank	Hedging Transaction	Commercial High Court 571/2008 MR	1,500,000	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.	Plaintiff has preferred an appeal to the Supreme Court against the judgment.
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.	Trial was concluded. Written submissions are due on January 18, 2021.
Customer	Recovery of money	Commercial High Court 771/19/MR	60,000	The Plaintiff has filed this case seeking an order to prevent the Bank who is the first Defendant from paying and/or disbursing funds on the five Bank Guarantees favouring Director General of Customs who is the second Defendant.	Written submissions with regard to the interim reliefs on January 29, 2021.
Customer	Special	Commercial High Court 193/2020	463,918	Plaintiffs have filed action seeking an order to prevent the payment of Guarantees issued by the Bank in favour of RDA who is the Beneficiary and the first Defendant.	The case has been transferred to the Commercial High Court.
Customer	Special	District Court Kaduwela 515/SPL	458,895	Plaintiffs have filed action seeking an order to prevent the payment of Guarantees issued by the Bank in favour of RDA who is the Beneficiary and the first Defendant.	Call on February 08, 2021.
Customer	Recovery of Money	Commercial High Court 52/2020 (Formerly District Court of 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.	Pre-trial is fixed for March 15, 2021.
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. Judgment was delivered in favour of the Bank dismissing the plaintiff's action, but the plaintiff has appealed against the judgment in the Supreme Court.	Next hearing is fixed for May 28, 2021.

61. 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 31.12.2020** **Rs. '000**	Total as at 31.12.2019 Rs. '000
Interest earning assets							
Financial assets							
Cash and cash equivalents	1,814,333	–	–	–	–	1,814,333	17,668,417
Balances with central banks	96,288,395	–	–	–	–	96,288,395	9,405,251
Placements with banks	8,757,549	7,664,318	–	–	–	16,421,867	24,903,809
Securities purchased under resale agreements	–	–	–	–	–	–	13,147,534
Derivative financial assets	–	–	–	–	–	–	–
Financial assets recognised through profit or loss – Measured at fair value	33,867,593	–	–	–	–	33,867,593	20,484,892
Financial assets at amortised cost – Loans and advances to banks	–	–	–	–	–	–	–

	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 31.12.2020** **Rs. '000**	Total as at 31.12.2019 Rs. '000
Financial assets at amortised cost – Loans and advances to other customers	282,907,569	238,759,344	226,898,580	108,515,111	52,748,568	909,829,172	893,919,311
Financial assets at amortised cost – Debt and other financial instruments	14,342,815	34,304,029	81,163,942	95,163,248	77,085,495	302,059,529	107,059,021
Financial assets measured at fair value through other comprehensive income	6,725,763	29,736,793	173,012,091	46,121,868	22,828,210	278,424,725	197,604,418
Total interest earning assets as at 31.12.2020	444,704,017	310,464,484	481,074,613	249,800,227	152,662,273	1,638,705,614	
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
Non-interest earning assets							
Financial assets							
Cash and cash equivalents	49,440,697	–	–	–	–	49,440,697	36,012,701
Balances with Central Banks	12,376,032	5,826,956	467,141	195,411	204,797	19,070,337	36,695,981
Placements with banks	–	–	–	–	–	–	–
Securities purchased under resale agreements	–	–	–	–	–	–	–
Derivative financial assets	1,091,085	1,244,302	296,958	4,372	–	2,636,717	1,830,927
Financial assets recognised through profit or loss – measured at fair value	1,321,878	–	–	–	–	1,321,878	983,141
Financial assets at amortised cost – Loans and advances to banks	–	–	–	–	779,705	779,705	757,787
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	271,802	292,069	220,599
Non-Financial Assets							
Investments in associates	–	–	–	–	64,155	64,155	56,821
Property, plant and equipment and right-of-use assets	–	–	–	–	25,386,630	25,386,630	22,524,658
Investment properties	–	–	–	–	67,116	67,116	46,350
Intangible assets	–	–	–	–	1,800,516	1,800,516	1,645,714
Deferred tax assets	–	–	2,735,566	–	–	2,735,566	530,165
Other assets	12,628,329	1,709,265	1,576,495	498,471	3,782,593	20,195,153	23,443,869
Total non-interest earning assets as at 31.12.2020	76,858,021	8,780,523	5,076,160	718,521	32,357,314	123,790,539	
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 assets – as at 31.12.2020	521,562,038	319,245,007	486,150,773	250,518,748	185,019,587	1,762,496,153	
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
Percentage – as at 31.12.2020 (*)	29.60	18.11	27.58	14.21	10.50	100.00	
Percentage – as at 31.12.2019(*)	35.06	19.45	25.05	13.21	7.23		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 31.12.2020** **Rs. '000**	Total as at 31.12.2019 Rs. '000
Interest-bearing liabilities							
Financial liabilities							
Due to banks	38,728,605	33,003,230	476,667	4,675,000	–	76,883,502	52,097,565
Derivative financial liabilities	–	–	–	–	–	–	–
Securities sold under repurchase agreements	76,522,217	14,889,305	–	–	–	91,411,522	51,117,342
Financial liabilities at amortised cost – due to depositors	680,635,849	432,568,744	36,242,319	12,481,684	16,138,286	1,178,066,882	993,121,340

	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 31.12.2020** **Rs. '000**	Total as at 31.12.2019 Rs. '000
Financial liabilities at amortised cost – Other borrowings	2,320,272	26,663,596	19,389,523	1,660,695	4,521,847	**54,555,933**	23,248,893
Subordinated liabilities	5,166,884	5,393,227	22,403,577	–	5,283,450	**38,247,138**	37,886,789
Total interest – bearing liablities as at 31.12.2020	803,373,827	512,518,102	78,512,086	18,817,379	25,943,583	**1,439,164,977**	
Total Interest – bearing liabilities as at 31.12.2019	623,254,126	411,010,792	51,551,133	45,049,047	26,606,831		1,157,471,929
Non-interest bearing liabilities							
Financial liabilities							
Due to banks	11,364,554	–	–	–	–	**11,364,554**	1,709,860
Derivative financial liabilities	461,543	897,343	142,376	–	–	**1,501,262**	1,495,317
Securities sold under repurchase agreements	–	–	–	–	–	**–**	–
Financial liabilities at amortised cost – Due to depositors	108,549,517	–	–	–	–	**108,549,517**	75,861,247
Financial liabilities at amortised cost – Other borrowings	–	–	–	–	–	**–**	–
Subordinated liabilities	–	–	–	–	–	**–**	–
Non-financial liabilities							
Current tax liabilities	1,747,751	5,243,254	–	–	–	**6,991,005**	5,197,188
Deferred tax liabilities	–	–	403,846	–	–	**403,846**	416,458
Other liabilities	13,877,801	12,381,908	1,454,663	2,454,245	3,403,666	**33,572,283**	30,775,884
Equity							
Stated capital	–	–	–	–	52,187,747	**52,187,747**	40,916,958
Statutory reserves	–	–	–	–	9,285,233	**9,285,233**	8,387,701
Retained earnings	–	–	–	–	8,124,261	**8,124,261**	5,182,185
Other reserves	–	–	–	–	89,595,571	**89,595,571**	79,937,405
Non-controlling Interest	–	–	–	–	1,755,897	**1,755,897**	1,589,234
Total non-interest-bearing liabilities and equity as at 31.12.2020	136,001,166	18,522,505	2,000,885	2,454,245	164,352,375	**323,331,176**	
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 liabilities and equity – as at 31.12.2020	939,374,993	531,040,607	80,512,971	21,271,624	190,295,958	**1,762,496,153**	
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
Percentage – as at 31.12.2020 (*)	53.29	30.13	4.57	1.21	10.80	**100.00**	
Percentage – as at 31.12.2019 (*)	51.41	29.63	3.94	3.30	11.72		100.00

(*) Total liabilities and shareholders' funds of each maturity bucket as a percentage of total liabilities and shareholders' funds employed by the Group.

62. 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
- Dealing/Treasury
- NBFI, Real Estate & Services

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, 2020 and comparative figures for the year ended December 31, 2019.

For the year ended December 31,	Personal banking		Corporate banking	
	2020 **Rs. '000**	2019 Rs. '000	**2020** **Rs. '000**	2019 Rs. '000
External operating income:				
Net interest income	**26,764,757**	27,988,262	**8,996,447**	10,555,019
Foreign exchange profit	**96,113**	293,571	**141,319**	(197,352)
Net fee and commission income	**5,590,664**	6,298,366	**2,269,088**	2,357,802
Other income	**451,804**	44,930	**5,079**	4,011
Total operating income	**32,903,338**	34,625,129	**11,411,933**	12,719,480
Impairment charges and other losses	**(12,548,294)**	(8,185,606)	**(6,165,407)**	(2,657,152)
Net operating income	**20,355,044**	26,439,523	**5,246,526**	10,062,328
Segment result	**6,427,440**	9,837,267	**3,058,224**	6,822,088
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	
	2020 **Rs. '000**	2019 Rs. '000	**2020** **Rs. '000**	2019 Rs. '000
Other information				
Segment assets	**628,115,371**	544,782,281	**323,883,043**	337,929,901
Investment in associates	**–**	–	**–**	–
Total assets	**628,115,371**	544,782,281	**323,883,043**	337,929,901
Segment liabilities	**1,022,841,375**	853,921,966	**237,889,091**	206,696,789
Total liabilities	**1,022,841,375**	853,921,966	**237,889,091**	206,696,789

For the year ended December 31,	Personal banking		Corporate banking	
	2020 **Rs. '000**	2019 Rs. '000	**2020** **Rs. '000**	2019 Rs. '000
Information on cash flows				
Cash flows from operating activities				
Cash flows from investing activities				
Cash flows from financing activities				
Capital expenditure –				
Property, plant and equipment				
Investment properties				
Intangible assets				
Net cash flow generated during the year				

International operations		Dealing/treasury		NBFI, Real Estate & Services		Unallocated/eliminations		Total/consolidated	
2020 Rs. '000	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000
5,439,904	5,658,240	3,707,529	(381,397)	496,073	548,801	5,464,092	3,987,466	50,868,802	48,356,391
1,391,472	1,777,036	5,652,485	4,705,294	70	(8)	1,091,259	283,803	8,372,718	6,862,344
1,273,871	1,238,145	8,005	4,006	314,503	152,713	365,544	700,806	9,821,675	10,751,838
796,000	10,310	6,167,497	1,214,550	838,796	840,539	(592,883)	(398,264)	7,666,293	1,716,076
8,901,247	8,683,731	15,535,516	5,542,453	1,649,442	1,542,045	6,328,012	4,573,811	76,729,488	67,686,649
(206,221)	22,271	(2,289,624)	(278,068)	(210,012)	(232,893)	26	(75)	(21,419,532)	(11,331,523)
8,695,026	8,706,002	13,245,892	5,264,385	1,439,430	1,309,152	6,328,038	4,573,736	55,309,956	56,355,126
5,237,040	5,514,956	10,440,327	3,908,482	437,531	376,357	(1,084,600)	(3,485,246)	24,515,962	22,973,904
								24,515,962	22,973,904
								3,898	9,992
								(7,433,063)	(5,563,500)
								(146,847)	(157,137)
								16,939,950	17,263,259

International operations		Dealing/treasury		NBFI, Real Estate & Services		Unallocated/eliminations		Total/consolidated	
2020 Rs. '000	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000
209,243,351	173,080,105	602,609,010	369,624,769	11,306,239	10,014,567	(12,725,016)	(26,547,078)	1,762,431,998	1,408,884,545
–	–	–	–	–	–	64,155	56,821	64,155	56,821
209,243,351	173,080,105	602,609,010	369,624,769	11,306,239	10,014,567	(12,660,861)	(26,490,257)	1,762,496,153	1,408,941,366
174,499,274	141,365,900	152,504,141	73,342,100	6,016,087	5,997,042	7,797,476	(8,395,914)	1,601,547,444	1,272,927,883
174,499,274	141,365,900	152,504,141	73,342,100	6,016,087	5,997,042	7,797,476	(8,395,914)	1,601,547,444	1,272,927,883

International operations		Dealing/treasury		NBFI, Real Estate & Services		Unallocated/eliminations		Total/consolidated	
2020 Rs. '000	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000
								(3,846,592)	17,581,879
								2,068,509	3,262,836
								960,434	(9,754,534)
								(1,150,811)	(1,348,643)
								(41)	–
								(460,053)	(415,088)
								(2,428,554)	9,326,450

63. 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 "Related Party Disclosures", other than, transactions that the Key Management Personnel (KMP) have availed under schemes uniformly applicable to all staff at concessionary rates.

63.1 Parent and ultimate controlling party

The Bank does not have an identifiable parent of its own.

63.2 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 identified 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 155, 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.

63.2.1 Compensation to KMP

	GROUP		BANK	
For the year ended December 31,	**2020** **Rs. '000**	2019 Rs. '000	**2020** **Rs. '000**	2019 Rs. '000
Short-term employment benefits	**208,366**	200,452	**203,080**	195,959
Post-employment benefits	**8,988**	8,342	**8,988**	8,342
Total	**217,354**	208,794	**212,068**	204,301

63.2.2 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 dependents of the KMP or the KMP's domestic partner. CFM too have been identified as Related Parties of the Group/Bank.

63.2.2.1 Statement of Financial Position – Bank

	Year-end balance		Annual average balance	
	2020 **Rs. '000**	2019 Rs. '000	**2020** **Rs. '000**	2019 Rs. '000
Assets				
Financial assets at amortised cost – Loans and advances	**38,620**	54,026	**49,472**	56,942
Total	**38,620**	54,026	**49,472**	56,942
Liabilities				
Financial liabilities at amortised cost – Due to depositors	**320,489**	351,104	**368,470**	307,150
Subordinated liabilities	**2,000**	2,000	**2,000**	2,000
Total	**322,489**	353,104	**370,470**	309,150

63.2.2.2 Commitments and contingencies – Bank

	Year-end balance		Annual average balance	
	2020 **Rs. '000**	2019 Rs. '000	**2020** **Rs. '000**	2019 Rs. '000
Undrawn facilities	**29,544**	13,740	**19,485**	14,581
Total	**29,544**	13,740	**19,485**	14,581

63.2.2.3 Direct and indirect accommodation – Bank

	Year-end balance	
	2020	2019
Direct and indirect accommodation as a percentage of the Bank's regulatory capital	**0.04**	0.04

No impairment losses have been recorded against balances outstanding with KMP and CFM.

63.2.2.4 Income Statement – Bank

For the year ended December 31,	Note	Page No.	2020 Rs. '000	2019 Rs. '000
Interest income			4,315	5,937
Interest expense			27,337	25,212
Compensation to KMP	63.2.1	256	212,068	204,301

63.2.2.5 Share-based transactions of KMP and CFM

	Year-end balance	
	2020	2019
Number of ordinary shares held by KMP and CFM	868,595	932,543
Dividends paid (in Rs. '000)	1,670	5,900

	ESOP 2015		ESOP 2019	
As at the year end	2020	2019	2020	2019
Number of cumulative exercisable options under the Employee Share Option Plan (ESOP)				
Tranche I	–	–	89,187	–
Tranche II	–	61,400	99,010	–
Tranche III	138,632	138,632	–	–

63.2.3 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.

63.3 Transactions with Group entities

The Group entities include the subsidiaries and the associate of the Bank.

63.3.1 Transactions with subsidiaries

63.3.1.1 Statement of Financial Position

	Year-end balance		Annual average balance	
	2020 Rs. '000	2019 Rs. '000	2020 Rs. '000	2019 Rs. '000
Assets				
Financial assets at amortised cost – Loans and advances	1,396,450	2,839,838	2,398,934	2,095,752
Other assets	150,759	101,197	108,539	66,318
Total	1,547,209	2,941,035	2,507,473	2,162,070
Liabilities				
Securities sold under repurchase agreements	26,000	102,680	97,948	116,167
Financial liabilities at amortised cost – Due to depositors	748,353	538,099	483,366	306,010
Other liabilities	56,183	72,409	62,730	69,277
Total	830,536	713,188	644,044	491,454

63.3.1.2 Commitments and contingencies

	Year-end balance		Annual average balance	
	2020 Rs. '000	2019 Rs. '000	2020 Rs. '000	2019 Rs. '000
Undrawn facilities	101,300	101,232	92,540	98,388
Total	101,300	101,232	92,540	98,388

63.3.1.3 Direct and indirect accommodation

	Year-end balance	
	2020	2019
Direct and indirect accommodation as a percentage of the Bank's Regulatory Capital	**0.96**	1.94

63.3.1.4 Income Statement

For the year ended December 31,	**2020** **Rs. '000**	2019 Rs. '000
Interest income	**207,530**	270,867
Interest expense	**33,700**	36,458
Other income	**126,742**	106,972
Other expenses	**738,331**	730,982
Dividend income	**98,200**	85,397

63.3.1.5 Other transactions

For the year ended December 31,	**2020**	2019
Payments made to CBC Tech Solutions Limited in relation to purchase of computer hardware and software (Rs. '000)	**68,083**	93,007
Number of ordinary shares (non-voting) of the Bank held by the subsidiaries as at the year-end	**–**	2,439
Dividend paid (Rs. '000)	**5**	23

63.3.1.6 Inter-company transactions carried out by other entities in the Group

Details of transactions of CBC Finance Limited with Commercial Development Company PLC (CDC) and CBC Tech Solutions Limited.

		Year-end balance		Annual average balance	
Subsidiary Company	Nature of the transaction	**2020** **Rs. '000**	2019 Rs. '000	**2020** **Rs. '000**	2019 Rs. '000
CBC Finance Limited	**Transactions with CDC PLC**				
	As at December 31,				
	Term deposits	**200,000**	–	**73,973**	–
	For the year ended December 31,				
	Interest expense	**6,288**	–		
	Transactions with CBC Tech Solutions Limited				
	As at December 31,				
	Term deposits	**70,000**	–	**20,986**	–
	For the year ended December 31,				
	Interest expense	**1,638**	–		

63.3.2 Transactions with the associate

63.3.2.1 Statement of Financial Position

	Year-end balance		Annual average balance	
	2020 **Rs. '000**	2019 Rs. '000	**2020** **Rs. '000**	2019 Rs. '000
Assets				
Financial assets at amortised cost – Loans and advances	**–**	–	**–**	–
Total	**–**	–	**–**	–
Liabilities				
Financial liabilities at amortised cost – Due to depositors	**1,679**	5,695	**2,526**	2,843
Total	**1,679**	5,695	**2,526**	2,843

63.3.2.2 Commitments and contingencies

	Year-end balance		Annual average balance	
	2020	2019	**2020**	2019
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
Undrawn facilities	–	–	–	–
Total	–	–	–	–

63.3.2.3 Income Statement

For the year ended December 31,	**2020**	2019
	Rs. '000	Rs. '000
Interest income	–	–
Interest expense	122	1,052
Other income	–	5,730
Other expenses	–	420

63.3.2.4 Other transactions

	2020	2019
Number of ordinary shares (voting) of the Bank held by the associates as at the year-end	5,000	–
Dividend paid (Rs. '000)	–	–

63.4 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.

63.4.1 Transactions with post-employment benefit plans for the employees of the Bank

63.4.1.1 Statement of Financial Position

	Year-end balance		Annual average balance	
	2020	2019	**2020**	2019
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
Assets				
Financial assets at amortised cost – Loans and advances	–	–	148	39
Total	–	–	148	39
Liabilities				
Financial liabilities at amortised cost – Due to depositors	9,992,934	5,316,692	6,602,249	8,644,796
Total	9,992,934	5,316,692	6,602,249	8,644,796

63.4.1.2 Income Statement

For the year ended December 31,	**2020**	2019
	Rs. '000	Rs. '000
Interest income	45	11
Interest expense	525,861	991,990
Contribution made/taxes paid by the Bank	1,820,430	1,108,193

63.5 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.

63.6 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.

64. Non-cash items included in profit before tax

	GROUP		BANK	
For the year ended December 31,	**2020** **Rs. '000**	2019 Rs. '000	**2020** **Rs. '000**	2019 Rs. '000
Depreciation of property, plant and equipment	**2,791,740**	2,588,863	**2,731,440**	2,541,281
Amortisation of intangible assets	**310,946**	252,392	**257,591**	213,240
Impairment charges and other losses	**21,415,986**	11,330,271	**21,152,297**	11,060,214
Impairment charges subsidiaries	**–**	–	**327,855**	–
Fair value losses on investment properties	**12,096**	–	**–**	–
Loss on revaluation of land and buildings	**39,872**	–	**39,872**	–
Accretion of interest on lease liability	**435,754**	429,263	**452,304**	457,449
Contributions to defined benefit plans – Unfunded schemes	**234,986**	485,566	**210,795**	469,946
Provision made o/a of leave encashment	**82,043**	81,592	**82,043**	81,592
Equity-settled Share-based payments	**112,203**	–	**112,203**	–
Unamortised interest payable o/a subordinated liabilities	**11,701**	12,210	**11,701**	12,210
Mark to market on other financial instruments at fair value through profit or loss	**(529,648)**	(226,686)	**(529,648)**	(226,713)
Effect of exchange rate variances on loans and receivables to banks	**(21,892)**	5,212	**(21,892)**	5,212
Effect of exchange rate variances on property, plant and equipment and right-of-use assets	**(64,102)**	50,917	**(52,398)**	47,408
Effect of exchange rate variances on intangible assets	**(5,666)**	1,807	**(1,122)**	294
Effect of exchange rate variances on defined benefit plans	**10,758**	(5,750)	**10,758**	(5,750)
Effect of exchange rate variances on subordinated liabilities	**393,750**	(93,750)	**393,750**	(93,750)
Net effect of exchange rate variances on net deferred tax assets	**(12,005)**	1,565	**(9,804)**	1,293
Net effect of exchange rate variances on income tax liability	**71,364**	(20,978)	**66,240**	(22,437)
Net effect of exchange rate variance on lease liability	**60,460**	(36,971)	**52,316**	(34,216)
Grossed up notional tax and withholding tax credits	**(585,419)**	(841,251)	**(580,871)**	(805,060)
Total	**24,764,927**	14,014,272	**24,705,430**	13,702,213

65. Change in operating assets

	GROUP		BANK	
For the year ended December 31,	**2020** **Rs. '000**	2019 Rs. '000	**2020** **Rs. '000**	2019 Rs. '000
Net (increase)/decrease in derivative financial instruments	**(805,790)**	6,045,676	**(805,790)**	6,045,676
Net (increase)/decrease in balances with central banks	**(69,257,500)**	9,305,303	**(71,509,978)**	14,923,463
Net (increase)/decrease in placements with banks	**8,487,575**	(5,003,174)	**8,593,910**	(4,626,582)
Net (increase)/decrease in securities purchased under resale agreements	**13,147,534**	(3,634,022)	**13,147,534**	(3,634,022)
Net (increase)/decrease in other financial assets recognised through profit or loss	**(13,191,790)**	(15,707,023)	**(13,191,790)**	(15,706,996)
Net (increase)/decrease in loans and receivables to customers	**(34,067,357)**	(36,612,232)	**(30,064,923)**	(33,589,071)
Net (increase)/decrease in financial assets measured at fair value through other comprehensive income	**(83,571,404)**	(17,155,771)	**(83,572,933)**	(17,153,529)
Net (increase)/decrease in financial assets at amortised cost – Debt and other financial instruments	**(198,751,695)**	(21,296,002)	**(195,329,795)**	(20,800,149)
Net (increase)/decrease in other assets	**3,248,716**	(161,130)	**3,703,098**	(208,076)
Total	**(374,761,711)**	(84,218,375)	**(369,030,667)**	(74,749,286)

66. Change in operating liabilities

	GROUP		BANK	
For the year ended December 31,	**2020** **Rs. '000**	2019 Rs. '000	**2020** **Rs. '000**	2019 Rs. '000
Net increase/(decrease) in due to banks	34,440,631	1,445,373	35,945,612	1,404,613
Net increase/(decrease) in derivative financial instruments	(83,136)	(6,579,761)	(83,136)	(6,579,761)
Net increase/(decrease) in securities sold under repurchase agreements	40,294,180	2,165,948	40,217,589	2,115,561
Net increase/(decrease) in deposits from banks, customers and debt securities issued	217,633,812	74,611,712	212,658,258	70,270,346
Net increase/(decrease) in other borrowings	31,307,040	(2,113,019)	31,307,040	(2,113,019)
Net increase/(decrease) in other liabilities	2,115,855	349,416	2,027,671	404,196
Net increase/(decrease) in due to subsidiaries	–	–	42,723	13,337
Total	325,708,382	69,879,669	322,115,757	65,515,273

67. Operating leases

67.1 Operating lease commitments (Receivables)

Accounting policy

The Group has entered into operating leases to rent its own properties, (mainly consisting of areas not currently occupied by the branches). Lease agreements include clauses to enable upward revision of 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,	**2020** **Rs. '000**	2019 Rs. '000	**2020** **Rs. '000**	2019 Rs. '000
Less than one year	5,853	6,783	3,743	4,793
Between one to five years	20,059	25,140	13,371	14,168
Over five years	8,314	11,872	8,314	11,261
Total	34,226	43,795	25,428	30,222

68. 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 160 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 first reported to the EIRMC and then 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.

68.1 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 obligor default risk, country and sector concentration risks etc.).

68.1.1 Credit quality analysis

68.1.1 (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, debt instruments measured at FVOCI and contingent liabilities and commitments.

As at December 31, 2020	Note	Page No.	Carrying amount Rs. '000	Not subject to ECL Rs. '000	Subject to		
					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							
Risk free Investments			26,152,779	26,152,779	–	–	–
Rating 0-4: Investment grade			23,220,892	–	23,220,892	–	–
Rating 5-6: Moderate risk			880,197	–	880,197	–	–
Rating 7-8: High risk			–	–	–	–	–
Rating 9: Extreme risk			–	–	–	–	–
Gross carrying amount			50,253,868	26,152,779	24,101,089	–	–
Less: Provision for impairment			3,241	–	3,241	–	–
Net carrying amount	28	196	50,250,627	26,152,779	24,097,848	–	–
Placements with Central Banks and Other Banks							
Risk free investments (Excluding Statutory Reserve)			94,405,316	94,405,316	–	–	–
Rating 0-4: Investment grade			13,909,368	–	13,909,368	–	–
Rating 5-6: Moderate risk			2,032,617	–	2,032,617	–	–
Rating 7-8: High risk			–	–	–	–	–
Rating 9: Extreme risk			–	–	–	–	–
Gross carrying amount			110,347,301	94,405,316	15,941,985	–	–
Less: Provision for impairment			3,003		3,003	–	–
Net carrying amount	29 & 30	197	110,344,298	94,405,316	15,938,982	–	–
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			779,790	–	779,790	–	–
Rating 7-8: High risk			–	–	–	–	–
Rating 9: Extreme risk			–	–	–	–	–
Gross carrying amount			779,790	–	779,790	–	–
Less: Provision for impairment			85		85	–	–
Net carrying amount	33	201	779,705	–	779,705	–	–
Financial assets at amortised cost – Loans and advances to other customers							
Government Securities (Risk free investments)			–	–	–	–	–
Rating 0-4: Investment grade (*)			696,936,656	–	607,201,349	67,878,811	21,856,496
Rating 5-6: Moderate risk			182,357,089	–	129,540,673	32,094,931	20,721,485
Rating 7-8: High risk			17,276,070	–	3,404,791	5,000,618	8,870,661
Rating 9: Extreme risk			51,272,090	–	107,893	37,406	51,126,791
Gross carrying amount			947,841,905		740,254,706	105,011,766	102,575,433
Less: Provision for impairment			50,996,452		6,470,880	12,244,433	32,281,139
Net carrying amount	34	202	896,845,453	–	733,783,826	92,767,333	70,294,294

As at December 31, 2020	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)			197,785,755	197,785,755	–	–	–
Rating 0-4: Investment grade			96,897,422	–	96,897,422	–	–
Rating 5-6: Moderate risk			410	–	410	–	–
Rating 7-8: High risk			–	–	–	–	–
Rating 9: Extreme risk			152,870	–	–	–	152,870
Gross carrying amount			294,836,457	197,785,755	96,897,832	–	152,870
Less: Provision for impairment			2,108,891	–	1,956,021	–	152,870
Net carrying amount	35	206	292,727,566	197,785,755	94,941,811	–	–
Financial assets measured at fair value through other comprehensive income							
Government Securities (Risk free investments)			201,037,500	201,037,500	–	–	–
Rating 0-4: Investment grade			78,807,758	–	78,807,758	–	–
Rating 5-6: Moderate risk			291,945	291,945	–	–	–
Rating 7-8: High risk			–	–	–	–	–
Rating 9: Extreme risk			–	–	–	–	–
Gross carrying amount			280,137,203	201,329,445	78,807,758	–	–
Less: Provision for impairment			1,675,834	–	1,675,834	–	–
Net carrying amount	36	207	278,461,369	201,329,445	77,131,924	–	–
Off-balance sheet (**)							
Contingent liabilities and commitments							
(i) Lending commitments							
Grade 0-6: Investment grade to moderate risk			129,571,427	–	127,131,083	1,655,472	784,872
Grade 7-9: High risk to extreme risk			–	–	–	–	–
Gross carrying amount			129,571,427	–	127,131,083	1,655,472	784,872
(ii) Contingencies							
Grade 0-6: Investment grade to moderate risk			598,121,484	355,337,535	241,564,914	1,204,386	14,649
Grade 7-9: High risk to extreme risk			–	–	–	–	–
Gross carrying amount			598,121,484	355,337,535	241,564,914	1,204,386	14,649
Total contingent liabilities and commitments	58	248	727,692,911	355,337,535	368,695,997	2,859,858	799,521
Provision for impairment	58.3 (b)	250	2,116,849	–	1,532,691	244,482	339,676

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	–	–

As at December 31, 2019	Note	Page No.	Carrying amount	Not subject to ECL	Subject to		
					12-month ECL (Stage 1)	Lifetime ECL – not credit impaired (Stage 2)	Lifetime ECL – credit impaired (Stage 3)
			Rs. '000	**Rs. '000**	**Rs. '000**	**Rs. '000**	**Rs. '000**
Less: Provision for impairment			5,707	–	5,707	–	–
Net carrying amount	28	196	52,534,730	26,094,112	26,440,618	–	–
Placements with Central Bank and Other Banks							
Risk free investments (Excluding Statutory Reserve)							
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	29 & 30	197	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	201	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	202	884,645,744	–	717,392,416	95,469,525	71,783,803
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	206	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	–	–

As at December 31, 2019	Note	Page No.	Carrying amount	Not subject to ECL	Subject to		
					12-month ECL (Stage 1)	Lifetime ECL – not credit impaired (Stage 2)	Lifetime ECL – credit impaired (Stage 3)
			Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
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	207	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	58	248	579,671,205	277,228,454	298,756,575	2,928,726	757,450
Provision for impairment	58.3 (b)	250	1,316,837	–	764,857	187,237	364,743

(*) Investment grade also include Cash and Gold.

(**) Amounts reported above does not include capital commitments by the Bank disclosed in the Note 58 on "Contingent Liabilities and Commitments" on page 248 to 250.

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.

68.1.1 (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, 2020	Carrying amount	Not subject to ECL	12-month ECL (Stage 1)	Lifetime ECL not credit impaired (Stage 2)	Lifetime ECL credit impaired (Stage 3)
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cash and cash equivalents					
Gross carrying amount as at January 1, 2020	52,540,437	26,094,112	26,446,325	–	–
Transfer to Stage 1	–	–	–	–	–
Transfer to Stage 2	–	–	–	–	–
Transfer to Stage 3	–	–	–	–	–
New assets originated or purchased	15,302,258	58,667	15,243,591	–	–
Financial assets derecognised or repaid (excluding write-offs)	(17,588,827)	–	(17,588,827)	–	–
As at December 31, 2020	50,253,868	26,152,779	24,101,089	–	–
Placements with Central Bank and Other Banks					
Gross carrying amount as at January 1, 2020	24,535,837	–	24,535,837	–	–
Transfer to Stage 1	–	–	–	–	–
Transfer to Stage 2	–	–	–	–	–
Transfer to Stage 3	–	–	–	–	–
New assets originated or purchased	110,347,301	–	110,347,301	–	–
Financial assets derecognised or repaid (excluding write-offs)	(24,535,837)	–	(24,535,837)	–	–
As at December 31, 2020	110,347,301	–	110,347,301	–	–

As at December 31, 2020	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, 2020	757,898	–	757,898	–	–
Transfer to Stage 1	–	–	–	–	–
Transfer to Stage 2	–	–	–	–	–
Transfer to Stage 3	–	–	–	–	–
Foreign exchange adjustments	21,892	–	21,892	–	–
As at December 31, 2020	779,790	–	779,790	–	–
Financial assets at amortised cost – Loans and advances to other customers					
Gross carrying amount as at January 1, 2020	920,457,235	–	720,005,896	103,788,356	96,662,983
Transfer to Stage 1	–	–	20,487,691	(18,999,879)	(1,487,812)
Transfer to Stage 2	–	–	(31,801,869)	38,440,195	(6,638,326)
Transfer to Stage 3	–	–	(5,993,488)	(12,040,494)	18,033,982
New assets originated or purchased	443,948,164	–	415,360,708	21,045,241	7,542,215
Financial assets derecognised or repaid (excluding write-offs)	(426,887,802)	–	(377,804,008)	(33,030,153)	(16,053,641)
Write-offs	(2,467,810)	–	(224)	(1,512)	(2,466,074)
Changes to contractual cash flows due to modifications not resulting in derecognition	12,792,118	–	–	5,810,012	6,982,106
As at December 31, 2020	947,841,905	–	740,254,706	105,011,766	102,575,433
Financial assets at amortised cost – Debt and other financial instruments					
Gross carrying amount as at January 1, 2020	101,571,881	62,563,485	38,855,526	–	152,870
Transfer to Stage 1	–	–	–	–	–
Transfer to Stage 2	–	–	–	–	–
Transfer to Stage 3	–	–	–	–	–
New assets originated or purchased	145,802,188	139,641,765	6,160,423	–	–
Financial assets derecognised or repaid (excluding write-offs)	(14,670,492)	(5,125,601)	(9,544,891)	–	–
Reclassification adjustment	60,395,321	–	60,395,321	–	–
Foreign exchange adjustments	1,737,559	706,107	1,031,452	–	–
As at December 31, 2020	294,836,457	197,785,756	96,897,831	–	152,870
Financial assets measured at fair value through other comprehensive income					
Gross carrying amount as at January 1, 2020	198,430,022	84,255,299	114,174,723		
Transfer to Stage 1	–	–	–	–	–
Transfer to Stage 2	–	–	–	–	–
Transfer to Stage 3	–	–	–	–	–
New assets originated or purchased	214,537,999	180,922,180	33,615,819	–	–
Financial assets derecognised or repaid (excluding write-offs)	(73,534,874)	(66,188,953)	(7,345,921)	–	–
Reclassification adjustment	(60,395,321)	–	(60,395,321)	–	–
Foreign exchange adjustments	3,038,243	–	3,038,243	–	–
Change in fair value due to remeasurement	(1,938,867)	2,340,917	(4,279,784)	–	–
As at December 31, 2020	280,137,202	201,329,443	78,807,759	–	–
Contingent liabilities and commitments					
Gross carrying amount as at January 1, 2020	579,671,205	277,228,454	298,756,575	2,928,726	757,450
Transfer to Stage 1	–	–	1,751,702	(1,727,374)	(24,328)
Transfer to Stage 2	–	–	(1,417,620)	1,420,288	(2,668)
Transfer to Stage 3	–	–	(1,006,801)	(195,687)	1,202,488

As at December 31, 2020	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
Net change due to new exposures originated or exposures derecognised or repaid (excluding write-offs)	148,021,706	78,109,081	70,612,141	433,905	(1,133,421)
As at December 31, 2020	**727,692,911**	**355,337,535**	**368,695,997**	**2,859,858**	**799,521**

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 Central Bank and Other 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	–	–
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	–	–	–	–	–

As at December 31, 2019	Carrying amount	Not subject to ECL	12-month ECL (Stage 1)	Lifetime ECL not credit impaired (Stage 2)	Lifetime ECL credit impaired (Stage 3)
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
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 due to new exposures originated or exposures 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

68.1.1 (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, 2020	Note	Page No.	12-month ECL (Stage 1)	Lifetime ECL – not credit impaired (Stage 2)	Lifetime ECL – credit impaired (Stage 3)	Total
			Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cash and cash equivalents						
Provision for impairment (ECL) as at January 1, 2020			5,707	–	–	5,707
Transfer to Stage 1			–	–	–	–
Transfer to Stage 2			–	–	–	–
Transfer to Stage 3			–	–	–	–
Net remeasurement of impairment			1,844	–	–	1,844
New assets originated or purchased			836	–	–	836
Financial assets derecognised or repaid (excluding write-offs)			(5,205)	–	–	(5,205)
Foreign exchange adjustments			59	–	–	59
As at December 31, 2020	28.1	196	3,241	–	–	3,241
Placements with Central Banks and Other Banks						
Provision for impairment (ECL) as at January 1, 2020			8,597	–	–	8,597
Transfer to Stage 1			–	–	–	–
Transfer to Stage 2			–	–	–	–
Transfer to Stage 3			–	–	–	–
New remeasurement of impairment			–	–	–	–

As at December 31, 2020	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
New assets originated or purchased			2,946	–	–	2,946
Financial assets derecognised or repaid (excluding write-offs)			(8,597)	–	–	(8,597)
Foreign exchange adjustments			57	–	–	57
As at December 31, 2020	30.1	197	3,003	–	–	3,003
Financial assets at amortised cost – Loans and advances to banks						
Provision for impairment (ECL) as at January 1, 2020			111	–	–	111
Transfer to Stage 1			–	–	–	–
Transfer to Stage 2			–	–	–	–
Transfer to Stage 3			–	–	–	–
Net remeasurement of impairment			(26)	–	–	(26)
As at December 31, 2020	33.1	202	85	–	–	85
Financial assets at amortised cost – Loans and advances to other customers						
Provision for impairment (ECL) as at January 1, 2020			2,613,480	8,318,831	24,879,180	35,811,491
Transfer to Stage 1			824,628	(601,636)	(222,992)	–
Transfer to Stage 2			(218,566)	425,851	(207,285)	–
Transfer to Stage 3			(46,261)	(1,015,454)	1,061,715	–
Net remeasurement of impairment			1,358,343	3,333,664	7,187,518	11,879,525
New assets originated or purchased			2,545,958	1,919,933	742,084	5,207,975
Financial assets derecognised or repaid (excluding write-offs)			(608,095)	(1,359,582)	(984,340)	(2,952,017)
Write-offs and recoveries			(166)	(860)	(110,932)	(111,958)
Foreign exchange adjustments			1,559	1,045	39,274	41,878
Interest accrued on impaired loans and advances			–	–	(2,850,806)	(2,850,806)
Other movements			–	–	240,633	240,633
Changes to contractual cash flows due to modifications not resulting in derecognition			–	1,222,641	2,507,090	3,729,731
As at December 31, 2020	34.2 (b)	204	6,470,880	12,244,433	32,281,139	50,996,452
Financial assets at amortised cost – Debt and other financial instruments						
Provision for impairment (ECL) as at January 1, 2020			274,192	–	152,870	427,062
Transfer to Stage 1			–	–	–	–
Transfer to Stage 2			–	–	–	–
Transfer to Stage 3			–	–	–	–
Net remeasurement of impairment			324,126	–	–	324,126
New assets originated or purchased			659,955	–	–	659,955
Financial assets derecognised or repaid (excluding write-offs)			(32)	–	–	(32)
Reclassification adjustment			697,780	–	–	697,780
As at December 31, 2020	35.1 (b)	206	1,956,021	–	152,870	2,108,891
Financial assets measured at fair value through other comprehensive income						
Provision for impairment (ECL) as at January 1, 2020			861,693	–	–	861,693
Transfer to Stage 1			–	–	–	–
Transfer to Stage 2			–	–	–	–
Transfer to Stage 3			–	–	–	–
Net remeasurement of impairment			–	–	–	–
New assets originated or purchased			2,373,614	–	–	2,373,614
Financial assets derecognised or repaid (excluding write-offs)			(861,693)	–	–	(861,693)
Reclassification adjustment			(697,780)	–	–	(697,780)
As at December 31, 2020	36.2	208	1,675,834	–	–	1,675,834

As at December 31, 2020	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, 2020			764,857	187,237	364,743	1,316,837
Transfer to Stage 1			65,448	(52,794)	(12,654)	–
Transfer to Stage 2			(12,406)	13,229	(823)	–
Transfer to Stage 3			(433)	(7,632)	8,065	–
Net remeasurement of impairment			(47,496)	34,590	12,196	(710)
New exposures originated or purchased			1,026,152	197,553	222,974	1,446,679
Exposures derecognised or repaid (excluding write offs)			(264,126)	(127,701)	(254,825)	(646,652)
Foreign exchange adjustments			695	–	–	695
As at December 31, 2020	58.3 (b)	250	1,532,691	244,482	339,676	2,116,849

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	196	5,707	–	–	5,707
Placements with Central Bank and Other 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	30.1	197	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	202	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)	–

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
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
Interest accrued on impaired loans and advances			–	–	(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)	204	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)	206	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	208	861,693	–	–	861,693
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 exposures originated or purchased/exposures derecognised or repaid (excluding write-offs)			247,603	102,345	240,250	590,198
Foreign exchange adjustments			(284)	–	–	(284)
As at December 31, 2019	58.3 (b)	250	764,857	187,237	364,743	1,316,837

68.1.1 (d) Financial assets recognised through profit or loss measured at fair value

Fair Value Through Profit or Loss 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.

			2020	2019
	Note	Page No.	**Rs. '000**	Rs. '000
Debt instruments at FVTPL				
Government Securities – Sri Lanka				
Treasury bills			883,328	2,875,977
Treasury bonds			7,547,800	3,318,057
Government Securities – Bangladesh				
Treasury bills			6,758,303	12,839,210
Treasury bonds			18,678,162	1,451,651
Subtotal – Debt instruments at FVTPL	32.1	199	33,867,593	20,484,895
Equity instruments at FVTPL				
Rated AAA			35,990	22,374
Rated AA+ to AA-			52,373	20
Rated A+ to A			881,092	736,960
Rated BBB+			–	7,114
Unrated			352,423	216,670
Subtotal – Equity instruments at FVTPL	32.2	199	1,321,878	983,138
Total	32	198	35,189,471	21,468,033

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, 2020	**Derivative type**									
	Forward		**SWAPS**		**Spot**		**Options**		**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**	**Notional amount Rs. '000**	**Fair value Rs. '000**
Derivative financial assets (Note 1)	52,017,069	741,521	126,823,915	1,880,510	5,972,167	9,872	1,345,361	4,814	186,158,512	2,636,717
Derivative financial liabilities (Note 2)	25,011,339	(216,709)	93,436,010	(1,274,889)	3,003,280	(5,016)	883,068	(4,648)	122,333,697	(1,501,262)
Note 1										
Derivative financial assets by counterparty type										
With banks	20,576,671	342,658	124,788,233	1,792,619	421,376	50	1,023,064	3,324	146,809,344	2,138,651
Other customers	31,440,398	398,863	2,035,682	87,891	5,550,791	9,822	322,297	1,490	39,349,168	498,066
Total	52,017,069	741,521	126,823,915	1,880,510	5,972,167	9,872	1,345,361	4,814	186,158,512	2,636,717
Note **2**										
Derivative financial liabilities by counterparty type										
With banks	14,434,924	(84,419)	93,436,010	(1,274,868)	172,648	(1,078)	771,529	(1,461)	108,815,111	(1,361,826)
Other customers	10,576,415	(132,290)	–	(21)	2,830,632	(3,938)	111,539	(3,187)	13,518,586	(139,436)
Total	25,011,339	(216,709)	93,436,010	(1,274,889)	3,003,280	(5,016)	883,068	(4,648)	122,333,697	(1,501,262)

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)

68.1.2 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,	2020 Rs. '000	2019 Rs. '000
Stage 3 loans and advances to other customers as at January 1,	71,783,803	32,380,918
Newly classified as impaired loans and advances during the year	23,934,129	51,874,936
Net change in already impaired loans and advances during the year	(5,458,157)	(3,535,574)
Net payment, write-off and recoveries and other movements during the year	(19,965,481)	(8,936,477)
Impaired loans and advances to customers as at December 31,	70,294,294	71,783,803

Refer Note 18 for methodology of impairment assessment, on "Impairment losses on loans and advances to other customers" on pages 182 to 185.

Details of provision for impairment for loans and advances to other customers, are detailed in Note 34 on pages 202 to 205.

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,	2020		2019	
	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	21,856,496	19,338,054	22,457,037	21,337,995
Rating 5-6: Moderate risk	20,721,485	16,643,993	15,520,602	14,105,391
Rating 7-8: High risk	8,870,661	7,645,813	8,317,443	7,549,750
Rating 9: Extreme risk	51,126,791	26,666,434	50,367,901	28,790,667
Total	102,575,433	70,294,294	96,662,983	71,783,803

68.1.3 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, 2020, 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, 2020 to a feasible change in PDs, LGDs and forward looking macro economic information.

PD/LGD	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	2,630,708	436,791	–	3,067,499	(3,067,499)
PD 1% decrease across all age buckets (*)	(2,086,299)	(436,792)	–	(2,523,091)	2,523,091
LGD 5% increase	754,510	1,721,960	2,206,720	4,683,190	(4,683,190)
LGD 5% decrease (*)	(754,510)	(1,721,961)	(2,206,719)	(4,683,190)	4,683,190
Probability weighted forward looking Macro Economic Indicators (**)					
– Base case 10% increase, worst case 5% decrease and best case 5% decrease	(45,201)	(81,519)	–	(126,720)	126,720
– Base case 10% decrease, worst case 5% increase and best case 5% increase	45,048	81,351	–	126,399	(126,399)

(*) The PD/LGD decrease is capped at 0%, if applicable.
(**) Please refer Note 18 for explanation on forward looking Macro Economic Indicators.

68.1.4 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,	2020		2019	
	Rs. '000	Composition (%)	Rs. '000	Composition (%)
LTV ratio				
Less than 50%	16,110,557	29.77	15,557,191	30.28
51% – 70%	12,167,172	22.49	11,349,831	22.09
71% – 90%	13,947,060	25.78	13,776,666	26.81
91% – 100%	1,792,030	3.31	1,906,063	3.71
More than 100% *	10,092,060	18.65	8,792,924	17.11
Total	54,108,879	100.00	51,382,675	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 used in the calculation of 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 amounts recovered in excess of the dues are refunded to the customers.

68.1.5 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 (CPC), EIRMC and BIRMC 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 the reporting date as per the industry sector and by geographical region of financial assets is given below:

68.1.5 (a) Industry wise distribution

As at December 31, 2020	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	11,472	196,894	–	102	78
Financial assets measured at FVTPL	2,724	281,603	20,371	–	9,037
Government securities	–	–	–	–	–
Quoted equity securities	2,724	281,603	20,371	–	9,037
Financial assets at AC – Loans and advances to banks	–	–	–	–	–
Financial assets at AC – Loans and advances to other customers (*)	72,914,184	113,395,694	59,345,854	11,222,946	39,600,579
Financial assets at AC – Debt and other financial instruments	–	–	–	–	–
Government securities	–	–	–	–	–
Other investments	–	–	–	–	–
Financial assets measured at FVOCI	–	15,070	–	–	224,703
Government securities	–	–	–	–	–
Equity securities	–	15,070	–	–	224,703
Total	72,928,380	113,889,261	59,366,225	11,223,048	39,834,397

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

(*) Loans and advances to other customers referred above do not agree with the Note 34.1 (c) on page 203 due to impairment provisions.

Infrastructure development	Wholesale and retail trade	Information technology and communication services	Financial services	Professional, scientific and technical activities	Arts, entertainment and recreation	Education	Healthcare, social services and support services	Consumption	Lending to overseas entities	Total
Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
–	–	–	50,250,627	–	–	–	–	–	–	50,250,627
–	–	–	110,971,105	–	–	–	–	–	–	110,971,105
–	–	–	15,938,982	–	–	–	–	–	–	15,938,982
–	–	–	–	–	–	–	–	–	–	–
–	49,857	40,902	2,307,624	189	–	1,372	667	27,560	–	2,636,717
–	40,630	17,350	34,775,209	–	–	–	42,547	–	–	35,189,471
–	–	–	33,867,593	–	–	–	–	–	–	33,867,593
–	40,630	17,350	907,616	–	–	–	42,547	–	–	1,321,878
–	–	–	779,705	–	–	–	–	–	–	779,705
16,615,070	160,482,231	11,139,421	35,981,563	24,305,699	1,182,316	3,071,894	17,671,204	207,716,106	122,200,692	896,845,453
–	80,283	–	292,647,283	–	–	–	–	–	–	292,727,566
–	–	–	291,593,947	–	–	–	–	–	–	291,593,947
–	80,283	–	1,053,336	–	–	–	–	–	–	1,133,619
–	–	–	278,212,976	8,620	–	–	–	–	–	278,461,369
–	–	–	278,169,424	–	–	–	–	–	–	278,169,424
–	–	–	43,552	8,620	–	–	–	–	–	291,945
16,615,070	160,653,001	11,197,673	821,865,074	24,314,508	1,182,316	3,073,266	17,714,418	207,743,666	122,200,692	1,683,800,995

Infrastructure development	Wholesale and retail trade	Information technology and communication services	Financial services	Professional, scientific and technical activities	Arts, entertainment and recreation	Education	Healthcare, social services and support services	Consumption	Lending to overseas entities	Total
Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	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

68.1.5 (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 75% (approximately) of total advances portfolio of the Bank (excluding Bangladesh operations) as at December 31, 2020. 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 Bank's branches and corporate banking division located in the Western Province and thereby reflecting a diversified geographical concentration as given below:

As at December 31, 2020

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	8,600,436	128,231	1,618,853	691,703	206,192	3,582	3,803,913	2,843,198	22,071,403	1,220,474	86,551	41,274,536
Eastern	505,531	109,519	769,849	185,663	105,736	383	632,225	1,412,448	3,614,435	73,759	–	7,409,548
North Central	427,161	22,135	1,353,033	176,722	67,793	99	715,193	2,192,394	7,339,441	83,522	–	12,377,493
Northern	4,980,537	583,170	2,790,462	645,406	336,722	124	3,935,969	3,804,319	14,819,845	1,754,095	6,306	33,656,955
North Western	2,597,452	42,481	2,136,066	233,968	1,615,095	311	998,843	1,855,940	6,998,248	225,859	–	16,704,263
Sabaragamuwa	4,815,849	500,383	2,376,315	426,507	159,432	2,815	2,981,031	1,983,939	12,659,733	736,412	13,145	26,655,561
Southern	4,728,373	1,649,624	3,337,331	698,485	392,801	2,519	5,776,005	4,293,629	18,864,338	670,728	1,624	40,415,457
Uva	956,557	–	983,195	199,365	57,961	126	1,903,235	1,229,431	5,841,880	458,119	–	11,629,869
Western	61,761,978	70,729,220	18,786,293	10,208,762	1,644,475	11,730,646	43,739,922	28,854,974	264,620,832	67,825,928	4,690,640	584,593,670
Bangladesh	7,612,477	4,499,945	660,115	137,943	–	176,824	990,543	518,483	18,973,264	57,485,172	31,073,335	122,128,101
Net Loans and advances	96,986,351	78,264,708	34,811,512	13,604,524	4,586,207	11,917,429	65,476,879	48,988,755	375,803,419	130,534,068	35,871,601	896,845,453

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
Net Loans and advances	**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**

Please refer Note 34 on page 202 for the gross carrying amount of the loans and advances to other customers.

68.2 Liquidity risk

Liquidity risk arises because of the possibility that the Bank might not be able to meet On or Off-balance sheet contractual financial obligations on its payments or not receiving what is due to the Bank when they fall due, without incurring unacceptable loses. The principal objective in liquidity risk management is to assess the need for funds to meet such obligations ,make sure receipt of funds when they are due and to ensure the availability of adequate funding to fulfill those needs at the appropriate time, under both normal and stressed conditions.

Therefore, the Bank continuously analyses and monitors its liquidity profile, maintains adequate levels of high quality liquid assets, ensures access to diverse funding sources and has contingency funding agreements with peer banks to meet any unforeseen liquidity requirements. Exposures and ratios against tolerance limits as well as stressed scenarios are regularly monitored in order to identify the Bank's liquidity position and potential funding requirements.

Assets and Liability Management Committee (ALCO)

ALCO chaired by the Managing Director, has representatives from Treasury, Corporate Banking, Personal Banking, Risk and Finance Departments. The Committee meets fortnightly or more frequently to monitor and manage the assets and liabilities of the Bank and also the overall liquidity position to keep the Bank's liquidity at healthy levels, whilst satisfying the regulatory requirements.

68.2.1 Exposure to liquidity risk

The Bank uses the key ratios given below for managing liquidity risk:

		2020 %
Liquid Assets ratio (LAR) LAR 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).	Domestic Banking Unit	44.99
	Off shore Banking Centre	32.70
Liquidity Coverage Ratio (LCR)* This ratio determines the ability of the Bank to withstand adverse shocks (i.e. sudden withdrawal of a significant portion of deposits) by holding high quality liquid assets in a 30 day time span.	Rupee Liquidity Requirement	330.84
	All-Currency Liquidity Requirement	258.06
Net Stable Funding Ratio (NSFR)* This ratio measures the availability of stable Funds against the Required Funds of the Bank. NSFR, requires banks to maintain a stable funding profile by creating additional incentives to fund their activities with more stable sources of funding on an ongoing basis, over a longer time horizon.		157.66

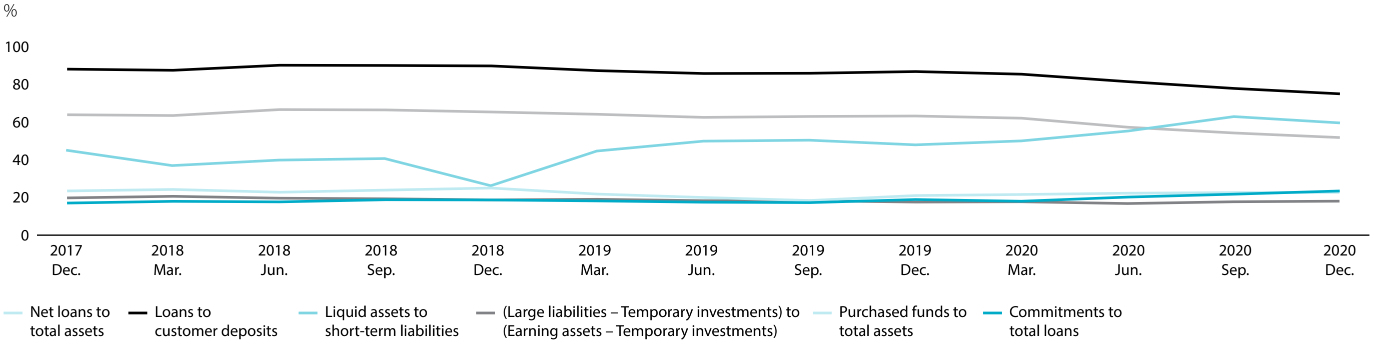
**Details of LCR and NSFR are given in Disclosure 04 and 05 as per Basel III disclosures under Pillar 3 on page 333 and 334.*

Details of the reported LAR (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	
	2020 **%**	2019 %	**2020** **%**	2019 %
As at December 31,	**44.99**	30.42	**32.70**	25.25
Average for the period	**38.77**	29.27	**28.09**	28.28
Maximum for the period	**44.99**	31.10	**32.70**	34.27
Minimum for the period	**31.04**	25.01	**25.09**	25.25
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 2017 to December 2020:

Liquidity ratios Graph – 38



68.2.2 Maturity analysis of financial assets and financial liabilities

68.2.2 (a) Remaining contractual period to maturity – Bank

(i) Remaining contractual period to maturity of the assets 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, 2020** **Rs. '000**	Total as at December 31, 2019 Rs. '000
Interest earning financial assets:							
Cash and cash equivalents	1,814,333	–	–	–	–	1,814,333	21,770,015
Balances with central banks	94,905,791	–	–	–	–	94,905,791	2,765,146
Placements with banks	8,274,664	7,664,318	–	–	–	15,938,982	24,527,241
Securities purchased under resale agreements	–	–	–	–	–	–	13,147,534
Financial assets recognised – Measured at FVTPL	33,867,593	–	–	–	–	33,867,593	20,484,892
Financial assets at amortised cost – Loans and advances to other customers	279,586,048	236,065,219	223,200,191	106,916,088	51,077,907	896,845,453	884,645,744
Financial assets at amortised cost – Debt and other financial instruments	7,457,964	32,209,210	81,163,942	94,810,955	77,085,495	292,727,566	101,144,819
Financial assets measured at FVOCI	6,517,087	29,690,168	173,012,091	46,121,868	22,828,210	278,169,424	197,347,731
Total interest earning assets as at December 31, 2020	432,423,480	305,628,915	477,376,224	247,848,911	150,991,612	1,614,269,142	
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
Non-interest earning financial assets:							
Cash and cash equivalents	48,436,294	–	–	–	–	48,436,294	30,764,715
Balances with central banks	9,819,105	5,429,114	457,100	155,198	204,797	16,065,314	36,695,981
Derivative financial assets	1,091,085	1,244,302	296,958	4,372	–	2,636,717	1,830,927
Financial assets measured at FVTPL	1,321,878	–	–	–	–	1,321,878	983,141
Financial assets at amortised cost – Loans and advances to banks	–	–	–	–	779,705	779,705	757,787
Financial assets measured at FVOCI	–	–	–	20,267	271,678	291,945	220,599
Non-financial assets							
Investments in subsidiaries	–	–	–	–	5,808,429	5,808,429	5,011,284
Investments in associates	–	–	–	–	44,331	44,331	44,331
Property, plant and equipment and right-of-use assets	–	–	–	–	23,212,394	23,212,394	20,507,203
Intangible assets	–	–	–	–	1,232,863	1,232,863	1,080,010
Deferred tax assets	–	–	2,499,860	–	–	2,499,860	294,059
Other assets	12,094,100	1,642,692	1,576,321	498,471	3,807,565	19,619,149	23,322,247
Total Non-interest earning assets as at December 31, 2020	72,762,462	8,316,108	4,830,239	678,308	35,361,762	121,948,879	
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 assets – As at December 31, 2020	505,185,942	313,945,023	482,206,463	248,527,219	186,353,374	1,736,218,021	
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
Percentage – As at December 31, 2020 (*)	29.11	18.08	27.77	14.31	10.73	100.00	
Percentage – As at December 31, 2019 (*)	34.56	19.51	25.21	13.29	7.43		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, 2020** **Rs. '000**	Total as at December 31, 2019 Rs. '000
Interest-bearing financial liabilities:							
Due to banks	38,624,195	32,670,589	–	4,675,000	–	75,969,784	49,795,834
Securities sold under repurchase agreements	76,548,307	14,889,305	–	–	–	91,437,612	51,220,023
Financial liabilities at amortised cost – Due to depositors	672,507,111	427,820,673	36,019,999	12,229,768	16,138,286	1,164,715,837	985,604,075
Financial liabilities at amortised cost – Other borrowings	2,320,272	26,663,596	19,389,523	1,660,695	4,521,847	54,555,933	23,248,893
Subordinated liabilities	5,166,884	5,393,227	22,403,577	–	5,283,450	38,247,138	37,886,789
Total interest-bearing liabilities as at December 31, 2020	795,166,769	507,437,390	77,813,099	18,565,463	25,943,583	1,424,926,304	
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
Non-interest bearing financial liabilities:							
Due to banks	11,481,522	–	–	–	–	11,481,522	1,709,860
Derivative financial liabilities	461,543	897,343	142,376	–	–	1,501,262	1,495,317
Financial liabilities at amortised cost – Due to depositors	101,250,081	–	–	–	–	101,250,081	67,703,585
Non-financial liabilities							
Current tax liabilities	1,694,498	5,083,494	–	–	–	6,777,992	4,967,644
Other liabilities	13,343,187	12,381,908	1,454,663	2,454,245	3,403,666	33,037,669	30,496,709
Due to subsidiaries	97,015	–	–	–	–	97,015	54,292
Equity							
Stated capital	–	–	–	–	52,187,747	52,187,747	40,916,958
Statutory reserves	–	–	–	–	9,024,065	9,024,065	8,205,391
Retained earnings	–	–	–	–	7,596,260	7,596,260	5,144,433
Other reserves	–	–	–	–	88,338,104	88,338,104	78,895,603
Total non-interest bearing liabilities and equity as at December 31, 2020	128,327,846	18,362,745	1,597,039	2,454,245	160,549,842	311,291,717	
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 liabilities and equity – as at December 31, 2020	923,494,615	525,800,135	79,410,138	21,019,708	186,493,425	1,736,218,021	
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
Percentage – as at December 31, 2020 (*)	53.19	30.29	4.57	1.21	10.74	100.00	
Percentage – as at December 31, 2019 (*)	51.24	29.81	3.91	3.34	11.70		100.00

(*) Total liabilities and shareholders' funds of each maturity bucket as a percentage of total liabilities and shareholders' funds employed by the Bank.

68.2.2 (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,	**2020** **Rs. '000**	2019 Rs. '000
Financial assets		
Non-derivative financial assets		
Balances with central banks	817,095	1,894,529
Financial assets at amortised cost – Loans and advances to banks	779,705	757,787
Financial assets at amortised cost – Loans and advances to other customers	381,194,186	340,843,192
Financial assets at amortised cost – Debt and other financial instruments	253,060,392	84,259,620
Financial assets measured at fair value through other comprehensive income	242,254,114	175,984,916
Total	878,105,492	603,740,044
Financial liabilities		
Non-derivative financial liabilities		
Securities sold under repurchase agreements	–	5,709
Financial liabilities at amortised cost – Due to depositors	64,388,053	53,307,759
Financial liabilities at amortised cost – Other borrowings	25,572,065	18,419,908
Subordinated liabilities	27,687,027	36,783,718
Total	117,647,145	108,517,094

68.2.2 (c) Undiscounted Cash Flow of financial assets and financial liabilities – Bank

The following table shows the expected undiscounted cash flows for financial assets and financial liabilities at December 31, 2020:

As at December 31, 2020	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 Rs. '000
Financial assets						
Cash and cash equivalents	50,352,515	–	–	–	–	50,352,515
Balances with central banks	104,724,896	5,429,114	457,100	155,198	204,797	110,971,105
Placements with banks	8,361,272	7,995,123	–	–	–	16,356,395
Securities purchased under resale agreements	–	–	–	–	–	–
Derivative financial assets	1,091,085	1,244,302	296,958	4,372	–	2,636,717
Financial assets recognised through profit or loss – measured at fair value	7,059,541	25,155,539	3,237,450	1,006,850	–	36,459,380
Financial assets at amortised cost – Loans and advances to banks	–	–	–	–	779,705	779,705
Financial assets at amortised cost – Loans and advances to other customers	304,898,444	269,185,296	271,487,179	124,727,852	63,829,557	1,034,128,328
Financial assets at amortised cost – Debt and other financial instruments	9,065,537	45,763,608	115,234,931	113,943,216	91,483,840	375,491,132
Financial assets measured at fair value through other comprehensive income	7,901,628	42,957,694	199,454,333	53,745,363	30,168,922	334,227,940
Total financial assets	493,454,918	397,730,676	590,167,951	293,582,851	186,466,821	1,961,403,217
Financial liabilities						
Due to banks	50,419,432	33,398,999	292,888	4,967,888	–	89,079,207
Derivative financial liabilities	461,543	897,343	142,376	–	–	1,501,262
Securities sold under repurchase agreements	76,903,210	15,352,687	–	–	–	92,255,897
Financial liabilities at amortised cost – due to depositors	776,924,393	441,364,876	39,574,667	13,863,671	16,142,210	1,287,869,817
Financial liabilities at amortised cost – other borrowings	2,379,829	26,967,744	19,689,705	2,500,471	5,167,137	56,704,886
Subordinated liabilities	5,363,239	7,453,907	26,964,224	1,266,266	6,223,846	47,271,482
Total financial liabilities	912,451,646	525,435,556	86,663,860	22,598,296	27,533,193	1,574,682,551

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	Total Rs. '000
Financial assets						
Cash and cash equivalents	52,624,227	815,171	–	–	–	53,439,398
Balances with central banks	24,384,571	13,182,027	829,839	511,274	553,416	39,461,127
Placements with banks	12,075,141	12,894,307	–	–	–	24,969,448
Securities purchased under resale agreements	8,261,404	5,258,418	–	–	–	13,519,822
Derivative financial assets	1,128,833	553,047	149,047	–	–	1,830,927
Financial assets recognised through profit or loss – measured at fair value	5,935,661	11,386,998	3,551,063	1,451,651	–	22,325,373
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	343,321,838	255,040,307	254,215,463	116,103,881	55,563,985	1,024,245,474
Financial assets at amortised cost – Debt and other financial instruments	7,491,859	16,317,604	72,398,060	28,155,494	4,278,914	128,641,931
Financial assets measured at fair value through other comprehensive income	13,276,752	17,468,434	107,109,892	70,238,282	31,950,951	240,044,311
Total financial assets	468,500,286	332,916,313	438,253,364	216,460,582	93,105,053	1,549,235,598
Financial liabilities						
Due to banks	19,588,815	19,209,035	9,087,500	4,543,749	–	52,429,099
Derivative financial liabilities	1,106,950	330,515	4,557	–	53,295	1,495,317
Securities sold under repurchase agreements	42,340,164	9,738,378	6,167	–	–	52,084,709
Financial liabilities at amortised cost – due to depositors	628,723,170	393,592,105	27,124,906	15,633,578	16,714,612	1,081,788,371
Financial liabilities at amortised cost – other borrowings	1,422,187	4,112,341	9,509,792	6,283,822	5,286,820	26,614,962
Subordinated liabilities	937,530	2,833,031	15,734,213	24,835,758	6,861,185	51,201,717
Total financial liabilities	694,118,816	429,815,405	61,467,135	51,296,907	28,915,912	1,265,614,175

68.2.3 Liquidity reserves

The table below sets out the components of the Bank's liquidity reserves:

As at December 31,	2020		2019	
	Carrying amount Rs. '000	Fair value Rs. '000	Carrying amount Rs. '000	Fair value Rs. '000
Balances with central banks	110,971,105	110,971,105	39,461,127	39,461,127
Balances with other banks	24,101,089	24,101,089	26,446,325	26,446,325
Coins and notes held	26,152,779	26,152,779	26,094,112	26,094,112
Unencumbered debt securities issued by sovereigns	512,839,927	463,364,173	275,803,138	267,118,926
Total	**674,064,900**	**624,589,146**	**367,804,702**	**359,120,490**

68.2.4 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, 2020			**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	196	–	–	50,250,627	–	50,250,627
Balances with central banks	29	197	–	10,665,765	100,305,340	–	110,971,105
Placements with banks	30	197	–	–	15,938,982	–	15,938,982
Derivative financial assets	31	198	–	–	2,636,717	–	2,636,717
Financial assets recognized through profit or loss – measured at fair value	32	198	–	–	35,189,471	–	35,189,471
Financial assets at amortised cost – Loans and advances to banks	33	201	–	779,705	–	–	779,705
Financial assets at amortised cost – Loans and advances to other customers	34	202	–	–	896,845,453	–	896,845,453
Financial assets at amortised cost – Debt and other financial instruments	35	206	–	–	292,727,566	–	292,727,566
Financial assets measured at fair value through other comprehensive income (**)	36	207	104,906,825	–	173,554,544	–	278,461,369
Total			104,906,825	11,445,470	1,567,448,700	–	1,683,800,995

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	196	–	–	52,534,730	–	52,534,730
Balances with central banks	29	197	–	29,240,407	10,220,720	–	39,461,127
Placements with banks	30	197	–	–	24,527,241	–	24,527,241
Securities purchased under resale agreements			–	–	13,147,534	–	13,147,534
Derivative financial assets	31	198	–	–	1,830,927	–	1,830,927
Financial assets recognised through profit or loss – measured at fair value	32	198	–	–	21,468,033	–	21,468,033
Financial assets at amortised cost – Loans and advances to banks (*)	33	201	–	757,787	–	–	757,787
Financial assets at amortised cost – Loans and advances to other customers	34	202	–	–	884,645,744	–	884,645,744
Financial assets at amortised cost – Debt and other financial instruments	35	206	–	–	101,144,819	–	101,144,819
Financial assets measured at fair value through other comprehensive income (**)	36	207	57,104,657	–	140,463,673	–	197,568,330
Total			57,104,657	29,998,194	1,249,983,421	–	1,337,086,272

(*) 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.

68.3 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.

68.3.1 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, 2020			Market risk measurement		
			Carrying amount	Trading portfolios	Non-trading portfolios
	Note	Page No.	Rs. '000	Rs. '000	Rs. '000
Assets subject to market risk					
Cash and cash equivalents	28	196	25,751,193	–	25,751,193
Balances with central banks	29	197	99,729,245	–	99,729,245
Placements with banks	30	197	15,938,982	–	15,938,982
Derivative financial assets	31	198	2,636,717	2,636,717	–
Financial assets recognised through profit or loss – Measured at fair value	32	198	35,189,471	35,189,471	–
Financial assets at amortised cost – Loans and advances to banks	33	201	779,705	–	779,705
Financial assets at amortised cost – Loans and advances to other customers	34	202	896,845,453	–	896,845,453
Financial assets at amortised cost – Debt and other financial instruments	35	206	292,727,566	–	292,727,566
Financial assets measured at fair value through other comprehensive income	36	207	278,461,369	–	278,461,369
Total			1,648,059,701	37,826,188	1,610,233,513
Liabilities subject to market risk					
Due to banks	44	230	87,451,306	–	87,451,306
Derivative financial liabilities	45	231	1,501,262	1,501,262	–
Securities sold under repurchase agreements			91,437,612	–	91,437,612
Financial liabilities at amortised cost – Due to depositors	46	231	1,204,524,805	–	1,204,524,805
Financial liabilities at amortised cost – Other borrowings	47	232	54,555,933	–	54,555,933
Subordinated liabilities	51	240	38,247,138	–	38,247,138
Total			1,477,718,056	1,501,262	1,476,216,794

As at December 31, 2019			Market risk measurement		
			Carrying amount	Trading portfolios	Non-trading portfolios
	Note	Page No.	Rs. '000	Rs. '000	Rs. '000
Assets subject to market risk					
Cash and cash equivalents	28	196	29,904,195	–	29,904,195
Balances with central banks	29	197	8,247,155	–	8,247,155
Placements with banks	30	197	24,527,241	–	24,527,241
Securities purchased under resale agreements			13,147,534	–	13,147,534
Derivative financial assets	31	198	1,830,927	1,830,927	–
Financial assets recognised through profit or loss – Measured at fair value	32	198	21,468,033	21,468,033	–
Financial assets at amortised cost – Loans and advances to banks	33	201	757,787	–	757,787
Financial assets at amortised cost – Loans and advances to other customers	34	202	884,645,744	–	884,645,744
Financial assets at amortised cost – Debt and other financial instruments	35	206	101,144,819	–	101,144,819
Financial assets measured at fair value through other comprehensive income	36	207	197,568,330	–	197,568,330
Total			1,283,241,765	23,298,960	1,259,942,805
Liabilities subject to market risk					
Due to banks	44	230	51,505,694	–	51,505,694
Derivative financial liabilities	45	231	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	46	231	1,009,298,153	–	1,009,298,153
Financial liabilities at amortised cost – Other borrowings	47	232	23,248,893	–	23,248,893
Subordinated liabilities	51	240	37,886,789	–	37,886,789
Total			1,174,654,869	1,495,317	1,173,159,552

68.3.2 Exposure to interest rate risk – Sensitivity analysis

68.3.2 (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 and hence expose the Bank to fluctuations of Net interest income (NII) 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, 2020	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	1,814,566	–	–	–	–	48,436,061	50,250,627
Balances with central banks	94,905,790	–	–	–	–	16,065,315	110,971,105
Placements with banks	8,274,664	7,664,318	–	–	–	–	15,938,982
Financial assets at amortised cost – Loans and advances to Banks	–	–	–	–	–	779,705	779,705
Financial assets at amortised cost – Loans and advances to other customers	461,439,733	186,012,782	114,046,066	58,437,338	49,925,102	26,984,432	896,845,453
Financial assets at amortised cost – Debt and other financial instruments	1,388,935	29,601,237	82,077,015	98,438,382	81,221,997	–	292,727,566
Financial assets measured at fair value through other comprehensive income	56,871,048	26,141,638	122,987,374	47,262,103	24,907,260	291,946	278,461,369
Total financial assets	624,694,736	249,419,975	319,110,455	204,137,823	156,054,359	92,557,459	1,645,974,807
Financial liabilities							
Due to banks	38,624,195	32,670,589	–	4,675,000	–	11,481,522	87,451,306
Securities sold under repurchased agreements	76,548,308	14,889,304	–	–	–	–	91,437,612
Financial liabilities at amortised cost – Due to depositors	707,609,353	427,471,847	33,375,136	10,984,671	13,923,261	72,601,650	1,265,965,918
Financial liabilities at amortised cost – Other borrowings	13,286,304	33,255,851	2,674,299	857,641	4,481,838	–	54,555,933
Subordinated liabilities	5,500,521	19,069,327	8,393,840	–	5,283,450	–	38,247,138
Total financial liabilities	841,568,681	527,356,918	44,443,275	16,517,312	23,688,549	84,083,172	1,537,657,907
Interest rate sensitivity gap	(216,873,945)	(277,936,943)	274,667,180	187,620,511	132,365,810	8,474,287	108,316,900
Cumulative gap	(216,873,945)	(494,810,888)	(220,143,708)	(32,523,197)	99,842,613	108,316,900	

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 fair value through other comprehensive income	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

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 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	

68.3.2 (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.

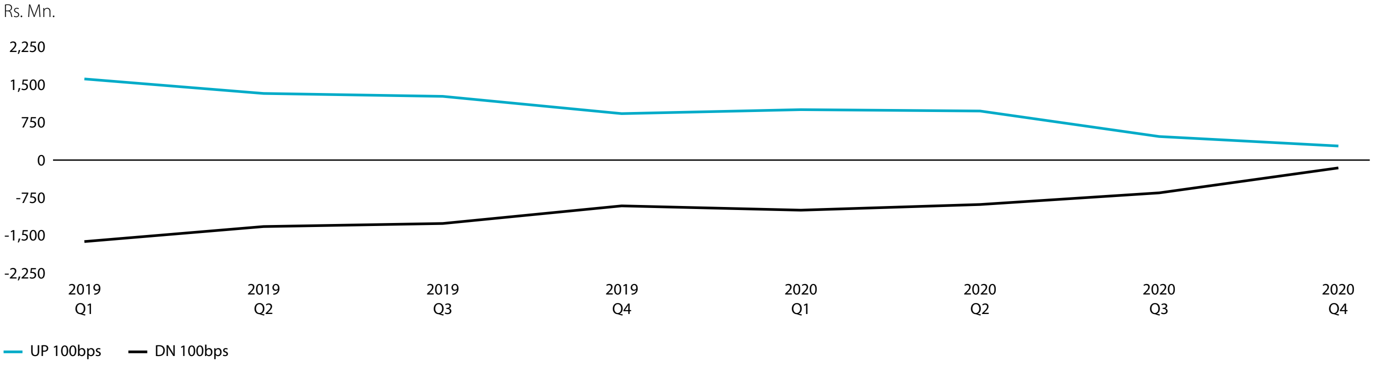
The following table demonstrates the sensitivity of the Bank's Income Statement (net impact) due to change in interest rates by 100 bps on rupee denominated assets and liabilities and 25bps on FCY denominated assets and liabilities with all other variables held constant as at the reporting date.

Sensitivity of projected net interest income

Net Interest Income (NII)	2020		2019	
	Parallel increase Rs. '000	Parallel decrease Rs. '000	Parallel increase Rs. '000	Parallel decrease Rs. '000
At at December 31,	267,122	(132,005)	932,750	(911,553)
Average for the period	708,925	(648,050)	1,425,767	(1,413,235)
Maximum for the period	1,060,589	(1,040,836)	1,646,844	(1,643,315)
Minimum for the period	249,879	(132,005)	932,750	(911,553)

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 – 39



68.3.3 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, 2020 and December 31, 2019 and the exposure as a percentage of the total capital funds:

Foreign exchange position as at December 31, 2020

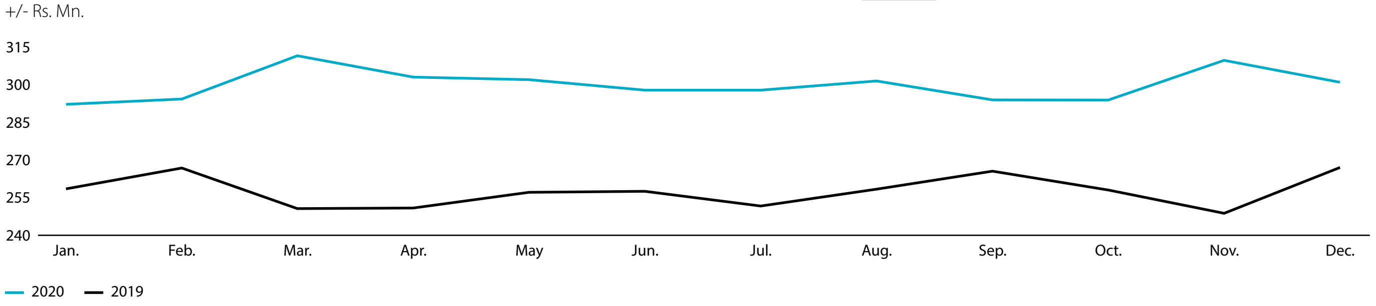
Currency	Spot			Forward			Net open position	Net position in other exchange contracts	Overall exposure in respective foreign currency	Overall exposure in Rs.
	Assets	Liabilities	Net	Assets	Liabilities	Net				
	2	3	4=2-3	5	6	7=5-6	8	9	10=4+7+8	11
	’000	’000	’000	’000	’000	’000	’000	’000	’000	’000
United States Dollar	15,413	19,961	(4,548)	10,966	8,609	2,357	323	–	(1,868)	(349,329)
Great Britain Pound	78	89	(11)	–	–	–	32	–	21	5,501
Euro	2,751	2,474	277	12	250	(238)	(56)	–	(17)	(3,967)
Japanese Yen	7,469	3,376	4,093	–	–	–	5,289	–	9,382	17,012
Australian Dollar	621	14	607	–	650	(650)	4	–	(39)	(5,738)
Canadian Dollar	14	30	(16)	–	10	(10)	(67)	–	(93)	(13,664)
Other currencies in USD	130	185	(55)	–	58	(58)	257	–	144	26,939
Total exposure							USD 555		USD (1,729)	(323,246)
Total capital funds (capital base) as per the audited Basel III computation – Bank										171,396,831
Total exposure as a percentage of total capital funds (%)										-0.19

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	–	103	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

The Bank regularly carries out sensitivity analysis on Net Open Position (NOP), to assess the exposure to Foreign Exchange (FX) Risk due to possible changes in the USD/LKR exchange rate. 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 – 40



68.3.4 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.

	2020			2019		
	Financial assets recognised through profit or loss Rs. '000	**Financial assets at fair value through other comprehensive income Rs. '000**	**Total Rs. '000**	Financial assets recognised through profit or loss Rs. '000	Financial assets at fair value through other comprehensive income Rs. '000	Total Rs. '000
Market value of equity securities as at December 31,	1,321,878	239,773	1,561,651	983,138	169,013	1,152,151
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)	132,188	23,977	156,165	98,314	16,901	115,215
Shock of 10% on equity prices (downward)	(132,188)	(23,977)	(156,165)	(98,314)	(16,901)	(115,215)

68.4 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.

68.5 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.

68.5.1 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 9.00% with minimum Tier 1 capital with buffers in relation to total risk weighted assets and a minimum total CAR with buffers of 13.00% in relation to total risk weighted assets.

As at December 31,	**2020 Rs. '000**	2019 Rs. '000
Common equity Tier 1 (CET1) capital after adjustments	134,689,261	119,622,141
Total common equity Tier 1 (CET1) capital	142,208,308	123,941,618
Equity capital (stated capital)/assigned capital	52,187,747	40,916,957
Reserve fund	9,024,067	8,205,391
Published retained earnings/(accumulated retained losses)	3,670,981	4,714,691
Published accumulated other comprehensive income (OCI)	1,922,007	2,516,082
General and other disclosed reserves	75,403,506	67,588,497
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	7,519,047	4,319,477
Goodwill (net)	–	–
Other intangible assets (net)	1,232,863	1,080,011
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	3,782,513	2,941,594
Deferred tax assets (net)	2,499,858	294,059
Additional Tier 1 (AT1) capital after adjustments	–	–
Total additional Tier 1 (ATI) capital	–	–

As at December 31,	**2020** **Rs. '000**	2019 Rs. '000
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	36,707,570	37,423,406
Total Tier 2 Capital	36,707,570	37,423,406
Qualifying Tier 2 capital instruments	22,235,336	26,704,378
Revaluation gains	2,848,860	3,087,658
General provisions/Eligible impairment	11,623,374	7,631,370
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	134,689,261	119,622,141
Total Tier 1 capital	134,689,261	119,622,141
Total capital	171,396,831	157,045,547

68.5.2 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.

68.5.3 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. Refer annex 3 on pages 331 to 344.

69. 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.

First and Final Dividend for 2020

The Bank did not pay interim dividends for 2020 for the reasons mentioned in Note 25 on page 190.

The Board of Directors of the Bank has now recommended the payment of a first and final dividend of Rs. 6.50 per share be paid and satisfied in the form of Rs. 4.50 in cash and Rs 2.00 per share 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, 2020.

The above first and final dividend recommended by the Board is to be approved at the forthcoming Annual General Meeting to be held on March 30, 2021. In accordance with provisions of the Sri Lanka Accounting Standard – LKAS 10 on "Events after the Reporting Period", the first and final dividend referred to above has not been recognised as a liability as at the year end. This proposed first and final dividend payable for the year 2020 has been estimated at Rs. 7,585.744 Mn. (Total dividend (both cash and scrip dividends) paid for the year 2019 amounted to Rs. 6,678.793 Mn.). Accordingly, the dividend per ordinary share (for both voting and non-voting) for the year 2020 would be Rs. 6.50 (2019 – Rs. 6.50).

SUPPLEMENTARY INFORMATION

This section of the Annual Report covers information that while not immediately crucial to the Integrated Report and the Financial Statements, provides the reader with further details and reference material about the Bank's performance in 2020.

Pages 292-371

Annex 1: Investor Relations

Dear Stakeholder,

We take this opportunity to convey our sincere gratitude to our loyal investors for electing to invest in the Bank's capital, both equity and debt, and wish to assure that we are taking every possible step to optimise returns for your investments through prudent and sustained growth. As one of the few Domestic Systemically Important Banks and the largest private sector Bank in the country, we are fully aware of 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 enabling you to make informed decisions. We trust that the information presented in this Annual 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 valued investors promoting mutual trust and confidence besides ensuring the rights conferred on the investors by various statutes. We believe that these initiatives have enabled the Bank to actively engage with our investors in a consistent, comprehensive and accurate manner, often going beyond the minimum regulations and in the underlying spirit, 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. We firmly believe that 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.

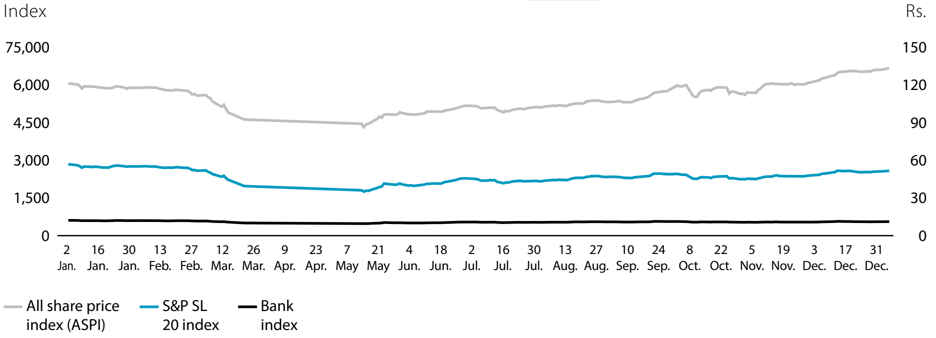
This year too, the Bank took several initiatives to produce a concise integrated Annual Report which can be seen throughout each section of this Report, with due consideration being given to the valuable feedback given by our shareholders in response to the results of the surveys conducted and feedback provided in the past. 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 tools Figure – 28

- Annual Reports and Annual General Meetings
- Interim financial statements
- Investor presentations
- Extraordinary General Meetings
- Press conferences and releases
- One-to-one discussions
- Announcements to CSE
- Corporate website
- Feedback surveys

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, despite a very challenging economic and operating environment prevailed throughout the year primarily due to the outbreak of COVID-19 in the first quarter of the year. As you are aware, the stock market witnessed an unprecedented setback in its activities after being closed for almost two months and due to limiting trading of shares for just one hour a day initially by the regulators which was later relaxed by increasing the trading time to three and half hours compared to six hours of trading during the pre-pandemic period. However, this situation is in no manner extra-ordinary when compared with all other stock markets around the globe. Although the pandemic had an early shock resulting in both the ASPI and S&P SL20 declining by over 30% and 40%, respectively, both indices recovered remarkably and ended the year demonstrating its resilience by attracting record-breaking levels of trading activity, with a total turnover for the year of Rs. 397 Bn. which was also the highest since 2011. The ASPI closed 2020 on 6,774 points recording a growth of 10.52%, the highest annual increase the index has seen since 2014 and only the 12th occasion the index has seen a double-digit percentage growth in CSE's 35-year history. The ASPI on May 12, 2020 recorded its lowest point in over a decade but recovered from this to post a 59% gain by the end of the year. Although the S&P SL20 index, which features the CSE's 20 largest and most liquid stocks has declined by 10.18% in 2020, the index has recovered substantially indicating a trend similar to the ASPI with 57% growth since 12th May, closing the year at 2,638 points.

Performance of Shares of the Banking Sector in 2020 (Graph – 41)



Despite, both the ASPI and S&P SL20 recovering as seen in the above graph, the banking sector shares did not follow the same trend, mainly due to the perceived uncertainties associated with the performance of banks owing to many relief programs offered to affected customers including moratoriums as mandated by the regulators. These factors contributed to the decline in the Bank's share price which traded at a discount to its book value at 0.60 times at the end of December 2020 (0.73 times in 2019). However, it continued to remain the highest among the peers in the Banking sector, and is a testament to our strong fundamentals and 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, 2020 was 99.80% in voting shares (99.76% in 2019) and 99.84% in non-voting shares (86.62% in 2019) 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. 93 Bn. (Rs. 96 Bn. in 2019). As shown in Table 58 on page 300, with its shares actively traded in the CSE, investors are provided with a convenient "enter and exit" mechanism. It is pertinent to mention that the Bank witnessed a sharp increase in the number of shareholders holding both voting and non-voting shares of the Bank during the year, which amply demonstrates the confidence placed by investors in the Bank's shares despite the trying conditions experienced during the year 2020.

Compliance report on the contents of Annual Report in terms of the Listing Rules of the CSE

This year too 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 46 on pages 293 and 294 for a complete list of disclosure requirements and references to the relevant sections of this Annual Report where the 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 – 46)

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	79
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	155 and 156 362
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 5.4 of the "Investor Relations"	301
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"	300
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 5.5 of the "Investor Relations"	302
7.6 (vi)	Information pertaining to material foreseeable risk factors of the Bank	Item 7 of the "Investor Relations"	302
7.6 (vii)	Details of material issues pertaining to employees and industrial relations of the Bank	Item 8 of the "Investor Relations"	302
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"	218 to 223
7.6 (ix)	Number of shares representing the Bank's stated capital	Note 52 to the Financial Statements on "Stated Capital" Item 3 of the "Investor Relations"	241 297 to 299
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"	300

Rule No.	Disclosure requirement	Section/reference	Page/s
7.6 (xi)	Ratios and market price information:		
	Equity – Dividend per share, dividend payout ratio, net asset value per share, market value per share	Items 2, 4 and 10.2 of the "Investor Relations"	295 to 297, 299 and 303
	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"	302 and 303
	Any changes in credit rating	Item 11 "Investor Relations"	303
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"	219 to 223
7.6 (xiii)	Details of funds raised through Public Issues, Rights Issues, and Private Placements during the year	Note 52 to the Financial Statements on "Stated Capital"	241
7.6 (xiv)	a. Information in respect of Employee Share Option Schemes (ESOS) 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 to the Financial Statements on "Employee Share Option Plans"	241 to 244
	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 2020	259
	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	103

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 47 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 – 47

	Number in issue as at		Stock symbol
	December 31, 2020	December 31, 2019	
Equity			
Ordinary shares – Voting	**1,098,934,937**	961,252,317	COMB-N0000
Ordinary shares – Non-voting	**67,970,701**	66,254,269	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 March 2016/21	**50,718,000**	50,718,000	COMB/BD/27/10/21-C2360-12.00%
Fixed rate debentures March 2016/26	**19,282,000**	19,282,000	COMB/BD/27/10/26-C2359-12.25%
Fixed rate debentures March 2018/23	**83,938,400**	83,938,400	COMB/BD/22/07/23-C2404-12.00%
Fixed rate debentures March 2018/28	**16,061,600**	16,061,600	COMB/BD/22/07/28-C2405-12.50%

2. Performance of Securities and Returns to Shareholders

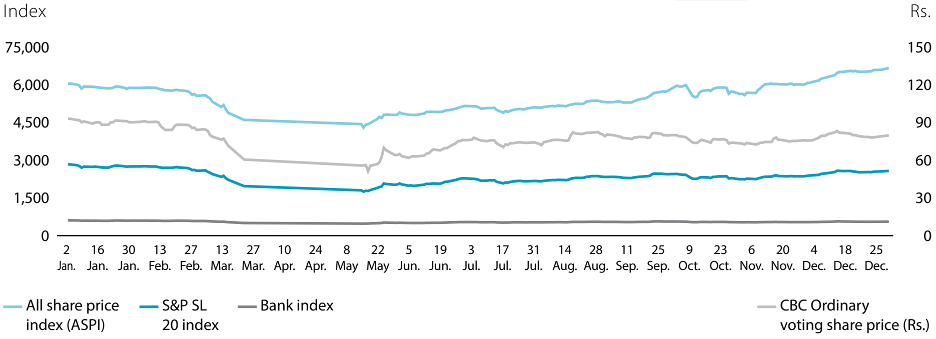
Despite the continuous lacklustre performance of the bourse, there was continued investor interest in the shares of the Bank during the year, as depicted in the increased number of transactions (Ordinary shares - Voting 300% and Ordinary shares – Non-Voting 293%) compared to 2019 (Refer Table 51 and on page 297). Despite the early drop due to the outbreak of the Pandemic, the CSE concluded 2020 on a mixed note, the ASPI gaining by 10.52% from 6,129 in 2019 to 6,774 by the end of 2020, while the S&P SL20 closing 2020 on a negative note, decreasing by 10.18% from 2,937 in 2019 to 2,638 by the end of 2020.

The total market capitalisation of the CSE was at Rs. 2,960.65 Bn. and was above the level at the end of 2019 (Rs. 2,851.31 Bn). Local investors have contributed to approximately 79% of the total market turnover in 2020 which is higher when compared to approximately. 63% in 2019 and 55% the year prior to that. On the foreign investment front, 2020 has recorded a net foreign outflow of Rs. 51 Bn., largely in line with the foreign fund outflow trend recorded in emerging and frontier markets. However, it is noteworthy that Sri Lankan equities attracted purchases worth Rs. 53 Bn. during 2020 by foreign investors, ending close to the Rs. 56 Bn. recorded in 2019.

The Bank index reflected a drop of 16.11% during the year 2020 compared to a marginal drop in 2019.

The market price of an ordinary voting share of the Bank decreased by 19.10% (a drop of 17.39% in 2019) from Rs. 95 at the end of 2019 to Rs. 80.90 at the end of 2020 (Table 48). 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. 97 Bn. (USD 532.699 Mn.) in 2019 to Rs. 94 Bn. (USD 500.902 Mn.) in 2020, accounting for 3.16 % (3.40% in 2019) of the total market capitalisation. The Bank's shares ranked fifth among all listed entities and first among the listed corporates in the Bank, Finance and Insurance sector. During most of 2020, the movement of the non-voting share price followed the trend of the voting shares.

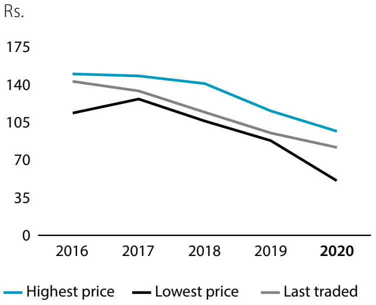
Performance of the Commercial Bank's ordinary voting share in 2020 Graph – 42



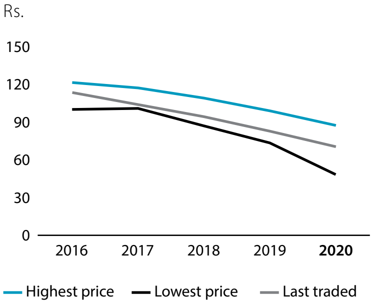
Share price of last five years Table – 48

	2020 Rs.	2019 Rs.	2018 Rs.	2017 Rs.	2016 Rs.
Ordinary shares – Voting					
Highest price during the year	**96.00**	115.90	142.50	150.00	151.90
Lowest price during the year	**50.00**	88.60	107.50	128.50	115.00
Last traded price	**80.90**	95.00	115.00	135.80	145.00
Ordinary shares – Non-voting					
Highest price during the year	**87.20**	99.40	110.00	118.50	123.00
Lowest price during the year	**48.00**	74.00	88.00	102.30	101.50
Last traded price	**70.10**	83.00	95.00	105.00	115.00

Share price trend – Voting Graph – 43



Share price trend – Non-Voting Graph – 44



Sustainable value for investors Table – 49

	Ordinary shares – Voting			Ordinary shares – Non-voting		
	Trade date	**2020 Rs.**	2019 Rs.	Trade date	**2020 Rs.**	2019 Rs.
Highest price	02.01.2020	**96.00**		02.01.2020	**87.20**	
	02.01.2019		115.90	23.01.2019		99.40
Lowest price	14.05.2020	**50.00**		15.05.2020	**48.00**	
	17.05.2019		88.60	16.05.2019		74.00
Year end price		**80.90**	95.00		**70.10**	83.00

Information on shareholders' funds and Bank's market capitalisation Table – 50

As at December 31,	Shareholders' funds Rs. Bn.	Commercial Bank's market capitalisation (*) Rs. Bn.	Total market capitalisation of the CSE Rs. Bn.	Commercial Bank's market capitalisation as a % of CSE market capitalisation %	Commercial Bank's market capitalisation ranking Rank	Commercial Bank's market capitalisation (*) USD Mn.
2020	**157**	**94**	**2,961**	**3.16**	**5**	**500.902**
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

(*) Market capitalisation as at December 31, 2020, 2019, 2018 and 2017 includes both voting and non-voting shares.

Number of transactions (No.) Table – 51

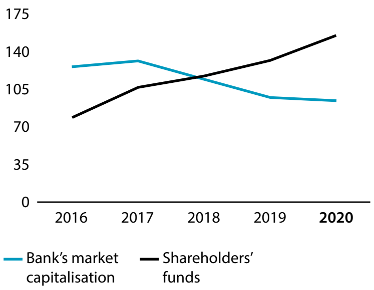
	2020	2019	2018	2017	2016
Ordinary shares – Voting	**85,914**	21,481	13,364	11,811	15,189
Ordinary shares – Non-voting	**21,407**	5,452	4,553	4,432	3,721

Number of shares traded (No. ’000) Table – 52

	2020	2019	2018	2017	2016
Ordinary shares – Voting	**385,017**	89,289	95,286	144,205	96,146
Ordinary shares – Non-voting	**26,614**	5,893	10,637	6,717	5,396

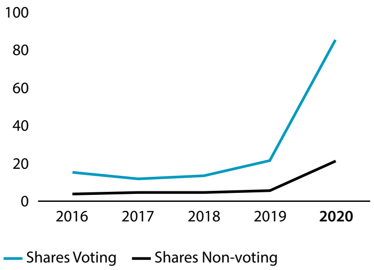
Shareholders’ funds and Bank’s market capitalisation Graph – 45

Rs. Bn.



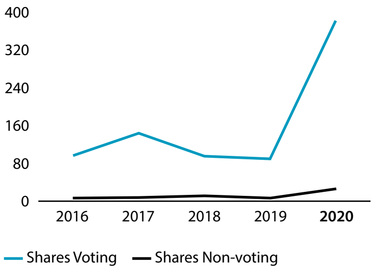
Number of transactions Graph – 46

No. ’000



Number of shares traded Graph – 47

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 – 53

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	–
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

					Number of shares		
Year			Basis	Number of shares issued/ (redeemed)	Ordinary shares voting	Ordinary shares non-voting	Cumulative redeemable preference shares
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	–
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	–

Year			Basis	Number of shares issued/ (redeemed)	Number of shares Ordinary shares voting	 Ordinary shares non-voting	 Cumulative redeemable preference shares
	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	–
2020	Scrip issue for final dividend 2019	Voting	Rs. 2.00 per share	22,485,434	983,737,751	66,254,269	–
	Scrip issue for final dividend 2019	Non Voting		1,716,432	983,737,751	67,970,701	–
	Issue of shares via a Private Placement	Voting		115,157,186	1,098,934,937	67,970,701	–

4. Dividends

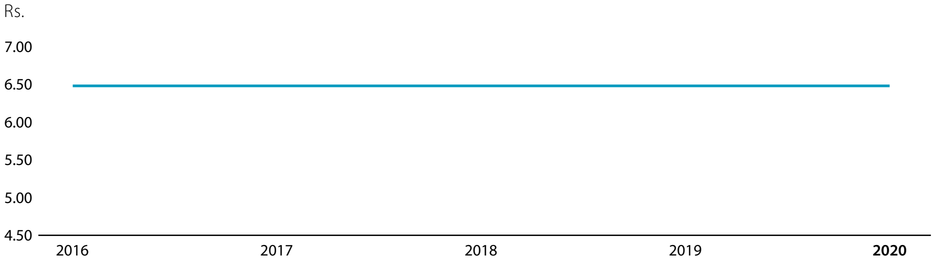
The declaration of a dividend should always ensure that a balance between the shareholders' needs and the business needs of the Bank is maintained. Although the Bank has been paying interim dividends in the past, for the year under review, the Bank did not pay any interim dividends. This was in compliance with the Banking Act Direction No. 03 of 2020, dated May 13, 2020, issued by the CBSL on "Restrictions on Discretionary Payments of Licenced Banks", wherein licenced banks were requested to refrain from declaring cash dividends not already declared for financial year 2019, and any interim cash dividends for the financial year 2020 in view of the possible adverse impact on liquidity and other key performance indicators of banks. However, as per the Banking Act Direction No. 01 of 2021, dated January 19, 2021, issued by the CBSL on the same subject, licenced banks incorporated or established in Sri Lanka were instructed to defer payment of cash dividends until the financial statements for the year 2020 are finalised and audited by the external auditors. Accordingly, the Board of Directors of the Bank has now recommended a final dividend of Rs. 6.50 per ordinary share for both ordinary voting and non-voting shares of the Bank. This will be paid in the form of a cash dividend of Rs. 4.50 per share and Rs. 2.00 per share by the issue and allotment of new shares for both voting and non-voting shareholders of the Bank for the year ended December 31, 2020. It will be submitted for the approval of the shareholders at the 52nd AGM, to be held on March 30, 2021.

(A dividend of Rs. 6.50 per share was declared and paid by the Bank for the year ended December 31, 2019. It too 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 – 54

Dividends	2020	2019	2018	2017	2016
Cash – Rs. Per share					
First interim paid	–	1.50	1.50	1.50	1.50
Second interim paid	–	3.00	3.00	3.00	3.00
Final proposed	4.50	–	–	–	–
Total	**4.50**	4.50	4.50	4.50	4.50
Scrip – Rs. Per share					
Final proposed/allotted	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	32.07	27.16	25.92	26.42	27.64
Total (cash and shares)	**46.33**	39.23	37.44	38.17	39.94

Dividend per share Graph – 48



5. Shareholders

The Bank had 16,820 ordinary voting shareholders and 5,786 ordinary non-voting shareholders as at December 31, 2020 compared to 12,268 and 4,673 voting and non-voting shareholders as at December 31, 2019 (Tables 56 and 57 on page 300). With five new investors joining ranks, the percentage of ordinary voting shares held by the 20 largest shareholders increased to 71.96 % from 53.98% in 2019. A rise was also recorded in the non-voting ordinary shares held by the 20 largest shareholders to 38.22.% in 2020 from 32.24% in 2019.

Number of ordinary shareholders Table – 55

As at December 31,	2020	2019
Ordinary shareholders – Voting	16,820	12,268
Ordinary shareholders – Non-voting	5,786	4,673
Total	**22,606**	16,941

5.1 Composition of shareholders (Table – 56)

	As at December 31, 2020				As at December 31, 2019			
	No. of shareholders	%	No. of shares	%	No. of shareholders	%	No. of shares	%
Ordinary shares – Voting								
Resident	16,534	98.30	838,880,863	76.34	11,979	97.64	680,500,179	70.79
Non-resident	286	1.70	260,054,074	23.66	289	2.36	280,752,138	29.21
Total	16,820	100.00	1,098,934,937	100.00	12,268	100.00	961,252,317	100.00
Individuals	16,096	95.70	301,468,333	27.43	11,599	94.55	217,888,250	22.67
Institutions	724	4.30	797,466,604	72.57	669	5.45	743,364,067	77.33
Total	16,820	100.00	1,098,934,937	100.00	12,268	100.00	961,252,317	100.00
Ordinary shares – Non-voting								
Resident	5,707	98.63	63,316,978	93.15	4,600	98.44	52,731,695	79.59
Non-resident	79	1.37	4,653,723	6.85	73	1.56	13,522,574	20.41
Total	5,786	100.00	67,970,701	100.00	4,673	100.00	66,254,269	100.00
Individuals	5,537	95.70	45,572,024	67.05	4,448	95.19	37,265,740	56.25
Institutions	249	4.30	22,398,677	32.95	225	4.81	28,988,529	43.75
Total	5,786	100.00	67,970,701	100.00	4,673	100.00	66,254,269	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 – 57)

	As at December 31, 2020				As at December 31, 2019			
	Number of shareholders	%	Number of shares	%	Number of shareholders	%	Number of shares	%
Ordinary shares – Voting								
1 – 1,000	8,801	52.32	2,308,178	0.21	6,587	53.69	1,561,344	0.16
1,001 – 10,000	5,441	32.35	19,304,413	1.76	3,687	30.05	13,254,119	1.38
10,001 – 100,000	2,139	12.72	60,718,288	5.53	1,628	13.27	45,723,643	4.76
100,001 – 1,000,000	364	2.16	95,838,529	8.72	282	2.30	74,521,795	7.75
Over 1,000,000	75	0.45	920,765,529	83.78	84	0.69	826,191,416	85.95
Total	16,820	100.00	1,098,934,937	100.00	12,268	100.00	961,252,317	100.00
Ordinary shares – Non-voting								
1 – 1,000	3,161	54.63	810,631	1.19	2,561	54.80	608,395	0.92
1,001 – 10,000	1,863	32.20	6,341,366	9.33	1,480	31.67	5,037,000	7.60
10,001 – 100,000	654	11.30	18,176,361	26.74	532	11.38	15,054,584	22.72
100,001 – 1,000,000	99	1.71	24,419,830	35.93	93	1.99	23,501,033	35.47
Over 1,000,000	9	0.16	18,222,513	26.81	7	0.16	22,053,257	33.29
Total	5,786	100.00	67,970,701	100.00	4,673	100.00	66,254,269	100.00

5.3 Public Shareholding

(As per 7.6 (iv) and 7.13.1 of the Listing Rules) (Table – 58)

	2020		2019	
	Number	%	Number	%
Number of Shareholders representing the public holding (Voting)	16,785	99.80	12,234	99.76
Number of Shareholders representing the public holding (Non Voting)	5,781	99.84	4,663	86.62
Float Adjusted Market Capitalization Rs.Bn - (Compliant under Option 1)	93		96	

5.4 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 – 59)

As at December 31,		2020		2019*	
Ordinary shares – Voting		**Number of shares**	**%**	Number of shares	%
1.	DFCC Bank PLC A/C 1	132,119,619	12.02	82,560,377	8.59
2.	Mr Y S H I Silva	97,441,255	8.87	77,604,815	8.07
3.	Employees Provident Fund	94,723,763	8.62	92,558,649	9.63
4.	CB NY S/A International Finance Corporation	78,208,480	7.12	42,651,626	4.44
5.	Sri Lanka Insurance Corporation Ltd. – Life Fund	61,403,691	5.59	47,345,380	4.93
6.	Citibank Newyork S/A Norges Bank Account 2	45,759,984	4.16	21,973,486	2.29
7.	Melstacorp PLC	45,483,957	4.14	44,444,324	4.62
8.	CB NY S/A IFC Emerging Asia Fund. LP	40,319,015	3.67	–	–
9.	CB NY S/A IFC Financial Intitutions Growth Fund LP	40,319,015	3.67	–	–
10.	Sri Lanka Insurance Corporation Ltd. – General Fund	38,906,463	3.54	37,506,430	3.89
11.	Mr D P Pieris	21,003,054	1.91	228,626	0.02
12.	Employees Trust Fund Board	19,159,319	1.74	18,020,355	1.87
13.	Mrs L E M Yaseen	17,077,784	1.55	16,538,000	1.72
14.	Renuka Hotels PLC	9,893,069	0.90	9,666,942	1.01
15.	Mr M J Fernando	9,882,761	0.90	9,181,964	0.96
16.	BP2S London-Asia Dragon Trust PLC	9,093,567	0.83	–	–
17.	Renuka Consultants & Services Limited	8,631,578	0.79	8,414,742	0.88
18.	Hallsville Trading Group INC.	7,564,706	0.69	3,170,942	0.33
19.	BNYMSANV RE – LF Ruffer Investment Funds: LF Ruffer Pacific and Emerging Market Fund	7,219,310	0.66	7,054,298	0.73
20.	Seylan Bank PLC/Andaradeniya Estate (PVT) LTD	6,586,740	0.60	–	–
	Sub total	790,797,130	71.96	518,920,956	53.98
	Other shareholders	308,137,807	28.04	442,331,361	46.02
	Total	1,098,934,937	100.00	961,252,317	100.00

** Comparative shareholdings as at December 31, 2019 of the twenty largest shareholders as at December 31, 2020.*

Non-voting shareholders (Table – 60)

As at December 31,		2020		2019*	
Ordinary shares – Non-voting		**Number of shares**	**%**	Number of shares	%
1.	Employees Trust Fund Board	5,287,676	7.78	5,154,149	7.78
2.	Akbar Brothers (Pvt) Ltd. A/C No. 01	3,117,457	4.59	2,756,839	4.16
3.	Deutsche Bank AG As Trustee To Assetline Income Plus Growth Fund	1,770,354	2.60	–	–
4.	GF Capital Global Limited	1,757,304	2.59	1,712,928	2.59
5.	Mr A H Munasinghe	1,651,143	2.43	309,448	0.47
6.	Mr M F Hashim	1,282,270	1.89	1,087,247	1.64
7.	Serendip Investments Limited	1,167,646	1.72	1,494,489	2.26
8.	M.J.F. Exports (Pvt) Ltd	1,162,757	1.71	1,133,395	1.71
9.	Mrs L V C Samarasinha	1,025,906	1.51	891,208	1.35
10.	Saboor Chatoor (Pvt) Ltd	947,600	1.39	909,646	1.37
11.	Mr E Chatoor	805,000	1.18	434,381	0.66
12.	Mr M J Fernando	801,511	1.18	730,734	1.10
13.	Mr T W A Wickramasinghe	780,000	1.15	740,000	1.12
14.	Mr J D Bandaranayake , Ms N Bandaranayake and Dr V Bandaranayake (Joint)	723,540	1.06	648,153	0.98
15.	Mr R Gautam	708,999	1.04	623,919	0.94
16.	Mr J D Bandaranayake, Dr V Bandaranayake and Ms I Bandaranayake (Joint)	702,474	1.03	627,619	0.95
17.	Mr K S M De Silva	626,249	0.92	567,298	0.86
18.	Mr J G De Mel	590,000	0.87	523,547	0.79
19.	Mr G R Mallawaaratchy and Mrs B G P Mallawaaratchy (Joint)	569,975	0.84	555,582	0.84
20.	Mr A L Gooneratne	500,628	0.74	446,072	0.67
	Sub total	25,978,489	38.22	21,346,654	32.24
	Other shareholders	41,992,212	61.78	44,907,615	67.76
	Total	67,970,701	100.00	66,254,269	100.00

** Comparative shareholdings as at December 31, 2019 of the twenty largest shareholders as at December 31, 2020.*

5.5 Directors' shareholding including the Chief Executive Officer's shareholding (As per Rule No. 7.6 (v) of the Listing Rules of CSE)

Table – 61

	Ordinary shares – Voting		Ordinary shares – Non-voting	
	2020	2019	**2020**	2019
Justice K. Sripavan – Chairman•	14,000	Nil	Nil	Nil
Prof A K W Jayawardane – Deputy Chairman••	12,792	Nil	Nil	Nil
Mr S Renganathan – Managing Director/Chief Executive Officer	362,010	353,736	12,457	12,143
Mr S C U Manatunge	71,410	69,778	Nil	Nil
Mr K Dharmasiri	Nil	Nil	Nil	Nil
Mr L D Niyangoda	Nil	Nil	Nil	Nil
Ms N T M S Cooray	342,465	193,062	52,875	51,540
Mr T L B Hurulle	Nil	Nil	Nil	Nil
Ms J Lee•••	Nil	Nil	Nil	Nil
Mr R Senanayake••••	Nil	Nil	Nil	Nil
Mr K G D D Dheerasinghe *	24,821	24,254	Nil	Nil
Mr M P Jayawardena**	Nil	Nil	Nil	Nil
Mr S Swarnajothi ***	Nil	Nil	Nil	11,152

** Relinquished office w.e.f. December 21, 2020, ** Relinquished office w.e.f. December29, 2020, *** Retired w.e.f. August 20, 2020*

• Appointed as Chairman w.e.f. December 21, 2020, ••Appointed as Deputy Chairman w.e.f. December 29, 2020

••• Appointed as a Director w.e.f. August 13, 2020, •••• Appointed as a Director w.e.f. September 16, 2020

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 304 to 309 It also records significant events that may reasonably be expected to impact the share price. (More details are given in Financial Calendar on page 137)

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 114 to 133.

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.

10. Debt securities

Details of debentures issued by the Bank is as shown below:

10.1 Debenture Composition

Table – 62

	Fixed Interest Rate 2020						Fixed Interest Rate 2019		
Type of Issue	Public	Public	Public	Public	Public	Public	Public	Public	Public
Debenture Type	Type "A"	Type "B"	Type "A"	Type "B"	Type "A"	Type "B"	Type "A"	Type "B"	Type "A"
CSE Listing	Listed	Listed	Listed	Listed	Listed	Listed	Listed	Listed	Listed
Issue Date	9-Mar-16	9-Mar-16	28-Oct-16	28-Oct-16	23-Jul-18	23-Jul-18	9-Mar-16	9-Mar-16	28-Oct-16
Maturity Date	8-Mar-21	8-Mar-26	27-Oct-21	27-Oct-26	22-Jul-23	22-Jul-28	8-Mar-21	8-Mar-26	27-Oct-21
Interest Payable Frequency	Bi-Annually	Bi-Annually	Bi-Annually	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.	10.75% p.a.	11.25% p.a.	12.00% p.a.
Amount (Rs. Mn.)	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
Market Values									
– Highest (Rs.)	100.49	100.00	Not traded during the year	Not traded during the year	Not traded during the year	100.00	90.00	100.00	90.00
– Lowest (Rs.)	100.00	95.00				100.00	90.00	100.00	90.00
– Year-end (Rs.)	100.49	95.00				100.00	90.00	100.00	90.00
Interest Rates									
– Coupon Rate (%)	10.75	11.25	12.00	12.25	12.00	12.50	10.75	11.25	12.00
– Effective Annual Yield (%)	11.04	11.57	12.36	12.63	12.36	12.89	11.04	11.57	12.36
Interest rate of comparable Government Security (%)	4.70	6.75	5.00	6.80	5.95	7.15	8.55	9.90	8.70
Other Ratios as at date of last trade									
– Interest Yield (%)	9.80	12.43	N/A	N/A	N/A	12.49	16.57	11.24	16.86
– Yield to Maturity (%)	9.86	12.37	N/A	N/A	N/A	12.50	16.32	11.25	16.64

9. Quarterly performance in 2020 compared to 2019

(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 2020 to the CSE within applicable statutory deadlines. (The Bank duly complied with this requirement for 2019). Please refer "Financial Calendar" on page 137 for further details. A Summary of the Income Statement and the Statement of Financial Position depicting quarterly performance during 2020 together with comparatives for 2019 is given on pages 304 and 309 for the information of stakeholders.

The Audited Income Statement for the year ended December 31, 2020 and the Audited Statement of Financial Position as at December 31, 2020 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 2019).

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 on request. The Company Secretary of the Bank will respond to individual letters received from shareholders.

10.2 Other ratios

Table – 63

	2020	2019
Debt equity ratio (%)	**35.51**	38.97
Net assets value per share (Rs.)	**134.67**	129.60
Interest cover (Times)	**10.37**	8.54
Liquid assets ratio (%) (Minimum 20%)		
Domestic Banking Unit (DBU)	**44.99**	30.42
Off-shore Banking Unit (OBU)	**32.70**	25.25

11. Credit ratings

11.1 National long-term ratings

Fitch Ratings Lanka Ltd., has revised the National Long-term Rating of the Sri Lankan financial institutions following the recalibration of its Sri Lankan national rating scale. As a result, Fitch Ratings revised the National Long-term rating of the Bank to AA-(lka) from AA+(lka) and its outlook from negative to stable in January 2021.

The Bank's Bangladesh Operation's credit rating was reaffirmed at AAA by Credit Rating Information Services Ltd in May 2020 for the 10th consecutive year.

11.2 Credit ratings – Debentures

The credit rating of the Bank's Subordinated Debentures was also revised to A(lka) from AA-(lka) by Fitch Ratings Lanka Ltd.

	Fixed Interest Rate 2019				Fixed Interest Rate 2018					Fixed Interest Rate 2017		
Public	Public	Public	Public	Public	Public	Public	Public	Public	Public	Public	Public	Public
Type "B"	Type "A"	Type "B"	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	Listed	Listed	Listed
28-Oct-16	23-Jul-18	23-Jul-18	9-Mar-16	9-Mar-16	28-Oct-16	28-Oct-16	23-Jul-18	23-Jul-18	9-Mar-16	9-Mar-16	28-Oct-16	28-Oct-16
27-Oct-26	22-Jul-23	22-Jul-28	8-Mar-21	8-Mar-26	27-Oct-21	27-Oct-26	22-Jul-23	22-Jul-28	8-Mar-21	8-Mar-26	27-Oct-21	27-Oct-26
Bi-Annually	Bi-Annually	Bi-Annually	Bi-Annually	Bi-Annually	Bi-Annually	Bi-Annually	Bi-Annually	Bi-Annually	Bi-Annually	Bi-Annually	Bi-Annually	Bi-Annually
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.	12.00% p.a.	12.50% p.a.	10.75% p.a.	11.25% p.a.	12.00% p.a.	12.25% p.a.
1,928.20	8,393.84	1,606.16	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	Not traded during the year	Not traded during the year	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	
12.25	12.00	12.50	10.75	11.25	12.00	12.25	12.00	12.50	10.75	11.25	12.00	12.25
12.63	12.36	12.89	11.04	11.57	12.36	12.63	12.36	12.89	11.04	11.57	12.36	12.63
9.90	9.40	10.10	11.30	11.65	11.50	11.80	11.65	11.85	9.70	10.10	9.80	10.10
N/A	N/A	N/A	N/A	13.45	11.02	N/A	N/A	N/A	17.96	N/A	15.98	N/A
N/A	N/A	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 and 2020 Table – 64

	1st Quarter ended March 31		2nd Quarter ended June 30	
	2020 Rs. '000	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000
Group				
Net interest income	**12,782,660**	12,119,820	**9,984,100**	12,025,716
Net fee and commission income	**2,447,061**	2,447,840	**1,640,638**	2,390,610
Other operating income (net)	**4,618,052**	550,539	**3,964,571**	2,583,027
Less: Impairment charges and other losses	**6,653,253**	1,896,313	**2,607,571**	3,630,501
Net operating income	**13,194,520**	13,221,886	**12,981,738**	13,368,852
Less: Expenses	**7,755,912**	8,204,593	**7,303,047**	8,041,586
Operating profit	**5,438,608**	5,017,293	**5,678,691**	5,327,266
Add: Share of profits/(losses) of associate companies	**(914)**	1,343	**177**	4,529
Profit before income tax	**5,437,694**	5,018,636	**5,678,868**	5,331,795
Less: Income tax expense	**1,623,311**	1,827,824	**2,045,674**	1,850,007
Profit for the period	**3,814,383**	3,190,812	**3,633,194**	3,481,788
Quarterly profit as a percentage of the profit after tax	**22.3**	18.3	**21.3**	20.0
Cumulative quarterly profit as a percentage of the profit after tax	**22.3**	18.3	**43.6**	38.3

	1st Quarter ended March 31		2nd Quarter ended June 30	
	2020 Rs. '000	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000
Bank				
Net interest income	**12,425,953**	11,881,071	**9,701,778**	11,758,079
Net fee and commission income	**2,293,173**	2,335,343	**1,527,747**	2,337,977
Other operating income (net)	**4,600,441**	460,042	**4,039,888**	2,573,614
Less: Impairment charges and other losses	**6,544,696**	1,852,370	**2,895,956**	3,515,041
Net operating income	**12,774,871**	12,824,086	**12,373,457**	13,154,629
Less: Expenses	**7,546,314**	8,049,713	**7,155,931**	7,882,695
Profit before income tax	**5,228,557**	4,774,373	**5,217,526**	5,271,934
Less: Income tax expense	**1,521,991**	1,751,497	**1,962,981**	1,828,428
Profit for the period	**3,706,566**	3,022,876	**3,254,545**	3,443,506
Quarterly profit as a percentage of the profit after tax	**22.6**	17.8	**19.9**	20.2
Cumulative quarterly profit as a percentage of the profit after tax	**22.6**	17.8	**42.5**	38.0

3rd Quarter ended September 30		4th Quarter ended December 31		Total		
2020 **Rs. '000**	2019 Rs. '000	**2020** **Rs. '000**	2019 Rs. '000	**2020** **Rs. '000**	2019 Rs. '000	
						Group
14,029,002	12,277,968	**14,073,040**	11,932,887	**50,868,802**	48,356,391	Net interest income
2,672,054	2,840,646	**3,061,922**	3,072,742	**9,821,675**	10,751,838	Net fee and commission income
3,679,491	2,670,120	**3,776,897**	2,774,733	**16,039,011**	8,578,419	Other operating income (net)
7,471,776	3,017,776	**4,686,932**	2,786,933	**21,419,532**	11,331,523	Less: Impairment charges and other losses
12,908,771	14,770,958	**16,224,927**	14,993,429	**55,309,956**	56,355,125	**Net operating income**
7,634,075	8,380,022	**8,100,960**	8,755,020	**30,793,994**	33,381,221	Less: Expenses
5,274,696	6,390,936	**8,123,967**	6,238,409	**24,515,962**	22,973,904	**Operating profit**
2,665	3,636	**1,970**	484	**3,898**	9,992	Add: Share of profits/(losses) of associate companies
5,277,361	6,394,572	**8,125,937**	6,238,893	**24,519,860**	22,983,896	Profit before income tax
1,549,657	1,548,871	**2,214,421**	336,798	**7,433,063**	5,563,500	Less: Income tax expense
3,727,704	4,845,701	**5,911,516**	5,902,095	**17,086,797**	17,420,396	**Profit for the period**
21.8	27.8	**34.6**	33.9	**100.0**	100.0	**Quarterly profit as a percentage of the profit after tax**
65.4	66.1	**100.0**	100.0	**–**	–	**Cumulative quarterly profit as a percentage of the profit after tax**

3rd Quarter ended September 30		4th Quarter ended December 31		Total		
2020 **Rs. '000**	2019 Rs. '000	**2020** **Rs. '000**	2019 Rs. '000	**2020** **Rs. '000**	2019 Rs. '000	
						Bank
13,762,118	11,991,650	**13,681,492**	11,577,472	**49,571,341**	47,208,272	Net interest income
2,540,162	2,741,978	**2,895,323**	2,874,214	**9,256,405**	10,289,512	Net fee and commission income
3,686,508	2,641,059	**3,785,715**	2,845,445	**16,112,552**	8,520,160	Other operating income (net)
7,441,088	2,955,795	**4,601,958**	2,738,260	**21,483,698**	11,061,466	Less: Impairment charges and other losses
12,547,700	14,418,892	**15,760,572**	14,558,871	**53,456,600**	54,956,478	**Net operating income**
7,427,613	8,177,767	**7,815,430**	8,507,198	**29,945,288**	32,617,373	Less: Expenses
5,120,087	6,241,125	**7,945,142**	6,051,673	**23,511,312**	22,339,105	**Profit before income tax**
1,486,601	1,484,148	**2,166,250**	250,065	**7,137,823**	5,314,138	Less: Income tax expense
3,633,486	4,756,977	**5,778,892**	5,801,608	**16,373,489**	17,024,967	**Profit for the period**
22.2	27.9	**35.3**	34.1	**100.0**	100.0	**Quarterly profit as a percentage of the profit after tax**
64.7	65.9	**100.0**	100.0	**–**	–	**Cumulative quarterly profit as a percentage of the profit after tax**

Statement of Financial Position – Group – 2019 and 2020 (Table – 65)

As at	1st Quarter ended		2nd Quarter ended	
	March 31, 2020	March 31, 2019	**June 30, 2020**	June 30, 2019
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
Assets				
Cash and cash equivalents	69,291,420	51,197,799	52,425,162	53,188,327
Balances with Central Banks	38,459,820	51,599,785	57,547,194	45,126,978
Placements with banks	28,862,006	28,158,636	26,860,049	24,883,478
Securities purchased under re-sale agreements	10,448,494	23,988,458	7,209,397	18,497,618
Derivative financial assets	2,140,505	4,510,499	1,898,100	3,253,835
Financial assets recognised through profit or loss – measured at fair value	25,660,517	10,668,315	32,898,907	12,252,492
Financial assets at amortised cost – Loans and advances to banks	792,189	731,801	776,550	736,299
Financial assets at amortised cost – Loans and advances to other customers	917,442,418	861,142,772	897,297,570	854,238,500
Financial assets at amortised cost – Debt and other financial instruments	116,242,352	85,428,291	195,822,341	98,761,011
Financial assets measured at fair value through other comprehensive income	212,994,354	176,527,583	245,777,765	208,698,513
Investments in subsidiaries	–	–	–	–
Investments in associates	55,907	101,888	53,190	105,388
Property, plant and equipment and right-of-use assets	22,051,532	16,980,540	21,993,257	16,882,420
Investment properties	46,350	–	46,350	–
Intangible assets	1,641,425	1,473,609	1,698,360	1,505,196
Leasehold property	101,251	102,705	100,889	102,343
Deferred tax assets	1,291,100	132,577	159,921	180,225
Other assets	25,749,941	30,631,819	24,090,018	27,674,083
Total assets	1,473,271,581	1,343,377,077	1,566,655,020	1,366,086,706
Liabilities				
Due to banks	76,515,510	42,694,636	73,955,005	62,009,934
Derivative financial liabilities	2,987,717	3,961,272	1,915,067	2,411,810
Securities sold under repurchase agreements	42,014,953	41,381,747	64,224,587	40,649,376
Financial liabilities at amortised cost – due to depositors	1,120,368,799	1,025,585,219	1,155,219,967	1,037,150,823
Financial liabilities at amortised cost – other borrowings	23,473,191	25,312,923	31,578,599	24,188,447
Current tax liabilities	5,324,474	7,009,677	5,221,850	7,480,547
Deferred tax liabilities	417,779	1,043,580	825,722	1,031,229
Other liabilities	26,541,214	37,467,290	50,978,826	27,250,407
Due to subsidiaries	–	–	–	–
Subordinated liabilities	38,562,279	37,444,838	38,199,628	37,494,509
Total liabilities	1,336,205,916	1,221,901,182	1,422,119,251	1,239,667,082
Equity				
Stated capital	40,916,958	40,916,957	42,971,971	40,916,957
Statutory reserves	8,387,701	7,444,178	8,391,150	7,445,163
Retained earnings	5,864,374	2,965,210	7,414,964	6,416,457
Other reserves	80,208,291	68,936,039	84,077,287	70,392,367
Total equity attributable to equity holders of the Group/Bank	135,377,324	120,262,384	142,855,372	125,170,944
Non-controlling interest	1,688,341	1,213,511	1,680,397	1,248,680
Total equity	137,065,665	121,475,895	144,535,769	126,419,624
Total liabilities and equity	1,473,271,581	1,343,377,077	1,566,655,020	1,366,086,706
Contingent liabilities and commitments	622,815,977	623,050,857	602,842,021	585,207,963
Net assets value per ordinary share (Rs.)	131.75	117.04	135.83	121.82
Quarterly growth (%)				
Financial assets at amortised cost – loans and advances to banks & loans and advances to other customers	2.63	-0.75	-2.20	-0.80
Financial liabilities at amortised cost – due to depositors	4.81	3.14	3.11	1.13
Total assets	4.57	1.78	6.34	1.69

3rd Quarter ended		4th Quarter ended		
September 30, 2020 **Rs. '000**	September 30, 2019 Rs. '000	**December 31, 2020 (Audited)** **Rs. '000**	December 31, 2019 (Audited) Rs. '000	*As at*
				Assets
44,382,431	49,275,010	**51,255,030**	53,681,118	Cash and cash equivalents
83,313,147	42,467,189	**115,358,732**	46,101,232	Balances with Central Banks
17,645,097	24,213,930	**16,421,867**	24,903,809	Placements with banks
445,577	16,020,541	**–**	13,147,534	Securities purchased under resale agreements
2,011,946	2,055,696	**2,636,717**	1,830,927	Derivative financial assets
43,470,925	16,413,151	**35,189,471**	21,468,033	Financial assets recognised through profit or loss – measured at fair value
773,422	758,397	**779,705**	757,787	Financial assets at amortised cost – Loans and advances to banks
899,988,223	865,095,075	**909,829,172**	893,919,311	Financial assets at amortised cost – Loans and advances to other customers
269,243,315	98,104,929	**302,059,529**	107,059,021	Financial assets at amortised cost – Debt and other financial instruments
252,685,502	205,397,219	**278,716,794**	197,825,017	Financial assets measured at fair value through other comprehensive income
–	–	**–**	–	Investments in subsidiaries
62,361	55,632	**64,155**	56,821	Investments in associates
21,705,618	17,289,059	**25,386,630**	22,423,046	Property, plant and equipment and right-of-use assets
46,350	46,350	**67,116**	46,350	Investment properties
1,827,427	1,573,573	**1,800,516**	1,645,714	Intangible assets
100,525	101,977		101,612	Leasehold property
2,503,276	196,965	**2,735,566**	530,165	Deferred tax assets
22,879,328	31,289,510	**20,195,153**	23,443,869	Other assets
1,663,084,470	1,370,354,203	**1,762,496,153**	1,408,941,366	**Total assets**
				Liabilities
82,499,159	49,473,621	**88,248,056**	53,807,425	Due to banks
1,533,809	2,314,173	**1,501,262**	1,495,317	Derivative financial liabilities
81,100,405	38,023,739	**91,411,522**	51,117,342	Securities sold under repurchase agreements
1,221,756,923	1,047,138,415	**1,286,616,399**	1,068,982,587	Financial liabilities at amortised cost – due to depositors
48,116,673	24,414,671	**54,555,933**	23,248,893	Financial liabilities at amortised cost – other borrowings
6,444,772	5,861,745	**6,991,005**	5,197,188	Current tax liabilities
421,972	646,670	**403,846**	416,458	Deferred tax liabilities
37,249,718	32,521,860	**33,572,283**	30,775,884	Other liabilities
–	–	**–**	–	Due to subsidiaries
38,136,630	37,960,312	**38,247,138**	37,886,789	Subordinated liabilities
1,517,260,061	1,238,355,206	**1,601,547,444**	1,272,927,883	**Total Liabilities**
				Equity
42,971,971	40,916,957	**52,187,747**	40,916,958	Stated capital
8,391,150	7,445,163	**9,285,233**	8,387,701	Statutory reserves
11,213,907	11,357,570	**8,124,261**	5,182,185	Retained earnings
81,537,813	70,754,689	**89,595,571**	79,937,405	Other reserves
144,114,841	130,474,379	**159,192,812**	134,424,249	**Total equity attributable to equity holders of the Group/Bank**
1,709,568	1,524,618	**1,755,897**	1,589,234	Non-controlling interest
145,824,409	131,998,997	**160,948,709**	136,013,483	**Total Equity**
1,663,084,470	1,370,354,203	**1,762,496,153**	1,408,941,366	**Total liabilities and equity**
680,543,307	628,720,426	**730,561,685**	580,961,807	Contingent liabilities and commitments
137.03	126.98	**136.42**	130.83	Net assets value per ordinary share (Rs.)
				Quarterly growth (%)
0.30	1.27	**1.09**	3.33	Financial assets at amortised cost – Loans and advances to banks & loans and advances to other customers
5.76	0.96	**5.31**	2.09	Financial liabilities at amortised cost – due to depositors
6.16	0.31	**5.98**	2.82	Total assets

Statement of Financial Position – Bank – 2019 and 2020 Table – 66

	1st Quarter ended		2nd Quarter ended	
As at	**March 31, 2020 Rs. '000**	**March 31, 2019 Rs. '000**	**June 30, 2020 (Audited) Rs. '000**	**June 30, 2019 (Audited) Rs. '000**
Assets				
Cash and cash equivalents	67,909,585	40,490,801	50,830,153	44,719,754
Balances with Central Banks	32,656,696	49,591,644	53,453,467	43,450,379
Placements with banks	28,287,644	27,972,963	26,427,430	24,386,003
Securities purchased under re-sale agreements	10,448,494	23,988,458	7,209,397	18,497,618
Derivative financial assets	2,140,505	4,510,499	1,898,100	3,253,835
Financial assets recognised through profit or loss – measured at fair value	25,660,517	10,668,315	32,898,907	12,252,492
Financial assets at amortised cost – Loans and advances to banks	792,189	731,801	776,550	736,299
Financial assets at amortised cost – Loans and advances to other customers	907,415,058	853,891,574	887,251,878	847,364,012
Financial assets at amortised cost – Debt and other financial instruments	110,201,662	79,286,240	187,528,301	93,363,847
Financial assets measured at fair value through other comprehensive income	212,748,101	176,288,466	245,533,383	208,459,018
Investments in subsidiaries	5,011,284	4,304,032	4,683,429	4,303,814
Investments in associates	44,331	44,331	44,331	44,331
Property, plant and equipment	20,053,178	15,271,969	19,964,308	15,185,135
Investment properties	–	–	–	–
Intangible assets	1,076,363	959,417	1,137,090	999,066
Leasehold property	70,477	71,421	70,242	71,186
Deferred tax assets	1,100,255	–	–	–
Other assets	25,647,724	30,526,679	23,893,406	27,545,229
Total assets	**1,451,264,063**	1,318,598,610	**1,543,600,372**	1,344,632,018
Liabilities				
Due to banks	74,075,132	40,274,885	72,163,605	59,867,706
Derivative financial liabilities	2,987,717	3,961,272	1,915,067	2,411,810
Securities sold under repurchase agreements	42,159,141	41,531,673	64,448,218	40,747,726
Financial liabilities at amortised cost – due to depositors	1,104,634,005	1,006,076,868	1,138,170,145	1,020,918,723
Financial liabilities at amortised cost – other borrowings	23,473,191	25,312,923	31,578,599	24,188,447
Current tax liabilities	5,053,931	6,777,712	4,938,966	7,232,866
Deferred tax liabilities	–	716,986	410,559	702,188
Other liabilities	26,300,217	37,229,335	50,610,310	26,895,743
Due to subsidiaries	80,711	41,719	65,786	50,544
Subordinated liabilities	38,562,279	37,444,838	38,199,628	37,494,509
Total liabilities	**1,317,326,324**	1,199,368,211	**1,402,500,883**	1,220,510,262
Equity				
Stated capital	40,916,958	40,916,957	42,971,971	40,916,957
Statutory reserves	8,205,391	7,354,143	8,205,391	7,354,143
Retained earnings	5,768,479	2,973,293	6,968,011	6,416,384
Other reserves	79,046,911	67,986,006	82,954,116	69,434,272
Total equity attributable to equity holders of the Group/Bank	**133,937,739**	119,230,399	**141,099,489**	124,121,756
Non-controlling Interest	–	–	–	–
Total equity	**133,937,739**	119,230,399	**141,099,489**	124,121,756
Total liabilities and equity	**1,451,264,063**	1,318,598,610	**1,543,600,372**	1,344,632,018
Contingent liabilities and commitments	620,610,185	622,647,488	600,818,662	584,832,875
Net assets value per ordinary share (Rs.)	130.35	116.04	134.16	120.80
Quarterly growth (%)				
Financial assets at amortised cost – loans and advances to banks & loans and advances to other customers	2.57	-0.84	-2.22	-0.76
Financial liabilities at amortised cost – due to depositors	4.87	2.34	3.04	1.48
Total assets	4.61	1.16	6.36	1.97

3rd Quarter ended		4th Quarter ended		
September 30, 2020 Rs. '000	September 30, 2019 Rs. '000	December 31, 2020 (Audited) Rs. '000	December 31, 2019 (Audited) Rs. '000	*As at*
				Assets
43,339,446	43,628,405	50,250,627	52,534,730	Cash and cash equivalents
79,611,753	40,888,289	110,971,105	39,461,127	Balances with Central Banks
17,235,679	23,774,064	15,938,982	24,527,241	Placements with banks
445,577	16,020,541	–	13,147,534	Securities purchased under re-sale agreements
2,011,946	2,055,696	2,636,717	1,830,927	Derivative financial assets
43,470,925	16,413,151	35,189,471	21,468,033	Financial assets recognised through profit or loss – measured at fair value
773,422	758,397	779,705	757,787	Financial assets at amortised cost – Loans and advances to banks
888,862,548	857,595,286	896,845,453	884,645,744	Financial assets at amortised cost – Loans and advances to other customers
260,169,367	91,286,998	292,727,566	101,144,819	Financial assets at amortised cost – Debt and other financial instruments
252,327,507	205,157,059	278,461,369	197,568,330	Financial assets measured at fair value through other comprehensive income
4,683,429	4,619,287	5,808,429	5,011,284	Investments in subsidiaries
44,331	44,331	44,331	44,331	Investments in associates
19,672,332	15,176,692	23,212,394	20,436,493	Property, plant and equipment
–	–	–	–	Investment properties
1,260,024	1,016,676	1,232,863	1,080,010	Intangible assets
70,006	70,948	–	70,710	Leasehold property
2,321,548	–	2,499,860	294,059	Deferred tax assets
22,751,766	31,117,533	19,619,149	23,322,247	Other assets
1,639,051,606	1,349,623,353	1,736,218,021	1,387,345,406	**Total assets**
				Liabilities
81,003,276	47,631,147	87,451,306	51,505,694	Due to banks
1,533,809	2,314,173	1,501,262	1,495,317	Derivative financial liabilities
81,145,001	38,133,178	91,437,612	51,220,023	Securities sold under repurchase agreements
1,203,658,867	1,031,733,089	1,265,965,918	1,053,307,660	Financial liabilities at amortised cost – due to depositors
48,116,673	24,414,671	54,555,933	23,248,893	Financial liabilities at amortised cost – other borrowings
6,328,897	5,696,943	6,777,992	4,967,644	Current tax liabilities
–	226,978	–	–	Deferred tax liabilities
36,733,042	32,098,371	33,037,669	30,496,709	Other liabilities
121,071	138,081	97,015	54,292	Due to subsidiaries
38,136,630	37,960,312	38,247,138	37,886,789	Subordinated liabilities
1,496,777,266	1,220,346,943	1,579,071,845	1,254,183,021	**Total liabilities**
				Equity
42,971,971	40,916,957	52,187,747	40,916,958	Stated capital
8,205,391	7,354,143	9,024,065	8,205,391	Statutory reserves
10,707,378	11,296,851	7,596,260	5,144,433	Retained earnings
80,389,600	69,708,459	88,338,104	78,895,603	Other reserves
142,274,340	129,276,410	157,146,176	133,162,385	**Total equity attributable to equity holders of the Group/Bank**
–	–	–	–	Non-controlling Interest
142,274,340	129,276,410	157,146,176	133,162,385	**Total equity**
1,639,051,606	1,349,623,353	1,736,218,021	1,387,345,406	**Total liabilities and equity**
678,379,768	628,260,614	728,711,698	579,999,273	Contingent liabilities and commitments
135.28	125.82	134.67	129.60	Net assets value per ordinary share (Rs.)
				Quarterly growth (%)
0.18	1.21	0.90	3.15	Financial assets at amortised cost – Loans and advances to banks & Loans and advances to other customers
5.75	1.06	5.18	2.09	Financial Liabilities at amortised cost – Due to depositors
6.18	0.37	5.93	2.80	Total assets

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 41 to 47 and pages 75 to 85. 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 2020-2024 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 2021-2025 was approved on December 17, 2020 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 114 to 133 and the "Report of the BIRMC" on pages 89 to 90 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 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. Details of attendance of the shareholders at AGMs during the past five years is given in the Table 30 on page 85. 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 Standard – LKAS 24 on "Related Party Disclosures", 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. For financial reporting purpose, the Board of Directors of the Bank (including Executive and Non-Executive Directors) is considered as KMP of the Bank. Further, for corporate governance reporting and monitoring purposes, the Bank has included all members of the Corporate Management into the category of KMP.	✓
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 2020 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 key agenda items or are called in for discussions at the meetings of the Board and presentations on 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 pages 82 and 83.	✓
3 (1) (iii)	**Regular Board meetings** Board meetings are held 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 pages 78 and 79 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.	✓
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.	✓

Section	Principle, compliance, and implementation	Complied
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 79. 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. Refer "Role of the Company Secretary" on page 83 for further details on role of the Company Secretary.	✓
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 in other entities are indicated in their profiles appearing on pages 66 to 69 and "Directors' Interest in Contracts with the Bank" as disclosed on page 113.	✓
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.	✓
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. Please refer Annex: 3 Basel III- Disclosures under Pillar 3 as per Banking Act Direction No. 01 of 2016.	✓
3 (1) (xvi)	**Publish Corporate Governance Report in this Annual Report** This Report forms part of the Annual Corporate Governance Report of the Bank which is set out on pages 75 to 85.	✓

Section	Principle, compliance, and implementation	Complied
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 ten (10) Directors as at December 31, 2020.	✓
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 79.	✓
3 (2) (iii)	**Board balance** There are two (2) Executive Directors and eight (8) 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 eight (8) 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 79.	✓
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.	✓
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.	✓

Section	Principle, compliance, and implementation	Complied
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 66 Board of Directors and Profiles. 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** Eight (8) 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.	✓
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. The shareholder participation at AGMs is given on pages 84 and 85 of the Annual Corporate Governance Report.	✓
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.	✓

Section	Principle, compliance, and implementation	Complied
3 (6)	**Board appointed committees**	
3 (6) (i)	**Establishing Board Committees, their functions and reporting** The Board has established 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 86 to 100. 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)	**Board Audit Committee (BAC)**	
a.	**Chairman of the committee shall be an Independent Non-Executive Director who possesses qualifications and experience in accountancy and/or audit** Chairman of the Committee, Mr R Senanayake is an Independent Non-Executive Director with qualifications and experience in accountancy. Mr R Senanayake's profile is given on page 69.	✓
b.	**Committee to comprise solely of Non-Executive Directors** All members of the BAC are Independent Non-Executive Directors.	✓
c.	**Board 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) Considered whether the skills and experience of the audit firm make it a suitable provider of non-audit services (ii) 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. (iii) 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, nature 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.	✓
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.	✓

Section	Principle, compliance, and implementation	Complied
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, functions and resource requirements relating to the Audit Plan and has the necessary authority to carry out its work. The services of five audit firms have been obtained to assist the Internal Audit Department to carry out the audit function. Prior approval of the BAC has been obtained in this regard. The Committee reviewed the reports submitted by Internal Audit Department and ensures that appropriate action is taken on the recommendations. The Assistant General Manager – Management Audit, who leads the Internal Audit Department, reports directly to the BAC and his performance appraisal is reviewed by the BAC. The BAC is to recommend any appointment, terminations/resignations of the head, senior internal audit staff members and outsourced service providers to the internal audit function. The above processes ensure that audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care. Ensure that the committee is appraised of resignations of senior staff members of the internal audit department including the chief internal auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning.	✓
k.	**Internal investigations** The committee shall consider the major findings of internal investigations and management's responses thereto.	✓
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. Refer the "Report of the BAC" given on pages 86 to 88.	✓
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 "Report of the BAC" on pages 86 to 88.	✓
n.	**Regular meetings** The BAC has scheduled regular quarterly meetings and additional meetings are scheduled when required. Accordingly, the Committee met seven (7) times during the year. Members of the BAC are served with due notice of issues to be discussed and the conclusions in discharging its duties and responsibilities are recorded in the minutes of the meetings maintained by the Secretary of the BAC.	✓
o.	**Disclosure in Annual Report** The "Report of the BAC" on pages 86 to 88 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.	✓

Section	Principle, compliance, and implementation	Complied
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)	**Board 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. Refer the "Report of the BHRRC" on pages 93 and 94.	✓
3 (6) (iv)	**Board Nomination Committee (BNC)**	
a.	**Appointment of Directors, CEO and KMP** Appointment of Directors, CEO and Members of the Corporate Management The Committee has developed and implemented a procedure to appoint new Directors, CEO and the members of the Corporate Management. 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 "Report of the BNC" on page 91 and 92.	✓
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. Refer the "Statement of Compliance" given on pages 101 to 106.	✓
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.	✓
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)	**Board Integrated Risk Management Committee (BIRMC)**	
a.	**Composition of BIRMC** The Committee comprises NEDs, the Managing Director/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.	✓

Section	Principle, compliance, and implementation	Complied
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 shall review the adequacy and effectiveness of all management level Committees such as Credit Policy Committee, Asset and Liability Management Committee (ALCO), Executive Integrated Risk Management Committee (EIRMC) etc., to assess their adequacy and effectiveness in addressing specific risks and managing them within the quantitative and qualitative risk limits specified by the Board of Directors. These limits are set out in the Risk Appetite Statement of the Bank and are reviewed by the Board on a regular basis.	✓
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 2020.	✓
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)	**Board Related Party Transactions Review Committee (BRPTRC)**	
3 (7) (i)	**Avoid conflict of interest** The BRPTRC oversees the processes relating to this subject and their Report is on page 95. 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 the Sri Lanka Accounting Standard – LKAS 24 on "Related Party Disclosures", in the normal course of business, are disclosed in Note 63 to the Financial Statements on "Related Party Disclosures" on pages 255 to 259. 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 113 for more details.	✓
3 (7) (ii)	**Related party transactions covered by direction** The Related Party Transactions Policy approved by the Board, covers the following transactions: (a) The grant of any type of accommodation, as defined in the Monetary Board's Directions on maximum amount of accommodation; (b) The creation of any liabilities of the Bank in the form of deposits, borrowings and investments; (c) The provision of any services of a financial or non-financial nature to the Bank or received from the Bank; (d) The creation or maintenance of reporting lines and information flows between the Bank and any related parties, which may lead to sharing of potentially proprietary, confidential or otherwise sensitive information that may give benefits to such related parties.	✓

Section	Principle, compliance, and implementation	Complied
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 78 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 2020 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 for Financial Reporting" and "Managing Director's and Chief Financial Officer's Statement of Responsibility". 📖 Refer pages 107 and 108, 112 respectively.	✓
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. Please refer the following statements for more details. Annual Report of the Board of Directors on page 3. Statement of Compliance on pages 101 to 106. Statement of Directors' Responsibility for Financial Reporting on pages 107 and 108. Directors' Statement on Internal Control over Financial Reporting on pages 109 and 110.	✓

Section | Principle, compliance, and implementation | Complied

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 111.

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 66 to 69.
- Directors' Interests in Contracts with the Bank on page 113.
- Details of remuneration paid by the Bank are given in Note 21 to the Financial Statements on page 186.

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, 2020.

	Category of related party	Rs. Mn.	%
a	Subsidiary companies of the Bank	1,498	0.87
b	Associate of the Bank	–	–
c	Directors of the Bank*	34	0.02
D	Members of the Corporate Management of the Bank	244	0.14
e	Close relations of the Bank's directors or members of the Corporate Management	47	0.03
f	Shareholder owning a material interest in the Bank	–	–
g	Entities in which Directors/KMP or their close relations have a substantial interest	3,826	2.23

* *Include both NEDs and EDs*

f. **Aggregate values of remuneration to and transactions with Directors and members of the Corporate Management** ✓

Remuneration paid and transactions with KMP	Rs. Mn.
Remuneration paid for the year ended December 31, 2020	437
Accommodation granted – as at December 31, 2020	291
Deposits – as at December 31, 2020	487
Investments – as at December 31, 2020	23

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 for Financial Reporting on pages 107 and 108 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, where applicable.

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 ten (10) eminent professionals drawn from multiple fields and eight (08) 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 Chief Executive Officer (CEO) and the Chief Operating Officer (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 29 on page 79. 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 82.	✓
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 the Members of the Corporate Management. Please refer page 83 on "Role of the Company Secretary" for further details on role of the Company Secretary.	✓
A.1.5	**Independent judgement** The Board comprises of 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 ten (10) days each 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 83.	✓
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 who is a NED is a Fellow Member 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 Chairman is an Independent Non-Executive Director. The Board comprises eight (8) 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. 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 "Appointments/retirements and resignations of Directors" given on page 83 and Report of the BNC on pages 91 and 92.	✓
A.8	**All Directors should submit themselves for re-election at regular intervals** Refer Sections on "Re-election/election of Directors" on page 83. 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.	✓
A.9	**Appraisal of Board and Board Committee performance** Refer Section on "Board and Board Committee Evaluations" on page 84.	✓
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 64 to 69. ● Directors' Interest in contracts with the Bank on page 113. ● Remuneration paid to Directors in Note 21 to the Financial Statements on page 186. ● Related Party Disclosures in Note 63 to the Financial Statements on pages 255 to 259. ● Membership of committees and attendance at Board meetings and Committee meetings on page 79 and pages 86 to 100.	✓
A.11	**Appraisal of the CEO** Refer section on "Appraisal of the CEO" on page 84.	✓
B.	**Directors' remuneration**	
B.1	**Remuneration procedure** Refer section on "Directors' and Executive remuneration" on page 84 and Report of the BHRRC on pages 93 and 94.	✓
B.2	**Level and make-up of remuneration** Refer section on "Level and make up of remuneration" on page 84.	✓

Code ref.	Compliance and implementation	Complied
B.3	**Disclosures related to remuneration in Annual Report** (i) Directors' and Executive remuneration – 📖 Refer page 84. (ii) Details of remuneration of the Board as a whole – 📖 Refer Note 21 to the Financial Statements on page 186. (iii) Report of the BHRRC – 📖 Refer pages 93 and 94.	✓
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 under "Shareholder engagement and voting" section on page 84 and 85 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 to comply with the requirements. 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 as follows: ● Shareholder engagement and voting on page 84 and 85. ● Statement of Compliance pages 101 to 106. ● Related Party Disclosures as disclosed in Note 63 to the Financial Statements on page 255 to 259.	✓
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 compiled 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 41 to 62. ● Annual Report of the Board of Directors – 📖 Refer page 3. ● Statement of Compliance – 📖 Refer pages 101 to 106. ● Statement of Directors' Responsibility for Financial Reporting – 📖 Refer pages 107 and 108. ● Statement of Going Concern of the Company is set out in the Statement of Directors' Responsibility for Financial Reporting – 📖 Refer pages 107 and 108. ● Directors' Statement on Internal Control over Financial Reporting – 📖 Refer pages 109 and 110.	✓

Code ref.	Compliance and implementation	Complied
	• Managing Director's and Chief Financial Officer's Statement of Responsibility on page 112. • Independent Auditors' Report on page 138 to 140. • Related Party Transactions disclosed in Note 63 to the Financial Statements on pages 255 to 259 and the process in place is described in the Report of the BRPTRC page 95. 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 26.	
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 114 to 133 and the Report of the BIRMC on pages 89 and 90.	✓
D.3	**Board Audit Committee** The BAC of the Board comprises four (04) independent NEDs and a summary of its responsibilities and activities are given in the Report of the BAC as appearing on pages 86 to 88 It is supported by the Internal Audit function of the Bank who reports directly to the BAC. The Chairman of the Committee is Mr R Senanayake, a Fellow member of CA 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. Refer Report of the BAC given on pages 86 to 88. The Board also obtains assurance from its External Auditors on the effectiveness of internal controls on financial reporting which is given on page 111.	✓
D.4	**Board Related Party Transactions Review Committee (BRPTRC)** 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 BRPTRC on page 95. The Bank has a Board-approved Related Party Transactions Policy in place which addresses requirements under this section.	✓
D.5	**Code of Ethics** The Bank has an internally-developed Code of Business Conduct and Ethics which is applicable to Directors, other KMP, and all other employees. The Bank also has Board approved policy 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 on "Code of Business Conduct and Ethics" 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. "Joint Message from the Chairman and his Predecessor" on pages 13 and 14 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 make required disclosures on details of 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** The Annual Corporate Governance Report from pages 75 to 85 comply with the disclosure requirements of Code of Best Practice on Corporate Governance as specified in Principle D6.	✓

Code ref. Compliance and implementation Complied

E. & F. **Encourage voting at AGM** ✓

The Bank has 16,820 ordinary voting shareholders of which 724 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 section 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** ✓

The Bank is certified under the globally accepted, de-facto standard for Information Security Management System (ISMS) – ISO/ IEC 27001:2013 and Payment Card Industry Data Security Standard (PCI DSS), both focusing on ensuring confidentiality, integrity and availability of data/ information. Accordingly, the Bank's ISMS is established adhering to the rigorous management, physical and technical controls pertaining to information security as required by the two security standards, as well as the requirements stipulated in the Baseline Security Standard mandated by the CBSL, for protecting information systems from cyber threats.

The Bank has appointed a Chief Information Security Officer (CISO) reporting to the MD/CEO to provide leadership to the Bank's overall information security function. The Information Security Council (ISC) which is the apex Management-level body responsible for the information security of the Bank is chaired by the CEO, and reports to the Board of Directors through the BIRMC charged with oversight responsibilities for information and cyber risk management.

The Bank has in place a comprehensive, Board approved Information Security Policy (ISP) which defines all the security requirements to be fulfilled by employees, partners and other external parties as per the ISMS Framework.

In line with the ISP, the Bank has established an Information Security Risk Assessment Policy, and as per the said Policy, information/ cyber security risk assessments are carried out periodically. Risk levels associated with processes/ systems are evaluated during the review. Where residual risk levels are above the defined acceptable thresholds, risk treatment plans are defined for mitigation of these systems/ processes and the remediation is prioritized based on the risk level. Further, Bank conducts technical security assessments such as vulnerability assessments, penetration tests, application security assessments, configuration assessments, etc periodically (monthly, quarterly, bi-annually and annually) as per the Bank's policies and compliance requirements (e.g.: PCI DSS, CBSL), in order to gauge the cyber risk profile of the Bank. The ISMS is independently validated on an annual basis by the ISO 27001 ISMS external auditors and Qualified Security Assessors of the PCI Council.

Performance of the ISMS and any deviations, information security road-map/ progress of cyber security projects as well as the information security risk profile of the Bank is regularly reported to the ISC, and the BIRMC is kept updated periodically through risk indicators and other reports. 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 89 and 90 and 98 and 99 for further information.

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 described in this Annual Report. Information required by the Code is given in the following sections of the Annual Report:

- Management Discussion and Analysis on pages 41 to 62.
- Governance and Risk Management on pages 64 to 133.
- Connecting with Stakeholders and Materiality Matters on pages 27 to 31.

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 52nd Annual Report" on page 4.

Annex 2.3: Disclosure Requirements in Annual Financial Statements as required by the CBSL

Disclosure requirements under the prescribed format issued by the Central Bank of Sri Lanka for preparation, presentation and publication of Annual Audited Financial Statements of Licensed Commercial Banks via the Circular No. 02 of 2019 dated January18, 2019 (effective from January 01, 2018)

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	190 to 192
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	169
(iii) Information about financial assets pledged as collateral and about financial or non-financial assets held as collateral.	*Notes to the Financial Statements:* Note 68.1.4 – Collateral Held	275
(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	196 197 & 202 204 205 206 208
(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	178 to 188
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	178 to 180
(ii) Fee income and expense.	*Notes to the Financial Statements:* Note 14 – Net fee and commission income	180 to 181
(iii) Amount of impairment losses by class of financial assets.	*Notes to the Financial Statements:* Note 18 – Impairment charges and other losses	182 to 185
(iv) Interest income on impaired financial assets.	*Notes to the Financial Statements:* Note 13.1 – Interest income	178
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	165
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	207 to 209
(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	208 & 209
(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	182
(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.	144 and 146 to 153

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.	144 and 146 to 153
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 year 2020, the Bank reclassified financial assets as disclosed under Note 7.1.6 Reclassification of financial assets and liabilities. However, during the year 2019, the Bank did not reclassify financial assets.	169
(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 current or previous 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 2020, the Bank reclassified financial assets as disclosed under Note 7.1.6 Reclassification of financial assets and liabilities During the year 2019, the Bank did not reclassify financial instruments from FVOCI to amortised cost or from FVTPL to amortised cost or FVOCI.	169
1.3.5 Information on hedge accounting	*Significant Accounting Policies:* Note 7.1.5 – Derivatives held for risk management purposes and hedge accounting *Notes to the Financial Statements:* Note 45.1 – Derivative financial assets – cash flow hedges for risk management.	168 231
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	193 194
(ii) Description of how fair value was determined.	*Significant Accounting Policies:* Note 4 – Fair value measurement	163
(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	194 196 219 to 224
(iv) a. Reconciliations of movements between levels of fair value measurement hierarchy.	There were no movements between levels of fair value hierarchy during the year under review.	–
b. Additional disclosures for financial instruments that fair value is determined using level 3 inputs.	*Notes to the Financial Statements:* Note 27.2 – Level 3 Fair value measurement	194
(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 68 – Financial Risk Review	160 to 162 261 to 290
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.	160 to 162 114 to 133
2.1.3 Changes from the prior period.	There were no major policy changes during the year under review.	–
2.2 Quantitative disclosures		
2.2.1 Summary of quantitative data about exposure to each risk at the reporting date.	*Notes to the Financial Statements:* Note 68 – Financial Risk Review	261 to 290

Disclosure requirements	Description	Page No/s.
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 68.1.1 – Credit Quality Analysis Note 68.1.4 – Collateral Held	263 to 274 275
(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 68.1.1 – Credit Quality Analysis Note 18 – Impairment charges and other losses – collateral valuation for description on collaterals Note 68.1.4 – 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	263 to 274 182 to 185 275 170 & 171
(c) Information about collateral or other credit enhancements obtained or called.	*Notes to the Financial Statements:* Note 68.1.4 – Collateral held	275
(d) Credit risk management (CRM) practices		
– Information about 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	170 & 171 182 to 185
– 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	182 to 185
– How the Bank determines whether the credit risk of financial instruments has increased significantly since initial recognition, including whether and how financial instruments are considered to have low credit risk, including the classes of financial instruments to which the low credit risk exception has been applied; and the presumption that financial assets with contractual payments more than 30 days past due (DPD) have a significant increase in credit risk (SICR) has been rebutted	*Significant Accounting Policies:* Note 7.1.12.2 – Significant increase in credit risk	171
– 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	171
– How instruments are grouped if ECL are measured on a collective basis	*Notes to the Financial Statements:* Note 18 – Impairment charges and other losses	182 to 185
– 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	170 & 171
– The Bank's write-off policy, including the indicators that there is no reasonable expectation of recovery	*Notes to the Financial Statements:* Note 18 – Impairment charges and other losses - "Write off of financial assets"	182 to 185
– How the modification requirements have been applied, including how the bank determines whether the credit risk of a financial asset that has been modified subject to a lifetime ECL allowance has been improved to the extent that the loss allowance reverts to being measured at an amount equal to 12-month ECL and monitors the extent to which the loss allowance on those assets subsequently reverts to being measured at an amount equal to lifetime ECL	*Significant Accounting Policies:* Note 7.1.8 – Modification of financial assets and financial liabilities	170
(e) ECL calculations		
– Basis of the inputs, assumptions and the estimation techniques used when – estimating 12 month and lifetime ECL – determining whether the credit risk of financial instruments has increased significantly since initial recognition; and – determining whether the financial assets are credit-impaired	*Notes to the Financial Statements:* Note 18 – Impairment charges and other losses – "Forward looking information"	182 to 185
– How forward-looking information has been incorporated into the determination of ECL, including the use of macro-economic information; and	*Notes to the Financial Statements:* Note 18 – Impairment charges and other losses – "Forward looking information"	182 to 185
– Changes in estimation techniques or significant assumptions made during the reporting period and the reasons for those changes	*Significant Accounting Policies:* Note 5 – Changes in Accounting Policies Note 7.1.12 – Identification and measurement of impairment of financial assets	163 170 & 171

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.	196 194 & 202 204 205 206 208
(g) Collateral – Amount that best represents the bank's maximum exposure to credit risk at the reporting date, without taking into account of any collateral held or other credit enhancements; – Narrative description of collateral held as security and other credit enhancements, (except for lease receivables), including; – discussion on the nature and quality of the collaterals held; – explanation on any significant changes in quality as a result of a deterioration of changes in the bank's collaterals policies during the reporting period; – information about the financial instruments for which the bank has not recognized a loss allowance because of the collateral; – quantitative information about the collateral held as security and other credit enhancements; – information about the fair value of the collateral and other credit enhancements, or to quantify the exact value of the collateral that was included in the calculation of ECL	*Notes to the Financial Statements:* Note 68.1 – Credit risk	262 to 278
(h) Written-off assets – contractual amount outstanding of financial assets written off during the reporting period that are still subject to enforcement activity	*Notes to the Financial Statements:* Note 34.2 – Movement in provision for impairment during the year Note 17 – Net other operating income	204 182
(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 68.5 – Capital management and Pillar III disclosures as per Basel III	289 & 290
(ii) Liquidity risk		
(a) A maturity analysis of financial liabilities.	*Notes to the Financial Statements:* Note 61 – Maturity Analysis – Group Note 68.2.2 – Maturity analysis of financial assets and financial liabilities – Bank	251 to 253 280 to 283
(b) Description of approach to risk management.	*Significant Accounting Policies:* Note 3 – Financial Risk Management Refer the Section on "Risk Governance and Management"	160 to 162 114 to 133
(c) Pillar III disclosures of the Banking Act Directions No. 1 of 2016 on Capital requirements under Basel III for Licensed Banks	Annex 3 – Basel III – Disclosures under pillar 3 as per Banking Act Direction No. 01 of 2016	331 to 344
(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 68.3.2 – Exposure to interest rate risk – sensitivity analysis	286 & 287
(b) Additional information, if the sensitivity analysis is not representative of the Bank's risk exposure.	*Notes to the Financial Statements:* Note 68.3.3 – Exposure to currency risk – Non-trading portfolio	287 & 288
(c) Pillar III disclosures of the Banking Act Directions No. 1 of 2016 on Capital requirements under Basel III for Licensed Banks	Annex 3 – Basel III – Disclosures under pillar 3 as per Banking Act Direction No. 01 of 2016	331 to 344
(iv) Operational risk		
Pillar III disclosures of the Banking Act Directions No. 1 of 2016 on Capital requirements under Basel III for Licensed Banks	Annex 3 – Basel III – Disclosures under pillar 3 as per Banking Act Direction No. 01 of 2016	331 to 344
(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	198 to 201 207 to 209
● Discussion of important policies covering the valuation and accounting of equity holdings in the banking book.	Note 68.3.4 – Exposure to equity price risk	289

Disclosure requirements	Description	Page No/s.
(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	198 to 201
	Note 36 – Financial assets measured at fair value through other comprehensive income	207 to 209
● The types and nature of investments	*Significant Accounting Policies:*	
	Note 7.1.3.4 – Financial assets measured at FVOCI	167
	Note 7.1.3.5 – Financial assets measured at FVTPL	167
	Notes to the Financial Statements:	
	Note 32 – Financial assets recognised through profit or loss – measured at fair value	198 to 201
	Note 36 – Financial assets measured at fair value through other comprehensive income	207 to 209
● 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	181
	Note 16 – Net gains/(losses) from derecognition of financial assets	181
(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 68.3.2 – Exposure to Interest Rate Risk – Sensitivity analysis	286 & 287
	Refer the Section on "Risk Governance and Management"	114 to 133
(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 68.3.2 – Exposure to Interest Rate Risk – Sensitivity analysis	286 & 287
	Refer the Section on "Risk Governance and Management"	114 to 133
2.2.3 Information on concentrations of risk.	*Notes to the Financial Statements:*	
	Note 68.1.5 – Concentration of credit risk	275 to 278
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 68.5 – Capital Management and Pillar III disclosures as per Basel III	289 & 290
(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 68.5 – Capital Management and Pillar III disclosures as per Basel III	289 & 290
● Reserves	Refer the Section on "Risk Governance and Management"	114 to 133
● 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 68.5 – Capital Management and Pillar III disclosures as per Basel III	289 & 290
	Refer the Section on "Risk Governance and Management"	114 to 133
(ii) Quantitative disclosures		
(a) Capital requirements for credit risk, market risk, and operational risk	Refer the Section on "Risk Governance and Management"	114 to 133
(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

	GROUP		BANK	
As at December 31,	**2020**	2019	**2020**	2019
Regulatory capital				
Common equity (Rs. '000)	139,730,833	123,239,984	134,689,261	119,622,141
Tier 1 capital (Rs. '000)	139,730,833	123,239,984	134,689,261	119,622,141
Total capital (Rs. '000)	176,611,213	160,842,808	171,396,831	157,045,547
Regulatory capital ratios				
Common equity Tier 1 capital ratio (minimum requirement – 6.00%+HLA*=7.50%) (w.e.f. March 27, 2020) (%)	13.356	12.399	13.217	12.298
Tier 1 capital ratio (minimum requirement – 7.50%+HLA=9.00%) (w.e.f. March 27, 2020) (%)	13.356	12.399	13.217	12.298
Total capital ratio (minimum requirement – 11.50%+HLA=13.00%) (w.e.f. March 27, 2020) (%)	16.882	16.182	16.819	16.146
Regulatory liquidity				
Statutory liquid assets (Rs. '000)			587,268,299	330,684,193
Statutory liquid assets ratio (minimum requirement – 20%)				
Domestic Banking Unit (%)			44.99	30.42
Off-shore Banking Unit (%)			32.70	25.25
Liquidity coverage ratio (%) – Rupee (minimum requirement – 90%) (w.e.f. May 5, 2020)			330.84	158.79
Liquidity coverage ratio (%) – All currency (minimum requirement – 90%) (w.e.f. May 5, 2020)			258.06	224.74

**HLA – Higher Loss Absorbency (Requirement applicable to the Bank is 1.500%.)*

Disclosure 2

Basel III computation of capital ratios

	GROUP		BANK	
As at December 31,	**2020** **Rs. '000**	2019 Rs. '000	**2020** **Rs. '000**	2019 Rs. '000
Common equity Tier 1 (CET1) capital after adjustments	139,730,833	123,239,984	134,689,261	119,622,141
Total common equity Tier 1 (CET1) capital	143,866,880	125,003,216	142,208,308	123,941,618
Equity capital (stated capital)/Assigned Capital	52,187,747	40,916,957	52,187,747	40,916,957
Reserve fund	9,285,232	8,387,701	9,024,067	8,205,391
Published retained earnings/(Accumulated retained losses)	4,124,307	4,688,718	3,670,981	4,714,691
Published accumulated other comprehensive Income (OCI)	2,171,371	2,691,325	1,922,007	2,516,082
General and other disclosed reserves	75,403,506	67,588,497	75,403,506	67,588,497
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	694,717	730,018	–	–

	GROUP		BANK	
As at December 31,	**2020** **Rs. '000**	2019 Rs. '000	**2020** **Rs. '000**	2019 Rs. '000
Total adjustment to CET1 capital	**4,136,047**	**1,763,232**	**7,519,047**	**4,319,477**
Goodwill (net)	**445,147**	445,147	**–**	–
Intangible assets (net)	**1,355,368**	1,200,565	**1,232,863**	1,080,011
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	**–**	–	**3,782,513**	2,941,594
Deferred tax assets (net)	**2,331,719**	113,707	**2,499,858**	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	**36,880,380**	37,602,824	**36,707,570**	37,423,406
Total Tier 2 capital	**36,880,380**	37,602,824	**36,707,570**	37,423,406
Qualifying Tier 2 capital instruments	**22,235,336**	26,704,378	**22,235,336**	26,704,378
Revaluation gains	**2,848,860**	3,087,658	**2,848,860**	3,087,658
General provision/eligible impairment	**11,796,184**	7,810,788	**11,623,374**	7,631,370
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	**139,730,833**	123,239,984	**134,689,261**	119,622,141
Total Tier 1 capital	**139,730,833**	123,239,984	**134,689,261**	119,622,141
Total capital	**176,611,213**	160,842,808	**171,396,831**	157,045,547
Total risk weighted amount (RWA)	**1,046,175,415**	993,941,563	**1,019,068,225**	972,679,405
Risk weighted amount for credit risk	**955,864,361**	925,876,884	**929,869,882**	905,525,098
Risk weighted amount for market risk	**35,942,531**	26,506,850	**35,628,469**	26,032,471
Risk weighted amount for operational risk	**54,368,523**	41,557,829	**53,569,874**	41,121,836
CET1 capital ratio (including capital conservation buffer, countercyclical capital buffer and surcharge on D-SIBs) (%)	**13.356**	12.399	**13.217**	12.298
Of which: capital conservation buffer (%)	**1.500**	2.500	**1.500**	2.500
Of which: countercyclical buffer (%)				
Of which: capital surcharge on D-SIBs (%)	**1.500**	1.500	**1.500**	1.500
Total Tier 1 capital ratio (%)	**13.356**	12.399	**13.217**	12.298
Total capital ratio (including capital conservation buffer,countercyclical capital buffer and surcharge on D-SIBs) (%)	**16.882**	16.182	**16.819**	16.146
Of which: capital conservation buffer (%)	**1.500**	2.500	**1.500**	2.500
Of which: countercyclical buffer (%)		–		–
Of which: capital surcharge on D-SIBs (%)	**1.500**	1.500	**1.500**	1.500

Disclosure 3

Leverage ratio

As at December 31,	GROUP		BANK	
	2020 **Rs. '000**	2019 Rs. '000	**2020** **Rs. '000**	2019 Rs. '000
Tier 1 capital	**139,730,833**	123,239,984	**134,689,261**	119,622,141
Total exposures	**2,375,340,709**	1,880,168,663	**2,345,864,995**	1,855,954,448
On-balance sheet items (excluding derivatives and securities financing transactions, but including collateral)	**1,751,851,828**	1,390,884,732	**1,722,426,381**	1,366,732,527
Derivative exposures	**424,368,169**	349,780,784	**424,368,169**	349,780,784
Securities financing transaction exposures	**103,367,009**	49,182,189	**103,367,009**	49,182,189
Other off-balance sheet exposures	**95,753,703**	90,320,958	**95,703,436**	90,258,948
Basel III leverage ratio (%) (minimum requirement – 3%) (w.e.f. January 1, 2019)	**5.88**	6.55	**5.74**	6.45

Disclosure 4

Liquidity coverage ratio (LCR)

As at December 31,	**2020**		2019	
	Total unweighted value **Rs. '000**	**Total weighted value** **Rs. '000**	Total unweighted value Rs. '000	Total weighted value Rs. '000
Total stock of High Quality Liquid Assets (HQLA)	**464,478,366**	**452,407,112**	199,777,341	193,108,535
Total adjusted level 1 assets	**385,571,117**	**385,571,117**	119,969,825	119,969,825
Level 1 assets	**385,571,117**	**385,571,117**	119,797,458	119,797,458
Total adjusted level 2A assets	**78,235,345**	**66,500,043**	86,000,609	73,100,518
Level 2A assets	**78,235,345**	**66,500,043**	86,000,609	73,100,518
Total adjusted level 2B assets	**671,904**	**335,952**	421,118	210,559
Level 2B assets	**671,904**	**335,952**	421,118	210,559
Total cash outflows	**1,600,940,269**	**288,637,363**	1,359,817,438	221,042,723
Deposits	**984,455,378**	**98,445,538**	829,166,765	82,916,676
Unsecured wholesale funding	**321,215,910**	**153,023,623**	235,893,678	100,802,482
Secured funding transaction	**–**	**–**	–	–
Undrawn portion of committed (irrevocable) facilities and other contingent funding obligations	**285,249,491**	**27,148,712**	294,756,995	37,323,565
Additional requirements	**10,019,490**	**10,019,490**	–	–
Total cash inflows	**207,147,923**	**113,326,008**	228,350,709	135,116,096
Maturing secured lending transactions backed by collateral	**63,387,344**	**52,844,324**	66,627,280	55,004,733
Committed facilities	**–**	**–**	–	–
Other inflows by counterparty which are maturing within 30 calender days	**87,580,157**	**45,704,057**	102,126,336	57,827,782
Operational deposits	**26,625,169**	**–**	17,102,782	–
Other cash inflows	**29,555,253**	**14,777,627**	42,494,311	22,283,581
Liquidity coverage ratio (%) (stock of high quality liquid assets/ total net cash outflows over the next 30 calendar days) *100		**258.06**		224.74

Disclosure 5

Net stable funding ratio (NSFR)

	BANK	
As at December 31,	**2020** **Rs. '000**	2019 Rs. '000
Total available stable funding (ASF)	**1,288,573,931**	1,088,884,310
Total required stable funding (RSF)	**818,207,892**	794,536,521
Required stable funding – On balance sheet assets	**809,526,504**	788,401,681
Required stable funding – Off balance sheet items	**8,681,388**	6,134,840
NSFR (%) (minimum requirement – 90%) (w.e.f. May 5, 2020)	**157.49**	137.05

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)	52,187,747	886,068	1,749,090	1,775,130
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	5,875,688	1,606,160	8,415,000
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 proces the CARs are computed based on the movements in risk-weighted assets underlying the budgeted expansion of assets including business volumes. The Bank has set up an internal threshhold on minimum CARs and ensures that appropriate measures are employed to maintain the CARs above the said threshhold when preparing the budget. The budget also captures the capital augmentation plan covering both internal and external capital sources. The Bank has a well established monitoring mechanism to periodically ensure 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. In addition ICAAP process also captures the residual risk to assess the amount of risk that remains after controls are accounted for. This process also proactively identifies the possible gaps in CARs in advance, allowing the Bank to take calculated 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 Bank is committed to maintaining the internal CAR thresholds despite any leniency provided by Central Bank of Sri Lanka (CBSL) during adverse times.

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 strengthened by the scrip dividend paid to shareholders.

A comprehensive analysis of "Managing Financial Capital" given on pages 43 and 44.

Disclosure 8

Credit risk under standardised approach

Credit risk exposures and credit risk mitigation (CRM) effects

	GROUP					
As at December 31, 2020	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	666,774,092	81,345,000	666,774,092	1,626,900	34,714,439	5.19
Claims on foreign sovereigns and their central banks	29,548,645	–	29,548,645	–	29,548,645	100.00
Claims on public sector entities (PSEs)	3,881	–	3,881	–	3,881	100.00
Claims on Official Entities and Multilateral Development Banks (MDBs)	1,107,134	–	1,107,134	–	–	–
Claims on Banks exposures	41,433,076	195,835,937	41,433,076	12,866,056	22,166,435	40.82
Claims on financial institutions	11,822,274	–	11,822,274	–	6,344,933	53.67
Claims on corporates	416,389,935	400,133,984	379,047,067	64,695,323	421,909,252	95.08
Retail claims	410,211,978	37,821,739	370,081,929	14,970,460	325,346,663	84.49
Claims secured by residential property	73,986,674	–	73,986,674	–	53,479,150	72.28
Non-performing assets (NPAs)	28,881,133	–	28,881,133	–	31,206,288	108.05
Cash items and other assets	61,827,647	–	61,827,647	–	31,144,675	50.37
Total	1,741,986,469	715,136,660	1,664,513,552	94,158,739	955,864,361	54.35

Credit risk exposures and credit risk mitigation (CRM) effects (Contd.)

	BANK					
As at December 31, 2020	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	666,518,791	81,345,000	666,518,791	1,626,900	34,714,439	5.20
Claims on foreign sovereigns and their central banks	15,829,054	–	15,829,054	–	15,829,054	100.00
Claims on public sector entities (PSEs)	3,881	–	3,881	–	3,881	100.00
Claims on Official Entities and Multilateral Development Banks (MDBs)	1,107,134	–	1,107,134	–	–	–
Claims on Banks exposures	40,474,463	195,835,937	40,474,463	12,866,056	21,207,822	39.76
Claims on financial institutions	11,822,274	–	11,822,274	–	6,344,933	53.67
Claims on corporates	404,470,302	400,073,833	367,802,291	64,645,056	410,614,209	94.95
Retail claims	410,211,978	37,821,739	370,081,929	14,970,460	325,346,663	84.49
Claims secured by residential property	73,986,674	–	73,986,674	–	53,479,150	72.28
Non-performing assets (NPAs)	28,209,380	–	28,209,380	–	30,540,647	108.26
Higher-risk Categories	1,384,718	–	1,384,718	–	3,461,795	250.00
Cash items and other assets	58,481,586	–	58,481,586	–	28,327,289	48.44
Total	1,712,500,235	715,076,509	1,635,702,175	94,108,472	929,869,882	53.76

Disclosure 9

Credit risk under standardised approach

Exposures by asset classes and risk weights (Post CCF and CRM)

	GROUP								
As at December 31, 2020	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	494,828,798	173,572,194	–	–	–	–	–	–	668,400,992
Claims on foreign sovereigns and their central banks	–	–	–	–	–	29,548,645	–	–	29,548,645
Claims on public sector entities (PSEs)	–	–	–	–	–	3,881	–	–	3,881
Claims on official entities and multilateral development banks (MDBs)	1,107,134	–	–	–	–	–	–	–	1,107,134
Claims on Banks exposures	–	33,285,576	11,008,473	–	–	10,005,083	–	–	54,299,132
Claims on financial institutions	–	930,514	9,465,861	–	–	1,425,899	–	–	11,822,274
Claims on corporates	–	18,720,711	13,713,139	–	–	411,308,540	–	–	443,742,390
Retail claims	3,854,355	538,189	–	21,943,453	186,573,758	172,142,634	–	–	385,052,389
Claims secured by residential property	–	–	41,015,048	–	–	32,971,626	–	–	73,986,674
Non-performing assets (NPAs)	–	–	476,869	–	–	23,277,087	5,127,177	–	28,881,133
Cash items and other assets	26,681,454	5,001,898	–	–	–	30,144,295	–	–	61,827,647
Total	526,471,741	232,049,082	75,679,390	21,943,453	186,573,758	710,827,690	5,127,177	–	1,758,672,291

Exposures by asset classes and risk weights (post CCF and CRM) (Contd.)

	BANK								
As at December 31, 2020	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	494,573,497	173,572,194	–	–	–	–	–	–	668,145,691
Claims on foreign sovereigns and their central banks	–	–	–	–	–	15,829,054	–	–	15,829,054
Claims on Public Sector Entities (PSEs)	–	–	–	–	–	3,881	–	–	3,881
Claims on official entities and Multilateral Development Banks (MDBs)	1,107,134	–	–	–	–	–	–	–	1,107,134
Claims on Banks exposures	–	33,285,576	11,008,473	–	–	9,046,470	–	–	53,340,519
Claims on financial institutions	–	930,514	9,465,861	–	–	1,425,899	–	–	11,822,274
Claims on corporates	–	18,720,711	13,713,139	–	–	400,013,497	–	–	432,447,347
Retail claims	3,854,355	538,189	–	21,943,453	186,573,758	172,142,634	–	–	385,052,389
Claims secured by residential property	–	–	41,015,048	–	–	32,971,626	–	–	73,986,674
Non-performing assets (NPAs)	–	–	464,645	–	–	22,617,558	5,127,177	–	28,209,380
Higher-risk categories	–	–	–	–	–	–	–	1,384,718	1,384,718
Cash items and other assets	26,152,779	5,001,898	–	–	–	27,326,909	–	–	58,481,586
Total	525,687,765	232,049,082	75,667,166	21,943,453	186,573,758	681,377,528	5,127,177	1,384,718	1,729,810,647

Disclosure 10

Market risk under standardised measurement method

	GROUP		BANK	
As at December 31,	**2020**	2019	**2020**	2019
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
(a) Capital charge for interest rate risk	4,225,720	2,461,836	4,225,720	2,461,836
General interest rate risk	918,969	460,969	918,969	460,969
(i) Net long or short position	918,969	460,969	918,969	460,969
(ii) Horizontal disallowance	–	–	–	–
(iii) Vertical disallowance	–	–	–	–
(iv) Options	–	–	–	–
Specific interest rate risk	3,306,751	2,000,867	3,306,751	2,000,867
(b) Capital charge for equity	334,665	271,988	334,665	271,988
(i) General equity risk	171,844	137,639	171,844	137,639
(ii) Specific equity risk	162,821	134,349	162,821	134,349
(c) Capital charge for foreign exchange and gold	112,144	977,135	71,316	910,722
(d) Capital charge for market risk [(a) + (b) + (c)]	4,672,529	3,710,959	4,631,701	3,644,546
RWA for market risk [(d) * 100/CAR]	35,942,531	26,506,850	35,628,469	26,032,471

Disclosure 11

Operational risk under the Alternative Standardised Approach (ASA) – Group

As at December 31,			2020			2019		
			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		210,049	167,464	157,810	273,038	210,049	167,464
Trading and sales	18		3,956,306	3,852,135	7,747,013	844,325	3,956,306	3,852,135
Payment and settlement	18		651,440	690,845	730,737	591,811	651,440	690,845
Agency services	15		–	–	–	–	–	–
Asset management	12		–	–	–	–	–	–
Retail brokerage	12		–	–	–	–	–	–
Sub total (a)			4,817,795	4,710,444	8,635,560	1,709,174	4,817,795	4,710,444
Retail banking (Loans and advances)	12	0.035	452,610,049	487,202,436	513,177,931	382,107,206	452,610,049	487,202,436
Commercial banking (Loans and advances)	15	0.035	606,642,106	719,146,950	927,864,854	556,018,749	606,642,106	719,146,950
Sub total (b)			1,059,252,155	1,206,349,386	1,441,042,785	938,125,955	1,059,252,155	1,206,349,386
Total (a) + (b)			1,064,069,950	1,211,059,830	1,449,678,345	939,835,129	1,064,069,950	1,211,059,830
Capital charge for operational risk			5,953,036	6,669,652	8,581,039	4,831,600	5,953,036	6,669,652
Average capital charge (c)					7,067,909			5,818,096
RWA for operational risk [(c)*100/ CAR]					54,368,523			41,557,829

Operational risk under the Alternative Standardised Approach (ASA) – Bank

As at December 31,			2020			2019		
			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		210,049	167,464	157,810	273,038	210,049	167,464
Trading and sales	18		3,911,019	3,661,995	7,414,971	766,079	3,911,019	3,661,995
Payment and settlement	18		651,440	690,845	730,737	591,811	651,440	690,845
Agency services	15		–	–	–	–	–	–
Asset management	12		–	–	–	–	–	–
Retail brokerage	12		–	–	–	–	–	–
Sub total (a)			4,772,508	4,520,304	8,303,518	1,630,928	4,772,508	4,520,304
Retail banking (Loans and advances)	12	0.035	448,200,815	481,442,015	506,645,437	378,807,792	448,200,815	481,442,015
Commercial banking (Loans and advances)	15	0.035	604,168,024	708,987,024	913,988,024	555,303,148	604,168,024	708,987,024
Sub total (a)			1,052,368,839	1,190,429,039	1,420,633,461	934,110,940	1,052,368,839	1,190,429,039
Total (a) + (b)			1,057,141,347	1,194,949,343	1,428,936,979	935,741,868	1,057,141,347	1,194,949,343
Capital charge for operational risk			5,913,377	6,557,893	8,420,981	4,799,901	5,913,377	6,557,893
Average capital charge (c)					6,964,084			5,757,057
RWA for operational risk [(c)*100/ CAR]					53,569,874			41,121,836

Disclosure 12

Differences between accounting and regulatory scopes and mapping of financial statement categories with regulatory risk categories – Bank

As at December 31, 2020	a	b	c	d	e
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory reporting	Subject to credit risk framework	Subject to market risk framework	Not subject to capital requirements or subject to deduction from capital
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Assets	1,736,218,021	1,744,614,668	1,712,500,235	35,189,471	7,515,236
Cash and cash equivalents	50,250,627	50,166,833	50,166,833	–	–
Balances with Central Banks	110,971,105	110,965,790	110,965,790	–	–
Placements with banks	15,938,982	15,680,619	15,680,619	–	–
Derivative financial assets	2,636,717	–	–	–	–
Financial assets recognised through profit or loss – Measured at fair value	35,189,471	35,189,471	–	35,189,471	–
Financial assets at amortised cost – Loans and advances to banks	779,705	779,790	779,790	–	–
Financial assets at amortised cost – Loans and advances to other customers	896,845,453	903,803,764	911,894,178	–	–
Financial assets at amortised cost – Debt and other financial instruments	292,727,566	293,702,064	293,702,064	–	–
Financial assets measured at fair value through other comprehensive income	278,461,369	279,502,179	279,502,179	–	–
Investments in subsidiaries	5,808,429	5,808,429	2,025,916	–	3,782,513
Investments in associates	44,331	44,331	44,331	–	–
Property, plant and equipment and right-of-use assets	23,212,394	18,450,657	18,450,657	–	–
Intangible assets	1,232,863	1,232,863	–	–	1,232,863
Deferred tax assets	2,499,860	–	–	–	2,499,860
Other assets	19,619,149	29,287,878	29,287,878	–	–
Liabilities	1,579,071,845	1,576,714,897	–	–	–
Due to banks	87,451,306	86,951,076	–	–	–
Derivative financial liabilities	1,501,262	–	–	–	–
Securities sold under repurchase agreements	91,437,612	91,439,767	–	–	–
Financial liabilities at amortised cost – Due to depositors	1,265,965,918	1,245,260,164	–	–	–
Financial liabilities at amortised cost – Other borrowings	54,555,933	54,434,407	–	–	–
Current tax liabilities	6,777,992	7,036,901	–	–	–
Deferred tax liabilities	–	3,604,138	–	–	–
Other liabilities	33,037,669	50,714,472	–	–	–
Due to subsidiaries	97,015	97,015	–	–	–
Subordinated liabilities	38,247,138	37,176,957	–	–	–
Off-balance sheet liabilities	728,711,698	728,711,698	715,076,504	–	–
Guarantees	65,581,771	65,581,771	54,558,709	–	–
Performance bonds	37,957,159	37,957,159	37,957,159	–	–
Letter of credit	74,875,507	74,875,507	74,875,507	–	–
Other contingent items	419,707,047	419,707,047	418,113,702	–	–
Undrawn loan commitments	129,571,427	129,571,427	129,571,427	–	–
Other commitments	1,018,787	1,018,787	–	–	–

Differences between accounting and regulatory scopes and mapping of financial statements categories with regulatory risk categories – Bank (Contd.)

As at December 31, 2020	a	b	c	d	e
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory reporting	Subject to credit risk framework	Subject to market risk framework	Not subject to capital requirements or subject to deduction from capital
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Shareholders' equity	157,146,176	167,899,771	–	–	–
Equity capital (stated capital)/assigned capital:					
Of which amount eligible for CET1	52,187,747	52,187,747	–	–	–
Of which amount eligible for AT1	–	–	–	–	–
Retained earnings	7,596,260	18,812,185	–	–	–
Accumulated other comprehensive income	359,819	(102,511)	–	–	–
Other reserves	97,002,350	97,002,350	–	–	–

Disclosure 13

Explanations of Differences between Accounting and Regulatory Exposure Amounts

		Reasons for differences						
As at December 31, 2020	Differences observed between accounting carrying value and amounts considered for regulatory purposes	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	83,794	(3,240)	–	–	87,034	–	–	–
Balances with Central Banks	5,315	–	–	–	5,315	–	–	–
Placements with banks	258,363	(3,003)	–	–	261,366	–	–	–
Derivative financial assets	2,636,717	–	–	–	2,636,717	–	–	–
Financial assets at amortised cost – Loans and advances to banks	(85)	(85)	–	–	–	–	–	–
Financial assets at amortised cost – Loans and advances to other customers	(6,958,311)	(13,313,309)	–	–	11,320,359	(4,965,361)	–	–
Financial assets at amortised cost – Debt and other financial instruments	(974,498)	(1,956,020)	–	–	981,522	–	–	–
Financial assets measured at fair value through other comprehensive income	(1,040,810)	(1,041,777)	–	–	967	–	–	–
Property, plant and equipment and right-of-use of assets	4,761,737	–	–	–	–	–	4,761,737	–
Deferred tax assets	2,499,860	–	–	–	–	–	–	2,499,860
Other assets	(9,668,729)	–	–	–	(13,935,422)	–	4,266,693	–

Explanation of Differences between Accounting and Regulatory Exposure Amounts (Contd.)

As at December 31, 2020	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	500,230	–	–	(29)	500,259	–	–	–
Derivative financial liabilities	1,501,262	–	–	–	1,501,262	–	–	–
Securities sold under repurchase agreements	(2,155)	–	–	(2,155)	–	–	–	–
Financial liabilities at amortised cost – due to depositors	20,705,754	–	–	(515,612)	21,221,366	–	–	–
Financial liabilities at amortised cost – other borrowings	121,526	–	–	–	121,526	–	–	–
Current tax liabilities	(258,909)	–	–	–	–	–	–	(258,909)
Deferred tax liabilities	(3,604,138)	–	–	–	–	–	–	(3,604,138)
Other liabilities	(17,676,803)	5,386,720	–	–	(23,063,523)	–	–	–
Subordinated liabilities	1,070,181	–	–	(6,779)	1,076,960	–	–	–
Shareholders' equity								
Retained earnings	(11,215,925)	(17,646,073)	–	524,575	–	–	(1,980,268)	7,885,841
Accumulated other comprehensive income	462,330	–	462,330	–	–	–	–	–

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 182 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 166 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 prepaid 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 114 to 133.

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 "Risk Governance and Management" on pages 114 to 133 and in the "Financial Risk Review" on pages 261 to 290.

D-SIB Assessment Exercise (As per the CBSL Direction No. 10 of 2019)

	GROUP	
	2020 Rs. '000	2019 Rs. '000
Size Indicator		
Section 1 – Total Exposures		
Total exposures measure	**2,375,340,709**	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)	**52,431,787**	75,054,977
(i) Funds deposited	**41,433,076**	54,228,026
(ii) Lending	**10,998,711**	20,826,951
b. Holdings of securities issued by other financial institutions	**823,563**	1,985,584
c. Net positive current exposure of securities financing transactions (SFTs) with other financial institutions	**2,798,298**	1,126,958
d. Over-the-counter (OTC) derivatives with other financial institutions that have a net positive mark to market value	**148,283,105**	132,348,801
Intra-financial system assets (a + b + c + d)	**204,336,753**	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)	**127,918,135**	82,321,479
(i) Funds deposited	**15,482,943**	8,626,228
(ii) Borrowings	**112,435,192**	73,695,251
b. Net negative current exposure of securities financing transactions with other financial institutions	**5**	1,917,412
c. Over-the-counter derivatives with other financial institutions that have a net negative mark to market value	**106,983,706**	84,365,490
Intra-financial system liabilities (a + b + c)	**234,901,846**	168,604,381
Section 4 – Securities Outstanding		
Securities outstanding	**23,179,430**	23,179,430
Substitutability/Financial Institution Infrastructure Indicators		
Section 5 – Payments made in the reporting year (excluding intragroup payments)		
Payments activity	**7,663,939,028**	8,629,722,562

	GROUP 2020 Rs. '000	 2019 Rs. '000
Section 6 – Assets Under Custody		
Assets under custody	5,446,768	5,231,877
Section 7 – Underwritten Transactions in Debt and Equity Markets		
Underwriting activity	–	–
Section 8 – Trading Volume		
a. number of shares or securities	5,531	470
b. value of the transactions	171,971	19,031
Trading Volume (a+b)	177,502	19,501
Complexity indicators		
Section 9 – Notional Amount of Over-the-Counter (OTC) Derivatives		
OTC derivatives	307,412,791	246,399,959
Section 10 – Level 2 Assets		
Level 2 assets	78,907,249	86,421,727
Section 11 – Trading and available for sale (AFS) securities		
a. debt instruments	315,290,030	198,465,987
b. equity instruments	292,069	220,723
c. derivatives	2,636,717	1,830,927
Trading and available for sale (AFS) securities (a+b+c)	318,218,816	200,517,637
Section 12 – Cross-Jurisdictional Liabilities		
Cross-jurisdictional liabilities (excluding derivatives and intragroup liabilities)	174,819,921	150,058,988
Section 13 – Cross-Jurisdictional Claims		
Cross-jurisdictional claims (excluding derivatives and intragroup claims)	58,931,898	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	Inner Back Cover	Corporate information
102-2	Activities, brands, products and services	156	Note 1.3
102-3	Location of headquarters	Inner Back Cover	Corporate information
102-4	Location of Operations	6	About the Bank
102-5	Ownership and legal form	6 and Inner Back Cover	About the Bank/ Corporate information
102-6	Markets served	6	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	60	Employees by type and gender
102-9	Supply chain	62	Partnership for the goals
102-10	Significant changes to the organisation and its supply chain	4	Report boundary
102-11	Precautionery priciple or approach	4	Precautionary principle
102-12	External initiatives	4 and 62	Basis for preperation/Partnership for the goals
102-13	Membership of associations	62	Partnership for the goals
Strategy			
102-14	Statement from senior decision-maker	13 and 14	Joint message from the Chairman and his Predecessor
Ethics and integrity			
102-16	Values, principles, standards, and norms of behaviour	47 and 102	Ethics and conduct
Governance			
102-18	Governance structure	77	Governance Structure
102-19	Delegating authority	75 and 77	Bank's approach to governance
102-22	Composition of the highest governance body and its committees	64 to 69 and 79 to 81	Board of Directors and profiles, Composition of the Board
102-23	Chair of the highest governance body	82 and 83	Segregation of roles
102-24	Nominating and selecting the highest governance body	83 and 91 to 92	Appointment of Directors, Report of the BNC
102-25	Confilcts of interest	78 and 95 and 255 to 259	Conflicts of interests, Report of the BRPTRC
102-35	Remuneration policies	84 and 93 to 94	Remuneration and benefits policy
102-36	Process for determining remuneration	84 and 93 to 94	Directors' and Executive remuneration, Report of the BHRRC
Stakeholder engagement			
102-40	List of stakeholder groups	27	Connecting with stakeholders
102-41	Collective bargaining agreements	60	Collective bargaining
102-42	Identifying and selecting stakeholders	27	Connecting with stakeholders
102-43	Approach to stakeholder engagement	27 and 28	Connecting with stakeholders
102-44	Key topics and concerns raised	28	How we connect with our stakeholders
Reporting practice			
102-45	Entities included in the consolidated financial statements	4	Report boundary
102-46	Defining report content and topic bounderies	4 and 29 to 31	Report boundary/ Materiality matters
102-47	List of material topics	31	Materiality matters
102-48	Restatement of information	4	Report boundary
102-49	Changes in reporting	4	Report boundary
102-50	Reporting period	4	Introducing our 52nd Annual Report
102-51	Date of most recent report	4	Introducing our 52nd Annual Report
102-52	Reporting cycle	4	Introducing our 52nd Annual Report
102-53	Contact point for questions regarding the report	4	Introducing our 52nd Annual Report
102-54	Claims of reportng in accordance with the GRI Standards		This report has been prepared in accordance with the GRI Standards: Core option

GRI Standard/Disclosure	Page No.	Report commentary title
102-55 GRI content index	345 and 346	
102-56 External assurance	4 and 347 to 351	Responsibility for sustainability practices and external assurance
GRI 103: Management Approach 2016		
103-1 Explanation of the material topic and its boundary	29 to 31, 35 to 39	Material matters/Business model
103-2 The management approach and its components	29 to 31, 35 to 39	Material matters/Business model
103-3 Evaluation of the management approach	29 to 31, 35 to 39	Material matters/Business model
GRI 200: Economic		
GRI 201: Economc performance 2016	20 to 26 and 42 to 47	Financial review 2020, Prudent growth
201-1 Direct economic value generated and distributed	352	Our sustainability footprint
GRI 203: Indirect economic impact 2016	49 to 52	Responding to the need of the hour
203-1 Infrastructure investments and services supported	49	Cash at the customers doorstep
203-2 Significant indirect economic impacts	50 to 52	Helping SMEs and Micro
GRI 207: Tax 2019	187 and 188	Income tax expenses
207-1 Approach to tax	187 and 188	Income tax expenses
207-2 Tax governance, control and risk management	187 and 188	Income tax expenses
207-3 Stakeholder engagement	187 and 188	Income tax expenses
207-4 Country-by-country reporting	187 and 188	Income tax expenses
GRI 300: Environmental		
GRI 302: Energy 2016	61	Managing our footprint
302-1 Energy consumption within the organisation	352	Our sustainablility footprint
302-4 Reduction of energy consumption	352	Our sustainablility footprint
GRI 305: Emissions 2016	61	Attaining carbon neutral status
305-1 Direct (Scope 1) GHG emissions	352	Our sustainablility footprint
305-2 Energy indirect (Scope 2) GHG emissions	352	Our sustainablility footprint
GRI 400: Social		
GRI 401: Empolyement 2016	59	Our people rising to the occasion
401-1 New employee hires and employee turnover	352	Our sustainablility footprint
401-3 Parental leave	353	Our sustainablility footprint
GRI 403: Occupational health and safety 2018	57 to 59	A transformed working environment
403-1 to 403-7 Occupational health and safety management system	57 to 59	A transformed working environment
403-9 Work related injuries		There has been no injuries during the year
GRI 404: Training and education 2016	61	Training and development
404-1 Average hours of training per year per employee	353	Our sustainablility footprint
404-3 Percentage of employees receiving regular performance and career development reviews	353	Our sustainablility footprint
GRI 405: Diversity and equal opportunity 2016	60 and 61	Diversity
405-1 Diversity of governance bodies and employees	353	Our sustainablility footprint
405-2 Ratio of basic salary and remueration of women to men	353	Our sustainablility footprint
GRI 418: Customer privacy 2016	56	IT operations and security
418-1 Substantiated complaints concerning breaches of customer privacy and losses of customer data	353	The Bank did not come across any compaint that had resulted in a reputational damage or significant financial loss
Non GRI disclosures		
Instability and lack of policy consistency	32 to 34	Operating context and outlook
Economic slowdown	32 to 34	Operating context and outlook
Directed lending	49 to 50	Financial relief initiatives
Higher regulatory capital	22	
Envisaged upturn in private sector credit and improvement in asset quality	32 to 34	
Changing customer expectations	48 to 52	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- 2020

Building a better working world

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Introduction and scope of the engagement

The management of Commercial Bank of Ceylon PLC ("the Bank") engaged us to provide an independent assurance on the following elements of the sustainability reporting criteria presented in the annual report- 2020 ("the Report").

- Reasonable assurance on the information on financial performance as specified on page 354 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 Bank's responsibility for the Report

The management of the Bank 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 Bank in accordance with our engagement letter dated 08 February 2021. We disclaim any assumption of responsibility for any reliance on this report to any person other than the Bank 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 Bank'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 Bank on a sample basis through recalculation.
- Reconciling and agreeing the data on financial performance are properly derived from the Bank's audited financial statements for the year ended December 31, 2020.
- 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.

Partners: W R H Fernando FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA Ms. Y A De Silva FCA W R H De Silva ACA ACMA W K B S P Fernando FCA FCMA
Ms. K R M Fernando FCA ACMA Ms. L K H L Fonseka FCA A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond) H M A Jayesinghe FCA FCMA
Ms. A A Ludowyke FCA FCMA Ms. G G S Manatunga FCA A A J R Perera ACA ACMA Ms. P V K N Sajeewani FCA N M Sulaiman ACA ACMA B E Wijesuriya FCA FCMA

Principals: G B Goudian ACMA T P M Ruberu FCMA FCCA

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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 354 of the Report are properly derived from the audited financial statements of the Bank for the year ended December 31, 2020.
- 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 Bank's sustainability practices and policies some of which are derived from Sustainability Reporting Guideline, GRI Standards- 'In accordance' Core.

Ernst + Young

Ernst & Young

Chartered Accountants

February 24, 2021

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 ('DNV GL') was engaged by management of Commercial Bank of Ceylon PLC ('Commercial Bank' or 'the Bank', Company Registration Number PQ116) to undertake an independent assurance of the qualitative and quantitative non-financial information (sustainability performance) presented in the Bank's Annual Report 2020 ('the Report') in its printed format.

This Report is prepared based on the Guiding Principles and Content Elements of the International <IR> Framework (December 2013, the '<IR> Framework') of the International Integrated Reporting Council ('IIRC') and the Global Reporting Initiative's (GRI's) Sustainability Reporting Standards ('GRI Standards')to bring out the various Content Elements of the <IR> Framework and performance trends related to identified material topics. The intended user of this Assurance Statement is the management of the Bank.

We performed a Type 2 Moderate Level of assurance using Account Ability's AA1000 Assurance Standard v3 (August 2020, 'AA1000AS v3') and DNV GL's assurance methodology VeriSustainTM1, which is based on our professional experience, international assurance best practices including International Standard on Assurance Engagements 3000 (ISAE 3000) Revised* and the GRI's Principles for Defining Report Content and Quality. Our assurance engagement was planned and carried out during February 2021 for the reported performance indicators during the reporting period 1st January 2020 to 31st December 2020.

We planned and performed our work to obtain the evidence we considered necessary to provide a basis for our assurance opinion, and our process did not involve engagement with external stakeholders. In doing so, we evaluated the qualitative and quantitative disclosures presented in the Report using the Guiding Principles of the <IR> Framework, together with the Bank's procedures and protocols for how the non-financial performance was measured, recorded and reported.

The reporting topic boundary of sustainability/non-financial performance is as set out in the Report in the section 'Basis of Preparation' and is based on internal and external materiality assessment covering Commercial Bank's banking and associated operations in Sri Lanka. The Report excludes performance data and information related to the activities of Commercial Bank's seven subsidiaries – Commercial Development Co. PLC, CBC Tech Solutions Ltd., CBC Finance Ltd., Commercial Insurance Brokers (Pvt.) Ltd., Commex SriLanka S.R.L Italy, Commercial Bank of Maldives (Private) Limited, CBC Myanmar Microfinance Company Limited and the operations of its associate, Equity Investments Lanka Ltd. as the results of their operations are not significant (<1 % revenue) compared to the overall results of the Bank.

Responsibilities of the Management of Commercial Bank and of the Assurance Provider

The Management team of the Bank have the sole accountability for the preparation of the Report and are responsible for the information disclosed in the Report as well as the processes for collecting, analysing and reporting the information presented in the Report. In performing the assurance work, our responsibility is to the management of the Bank; however, this statement represents our independent opinion and is intended to inform the outcome of our assurance to the stakeholders of the Bank.

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 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. Our scope of work focussed on verification of non-financial disclosures only and excluded verification of the reported data on financial performance of the Bank, as financial disclosures and data has been subject to a separate independent statutory audit process.

Basis of our Opinion

We planned and performed our work to obtain the evidence considered necessary to provide a basis for our assurance opinion as part of the assurance engagement. 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., As part of the engagement, a multi-disciplinary team of sustainability and assurance specialists reviewed sustainability disclosures related to Commercial Bank's operations. Due to the outbreak of the COVID-19 pandemic and associated travel restrictions, we carried out remote assessments as one-to-one discussions and onsite location assessments were not feasible. We undertook the following activities:

- Review of Commercial Bank's approach to non-financial reporting based on the <IR> Framework including stakeholder relationships and materiality determination process and its outcomes as reported in this Report. We did not have any direct engagement with external stakeholders.

1 The VeriSustain protocol is available on request from www.dnvgl.com

** Assurance Engagements other than Audits or Reviews of Historical Financial Information.*

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- Verified the value creation disclosures related to the six (6) capitals identified by the Bank as well as claims made in the Report.
- Interviews with selected senior management team responsible for management of sustainability issues and review of selected evidence to support issues discussed. We were free to choose interviewees and interviewed those with overall responsibility to deliver the Company's sustainability objectives.
- Review of supporting evidence related to qualitative & quantitative disclosures within the Report against identified material aspect.
- Assessed the robustness of the data management system, data accuracy, information flow and controls for the reported disclosures.
- Review of the processes for gathering and consolidating the specified performance data and, for a sample, checking the data consolidation.

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 assurance work 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(6) identified capitals, related strategies and management approach, and chosen topic specific GRI Standards related to identified material topics. Without affecting our assurance opinion, we also provide the following observations.

AA1000 AccountAbility Principles Standard (2018)

Inclusivity

People should have a say in the decisions that impact them.

We reviewed the application of the principle of Inclusivity i.e. the process of stakeholder identification and engagement including effectiveness of the review process in identifying, engaging and responding to key sustainability concerns of significant stakeholders such as employees, customers, investors, regulators and society. The Bank has ongoing processes for stakeholder engagement to identify critical and emerging issues based on the changes in external environment through its documented stakeholder engagement process, however the stakeholder engagement process could be further strengthened to collect inputs, ideas and suggestions through structured customer feedback mechanisms on a proactive basis.

Nothing has come to our attention to suggest that the Report does not meet the requirements related to the Principle of Inclusivity.

Materiality

Decision makers should identify and be clear about the sustainability topics that matter

The Report brings out the application of the Materiality principle of the <IR> Framework to arrive at material topics for the organization considering its nature of business, stakeholder concerns, frameworks and charters to which bank subscribes. Further, Bank has reviewed the process of materiality assessment and revalidation of materiality based on the external environment and key stakeholders expectations.

Nothing has come to our attention to suggest that the Report does not meet the requirements related to the Principle of Materiality.

Responsiveness

Organisations should act transparently on material sustainability topics and their related impacts

The key stakeholder concerns and the Bank's responses to these concerns are fairly responded to within the Report through disclosures such as Bank's business model, policies, management systems, governance mechanisms, disclosures on management approach. However, the bank can focus more disclosing the Bank's short, medium, and long-term goals with respect to identified material topics in future reporting periods.

Nothing has come to our attention to suggest that the Report does not meet the requirements related to the Principle of Responsiveness.

Impact

Organisations should monitor, measure, and be accountable for how their actions affect their broader ecosystems

The Report brings out the Bank's metrics such as customer centricity, prudent growth, operational excellence, innovation etc. and management processes established 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 if any, to constantly create and change value for the Bank and its key stakeholders.

Nothing has come to our attention to suggest that the Report does not meet the requirements related to the Principle of Impact.

Specific Evaluation of the Information on Sustainability Performance

We consider the methodology and process for gathering information developed by Commercial Bank for its non-financial/ sustainability performance reporting to be appropriate, and the qualitative and quantitative data included in the Report was found to be identifiable and traceable; the personnel responsible were able to demonstrate the origin and interpretation of the data and its reliability. We observed that the Report presents a faithful description of the reported sustainability activities and goals achieved for the reporting period.

Reliability

The accuracy and comparability of information presented in the report, as well as the quality of underlying data management systems

The Report brings out Commercial Bank's non-financial performance for identified material matters through chosen GRI Topic Specific Standards based on the protocols established from reliability and accuracy perspective. The robustness of the data management and aggregation systems was evaluated and verified through our remote assessments and were found to be fairly accurate and reliable. Some of the data inaccuracies identified during the verification process were found to be attributable to transcription, interpretation and aggregation errors and these errors have been corrected.

Nothing has come to our attention to suggest that the Report does not meet the requirements related to the Principle of Reliability.

Additional Principles as per DNV GL VeriSustain

Completeness

How much of all the information that has been identified as material to the organisation and its stakeholders is reported

The Report has brought out the Content Elements, Guiding Principles and value creation through its six(6) identified capitals, its business model, strategies and management approach disclosures in line with the <IR> Framework and its key requirements as well as non-financial performance related to material topics through chosen GRI Standards of entities within the chosen reporting boundary considering the Bank's sphere of control and influence.

Nothing has come to our attention to suggest that the Report does not meet the requirements related to the Principle of Completeness.

Neutrality

The extent to which a report provides a balanced account of an organization's performance, delivered in a neutral tone

The Report brings out the Bank's challenges, concerns related to key stakeholders such as employees, customers, investors, regulators and society and responses to challenges during the reporting period in a neutral tone in terms of content and presentation.

Nothing has come to our attention to suggest that the Report does not meet the requirements related to the Principle of Neutrality.

Statement of Competence and Independence

DNV GL applies its own management standards and compliance policies for quality control, in accordance with ISO IEC 17021:2015 - Conformity Assessment Requirements for bodies providing audit and certification of management systems, 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.

We have complied with the DNV GL Code of Conduct2 during the assurance engagement and maintain independence where required by relevant ethical requirements including the AA1000AS v3 Code of Practice. This engagement work was carried out by an independent team of sustainability assurance professionals. DNV GL was not involved in the preparation of any statements or data included in the Report except for this Assurance Statement and Management Report. DNV GL maintains complete impartiality toward stakeholders interviewed during the assurance process. DNV GL did not provide any services to Commercial Bank and its subsidiaries in the scope of assurance during 2020-21 that could compromise the independence or impartiality of our work.

For and on behalf of DNV GL AS

Lankalapalli, Bhargav
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Date: 2021.03.01 10:30:18 +05'30'

Bhargav Lankalapalli

Lead Verifier

DNV GL Business Assurance India Private Limited, India

Wickramasinghe, Rohitha
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Rohita Wickramasinghe

Operations Manager – Sri Lanka

DNV GL Business Assurance Lanka (Private) Limited, Sri Lanka

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Nandkumar Vadakepatth

Assurance Reviewer

DNV GL Business Assurance India Private Limited, India

March 1, 2021

Colombo,

Sri Lanka.

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DNV GL Business Assurance Lanka (Private) Limited is part of DNV GL – Business Assurance, a global provider of certification, verification, assessment and training services, helping customers to build sustainable business performance. www.dnvgl.com

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[2] *The DNV GL Code of Conduct is available on request from www.dnvgl.com*

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Annex 6: Our Sustainability Footprint

GRI Disclosures – 5 Year Summary

Disclosure		Unit of Measure	2020		2019		2018		2017		2016	
201–1	Direct economic value:											
	– Generated	Rs. Mn.	149,711		148,706		138,049		114,357		93,143	
	– Distributed to		116,450		124,544		117,032		102,268		81,712	
	– Depositors		72,759		80,571		72,524		64,011		47,915	
	– Employees		14,564		14,083		13,071		11,268		10,794	
	– Business partners		9,636		10,426		10,497		8,819		7,773	
	– Government		11,808		12,691		14,286		11,609		9,368	
	– Shareholders		7,586		6,679		6,571		6,478		5,800	
	– Community		97		94		83		83		62	
	– Retained		33,261		24,162		21,017		12,089		11,431	
302–1	Energy consumption within the organisation	Gigajoules	45,045		50,296		49,958		54,820		56,359	
302–4	Reduction of energy consumption	Gigajoules	5,251		(338)		4,862		1,539		(482)	
305–1	Direct (Scope 1) GHG emissions	CO_2 Tonnes.	Pending		1,282		1,369		1,305		Not measured	
305–2	Energy indirect (Scope 2) GHG emissions	CO_2 Tonnes.	Pending		10,957		10,838		12,395		Not measured	
401–1	New employee hires		Nos.	%	Nos.	%	Nos.	%	Nos.	%	Nos.	%
	Female		41	0.81	57	1.13	70	1.41	46	0.92	46	0.93
	– 18–30 Years		41	0.81	52	1.03	67	1.34	43	0.86	42	0.85
	– 31–50 Years		–	–	5	0.10	3	0.06	3	0.06	4	0.08
	– Above 50 Years		–	–	–	–	–	–	–	–	–	–
	Male		117	2.31	207	4.12	242	4.86	214	4.29	225	4.54
	– 18–30 Years		106	2.09	197	3.92	233	4.68	211	4.23	210	4.24
	– 31–50 Years		11	0.22	9	0.18	8	0.16	2	0.04	14	0.28
	– Above 50 Years		–	–	1	0.02	1	0.02	1	0.02	1	0.02
	Total		158	3.12	264	5.25	312	6.26	260	5.21	271	5.47
	Attrition											
	Female		52	1.03	73	1.45	72	1.44	55	1.10	54	1.09
	– 18–30 Years		12	0.24	31	0.61	10	0.20	24	0.48	16	0.32
	– 31–50 Years		9	0.18	18	0.36	41	0.82	21	0.42	16	0.32
	– Above 50 Years		31	0.61	24	0.48	21	0.42	10	0.20	22	0.44
	Male		111	2.19	154	3.05	191	3.82	187	3.75	175	3.52
	– 18–30 Years		51	1.01	91	1.80	107	2.14	94	1.89	91	1.83
	– 31–50 Years		32	0.63	43	0.85	51	1.02	46	0.92	43	0.87
	– Above 50 Years		28	0.55	20	0.40	33	0.66	47	0.94	41	0.83
	Total		163	3.22	227	4.50	263	5.26	242	4.86	229	4.61

Disclosure		Unit of Measure	2020	2019	2018	2017	2016
401–3	Parental leave						
	– Entitled to leave	Nos.	1,185	1,196	1,189	1,213	1,227
	– Availed for leave	Nos.	69	84	58	52	65
	– Due to return	Nos.	73	64	48	57	65
	– Return to work	Nos.	73	64	48	53	62
	– Still employed	Nos.	61	45	51	57	53
	– Return ratio	%	100.00	100.00	100.00	92.98	95.38
	– Retained ratio	%	95.31	93.75	96.23	91.94	100.00
404–1	Average training hours	Hours					
	Female		2	19	20	17	20
	– Corporate management		1	32	29	2	4
	– Executive officers		2	23	22	19	20
	– Junior executive assistants & allied grades		1	10	10	10	11
	– Banking & graduate trainees		8	64	86	98	85
	Male		7	27	26	25	25
	– Corporate management		6	34	35	32	30
	– Executive officers		6	28	25	24	19
	– Junior executive assistants & allied grades		5	16	16	15	18
	– Banking and graduate trainees		28	83	79	78	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		23.43	23.63	24.08	24.35	24.60
	– Male		76.57	76.37	75.92	75.65	75.40
	Age group						
	– 18–30 Years		34.86	37.34	39.94	41.17	43.62
	– 31–50 Years		57.37	55.15	52.93	52.27	50.07
	– Above 50 Years		7.77	7.51	7.13	6.56	6.31
405–2	Remuneration ratio women to men	Male:Female					
	– Corporate management		1 : 0.75	1 : 0.97	1:0.75	1:0.75	1:0.95
	– Executive officers		1 : 1.05	1 : 1.09	1:1.11	1:0.90	1:1.10
	– Junior executive assistants and allied grades		1 : 1.10	1 : 1.10	1:1.09	1:0.92	1:1.08
	– Banking and graduate trainees		1 : 1.00	1 : 1.01	1:1.02	1:0.97	1:1.01
	– Office assistants and other		1 : 0.79	1 : 0.79	1:0.82	1:1.05	1:1.01
418–1	Substantiated complaints	The Bank did not come across any complaint that had resulted in a reputational damage or significant financial loss.					

Annex 7: Decade at a Glance

As at December 31, *Rs. Mn.*	CAGR %	**2020**	2019	2018
Assets				
Cash and cash equivalents		**50,251**	52,535	39,534
Balances with Central Banks		**110,971**	39,461	54,385
Placements with banks		**15,939**	24,527	19,899
Securities purchased under resale agreements		**–**	13,148	9,514
Derivative financial assets		**2,637**	1,831	7,910
Other financial instruments – Held for trading		**–**	–	–
Financial assets recognised through profit or loss – Measured at fair value		**35,189**	21,468	5,520
Loans and receivables to banks	13.51	**–**	–	–
Financial assets at amortised cost – Loans and advances to banks		**780**	758	763
Loans and receivables to other customers		**–**	–	–
Financial assets at amortised cost – Loans and advances to other customers		**896,845**	884,646	861,100
Financial investments – Held to maturity		**–**	–	–
Financial investments – Loans and receivables		**–**	–	–
Financial assets at amortised cost – Debt and other financial instruments		**292,728**	101,145	83,855
Financial investments – Available for sale		**–**	–	–
Financial assets measured at fair value through other comprehensive income		**278,461**	197,568	176,507
Total financial assets		**1,683,801**	1,337,087	1,258,987
Investments in subsidiaries		**5,808**	5,011	4,264
Investment in associate		**44**	44	44
Property, plant & equipment and right-of-use assets		**23,212**	20,507	15,301
Intangible assets		**1,233**	1,080	906
Leasehold property		**–**	–	72
Deferred tax assets		**2,500**	294	–
Other assets		**19,620**	23,323	23,911
Total assets	16.44	**1,736,218**	1,387,346	1,303,485
Liabilities				
Due to banks		**87,451**	51,506	50,101
Derivative financial liabilities		**1,501**	1,495	8,022
Securities sold under repurchase agreements		**91,438**	51,220	49,104
Due to other customers/deposits from customers	16.36	**–**	–	–
Financial liabilities at amortised cost – due to depositors		**1,265,966**	1,053,308	983,037
Other borrowings		**–**	–	–
Financial liabilities at amortised cost – other borrowings		**54,556**	23,249	25,362
Current tax liabilities		**6,778**	4,968	6,566
Deferred tax liabilities		**–**	–	646
Other provisions		**–**	–	–
Other liabilities		**33,038**	30,497	24,208
Due to subsidiaries		**97**	54	41
Subordinated liabilities		**38,247**	37,887	37,992
Total liabilities		**1,579,072**	1,254,184	1,185,079
Equity				
Stated capital		**52,188**	40,917	39,148
Statutory reserves		**9,024**	8,205	7,354
Retained earnings		**7,596**	5,144	5,063
Other reserves		**88,338**	78,896	66,841
Total liabilities and equity	16.44	**1,736,218**	1,387,346	1,303,485
Contingent liabilities and commitments		**728,712**	579,999	658,722

CAGR – Compounded Annual Growth Rate

	LKASs and SLFRSs					
2017	2016	2015	2014	2013	2012	2011
33,225	30,194	20,044	20,592	14,262	19,733	12,911
44,801	43,873	28,221	19,634	18,432	18,168	17,343
17,633	11,718	17,194	14,508	4,132	16,163	11,674
–	–	8,002	41,198	8,946	3,697	1,542
2,335	1,053	4,118	460	838	1,351	40
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
–	–	–	–	–	–	–
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
3,066	2,435	1,237	1,211	289	303	315
44	44	44	44	44	44	44
14,635	10,308	9,969	9,953	8,387	8,221	7,907
777	641	466	439	468	497	467
73	74	74	75	76	77	78
–	964	–	–	–	449	360
17,297	16,439	12,096	10,543	9,426	9,189	7,291
1,143,374	1,012,201	879,805	795,610	605,987	511,743	441,329
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
850,128	739,563	624,102	529,361	451,153	390,612	323,755
–	–	–	–	–	–	–
23,786	9,270	9,986	11,637	8,654	15,823	8,368
–	–	–	–	–	–	–
4,144	3,441	3,002	1,998	1,759	2,802	1,305
3,275	–	231	2,574	1,563	1,698	1,594
–	2	2	2	2	2	1
19,225	17,710	15,547	17,444	9,827	10,363	8,162
75	20	26	19	16	22	30
25,166	24,850	11,973	11,045	10,944	1,106	1,106
1,036,275	933,847	809,464	725,098	545,043	459,166	397,565
37,144	24,978	23,255	21,458	19,587	18,009	16,474
6,477	5,648	4,922	4,327	4,035	3,433	2,890
4,987	4,464	4,389	4,258	4,233	4,178	2,547
58,491	43,264	37,775	40,469	33,089	26,957	21,853
1,143,374	1,012,201	879,805	795,610	605,987	511,743	441,329
564,795	498,305	521,232	352,453	295,452	279,593	234,551

For the year ended December 31, *Rs. Mn.*	CAGR %	**2020**	2019	2018
Operating results				
Gross income	14.05	**149,711**	148,706	138,049
Interest income		**122,330**	127,780	117,466
Interest expense		**(72,759)**	(80,571)	(72,524)
Foreign exchange profit		**8,338**	6,726	7,900
Commission and other income		**17,031**	12,082	12,683
Operating expenses and impairment		**(51,429)**	(43,678)	(39,934)
Profit before tax	8.92	**23,511**	22,339	25,591
Income tax expense		**(7,138)**	(5,314)	(8,047)
Profit for the year	8.46	**16,373**	17,025	17,544
Ratios				
Return on average-shareholders' funds (%)		**11.28**	13.54	15.56
Income growth (%)		**0.68**	7.72	20.72
Return on average assets (%)		**1.05**	1.27	1.43
Ordinary share dividend cover (times)		**2.34**	2.55	2.67
Advances to deposits and refinance (%)		**72.96**	86.74	86.96
Property, plant and equipment to shareholders' funds (%)		**15.56**	16.21	13.75
Total assets to shareholders' funds (times)		**11.05**	10.42	11.01
Capital funds to liabilities including contingent liabilities (%)		**6.81**	7.26	6.42
Cost/income ratio (%)		**39.96**	49.41	46.35
Liquid assets ratio – Domestic Banking Unit (DBU) (%)		**44.99**	30.42	24.47
Liquid assets ratio – Offshore Banking Centre (OBC) (%)		**32.70**	25.25	30.20
(As specified in the Banking Act No. 30 of 1988)				
Group capital adequacy (%) Tier I		**N/A**	N/A	N/A
Tier I & II		**N/A**	N/A	N/A
Group capital adequacy (%) (under Basel III)				
Common equity Tier I capital ratio		**13.36**	12.40	11.43
Tier I capital ratio		**13.36**	12.40	11.43
Total capital ratio		**16.88**	16.18	15.62
Share information				
Market value of a voting ordinary share (Rs.)		**80.90**	95.00	115.00
Earnings per share (Rs.)		**15**	17	17
Dividend per share (Rs.)		**6.50**	6.50	6.50
Price earnings ratio (times)		**5**	5	7
Net assets value per share (Rs.)		**135**	130	117
Earnings yield (%)		**19**	17	15
Gross Dividends (Rs. Bn.) to ordinary shareholders		**7.59**	6.68	6.57
Dividend payout ratio (%) – Cash		**32**	27	26
Total dividend payout ratio (%)		**46**	39	37
Other information				
Number of employees		**5,057**	5,062	5,027
Number of delivery points – Sri Lanka	2.49	**268**	268	266
Number of delivery points – Bangladesh		**19**	19	19
Number of automated teller machines	6.50	**906**	885	850

CAGR – Compounded Annual Growth Rate

	LKASs and SLFRSs					
2017	2016	2015	2014	2013	2012	2011
114,357	93,143	77,868	72,753	73,736	63,395	45,860
103,034	80,738	66,030	61,832	62,764	52,685	38,356
(64,011)	(47,915)	(35,685)	(34,610)	(36,879)	(29,830)	(19,650)
588	2,326	2,877	1,481	1,996	4,687	2,322
10,735	10,079	8,961	9,440	8,976	6,023	5,182
(28,400)	(25,177)	(25,040)	(22,407)	(22,347)	(19,270)	(15,313)
23,183	20,051	17,143	15,736	14,510	14,295	10,897
(6,602)	(5,539)	(5,240)	(4,556)	(4,065)	(4,197)	(3,014)
16,581	14,512	11,903	11,180	10,445	10,098	7,883
17.88	19.52	16.90	17.01	18.40	20.96	20.28
24.10	19.62	7.03	0.96	16.31	38.24	10.45
1.54	1.53	1.42	1.60	1.87	2.12	1.94
2.62	2.25	2.09	1.99	1.89	1.86	1.61
86.07	82.69	80.84	75.89	77.48	82.01	83.30
14.46	14.07	14.94	14.85	14.65	16.73	19.31
10.68	12.92	12.51	11.28	9.94	9.73	9.92
6.69	5.47	5.29	6.54	7.25	7.12	6.92
51.08	51.06	48.92	49.26	45.59	47.02	50.70
27.28	27.19	26.24	33.15	33.66	25.40	25.70
30.95	30.19	49.13	31.43	29.38	34.16	27.77
N/A	11.59	11.55	13.07	13.30	12.63	12.11
N/A	16.01	14.28	16.22	16.93	13.84	13.01
12.12	–	–	–	–	–	–
12.12	–	–	–	–	–	–
15.70	–	–	–	–	–	–
135.80	145.00	140.20	171.00	120.40	103.00	100.00
17	16	13	13	12	12	9
6.50	6.50	6.50	6.50	6.50	6.50	6.00
8	9	10	13	10	9	11
108	88	80	81	72	63	54
13	11	10	8	10	12	9
6.48	5.77	5.70	5.70	5.52	5.42	4.90
26	28	33	35	37	37	42
38	40	48	50	53	54	62
4,982	4,987	4,951	4,852	4,730	4,602	4,524
261	255	246	239	235	227	213
19	19	18	18	18	17	17
775	677	640	625	604	572	514

Annex 8: Financial Statements (US Dollars)

Income Statement

For the year ended December 31,	GROUP **2020** **USD '000**	 2019 USD '000	 Change %	BANK **2020** **USD '000**	 2019 USD '000	 Change %
Gross income	**812,655**	806,102	0.81	**800,596**	795,221	0.68
Interest income	**663,571**	691,378	(4.02)	**654,173**	683,313	(4.26)
Less: Interest expense	**391,545**	432,788	(9.53)	**389,086**	430,862	(9.70)
Net interest income	**272,026**	258,590	5.20	**265,087**	252,451	5.01
Fee and commission income	**63,314**	68,850	(8.04)	**60,260**	66,345	(9.17)
Less: Fee and commission expense	**10,792**	11,354	(4.95)	**10,760**	11,321	(4.96)
Net fee and commission income	**52,522**	57,496	(8.65)	**49,500**	55,024	(10.04)
Net gains/(losses) from trading	**10,043**	7,277	38.01	**10,043**	7,277	38.01
Net gains/(losses) from derecognition of financial assets	**34,172**	6,073	462.69	**34,172**	6,073	462.69
Net other operating income	**41,555**	32,523	27.77	**41,948**	32,212	30.22
Total operating income	**410,318**	361,959	13.36	**400,750**	353,037	13.52
Less: Impairment charges and other losses	**114,543**	60,596	89.03	**114,886**	59,152	94.22
Net operating income	**295,775**	301,363	(1.85)	**285,864**	293,885	(2.73)
Less: Expenses						
Personnel expenses	**80,175**	77,053	4.05	**77,882**	75,308	3.42
Depreciation and amortisation	**16,592**	15,194	9.20	**15,984**	14,730	8.51
Other operating expenses	**43,675**	47,462	(7.98)	**42,176**	45,928	(8.17)
Total operating expenses	**140,442**	139,709	0.52	**136,043**	135,966	0.06
Operating profit before taxes on financial services	**155,333**	161,654	(3.91)	**149,822**	157,919	(5.13)
Less: Taxes on financial services	**24,232**	38,801	(37.55)	**24,093**	38,458	(37.35)
Operating profit after taxes on financial services	**131,101**	122,853	6.71	**125,729**	119,461	5.25
Share of profits of associate, net of tax	**21**	53	(60.38)	**–**	–	–
Profit before tax	**131,122**	122,906	6.68	**125,729**	119,461	5.25
Less: Income tax expense	**39,749**	29,751	33.61	**38,170**	28,418	34.32
Profit for the year	**91,373**	93,155	(1.91)	**87,559**	91,043	(3.83)
Profit attributable to:						
Equity holders of the Bank	**90,588**	92,315	(1.87)	**87,559**	91,043	(3.83)
Non-controlling interest	**785**	840	(6.55)	**–**	–	–
Profit for the year	**91,373**	93,155	(1.91)	**87,559**	91,043	(3.83)
Earnings per share						
Basic earnings per ordinary share (USD)	**0.08**	0.09	(4.33)	**0.08**	0.09	(6.24)
Diluted earnings per ordinary share (USD)	**0.08**	0.09	(4.33)	**0.08**	0.09	(6.24)

US Dollar Accounts

The Income Statement and the Statement of Financial Position given on pages 358 and 359 are solely for the convenience of stakeholders and do not form part of the Financial Statements.

Statement of Financial Position

	GROUP			BANK		
As at December 31,	**2020 USD '000**	2019 USD '000	Change %	**2020 USD '000**	2019 USD '000	Change %
Assets						
Cash and cash equivalents	**274,091**	287,065	(4.52)	**268,720**	280,934	(4.35)
Balances with Central Banks	**616,892**	246,531	150.23	**593,428**	211,022	181.22
Placements with banks	**87,817**	133,175	(34.06)	**85,235**	131,162	(35.02)
Securities purchased under resale agreements	**–**	70,308	–	**–**	70,308	–
Derivative financial assets	**14,100**	9,791	44.01	**14,100**	9,791	44.01
Financial assets recognised through profit or loss – Measured at fair value	**188,179**	114,802	63.92	**188,179**	114,802	63.92
Financial assets at amortised cost – Loans and advances to banks	**4,170**	4,052	2.91	**4,170**	4,052	2.91
Financial assets at amortised cost – Loans and advances to other customers	**4,865,397**	4,780,317	1.78	**4,795,965**	4,730,726	1.38
Financial assets at amortised cost – Debt and other financial instruments	**1,615,292**	572,508	182.14	**1,565,388**	540,881	189.41
Financial assets measured at fair value through other comprehensive income	**1,490,464**	1,057,888	40.89	**1,489,098**	1,056,515	40.94
Investments in subsidiaries	**–**	–	–	**31,061**	26,798	15.91
Investment in associate	**343**	304	12.83	**237**	237	–
Property, plant and equipment and right–of–use assets	**135,757**	120,453	12.71	**124,130**	109,664	13.19
Investment properties	**359**	248	44.76	**–**	–	–
Intangible assets	**9,628**	8,801	9.40	**6,593**	5,775	14.16
Deferred tax assets	**14,629**	2,835	416.01	**13,368**	1,573	749.84
Other assets	**107,995**	125,368	(13.86)	**104,916**	124,719	(15.88)
Total assets	**9,425,113**	7,534,446	25.09	**9,284,588**	7,418,959	25.15
Liabilities						
Due to banks	**471,915**	287,740	64.01	**467,654**	275,432	69.79
Derivative financial liabilities	**8,028**	7,996	0.40	**8,028**	7,996	0.40
Securities sold under repurchase agreements	**488,832**	273,355	78.83	**488,971**	273,904	78.52
Financial liabilities at amortised cost – Due to depositors	**6,880,302**	5,716,484	20.36	**6,769,871**	5,632,661	20.19
Financial liabilities at amortised cost – Other borrowings	**291,743**	124,326	134.66	**291,743**	124,326	134.66
Current tax liabilities	**37,385**	27,792	34.52	**36,246**	26,565	36.44
Deferred tax liabilities	**2,160**	2,227	(3.01)	**–**	–	–
Other liabilities	**179,531**	164,577	9.09	**176,670**	163,083	8.33
Due to subsidiaries	**–**	–	–	**519**	290	78.97
Subordinated liabilities	**204,528**	202,603	0.95	**204,532**	202,604	0.95
Total liabilities	**8,564,424**	6,807,100	25.82	**8,444,234**	6,706,861	25.90
Equity						
Stated capital	**279,079**	218,807	27.55	**279,079**	218,807	27.55
Statutory reserves	**49,654**	44,854	10.70	**48,257**	43,879	9.98
Retained earnings	**43,445**	27,712	56.77	**40,622**	27,510	47.66
Other reserves	**479,121**	427,473	12.08	**472,396**	421,902	11.97
Total equity attributable to equity holders of the Bank	**851,299**	718,846	18.43	**840,354**	712,098	18.01
Non–controlling interest	**9,390**	8,499	10.48	**–**	–	–
Total equity	**860,689**	727,345	18.33	**840,354**	712,098	18.01
Total liabilities and equity	**9,425,113**	7,534,446	25.09	**9,284,588**	7,418,959	25.15
Contingent liabilities and commitments	**3,906,747**	3,106,748	25.75	**3,896,854**	3,101,600	25.64
Net assets value per share (USD)	**0.73**	0.70	4.27	**0.72**	0.69	3.91

An exchange rate of 1 USD equals 187 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: 02300000085408050000W

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

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

14. India

Axis Bank Ltd. (ACU$)
Mumbai
BIC: AXISINBB
A/C: 920020002237636
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

16. Sri Lanka

Commercial Bank of Ceylon PLC (ACU$)
Colombo
BIC: CCEYLKLX
A/C: 1420825031*

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

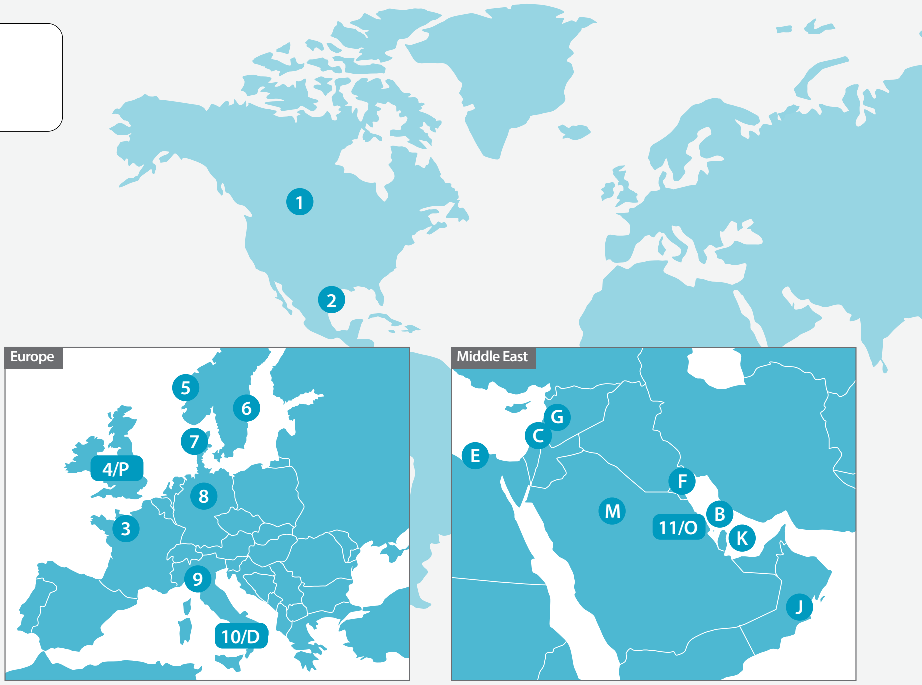
Standard Chartered Bank (CNY)
Shanghai
BIC: SCBLCNSX
A/C: 501510533540

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



20. Japan

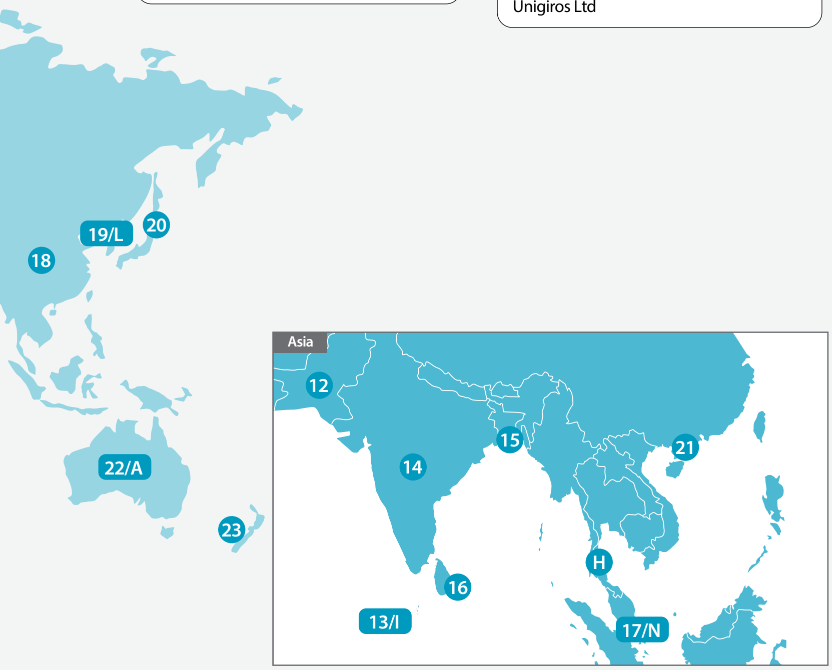
Mufg Bank (JPY)
Tokyo
BIC: BOTKJPJT
A/C: 653-0461318*

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



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. Australia ⓔ

- Cash Express Pty Ltd
- Ceylon Exchange Pty Ltd
- Colombo Money Transfer Services (Pvt) Ltd
- Direct Forex
- Foreign Exchange Central Pty Ltd
- Harbour and Hills Financial Services Pty
- Lanka Currency Converter Pty Ltd
- Remittanceplus Pty Ltd
- TSS Worldwide Money Transfer

B. Bahrain ⓔ

- Modern Exchange Co .BSCC
- National Finance & Exchange Co. WLL
- NEC BSC
- Zenj Exchange Co.WLL

C. Israel ⓔ

- AMT Financial Services Ltd
- S T B Union Ltd
- Unigiros Ltd

D. Italy ⓔ

- Commex Srilanka SRL
- National Exchange Company SRL

E. Jordan ⓔ

- Al Alami Exchange Company
- Al Nasir Establishment for Exchange
- Alawneh Exchange Co.
- Hekmat Nawras And Partners Exchange Co.
- Kalil Al Rahman Exchange Co.

F. Kuwait ⓔ

- Al Muzaini Exchange Company
- Al Muzaini Exchange Company
- Al Sultan Exchange Company WLL
- Almulla International Exchange Co.WLL
- Aman Exchange Company WLL
- Bahrain Exchange Co.WLL
- City International Exchange Co.WLL
- Dollarco Exchange Co.
- Etemadco Co Ltd
- Joy Alukkas Exchange Co.WLL
- Kuwait Bahrain Int'L Ex Co.
- Lulu Exchange Company WLL
- National Exchange Company WLL
- National Money Exchange WLL
- Oman Exchange Co.WLL
- UAE Exchange Centre Kuwait
- Unimoni Exchange Company

G. Lebanon ⓔ

- Cashunited SAL
- Crystal Exchange Company SAL

H. Malaysia ⓔ

- Tranglo SDN BHD

I. Maldives ⓔ

- Commercial Bank of Maldives Pvt Ltd

J. Oman ⓔ

- Al Jadeed Exchange LLC
- Bank Muscat S.A.O.G
- Global Money Exchang Co. LLC
- Joyalukkas Exchange LLC
- Laxmidas Tharia Ved & Company
- Lulu Exchange Co LLC
- Modern Exchange Company LLC
- Purshottam Kenji Exchange Co. LLC
- Unimoni Exchange LLC

K. Qatar ⓔ

- Al Sadd Exchange Co. WLL
- Al Dar For Exchange Works
- Al Mana Exchange WLL
- Al Mirqab Exchange Co. WLL
- Al Zaman Exchange WLL
- Alfardan Exchange Company
- Arabian Exchange Company WLL
- City Exchange Company WLL
- Doha Bank
- Doha Exchange
- Eastern Exchange Establishment
- Gulf Exchange Co.
- Habib Qatar International
- Islamic Exchange Co.WLL

L. South Korea ⓔ

- Coinone Transfer Inc
- Global Money Express Co Ltd
- Gmoney Trans Co Ltd

M. Saudi Arabia ⓔ

- Alrajhi Banking & Investment Corporation
- Arab National Bank
- Bank Albilad
- The National Commercial Bank
- The Saudi British Bank

N. Singapore ⓔ

- Ameertech Remittance & Exc. Ser. Pte Ltd

O. United Arab Emirates ⓔ

- Al Ahalia Money Exchange Bureau
- Al Ansari Exchange LLC
- Al Dahab Exchange
- Al Fardan Exchange LLC
- Al Fuad Exchange
- Al Ghurair Exchange LLP
- Al Ghurair International Exchange
- Al Rostamani International Exchange
- Arab Link Money Transfer PSC
- Delma Exchange
- Deniba International Exchange
- Emirates India Int'L Ex Co.
- Federal Exchange
- G C C Exchange
- Index Exchange
- Joyalukkas Exchange
- Lari Exchange
- LM Exchange LLC
- Lulu International Exchange LLC
- Multinet Trust Exchange LLC
- Orient Exchange Company LLC
- SAAD Exchange
- U A E Exchange Centre LLC
- Universal Exchange Centre
- Wall Street Exchange Centre

P. United Kindom ⓔ

- Brac Saajan Exchange Ltd
- Currency Exchange Corporation Ltd
- GCC Exchange UK Ltd
- Global Exchange Ltd
- LCC Trans-Sending Ltd
- Visa Payments Ltd

Global ⓔ

- BFC Bank Ltd
- Continental Exchange Solutions Inc
- Moneygram
- Payoneer Inc
- Placid NK Corporation DBA Placid Express
- Prabhu Group Inc
- Royal Exchange (USA) Inc
- Transfast Remittance LLC
- U A E Exchange Centre LLC
- Wall Street Exchange Centre
- Worldwide Cash Express Limited

ⓔ e-Exchange Agent Network

* Accounts of Bangladesh Operations.

Annex 10: Group Structure

	Local Subsidiaries			
	Commercial Development Company PLC	CBC Tech Solutions Ltd.	CBC Finance Limited	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%**	**100%**	**100%**	**60.00%** (58.00% as at December 31, 2019)
Principal Business Activities	Property development and provision of other utility services	Providing Information & Communication Technology (ICT) related products, services and solutions to corporate sector	Granting of leasing & hire purchase facilities, mortgage loans and other loan facilities. Accepting public deposits.	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 11 244 7300	+94 11 257 4417 +94 11 257 4407	+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	R Senanayake	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	K S A Gamage	S M S C Jayasuriya	W M N S K Weerapana
Director	U I S Tillakawardana	S Prabagar	D S Bandara	D J D P Hettiarachchi
Director			L H Munasinghe	L W P Indrajith
Director			A N P Sooriyaarachchi	
Company Secretary	L W P Indrajith	M P Dharmasiri	Ms H D U O Gurnasekara	Ms F Rikza Nawaz

Summary of Financial Information

	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019
	Rs. Mn.	Rs. Mn.	**Rs. Mn.**	Rs. Mn.	**Rs. Mn.**	Rs. Mn.	**Rs. Mn.**	Rs. Mn.
Total assets	3,449.510	3,343.931	354.779	250.715	8,482.598	7,431.856	711.027	701.205
Total liabilities	454.405	443.223	107.764	73.151	5,284.046	5,308.109	177.405	184.646
Net assets	2,995.105	2,900.708	247.015	177.564	3,198.552	2,123.748	533.622	516.559
Total revenue	454.906	453.849	348.301	350.985	1,049.982	1,150.666	255.268	255.178
Profit before tax	171.273	412.990	131.533	110.861	110.037	116.687	42.167	89.195
Profit after tax	122.582	363.217	94.648	79.699	58.477	79.129	32.078	60.903
Dividend per share (Rs.)	5.50	6.00	50.00	50.00	–	–	33.33	35

Local Associate	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	Ronnie Daniel	Dilan Rajapakse	R C P Kalugamage	Managing Director/CEO
Deshamanya S E Captain	J Premanath	S Renganathan	Mrs S A Walgama	Director
J D Peiris	U K P Banduwansa	S C U Manatunge	D J D P Hettiarachchi	Director
J B Abu Baker	Giancarlo Dolente	U I S Tillakawardana		Director
W I Arambage	Dr (Ms) Antonia Coppola	Dr Ibrahim Vishan		Director
K C Vignarajah		Adam Saleem		Director
M H Wijewaradene				Director
Mrs R R Dunuwille	Mrs N Gamage	Ms Fathmath Muaza	R C P Kalugamage	Company Secretary

2020 **Rs. Mn.**	2019 Rs. Mn.	**2020** **Rs. Mn.**	2019 Rs. Mn.	**2020** **Rs. Mn.**	2019 Rs. Mn.	**2020** **Rs. Mn.**	2019 Rs. Mn.	
496.708	253.351	588.994	240.854	21,712.188	19,464.317	524.172	432.050	Total assets
226.199	5.439	503.450	65.411	18,572.641	16,680.741	38.429	19.256	Total liabilities
270.509	247.912	85.544	175.443	3,139.547	2,783.575	485.743	412.794	Net assets
49.129	22.672	35.342	16.230	1,167.493	657.374	102.180	40.013	Total revenue
17.006	(1.379)	(75.019)	(100.829)	382.717	450.343	17.181	(13.122)	Profit before tax
17.006	(1.480)	(104.460)	(100.829)	274.214	328.948	12.428	(12.594)	Profit after tax
–	–		–		–		–	Dividend per share (Rs.)

Annex 11: Network of delivery points in Sri Lanka and Bangladesh

Network of delivery points in Sri Lanka

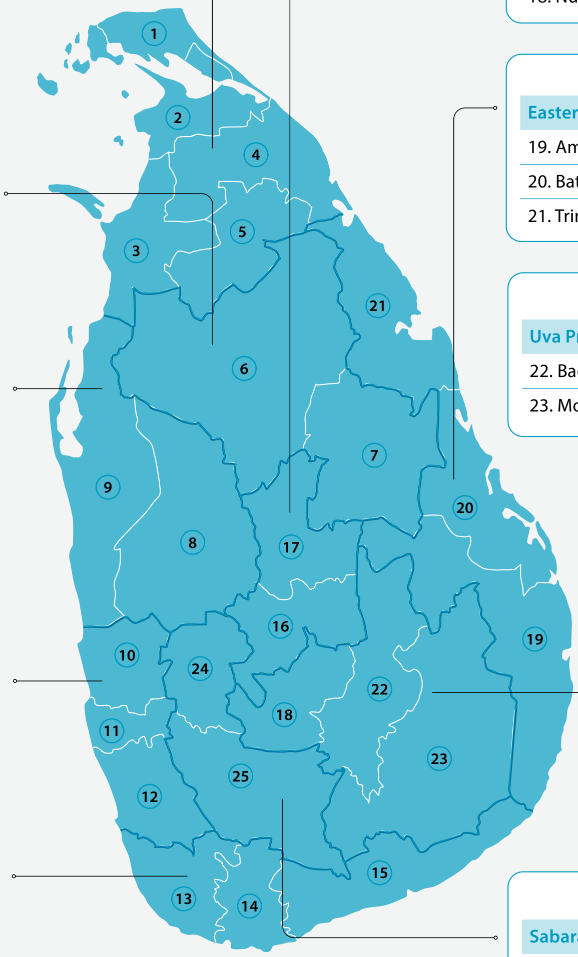
	Branches	ATMs	CRMs
Northern Province	**18**	**34**	**19**
1. Jaffna District	12	22	13
2. Kilinochchi District	2	3	3
3. Mannar District	1	1	1
4. Mullaitivu District	1	2	–
5. Vavuniya District	2	6	2

	Branches	ATMs	CRMs
North-Central Province	**8**	**19**	**7**
6. Anuradhapura District	6	12	5
7. Polonnaruwa District	2	7	2

	Branches	ATMs	CRMs
North-Western Province	**23**	**60**	**26**
8. Kurunegala District	14	44	17
9. Puttalam District	9	16	9

	Branches	ATMs	CRMs
Western Province	**133**	**349**	**119**
10. Colombo District	78	195	72
11. Gampaha District	42	127	36
12. Kalutara District	13	27	11

	Branches	ATMs	CRMs
Southern Province	**29**	**62**	**24**
13. Galle District	13	34	10
14. Matara District	10	18	8
15. Hambantota District	6	10	6



	Branches	ATMs	CRMs
Central Province	**22**	**47**	**21**
16. Kandy District	15	30	13
17. Matale District	3	10	4
18. Nuwara Eliya District	4	7	4

	Branches	ATMs	CRMs
Eastern Province	**10**	**19**	**12**
19. Ampara District	4	7	5
20. Batticaloa District	5	10	6
21. Trincomalee District	1	2	1

	Branches	ATMs	CRMs
Uva Province	**9**	**18**	**8**
22. Badulla District	6	12	6
23. Monaragala District	3	6	2

	Branches	ATMs	CRMs
Sabaragamuwa Province	**16**	**27**	**14**
24. Kegalle District	6	10	5
25. Ratnapura District	10	17	9

Number of Branches		268
Automated Teller Machines (Off-site = 207)	ATMs	635
Cash Recycler Machines (Off-site = 10)	CRMs	250

Cash Deposit Machines	CDMs	38
Envelop Deposit Machines (for cheques)	EDMs	30
Automated Cheque Deposit Units	ACDs	20

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

Network of delivery points in Bangladesh

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

Gazipur District

Tongi SME Centre

Chittagong District

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

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

Annex 12: 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.

Average Weighted Deposit Rate (AWDR)

AWDR is calculated by the Central Bank monthly based on the weighted average of all outstanding intetest bearing deposits of commercial banks and the corresponding interest rates.

Average Weighted Prime Lending Rate (AWPLR)

AWPLR is calculated by the Central Bank weekly based on commercial banks' lending rates offeres to their prime customers during the week.

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.

Business Continuity Plan

A document that consists of the critical information an organization needs to continue operating during an unplanned event.

The BCP should state the essential functions of the business, identify which systems and processes must be sustained, and detail how to maintain them. It should take into account any possible business disruption.

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.

Capital Conservation Buffer

Designed to ensure that banks build up buffers of capital outside any periods of stress and to avoid breaches of minimum capital 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.

Credit Risk Mitigation

A technique to reduce the credit risk associated with an exposure by application of credit risk mitigants such as collateral, guarantee and credit protection.

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".

Deminimis

Features that could impact the cash flows of a financial asset by a de minimis amount both on a period by period basis and cumulatively

Derecognition

Removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

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.

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.

Documentary Letters of Credit

Written undertakings 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.

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.

Gross Dividend

The portion of profits distributed to the shareholders including the tax withheld.

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.

Knowledge Capital

Knowledge capital is the intangible value of an organization made up of its knowledge, relationships, learned techniques, procedures, and innovations. In other words, knowledge capital is the full body of knowledge an organization possesses.

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.

Leverage Ratio

A leverage ratio is any one of several financial measurements that look at how much capital comes in the form of debt (loans) or assesses the ability of a company to meet its financial obligations.

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.

Market Risk Premium

The market risk premium is the difference between the expected return on a market portfolio and the risk-free rate. The market risk premium is equal to the slope of the security market line (SML), a graphical representation of the capital asset pricing model (CAPM).

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.

Unsystematic Risk
Unsystematic risk is unique to a specific company or industry. Also known as "nonsystematic risk," "specific risk," "diversifiable risk" or "residual risk," in the context of an investment portfolio, unsystematic risk can be reduced through diversification.

Y

Yield Curve
A yield curve is a line that plots yields (interest rates) of bonds having equal credit quality but differing maturity dates. The slope of the yield curve gives an idea of future interest rate changes and economic activity. There are three main types of yield curve shapes: normal (upward sloping curve), inverted (downward sloping curve) and flat.

Yield to Maturity (YTM)
Discount rate at which the present value of future cash flows would equal the security's current price.

Annex 13: 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 14: Alphabetical Index

Notice of Meeting – Annual General Meeting

Notice is hereby given that the Fifty-Second (52nd) Annual General Meeting (AGM) of the Commercial Bank of Ceylon PLC (the 'Company') will be held on Tuesday, March 30, 2021 at 10.30 a.m. at the Auditorium of Commercial Bank of Ceylon PLC, 9th Floor, Union Place Branch Building, No. 01 Union Place, Colombo 02, as a virtual meeting using a digital platform 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, 2020 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) Declaration of a first and final dividend and approval of its method of satisfaction [Dividend Resolution No. 1]: To consider and if thought fit to pass the following resolution by way of an Ordinary Resolution. [To be passed only by the ordinary (voting) shareholders].

THAT a first and final dividend of Rs. 6.50 per issued and fully paid ordinary (voting) and (non-voting) share constituting a total sum of Rs. 7,585,743,776.00 based on the issued ordinary (voting) and (non-voting) shares as at February 16, 2021 [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, 2020 on the issued and fully paid ordinary (voting) and (non-voting) shares of the Company;

THAT the shareholders entitled to such dividend would be those shareholders [both ordinary (voting) and (non-voting)], whose names have been duly registered in the Shareholders' Register maintained by the Registrars of the Company [i.e. SSP Corporate Services (Pvt) Ltd., No. 101, Inner Flower Road, Colombo 03] and also those shareholders whose names appear on the Central Depository Systems (Pvt) Ltd. ('CDS') as at end of trading on the date on which the requisite resolution of the shareholders in regard to the first and 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 first and final dividend of Rs. 6.50 per issued and fully paid ordinary (voting) and (non-voting) share be distributed and satisfied partly by the payment of cash and partly 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 16, 2021 in the manner following, the date of entitlement in respect of which shall be the date on which the shareholders' resolution pertaining to the said first and final dividend is passed:

- The payment in cash of Rs. 4.50 per issued and fully paid ordinary (voting) and (non-voting) share (subject to applicable government taxes); and
- The allotment and issue of new ordinary (voting) and (non-voting) shares in satisfaction of the balance of Rs. 2.00 per share dividend entitlement (subject to 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 as follows:

(a) By way of a cash distribution:

A cash distribution of a sum of Rs. 4,945,800,613.50, (subject however to necessary amendments being made to such amount to include the dividend payable on the options that may be exercised by the employees under the Company's ESOP schemes) shall be made to the entitled shareholders of ordinary (voting) shares; and a sum of Rs. 305,868,154.50 shall be made to the entitled shareholders of the ordinary (non-voting) shares, on the basis as aforesaid of Rs. 4.50 per ordinary (voting) and (non-voting) share respectively (subject to applicable government taxes);

AND

(b) By way of the allotment and issue of new shares:

The balance sum of:

- Rs. 2,198,133,606.00, (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 (subject to applicable government taxes); and
- Rs.135,941,402.00, to which the ordinary (non-voting) shareholders are entitled (subject to 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:

- 01 new fully paid ordinary (voting) share for every 43.8500004209 existing issued and fully paid ordinary (voting) shares calculated on the basis of the market value of the ordinary (voting) shares as at end of trading on February 16, 2021; and
- 01 new fully paid ordinary (non-voting) share for every 38.4000073443 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 end of trading on February 16, 2021.

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 sub heading "Residual fractions of shares" in the "Circular to the shareholders on the first and final dividend for 2020" dated March 5, 2021 be aggregated and the ordinary (voting) and (non-voting) shares, respectively, arising consequent to such aggregation be allotted to Trustees to be nominated by the Board of Directors of the Company, and that the Trustees so nominated and appointed be permitted to hold the said shares in trust until such shares are sold by the Trustees 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 25,064,237 new ordinary (voting) shares, based on the issued and fully paid ordinary (voting) shares as at February 16, 2021, (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 1,770,070 new ordinary (non-voting) shares based on the issued and fully paid ordinary (non-voting) shares as at February 16, 2021 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 1,099,066,803 existing issued and fully paid ordinary (voting) shares as at February 16, 2021 (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) and 67,970,701 existing issued and fully paid ordinary (non-voting) shares as at February 16, 2021.

(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 in part the first and final dividend for the year ended December 31, 2020:

"The allotment and issue of 25,064,237 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 1,770,070 new ordinary (non-voting) shares credited as fully paid to shareholders registered in the Company's Share Register and on the Central Depository Systems (Pvt) Ltd. ('CDS') as at 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 25,064,237 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 1,770,070 new ordinary (non-voting) shares credited as fully paid to shareholders registered in the Share Register of the Company and on the Central Depository Systems (Pvt) Ltd. ('CDS') as at the end of trading on the day when the relevant resolutions to be passed by shareholders in relation to the first and 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 authorized to take all necessary steps to give effect to the aforesaid proposed issue of new ordinary (voting) and (non-voting) shares of the Company.

3. To re-elect/elect the following Directors who, in terms of the Company's Articles of Association, retire by rotation or otherwise as given below:
    - (i) To re-elect Mr K Dharmasiri who retires by rotation in terms of Article 86 of the Articles of Association
    - (ii) To re-elect Ms N T M S Cooray who retires by rotation in terms of Article 86 of the Articles of Association
    - (iii) To elect Ms J Lee who was appointed to the Board in terms of Article 92 of the Articles of Association
    - (iv) To elect Mr R Senanayake who was appointed to the Board in terms of Article 92 of the Articles of Association
    - (v) To elect Mr S Muhseen who was appointed to the Board in terms of Article 92 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, 2021; and

    (b) To authorize the Board of Directors to determine the remuneration of the Auditors for the financial year ending December 31, 2021
5. To authorize the Board of Directors to determine donations for the year 2021.
6. Any Other Business

    In accordance with the policy of the Company as approved by the Board, shareholders are requested to consider and approve the sale of the vehicle used by Mr K G D D Dheerasinghe, former Chairman of the Company, to him, at 37.5% of the original cost (excluding VAT) or at market value, whichever shall be lower.

By Order of the Board of Commercial Bank of Ceylon PLC,

R A P Rajapaksha
Company Secretary

March 5, 2021
Colombo

Notes

(i) A duly registered and entitled holder of the Company's ordinary (voting) shares is entitled to participate at the meeting by virtual means, speak and vote at the AGM and is entitled to appoint a proxy holder to participate by virtual means, 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 participate at the meeting by virtual means 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 proxy holder to participate at the meeting by virtual means, 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 proxy holder need not be a shareholder of the Company.

(iv) A Form of Proxy is sent along with this Report. The Form of Proxy should be completed legibly and forwarded to the Company, by facsimile on 011 233 2317 or email to companysecretary@combank.net or by post to "Commercial House", No. 21, Sir Razik Fareed Mawatha, Colombo 01, not later than forty eight (48) hours before the time appointed for the holding of the AGM.

Circular to the Shareholders on the First and Final Dividend for 2020

Dear Shareholder/s,

First and Final Dividend for the year ended December 31, 2020 to be Satisfied Partly by the Distribution of Cash and Partly by the Allotment and Issue of New Shares.

COVID-19 had an impact on Commercial Bank of Ceylon PLC (the 'Company') during the year in terms of disruptions to its operations, customer service and its profitability and is likely to have potential impacts in the future as well. The Company strictly adhered to the guidelines given by the health authorities when conducting its operations. Also, the Company complied with the Directions and guidelines issued by the regulator, Central Bank of Sri Lanka and granted concessions to the affected customers. In addition, the Company extended further concessions to the affected customers at the discretion of the Company in terms of interest rebates, extended repayment periods and working capital funding via the Company's own schemes. The impact of COVID-19 has been extensively discussed and appropriate disclosures have been made in the Annual Report 2020.

Nevertheless, the Board of Directors of the Company, is pleased to inform its Shareholders that, a first and final dividend distribution of Rs. 6.50 per each existing issued and fully paid ordinary (voting) and (non-voting) share has been recommended for the financial year ended December 31, 2020, for due declaration by the Shareholders at the Annual General Meeting ('AGM') to be held on March 30, 2021 (the date of the AGM) at 10.30 a.m. at the Auditorium of Commercial Bank of Ceylon PLC, 9th Floor, Union Place Branch Building, No. 01 Union Place, Colombo 02, virtually, by using a digital platform and such dividend so declared be paid out of the profits of the Company for the financial year ended December 31, 2020, which would be subject to 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) ['CA 2007'] 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:

(i) A cash distribution of Rs. 4,945,800,613.50 (subject however to necessary amendments being made to such amount to include the dividend payable on the options that may be exercised by the employees under the Company's Employee Share Option Plan (ESOP) schemes) shall be made to the entitled shareholders of the ordinary (voting) shares and a sum of Rs. 305,868,154.50 shall be made to the entitled shareholders of the ordinary (non-voting) shares of the Company as at February 16, 2021 totaling to Rs. 5,251,668,768.00 in part satisfaction of such dividend; and

(ii) New ordinary (voting) and (non-voting) shares will be allotted and issued, in satisfaction of the remaining dividend entitlement, constituting a total sum of Rs. 2,334,075,008.00 based on the issued and fully paid ordinary (voting) and (non-voting) shares of the Company as at February 16, 2021 [subject however to necessary amendments being made to such sum to accommodate the dividend payable on the options that may be exercised by employees under the Company's ESOP schemes].

Accordingly, and in pursuance of the aforesaid distribution scheme, the Company proposes to issue:

(a) 25,064,237 number of new ordinary (voting) shares, calculated based on the issued and fully paid ordinary (voting) shares as at February 16, 2021 [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 end of trading on February 16, 2021; and

(b) 1,770,070 number of new ordinary (non-voting) shares calculated based on the issued and fully paid ordinary (non-voting) shares as at February 16, 2021 and on the basis of their market value (closing price) as at end of trading on February 16, 2021.

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 of the Company:

(a) 01 new fully-paid ordinary (voting) share for every 43.8500004209 existing issued and fully-paid ordinary (voting) shares calculated on the basis of the market value of the ordinary (voting) shares as at end of trading on February 16, 2021; and

(b) 01 new fully-paid ordinary (non-voting) share for every 38.4000073443 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 end of trading on February 16, 2021.

The above share ratio is based on a value of Rs. 87.70 per ordinary (voting) share and Rs. 76.80 per ordinary (non-voting) share (subject to applicable government taxes) as at the end of trading on February 16, 2021. The Board of Directors is satisfied that the aforementioned values which constitute the consideration for which the new shares are to be allotted and issued is fair and reasonable to the Company and to all its existing Shareholders.

Entitled Shareholders

Shareholders entitled to participate in the said dividend (the 'entitled shareholders') are those who are duly registered in the Company's Share Register and also those shareholders whose names appear on the Central Depository Systems (Pvt) Ltd ('CDS') as at end of trading on the date on which the requisite resolution of the shareholders in this regard is duly passed.

In calculating the number of shares held by a shareholder as at the relevant date for the proposed allotment and issue of new shares, the shareholding of the shareholder as appearing in the CDS and the Shareholders' Register maintained by the Registrars of the Company [SSP Corporate Services (Pvt) Ltd, No. 101, Inner Flower Road, Colombo 03] will not be aggregated. However, if a shareholder holds shares with multiple 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 therefor, be allotted to Trustees to be nominated by the Board of Directors. The Trustees so nominated, will hold the said shares in trust until such shares are sold by the Trustees on the trading floor of the CSE. The net sale proceeds arising therefrom shall, subject to receiving the approval of the Shareholders therefor, be distributed to a charity/charities approved by the Board of Directors. The sale of such shares will be effected by the Company within a reasonable period of time, following the date on which the approval of the Shareholders has been obtained in this regard.

Residual fractions of ordinary (voting) and (non-voting) shares above-mentioned shall mean the above-mentioned fractions arising after applying the following formulas respectively:

For voting shareholders –

$$\frac{\text{Number of shares held by a shareholder as at end of trading on the AGM date X 1}}{43.8500004209}$$

For non-voting shareholders –

$$\frac{\text{Number of shares held by a shareholder as at end of trading on the AGM date X 1}}{38.4000073443}$$

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 of 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 abovementioned first and final dividend is subject to Shareholders granting approval therefor by passing the resolutions set out in the attached Notice of Meeting pertaining to the following matters:

- Authorization to satisfy the first and final dividend partly 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 CA 2007, the Board is empowered to pay a dividend or otherwise make a distribution in whole or in part by the distribution of specific assets and in particular of paid up shares. In pursuance of principles of transparency, the Board seeks the authorization of Shareholders for the satisfaction of the first and 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 authorized by an ordinary resolution of the Company.

As mentioned previously, the first and 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 above-mentioned application of the above-mentioned share proportion. The said allotment and issue of new shares would accordingly be in excess of 500,000 shares. As such, the authorization of Shareholders is sought under and in terms of the above-mentioned Article 9 A for the waiver by Shareholders of their pre-emption rights to the new shares to be issued exceeding 500,000 ordinary (voting) and (non-voting) shares. The relevant ordinary resolution to be passed by the Shareholders in this regard is set out in item 2(ii) of the attached Notice of Meeting.

Alteration of Shareholder Rights [Section 99 of the CA 2007 and Article 10 of the Articles of Association]:

The Company is required, in compliance with the above provisions, to seek Shareholder approval by a special resolution for the proposed method of satisfaction of the first and final dividend by an allotment and issue of new ordinary (voting) and (non-voting) shares in the manner set out above. The relevant special resolution to be passed by the Shareholders in this regard is set out in item 2(iii) of the attached Notice of Meeting.

Confirmation of Compliance

The Board of Directors hereby confirms that the allotment and issue of new shares is in compliance with the Articles of Association of the Company, the Listing Rules of the CSE and the provisions of the CA 2007.

Allotment of the New Shares

The Board of Directors emphasizes that the aforementioned allotment and issue of new shares is in part satisfaction of the first and final dividend for the year ended December 31, 2020 and shall be dependent on and subject to the Shareholders passing the requisite resolutions.

Uploading of Shares in to 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 (07) market days from and excluding the date on which the requisite resolutions are passed. If a Shareholder holds multiple CDS accounts the total entitlement will be directly deposited to the respective CDS accounts proportionately. Pursuant to a Direction issued by the Securities and Exchange Commission of Sri Lanka ('SEC') pertaining to the de-materialisation of listed securities, the Shareholders who hold shares in scrip form (i.e. Share Certificates) as per the Share Register maintained by the Registrars of the Company, will not be issued Share Certificates for the new shares allotted and issued in their favour. Such Shareholders are accordingly requested to open an account with the CDS and to deposit their Share Certificates in the CDS prior to the date of the AGM of the Company. This will enable the Company to deposit the new shares directly into the Shareholder's CDS Account.

If a Shareholder fails to deposit his/her existing ordinary (voting) and/or (non-voting) shares in the CDS prior to the date of the AGM, such Shareholder's entitlement of new ordinary (voting) and/or (non-voting) shares will be deposited by the Company after such Shareholder has opened a CDS Account and has informed the Company's Registrars in writing of his/her CDS account number. Until such CDS account is opened by a Shareholder as aforementioned, the new ordinary (voting) and (non-voting) shares that are allotted in his/her favour will be registered in such shareholder's account in the Share Register maintained by the Registrars of the Company (subject to compliance with 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, 2021 and setting out in item 2 thereof, the relevant resolution to be passed by the Shareholders in the above regard.

Form of Proxy

Shareholders who are unable to participate at the meeting by virtual means are entitled to appoint a proxy to participate at the said meeting by virtual means 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 Company by facsimile on 0112332317 or email to companysecretary@combank.net or by post to Company Secretary, Commercial Bank of Ceylon PLC, "Commercial House", No. 21, Sir Razik Fareed Mawatha, Colombo 01, not later than forty eight (48) hours before the time appointed 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, 2021

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:

Justice Kanagasabapathy Sripavan whom failing
Prof Ananda Kithsiri Wijenayaka Jayawardane whom failing
Mr Sivakrishnarajah Renganathan 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
Mr Sanath Chandima Udayakumara Manatunge whom failing
Ms Judy Lee whom failing
Mr Raja Senanayake whom failing
Mr Sharhan Muhseen

as my/our Proxy holder 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 (and strictly in relation to the matters set out hereunder) at the Fifty Second (52nd) Annual General Meeting (AGM) of Commercial Bank of Ceylon PLC which is scheduled to be held on Tuesday, March 30, 2021 at 10.30 a.m. virtually by using a digital platform, 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, 2020 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 first and final dividend and approval of its method of satisfaction (Dividend Resolution No. 1)	☐	☐
ii. Waiver of pre-emption rights (Dividend Resolution No. 2)	☐	☐
iii. Approval of an issue of ordinary (voting) and (non-voting) shares (Dividend Resolution No. 3)	☐	☐
3. To re-elect/ elect the following Directors who, in terms of the Company's Articles of Association, are retiring by rotation or otherwise as given below:		
i. To re-elect Mr K Dharmasiri who retires by rotation in terms of Article 86 of the Articles of Association	☐	☐
ii. To re-elect Ms N T M S Cooray who retires by rotation in terms of Article 86 of the Articles of Association	☐	☐
iii. To elect Ms J Lee who was appointed to the Board in terms of Article 92 of the Articles of Association	☐	☐
iv. To elect Mr R Senanayake who was appointed to the Board in terms of Article 92 of the Articles of Association	☐	☐
v. To elect Mr S Muhseen who was appointed to the Board in terms of Article 92 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, 2021.	☐	☐
(b) To authorize the Board of Directors to determine the remuneration of the Auditors for the Financial Year ending December 31, 2021.	☐	☐
5. To authorize the Board of Directors to determine donations for the year 2021.	☐	☐
6. Any other business: To consider and approve the sale of the vehicle used by Mr K G D D Dheerasinghe, former Chairman of the Company, to him, at 37.5% of the original cost (excluding VAT) or at market value, whichever shall be lower, in accordance with the policy of the Company as approved by the Board.	☐	☐

Signed on this ………………………………… day of ………………………………… Two Thousand and Twenty One.

……………………	………………………………	………………………………………..…
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 below.

(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 proxy holder doubt (by reason of the way in which the instructions in the Form of Proxy have been stated by the shareholder) as to the way in which the proxy holder should vote, the proxy holder will vote as he/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 authorized 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 proxy holder and of the shareholder appointing the proxy holder should be entered legibly in the Form of Proxy.

(d) The completed Form of Proxy should be deposited at the Registered Office of Commercial Bank of Ceylon PLC 'Commercial House', No. 21, Sir Razik Fareed Mawatha, Colombo 01, Sri Lanka or by facsimile on 011 233 2317 or email to companysecretary@combank.net, not later 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) 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:

Justice Kanagasabapathy Sripavan	whom failing
Prof Ananda Kithsiri Wijenayaka Jayawardane	whom failing
Mr Sivakrishnarajah Renganathan	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
Mr Sanath Chandima Udayakumara Manatunge	whom failing
Ms Judy Lee	whom failing
Mr Raja Senanayake	whom failing
Mr Sharhan Muhseen	

as my/our Proxy holder 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 (and strictly in relation to the matters set out hereunder) at the Fifty Second (52nd) Annual General Meeting (AGM) of Commercial Bank of Ceylon PLC which is scheduled to be held on Tuesday, March 30, 2021 at 10.30 a.m. virtually by using a digital platform, 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 One.

……………………	………………………………	……………………………
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 participate at the meeting by virtual means 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 authorized 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.

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"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 inrespect of the joint holding".

(c) The full name and address of the proxy holder 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 Commercial Bank of Ceylon PLC, 'Commercial House', No. 21, Sir Razik Fareed Mawatha, Colombo 01, Sri Lanka or by facsimile on 011 233 2317 or email to companysecretary@combank.net, not later than forty eight (48) hours before the time appointed for the holding of the AGM.

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iii. A member or members present in person or by attorney or representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the Meeting.

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Stakeholder Feedback Form

Dear Reader,

Your opinion matters. Please share your views with us

WHICH STAKEHOLDER GROUPS DO YOU BELONG TO? (You may tick more than one)

- ☐ Shareholder
- ☐ Investor
- ☐ Journalist
- ☐ Service Provider
- ☐ Customer
- ☐ Employee
- ☐ Supplier
- ☐ Special Interest Group
- ☐ Community
- ☐ Student
- ☐ Analyst
- ☐ Other
- ☐ Public Authority
- ☐ Regulatory Body
- ☐ NGO

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:

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DO YOU HAVE ANY ADDITIONAL COMMENTS ON THE REPORT – OR ON BANK’S PERFORMANCE IN GENERAL?

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To request information or submit a comment/query to the Bank, please provide the following details and return this page to –

The Company Secretary
Commercial Bank of Ceylon PLC
"Commercial House"
21, Sir Razik Fareed Mawatha
P.O. Box 856
Colombo 01
Sri Lanka

Name :

Permanent Mailing Address :

Contact Number/s

- 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?	☐	☐

Registration form for On-line participation at the AGM 2021

To:

Company Secretary
Commercial Bank of Ceylon PLC
"Commercial House"
No. 21, Sir Razik Fareed Mawatha
Colombo 01
Sri Lanka

Fax No: 011 233 2317
Tel: 011 248 6071 - 4

Details of Shareholder		
Full Name of the Shareholder (or Principal Shareholder, in the case of joint shareholding)		
Joint Shareholder (if applicable)		
Address		
Shareholder/s NIC No./ Passport No./ Company Registration No.	Principal Shareholder:	Joint Shareholder/s (if applicable):
Shareholder/s CDS Account No.		
Contact Number (mandatory)	Mobile:	Landline:
E-mail address (it is mandatory for the shareholder to provide this information in order to forward the log in information for the on-line meeting link)		
In the event a proxy holder is appointed by the Shareholder, the following details of his/ her proxy will also be required:		
Full Name of the proxy holder		
Proxy holder's NIC No.		
Contact Number (mandatory)	Mobile:	Landline:
E-mail address (it is mandatory for the shareholder to provide this information in order to forward the log in information for the on-line meeting link)		

[To confirm Participation at the virtual AGM – Please tick the cage below]

I/My Proxy Holder am/is willing to participate at the AGM via the on-line platform:

Signature(s)

………………………….
Principal Shareholder

Date ……………………

Date ……………………

Notes:
Duly completed Form should be sent to the Company by facsimile on 011 233 2317 or by email to companysecretary@combank.net or by post to Company Secretary, Commercial Bank of Ceylon PLC "Commercial House", No. 21, Sir Razik Fareed Mawatha, Colombo 01, Sri Lanka, not later than forty eight (48) hours before the time appointed for the holding of the AGM.

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), 448 6000,
748 6000, 548 6000, 243 0420,
233 6700, 244 5010-15 (6 lines)
Facsimile: +94 11 244 9889
SWIFT Code – Sri Lanka: CCEYLKLX
SWIFT Code – Bangladesh: CCEYBDDH
Email: email@combank.net
Web: 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

Ms A V P K T Amarasinghe

Information Centre

Telephone: +94 11 235 3333, 735 3333

Credit Ratings

Sri Lanka Operation

- National Long-term rating: 'AA-(lka)' Outlook Stable
- Subordinated debentures: 'A(lka)'

  by Fitch Ratings Lanka Limited in January 2021.

Bangladesh Operation

- AAA was re-affirmed by Credit Rating Information & Services Limited in June 2020.

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, 257 6871
Facsimile: +94 11 257 3609
Email: 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
CBC Finance Limited *(formerly known as Serendib Finance Limited)*
Commercial Insurance Brokers (Pvt) Limited

Foreign Subsidiaries

Commex Sri Lanka S.R.L – Italy
Commercial Bank of Maldives Private Limited
CBC Myanmar Microfinance Company Limited

Associates

Equity Investments Lanka Limited

Board of Directors and Committees

Board of Directors

Justice K Sripavan – *Chairman*
Prof A K W Jayawardane – *Deputy Chairman*
Mr S Renganathan –
Managing Director/Chief Executive Officer
Mr S C U Manatunge –
Director/Chief Operating Officer
Mr K Dharmasiri
Mr L D Niyangoda
Ms N T M S Cooray
Mr T L B Hurulle
Ms J Lee
Mr R Senanayake
Mr S Muhseen
(appointed w.e.f. February 15, 2021)

Company Secretary

Mr R A P Rajapaksha

Mandatory Board Committees

Board Audit Committee
Mr R Senanayake – *Chairman*
Mr K Dharmasiri
Ms N T M S Cooray
Ms J Lee
Mr S Renganathan (By invitation)
Mr S C U Manatunge (By invitation)

Board Integrated Risk Management Committee
Prof A K W Jayawardane – *Chairman*
Mr K Dharmasiri
Mr S Renganathan
Mr L D Niyangoda
Mr T L B Hurulle
Ms J Lee
Mr R Senanayake
Mr S C U Manatunge (By invitation)

Board Nomination Committee
Justice K Sripavan – *Chairman*
Prof A K W Jayawardane
Ms J Lee
Mr S Renganathan (By invitation)

Board Human Resources and Remuneration Committee
Justice K Sripavan – *Chairman*
Prof A K W Jayawardane
Ms J Lee
Mr S Renganathan (By invitation)

Board Related Party Transactions Review Committee
Justice K Sripavan – *Chairman*
Mr L D Niyangoda
Mr T L B Hurulle
Mr R Senanayake
Mr S Renganathan (By invitation)
Mr S C U Manatunge (By invitation)

Voluntary Board Committees

Board Credit Committee
Justice K Sripavan – *Chairman*
Mr K Dharmasiri
Mr S Renganathan
Mr S C U Manatunge

Board Investment Committee
Ms J Lee – *Chairman*
Mr S Renganathan
Mr K Dharmasiri
Mr S C U Manatunge
Ms N T M S Cooray

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
Justice K Sripavan – *Chairman*
Prof A K W Jayawardane
Mr S Renganathan
Mr K Dharmasiri
Mr L D Niyangoda
Ms N T M S Cooray
Ms J Lee
Mr R Senanayake

For Investor Relations and clarification on this Report please write to:
The Chief Financial Officer
Commercial Bank of Ceylon PLC,
"Commercial House",
No. 21, Sir Razik Fareed Mawatha,
P.O. Box: 856, Colombo 01, Sri Lanka.
Telephone: +94 11 248 6550
Email: email@combank.net

Minimise waste by informing the Commercial Bank Company Secretary to update the mailing list if you are receiving more than one copy of the Annual Report of the Bank.

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