COMMERCIAL BANK

Beyond a shape, beyond a colour

Commercial Bank of Ceylon PLC

Annual Report 2021

(Integrated Report and Financial Statements)

Our Vision

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

Our Mission

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

Our Values

- **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.

Envisioning Tomorrow's Banking

A surge in disruptive technologies. An incessant consumer demand for banking experiences that are simple, convenient, and functional. An evolving operating context where social and environmental concerns are brought to the centre of the corporate agenda.

The shape and colour of banking as we know it is changing for good, bringing new opportunities and possibilities with it.

And Commercial Bank is geared to pivot and capitalise.

Contents

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

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://combank2021.annualreports.lk/

Scan to view the online version

Look out for these throughout the report:

- Reference to another page, table, figure or graph in the report
- COVID-19 impact
- Awards and Accolades

Annual Report of the Board of Directors

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

Signed in accordance with a resolution of the Directors.

Justice K Sripavan
Chairman

Prof A K W Jayawardane
Deputy Chairman

S Renganathan
Managing Director/Group 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

Ms J Lee
Director

R Senanayake
Director

S Muhseen
Director

Mrs D L T S Wijewardena
Director

R A P Rajapaksha
Company Secretary

February 25, 2022

The Board of Directors of the Bank is pleased to present to the shareholders the 53rd 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, 2021, and the Independent Auditors' Report on the Financial Statements conforming to all applicable statutory requirements.

This Integrated 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), now known as the Value Reporting Foundation consequent to merger of the former with the Sustainability Accounting Standards Board in June 2021.

According to sections 150 (1), 151, 152 and 153 (1) & (2) of the Companies Act No. 07 of 2007 and amendments thereto, the Bank's Board of Directors is responsible for preparing 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 respect, the Board of Directors wishes to confirm that the Financial Statements, namely, 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 187 to 336 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 Board of Directors has approved and authorised for issue the Financial Statements of the Group and the Bank for the year ended December 31, 2021, including comparatives for 2020, in accordance with the resolution of the Directors on February 25, 2022. Within the statutory time limits, 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) and soft copies of same will be hosted on the website of the Bank, www.combank.net.

This Report effectively communicates the Bank's efforts to create value for all its stakeholders across the short, medium and long term through its business model (pages 34 and 35) and identifies the emerging developments and trends that are likely to impact its business model and value creation process.

These trends have been 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. Through its annual strategic planning exercise, the Bank identified its strategic imperatives and continued to execute the required strategies to mitigate risks and capitalise on opportunities.

A detailed account of such imperatives and strategies are given in the Management Discussion and Analysis (pages 38 to 85) contained in this Report. The underlying governance structure and the risk management framework are detailed on pages 120 and 165.

The Bank has obtained external assurance on integrated reporting and non-financial information on sustainability reporting from Messrs Ernst & Young and assurance on non-financial reporting from Messrs DNV Business Assurance Lanka (Pvt) Ltd., who represents DNV.

The opinion expressed by the Bank's External Auditors, Messrs Ernst & Young, who were appointed in accordance with a resolution passed at the 52nd Annual General Meeting held on March 30, 2021 is given on pages 182 to 184 of this Annual Report. The details on the remuneration of External Auditors are given in Note 21 on page 231 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 Board, to the best of its knowledge and belief, are satisfied with the timely disbursement of all statutory payments to the Government, other regulatory institutions, and to employees.

Having reviewed the business plans of the Bank and its subsidiaries, the Board of Directors 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 assumption.

Having carefully considered the matters material to the Bank and its stakeholders in preparing this Report, the Board acknowledges that reasonable care has been exercised in the preparation and presentation of this Integrated Report and Financial Statements 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 are disclosed in detail on pages 146 to 151.

Introducing our 53rd Annual Report

Commercial Bank of Ceylon PLC commenced reporting in line with the International <IR> Framework in 2013. This Report is the 53rd Annual Report of Commercial Bank of Ceylon PLC and covers the 12- month period from January 1 to December 31, 2021, and is consistent with our usual annual reporting cycle for financial and sustainability reporting. This follows our most recent Report for the year ended December 31, 2020, for which comparatives are given, where applicable.

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

Transcending the medium

This Report is available in multiple mediums and formats catering to the communications needs of the Bank's diverse stakeholder groups. A limited number of printed annual reports have been produced to be dispatched to those who have requested them, taking into account the environmental footprint of printing a large number of reports as well as the prevailing regulations. Readers who prefer the ease of accessing our Annual Report online through either a computer or mobile device can access our Online Interactive version of the Annal Report while a soft copy (PDF) version is hosted on the websites of the Bank as well as the Colombo Stock Exchange for those who would like to maintain an easy-portable digital version of the Annual Report. This approach also aims to balance the disparate imperatives of conciseness, comprehensiveness, and accessibility in our disclosure practices.

Strategic focus and future orientation

Giving the reader a clear understanding of how the Bank plans to execute strategy (to the extent that it is possible to disclose such information), this Report is also structured according to the Bank's strategic imperatives. How the activities undertaken under the four strategic imperatives lead to value creation for the mutual benefit of the Bank and the various stakeholders, which is reflected in Financial, Manufactured, Intellectual, Human, Social & Relationship and Natural Capitals is explained on pages 33 to 65. This structure highlights the plotted course of action that will propel the Bank forward and perpetuate the value creation process. It provides the reader with a clearer understanding of the Bank's direction in the wake of unfolding megatrends.

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

Integrated thinking

We started integrated reporting in line with the IIRC Framework elements with our Annual Report for 2013. This has strengthened and reinforced integrated thinking across the Bank, leading to the integration of various aspects, making the Bank more sustainable in creating value over the long term by minimising risks, reducing compartmentalisation and dysfunctional behaviour, generating cost efficiencies, and making capital allocation more efficient. This not only integrated economic goals with those of society and environment, but also integrated the following aspects too, as you will find later in this Report:

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

Non-financial information

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. The Bank is well aware that information needs of stakeholders are changing in keeping with the dynamic environment we operate in. Investors in particular are increasingly becoming more interested in the future potential of the Bank than its past performance and non-financial information is becoming more and more relevant for ascertaining future potential. Accordingly, going beyond the historical financial information that depicts the value created in the past, we have enhanced disclosures of non-financial and future-oriented information that depicts the ability of the Bank to create value in the short, medium and long-term in the future, the essence of sustainability and integrated reporting. Thereby, 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 Statements depict the consolidated performance of the entire Group, which includes the Bank along with seven subsidiaries – Commercial Development Company PLC, CBC Tech Solutions Limited, CBC 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 the associate – Equity Investments Lanka Ltd. (depicted in the Consolidated Financial Statements on pages 187 to 336).

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 Group's revenue, assets and borrowings, unless stated otherwise.

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

During the year under review, no significant changes in the organisation type, structure, ownership, supply chain or topic boundaries took place. No changes in reporting or restatements were made of previously reported financial, social or environmental information.

Quality assurance

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

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

The qualitative criteria taken into account in the production of both text and visual elements presented in this Annual Report include:

- **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:** The financial and sustainability information presented in this Report has been vetted by reputed external assurance service providers.

Precautionary Principle

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

Although the Bank's business model and operations do not directly create a significant negative impact on the environment, every effort is made to reduce its own carbon footprint through initiatives such as solar energy usage, energy efficient air conditioning and the elimination of paper usage in its processes. These efforts enabled the Bank to become the first fully carbon neutral bank in the country.

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

Responsibility for sustainability practices and external assurance

The Bank's Managing Director/Group 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 in this regard.

The Bank's external Auditors, Messrs Ernst & Young, have assured the Group's Financial Statements, integrated reporting and non-financial information on sustainability reporting, while Messrs DNV Business Assurance Lanka (Pvt) Ltd., who represents DNV, has assured the Bank's non-financial reporting. The Board of Directors and the Management have no other relationship with these external assurance service providers, aside from their engagement as independent Assurance Service providers of the Group.

Figure 01: **Guiding Principles, Regulations, Codes, and Acts**

FINANCIAL REPORTING

- Sri Lanka Accounting Standards (SLFRSs & LKASs)
- Companies Act No. 07 of 2007

CA THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SRI LANKA

NARRATIVE REPORTING

- International Integrated Reporting Framework
- A Preparer's Guide to Integrated Reporting by CA Sri Lanka
- Handbook on Integrated Corporate Reporting by CA Sri Lanka

INTEGRATED REPORTING <IR>

SUSTAINABILITY REPORTING

- GRI Standards: Core option
- UNGC Principles and UN Sustainable Development Goals
- AccountAbility – AA 1000AS v3

Global Reporting Initiative™ THE GLOBAL COMPACT

CORPORATE GOVERNANCE

- Banking Act Direction No. 11 of 2007
- Listing Rules of the Colombo Stock Exchange
- Code of Best Practice on Corporate Governance 2017 issued by CA Sri Lanka
- Securities and Exchange Commission of Sri Lanka - Act No. 36 of 1987 (as amended)

ASSURANCE

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

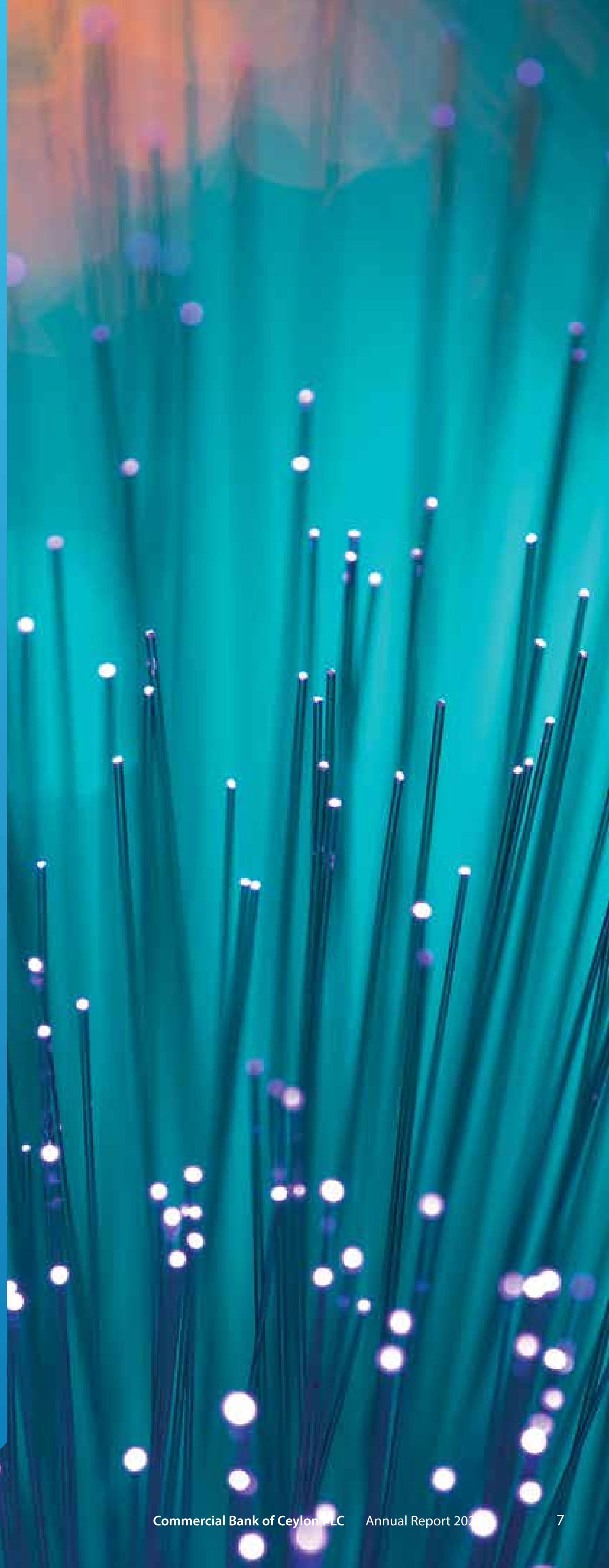
Contact

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

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

INTEGRATED REPORT

This Integrated Report provides a multidimensional view of the Bank's performance over the year 2021. It has been prepared in accordance with the Guiding Principles and Content Elements outlined in the International <IR> Framework. As stated in the Annual Report of the Board of Directors on page 3, the Board of Directors acknowledges that reasonable care has been exercised in the preparation and presentation of this Integrated Report while preserving its integrity.



ORGANISATIONAL OVERVIEW

About the Bank

Sri Lanka

Branches
268

Subsidiaries
4

Associate
1

Maldives

Subsidiary
1

Bangladesh

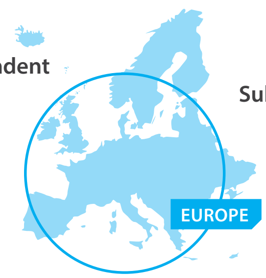
Branches
19

Myanmar

Subsidiary
1

Correspondent Banks
26

Business Promotion Officers
15



Correspondent Banks
19

Italy

Subsidiary
1

North America

Correspondent Banks
11

Australia

Correspondent Banks
4

Higher-tier Domestic Systemically Important Bank

Commercial Bank of Ceylon PLC is the only private sector Bank in Sri Lanka that has been designated by the Central Bank of Sri Lanka as a higher-tier Domestic Systemically Important Bank (D-SIB). The Commercial Bank Group (which comprise of the Bank and its subsidiaries and an associate) total assets stood at 1.983 Tn. as at December 31, 2021. Accounting for approximately 10.42%, 11.58% and 11.82% of sector loans and advances, deposits and assets, respectively, the Bank is the third largest bank overall in Sri Lanka, in terms of total assets, customer deposits and net loans & advances which stood at Rs. 1.949 Tn. (USD 9.746 Bn.), Rs. 1.443 Tn. (USD 7.215 Bn.) and Rs. 1.015 Tn. (USD 5.073 Bn.), respectively, as at the end of 2021.

Over Hundred Plus Year Legacy

The origins of the Bank date back to 1920, and marks just over a half-century of operations under its present name in 2021. With a total staff strength of 5,072 as at end 2021, the Bank serves over 3.5 million customers through a wide local and international network of branches, subsidiaries, agency arrangements, Business Promotion Officers, and correspondent banking relationships.

Growing International Footprint

Commercial Bank began its expansion beyond Sri Lanka's shores with the acquisition of the Bangladesh operations of Crédit Agricole Indosuez in 2003, and became the first private sector bank to establish a branch operation outside the country. Since then, three subsidiaries have been established by the Bank in Italy, the Maldives and Myanmar. The Bank is exploring the possibilities of expanding its presence to a few more countries in the near future.

Risk Profile

Fitch Ratings Lanka Ltd. (Fitch) affirmed Commercial Bank's National Long-term Rating at 'AA-(lka)' with a stable outlook in August 2021. In addition, the Bank's Bangladesh Operation's credit rating was reaffirmed at AAA by Credit Rating Information Services Ltd in June 2021 for the 11th consecutive year. This reflects the Bank's intrinsic financial strength, the established domestic franchise as Sri Lanka's third-largest bank and the entrenched domestic deposit franchise that underpins the Bank's funding and liquidity profile.

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, which now accounts for 12.38% of consolidated assets and 18.63% of consolidated profit before taxes, covers operations in Bangladesh, Maldives, Italy, and Myanmar. Besides geographical diversification, the Bank has successfully achieved a high level of diversification in its operations across several parameters such as customer profile, currency, products and services portfolio, funding profile, maturity profile, economic sectors and the sources of revenue.

Vibrant financial intermediation

Commercial Bank became the first private sector bank in Sri Lanka to have three key balance sheet indicators to surpass Rs. 1 Tn., having crossed Rs. 1 Tn. mark in assets and deposits in 2016 and 2019 respectively and the loan book in Q2 of 2021. Demonstrating its strong role as a financial intermediary, 74.03% of the total assets of the Bank are funded by customer deposits. The Bank's loans to deposits ratio has been over 78% on average for the past five years consecutively, 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) is the highest among the peer banks accounting for 47.83% of total deposits.

Strong capitalisation

The Bank's Tier 1 Capital Ratio and Total Capital Ratio stood at 11.923% and 15.650%, respectively, as at December 31, 2021, 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 11.82 times and 6.39 times, respectively, as of the end of 2021. Demonstrating the strength of the franchise, the Bank's shares reported the highest price to book value of 0.57 times and the highest market capitalisation of Rs. 94 Bn. (USD 470.963 Mn.) among the banking sector on the Colombo Stock Exchange at year's end (the Bank is the ninth largest institution listed on the CSE overall).

Ownership of the Bank

Of the 16,609 ordinary voting shareholders of the Bank at end of 2021, DFCC Bank PLC held 12.12% and entities related to the State, including Employees' Provident Fund, Employees' Trust Fund Board and Sri Lanka Insurance Corporation, collectively held 18.95% of Bank's shares. Mr Y S H I Silva (9.88%), the International Finance Corporation (7.11%), Melstacorp PLC (4.14%), CB NY S/A IFC Emerging Asia Fund LP (3.67%), CB NY S/A IFC Financial Institutions Growth Fund LP (3.67%), and Citibank New York S/A Norges Bank Account 2 (3.63%), are the other major shareholders, holding a combined ownership stake of 32.10%. Notably, the Bank has a substantial foreign shareholding, with foreign shareholders owning a combined 20.59% stake in the Bank.

A Snapshot of the Bank's Profile

Profitability

Profit After Taxation

2021 – Rs. 23.606 Bn.
2020 – Rs. 16.373 Bn.

Earnings Per Share (Basic/Diluted)

2021 – Rs.19.77
2020 – Rs. 14.81

Return on Assets

2021 – 1.28%
2020 – 1.05%

Return on Equity

2021 – 14.66%
2020 – 11.28%

Interest Margin

2021 – 3.51%
2020 – 3.17%

Credit Quality

Gross NPL ratio

2021 – 4.62%
2020 – 5.11%

Net NPL ratio

2021 – 1.44%
2020 – 2.18%

Provision cover ratio

2021 – 68.93%
2020 – 57.42%

Open credit exposure

2021 – 8.79%
2020 – 11.88%

Impaired Loans (Stage 3) Ratio

2021 – 3.85%
2020 – 6.78%

Impairment (Stage 3) to Stage 3 Loans Ratio

2021 – 42.76%
2020 – 30.87%

Stability

Tier 1 ratio

2021 – 11.923%
2020 – 13.217%

Total capital ratio

2021 – 15.650%
2020 – 16.819%

Net stable funding ratio

2021 – 157.47%
2020 – 157.49%

Leverage ratio

2021 – 5.29%
2020 – 5.74%

Rs. 1.949 Tn.
Total assets

Rs. 1.443 Tn.
Customer deposits
(2020 – Rs. 1.266 Tn.)

Financial intermediation ↕ **maturity transformation**

Rs. 1.079 Tn.
Gross loans and advances
(2020 – Rs. 948 Bn.)

Over 3.5 million
Customers

5,072
Employees

287
Branches

921
ATMs

60
Correspondent banks

8
Subsidiaries/Associate

Liquidity

Statutory liquid assets ratio – DBU

2021 – 38.73%
2020 – 44.99%

Statutory liquid assets ratio – OBC

2021 – 36.39%
2020 – 32.70%

Liquidity coverage ratio (All currencies)

2021 – 242.52%
2020 – 422.86%

Liquidity coverage ratio (Rupee)

2021 – 425.97%
2020 – 599.38%

Share Valuation

Net Assets Value per ordinary share

2021 – Rs. 138.08
2020 – Rs. 134.67

Dividends Per Share

2021 – Rs. 7.50
2020 – Rs. 6.50

Market capitalisation

2021 – Rs. 94 Bn.
2020 – Rs. 94 Bn.

Price to Book Value

2021 – 0.57 times
2020 – 0.60 times

Fitch Ratings

AA–(lka)

Fitch Ratings Lanka Ltd.
[2020 – AA–(lka)]

CSE COLOMBO STOCK EXCHANGE

1st in Market Capitalisation

Ranked 1st in the Banking sector on the CSE

The Banker TOP 1000 WORLD BANKS 2021

Top 1000 Banks

Only Sri Lankan bank to be ranked for the 11th consecutive year

Financial Highlights

Table – 01:

As at December 31,	GROUP 2021 Rs. '000	GROUP 2020 Rs. '000	GROUP Change %	BANK 2021 Rs. '000	BANK 2020 Rs. '000	BANK Change %
Results for the year – (Rs. Bn.)						
Gross income	163.675	151.966	7.70	160.886	149.711	7.46
Operating profit before Value Added Tax on financial services	38.801	29.047	33.58	37.810	28.017	34.96
Value Added Tax on financial services	5.845	4.531	28.99	5.809	4.505	28.95
Profit before taxation (PBT)	32.957	24.520	34.41	32.001	23.511	36.11
Income tax expenses	8.667	7.433	16.60	8.395	7.138	17.62
Profit after tax (PAT)	24.290	17.087	42.16	23.606	16.373	44.17
Gross Dividends	8.957	7.586	18.07	8.957	7.586	18.07
Position at the year end – (Rs. Bn.)						
Shareholders' Funds (Stated capital and reserves)	167.475	159.193	5.20	164.894	157.146	4.93
Financial liabilities at amortised cost – due to depositors	1,472.640	1,286.616	14.46	1,443.093	1,265.966	13.99
Financial assets at amortised cost – Loans and advances to other customers	1,094.931	961.859	13.83	1,078.685	947.842	13.80
Total Assets	1,983.491	1,762.496	12.54	1,949.213	1,736.218	12.27
Information per Ordinary Share (Rs.)						
Earnings (Basic)	20.15	15.32	31.53	19.77	14.81	33.49
Earnings (Diluted)	20.15	15.32	31.53	19.77	14.81	33.49
Dividends – Cash	–	–	–	4.50	4.50	–
Dividends – Shares	–	–	–	3.00	2.00	50.00
Net Assets Value	140.24	136.42	2.80	138.08	134.67	2.53
Market value at the year end – Voting	N/A	N/A	–	79.30	80.90	(1.98)
Market value at the year end – Non-voting	N/A	N/A	–	72.00	70.10	2.71
Ratios						
Return on average shareholders' funds – (ROE) (%)	14.87	11.64	3.23	14.66	11.28	3.38
Return on average assets – (ROA) (%)	1.30	1.08	0.22	1.28	1.05	0.23
Financial intermediation margin (%)	N/A	N/A	–	8.73	9.59	(0.86)
Total impairment provision as a % of gross loans and advances (%)	5.97	5.41	0.56	5.94	5.38	0.56
Cost of risk on loans and advances (%)	1.37	1.88	(0.51)	1.35	1.88	(0.53)
Non-performing loans ratio – Gross (%)	–	–	–	4.62	5.11	(0.49)
Non-performing loans ratio – Net (%)	–	–	–	1.44	2.18	(0.74)
Impaired loans (Stage 3) ratio (Based on proposed regulatory provisions) (%)	–	–	–	3.85	6.78	(2.93)
Impairment (Stage 3) to Stage 3 Loans Ratio (Based on proposed regulatory provisions) (%)	–	–	–	42.76	30.87	11.89
Price Earnings – Ordinary Voting Shares – (times)	N/A	N/A	–	4.01	5.46	(1.45)
Dividend Yield – Ordinary Voting Shares (%)	N/A	N/A	–	9.46	8.03	1.43
Dividend Cover on Ordinary Shares (times)	N/A	N/A	–	2.64	2.28	0.36
Statutory Ratios %						
Liquid assets ratio – Domestic Banking Unit (DBU) (Minimum Requirement – 20%)	N/A	N/A	–	38.73	44.99	(6.26)
Liquid assets ratio – Off Shore Banking Unit (OBC) (Minimum Requirement – 20%)	N/A	N/A	–	36.39	32.70	3.69
Capital Adequacy Ratios (Under Basel III) (%)						
Common Equity Tier (CET) I capital ratio (Minimum Requirement – 2021 – 7.500%, 2020 – 7.500%)	12.049	13.356	(1.31)	11.923	13.217	(1.29)
Tier I capital ratio (Minimum Requirement – 2021 – 9.000%, 2020 – 9.000%)	12.049	13.356	(1.31)	11.923	13.217	(1.29)
Total capital ratio (Minimum Requirement – 2021 – 13.000%, 2020 – 13.000%)	15.696	16.882	(1.19)	15.650	16.819	(1.17)
Liquidity Coverage Ratio (%)						
Rupee – (Minimum Requirement – 2021 – 100%, 2020 – 90%)	N/A	N/A	–	425.97	599.38	(173.41)
All Currency – (Minimum Requirement – 2021 – 100%, 2020 – 90%)	N/A	N/A	–	242.52	422.86	(180.34)

Financial Goals and Achievements – Bank

Financial Indicator	Goal	Achievement 2021	2020	2019	2018	2017
Return on average assets ROA (After Tax) (%)	Over 2%	1.28	1.05	1.27	1.43	1.54
Return on average shareholders' funds (After Tax) (%)	Over 20%	14.66	11.28	13.54	15.56	17.88
Growth in income (%)	Over 20%	7.46	0.68	7.72	20.72	24.10
Growth in profit for the year (%)	Over 20%	44.17	(3.83)	(2.96)	5.81	14.25
Growth in total assets (%)	Over 20%	12.27	25.15	6.43	14.00	12.96
Dividend per share (DPS) (Rs.)	Over Rs. 5.00	7.50	6.50	6.50	6.50	6.50
Capital Adequacy Ratios						
CET I capital ratio (%) (Minimum requirement as per Basel III – 2021 – 7.500%, 2020 – 7.500%)	2% buffer over the regulatory minimum requirement	11.923	13.217	12.298	11.338	12.111
Tier I capital ratio (%) (Minimum requirement As per Basel III – 2021 – 9.000%, 2020 – 9.000%)		11.923	13.217	12.298	11.338	12.111
Total capital ratio (%) (Minimum requirement As per Basel III – 2021 – 13.000%, 2020 – 13.000%)	2% buffer over the regulatory minimum requirement	15.650	16.819	16.146	15.603	15.746

Strategic Highlights

The Strategic Highlights for the year 2021 are organised around the Bank's four Strategic Imperatives (Refer page 39 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 67 to 73), while the Strategic Highlights are a summary of the Management Discussion and Analysis (pages 38 to 103), which is similarly structured around the four Strategic Imperatives.

PRUDENT GROWTH

- **High level of diversification** in its operations across many parameters.
- Increased the **provision for impairment** to Rs. 24.692 Bn. for the year 2021, the highest ever annual provision in the history of the Bank.
- The Bank's **deposit base grew by 13.99% YoY** to Rs. 1.443 Tn. resulting in the Bank's CASA ratio improving to 47.83% in 2021 from 42.72% in 2020, the best in the Banking Sector.
- **Overseas operations** now contribute 12.4% of the assets and 18.6% of the pre-tax profits of the Group.
- **First bank in the region** and the 4th bank in the world to introduce a tool (approved by the UNEP) for its retail customers to measure the environmental impact of their spending via its Flash Digital Bank Account App.
- The Bank's Green Financing portfolio has **contributed to reducing 225,847.33 tCO_2e** emissions to the atmosphere.
- Board-approved **prudent dividend policy** in place.
- Disbursed 1,208 **green financing loans and leasing facilities** to support customers to transition to a low-carbon economy.
- The **Bank proactively managed the Foreign Currency liquidity** by adopting new strategies in managing Foreign Currency trade flows, working closely with its corresponding banks and its trade finance customers to manage and address the concerns and requirements.
- **Anti-Bribery and Anti-Corruption Policy** was approved by the Board during the year.

CUSTOMER CENTRICITY

- The **"Q+ Payment App"** of the Bank, which is the first app to be certified and launched under the LANKAQR standards of the CBSL, reached over 100,000 customer registrations in 2021.
- Increased membership in **BizClub** by 19.38% to 4,866.
- Established a Centralised Credit Processing Unit, completed the SME Banking Transformation operation and became the **largest lender to the SME sector** among private sector banks via the "***Saubhagya***" scheme.
- Secured **a USD 50 Mn. loan from the CDC Group,** UK and supported underserved SMEs directly to boost jobs and promote economic and social inclusion.
- Launched the exclusive Women Banking vertical named **"Anagi Women Banking"** and added a range of new financial and non-financial products and services for women.
- ComBank **website was launched as a trilingual resource** with a series of cutting-edge enhancements.
- Re-launched a dedicated loan scheme named **"Diribala Green Development Loan"** Scheme targeting financing of Solar Power Systems of SMEs/ Business clients.
- Launched the **Agri Gold Loan facility** during the year to support those engaged in agriculture, fisheries, and livestock farming.
- ***Dirishakthi* Value Chain Development Program'** was launched to strengthen rural value chains, focusing on segments such as dairy, tea small holders, coir, spices and ground nut.
- Debit and credit **card usage** grew by 59% and 30% respectively.

LEADING THROUGH INNOVATION

- Became the first bank in Sri Lanka to accept **digital signatures** from business customers using LankaSign, improving the customer experience of the Bank's retail and corporate customers.
- Launched the first **LANKAQR supported android POS device,** allowing the processing of transactions via VISA, Mastercard, UnionPay, LankaPay and JCB cards as well as QR-based wallet payments under LANKAQR.
- The Bank became the first in Sri Lanka to deploy **EMV 3DS fraud prevention technology** for authenticating payments made by credit, debit and pre-paid cards in collaboration with Visa.
- Set up **Mini Digital Experience Zones** to help customers gradually migrate into digital channels.
- Invested over Rs. 1.2 Bn. in **IT infrastructure.**
- Over 212,000 existing customers migrated to **digital channels,** a growth of 35%.
- Became the **first bank in Sri Lanka** to link the Import and Export Control Department (IECD) to a digital platform with LankaPay, enabling customers to pay their license fees to the IECD conveniently.
- A **dedicated YouTube Channel** was launched to increase customer awareness about ComBank Digital in addition to user guides.
- Number and the value of transactions initiated through **digital channels** increased by 60% and 70% respectively, YoY.
- **IPG usage** in terms of volumes and merchants increased by 65% and 37% respectively, YoY.

OPERATIONAL EXCELLENCE

- First Sri Lankan Bank to become **fully Carbon Neutral.**
- Achieved improvements in **all productivity and efficiency ratios,** recording the best performance over the past five years.
- All branches operating in **Bank-owned buildings are commissioned with solar power.**
- Implemented a **range of operational measures,** including: splitting teams and working at alternate sites and from home; providing food, lodging, transport, and personal protective equipment for the safety of all staff; and outfitting branches with partitions, sanitisers and instituting other best practices for social distancing and hygiene, and deployed the Call Tree Notification System.
- Signed **Collective Agreement** with the Bank's branch of the Ceylon Bank Employees' Union for a further 3-year period.
- Solar power generated **14.14%** of the Bank's **energy consumption, a fourfold increase** since 2018.

Our Journey over 100 years

1920

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

1957 - 1979

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

1980

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

1984

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

1987

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

1990

- Introduced ATM facilities to customers

1993

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

1996

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

1997

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

1998

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

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

2011

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

2012

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

2013

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

2014

- Bank acquired 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

2015

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

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
- CBC Myanmar Microfinance Company Limited., was established as the second fully-owned subsidiary of CBC outside Sri Lanka in Nay Pyi Taw, Myanmar

2018

- Launched the country's first fully-automated cheque deposit machine at City Office Branch in York Street Colombo
- Launched UnionPay cards by a bank in Sri Lanka for the first time, making Sri Lanka the 51st country in the world to issue UnionPay cards
- Introduced Flash Digital Bank Account

2019

- One of the leading mobile payment solutions in China, "WeChat Pay" acceptance launched in Sri Lanka for the first time by CBC with a partnership between Tenpay Payment Technology Ltd.
- Became PCI-DSS (Payment Card Industry Data Security Standard) certified
- "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
- Enabled Dynamic Currency Conversion at ATMs for foreign Visa Cards
- Serendib Finance Ltd., a fully-owned subsidiary of CBC, was renamed CBC Finance Ltd.

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
- The Bank was declared the "Strongest Bank Brand" in Sri Lanka by Brand Finance

2021

- **Became Sri Lanka's first carbon-neutral bank**
- **UK's CDC Group commits USD 50 Mn. to bolster SME lending and climate projects**
- **First private sector bank to achieve the feat of Loan book surpassing Rs. 1 Tn., joining Assets and Deposits**
- **Named once again among the global giants in banking, becoming the only Sri Lankan bank to be ranked in the "Top 1000 World Banks", for the 11th consecutive year**

TONE FROM THE TOP

Joint Message from the Chairman and his Successor

Dear friends,

Resilience is ingrained in the very ethos of Commercial Bank.

Despite a myriad of challenges during the financial year 2021, the Bank created significant shareholder value, helped millions of customers achieve their goals, paid over Rs.14 Bn. in taxes to strengthen the fiscal resilience of our Nation, supported our communities through charitable donations and volunteerism, and made progress towards achieving Sri Lanka's climate-related goals.

A strong financial performance in an uncertain context

The Sri Lankan business environment performed below expectations in 2021 partly due to the economic concerns fuelled by foreign exchange shortfalls prevalent during the year. The government took proactive efforts to ensure the long-term stability of the Sri Lankan economy and stemmed the surge of the pandemic through effective COVID-19 protocols and processes. Nevertheless, the operating context remained challenging.

Recording a resilient performance, we ended a tough 2021 with solid growth. In line with the Bank's strategic pillars of Prudent Growth and Operational Excellence, we placed emphasis on controlling operational expenses and arresting any possible deterioration in our cost-to-income ratio and profitability. As a result, the Group profit after tax increased by 42.16% YoY to Rs. 24.290 Bn. for the year compared to Rs. 17.087 Bn. in 2020. The Bank recorded the lowest cost-to-income ratio among the peer banks, which improved from 33.95% in 2020 to 31.61% in the year under review. The gross loans and advances of the Group grew by 13.83% to Rs. 1.095 Tn. while total deposits grew by 14.46% to Rs. 1.473 Tn. as of December 31, 2021. Consequently, total assets increased by 12.54% to Rs 1.983 trillion. With healthy deposit inflows, the Bank carried substantial excess liquidity levels throughout the year and also maintained a solid capital position. The Bank's CASA ratio strengthened further to 47.83%, becoming an industry benchmark in the process. As a result of this strong performance this year, we are happy to announce that we have increased dividends to Rs. 7.50 per share compared to Rs. 6.50 per share paid annually over the past nine years.

A track record of operational excellence

The Bank has grown over the decades to its current position as Sri Lanka's largest private sector bank and has built a rich legacy as the most recognised, both locally and internationally, bank in the country. We are extremely proud that we have won awards for all facets of the Bank’s performance: customer service, digital innovations, sustainability, social responsibility, governance, corporate communication,

etc. The Bank's recent recognitions include the overall award for the Best Sustainability Report 2020, the Best Corporate Citizen award, the Best SME Bank, the Domestic Trade Finance Bank of the Year, the Most Respected Bank in Sri Lanka, and the Strongest Bank Brand, among others.

During 2021, a primary objective was to make the best use of our assets – which, to use the vocabulary of Integrated Reporting, involves making use of all of the Bank's different capitals, not simply financial capital. In terms of customer capital, we focused on deepening our customer relationships by providing exemplary service during challenging times, making banking more accessible to and inclusive of the public. In terms of human capital, we focused on not only on enhancing the skills and competencies of our people in core banking functions, but training all levels of staff in a wider array of topics like compliance, corporate governance, and integrity. And in terms of manufactured capital, we emphasised improving the performance of loss-making branches. The Bank has one of the largest touch-point networks of any corporate in the country, a network that was built through a huge strategic effort during the late 1990s and 2000s. Even as the emphasis shifts from brick-and-mortar branches to digital banking, the Bank recognizes the immense value of its network, and will continue to capitalise on all the benefits – in outreach, customer relationships, new customer acquisition, etc. – that an island-wide physical presence offers.

A strategic blueprint for growth

Crucial to the Bank's resilience is its strategic planning process, which is well entrenched and has been fine-tuned over a period of 25 years. The Corporate Plan and Budget are set out for five years on a rolling basis, allowing for the Bank to be responsive to shifts in the operating environment. Especially when the global and local operating environment is volatile, it is important that we frequently take stock of our strategic direction and reassess and recalibrate it as needed.

In 2021, we continued to strengthen our position in the SME and Micro enterprise customer segment, and, in particular, with enterprises that are women-led and women-connected. A strategic approach is imperative here since these segments encompass a wide range of industries of different sizes. As such, catering to them requires building our own skills and capacities to create solutions that meet their needs and expectations, rather than scaling down solutions that are applicable to larger corporates. Our ongoing SME Banking Transformation Project and our Gender Advisory Project are enabling us to do just that, and the Bank has emerged as a leading lender to these segments.

We also made great progress in the execution of our Digital Road Map, and we have virtually arrived at our target of becoming a digital bank, i.e. offering our customers a full range of services and journeys through digital channels. However, providing a customer experience of simplicity and functionality is only one aspect of our Digital Road Map; the other is ensuring that our internal processes and controls are similarly digitalized, creating end-to-end digital chains. This allows our people to be relieved of tedious, repetitive tasks, and reassigned to more customer-centric functions, which, in turn, not only drives our profitability, but also enhances internal stakeholder experience as well.

Proactive risk management and sound corporate governance

Necessary in an unstable operating environment is an astute and proactive approach to risk management. In 2021, we worked with a consultant to implement an Early Warning Signals system. The system's predictive capabilities will analyze portfolio performance and market trends to identify risk-elevated assets, allowing us to better understand the pressures our customers face and collaborate with them more productively to avert negative outcomes. Furthermore, with capital providing an indispensable buffer during times of heightened credit risk, the Board played a guiding and advisory role in prudent capital management. This is particularly crucial as a true picture of the condition of the Bank's loan book will be revealed once government relief and forbearance measures are phased out in 2022, and we must be prepared to manage credit risk accordingly.

Additionally, a competitive and saturated industry landscape means that there is an even greater demand for the Board to remain vigilant in terms of its corporate stewardship. Our stakeholders have heightened expectations of transparency, accountability, and good governance that go beyond mere compliance. The Bank, through its conduct and performance, must demonstrate its corporate integrity and responsibility – and this is a pre-condition for its ability to remain a viable enterprise in the communities in which it operates. The reader will find more information on these aspects in the Chairman's message on Governance on page 117.

Vote of thanks from Justice K Sripavan

As I conclude my tenure on the Board as a Director since April 2017 and as the Chairman since December 2020, I extend my sincere appreciation and gratitude to several crucial people whose support was invaluable. Even as Sri Lanka faced unprecedented economic challenges, I have worked closely with the Deputy Chairman/ Chairman Designate Prof A K W Jayawardane who will assume duties as the Chairman of the Bank on March 1, 2022. His insights and broad experience will be a great asset for the Bank and the Board. I am deeply grateful to the Managing Director/Group Chief Executive Officer, Mr S Renganathan and the Executive Director/Chief Operating Officer Mr S Manatunge for their outstanding efforts over the past truly challenging year. I warmly welcome the Deputy Chairman Designate, Mr Sharhan Muhseen, who will assume duties as the Deputy Chairman from March 1, 2022. Against the backdrop of economic uncertainty fuelled by the pandemic, our staff represented the Bank with immense professionalism and dedication and worked tirelessly to serve our customers, many of whom were facing struggles of their own. On behalf of the Board, I thank all our staff members for their dedication and response during this difficult period. I am grateful for the unstinted support and loyalty of our shareholders, customers and other stakeholders. My appreciation is extended to my colleagues on the Board, for their strong and consistent support and insightful guidance. The Bank is in good hands and is well placed to deliver sustainable long-term value for stakeholders.

Vote of thanks from Prof A K W Jayawardane

As I assume my position as the Chairman of the Bank, I wish to extend my sincere gratitude to Justice K Sripavan who will be relinquishing his duties from the Board effective March 1, 2022. Under his visionary leadership, the Bank navigated an unprecedented year and ascended to greater heights. I thank him for his dedicated service to our Bank and wish him well with his future endeavours. My appreciation and warm wishes are extended to the Deputy Chairman Designate, Mr Sharhan Muhseen who will assume duties as the Deputy Chairman of the Bank. I thank the Managing Director/Group Chief Executive Officer, Mr S Renganathan and the Executive Director/Chief Operating Officer, Mr S Manatunge for their exemplary leadership. My appreciation is extended to our shareholders and other stakeholders for their unstinted support throughout the year. I also acknowledge the hard work and dedication of the Commercial Bank team, who stepped up for our customers and shareholders in another challenging year. They remain our greatest asset. Drawing on our experience of 102 years and our strong foundation, I look forward to 2022 as we continue to deliver value to our shareholders and exemplary services to our customers.

Justice K Sripavan	**Prof A K W Jayawardane**
Chairman	Chairman Designate

Colombo, February 25, 2022

Managing Director/ Group Chief Executive Officer's Review

We have faced a profound crisis with courage, conviction, and resilience and I remain optimistic about what lies ahead for our Bank.

For nearly two years, we have been maneuvering through an unprecedented global pandemic that has challenged us all, both personally and professionally. Amid this time of turmoil and unpredictability, we improved the financial wellbeing of our customers and communities and strengthened the resilience of our Bank.

We entered 2021 with renewed hope and optimism. Unfortunately, Sri Lanka faced multiple challenges even beyond the COVID-19 pandemic, most significantly, economic concerns fuelled by foreign exchange shortfalls prevalent during 2021, which exerted an adverse impact on the business community and our customers. The Government took proactive measures to curb the spread of the virus while ensuring the revival and long-term stability of the country's economy. These included the effective vaccination drive supported by efficient COVID-19-related protocols and processes and the efforts to increase value-added exports, boost FDIs, and revive tourism via strategic country positioning.

Delivering for our customers

Despite the challenging operating context, the Bank has delivered a resilient performance, weathering the economic effects of the pandemic, and we have continued to progress and transform. We are proud, in these very difficult times, of having served our customers and the communities in which we operate while going above and beyond to safeguard our employees. Our main focus for the year was to enhance the customer experience across our retail, corporate, and SME segments. We focused on creating end-to-end customer journeys by seamlessly integrating human and digital interactions to get even closer to customers. Our team worked with empathy and understanding, analysing the information shared by customers to better appreciate their goals and challenges to create more personalised products, services, and experiences. We are exceedingly proud of the ways in which our team served with the utmost dedication, putting customers first. Our branches stayed open for business throughout the pandemic to extend an uninterrupted service. The reliability and robustness of our network is exemplified by the high value of cash dispensed through our automated cash dispensing network, comprising automated teller machines

(ATMs) and cash recycler machines (CRMs), which exceeded a mammoth Rs. 91 Bn. in December 2021. This emphatically demonstrates the indispensable role we play in the lives of Sri Lankans.

Enhancing the digital experience of customers

The investments we made over the years in building our digital ecosystem provided a strong foundation to meet the increased demand for digital services and become a pioneer in the digital payment space. As per the Bank's Digital Strategy 2021-2023, we continued to spearhead innovative, convenient and comprehensive digital experiences for our customers by redesigning conventional banking processes as digital processes, integrating with other ecosystems, upgrading internal systems to capitalise on changes in the regulatory environment, developing talent and building partnerships. We continued to deliver compelling, emotive digital propositions to elevate the customer experience in the post-pandemic new normal, offering customers instant gratification, increased convenience, flexibility, and tailored services they seek. Our retail customers were onboarded to our digital platforms, facilitating simplified customer experiences in an environment of the highest security standards.

To facilitate customer migration to digital platforms, we set up Mini Digital Experience Zones, deployed Dedicated Digital Assistants to guide customers in digital migration and set up automated banking centres in the branches. The success of our efforts saw a 35% YoY increase in digital adoption of our existing customer base and a 29% increase in new customer onboarding during the year.

Reimagining customer service using technology, we were the first bank in Sri Lanka to launch Viber banking and WhatsApp banking to enhance customer experience by using new-age communications to offer solutions that are relevant to the times. Whilst continuing our efforts to promote a cashless ecosystem and facilitate digital access, these innovative channels encouraged non-digital customers to embrace digital banking. During the year, several advanced features were added to our groundbreaking digital banking app, Flash Digital Bank Account, and to ComBank Digital to elevate user experience and convenience further. Furthermore, we introduced several automated processes focused on building robust back-end digital processes improvements to enhance customer experience. These included becoming the first bank in Sri Lanka to accept digital signatures from business customers, automating the analysis of CRIB reports, implementing an image-based customer request processing flow, and an ATM reconciliation system, to name a few.

Uplifting the national economy

As a Domestic Systemically Important Bank, we have been a driving force in partnering and cooperating with national economic development efforts, playing a significant role in the post-pandemic recovery process. Our support extended to granting working capital loans and providing concessions to affected sectors, which stretched beyond the mandated debt moratorium measures. In the face of uncertainty, we continued to build on our last year's momentum and relief program, emerging as the leading lender for COVID-19 relief amongst private sector banks in Sri Lanka whilst initiating two major loan programs for SMEs and Micro enterprises affected by the pandemic. Under the 'Arunella' financial support scheme that was launched in 2020, multiple initiatives were implemented to lend support to the SMEs, ranging from relief schemes and special loans schemes to reducing lending rates and offering concessions and more. In 2020 and 2021, we had extended 49,566 moratorium facilities to the tune of Rs. 217 Bn. to affected customers. Furthermore, 25% of the total portfolio of advances that came out of the moratorium were restructured through proactive communications and close monitoring by our staff. We were able to maintain our net non-performing loan ratio at a low level of 1.44%, which reflects the high asset quality maintained by the Bank and the success of the initiatives implemented to support our customers tide over the difficult operating context.

Supporting the SMEs

The SME sector forms the backbone of the Sri Lankan economy, accounting for nearly 80% of all businesses, and is a main source of employment generation accounting for 35% of jobs in the Nation. Recognising the importance of the SMEs, which was one of the hardest hit by the pandemic, we pioneered tailor-made financial solutions to the sector. In recognition of our efforts towards the SME sector, the UK-based Global Business Outlook (GBO) awarded us as the "Best SME Bank" in 2021.

The ComBank Biz Club, which was launched in 2019 to provide SMEs with extensive networking opportunities and other benefits beyond lending, has grown to over 4,800 members, comprising 42% of our SME portfolio. Our SME Banking Transformation operation, which was initiated in 2020, was formalised during the year under review. This includes a new SME architecture in the form of a Centralised Credit Processing Unit (CCPU), which enabled the Bank to become the largest lender to the SME sector across the Banking Industry in 2020. The setting up of the CCPU helped to expedite the service levels and facilitated doorstep-banking services to the SMEs. The SME customer relationships were further strengthened and new relationships were acquired during the year under review through the newly designated SME relationship managers and SME sales staff, who extended a proactive and speedy doorstep banking service to this segment. All our sales staff were empowered to access and upload information to the Bank's centralised system in real-time reducing the processing time and delivering a seamless service.

The investments we made over the years in building our digital ecosystem provided a strong foundation to meet the increased demand for digital services and become a pioneer in the digital payment space.

Empowering women

Our commitment to women empowerment is evident in our products that support women's health and wellbeing, career advancement, education, access to finance and financial independence. In partnership with the International Finance Corporation (IFC), a strategic initiative was taken to conduct a "Gender Advisory Project", which is a 360-degree approach to focus on both financial and non-financial aspects to further improve our attention on the needs of female customers. In addition to empowering women at our workplace, we have continued to offer non-financial services, such as conducting programs to enhance the knowledge and financial literacy of women entrepreneurs, and establishing women networks to enable women to excel in their chosen trades. Notably, women make up more than 40% of our Micro customer segment, while close to 50% of the Bank's SME exposure is in "women-connected" entities.

Advancing sustainability

In a landmark accomplishment during the year, we secured a USD 50 Mn. funding facility from CDC Group, UK's development finance institution and impact investor, to extend lending to SMEs and support climate projects in Sri Lanka. The investment marks CDC's re-entry into Sri Lanka and its first climate commitment in the island. The investment has strengthened our own Green Financing strategy, supporting Sri Lanka's commitments under the Paris agreement and contributing to United Nation's Sustainable Development Goals (SDG) on affordable and clean energy, decent work and economic growth and climate action. Our commitment to sustainable financing is further demonstrated when we pioneered a mandatory social and environmental screening process for our project lending activities, becoming the first bank in Sri Lanka to venture into Green Financing. During the year under review, we disbursed 1,208 green financing loans and leasing facilities, enabling customers to pursue ventures that will aid in the transition to a low-carbon economy. We also revolutionised digital banking by introducing the "Save the Environment" feature in the "Flash" mobile application to measure and offset customer impact on the environment and promote an understanding of the social carbon footprint of consumption. Our position as the pre-eminent bank in climate financing and environmental consciousness in the South Asian region was exemplified when we became one of the top banks – and the only Sri Lankan bank – to win two Climate Assessment for Financial Institutions (CAFI) awards from the IFC. We continued to support our communities in a myriad of ways during the year under review– by donating medical equipment and contributions to the COVID-19 fund, uplifting education and community development, and creating employment opportunities for young entrepreneurs.

Nurturing a winning team

Our staff demonstrated tremendous resilience over the past year, showing that regardless of the circumstances, they will go over and above to support our customers, communities, and one another. Our people and our culture are and will continue to be our biggest competitive advantage. We strive to be a magnet for the best people, those who help our customers with empathy and a deep understanding of their requirements. As the largest private sector bank in the Nation, they impact millions of customers every day and the communities where we all work and live. Our unwavering commitment to diversity and inclusion and career development creates an environment that unleashes innovation and allows our people to perform at their very best in an environment where everyone feels they have an equal opportunity to belong and build a career. During the year, we continued to support our people with new benefits, health and wellness support, and frequent communication to help them manage through this challenging period. We renewed the collective agreement with the Bank's branch of the Ceylon Bank Employees' Union (CBEU) effective January 2021 for a further 3-year period which offered increases in salary and a host of other benefits.

A resilient performance

We continued to demonstrate remarkable operating resilience throughout the pandemic through customer focus, digital engagement and operational excellence. Our results reflect our strong ability to maintain healthy and balanced growth in core banking operations to mitigate the impacts of fluctuations in income. Each quarter, we have been maintaining or improving on our key performance ratios to become even more financially stable and better positioned to continue our mission as a systemically important bank.

The profit after tax of the Group swelled by 42.16% YoY to Rs. 24.290 Bn. for the year ended December 31, 2021. This is before providing for the proposed Surcharge Tax, which had not been enacted in Parliament at the time of reporting. The Bank's Cost to Income Ratio before VAT on Financial Services improved to 31.61% at the end of the year under review from 33.95% in the previous comparable period. Total assets of the Group increased by 12.54% over the year to Rs. 1.983 Tn. and the gross loans and advances of the Group grew by 13.83% to Rs. 1.095 Tn., recording a monthly average growth of Rs. 11 Bn. over the 12 months. A noteworthy achievement of the year under review was the continuous improvement of the Bank's CASA ratio, which stood at 47.83% in 2021, improving from 42.72% at the end of 2020. The Bank's Tier 1 Capital Adequacy Ratio (CAR) stood at 11.923% as at end December 2021, and the Total Capital Ratio stood at 15.650%, compared to the revised minimum requirements of 9% and 13% respectively imposed by the regulator consequent to the COVID-19 pandemic. Throughout the financial year 2021, substantial excess liquidity levels were carried with healthy deposit inflows, showcasing the confidence the Bank has built over the years. As a result, our deposits grew by 14.46% during the year and reached Rs. 1.473 Tn. by the year end. However, at the time of writing this review, the banking sector is experiencing a shortage of liquidity in the market, and the comfortable levels of liquidity will help us brace ourselves for the challenges arising therefrom.

Our main focus for the year was to enhance the customer experience across our retail, corporate, and SME segments. We focused on creating end-to-end customer journeys by seamlessly integrating human and digital interactions to get even closer to customers.

Our overseas operations and subsidiaries, especially in Bangladesh and the Maldives, continued to make substantial contributions to the Bank/Group profits. A detailed analysis of our performance is given in the Financial Review on pages 67 to 73.

Future outlook

Looking ahead, we anticipate the inflationary pressure to elevate in 2022. The increase in taxation is expected to challenge the entire banking sector, exerting pressure on the banks' liquidity positions and capacity to lend due to the resulting reduction in capital adequacy levels. Although we have continued to maintain a capital adequacy ratio exceeding 200 bps above the mandated requirement in the past, maintaining such a buffer will be a challenge going forward. Our liquid asset ratio could be impacted due to the liquidity shortage in the market. Furthermore, we will maintain a cautious approach to new lending opportunities in 2022 given the high inflationary scenario. As we continue to explore diverse opportunities to expand our business both locally and globally, we intend to venture in to fund management operations by establishing a fund management company in the Asia Pacific region in 2022.

Grateful thanks

I wish to close by extending my deep appreciation to our staff across Sri Lanka and other overseas locations for their unwavering dedication, resilience and resolve as they stood by our customers despite the often difficult circumstances. I am grateful for the confidence our customers have shown us as we have continued to stand by them through these challenging times.

The Board has been a tremendous source of support throughout the challenging year and I am grateful for their ongoing engagement, counsel, and support. I extend my sincere appreciation to our Chairman, Justice K Sripavan who will be relinquishing his duties from the Board effective March 1, 2022, under whose visionary leadership the Bank navigated an unprecedented year. I extend my warm wishes to our present Deputy Chairman, Prof A K W Jayawardena who will assume duties as Chairman from March 1, 2022, and Mr Sharhan Muhseen who will assume duties as Deputy Chairman from March 1, 2022. Their leadership and foresight will be a great strength in steering the Bank to greater heights. I also wish to thank the Managing Director and Head of Asia, Mr Srini Nagarajan and the officials of Commonwealth Development Corporation, UK, for their unstinted support.

We have faced a profound crisis with courage, conviction, and resilience, and I remain optimistic about what lies ahead for our Bank.

S Renganathan
Managing Director/
Group Chief Executive Officer
Colombo, February 25, 2022

OPERATING ENVIRONMENT

Connecting with Stakeholders

As evident from the developments around the globe, proliferation of the social media from instant messaging and blogs to social networking sites with its enormous "word-of-mouth" impact has made it possible that anybody can be a stakeholder, making the selection and prioritization of stakeholders to engage with difficult and also, changing the manner corporates communicate with them. While compounding these difficulties, the unprecedented conditions that prevailed in the recent past have created an acute need to engage deeply with stakeholders to clearly identify their concerns and aspirations and appropriately engage with them.

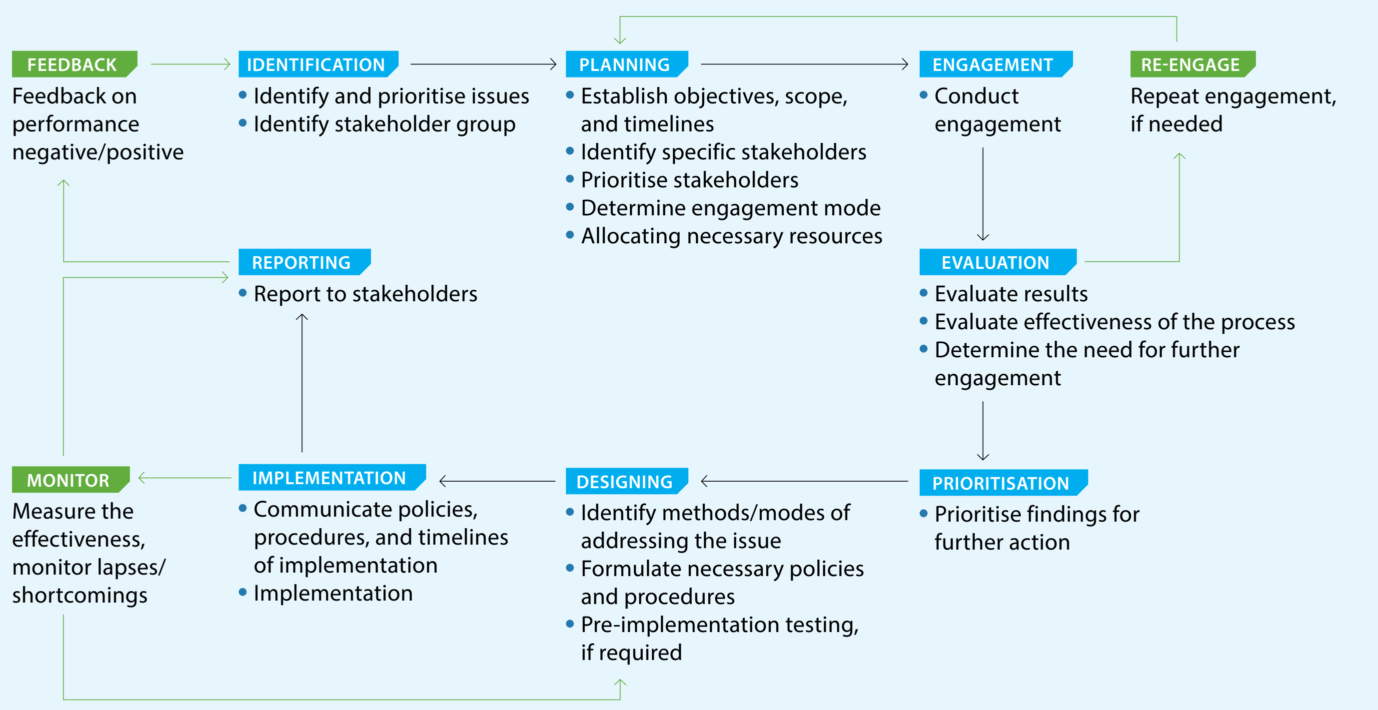
Accordingly, the Bank considers those that have the potential to make an impact on its value creation process and those who are affected by its activities as its stakeholders that need to be constantly engaged with. Based on the above, we have identified the following groups to be our key stakeholders (Table 02) considering their power and their interest in our business model (Refer page 34) and we have presented them in the order of their ability to affect our operations from high to low.

The diagram given below (Figure 02) demonstrates the stakeholder engagement process in place at the Bank which reflects our ethos of having the best interest of all the stakeholders at heart – Bank's tag line – "Our interest is in you" which has enabled us to maintain continuous and open engagement through multiple platforms, thereby strengthening collaboration with stakeholders. This process has paved the way for us to incorporate their legitimate concerns and expectations in to our strategy and deliver value to and, in turn, derive value from them, leading to sustainable value creation.

Table 02: **Our Key Stakeholders**

Stakeholder group	Level of priority and the reason	Engagement strategy
Investors	**High** – due to the difficulty in raising fresh capital to meet the capital management objectives of the Bank given the lackluster performance in equity markets consequent to the adverse economic environment	Highly engaged
Customers	**High** – because the ability to operate as a "going concern" depends on how best and effectively their expectations are met	Highly engaged
Employees	**High** – they connect the Bank and the customers	Highly engaged
Government institutions and regulators	**High to moderate** – since we are operating in a highly regulated industry and being a top tier Domestic Systemically Important Bank	Keep satisfied
Business partners	**High to moderate** – due to the dependence on critical to less customized solutions by vendors	Keep informed
Society and environment	**High to moderate** – due to the obligation to operate responsibly to secure its social license	Keep informed

Figure – 02: **Our stakeholder engagement process**



As depicted in Table 03 on pages 21 and 22, multiple formal mechanisms are in place to connect with our stakeholder groups, to address their expectations. Responsibility for such engagement is shared across the Bank at every stakeholder point of contact.

The changes brought about by the pandemic affected the way, the level and the frequency of engagement with our stakeholders. Following the movement restrictions and lockdowns during the year, we resorted to digital mediums more and more in engaging with our stakeholders. Our stakeholder engagement process enables to better adapt ourselves to meet the evolving challenges, sustain and improve our business model, drive innovation, and gather invaluable insights for our strategic planning process.

Table 03: **Mode and frequency of stakeholder engagement**

ENGAGEMENT MECHANISM AND FREQUENCY

INVESTORS

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

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

WHAT ARE THE KEY TOPICS RAISED AND FEEDBACK PROVIDED

INVESTORS

- 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
- Economic slowdown due to lack of policy consistency
- Achieving sustainable business growth against accepted risks
- Sharp drop in the FCY reserves and successive sovereign downgrades

CUSTOMERS

- 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
- Enrolment to digital platforms
- Operationalising of CBSL directives
- Growing interest in sustainable investing among private sector
- Need of Financial support for women entrepreneurs

HOW DID THE BANK RESPOND TO STAKEHOLDERS

INVESTORS

(i) Robust Risk Management Framework

(ii Optimum levels of liquidity and maximising profitability by optimal usage of liquid assets

(iii) Maintained comfortable levels of capital adequacy

(iv) Worked closely with its corresponding banks and its trade finance customers to manage the foreign currency liquidity

(v) Reached out to new funding partners and established new funding lines

CUSTOMERS

(i) Adjusting the ways of working and service delivery channels and providing the necessary infrastructure to support customers

(ii) Set up Mini Digital Experience Zones, to help customers gradually migrate into digital channels

(iii) Extended relief to diverse customers affected by the pandemic through moratorium schemes, relief to non-performing borrowers, reduction of lending rates

(iv) Non financial support to SMEs and Micro Businesses - Com Bank Biz Club launched grew by 830 to 4866 members in 2021. An initiative was taken to launch an exclusive Credit Card for SMEs and members were enabled to receive economic updates and alerts on new business developments via email and SMS

(v) The Bank has assisted SME customers with financial literacy programmes

(vi) A range of new financial and non-financial products and services were launched including the *Anagi* Business Loan for women SMEs, *Anagi* Instant Loan for salaried women, *Anagi* Credit Card, insurance for women customers and entrepreneurship skill development programs for women

Read more
Joint Message from the Chairman and his Successor on pages 14 and 15, Managing Director/Group Chief Executive Officer's Review on pages 16 to 19, Management Discussion & Analysis on pages 38 to 103, Financial Statements from pages 186 to 336.

	EMPLOYEES	SOCIETY	REGULATORS AND POLICY MAKERS
ENGAGEMENT MECHANISM AND FREQUENCY	See tables below	See tables below	See tables below

ENGAGEMENT MECHANISM AND FREQUENCY

EMPLOYEES

Engagement mechanism	Frequency
Managers' 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

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

REGULATORS AND POLICY MAKERS

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

WHAT ARE THE KEY TOPICS RAISED AND FEEDBACK PROVIDED

EMPLOYEES

- 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

SOCIETY

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

REGULATORS AND POLICY MAKERS

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

HOW DID THE BANK RESPOND TO STAKEHOLDERS

EMPLOYEES

(i) A group of identified potential branch Managers were enrolled to a Leadership Development Program conducted by the Postgraduate Institute of Management (PIM)

(ii) Special Virtual training programs were conducted targeting Branch Managers, Assistant Branch Managers, and Junior Executive Officers covering technical and soft skills

(iii) Work from home arrangements were facilitated for employees by providing necessary IT infrastructure and implementing guidelines on remote working

(iv) All employee engagement and development programs were migrated to digital platforms, ensuring collaboration and ongoing interaction

(v) The Bank remains committed to the principles of equal opportunity irrespective of gender, age, race, disability or religion in all its HR management processes

(vi) All expectant mothers across the Bank were granted special leave from May 01, 2021 onwards, to ensure their safety against the third wave of the pandemic

(vii) The Collective Agreement with the Bank's branch of the Ceylon Bank Employees' Union (CBEU) was renewed in 2021 for a further 3-year period

SOCIETY

(i) Launched "Agri Leasing" facilities at low rentals and flexible payment plans, taking into consideration the seasonal income patterns of farmers and cultivation months to support the agronomy of the country

(ii) The Bank has further expanded its portfolio of green buildings to include the Jaffna Branch and the Trincomalee branch

(iii) Financial literacy programmes for SMEs and Micros

(iv) Donation of 253 fully-equipped IT laboratories to schools and other institutions and partnering the "Smart Schools Project" to introduce a comprehensive digital Learning Management System (LMS) to 65 schools in the country

(v) Donation of critical medical equipment to government hospitals

REGULATORS AND POLICY MAKERS

(i) Remaining compliant with regulatory requirements by maintaining internal capital targets that are more stringent than the regulatory requirements

(ii) Timely submission of regulatory reports and press releases

(iii) Timely payment of tax payments and furnishing of tax returns

(iv) Adhering to the Ministry of Health guidelines and protocols to ensure the safety and wellbeing of customers and employees

(v) Re-launched a dedicated loan scheme namely Diribala Green Development Loan Scheme targeting financing of Solar Power Systems of SMEs/ Business clients to support the Government's strategy towards promoting the renewable energy sector

Read more
Joint Message from the Chairman and his Successor on pages 14 and 15, Managing Director/Group Chief Executive Officer's Review on pages 16 to 19, Management Discussion & Analysis on pages 38 to 103, Financial Statements from pages 186 to 336.

Material Matters

The COVID-19 pandemic has changed people's lives and livelihoods fundamentally and perhaps irreversibly. It has also impacted the banking industry in a number of dimensions, ushering in a new competitive landscape, stifling growth in some traditional product areas, prompting a new wave of innovation, recasting the role of branches whilst accelerating digitization in almost every sphere of banking.

Having navigated the immediate pressure of the COVID-19 crisis, banks play a pivot role in shaping the recovery and helping customers rebuild their financial security and business health. This requires banks to refocus on understanding their customers' needs, and in parallel, nimble adaptations of strategies and business models to ensure efficiency and resilience, and creativity in confronting challenges and seizing new opportunities presented by the changing environment.

In adapting the Bank's strategy to face the "new normal", and play a significant role in shaping the recovery, the Bank analysed its external environment to identify matters arising from changes that were brought forth by the pandemic and emerging trends that were relevant to key stakeholder groups, as given below:

Figure 03: **Material Matters**

	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 guidelines 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 FATCA1, GDPR2, and BEPS3
		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		

In the backdrop of these circumstances, during the year, we revisited the process of identification of material matters through a refreshed materiality assessment, to gain deeper insight and understanding into key areas of concern for stakeholders. The assessment also took into consideration the impacts of the COVID-19 pandemic.

The process followed is summarized below:

Even as these trends present risks, opportunities or both, the impact of these trends is felt by the stakeholders and the Bank alike on varying degrees. The risks emanating from the pandemic were felt across all of stakeholders at different magnitudes, and they outweighed the risks presented by other emerging trends. The matrices that follow, illustrate the topics that are material to the Bank according to their impact on stakeholders and the Bank itself. The Bank defines material matters as those that significantly affect the Bank's ability to create value over the short, medium and long term. The materiality of each matter have been determined by its relevance, the magnitude of its impact, and the probability of occurrence.

Figure – 04: **Materiality determination and integration**

Identification of Material Matters to Address

We identify matters that most impact the execution of our strategy. Relevant matters are those that have, or may have, an effect on the Bank's ability to create value to our stakeholders.

Prioritization of material matters

We prioritize matters that most significantly impact our ability to effectively execute our strategy in delivering long-term value and influencing the decision of key stakeholders.

Integration and execution

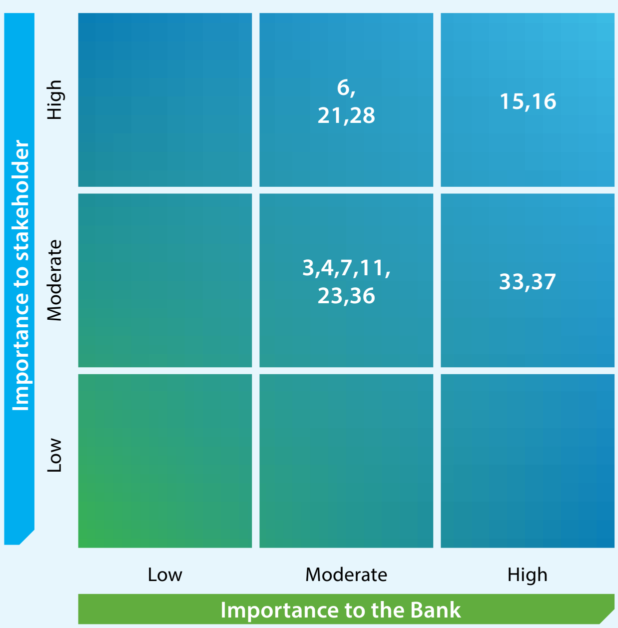
Those matters that are material to the value creation process were then integrated into strategy formulation process in settling KPIs, driving behaviours, measurement of performance and determine the remuneration packages of our staff.

Table – 04: **Material Matters, Risks, Opportunities, and how we manage**

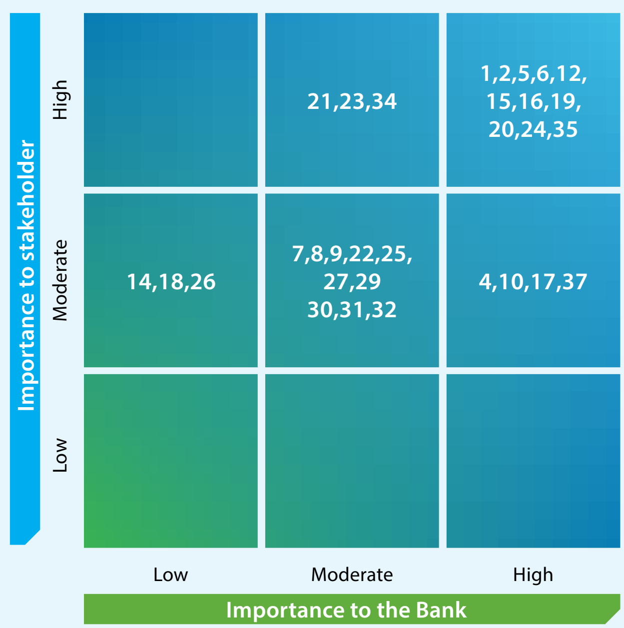
Material Matters	Risks	Opportunities	How we manage	GRI Disclosure
Digital Transformation	The younger generation is more inclined to technology and their preference for personalised, convenient, and secure service is on the rise. The pandemic has sparked higher trajectory in the migration towards the use of digital products and services, increasing the need to continue digital innovation. Need to upskill the human capital to be on par with the technological changes.	Digital channels allow speedier and round the clock delivery of service at the finger tip of customer, leading to increased level of transactions and expanding reach. Digitalised processes freeing up employees from tasks, enabling higher customer interactions, establishing new connections.	The Bank takes a proactive approach on this sphere and has been many times the first in the market to launch new digital channels and products. Please refer the section on "Leading through Innovation" on pages 54 to 58 for more details.	
Cyber Security	Cyber threats continue to increase globally and the need to protect the integrity and privacy of data is becoming important than ever before. The pandemic has fuelled the risk of cyber attacks and thefts.	Having a robust cyber security programme boosts customer confidence in embracing and using digital platforms and provides a distinctive advantage over competition in the digital banking space.	A high importance is placed on this critical aspect. Internationally recognised certifications we hold vets the robustness in our security systems. For more details please refer the sections "IT Operations and Security" on page 58 and section "IT risk" in Risk Governance and Management report on pages 175 and 176.	GRI 418: Customer Privacy
Downgrading of sovereign rating	Reduction of international trade transaction volumes hampers the ability to raise foreign currency in the international market	Healthy mix of foreign currency portfolios and the Bank's regional presence supporting foreign currency liquidity supports the Bank's ability to sustain its foreign currency transactions.	The Bank's strength in the foreign currency mix in the balance sheet, built over the years and our regional presence has helped sustain our foreign currency operations. The section "Managing and Funding Liquidity" on page 41 provides insight on how the Bank managed the impacts of this material aspect.	
Transparency and Accountability	Non-disclosure of adequate information may give rise to reputation risks and regulatory pressures. Increased demand for forward looking strategic direction by investors over traditional past performance reporting	Increased transparency helps reduce risks of unwarranted suspicion and helps achieve faster resolution of issues and reputation-related risks.	The Bank's approach on transparency and accountability is discussed in detail in the section "Annual Corporate Governance Report" on pages 117 to 128.	
Talent Management	Among the risks brought about by the pandemic are the health and safety of the workforce, sustaining critical operations, sudden adjustments in the new working environment top the list. Staff recruitment and retention is becoming more challenging.	Adoption of digital means for remote working results in increasing technology related skills and rethinking working conditions that may improve work-life balance and reduction in costs.	Putting the safety of our employees first, our focus was more on providing a safe working environment for the staff and looking after the employees and their families affected by the pandemic. Getting employees adjusted to new ways of working and working conditions, the Bank invested in its Human capital. For more details please refer section "Operational Excellence" on pages 59 to 63.	GRI 401: Employment GRI 404: Training and Education GRI 405: Diversity and Equal Opportunity GRI 403: Occupational Health and Safety
New Regulations, Compliance requirements, and directives	Increased costs in implementation, modification, and monitoring of process.	Good governance is the bedrock of a sustainable business and helps boost stakeholder confidence.	The Bank is committed to being compliant to the letter and spirit and believes in commitment to good governance provides a strong footing for sustainable development. Please refer section "Annual Corporate Governance Report" on pages 117 to 128.	
Climate Change	Increasing frequency and magnitude of natural disasters may cause deterioration of asset quality, operational and reputational risks. The Bank may outpace the competition by responsible lending through Social and Environmental screening.	Increasing awareness and tendency towards renewable energy and greening of buildings and processes bring about green financing opportunities. Initiatives in countering impacts of carbon emissions.	Though the Bank's own footprint is minimal, we endeavour to minimise the same through adopting green processes, moving to green buildings, and generating solar energy for our operations. However, the bank could influence a much higher impact through our lending to renewal energy generation, greening of processes, and screening for environmental impacts on businesses we lend to. How we do this is more described on pages 42 to 44 and page 63.	GRI 302: Energy GRI 305: Emission

Material Matters	Risks	Opportunities	How we manage	GRI Disclosure
Partnerships for Goals	Interruption to critical services could disrupt smooth execution of the Bank's operations. Unorthodox competition and financial disintermediation may threaten the survival.	Collaboration with Fin-Tech could open up new avenues to reach untapped markets and evolve alongside changing customer expectations. Advancement in new technologies such as Artificial Intelligence, Robotics, and Block Chain could be used to boost operational excellence.	The Bank's continued it efforts on building win-win partnerships and constantly seek avenues to turn the risks of evolving new technology for the development of our own products, services, and delivery. Described more on section "Leading through Innovation" on pages 54 to 58, section "Partnerships for the Goals" on page 65 and Events 2021 on pages 100 to 103.	
Being Socially Responsible	Growing influence of social media and increasing awareness on socially accepted norms expected from business, if not properly managed could lead to losing social license to operate.	Social acceptance of being responsible augments the Bank's leadership position within the banking system contributes to sustainable development.	We believe in sharing the value created with the society we operate in through our CSR Trust, conducting capacity building programmes, and supporting the preservation of environment. Please refer section "Community Sustainability" on page 65.	
Macroeconomic and Geopolitical risks	Though the severity has reduced overtime the pandemic-led disruptions continue to prevail with economies continuing to slowdown. Geopolitical tensions may impact certain sectors of the economy.	Increased collaboration with business community especially with SMEs and micro sector, through the extension of reliefs on best repayment, rescheduling and education leads to stronger and sustainable relationships. Social distancing has increased the demand for digital products and with already sound digital infrastructure the Bank is poised for a higher share of the digital banking sphere.	Discussed within the section "Risk Governance and Management" on pages 159 to 178.	GRI 201: Economic Performance GRI 203: Indirect Economic Impact GRI 207: Tax

Opportunities to be capitalised



Risks to be mitigated



The Bank's strategies are reshaped to fit the time and are 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 38 to 85.

Management approach

The Bank manages its material topics through its strategic planning process. This includes assigning responsibility to the heads of the relevant divisions of the Bank and allocating the required resources based on the significance of each material topic towards achieving the aforesaid strategic imperatives. To ensure achievement of its objectives with regard to its material topics, the Bank has embedded goals and targets, where relevant, into the KPIs of the Key Management Personnel and are reviewed at regular intervals.

Many policies have been instituted to guide its people to conduct activities in a responsible, transparent, and ethical manner in managing the material topics. The Board of Directors has duly adopted these policies, which are reviewed at predetermined intervals to stay current with the changing environment. The Integrated Risk Management Department monitors timely revision of these policies and reports to BIRMC.

Where relevant grievance mechanisms have been established with assigned responsibility to the relevant divisional heads to manage, address and resolve grievances. The Bank's lending to its customers and dealings with its business partners are screened for social and environmental aspects.

Internal and external auditing and verifications are carried out to ensure adherence to internal controls, policies and procedures laid down to achieve the objectives of material topics. 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 awards and accolades received by the Bank over the years, amply demonstrate the effectiveness of this management approach.

Table – 05: **GRI Disclosure on Material Matters**

Material topic	GRI Disclosure	Page No.
1. Lack of desired level of policy consistency		
2. Economic slowdown due to pandemic		
4. Unorthodox competition and financial disintermediation		
5. Directions and guidelines to counter impacts of the pandemic	GRI 201: Economic Performance	28 to 32
6. Lack of desired level of transparency and accountability	GRI 203: Indirect Economic Impact	40 to 53
10. Downgrading of the Sovereign rating and its cascading effect on the Banking industry	GRI 207: Tax	40 to 45 and 232 and 233
12. Higher regulatory capital		
15. Envisaged upturn in private sector credit and improvement in asset quality		
16. Changing customer expectations		40 to 51
17. Migration towards digital platforms		54 to 58
19. Import restrictions	GRI 201: Economic Performance	28 to 32
20. Cyber security threats	GRI 418: Customer Privacy	58
21. Need to enhance productivity	GRI 404: Training and Education	63
	GRI 405: Diversity and Equal Opportunity	61
23. Technology driving change in job skills	GRI 401: Employment	59 to 63
	GRI 404: Training and Education	63
	GRI 405: Diversity and Equal Opportunity	61
24. Health and Safety	GRI 403: Occupational Health and Safety	59 and 60
28. Need to commit to Sustainable Development Goals (SDGs)		65
29. Increasing frequency and magnitude of natural disasters and poor disaster preparedness	GRI 302: Energy GRI 305: Emissions	63 63 and 64
33. Increasing demand for green banking and green lending		49, 63
35. Pandemics hampering world trade and economy		28 to 31
37. New technological advances such as AI, Robotics, Blockchain		54 to 58

Operating Context and Outlook

This Annual Report is meant to be read in the backdrop of the global and local developments elaborated below that contextualise the Bank's performance.

Global economy

The global economy experienced a rebound in growth in 2021 aided by accommodative fiscal and monetary policies. Global growth is expected to moderate in 2022 and inflation is expected to persist longer. Higher interest rates experienced globally will make borrowings more expensive, especially for countries borrowing in foreign currencies and at short maturities.

The global economy enters 2022 in a weaker position than previously expected. COVID-19 variants continue to evolve and countries are imposing restrictions. Russia just invaded Ukraine.

The Russian Invasion of Ukraine – global implications

The Russian invasion of Ukraine has sent the Brent Crude oil price above USD 100 per barrel mark (as at February 24, 2022). The price of gold too has recorded an increase with investors moving on to safe haven assets. The conflagration is also likely to disrupt supply chains. The EU accounts for 27% of Russian exports. China accounts for about half of that. Russia is a key supplier of natural gas and oil. Russia and Ukraine together account for a quarter of the world's wheat supply. Further, Russia is one of the world's key suppliers of industrial metals.

Rising energy prices and supply disruptions will result in higher and more broad-based inflation than anticipated, notably in the United States and many emerging market and developing economies. The ongoing concerns about China's real estate sector and slower-than-expected recovery of private consumption also have limited growth prospects.

Sri Lankan economy

In Sri Lanka, the economy is estimated to have recorded a growth of around 4% in 2021. A marginal drop in the growth rate is expected in 2022. In 2021, a buildup in inflationary pressures could be observed stemming from both supply side and demand side. In line with these inflationary pressures, a gradual rise in interest rates could be observed and this is expected to continue in the period ahead. On the external front, exports recorded a commendable performance in 2021 and imports too increased significantly. In line with these developments, the trade deficit widened notably applying downward pressure on the Sri Lankan rupee.

The Russian Invasion of Ukraine – implications for Sri Lanka

Sri Lanka's expenditure on oil imports was set to rise in 2022, but the Russian invasion of Ukraine will aggravate the situation. In 2022, Sri Lanka's exports (mainly tea exports) to Russia will be adversely affected due to the economic sanctions imposed against Russia by the US and its allies. Tourist arrivals to Sri Lanka from Ukraine (an emerging source market) are likely to be adversely affected in 2022 due to the Russian invasion of Ukraine. Russia has been the top source market in terms of tourist arrivals in recent times. The tourist arrivals from Russia may also be adversely affected due to the war.

Bangladesh Economy

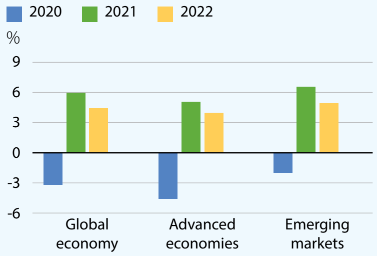
In Bangladesh, after almost a decade of robust growth, reaching a high of 8.15% in 2019, momentum was severely blunted by the COVID-19 pandemic during 2020, and growth slowed to 3.5%. In 2021, however, the economy rebounded to some extent and grew by 5.5%. The Government projects a 7.2% GDP growth for 2022, and a return to pre-pandemic levels by 2023.

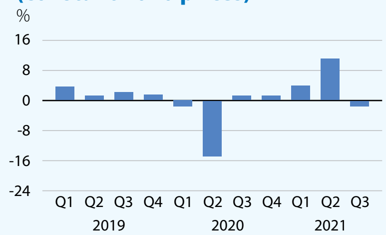
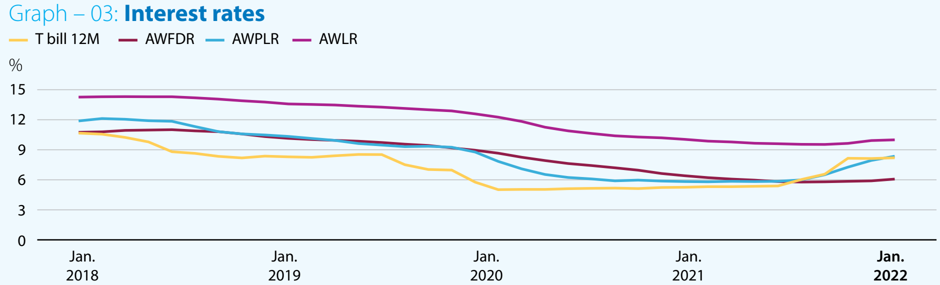
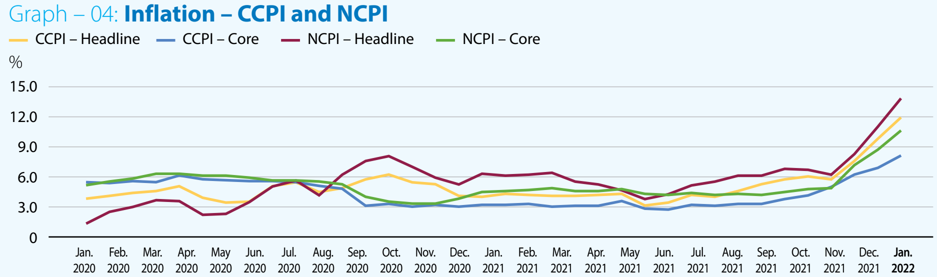
The monetary policy stance and monetary and credit programs outlined for 2021 were mostly successful in terms of injecting sufficient liquidity into the system, accompanied by a softer market interest rate regime aimed at containing inflation while ensuring stability in both the local and the foreign currency markets. The CPI-based average inflation remained at mid-single digit level in 2021 hovering around the target of 5.80% and is expected to remain above 6.00% during the year 2022. Credit to the private sector saw an uptick in 2021. Both the DSE and the CSE bourses remained buoyant during 2021.

The Russian Invasion of Ukraine – implications for Bangladesh

The most immediate impact on the Bangladesh economy is likely to be a surge in energy prices. This will increase the prices of fertilizer which can cause a crisis situation requiring Government intervention. Wheat imports from Russia and Ukraine too may be affected. Rising imports payments, fall in export receipts, pressure on exchange rate, rising commodity prices leading to inflation can be expected. In the long term, ongoing Russian projects in Bangladesh in the power and gas sectors may be affected with the sanctions on Russia over banking transactions and disruption of key material supplies.

Global Economy

Indicator	2021	2022 OUTLOOK
Growth	**Rebounding growth at 5.9% est. (IMF)** Graph – 01: **Global economic growth**  *(Source: IMF)*	**Growth to moderate to 4.4%** The Russian invasion of Ukraine will have a serious economic impact, which will worsen the longer it continues. This crisis comes at a delicate time, when the global economy is recovering from the ravages of the COVID-19 pandemic and threatens to undo some of that progress. The immediate global implications of the war will be higher inflation, lower growth, and some disruption to financial markets as deeper sanctions take hold. *(Source: IMF)*
Fiscal and Monetary Policy	**Accommodative fiscal and monetary policies**	**Gradual withdrawal of accommodative fiscal and monetary policies.** A less accommodative monetary policy in the United States is expected to prompt tighter global financial conditions, putting pressure on emerging market and developing economy currencies. Higher interest rates will also make borrowing more expensive worldwide, straining public finances. For countries with high foreign currency debt, the combination of tighter financial conditions, exchange rate depreciations, and higher imported inflation will lead to challenging monetary and fiscal policy trade-offs.
Interest Rates	**Low interest rates**	**Gradual rise of interest rates**
Inflation	**Rising energy prices and supply disruptions have resulted in higher and more broad-based inflation**	**Higher inflation expected as a result of the Russian invasion of Ukraine**
Energy and Commodity Prices	**Rise in global energy and commodity prices**	Surge in energy and commodity prices expected as a result of the Russian invasion of Ukraine. • Russia is the world's third largest producer and second largest exporter of oil and the world's second largest natural gas producer. • Russia and Ukraine together account for a quarter of the world's wheat supply. • Russia is one of the world's key suppliers of industrial metals such as nickel, aluminum, and palladium. • Economic sanctions against Russia by the US and its allies could cause disruptions to the world's oil, gas, wheat and metals supplies.
Supply Chains	**Rise in supply chain disruptions**	Supply chain disruptions to worsen due to the Russian invasion of Ukraine and economic sanctions against Russia.
Trade	**Global trade is estimated to have reached about USD 28 Tn. in 2021, indicating an increase of 23% with respect to 2020 (UNCTAD)**	The outlook for 2022 remains very uncertain (UNCTAD).
Equity Market	**A strong year for global equities**	Outlook looks bright for global equities (Bloomberg).
COVID-19	**By the end of the year, more than 5.4 million people died of COVID-19** **About 48% of the population globally has been fully vaccinated**	Faster vaccine production and distribution of vaccines seem to protect against severe illness. However, the emergence of new COVID-19 variants could prolong the pandemic and induce renewed economic disruptions.
Geopolitical	**Geopolitical risks remain elevated**	Geopolitical risks remain elevated
Cyber attacks	**An increase in the spread and destructiveness of cyber attacks**	The spread and destructiveness of cyber attacks will further increase.
Climate issues	**More adverse climate shocks**	The frequency and magnitude of climate shocks are expected to increase.

<table>
<tr><th>Indicator</th><th>2021</th><th>2022 OUTLOOK</th></tr>
<tr><td>Growth</td><td>Rebounding growth at 4.0% est. (CBSL)
Graph – 02: Quarterly GDP Growth (constant 2010 prices)

(Source: Department of Census and Statistics)</td><td>Marginal decline in growth is expected</td></tr>
<tr><td>Fiscal & Monetary Policy</td><td>Accommodative fiscal and monetary policies</td><td>Gradual withdrawal of accommodative fiscal and monetary policies</td></tr>
<tr><td>Interest Rates</td><td>Low interest rates
Graph – 03: Interest rates

(Source: Central Bank of Sri Lanka)</td><td>Gradual rise of interest rates</td></tr>
<tr><td>Inflation</td><td>Rising inflation
Graph – 04: Inflation – CCPI and NCPI

(Source: Department of Census and Statistics)</td><td>Inflationary pressures to remain</td></tr>
<tr><td>Energy and Commodity Prices</td><td>Rise in energy and commodity prices</td><td>Surge in energy and commodity prices expected as a result of the Russian invasion of Ukraine and economic sanctions against Russia.</td></tr>
<tr><td>Supply Chains</td><td>Rise in supply chain disruptions</td><td>Supply chain disruptions to worsen due to the Russian invasion of Ukraine and economic sanctions against Russia.</td></tr>
<tr><td>Trade</td><td>A notable improvement in export performance was observed while expenditure on imports increased significantly.</td><td>Trade outlook remains uncertain.
Sri Lanka's exports (mainly tea) to Russia will be adversely affected due to the economic sanctions imposed against Russia by the US and its allies. Russia is one of the biggest destinations of Ceylon tea.</td></tr>
<tr><td>Equity Market</td><td>Strong performance recorded mainly driven by low interest rates and local investors</td><td>Stock market performance likely to be checked due to an anticipated rise in interest rates</td></tr>
<tr><td>COVID-19</td><td>By end of year, nearly 15,000 deaths were caused by COVID-19

About 64% of the population has been fully vaccinated</td><td>With greater numbers being vaccinated, domestic lockdowns are not expected to take place. Therefore, domestic economic activity is likely to continue without disruptions.</td></tr>
</table>

ISSUES FACED SPECIFICALLY BY SRI LANKA

Rating downgrades over concerns about sovereign debt sustainability amidst deteriorating fiscal position

Fitch Ratings

CC in Dec 2021 Previous Rating: **CCC** in Nov. 2020

S&P Global Ratings

CCC in Jan 2022 Previous Rating: **CCC+** in Dec. 2020

Moody's

Caa2 in Oct 2021 Previous Rating: **Caa1** in Sep. 2020

Debt Issue: Deteriorating external financial position.

Exchange Rate: The Sri Lanka rupee depreciated by 6.5% against the US dollar in 2021. It is expected to significantly depreciate if the Government decides to float the rupee. However, this process may be sequenced so that there will not be a sudden shock impact.

Graph – 05: **USD/LKR Rate (inverted scale)**

(Source: Central Bank of Sri Lanka)

Foreign Currency shortage created pressure on exchange rate to depreciate and shortage in certain goods.

Remittances and Tourism Income which are two of the main foreign income earners were badly affected due to the pandemic.

Russia was the second largest source market in terms of tourism arrivals to Sri Lanka during 2021 with a total count of 16,894. Meanwhile with 7,037 tourists, Ukraine became the fifth largest source market for 2021. Ukraine closing its air space and international sanctions on Russian air space will certainly have an adverse impact on Sri Lanka's tourism industry.

Power crisis may lead to a disruption in export activity – this in turn can aggravate the dollar crisis.

The change from chemical to organic fertilizer has created a shortage in rice and vegetables thus contributing to very high food inflation.

Financial Industry

With comfortable levels of capital and liquidity, the Banking Sector continued to remain resilient amidst the COVID-19 pandemic. However, the financial services sector had to contend with the following issues:

- Prolonged moratoria granted to the pandemic-affected sectors
- Shortfall in foreign currency liquidity
- Proposed one off Surcharge Tax and increase in other taxes likely to impact profit retention and capital adequacy
- Increasing stock of credit to Government and State-owned business enterprises by licensed banks
- Emerging threats to operational resilience including IT and cyber security
- Traditional financing challenged by the emerging Fintechs
- Implementation of the consolidation programme of the non-banking sector has been slow

The Bank

CBC performance compared to the Banking Sector – End Sep 2021

	Banking Sector *	CBC
Assets and Liabilities (Rs. Bn.)		
Gross Loans and Advances	10,355	1,051
Deposits	12,466	1,420
Assets	16,494	1,930
Profitability (%)		
Return on Assets (ROA) Before Tax	1.7	1.8
Return on Equity (ROE)	15.1	15.5
Assets Quality (%)		
Gross Non-performing Advances Ratio	4.8	4.9
Capital Adequacy (%)		
Core Capital (Tier 1 Capital) Adequacy Ratio	12.9	12.2
Total Capital Adequacy Ratio	16.2	16.1
Liquidity (%)		
Current & Savings Deposits to Total Deposits	36.3	47.1

*Banking Sector = Licensed Commercial Banks + Licensed Specialized Banks

Source: CBSL, CBC Interim Financial Statements

BUSINESS MODEL FOR SUSTAINABLE VALUE CREATION

The Bank has a robust business model that leverages on its strengths for sustainable value creation. It draws "inputs" from Financial, Manufactured, Intellectual, Human, Social and Network, and Natural Capitals as inputs, converts such inputs to "outputs" through its two primary activities of financial intermediation and maturity transformation, leading to outcomes for the benefit of the stakeholders who own and provided capital inputs. Integrated reporting based on the International Integrated Reporting Framework requires the disclosure of the business model as one of the content elements in an integrated report. Accordingly, the narrative given below provides a guide to the visual depiction of the Business Model on pages 34 and 35 and the Statement of Financial Position on pages 36 and 37.

Inputs

Inputs refer to the "capitals" or stocks of value the Bank uses as resources for undertaking its activities, or, in other words, the capitals from which the Bank 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 institutionalised knowledge of the Bank, the brand and reputation the Bank has built over years, or the strength of its stakeholder relationships. These inputs are then put to work in the Bank's business activities – literally capitalised – to generate outputs (the Bank's key products and services) and outcomes (the value created by the Bank 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 the Bank's capital position at the year end (Refer page 37).

Financial intermediation and maturity transformation

As a commercial bank, financial intermediation and maturity transformation are the two primary value driver activities around which the business model of the Bank revolves. Financial intermediation refers to the role the Bank plays as a conduit between depositors and borrowers, allowing deposits to be channelled into investments and assets. Maturity transformation refers to the process of converting short-term funds into long-term lending and investments. These two activities which ensure the efficient allocation of financial resources, 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, interconnectivities and trade-offs among the capitals in this dynamic process, serve to augment the capitals and reflect the value created over the year, as reflected in the Statement of the Capital Position of the Bank as at January 1, 2021 and December 31, 2021 given on pages 36 and 37.

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 70.69% of its total operating income by way of net interest income (2020: 66.15%).

Gearing

Financial intermediation and maturity transformation cause the business model of the Bank to substantially differ from other corporates. Being a commercial bank funded primarily through customer deposits, the Bank resorts to the process of gearing in order to compensate for the relatively lower Return on Assets (ROA) and generate 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 Bank 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 the Bank to operate at around 10 times higher business volumes compared to the shareholders' equity. It is the license to mobilise deposits from the public that has made it possible. However, the Bank is well aware that gearing exposes it to a multitude of internal and external risks. In addition, certain emerging global developments are also threatening to disrupt this 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 06 on pages 36 and 37, 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 2021 while its shares ranked 9th among all listed companies in the Colombo Stock Exchange as at end 2021. Further details on the performance of the Bank's shares are found in the section on "Investor Relations" on pages 86 to 99.

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.

Business Model

Figure – 05

1. INPUTS

"Raw materials" for the value driver activities drawn from capitals. Refer page 36 of the Statement of Capital Position for the opening capital position as at January 1, 2021 of different capitals built by the Bank over the past 100 years.

Financial capital

- Shareholders' funds
- Borrowed funds
- Financial covenants
- Customer deposits
- Subordinated debt

Manufactured capital

- Property, plant and equipment
- Investments in process improvements
- Information and Communication Technology
- Public goods

Intellectual capital

- Brand loyalty
- Institutionalised knowledge
- Best practices
- Data analytics
- Trained employees
- Awards and accolades

Human capital

- Skills and experience
- Competencies
- Creativity
- Commitment
- Healthy workforce
- Loyal employees

Social and network capital

- Services and supplies
- Relationships
- Assurance services
- Collaborations and alliances
- Customers
- Contribution to the Bank's CSR Trust

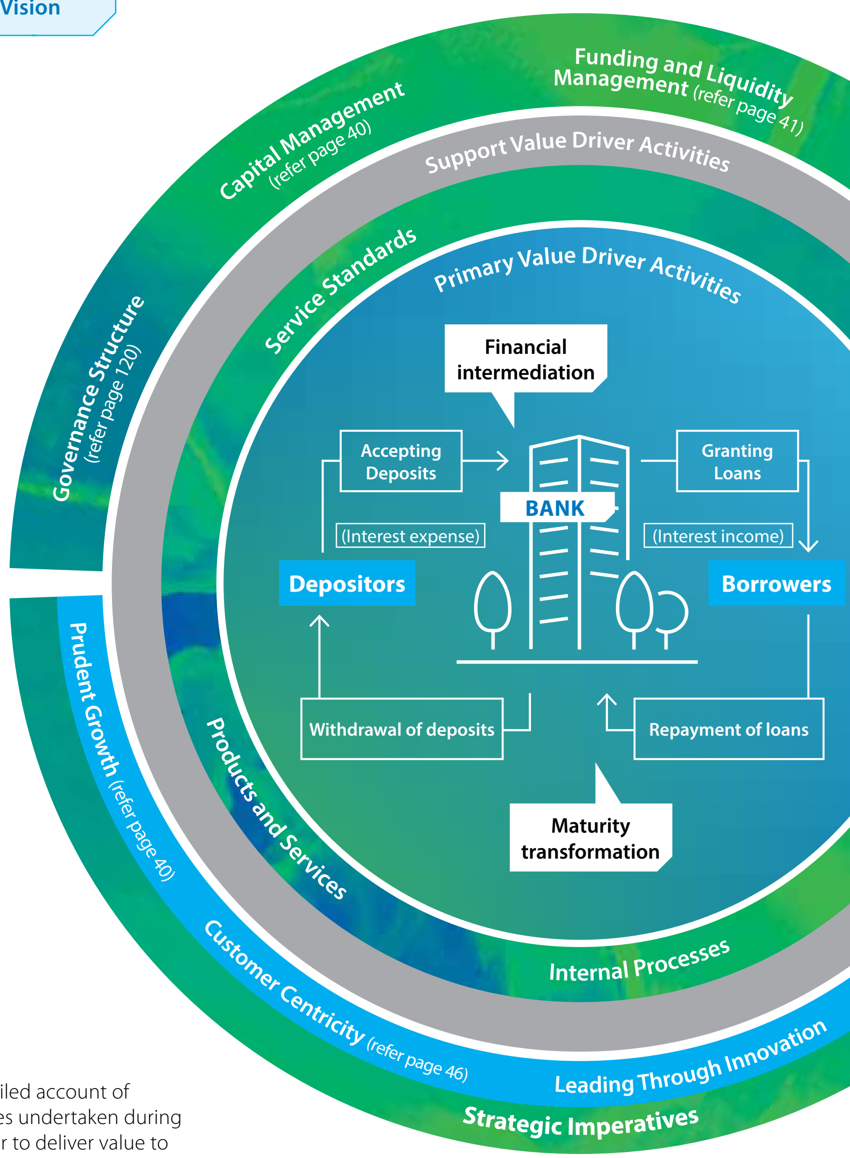
Natural capital

- Utilities
- Refinance funding for solar/ digitisation projects
- Social and Environmental Management System (SEMS)

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.

Vision



(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 38 to 103)

Operating Environment that provides context for value creation

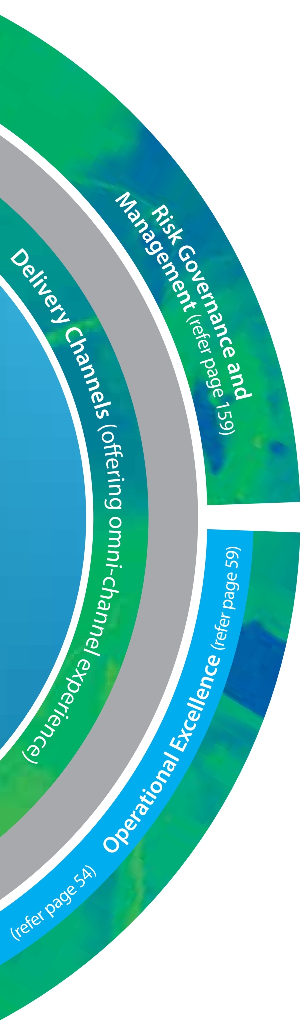
3. OUTPUTS

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

4. OUTCOMES

Consequences of our activities and outputs manifested in capitals as value created. Please refer page 37 of the Statement of Capital Position for the closing capital position as at December 31, 2021 of different capitals.

Mission



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

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

- Leading through Innovation
- Creativity
- New products
- Simplicity
- Compliance

Human capital

- Operational excellence
- Empowerment and engagement
- Training and development
- Motivation and productivity
- Cordial industrial relations

Social and 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 Financial Highlights on page 10)

Statement of Capital Position

Table 06

Financial capital

Indicator of value derived	Value derived as at January 1, 2021	Activities undertaken to create Financial Capital *	Value derived as at December 31, 2021	Growth in value created
Shareholders' Funds (Rs. Bn.)	157.146	Grew the business volumes prudently through robust and efficient financial intermediation and maturity transformation, thereby strengthening the leadership position	164.894	4.93%
Subordinated liabilities (Rs. Bn.)	38.247		38.303	0.15%
Deposits from customers (Rs. Bn.)	1,265.966		1,443.093	13.99%
Borrowings from banks/other borrowings (Rs. Bn.)	87.451		73.777	-15.64%
Market share in total assets (%)	11.90		11.17	(0.73)
Market capitalization (Rs. Bn.)	93.669		94.193	0.56%
CSE ranking in market cap (No.)	5		9	–
Price to Book Value	Highest among the Banking Sector		Highest among the Banking Sector	–
Growth in gross income (%)	0.68		7.46	6.78
Net interest margin (%)	3.17		3.51	0.34
Return on average-shareholders' funds (%)	11.28		14.66	3.38%

Manufactured capital

Indicator of value derived	Value derived as at January 1, 2021	Activities undertaken to create Manufactured Capital *	Value derived as at December 31, 2021	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	–
Number of ATMs - In Sri Lanka	656		663	1.07%
Number of CRMs - In Sri Lanka	250		275	10.00%
Bank on Wheels (No.)	3		3	–
Investment in capital expenditure (Rs. Bn.)	2.25		3.41	53.77%
Percentage of fully depreciated assets	38.56%		43.74%	5.18%

Intellectual capital

Indicator of value derived	Value derived as at January 1, 2021	Activities undertaken to create Intellectual Capital *	Value derived as at December 31, 2021	Growth in value created
Brand equity (Rs. Bn.)	44.009	• 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	43.657	-0.80%
Value of intangible assets (Rs. Bn.)	1.233		1.725	39.90%
Receipt of awards and accolades	Most awarded Bank in Sri Lanka		Most awarded Bank in Sri Lanka	
World's Top 1000 Banks	Included in 2020		Included in 2021	
Fitch rating	AA- (lka)		AA- (lka)	
Employees serving for > 20 years (No.)	809		797	-1.48%

Interactions and

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

Human capital

Indicator of value derived	Value derived as at January 1, 2021	Activities undertaken to create Human capital *	Value derived as at December 31, 2021	Growth in value created
Number of employees	5,057	• Improved quality of new recruits • Conducted employee surveys • Invested in training and development • Enriched career development • Reinforced performance management and appraisals	5,072	0.30%
Number of new recruits	158		226	43.04%
Retention ratio (%)	95.31		95.89	58 bps
Return to work from maternity (%)	100.0		100.0	0.00%
Profit per employee (Rs. Mn.)	3.238		4.654	43.75%
Average service period	14 years and 5 months		13 years and 2 months	Reduced by 1 year and 3 months
Total training hours	43,961		79,928	81.82%
Total e-training hours	7,161		7,756	8.0%
Staff welfare cost per employee (Rs. Mn.)	0.062		0.065	4.65%

Interconnectivities

Social and Network capital

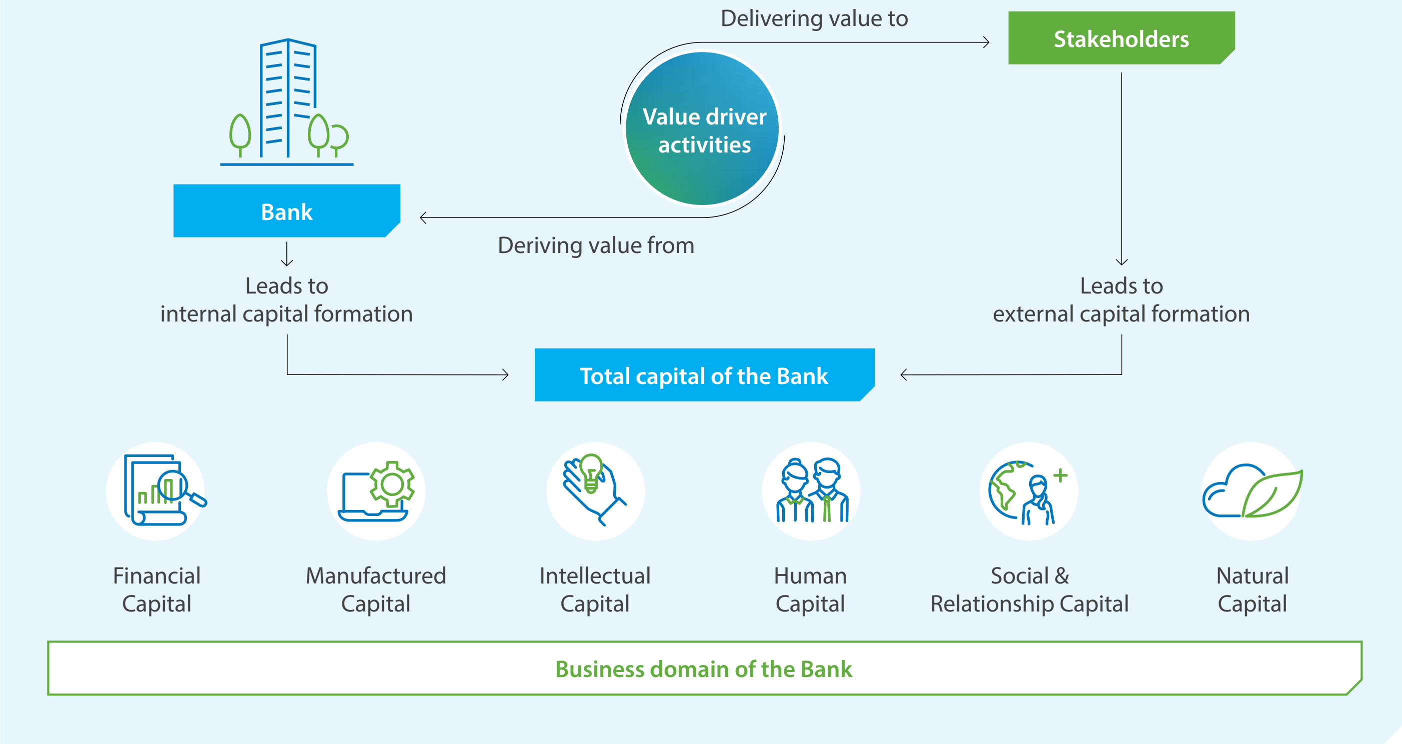
Indicator of value derived	Value derived as at January 1, 2021	Activities undertaken to create Social and Network capital *	Value derived as at December 31, 2021	Growth in value created
Number of customers	Over 3.5 Mn.	• Promoted financial inclusion • Co-created products and services • Collaborated with business partners • Improved capacity of SMEs • Expanded Bank's footprint • Supported the community	Over 3.5 Mn.	–
Market share in imports (%)	11.34		13.06	172 bps
Market share in exports (%)	18.77		16.75	-202 bps
CASA ratio (%)	42.72		47.83	511 bps
Number of suppliers	Over 1,250		Over 1,400	200+
Number of correspondent banks	56		60	7.14%
CSR Trust investment in society (Rs. Mn.)	633.6		751.6	19.00%

Natural capital

Indicator of value derived	Value derived as at January 1, 2021	Activities undertaken to create Natural capital *	Value derived as at December 31, 2021	Growth in value created
Energy consumption (GJ)	45,045	• Screened loans through SEMS • Promoted paper reduction and recycling • Increased usage of renewable energy • Switched to energy-efficient appliances	42,906	Energy saved by 4.75%
Solar panel installation locations (No.)	60		61	1.67%
Number of facilities subjected to SEMS screening	9,807		9,938	1.34%
No. of accounts linked to internet banking	603,131		862,437	42.99%
No. of accounts linked to mobile banking	519,687		589,826	13.50%
Solar power generated as a % of energy consumption	12.46%		14.14%	168 bps

Value Creation and Capital Formation

Figure – 06



This Integrated Report demonstrates both the value created by the Bank in the past for the benefit of its stakeholders, which is reflected in various forms of capitals as explained below, and, more importantly, the Bank's continued ability to create value in the short, medium, and long term on the strength of those capitals.

One of the foundational principles of Integrated Reporting is conceptualizing an organisation's value creation process through a "multi-capital" model. By reflecting on value creation beyond financial value, the Bank is better able to capture and disclose a wide array of information about the duality of the process of value creation, viz. delivering value to and deriving value from stakeholders. Both these aspects are closely inter-related as the ability of the Bank to create value for itself is inextricably linked to the value it creates for its stakeholders. The more value the Bank delivers to its stakeholders, the more value it can derive in return. Delivering value essentially involves creating financial and non-financial value for the benefit of the stakeholders such as investors, customers, employees, business partners, Government institutions & regulators, and the society and environment, which will in turn drive the Bank's future earnings, enabling it to create value for itself. This process leads to capital formation in the form of Financial Capital, Manufactured Capital, Intellectual Capital, Human Capital, Social and Relationship Capital, and Natural Capital. It is these capitals that drive the Bank to sustainably create value into the future.

This duality of the process of value creation is depicted in Figure 06 above.

A snapshot of the value the Bank has been able to create over its existence of 100 plus years as reflected in the six capitals is given in the Statement of Capital Position on pages 36 and 37. It is these strong and robust capitals, unparalleled among the private sector banks, that will fuel the Bank's growth and ability to create value in the future.

Nevertheless, the reader will note that this Management Discussion & Analysis is structured along the lines of four Strategic Imperatives viz. Prudent Growth, Customer Centricity, Leading Through Innovation and Operational Excellence (Refer Figure 07 on page 39). In order to create value and grow its stocks of capitals, the Bank executes numerous strategic actions (broadly referred to as value driver activities in the Business Model on pages 34 and 35) to address its strategic imperatives. It is these strategic actions and the resultant interactions, relationships and interconnectivities that drive the capital growth reflected in the Statement of Capital Position. As such, we believe that this structure based on strategic imperatives is a perfect complement to the multi-capital model by reporting on how the Bank created value during the year under review, along with its plans to create value in the short, medium, and long term.

Strategic Imperatives

Figure – 07

Strategic Actions

- **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

Prudent Growth

Growing the business astutely with a long-term perspective

Strategic Actions

- **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

Customer Centricity

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

Activities

Activities leading to value creation are detailed under the four strategic imperatives on pages 40 to 65.

Stakeholders to whom value was delivered and from whom value was derived

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

Capitals in which the outcome is reflected

- Financial Capital
- Manufactured Capital
- Intellectual Capital
- Human Capital
- Social & Relationship Capital
- Natural Capital

Leading through Innovation

Innovating to enhance the quality of stakeholder interactions and experience

Strategic Actions

- **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

Strategic Actions

- **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 our carbon footprint to contribute to the fight against climate change

Prudent Growth

As the largest private sector commercial bank in Sri Lanka, which has engendered the trust of over 3.5 million customers, Commercial Bank is deeply aware of its fiduciary responsibility of governing the Bank's affairs meticulously and ensuring it is adequately capitalised. The COVID-19 pandemic has reshaped the global economy and society, accelerating consumer behaviour shifts and causing significant earnings challenges and extensive risk of financial distress for both consumers and businesses. Such a context has highlighted the magnitude of the Bank's role in aiding recovery by supporting its customers, forming mutually beneficial partnerships and mobilising its workforce and its resources at the service of society. Recognising that *Prudent Growth represents value creation for all its stakeholders through different time frames – the short, medium, and long term*, the Bank drives growth by focusing on agility of operations, innovation, evolution of the workforce, managing risks and exemplary governance. 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.

Prudent Growth is fundamentally about maximising current profitability without hindering the Bank's future sustainability. The Bank remains steadfast in its determination to think and act with the long-term sustainability of future generations in mind. Prudent Growth includes balancing trade-offs between capitals, by giving equal focus to sound investments in institutional or human capital, as to immediate gains in financial capital, which elevates the Bank's ability to adapt to changing financial landscape. Investments made without regard to social and environmental justice, could adversely impact the wider society causing a negative spillover effect to the Bank's reputation. The Bank remains resolute in its efforts to ensure the decisions taken are prudent, framed by an astute and educated estimation of the future. *Therefore, Prudent Growth signifies growth that is: healthy, sustainable, resilient, responsible, and ethical, ensuring transparency, accountability, governance and long-term sustainability in its operations.* Thus Prudent Growth emphasises pure banking which comprises of a well-diversified asset and customer base; sound capital, optimum liquidity, and robust risk management framework; astute corporate governance; socially and environmentally responsible lending and operating practices; and conducting business with transparency, honesty and integrity.

Our commitment to prudent growth

- Comfortable levels of capital adequacy
- Optimum levels of liquidity
- Social and Environmental Management System (SEMS)
- Robust Risk Management Framework
- Compliance with laws and regulations, both in letter and in spirit
- Robust Corporate Governance Framework
- Highest market capitalisation in the Banking sector in the Colombo Bourse
- First private sector bank to venture overseas
- First private sector bank to cross Rupees One Trillion in assets, deposits and loans
- Included in the Top 1000 Banks consecutively for eleven years
- Transparency in reporting and disclosures
- Conservative risk profile
- First Carbon Neutral Bank

Creating Long Term Value

Through Prudent Growth, the Bank has built a strong deposit and lending franchise with a wide national footprint and a regional presence. This has enabled the Bank to access resources unavailable to its competitors, and offer a unique value proposition to its stakeholders. The Bank's moderate risk appetite has created a reputation for stability, earning the trust and confidence of the public, resulting in a high deposit growth. In 2021, the Bank's deposit base grew by 13.99% YoY to Rs. 1.443 Tn. resulting in, the Bank's CASA ratio improving to 47.83% in 2021 from 42.72% in 2020, the best in the Banking Sector.

Table – 07: **Growth in deposit base and lending portfolio over the past decade**

	2021 (Rs. Bn.)	2011 (Rs. Bn.)	10-year CAGR
Deposit base	1,443.093	323.755	16.12%
Gross Loans and advances	1,078.685	289.803	14.05%

Remaining Well Capitalised

A strong base of capital is essential for a bank's sustainability. 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 capital acts as a cushion or a shock absorber against unexpected losses and as a regulatory restraint on unjustified asset expansion. Capital is needed for a bank to acquire the required fixed assets to establish, perpetuate, and expand business. Though necessary and justifiable, new impediments have been created to the growth of the banking industry through tightened regulatory requirements and more stringent reporting standards – all in the interest of various stakeholders, depositors in particular. Banks are being more conservative in their approach and are bearing the brunt of higher costs and lower returns. This is due to more restrictive capital definitions, difficulty in raising fresh capital due to lackluster 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. In such a landscape, Banks consider it a priority to proactively manage the capital at its disposal to remain solvent. The capital requirements are assessed through the Internal Capital Adequacy Assessment Process (ICAAP) and the annual strategic planning and budgeting exercise. The Bank uses tools such as Risk Adjusted Return on Capital (RAROC), prudent capital allocation, controlled growth in risk-weighted assets, expansion of fee-based services, timely pricing/re-pricing of its assets and liabilities, prudent dividend policy, well-diversified products and services portfolio and capital instruments to manage its capital requirements. The Bank consistently maintains capital adequacy ratios, well in excess of minimum requirements.

Capital management objectives

Given below are the objectives of the Bank's Capital Management efforts:

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

In 2020, the Bank received a strong affirmation by completing a USD 50 Mn. private placement of shares with International Finance Corporation (IFC), which was the first foreign equity placement of shares by the Bank. This was also the first post-pandemic equity placement by the IFC, and one of the largest foreign investments into Sri Lanka since the start of the pandemic.

For more information on Bank's Capital Management, please refer page 177 on Risk Governance and Management Section, Note 67.5 on pages 335 to 336 and page 366 for Annex: 2, Disclosure 7 on Summary discussion on adequacy/meeting current and future capital requirements.

Managing Funding and Liquidity

Funding and liquidity are critical factors for the financial services industry, especially considering the circumstances that led to the financial crisis in 2007 and the events that followed. Having sufficient liquidity available to meet its commitments is essential to the Bank. Since there were no internationally agreed-upon standards for funding and liquidity, Basel III regulations introduced measures to strengthen the funding and risk management of banks, 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. These measures are designed to prevent banks from relying excessively on short-term wholesale funding to support long-term assets.

Just as much importance is given to capital, the Bank accords importance to ensuring that it has sustainable sources of funding and that it maintains adequate levels of liquidity at all times. The fact that the Bank does not compromise on liquidity in its drive to generate returns for investors, has greatly contributed towards public confidence in the Bank. The Assets and Liabilities Committee (ALCO) of the Bank meets fortnightly to actively monitor the funding, liquidity requirements and pricing of assets and liabilities. It extensively deliberates on developments that affect funding and liquidity, such as market liquidity, managing foreign currency funding position of the Bank, current and perceived interest rates and exchange rates, changes in policy rates, credit growth and facilities in the pipeline, alternative investment options for its excess funds given the low growth in the loans and advances owing to the pandemic and adverse economic conditions prevailing in the country, capital market developments, projected capital expenditure and alternative funding options etc. The Bank has further strengthened its funding and liquidity over the past several years by encouraging the use of electronic cash and cards to reduce cash holdings by offering an array of digital products and establishing credit lines with strong overseas counterparties enabling it to access foreign currency funds at attractive rates.

The Bank faced immense challenges in managing the foreign currency liquidity during the year, due to the macro-economic impacts faced by Sri Lanka. Sharp drop in the foreign currency reserves of the country, and the successive sovereign downgrades created a challenging environment for the Bank to access foreign currency funding, while the reduction in the foreign exchange flows from both tourism and worker remittances created a trade imbalance in the economy leading to a shortage in foreign exchange. The Bank proactively responded to the issues by adopting new strategies in managing foreign currency liquidity and trade flows, working closely with its corresponding banks and its trade finance customers to manage and address the concerns and requirements.

The Bank also reached out to new funding partners and established new funding lines under challenging circumstances. The Bank's Bangladesh Treasury was highly supportive in facilitating access to several funding sources which were previously untapped to obtain required liquidity. Furthermore, the Bank's presence in Myanmar enabled to source Foreign Currency funds from Myanmar as well.

The Bank's funding sources 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
- Subordinated debentures

Funding and Liquidity Management Objectives

The objectives of the Bank's funding and liquidity management efforts include:

- Honouring customer deposit maturities/ withdrawals and other cash commitments efficiently under both normal as well as challenging operating conditions
- Remaining compliant by maintaining internal funding and liquidity targets which are more stringent than regulatory requirements
- Maximising profitability by optimal usage of liquid assets
- Funding future business expansion at optimum cost
- Supporting desired credit rating
- Ensuring compliance with Basel III funding and liquidity requirements (Refer Annex: 2, Basel III – Disclosures under Pillar 3 as per the Banking Act Direction No. 01 of 2016 on pages 361 to 374)

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

Being a Truly Diversified Entity

Commitment to diversification is another important dimension of the Bank's Prudent Growth strategic imperative. Diversification, which is a risk management tool, helps the Bank to avert excessive concentration, reduce performance volatility and ensure stable and sustainable value creation by remaining more agile in weathering and responding to changing market conditions. The Bank has successfully achieved a high level of diversification in its operations across many parameters, including:

- Geographically (Sri Lanka, Bangladesh, The Maldives, Myanmar and BPOs in several other countries)
- Customer profile (Refer customer segmentation – Table 08 on page 46)
- Multiple banking channels (Refer channel mix – Table 09 on page 46)
- Currency wise product mix (Refer Note 34.1 (b) on page 247 and Note 46.1(b) on page 276)

- Products and services portfolio (A comprehensive suite catering to the requirements of all segments of customers from infants to senior citizens) – (Please refer Note 34.1 (a) on page 247 and Note 46.1 (a) on page 276)
- Multiple funding channels(Refer the figure 08 below for details) and funding diversification by product (Refer page 173)
- Maturity profile (No serious mismatches in maturity profile, particularly given the growing core component of CASA balances – Refer Note 61 to the Financial Statements on pages 298 and 299)
- Economic sector (A well-spread sector diversification of assets by economic sector with no excessive concentration to any particular sector – Please refer Note 34.1 (c) to the Financial Statements on page 247)
- 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 – Please refer Note 13.1 and Note 14.1 to the Financial Statements on pages 222 and 224)

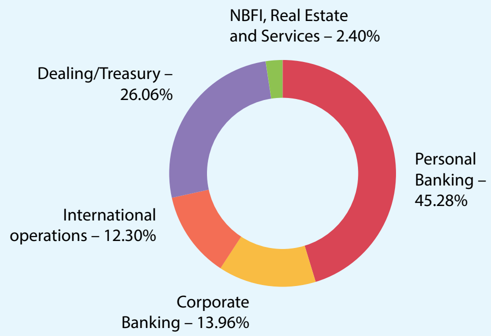
Socially and Environmentally Sustainable Lending

In comparison to many other industries, banking has a minimal environmental footprint of its own as it consumes few natural resources and creates minimal emissions and waste. This is evidenced by the fact that there are no mandatory requirements for environmental certifications that banks have to obtain. Nevertheless, the Bank makes a conscientious effort to reducing Green House Gas (GHG) emissions in its operations continuously.

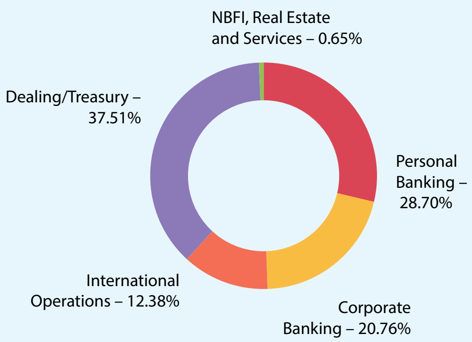
Figure 08: **Diversification**

OPERATING SEGMENTS

Contribution to Group's Total Operating Income



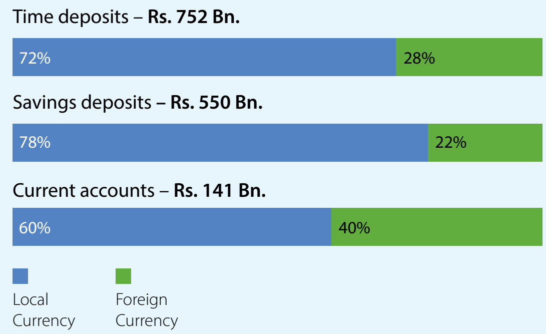
Contribution to Group's Total Assets



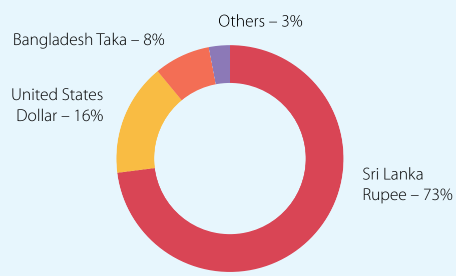
DEPOSITS AND FUNDING

CASA
47.83% (2021)
2020 - 42.72%

Deposits Mix – Bank



Deposits by Type of Currency – Bank



Funding Structure – Bank

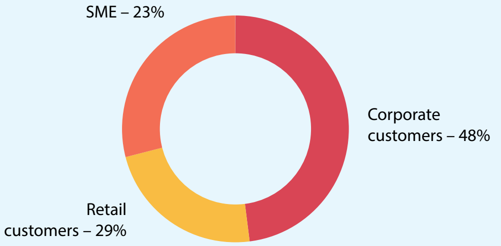
The Bank recognises that it has a vital role to play as an advocate and driver of sustainability in Sri Lanka, in its capacity as a Domestic Systemically Important Bank, and a financial intermediary with a wide national reach and influence. In partnership with the members of the Sri Lanka Banks' Association, the Bank was involved in one of the core groups that formulated the Sustainable Banking Initiative (SBI) in Sri Lanka, which addresses the integration of social and environmental concerns into the Banks' core business activities. Since 2002, the Bank has been a member of the UN Global Compact, which specifies value systems and principles for operating businesses sustainably.

Recognised as the most progressive banking institution in Sri Lanka and its commitment to preserving the environment through responsible lending protocols, Commercial Bank was one of the Banks that pioneered a mandatory social and environmental screening process for its project lending activities. It was also the first bank in Sri Lanka to have identified Green Financing to be of a wider scope and ventured into Green Financing in a more focused manner. It further revolutionised digital banking by introducing features in its "Flash" mobile application to measure and offset customer impact on the environment.

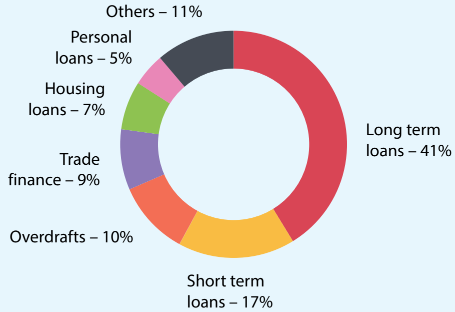
From financing renewable energy projects, including the first commercially viable wind power project and the first commercial scale solar power project in Sri Lanka, the Bank has diversified its Green Financing portfolio with the support of special credit lines and development of a Green Financing strategy and internal taxonomy. The Green Financing portfolio supports projects that focus on climate mitigation, climate adaptation and other environment related green objectives. Therefore, it 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).

LOANS AND ADVANCES

Loans and advances by customer type – Bank



Loans and advances by product type – Bank



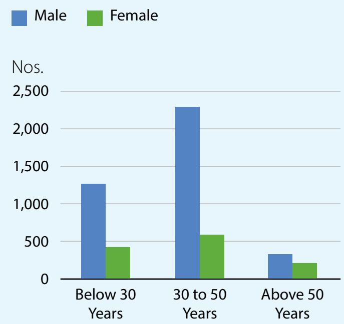
Loans and Advances by Industry – Bank

Wholesale and retail trade	20%
Consumption and other	15%
Manufacturing	14%
Lending to overseas entities	13%
Agriculture and Fishing	9%
Financial services	7%
Tourism	6%
Construction	5%
Others	11%

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

EMPLOYEES

Age Analysis



Service Analysis

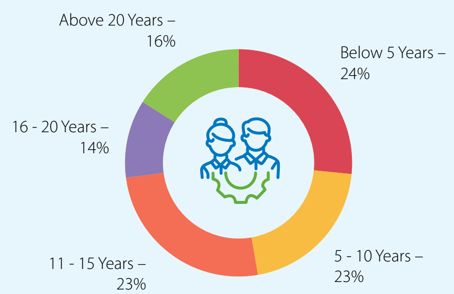


Figure – 09

Composition of the green financing portfolio – 2021

41%

Renewable Energy Projects (Solar, Hydro, Wind, Biomass)

as at December 31, 2020 - 38%

11%

Resource efficiency and recycling projects - Energy, Water, and Material

as at December 31, 2020 - 19%

10%

Environmentally friendly transportation and related services

as at December 31, 2020 - 17%

6%

Water saving - consultancy and related service providers

as at December 31, 2020 - 10%

17%

Climate Smart Agriculture

as at December 31, 2020 - 7%

15%

Others

as at December 31, 2020 - 8%

The Bank's Green Financing Vision:
"To grow the Green Financing portfolio to 3% of the loan book by 2025"

In 2020, the Bank issued a Position Statement on Climate Change, affirming its commitment to combating climate change at the highest level of the Bank. This Statement is an articulation and an unification of a multitude of actions the Bank has been implementing continuously, and underscores its added resolve to this challenge.

In 2021, the Bank disbursed 1,208 green financing loans and leasing facilities to support customers to transition to a low carbon economy. The Bank has adopted the Climate Assessment for Financial Institutions (CAFI) tool, developed by IFC for monitoring and reporting the climate impact data of the Green portfolio.

The Bank's Green Financing portfolio as at December 31, 2021, has contributed in reducing 225,847.33 tonnes of CO_2 (equivalent) emissions to the atmosphere. The composition of the Green Financing portfolio is delineated in the Figure 09.

Positioning the Bank as a predominant institution in climate financing and its environmental consciousness in the South Asia region, the IFC conferred two awards to Commercial Bank in 2021 for the performance under the CAFI tool. This was in acknowledgement of the Bank's estimated GHG reduction from its Green Financing portfolio and for completing the highest number of climate finance transactions in 2020 among the IFC's partnering Banks operating in South Asia.

The Bank utilises SEMS to assess and manage its social and environmental risks in its lending in a strategic and systematic manner. In its aim of becoming a leader in building partnerships across sustainable business networks, the Bank makes every attempt to assist customers and suppliers to become compliant with relevant regulations and industry best practices. In this context, the Bank adopts an approach of partnership with its stakeholders in its implementation of SEMS, with the objective of encouraging positive changes. Instead of merely rejecting proposals that do not meet the Bank's social and environmental standards, the Bank proposes corrective actions to ensure that the Bank's lending to projects or activities is environmentally sustainable, socially acceptable and economically viable.

The Bank also conducts capacity building programs to enhance the knowledge of Bank's lending officers on social and environmental risk assessment and Green Financing sphere to achieve a socially and environmentally sustainable lending portfolio.

Figure – 10: **Bank's Sustainability Journey**

First Sri Lankan Bank to become wholly Carbon Neutral

First Bank in Sri Lanka to implement a Social & Environmental Management System (SEMS) in 2010, at a time when it was not a mandatory requirement

United Nations Global Compact

First Sri Lankan Bank to become signatory to the 10 Principles of the UN Global Compact (UNGC) and still the only Bank on the Steering Committee

First Bank in Sri Lanka to venture into Green Financing

SLCF

One of the first banks to receive a Green House Gas (GHG) Emissions certificate

IFC International Finance Corporation WORLD BANK GROUP

Adoption of IFC Performance Standards

flash Digital Bank Account

First Bank in the region and the 4th Bank in the world to introduce a tool (approved by the UNEP) for its retail customers to measure the environmental impact of their spending, via its Flash Digital Bank Account App

Sustainable Banking Initiative

Core Group Member of the SLBA's Sustainable Banking Initiative

BUSINESS & BIODIVERSITY

Founder Member of the Business & Biodiversity Platform, Sri Lanka

Ethics and Conduct

The Bank remains committed to highest ethical standards and integrity in all activities with direct support from the Board of Directors. 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. Taking a zero-tolerance approach towards bribery, corruption, and fraud, the Bank, its Board of Directors and all of the employees are dedicated to act professionally, ethically and with integrity in all business dealings and relationships with all stakeholders. The provisions of the Code of Ethics is reinforced by the Internal Audit Department of the Bank through its on-site audits and online surveillance. For customers to continue to benefit from the highest levels of integrity, the Bank determines the scope and frequency of audits using a risk-based model. Furthermore, to safeguard the interest of the Bank and all its stakeholders, 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 Group Chief Compliance Officer. All employees and the members of the Board of Directors are trained on Anti Money Laundering (AML), Combating the Financing of Terrorism (CFT), Compliance and Anti-Bribery and Anti-Corruption from time to time. During the year, the Bank continued to further strengthen the related systems, processes, and controls.

Anti-Money Laundering

The Bank conducts Money Laundering and Terrorist Financing (ML/ TF) Risk assessments according to the established ML/TF Risk Assessment Policy. Considering the risk exposures arising from its customers, delivery channels, products and services and geographical locations in which it operates its business, the Bank conducts risk reviews and reports to the Board of Directors on a quarterly basis.

Anti-Bribery and Anti-Corruption

The Bank's reputation can be damaged by bribery and corruption, which is illegal and dishonest. Therefore, the Bank remains committed to countering bribery and corruption in all forms, and promotes a culture of compliance and genuine engagement with anti-bribery and anti-corruption standards. The Bank also seeks to identify and manage risks arising from different jurisdictions, sectors, transactions, business opportunities, and business partnerships. To operate within its risk appetite at all times, the Bank has in place rigorous policies, procedures and controls, and expects all its employees to refrain from giving or accepting bribes, kickbacks or commissions or taking part in any form of corruption. The Anti-Bribery and Anti-Corruption Policy was approved by the Board during the year under review and is made available at the Bank's website. Furthermore, the Bank has instituted 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 affirming its commitment to the 10th Principle of the UN Global Compact and implementing the Code of Ethics, 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. The Bank also aims to encourage and influence all of its non-controlled interests to have and implement anti-bribery and anti-corruption policies and procedures to an equivalent standard of the proposed Policy of the Bank. These include the Bank's interests in 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 the associate of the Bank.

Figure – 11: **Values that Support the Bank's Brand**

Customer Centricity

The Bank extends an unparalleled banking experience through a deep understanding of its customers – their needs, their preferences, their concerns – and responding with products and services that meet and even exceed their expectations. In a rapidly changing operating context, it also involves transforming internal mindsets and processes to remain agile and relevant. The Bank carefully segments its diverse customer base and tailors its services to cater to each group. This allows the Bank to deliver a differentiated value proposition that enhances its brand and elevates customer loyalty. Meeting the needs of customers, and providing such personalised support was vital in a year of economic recovery following the COVID-19 pandemic.

Customer Segmentation

Illustrated below is the customer segmentation, which enables the Bank to gain a deep knowledge and understanding of the customer and better align with their unique banking requirements.

Table – 08: **Customer segmentation**

Criteria	High net-worth	Corporate	SME (Small and Medium Enterprises)	Micro customers	Mass market
Income/Size of relationship/ Business turnover/Exposure	Individuals with banking relationships above set thresholds	Annual business turnover> Rs. 1.0 Bn. or Exposure> Rs. 250 Mn.	Annual business turnover< Rs.1.0 Bn. or 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

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

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

Figure – 12: **Customer centricity**

MOBILE

COMBANK DIGITAL | flash Digital Bank Account | Q+ | ComBank WhatsApp Banking | ComBank SimplePay

WEB

www.combank.lk

"To know everything about the Bank"

SOCIAL MEDIA

Commercial Bank Official Facebook Page

Commercial Bank Official Viber Public Chat Page

CONTACT CENTER

Trilingual multi-channel Integrated Contact Centre is in place

JOURNEYS

- Bank-on-Wheels
- Automated Field Cash Collection (AFCC)

SELF-SERVICE

Automated Banking Centers

921 ATMs
(including 275 CRMs)
(900 ATMs in Sri Lanka
21 ATMs in Bangladesh)

38 CDMs

BRANCHES

287 Branches

268 Branches in Sri Lanka

19 Branches in Bangladesh

Responding to the COVID-19 pandemic

As a Systemically Important Bank (D-SIB) and the largest private sector bank in Sri Lanka, Commercial Bank is acutely aware of the crucial role it plays in meeting the needs of customers and providing personalised support, as the economy recovers from the pandemic. Being deeply conscious of the socio-economic strain that the pandemic has placed on the customers, the Bank evolved the way in which it operates, interacts and serves its customers over the year.

Bank's response to the COVID-19 pandemic was realised through a series of measures as stated below:

- Adhering to the Ministry of Health guidelines and protocols to ensure the safety and wellbeing of customers and employees.
- Sustaining and keeping the customers afloat by facilitating debt relief measures for various impacted individuals and entities.
- Adjusting the ways of working and service delivery channels and providing the necessary infrastructure to support to customers. Especially with the rapid acceleration into digital channels and adoption of virtual infrastructure by customers, the Bank provided digital tools and concrete payment solutions to adapt their activities.
- "Bank-on-Wheels" service with mobile Cash Recycler Machines (CRMs) was launched following the extension of the travel restrictions necessitated by the third wave of the pandemic. Traversing Colombo and its suburbs and many other areas including towns in the Uva, Sabaragamuwa, Northern and Eastern provinces of Sri Lanka, this service facilitated both Commercial Bank customers and non-customers to conduct routine banking transactions in their own neighborhoods. The service was deployed across the Nation, offering services to a larger segment of the populace. A schedule with details of the routes of these units was posted daily on the Bank's website and social media pages.

Financial Relief Initiatives

At a time when Sri Lanka was in total lockdown, with no assurance when the country situation would return to normality, Commercial Bank set the trend in providing financial relief, especially to the SME sector under the Government stimulus package and the Bank's own support schemes in 2020, which continued through 2021. Establishing a Centralised Credit Processing Unit, the Bank completed its SME Banking Transformation operation and became the largest lender to the SME sector among private sector banks via the "***Saubhagya***" scheme.

Consolidating its efforts under the umbrella of "***Arunella***", a Financial Support Scheme that integrated multiple initiatives and guided by the Central Bank of Sri Lanka (CBSL) directives to provide focused and more efficient relief to customers, the Bank extended relief to diverse customers affected by the pandemic throughout the year 2021. This support scheme included a moratorium scheme, relief to non-performing borrowers, reduction of lending rates in tandem with the downward trend of interest rates in Sri Lanka, concessions for Credit Card holders, concessions and fee waivers and free digital services. It also included two special loan schemes - one for SMEs affected by COVID-19 and the other the "***Dirishakthi COVID-19 Support Loan***" scheme to assist micro enterprises disrupted by the pandemic.

Figure – 13: **Segment analysis of Moratoriums Granted under COVID-19 –** As at December 31, 2021

Total No. of loans **49,566**
Total Value **Rs. 217.179 Bn.**

CORPORATE
No. of loans **1,072**
Value **Rs. 86.974 Bn.**

SME
No. of loans **9,309**
Value **Rs. 67.456 Bn.**

RETAIL
No. of loans **37,157**
Value **Rs. 61.292 Bn.**

AGRICULTURE
No. of loans **413**
Value **Rs. 1.297 Bn.**

MICRO
No. of loans **1,615**
Value **Rs. 0.160 Bn.**

Figure – 14: **Moratoriums granted under COVID-19 –** As at December 31, 2021

Total No. of loans **49,566**
Total Value **Rs. 217.179 Bn.**

PERSONAL BANKING
No. of loans **48,478**
Value **Rs. 151.971 Bn.**

CORPORATE BANKING
No. of loans **1,088**
Value **Rs. 65.208 Bn.**

Figure – 15: **Bank funded loan schemes –** As at December 31, 2021

"COVID-19 SUPPORT LOAN" SCHEME
No. of loans **534**
Value **Rs. 6.083 Bn.**

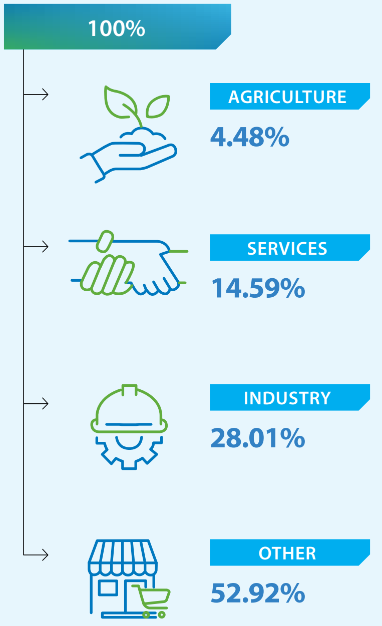
"*DIRISHAKTHI* COVID-19 SUPPORT LOAN" SCHEME FOR MICRO BUSINESS
No. of loans **290**
Value **Rs. 0.013 Bn.**

Supporting SMEs and Micro Enterprises

The SME sector, which forms the backbone of the Sri Lankan economy, represents 80% of businesses and provides close to 35% of jobs in Sri Lanka. SMEs and Micro businesses remain the most vulnerable to economic shocks, struggling with funding issues and facing challenges in accessing medium and long-term finance. This was further exacerbated by the impact of COVID-19 on the country's economy. Recognising that these sectors were in desperate need of relief, the Bank has been a pioneer in providing financial solutions to SME and micro enterprises. In recognition of the Bank's efforts in identifying the needs of the hour of small and medium enterprises in the country and for providing tailor-made products and services to cater to this segment, the **UK-based Global Business Outlook (GBO) awarded Commercial Bank as the "Best SME Bank" in 2021.**

Among all state-owned, private and specialised banks in the country, Commercial Bank was the largest lender to Sri Lanka's SME sector in 2020, according to the Annual Report of the Ministry of Finance published in 2021. Reaffirming its status as a systemically important bank in Sri Lanka, the Bank lent Rs. 163.98 Bn. or 21.57% of the Rs. 759.7 Bn. in loans provided to SMEs by 19 institutions, representing 23.82% of the total of 245,883 loans granted in the year under review. Furthermore, the Bank was also the highest lender to the 'Industry' sector dispensing Rs. 45.9 Bn. or 21.3% of the total via 9,654 loans. The support extended to the SME sector was further strengthened by the USD 50 Mn. loan secured from the CDC Group of the United Kingdom. The facility provides target funding directly to underserved SMEs, boosts jobs and promotes economic and social inclusion across Sri Lanka. The investment enabled the Bank to further strengthen financial support to local SMEs most in need of funding and provide access to necessary working capital.

Figure – 16: **Composition of loans granted by Commercial Bank to the SME sector in 2020**



Source: Annual Report 2020– Ministry of Finance, Sri Lanka

Accelerated by changing customer habits and increased need for speed, simplicity and efficiency, we create compelling, emotive, digital propositions that facilitate banking at your fingertips, anywhere, anytime. We deliver exemplary digital experiences for our customers through the curation of an unrivaled talent hub, and a modern, scalable technology platform.

The Bank rebranded the Microfinance loans as "***Dirishakthi***" with the aim of positioning the Microfinance product targeting a niche market. Following the rebranding, the maximum loan amount was increased from Rs. 300,000 to Rs. 1,000,000. A total of Rs. 1.140 Bn. was disbursed under the loan product coming under the umbrella of "***Dirishakthi***" in 2021.

Furthermore, the ***Dirishakthi COVID-19 support loan*** scheme continued to provide the working capital requirement of micro and small entrepreneurs affected by the pandemic.

Obtaining Support of SMEs in promoting Green Initiatives of the Bank

Commercial Bank was the first bank in the nation to achieve Carbon Neutral Status. In order to make SMEs and Businesses a part of this initiative and to support Government's objective of promoting the renewable energy sector, the Bank re-launched a dedicated loan scheme named "***Diribala Green Development Loan***" Scheme targeting financing of Solar Power Systems of SMEs/ Business clients.

The Loan scheme is specially designed to provide medium-term financing with attractive interest rates and flexible repayment plans.

Supporting the agronomy of Sri Lanka

In its commitment to support the agronomy of the country, Commercial Bank continued to partner with several leading corporates to launch "Agri Leasing" facilities at low rentals and flexible payment plans, taking into consideration the seasonal income patterns of farmers and cultivation months. The facilities are designed to increase the productivity of cultivations by providing high-quality machinery and tractors at attractive discounts to farmers.
A total of 619 Agri lease facilities amounting to Rs. 1.358 Bn. were disbursed during the year 2021.

Offering the lowest gold pawning rate in the country, the Bank launched the Agri Gold Loan facility during the year, to support those engaged in agriculture, fisheries, and livestock farming. This facility ensures privacy, exclusivity, maximum security of jewelry, and instant funds in the time of need and the service is offered without any service charge, stamp duty, or other hidden charges.

Non-Financial Support for SMEs and Micros

The Bank continued to cater to the SME sector in several other ways beyond direct financial assistance.

The membership of ComBank Biz Club, launched with the objective of providing SMEs with extensive networking opportunities and support beyond lending, grew by 830 to 4,866 members by end of 2021. An initiative was taken to launch an exclusive Credit Card for SMEs and members were enabled to receive economic updates and alerts on new business developments via email and SMS and provided free registration for online banking facilities. The Biz Club members are entitled to free financial advisory services and invitations to exclusive business seminars, which are beneficial to the development of their businesses. The Bank has assisted over 9,000 SME customers to date with financial literacy programmes.

The total facilities evaluated in 2021 under the new credit-scoring model introduced in 2020 was 2,581. This has facilitated a simplified evaluation process and ensured the lending quality and efficiency.

Automated Field Cash Collection (AFCC) which was launched to offer doorstep cash collection services to micro entrepreneurs was expanded to two selected locations in the Northern Region. With a total of four locations, this initiative is used as a launching pad to encourage micros to move in to the digital space.

Through a variety of channels, the Bank, conducted awareness, vocational training, and financial literacy programs and workshops for SMEs and micros in diverse sectors of business across the Nation. During the year, the Bank conducted a series of webinars for 512 SMEs including Biz Club members, exporters and women SMEs (WSME). Two webinars were conducted, one on the theme of "Digitalization and use of digital tools in business" for MSMEs and the other on "Export Opportunities to Great Britain" for exporters.

"Dirishakthi Value Chain Development Program" was launched to strengthen the rural value chains, focusing on segments such as dairy, tea small holders, coir, spices and ground nut. An in-kind grant was introduced to formulate sustainable solutions to increase efficiency and the productivity of selected value chains. An incentive scheme was introduced under the same program to strengthen the relationships and welfare activities of Community Based Organizations (CBO), considered as business facilitators. A special incentive was given for introducing their members to the Bank for financial services as well.

The Bank conducted capacity building programs for micro entrepreneurs under the "***Dirishakthi Sustainable Entrepreneurship Development Program***" A series of new initiatives were implemented to further support the Bank's sustainability initiative under financial inclusion. These included providing an opportunity to display and sell products of selected entrepreneurs during the programs, distribution of plants to selected participants, encouraging environmental protection by avoiding one time use plastics and continuous impact assessment of the program for ongoing improvement and development. The Bank conducted nine programs during the year under review, benefitting 696 micro entrepreneurs.

In partnership with DirectPay, the Bank expanded its suite of services and products such as micro lending and pay-day loans and offered its merchants and customers effective ways of making supply chain payments. The services include fully-integrated payment Point-of-Sale devices to discover new markets and inventory management solutions with payment integration on Card and LankaQR payments for SME businesses and corporates in Sri Lanka. Additionally, ***"SimplePay"***, a simplified ecommerce platform was launched to enable digital payments especially for SME merchants.

Banking on Women

The Bank's commitment to women's empowerment continues to be evident in its products that support women's health and wellbeing, career advancement, education, access to finance, and financial independence. In its efforts to build dedicated products and services to cater to women with the vision to become the "Bank of choice for women" by year 2023, Commercial Bank launched the exclusive Women Banking vertical named "***Anagi Women Banking***" in October 2021. Women make up the majority of Sri Lanka's population, and the Bank recognises the important role they play in the economic growth of the country. A range of new financial and non-financial products and services were launched including the Anagi Business Loan for women SMEs, Anagi Instant Loan for salaried women, Anagi Credit Card, insurance for women customers, and entrepreneurship skill development programs for women. Capacity building programs were conducted for 278 women micro entrepreneurs during the year. The number of women SME customers increased to 5,903 in 2021 and the number of facilities granted increased to 16,139 in 2021.

Prioritising Customer Experience

Adopting a customer centric approach, the Bank remained committed to delivering an excellent customer experience through all decisions that are taken and systems implemented within the Bank. Whilst a full description of the Bank's digital projects is provided in the next section, some of the broader customer initiatives conducted during 2021 are noted here.

The Commercial Bank website; which is the most searched banking website in Sri Lanka, was re-launched as a trilingual resource, with a series of cutting-edge enhancements. An indispensable tool for millions of customers and information seekers, the website provides content in English, Sinhala and Tamil with an ultra-smooth interface with interactive multimedia material, enhanced navigation, experience-customisation, smarter search options and tools, and resources that make it extra user-friendly and informative. The revamped website offers further convenience to the growing number of customers visiting the site through their devices for speedy and smooth banking operations. As a leader in technology-enabled convenience in the banking sector, Commercial Bank has enhanced customer service by providing access to information in a simplified manner and facilitating visitors to customise their experience online with the Bank. Furthermore, the website is focused on generating more user leads as well. A total of 7,011,270 visitors patronized the site in 2021, reflecting an increase of 5% compared to the previous year.

The Home Loans promotion was launched with a special rate of 7% per annum for Government and Public sector salaried employees and at a reduced rate of 8.25% per annum for other sectors, with discounts of up to 40% from selected suppliers of building materials and fittings. Furthermore, the Bank offers the lowest interest rates in the country for long-tenor Home Loans and is the only bank in the country to provide the benefit of fixed interest rates on Home Loans repayable over a period of up to 20 years. A range of flexible repayment plans are offered as well to suit the earnings, projected income, and terminal benefits of the borrowers.

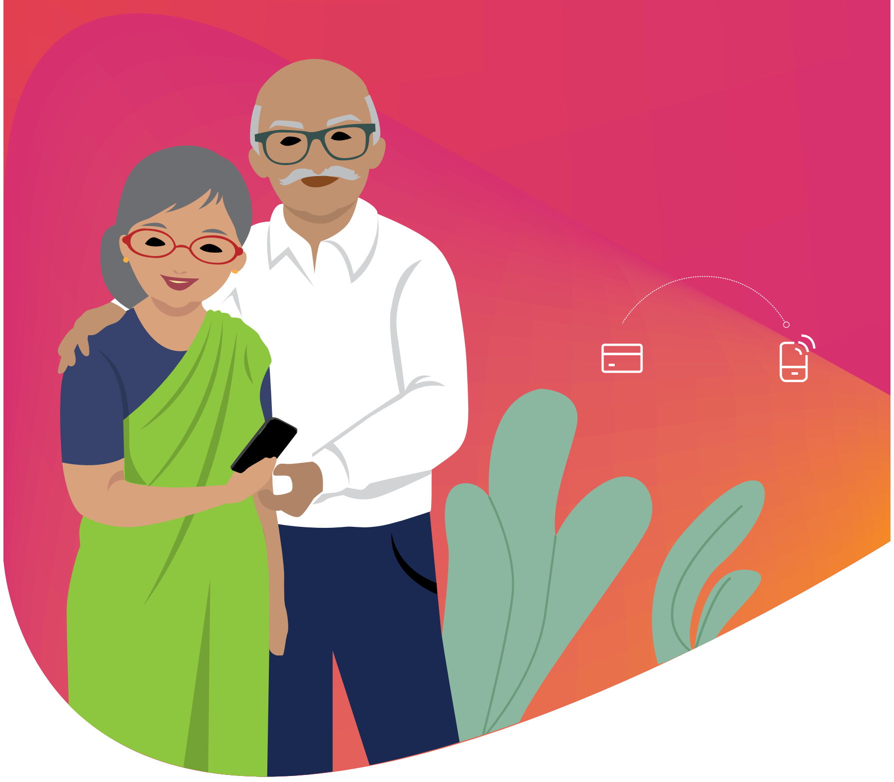
An image based customer request process flow was implemented to provide total visibility to customer requests. "The Service Portal" – a Customer Relationship Management solution was introduced to maintain a central repository for customer complaints and improve the overall quality of customer service. Furthermore, a consolidated contact number +94 11 235 3353, was launched for customer convenience.

Going forward, the Bank will develop a chatbot to improve customer engagement through cost effective channels, implement an outbound calling facility and strengthen the teams to deliver a unified experience across channels at the Contact Center.

Card and Cashless Initiatives

The fastest growing cards business in Sri Lanka, the Commercial Bank cards continued to enjoy the market leadership in credit and debit card combined usage. Commercial Bank cards achieved several milestones in 2021. These include, becoming the market leader in e-commerce acceptance (IPGs) in Sri Lanka recording a 65% increase YoY, being the second highest acquirer in overall acceptance in the market and winning the SLASSCOM robotic automation project competition for the Banking and Finance sector for Credit Card process automation. The Bank continued to make significant strides in championing credit and debit card and other cashless payments during the year under review.

Re-imagining customer service using the social media space, we were the first bank in Sri Lanka to launch Viber banking and WhatsApp banking, to enhance customer experience by using new-age communications to offer solutions that are relevant to the times. These ground-breaking products not only promote a cashless ecosystem but encourage non-digital customers to embrace digital banking.



The "***Q+ Payment App***" of the Bank, which is the first payment app to be certified and launched under LANKAQR standards of the CBSL, reached over 100,000 customer registrations in 2021, exceeding the target of 50,000. The app enabled instant settlement of Credit Card outstanding and pre-paid Card top-ups for app users, free of charge. These additions have enabled ComBank Credit Cards to be settled through multiple customer touch points including CRMs,CDMs, ATMs, through the web using Cards or the QR codes, through LankaPay as an interbank transfer or through Commercial Bank's Digital Banking App; Flash. The new "***Q+ Online Pay***" facility was launched across 3,300+ merchants to further enhance convenience and to uphold the digital payments among cardholders.

The value of issuer transactions recorded a YoY growth of 30% and 59% for Credit and Debit Cards respectively. Self-registration option for Credit Card e-statements was enabled and promoted to enhance customer convenience further. Over 27% of cardholders enrolled for Credit Card e-statements facility as at end 2021.

Being the first and only bank in Sri Lanka to issue the UnionPay Credit and Debit Cards in the Island, the Bank enhanced the payment experience of UnionPay QR Wallet holders during the year. In collaboration with UnionPay International (UPI), QR code payment acceptance was enabled in Sri Lanka, becoming the first Sri Lankan bank to issue a unified QR code under LANKAQR specifications that includes the UnionPay QR code. The code can be integrated to local merchant websites to facilitate e-commerce transactions. QR payment was facilitated for other apps as well.

An all-in-one POS device was deployed allowing the processing of transactions via VISA, Mastercard, UnionPay, LankaPay and JCB cards as well as QR-based wallet payments under LANKAQR. Furthermore, the device is equipped to accept EMV/Chip, Magstripe, NFC and QR-based transactions, offering customers the convenience of paying via the platform of their choice, quickly and securely.

A new dimension in convenience was brought for ComBank credit card holders by facilitating automated utility bill payment, preventing accumulation of arrears due to unpaid bills and saving customers from delinquency fees and disconnection of utility services due to delayed payments. Furthermore, customers can earn Max Loyalty Rewards points that can be redeemed at many reputed merchant outlets island-wide.

"Call and Convert" – Flexi Payment Plan facility was enabled for the Credit Card holders paying for education, health or insurance-related products and services and for online purchases during the year. A total of 61,648 Easy Payment Plans (EPP) were offered during the year under review. Additionally, VISA ATM Acquiring was enabled in the Maldives and the online payments through Q+ Payment App was launched as well.

Figure – 17: **Growth in ComBank Debit and Credit cards (based on Usage)**

30% YoY Growth
Credit card usage (2021)

59% YoY Growth
Debit card usage (2021)

Network of delivery points in Sri Lanka and Bangladesh

Network of delivery points in Sri Lanka

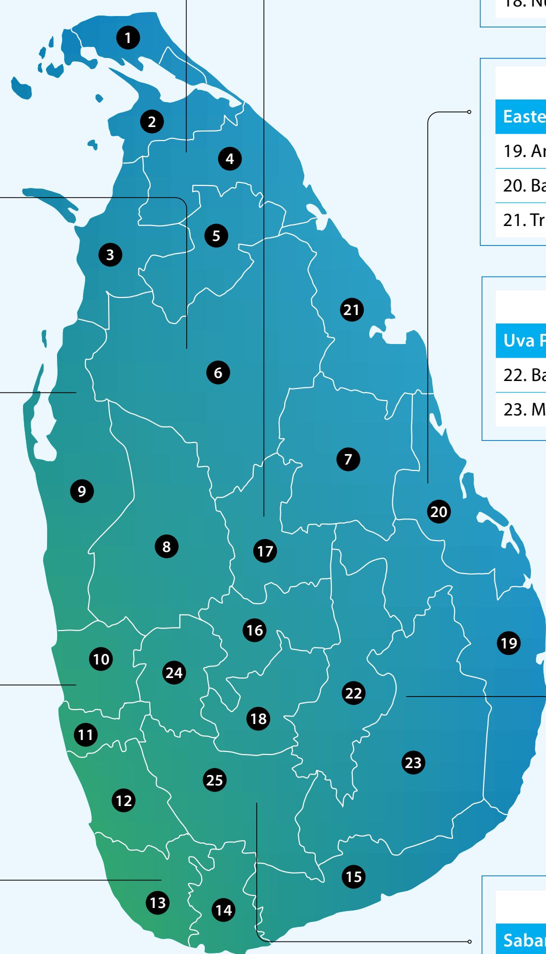
	Branches	ATMs	CRMs
Northern Province	**18**	**28**	**26**
1. Jaffna District	12	17	18
2. Kilinochchi District	2	3	3
3. Mannar District	1	1	1
4. Mullaitivu District	1	1	1
5. Vavuniya District	2	6	3

	Branches	ATMs	CRMs
North-Central Province	**8**	**18**	**8**
6. Anuradhapura District	6	11	6
7. Polonnaruwa District	2	7	2

	Branches	ATMs	CRMs
North-Western Province	**23**	**57**	**25**
8. Kurunegala District	14	41	16
9. Puttalam District	9	16	9

	Branches	ATMs	CRMs
Western Province	**133**	**349**	**129**
10. Colombo District	78	193	80
11. Gampaha District	42	126	38
12. Kalutara District	13	30	11

	Branches	ATMs	CRMs
Southern Province	**29**	**59**	**26**
13. Galle District	13	32	12
14. Matara District	10	17	8
15. Hambantota District	6	10	6



	Branches	ATMs	CRMs
Central Province	**22**	**46**	**23**
16. Kandy District	15	29	15
17. Matale District	3	10	4
18. Nuwara Eliya District	4	7	4

	Branches	ATMs	CRMs
Eastern Province	**10**	**19**	**13**
19. Ampara District	4	7	4
20. Batticaloa District	5	10	6
21. Trincomalee District	1	2	3

	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**	**31**	**17**
24. Kegalle District	6	14	6
25. Ratnapura District	10	17	11

Number of Branches		268
Automated Teller Machines (Off-site = 207)	ATMs	625
Cash Recycler Machines (Off-site = 17)	CRMs	275

Cash Deposit Machines	CDMs	38
Envelop Deposit Machines (for cheques)	EDMs	28
Automated Cheque Deposit Units	ACDs	20

Network of delivery points in Bangladesh

Narayanganj District
- Narayanganj 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

Sylhet District
- Sylhet Branch

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

Leading Through Innovation

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 over the past few years. Especially following the COVID-19 pandemic, banking has entered a new chapter in its evolution, with consumers being much more aware of digital banking features and many first-time users have grown accustomed to using them. In the post-pandemic "new normal", the banking landscape is shifting to "digital by choice," offering customers instant gratification, increased convenience, flexibility, and tailored services they seek. As a pioneer in the digital space, the Bank welcomes these challenges driving inclusion of all consumer segments into a digital economy.

Even as the pandemic has accelerated digital transformation and forced radical changes in customer behaviour, customers' demand for digital products and the comfort and willingness to engage digitally has increased, with significant portions of the economy moved online. In such a milieu, the Bank delivered compelling, emotive digital propositions that elevate customer experience to meet the expectations of this new normal. Especially during the June-September 2020 period when the entire country was on lockdown and banking was made one of the essential services in the country, demand for continuity of service through digital channels escalated. The investments made by the Bank over the years in building its digital ecosystem provided a strong foundation to meet these challenges and become a pioneer in the digital payment space, spearheading many initiatives and technological innovations, both for retail customers and corporate customers.

Digital Road Map 2021 – 2023

Aligned to the Bank's digital vision of building a digital economy where each customer is engaged at their level of techno-literacy, the Bank's Digital Road Map is focused on retail customers encompassing products, services, processes and touch points. The digital transformation for the next three years is driven by three goals:

- Ensure business growth
- Create business value
- Enhance digital customer experience

Accordingly, the Bank will continue to invest in redesigning its conventional banking processes as digital processes, integrating with other ecosystems and upgrading internal systems to be ready to adapt to anticipated changes in the regulatory environment and risk management. Reskilling staff and attracting specialised talent, building partnerships, and developing data capabilities continue to be areas of emphasis.

Table 10: **Investments in IT infrastructure**

Indicator/Year	**2021 Rs. Mn.**	2020 Rs. Mn.	2019 Rs. Mn.	2018 Rs. Mn.	2017 Rs. Mn.
Investments in Hardware (Computer Equipment)	434.054	505.742	567.689	1,034.115	791.165
Investments in Software (Licenses etc.)	768.047	409.322	387.432	333.181	449.354
Total	1,202.101	915.064	955.121	1,367.296	1,240.519

Migration to digital channels

The Bank set up Mini Digital Experience Zones to help customers gradually migrate to digital channels. These zones are strategically placed to attract conventional customers giving them the opportunity to experience the Bank's digital offerings. Dedicated Digital Assistants were deployed to guide customers through digital services and facilitate handheld migration for customers.

The Bank also set up automated banking centres in the branches to help customers adopt digital channels. These electronic spaces is another industry first by the Bank offering basics of digital services, including facilities for customers to submit loan inquiries and requests for fixed deposits. These revolutionary initiatives in the electronic banking space have accelerated customer digital adoption. Furthermore, as per the Bank's Digital Road Map, the sales management app and retail customer on-boarding app will be launched to increase customer onboarding to the Bank's digital banking channels.

Table 11: **Migration to digital channels**

Indicator/year	**2021**	2020	2019
Number of existing customers migrated to online banking	212,806	157,599	109,873
New customer acquisition through digital channels	12,491	16,327	14,957

ComBank Digital

ComBank Digital, the state-of-the-art integrated online banking platform provides access to a multitude of banking services across multiple devices. It consists of internationally recognized user security features with industry standards. The platform has a range of built-in options enabling customers to self-customize their digital banking preferences, without the assistance of a bank agent. Customers can execute and monitor transactional activities in a fast and secure manner and the platform supports bill payments to more than 80 entities.

During the year under review, several enhancements were effected to elevate the user experience and convenience. These included improving the payment capabilities to Government institutions through the LankaPay Online Payment Platform to institutions such as Board of Investment (BOI), Inland Revenue Department and EPF integration. The platform placed the Bank in the forefront of digital payments, becoming the first bank in Sri Lanka to integrate with the Import and Export Control Department (IECD) for online payments, enabling customers to pay their license fees to the IECD conveniently 24/7.

A dedicated YouTube Channel was launched to increase customer awareness about ComBank Digital in addition to user guides, FAQs hosted in the application, as well as the corporate web site. Early redemption of fixed deposit feature introduced in the platform attracted many users during the pandemic period where the travel restrictions were imposed. Furthermore, instant approval of home loans and leasing will be enabled adding further convenience to customers.

Following the implementation of ComBank Digital in the Maldives in 2021, the platform was enabled with customer self-onboarding and cross border remittances. The number of customers using ComBank Digital increased by 55%.

Figure – 18: **Customer usage of ComBank Digital/ online channels**

35%
Growth of number of customers on boarded digitally (YoY)
2020 – 44%

105%
Growth in number of transactions (YoY)
2020 – 46%

109%
Growth in value of transactions (YoY)
2020 – 54%

Flash Digital Bank Account

Flash Digital Bank Account, the Bank's revolutionary trilingual app, offers unique personal financial management tools that encourage, empower, and embolden users to better engage with their finances, make wise choices about spending and saving and, enrich their financial wellness. A range of features were added to enhance and elevate user experiences during the financial year under review.

To create increased value to stakeholders, "***Pay with Flash***" service was launched, partnering with leading lifestyle partners. An advanced budgeting dashboard "***My Portfolio***" was launched to provide a single dashboard view of customer's investments and borrowings. Instant mobile reloads and top ups and payment of bills through credit cards was enabled through the app as well. Furthermore, "***Need Money***" feature was added to enable customers to share their interest on obtaining a personal, educational or housing loan or a leasing facility from the Bank. The app was also equipped with a "***Flash Finance SPACE***" function to generate such requests.

Flash e-Statements was introduced with payment and receipts facility and detailed e-Receipts for Flash transactions with the option to share via email and WhatsApp. The introduction of "***JustPay***" enables customers to add any bank account to top up Flash and make payments, and functions of "***My Payees***"and "***My Billers***" were added to the homepage menu with recent payee and biller templates. The Bank also launched a new website for Flash – www.flashbank.lk in 2021.

Flash also includes the revolutionary "Save the Environment" feature that promotes an understanding of the social carbon footprint of consumption by assessing each transaction carried out via the app. Doconomy, the global impact-tech leader gave an international recognition to Flash Save the Environment initiative positioning the Bank among first few leading banks embarked on climate change. **In recognition of the outstanding practices and innovative initiatives in Asia's retail banking sector, the Asian Banking and Finance magazine awarded the Flash Digital Bank Account, the "Digital Banking initiative of the Year" in Sri Lanka at the 2021 Asian Banking and Finance (ABF) Awards.**

"Instant Loan Facility" for Flash customers against e-FDs will be introduced in the near future as well. In Bangladesh, the Flash platform was introduced to accelerate onboarding of customers by overcoming the limitation of a small branch network. ***"Flash DKYC"*** feature is ready to be introduced to accelerate digital onboarding of customers by establishing KYC via a video conference call.

Figure – 20: **Flash usage**

40%
Growth in user base (YoY)
2020 – 80%

186%
Growth in value of transactions
2020 – 468%

137%
Growth in volume of transactions
2020 – 323%

142%
Growth in usage of funds transfers
2020 – 354%

188%
Growth in usage of Bill payments
2020 – 260%

Figure – 19: **Total financial transactions initiated through digital channels**

Number of transactions*
37,841,881
2020 23,724,058

Growth in number of transactions (YoY)*
60%
2020 10%

Value of transactions (Rs Bn.)*
2,356.170
2020 1,386.250

Growth in value of transactions (YoY)*
70%
2020 22%

% of customer transactions below Rs. 200,000
92%
2020 97%

**Total transactions without SLIPS/CEFTS*

Q+ Payment App

Q+ Payment App launched in 2019 is the first 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 and other payments conveniently. This is the only payment app in Sri Lanka that supports LANKAQR, mVisa, Mastercard QR and UnionPay QR transactions and it is certified for use at overseas QR merchants through the Visa, MasterCard and UnionPay networks.

The Payment app is enabled to make payments in many categories such as data reloads, pre-paid and post-paid mobiles, fixed telephone lines, utilities, water and electricity (CEB and LECO), pay TV bills, credit card outstanding, pre-paid cards top-up, Insurance, Education and Mobile wallets. The Payment App will be further enhanced with the inclusion of more beneficiary companies to improve the customer experience in the future.

Another innovative payment experience was launched for the Bank's Q+ Payment App customers called "Q+ Online Pay", which enables Q+ customers to pay for online purchases by entering their mobile numbers at over 3,300+ merchant websites and apps that have "Q+ Payment App" as a payment option. This state-of-the-art payment method allows users to keep their sensitive card and account details away from merchant platforms as Q+ Payment App users are required only to enter a mobile number at the point of purchase.

Parallel to the launch of "Q+ Online Pay", Commercial Bank has added the "Q+ Online Pay" payment option to its credit card settlement webpage, enabling customers to seamlessly settle their credit card outstanding through Q+ Payment App by typing only their mobile numbers.

Online Payments – Internet Payment Gateways

The Bank has swiftly established itself as a market leader within the growing E-Commerce sphere, with its payment processing services. During the year under review, the Bank initiated multiple measures to enhance the inclusivity, interoperability, functionality and security of cashless payment platforms.

In partnership with DirectPay, one of the fastest-growing fintech start-ups in Sri Lanka, the Bank provided Internet Payment Gateway (IPG) support and became the acquiring bank for the cashless payment solutions of DirectPay. In collaboration with UnionPay International (UPI), the Bank issued a unified QR code under LANKAQR specifications that includes the UnionPay QR code, thereby widening the user base for electronic and digital payments, catering even to foreigners visiting Sri Lanka. Opening its door to the new era of E-Commerce that is faster and more convenient, the Bank became the first in Sri Lanka to deploy EMV 3DS fraud prevention technology for authenticating payments made by credit, debit, and pre-paid cards in collaboration with Visa.

As the preferred IPG partner to a cross section of businesses in Sri Lanka, the Bank provides payment processing services via Mastercard Payment Gateway Services (MPGS) and Visa Cyber source platforms that offer tokenization support which has increased customer convenience immensely. These solutions also provide access to a comprehensive set of fraud mitigation tools, supporting both "Mastercard Secure Code" and "Verified by Visa" 3D secure authentication solutions while having the fully-automated process to handle ComBank Easy Payment Plans (EPP). The Bank's IPG solutions also support device-optimised payment screens which are designed to offer a seamless experience to users of various devices; a feature much requested by the local E-Commerce industry.

Figure – 21: **IPG usage**

65% YoY
Growth in IPG Volumes (2021)

37% YoY
Growth in IPG Merchants (2021)

Point of Sale (POS) Services

With the aim of increasing financial inclusivity and digital payment value growth, the Bank introduced low cost, contactless card-based options to customers and enabled merchants to collect their payments conveniently. The variety of Cards offered by the Bank are equipped with "Tap 'n Go" NFC technology and backed by a strong NFC Point-of-Sale (POS) network.

The launch of the first LANKAQR supported Android POS device was deployed allowing the processing of transactions via VISA, Mastercard, UnionPay, LankaPay, and JCB cards as well as QR-based wallet payments under LANKAQR. This provides customers a frictionless and cashless payment experience and drastically reduces the waiting time at checkout counters. Positioned as the most advanced Android POS device in the country, the Android Smart Terminal combines the functionality and portability of an Android terminal with tailored security-certified payments software, facilitating acceptance of transactions via all Card Schemes.

Figure – 22: **Growth in POS acquiring volumes**

97% YoY
Growth in POS acquiring volumes (2021)

"RemitPlus" for Worker Remittances

The Bank's remittance app, ComBank RemitPlus, was launched in December 2019 to commemorate International Migrant Day. Several enhancements were effected during the year to enhance user experience. "Combank e-Exchange" was relaunched as "ComBank RemitPlus" and the Bank introduced a remittance agent funds management module. Remit Plus payment process was simplified by converting cash to account at branch counters, and incentives were offered to increase worker remittances. The outward USD online payments to other local Banks and Malé operations were automated, whilst offering special rates to the latter. Separate authority levels were assigned for e-Exchange call centre agents to serve customers, 24X7. Remittance Tracker was integrated with Phase II development of Remit Plus App and Blockchain for remittances-Ripple version 4 of phase II was upgraded. The Bank enhanced the Blockchain based remittance channel with global remittance companies. Double Vaasi, Western Union and Moneygram, Double Cash & Double Chance promotions were conducted to encourage direct remittances to the Bank, with more winning chances to Bank Remittance customers.

WhatsApp Banking

Demonstrating its innovative use of new-age communications, the Bank pioneered the ground-breaking product on WhatsApp; the world's most widely-used messaging platform, becoming the first Sri Lankan bank to offer Banking Services on this platform. Launched in 2020, the platform offers a versatile range of very quick and easy-to-operate banking options for both account holders and non-customers,

Our revolutionary digital banking app, "Flash" enables users to enjoy a complete suite of financial services and wealth management tools in one seamless application. This most advanced banking app is equipped with the QR payment facility and the revolutionary "Save the Environment" feature that promotes environmental consciousness. This app is designed to attract customers, millennials in particular, to adopt digital banking.

and importantly, can facilitate opening of accounts for those seeking to become customers. With an estimated,over 6.5 million social media users in Sri Lanka, WhatsApp banking is the most logical path to enhancing access to services, especially as this service does not require the user to be particularly tech-savvy. Account holders can access several services including checking their account balance, viewing account history, or requesting a cheque book, while both customers and non-customers can ask for fixed deposit rates and foreign exchange rates, self-register with the ComBank Digital app, or open a new account through Flash. WhatsApp Banking will function as an interim digital offering through which the Bank can reach busy customers inclined towards digitising their banking experience whilst eliminating the need for customers to visit a branch for basic banking services. Since commencement of operations in January 2021, the number of customer registrations increased to almost 37,000 and total usage was 570,923 for the year ended December 31, 2021.

Viber Banking

Becoming the first bank to launch Viber Banking in Sri Lanka, the Bank enabled account holders and non-customers alike to seamlessly enjoy real-time banking services delivered through an interactive artificial intelligence (AI) chatbot on Viber. The Bank aims to encourage the Bank's non-digital customers who are also Viber users to embrace digital banking through ComBank Digital, inspire potential customers with Viber to open "Flash" Accounts, and to invite anyone to obtain hassle-free credit facilities from the Bank.

Sri Lanka being among the top five markets for Viber in the Asia Pacific region with over 15 million registered users, offering banking services on this platform is focused on serving its customers with solutions that are relevant to the times and achieving another milestone in the Bank's Social Network Banking operations.

ePassbook

The first digital passbook in Sri Lanka and South Asia, ComBank ePassbook was introduced in 2016 as a pioneering product of the Bank, revolutionising the concept of the "Passbook." Following the upgrade of self-registration, real time transaction notifications, and biometric login in 2020, new app downloads spiked to 768,000+ during the year 2021. With users in more than 100 countries, the log in rate is 20 per second, averaging more than 1,000 active users per minute, and over 1 million customer registrations. The app enables users to self-add, remove, or group Current Accounts, Savings Accounts, and Credit Cards. Future enhancements to the app will include viewing unlimited transaction history, including unrealized cheques, account holds and the total overdraft limit for current accounts. Furthermore, the app will be facilitated to view details of fixed deposit accounts and loans online, to keep track of details and operate the app in all three vernacular languages.

Process Improvements

The Bank introduced several new automated processes focused on building robust back-end digital process improvements to enhance customer experience and adapt to the new normal. Noteworthy developments include:

- Becoming the first bank in Sri Lanka to accept digital signatures from business customers using LankaSign, to improve the customer experience of the Bank's retail and corporate customers.
- Automation of the process of early Redemption of eFD.
- The Bank's core banking system will be upgraded to Signature 15.1 to ensure a robust and stable backend processing system and strengthen the security of the network.
- Catering to the increased business demands, a new power system and a new virtual server was installed to the Data Centre to ensure high availability for the Bank's core system.
- A new switch stack and routers were installed to the network and communications system to achieve 99.98% uptime and minimize unplanned down time.
- To increase efficiency of the cards operations an ATM reconciliation system was implemented, and the SMS alert registration process, credit card auto recoveries process, and the computing and evaluation process of credit cards were automated. A recoveries software "Smart Collect" was installed to expedite the recoveries process. A workflow system was developed for scanned image processing of a credit card archival and processing of service requests for debit and credit cards.
- Following the automation of CRIB reports through robotic process automation (RPA), analysis of CRIB reports was automated to support efficient decision making of the Bank.
- An image-based customer request processing flow was implemented to minimize routing of documents and provide total visibility to customer requests.
- A Memorandum Circulation and Approval System was introduced to route selected internal memos through a predefined workflow path and increase efficiency of the approval process.
- A Customer Relationship Management solution - "The Service Portal" was launched to maintain a central repository of customer complaints received and the actions initiated.
- CRM integration was implemented to enhance customer experience through a 360° view of the customer.

IT Operations and Security

The Bank's highest priority is placed on maintaining uninterrupted systems and services for all stakeholders, managing the ever increasing threat landscape to cyber-crimes and loss of information, and ensuring preparedness for the future. The uptime and Service Level Agreements (SLAs) of the entire Branch network for Sri Lanka, Bangladesh, Myanmar, and the Maldives is monitored and maintained by the IT Support unit and this includes over 10,000 IT Equipment, 1,000 touch points and managing BCP Centers. The Network & Communication unit provides secure and reliable communication channels for all stakeholders, both internal and external, across the entire Branch network.

The IT Security Unit conducts regular security assessments to identify and assess system and application vulnerabilities and take appropriate remedial action with relevant stakeholders. The Security Information and Event Management (SIEM) solution is implemented and configured to identify security threats and the monitoring of security is done through dashboards and alerts. The Bank successfully maintained the PCI DSS and ISO 27001:2103 certifications during 2021 as well. 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 against which the Bank had been continually certified for over 10 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 stringent technical standards and its maintenance requires significant expertise and resources. This certification also covers the Bangladesh operations of the Bank.

The Bank has installed layered security controls which include Firewalls and other security devices to counter malware attacks in addition to maintaining the controls such as updating OS and application patches, maintaining backups, restrictions on remote access. To secure IT services, security controls such as threat protection for emails and a multi factor authentication in accessing critical systems has been introduced. The Bank provides tokenization support to its merchants enabling them to facilitate frictionless E-Commerce transactions to their customers. The Bank stores the card details within the Bank's systems and provision tokens in merchant's websites ensuring maximum protection to cardholders. The Bank also have enabled EMV 3DS functionality for its cardholders as well as E-Commerce merchants ensuring the highest protection available as per EMVCo standards. Mobile device management has been implemented with device control and hard disk encryption to improve the overall security posture of remote teleworking devices.

Operational Excellence

As Sri Lanka's largest private sector Bank, the Bank plays a pivotal role in influencing and shaping Sri Lanka's advancement towards a more sustainable and inclusive economy. Demonstrating its spirit in the face of adversity, the Bank stood through the unprecedented disruptions to the global economy caused by the COVID-19 pandemic and remained well positioned to play an important role in economic recovery and restoration of livelihoods. The Bank adapted to new customer behaviour and preferences, restructured its internal operations, and recalibrated revenue models to successfully scale the challenging year. The Bank's sustainability vision - *"to be a responsible financial service provider by enabling and empowering people, enterprises and communities, towards environmentally-responsible, socially-inclusive and economically-enriching growth"* – has never been so relevant. It was the unfailing commitment of the Bank's employees that enabled the Bank to be there for its customers during the crisis, and therefore in the recovery phases as well. The numerous awards and accolades bears testament to the strength and mettle of the Bank.

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

While the Bank's fundamental business of financial intermediation requires adherence to government regulations, having a "Social License," which is tangible evidence of ethical and conscientious behaviour is imperative to operate in a community of stakeholders. In this context, operational excellence encompasses, among other things, investments in the well-being of its stakeholders and environment. This balance of short-term and long-term interests forms the very essence of the Bank's profitability.

Highlights:

Cost to income ratio, Income per employee, Profit per employee Advances per employee and Deposits per employee have improved during 2021 (Refer Table 12)

Table 12: **Productivity and efficiency ratios**

	2021	2020	2019	2018	2017	5 year average
Cost to Income ratio (Including taxes on financial services) (%)	**37.97**	39.96	49.41	46.35	51.08	44.954
Cost to Income ratio (Excluding taxes on financial services) (%)	**31.61**	33.95	38.51	36.85	41.08	36.40
Revenue per Employee (Rs. Mn.)	**31.720**	29.605	29.377	27.462	22.954	28.224
Profit per Branch (Rs. Mn.)	**82.251**	57.050	59.320	61.557	59.219	63.879
Profit per Employee (Rs. Mn.)	**4.654**	3.238	3.363	3.490	3.328	3.615

A transformed working environment

The Bank continued to offer uninterrupted services to its customers and its stakeholders by taking the necessary measures to strengthen its readiness through the implementation of a comprehensive Business Continuity Management (BCM) framework. The BCM framework and the scope of the Bank's Pandemic Plan was further expanded during the year under review by introducing additional measures to strengthen the Bank's ability to deliver its critical and essential services to customers, safeguard employee wellbeing, comply with the regulatory requirements, and adhere to good governance principles. The key objectives of the BCM are to:

- Ensure service continuity by identifying the Bank's key products, services and the supporting core banking systems, processes and protecting them against disruptions.
- Meet the predefined services levels after a disruption, including systemically important payment and securities settlement systems.
- Implement an effective incident and crisis management and a business continuity framework that minimises the impact of disruption while ensuring maximum resources availability to resume normal operations.
- Minimise the financial, legal and other operational risks arising from disruptions or failures.
- Protect human life and ensure their safety from hazards or dangers during work.
- Safeguard the brand image and reputation of the Bank.

Continuing operations while limiting exposure

To ensure continuity of operations and prevent infection exposure and spread, the Bank continued to work through split teams working at alternate sites, remote sites and working from home whilst following the established health protocols.

The following arrangements were made to maintain uninterrupted service whilst minimising staff exposed to the virus.

- Providing dedicated transport arrangements to staff in specialised units in order to report to work and reimbursing the personal transport cost of employees reporting to work during COVID-19 related lockdowns. Total staff traveling cost reimbursement amounted to Rs. 165.8 Mn. for the year under review.
- Changing the infrastructure of branches in order to enhance the safety of staff and customers by separating counters with a special glass panel.
- Providing safety equipment such as thermometers, gloves, masks, sanitizers to branches and disinfecting branch premises and ATM cubicles.
- Providing food, lodging, and transport for all mission critical staff who were required to report to work during the lockdowns.
- Deploying the Call Tree Notification System to convey instructions on logistics arrangements at short notice, and mobilise staff for shift-based work.
- Providing transfers to closer work locations for 328 staff members who faced travelling difficulties during the pandemic period to facilitate smooth functioning of business units.
- Expanding the scope of the Surgical and Hospitalization insurance of employees to include COVID cover. This allowed staff members and their immediate family to reimburse the cost of PCR and Rapid Antigen Testing (RAT). It also allows COVID positive staff members and their immediate family members to get treatment at Paid Intermediate Care Centers (ICCs). A total of 915 employees contacted COVID-19 in 2021, of whom 481 were admitted to Intermediary Care Centres (ICCs). To prevent the spread across the Bank, 3,554 PCR and RAT

tests were conducted during the year at a cost of Rs 25.1 Mn. The Bank also spent Rs. 83.4 Mn. to take care of its COVID infected employees admitted to ICCs. Furthermore, dry ration packs were provided to COVID infected employees who were home quarantined, at a cost of Rs. 2.86 Mn.

- A series of special training sessions were conducted to educate outsourced security personnel on necessary COVID safety protocols and guide them to enforce mandatory mask wearing, sanitising and temperature checks at all entry points to the Bank.
- Granting special paid leave to staff members with underlying health conditions and expectant mothers to prevent their risk of exposure to the virus.
- Fine-tuning the communication plan to support pandemic related communication with staff members.

Table 13: **Readiness of BCP sites**

Location	Seating Capacity
Mount Lavinia	39
Piliyandala	58
Maradana	50

Table 14: **COVID-19 related expenses**

	COVID-19 RELATED EXPENSES	
	2021 Rs. Mn.	2020 Rs. Mn.
Face Masks	14.10	27.10
Gloves	4.10	4.80
Hand Sanitizer	23. 40	20.50
Infrared Thermometers	0.95	3.50
Reimbursement of PCR and Rapid Antigen Tests	25.10	3.80
Intermediary Care Centers	83.40	–
Assistance packs for infected staff members	2.86	0.50

Working securely from home

Work-from-home arrangements were facilitated for employees by providing necessary IT infrastructure and implementing guidelines on remote working. The security of the network was assured through an industry-leading remote access solution offering multiple layers of security. All employee engagement and development programs were migrated to digital platforms, ensuring collaboration and ongoing interaction.

Our people rising to the occasion

The Bank's workforce has been its engine of successful value creation. The team of 5,072 diverse and highly competent employees are the greatest asset of the Bank and they have been fundamental in achieving the strategic aspirations of the Bank. During the extraordinary challenging year, the employees demonstrated a great adaptability to maintain business and serve its customers. Their commitment, dedication and efforts have been instrumental in facilitating customer experience, driving loyalty and brand value. Earning the trust and loyalty of its employees and ensuring they remain invested in the business is among the foremost priorities of the Bank. To this end, the Bank's Human Resources Governance Model and Human Resource Development Policy together provide the foundational framework to develop people as a strategic resource, whilst ensuring every employee has equal opportunity to achieve their personal and professional growth ambitions. To build a strong employee brand and be the preferred employer in the sector, the Bank strives to create an enabling environment where employees can perform exceptionally, fulfill their potential, and feel connected to their purpose, their colleagues, and the organisation. The Bank empowers its people to be adaptive to remain relevant in a rapidly evolving banking landscape by promoting a culture of continuous learning.

Table 15: **Retention Rate (Maternity Leave)**

Number of Employees	**2021**	2020	2019
Availed leave during the year	50	69	84
Due to return during this year	59	73	64
Returned during the year	59	73	64
Returned during prior year	73	64	48
Still employed after 12 months	70	61	45
Return ratio (%)	100.00	100.00	100.00
Retained ratio (%)	95.89	95.31	93.75

Focusing on employee morale and safety

Health and safety of employees was a foremost priority of the Bank, during the year, and the Bank adopted an array of measures to safeguard its staff from the risk of cross infection (Please refer to section on continuing operations while limiting exposure on page 59 for detailed information). The Bank continued to emphasise clear communication and flexibility to ensure the safety of all employees. Whilst 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, the Business Heads stayed in constant touch with their teams through formal and informal communications channels. A flexible approach was adopted taking into consideration different family situations and health conditions of the Bank's diverse, multigenerational workforce. Every effort was made to accommodate employee preferences in working environment in both location and hours.

The Bank believes that upholding recognised standards and principles for labour practices, human rights and occupational health and safety is essential to remain productive. Especially in a challenging context, 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. Even through the difficult circumstances, camaraderie and team spirit of the staff remained strong and their productivity remained high and consistent.

Figure – 23: **Employee communication channels**

Remuneration and Job Security

Understanding the importance of affirming its financial commitments to its staff, especially in time of crisis, more than ever, the Bank placed high priority on continuing remuneration and ensuring job security to its employees. Therefore, despite the challenges arising from the pandemic, all employees were paid their full remuneration throughout 2021. Further, an average salary increment of 10% was granted to all employees. The annual performance appraisal was conducted for all employees and the applicable increments and bonus entitlements were paid as per the Bank's Pay-for-Performance policy.

The Defined Contribution Pension Fund launched in 2020 to commemorate the centenary year covering employees who are not covered by the existing pension fund of the Bank is a significant initiative to enhance the value delivered to its employees.

Collective Bargaining

Demonstrating the strong collaborative partnership that Commercial Bank has built with the CBEU over the decades, the Collective Agreement with the Bank's branch of the Ceylon Bank Employees' Union (CBEU) was renewed in 2021 for a further 3-year period. All negotiations were conducted in the spirit of compromise with special consideration of the financial and other challenges brought about by the pandemic. The Management continues to maintain cordial relations with the two employee unions, which have yielded many benefits to both employees and the Bank.

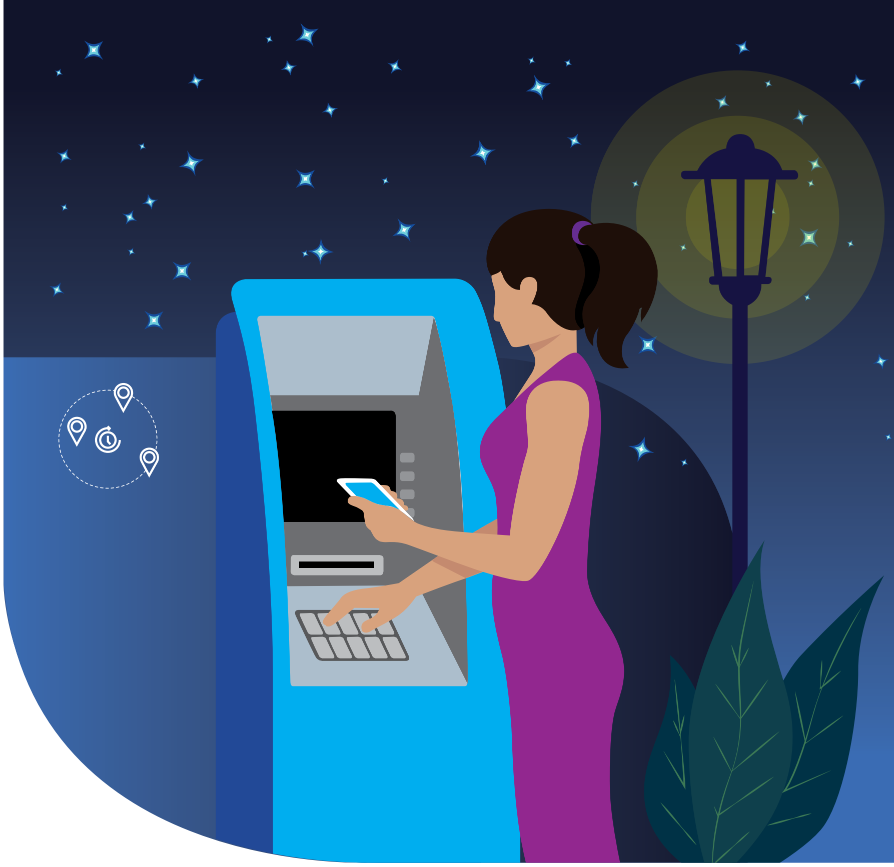
Diversity

The Bank believes a diverse workforce and inclusive culture will improve the quality of decision-making, drive innovation, enhance resilience and strengthen its ability to serve all customer segments across Sri Lanka. The Bank remains committed to the principles of equal opportunity irrespective of gender, age, race, disability or religion in all its HR management processes. The Bank's Sexual Harassment policy aims to honour the fundamental rights of every employee to work in a safe, dignified and respectful environment free from discrimination, bullying and harassment. Whilst including as part of the orientation training for new recruits, the Bank conducts regular refresher sessions to ensure that all employees remain aware of the contents and interpretation of this policy. All expectant mothers across the Bank were granted special leave from May 01, 2021 onwards, to ensure their safety against the third wave of the pandemic.

In recognition of the Bank's commitment to the principles of equal opportunity in its Human Resources Management processes including recruitment policy, benefits and pay, training and development opportunities, and policies on abuse and harassment, the Bank was honoured at the inaugural Women Friendly Workplace awards by the Satyn Magazine and CIMA in 2021.

Table 16: **Female workforce**

As at December 31,	2021	2020
No. of female employees	1,201	1,106
Female employees in Senior Management positions as a percentage of total employment (%)	0.92	0.92
Percentage of female employees promoted (%)	16.80	21.80
Percentage of females recruited (%)	35.5	27.21
Percentage of females in key geographical locations (of all female employees in the Bank)		
– Western Province (%)	75.78	76.22
– Outstations (%)	24.22	23.78
Percentage of female exits (includes retirees)	31.00	32.87



We have one of the largest touch-point networks of any corporate in the country, comprising automated teller machines (ATMs), cash recycler machines (CRMs), cheque deposit machines and account opening kiosks. Enabling self-services at your convenience, we facilitate customers to bank at any time, creating greater efficiency through superior service delivery.

Table 17: **Employee by Type and Gender**

As at December 31, 2021	SRI LANKA		BANGLADESH		TOTAL	
	Count	Percentage (%)	Count	Percentage (%)	Count	Percentage (%)
Female	1,115	23.33	86	29.35	1,201	23.68
– Permanent	1,114	23.31	70	23.89	1,184	23.34
– Contract	1	0.02	16	5.46	17	0.34
Male	3,664	76.67	207	70.65	3,871	76.32
– Permanent	3,663	76.65	180	61.43	3,843	75.77
– Contract	1	0.02	27	9.22	28	0.55
Employees-Bank	4,779	100.00	293	100.00	5,072	100.00
Outsourced Employees						
– Female	149	41.74	6	6.06	155	33.99
– Male	208	58.26	93	93.94	301	66.01
Employees-Outsourced	357	100.00	99	100.00	456	100.00

All employees of the Bank are full time employees.

Table 18: **Employee by Category and Gender – Total Bank**

As at December 31, 2021	AGE 18-30 YEARS		AGE 31-50 YEARS		AGE OVER 50 YEARS		TOTAL	%
	Male	Female	Male	Female	Male	Female		
Corporate Management	–	–	3	–	23	5	31	0.61
Executive Officers	97	52	1,411	328	190	92	2,170	42.78
Junior Executive Assistants and Allied Grades	993	272	907	297	21	60	2,550	50.28
Banking Trainees	172	94	4	–	–	–	270	5.32
Office Assistants and Others	–	–	13	1	37	–	51	1.01
Total	1,262	418	2,338	626	271	157	5,072	100.00

Training and Development

Training and Development is a vital component of the Bank's Human Resource Development Philosophy. Following a robust training and development strategy to provide both individual and collective learning opportunities for its staff, the Bank focuses predominantly on equipping its staff with up-to-date, relevant skill-sets and necessary competencies to thrive in a rapidly changing banking environment. Driving operational excellence, improving product knowledge, customer service, marketing and communication, innovation, leadership development, soft skills, sustainability, industry trends, digital technology adoption and compliance are key areas of emphasis of employee development. Following the pandemic, the majority of training programs were conducted virtually, enabling employees a more "anytime, anywhere" approach of providing multiple continuous training experiences.

During the year under review, the Bank embarked on a Leadership Development Program for Regional Managers conducted by an internationally recognised trainer. The Bank also commenced developing a moodle based learning management system, in-house to enhance the learning experience of employees. In addition, an identified group of potential branch Managers were enrolled to a Leadership Development Program conducted by Postgraduate Institute of Management (PIM) where they will be undergoing a continuous professional development program. Special Virtual training programs were conducted targeting Branch Managers, Assistant Branch Managers, and Junior Executive Officers covering technical and soft skills. Further, several virtual training programs were conducted covering areas such as Recoveries and NPL Management, Anti-Money Laundering and Compliance and Credit Risk Management, information security, impairment assessment in view of the new Directions issued by the CBSL on migration of regulatory reporting in line with SLFRS 9 etc. among others.

Sri Lanka's first Carbon Neutral Bank

Sustainability is the cornerstone of the Bank's corporate ethos, influencing every aspect of the organisation. **Being the first Bank in Sri Lanka to achieve the carbon neutral status as affirmed by Climate Smart Initiatives (Pvt) Ltd. and being awarded the Best Corporate Citizen Sustainability Award for 2021 by the Ceylon Chamber of Commerce are strong testaments of the Bank's deep commitment towards best practices in sustainability at every employee level.** The Bank's multifaceted Green initiatives that contributed to its carbon neutrality status and achieving its Green Goals include 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's sustainable banking practices have been designed on the basis that sustainable success is a balancing act – between continuity and change, stability and disruption, being conservative and bold. It involves enhancing shareholder returns without compromising its responsibility to the society and the environment.

Additionally, the Bank has numerous commitments including a mangrove restoration project in Koggala, a marine turtle conservation initiative to protect the biodiversity of the ocean, and support to the "Thuru Mithuru" initiative of the Sri Lanka Army to promote self-sufficiency in essential food.

Managing our Footprint

The Bank pioneered a mandatory social and environmental screening process for its project lending activities and was the first bank in Sri Lanka to venture into Green Financing. Furthermore, the Bank revolutionised digital banking by introducing features in its "Flash" mobile application to measure and offset customer impact on the environment. Embedding its climate strategy into its core product and service offering, the Bank also finances projects that focus on renewable energy, energy and resource efficiency, waste management, emission reductions, smart agriculture and green buildings. The Bank's Green Financing is geared towards the fight against climate change, meeting the United Nations Sustainable Development Goals 7 and 12: Affordable and Clean Energy, and Responsible Consumption and Production.

With Sri Lanka facing growing energy demands and having set a national ambition to become energy self-sufficient by 2030 and reach 100 percent renewable energy generation by 2050, the Bank increased its support towards development of clean energy resources and energy efficiency initiatives. Securing a USD 50 million loan from the CDC Group of UK marked the first climate investment in Sri Lanka by the Group, to bolster the country's efforts to help reduce greenhouse gas emissions and bring about a cleaner and more sustainable future to the island. This provides the capital that allows the Bank to extend credit toward renewable and climate-supportive projects.

Green buildings and initiatives

Since being the first Bank to be awarded the Green Building certification by the Green Building Council of Sri Lanka for its Galle Fort branch, the Bank has further expanded its portfolio of green buildings to include Jaffna Branch and the Trincomalee branch. Over the years, the Bank has systematically increased its investment in solar PV systems to meet the energy needs of its branch network. As at December 31, 2021, Rs. 251 Mn., has been invested to commission solar systems at 61 of its branches including branches operating in Bank owned buildings of which 09 are fully powered by solar energy and the remaining partially dependent on the national grid to fulfill their energy requirements.

Table 19: **Training statistics**

	2021	2020	2019	2018
Total training cost (Rs. Mn.)	22.955	15.183	54.695	47.119
Total training hours	79,928	43,961	142,950	130,754
Total e-learning hours	7,756	7,161	1,111	1,309
Percentage of training through e-learning (%)	9.70	14.01	0.77	0.99
Total investment on virtual training (Rs. Mn.)	16.958	3.455	0.315	0.333

Table 20: **Energy consumption**

Indicator (Gigajoules)	2021	2020	2019	2018
Energy consumption	42,906	45,045	50,296	49,958
Solar Power Generated	6,068	5,613	6,530	1,767
Solar Power Generated as a % of Energy Consumption	14.14	12.46	12.98	3.54

Recognised as the most progressive banking institution in Sri Lanka, we play a vital role as an advocate and driver of sustainability in our Nation. Our commitment to preserving the environment is reflected through our responsible lending protocols which include a mandatory social and environmental screening process and becoming the first carbon-neutral bank in Sri Lanka. Our positioning as a predominant bank in climate financing and environmental consciousness in the South Asia region was affirmed by the International Finance Corporation (IFC) by conferring two Climate Assessment for Financial Institutions (CAFI) awards in 2021.

Aligning with the UN Sustainable Development Goals (SDGs)

As a leader in the country's banking sector, 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. Therefore, the Bank has 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 has also aligned its sustainability priorities and operations with the SDGs. Based on a process of principled prioritisation, the Bank supports 7 out of the 17 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.

4 QUALITY EDUCATION — Quality Education

5 GENDER EQUALITY — Gender Equality

7 AFFORDABLE AND CLEAN ENERGY — Affordable and Clean Energy

8 DECENT WORK AND ECONOMIC GROWTH — Decent Work and Economic Growth

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

12 RESPONSIBLE CONSUMPTION AND PRODUCTION — Responsible Consumption and Production

17 PARTNERSHIPS FOR THE GOALS — Partnership for the Goals

Community sustainability

The Bank makes a conscious effort to integrate CSR into its core business activities, to create opportunities for shared value. This approach allows the communities to learn, grow and thrive together with the Bank. The Bank's nationally significant contributions through its CSR Trust, includes education, healthcare, environment and community development. In the past decade, the Bank has contributed immensely to improve the lives of Sri Lankans by reaching out to communities and conducting over 900 CSR projects supporting education, healthcare and culture. The Bank's largest contribution is towards IT education in Sri Lanka, through the donation of 253 fully-equipped IT laboratories to schools and other institutions and partnering the "Smart Schools Project" to introduce a comprehensive digital Learning Management System (LMS) to 65 schools in the country. The Bank also funds a 150-hour IT hardware course conducted in collaboration with SLT Campus (Pvt) Ltd. and CISCO Networking Academy in selected schools and has partnered with the Academy to offer an "IT Essentials" course for teachers and students free of charge.

Playing an active role in supporting people and institutions at the frontlines of the battle against COVID-19, the Bank donated critical medical equipment worth of Rs. 26.3 Mn. to over 25 Government hospitals in 2021. Recognising that the Sri Lanka's labour force is one of the most crucial factors in development, the Bank supports young Sri Lankans find rewarding careers in collaboration with the Vocational Training Authority (VTA).

Partnership for the Goals

The partnerships forged over the years and the new collaborations pursued with public, private and non-governmental organisations both locally and internationally, offer vital support in the achievement of its sustainability strategy. The synergies derived through these partnerships in terms of knowledge sharing and capacity building go a long way in augmenting expertise, building the internal capacity and improving the efficacy of the Bank's sustainability initiatives. The Bank 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 that facilitate the smooth operations of its business, providing technology platforms, market access, and necessary materials and other services required in the normal course of business form important links in the supply chain that ultimately deliver value to all stakeholders. During the year under review, the Bank engaged with an over 1,400 business partners.

Working closely to educate suppliers regarding the e-procurement system launched in 2020 to assist suppliers to manage pandemic related challenges, a majority of the critical supplier base was on-boarded to the new fully automated e-procurement system by mid-2021. The Bank also began assessing the level of social and environmental compliance of potential suppliers to confirm their alignment with national regulations and global best practices.

Figure – 24

The Bank's Business Partners

Critical to operations
- Utility services providers
- Software suppliers
- Material suppliers
- Travel and Transport

Extend our reach
- Correspondence banks
- Franchise partners
- Exchange houses
- FinTech companies

Infrequent engagement
- Premises providers
- Contractors
- Professional services providers

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

Awards and Accolades

- Strongest Bank in Sri Lanka – 2020
- Best Mobile Banking Technology Implementation in Sri Lanka – Flash Digital Bank Account

- Best Trade Finance Bank in Sri Lanka

- Best Commercial Bank in Sri Lanka 2021

- Best Bank for SMEs
- Best Bank for CSR

- Best Trade Finance Bank Sri Lanka 2021

- Best Digital Bank – Sri Lanka 2021
- Best New Mobile APP (ComBank e-Slips) – Sri Lanka 2021

- Best Commercial Bank – Sri Lanka 2021
- Best Corporate Investment Bank – Sri Lanka 2021
- Best SME Bank – Sri Lanka 2021

- Best Bank in Sri Lanka 2021
- CEO of Commercial Bank of Ceylon, Mr S Renganathan – Best Banking CEO Sri Lanka 2021

- Best Commercial Bank Sri Lanka 2021
- Best Banking CEO of The Year Sri Lanka 2021 – Mr S Renganathan

- Retail Banking Customer Satisfaction & Happiness Sri Lanka 2021

- Best Digital Transformation in Banking – Sri Lanka 2021
- Best Mobile Banking App – ComBank App – Sri Lanka 2021
- Best Private Bank – Sri Lanka 2021

- European Quality Award

- Best Private Bank Sri Lanka 2021
- Best Banking CEO of the Year Sri Lanka – Mr S Renganathan

- Best Bank in Sri Lanka 2021

- Sri Lanka Domestic Trade Finance Bank of the Year
- Digital Banking Initiative of the Year – Sri Lanka

- Best Bank in Sri Lanka

- Top 1000 Banks in the World

- Strongest Bank Brand in Sri Lanka

- Best SME Bank – Sri Lanka 2021
- Best Foreign Bank – Bangladesh 2021

- Listed among the Top 10 Most Admired Companies in Sri Lanka

- ESQR Quality Achievement Awards 2021

- Top 10 Women Friendly Work Places Award

- Winner case study under the Banking and Finance category of SLASSCOM's DIGITAL GENESIS

- CAFI Climate Impact award for Achievement in Green House Gas reduction
- CAFI Climate Impact award for completing the highest number of climate finance transactions in South Asia in 2020

- Overall Winner of the Best Corporate Citizen Sustainability Award 2021
- Sector Based Sustainability Champion – Financial Sector
- Governance certificate for Consistent Commitment and Continuous Improvement
- 2nd Runner-up for demonstrated Resilient Practices for COVID-19 Context
- Listed among the Top 10 Corporate Citizens in Sri Lanka

- Asian Development Bank's (ADB's) "Leading Partner Bank in Sri Lanka 2021"

- Overall Excellence in Annual Financial Reporting Category – Joint Bronze Award
- Edmund J. Cooray Memorial Trophy for the Best Annual Report – Banking Institutions – Gold Award
- Corporate Governance Disclosure Award Category – Gold Award
- Integrated Reporting: Best Disclosure on Capital Management Award Category - Bronze Award

Financial Review 2021

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 Context and Outlook (pages 28 to 32), which explains the broader global, local, and sector trends that contextualise the Bank's performance, and the Management Discussion and Analysis (pages 38 to 103), which analyses how the Bank grew its financial and other capitals in relation to its strategic imperatives. (Refer Business Model for Sustainable Value Creation on pages 33 to 35).

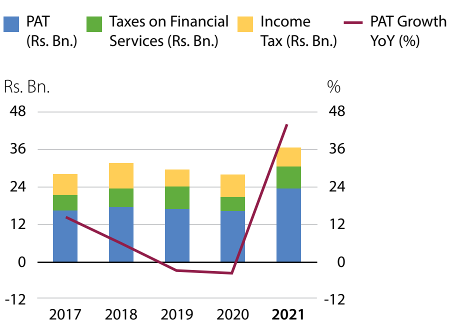
Performance of the Bank

An overview

Total assets of the Bank grew by Rs. 212.995 Bn. or 12.27% (2020: 25.15%) during the year under review and stood at Rs. 1.949 Tn. as at December 31, 2021. The growth in assets was mainly funded by the growth in deposits of Rs. 177.128 Bn. or 13.99% (2020: 20.19%), which reached Rs. 1.443 Tn. as at the year end. Net lending portfolio grew by Rs. 117.773 Bn. or 13.13% (2020: 1.38%) during the year.

The profit after tax of the Bank for the year 2021 increased to Rs. 23.606 Bn. from Rs. 16.373 Bn. reported in 2020 recording a growth of 44.17% (2020: -3.83%). This is a significant achievement when viewed in the context of the magnitude of the challenges posed by the operating environment and the increase in impairment provision. Total operating income for the year increased to Rs. 91.395 Bn. from Rs. 74.940 Bn. reported in 2020 by 21.96% (2020: 13.52%) which contributed to the increase in the operating profit before taxes to Rs. 37.810 Bn. from Rs. 28.017 Bn. by 34.96% (2020: -5.13%) despite the increase in the impairment charges and other losses to Rs. 24.692 Bn. from Rs. 21.484 Bn. by 14.94% (2020: 94.22%).

Graph – 06: **Profit growth**



Overall exemplary performance witnessed in both the ASPI and S&P SL20 indices of the Colombo Stock Exchange (CSE) during the year 2021 was not reflected in the banking sector due to the perceived elevated risks associated with the sector arising from the volatile operating environment. However, the price to book value and the market capitalisation of the Bank's shares remained the highest among peers in the Banking sector. The Bank's market capitalisation ranked ninth among all listed companies on the Colombo Stock Exchange as at December 31, 2021.

With due consideration to the performance of the Bank during the year, the dividend policy and the Bank's commitment to pay a reasonable dividend to the shareholders, the Board of Directors has recommended a first and final dividend of Rs. 7.50 per share (2020: Rs. 6.50 per share) for the year 2021.

Given that the Bank accounted for 98.27% (2020: 98.51%) of the total assets and 97.18% (2020: 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 71 to 73.

Income Statement

Financial intermediation

Gross income grew by 7.46% (2020: 0.68%) to Rs. 160.886 Bn. for the year from Rs. 149.711 Bn. reported in 2020. Both interest income and the fee and commission income recorded growth, which was partly off-set by income from other sources. However, average assets for the year grew by a higher 17.99% (2020: 16.08%) compared to gross income, to Rs. 1.843 Tn. from Rs. 1.562 Tn. reported in 2020. As a result, the financial intermediation margin (gross income /average total assets) decreased to 8.73% (2020: 9.59%), a drop of 86 bps. The financial intermediation margin for the banking sector for the year was 8.53% compared to 9.57% for 2020.

Fund-based operations

Interest income, which accounted for 81.08% (2020: 81.71%) of the gross income of Rs. 160.886 Bn., increased to Rs. 130.443 Bn. during the year from Rs. 122.330 Bn. in 2020, recording a growth of 6.63% (2020: -4.26%). This was mainly attributable to the growth in average interest-earning assets by Rs. 258.347 Bn. which was partly off-set by the drop in average rate of interest on interest earning assets by 0.81%. The excess liquidity that arose from growth in deposits being higher than the growth in loans and advances, was invested in government securities. As a result, interest income earned from sources other than loans and advances, accounted for 39.38% (2020: 29.88%) of total interest income, an increase of 40.54% (2020: 34.08%). In contrast, interest income from loans and advances decreased by 7.82% (2020: -14.66%) owing to the lower interest rate environment that prevailed during the most part of the year.

Interest expenses, which accounted for 50.47% of the interest income (2020: 59.48%), decreased to Rs. 65.832 Bn. during the year from Rs. 72.759 Bn. reported in 2020, recording a negative growth of 9.52% (2020: -9.70%). This was mainly due to timely repricing of liabilities to reflect the decreasing interest rate regime and a significant improvement of the CASA ratio to an industry leading 47.83% by 5.11%. The decline in the average rate of interest on interest-bearing liabilities by 1.29% was partly off-set by a growth in average interest-bearing liabilities by Rs. 222.145 Bn.

Consequently, net interest income improved to Rs. 64.611 Bn. from Rs. 49.571 Bn. reported in 2020, recording a commendable growth of 30.34% (2020: 5.01%), accounting for 70.69% of the total operating income (2020: 66.15%). The net interest margin improved by 34bps to 3.51% from 3.17% reported in 2020.

Fee-based operations

Fee and commission income amounted to Rs. 15.410 Bn. compared to Rs. 11.269 Bn. reported in 2020, recording a growth of 36.76% (2020: -9.17%) due to an increase in income from credit and debit cards related services and trade and remittance businesses during the year.

Fee and commission expenses, which relate mostly to credit and debit cards related services too increased to Rs. 3.659 Bn. from Rs. 2.012 Bn. reported in 2020, recording a growth of 81.84% (2020: -4.96%). Consequently, net fee and commission income increased to Rs. 11.751 Bn. compared to Rs. 9.256 Bn. reported in 2020, recording a growth of 26.95% (2020: -10.04%), and it accounted for 12.86% of the total operating income (2020: 12.35%).

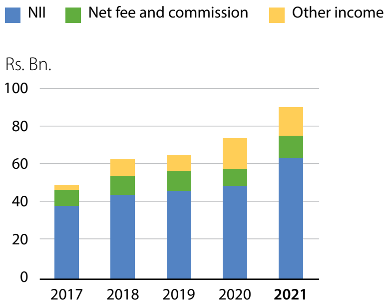
Other income

Total other income of the Bank amounted to Rs. 15.032 Bn. for the year compared to Rs. 16.113 Bn. reported in 2020, and recorded a drop of 6.70% (2020: 89.11%). This was due to net gains from de-recognition of financial assets for 2021 being only Rs. 3.002 Bn. compared to Rs. 6.390 Bn. reported in 2020. However, the negative impact of the above was partly off-set by net other operating income increasing by Rs. 2.251 Bn. or 28.69% (2020: 30.23%) to Rs. 10.095 Bn. from Rs. 7.844 Bn., mainly as a result of an increase in exchange profit due to a 6.50% (2020: 2.81%) depreciation of the Sri Lankan Rupee against the US Dollar during 2021. Net gains from trading increased by Rs. 57.921 Mn. or 3.08% in 2021.

Total operating income

Consequent to the improvements in net interest income and net fee and commission income, which was partly off-set by the negative growth in other income, total operating income grew to Rs. 91.395 Bn. from Rs. 74.940 Bn. reported in 2020 by Rs. 16.454 Bn. or 21.96% (2020: 13.52%).

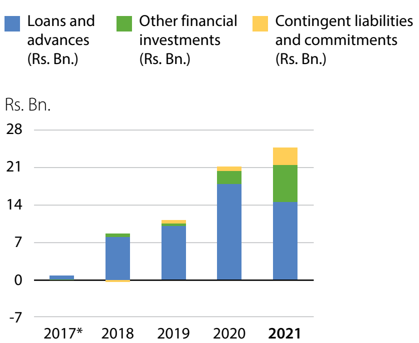
Graph – 07: **Total operating income**



Impairment charges

Impairment charges and other losses for the year increased to Rs. 24.692 Bn. or 14.94% (2020: 94.22%) from Rs. 21.484 Bn. reported in 2020, the highest ever provision the Bank has made for a single year in its history. This was due to the Bank making additional provisions of Rs. 8.071 Bn. (2020: Rs. 5.189 Bn.) for expected credit losses by way of management overlays to account for potential losses in the loans and advances portfolio that the impairment models may not be capturing due to the high level of uncertainty and volatility that prevailed throughout the year, and a provision of Rs. 6.893 Bn. (2020: 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.

Graph – 08: **Impairment charges**



*Based on LKAS 39

Net operating income

The growth in total operating income by Rs. 16.454 Bn. more than off-set the increase in impairment charges and other losses of Rs. 3.209 Bn., resulting in the net operating income posting a growth of Rs. 13.246 Bn. or 24.78% to Rs. 66.702 Bn. for the year compared to Rs. 53.457 Bn. reported in 2020.

Operating expenses

Total operating expenses for the year amounted to Rs. 28.892 Bn. compared to Rs. 25.440 Bn. reported in 2020 and recorded an increase of Rs. 3.452 Bn. or 13.57% (2020: 0.06%). This was mainly as a result of the increase in personnel expenses by 12.07% (2020: 3.42%) to Rs. 16.321 Bn. from 14.564 Bn. for 2020, following the signing of the new collective agreement effective from January 01, 2021, with the Ceylon Bank Employees Union and the salary increases granted to the executive cadre. In addition, other operating expenses for the year too increased by 19.08% (2020: -8.17%) to Rs. 9.392 Bn. from Rs. 7.887 Bn for 2020.

Consequent to the increase in net other operating income and efforts taken to contain the operating expenses despite the inflationary pressures, the Bank's Cost to Income ratio (excluding Value Added Tax on financial services) for the year 2021 improved to 31.61% (2020: 33.95%).

Profit before and after taxes

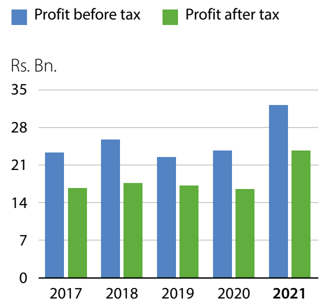
The growth in net operating income by 24.78% coupled with the increase in total operating expenses being curtailed to 13.57% resulted in operating profit before Value Added Tax on financial services improving to Rs. 37.810 Bn. compared to Rs. 28.017 Bn. in 2020 by Rs. 9.794 Bn. or 34.96% (2020: -5.13%).

In line with the growth in operating profit, the Value Added Tax on financial services for the year increased to Rs. 5.809 Bn. compared to Rs. 4.505 Bn. reported in 2020 and recorded an increase of Rs. 1.304 Bn. or 28.94% (2020: -37.35%). Consequently, the Bank's Cost to Income ratio (including Value Added Tax on financial services) for the year 2021, also improved to 37.97% (2020: 39.96%).

As a result, profit before income tax expense for the year increased to Rs. 32.001 Bn. from Rs. 23.511 Bn. reported in 2020 and recorded an improvement of Rs. 8.490 Bn. or 36.11% (2020: 5.25%). Income tax charge for year amounted to Rs. 8.395 Bn. compared to Rs. 7.138 Bn. reported in 2020, an increase of 17.62% (2020: 34.32%). The proportionately lower increase in the income tax charge for the year was primarily due to two factors. Firstly, the income tax provision for the current year has been computed at 24% compared to the rate of 28% used in 2020. Secondly, there was a reversal of an excess provision for income tax made in 2020 during the year under review as the income tax provision for 2020 had been computed at the rate of 28% since the 24% tax rate proposed in the Government Budget 2020 had not been enacted at the time the financial statements for 2020 were finalised.

Consequently, the profit after tax for the year recorded a higher growth of 44.17% (2020: -3.83%) and stood at Rs. 23.606 Bn. compared to Rs. 16.373 Bn. reported for 2020.

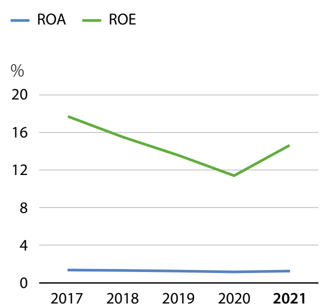
Graph – 09: **Profit before and after tax**



Profitability

Reflecting the higher growth in profit after tax and the relatively lower growth in assets and equity during the year, both Return on Assets (ROA) and Return on Equity (ROE) improved to 1.28% (2020: 1.05%) and 14.66% (2020: 11.28%) respectively. ROA (before tax) for the year too improved to 1.74% (2020: 1.51%).

Graph – 10: **ROA and ROE**



Other Comprehensive Income (OCI)

Other comprehensive income of the Bank reported a loss of Rs. 10.705 Bn. during the year as against the profit of Rs. 1.406 Bn. reported in 2020, primarily due to net losses arising from investments in financial assets at fair value through OCI, amounting to Rs. 12.599 Bn. (2020: Rs. -1.401 Bn.). The Bank invested excess liquidity in Government securities and a hike in interest rates on Government securities mainly during the latter part of 2021, caused the above loss.

Accordingly, the total comprehensive income of the Bank for the year 2021 decreased to Rs. 12.901 Bn. from

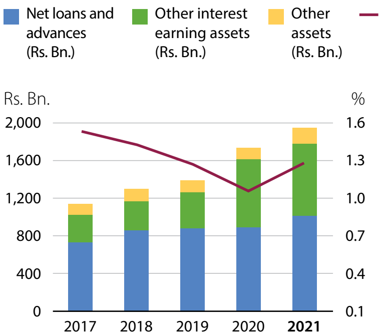
Rs. 17.780 Bn. reported in 2020, a negative growth of 27.44% (2020: -9.64%).

Statement of Financial Position

Assets

Total assets of the Bank grew by a healthy 12.27% (2020: 25.15%) during the year to reach Rs. 1.949 Tn. from Rs. 1.736 Tn. at the previous year end. This growth is well in excess of the industry growth of 12.46%. This was due to the growth in loans and advances portfolio and the excess liquidity being invested in Government securities.

Graph – 11: **Composition of total assets**



Loans and advances to customers

One of the significant achievements during the year was that the loans and advances portfolio of the Bank crossed Rs. 1 Tn. mark and the Bank once again became the first private sector bank in the country to achieve this milestone after being the first private sector bank in the country to cross the Rs. 1 Tn. in total assets (in 2016) and deposits (in 2019). Reversing the trend observed in most parts of 2020, credit to the private sector increased during the year despite the adverse macro-economic environment that prevailed in the country. The gross loans and advances as at December 31, 2021 stood at Rs. 1.079 Tn. compared to Rs. 947.842 Bn. a year ago and the net loans and advances as at December 31, 2021 stood at Rs. 1.015 Tn. compared to Rs. 896.845 Bn. as at end 2020, recording a noteworthy growth of 13.13% (2020: 1.38%), and it accounted for 52.05% (2020: 51.66%) of total assets as at December 31, 2021.

The Bank continued to extend concessions and accommodate moratorium requests to the borrowers affected by both the Easter Sunday attack and the COVID-19 pandemic. However, loans and advances under moratoria reduced from Rs. 252.674 Bn. as at December 31, 2020 to Rs. 50.877 Bn. by end 2021 with certain sectors gradually coming out of the Government granted forbearance measures.

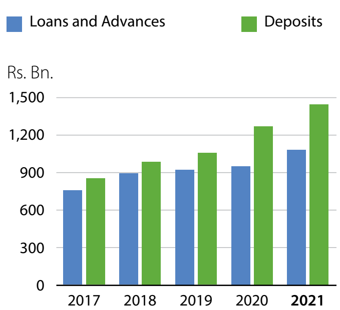
Asset quality

Quality of the loans and advances portfolio is a key determinant of the sustainability of the Bank's operations. The conservative risk profile, with a moderate risk appetite and a robust risk management framework, helped the Bank to end the year with improvements in both the gross and the net NPL ratios at 4.62% (2020: 5.11%) and 1.44% (2020: 2.18%), respectively, compared to industry averages of 4.82% and 2.16%, 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 increased to 5.94% (2020: 5.38%), while the total regulatory provisions to gross loans and advances portfolio too improved to 3.52% (2020: 3.32%) as at the year end. Further, the specific provision coverage ratio (based on the regulatory provisions that existed up to December 31, 2021) increased to 68.93% by end of 2021 (2020: 57.42%) compared to 56.40% for the industry. These measures helped the Bank to improve the open credit exposure ratio (which is net exposure on NPLs as a percentage of regulatory capital) to 8.79% at end of 2021 (2020: 11.88%). In addition, both the impaired loans (stage 3) ratio and the impairment (Stage 3) to Stage 3 Loans Ratio too improved to 3.85% (2020: 6.78%) and 42.76% (2020: 30.87%) respectively, by end of 2021. The improvements in both the above ratios were consequent to the Bank re-evaluating the stage assessment criteria for individually impaired credit facilities and making necessary changes to reflect the actual risks associated with customers subjected to individual impairment. Both these ratios are based on the proposed regulatory provisions under the Banking Act Direction of No. 13 of 2021, issued by the Central Bank of Sri Lanka, which became effective from January 01, 2022.

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. Please see page 247 for the details.

Graph – 12: **Deposits and advances**



Deposits

With the solid domestic franchise in Sri Lanka, customer deposits continued to be the single biggest source of funding for the Bank, accounting for 74.03% (2020: 72.92%) of the total assets as at December 31, 2021. Deposits grew by 13.99% (2020: 20.19%) to Rs. 1.443 Tn. as at December 31, 2021. The growth in deposits during the year was Rs. 177.128. Bn., with a monthly average growth of Rs. 14.761 Bn. The CASA ratio too improved significantly to 47.83% (2020: 42.72%) as at December 31, 2021 compared to industry average of 36.01%.

Other liabilities

The significant increase in deposit liabilities when compared to the lower growth in loans and advances meant that the Bank had excess liquidity during most part of the year. As a result, the Bank reduced its external borrowings during the year which helped the Bank to reduce its interest expenses and improve its net interest income and the interest margins as mentioned earlier. With increased Repo borrowing of Rs. 60.474 Bn., total other liabilities as at the current year-end increased to Rs. 341.226 Bn. from Rs. 313.106 Bn. in 2020. During the year, the Bank raised Rs. 8.595 Bn. through an issue of BASEL III compliant debenture and redeemed debentures amounting to Rs. 9.502 Bn. that matured during the year.

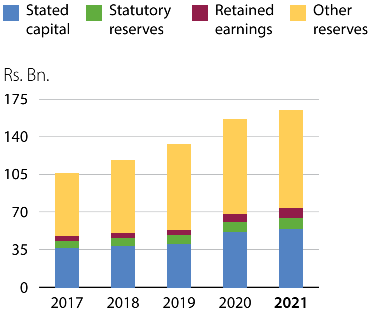
Capital

The Bank is guided by its Internal Capital Adequacy Assessment Plan (ICAAP) and the Board approved dividend policy in maintaining capital commensurate with its current and projected business volumes. Accordingly, with the improved profitability and the prudent dividend policy helped the Bank to grow its equity capital by 4.93% (2020: 18.01%) to Rs. 164.894 Bn. as at December 31, 2021 from Rs. 157.146 Bn. as at December 31, 2020. With an on balance sheet multiplier (gearing ratio) of 11.82 times (2020: 11.05 times), compared to the industry average of 11.71 times, equity funded 8.46% (2020: 9.05%) of the total assets as at the current year end. The Bank ploughed back Rs. 11.120 Bn. out of profit for the year in 2020 after the payment of cash dividends and is expected to plough back Rs. 18.232 Bn. after the payment of cash dividends for the year 2021. Profits ploughed back include scrip dividends as well.

However, the risk weighted assets of the Bank grew by 8.95% (2020: 4.77%) to Rs.1.110 Tn. as at December 31, 2021. Consequently, both the Tier 1 and the total capital ratios stood at 11.923% (2020: 13.217%) (minimum requirement – 9.000% for 2021) and 15.650% (2020: 16.819%) (minimum requirement - 13.000% for 2021) respectively, as at December 31, 2021, which are in excess of the higher capital adequacy requirement imposed on the Bank under the Basel III requirements as a Domestic Systemically Important Bank (D-SIB). The equity multiplier in terms of risk weighted assets to regulatory total capital increased to 6.39 times from 5.95 times a year ago. As per the CBSL Basel III regulations, the Bank is one of the highest graded D-SIB, showcasing the Bank's importance to the Sri Lankan economy.

Since the proposed surcharge tax, which had not been enacted in Parliament at the time of reporting, potential impact has not been accounted for and the Bank anticipates it to impact the Bank's capital in the coming year, subject to the enactment of the aforementioned tax.

Graph – 13: **Shareholders' funds**



Liquidity

The growth in deposits outpaced the growth in loans and advances, causing the Bank to invest the excess liquidity in Government securities. Nevertheless, at a time of unprecedented volatility 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 item of the agenda 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 38.73% (2020: 44.99%) and 36.39% (2020: 32.70%) respectively, as at end of 2021, compared to the statutory minimum requirement of 20%. Gross loans to deposits ratio was 74.75% (2020: 74.87%). Available stable funding based on definitions prescribed by the CBSL stood at Rs. 1.447 Tn. as at December 31, 2021 (2020: Rs. 1.289 Tn., leading to a Net Stable Funding Ratio (NSFR) of 157.47% (2020: 157.49%), comfortably above the statutory minimum of 100% (2020: 90%). Demonstrating the availability of unencumbered high-quality liquid assets at the disposal of the Bank, the Liquidity Coverage Ratio (all currency) stood at 242.52% (2020: 422.86%) as at December 31, 2021 as against the statutory minimum of 100% (2020: 90%).

Note: All the industry related figures mentioned above have been extracted/computed/annualised based on the information published by the CBSL as at September 30, 2021.

Segmental performance

The contribution from the Personal Banking Division to the profit before tax of the Group significantly increased to 35.95% (2020: 25.11%), mainly due to the increase in net interest income, while the contribution to the profit before tax of the Group from the Corporate Banking Division significantly reduced to 1.76% (2020: 11.95%), mainly due to higher impairment charges and other losses. In the meantime, the Bank's Treasury division continued to make a significant contribution to the Group's profit before tax of 41.82% (2020: 40.78%) during 2021 as well, mainly due to a significant increase in the net interest income. Contribution from the International Operations to the profit before tax of the Group reduced to 18.63% (2020: 20.46%), while its contribution to the total assets of the Group accounted for 12.38% (2020: 11.79%).

The quarterly financial performance and the financial position of the Group and the Bank for 2020 and 2021 are given on pages 74 to 79 while the Bank's performance in terms of key indicators is given in the section on "Decade at a Glance" pages 80 to 83.

Table 21: **Financial soundness indicators**

Financial soundness indicator (%)	**2021**	2020	2019	2018	2017
Capital Adequacy (under Basel III)					
Common Equity Tier 1 ratio (Current minimum requirement – 7.5%)	11.92	13.22	12.30	11.34	12.11
Tier 1 capital ratio (Current minimum requirement – 9%)	11.92	13.22	12.30	11.34	12.11
Total capital ratio (Current minimum requirement – 13%)	15.65	16.82	16.15	15.60	15.75
Non-performing loans (net of interest in suspense and specific provisions) to equity	9.26	12.96	20.48	12.71	6.39
Asset quality:					
Gross NPL ratio (Based on existing regulatory provisions)	4.62	5.11	4.95	3.24	1.88
Net NPL ratio (Based on existing regulatory provisions)	1.44	2.18	3.00	1.71	0.92
Impaired loans (Stage 3) ratio (Based on proposed regulatory provisions)	3.85	6.78	N/A	N/A	N/A
Impairment (Stage 3) to Stage 3 Loans ratio (Based on proposed regulatory provisions)	42.76	30.87	N/A	N/A	N/A
Total regulatory provisions ratio on gross loans and receivables (Based on existing regulatory provisions)	3.52	3.32	2.37	1.97	1.40
Specific provision coverage ratio (Based on existing regulatory provisions)	68.93	57.42	39.39	47.21	51.05
Provision coverage ratio (Based on SLFRS provisions)	5.94	5.38	3.89	3.27	2.29
Cost of risk of loans and advances	1.35	1.88	1.09	0.91	0.25
Open credit exposure ratio	8.79	11.88	17.37	10.21	5.59
Earnings and profitability:					
Net interest income to total operating income	70.69	66.15	71.51	70.56	80.00
Net fee and commission income to total operating income	12.86	12.35	15.59	15.95	17.64
Other income to total operating income	16.45	21.50	12.91	13.50	2.37
Operating expenses to gross income	17.96	16.99	17.10	17.00	17.33

Financial soundness indicator (%)	2021	2020	2019	2018	2017
Impairment charge to total operating income	27.02	28.67	16.76	13.46	1.39
Cost to income ratio (including taxes on financial services)	37.97	39.96	49.41	46.35	51.08
Cost to income ratio (excluding taxes on financial services)	31.61	33.95	38.51	36.85	41.08
Financial intermediation margin (Gross income to average assets)	8.73	9.59	11.05	11.28	10.61
Interest margin (Net interest income to average assets)	3.51	3.17	3.51	3.67	3.62
Return on assets (ROA) – before income tax	1.74	1.51	1.66	2.09	2.15
Return on assets (ROA) – after income tax	1.28	1.05	1.27	1.43	1.54
Return on equity (ROE)	14.66	11.28	13.54	15.56	17.88
Liquidity:					
Statutory liquid assets ratio (Domestic Banking Unit) – (Current minimum requirement – 20%)	38.73	44.99	30.42	24.47	27.28
Statutory liquid assets ratio (Offshore Banking Unit) – (Current minimum requirement – 20%)	36.39	32.70	25.25	30.20	30.95
Liquidity Coverage Ratio (LCR) – Rupee – (Current minimum requirement – 100%)	425.97	599.38	158.79	236.20	272.15
Liquidity Coverage Ratio (LCR) – All currency – (Current minimum requirement – 100%)	242.52	422.86	224.74	238.69	209.17
Net Stable Funding Ratio (NSFR) – (Current minimum requirement – 100%)	157.47	157.49	137.05	139.18	127.87
CASA ratio (Current and Saving deposits as a % of total deposits)	47.83	42.72	37.10	37.55	39.23
Gross Loans and receivables to deposits ratio	74.75	74.87	87.39	90.56	88.78
Assets and funding structure:					
Deposits to gross loans and receivables	133.78	133.56	114.43	110.43	112.64
Deposits to total assets	74.03	72.92	75.92	75.42	74.35
Borrowings to total assets	3.64	5.35	4.41	4.86	4.28
Equity to total assets	8.46	9.05	9.60	9.08	9.37

Performance of the overseas operations, subsidiaries, and the associate

Performance of the Bank's Bangladesh Operations

Performance of the Bangladesh Operations will have to be reviewed in the context of the Operating Context and Outlook (pages 28 to 32) of this Report.

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

During the past 18 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. At present, CBC Bangladesh has its presence in five main districts in the country i.e. Dhaka, Chittagong, Sylhet, Narayanganj and Gazipur. Despite the severe competition among the international and large local banks, CBC Bangladesh has recorded a consistent growth in business, specially by catering to multinationals and large local corporates by offering better services and commitments. With the expansion of the branch network, CBC Bangladesh operations has managed to attract more SME and Retail clientele to the Bank, enabling it to improve its low cost deposit base resulting 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) comprising a real time Cash Deposit Machine, Cheque Deposit Machine, KIOSK machine and a digital signage in its Motijheel Branch.

During the year 2021, the Bank's Bangladesh Operations has been awarded many accolades including the following:

- Most Recommended Foreign Bank in Bangladesh – 2021 by the World Business Outlook, a Singapore-based magazine.
- Best Foreign Bank in Bangladesh –2021 by Global Economics Limited, a UK-based magazine.
- Best Foreign Bank in Bangladesh –2021 by Global Business Outlook, a UK-based magazine.
- Most Sustainable Bank in Bangladesh – 2021 by the International Business Magazine, UAE.

In addition, a special commendation letter was awarded by the Central Bank of Bangladesh for disbursing the full allocation of the stimulus package to the SME sector.

A comparison of the performance of the Regional Banks operating in the country reveals that the performance of our Bangladesh Operations to be ahead 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 11th consecutive year based on the financial performance for 2020.

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

Table 22: **Key performances indicators – Bangladesh Operations**

Indicator	2021 BDT Mn.	2020 BDT Mn.	2019 BDT Mn.	2018 BDT Mn.	2017 BDT Mn.	5-Year CAGR (%)
Total Deposit	64,959.50	50,997.50	45,362.98	35,221.65	28,808.18	22.95
Gross Advances	58,110.88	55,039.33	47,449.60	38,448.10	32,113.53	18.90
Profit Before Tax	3,035.35	2,898.24	2,744.68	2,440.56	1,758.56	14.63
Profit After Tax	1,744.11	1,709.47	1,697.40	1,407.23	988.4	17.31

Table 23: **Key Financial Ratios – Bangladesh Operations (based on Management Accounts)**

Indicator	2021	2020	2019	2018	2017
Cost/Income ratio (%)	23.68	24.76	24.74	25.27	28.62
Net Interest Margin (%)	3.21	4.01	4.27	4.53	4.46
Profit Per Employee (BDT Mn.)	10.25	9.96	8.65	8.16	6.26
ROA (%)	3.20	3.46	3.53	4.31	3.81
ROE (%)	12.24	13.32	14.82	13.97	11.18

CBC Bangladesh has planned major IT projects for 2022 including the introduction of digital onboarding of customers through Flash, upgrading of the Internet Banking System, automation of the Treasury Department, automation of the Regulatory & MIS Reporting, introduction of the Loan Origination System/Document Management System/Card Personalization System/Call Centre Solution/e-Leave and e-Attendance Systems/ WhatsApp & Viber Banking and revamping of Corporate website.

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. 1.632 Bn. as of end 2021. 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. 401.506 Mn. for the year 2021, with a significant increase of 227.54% compared to Rs. 122.582 Mn. reported in 2020. The increase in profit in 2021 was primarily attributable to improvements in income from core business activities of the Company. Further, the fair value gain recognised on revaluation of investment property in 2021 as against a fair value loss on revaluation of investment property in 2020 too contributed to the increase in profit.

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. At present, the company operates from five regional support centers in Colombo, Galle, Kandy, Jaffna and Badulla to ensure prompt services.

In 2021, the company undertook an island wide personal computer maintenance and POS machine troubleshooting project for the Bank. The company also established a regional support center in Badulla to further strengthen its support services. In addition, the company also embarked on new initiatives such as Data Analytics, Cloud services, and customer-centric product development. The company further upskilled its employees and outsourced them to the subsidiaries of the Bank.

One of the key challenges faced by the company in 2021, was to provide island-wide technical support due to the COVID-19 pandemic. This situation was arrested by deploying more resources in regional support centers and by providing first level support to facilitate work-from-home arrangements.

The company posted a post-tax profit of Rs. 181.134 Mn. for the year 2021, recording a growth of 91.38% from Rs. 94.648 Mn. reported in 2020. The substantial growth in profit was mainly due to expanded operations of the company and the tax savings accrued from the exemptions granted for companies providing IT related services. The company has prepared a five-year strategic plan clearly articulating its future direction. The strategy includes new business initiatives, revenue lines and partnerships that would ensure a sustainable growth.

CBC Finance Limited (CBCF)

CBCF (Previously Serendib 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, the business plans and strategies of the company were aligned with the Bank's strategies, governance and risk management policies and practices.

Since December 2020, the name of the company was changed from Serendib Finance Limited to CBC Finance Limited to strengthen the synergies with the parent Company, Commercial Bank of Ceylon PLC.

The year 2021 was another challenging year for the entire NBFI industry due to COVID-19 related business disruptions and the adverse impact on their customer base. Despite the challenges, the company increased its gross income by 20.39% to Rs. 1,264.114 Mn. Identifying the timely need to be proactive in providing for doubtful customers, the company's impairment provision for the year rose by 84.03% to Rs. 386.483 Mn. Despite the increased impairment charges, the company recorded a profit before tax of Rs. 140.908 Mn. compared to Rs. 110.037 Mn. recorded in the previous year. However, the company's post-tax profit recorded a negative growth of 11.74% to Rs. 51.612 Mn. as against Rs. 58.477 Mn. recorded in the previous year. This was mainly due to the increased tax expenses as a result of the reversal of deferred tax assets due to the reduction of the income tax rate.

Since the commencement of accepting public deposits from the latter part of 2019, the company increased its deposits portfolio to Rs. 5.069 Bn. by end of 2021, reflecting a 50.98% growth over the last year despite market uncertainties. This enabled the company to further reduce its funding cost during the year under review.

For the first time in history, company surpassed the Rs. 10 Bn. mark in total assets during the year with a 21.56% increase to Rs. 10.312 Bn. (2020: Rs 8.483 Bn.), a remarkable achievement during the financial year. In addition, the company's net loans have grown by approximately 16.19% despite the growth in its core product - finance leasing being curtailed due to the regulatory restrictions on the Loan to Value ratio. However, the timely shift towards other products such as mortgage and business loans, paved the way to overcome a possible unfavourable impact. Furthermore, the Gross NPA ratio of the company significantly improved to 13.14% as at December 31, 2021 (2020: 16.52%).

Fitch Ratings Lanka Limited rated the company at A(lka), which is one of the highest ratings given to a finance company in the country backed by the strength of its parent company. During the year, CBCF relocated Embilipitiya, Matara and Anuradhapura branches to provide a better customer experience. The company is planning to embark on a journey of expanding the delivery channels by adding twenty new branches in strategically important business areas and the Central Bank of Sri Lanka has already given the necessary approval to open ten new branches in 2022.

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 held 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. 30.286 Mn. for the year ended December 31, 2021, a negative growth of 5.59% from Rs. 32.078 Mn. recorded in 2020. The CIBL's total assets stood at Rs. 705.396 Mn. as at December 31, 2021.

Local associate

Equity Investments Lanka Ltd. (EQUILL)

The Bank owns a 22.92% stake in EQUILL, a venture capital company established 31 years ago. EQUILL invests in equity and equity-featured debt instruments.

The company recorded a post-tax profit of Rs. 8.272 Mn. in 2021 compared to the post-tax profit of Rs. 17.006 Mn. reported in the previous financial year.

Foreign subsidiaries

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 set up its Head Office and first branch in the capital, Malé. By end 2021, CBM had two branches.

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

In its third year of operations, CBM was awarded for "Excellence in Finance" in the Banking and Finance category at the 2019 Maldives Business Awards. In 2021, CBM was ranked amongst the top leading 100 companies in the Maldives at the "Gold 100 Gala" event organized by the Corporate Maldives and has emerged as winners in the category "Fastest Growing Commercial Bank - Maldives 2021", awarded by the Global Business Outlook, UK.

During the year 2021, CBM recorded a considerable growth in its deposits and advances by 32.95% and 14.30% respectively. Total assets of CBM also recorded a remarkable growth of 29.37% and stood at MVR 2.316 Bn. as at December 31, 2021. In 2021, CBM recorded a post-tax profit of MVR 32.840 Mn., compared to the post-tax profit of MVR 22.723 Mn. reported in 2020. Profit recorded in the current year is the highest profit achieved by the Bank in the operation of its 5-year history.

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 Nay Pyi Taw as a fully owned subsidiary of the Bank with the focus of capitalizing on opportunities in the Microfinance sector.

The company obtained a temporary license initially and secured a permanent business license on January 17, 2020. The company started its branch network in Lewe Township and expanded to Aye Lar, Zabuthiri, and Pyinmana townships.

CBC Myanmar faced twin blows of the pandemic and the political coup during the financial year ended December 31, 2021. The political unrest created a highly volatile environment as the general public walked out to the streets to voice out against the military regime. The unrest affected all layers of the economy, and the microfinance sector was affected severely as the repayments were hampered due to loss of income. The COVID-19 third wave hit hard on the microfinance sector at the beginning of the second half of the year, and the company was closed for more than one month due to stay-home orders. However, the outlook of the microfinance sector shifted positively during the latter part of the second half of the year and the recoveries improved steadily.

The company disbursed MMK 1.317 Bn. in new loans during 2021 despite the challenges in the operating environment and posted a loss of MMK 247.048 Mn. during the financial year ended December 31, 2021 compared to a profit of MMK 91.360 Mn. during the previous financial year. Identifying the need for digital platforms to facilitate recoveries, the company has initiated to partner with leading digital wallet share providers.

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

Commex, a fully-owned subsidiary of the Bank, commenced business under the Authorised Payments Institute (API) license 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 2021, Commex recorded a loss of EUR 0.481 Mn.

The details of the Group companies together with a summary of key financial information for each company is given in the section on "Group Structure" on pages 84 and 85.

Summary of Interim Financial Statements – Group and Bank – 2020 and 2021

	1st Quarter ended March 31		2nd Quarter ended June 30	
	2021	2020	**2021**	2021
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
Group				
Net interest income	15,476,721	12,782,660	15,681,311	9,984,100
Net fee and commission income	3,023,322	2,447,061	2,688,925	1,640,638
Other operating income (net)	5,660,582	4,618,052	3,813,475	3,964,571
Less: Impairment charges and other losses	7,156,050	6,653,253	6,498,391	2,607,571
Net operating income	17,004,575	13,194,520	15,685,320	12,981,738
Less: Expenses	8,600,269	7,755,912	8,336,383	7,303,047
Operating profit	8,404,306	5,438,608	7,348,937	5,678,691
Add: Share of profits/(losses) of associate companies	(133)	(914)	546	177
Profit before income tax	8,404,173	5,437,694	7,349,483	5,678,868
Less: Income tax expense	1,606,916	1,623,311	1,793,203	2,045,674
Profit for the period	6,797,257	3,814,383	5,556,280	3,633,194
Quarterly profit as a percentage of the profit after tax	27.3	22.3	22.3	21.3
Cumulative quarterly profit as a percentage of the profit after tax	27.3	22.3	49.6	43.6

	1st Quarter ended March 31		2nd Quarter ended June 30	
	2021	2020	**2021**	2020
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
Bank				
Net interest income	15,051,903	12,425,953	15,226,162	9,701,778
Net fee and commission income	2,886,892	2,293,173	2,570,984	1,527,747
Other operating income (net)	5,692,641	4,600,441	3,806,422	4,039,888
Less: Impairment charges and other losses	7,052,038	6,544,696	6,306,004	2,895,956
Net operating income	16,579,398	12,774,871	15,297,564	12,373,457
Less: Expenses	8,396,219	7,546,314	8,061,141	7,155,931
Profit before income tax	8,183,179	5,228,557	7,236,423	5,217,526
Less: Income tax expense	1,525,107	1,521,991	1,760,639	1,962,981
Profit for the period	6,658,072	3,706,566	5,475,784	3,254,545
Quarterly profit as a percentage of the profit after tax	27.3	22.6	22.5	19.9
Cumulative quarterly profit as a percentage of the profit after tax	27.3	22.6	49.8	42.5

	3rd Quarter ended September 30		4th Quarter ended December 31		Total	
	2021	2020	2021	2020	2021	2020
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Group						
Net interest income	16,375,248	14,029,002	18,883,052	14,073,040	66,416,332	50,868,802
Net fee and commission income	2,884,472	2,672,054	3,645,475	3,061,922	12,242,194	9,821,675
Other operating income (net)	3,347,432	3,679,491	2,118,308	3,776,897	14,939,797	16,039,011
Less: Impairment charges and other losses	4,342,977	7,471,776	7,142,508	4,686,932	25,139,926	21,419,532
Net operating income	18,264,175	12,908,771	17,504,327	16,224,927	68,458,397	55,309,956
Less: Expenses	8,950,689	7,634,075	9,615,628	8,100,960	35,502,969	30,793,994
Operating profit	9,313,486	5,274,696	7,888,699	8,123,967	32,955,428	24,515,962
Add: Share of profits/(losses) of associate companies	(330)	2,665	1,813	1,970	1,896	3,898
Profit before income tax	9,313,156	5,277,361	7,890,512	8,125,937	32,957,324	24,519,860
Less: Income tax expense	2,649,350	1,549,657	2,617,567	2,214,421	8,667,036	7,433,063
Profit for the period	6,663,806	3,727,704	5,272,945	5,911,516	24,290,288	17,086,797
Quarterly profit as a percentage of the profit after tax	26.7	21.8	21.7	34.6	100.0	100.0
Cumulative quarterly profit as a percentage of the profit after tax	76.3	65.4	100.0	100.0	–	–

	3rd Quarter ended September 30		4th Quarter ended December 31		Total	
	2021	2020	2021	2020	2021	2020
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Bank						
Net interest income	15,934,934	13,762,118	18,397,613	13,681,492	64,610,612	49,571,341
Net fee and commission income	2,803,989	2,540,162	3,489,598	2,895,323	11,751,463	9,256,405
Other operating income (net)	3,345,805	3,686,508	2,187,582	3,785,715	15,032,450	16,112,552
Less: Impairment charges and other losses	4,261,500	7,441,088	7,072,801	4,601,958	24,692,343	21,483,698
Net operating income	17,823,228	12,547,700	17,001,992	15,760,572	66,702,182	53,456,600
Less: Expenses	8,818,226	7,427,613	9,425,393	7,815,430	34,700,979	29,945,288
Profit before income tax	9,005,002	5,120,087	7,576,599	7,945,142	32,001,203	23,511,312
Less: Income tax expense	2,533,250	1,486,601	2,576,156	2,166,250	8,395,152	7,137,823
Profit for the period	6,471,752	3,633,486	5,000,443	5,778,892	23,606,051	16,373,489
Quarterly profit as a percentage of the profit after tax	26.5	22.2	21.2	35.3	100.0	100.0
Cumulative quarterly profit as a percentage of the profit after tax	76.3	64.7	100.0	100.0	–	–

Statement of Financial Position – Group – 2020 and 2021

As at	1st Quarter ended March 31, 2021 Rs. '000	1st Quarter ended March 31, 2020 Rs. '000	2nd Quarter ended June 30, 2021 Rs. '000	2nd Quarter ended June 30, 2020 Rs. '000
Assets				
Cash and cash equivalents	51,995,270	69,291,420	67,888,744	52,425,162
Balances with Central Banks	79,603,760	38,459,820	84,715,615	57,547,194
Placements with banks	13,834,678	28,862,006	7,625,796	26,860,049
Securities purchased under re-sale agreements	–	10,448,494	–	7,209,397
Derivative financial assets	3,633,738	2,140,505	3,105,697	1,898,100
Financial assets recognised through profit or loss – measured at fair value	25,982,011	25,660,517	34,171,453	32,898,907
Financial assets at amortised cost – Loans and advances to banks	829,740	792,189	837,037	776,550
Financial assets at amortised cost – Loans and advances to other customers	929,618,154	917,442,418	971,894,929	897,297,570
Financial assets at amortised cost – Debt and other financial instruments	350,832,246	116,242,352	375,044,696	195,822,341
Financial assets measured at fair value through other comprehensive income	315,079,615	212,994,354	335,866,978	245,777,765
Investments in subsidiaries	–	–	–	–
Investment in associate	63,111	55,907	63,749	53,190
Property, plant and equipment and right-of-use assets	25,674,949	22,051,532	25,232,279	21,993,257
Investment properties	67,116	46,350	67,900	46,350
Intangible assets	1,914,792	1,641,425	1,868,300	1,698,360
Leasehold property	–	101,251	–	100,889
Deferred tax assets	4,187,627	1,291,100	5,173,206	159,921
Other assets	20,983,814	25,749,941	21,168,312	24,090,018
Total assets	1,824,300,621	1,473,271,581	1,934,724,691	1,566,655,020
Liabilities				
Due to banks	80,049,153	76,515,510	103,006,874	73,955,005
Derivative financial liabilities	4,388,511	2,987,717	2,609,946	1,915,067
Securities sold under repurchase agreements	96,228,787	42,014,953	113,577,165	64,224,587
Financial liabilities at amortised cost – Due to depositors	1,346,539,936	1,120,368,799	1,405,045,018	1,155,219,967
Financial liabilities at amortised cost – Other borrowings	52,098,343	23,473,191	50,377,494	31,578,599
Current tax liabilities	7,588,842	5,324,474	8,775,280	5,221,850
Deferred tax liabilities	344,928	417,779	344,335	825,722
Other liabilities	39,132,442	26,541,214	46,354,848	50,978,826
Due to subsidiaries	–	–	–	–
Subordinated liabilities	34,239,946	38,562,279	34,704,218	38,199,628
Total liabilities	1,660,610,888	1,336,205,916	1,764,795,178	1,422,119,251
Equity				
Stated capital	54,564,038	40,916,958	54,565,350	42,971,971
Statutory reserves	9,287,728	8,387,701	9,287,728	8,391,150
Retained earnings	7,254,535	5,864,374	12,848,919	7,414,964
Other reserves	90,696,736	80,208,291	91,273,009	84,077,287
Total equity attributable to equity holders of the Group/Bank	161,803,037	135,377,324	167,975,006	142,855,372
Non-controlling interest	1,886,696	1,688,341	1,954,507	1,680,397
Total equity	163,689,733	137,065,665	169,929,513	144,535,769
Total liabilities and equity	1,824,300,621	1,473,271,581	1,934,724,691	1,566,655,020
Contingent liabilities and commitments	800,865,904	622,815,977	744,326,170	602,842,021
Net assets value per ordinary share (Rs.)	135.49	131.75	140.66	135.83
Quarterly growth (%)				
Financial assets at amortised cost – Loans and advances to banks & loans and advances to other customers	2.18%	2.63%	4.55%	–2.20%
Financial liabilities at amortised cost – Due to depositors	4.66%	4.81%	4.34%	3.11%
Total assets	3.51%	4.57%	6.05%	6.34%

3rd Quarter ended		4th Quarter ended		
September 30, 2021 **Rs. '000**	September 30, 2020 Rs. '000	**December 31, 2021 (Audited) Rs. '000**	December 31, 2020 (Audited) Rs. '000	*As at*
				Assets
93,000,346	44,382,431	69,335,379	51,255,030	Cash and cash equivalents
49,431,255	83,313,147	56,777,465	115,358,732	Balances with Central Banks
20,218,425	17,645,097	12,498,709	16,421,867	Placements with banks
2,697,359	445,577	3,000,490	–	Securities purchased under resale agreements
3,271,766	2,011,946	3,245,120	2,636,717	Derivative financial assets
31,522,053	43,470,925	23,436,123	35,189,471	Financial assets recognised through profit or loss – measured at fair value
833,952	773,422	–	779,705	Financial assets at amortised cost – Loans and advances to banks
999,913,656	899,988,223	1,029,584,075	909,829,172	Financial assets at amortised cost – Loans and advances to other customers
356,179,525	269,243,315	385,390,598	302,059,529	Financial assets at amortised cost – Debt and other financial instruments
345,560,552	252,685,502	335,953,802	278,716,794	Financial assets measured at fair value through other comprehensive income
–	–	–	–	Investments in subsidiaries
63,096	62,361	60,428	64,155	Investment in associate
25,001,485	21,705,618	24,744,634	25,386,630	Property, plant and equipment and right-of-use assets
67,900	46,350	72,400	67,116	Investment properties
2,047,091	1,827,427	2,272,639	1,800,516	Intangible assets
–	100,525	–	–	Leasehold property
8,052,166	2,503,276	10,036,105	2,735,566	Deferred tax assets
24,600,114	22,879,328	27,083,177	20,195,153	Other assets
1,962,460,741	1,663,084,470	1,983,491,144	1,762,496,153	**Total assets**
				Liabilities
80,540,568	82,499,159	73,801,195	88,248,056	Due to banks
3,017,891	1,533,809	2,092,198	1,501,262	Derivative financial liabilities
132,578,610	81,100,405	151,424,854	91,411,522	Securities sold under repurchase agreements
1,447,888,478	1,221,756,923	1,472,640,456	1,286,616,399	Financial liabilities at amortised cost – Due to depositors
46,167,470	48,116,673	32,587,051	54,555,933	Financial liabilities at amortised cost – Other borrowings
8,737,272	6,444,772	9,486,772	6,991,005	Current tax liabilities
343,822	421,972	349,106	403,846	Deferred tax liabilities
31,862,811	37,249,718	33,253,518	33,572,283	Other liabilities
–	–	–	–	Due to subsidiaries
43,363,999	38,136,630	38,303,466	38,247,138	Subordinated liabilities
1,794,500,921	1,517,260,061	1,813,938,616	1,601,547,444	**Total Liabilities**
				Equity
54,565,494	42,971,971	54,566,957	52,187,747	Stated capital
9,287,728	8,391,150	10,590,338	9,285,233	Statutory reserves
19,680,594	11,213,907	9,890,762	8,124,261	Retained earnings
82,402,906	81,537,813	92,426,660	89,595,571	Other reserves
165,936,722	144,114,841	167,474,717	159,192,812	**Total equity attributable to equity holders of the Group/Bank**
2,023,098	1,709,568	2,077,811	1,755,897	Non-controlling interest
167,959,820	145,824,409	169,552,528	160,948,709	**Total equity**
1,962,460,741	1,663,084,470	1,983,491,144	1,762,496,153	**Total liabilities and equity**
674,796,325	680,543,307	685,379,028	730,561,685	Contingent liabilities and commitments
138.95	137.03	140.24	136.42	Net assets value per ordinary share (Rs.)
				Quarterly growth (%)
2.88%	0.30%	2.97%	1.09%	Financial assets at amortised cost – Loans and advances to banks & loans and advances to other customers
3.05%	5.76%	1.71%	5.31%	Financial liabilities at amortised cost – Due to depositors
1.43%	6.16%	1.07%	5.98%	Total assets

Statement of Financial Position – Bank – 2020 and 2021

As at	1st Quarter ended March 31, 2021 Rs. '000	1st Quarter ended March 31, 2020 Rs. '000	2nd Quarter ended June 30, 2021 (Audited) Rs. '000	2nd Quarter ended June 30, 2020 (Audited) Rs. '000
Assets				
Cash and cash equivalents	50,223,404	67,909,585	66,211,229	50,830,153
Balances with Central Banks	76,341,432	32,656,696	80,197,728	53,453,467
Placements with banks	13,313,090	28,287,644	7,082,629	26,427,430
Securities purchased under re-sale agreements	–	10,448,494	–	7,209,397
Derivative financial assets	3,633,738	2,140,505	3,105,697	1,898,100
Financial assets recognised through profit or loss – measured at fair value	25,982,011	25,660,517	34,171,453	32,898,907
Financial assets at amortised cost – Loans and advances to banks	829,740	792,189	837,037	776,550
Financial assets at amortised cost – Loans and advances to other customers	916,062,889	907,415,058	957,384,317	887,251,878
Financial assets at amortised cost – Debt and other financial instruments	337,216,097	110,201,662	361,301,611	187,528,301
Financial assets measured at fair value through other comprehensive income	314,567,633	212,748,101	335,862,629	245,533,383
Investments in subsidiaries	5,808,429	5,011,284	5,808,429	4,683,429
Investment in associate	44,331	44,331	44,331	44,331
Property, plant and equipment and right-of-use assets	23,997,196	20,053,178	23,544,270	19,964,308
Investment properties	–	–	–	–
Intangible assets	1,330,727	1,076,363	1,311,076	1,137,090
Leasehold property	–	70,477	–	70,242
Deferred tax assets	3,971,770	1,100,255	4,917,109	–
Other assets	20,879,920	25,647,724	21,108,274	23,893,406
Total assets	1,794,202,407	1,451,264,063	1,902,887,819	1,543,600,372
Liabilities				
Due to banks	79,383,054	74,075,132	102,474,262	72,163,605
Derivative financial liabilities	4,388,511	2,987,717	2,609,946	1,915,067
Securities sold under repurchase agreements	96,267,906	42,159,141	114,066,400	64,448,218
Financial liabilities at amortised cost – Due to depositors	1,321,759,956	1,104,634,005	1,378,167,491	1,138,170,145
Financial liabilities at amortised cost – Other borrowings	52,098,343	23,473,191	50,377,494	31,578,599
Current tax liabilities	7,381,495	5,053,931	8,532,714	4,938,966
Deferred tax liabilities	–	–	–	410,559
Other liabilities	39,067,270	26,300,217	46,172,569	50,610,310
Due to subsidiaries	96,676	80,711	98,567	65,786
Subordinated liabilities	34,239,946	38,562,279	34,704,218	38,199,628
Total liabilities	1,634,683,157	1,317,326,324	1,737,203,661	1,402,500,883
Equity				
Stated capital	54,564,038	40,916,958	54,565,350	42,971,971
Statutory reserves	9,024,065	8,205,391	9,024,065	8,205,391
Retained earnings	6,637,622	5,768,479	12,200,306	6,968,011
Other reserves	89,293,525	79,046,911	89,894,437	82,954,116
Total equity attributable to equity holders of the Group/Bank	159,519,250	133,937,739	165,684,158	141,099,489
Non-controlling Interest	–	–	–	–
Total equity	159,519,250	133,937,739	165,684,158	141,099,489
Total liabilities and equity	1,794,202,407	1,451,264,063	1,902,887,819	1,543,600,372
Contingent liabilities and commitments	798,522,243	620,610,185	740,650,015	600,818,662
Net assets value per ordinary share (Rs.)	133.58	130.35	138.74	134.16
Quarterly growth (%)				
Financial assets at amortised cost – Loans and advances to banks & loans and advances to other customers	2.14%	2.57%	4.51%	-2.22%
Financial liabilities at amortised cost – Due to depositors	4.41%	4.87%	4.27%	3.04%
Total assets	3.34%	4.61%	6.06%	6.36%

3rd Quarter ended		4th Quarter ended		
September 30, 2021 Rs. '000	September 30, 2020 Rs. '000	December 31, 2021 (Audited) Rs. '000	December 31, 2020 (Audited) Rs. '000	*As at*
				Assets
91,478,737	43,339,446	68,078,076	50,250,627	Cash and cash equivalents
45,873,467	79,611,753	52,897,908	110,971,105	Balances with Central Banks
19,265,858	17,235,679	11,584,952	15,938,982	Placements with banks
2,697,359	445,577	3,000,490	–	Securities purchased under re-sale agreements
3,271,766	2,011,946	3,245,120	2,636,717	Derivative financial assets
31,522,053	43,470,925	23,436,123	35,189,471	Financial assets recognised through profit or loss – measured at fair value
833,952	773,422	-	779,705	Financial assets at amortised cost – Loans and advances to banks
984,845,846	888,862,548	1,014,618,580	896,845,453	Financial assets at amortised cost – Loans and advances to other customers
342,169,712	260,169,367	369,417,889	292,727,566	Financial assets at amortised cost – Debt and other financial instruments
345,250,606	252,327,507	335,463,338	278,461,369	Financial assets measured at fair value through other comprehensive income
5,808,429	4,683,429	5,808,429	5,808,429	Investments in subsidiaries
44,331	44,331	44,331	44,331	Investment in associate
23,246,255	19,672,332	23,075,467	23,212,394	Property, plant and equipment and right-of-use assets
–	–	–	–	Investment properties
1,494,505	1,260,024	1,724,864	1,232,863	Intangible assets
–	70,006	–	–	Leasehold property
7,772,486	2,321,548	9,793,129	2,499,860	Deferred tax assets
24,542,510	22,751,766	27,024,475	19,619,149	Other assets
1,930,117,872	1,639,051,606	1,949,213,171	1,736,218,021	**Total assets**
				Liabilities
80,362,973	81,003,276	73,777,420	87,451,306	Due to banks
3,017,891	1,533,809	2,092,198	1,501,262	Derivative financial liabilities
133,030,525	81,145,001	151,911,842	91,437,612	Securities sold under repurchase agreements
1,420,186,722	1,203,658,867	1,443,093,453	1,265,965,918	Financial liabilities at amortised cost – Due to depositors
46,167,470	48,116,673	32,587,051	54,555,933	Financial liabilities at amortised cost – Other borrowings
8,508,147	6,328,897	9,294,180	6,777,992	Current tax liabilities
–	–	–	–	Deferred tax liabilities
31,794,069	36,733,042	33,210,883	33,037,669	Other liabilities
80,785	121,071	48,699	97,015	Due to subsidiaries
43,363,999	38,136,630	38,303,466	38,247,138	Subordinated liabilities
1,766,512,581	1,496,777,266	1,784,319,192	1,579,071,845	**Total liabilities**
				Equity
54,565,494	42,971,971	54,566,957	52,187,747	Stated capital
9,024,065	8,205,391	10,204,368	9,024,065	Statutory reserves
18,916,233	10,707,378	9,028,265	7,596,260	Retained earnings
81,099,499	80,389,600	91,094,389	88,338,104	Other reserves
163,605,291	142,274,340	164,893,979	157,146,176	**Total equity attributable to equity holders of the Group/Bank**
–	–	–	–	Non-controlling Interest
163,605,291	142,274,340	164,893,979	157,146,176	**Total equity**
1,930,117,872	1,639,051,606	1,949,213,171	1,736,218,021	**Total liabilities and equity**
672,716,776	678,379,768	682,399,783	728,711,698	Contingent liabilities and commitments
137.00	135.28	138.08	134.67	Net assets value per ordinary share (Rs.)
				Quarterly growth (%)
2.87%	0.18%	3.02%	0.90%	Financial assets at amortised cost – Loans and advances to banks & Loans and advances to other customers
3.05%	5.75%	1.61%	5.18%	Financial Liabilities at amortised cost – Due to depositors
1.43%	6.18%	0.99%	5.93%	Total assets

Decade at a Glance

As at December 31, Rs. Mn.	CAGR %	SLFRSs 2021	2020	2019
Assets				
Cash and cash equivalents		68,078	50,251	52,535
Balances with Central Banks		52,898	110,971	39,461
Placements with banks		11,585	15,939	24,527
Securities purchased under resale agreements		3,000	–	13,148
Derivative financial assets		3,245	2,637	1,831
Other financial instruments – Held for trading		–	–	–
Financial assets recognised through profit or loss – Measured at fair value		23,436	35,189	21,468
Loans and receivables to banks	13.46	–	–	–
Financial assets at amortised cost – Loans and advances to banks		–	780	758
Loans and receivables to other customers		–	–	–
Financial assets at amortised cost – Loans and advances to other customers		1,014,619	896,845	884,646
Financial investments – Held to maturity		–	–	–
Financial investments – Loans and receivables		–	–	–
Financial assets at amortised cost – Debt and other financial instruments		369,418	292,728	101,145
Financial investments – Available for sale		–	–	–
Financial assets measured at fair value through other comprehensive income		335,463	278,461	197,568
Total financial assets		1,881,742	1,683,801	1,337,087
Investments in subsidiaries		5,808	5,808	5,011
Investment in associate		44	44	44
Property, plant & equipment and right-of-use assets		23,075	23,212	20,507
Intangible assets		1,725	1,233	1,080
Leasehold property		–	–	–
Deferred tax assets		9,793	2,500	294
Other assets		27,024	19,620	23,323
Total assets	16.01	1,949,213	1,736,218	1,387,346
Liabilities				
Due to banks		73,777	87,451	51,506
Derivative financial liabilities		2,092	1,501	1,495
Securities sold under repurchase agreements		151,912	91,438	51,220
Due to other customers/deposits from customers	16.12	–	–	–
Financial liabilities at amortised cost – Due to depositors		1,443,093	1,265,966	1,053,308
Other borrowings		–	–	–
Financial liabilities at amortised cost – Other borrowings		32,587	54,556	23,249
Current tax liabilities		9,294	6,778	4,968
Deferred tax liabilities		–	–	–
Other provisions		–	–	–
Other liabilities		33,211	33,038	30,497
Due to subsidiaries		49	97	54
Subordinated liabilities		38,303	38,247	37,887
Total liabilities		1,784,319	1,579,072	1,254,184
Equity				
Stated capital		54,567	52,188	40,917
Statutory reserves		10,204	9,024	8,205
Retained earnings		9,028	7,596	5,144
Other reserves		91,094	88,338	78,896
Total liabilities and equity	16.01	1,949,213	1,736,218	1,387,346
Contingent liabilities and commitments		682,400	728,712	579,999

CAGR – Compound Annual Growth Rate

	LKASs					
2018	2017	2016	2015	2014	2013	2012
39,534	33,225	30,194	20,044	20,592	14,262	19,733
54,385	44,801	43,873	28,221	19,634	18,432	18,168
19,899	17,633	11,718	17,194	14,508	4,132	16,163
9,514	–	–	8,002	41,198	8,946	3,697
7,910	2,335	1,053	4,118	460	838	1,351
–	4,411	4,988	7,656	6,327	6,379	6,041
5,520	–	–	–	–	–	–
–	641	624	601	551	546	629
763	–	–	–	–	–	–
–	737,447	616,018	508,115	405,431	353,062	337,247
861,100	–	–	–	–	–	–
–	63,563	60,981	–	–	–	–
–	48,712	51,824	57,724	50,436	48,943	31,971
83,855	–	–	–	–	–	–
–	154,714	160,023	204,244	214,208	131,757	57,963
176,507	–	–	–	–	–	–
1,258,987	1,107,482	981,296	855,919	773,345	587,297	492,963
4,264	3,066	2,435	1,237	1,211	289	303
44	44	44	44	44	44	44
15,301	14,635	10,308	9,969	9,953	8,387	8,221
906	777	641	466	439	468	497
72	73	74	74	75	76	77
–	–	964	–	–	–	449
23,911	17,297	16,439	12,096	10,543	9,426	9,189
1,303,485	1,143,374	1,012,201	879,805	795,610	605,987	511,743
50,101	57,121	67,609	30,319	25,261	14,194	4,894
8,022	3,678	1,515	1,891	1,193	1,412	84
49,104	49,677	69,867	112,385	124,564	45,519	31,760
–	850,128	739,563	624,102	529,361	451,153	390,612
983,037	–	–	–	–	–	–
–	23,786	9,270	9,986	11,637	8,654	15,823
25,362	–	–	–	–	–	–
6,566	4,144	3,441	3,002	1,998	1,759	2,802
646	3,275	–	231	2,574	1,563	1,698
–	–	2	2	2	2	2
24,208	19,225	17,710	15,547	17,444	9,827	10,363
41	75	20	26	19	16	22
37,992	25,166	24,850	11,973	11,045	10,944	1,106
1,185,079	1,036,275	933,847	809,464	725,098	545,043	459,166
39,148	37,144	24,978	23,255	21,458	19,587	18,009
7,354	6,477	5,648	4,922	4,327	4,035	3,433
5,063	4,987	4,464	4,389	4,258	4,233	4,178
66,841	58,491	43,264	37,775	40,469	33,089	26,957
1,303,485	1,143,374	1,012,201	879,805	795,610	605,987	511,743
658,722	564,795	498,305	521,232	352,453	295,452	279,593

For the year ended December 31, Rs. Mn.	CAGR %	SLFRSs 2021	2020	2019
Operating results				
Gross income	13.37	160,886	149,711	148,706
Interest income		130,443	122,330	127,780
Interest expense		(65,832)	(72,759)	(80,571)
Foreign exchange profit		10,589	8,338	6,726
Commission and other income		16,195	17,031	12,082
Operating expenses and impairment		(59,394)	(51,429)	(43,678)
Profit before tax	11.37	32,001	23,511	22,339
Income tax expense		(8,395)	(7,138)	(5,314)
Profit for the year	11.59	23,606	16,373	17,025
Ratios				
Return on average-shareholders' funds (%)		14.66	11.28	13.54
Income growth (%)		7.46	0.68	7.72
Return on average assets (%)		1.28	1.05	1.27
Ordinary share dividend cover (times)		2.64	2.34	2.55
Advances to deposits and refinance (%)		73.54	72.96	86.74
Property, plant and equipment to shareholders' funds (%)		15.04	15.56	16.21
Total assets to shareholders' funds (times)		11.82	11.05	10.42
Capital funds to liabilities including contingent liabilities (%)		6.68	6.81	7.26
Cost/income ratio (%)		37.97	39.96	49.41
Liquid assets ratio – Domestic Banking Unit (DBU) (%)		38.73	44.99	30.42
Liquid assets ratio – Offshore Banking Centre (OBC) (%)		36.39	32.70	25.25
(As specified in the Banking Act No. 30 of 1988)				
Group capital adequacy (%) (under Basel II) 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		12.05	13.36	12.40
Tier I capital ratio		12.05	13.36	12.40
Total capital ratio		15.70	16.88	16.18
Share information				
Market value of a voting ordinary share (Rs.)		79.30	80.90	95.00
Earnings per share (Rs.)		20	15	17
Dividend per share (Rs.)		7.50	6.50	6.50
Price earnings ratio (times)		4	5	5
Net assets value per share (Rs.)		138	135	130
Earnings yield (%)		19	19	17
Gross dividends (Rs. Bn.) to ordinary shareholders		8.96	7.59	6.68
Dividend payout ratio (%) – Cash		22	32	27
Total dividend payout ratio (%)		38	46	39
Other information				
Number of employees		5,072	5,057	5,062
Number of delivery points – Sri Lanka	2.24	268	268	268
Number of delivery points – Bangladesh		19	19	19
Number of automated teller machines	6.01	921	906	885

CAGR – Compounded Annual Growth Rate

	LKASs					
2018	2017	2016	2015	2014	2013	2012
138,049	114,357	93,143	77,868	72,753	73,736	63,395
117,466	103,034	80,738	66,030	61,832	62,764	52,685
(72,524)	(64,011)	(47,915)	(35,685)	(34,610)	(36,879)	(29,830)
7,900	588	2,326	2,877	1,481	1,996	4,687
12,683	10,735	10,079	8,961	9,440	8,976	6,023
(39,934)	(28,400)	(25,177)	(25,040)	(22,407)	(22,347)	(19,270)
25,591	23,183	20,051	17,143	15,736	14,510	14,295
(8,047)	(6,602)	(5,539)	(5,240)	(4,556)	(4,065)	(4,197)
17,544	16,581	14,512	11,903	11,180	10,445	10,098
15.56	17.88	19.52	16.90	17.01	18.40	20.96
20.72	24.10	19.62	7.03	0.96	16.31	38.24
1.43	1.54	1.53	1.42	1.60	1.87	2.12
2.67	2.62	2.25	2.09	1.99	1.89	1.86
86.96	86.07	82.69	80.84	75.89	77.48	82.01
13.75	14.46	14.07	14.94	14.85	14.65	16.73
11.01	10.68	12.92	12.51	11.28	9.94	9.73
6.42	6.69	5.47	5.29	6.54	7.25	7.12
46.35	51.08	51.06	48.92	49.26	45.59	47.02
24.47	27.28	27.19	26.24	33.15	33.66	25.40
30.20	30.95	30.19	49.13	31.43	29.38	34.16
N/A	N/A	11.59	11.55	13.07	13.30	12.63
N/A	N/A	16.01	14.28	16.22	16.93	13.84
11.43	12.12	–	–	–	–	–
11.43	12.12	–	–	–	–	–
15.62	15.70	–	–	–	–	–
115.00	135.80	145.00	140.20	171.00	120.40	103.00
17	17	16	13	13	12	12
6.50	6.50	6.50	6.50	6.50	6.50	6.50
7	8	9	10	13	10	9
117	108	88	80	81	72	63
15	13	11	10	8	10	12
6.57	6.48	5.77	5.70	5.70	5.52	5.42
26	26	28	33	35	37	37
37	38	40	48	50	53	54
5,027	4,982	4,987	4,951	4,852	4,730	4,602
266	261	255	246	239	235	227
19	19	19	18	18	18	17
850	775	677	640	625	604	572

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%**
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/ Chief Executive Officer	S Renganathan		D M U N Dissanayaka **	T D Thomas
Chief Executive Officer	R N De Silva *	Keerthi Mediwake *		
Director	A L Gooneratne	K D N Buddhipala	Dr (Ms) J P Kuruppu	D M D K Thilakaratne
Director	A T P Edirisinghe	K S A Gamage	R Senanayake	U I S Thilakawardena
Director	L D A Jayasinghe	S Prabagar	S M S C Jayasuriya	D J D P Hettiarachchi
Director	U I S Thilakawardena		D S Bandara	W M N S K Weerapana
Director			L H Munasinghe	L W P Indrajith
Director				
Director				
Company Secretary	L W P Indrajith	M P Dharmasiri	Ms H D U O Gurnasekara	Ms Y A Kularathna

** Not a Board Member* *** Managing Director and Chief Executive Officer*

Summary of Financial Information

	2021 Rs. Mn.	2020 Rs. Mn.	2021 Rs. Mn.	2020 Rs. Mn.	2021 Rs. Mn.	2020 Rs. Mn.	2021 Rs. Mn.	2020 Rs. Mn.
Total assets	3,785.349	3,449.510	461.022	354.779	10,311.545	8,482.598	705.396	711.027
Total liabilities	457.986	454.405	58.643	107.764	7,058.035	5,284.046	142.943	177.405
Net assets	3,327.363	2,995.105	402.379	247.015	3,253.510	3,198.552	562.453	533.622
Total revenue	632.287	454.906	354.303	348.301	1,264.114	1,049.982	204.239	255.268
Profit before tax	427.265	171.273	156.761	131.533	140.908	110.037	35.784	42.167
Profit after tax	401.506	122.582	181.134	94.648	51.612	58.477	30.286	32.078
Dividend per share (Rs.)	6.50	5.50	50.00	50.00	–	–	33.33	35.00

Local Associate	Foreign Subsidiaries			
EQUITY INVESTMENTS LANKA LIMITED	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, Nay Pyi Taw, Myanmar.	Business Address
+94 11 2507605 +94 11 5373745 +94 11 5373746		+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
	Ronnie Daniel *	Dilan Rajapakse **	R C P Kalugamage	Managing Director/ Chief Executive Officer
A H M Riyaz *				Chief Executive Officer
Deshamanya S E Captain	J Premanath	S Renganathan	Mrs S A Walgama	Director
J D Peiris	U K P Banduwansa	S C U Manatunge	K A P Perera	Director
J B Abu Baker	Giancarlo Dolente	U I S Thilakawardena	D J D P Hettiarachchi	Director
W I Arambage	Dr (Ms) Antonia Coppola	Dr Ibrahim Vishan		Director
K C Vignarajah		Ms Fareeha Shareef		Director
M H Wijewaradene		Ms Aishath Zahira		Director
		J A D J Christie Nanayakkara		Director
Mrs R R Dunuwille	Mrs N Gamage	Ms Aminath Nashadil	R C P Kalugamage	Company Secretary

2021 Rs. Mn.	2020 Rs. Mn.	**2021 Rs. Mn.**	2020 Rs. Mn.	**2021 Rs. Mn.**	2020 Rs. Mn.	**2021 Rs. Mn.**	2020 Rs. Mn.	
374.086	496.708	87.501	588.994	30,042.751	21,712.188	394.538	524.172	Total assets
125.262	226.199	112.257	503.450	26,258.969	18,572.641	33.976	38.429	Total liabilities
248.824	270.509	(24.756)	85.544	3,783.782	3,139.547	360.562	485.743	Net assets
41.059	49.129	13.461	35.342	1,529.550	1,167.493	52.965	102.180	Total revenue
8.272	17.006	(113.941)	(75.019)	568.352	382.717	(37.807)	17.181	Profit before tax
8.272	17.006	(113.941)	(104.460)	426.986	274.214	(30.370)	12.428	Profit after tax
1.00	–	–		–		–		Dividend per share (Rs.)

Investor Relations

Dear Stakeholder,

We extend our sincere gratitude to our loyal investors for choosing to invest in the Bank's capital, both equity and debt, and wish to assure that we are determined to optimise returns for your investments through prudent and sustained growth. As one of the four Domestic Systemically Important Banks and the largest private sector Bank in the country, we are cognisant 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. In this regard, we trust that we were able to fulfil the expectations of our valued investors despite the unprecedented operating environment that prevailed during most part of 2021, and assure that we will continue to discharge our responsibilities in future. We trust that the information presented in this Integrated Annual Report helps investors to comprehend the Bank's underlying strengths and bolster confidence and loyalty, bringing together a loyal group of investors with a long-term value creation for their investment.

As depicted in the section on "Connecting with stakeholders" on pages 20 to 22, the Bank continuously strives to encourage an effective two-way communication with our valued investors, promoting mutual trust and confidence, whilst ensuring the rights conferred on the investors by various statutes to address the material matters. We firmly 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 believe that these engagements will certainly help our investors to gain an insight into the Bank's performance, strategic direction, business model of the Bank, governance mechanism and the risk management strategies adopted.

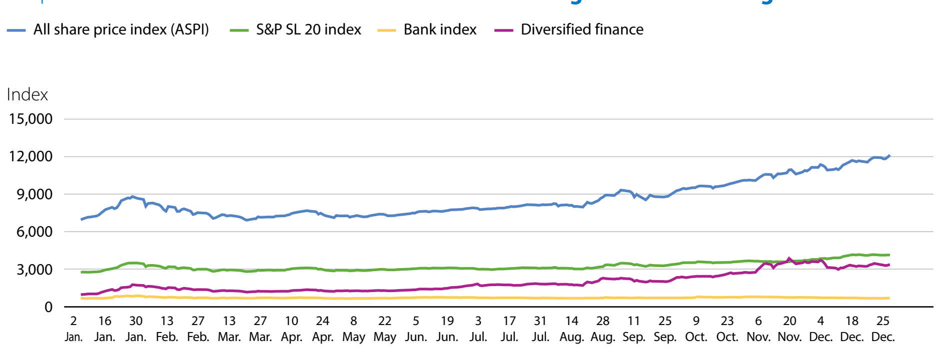
Continuing with our efforts as in the past, this year too, the Bank took several initiatives to produce an integrated Annual Report in a concise manner. This can be seen throughout each section of this Report, with due consideration being given to the valuable feedback given by our shareholders in response to the surveys conducted and feedback provided in the past. Continuing this journey, this year too, we have made arrangements to enclose an improved 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 and we take a very serious note and actions to produce an improved Annual Report, year on year, taking on board many and incorporating into our strategies for long-term value creation to all our stakeholders.

The investor relations section of our website – *https://www.combank.lk/financials* - 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.

Figure – 25: **Modes of engagement with Investors**

We are confident that the efforts taken by the Bank to have 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 that prevailed throughout the year due to the continued impact of the COVID-19 pandemic.

Graph – 14: **Performance of the Colombo Stock Exchange and the Banking Sector in 2021**



Performance of the Colombo Stock Exchange (CSE) in 2021

Year 2021 was the highest record-breaking year for the CSE, with record capital raised by companies and a record number of investor participants. Performance indicators such as market capitalisation, and total and daily average turnover recorded the highest-ever values in 2021. The benchmark All Share Price Index (ASPI) logged a market return of 80.5% and reached 12,226 points by the end of 2021 compared to 6,774 points as at end of 2020, registering the highest return recorded since 2010. Compared with the market indices of the Asia-Pacific region, the ASPI consistently maintained its status as the highest yielding index. The S&P SL20 index followed the ASPI and recorded a return of over 60.5% in 2021, increasing from 2,638 as at end of 2020 to 4,232 by the end of 2021, which is the highest-ever recorded. Market capitalization also reached a 10-year high of 36.7% of GDP or Rs. 5.5 Tn. from 19.7% in 2020 or Rs. 2.96 Tn. and 34.5% in 2010 or Rs. 2.2 Tn.

Performance of the Banking Sector and Commercial Bank shares in 2021

Despite the exemplary performance in both the ASPI and the S&P SL20 indices as shown in the above graph during 2021, the banking sector shares did not follow the same trend. This was mainly due to the perceived uncertainties specific to the sector, which had a direct impact on the performance of banks. They included many relief programs offered to both affected individuals and corporate customers including the extension of moratoriums by the regulator, restrictions imposed on the payment of cash dividends and the Government tax proposals such as the one off income tax payments and the introduction of new taxes. These factors contributed to the decline in the share price of the Bank's ordinary voting shares, which traded at a discount to its book value at 0.57 times as at end of 2021 (0.60 times as at end of 2020). Nevertheless, it continued to remain the highest among its peers in the banking sector. The Bank index gained marginally by 3.72% during 2021 and stood at 609.15 compared to 587.30 as at end 2020.

The Bank's public holding (free float) as at December 31, 2021 was 99.77% in voting shares (99.80% in 2020) and 99.86% in non-voting shares (99.84% in 2020), while float-adjusted market capitalisation (compliant under option-1 of the Rules on minimum public holding requirement of the CSE) remained almost at same levels and stood at Rs. 93.981 Bn. (Rs. 93.483 Bn. in 2020). As shown in Table 37 on page 94, 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 number of shareholders holding both voting and non-voting shares of the Bank during the year remained more or less at the same levels, demonstrating the confidence placed by investors in the Bank's shares despite the challenging conditions experienced during the year 2021.

Compliance report on the contents of the Annual Report in terms of the Listing Rules of the CSE

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

Table 24 given below provides a complete list of disclosure requirements and references to the relevant sections of this Annual Report where the Bank's compliance with the required disclosures are made 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 – 24

Rule No.	Disclosure requirement	Section/reference	Page/s
7.6 (i)	Names of persons who during the financial year were Directors of the Bank	Governance and Risk Management	122
7.6 (ii)	Principal activities of the Bank and its subsidiaries during the year and any changes therein	Note 1.3 to the Financial Statements Group Structure	199 and 200 84 and 85
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 4.2 of the "Investor Relations"	93 and 94
7.6 (iv)	The float adjusted market capitalisation, public holding percentage (%), number of public shareholders and under which option the Bank complies with the minimum public holding requirement, in respect of voting ordinary shares. The public holding percentage (%) in respect of non-voting ordinary Shares.	Item 4.3 of the "Investor Relations"	94
7.6 (v)	A statement of each Directors' holding and Chief Executive Officer's holding in shares of the Bank at the beginning and end of the financial year	Item 4.4 of the "Investor Relations"	94
7.6 (vi)	Information pertaining to material foreseeable risk factors of the Bank	Item 5 of the "Investor Relations"	95

Rule No.	Disclosure requirement	Section/reference	Page/s
7.6 (vii)	Details of material issues pertaining to employees and industrial relations of the Bank	Item 6 of the "Investor Relations"	95
7.6 (viii)	Extents, locations, valuations and the number of buildings of the Bank's land holdings and investment properties	Note 39.5 (a) and (b) to the Financial Statements	261 to 267
7.6 (ix)	Number of shares representing the Bank's stated capital	Note 52 to the Financial Statements Item 7 of the "Investor Relations"	287 and 288 96 and 97
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 4.5 of the "Investor Relations"	95
7.6 (xi)	Ratios and market price information: Equity - Dividend per share, dividend payout ratio, net asset value per share, market value per share - highest and lowest values recorded during the financial year and the market value as at the end of financial year - Highest Price, Lowest price, Last traded price Debt - Interest rate of comparable Government Securities, debt/equity ratio, interest cover and quick asset ratio, market prices and yield during the year Any changes in credit rating (for the Bank or any other instrument issued by the Bank)	Items 2, 3 and 11 of the "Investor Relations" Financial Highlights Items 10 and 11 of the "Investor Relations" Item 12 of the "Investor Relations"	90 to 93 and 99 10 98 and 99 99
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	263 to 267
7.6 (xiii)	Details of funds raised through an Initial Public Offering and/or a further issue of Securities during the year a. the manner in which the funds of such issue/s have been utilized in conformity with the format provided by the Exchange from time to time; b. if any shares or debentures have been issued, the number, class and consideration received and the reason for the issue; and, c. any material change in the use of funds raised through an issue of Securities. In the event the funds raised through the Initial Public Offering and/or the further issue of Securities (as applicable) have been fully utilized by the Bank as disclosed in the Prospectus and/or Circular to shareholders between two financial periods, the entity shall disclose such fact in the immediate succeeding Annual report or the interim financial statement, which ever is published first.	Note 52 and 52.1 to the Financial Statements The Bank did not raise funds through a share issue during the year. Note 51 to the Financial Statements for the details of debentures issued during the year. Item 10 of the "Investor Relations"	287 and 288 286 and 287 98

Rule No.	Disclosure requirement	Section/reference	Page/s
7.6 (xiv)	a. Information in respect of Employee Share Option Schemes - 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 Bank confirming that the Bank or any of its subsidiaries has not, directly or indirectly, provided funds for the ESOS.	Note 53.1 to the Financial Statements	288
	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 Bank confirming that the Bank 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 Bank as per Audited Financial Statements, whichever is lower	The Bank did not have any related party transactions exceeding this threshold during the year 2021 and as at end 2021 (Note 63.6 to the Financial Statements)	306
	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 Bank 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 the Statement of Compliance	148

1. Listed Securities of the Bank

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 25 for a summary of listed securities of the Bank).

The Business section of most daily newspapers, including the Daily News, Daily FT, The Island and Daily Mirror carry a summary of trading activity and the daily prices of shares and debentures traded (if any) using the abbreviation of Commercial Bank or COMB.

Summary of listed securities of the Bank Table – 25

	NUMBER IN ISSUE AS AT		STOCK SYMBOL
	December 31, 2021	December 31, 2020	
Equity			
Ordinary shares – Voting	**1,124,480,528**	1,098,934,937	COMB-N0000
Ordinary shares – Non-voting	**69,740,771**	67,970,701	COMB-X0000
Debt			
Fixed rate Debentures March 2016/21	**Redeemed during the year 2021**	44,303,400	COMB/BD/08/03/21-C2341-10.75%
Fixed rate Debentures October 2016/21		50,718,000	COMB/BD/27/10/21-C2360-12.00%
Fixed rate Debentures March 2016/26	**17,490,900**	17,490,900	COMB/BD/08/03/26-C2342-11.25%
Fixed rate Debentures October 2016/26	**19,282,000**	19,282,000	COMB/BD/27/10/26-C2359-12.25%
Fixed rate Debentures July 2018/23	**83,938,400**	83,938,400	COMB/BD/22/07/23-C2404-12.00%
Fixed rate Debentures July 2018/28	**16,061,600**	16,061,600	COMB/BD/22/07/28-C2405-12.50%
Fixed rate Debentures September 2021/26	**42,374,700**	Issued during the year 2021	COMB/BD/20/09/26-C2491-09.00%
Fixed rate Debentures September 2021/28	**43,580,000**		COMB/BD/20/09/28-C2492-09.50%

Equity Securities

Features of Ordinary Shares Table – 26

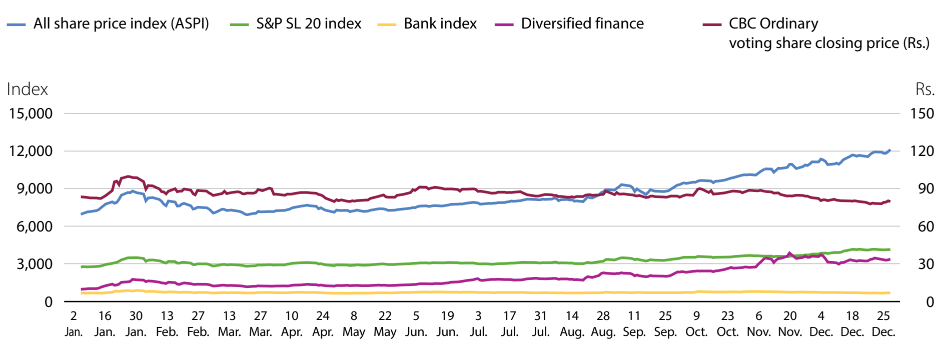
Security Type	Quoted Ordinary Shares
Listed exchange	Colombo Stock Exchange (CSE) – Main Board
Featured stock indices	All Share Price Index (ASPI)
	Standard & Poor's Sri Lanka 20 (S&P SL20)
GICS Industry Group	Banks
CSE stock symbol	Voting - COMB.N0000
	Non Voting - COMB.X0000
International Securities Identification Number (ISIN)	Voting - LK0053N00005
	Non Voting - LK0053X00004

2. Performance of COMB shares and Returns to Shareholders

The investor interest in the shares of the Bank continued during the year compared to pre-pandemic levels, although there was a decline compared to 2020 due to the unprecedented market performance consequent to the market being closed for almost two months and limiting of the share trading hours. This is reflected in the increased number of transactions (Ordinary shares - Voting 174% and Ordinary shares – Non-Voting 245%) compared to 2019 (Refer Table 31 on page 92).

The market price of an ordinary voting share of the Bank decreased by 1.98% (a drop of 14.84% in 2020) from Rs. 80.90 at the end of 2020 to Rs. 79.30 at the end of 2021 (Table 29 on page 91). The Bank continued with its policy of issuing scrip dividends and Employee Share Option Plans. Market capitalisation in terms of Rupees for both voting and non-voting shares remained almost at the same levels (despite there being a reduction in the market capitalisation in terms of US dollars) and stood at Rs. 94.2 Bn. (USD 470.963 Mn.) in 2021 compared to Rs. 93.7 Bn. (USD 500.902 Mn.) in 2020, and accounted for 1.72% of the total market capitalisation as at end of 2021 (3.16% in 2020). The Bank's shares ranked ninth among all listed entities and first among the listed corporates in the Banking sector. During most of 2021, the movement of the non-voting share price followed the trend of the voting shares.

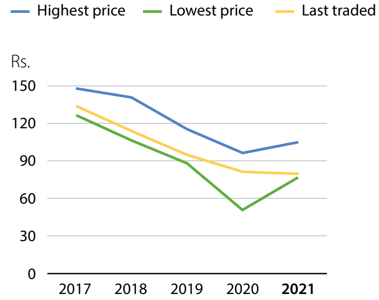
Graph – 15: **Performance of the ordinary shares-voting – 2021**



2.1 Movement of COMB Voting Share price over the year Table – 27

Month	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21
Highest Price (Rs.)	105.00	100.00	92.50	87.30	87.30	92.30	89.00	89.60	86.20	91.20	90.00	82.90
Lowest Price (Rs.)	81.00	80.00	83.00	79.00	79.00	87.00	83.00	82.60	82.00	84.50	79.90	76.90
Price at the month-end (Rs.)	99.70	88.80	85.50	80.70	87.00	88.00	85.30	87.00	84.50	88.90	80.10	79.30

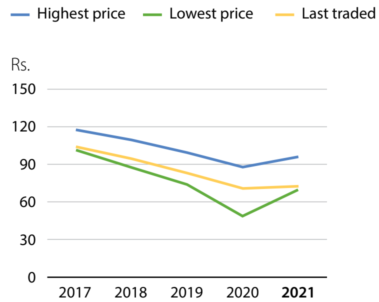
Graph – 16: Share price trend – Ordinary Shares – Voting



2.2 Share price movement of last five years Table – 28

	2021 Rs.	2020 Rs.	2019 Rs.	2018 Rs.	2017 Rs.
Ordinary shares – Voting					
Highest price during the year	105.00	96.00	115.90	142.50	150.00
Lowest price during the year	76.90	50.00	88.60	107.50	128.50
Last traded price	79.30	80.90	95.00	115.00	135.80
Ordinary shares – Non-voting					
Highest price during the year	95.90	87.20	99.40	110.00	118.50
Lowest price during the year	69.60	48.00	74.00	88.00	102.30
Last traded price	72.00	70.10	83.00	95.00	105.00

Graph – 17: Share price trend – Ordinary Shares – Non-Voting



2.3 Sustainable value for investors Table – 29

	ORDINARY SHARES – VOTING			ORDINARY SHARES – NON-VOTING		
	Trade date	2021 Rs.	2020 Rs.	Trade date	2021 Rs.	2020 Rs.
Highest price	29.01.2021	105.00		19.01.2021	95.90	
	02.01.2020		96.00	02.01.2020		87.20
Lowest price	23.12.2021	76.90		22.12.2021	69.60	
	14.05.2020		50.00	15.05.2020		48.00
Year-end price		79.30	80.90		72.00	70.10

2.4 Information on shareholders' funds and Bank's market capitalisation Table – 30

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.
2021	165	94	5,490	1.72	9	470.963
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

(*) Market capitalisation includes both voting and non-voting shares.

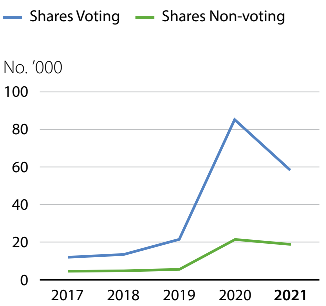
2.5 Number of share transactions (No.) Table – 31

	2021	2020	2019	2018	2017
Ordinary shares – Voting	58,754	85,914	21,481	13,364	11,811
Ordinary shares – Non-voting	18,827	21,407	5,452	4,553	4,432

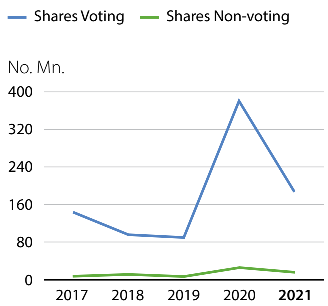
2.6 Number of shares traded (No. '000) Table – 32

	2021	2020	2019	2018	2017
Ordinary shares – Voting	187,853	385,017	89,289	95,286	144,205
Ordinary shares – Non-voting	15,712	26,614	5,893	10,637	6,717

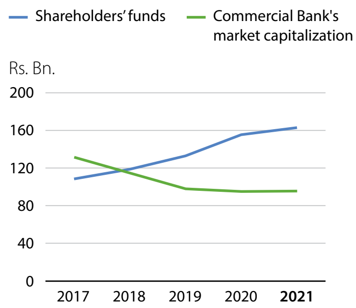
Graph – 18: **Number of share transactions**



Graph – 19: **Number of shares traded**



Graph – 20: **Shareholders' funds and Bank's market capitalization**



3. Dividends

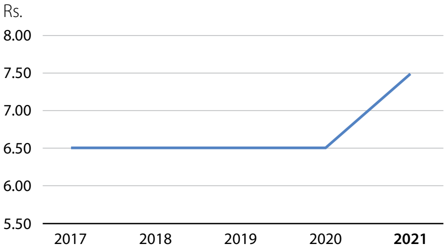
We wish to reiterate that the Bank is fully aware and understands that a declaration of a dividend is fundamental to maintaining a balance between the shareholders' expectations and the business needs of the Bank. Although the Bank has been paying interim cash dividends up to 2019, the Bank did not pay any interim cash dividends during the past two years. This was in compliance with the requirements of the Banking Act Direction No. 03 of 2021, dated May 13, 2020, Direction No. 01 of 2021 dated January 19, 2021 and Direction No. 11 of 2021 dated July 13, 2021, issued by the CBSL on "Restrictions on Discretionary Payments of Licenced Banks", wherein licenced banks were instructed to refrain from declaring cash dividends for financial years ended December 31, 2020 and 2021 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 and Direction No. 11 of 2021 dated July 13, 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 ended December 31, 2020 and 2021 are finalised and audited by the external auditors. Accordingly, the Board of Directors of the Bank has now recommended a final dividend of Rs. 7.50 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. 3.00 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, 2021. This proposed first and final dividend for the year 2021 will be submitted for the approval of the shareholders at the 53rd AGM, to be held on March 30, 2022.

(A dividend of Rs. 6.50 per share was declared and paid by the Bank for the year ended December 31, 2020. It consisted of a cash dividend of Rs. 4.50 per share and balance entitlement of Rs. 2.00 per share satisfied in the form of an issue and allotment of new shares).

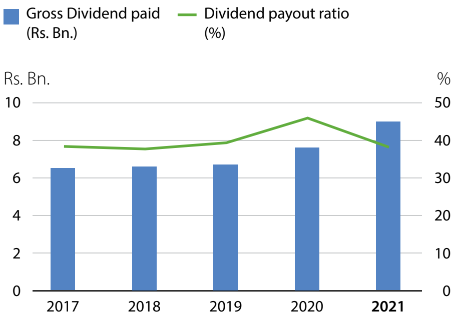
3.1 Dividend information Table – 33

Dividends	2021	2020	2019	2018	2017
Cash – Rs. Per share					
First interim paid	–	–	1.50	1.50	1.50
Second interim paid	–	–	3.00	3.00	3.00
Final proposed	4.50	4.50	–	–	–
Total	4.50	4.50	4.50	4.50	4.50
Scrip – Rs. Per share					
Final proposed/allotted	3.00	2.00	2.00	2.00	2.00
Total	7.50	6.50	6.50	6.50	6.50
Gross Dividend paid (Rs. Bn.)					
Cash	5.37	5.25	4.62	4.55	4.48
Scrip	3.58	2.34	2.06	2.02	2.00
Total	8.95	7.59	6.68	6.57	6.48
Dividend payout ratio (%)					
Cash	22.77	32.07	27.16	25.92	26.42
Cash and Shares	37.94	46.33	39.23	37.44	38.17

Graph – 21: **Dividend per share**



Graph – 22: **Distribution to shareholders (Dividend paid) and Dividend pay-out ratio**



4. Shareholders

The Bank had 16,609 ordinary voting shareholders and 5,954 ordinary non-voting shareholders as at December 31, 2021, compared to 16,820 and 5,786 voting and non-voting shareholders as at December 31, 2020 (Table 34). With three new investors joining ranks, the percentage of ordinary voting shares held by the 20 largest shareholders as at end 2021 increased to 74.22% from 71.96% as at end 2020. However, a marginal drop was witnessed in the non-voting ordinary shares held by the 20 largest shareholders from 38.22% as at end 2020 to 37.69% as at end 2021.

4.1 Number of ordinary shareholders

Table – 34:

As at December 31,	**2021**	2020
Ordinary shareholders – Voting	16,609	16,820
Ordinary shareholders – Non-voting	5,954	5,786
Total	22,563	22,606

4.2 The names, number of shares and percentages of shares held by the twenty largest shareholders (As per rule No. 7.6 (iii) of the Listing Rules of the CSE)

Voting shareholders Table – 35

As at December 31, Ordinary shares – Voting		2021 Number of shares	2021 %	2020* Number of shares	2020* %
1.	DFCC Bank PLC A/C 1	136,272,121	12.12	132,119,619	12.02
2.	Mr Y S H I Silva	111,100,779	9.88	97,441,255	8.87
3.	Employees Provident Fund	96,883,940	8.62	94,723,763	8.62
4.	CB NY S/A International Finance Corporation	79,992,025	7.11	78,208,480	7.12
5.	Sri Lanka Insurance Corporation Ltd. - Life Fund	56,747,851	5.05	61,403,691	5.59
6.	Melstacorp PLC	46,521,219	4.14	45,483,957	4.14
7.	CB NY S/A IFC Emerging Asia Fund LP	41,238,490	3.67	40,319,015	3.67
8.	CB NY S/A IFC Financial Institutions Growth Fund LP	41,238,490	3.67	40,319,015	3.67
9.	Citibank Newyork S/A Norges Bank Account 2	40,824,369	3.63	45,759,984	4.16
10.	Sri Lanka Insurance Corporation Ltd. - General Fund	39,793,725	3.54	38,906,463	3.54
11.	Mr K D D Perera	35,623,143	3.17	–	–
12.	Mr D P Pieris	26,696,174	2.37	21,003,054	1.91
13.	Employees Trust Fund Board	19,586,019	1.74	19,159,319	1.74
14.	Renuka Hotels PLC	11,118,680	0.99	9,893,069	0.90
15.	Mr M J Fernando	10,108,137	0.90	9,882,761	0.90
16.	Mrs L E M Yaseen	10,000,000	0.89	17,077,784	1.55
17.	Renuka Consultants & Services Limited	8,935,921	0.79	8,631,578	0.79
18.	Cargo Boat Development Company PLC	8,017,215	0.71	4,389,182	0.40
19.	Hallsville Trading Group INC.	7,876,387	0.70	7,564,706	0.69
20.	Mr S V Somasunderam	6,001,380	0.53	–	–
	Sub total	834,576,065	74.22	772,286,695	70.28
	Other shareholders	289,904,463	25.78	326,648,242	29.72
	Total	1,124,480,528	100.00	1,098,934,937	100.00

** Comparative shareholdings as at December 31, 2020 of the twenty largest shareholders as at December 31, 2021.*

Non-voting shareholders Table – 36

As at December 31, Ordinary shares – Non-voting	2021 Number of shares	2021 %	2020* Number of shares	2020* %
1. Employees Trust Fund Board	5,425,375	7.78	5,287,676	7.78
2. Akbar Brothers (Pvt) Ltd. A/C No 1	3,345,296	4.80	3,117,457	4.59
3. GF Capital Global Limited	1,803,067	2.59	1,757,304	2.59
4. Mr A H Munasinghe	1,694,141	2.43	1,651,143	2.43
5. Mr M F Hashim	1,362,616	1.95	1,282,270	1.89
6. M J F Exports (Pvt) Ltd.	1,193,037	1.71	1,162,757	1.71
7. Janashakthi Insurance PLC - Shareholders	1,098,757	1.58	–	–
8. Mrs L V C Samarasinha	1,052,622	1.51	1,025,906	1.51
9. Saboor Chatoor (Pvt) Ltd.	997,913	1.43	947,600	1.39
10. Deutsche Bank AG As Trustee To Assetline Income Plus Growth Fund	899,345	1.29	1,770,354	2.60
11. Mr T W A Wickramasinghe, Mrs N Wickramasinghe (Joint)	859,923	1.23	780,000	1.15
12. Mr E Chatoor	825,963	1.18	805,000	1.18
13. Mr J G De Mel	780,974	1.12	590,000	0.87
14. Mr R Gautam	745,897	1.07	708,999	1.04
15. Mr J D Bandaranayake, Ms N Bandaranayake & Dr V Bandaranayake (Joint)	742,382	1.06	723,540	1.06
16. Mr J D Bandaranayake, Dr V Bandaranayake & Ms I Bandaranayake (Joint)	720,767	1.03	702,474	1.03
17. Mr A L Gooneratne	718,873	1.03	500,628	0.74
18. Mr K S M De Silva	706,366	1.01	626,249	0.92
19. Mr M J Fernando	685,247	0.98	801,511	1.18
20. Serendip Investments Limited	635,881	0.91	1,167,646	1.72
Sub total	26,294,442	37.69	25,408,514	37.38
Other shareholders	43,446,329	62.31	42,562,187	62.62
Total	69,740,771	100.00	67,970,701	100.00

** Comparative shareholdings as at December 31, 2020 of the twenty largest shareholders as at December 31, 2021.*

4.3 Public Shareholding (As per rule No. 7.6 (iv) and 7.13.1 of the Listing Rules of the CSE) Table – 37

	2021 Number	2021 %	2020 Number	2020 %
Number of Shareholders representing the public holding (Voting)	16,569	99.77	16,785	99.80
Number of Shareholders representing the public holding (Non-voting)	5,949	99.86	5,781	99.84
Float Adjusted Market Capitalization Rs. Bn. - (Compliant under Option 1)	94		93	

4.4 Directors' shareholding including the Chief Executive Officer's shareholding (As per Rule No. 7.6 (v) of the Listing Rules of the CSE) Table – 38

	ORDINARY SHARES – VOTING 2021	ORDINARY SHARES – VOTING 2020	ORDINARY SHARES – NON-VOTING 2021	ORDINARY SHARES – NON-VOTING 2020
Justice K Sripavan - *Chairman*	14,319	14,000	Nil	Nil
Prof A K W Jayawardane - *Deputy Chairman*	13,083	12,792	Nil	Nil
Mr S Renganathan - *Managing Director/Group Chief Executive Officer*	432,336	362,010	12,781	12,457
Mr S C U Manatunge	73,038	71,410	Nil	Nil
Mr K Dharmasiri	Nil	Nil	Nil	Nil
Mr L D Niyangoda	Nil	Nil	Nil	Nil
Ms N T M S Cooray	350,274	342,465	54,251	52,875
Mr T L B Hurulle	Nil	Nil	Nil	Nil
Ms J Lee	Nil	Nil	Nil	Nil
Mr R Senanayake	Nil	Nil	Nil	Nil
Mr Sharhan Muhseen *	2,503	2,448	Nil	Nil
Mrs D L T S Wijewardena**	Nil	Nil	Nil	Nil

** Appointed as a Director w.e.f. February 15, 2021*
*** Appointed as a Director w.e.f. March 31, 2021*

4.5 Distribution schedule of number of holders and percentage of holding in each class of equity securities (As per rule No. 7.6 (x) of the Listing Rules of the CSE) Table – 39

	AS AT DECEMBER 31, 2021				AS AT DECEMBER 31, 2020			
	Number of shareholders	%	Number of shares	%	Number of shareholders	%	Number of shares	%
Ordinary shares – Voting								
1 – 1,000	9,159	55.14	2,197,203	0.20	8,801	52.32	2,308,178	0.21
1,001 – 10,000	5,004	30.13	17,389,250	1.55	5,441	32.35	19,304,413	1.76
10,001 – 100,000	2,032	12.23	57,783,364	5.14	2,139	12.72	60,718,288	5.53
100,001 – 1,000,000	340	2.05	89,545,274	7.96	364	2.16	95,838,529	8.72
Over 1,000,000	74	0.45	957,565,437	85.15	75	0.45	920,765,529	83.78
Total	16,609	100.00	1,124,480,528	100.00	16,820	100.00	1,098,934,937	100.00
Ordinary shares – Non-voting								
1 – 1,000	3,306	55.53	810,801	1.16	3,161	54.63	810,631	1.19
1,001 – 10,000	1,885	31.66	6,514,550	9.34	1,863	32.20	6,341,366	9.33
10,001 – 100,000	653	10.97	17,992,665	25.80	654	11.30	18,176,361	26.74
100,001 – 1,000,000	102	1.71	27,447,844	39.36	99	1.71	24,419,830	35.93
Over 1,000,000	8	0.13	16,974,911	24.34	9	0.16	18,222,513	26.81
Total	5,954	100.00	69,740,771	100.00	5,786	100.00	67,970,701	100.00

4.6 Composition of shareholders Table – 40

	AS AT DECEMBER 31, 2021				AS AT DECEMBER 31, 2020			
	No. of shareholders	%	No. of shares	%	No. of shareholders	%	No. of shares	%
Ordinary shares – Voting								
Resident	16,353	98.46	892,930,537	79.41	16,534	98.30	838,880,863	76.34
Non-resident	256	1.54	231,549,991	20.59	286	1.70	260,054,074	23.66
Total	16,609	100.00	1,124,480,528	100.00	16,820	100.00	1,098,934,937	100.00
Individuals	15,895	95.70	350,776,984	31.19	16,096	95.70	301,468,333	27.43
Institutions	714	4.30	773,703,544	68.81	724	4.30	797,466,604	72.57
Total	16,609	100.00	1,124,480,528	100.00	16,820	100.00	1,098,934,937	100.00
Ordinary shares – Non-voting								
Resident	5,883	98.81	65,580,173	94.03	5,707	98.63	63,316,978	93.15
Non-resident	71	1.19	4,160,598	5.97	79	1.37	4,653,723	6.85
Total	5,954	100.00	69,740,771	100.00	5,786	100.00	67,970,701	100.00
Individuals	5,699	95.72	46,434,683	66.58	5,537	95.70	45,572,024	67.05
Institutions	255	4.28	23,306,088	33.42	249	4.30	22,398,677	32.95
Total	5,954	100.00	69,740,771	100.00	5,786	100.00	67,970,701	100.00

5. 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 Rule No. 7.6 (vi) of the Listing Rules of the CSE is discussed in the Section on "Risk Governance and Management" on pages 159 to 178.

6. 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.

7. Information on movement in number of shares represented by the stated capital (As per rule No.7.6 (ix) of the Listing Rules of the CSE) Table – 41

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
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	–
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	–

Year			Basis	Number of shares issued/ (redeemed)	NUMBER OF SHARES Ordinary shares voting	Ordinary shares non-voting	Cumulative redeemable preference shares
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	–
	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		115,197,186	1,098,934,937	67,970,701	–
2021	Scrip issue for final dividend 2020	Voting	Rs. 2.00 per share	25,071,337	1,124,006,274	67,970,701	–
	Scrip issue for final dividend 2020	Non Voting		1,770,070	1,124,006,274	69,740,771	–
	ESOP	Voting		474,254	1,124,480,528	69,740,771	–

8. Engaging with shareholders

During the year, the Bank complied with its Shareholder Communication Policy, which outlines the various formal channels through which it engages with shareholders. It covers the timely communication of quarterly performance of the Group and the Bank as set out on pages 74 to 79 in "Summary of Interim Financial Statements - Group and Bank". It also records significant events that may reasonably be expected to impact the share price. (More details are given in Financial Calendar on page 181)

9. Quarterly performance in 2021 compared to 2020 (As per Rule No. 7.4 (a) (i) of the Listing Rules of the CSE)

Despite the challenges faced during the pandemic, the Bank duly submitted the Interim Financial Statements for the year 2021 to the CSE within applicable statutory deadlines. (The Bank duly complied with this requirement for 2020 as well). Please refer "Financial Calendar" on page 181 for further details. A Summary of the Income Statement and the Statement of Financial Position depicting quarterly performance during 2021 together with comparatives for 2020 is given in Summary of Interim Financial Statement – Group and Bank on pages 74 to 79 for the information of stakeholders.

The Audited Income Statement for the year ended December 31, 2021 and the Audited Statement of Financial Position as at December 31, 2021 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 2020).

This Annual Report in its entirety is available on the Bank's website both as a PDF file and as well as an interactive version *(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 based on the requests made through the specimen request letter included in the booklet sent to shareholders.

10. Debt securities

Details of debentures issued and redeemed by the Bank during the year as well as the balances outstanding is as shown in the Table 42 given below:

10.1 Debenture Composition Table – 42

	FIXED INTEREST RATE					
	2021					
Type of Issue	Public	Public	Public	Public	Public	Public
Debenture Type	Type "B"	Type "B"	Type "A"	Type "B"	Type "A"	Type "B"
CSE Listing	Listed	Listed	Listed	Listed	Listed	Listed
Issue Date	9-Mar-16	28-Oct-16	23-Jul-18	23-Jul-18	21-Sep-21	21-Sep-21
Maturity Date	8-Mar-26	27-Oct-26	22-Jul-23	22-Jul-28	20-Sep-26	20-Sep-28
Interest Payable Frequency	Bi-Annually	Bi-Annually	Bi-Annually	Bi-Annually	Bi-Annually	Bi-Annually
Offered Interest Rate	11.25% p.a.	12.25% p.a.	12.00% p.a.	12.50% p.a.	9.00% p.a.	9.50% p.a.
Amount (Rs. Mn.)	1,749.09	1,928.20	8,393.84	1,606.16	4,237.47	4,358.00
Market Values						
– Highest (Rs.)	Not traded during the year	Not traded during the year	Not traded during the year	Not traded during the year	Not traded during the year	102.00
– Lowest (Rs.)						100.00
– Year-end (Rs.)						102.00
Interest Rates						
– Coupon Rate (%)	11.25	12.25	12.00	12.50	9.00	9.50
– Effective Annual Yield (%)	11.57	12.63	12.36	12.89	9.20	9.73
Interest rate of comparable Government Security (%)	10.67	10.86	8.45	11.32	10.65	11.42
Other Ratios as at date of last trade						
– Interest Yield (%)	N/A	N/A	N/A	N/A	N/A	N/A
– Yield to Maturity (%)	N/A	N/A	N/A	N/A	N/A	N/A

	FIXED INTEREST RATE					
	2020					
Type of Issue	Public	Public	Public	Public	Public	Public
Debenture Type	Type "A"	Type "B"	Type "A"	Type "B"	Type "A"	Type "B"
CSE Listing	Listed	Listed	Listed	Listed	Listed	Listed
Issue Date	9-Mar-16	9-Mar-16	28-Oct-16	28-Oct-16	23-Jul-18	23-Jul-18
Maturity Date	8-Mar-21	8-Mar-26	27-Oct-21	27-Oct-26	22-Jul-23	22-Jul-28
Interest Payable Frequency	Bi-Annually	Bi-Annually	Bi-Annually	Bi-Annually	Bi-Annually	Bi-Annually
Offered Interest Rate	10.75% p.a.	11.25% p.a.	12.00% p.a.	12.25% p.a.	12.00% p.a.	12.50% p.a.
Amount (Rs. Mn.)	4,430.34	1,749.09	5,071.80	1,928.20	8,393.84	1,606.16
Market Values						
– Highest (Rs.)	100.49	100.00	Not traded during the year	Not traded during the year	Not traded during the year	100.00
– Lowest (Rs.)	100.00	95.00				100.00
– Year-end (Rs.)	100.49	95.00				100.00
Interest Rates						
– Coupon Rate (%)	10.75	11.25	12.00	12.25	12.00	12.50
– Effective Annual Yield (%)	11.04	11.57	12.36	12.63	12.36	12.89
Interest rate of comparable Government Security (%)	4.70	6.75	5.00	6.80	5.95	7.15
Other Ratios as at date of last trade						
– Interest Yield (%)	9.80	12.43	N/A	N/A	N/A	12.49
– Yield to Maturity (%)	9.86	12.37	N/A	N/A	N/A	12.50

11. Key Shareholder Return Indicators Table – 43

	2021	2020
Debt equity ratio (%)	23.74	35.51
Net assets value per share (Rs.)	138.08	134.67
Interest cover (Times)	13.18	10.37
Liquid assets ratio (%) (Minimum 20%)		
Domestic Banking Unit	38.73	44.99
Off-shore Banking Unit	36.39	32.70
Liquidity Coverage Ratio (%)		
Rupee	425.97	599.38
All Currency	242.52	422.86
Net Stable Funding Ratio – NSFR (%)	157.47	157.49

12. Credit ratings

12.1 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. However, Fitch Ratings reaffirmed the National Long-term rating of the Bank at AA-(lka) and its outlook to stable in August 2021.

The Bank's Bangladesh Operation's credit rating was reaffirmed at AAA by Credit Rating Information Services Ltd., in June 2021 for the 11th consecutive year.

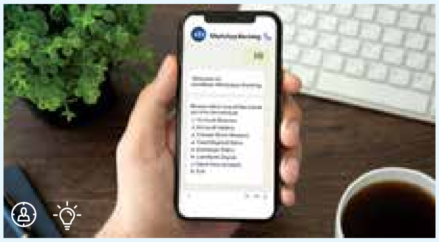
12.2 Credit ratings – Debentures

The credit rating of the Bank's Subordinated Debentures was also reaffirmed at A(lka) by Fitch Ratings Lanka Ltd., in September 2021.

Key Events 2021

JANUARY

ComBank launches Sri Lanka's first "WhatsApp Banking" facility



Demonstrating its innovative use of new-age communications, the Bank has pioneered a ground-breaking product with the world's most widely-used messaging platform WhatsApp to become the first Sri Lankan bank to offer Banking Services on the platform.

ComBank introduces "e-slips" mobile app for paperless cash and cheque deposits

Cash and cheques can be deposited paper-free into current or savings accounts at the Bank, following the launch of an innovative new app that generates "e-slips".

FEBRUARY

ComBank relocates Trinco branch at purpose-built eco-friendly building

Sustainability and salubrity were the operative words when the Trincomalee branch relocated to a purpose-built, eco-friendly building on a land owned by the Bank.

ComBank honoured for dedication to women empowerment by Women in Management (WIM)

The Bank was presented the award for the 'Best CSR project on women empowerment by an organisation', at the 10th edition of the "Top 50 Professional and Career Women Awards, Sri Lanka & Maldives" - an event organised by Women in Management (WIM), a leading organisation in Sri Lanka dedicated to the success of women, together with International Finance Corporation (IFC), a member of the World Bank Group, and the Government of Australia via Australia Aid.

ComBank wins Green Building – Platinum Award from the Green Building Council of Sri Lanka (GBCSL)

The heritage building which is home to the Galle Fort branch won a Platinum award from the Green Building Council of Sri Lanka (GBCSL) for its eco-friendly features after it was recently restored to its original grandeur by the Bank.

ComBank receives "10 Most Admired Companies" award by the International Chamber of Commerce Sri Lanka (ICCSL)

The Bank was presented the award for being one of the 10 "Most Admired Companies in Sri Lanka" in 2019-20 by the International Chamber of Commerce Sri Lanka (ICCSL) in collaboration with the Chartered Institute of Management Accountants (CIMA).

MARCH

ComBank launches QR-based payment acceptance with UnionPay International

The Bank announced that it has collaborated with UnionPay International (UPI) to enable QR code payment acceptance in Sri Lanka, enhancing the payment experience of UnionPay QR Wallet holders.

ComBank confirms support to Phase 2 of Koggala Mangrove Restoration Project

A protective boundary of 3,750 mangrove saplings is to be planted around Kath Duwa, an island in the Koggala Lake, with the continued support of the Bank to the "Koggala Mangrove Restoration and Conservation Project" of Wildlife and Ocean Resource Conservation (WORC) of Sri Lanka.

ComBank adds more options to ComBank Q+ Payment App's "In-App Bill Payments" feature

Customers can now settle their credit card outstanding and top-up their pre-paid cards instantly and conveniently via the ComBank Q+ Payment App, the Bank's card-based payment app.

Customer centricity | Leading through innovation | Operational excellence | Prudent growth

ComBank unveils new look Jaffna branch in Green building

The Bank returned to the original location of its Jaffna branch, resuming operations at an address where banking had taken place since the late 1930s.

ComBank wins 4 at Best Corporate Citizen Sustainability Awards by the Ceylon Chamber of Commerce (CCC)

The Bank won the Sector Award for Best Performance in the Financial Sector, the category award for Best Performance in Governance, and was presented an award for being among the Top 10 Best Corporate Citizens in Sri Lanka in 2020, in addition to its second runner-up award at the Best Corporate Citizen Sustainability Awards presented by the Ceylon Chamber of Commerce.

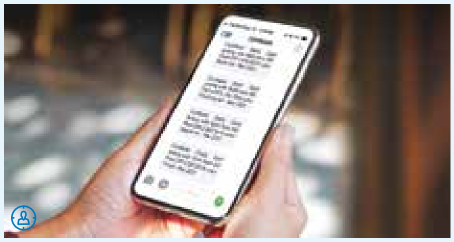
APRIL

ComBank becomes Sri Lanka's first carbon-neutral bank

The Bank became the first Sri Lankan bank to achieve carbon neutrality for the entirety of its operations, encompassing all 268 branches and its head office – a monumental milestone in the Bank's commitment to the environment.

MAY

ComBank offers Credit Card holders auto bill settlement with leading utilities



Automated utility bill payment with no intervention by the customer has brought about a new dimension in convenience for ComBank credit card holders by offering them an option to automatically settle their monthly bills to the country's most-widely used utilities.

JUNE

ComBank launches Corporate Fuel Credit Card & Prepaid Fuel Card

The Bank introduced a Corporate Fuel Credit Card and a Prepaid Fuel Card that can exclusively be used for fuel purchases, and will eliminate the cumbersome fuel allowance reimbursement process currently followed by most companies.

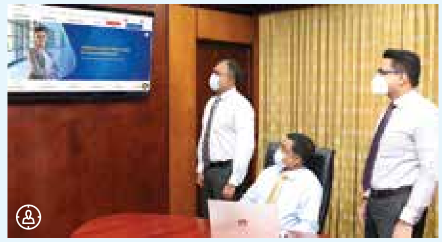
ComBank ranked among Top 1000 World Banks for 11th consecutive year

The Banker
TOP 1000
WORLD BANKS 2021

The Bank was named among the global giants in banking, becoming the only Sri Lankan bank to be ranked in the 'Top 1000 World Banks' announced annually by 'The Banker' magazine of the UK, for the 11th consecutive year in 2021.

JULY

ComBank re-launches www.combank.lk with trilingual content and other enhancements



The Bank announced that its website, now an indispensable tool for millions of customers and information seekers, has been re-launched as a trilingual resource, with a series of cutting-edge enhancements.

SEPTEMBER

Flash Digital Bank Account named "Digital Banking Initiative of the Year"

Flash Digital Bank Account powered by Commercial Bank, was presented the award for the "Digital Banking Initiative of the Year" in Sri Lanka at the 2021 Asian Banking and Finance (ABF) Awards under the 'Retail Banking Awards – Supporting Projects' category.

ComBank enables bill payments via Cash Recycler Machines

The Bank in partnership with Sri Lanka's leading utility companies, mobile operators and insurance companies launched a bill payment facility through its state-of-the-art Cash Recycler Machine (CRM) network, enabling customers to make their payments conveniently and securely.

OCTOBER

ComBank expands *"Dirishakthi"* scheme to transform value chains in rural Sri Lanka

The Bank embarked on an initiative to transform the way it supports micro entrepreneurs using its *"Dirishakthi"* loans programme as the platform for a wider and holistic intervention encompassing financing and empowerment activities.

ComBank partners LankaClear to become first Bank to accept digital signatures in Sri Lanka

The Bank announced that it is now accepting digitally signed documents from business customers using LankaSign operated by LankaClear, the only commercially operating Certification Authority in the country which complies with the Electronic Transactions Act.

ComBank to reward young artists with *"Arunalu Siththam"* art competition

The *"Arunalu Siththam* Children's Art Competition 2021" conducted under the banner of the Bank's popular children's savings account *"Arunalu"* will present more than Rs. 2 Mn. in 137 cash prizes in addition to 250 merit certificates.

"Flash" Digital Banking app links with global climate impact calculation leader Doconomy

The Bank announced a partnership with Doconomy of Sweden, a global leader in impact-tech solutions, to further develop the effectiveness of the Carbon Footprint Calculator in the 'Flash' Digital Banking app developed and deployed in Sri Lanka by the Bank.

NOVEMBER

ComBank's Android POS units accept contactless payments of UnionPay cards

The Bank announced that its Point-of-Sale (POS) devices have been enabled to accept contactless payments via 'QuickPass' – the Near Field Communication (NFC) technology of UnionPay cards.

ComBank ranked among Sri Lanka's 10 most women-friendly workplaces by the Satyn magazine and CIMA

The Bank's commitment to the principles of equal opportunity irrespective of gender and other variables in its Human Resources Management processes including recruitment policy, benefits and pay, training and development opportunities, and policies on abuse and harassment, contributed for its ranking among the top 10 most women friendly workplaces in the country.

ComBank wins Best Corporate Citizen Sustainability Award 2021

The Bank was declared Sri Lanka's 'Best Corporate Citizen' in 2021 by the Ceylon Chamber of Commerce (CCC), achieving the pinnacle of recognition for sustainability and good corporate citizenship in the country's corporate sector.

ADB honours ComBank as Leading Partner Bank for Trade & Supply Chain Finance

The Bank was adjudged the Asian Development Bank's (ADB's) 'Leading Partner Bank in Sri Lanka' at the 2021 edition of its Trade and Supply Chain Finance Programme (TSCFP) Awards that recognise banks that support trade in Asia and the Pacific.

DECEMBER

ComBank wins Daraz award for "Best Engaging Overall Cards Base"

The Bank was presented the award for "The Best Engaging Overall Cards Base" at the "Payment Partner Performance Awards 2021" of Daraz, South Asia's premier online shopping marketplace.

Customer centricity Leading through innovation Operational excellence Prudent growth

ComBank opens banking counter at Dept. of Immigration and Emigration

The counter will provide advice on foreign currency accounts, remittance services and other products offered by the Bank.

ComBank first Sri Lankan bank to win IFC's CAFI Climate Impact Awards

Sri Lanka's first fully carbon neutral Bank, the Commercial Bank has emerged as one of the top banks – and the only Sri Lankan bank – to win two Climate Assessment for Financial Institutions (CAFI) awards from the International Finance Corporation (IFC).

ComBank wins its 16th Gold for Best Annual Report in Banking sector

The Bank won four awards for its 2020 Annual Report at the CA Sri Lanka awards, including two Gold Awards – the Bank's 16th Edmund J. Cooray Memorial Trophy for the Best Annual Report among Banking Institutions since 2001, and the Gold for Corporate Governance Disclosure. Reaffirming the Bank's consistency in financial reporting excellence, the report – themed "A century of experience. A year of reinvention"– was also recognised for "Overall Excellence in Annual Financial Reporting" with a Bronze award and won the Bronze for "Integrated Reporting: Best Disclosure on Capital Management".

ComBank gifts 100 STEM Smart Classrooms to the Nation

The Bank has completed its project to equip 100 schools island-wide with Smart Classrooms that deliver digitised educational content, a commitment it embarked on in its centenary year to transform orthodox educational institutions to STEM (Science, Technology, Engineering, and Mathematics) Centres.

Board of Directors and Profiles

Mr S C U Manatunge
Director and
Chief Operating Officer

Mr S Renganathan
Managing Director/
Group Chief Executive Officer

Justice K Sripavan
Chairman

Mr R A P Rajapaksha
Company Secretary

Mrs D L T S Wijewardena
Director

Ms N T M S Cooray
Director

Mr L D Niyangoda
Director

Board of Directors of the Bank as at February 25, 2022

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.

Appointed as the Chairman of the Board Related Party Transactions Review Committee (BRPTRC) w.e.f. March 28, 2018. Appointed as the Chairman of Board Nomination Committee (BNC), Board Human Resources & 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 14,319 voting shares.

Prof A K W Jayawardane

Deputy Chairman

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.

Appointed as the Chairman of the Board Technology Committee (BTC) w.e.f. April 29, 2015. 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, 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 13,083 voting shares.

Mr S Renganathan

Managing Director/
Group Chief Executive Officer

Redesignated as Group Chief Executive Officer w.e.f. November 15, 2021

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

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

Skills and experience:

A senior banker counting over 41 years, led the Bank's acquisition of the Bangladesh operations of Credit Agricole Indosuez (CAI), Commercial Bank's first ever acquisition of a banking operation, subsequently building up the same as 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, Director of Sri Lanka Banks' Association (Guarantee) 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, Vice President 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:

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 432,336 voting and 12,781 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 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 34 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 39 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 of A Baur & Co. (Pvt) Ltd., Director of Baur Asia (Pte) Ltd., Singapore.

Shareholding of Bank:

Nil.

Ms N T M S Cooray

Appointed as an Independent/Non-Executive Director in September 2016.

Skills and experience:

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

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

Member of Sri Lanka Institute of Directors since July 2006.

Other current appointments:

Chairman and Managing Director of Jetwing Travels (Pvt) Ltd. and Chairman of 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 350,274 voting and 54,251 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 Programme of the University of Moratuwa, Certificate in Science and Technology of Refrigeration, City & Guilds Institute, London and obtained Membership of the Institute of Refrigeration, U.K. in 1977.

Member of the Sri Lanka Institute of Directors since 2017

Other current appointments:

Independent/Non-Executive Director, Kanrich Finance Limited since 2017

Hony. Secretary of The Anuradhapura Jaya Sri Maha Bodhi Development Fund. (Act No. 41 of 2006)

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

Previous appointments:

Director-General, Telecommunications Regulatory Commission (TRC), Designs and Applications Engineer, Metropolitan Refrigeration & Air Conditioning, London, Divisional Manager, 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

Chief Operating Officer

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

Skills and experience:

He was the former Deputy General Manager – Corporate Banking prior to being appointed as the Executive Director/ Chief Operating Officer in 2018. He counts for 32 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.

He is a Fellow of the Chartered Institute of Management Accountants, UK (FCMA-UK) 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), Fellow of the Institute of Certified Management Accountants of Sri Lanka (FCMA) and a Fellow of the Chartered Management Institute, UK (FCMI).

He was instrumental in forming the Association of Banking Sector Risk Professionals, Sri Lanka and was the President in the year 2014. He has also served as a Council Member of the Association of Professional Bankers (APB) and a member of the CIMA – "Thought Leadership Committee". He was a visiting lecturer for the MBA Degree programme at the University of Colombo. Also a resource person at the Training Centre of Central Bank of Sri Lanka and Institute of Bankers of Sri Lanka.

He was adjudged the "Chief Information Security Officer of the Year" at the EC – Council Global CISO Forum held in Atlanta – USA in September 2013 in recognition of his outstanding contribution in strengthening and promoting information security practices and IT Risk Management. He is also a Member of Sri Lanka Institute of Directors since August 2017.

Other current appointments:

Director of Commercial Bank of Maldives Private Limited.

Previous appointments:

Director of CBC Tech Solutions Limited.

Shareholding of Bank:

Holds 73,038 voting shares.

Ms J Lee

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

Appointed as the Chairman 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 in Finance and International 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. Ms Lee is also on the Board of Directors of DBS Group Holdings Ltd., DBS Bank Ltd. and SMRT Corporation Ltd.

She is a member of the Executive Board of the NYU Stern School of Business, which is a private research university based in New York City. Ms Lee is the Vice President of Break Some Glass Inc, WomenExecs on Boards (which is a non-profit Harvard Business School Alumni Network).

She is a co-author of the books "What Every CEO Must Know About Risk" and "RAROC and Risk Management".

Previous appointments:

Principal of Bankers Trust, a key member of the pioneering team that developed the first comprehensive daily risk quantification and risk capital methodology in the banking industry.

Partner of Capco, a global business and technology consultancy.

Partner of Capital Markets Risk Advisors, a strategy and risk management consulting firm

Board Director and Executive Vice President of Solar Frontier KK, a renewable energy subsidiary of Japan-listed Showa Shell Sekiyu KK (now Idemitsu).

Senior Fellow of The Wharton School of Business, University of Pennsylvania.

Adjunct Professor of 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 over 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. He 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 (from October 2014 to March 2021) and a Non-Independent Non-Executive Director (since April 2021) of CBC Finance Limited, 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 the 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) from 1994 to 2007 at Commercial Bank of Ceylon PLC and Chief Financial Officer at Nations Trust Bank PLC.

Shareholding of Bank:

Nil.

Mr S Muhseen

Appointed 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 billion. 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/ Director, Platinum Advisors Pte Ltd., Non-Independent Director, H2O One Pte Ltd., Director, Canary Wharf Holdings Pte Ltd., Independent/Non-Executive Director, Amana Takaful Life PLC, Director, Lankan Angel Network, Sri Lanka.

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:

Holds 2,503 voting shares.

Mrs D L T S Wijewardena

Appointed as an Independent/Non-Executive Director in March 2021.

Skills and experience:

She is a corporate executive with a proven track record in the IT industry both locally and internationally. She has been serving in various senior positions in the industry for many years and gaining diverse experience in providing technology solutions for high tech startups to large multinational businesses in the world.

A Graduate Member of British Computer Society, United Kingdom she gained her Board Executive Education at Harvard Business School, and also earned Strategy Certification for Game Changing Organizations and Artificial Intelligence in impact for business strategies from Massachusetts Institute of Technology, Sloan School of Management.

Women In Management (WIM) together with IFC and Government of Australia presented her the Best Woman Board Director 2021 (Sri Lanka/Maldives) Award at the WIM Awards 2021 in Colombo.

Other current appointments:

Chief Executive Officer of Aventude (Pvt) Ltd. ('Aventude') which she co-founded in 2018. She is also a director of Aventude Pte Ltd., Singapore.

Previous appointments:

She served as the Vice Chairperson of the Cabinet approved national initiative, Women's Chamber for Digital Sri Lanka (WCDSL), an initiative to uplift women participation in digital economy of Sri Lanka through ICT education, career empowerment and supportive policies.

Shareholding of Bank:

Nil.

Mr R A P Rajapaksha

Company Secretary

Appointed as Company Secretary in April 2019.

Skills and experience:

An Associate of Chartered Governance Institute – UK & Ireland, 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 18 years of experience in the field of Company Secretarial Practice including 11 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 & Ireland, Sri Lanka & Asia Pacific Branch. Appointed as an All-Island Justice of the Peace in 2019.

Previous appointments:

Company Secretary of CBC Finance Limited 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/
Group Chief Executive Officer

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

41 years in Banking

Sanath Manatunge

Chief Operating Officer

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

32 years in Banking

Nandika Buddhipala

Group Chief Financial Officer

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

31 years post qualifying experience including 14 years in Banking

Isuru Thilakawardena

Group Chief Human Resources Officer

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

31 years of experience including 12 years in Banking

Hasrath Munasinghe

Group Chief Marketing Officer

FIB (SL)/FCIM (UK)/FSLIM/FCMI (UK)/MSc in Information Technology (University of Moratuwa)/MBA (University of Southern Queensland, Aus)/ACMA/CGMA (UK)/CMA (Aus)/Post Graduate Diploma in Business and Finance Administration (CA Sri Lanka)/CPM (Asia Pacific Marketing Federation, Sing)/ GSLID (SLID)/Advanced Diploma in Credit Management (IBSL)/Diploma in Treasury & Risk Management (IBSL)

28 years of experience including 11 years in Banking

S Prabagar

Deputy General Manager – Corporate Banking

FCMA (UK)/CGMA/MBA (University of London)/AIB (SL)/B.Com (Bharathidasan University, India)/DISSCA– CA Sri Lanka/CISA (USA)

26 years in Banking

Asela Wijesiriwardane

Deputy General Manager – Treasury

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

25 years in Banking

Delakshan Hettiarachchi

Deputy General Manager – Personal Banking

CIM (UK)/MBA (Cardiff Metropolitan University, UK)/AIB (SL)

38 years in Banking

Prins Perera

Chief Treasury Officer

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

32 years in Banking

Krishan Gamage

Assistant General Manager –
Information Technology Operations

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

23 years of experience in Information Technology including 15 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)

27 years post qualifying experience in Finance related fields including 25 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

20 years of experience in Manufacturing and Supply Chain Management and 10 years in Banking

B A H S Preena

Assistant General Manager –
Corporate Banking I

MBA (University of Colombo)/AIB (SL)

34 years in Banking

Kapila Hettihamu

Group Chief Risk Officer

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

26 years in Banking

John Premanath

Group Chief Internal Auditor

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

31 years in Banking

Mrs Mithila Shamini

Assistant General Manager – Personal Banking I

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

35 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)

32 years in Banking

Mrs Dharshanie Perera

Assistant General Manager – Personal Banking II

AIB (SL)

37 years in Banking

Ms Tamara Bernard

Assistant General Manager – Corporate Banking II

AIB (SL)/Masters in Development Studies (University of Colombo)/MBA (University of Sri Jayewardenepura)

32 years in Banking

Ms Kelum Amarasinghe

Group Chief Compliance Officer

Intermediate Diploma in Banking & Finance (IBSL)/Postgraduate Diploma in Strategic Management and Leadership (QUALIFI, UK)

33 years in Banking

Thusitha Suraweera

Assistant General Manager – Operations

Passed Finalist, CIMA (UK)

24 years in Banking

Mrs Namal Gamage

Assistant General Manager – Legal

Attorney at Law and Notary Public/LLM (University of Northumbria, UK)/BA (University of Kelaniya)/Intermediate Diploma in Banking and Finance (IBSL)

28 years in Banking

Nalin Samaranayake

Assistant General Manager – Credit Supervision and Recoveries

AIB (SL)/Postgraduate Executive Diploma in Bank Mgt./MBA (Cardiff Metropolitan, UK)

34 years in Banking

Varuna Kolamunna

Assistant General Manager – Personal Banking III

Intermediate Diploma in Banking & Finance (IBSL)/Masters of Business Administration (Open University of Malaysia)

31 years in Banking

Vajira Thotagammana

Assistant General Manager – Information Technology (Research & Development)

BSc (University of Colombo)

33 years of experience in Information Technology including 28 years in Banking

S Ganeshan

Assistant General Manager – Personal Banking IV/SME

Intermediate Diploma in Banking & Finance (IBSL)/Postgraduate Diploma in Business Administration (Staffordshire University, UK)

33 years in Banking

Senior Management

Corporate Banking

Sidath Pananwala
Head of Corporate Banking I

Mrs Dilrukshi Nanayakkara
Head of Corporate Banking II

Mrs Feroza Ameen
Head of Islamic Banking

Mrs Sushara Vidyasagara
Head of Investment Banking

Prasad Fernando
Head of Imports

Lawrian Somanader
Chief Manager – Exports

Ms Dharshini Gunatilleke
Chief Manager – Corporate Banking I

Geehan Jayawickrama
Chief Manager – Corporate Banking II

Personal Banking

Amal Alles
Head of Centralized Credit Processing Unit

S B Wasala
Senior Regional Manager – Colombo South

Sanath Perera
Senior Regional Manager – Colombo North

Saneth Jayasundara
Senior Regional Manager – Central

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 – Northern

Mrs Chandani Siyambalagastenne
Regional Manager – Wayamba

Mrs Nelum Wasala
Chief Manager – Centralized
Credit Processing Unit

Roshan Peiris
Regional Manager – Southern

Treasury

Mrs Chandrima Leelaratne
Chief Manager –
Treasury Processing

Tivanka Damunupola
Chief Dealer – Treasury

Hemal Jayasekara
Chief Dealer – ALM

Kasun Herath
Chief Dealer – Treasury Sales

Support Services

Pradeep Banduwansa
Head of Retail Products Digital Channels

Sampath Weerasuriya
Head of Security and Safety

Tilak Wakista
Head of Premises

Dr Shanthikumar Fernando
Chief Manager – Research and Development

Mrs Pushpa Chandrasiri
Chief Manager – Human Resources

Mrs Upulani Gunapala
Chief Manager – AML/Compliance

Priyantha Perera
Chief Manager – Super Market Banking

Nishantha De Silva
Chief Manager – Card Centre

Mrs Charika Jayasekera
Chief Manager – Retail Credit Approval

Mohan Fernando
Chief Manager – SME Banking

Jagath Weerasinghe
Chief Manager – Information Technology

Dushmantha Jayasuriya
Chief Manager – Retail Products

Ravindra Kodytuakku
Chief Manager – Compensation and Benefits

Upul Perera
Chief Manager – Central Systems Support

Bangladesh Operations

Najith Meewanage
Chief Executive Officer

Dilip Das Gupta
Senior General Manager

Kapila Liyanage
Chief Operating Officer

Ashim Kumar Nandy
Senior Deputy General Manager – Chittagong

Binoy Gopal Roy
Chief Financial Officer

Mostofa Anowar Sohel
Senior Assistant General Manager – Human Resources

Shakir Khusru
Assistant General Manager – Personal Banking

Chirantha Caldera
Head of Treasury

Subsidiary Operations – Local

Ruwan De Silva
Chief Executive Officer – Commercial Development Company PLC

Keerthi Mediwake
Chief Executive Officer – CBC Tech Solutions Limited

Upul Dissanayake
Managing Director/ Chief Executive Officer – CBC Finance Limited

Thushara Thomas
Managing Director – Commercial Insurance Brokers (Pvt) Ltd.

Subsidiary Operations – Foreign

Dilan Rajapakse
Managing Director/ Chief Executive Officer – Commercial Bank of Maldives Private Limited

Chamendra Kalugamage
Managing Director – CBC Myanmar Microfinance Company Limited

Annual Corporate Governance Report

Chairman's Message

Heightened competition from both conventional players and new entrants such as fintechs; the increasingly capital- intensive nature of the business; rapid and disruptive technological developments; demographic and generational changes; and ever tightening regulations: in our contemporary context, the financial services industry faces frictions and forces from an uncertain operating environment.

Such an environment exerts even greater pressure on the industry to demonstrate greater accountability, transparency, good governance, and sound financial and risk management to all their stakeholders in order to maintain sustainable operations.

Accountability and prevention of corruption is possible only through transparency. Accountability and transparency go hand in hand; the latter in fact enables accountability. The Board acknowledges that transparency and accountability are critical to achieving a high-quality governance mechanism that empowers the stakeholders, especially given the role played by the Bank as a financial intermediary.

In its stewardship role, the Board has the ultimate accountability to the Bank's stakeholders for the activities and performance of the Group. We are aware of the expectations of our stakeholders have of us and of our responsibility to report to them on how we are meeting – and plan to continue meeting – those expectations. Hence, the Board adopts a strategic focus to ensure value creation over the short, medium and long term and takes responsibility for the consequences of the Bank's actions and the resultant performance; and the Board makes every effort to represent these actions and performance fairly through pertinent disclosures, including those made in this Integrated Annual Report.

This requires clarity as to who is responsible for what and to whom at all levels across the Group. In this regard, the Bank has established a number of committees at the Board as well as the Executive level as elaborated in this Governance Report. These committees are guided by the directions/regulations issued by the Central Bank of Sri Lanka from time to time, and a number of Board-approved governing documents such as policies, frameworks, terms of reference, and charters, which are reviewed and approved by the Board at least annually. Similar Board-level as well as Executive-level committees have been established as required in the subsidiaries and the associate, too. Besides the governing documents upholding Board's roles and responsibilities, Board oversight on reporting, disclosures on related party transactions, performance evaluation and reward structures, and KPIs that target long-term sustainability, are other supporting practices that promote accountability and transparency. This clear, principled governance structure helps the Group in promoting accountability and transparency across all the levels of the Group.

During the year under review, the Bank adopted a Board approved Anti-Bribery and Anti-Corruption Policy (https://www.combank.lk/info/file/91/anti-bribery-and-anti-corruption-policy) to further enhance our commitment in this regard, which together with the Code of Ethics and the Whistleblowers' Charter encourage all staff members to be ethical and accountable in their dealings. The Bank also reconstituted the Board- and Executive-level committees during the year consequent to new appointments to the Board and the Corporate Management as well as taking into account the expertise required in the respective committees. Subject to the need to maintain confidentiality, the governing documents that need to be made available to the relevant stakeholders are accessible through the intranet and the Bank's website, as appropriate.

Achieving transparency is a function of providing information, both financial and non-financial, about the activities, performance and governance of the Group – and ensuring that this information is accurate, complete, and made available in a timely fashion to the stakeholders. In order to enhance accountability and uphold transparency, the Bank takes into account materiality, completeness, accuracy, balance, clarity, comparability and reliability when reporting on its performance. Assurance certificates obtained by the Bank on its financials, internal controls, sustainability, integrated reporting, and GRI indicators, etc. further corroborate the Bank's own efforts.

The publication of this Integrated Annual Report, which includes extensive voluntary disclosures that go beyond compliance requirements, is a clear demonstration of our accountability to the stakeholders. We have been gradually expanding our focus and disclosures on environmental, social and governance-related aspects.

The Bank is aware that in addition to its financial performance, the overall efficacy of its long-term value creation will be judged by its contribution to the society and the environment. In our view, these are mutually inclusive aspects, and are equally important components in a comprehensive definition of sustainability. A profitable operation is a precondition for being sustainable; the Bank must be able to sustain its performance into the foreseeable future as a going concern. But the Bank must also conduct its enterprise with due consideration to the society and the environment in which it operates so that benefits accrue to the wider community. These two dimensions are dependent on each other such that both need to be present for an enterprise to be sustainable. It is the sustained performance of the Bank that enables it to give due consideration to the society and the environment; but unless it gives due consideration to social and environmental aspects, the Bank cannot renew its 'license' to operate within a community, and cannot, therefore, sustain its performance in the long run.

Given that the Bank conducts its operations with the best interests of all the stakeholders at heart and it is backed by exemplary governance practices, as elaborated in this Corporate Governance Report, the Board of Directors is highly confident about the sustainability of the Bank's operations into the foreseeable future across both dimensions referred to above.

Justice K Sripavan
Chairman
Colombo, February 25, 2022

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

As per the disclosure requirements of the Banking Act Direction No. 11 of 2007 on Corporate Governance (the Direction), pages 104 to 158 of this Report elaborate the structure, overarching principles, and components of the Bank's corporate governance framework. In addition, the Bank has complied with the principles enumerated in the Code of Best Practice on Corporate Governance – 2017 (the Code) issued by CA Sri Lanka.

The External Auditors of the Bank, Messrs Ernst & Young have submitted their Assurance Statement to the Central Bank of Sri Lanka (CBSL), post their review of the Bank's compliance in line with the Direction.

Extent of compliance in line with the Direction is disclosed in Annex 1.1 on pages 338 to 349, while compliance with the Code is presented in Annex 1.2 on pages 350 to 355. The Bank has also 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 1.3 on pages 356 to 360. 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

As the Bank holds the fiduciary responsibility of accepting and deploying vast sums of uncollateralised public funds, the importance of maintaining public trust and confidence for its long-term success and sustainability cannot be overemphasised. To this end, the Bank considers exemplary conduct on the part of all its employees as absolutely essential to good governance, be it from the Board of Directors at the highest governing body to the members of Corporate Management, or from Senior Management to staff at most junior level. 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. This system has been the bedrock of over 100 years of existence and sustainable value creation.

At Commercial Bank, good corporate governance is not limited to legal and regulatory requirements alone, but is viewed as a collective responsibility that serves as the foundation for financial integrity, sustainable performance, and investor confidence. While it is a strong and highly effective risk management tool, it simultaneously paves the way for the Bank to exploit opportunities. Given this huge responsibility, the Bank has an unwavering commitment to good corporate governance and conducts its affairs with the utmost intellectual honesty, integrity, and diligence whilst being mindful of its obligations to society and the environment. This tone is set at the topmost echelons of the Bank's Corporate governance and echoes through the entire work culture at the Bank.

While the commitment to good corporate governance has been in place for over a century, the underlying framework is regularly reviewed and updated to be in line with the evolving regulations and best practice, thereby consistently and successfully guiding the Board, Board Committees, Management, Management Committee and staff in performing their stewardship roles. This framework is underpinned by the 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. The heavily awarded and accoladed status of Commercial Bank resulting in it being the most awarded bank in the country, bears testimony to its commitment towards good corporate governance (Refer page 66 for the details of awards and accolades won by the Bank during the year under review).

Objectives of the Bank's Corporate Governance System

As the largest private sector bank in Sri Lanka, Commercial Bank touches the lives of millions of Sri Lankans in various capacities, and these stakeholders in turn have high expectations of their interactions with the Bank. Given that this trust and confidence is imperative for the long-term success of the Bank, the Corporate Governance system has been designed with a view to ensure the following as envisaged in its Business Model:

- Adequate oversight on Management to ensure due diligence on key decisions and implementation of strategies as intended
- Establish clear ownership and accountability on key and emerging risks
- Maintain efficient systems and processes, with any issues, incidents and risks being quickly identified, assessed, and escalated
- Provide efficient decision making for timely and effective outcomes in order to achieve results as expected
- Maintain that business as well as support service functions are sufficiently resourced with required competencies and maturity
- Ensure the remuneration framework is properly aligned to the long-term success of the Bank
- Make certain that activities comply with policies, laws, regulations, and ethical standards in both letter and spirit
- Warrant assets are safeguarded
- Guide the Bank and its Group companies to be more stable, resilient, and future ready
- Create 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, Board Sub-Committees, Management and Management Committees, with approved charters and Terms of Reference which are reviewed annually
- Clear reporting lines and frequency of reporting are established
- Legitimate needs, interests, and expectations of all the stakeholders are taken into consideration
- The highest degree of fairness, transparency, and accountability is upheld
- Principles for countering bribery and corruption have been set out, and the management of bribery and corruption risk through the adoption of an Anti-Bribery and Anti-Corruption Policy and communicating same to all staff clearly indicating that zero tolerance for non-compliance has been put in place
- Negative externalities to 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 elements of its Corporate Governance Framework are depicted in Figure 26 on page 119.

1. Principles referred to in this section are the principles in the Code of Best Practice on Corporate Governance – 2017 issued by CA Sri Lanka.

Figure – 26: **Key regulatory requirements, voluntary codes, and elements of Corporate Governance Framework**

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

- Requirements under Sri Lanka Accounting and Auditing Standards Monitoring Board
- 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 foundation of the governance structure of the Bank is built on the well-defined roles and responsibilities, greater accountability, and clear reporting lines of the Board, Board Committees, Management, and Management Committees. The Board and Board Committees- assisted by consultants where necessary- are responsible for setting strategy, defining the 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. The governance structure of the Bank is given in Figure 27 on page 120.

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 whilst also warding off 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 making appointments to the Board and Corporate Management. Under the due diligence and oversight of the Board, Corporate Management is responsible for the execution of the strategy, day-to-day operations, and for implementing an effective system of internal control. The Board and Corporate Management have a clear mutual understanding of their respective roles, delegated authority, and boundaries.

Based on trust and respect, the Board and Corporate 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, and has contributed to positioning the Bank as the benchmark private sector bank in the country and also being regarded as one of the two Domestic Systemically Important Banks (D-SIBs) in the country, currently having the Highest Loss Absorbency rate.

The Board comprised of twelve Directors at end of 2021 (ten as at end 2020). Each Director is an eminent professional in his or her respective field and holds 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 operations of the Bank, its subsidiaries, and the associate, particularly in the wake of emerging global developments threatening to challenge conventional business models. Ten of the Directors (eight as at end 2020) are Independent Non-Executive Directors (INEDs), ensuring a higher degree of autonomy. Directors act in the best interest of the shareholders, avoiding any conflicts of interest.

Diversity and inclusion

Diversity and inclusion go hand in hand at the Bank, with a wide array of diverse people and voices being inclusively heard in the working environment, all towards the overall progress of the Bank. The Board of Directors mirrors this diversity and inclusion by comprising of 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 private sector organisations, they bring their independent judgement to bear on matters reserved for the Board. Bringing together banking, entrepreneurial, investor, and regulatory perspectives, the 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 the Board members which include the qualifications, memberships in Board Committees, and both current and previous significant appointments as well as the profile of the Company Secretary are given on pages 106 to 109.

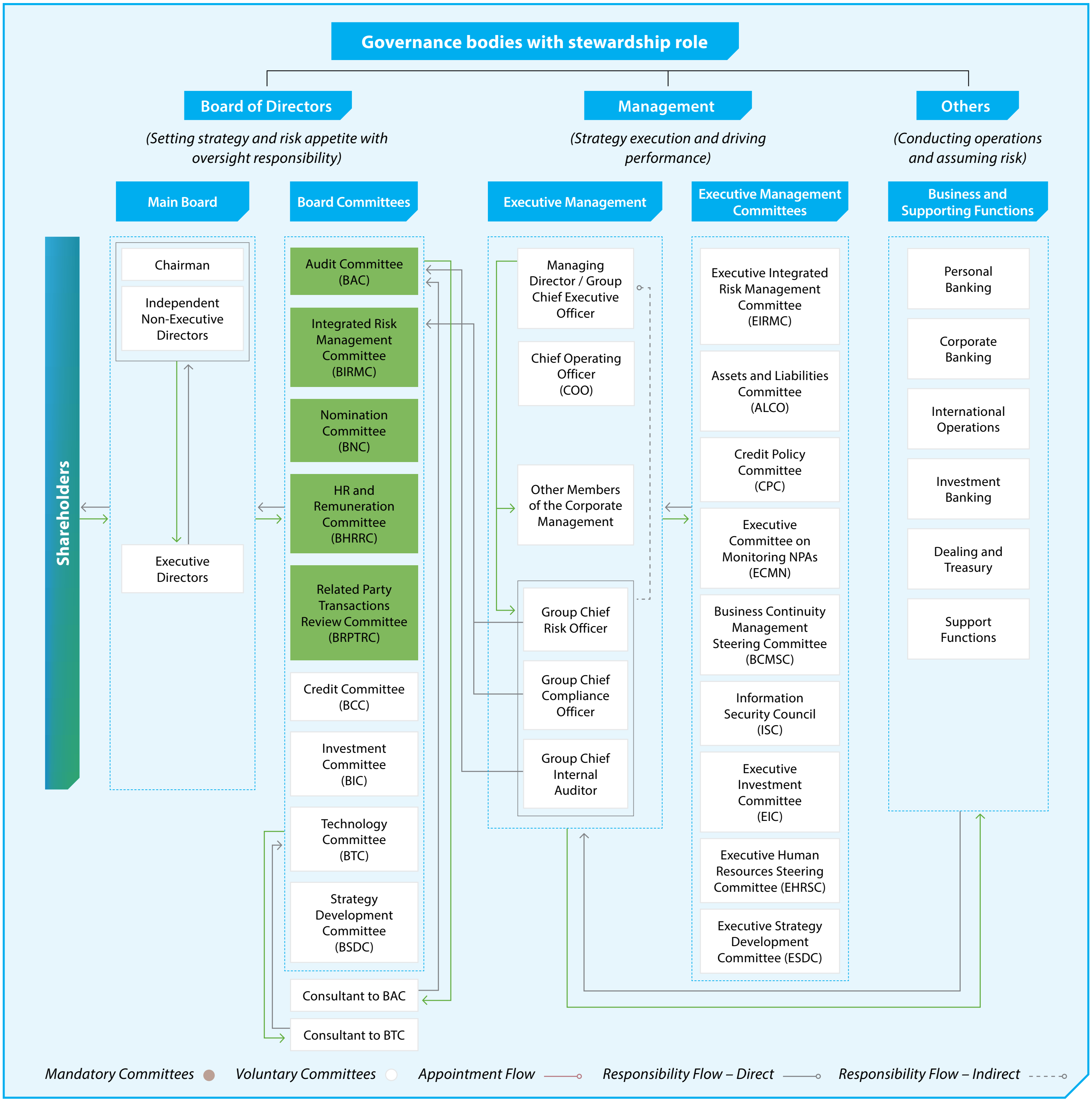
Board process (Principles A.1.6, A.1.7 and A.6)

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. With the assistance of the Company Secretary and in consultation with the Managing Director/Group Chief Executive Officer, the Chairman is responsible for determining and preparing the agenda for the meetings. Board members also have the opportunity to propose items for inclusion in the agenda for discussion. The agenda, together with the accompanying Board papers, is circulated to the members of the Board by the Company Secretary, one week in advance of the dates fixed for the meetings. This provides Board members with adequate time to study the contents, 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, ensuring absolute confidentiality of the information, providing instantaneous delivery, and of equal importance, cost saving on printing of papers, which is one of the many green initiatives. This system has helped the Bank conduct Board and Board Committee meetings uninterrupted even during the pandemic. The Directors regularly attend the meetings, physically and/or virtually, 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 a minimum, seven days a month on Board-related matters. In the best interest of the Bank, one-third of the Directors can call for a resolution to be presented to the Board, if required.

Figure 28 on page 122 provides details of attendance at Board meetings including membership status, mode of attendance, positions held by the Board members in sub committees, and the tenure on the Board.

Minutes of deliberations and decisions made at the meetings are maintained in sufficient detail. On occasion if the need arises, members of the Corporate Management are invited to make presentations to the Board on the performance of areas coming under their purview. Members of the Board are also allowed to seek independent professional advice, if necessary, at the Bank's expense. The Bank has also obtained a Directors' and Officers' Liability Insurance Policy, affording them protection against any allegations in the conduct of their duties.

Figure – 27: **Governance structure**



Conflicts of interest (Principle A.10)

The Bank has a meticulous system in place to avoid conflict of interest. At an individual level, members of the Board declare conflicts of interest situations and withdraw from taking part in deliberations on/exercising influence over matters where conflict or the appearance of conflict of interest arises. The actions are appropriately minuted for future reference. In addition, the affiliations and transactions of Directors are regularly reviewed to ensure that there are no conflicts or relationships that might impair Directors' independence. The Board approved Related Party Transactions Policy of the Bank sets out the procedure to be adopted in granting accommodations to the Directors, their close family members, and entities in which the Directors hold directorships, 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 next scheduled meetings of the BRPTRC for information purposes. The section on "Directors' Interest in Contracts with the Bank" on page 158 discloses 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, while Note 63 to the Financial Statements on pages 302 to 306 carries information on Related Party Disclosures. At the point of joining and annually thereafter, the Directors declare their interests, and necessary procedures are in place to ensure that there are no conflicts of interest which will compromise the independence of members. A register of such declared interests is maintained by the Company Secretary of the Bank and is 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 and amendments thereto.

Board meetings (Principle A.1.1)

In the year 2021, the Board held fifteen (15) scheduled meetings (seventeen in 2020) of which one (01) meeting (one meeting in 2020) was devoted exclusively to deliberations on strategy, with all members of Corporate Management being present. Thirteen (13) meetings (fifteen meetings in 2020) were devoted to matters including large and material transactions, review of performance, review and approval of a revised budget for 2021, review of policy frameworks, capital planning, strategy, and risk. Subsequent to the election/re-election of Directors at the Annual General Meeting (AGM) in place of those who retired by rotation, a further meeting was held to review and revise the composition of the Board Committees.

Such meetings are seen to provide an effective forum for discharging the oversight responsibility of the Board, and although the outbreak of COVID-19 resulted in the physical format of these meetings needing to change, creating a new challenge to holding such meetings, the Bank successfully handled the transition to virtual platforms. All meetings of the Board and Board Committees were conducted in accordance with guidelines issued by the health authorities, with limited physical attendance taking place while some of the Directors connected via virtual platforms. As such, the Bank showcased its ability to adapt to the new normal during the pandemic, thereby continuing its successful pattern of corporate governance,

The Board continued to play an active role in strategy formulation, providing directions to the Corporate Management for the preparation of the Bank's five-year strategic plan spanning 2022-2026. This plan was then reviewed and approved at a meeting specifically convened for this purpose, in December 2021. This meeting saw members of the Corporate Management present plans on areas coming under their purview, and extensive deliberations were made on said presentations, with the Board exploring and evaluating alternative strategies prior to the approval and allocation of resources for execution of the same. The Board continued to give prominence to the capital management strategy in the wake of the increasing tax burden and the potential for higher credit losses following moratoriums and difficulties faced by the borrowers, all in a bid to support growth and ensure sustainable value creation. One of the regular agenda items at the monthly Board meetings is to review performance against the strategic plans, devoting sufficient attention and time to review progress made and to identify areas of concern requiring further attention by the Board. In addition, the Board paid heightened attention to credit quality, closely monitored exposures to risk elevated industries, reviewed the reasonableness of the impairment methodology, monitored movements in staging of exposures, and looked at resolving distressed credit facilities. Further, through periodic presentations made by the respective Chief Executive Officers and/or Managing Directors, the Board also reviewed the performance and future plans of the subsidiaries of the Bank. Due to the new directions issued by the Central Bank of Sri Lanka - Directions No. 13 of 2021 on Classification, Recognition, and Measurement of Credit Facilities and Direction No. 14 of 2021 on Classification, Recognition, and Measurement of Financial Assets other than Credit Facilities in Licensed Banks - which became effective from January 1, 2022 in particular, the Board also reviewed the changes these Directions would require to existing policies, processes and newly introduced policies of the Bank.

Figure – 28: **Composition of the Board and attendance (Principle A.4 and A.5)**

	DOA	Age (Years)	Membership Status		Meeting Attendance		Board Sub Committee Membership									Tenure on the Board (Years)
					Eligible to attend/ Attended	Mode of Participation (In Person / Virtual)	BAC	BIRMC	BNC	BHRRC	BRPTRC	BCC	BTC	BIC	BSDC	
Justice K Sripavan Chairman	26.04.2017	69	NED	ID	15/15	13 / 2			C	C	C	C			C	4+
Prof A K W Jayawardane Deputy Chairman	21.04.2015	61	NED	ID	15/15	11 / 4		C	M	M			C		M	6+
Mr S Renganathan MD/GCEO	17.07.2014	59	ED	NID	15/15	14 / 1	BI	M	BI	BI	BI	M	M	M	M	7+
Mr K Dharmasiri Director	21.07.2015	68	NED	ID	15/15	9 / 6	M	M				M	M	M	M	6+
Mr L D Niyangoda Director	26.08.2016	65	NED	ID	15/15	11 / 4		M			M				M	5+
Ms N T M S Cooray Director	19.09.2016	63	NED	ID	15/15	9 / 6	M					M		M	M	5+
Mr T L B Hurulle Director	05.04.2017	69	NED	ID	15/15	6 / 9		M			M		M			4+
Mr S C U Manatunge Executive Director/COO	27.07.2018	51	ED	NID	15/15	15 / 0	BI	BI			BI	M	M	M		3+
Ms J Lee Director	13.08.2020	54	NED	ID	15/15	0 / 15	M	M	M	M				C	M	1+
Mr R Senanayake Director	16.09.2020	60	NED	ID	15/15	9 / 6	C	M			M				M	1+
Mr S Muhseen Director	15.02.2021	46	NED	ID	14/14	9 / 5							M	M	M	>1
Mrs D L T S Wijewardena Director	31.03.2021	48	NED	ID	10/10	5 / 5	M	M					M			>1

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*

Figure – 29: **Composition of the Board (As at December 31, 2021)**

Non-Executive and Executive Directors

Independent Non-Executive Directors - **10**

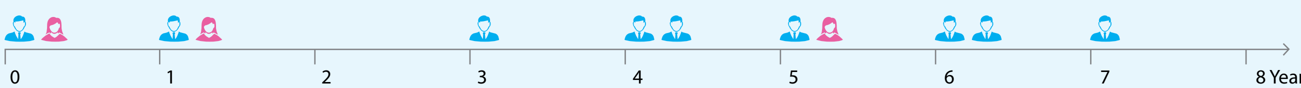
Executive Directors (MD/GCEO, COO) - **2**

Board's gender composition

Female - 3

Male - 9

Tenure on the Board (Years)



Board of Directors' industry/background experience

Banking and Management 6

Agriculture Chemical 1

Finance and Accounting 4

Law 1

Science, Engineering and IT 3

Risk Management and International Capital Markets 4

Diversity and Inclusion go hand in hand at the Bank, with a wide array of diverse people and voices all being inclusively heard in the working environment, all towards the overall progress of the Bank.

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

Board Committees are appointed both in terms of compulsory requirements and voluntarily. Out of the Nine Board Committees that have been appointed with delegated authority to strengthen governance and to deal with/decide on certain subject-specific and specialised matters, five are mandatory whilst four are voluntary. 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, operational, information technology, and strategy development 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- once a quarter as the minimum- and report proceedings to the Board for information/approval. The Board Committees have sought guidance and advice of external consultants on several occasions. Further, each of the Directors served in a minimum of three Committees during the year. The Board, however, retains responsibility for all Committee decisions, thereby ensuring the continuance of good corporate governance.

Proceedings of the Board Committees were regularly reported to the Board and any concerns identified in relation to specialised areas were also referred to them for oversight. The minutes for these meetings carefully ascertain and record the views and deliberations of the Directors on issues under consideration.

The composition, areas of oversight responsibility under respective mandates, key activities in 2021, and attendance of members at the Board Committee meetings are given in the respective Board Committee reports given on pages 129 to 145.

Executive Management Committee

The Executive Management Committee (EMC) comprises of all Corporate Management members including the Managing Director/Group Chief Executive Officer and the Chief Operating Officer, who are also the two Executive Directors (EDs) of the Bank. The primary responsibility of the EMC is to implement strategy- as approved by the Board under the leadership of the Managing Director/Group 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 has a number of responsibilities such as laying down policies, making operational decisions, monitoring financial performance against budgets, reviewing achievement of strategic goals set for business divisions, allocating capital, monitoring the progress of implementing the Digital Road Map, managing risk, deliberating on human resource development including health and safety, fortifying the compliance function, and solving operational and customer issues. Beyond the above functions, the EMC also reviews and deliberates information prior to Board review, thereby ensuring that the Board is provided with all material information in a timely and detailed manner, thus aiding the Board to effectively fulfil their oversight responsibilities as Directors. In addition, the EMC meetings provide all members with the opportunity to gain a 360° view of the Group's operations.

This year, seven members of the Corporate Management, including the CEO, were re-designated to reflect the role they play in the subsidiaries and the associate of the Group, thereby maintaining relevance within the EMC.

The names, designations, qualifications, and experience of EMC members are given in the section on Corporate Management and Profiles on pages 110 and 112, while the names of Senior Management related to the Bank's operations in Sri Lanka, Bangladesh, the Maldives, Myanmar, and the subsidiaries in Sri Lanka are given on pages 113 to 116.

Management Committees

In addition to the Board Committees and the EMC, corporate governance consists of several other Management Committees created along subject specific lines to facilitate decision-making and executing Board- approved strategies. These Management Committees are set under delegated authority from the Managing Director/Group Chief Executive Officer.

Based on approved Terms of Reference, the Management Committees operate under a structure and process similar to that of the Board Committees. Detailed minutes are recorded by each of the Committee Secretaries, which are then submitted to the relevant Board Committees after approval by the Managing Director/Group Chief Executive Officer. 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 30 given on page 124.

Figure – 30: **Executive Management committees**

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/Group Chief Executive Officer, Chief Operating Officer and key members of Integrated Risk Management, Personal Banking, Corporate Banking, Treasury, Internal Audit, Compliance, Finance and Information Security 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/Group 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/Group Chief Executive Officer, Chief Operating Officer and key members of Corporate Banking, Personal Banking, Integrated Risk Management, Internal Audit, Marketing and Credit Supervision & Recoveries Divisions.

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/Group 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

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 Human Resources Management, Personal Banking, Corporate Banking, IT, Services, Operations, Integrated Risk Management and Internal Audit.

Meeting Frequency: Quarterly

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/Group Chief Executive Officer, Chief Operating Officer and key members of Human Resources Management, Services, Operations, IT and Information Security 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/Group Chief Executive Officer, Chief Operating Officer and key members of Corporate and Personal Banking, Investment Banking, Treasury, Finance and Planning Divisions.

Meeting Frequency: Quarterly

Executive Human Resources Steering Committee (EHRSC)

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/Group Chief Executive Officer, Chief Operating Officer, and key members of Human Resource Management, Personal Banking, Corporate Banking, Marketing, Finance and Treasury 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/Group 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: Quarterly

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 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/ Group 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
- Appointing members to the Board of Directors to fill casual vacancies
- Appointing 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)

Risk management is key to the long-term stability of the Bank, and this responsibility of implementing an effective risk management function in the Group falls on the shoulders of the Board, given their position as the highest decision-making authority in the Bank. With the support of the BIRMC, the Board has devised an effective risk management framework which sets the risk appetite and tolerance limits, and enables monitoring of the risk profile on a regular basis through risk reports submitted to the Board. Risk management has continued to be one of the key and regular agenda items of all Board and Committee deliberations. Clarifications were sought from Management for any deviations from the agreed risk profile and necessary guidance was given for taking mitigatory action, while risks related to the business strategies were carefully reviewed at a special Board meeting held to review the Budget for the year 2021 and deliberate on the strategic plan 2022-2026 (Refer Risk Governance and Management on pages 159 to 178 for further details).

Figure – 31

Board Highlights 2021

- Approval/recommendation of a First and Final dividend for the year ended 31st December 2020 of Rs. 6.50 per share, constituting a total sum of Rs. 7,587,767,558/-, distributed by way of cash of Rs. 4.50 per share and by the allotment and issue of new shares of Rs. 2.00 per share.
- Approval/recommendation to issue and allot up to 100,000,000 fully paid, Basel III Compliant - Tier 2, Listed, Rated, Unsecured, Subordinated, Redeemable Debentures ("Debentures") with a Non-Viability Conversion feature at such interest rates as may be determined by the Board at the time of issue, at a par value of Rs.100/- each with a minimum maturity period of 5 years and a maximum maturity period of 7 years.
- Conducted the Annual General Meeting virtually by using a digital platform in line with the guidelines issued by the regulators.
- Conducted an Extraordinary General Meeting to obtain approval for the debenture issue 2021 virtually by using a digital platform in line with the guidelines issued by the regulators.
- Appointed two independent non-executive Directors to strengthen the Board.
- Reviewed the Composition of all Board Committees, respective Committee Charters and Terms of Reference.
- Conducted a training programme on Information Security Awareness for Board of Directors.
- Reviewed all major policy documents.
- Annual strategy meeting with the Corporate Management Team.
- Based on recommendations made by the Board Nomination Committee, the Board approved appointments of two Assistant General Managers and two Deputy General Managers to Corporate Management and a Chief Officer was appointed on contract basis during the year.
- Based on the recommendation made by the Board Nomination Committee, the Board approved the re-designation of seven members of the Corporate Management of the Bank, who carry out group-wide supervisory responsibilities in relation to subsidiaries/overseas operations of the Bank.
- The Board approved the obtaining of a USD 50 Mn. loan from CDC Group PLC, UK.
- Based on recommendations made by the Board Human Resources and Remunerations committee, the Board approved the Directors' Perquisites and Remuneration Policy.

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

With a view to facilitate balance of power and authority and adhering to the best practice in Corporate Governance, the position of Chairman and Group Chief Executive Officer are separated. The Chairman is a Non-Executive Independent Director while the Group 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 Chairman distinctive. Through providing leadership to the Board, preserving order, and facilitating the effective discharge of its duties, the Chairman promotes good corporate governance and the highest standards of integrity and probity throughout the Group. He ensures that the Board receives all information necessary for making informed decisions and 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.

On the other hand, the role of the Group Chief Executive Officer - as set out in the Board Charter - is to conduct the management functions as directed by the Board. The corporate objectives and the boundaries of his authority as Group Chief Executive Officer are set by the Board, while his duties and responsibilities are jointly developed.

The Group 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 Group 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.

While they have separate functions, the Chairman and the Group Chief Executive Officer meet regularly to set the Board agenda, deliberate on current and future developments, and discuss any material issues impacting the Bank, thereby working together towards the Bank's overall progress.

Role of Independent Non-Executive Directors

The Bank has a strong element of independence on the Board, with ten of the twelve Directors as at December 31, 2021 being independent NEDs. The only connection of the independent Directors with the Bank and with other Companies in the Group is their Directorships, thereby ensuring that 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 Board members through the independent NED's conveying an objective and independent view on matters, using their expertise to challenge the Board and the Management constructively, and by 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 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)

At the point of retirement or resignation of Directors, the nomination of candidates for appointment as Directors takes place under a formal and transparent procedure formulated by the BNC. The resumés of potential candidates are carefully evaluated by the BNC prior to these being recommended to the Board for their consideration as Non-Executive Directors. Such nominations may also 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, with new Directors chosen on their ability to bring added perspective and ensure the continued effectiveness of the Bank's strategic plans.

A similar process is followed when appointing Executive Directors, with the exception that candidates are selected from 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.

This year, there were two new additions to the composition of the Board of Directors, the details of which are given in Figure 28 titled Composition of the Board and attendance on page 122.

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

The Articles of Association of the Bank states that the two longest serving NEDs must 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 two or more Directors qualify for re-election in a particular year, the Directors may decide amongst themselves, either by considering the affidavits and declarations submitted by them and all other relevant issues, or by drawing lots to determine which Directors will offer themselves for re-election. Accordingly, Prof A K W Jayawardane and Mr L D Niyangoda, the two longest serving Directors since last re-election will be seeking re-election at the forthcoming AGM to be held on March 30, 2022. In addition to the above clauses, if a Director has been appointed as a result of a casual vacancy that has arisen since the previous AGM, that Director will also offer himself/herself for election at the immediately succeeding

AGM. Accordingly, Mrs D L T S Wijewardena - who was appointed to the Board during the year 2021 to fill a casual vacancy - will offer herself for re-election at the forthcoming AGM. It is pertinent to mention that Mr S Muhseen who was appointed to the Board on February 15, 2021 to fill a casual vacancy, offered himself for re-election at the AGM held on March 30, 2021 and his appointment was duly approved by the shareholders at the aforesaid AGM.

Induction and training of Directors (Principle A.1.8)

On appointment, Directors are provided with an induction pack which outlines the main areas that require familiarisation. As such, the pack includes the Articles of Association, the Banking Act Directions, the Corporate Directors' Handbook published by the Sri Lanka Institute of Directors, the Code of Best Practice on Corporate Governance issued by CA Sri Lanka, the Bank's organisational structure, the Board Charter, a copy of the Board Related Party Transactions Policy and the most recent Annual Report of the Bank. They are also given access to the electronic support system which has archived minutes of meetings held over the past nine years. All Directors are encouraged to obtain membership of the Sri Lanka Institute of Directors which conducts useful programmes to support Directors. Further, it is mandatory for Directors to attend Director Forums organised by the CBSL. As an additional support, members of Corporate Management and external experts make regular presentations on the business environment in relation to the operations of the Bank, which enables newly appointed directors to familiarise themselves with the banking operations.

Remuneration and Benefits Policy

The Remuneration and Benefits Policy seeks to provide a distinctive value proposition to current and prospective employees with the aim of attracting and retaining employees with the skills and values that are in line with the business needs of the Bank. The policy also provides a framework for the Bank to design, administer, and evaluate effective reward programmes, thereby inspiring and motivating desired behaviours, and 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 Bank has a number of processes in place to ensure that no individual Director is involved in determining his or her own remuneration but is instead part of a larger deciding process that makes final decisions. Primarily, 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.

The BHRRC in consultation with the Group Chief Executive Officer and after obtaining professional advice, where necessary, makes such recommendations. Remuneration for Directors and executives is further set out with reference to the Remuneration and Benefit Policy. The remuneration for NEDs is set by the Board as a whole. In order to provide fair judgements when discharging their duties on remuneration, the Board and the BHRRC engage the services of HR professionals on a regular basis as well.

Details of the Remuneration paid to Directors is given in Note 21 to the Financial Statements on page 231.

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. As such, the Bank has remuneration policies that are attractive, motivating, and capable of retaining high performing, qualified, and experienced employees.

With the assistance of professionals, the BHRRC structures the remuneration packages and benchmarks it with the market on a regular basis to ensure that total remuneration levels remain competitive 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. These are reviewed annually and adjusted for factors such as promotions, performance, and inflation. The annual performance bonus is based on the degree of achievement on a multi-layered performance criteria matrix which is clearly communicated to the relevant category of employees 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. After extensive deliberation, the Bank 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 the approval of shareholders for all these ESOPs at the Extraordinary General Meetings (EGMs). The EDs, being employees of the Bank, are also eligible for these ESOPs. Approval for the ESOP vested during the year was obtained from the Board after obtaining recommendation for same from the BAC.

Details of the ESOPs and the eligibility criteria are given in Note 53 to the Financial Statements on "Share-based Payment" on pages 288 to 291.

While 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 the 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 then collated by the Company Secretary and submitted to the BNC for consideration. These are subsequently discussed at a Board meeting. Board evaluations for 2020 and 2021 were taken up at the Board Meetings held in February 2021 and February 2022 respectively.

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

With the assistance of the BHRRC, the Board assesses the performance of the Group Chief Executive Officer annually. This assessment is based on criteria agreed at the beginning of each year and consists of short, medium, and long-term objectives with financial and non-financial targets whilst also considering the changes in the operating environment. The Chairman discusses the evaluation with the Group Chief Executive Officer and provides him with formal feedback. The Group Chief Executive Officer's responses to the appraisal are given due consideration prior to it 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 part and partial of good corporate governance and has put in place a structured process to facilitate the 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 several communication channels with the shareholders which includes the Annual Report, AGMs and EGMs, Interim Financial Statements, Announcements to the CSE, press releases, the Bank's website, shareholder surveys on need basis, and the Investor Feedback form in the Annual Report. (Refer Table 03 on pages 21 and 22 on "How we connect with our stakeholders" for more details in this regard).

During the year, shareholders were notified- either through announcements made to the CSE or via media- of quarterly results, dividend declaration for 2020, annual financial statements for 2020, interim financial statements for 2021, disclosure on Fitch Ratings Preview, appointments of two new Directors, listing of shares issued as a part of the final dividend for 2020 as well as new shares listed consequent to the exercising of options under employee share option schemes, date of the annual general meeting 2022, dealings in shares of the Bank by Directors and related entities, Basel III compliant convertible debenture issue, and the extra-ordinary general meeting for the Basel III compliant convertible debenture issue. The Bank's website was revamped during the year, is trilingual, and has a dedicated area – Investor Relations - for investors which includes Interim Financial Statements and Annual Reports. The most recent Report was offered in both PDF and interactive format, providing readers with a choice for viewing. The Interactive Report also features a tab for investor feedback. The Board is fully committed to treating all shareholders equitably while recognising, protecting, and facilitating their rights through open communication. The Bank arranged 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 the stipulated timeframes in terms of the Listing Rule 7.4 of the CSE, all amidst the challenges faced during the pandemic.

The Bank always encourages shareholders to participate at the AGMs and the EGMs and exercise their votes. To this end, the Bank circulates clear instructions on procedures governing voting along with every notice of AGMs/EGMs. 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 the physical presence of its shareholders due to the outbreak of COVID-19 (as per the Notice of Meeting published in the Annual Report 2020), after giving due Notice and publicity, it successfully conducted the Fifty Second AGM as a virtual meeting. The meeting fully adhered to the guidelines issued by the Government health authorities and regulators while ensuring maximum shareholder participation, providing every opportunity for shareholders to clarify matters of interest to them. A total of 69 Voting and 11 Non-Voting shareholders participated in the Fifty Second AGM held virtually on March 30, 2021, while a further 137 Voting shareholders and 08 Non-Voting shareholders exercised their right to vote through proxy. The 08 Non-Voting shareholders exercised their right to vote through proxy strictly in relation to matters designated for their vote.

Shareholder approval was received at a virtual EGM held on August 9, 2021 for issuing Basel III compliant convertible debentures for augmenting Tier II capital and to support future lending growth of the Bank, raising Rs. 8.595 Bn. in Tier II capital consequently.

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

Table – 44: **Attendance at AGMs – 2017 to 2021**

	Voting shareholders (including proxies)			Non-voting shareholders (including proxies)		
AGM of the year	Number of attendees	Shareholding	% of total shareholding	Number of Attendees	Shareholding	% of total shareholding
2021	169	795,052,531	72.32	19	4,326,942	6.36
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

Whistleblowing

The Bank has adopted a Whistleblowers' Charter in order to deter, detect, and address any genuine concerns of malpractices and unethical behaviour, with the Group's Chief Compliance Officer being appointed to manage the Bank's Whistleblowing processes.

In addition, measures have been put 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. In this way, the Bank aims to promote a healthy workplace that practices good governance from the lowest to the highest tiers.

Anti-Bribery and Anti-Corruption

The Bank adopted a Board approved Anti-Bribery and Anti-Corruption Policy during the year, clearly setting out principles for countering bribery and corruption in the Bank. The principles also set out the management of bribery and corruption risk by requiring the Bank, Bank personnel, and defined third parties to commit to countering bribery and corruption in all forms in relation to transactions routed through or involving the Bank.

The Bank has zero tolerance for any form of bribery and corruption and will treat potential instances of bribery or corrupt behaviour as a threat to its integrity and reputation as a business. The Bank developed the Policy in accordance with these commitments as well as in adherence to the applicable laws and regulations, with a view to promote a culture of compliance. As set out in this Policy, all employees are responsible for the prevention and mitigation of bribery and corruption within their own roles and responsibilities.

In addition, every single employee of the Bank has been issued with a Code of Ethics containing guidelines that encompass a wide range of aspects, which, inter-alia, include the prevention of insider dealing in securities, outlines the internal rules on the purchase/sale of the Bank's shares, notes down the Gift Policy, highlights how to manage conflicts of interest, provides information on combating financial crimes, and discusses the importance of respecting communities and the environment etc.

A detailed discussion is given in the section on "Prudent Growth" on page 40.

Board Committee Reports

Report of the Board Audit Committee

During the year, special emphasis was given to enhance the scope of internal audit work to cover testing of controls over granting debt moratoriums, relief measures and recoveries.

R Senanayake
Chairman – Board Audit Committee

Composition of the Committee

During the year under review, the Board Audit Committee (the BAC) comprised of the following members. Profiles of the members as at December 31, 2021 are given on pages 106 to 109.

Board members and attendance

Mr R Senanayake* (Chairman)	08/08
Mr K Dharmasiri* (Member)	08/08
Ms N T M S Cooray* (Member)	08/08
Ms J Lee* (Member)	08/08
Mrs D L T S Wijewardena* (Member) (Appointed to BAC w.e.f March 31, 2021)	08/08

Regular attendees by invitation

Mr S Renganathan (Managing Director/Group Chief Executive Officer)	07/08
Mr S C U Manatunge (Director/Chief Operating Officer)	08/08
Mr K D N Buddhipala (Group Chief Financial Officer)	
Mr S K Hettihamu (Group Chief Risk Officer)	
Mr J Premanath (Group Chief Internal Auditor)	
Ms A V P K T Amarasinghe (Group Chief Compliance Officer)	
Mr R Mihular (Senior practicing Chartered Accountant, appointed as an Independent Consultant to the Committee to provide necessary assistance in discharging its functions)	

Secretary to the Committee

Mr J Premanath
(Group Chief Internal Auditor)

**Independent Non-Executive Director*

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 on October 27, 2021.

The Committee assists the Board in discharging its responsibilities and exercises oversight over financial reporting, internal controls and 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 the "Code of Best Practice on Corporate Governance", issued by The Institute of Chartered Accountants of Sri Lanka (CA 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/external audit and inspection programme of the Bank and review Internal and External Audit Reports for follow up with the Management on responses to their findings and recommendations.

- Review the Interim 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 2021

The Committee held eight (08) meetings during the financial year ended December 31, 2021. Proceedings of these meetings with adequate details of matters discussed were regularly reported to the Board.

Representatives of the Bank's External Auditors, Messrs Ernst & Young too participated in all eight (08) 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 an as needed 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 Annual Financial Statements for the Bank and the Group, including the acceptability of the accounting principles and 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 Group 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.

Annual review of the policy on adoption of Sri Lanka Accounting Standards SLFRS 9

The Committee reviewed the revised policy document on Adoption of the Sri Lanka Accounting Standard SLFRS 9 on Financial Instruments during the year 2021 and made recommendations for implementation.

The Committee also followed up and monitored the progress of the implementation of IT Systems and automation of the processes for the preparation of Financial Statements as per the Sri Lanka Accounting Standards and Regulatory Requirements.

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 2020, 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 scrutinized compliance with mandatory banking and other statutory requirements and the systems and procedures that are in place. The quarterly reports submitted by the Group 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 the Central Bank of Sri Lanka (CBSL) through regular follow-up reports tabled during the year 2021.

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. During the year, special emphasis was given to enhance the scope of internal audit work to cover testing of controls over granting debt moratoriums, relief measures and recoveries.

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 2021 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 lockdowns, and curtailed business operations during 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, onsite, offsite and online inspection of Business Units including four (4) subsidiaries in Sri Lanka and operations in Bangladesh. Overseas subsidiaries namely Commercial Bank of Maldives Private Limited, 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 four (4) firms of Chartered Accountants approved by the CBSL in order to supplement the Bank's Inspection Department in carrying out inspection assignments.

Five hundred and thirty-seven (537) 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.

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 of IT assets of the Bank.

The Committee paid attention to significant findings and recommendations related to IT Governance, Cyber Security, Network Security, Physical and Logical Access Management, Endpoint Security, Privileged and Vendor Access Management, Robotic Process Automation, Vulnerability Assessment and Penetration Testing Process made in the reports submitted by the ISAU. The Committee also reviewed the reports on findings relating to business continuity planning and disaster recovery arrangements during the year 2021.

Reviewed the Internal Audit report on the independent assessment of the degree of compliance with the Banking Act Direction No. 11 of 2007 issued by the CBSL on Corporate Governance and Code of Best Practice on Corporate Governance issued by the CA Sri Lanka.

Reviewed the adequacy and integrity of the Bank's Management Information System (MIS) through internal audit reports to ascertain whether information presented to the Board is "fit for purpose".

External audit:

The Committee played the following role with regard to the external audit function of the Bank:

- 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 and also that the Management has not imposed any restrictions on their scope of work.

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 2021.

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.

Conduct, ethics and good governance:

The Committee continuously emphasized on upholding ethical values of the staff members. In this regard, the Bank has a Code of Ethics, a Whistleblower's Charter and an Anti-Bribery and Anti-Corruption Policy in place which ensure and encourage all staff members to be ethical, transparent and accountable and resort to whistleblowing 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 whistleblowing or identified through other means. The Whistleblower's Charter guarantees the maintenance of strict confidentiality of the identity of the whistleblowers.

Evaluation of the Committee:

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

R Senanayake
Chairman – Board Audit Committee
February 25, 2022

Report of the Board Integrated Risk Management Committee

Embracing Data Analytics to facilitate predictive capabilities, the Bank initiated implementation of an Early Warning Signals (EWS) system aimed at maintaining the overall credit quality of the lending portfolio.

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

Composition of the Committee

During the year under review, the Board Integrated Risk Management Committee (the BIRMC) comprised of the following Board members. Profiles of the members as at December 31, 2021, are indicated on pages 106 to 109.

Board members and attendance

Prof A K W Jayawardane* (Chairman)	05/05
Mr S Renganathan (Managing Director/Group Chief Executive Officer)	05/05
Mr K Dharmasiri* (Director)	05/05
Mr L D Niyangoda * (Director)	05/05
Mr T L B Hurulle* (Director)	05/05
Ms J Lee* (Director)	05/05
Mr R Senanayake* (Director)	05/05
Mrs D L T S Wijewardena* (Director) (Appointed to BIRMC w.e.f. March 31, 2021)	03/04

Non Board member

Mr S K K Hettihamu
(Group Chief Risk Officer)

Regular attendees by invitation

Mr S C U Manatunge (Director/Chief Operating Officer)	05/05
Ms A V P K T Amarasinghe (Group Chief Compliance Officer)	
Mr K S A Gamage (Assistant General Manager – Information Technology: Operations)	

Secretary to the Committee

Mr K D N Buddhipala
(Group Chief Financial Officer)

**Independent Non-Executive Director*

Charter of the Committee

The BIRMC has been established by the Board of Directors, in compliance with the Section 3(6) of the Direction No. 11 of 2007, on "Corporate Governance for Licensed Commercial Banks in Sri Lanka", issued by the Monetary Board of the CBSL under powers vested in the Monetary Board, in terms of the Banking Act No. 30 of 1988. The composition and the scope of work of the Committee are in line with the same, as set out in the BIRMC Charter which was reviewed during December 2021, 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 159 to 178.

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. Material risk types within specific risks that the Bank may face due to existing risks or forward looking emerging risks that require action to minimize their impacts in future are given special attention.

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 2021

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

- As was in the year 2020, the main focus area for the year 2021 too 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.
- Latter part of the year, the focus heavily shifted towards analyzing and reviewing the strategies adopted by the Management to cater to the increasing Foreign Currency (FCY) demand amidst the dearth in

FCY liquidity in the market as a result of depleting FCY reserves, shift in risk appetite of foreign counterparts when lending to Sri Lankan institutes due to sovereign rating downgrade by rating agencies during the year.

- The business strategy of the Bank was reviewed by the Committee in line with the changes taken place in external economic factors of the country. Amidst the rising interest rates and FCY liquidity shortage in the interbank market, the Committee focused on identification of the priorities of the business strategy to optimize the growth, profitability and asset quality.
- Technological assistance in our journey in the digital space through embracing Data Analytics to facilitate predictive capabilities was identified as a stepping stone. With such backdrop, Early Warning Signals (EWS) system aimed at maintaining the overall credit quality of the lending portfolio was initiated.
- 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, were given attention in a very dynamic and challenging environment.
- An important decision was taken in the year 2021 to extend the Social and Environmental Management System (SEMS) to cover the entire CBC Group and accordingly, the Social and Environmental (S&E) Policy was structured to cover the entire Group operations. Development and implementation of systematic and tailor made S&E risk assessment and management procedures of Maldives Operations, Myanmar Operations and CBC Finance have taken placed parallel to the Group S&E policy development.
- As a framework for performance measurement, pricing strategy aligned to underlying risk and optimization of capital allocation, Risk Adjusted Return on Capital (RAROC) framework which enables the assessment of economic feasibility of a credit exposure by incorporating the risk and return of a lending transaction was implemented at the Bank.
- 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.
- 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.
- Operational efficiency, disruptions to services that lead to customer inconvenience, extended outage of Bank's payment platforms, controls available when there is increased uptake in digital solutions were deliberated under new normal business environment that the Bank is facing subsequent to COVID–19 pandemic.
- 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.
- Unusual and unprecedented changes experienced by the Bank arising out of socio-economic and geo-political factors that had given rise to extreme market movements and their impact on the capital and the Bank's performance reviewed closely by the BIRMC and mitigatory measures were deliberated to reduce the impact.
- 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. Increasing regulatory expectations, challenging working conditions and heightened levels of misbehavior of certain customer segments posed challenges during the period under review in this front.
- 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 bi-annual 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 Internal Capital Adequacy Assessment process of the Bank. The proceedings of the Committee meetings were regularly reported to the Board of Directors.

During the year 2021, 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 25, 2022

Report of the Board Nomination Committee

The Terms of Reference for BNC was reviewed and recommended for approval by the Board of Directors. The Succession Plan developed to ensure orderly succession of Board appointments was approved by the BNC.

Justice K Sripavan
Chairman – Board Nomination Committee

Composition of the Committee

During the year under review, the Board Nomination Committee (the BNC) comprised of the following members. Profiles of the members as at December 31, 2021, are given on pages 106 to 109.

Board members and attendance

Justice K Sripavan* (Chairman)	09/09
Prof A K W Jayawardane * (Director)	09/09
Ms J Lee* (Director)	09/09

Regular attendees by invitation

Mr S Renganathan (Managing Director/ Group Chief Executive Officer)	08/09
Secretary to the Committee	
Mr R A P Rajapaksha (Company Secretary)	

**Independent Non-Executive Director*

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 organization, both executive and non-executive with a view to ensure long term sustainability of the organization 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/Group 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/Group Chief Executive Officer, Chief Operating Officer and Key Management Personnel.
- prior to any appointment is made by the Board, evaluate the balance of skills, knowledge, experience and diversity on the Board and in the light of this evaluation, prepare a description of the role and capabilities required for a particular appointment.
- consider in respect of the Executive Directors and Key Management Personnel proposal for their appointment or promotion and any proposal for their dismissal or any substantial change in their duties or responsibilities or the 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 Group 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 authorized 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 authorized to express their independent views when making decisions.
- be authorized 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 2021

Nine (9) Committee meetings were held during the year under review. The proceedings of the Committee meetings are regularly reported to Board of Directors.

The Committee recommended the election/ re-election of Directors, taking into account the performance and contribution made by them towards the overall discharge of the Board's responsibilities. The Committee identified suitable persons to fill the vacancies arising in the Board and after carefully evaluating several candidates, recommended the appointment of one (01) new Non Executive/ Independent Director to the Board during the year.

The Committee obtained declarations from all the Directors through a prescribed format confirming their status of independence. Affidavits signed by each of the Directors through a prescribed format was obtained with the assistance of the Company Secretary to satisfy an annual requirement imposed under a Direction issued by the Central Bank of Sri Lanka (CBSL) and the original of same was furnished to the Director of Bank Supervision of CBSL to enable the CBSL to re-assess their fitness and propriety.

The Terms of Reference for BNC was reviewed and recommended for approval by the Board of Directors. The Succession Plan developed to ensure orderly succession of Board appointments was approved by the BNC.

As provided for in the Articles of Association of the Bank, the BNC recommended for approval of the Board retirement by rotation of two Directors. Based on recommendations made by the BNC, the Board approved appointments of two Assistant General Managers, two Deputy General Managers and a Chief Treasury Officer on contract basis to the Corporate Management.

As per the recommendation made by the BNC, the Board also approved the re-designation of seven members of the Corporate Management of the Bank, who carry out Group-wide supervisory responsibilities with officers engaged in subsidiaries/overseas operations of the Bank reporting directly to them.

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 25, 2022

Report of the Board Human Resources and Remuneration Committee

Performance of the members of the Corporate Management including that of the Managing Director/Group Chief Executive Officer and the Chief Operating Officer during the financial year 2020 was reviewed.

Justice K Sripavan
Chairman – Board Human Resources and Remuneration Committee

Composition of the Committee

During the year under review, the Board Human Resources and Remuneration Committee (the BHRRC) comprised of the following members. Profiles of the members as at December 31, 2021, are indicated on pages 106 to 109.

Board members and attendance

Justice K Sripavan* (Chairman)	04/04
Ms J Lee* (Director)	04/04
Prof A K W Jayawardena* (Director	04/04

Regular attendees by invitation

Mr S Renganathan (Managing Director/ Group Chief Executive Officer)	04/04

Participated in all deliberations except those matters impacting his own terms and conditions of employment.

Secretary to the Committee

Mr U I S Thilakawardena
(Group Chief Human Resource Officer)

**Independent Non-Executive Director*

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/ Group Chief Executive Officer and other members of the Board of Directors of the Bank, while ensuring that no Director is involved in setting his or her own remuneration.
- Determine compensation and benefits of the KMP and establish performance parameters in setting their individual goals and targets.
- Formulate guidelines, policies and parameters for the compensation structures for all executive staff of the Bank and oversee its implementation.
- Review information related to executive pay from time to time to ensure same is in par with the market/industry rates or as per the strategy of the Bank.
- Evaluate the performance of Managing Director and KMP against the pre-agreed targets and goals.
- Make recommendations to Board of additional/new expertise required by the Bank.
- Assess and recommend to the Board, promotions of KMP, address succession planning and issues relating to organizational structure.
- Evaluate, assess and make recommendations and provide directions pertaining to the Board of Trustees and the management of the Private Provident Fund of the Bank.
- Ensure that all regulatory and contractual commitments relating to employees are fulfilled in a timely manner.
- Recommend/decide/give directions on disciplinary matters resulting in a significant financial loss to the Bank, caused by KMP of the Bank.
- Formulating formal and transparent procedures for developing policy on remuneration for Executives and Directors.
- Approving annual increments, bonuses, changes in perquisites and incentives.

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

Guiding Principles

The overall focus of the Committee:

- Setting guidelines and policies to formulate compensation packages, which are attractive, motivating and capable of retaining qualified and experienced employees in the Bank. In this regard, the Committee sets the criteria such as qualifications, experience and the skills and competencies required, to be considered for appointment or promotion to the post of Managing Director/Group Chief Executive Officer 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 recognizes 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/Group Chief Executive Officer 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 2021

The Committee held four (04) 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 2020 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 including that of the Managing Director/ Group Chief Executive Officer and the Chief Operating Officer during the financial year 2020 was reviewed. At the conclusion of the review process for 2020, the Key Performance Areas and the respective KPIs of the Corporate Management members set for 2021 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 approval by the Board of Directors.

New Policy on Director Perquisites & Remuneration was reviewed and recommended to the Board for approval.

Justice K Sripavan
Chairman – Board Human Resources and Remuneration Committee
February 25, 2022

Report of the Board Related Party Transactions Review Committee

The Committee took further steps to improve the accuracy of the process involved in submitting the information on related party transactions.

Justice K Sripavan
Chairman – Board Related Party Transactions Review Committee

Composition of the Committee

During the year under review, the Board Related Party Transactions Review Committee (the BRPTRC) comprised 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, 2021, are indicated on pages 106 to 109.

Board members and attendance

Justice K Sripavan* (Chairman)	04/04
Mr L D Niyangoda* (Member)	04/04
Mr T L B Hurulle* (Member)	04/04
Mr R Senanayake* (Member)	04/04

Regular attendees by invitation

Mr S Renganathan (Managing Director/ Group 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)

**Independent Non-Executive Director*

Charter of the Committee

Demonstrating the Bank's commitment to good governance, the Board formed the BRPTRC in 2014 by early adoption of the Code of Best Practice on Related Party Transactions (RPT) as issued by the Securities and Exchange Commission (SEC) of Sri Lanka which became mandatory for all listed entities from January 01, 2016. Being one of the few listed entities to do so, the Committee assists the Board in reviewing all related party transactions carried out by the Bank, all its subsidiaries and the Associate in the Group to ensure that there are no conflicts of interest. The Committee also assists the Board in maintaining transparency in relation to RPT with the required disclosures.

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 companies of the Group on a quarterly basis.
- Advising the Board of Directors 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 of Directors 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 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 158 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 an annual declaration from each Director as required by the CBSL designed to elicit information about any existing or potential RPT.
- Obtaining independent validation from the Bank's Internal Audit division for information submitted to the Committee for its review.

Further, following types of RPTs are brought to the attention of the BRPTRC.

- Any credit facility or any other form of accommodation for Directors or their CFMs as approved by the Board. In the case of facilities granted to the children of Directors, such transactions require approval of the Board only if the children are financially dependent in terms of the Definition given on "Close relation" in the Section 86 of the Banking Act No. 30 of 1988.
- Any credit facility or any other form of accommodation for entities in which a Director of the Bank holding more than 10% of its paid-up capital as approved by the Board.

Activities in 2021

During the year, 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 2021 and implemented. Arrangements were also made to disseminate the amended RPT Policy among all relevant stakeholders and obtain their acknowledgements to ensure 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 2021. Further, the Committee took further steps to improve the accuracy of the process involved in submitting the information on RPT.

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

Justice K Sripavan
Chairman – Board Related Party Transactions Review Committee

February 25, 2022

Report of the Board Credit Committee

The Committee set the lending directions of the Bank for prudent management of credit growth, while aiming at maintaining and improving credit quality.

Justice K Sripavan
Chairman – Board Credit Committee

Composition of the Committee

During the year under review, the Board Credit Committee (the BCC) comprised of the following members. Profiles of the members as at December 31, 2021, are indicated on pages 106 to 109.

Board members and attendance

Justice K Sripavan* (Chairman)	12/12
Mr K Dharmasiri* (Director)	12/12
Ms N T M S Cooray * (Director)	09/09
Mr S Renganathan (Managing Director/ Group Chief Executive Officer)	10/12
Mr S C U Manatunge (Director/Chief Operating Officer)	12/12
Secretary to the Committee	
Mr R A P Rajapaksha (Company Secretary)	

**Independent Non-Executive Director*

Charter of the Committee

The Committee shall assist the Board in effectively fulfilling its responsibilities relating to Credit Direction, Credit Policy and Lending Guidelines of the Bank in order to inculcate healthy lending culture, standards and practices and ensure relevant rules, regulations and directions issued by the appropriate authorities are complied with.

The Committee is empowered to:

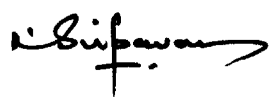
- Review and consider changes proposed by the Management from time to time to the Credit Policy and the Lending Guidelines of the Bank.
- Review the credit risk controls in lending, ensure alignment with the market context and the internal policy of the Bank and the prevailing regulatory framework in 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 level of the Committee as prescribed by the Board from time to time.
- Evaluate, assess and approve the provisioning of bad and doubtful debts, concession on interest and writing off of bad debts within the delegated authority level of the Committee as prescribed by the Board from time to time.
- Review and recommend credit proposals which fall within the purview of the Board
- Evaluate and recommend sector exposures and cross border exposures to the Board as per the frequencies identified in the Risk Management Policy of the Bank.
- Monitor and evaluate special reports called for by the Board.
- Set lending directions based on the current economic climate and risk appetite of the Bank.

Activities in 2021

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 credit 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 25, 2022

Report of the Board Investment Committee

The Committee discussed in detail the management process of the Bank's FCY assets and liabilities with the ALM team and proposed recommendations on strategies and approvals.

Ms Judy Lee
Chairperson – Board Investment Committee

Composition of the Committee

During the year under review, the Board Investment Committee (the BIC) comprised of the following members. Profiles of the members as at December 31, 2021, are indicated on pages 106 to 109.

Board members and attendance

Ms J Lee* (Chairperson)	11/11
Mr S Renganathan (Managing Director/Group Chief Executive Officer)	11/11
Mr S C U Manatunge (Director/Chief Operating Officer)	11/11
Mr K Dharmasiri* (Director)	11/11
Ms N T M S Cooray* (Director)	11/11
Mr S Muhseen* (Director) (Appointed to BIC w.e.f. February 15, 2021)	09/10

Regular attendees by invitation

Mr K D N Buddhipala (Group Chief Financial Officer)

Mr K A P Perera (Chief Treasury Officer)

Mr B A H S Preena (Assistant General Manager – Corporate Banking)

Mr S K K Hettihamu (Group Chief Risk Officer)

Secretary to the Committee

Mr A Wijesiriwardane (Deputy General Manager-Treasury)

**Independent Non-Executive Director*

Charter of the Committee

The Board Investment Committee is responsible for the treasury and investment activities of the Bank. The Committee reviews and approves the policies and operating parameters for treasury and investment activities. It evaluates proposed treasury and investment strategies, reviews significant investment decisions, and oversees the performance of the treasury and investment portfolios. The Committee also initiates discussions and reviews the capital management of the Bank.

Given its oversight on treasury activities, the Committee evaluates the Bank's overall liquidity management operations, treasury investments and borrowing activities, and capital adequacy. The Bank's borrowing proposals are evaluated together with the liquidity requirement and suitable recommendations are provided.

To meet the core objectives of the Committee, the investment portfolio performance is closely monitored via regular updates from Treasury and Investment Banking Divisions. Suitable treasury and investment proposals are approved or recommended to the Board of Directors. The Committee also evaluates the impact of possible macroeconomic developments and trends to the profitability, liquidity, balance sheet, and capital through sensitivity and scenario analysis. The Committee also provides expert views and assistance to the Management with regard to the treasury and investment portfolio risks and performance.

Methodology Adopted by the Committee

The Committee meets monthly and reviews progress of strategic and significant investments, the liquidity situation of the bank, the currency exposures of the portfolio, and impact on performance and capital. Evaluation of current market developments and the economic outlook of the markets the bank operates in, are reviewed to evaluate the current portfolio and new investment strategies. The Committee actively reviews the monthly performance of the Treasury and Investment Banking Division, where the interest rate risk, re-pricing risk, liquidity risk, currency risk and other market risks are discussed.

The Committee from time to time would issue instructions to executive officers of the Bank on investment related activities.

Activities in 2021

The Committee assumed a significant role in 2021, as the Bank's operating economic climate created many new and unique challenges. Strengthening the operational framework in relation to investments, continuous evaluation of the investment portfolios, and assessment of the impact on the Bank's capital was closely monitored and discussed by the Committee. This resulted in major inputs to direct and manage the Bank's strategy and operations. Due to the deteriorating economic climate of Sri Lanka, the Committee regularly provided inputs and recommendations to the Board of Directors and the Management of the Bank on capital management, possible market shocks and adverse developments. With the Bangladesh operations of the Bank becoming an increasingly important part of the Bank's overall balance sheet and FCY funding, the Committee discussed the developments in Bangladesh markets and its impact to the Bank.

Following key decisions can be highlighted.

1. Recommendation of the Tier 2 debt issuance of the Bank to strengthen the capital base.
2. Continuous and active monitoring of the FCY position and exposures of the Bank and the introduction of a FCY exposure reduction plan.
3. Regular and detailed discussion of the Bank's FCY assets and liabilities management process and exposures with the ALM team and proposed recommendations on strategies and approvals.
4. Recommendation for the medium-term FCY borrowing facility from CDC Group, UK.
5. Recommendation for the medium term borrowing proposal for FCY loan from overseas Development Finance Institution (DFI).
6. Evaluation and approval for the investment limits for Sri Lanka Rupee investment portfolios of the Bank.
7. Recommendation for the new Investment Policy of the Bank and the revised operating guidelines for equity market activities of the Bank.
8. Evaluation, finalization, and approval for the Bank's proposed overseas expansion activities.

Ms J Lee
Chairperson – Board Investment Committee
February 25, 2022

Report of the Board Technology Committee

Having identified digital reach and convenience as critical factors in taking the banking business to the next level, the Bank implemented a Digital Road Map.

Prof A K W Jayawardane
Chairman – Board Technology Committee

Composition of the Committee

During the year under review, the Board Technology Committee (the BTC) comprised of the following members. Profiles of the members as at December 31, 2021, are indicated on pages 106 to 109.

Board members and attendance

Prof A K W Jayawardane* (Chairman)	04/05
Mr S Renganathan (Managing Director/Group Chief Executive Officer)	04/05
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
Mr S Muhseen* (Director) (Appointed to BTC w.e.f. March 30, 2021)	03/04
Mrs D L T S Wijewardena* (Director) (Appointed to BTC w.e.f. March 31, 2021)	04/04

Regular attendees by invitation

Mr L H Munasinghe (Group Chief Marketing Officer)

Mr D B Saparamadu (Consultant)

Mr T P Suraweera (Assistant General Manager – Operations)

Mr V Thotagammana (Assistant General Manager- Information Technology: R&D)

Mr U K P Banduwansa (Head of Retail Products & Digital Channels)

Mr K Mediwake (Chief Executive Officer – CBC Tech Solutions Limited)

Secretary to the Committee

Mr K S A Gamage (Assistant General Manager – Information Technology: Operations)

**Independent Non-Executive Director*

Charter of the Committee

The primary responsibility of the BTC is to assist the Board in performing its oversight function on all Digital and Technological strategies of the Bank and to evaluate all IT-related procurement proposals and submit its recommendations to the Board.

The Committee has been empowered to:

- Guide the Bank on building Technology and Digital Strategy, reviewing the Digital Road Map, Data Science & Machine learning strategies, Technology, and Information Security Roadmaps
- Ensure that the key technology initiatives and emerging technologies support the Bank's business objectives
- Oversee risks related to the quality and effectiveness of the Bank's information security strategies
- Review ROI of key IT initiatives.

Activities in 2021

The Committee held five (5) meetings during 2021, and the proceedings of the Committee meetings 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 of the Bank towards a digital era while ensuring the robustness of the IT infrastructure of the Bank.

Digital reach and convenience have been identified as critical factors in taking the banking business to the next level by enhancing customer convenience on day-to-day banking services. To cater to this requirement, the Bank has implemented a comprehensive Digital Road Map, and in the year 2021, the Bank was able to implement the following key initiatives to excel in the banking operation.

Completed Projects

- **Combank Digital –** Introducing new responsive web application and two native mobile applications for Maldives operation enabling access across all devices with enhanced user experience with new features.
- **Banking on Social Media (Viber banking) –** Seamless banking services through social media 24/7 with the assistance of an AI Chatbot.

- **ePassbook Revamping – Bangladesh/ Maldives –** The hassle-free way to download and view customers' account transactions online or offline on Android and Apple smartphones. The application provides an online-real time view of the account transactions with Self-Enrolment and Biometric Authentication.
- **Automation of Lower counter operations of branches –** Automate and enhance key processes of lower counter operations. This initiative increases customer experience by minimizing waiting time and streamlining the internal processes.
- **Government Payment Platform Integration –** Facilitating online payments to Government organizations, including SL Customs, BOI, Sri Lanka Ports Authority, Inland Revenue Department, EPF Board, SLS Institute, Import and Export Control Department connected to LankaPay Online Payment Platform (LPOPP) by transferring money directly from customers' current or savings accounts.
- **Pay with Flash –** Enabling e-commerce sites to allow users to checkout and pay using their Flash Digital Bank Account.
- **Remittance App Phase II with Remittance Tracker integration –** Making a hassle-free way to track remittance status for customers employed overseas in real-time through the online tracking system.
- **Customer relationship management system –** Providing a customer 360^0 view dashboard to the branches about a customer to improve customer relationships and identify opportunities for cross-selling and up-selling by providing customized service by analyzing the customer behaviour.

Furthermore, the Agile way of working at IT R&D has supported to cater to the business units with the correct priorities. The productivity and quality of deliveries have been greatly improved compared to the previous year.

Digital Infrastructure plays a vital role in providing an uninterrupted service and serves the ever-increasing customer expectations. Cognisant of the importance of the infrastructure, the Information Technology Department has identified and taken the following key initiatives to enhance the internal system capabilities and streamline the hardware usage;

- **900 Touchpoints (ATM/CRM) –** The Bank has further expanded ATM/CRM facility while reaching 900 touchpoints landmark at the end of the Year 2021 while being the Sri Lanka's largest single ATM/CRM network owned by a private sector bank with 24 x 7 customer convenience and enhanced features.
- **High availability Framework –** The availability of IT systems for customers is of paramount importance in today's competitive banking industry, especially in digital platforms. When maintaining availability, "High Availability" is important for IT systems to continue the business even with unpredictable failures of IT systems. The Bank has enhanced the 'High Availability' of its mission-critical systems.
- **Server Virtualization and Private Cloud** – Centralized Virtual Server Infrastructure at Datacenters facilitates the Bank's systems and applications and covers 93% of the servers and provides many technical advantages while saving OPEX. The strategic decision has been taken to further enhance the server virtualization platform while enabling a private cloud-ready platform.

  Enterprise Architecture focus has been set to align all the banking systems and infrastructure to the industry standards. The Business, Data, Application, and Infrastructure architectures have been considered as the key focus verticals incorporating IT standards with security compliance.
- **Compliance and Certifications of PCI-DSS/ISO 20000/ISO 27001** – The Bank was recertified for PCI-DSS and ISO 27001 standard in 2021. These are the de facto standards on the Information security and card industry and demonstrate that IT systems and processes are maintained with these world-renowned certifications. All these compliances build customer confidence in information security practices.
- **AI and Data Science practice –** A dedicated team has been formed to create the data culture within the Bank to promote data-driven decision-making to grow business with predictions with trend analysis by segmenting the customers for a better-customized banking experience.

Projects In Progress

The Bank has initiated several key IT projects during the year, including Core Banking upgrade, Enhancing Online Banking platform for Bangladesh, Early Warning Signals for lending portfolio, AI and Data Science use cases, Robotic process automation for internal operations, Recoveries system implementation, Fraud monitoring system implementation and Employee self-service mobile app.

Prof A K W Jayawardane
Chairman – Board Technology Committee
February 25, 2022

Report of the Board Strategy Development Committee

The Committee provided guidance to ensure that adequate impairment cover is maintained while sustaining reasonable financial performance.

Justice K Sripavan
Chairman – Board Strategy Development Committee

Composition of the Committee

During the year under review, the Board Strategy Development Committee (the BSDC) comprised of the following members. Profiles of the members as at December 31, 2021, are indicated on pages 106 to 109.

Board members and attendance

Justice K Sripavan* (Chairman)	06/06
Prof A K W Jayawardane* (Director)	06/06
Mr S Renganathan (Managing Director/Group Chief Executive Officer)	06/06
Mr K Dharmasiri* (Director)	06/06
Mr L D Niyangoda* (Director)	06/06
Ms N T M S Cooray* (Director)	05/06
Ms J Lee* (Director)	06/06
Mr R Senanayake* (Director)	06/06
Mr S Muhseen* (Director)	05/05
Secretary to the Committee	
Mr R A P Rajapaksha (Company Secretary)	

**Independent Non-Executive Director*

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 the Management and monitor progress 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 2021

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 (04) meetings as per the Terms of Reference [Six (06) meetings were held in 2021] 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 COVID-19 pandemic in addition to actively engaging in the Government relief scheme. Further, the Committee provided guidance to ensure that adequate impairment cover is maintained while sustaining reasonable financial performance. The BSDC reviewed the Digital Road Map based on a presentation made by the Corporate Management and the strategies for enhancing contribution from the Subsidiaries and overseas operations of the Bank. It also evaluated the feasibility of establishing new overseas operations.

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 25, 2022

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.

Table – 45: **Statement of Compliance**

	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 thereto (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	199 and 200
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, 2021	187 to 336
3.	Auditors' Report on the Financial Statements of the Group and the Bank	Section 168 (1) (c)	Independent Auditors' Report	182 to 184
4.	Accounting Policies of the Group and the Bank and any changes therein	Section 168 (1) (d)	Notes 6 to 11 to the Financial Statements: Significant Accounting Policies adopted in the preparation of the Financial Statements of the Group and the Bank	209 to 221
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 Section 192 (1) and (2) 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) Refer "Directors' Interest in Contracts with the Bank" disclosed in the Annual Report	158
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	231
			Report of the Board Human Resources and Remuneration Committee	136 and 137
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	231
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	104 to 178
			Refer "Board of Directors and Profiles" for details of members of the Board of Directors of the Bank	106 to 109
			Refer "Group Structure" for details of members of the Board of Directors of the Group	84 and 85
			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 • Prof A K W Jayawardane • Mr L D Niyangoda (b) Election of Directors who were appointed to fill casual vacancies • Mrs D L T S Wijewardena	

	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 2021. [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 propriety of Directors, the age of a person who serves as director of a bank has been restricted to a maximum of 70 years].	
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	231
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) in connection with the audit for the year ended December 31, 2021, 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 auditors' 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), Listing Rules (LR) of the Colombo Stock Exchange, Companies Act No. 07 of 2007 and amendments thereto (CA) and Banking Act Direction No. 11 of 2007 (CBSL)				
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 Successor "Managing Director/ Group Chief Executive Officer's Review"	14 to 19
			Management Discussion and Analysis	38 to 103
			Note 62 to the Financial Statements: Operating segments	300 and 301
14.	Gross income	RBP	Notes 12 and 62 to the Financial Statements: Gross income and operating segments	222, and 300 to 301
15.	Dividends on ordinary shares	RBP	Notes 25 and 69 to the Financial Statements: Dividends and Events after the reporting period	234 and 235, and 336
			Refer – "Investor Relations" – Item 3	92 and 93
16.	Reserves and appropriations	RBP	Statement of Changes in Equity	190 to 197
			Notes 54, 55 and 56 to the Financial Statements: Statutory reserves, Retained earnings and other reserves	291 to 294
17.	Corporate Social Responsibility (CSR)	RBP	Community sustainability	65

	Disclosure requirement	Reference to the relevant statute/rule	Page reference for compliance and other necessary disclosures	Page/s
18.	Extents, locations, valuations and the number of buildings of the Bank'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	257 to 268
			Note 40 to the Financial Statements: Investment property	269 and 270
			Note 58.2 to the Financial Statements: Capital commitments	296
19.	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	LR 7.6 (XII)	Notes 39.5 (b) to the Financial Statements: Information on freehold land and buildings of the Bank – valuations	263 to 267
			Note 40.1 (b) to the Financial Statements: Information on Investment properties of the Group – valuations	269 and 270
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	287 and 288
20.2	Issue of debentures by the Bank	LR 7.6 (XIII)	Note 51 to the Financial Statements: Subordinated liabilities Refer – "Investor Relations" – Item 10	286 and 287 98
20.3	Issue of shares and debentures by the subsidiaries and the associate	CA S.168 (1) (e)	During the year, subsidiaries and the associate of the Bank did not make any share or debenture issues.	
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) LR 7.6 (X) LR 7.13.1	Refer – "Investor Relations" – Items 4.2, 4.3 and 4.5	93 to 95
21.2	Financial ratios and market price information	LR 7.6 (XI)	Financial Highlights	10
	Information on earnings, dividend, net assets, and market value per share		Decade at a Glance	80 to 83
	Information on listed debt securities		Refer – "Investor Relations" – Item 10 Annex 2 – Basel III – Disclosures under Pillar III as per Banking Act No. 01 of 2016 - Disclosure 6 – Main features of regulatory capital instruments	90 and 98 364 and 365
21.3	Information on shares traded and the number of shares represented by the stated capital	LR 7.6 (IX)	Refer – "Investor Relations" – Item 2 and 7	90 to 92 and 96 to 97
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)	153
22.	Information on Directors' meetings and Board Committees			
22.1	Directors' meetings	RBP	Details of the meetings of the Board of Directors	122
22.2	Board committees	RBP	Board Committee Reports	129 to 145
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)	Refer – "Investor Relations" - Item 4.4 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 07, 2022, the date being one month prior to the date of Notice of the AGM.	94

	Disclosure requirement	Reference to the relevant statute/rule	Page reference for compliance and other necessary disclosures	Page/s
23.2	Directors' interests in debentures	LR 7.6 (V)	Mr S Renganathan, Managing Director/Group Chief Executive Officer, held 170,000 debentures of the Bank as at December 31, 2021. Except the above 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	288 to 291
			The Group and the Bank have not, directly or indirectly, provided funds for the ESOPs.	288 to 291
			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	2021		2020	
	Mr S Renganathan	Mr S C U Manatunge	Mr S Renganathan	Mr S C U Manatunge
As at January 1	201,000	125,829	123,580	76,452
Vested during the year	126,796	80,070	115,353	72,844
Exercised during the year	(60,687)	–	–	–
Expired during the year	(85,647)	(52,985)	(37,933)	(23,467)
As at December 31	181,462	152,914	201,000	125,829

	Disclosure requirement	Reference to the relevant statute/rule	Page reference for compliance and other necessary disclosures	Page/s
25.	Directors' interests in contracts or proposed contracts and remuneration and other benefits of Directors during the year under review	CA S.192	Directors' interest in contracts with the Bank	158
			Note 21 to the Financial Statements: Other operating expenses	231
			Note 63 to the Financial Statements: Related party disclosures	302 to 306
		RBP	As a practice, Directors have refrained from voting on matters in which they were materially interested. Directors have no direct or indirect interest in any other contract or proposed contract with the Bank	
		CA S.168 (1) (e) LR 7.6 (XIV)	There are no arrangements that enable the Non-Executive Directors of the Group and the Bank to acquire shares or debentures of the Bank or its subsidiaries, other than via the market	
		CA S.217 (2) (d)	There are no restrictions on the approval of loans to Directors in the Bank's ordinary course of business, subject to compliance with all applicable regulations	
26.	Directors' and officers' insurance	CA S.218	The Bank has, during the financial year, paid an insurance premium in respect of an insurance policy for the benefit of the Bank and the Directors, secretaries, officers and certain employees of the Bank and related body corporates as defined in the insurance policy. In accordance with commercial practice, the insurance policy prohibits disclosure of the terms of the policy, including the nature of the liability insured against and the amount of the premium	
27.	Environmental protection	RBP	The Group and the Bank have not, to the best of their knowledge, engaged in any activity, which was detrimental to the environment	
			Specific measures taken to protect the environment are disclosed in the section on "Operational Excellence"	59 to 65
28.	Declaration on statutory payments	RBP	Statement of Directors' Responsibility for Financial Reporting - item (h)	152
29.	Events after the reporting period	RBP	Note 69 to the Financial Statements: Events after the reporting period	336
30.	Going concern	RBP	Statement of Directors' Responsibility for Financial Reporting - item (m)	153
31.	Directors' responsibility for financial reporting	CBSL Direction 3(8)(ii)(a)	Statement of Directors' Responsibility for Financial Reporting – Compliance Report	152 and 153

	Disclosure requirement	Reference to the relevant statute/rule	Page reference for compliance and other necessary disclosures	Page/s
32.	Appointment of Auditors and their remuneration	CBSL Direction 3(1)(i)(m)	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 March 30, 2021, to carry out the audit for the year ended December 31, 2021, and will hold the office until the conclusion of the next AGM of the Bank which is to be held on March 30, 2022. Accordingly, Messrs Ernst & Young will serve for a maximum period of 5 years consecutively, subject to them being re-elected by shareholders, upon a recommendation of the Board of Directors, annually.	
			The retiring Auditors, Messrs Ernst & Young have signified their willingness to continue to function as the Auditor to the Bank	
		CA S.168 (1) (I)	A resolution to appoint Messrs Ernst & Young as Auditors and granting authority to the Directors to fix their remuneration will be proposed at the forthcoming AGM to be held on March 30, 2022 for shareholder approval	
			Expenses incurred in respect of audit fees and fees for other services rendered by Messrs Ernst & Young during the year are given in Note 21 to the Financial Statements: Other operating expenses	231
33.	Material issues pertaining to employees and industrial relations	LR 7.6 (VII)	Refer – "Investor Relations" – Item 6	95
34.	Risk management and system of internal controls	LR 7.6 (VI)	Risk Governance and Management	159 to 178
			Report of the Board Integrated Risk Management Committee	132 and 133
			Note 67 to the Financial Statements: Financial risk review	308 to 336
			The Directors' Statement on Internal Control over Financial Reporting	154 and 155
			The Independent Auditors' Report	182 to 184
			Independent Assurance Report on the Directors' Statement on Internal Control over Financial Reporting	156
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, except for certain operational lapses as pointed out by the Financial Intelligence Unit of the CBSL for which a penalty was imposed on the Bank (Refer page 175 on "Review of Operational Risk") Officers responsible for ensuring compliance with the provisions in various laws and regulations, confirm compliance in each quarter to the Board Integrated Risk Management Committee; (b) they have declared all material interests in contracts involving the Bank and refrained from voting on matters in which they were materially interested; (c) they have complied with the Code of Best Practices on Corporate Governance; (d) they have conducted a review of internal controls covering financial, operational and compliance controls, risk management and have obtained a reasonable assurance of their effectiveness and proper adherence; (e) the Bank has complied with the Code of Best Practices on related party transactions and has made the required disclosures in the Financial Statements and to the market when applicable; (f) the business is a Going Concern with supporting assumptions or qualifications as necessary, and that the Board of Directors has reviewed the Bank's Corporate/Business plans and is satisfied that the Bank has adequate resources to continue its operations in the foreseeable future. Accordingly, the Financial Statements of the Bank, its Subsidiaries and Associate are prepared based on the Going Concern assumption;	

	Disclosure requirement	Reference to the relevant statute/rule	Page reference for compliance and other necessary disclosures	Page/s
36.	Focus on new regulations	RBP	**Accounting Standards** The effective date of Interbank Offered Rate (IBOR) reform Phase 1 and Phase 2 amendments is for annual reporting periods beginning on or after January 1, 2021 in the Sri Lankan context. However, the regulatory authorities and public and private sector working groups in several jurisdictions have been discussing the alternatives to IBORs but there is still uncertainty over when these alternative rates will be available and how the reforms will impact specific financial products and services. **Regulations issued by the Central Bank of Sri Lanka** The Bank is well poised to comply with directives issued by the Central Bank of Sri Lanka during year 2021 on Classification, Recognition and Measurement of Credit facilities and other assets, Regulatory frame work on Technology Risk Management and resilience etc **Tax legislature** Further, the Bank will be complying with the proposals of the Government Budget 2022, subject to enactment, in relation to introduction of a Surcharge Tax of 25% on the Taxable Income for the Year of Assessment 20/21 exceeding Rs. 2 Bn., Social Security Contribution Levy of 2.5% on the turnover exceeding Rs. 120 Mn. per annum and an increase in the rate of Value Added Tax on Financial Services from 15% to 18%.	
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 3: GRI Content Index	375 and 376
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	136 and 137
			Refer Management Discussion and Analysis	38 to 103
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	143 and 144
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	297
42.	Disclosure on related party transactions	LR 9.3.2 (a) and (b)	Note 63 to the Financial Statements: Related Party Disclosures	302 to 306
		LR 9.3.2 (c)	Report of the Board Related Party Transactions Review Committee	138 and 139
		LR 9.3.2 (d)	Statement of Annual Report of the Board of Directors	3
43.	Annual General Meeting and the Notice of Meeting	CA S.133 and CA S.135 (a)	The 53rd AGM of the Bank will be held on Wednesday, March 30, 2022 at 2.30 p.m. at Galadari Hotel, No. 64, Lotus Road, Colombo 01, as a virtual meeting using a digital platform. Notice relating to the 53rd 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 and the Associate (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 182 to 184.

In terms of Sections 150 (1), 151, 152 and 153 (1) & (2) of the Companies Act No. 07 of 2007 and amendments thereto, the Board of Directors of the Bank 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, 2021, 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, 2021 ; 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 187 to 336. 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, 2021, 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 which is given on pages 129 to 131. 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 154 and 155;

(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 page 297.

(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.lk/financials), 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;

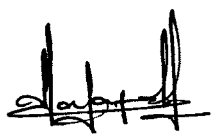
(m) that after considering the financial position, operating conditions, regulatory and other factors and such matters required to be addressed in the 'Code of Best Practice on Corporate Governance' issued by the CA Sri Lanka, the Board of Directors has a reasonable expectation that the Bank and its 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 Group 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 25, 2022 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 March 30, 2021, 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 182 to 184.

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 25, 2022

Directors' Statement on Internal Control over Financial Reporting

Responsibility

The Board of Directors (the Board) of Commercial Bank of Ceylon PLC (the Bank) wish to present this Report on Internal Control over Financial Reporting, 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 is responsible for the adequacy and effectiveness of the system of internal controls in place at 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 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 well in place for many years which includes enhancing the system of internal controls as and when there are changes to business environment or regulatory guidelines. The process is regularly reviewed by the Board and accords with the "Guidance for Directors of Banks on the Directors' Statement on Internal Control" issued by CA Sri Lanka. The Board has assessed the internal 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, including those mandatary committees as required by the Banking Act Direction No 11 of 2007, 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 at least annually.
- The Inspection/Internal Audit Department /IS Audit Unit of the Bank check 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 highlight 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 gradually expanded year after year and covered 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 2021. Scope of Online, near time and real time audits was further enhanced to cover high risk transactions of the Bank amidst COVID-19 pandemic. In addition, monitoring over cyber security controls, modifications to core banking systems/ databases was further strengthened utilizing 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 introduced during 2020 were continued in 2021 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, co-sourced internal auditors, 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 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 129 to 131.
- 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 overseas 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 introduced the forward looking "expected credit loss" model to calculate impairment provisions. The processes that are required to comply with the 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 improvements to the processes where required, to enhance effectiveness and efficiency. The Bank has documented procedures relating to these 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 2013 and continued to do so in 2021 as well. The outcome of such exercise was tabled regularly for review by the BAC during the year 2021. 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 was completed during the final quarter of 2021 with the live deployment of the software solution, which assisted the Bank to eliminate manual intervention in calculating impairment provisions to a greater extent. In addition, the Bank took steps to document the entire Financial Statement Closure Process with the support of an external consultant, and the same was validated by an another independent consultant.

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 were taken to address them where appropriate. The recommendations made by the External Auditor in 2021 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 156.

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, 2021 and reported to the Board that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the internal control system over financial reporting of the Bank. Their independent assurance report on the 'Directors' Statement on Internal Control over Financial Reporting ' is given on page 156 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/
Group Chief Executive Officer

Colombo, February 25, 2022

Independent Assurance Report

To the Board of Directors of Commercial Bank of Ceylon PLC

Building a better working world

Ernst & Young
Chartered Accountants
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Colombo 10, Sri Lanka

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Email : eysl@lk.ey.com
ey.com

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, 2021.

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 behaviour.

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 Chartered 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 25, 2022

Partners: H M A Jayesinghe FCA FCMA, R N de Saram ACA FCMA, Ms. N A De Silva FCA, W R H De Silva FCA ACMA, Ms. Y A De Silva FCA, Ms. K R M Fernando FCA ACMA, N Y R L Fernando ACA, W K B S P Fernando FCA FCMA, Ms. L K H L Fonseka FCA, D N Gamage ACA ACMA, A P A Gunasekera FCA FCMA, A Herath FCA, D K Hulangamuwa FCA FCMA LLB (London), 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, C A Yalagala ACA ACMA

Principals: G B Goudian ACMA, Ms. P S Paranavitane ACMA LLB (Colombo), T P M Ruberu FCMA FCCA

A member firm of Ernst & Young Global Limited

Managing Director/Group Chief Executive Officer's and Group 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 and the Associate (the Group) as at December 31, 2021 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 in this Annual Report 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, 2020. 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 and the Associate. 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 detection of 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 182 to 184. 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 129 to 131. The Bank engaged the services of four firms of Chartered Accountants approved by the CBSL to strengthen the audit and inspection functions. The continuous inspection and audit functions, engagement of firms of Chartered Accountants and effective functioning of the BAC, ensure that the Internal Controls and Procedures are followed consistently. To ensure complete independence, the External Auditors and the Internal Auditors have full and free access to the members of the BAC to discuss any matter of substance. However, there are inherent limitations that should be recognised in weighing the assurances provided by any system of internal control and accounting.

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

We confirm that to the best of our knowledge:

- The Group and the Bank 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 page 297 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, 2021 have been paid, or where relevant provided for.

S Renganathan
Managing Director/
Group Chief Executive Officer

K D N Buddhipala
Group Chief Financial Officer

Colombo, February 25, 2022

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 302 to 306 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 - 46:

Director/Company	Accommodation granted/Deposits		Current limit as at 31.12.2021 Rs '000	Balance/outstanding as at 31.12.2021 Rs '000	Balance/outstanding as at 31.12.2020 Rs '000
(a) **Prof A K W Jayawardane**					
Sierra Cables PLC	Loans and advances	Combined	1,540,000	440,883	799,812
	Off-balance sheet accommodations	Limits available	820,000	706,947	1,596,587
	Deposits			360,802	83,581
Mother Lanka Foundation	Loans and advances		985	985	1,620
	Deposits			1,360	2,855
Arthur C Clarke Institute for Modern Technologies	Deposits			27	27
(b) **Mr S Renganathan**					
International Chamber of Commerce - Sri Lanka	Deposits			9,757	24,526
(c) **Ms N T M S Cooray**					
Ceylon Tea Brokers PLC	Deposits			2,491	861
Jetwing Hotels Ltd.	Deposits			1,898	542
Negombo Hotels Ltd.	Deposits			2,211	1,579
The Lighthouse Hotel PLC	Deposits			20,362	13,840
Jetwing Travels (Pvt) Ltd.	Loans and advances		41,094	8,433	26,370
	Off-balance sheet accommodations		50,000	51,282	19,321
	Deposits			1,789,610	1,074,914
Jetwing Air (Pvt) Ltd.	Loans and advances		32,500	12,500	25,000
	Off-balance sheet accommodations		65,000	35,499	36,906
	Deposits			77,622	33,767
Jetwing Hotel Management Services (Pvt) Ltd.	Deposits			26	26
Allianz Insurance Lanka Ltd.	Deposits			57,540	98,986
Go Vacation Lanka Co. (Pvt) Ltd.	Deposits			1,683	1,243
Allianz Life Insurance Lanka Ltd.	Deposits			2,524	8,287
Yarl Hotels (Pvt) Ltd.	Deposits			3	21
Jetwing Symphony Ltd.	Deposits			928	181
Capital Alliance Holdings Ltd.	Deposits			1,880	1,880
(d) **Mr L D Niyangoda**					
A Baur & Company (Pvt) Ltd.	Loans and advances	Combined	3,500,000	3,881,216	281,250
	Off-balance sheet accommodations	Limits available	7,135,500	3,532,551	4,589,147
	Deposits			3,313,677	2,963,406
(e) **Mr T L B Hurulle**					
Kanrich Finance Ltd.	Loans and advances		5,000	209	4,220
	Deposits			4,383	11,017
(f) **Mr R Senanayake**					
Senkadagala Finance PLC	Loans & Advances		4,608,435	2,062,463	2,454,006
	Off-balance sheet accommodations		–	23,093	–
	Deposits			1,265,478	329,573
Virtual Capital Technologies (Pvt)Ltd.	Deposits			22	66
(f) **Mr S Muhseen**					
Amana Takaful Life PLC	Deposits			125,925	–

Risk Governance and Management

Another year of disruption and challenge

Relatively speaking, Sri Lanka witnessed increased economic activity and favourable economic outlook in the year under review as evident from higher imports and exports as well as the increased demand for banking products and services. Yet, the economy continued to suffer from the long-lasting effects of the Easter Sunday attack in April 2019 and the COVID-19 pandemic in March 2020 that continued to spread in several waves. As widely speculated, the full social, economic and financial impact of these developments is yet to be seen. The downgrading of the sovereign rating by several rating agencies during the year based on their concerns about sovereign debt sustainability and financial vulnerability in the medium term, shortage of foreign currency liquidity, drop in worker remittances and pandemic-related policies and regulations impacted the operations and business performance of financial institutions. The Central Bank promulgated a series of new rules and regulations to help manage the foreign currency liquidity shortage in the market, with limited success.

From a risk management perspective, the challenge during the year was to build resilience across existing and new dimensions of risks, including risks associated with the increasing demand for digital products & services; risks associated with remote working arrangements; liquidity risks due to the shortfall of foreign currency; the continuing potential for rising defaults, especially as Government support and forbearance measures are phased out; and the need for a strong data infrastructure to anticipate and analyse compound and contagion risks. Additionally, as environment, sustainability, and governance (ESG) issues are brought to the centre of the corporate landscape, there is a need to identify and account for new risks in areas such as diversity, equity and climate change.

The Bank devoted more resources and effort to carefully monitor such risks and others, such as credit risk with respect to segments of the lending portfolio under moratorium and exposures to risk-elevated industries, market risks due to rising interest rates, and operational risks due to heightened concerns on anti-money laundering and terrorist financing. The Bank also successfully tested its business continuity and disaster recovery plans during the year along with monitoring the ongoing health and safety risks to staff and customers in the context of operating in the midst of the COVID-19 pandemic. The success of these efforts is evident from the conservative risk profile the Bank has been able to maintain (Refer page 161) and the results of operations and the financial position as given in the financial statements published in this Annual Report.

Business model and risk

As a commercial bank, the Bank's business model is centred around the two primary activities of financial intermediation and maturity transformation (Refer Business Model for Sustainable Value Creation on pages 33 to 35). This has enabled the Bank to gear its capital of Rs. 164.89 Bn. 11 times to operate with an on-balance sheet asset base of Rs. 1,949.21 Bn. as at December 31, 2021. The higher level of gearing exposes the Bank to a multitude of risks, which conventionally include credit risk (76%), operational risk (5%) and market risk (2%) 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 page 28 for a list of such emerging developments). These risks together with the developments referred to in the paragraphs above materially impacted almost all the main risk categories of the Bank. Nevertheless, the robust risk governance framework and the rigorous risk management function helped the Bank to manage the associated risks, enabling it to optimise the trade-off between risk and return, and continue sustainable value creation 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 plausible risk exposures;
- 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;
- to integrate risk management with strategy formulation and execution;
- to ensure efficient allocation of available capital to generate optimum risk return trade-off and
- to promote better communication of risk across all the levels of the Bank.

Key developments in 2021

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

- **Implementation of the Early Warning Signals (EWS) framework**

Embarked on implementation of EWS framework, which is capable of early detection of credit risk by anticipating the incipient stress in borrowers that are likely to default by constantly monitoring behavioural components of internal and publicly available information on borrower and industry specific performance using advanced analytical tools with predictive capabilities, to help the Bank enhance its asset quality.

- **Implementation of the Risk Adjusted Return on Capital (RAROC) Framework**

Completed implementation of the RAROC framework across the Bank for Corporate and SME borrowers, enabling it to support business decisions with a view to optimise the trade-off between risk and return at varying levels of granularity such as account, borrower, customer segment, product, business unit etc.

- **Carrying out analysis to proactively identify Risk Elevated Industries (REIs)**

Developed capabilities to isolate and manage industry risk by understanding its exposures most at risk, which will help the Bank devise 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. Carried out an analysis to identify REIs – i.e. those facing heightened stress as a result of the pandemic – based on patterns of the availing of moratoria by borrowers in the Bank's loan book and those who have been affected by economic stress and policy changes. This enabled the Bank to identify and classify the facilities for which moratoria were granted based on the lending sectors to which the loan proceeds were utilized and make appropriate provisions to withstand the forecasted impact. Accordingly, the Bank has taken Rs. 13 Bn. overlays on cumulative basis to reflect potential for any further credit deterioration.

- **Issue of debentures to strengthen the capital**

As identified in the Internal Capital Adequacy Assessment Plan for 2021, the Bank raised Rs. 8.595 Bn. by issuing Basel III compliant – Tier 2, Listed, Rated, Unsecured, Subordinated, Redeemable debentures with a Non-viability Conversion in order to further improve the capital adequacy ratio by increasing the Tier 2 capital base. Funds so collected also helped the Bank to grow the lending portfolio as well as reduce maturity gaps in the Bank's Balance Sheet by matching medium to long term liabilities with medium to long term assets.

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

With substantial exposures to the Government of Sri Lanka in terms of assets, borrowings from overseas lenders and huge imbalances in demand for and supply of foreign exchange relating to foreign trade, the Bank devoted a lot of effort during the year to managing the USD liquidity position while accommodating customer requirements in the most equitable manner possible. The Bank continued negotiations with a number of parties throughout the year to secure USD funding and successfully mobilised USD 50 Mn. from multilateral funding agencies. As a policy, the Bank never resorted to maintaining open positions beyond the regulatory specified limits to manage foreign currency liquidity.

- **Managing excess Rupee liquidity**

Although the Bank experienced satisfactory credit growth during the year under review relative to 2020, the Bank continued to have excess Rupee liquidity throughout the year due to deposits continuing to grow at an unprecedented rate. Having analyzed the potential movements of interest rate forecasts in coming years, the Bank continued to rebalance the maturity profile of its Government securities portfolio in order to enhance returns.

- **Conducted additional stress testing**

Fair Value through Other Comprehensive Income (FVOCI) portfolios of both FCY and Rupee bond portfolios indicated high level of stress arising out of sharp interest rate movements experienced in the market due to varying factors. Much focus was placed on such portfolios and their impact arising from marking to market exercise leading to possible depletion of Capital Adequacy Ratio with a view to formulate strategies to minimize adverse impact.

Further, frequent downgrading of country rating experienced during the year prompted the Bank to review resilience levels of FCY Bond exposures. FCY liquidity remained a focus area, which is common to banking sector at large and as the stress levels are unprecedented, the Bank resorted to various scenario analysis to manage this constraint at a reasonable level.

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

The Bank continued to implement further technical solutions and make process improvements to address the ever-evolving cyber security threat landscape. These included;

- Cyber Security Incident Response Plan is in place for managing and responding to cyber security events;
- A security log management system is configured to alert on identified cyber security events such as abnormal behaviours in perimeter security devices such as firewalls, intrusion prevention/detection systems etc, denial of service attacks, password enumeration attacks, privilege access etc. These alerts/dashboards are monitored and necessary action is taken on any identified events;
- Appointed a Chief Information Security Officer (CISO) to provide leadership to the Bank's overall information security function including cyber security;
- Established an Information Security Risk Assessment Policy, and as per the Policy, information/cyber security risk assessments are carried out periodically;
- Conducted technical security assessments such as vulnerability assessments, penetration tests, application security assessments, configuration assessments etc. periodically, in order to gauge the cyber risk profile of the Bank;
- Performance of the Information Security Management Systems (ISMS) and any deviations, information security road-map/progress of cyber security projects as well as the information/cyber security risk profile of the Bank are regularly reported to the Information Security Council (ISC) and the BIRMC is kept updated periodically through risk indicators and other reports;
- Sufficient time is allocated in the agenda of the Board Technology Committee (BTC) for discussion on cyber risk management. Proceedings of both the BIRMC and the BTC meetings are submitted to the Board for information and necessary directions;

- **Adoption of the Group Social and Environmental Management System (SEMS)**

The Bank has been maintaining a robust SEMS since 2010 and it was extended to the subsidiaries of the Bank as recommended by the stakeholders, by adopting the Board approved Group Social and Environmental Management System during the year. Objective assistance was provided to the subsidiaries in adopting well-crafted Social and Environment Risk Management Procedure enabling the subsidiaries to conform to the SEMS of the Bank.

- **"Masked" credit risk**

The overall credit risk and asset quality of the Bank improved during the year as reflected by the gross and net non-performing loan ratios improving to 4.62% and 1.44% respectively as at December 31, 2021 as against 5.11% and 2.18% as at December 31, 2020. The improvement in the ratios was as a result of the gross loans and advances portfolio grown by 13%, while the growth in the non-performing loans and advances being curtailed to 6.3%. However, the Bank is aware that, due to the still evolving nature of the pandemic and the uncertainties surrounding it as well as the Government support measures introduced to cushion the impact of the pandemic to the households and the business entities, the true underlying creditworthiness of some of the borrowers may be masked to some extent and that there is potential for some deterioration in asset quality in the years ahead. Being aware of such conditions, the Bank has taken necessary safeguards in terms of its business model and capital buffers to deal with any general deterioration in asset quality and the operating environment and made additional impairment provisions for the loans under moratoria and to exposures to REIs.

- **Resilience to operational environment/changes**

Despite certain relaxation of systems and procedures, remote working arrangements and heavy reliance on digital channels, there was no increase in the operational risk profile in terms of incidents and losses compared to the previous year. With proper strategic responses aided by the robust risk governance and the rigorous risk management function, the Bank was able to successfully maintain its stability, resilience and profitability although it continued to be a year of ongoing disruptions and challenges.

Risk appetite and risk profile

A clearly-defined and Board approved Risk Appetite Statement articulates the types of risks, degrees of risks and the maximum amount of aggregate risk exposure that the Bank is prepared to assume at any given point in time. In order to provide for ease of monitoring, risk appetite is expressed in terms of quantitative parameters for all the important risk indicators under each risk category. It, among others, reveals the desired asset quality, maximum market and operational risk losses and minimum capital and liquidity requirements, taking into account the volatile operating environment, 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, BIRMC, and the Board, in terms of certain Key Risk Indicators and a Risk Profile Dashboard. With the help of this information, the risk profile is rigorously 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 approved 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 sufficiently diversified in terms of geographies, sectors, products, currencies, size and tenors. Risk profile of the Bank's Sri Lankan operation as at December 31, 2021 and December 31, 2020 compared to the risk appetite as defined by the regulatory / Board approved policy parameters is given below:

Table - 47: **Risk profile**

Risk category	Key Risk Indicator	Policy parameter	Actual position	
			31.12.2021	31.12.2020
Credit risk:				
Quality of lending portfolio	Gross NPA ratio	3% – 8%	4.62%	5.11%
	Net NPA ratio	2% – 6%	1.44%	2.18%
	Impairment over total NPA (*)	40% – 60%	49.97%	46.95%
	Weighted average rating score of the overall lending portfolios	35% – 40%	52.60%	52.93%
Concentration	Loans and advances by product – Highest exposure to be maintained as a percentage of the total loan portfolio	30% – 40%	22.40%	21.72%
	Advances by economic sub sector (using HHI-Herfindahl-Hirschman-index)	0.015 – 0.025	0.0149	0.0145
	Exposures exceeding 5% of the eligible capital (using HHI)	0.05 – 0.10	0.0063	0.0057
	Exposures exceeding 15% of the eligible capital (using HHI)	0.10 – 0.20	0.0053	0.0055
	Exposure to any sub sector to be maintained at	4% – 5%	4.49%	4.33%
	Aggregate of exposures exceeding 15% of the eligible capital	20% – 30%	9.98%	12.25%
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. 195.23 Mn.	Rs. 267.12 Mn.
	Re-pricing gaps (RSA/RSL in each maturity bucket – up to one- year period)	<1-1.5 Times (other than for the 1 month bucket which is <2.5 Times)	0.77 Times (1.86 times for 1 month bucket)	1.11 Times (1.78 times for 1 month bucket)
Liquidity risk	Statutory Liquid Asset Ratio (SLA) for Domestic Banking Unit (DBU)	22%	38.73%	44.99%
	Liquid Asset Ratio (LCR) for All Currencies	100%	242.52%	422.86%
	Net Stable Funding Ratio (NSFR)	100%	157.47%	157.49%
Foreign Exchange risk	Exchange rate shocks on Total FCY exposure	Rs. 450 Mn.	Rs. 373.47 Mn.	Rs. 301.20 Mn.
Operational risk	Operational loss tolerance limit (as a percentage of last three years average gross income)	3% – 5%	0.78%	0.58%
Strategic risk:	Capital adequacy ratios:			
	CET 1	Over 7.5%	11.923%	13.217%
	Total capital	Over 13.0%	15.650%	16.819%
	ROE	Over 15%	14.660%	11.28%
	Creditworthiness – Fitch Rating	AA(lka)	AA-(lka)	AA-(lka)

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

(*) Impairment ratios (without undrawn amount) calculated for the years 2020 and 2021, based on the guidelines stipulated in the Banking Act Direction No. 13 of 2021, extracting the data given in note 34 on page 246, are 31.47% and 44.34%, respectively.

Credit ratings

In January 2021, following the recalibration of the agency's Sri Lankan rating scale, Fitch Ratings Lanka Limited revised the Bank's National Long-Term Rating to AA-(lka)/Stable. 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 a period of disruptions and challenges depict the stability and the creditworthiness of the Bank and its conservative risk profile.

Outlook and plans for 2022 and beyond

The Operating Context and Outlook on pages 20 to 22 provides an analysis of the outlook for the Sri Lankan and the Bangladesh economies and the financial services sectors for 2022 and beyond. With full social, economic and financial impact of COVID-19 yet to be seen, deteriorating credit quality and potential for increased impairment losses, lackluster economic activities, sovereign debt sustainability related concerns and forex liquidity related pressures, a high degree of uncertainty is likely to continue to prevail in the short to medium term. With further acceleration of digital channels with potential disruptions and escalating cyber security threats and potential for compound and contagion risks, non-financial risks will become more prominent. Banking regulations will be further widened and deepened amidst pervasive technological advances and macroeconomic shocks. Recovery and resolution will require heightened attention.

These developments necessitate further strengthening of the risk governance and risk management function. With compound and contagion risks arising from pandemic related developments and country specific/ global economic, historical correlations underlying risk management models may be found to be inadequate and trigger the need for alternative sources of data. Risk management function will also require professionals who will better understand how to leverage data which in turn requires such skills and knowledge as data science, data modelling, machine learning and AI based model risk management. Accordingly, 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 2022 and beyond will include:

- Developing systems and processes for data capturing in preparation for Basel IV, proposed to be implemented globally with effect from January 1, 2023;
- Monitoring risk of competitor activity, entry of Fintech and telecom giants into the banking industry in particular, and evaluation of feasibility of possible partnerships to leapfrog competition;
- Developing a risk database to strengthen cybersecurity to address risks arising from increasing interconnectedness and resulting financial contagion and carrying out scenario-based stress testing;
- Implementation of a climate risk assessment tool with a view to address potential climate related risks by reducing carbon footprint of banking operations;
- Development of a policy framework to manage the conduct risk;
- Development of the CBSL mandated Recovery Plan;
- Effective involvement in the asset classification, recognition, and measurement as per the Banking Act Direction Nos. 13 and 14 issued by the Central Bank;
- Introduction of an ESG (Environment, Social and Governance) Framework that would enable practical initiatives that address ESG ambitions at Group level, identify growth opportunities and meet stakeholder needs whilst creating value;
- Studying the options available to make the capital allocation process more efficient;
- Introduction of a congruent and intelligent broad Credit, Operational and Market Risk Management frameworks in subsidiaries;
- Converge the EWS with Internal credit evaluation to bring about a more robust mechanism to identify, predict, measure and control quality of credit exposures created by the Bank;
- Inculcate a Data Culture throughout the organization by way of a comprehensive Data Roadmap and a well augmented Data Analytics Unit supporting effective business growth;
- Implement robust Capital Optimization Initiatives

With success of the vaccination campaigns, the latest variant, Omicron, being classified as a less severe form of COVID-19 and most of the countries easing on their earlier strict zero COVID-19 policies, latest predictions are that the pandemic will be over soon, reviving hopes for a better outlook for 2022 and beyond.

Risk management framework

The Bank has an all-encompassing Risk Management Framework (RMF) based on the Three Lines of Defence model, which takes into account the different roles played by the different departments of the Bank and their interplay determining effectiveness of the Bank in dealing with risk. It is a structured approach to manage all its risk exposures and is underpinned by rigorous organisational structures, systems, processes, procedures and industry/global best practices taking 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.

Figure – 32: Three lines of defence

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 the Management and the 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 and comprises of the committees, rules, processes and mechanisms by which decisions relating to risk are taken and implemented for the management and oversight of risk within the risk appetite and the risk tolerance levels and for institutionalizing 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 required 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 33 on page 164. Since it is highly specialized and also to ensure an integrated and consistent approach, decision-making on risk management is centralized to a greater extent in several risk management committees.

Board of Directors

The Board of Directors is the apex governance body responsible for strategy and policy formulation, objective setting and for overseeing executive functions. It 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 104 to 109 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, a list of which is given on pages 125 and 128. 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 and effective 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 Bank's unwavering commitment and expectations of all the employees to undertaking business in a responsible, transparent and disciplined manner are set out in a number of related documents such as the Code of Ethics, Gift Policy, Communication Policy, Credit Policy and the Anti-Bribery and Anti-Corruption Policy which demand 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 200 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 129 to 145.

Executive committees

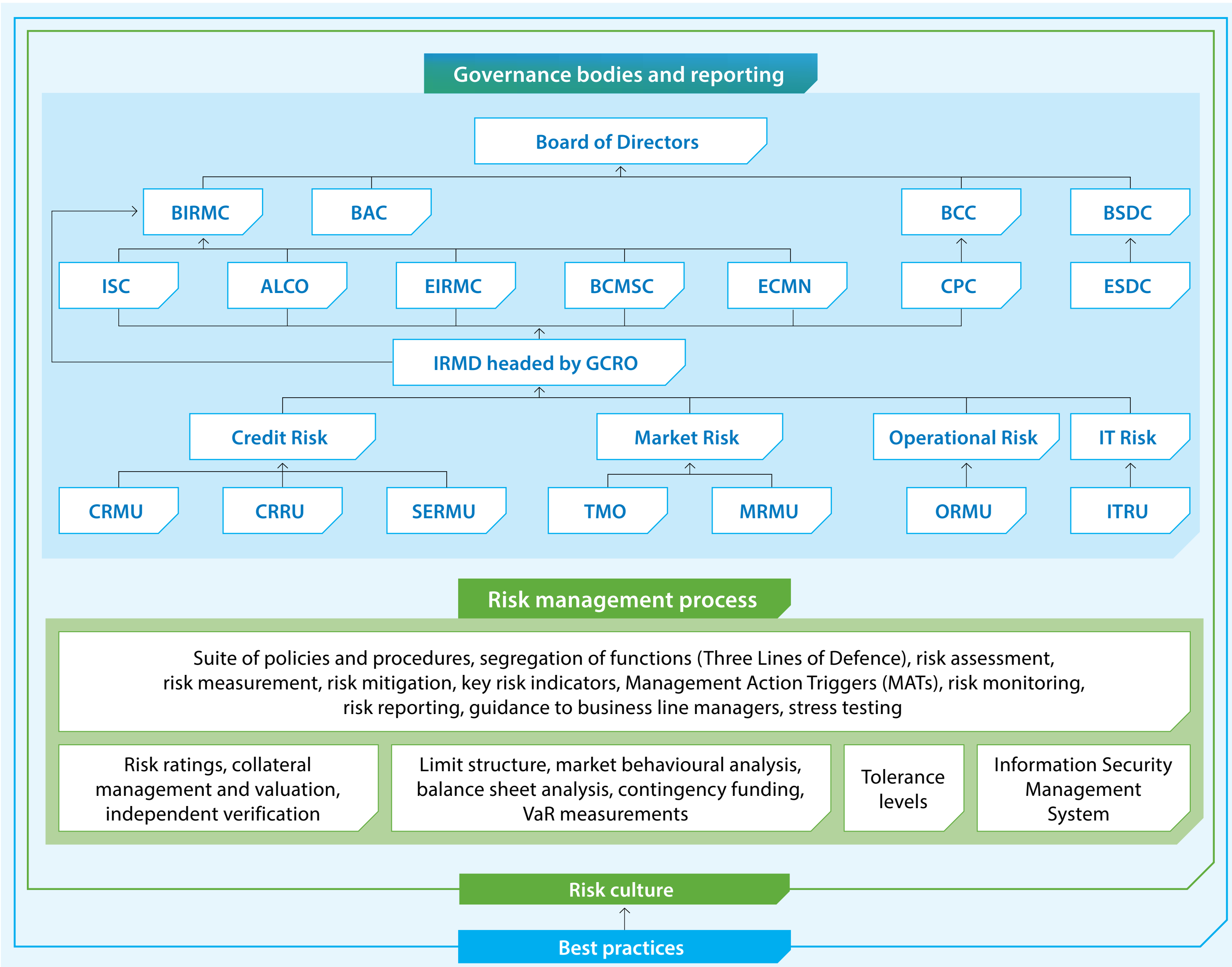
Executive management is responsible for the execution of strategies and plans in accordance with the mandate of the Board of Directors while maintaining the risk profile within the approved risk appetite. Executive Integrated Risk Management Committee (EIRMC) comprises members from units responsible for credit risk, market risk, liquidity risk, 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 Group 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 117 and 128.

The Group 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, guidelines 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.

Figure – 33: **Risk governance structure**



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, SERMU – Social and Environmental Risk Management Unit, 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 as well as determining risk mitigation strategies, monitoring early warning signals, estimating potential future losses and putting measures in place to contain losses/risk transfer. The risk management framework (Figure 34) facilitates the formulation and implementation of risk management strategies, policies and procedures while 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 the infrastructure required in terms of both human and physical resources to strengthen detection and management of risks, including mandates, policies & 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 that they need to have a clear understanding of the risks the Bank is faced with, IRMD provides ongoing training and awareness to the employees, risk owners in particular, disseminating knowledge and enhancing their skills on all aspects related to risk, instilling the desired risk culture.

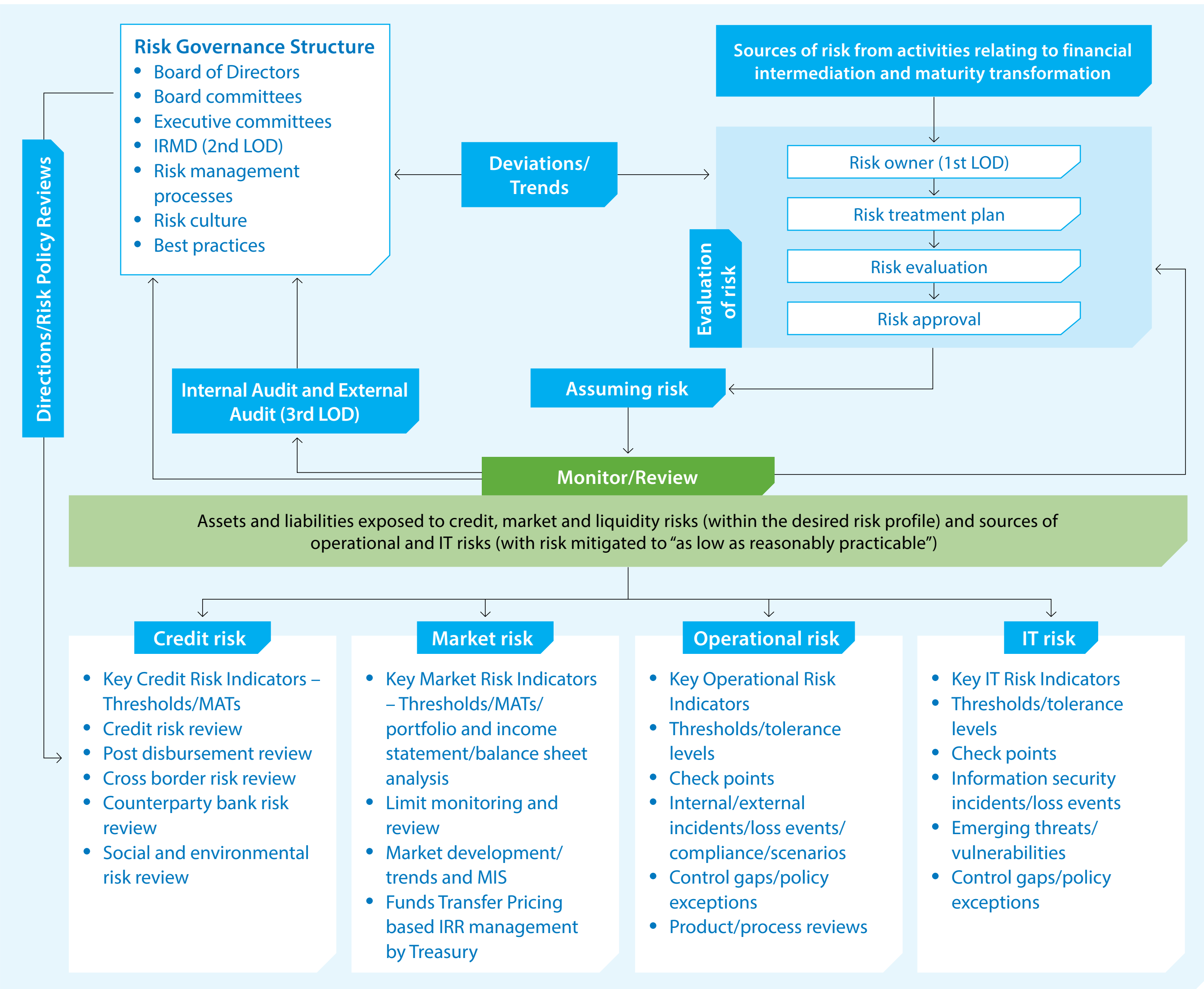
Policies, procedures and limits

The Bank has a set of comprehensive risk management policies that cover all the risks it manages in order to provide guidance to the business and support units on risk management and regulatory compliance including the Banking Act Direction No. 07 of 2011 – Integrated Risk Management Framework for Licensed Commercial Banks based on the Basel Framework and subsequent CBSL directives. This helps to reduce prejudice and subjectivity in risk decisions by institutionalizing the risk knowledge base. This key document establishes the Bank's risk culture by defining its objectives, priorities and processes as well as the Board's and the Management's roles in risk management. The Risk Assessment Statement (RAS) sets out the risk limits and forms an integral part of the risk management framework. The BIRMC and the Board of Directors review the RAS at least once a year, if not more frequently, based on regulatory and business needs.

The Bank has considered the regulatory needs of the countries in which it operates. The Bank's overall risk exposure including its international operations is within the CBSL's regulatory framework.

The Bank has issued comprehensive operational guidelines to facilitate implementation of the risk management policy and the limits specified in the RAS. These guidelines detail types of facilities, processes and terms and conditions under which the Bank conducts business, giving staff clarity in their day-to-day tasks.

Figure – 34: **Risk management framework**



Risk management tools

To identify, measure, manage and report risks, the Bank uses a combination of qualitative and quantitative tools. Selection of the appropriate tool(s) for managing a particular risk is based 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, SEMS, workflow-based operational risk management system, insurance and benchmarking to limits, gap analysis, NPV analysis, swaps, caps and floors, hedging, risk rating, risk scoring, risk modelling, duration, scenario analysis, marking to market, stress testing, VaR analysis etc.

Figure – 35: **Summary of key risks**

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 a multitude of financial and non-financial risks, which 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 which is monitored periodically against the risk appetite referred to earlier. Robust risk management framework in place enables the Bank to manage these risks prudently.

Nevertheless, banks are not immune to the significant levels of uncertainty arising from various external developments as well as internal factors that will continue to affect their risk profiles on an ongoing basis.

External developments may include;

- The outbreak of pandemics
- Movements in macroeconomic variables
- Fragile supply chains
- 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
- Distressed businesses and individuals
- Downgrading of ratings of the banks and
- Growing sustainability concerns

Besides limiting physical movements of people and global trade, such developments could impact public perceptions, disposable income of people, demand for banking products and services, funding mix, interest margins and tax liabilities of the Bank.

Internal factors may include;

- Knowledge and skill gaps among staff members
- Lapses in internal administration
- Deterioration of internal sub-cultures
- Deliberate acts of fraud, cheat, misappropriation etc
- Arbitrary decision making
- Inaccurate/insufficient risk reporting
- Inadequacies/misalignments of digitisation
- Strategic misalignments
- Lapses in implementing the risk management framework
- Improper alignment of remuneration to performance and risk
- 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
- Lack of robust data infrastructure adversely affecting business and operational decisions and
- Subsidiaries and associates not performing up to expectations of the Bank.

These factors, if not properly managed, may affect the risk profile of the Bank as well as cause reputational damage, 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 35 on page 166.

These developments are making the operating environment more complex, dynamic and competitive day by day and risk management very challenging on an ongoing basis. Effective management of these risks with a congruent approach to face 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 refers to the potential that a borrower or a counterparty will fail to meet its obligations in accordance with agreed terms. Direct lending activities as well as commitments and contingencies expose the Bank to credit risk. COVID-19 pandemic related developments have triggered certain implications such as masking credit risk and changes in creditworthiness of certain sectors, requiring the Bank to explore new approaches for managing and mitigating credit risk.

The Bank's total credit risk is made up of counterparty risk, concentration risk and settlement risk.

Table - 48: **Maximum credit risk exposure**

	As at December 31, 2021	
	Rs. Bn.	%
Net carrying amount of credit exposure:		
Cash and cash equivalents	68.078	2.7
Placements with central banks and other banks (excluding reserves)	24.690	1.0
Financial assets at amortised cost – Loans and advances to banks		
Financial assets at amortised cost – Loans and advances to other customers	1,014.618	40.7
Financial assets at amortised cost – Debt and other financial instruments	369.418	14.8
Financial assets measured at fair value through other comprehensive income	335.463	13.5
Total (a)	1,812.267	

	As at December 31, 2021	
	Rs. Bn.	%
Off-balance sheet maximum exposure:		
Lending commitments	143.400	5.8
Contingencies	536.753	21.5
Total (b)	680.153	
Total of maximum credit exposure (a + b)	2,492.420	100.0
Gross carrying amount of loans and advances to other customers	1,078.685	
Stage 3 (credit impaired) loans and advances to other customers	79.076	
Impaired loans as a % of gross loans and advances to other customers		7.3
Allowance for impairment – loans and advances to other customers	64.066	
Allowance for impairment as a % of gross loans and advances to other customers		5.9
Impairment charge – loans and advances to other customers	14.553	

Amid the COVID-19 pandemic related environmental challenges, the maximum credit exposure of the Bank has grown from Rs. 2,354.9 Bn. (as at end December 2020) to Rs. 2,492.4 Bn. (as at end December 2021).

According to the SLFRS 9 classification, the credit impaired (Stage 3) loans to customers stood at Rs. 79.0 Bn. (Rs. 102.5 Bn. in 2020) which is 7.3% (10.8% in 2020) 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 which has resulted in a cumulative impairment allowance of Rs. 64.0 Bn. as at December 31, 2021 (Rs. 50.9 Bn. as at December 31, 2020).

Managing credit risk

The lending portfolio accounts for 52% of total assets and credit risk accounts for over 90% of the total 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, and import restrictions continued throughout the year under review. Concerns fuelled by foreign currency liquidity shortages exerted pressure on the business entities. However, certain proactive measures taken by the Government such as the effective vaccination drive, efforts to boost FDIs and revive tourism helped the country sustain economic activities at a reasonable level. Demonstrating its resilience, the Bank managed to gradually weather the effects of the pandemic and make progress. NPL ratios improved during the year (Refer Table 47 on risk profile on page 161). Continuous follow up of facilities that were subjected to moratoria, 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 further in 2022 and minimise potential credit risk.

In addition to the effective credit risk management framework referred to 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 geographies it serves. Continuous monitoring of age analysis and the underlying movement of overdue loans through arrears buckets enabled the Bank to swiftly take action, thereby moderating default risk during the year.

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.

Graph 23 depicts that the tenor-wise breakdown of the portfolio of total loans and advances to other customers is within the risk appetite of the Bank.

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 49 on page 169.

Graph – 23: **Loans and advances to other customers by tenor-wise as at December 31, 2021 (based on residual maturity)**

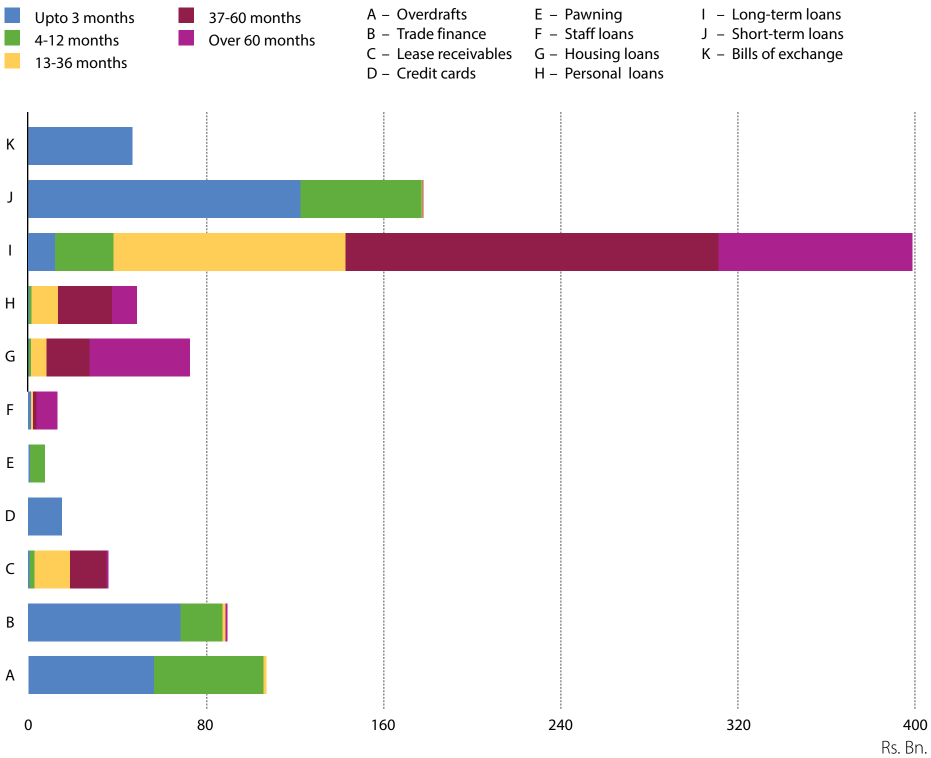
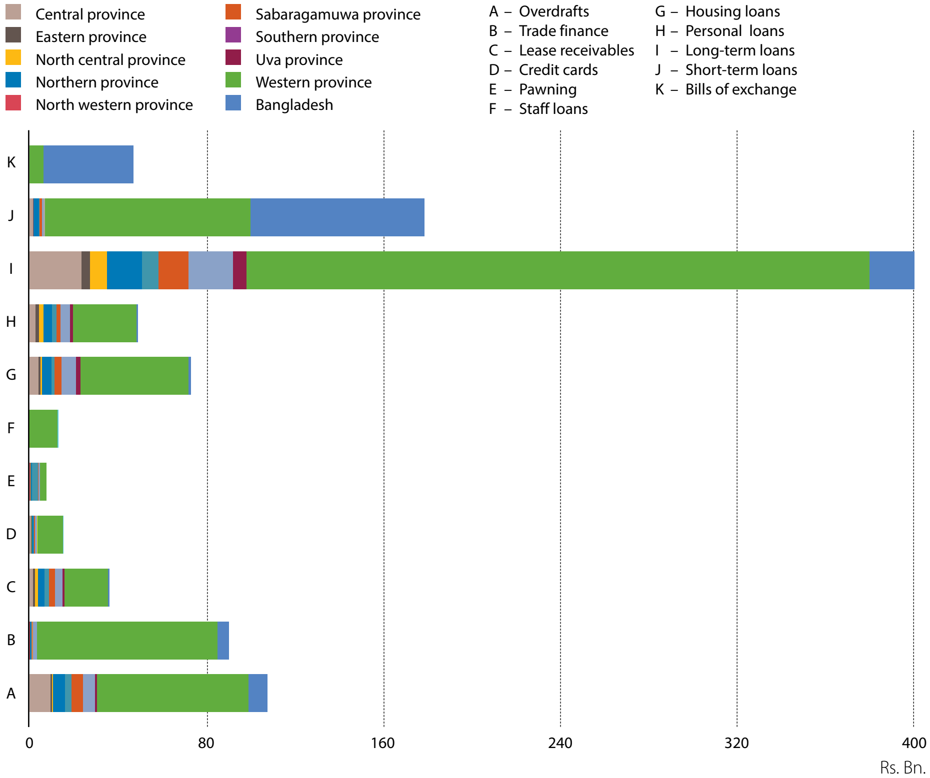


Table - 49: **Distribution of Stage 3 credit impaired loans and advances to other customers as at December 31, 2021**

Industry Category	Stage 3 Loans and Advances Rs. '000	Allowance for Individual Impairment Rs. '000	Allowance for Collective Impairment Rs. '000	ECL Allowance Rs. '000	Amount Written-off Rs. '000
Agriculture, forestry and fishing	10,020,367	996,468	3,570,968	4,567,436	51,527
Arts, entertainment and recreation	78,162	–	28,658	28,658	78
Construction	7,791,382	3,449,065	2,258,071	5,707,136	38,790
Consumption and others	7,601,095	7,420	3,378,997	3,386,417	256,730
Education	305,324	–	117,352	117,352	692
Financial services	1,205,504	784,597	136,675	921,272	629
Health care, social services and support services	1,590,064	61,884	507,360	569,244	2,212
Information technology and communication services	657,123	4,220	261,577	265,797	1,821
Infrastructure development	2,532,161	620,781	259,999	880,780	154
Lending to overseas entities	2,735,791	67,065	668,510	735,575	–
Manufacturing	16,585,196	2,838,447	4,047,918	6,886,365	470,767
Professional, scientific and technical activities	634,977	-	236,223	236,223	3,298
Tourism	6,143,146	188,100	1,774,473	1,962,573	3,719
Transportation and storage	2,852,214	1,228,902	270,056	1,498,958	42,472
Wholesale and retail trade	18,343,130	2,210,175	5,091,240	7,301,415	67,253
Total	79,075,636	12,457,124	22,608,077	35,065,201	940,142

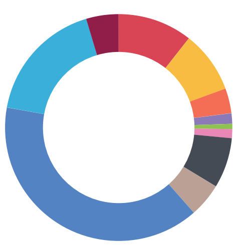
Graph – 24: **Geographical analysis of loans and advances to other customers by product-wise as at December 31, 2021**



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 24) reflects a high concentration of loans and advances to other customers in the Province.

Product-wise analysis of the lending portfolio (Graph 25) too reveals the efficacy of the Bank's credit policies with risk being diversified across a range of credit products.

Graph – 25: **Product-wise analysis of loans and advances to other customers as at December 31, 2021**



Overdrafts	11%
Trade finance	9%
Lease receivables	4%
Credit cards	1%
Pawning	1%
Staff loans	1%
Housing loans	7%
Personal loans	5%
Long-term loans	39%
Short-term loans	17%
Bills of exchange	5%

The relatively high exposure of 39% to long-term loans is rigorously monitored and mitigated with collateral.

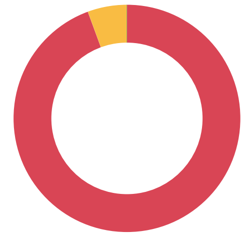
Counterparty risk

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.

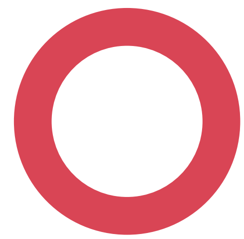
The analysis uses Fitch Ratings for local banks in Sri Lanka and Credit Ratings Agency in Bangladesh (CRAB) ratings for local banks in Bangladesh (Equivalent CRISL/Alpha ratings are used where CRAB ratings are not available). Exposures for local banks in Sri Lanka rated AAA to A category stood at 94% (Graph 26) whilst 100% of exposure of local banks in Bangladesh consisted of AAA to AA rated counterparty banks (Graph 27).

Graph – 26: **The concentration of counterparty bank exposures in Sri Lanka as at December 31, 2021 (Fitch ratings-wise)**



AAA to A	94%
BBB to B	6%

Graph – 27: **The concentration of counterparty bank exposures in Bangladesh as at December 31, 2021 (CRAB ratings-wise*)**



AAA to AA	100%
BBB to B	0%

**Equal CRISL/Alpha ratings are given where CRAB ratings are unavailable.*

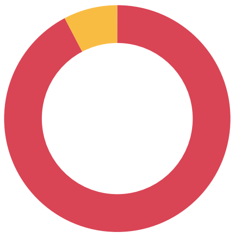
Cross-border risk

It is the risk that the Bank will be unable to secure payments 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 to minimize risk arising from over concentration of cross-border risk. Timely action is taken to suspend/revise limits to countries with adverse economic/political developments.

The Bank's total cross-border exposure is only 5% of its total assets (Graph 29 on page 171). The Bank has cross-border exposures to a spread of countries which primarily include the Maldives, India, Singapore, USA, Denmark, Malaysia, etc.

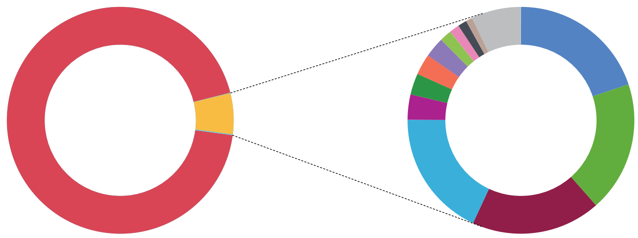
Graph – 28: **The concentration of cross-border exposure (Sri Lanka and Bangladesh Operations) - S&P Rating wise as at December 31, 2021**



AAA to BBB-	92.3%
Below BBB- and Unrated	7.7%

Note : Excluding the investment in Bangladesh Operations & Direct Lending in Maldives/Bangladesh.

Graph – 29: **Cross border exposure of the Bank (Sri Lanka and Bangladesh operations)**



Total Assets*

Other Assets	95%
Cross border Assets	5%

Total Assets inclusive of Guarantees

Maldives	19.87%
India	18.61%
Singapore	18.48%
USA	18.12%
Denmark	3.60%
Malaysia	3.02%
UK	3.00%
Kenya	2.90%
Indonesia	1.69%
Germany	1.42%
Hong Kong	1.27%
Korea	0.92%
Others	7.10%

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.

Table - 50: **Market risk categories**

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	Medium
	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 92.05% of the total assets and 94.05% of the total liabilities as at December 31, 2021. Exposure to market risk arises mainly from IRR and FX risk as the Bank has negligible exposure to commodity related price risk and equity and debt price risk which was less than 12% of the total risk weighted exposure for market risk.

The Bank's exposure to market risk analysed by Trading Book and Non-Trading Portfolios (or Banking Book) is set out in the Note 67.3.1 on page 331.

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 rated) or time remaining to their next re-pricing (if they are floating rated). Balances of savings deposits are distributed in line with the findings of a behavioural analysis conducted by the Bank and based on the guidelines of the CBSL on overdrafts and credit cards. Vulnerability of the Bank to interest rate volatility is indicated by the gap between RSA and RSL (Refer Table 51).

Table - 51: **Interest rate sensitivity gap analysis of assets and liabilities of the Banking Book as at December 31, 2021 – Bank**

Description	0-90 Days Rs. '000	3-12 Months Rs. '000	1-3 Years Rs. '000	3-5 Years Rs. '000	Over 5 years Rs. '000	Non-sensitive Rs. '000	Total as at 31/12/2021 Rs. '000
Total financial assets	570,948,878	325,874,708	426,432,258	205,863,555	204,935,130	121,006,704	1,855,061,233
Total financial liabilities	679,465,109	576,555,364	130,206,477	91,360,929	244,974,815	17,110,538	1,739,673,232
Interest rate sensitivity gap	(108,516,231)	(250,680,656)	296,225,781	114,502,626	(40,039,685)	103,896,166	115,388,001
Cumulative gap	(108,516,231)	(359,196,887)	(62,971,106)	51,531,520	11,491,835	115,388,001	
RSA/RSL	0.84	0.57	3.28	2.25	0.84		

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 analyzed 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 52).

Table - 52: **Sensitivity of NII to rate shocks**

	2021		2020	
	Parallel increase Rs. '000	Parallel decrease Rs. '000	Parallel increase Rs. '000	Parallel decrease Rs. '000
As at December 31,	195,232	(195,288)	267,122	(132,005)
Average for the year	237,725	(195,758)	708,924	(648,050)
Maximum for the year	655,218	(655,219)	1,060,589	(1,040,835)
Minimum for the year	(161,529)	245,713	249,878	(132,005)

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 7.0% (Source - CBSL) during the year under review.

Please refer to Note 67.3.3 – Exposure to currency risk - non trading portfolio on pages 333 and 334.

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 56 on page 178). The impact of a 1% change in exchange rate on the foreign currency position indicated a loss of Rs. 373.47 Mn. on the positions as at December 31, 2021 (Refer Graph 47 on page 333).

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 67.3.4 on page 335 summarizes 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 assets ratios as at December 31, 2021 are given below:

Table - 53: **Statutory Liquidity Ratios**

	2021	2020
	%	%
Statutory Liquid Assets Ratio (SLAR)		
DBU	38.73	44.99
OBC	36.39	32.70
Liquidity Coverage Ratio (LCR)		
Rupee	425.97	599.38
All Currencies	242.52	422.86
Net Stable Funding Ratio (NSFR)	157.47	157.49

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, relatively slow credit growth compared to deposit inflow, caused the Bank to have an excess liquidity situation throughout the year, as can be seen by the ratios given in Table 53. 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 FCY at optimum yields to minimize 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 below:

Table - 54: **Key ratios used for measuring liquidity under the stock approach**

Liquidity ratios %	As at December 31, 2021	As at December 31, 2020
Loans to customer deposits	0.75	0.75
Net loans to total assets	0.52	0.52
Liquid assets to short-term liabilities	0.58	0.60
Purchased funds to total assets	0.22	0.23
(Large liabilities – Temporary Investments) to (Earning assets – Temporary Investments)	0.19	0.18
Commitment to total loans	0.18	0.24

Maturity gap analysis

Maturity gap analysis of assets and liabilities of the Bank as at December 31, 2021 is given in Note 67.2.2 (a) to the Financial Statements on pages 326 and 327.

Maturity analysis of financial assets and financial 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 30 provides a product-wise analysis of the Bank's funding diversification as at end of 2021 and 2020.

Graph – 30: **Funding diversification by product**

	2021	2020
Term deposits	49%	47%
Other borrowings	2%	12%
Due to Banks	5%	6%
Current account balances	9%	6%
Saving deposits	35%	29%

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 a Disaster Recovery Plan (DRP), creating a culture of risk awareness across the Bank, stress testing and monitoring and reporting.

Policies and procedures relating to outsourcing of business activities of the Bank ensure that all significant risks arising from outsourcing arrangements of the Bank are identified and effectively managed on a continuous basis. Details of all outsourced functions are reported to the CBSL annually. Due diligence tests on outsourced vendors are carried out by respective risk owners prior to executing new agreements and renewal of existing agreements. Further, bi-annual review meetings are conducted with key IT service providers to monitor service performance levels and to verify adherence to the agreements.

Business continuity management

Business Continuity Management (BCM) framework of the Bank encompasses business continuity, disaster recovery, crisis management, incident management, emergency management and contingency planning activities. These activities will ensure that the Bank is committed to serve all its stakeholders 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 has been further strengthened by way of introducing a secondary high-availability set-up leading to improved redundancy.

A BCP exercise (working day) was carried out in July 2021, which was conducted over a period of one week, beyond the current CBSL requirement of one working day. During the week of the BCP drill, the core banking and other critical systems were running from the DR systems. The exercise was a great success with minimum disruptions, which bears testimony to the maturity attained by the Bank by conducting such exercises over the years.

Review of operational risk

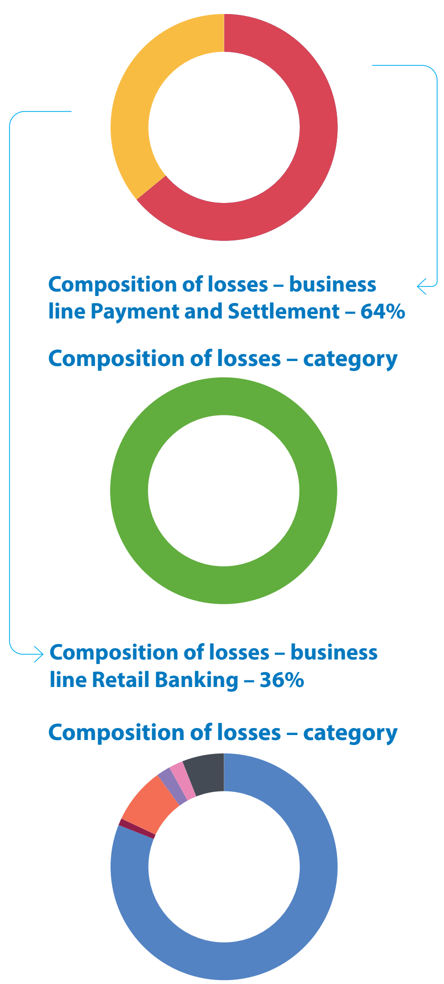
The Bank has a low appetite for operational risk and has established tolerance levels for all types of material operational risk losses based on historical loss data, budgets and forecasts, performance of the Bank, existing systems and controls governing Bank operations etc. Following thresholds have 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 2021 were below the internal alert level at 0.78% (of average audited gross income for the past three years). The Bank has been consistently maintaining operational losses below the alert level for the past ten years, reflecting the "tone at the top", effectiveness of the governance structures and the rigour of processes and procedures in place to manage operational risk.

The Graph 31 analyses the operational risk losses incurred by the Bank in 2021 under each business line/category.

Graph – 31: **Composition of losses – 2021**

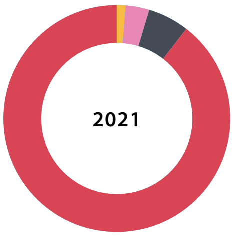


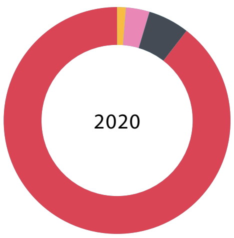
Payment and settlement	64%
Retail Banking	36%
Business disruption and system failures	100%
Execution, delivery and process management	81%
Internal frauds	1%
Damage to physical assets	8%
External frauds	2%
Clients products and business practices	2%
Business disruption and system failures	6%

When analysing the losses incurred during 2021 under the Basel II defined business lines, it is evident that the majority (64%) of losses with financial impact falls under the business line of "Payment and Settlement", followed by the losses reported under the "Retail Banking" business line (36%). Losses relating to other business lines remained negligible.

The Graphs 32 and 33 depict the comparison of operational losses reported during 2021 and 2020 under each Basel II loss event type, both in terms of number of occurrences and value.

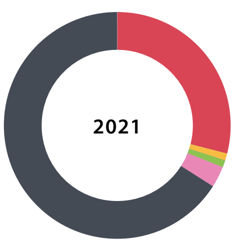
Graph – 32: **Operational loss events by category – % of total losses by number of events**

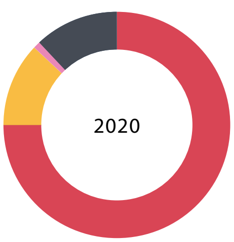




	2021	2020
Execution, delivery and process management	90%	90%
Internal frauds	0%	0%
External frauds	1%	1%
Employment practices and work place safety	0%	0%
Clients, products and business practice	0%	0%
Damage to physical assets	3%	3%
Business disruption and system failures	6%	6%

Graph – 33: **Operational loss events by category –% of total losses by value**





	2021	2020
Execution, delivery and process management	29%	75%
Internal frauds	0%	0%
External frauds	1%	12%
Employment practices and work place safety	0%	0%
Clients, products and business practice	1%	0%
Damage to physical assets	3%	1%
Business disruption and system failures	66%	12%

As typical with operational risk losses, majority of the losses encountered by the Bank during 2021 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 90% 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 0.0047%.

During the year, the Financial Intelligence Unit of the CBSL imposed a penalty of Rs. 3 Mn. on the Bank for certain lapses in relation to AML compliance. Following this, the Bank further strengthened AML compliance with new audit reports for monitoring transactions and ensuring compliance with KYC requirements.

When considering the values of the losses incurred by the Bank during the year, they can mainly be categorized under Business Disruption and System Failures related, Execution, Delivery and Process Management related and Damages to Physical Assets. 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 2021 under Alternative Standardised Approach as per Basel III is Rs.12.23 Bn., whereas the net losses after discounting the subsequent recoveries amounts to a mere 0.207% 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, the related processes, objectives and procedures relevant for managing risk and improving information security of the Bank.

Risk Control Self Assessment (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 prioritizing, 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. 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 Standards (BSS) being rolled-out across the branch network and in the Head Office. Initiatives taken in this regard are given under Key Developments in 2021 on pages 159 and 160 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). The KIRI review process involves monitoring a range of indicators including information security-related incidents, supplemented by trend analysis that accentuates high-risk or emerging issues so that prompt action can be taken to address them.

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 and 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 key risk is identified, monitored and managed by the Bank in a structured manner. The Bank's culture and the Code of Ethics too play a key role in managing this risk.

Strategic risk

Strategic risk is 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 recognizes 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 the code of conduct, Anti-Bribery and Anti-Corruption Policy, 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 formalized and implemented as Group Reputational Risk Management Policy framework during the year 2020.

Conduct risk

As an organization 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 customers 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 minimize conduct risk. The Bank is currently in the process of developing a comprehensive Conduct Risk policy framework covering the entire Group.

Contagion Risk

From a banking perspective, Contagion (Systemic) Risk refers to the risk of a financial stress or shock in one country, market, industry or a counterparty spilling across to other countries, markets, industries or counterparties, triggering disturbance and even defaults, given the highly integrated nature of the global financial systems and cross market linkages. The impact of a single shock can amplify existing stresses, leading to larger and sustained impacts on lives and livelihoods. The spill-over effects, a form of negative externalities, can create financial volatility and cause damage to financial systems. Although the COVID-19 began as a viral outbreak, it has already created a financial contagion in global markets. In the current fragile context where the outlook for the pandemic and the path to economic recovery continuing to remain uncertain, the Bank is to take additional steps to incorporate identifying risk elevated industries and monitor levels of distress among customers, industry sectors, regions etc. that may cause contagion risk, through the EWS, based on internal data, with a view to limit the potential impact.

Model Risk

A subset of Operational Risk, Model Risk is the risk that occurs when financial models used to measure quantitative information fail, leading to adverse outcomes for the Bank. The Bank uses a number of models that apply statistical, economic, financial and mathematical theories, techniques and assumptions to process data into quantitative estimate, for the management of various risks. Model failures can occur due to programming errors, incorrect data, technical errors as well as from misinterpretation of model outputs. The Bank uses extensive testing, robust governance policies and independent reviews to manage model 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 nor taking part in any form of corruption. The Bank has a Board approved Anti-Bribery and Anti-Corruption Policy setting out the principles for countering bribery and corruption and managing bribery and corruption risk which has been made available at *https://www.combank.lk/info/file/91/anti-bribery-and-anti-corruption-policy* as well as in the intranet of the Bank. 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 uses 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, the CBSL permitted D-SIBs to draw down their Capital Conservation Buffers by 100 basis points.

Table - 55: **Target and actual capital**

Capital ratios	Regulatory minimum %	Goal (Internal requirement) %	**2021** %	2020 %
CET 1	7.50	>7.50	11.923	13.217
HLA	1.50	>1.50		
Tier I	9.00	>9.00	11.923	13.217
Total	13.00	>13.00	15.650	16.819

A comparison of the status as at December 31, 2021 and the minimum capital requirement prescribed by the CBSL effective from January 1, 2019 as tabulated above demonstrates the capital strength of the Bank and bears testimony to the ability to meet stringent requirements imposed by the regulator.

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 and levies 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 in 2020 and issue of Rs. 8.595 Bn. worth Basel III compliant – Tier 2, Listed, Rated, Unsecured, Subordinated, Redeemable debentures with a Non-viability Conversion in 2021 enabled the Bank to increase its stated capital and the Tier 2 capital base respectively.

The Bank has a "Basel Workgroup" consisting 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 optimized 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 mobilizing 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 sine 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 56.

Table - 56: **Impact on CAR at Minor, Moderate and Severe stress levels:**

Particulars	Description	2021			2021		
		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	-0.35	-0.68	-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	-0.05	-0.11	-0.22	-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	-0.20	-0.47	-0.06	-0.13	-0.29
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	-0.06	-0.14	-0.27	-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	-0.27	-0.41	-0.42	-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 is 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 scenarios. 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

Refer Annex 2 on pages 361 to 374 for the minimum disclosure requirements under Pillar III as per the Banking Act Direction No. 01 of 2016.

Refer pages 373 and 374 on Annex 2 for the D-SIB Assessment Exercise disclosed as required by the Banking Act Direction No. 10 of 2019.

FINANCIAL REPORT

The Financial Statements, including Accounting Policies and accompanying notes, are in compliance with all applicable Accounting Standards and are free from material misstatement. As opined in the Auditors' Report, the Financial Statements provide a true and fair view of the Bank's performance, financial position, changes in equity and cash flows. Our Auditors have expressed their unqualified opinion on these Financial Statements as indicated in their "Independent Auditors' Report" to the shareholders.

Financial Calendar – 2021 and 2022

Dividend Calendar

	2021	2022
First and final dividend for the previous year paid/payable		
– Cash: To shareholders provided accurate dividend instructions	On April 05, 2021	On April 07, 2022
To shareholders not provided accurate dividend instructions	On April 09, 2021	On April 25, 2022
– Scrip	On April 09, 2021	On April 11, 2022
First interim dividend for the year paid/payable	Note 01	In the fourth quarter of 2022*
Second interim dividend for the year paid / payable	Note 01	In the first quarter of 2023*
Final dividend for the year to be proposed	On March 30, 2022	In March 2023
Final Dividend for the current year to be paid		In April 2023***
– Cash: To shareholders provided accurate dividend instructions	On April 07, 2022**	
To shareholders not provided accurate dividend instructions	On April 25, 2022**	
– Scrip	On April 11, 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 declare interim cash dividends during the year 2021 (for the year ended December 31, 2021), in conformity with the requirements of the Banking Act Direction No. 11 of 2021, dated July 13, 2021, on "Restrictions on Discretionary Payments of Licensed Banks" issued by the Central Bank of Sri Lanka.

Annual General Meeting (AGM) Calendar

Annual Report and Accounts signed/to be signed

For the year 2021	For the year 2022
On February 25, 2022	In February 2023

Annual General Meeting to be held

For the year 2021	For the year 2022
On March 30, 2022	In March 2023

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 News Papers (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)			
	2021 Submitted on	2022 To be submitted on or before	2021 Published on/to be published on or before			2022 To be published on or before
			English	Sinhala	Tamil	In all three languages
For the three months ended/ ending March 31, (unaudited)	May 12, 2021	May 13, 2022	May 21, 2021	May 31, 2021	May 31, 2021	May 31, 2022
For the six months ended/ ending June 30, (audited)	August 12, 2021	August 15, 2022	August 18, 2021	August 26, 2021	August 27, 2021	August 31, 2022
For the nine months ended/ ending September 30, (unaudited)	November 15, 2021	November 15, 2022	November 23, 2021	November 29, 2021	November 29, 2021	November 30, 2022
For the year ended/ ending December 31, (audited)	February 25, 2022	February 28, 2023	March 31, 2022	March 31, 2022	March 31, 2022	March 31, 2023

Independent Auditors' Report

Building a better working world

Ernst & Young
Chartered Accountants
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HMAJ/WDPL

TO THE SHAREHOLDERS OF COMMERCIAL BANK OF CEYLON PLC

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Commercial Bank of Ceylon PLC ("the Bank") and the consolidated financial statements of the Bank and its subsidiaries ("the Group"), which comprise the statement of financial position as at December 31, 2021, and the statement of profit or loss, the statement of 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, 2021, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the Code of Ethics issued by CA Sri Lanka (Code of Ethics) and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of 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: H M A Jayesinghe FCA FCMA, R N de Saram ACA FCMA, Ms. N A De Silva FCA, W R H De Silva FCA ACMA, Ms. Y A De Silva FCA, Ms. K R M Fernando FCA ACMA, N Y R L Fernando ACA, W K B S P Fernando FCA FCMA, Ms. L K H L Fonseka FCA, D N Gamage ACA ACMA, A P A Gunasekera FCA FCMA, A Herath FCA, D K Hulangamuwa FCA FCMA LLB (London), 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, C A Yalagala ACA ACMA

Principals: G B Goudian ACMA, Ms. P S Paranavitane ACMA LLB (Colombo), 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
Provision for credit impairment on financial assets carried at amortised cost and debt instruments carried at fair value through other comprehensive income Provision for credit impairment on financial assets carried at amortised cost and debt instruments carried at fair value through other comprehensive income as stated in Notes 34, 35 & 36 respectively is determined by management in accordance with the accounting policies described in Note 7.1.12. This was a key audit matter due to: • materiality of the reported provision for credit impairment which involved complex calculations; and • degree of management judgement, significance of assumptions and level of estimation uncertainty associated with its measurement Key areas of significant judgements, estimates and assumptions used by management in the assessment of the provision for credit impairment included the following; • management overlays to incorporate the probable ongoing impacts of COVID-19 and related industry responses such as Government stimulus packages and debt moratorium relief measures granted by the Bank; • the incorporation of forward-looking information to reflect current and anticipated future external factors, including judgments related to the ongoing impact of COVID-19, both in the multiple economic scenarios and the probability weighting determined for each of these scenarios.	We assessed the alignment of the Bank's provision for credit impairment computations and underlying methodology including consideration of COVID-19 impacts and related industry responses with its accounting policies, 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, implementation and operating effectiveness of controls over estimation of impairment, which included assessing the level of oversight, review and approval of provision for credit impairment policies and procedures by the Board and management • We checked the completeness and accuracy of the underlying data used in the impairment computation by agreeing details to relevant source documents and accounting records of the Bank. We also checked the underlying calculations. In addition to the above, the following procedures were performed: For loans and advances assessed on an individual basis for impairment: • We assessed the reasonableness and timeliness of Management's internal assessments of credit quality based on the borrower's particular circumstances • We evaluated the reasonableness of key inputs used in the provision for credit impairment made with particular focus on the ongoing impact of COVID-19. Such valuations were carried out considering value and timing of cash flow forecasts, elevated risk industries, status of recovery action and collateral values For financial assets assessed on a collective basis for impairment: • We tested the key calculations used in the provision for credit impairment • We assessed whether judgements, estimates and assumptions used by the Management in the underlying methodology and the management overlays were reasonable. Our testing included evaluating the reasonableness of forward-looking information used, economic scenarios considered and probability weighting assigned to each of those scenarios • We assessed the adequacy of the related financial statement disclosures set out in Notes 34 & 67.
Information Technology (IT) systems and controls over financial reporting A significant part of the Bank's financial reporting process is primarily reliant on multiple IT systems with automated processes and internal controls. Further, key financial statement disclosures are prepared using data and reports generated by IT systems, that are compiled and formulated with the use of spreadsheets. Accordingly, IT systems and related internal controls over financial reporting was considered a key audit matter.	Our audit procedures included the following: • We obtained an understanding of the internal control environment of the processes relating to financial reporting and related disclosures. • We identified and test checked relevant controls of key IT systems related to the Bank's financial reporting process. • We involved our internal specialized resources to evaluate the design and operating effectiveness of IT controls, including those related to user access and change management. • We checked key source data of the reports used to generate key disclosures for accuracy and completeness, including review of the general ledger reconciliations. • We also obtained a high-level understanding, primarily through inquiry, of the cybersecurity risks affecting the bank and the actions taken to address these risks. Further, we checked changes if any have been made to security monitoring procedures, given the increase in remote workers including the bank's monitoring on remote workers activities.

Other information included in the 2021 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.

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.

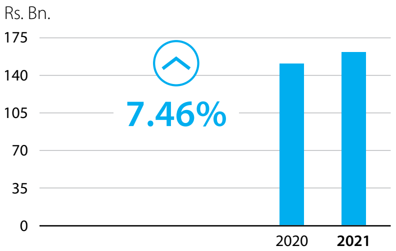
CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is 1884.

Chartered Accountants

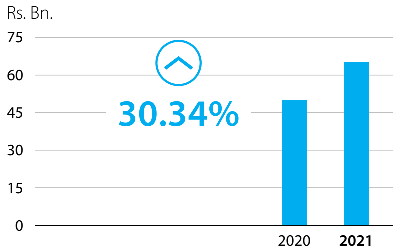
February 25, 2022
Colombo

Financial Statements Highlights – Bank

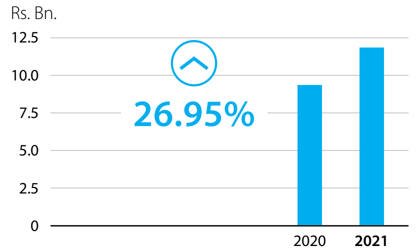
Graph – 34: **Gross income**



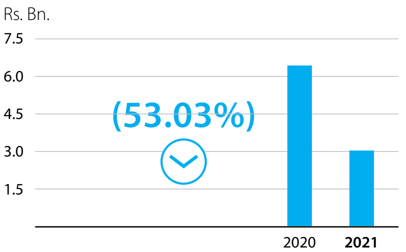
Graph – 35: **Net interest income**



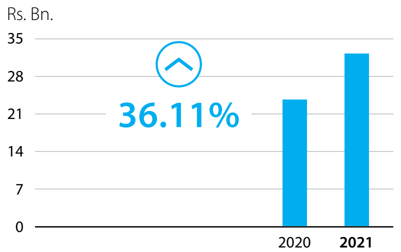
Graph – 36: **Net fee and commission income**



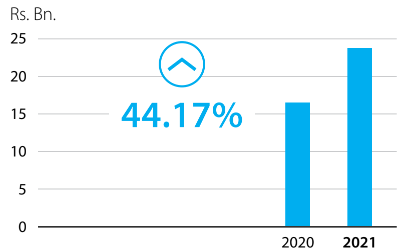
Graph – 37: **Net gains/(losses) from derecognition of financial assets**



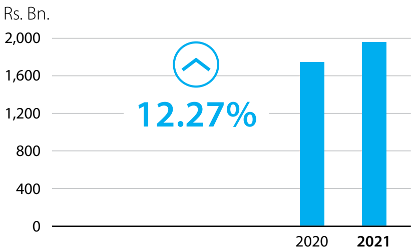
Graph – 38: **Profit before tax**



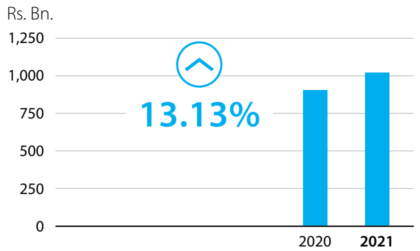
Graph – 39: **Profit after tax**



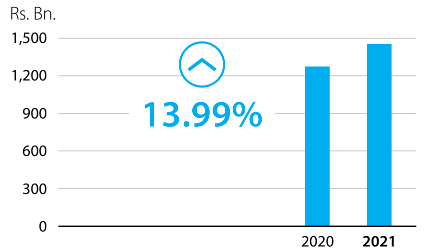
Graph – 40: **Total assets**



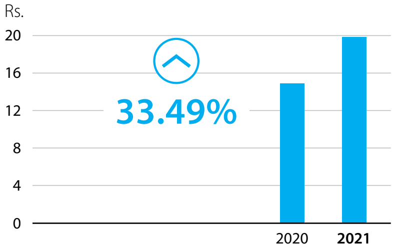
Graph – 41: **Financial assets at amortised cost – Loans and advances to other customers**



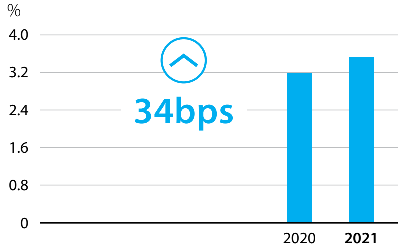
Graph – 42: **Financial liabilities at amortised cost – Due to depositors**



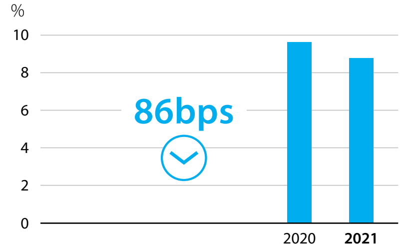
Graph – 43: **Earnings per share – Basic**



Graph – 44: **Interest margin**



Graph – 45: **Financial intermediation margin**



Financial Statements – Table of Contents

Income Statement

For the year ended December 31,	Note	Page No.	GROUP 2021 Rs. '000	GROUP 2020 Rs. '000	GROUP Change %	BANK 2021 Rs. '000	BANK 2020 Rs. '000	BANK Change %
Gross income	12	222	163,675,312	151,966,413	7.70	160,885,882	149,711,481	7.46
Interest income	13.1	222	132,818,178	124,087,713	7.04	130,443,030	122,330,386	6.63
Less: Interest expense	13.2	223	66,401,846	73,218,911	(9.31)	65,832,418	72,759,045	(9.52)
Net interest income	13	222	66,416,332	50,868,802	30.56	64,610,612	49,571,341	30.34
Fee and commission income	14.1	224	15,917,337	11,839,689	34.44	15,410,402	11,268,543	36.76
Less: Fee and commission expense	14.2	225	3,675,143	2,018,014	82.12	3,658,939	2,012,138	81.84
Net fee and commission income	14	224	12,242,194	9,821,675	24.64	11,751,463	9,256,405	26.95
Net gains/(losses) from trading	15	225	1,936,007	1,878,060	3.09	1,936,007	1,878,086	3.08
Net gains/(losses) from derecognition of financial assets	16	225	3,001,574	6,390,197	(53.03)	3,001,574	6,390,197	(53.03)
Net other operating income	17	226	10,002,216	7,770,754	28.72	10,094,869	7,844,269	28.69
Total operating income			93,598,323	76,729,488	21.98	91,394,525	74,940,298	21.96
Less: Impairment charges and other losses	18	226	25,139,926	21,419,532	17.37	24,692,343	21,483,698	14.94
Net operating income			68,458,397	55,309,956	23.77	66,702,182	53,456,600	24.78
Less: Expenses								
Personnel expenses	19	230	16,799,212	14,992,748	12.05	16,321,317	14,563,999	12.07
Depreciation and amortisation	20	230	3,220,066	3,102,695	3.78	3,178,628	2,989,031	6.34
Other operating expenses	21	231	9,638,461	8,167,170	18.01	9,391,810	7,886,936	19.08
Total operating expenses			29,657,739	26,262,613	12.93	28,891,755	25,439,966	13.57
Operating profit before value added tax on financial services			38,800,658	29,047,343	33.58	37,810,427	28,016,634	34.96
Less: Value Added Tax on financial services	22	231	5,845,230	4,531,381	28.99	5,809,224	4,505,322	28.94
Operating profit after value added tax on financial services			32,955,428	24,515,962	34.42	32,001,203	23,511,312	36.11
Share of profits of associate, net of tax	38.1	256	1,896	3,898	(51.36)	–	–	–
Profit before tax			32,957,324	24,519,860	34.41	32,001,203	23,511,312	36.11
Less: Income tax expense	23	232	8,667,036	7,433,063	16.60	8,395,152	7,137,823	17.62
Profit for the year			24,290,288	17,086,797	42.16	23,606,051	16,373,489	44.17
Profit attributable to:								
Equity holders of the Bank			24,062,469	16,939,950	42.05	23,606,051	16,373,489	44.17
Non-controlling interest	57	294	227,819	146,847	55.14	–	–	–
Profit for the year			24,290,288	17,086,797	42.16	23,606,051	16,373,489	44.17
Earnings per share								
Basic earnings per ordinary share (Rs.)	24.1	233	20.15	15.32	31.53	19.77	14.81	33.49
Diluted earnings per ordinary share (Rs.)	24.1	233	20.15	15.32	31.53	19.77	14.81	33.49

The Notes appearing on pages 199 to 336 form an integral part of these Financial Statements.

Statement of Profit or Loss and Other Comprehensive Income

For the year ended December 31,	Note	Page No.	GROUP 2021 Rs. '000	GROUP 2020 Rs. '000	GROUP Change %	BANK 2021 Rs. '000	BANK 2020 Rs. '000	BANK Change %
Profit for the year			24,290,288	17,086,797	42.16	23,606,051	16,373,489	44.17
Other comprehensive income, net of tax								
Items that will never be reclassified to profit or loss								
Net actuarial gains/(losses) on defined benefit plans			10,944	(228,745)	104.78	6,051	(223,039)	102.71
Gains/(losses) on remeasurement of defined benefit liability/asset			33,309	(295,594)	111.27	26,549	(287,668)	109.23
Less: Deferred tax charge/(reversal) on actuarial gains/(losses) – includes the effect of tax rate change in 2020 but adjusted in 2021			22,365	(66,849)	133.46	20,498	(64,629)	131.72
Net change in revaluation surplus	56.1	293	589,166	2,674,142	(77.97)	532,740	2,574,858	(79.31)
Changes in revaluation surplus/(deficit)			–	3,684,535	(100.00)	–	3,585,430	(100.00)
Less: Deferred tax charge/(reversal) on revaluation surplus – includes the effect of tax rate change in 2020 but adjusted in 2021			(589,166)	1,010,393	(158.31)	(532,740)	1,010,572	(152.72)
Net change in fair value of investments in equity			156,573	72,255	116.70	156,573	72,255	116.70
Change in fair value of investments in equity at fair value through other comprehensive income			156,573	72,255	116.70	156,573	72,255	116.70
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	(100.00)	–	5,626	(100.00)
Gain on disposal of investments in equity instruments			–	1,719	(100.00)	–	1,719	(100.00)
Share of other comprehensive income of associate			(1,512)	3,436	(144.00)	–	–	–
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	293	1,278,891	596,723	114.32	1,152,856	439,883	162.08
Net gains/(losses) on investment in financial assets at fair value through other comprehensive income			(12,598,258)	(1,400,936)	(799.27)	(12,599,079)	(1,400,991)	(799.30)
Fair value gains/(losses) that arose during the year, net of tax			(12,917,795)	1,537,097	(940.40)	(12,918,616)	1,537,042	(940.49)
Fair value gains/(losses) realised to the Income Statement on disposal, net of tax			(2,281,196)	(4,026,616)	43.35	(2,281,196)	(4,026,616)	43.35
Fair value gains/(losses) recycled to the Income Statement as impairment, net of tax			2,600,733	1,088,583	138.91	2,600,733	1,088,583	138.91
Cash flow hedges – effective portion of changes in fair value, net of tax	56.6	294	46,169	(64,139)	171.98	46,169	(64,139)	171.98
Other comprehensive income for the year, net of tax			(10,518,027)	1,660,081	(733.59)	(10,704,690)	1,406,172	(861.26)
Total comprehensive income for the year			13,772,261	18,746,878	(26.54)	12,901,361	17,779,661	(27.44)
Attributable to:								
Equity holders of the Bank			13,435,179	18,553,575	(27.59)	12,901,361	17,779,661	(27.44)
Non-controlling interest			337,082	193,303	74.38	–	–	–
Total comprehensive income for the year			13,772,261	18,746,878	(26.54)	12,901,361	17,779,661	(27.44)

The Notes appearing on pages 199 to 336 form an integral part of these Financial Statements.

Statement of Financial Position

			GROUP			BANK		
As at December 31,	Note	Page No.	**2021 Rs. '000**	2020 Rs. '000	Change %	**2021 Rs. '000**	2020 Rs. '000	Change %
Assets								
Cash and cash equivalents	28	240	69,335,379	51,255,030	35.28	68,078,076	50,250,627	35.48
Balances with Central Banks	29	241	56,777,465	115,358,732	(50.78)	52,897,908	110,971,105	(52.33)
Placements with banks	30	241	12,498,709	16,421,867	(23.89)	11,584,952	15,938,982	(27.32)
Securities purchased under resale agreements			3,000,490	–	100.00	3,000,490	–	100.00
Derivative financial assets	31	242	3,245,120	2,636,717	23.07	3,245,120	2,636,717	23.07
Financial assets recognised through profit or loss – measured at fair value	32	242	23,436,123	35,189,471	(33.40)	23,436,123	35,189,471	(33.40)
Financial assets at amortised cost – Loans and advances to banks	33	245	–	779,705	(100.00)	–	779,705	(100.00)
Financial assets at amortised cost – Loans and advances to other customers	34	246	1,029,584,075	909,829,172	13.16	1,014,618,580	896,845,453	13.13
Financial assets at amortised cost – Debt and other financial instruments	35	250	385,390,598	302,059,529	27.59	369,417,889	292,727,566	26.20
Financial assets measured at fair value through other comprehensive income	36	251	335,953,802	278,716,794	20.54	335,463,338	278,461,369	20.47
Investments in subsidiaries	37	254	–	–	–	5,808,429	5,808,429	–
Investment in associate	38	255	60,428	64,155	(5.81)	44,331	44,331	–
Property, plant and equipment and right-of-use assets	39	257	24,744,634	25,386,630	(2.53)	23,075,467	23,212,394	(0.59)
Investment properties	40	269	72,400	67,116	7.87	–	–	–
Intangible assets	41	270	2,272,639	1,800,516	26.22	1,724,864	1,232,863	39.91
Deferred tax assets	42	272	10,036,105	2,735,566	266.87	9,793,129	2,499,860	291.75
Other assets	43	274	27,083,177	20,195,153	34.11	27,024,475	19,619,149	37.75
Total assets			1,983,491,144	1,762,496,153	12.54	1,949,213,171	1,736,218,021	12.27
Liabilities								
Due to banks	44	274	73,801,195	88,248,056	(16.37)	73,777,420	87,451,306	(15.64)
Derivative financial liabilities	45	275	2,092,198	1,501,262	39.36	2,092,198	1,501,262	39.36
Securities sold under repurchase agreements			151,424,854	91,411,522	65.65	151,911,842	91,437,612	66.14
Financial liabilities at amortised cost – due to depositors	46	275	1,472,640,456	1,286,616,399	14.46	1,443,093,453	1,265,965,918	13.99
Financial liabilities at amortised cost – other borrowings	47	276	32,587,051	54,555,933	(40.27)	32,587,051	54,555,933	(40.27)
Current tax liabilities	48	276	9,486,772	6,991,005	35.70	9,294,180	6,777,992	37.12
Deferred tax liabilities	42	272	349,106	403,846	(13.55)	–	–	–
Other liabilities	49	277	33,253,518	33,572,283	(0.95)	33,210,883	33,037,669	0.52
Due to subsidiaries	50	285	–	–	–	48,699	97,015	(49.80)
Subordinated liabilities	51	286	38,303,466	38,247,138	0.15	38,303,466	38,247,138	0.15
Total liabilities			1,813,938,616	1,601,547,444	13.26	1,784,319,192	1,579,071,845	13.00
Equity								
Stated capital	52	287	54,566,957	52,187,747	4.56	54,566,957	52,187,747	4.56
Statutory reserves	54	291	10,590,338	9,285,233	14.06	10,204,368	9,024,065	13.08
Retained earnings	55	292	9,890,762	8,124,261	21.74	9,028,265	7,596,260	18.85
Other reserves	56	292	92,426,660	89,595,571	3.16	91,094,389	88,338,104	3.12
Total equity attributable to equity holders of the Bank			167,474,717	159,192,812	5.20	164,893,979	157,146,176	4.93
Non-controlling interest	57	294	2,077,811	1,755,897	18.33	–	–	–
Total equity			169,552,528	160,948,709	5.35	164,893,979	157,146,176	4.93
Total liabilities and equity			1,983,491,144	1,762,496,153	12.54	1,949,213,171	1,736,218,021	12.27
Contingent liabilities and commitments	58	295	685,379,028	730,561,685	(6.18)	682,399,783	728,711,698	(6.36)
Net assets value per ordinary share (Rs.)	59	297	140.24	136.42	2.80	138.08	134.67	2.53
Memorandum information								
Number of employees						5,072	5,057	
Number of customer service centres						287	287	

The Notes appearing on pages 199 to 336 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
Group 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/
Group Chief Executive Officer

R A P Rajapaksha
Company Secretary

February 25, 2022
Colombo

Statement of Changes in Equity – Group

	Note	Page No.	Stated capital Rs. '000	Statutory reserve fund Rs. '000
Balance as at December 31, 2019			40,916,958	8,387,701
Total comprehensive income for the year 2020				
Profit for the year			–	–
Other comprehensive income, net of tax			–	–
Net actuarial gains/(losses) on defined benefit plans			–	–
Gain on disposal of investments in equity instruments			–	–
Share of other comprehensive income of associate, net of tax			–	–
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 foreign operations			–	–
Cash flow hedges – effective portion of changes in fair value, net of tax			–	–
Total comprehensive income for the year 2020			–	–
Transactions with owners recognised directly in equity, contributions by and distributions to owners				
Proceeds on issue of ordinary voting shares to IFC parties (private placement)	52	287	9,215,775	–
Issue of ordinary voting shares under employee share option plans	52	287	–	–
Transfer o/a share-based payment transactions	52	287	–	–
Transfer of cost o/a of expired ESOP shares (net of tax)	55 & 56.5	292 & 294	–	–
Dividends to equity holders			2,055,014	–
Second interim dividend for 2019	25	234	–	–
Final cash dividend for 2019			–	–
Final dividend for 2019 satisfied in the form of issue and allotment of new shares	25	234	2,055,014	–
Unclaimed dividend absorbed/(dividend paid) in respect of previous years			–	–
Interim Dividend for 2020			–	–
Share-based payment transactions	56.5	294	–	–
Movement due to change in ownership			–	–
Transfers during the year	54 to 56	291 to 294	–	897,532
Total transactions with equity holders			11,270,789	897,532
Balance as at December 31, 2020			52,187,747	9,285,233

	Other reserves								
Retained earnings	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	Rs. '000
5,182,185	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
16,939,950	–	–	–	–	–	–	16,939,950	146,847	17,086,797
(225,018)	2,662,469	(1,319,619)	559,932	(64,139)	–	–	1,613,625	46,456	1,660,081
(226,737)	–	–	–	–	–	–	(226,737)	(2,008)	(228,745)
1,719	–	–	–	–	–	–	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)
16,714,932	2,662,469	(1,319,619)	559,932	(64,139)	–	–	18,553,575	193,303	18,746,878
–	–	–	–	–	–	–	9,215,775	–	9,215,775
–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–
105,980	–	–	–	–	–	(147,194)	(41,214)	–	(41,214)
(5,137,434)	–	–	–	–	–	–	(3,082,420)	(15,996)	(3,098,416)
(3,082,520)	–	–	–	–	–	–	(3,082,520)	–	(3,082,520)
–	–	–	–	–	–	–	–	(13,620)	(13,620)
(2,055,014)	–	–	–	–	–	–	–	–	–
100	–	–	–	–	–	–	100	24	124
–	–	–	–	–	–	–	–	(2,400)	(2,400)
–	–	–	–	–	–	112,203	112,203	–	112,203
6,130	4,514	–	–	–	–	–	10,644	(10,644)	–
(8,747,532)	–	–	–	–	7,850,000	–	–	–	–
(13,772,856)	4,514	–	–	–	7,850,000	(34,991)	6,214,988	(26,640)	6,188,348
8,124,261	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 – Group (Contd.)

	Note	Page No.	Stated capital Rs. '000	Statutory reserve fund Rs. '000
Total comprehensive income for the year 2021				
Profit for the year			–	–
Other comprehensive income, net of tax			–	–
Net actuarial gains/(losses) on defined benefit plans			–	–
Gain on disposal of investments in equity instruments			–	–
Share of other comprehensive income of associate, net of tax			–	–
Net change in revaluation surplus	56.1	293	–	–
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 2021			–	–
Transactions with owners recognised directly in equity, contributions by and distributions to owners				
Issue of ordinary voting shares under employee share option plans	52	287	40,866	–
Transfer o/a share-based payment transactions	52	287	3,646	–
Transfer of cost o/a of expired ESOP Shares (net of tax)	55 & 56.5	292 & 294	–	–
Dividends to equity holders			2,334,698	–
First & Final dividend for 2020 satisfied in the form of cash			–	–
First & Final dividend for 2020 satisfied in the form of issue and allotment of new shares	25	234	2,334,698	–
Unclaimed dividend absorbed / (dividend paid) in respect of previous years			–	–
Interim Dividend for 2021			–	–
Share-based Payment transactions	56.5	294	–	–
Transfers during the year	54 to 56	291 to 294	–	1,305,105
Total transactions with equity holders			2,379,210	1,305,105
Balance as at December 31, 2021			54,566,957	10,590,338

The Notes appearing on pages 199 to 336 form an integral part of these Financial Statements.

	Other reserves								
Retained earnings	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	Rs. '000
24,062,469	–	–	–	–	–	–	24,062,469	227,819	24,290,288
8,647	579,943	(12,443,197)	1,181,148	46,169	–	–	(10,627,290)	109,263	(10,518,027)
8,647	–	–	–	–	–	–	8,647	2,297	10,944
–	–	–	–	–	–	–	–	–	–
–	–	(1,512)	–	–	–	–	(1,512)	–	(1,512)
–	579,943	–	–	–	–	–	579,943	9,223	589,166
–	–	(12,441,685)	–	–	–	–	(12,441,685)	–	(12,441,685)
–	–	–	1,181,148	–	–	–	1,181,148	97,743	1,278,891
–	–	–	–	46,169	–	–	46,169	–	46,169
24,071,116	579,943	(12,443,197)	1,181,148	46,169	–	–	13,435,179	337,082	13,772,261
–	–	–	–	–	–	–	40,866	–	40,866
–	–	–	–	–	–	(3,646)	–	–	–
244,188	–	–	–	–	–	(321,300)	(77,112)	–	(77,112)
(7,493,698)	–	–	–	–	–	–	(5,159,000)	(15,168)	(5,174,168)
(5,253,070)	–	–	–	–	–	–	(5,253,070)	(12,200)	(5,265,270)
(2,334,698)	–	–	–	–	–	–	–	–	–
94,070	–	–	–	–	–	–	94,070	32	94,102
–	–	–	–	–	–	–	–	(3,000)	(3,000)
–	–	–	–	–	–	41,972	41,972	–	41,972
(15,055,105)	–	–	–	–	13,750,000	–	–	–	–
(22,304,615)	–	–	–	–	13,750,000	(282,974)	(5,153,274)	(15,168)	(5,168,442)
9,890,762	11,084,711	(11,979,313)	4,507,072	(56,342)	88,720,003	150,529	167,474,717	2,077,811	169,552,528

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, 2019			40,916,958	8,205,391	5,144,433
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	293	–	–	–
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 by and distributions to owners					
Proceeds on issue of ordinary voting shares to IFC parties (Private placement)	52	287	9,215,775	–	–
Issue of ordinary voting shares under employee share option plans	52	287	–	–	–
Transfer o/a share-based payment transactions	52	287	–	–	–
Transfer of cost o/a of expired ESOP Shares (net of tax)	55 & 56.5	292 & 294	–	–	105,980
Dividends to equity holders			2,055,014	–	(5,137,648)
Second interim dividend for 2019	25	234	–	–	(3,082,520)
Final dividend for 2019 satisfied in the form of issue and allotment of new shares	25	234	2,055,014	–	(2,055,014)
Unclaimed dividend absorbed/(dividend paid) in respect of previous years			–	–	(114)
Share-based payment transactions	56.5	294	–	–	–
Transfers during the year	54 to 56	291 to 294	–	818,674	(8,668,674)
Total transactions with equity holders			11,270,789	818,674	(13,700,342)

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	1,785,441	2,471,983	(38,372)	67,120,003	468,494	133,162,385
–	–	–	–	–	–	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

Statement of Changes in Equity – Bank (Contd.)

	Note	Page No.	Stated capital Rs. '000	Statutory reserve fund Rs. '000	Retained earnings Rs. '000
Balance as at December 31, 2020			52,187,747	9,024,065	7,596,260
Total comprehensive income for the year 2021					
Profit for the year			–	–	23,606,051
Other comprehensive income, net of tax			–	–	6,051
Net actuarial gains/(losses) on defined benefit plans			–	–	6,051
Gain on disposal of investments in equity instruments			–	–	–
Net change in revaluation surplus	56.1	293	–	–	–
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 2021			–	–	23,612,102
Transactions with owners recognised directly in equity, contributions by and distributions to owners					
Issue of ordinary voting shares under employee share option plans	52	287	40,866	–	–
Transfer o/a share-based payment transactions	52	287	3,646	–	–
Transfer of cost o/a of expired ESOP Shares (net of tax)	55 & 56.5	292 & 294	–	–	244,188
Dividends to equity holders			2,334,698	–	(7,493,982)
First & Final dividend for 2020 satisfied in the form of cash	25	234	–	–	(5,253,070)
First & Final dividend for 2020 satisfied in the form of issue and allotment of new shares	25	234	2,334,698	–	(2,334,698)
Unclaimed dividend absorbed / (dividend paid) in respect of previous years			–	–	93,786
Share-based payment transactions	56.5	294	–	–	–
Transfers during the year	54 to 56	291 to 294	–	1,180,303	(14,930,303)
Total transactions with equity holders			2,379,210	1,180,303	(22,180,097)
Balance as at December 31, 2021			54,566,957	10,204,368	9,028,265

The Notes appearing on pages 199 to 336 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	Total equity
Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
9,662,912	462,331	2,911,866	(102,511)	74,970,003	433,503	157,146,176
–	–	–	–	–	–	23,606,051
532,740	(12,442,506)	1,152,856	46,169	–	–	(10,704,690)
–	–	–	–	–	–	6,051
–	–	–	–	–	–	–
532,740	–	–	–	–	–	532,740
–	(12,442,506)	–	–	–	–	(12,442,506)
–	–	1,152,856	–	–	–	1,152,856
–	–	–	46,169	–	–	46,169
532,740	(12,442,506)	1,152,856	46,169	–	–	12,901,361
–	–	–	–	–	–	40,866
–	–	–	–	–	(3,646)	–
–	–	–	–	–	(321,300)	(77,112)
–	–	–	–	–	–	(5,159,284)
–	–	–	–	–	–	(5,253,070)
–	–	–	–	–	–	–
–	–	–	–	–	–	93,786
–	–	–	–	–	41,972	41,972
–	–	–	–	13,750,000	–	–
–	–	–	–	13,750,000	(282,974)	(5,153,558)
10,195,652	(11,980,175)	4,064,722	(56,342)	88,720,003	150,529	164,893,979

Statement of Cash Flows

For the year ended December 31,	Note	Page No.	GROUP 2021 Rs. '000	GROUP 2020 Rs. '000	BANK 2021 Rs. '000	BANK 2020 Rs. '000
Cash flows from operating activities						
Profit before income tax			32,957,324	24,519,860	32,001,203	23,511,312
Adjustments for:						
Non-cash items included in profit before tax	64	306	30,473,593	24,764,927	30,013,192	24,705,430
Change in operating assets	65	307	(230,261,220)	(374,761,711)	(221,556,713)	(369,030,667)
Change in operating liabilities	66	307	208,070,200	325,708,382	200,391,382	322,115,757
(Gains)/losses on sale of property, plant and equipment	17	226	(4,054)	(5,820)	(5,164)	(926)
Share of profits of associate, net of tax	38.1	256	(1,896)	(3,898)	–	–
Dividends received from investments in associate and subsidiaries	17	226	–	–	(105,911)	(98,200)
Interest expense on subordinated liabilities	13.2	223	3,398,554	3,756,921	3,398,554	3,756,921
Net unrealised gains/(losses) arising from translating the Financial Statements of foreign operations	56.4	293	1,278,891	596,723	1,152,856	439,883
Benefits paid on defined benefit plans			(1,116,195)	(673,106)	(1,107,421)	(670,487)
Income tax paid	48	276	(8,963,620)	(7,748,870)	(8,660,823)	(7,428,411)
Net cash from/(used in) operating activities			35,831,577	(3,846,592)	35,521,155	(2,699,388)
Cash flows from investing activities						
Purchase of property, plant and equipment	39.1 to 39.4	258 to 261	(1,034,299)	(1,159,712)	(922,623)	(1,106,641)
Purchase of investment properties	40	269	–	(41)	–	–
Proceeds from sale of property, plant and equipment			49,463	8,901	14,335	2,829
Purchase of financial investments			(5,607,000)	(300,000)	(5,607,000)	(300,000)
Proceeds from sale and maturity of financial investments			484,800	2,368,509	484,800	2,368,509
Purchase of intangible assets	41.1 & 41.2	271 & 272	(810,454)	(460,053)	(768,047)	(409,322)
Investments in subsidiaries			–	–	–	(1,125,000)
Dividends received from investments in associate and subsidiaries	17	226	–	–	105,911	98,200
Net cash from/(used in) investing activities			(6,917,490)	457,604	(6,692,624)	(471,425)
Cash flows from financing activities						
Proceeds from issue of ordinary voting shares under employee share option plans	52	287	40,866	–	40,866	–
Proceeds from issue of ordinary voting shares to IFC parties (Private placement)	52	287	–	9,215,775	–	9,215,775
Proceeds from issue of subordinated liabilities	51	286	8,595,470	–	8,595,470	–
Redemption of subordinated liabilities	51	286	(9,502,140)	–	(9,502,140)	–
Interest paid on subordinated liabilities			(3,422,766)	(3,802,023)	(3,422,766)	(3,802,023)
Payment of lease liabilities/advance payment of right-of-use assets			(1,366,628)	(1,354,902)	(1,548,914)	(1,446,874)
Dividend paid to non-controlling interest	57	294	(15,168)	(15,996)	–	–
Dividend paid to shareholders of the Bank			(5,159,000)	(3,082,420)	(5,159,284)	(3,082,634)
Net cash from/(used in) financing activities			(10,829,366)	960,434	(10,996,768)	884,244
Net increase/(decrease) in cash and cash equivalents			18,084,721	(2,428,554)	17,831,763	(2,286,569)
Cash and cash equivalents as at January 1,			51,258,271	53,686,825	50,253,868	52,540,437
Gross cash and cash equivalents as at December 31,	28	240	69,342,992	51,258,271	68,085,631	50,253,868
Less: Impairment charges	28.1	240	(7,613)	(3,241)	(7,555)	(3,241)
Cash and cash equivalents as per Statement of Financial Position	28	240	69,335,379	51,255,030	68,078,076	50,250,627

The Notes appearing on pages 199 to 336 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 (Banking Act). 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,	**2021**	2020
Group	5,660	5,693
Bank	5,072	5,057

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, 2021, 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 – 36: **Group Structure**

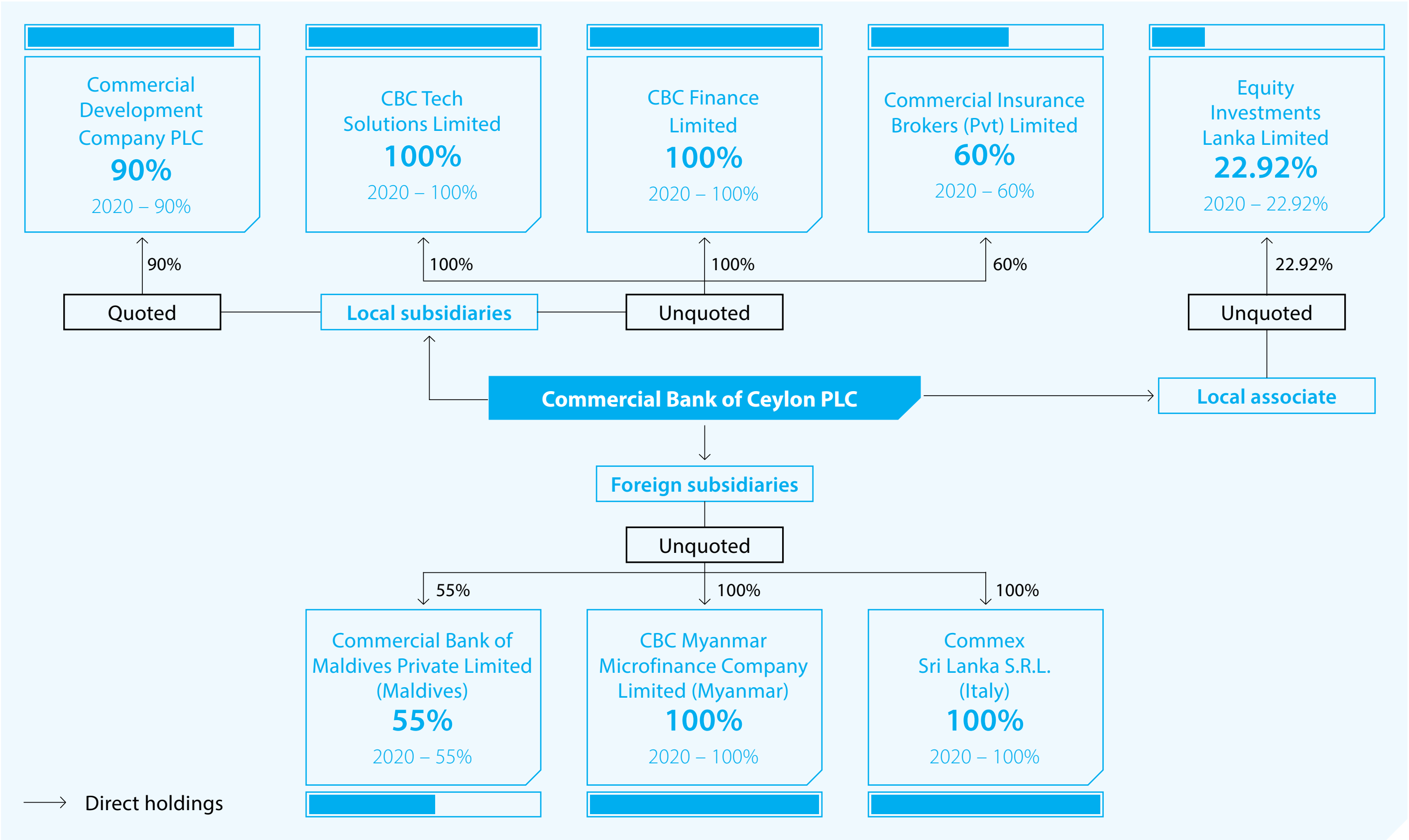


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Table – 57: **Principal business activities and nature of business operations of the Group**

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, investment banking, 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 the 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	
Commercial Bank of Maldives Private Limited (CBM)	Offering of an extensive range of banking and related financial services such as accepting deposits, retail banking, trade financing, corporate and retail credit, project financing, development banking, tele-banking, internet banking, mobile banking, money remittance facilities, dealing in Government securities and treasury-related products etc.
CBC Myanmar Microfinance Company Limited	Operating as a non-deposit taking microfinance institution throughout Myanmar providing micro financial services to the lower segment of the market, and to engage in all activities reasonably allowed by the Microfinance Supervisory Authority of Myanmar.
Commex Sri Lanka S.R.L-Italy (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.
Local associate	
Equity Investments Lanka Limited	Project financing in the form of Equity, Quasi Equity and other corporate debt instruments of new and existing ventures in Sri Lanka.

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 No. 07 of 2007 and amendments thereto (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 209 to 220.

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 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 for Financial Reporting" and the certification on the Statement of Financial Position on pages 3, 152 and 189, respectively.

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These Financial Statements include the following components:

- Income Statement and a Statement of Profit or Loss and Other Comprehensive Income (OCI) – which provides the information on the financial performance of the Group and the Bank for the year under review. Refer pages 187 and 188;
- Statement of Financial Position (SOFP) – which provides the information on the financial position of the Group and the Bank as at the year end. Refer page 189;
- Statement of Changes in Equity- which depicts all changes in shareholders' funds during the year under review of the Group and the Bank. Refer pages 190 to 197;
- Statement of Cash Flows- which provides 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 198;
- Notes to the Financial Statements comprising Significant Accounting Policies and other explanatory information. Refer pages 199 to 336.

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, 2021 (including comparatives for 2020), were approved and authorised for issue by the Board of Directors in accordance with Resolution of the Directors on February 25, 2022 (The Financial Statements of the Group and the Bank for the year ended December 31, 2020, were approved and authorised for issue by the Board of Directors on February 24, 2021).

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.

Table – 58: **Basis of Measurement**

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	242 & 275
Financial assets measured at fair value through other comprehensive income	Fair value	36	251
Land and buildings	Measured at cost at the time of acquisition and subsequently at revalued amounts which are the fair values at the date of revaluation	39	257
Investment property	Measured at cost at the time of acquisition and subsequently at Fair value.	40	269
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	277
Equity settled share-based payment arrangements	Fair value on grant date	53	288

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.

Given the continued unpredictability of the impact of the COVID-19 outbreak, 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, the Group has strictly adhered to the guidelines and directions issued by both the Governments and Central Banks in the countries that we operate when conducting its business operations. Further, the Group has provided reliefs for the affected businesses and individuals in line with the directions issued by the Governments and Central Banks in the countries that we operate. 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. Considering a wide range of factors including history of profitable operations, strong liquidity positions and the availability of stable external funding sources, diversified lending profile and the initiatives taken to strengthen risk monitoring at borrower level, the Management is satisfied 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.

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The information presented in US Dollars in Annex 6 in the Section on "Supplementary Information" on pages 386 and 387 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 298 and 299.

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, due to the emergence of new variants of the virus, continued uncertainty surrounding economic activities, and the limited experience of the economic and financial impacts of such events, application of further judgements and changes to estimates in the measurement of Group's assets were made 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 to 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 254 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 210.
- The contractual cash flow characteristics of the financial assets as set out in Note 7.1.3.2 on page 210.

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 the production or supply of goods and services or for administrative purposes and thus generates cash flows that are attributable not only to that 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 236 to 240.

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 portfolio at each reporting date to assess whether an impairment loss should be recognised 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 Group's ECL models that are considered accounting judgements and estimates include:

- 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.
- Segmentation of financial assets when their ECL is assessed on a collective basis.
- Various statistical formulas and the choice of inputs used in the development of ECL models.
- Associations between macro-economic inputs, such as GDP growth, inflation, interest rates, exchange rates and unemployment and the effect of these inputs on Probability of Default (PDs), Loss Given Default (LGD) and Exposure At Default (EAD).
- Forward-looking macro-economic scenarios and their probability weightings.

As such, the accuracy of the impairment 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 the COVID-19 pandemic 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 the COVID-19 outbreak 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 pandemic 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, private or commercial vehicles including motor cycles, hardware and building material distribution, restaurant and reception hall, building contracts and real estate 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, during 2020, 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 pandemic and uncertainties and volatilities in future outlook on the ECL computation. In addition, as per 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 outbreak.

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 226 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 (VIU) of such individual assets or the CGUs. Estimating VIU 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 future 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 216 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 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 263 to 267.

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 pages 230 and 231.

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 at similar locations and categories. 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 pages 269 and 270.

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 pages 272 to 274 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 277 to 285 for the assumptions used.

2.12.13 Provisions for liabilities, commitments and contingencies

The Group receives legal claims in the normal course of business. Management has made judgements as to the likelihood of any claim succeeding in making provisions. The time of concluding legal claims is uncertain, as is the amount of possible outflow of economic benefits. Timing and cost ultimately depends on the due processes in respective legal jurisdictions.

Information about significant areas of estimation uncertainty and critical judgements in applying Accounting Policies other than those stated above that have significant effects on the amounts recognised in the Consolidated Financial Statements are described in Notes 7.10 to 7.15 on page 218.

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 336, where necessary.

3. Financial Risk Management

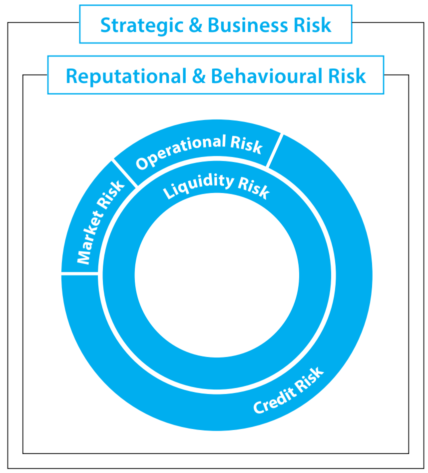
3.1 Introduction and overview

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 controls. This process of risk management is critical to maintaining Bank's continuing profitability and each officer of the Bank to whom a portfolio is assigned becomes accountable for the risk exposures relating to his/her portfolio.

The Group has exposure mainly to the following risks arising out of financial activities that are undertaken in its day to day businesses:

- Strategic and Business risk;
- Credit risk;
- Liquidity risk;
- Market risk; and
- Operational and Reputational risk.

Figure – 37: **Types of risk**



3.2 Bank's risk management framework

The Board of Directors of the Bank has the overall responsibility for the establishment and oversight of the Bank's Risk Management Framework.

The Risk Management 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 to monitor risks and adherence to limits. The Risk Management Policy Framework constitutes the Credit Policy, Lending Guidelines, Credit Risk Review Policy, ALM Policy including Contingency Funding Plan, Foreign Exchange Policy, Operational Risk Policy, IT Risk Policy, Market Risk Policy, Stress Testing Policy, Financial & Risk Management Disclosure 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 Risk Management Framework 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 or more frequently if warranted.

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 its views on the adequacy of the Risk Management Framework to the Board Audit Committee (BAC).

Strategic and business risk

Bank's inability to keep up with the evolving market dynamics, resulting in loss of market share and failure to achieve strategic goals in line with its Mission and Vision is identified as Strategic risk.

Business risk refers to any risk that stems from the Bank's long-term business strategies and affects its profitability and relatively short term in nature.

Management of strategic and business risk

Corporate planning and budgeting process and continuous evaluation of their alignment with the Bank's Vision, Mission and the risk appetite facilitate management of strategic risk. In the annual Internal Capital Adequacy Assessment Process (ICAPP) exercise of the Bank, detailed scorecard-based qualitative models are aligned 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.

Business risk of the Bank is managed through its day to day decisions made by the line managers and also at different Management Committees in identifying, assessing and remediating such risks.

Credit risk

The risk that the Bank will incur a loss due to its customers or counterparties failing to discharge their contractual obligations, is 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, groups of counterparties, geographies, business sectors, and industries by monitoring exposures and possible adverse external factors in relation to such limits.

Management of credit risk

Lending Guidelines of the Bank has been formulated based on evolving practices of Lending to provide expected granularity of credit assessment and thereby, to ensure strict attention to risks emanating from lending proposals at the time of initiation, analysis, and approval. In addition, Lending Guidelines ensure objective assessment of 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 validated by internationally accepted consultants and are reviewed by the IRMD regularly.

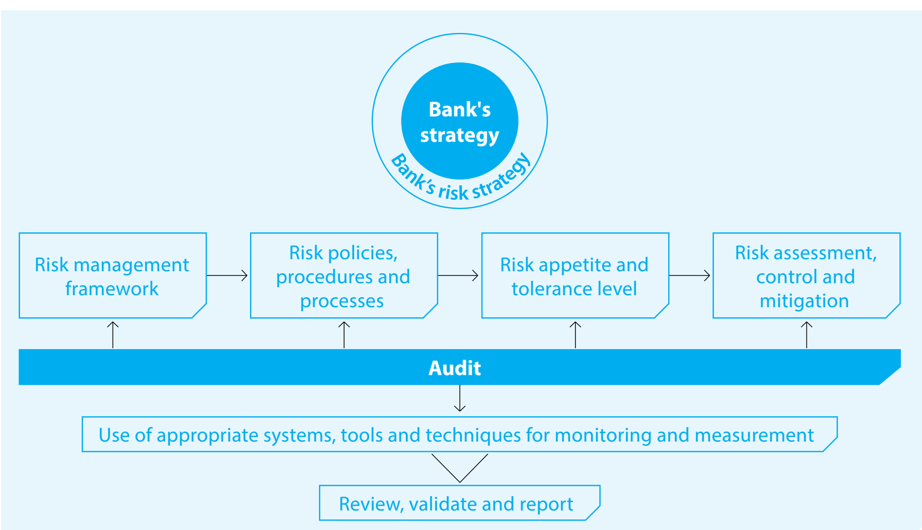
Credit Risk Review function covers over 30% of the advances portfolio of the Bank under the Loan Review Mechanism (LRM) each year to provide reasonable assurance that all major credit risks embedded in the Statement of Financial Position have been tracked.

Early Warning Signals (EWS) system will reciprocally affect in detecting problematic advances, industries and evaluating potential lending opportunities by analysing historical data of borrowers which assures the quality of the loan book of the Bank.

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 credit 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.

Figure – 38: **Risk Management Framework**



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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.

Across the globe, Banks are intensifying their approach towards early recognition of impaired credit assets and thereby, taking proactive efforts in readying their institutions to encounter possible economic downturns. Most regulators of the banking sector around the world expect the financial institutions in their markets to implement robust credit risk estimation models and align the decision making process based on such robust models. Forward looking impairment provision approach is significantly different from the traditional approach of providing for Incurred Loss Assets. The Expected Credit Loss (ECL) model introduced under the SLFRS 9 had replaced the Incurred Loss Model, which was considered inadequate in recognizing credit losses in a proactive manner and had failed in accurately estimating the credit losses during economic stress conditions. Accordingly, the Bank also had duly adopted the ECL modelling in impairment computations. Bringing in a more robust and specific approach for classification, recognition and measurement of credit facilities, the CBSL had issued the Banking Act Direction No. 13 of 2021, which spells out clear procedures to be adopted by banks in impairment computations.

Commencing from January 01, 2022, IRMD has been entrusted with the responsibility of objective assessment of credit facilities for upgrading purpose as per the provisions of the Banking Act Direction No. 13 of 2021. Accordingly, models used for calculation of impairment would be evaluated/ recommended by the IRMD under the specific supervision of the Group Chief Risk Officer. Upgrading of restructured and rescheduled credit facilities shall only be carried out by the IRMD and shall be independent from the credit facility review mechanism.

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 focused 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.

Amidst the challenging economic conditions undergone by the country simultaneously with the COVID-19 pandemic, specially thorough assessment of expected foreign currency cash inflows and outflows had been 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. Additionally, a team of members of the Corporate Management, most of them being ALCO members, carefully analyse the foreign currency liquidity position of the Bank taking in to consideration of both short term and medium term cash flow gaps, in more frequent basis.

Access to a substantial stable Current Account and Saving Account (CASA) base due to its wide branch network and the top of the mind perception created among the depositors, provide immense strength to the Bank in managing liquidity. Also, the growing balance sheet size, higher rating and continuous rapport maintained with the international counterparty banks have helped immensely to the Bank to maintain adequate foreign currency liquidity amidst the troubled waters.

Having high quality liquid assets at the disposal of the Bank is another plus factor for the Bank. The strength of such portfolio is 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 rupee liquidity above the minimum regulatory requirements as a result of slowness of economic performance of the country in 2020-2021. 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.

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 an adverse liquidity position that may arise on a future date.

Recent downgrading of the country by Rating Agencies could pose challenges in managing the foreign currency liquidity position of the financial sector amidst the global pandemic situation, a risk that the Bank closely monitoring and taking measures to mitigate at the moment.

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 (Banking Book) 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.

Net Interest Margin (NIM) of the Bank was challenged due to the downward interest rate scenarios experienced in Sri Lanka during the first half of 2021. However, the escalation of the interest rates in the second half of the year too posed challenges to the NIM as the demand for advances had not risen up during the period due to the COVID-19 pandemic related business disruptions and the adverse economic conditions that prevailed in the country.

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

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carried out sensitivity analysis on a regular basis to ascertain the impact on portfolios maintained, mainly in Government Securities and marking to market of such portfolios to reflect fair value for the 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 continuous sensitivity analysis to provide insight to possible losses arising from possible currency depreciation, amidst the thin Foreign Currency Reserve position of the country, as the reporting currency of the Bank being Sri Lankan Rupees.

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 focused 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 be damaged 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 67 on pages 308 to 336 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 159 to 178 The said write-up on "Risk Governance and Management" 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 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 236 to 240.

5. Changes in Accounting Policies

The Group has consistently applied the Accounting Policies as set out in Notes 6 to 10 on pages 209 to 220 to all periods presented in these Financial Statements. Further, the Group has not early adopted any other accounting standard, interpretation or amendment that has been issued but not effective.

Amendments to SLFRS 16 Leases: COVID-19-Related Rent Concessions beyond June 30, 2021

On December 4, 2020 CA Sri Lanka issued COVID-19-Related Rent Concessions - amendment to SLFRS 16 Leases. 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 the COVID-19 related rent concession the same way it would account for the change under SLFRS 16, if the change was not a lease modification.

The amendment was intended to apply until June 30, 2021 but as the impact of the COVID-19 pandemic is continuing, on June 28, 2021, CA Sri Lanka extended the period of application of the practical expedient upto June 30, 2022. The amendment applies to annual reporting periods beginning on or after April 01, 2021.

Amendments to SLFRS 9, LKAS 39, SLFRS 7, SLFRS 4 and SLFRS 16 – Interest Rate Benchmark Reform (Phase 1 & 2) – ("IBOR reform")

Working Groups in different jurisdictions have recommended robust, alternative Risk-free rates (RFRs) to transition away from existing interbank offered rates (IBORs). The RFR benchmarks are overnight whereas current use of IBOR is largely in term rates.

IBOR reforms Phase 1

On January 15, 2021 CA Sri Lanka issued amendments to SLFRS 9, LKAS 39 and SLFRS 7 due to IBOR reform (Phase 1). A summary of Phase 1 amendments are as follows:

- Highly Probable Requirement: According to SLFRS 9 and LKAS 39, when a forecast transaction is designated as a hedged item, that transaction must be highly probable to occur. By the Phase 1 amendments, when determining whether a forecast transaction is highly probable, an entity shall assume that the interest rate benchmark on which the hedged cash flows are based is not altered as a result of the reform.

- Prospective assessments: A hedging relationship qualifies for hedge accounting only if there is an economic relationship between the hedged item and the hedging instrument (described in SLFRS 9) or the hedge is expected to be highly effective in achieving off-setting (described in LKAS 39). An entity must demonstrate such prospective assessments on a regular basis. By the Phase 1 amendments, when performing prospective assessments, an entity shall assume that the interest rate benchmark on which the hedged item, hedged risk and/or hedging instrument are based is not altered as a result of the IBOR reform.
- LKAS 39 retrospective assessment: To apply hedge accounting under LKAS 39, an entity must demonstrate that the actual results of the hedge are within a range of 80% - 125%. This requirement is commonly known as the 'LKAS 39 retrospective assessment'. By the Phase 1 amendments, an entity is not required to undertake the LKAS 39 retrospective assessment for hedging relationships directly affected by the reform. However, the entity must comply with all other LKAS 39 hedge accounting requirements, including the prospective assessment.
- Separately identifiable risk components: While there are some differences between SLFRS 9 and LKAS 39 regarding designation of risk components, both Standards require a risk component (or a portion) to be separately identifiable to be eligible for hedge accounting. An entity may designate an item in its entirety or a component of an item as a hedged item in a hedging relationship. SLFRS 9 and LKAS 39 require the component to be separately identifiable to qualify as a hedged item. By the Phase 1 amendments, for hedges of non-contractually specified benchmark component of interest rate risk, an entity shall apply the separately identifiable requirement only at the inception of such hedging relationships.

IBOR reform Phase 2

In addition to Phase 1 amendments, CA Sri Lanka also issued amendments to SLFRS 9, LKAS 39, SLFRS 7, SLFRS 4 and SLFRS 16 due to IBOR Reform. The Phase 2 amendments provide temporary reliefs which address the financial reporting effects when an IBOR is replaced with an alternative RFR. The amendments include the following practical expedients.

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest.
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued.
- Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

The effective date of both IBOR reform Phase 1 and Phase 2 amendments is for annual reporting periods beginning on or after January 01, 2021 in the Sri Lankan context.

However, the regulatory authorities and public and private sector working groups in several jurisdictions have been discussing the alternatives to IBORs but there is still uncertainty over when these alternative rates will be available and how the reforms will impact specific financial products and services.

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 202.

These Accounting Policies have been applied consistently by the Group.

Set out below is an index of Significant Accounting Policies, the details of which are available on the pages that follow:

Table – 59: **Index of significant accounting policies**

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 216). 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 294.

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 254 & 255 and 296.

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 the associate, how it is accounted in the Financial Statements of the investee, together with its 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 255 to 257 and 296.

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 in 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 a 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 a significant financing component) at initial recognition differs from the transaction price, the Group accounts for the Day 1 profit or loss, as described below.

7.1.2.1 "Day 1" profit or loss

When the transaction price of the instrument differs from the fair value at origination and fair value is based on a valuation technique using only inputs observable in market transactions, the Group recognises the difference between the transaction price and fair value in net gains/(losses) from trading. In those cases, where the fair value is based on models for which some inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in profit or loss when the inputs become observable, or when the instrument is derecognised.

The "Day 1 loss" arising in the case of loans granted to employees at concessionary rates under uniformly applicable schemes is deferred and amortised using Effective Interest Rates (EIR) in "Interest income" and "Personnel expenses" over the remaining service period of the employees or tenure of the loan whichever is shorter.

Refer Notes 13 and 19 on pages 222 to 224 and 230.

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 34 on pages 245 to 249.

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 189.

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 pages 250 and 251.

7.1.3.3.4 Cash and cash equivalents

Details of "Cash and cash equivalents" are given in Note 28 on page 240.

7.1.3.3.5 Balances with central banks

Details of "Balances with central banks" are given in Note 29 on page 241.

7.1.3.3.6 Placements with banks

Details of "Placements with banks" are given in Note 30 on pages 241 and 242.

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 pages 251 to 253.

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 pages 251 to 253.

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 because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell as 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 pages 242 to 245.

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 242.

7.1.3.5.2 Financial assets designated at 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 275.

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 274.

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 189.

7.1.4.2.3 Due to depositors

Details of "Due to depositors" are given in Note 46 on pages 275 and 276.

7.1.4.2.4 Other Borrowings

Details of "Other borrowings" are given in Note 47 on page 276.

7.1.4.2.5 Subordinated liabilities

Details of "Subordinated liabilities" are given in Note 51 on pages 286 and 287.

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. Different types of hedges and derivatives are 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 275.

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 210.

Separated embedded derivatives are measured at fair value, with all changes in fair value recognised in profit or loss unless they formed part of a qualifying cash flow or net investment hedging relationship. Separated embedded derivatives are presented in the SOFP together with the host contract.

7.1.6 Reclassification of financial assets and liabilities

Financial assets are not reclassified subsequent to their initial recognition, except and only in those rare circumstances when the Group changes its objective of the business model for managing such financial assets which may include the acquisition, disposal or termination of a business line.

Financial Liabilities are not reclassified as such reclassifications are not permitted by SLFRS 9.

7.1.6.1 Timing of reclassification of financial assets

Consequent to the change in the business model, the Bank reclassifies all affected assets prospectively 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 FVOCI

  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 FVTPL

  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 being 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 or 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 a pre modification interest rate. In other cases, it is presented as interest income.

As per Circular Nos. 5, 8 and 10 of 2021 issued by CBSL dated May 25, 2021, September 1, 2021 and September 13, 2021 respectively, the Bank granted payment deferrals to eligible customers affected by COVID-19, modifying the original contract. The CBSL directed the Banks to amalgamate the amounts fallen due during the previous and current deferment schemes into one new loan by Circular 8 of 2021. Accordingly, the Banks were allowed to recover interest on the new loan at a rate not exceeding the latest available 364 - days Treasury Bills auction rate as at August 31, 2021 plus 1 per cent per annum (i.e., 5.93% + 1% = 6.93%).

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 207 and 236 to 240.

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, the 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.

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- **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 the risk rating of a customer or an instrument has been downgraded to B+ by an external credit rating agency and/or when there is a two-notch downgrade in the banks internal rating system.
- 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 an instruments.
- When the value of collateral is significantly reduced and/or realisability 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.
- 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 for two consecutive years.
- Erosion in net-worth by more than 25% when compared to the previous year.
- Number of times credit facilities are re-structured.

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 also considers the conditions stipulated in the Directions issued by the CBSL on identifying SICR criteria for assessing credit facilities for 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, the Group reviews its individually significant loans and advances above a predefined threshold at each reporting date. 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 which also includes all rescheduled credit facilities 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 and also as per the Policy on Upgrading of Credit Facilities. Financial instruments are transferred out of stage 3 when they no longer exhibit any evidence of credit impairment as described above as per the Policy on Upgrading of Credit Facilities.

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 226 to 229.

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, the asset or disposal group is available-for-sale in its present condition, the 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 257 to 268.

7.3.1 Depreciation

Details of "Depreciation" are given in Note 20 on pages 230 and 231.

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 269 and 270.

7.5 Intangible assets

Details of "Intangible assets" are given in Note 41 on pages 270 to 272.

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 230 and 231.

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 VIU and its fair value less costs to sell. VIU 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 336.

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 two 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 which was established in 1992, 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 277 to 285.

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 the fair value of the 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 230 and 277 to 285, 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 four such plans as explained in Notes 7.8.2.1, 7.8.2.2, 7.8.2.3 and 7.8.2.4.

Amounts recognised in profit or loss as expenses on DCPs are given in Note 19 on page 230.

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 pension 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)

Defined Contribution Pension Fund (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 are 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 Plan – 2019, which was granted is subjected to the above accounting treatment.

The details of Employee Share Option Plan is given in Note 53 on pages 288 to 291.

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 pages 233 and 234.

7.9 Other liabilities

Details of "Other liabilities" are given in Note 49 on pages 277 to 285.

7.10 Restructuring

Provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses arising on such restructuring are not provided for.

The Group does not have any provision for restructuring as at the reporting date.

7.11 Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

The Group does not have any onerous contracts as at the reporting date.

7.12 Bank levies

A provision for bank levies is recognised when the condition that triggers the payment of the levy is met. If a levy obligation is subject to a minimum activity threshold so that the obligating event is reaching a minimum activity, then a provision is recognised when that minimum activity threshold is reached.

7.13 Financial guarantees, 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 Group'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 pages 295 and 296.

Loan commitments at below market interest rates 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 the cumulative amount of income recognised, when appropriate.

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 pages 295 and 296.

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 295 & 296 and 297.

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 287 & 288 and 291 to 294.

7.17 Earnings per Share (EPS)

Details of "Basic and Diluted EPS" are given in Note 24 on pages 233 and 234.

7.18 Operating segments

Details of "Operating segments" are given in Note 62 on pages 300 and 301.

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 222 to 231.

8.1 Interest income and Interest expense

Details of "Interest income and Interest expense" are given in Note 13 on pages 222 to 224.

8.2 Fee and commission income and fee and commission expense

Details of "Fee and commission income and commission expense" are given in Note 14 on pages 224 and 225.

8.3 Net gains/(losses) from trading

Details of "Net gains/(losses) from trading" are given in Note 15 on page 225.

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 pages 225 and 226.

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 225 and 226.

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 257 to 261 and 277.

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 at by discounting lease payments receivable at the interest rate implicit in the lease, i.e. the rate of interest 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 are 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.

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 232 and 233.

9.1.2 Deferred tax

Details of "Deferred tax assets and liabilities" are given in Note 42 on pages 272 to 274.

9.1.3 Tax exposures

In determining the amount of current and deferred tax, the Group considers the favourable/adverse impact to the tax liability due to assessments, revision to legislature etc. Such changes to tax liabilities could impact the tax expense in the period in which such revision is considered, as an over or under provision.

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 associate

9.3.1 WHT on dividends distributed by the Bank

As per the Inland Revenue (Amendment) Act No 10 of 2021, requirement to deduct WHT on dividends from residents had been removed effective January 01, 2020. Dividends paid to Non Residents had been exempted from Income Tax. Further, dividend paid by the Bank to shareholders to the extent that such dividend payment is attributable to, or derived from, gains and profits from dividend received by the Bank is exempt in the hands of shareholders.

9.3.2 WHT on dividends distributed by the subsidiaries and associate

As per the Inland Revenue (Amendment) Act No 10 of 2021 requirement to deduct WHT on dividend had been removed effective January 01, 2020 as mentioned under Note 9.3.1 above. The dividend Income received from subsidiaries and associate will be liable to Income Tax at 14%.

9.4 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 231.

9.5 Changes proposed by the Government Budget 2022

Following one time taxes were proposed in the Government Budget 2022;

- **Imposition of a Tax Surcharge**

  As per provisions of the Government Bill issued on February 07, 2022 (to be passed in parliament for enactment), if the aggregate of the taxable income of the holding company and all subsidiaries in a group of companies, for the Year of Assessment 2020/21, exceed rupees two thousand million (2 Billion), each company in the group of companies is liable to pay Surcharge Tax calculated at twenty five per centum on the taxable income (after deducting profit from dividends received from subsidiaries included in the taxable income). The surcharge tax is payable in two equal instalments on or before, March 31 and June 30 of 2022, to the Commissioner General of Inland Revenue.

- **Increase in the VAT FS rate from 15% to 18%**

  As per provisions of the Government Bill issued on January 07, 2022 (to be passed in parliament for enactment) it has been proposed to increase the VAT FS payable by 3% and will be effective from January 01, 2022.

- **Imposition of tax on the Turnover – Social Security Contribution**

  In order to rebuild the economy affected by the COVID-19 pandemic, a new tax is introduced at the rate of 2.5% for entities having a Turnover exceeding Rs. 120 Mn. per annum effective from April 01, 2022. Type of business segments that will be liable for this tax had not been specified.

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 240.

The Statement of Cash Flows is given on page 198.

11. Amendments to Accounting Standards issued but not yet effective

The new 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 "Provisions, Contingent Liabilities and Contingent Assets" (LKAS 37) : Onerous Contracts – Costs of Fulfilling a Contract

On March 25, 2021 CA Sri Lanka issued amendments to "Provisions, Contingent Liabilities and Contingent Assets" (LKAS 37) to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.

The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after January 01, 2022. The Group does not expect this will result in a material impact on its Financial Statements.

Amendments to "Property, Plant & Equipment" (LKAS 16) : Proceeds before Intended Use

On March 25, 2021 CA Sri Lanka issued amendments to "Property, Plant and Equipment" (LKAS 16) — Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after January 01, 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment. The Group does not expect this will result in a material impact on its Financial Statements.

Amendments to "Business Combinations" (SLFRS 3): Updating a reference to conceptual framework

On March 23, 2021 CA Sri Lanka issued amendments to "Business Combinations" (SLFRS 3) - Updating a Reference to the "Conceptual Framework for Financial Reporting". The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the "Conceptual Framework for Financial Reporting" issued in March 2018 without significantly changing its requirements.

An exception was also added to the recognition principle of SLFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of LKAS 37 or IFRIC 21 Levies, if incurred separately.

At the same time, it was decided to clarify existing guidance in SLFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements.

The amendments are effective for annual reporting periods beginning on or after January 01, 2022 and apply prospectively. The amendment is not expected to have a material impact on the Group's Financial Statements.

Amendments to "First-time Adoption of Sri Lanka Financial Reporting Standards" (SLFRS 1): Subsidiary as a first-time adopter

As part of its 2018-2020 annual improvements to SLFRS standards process, CA Sri Lanka issued an amendment to "First-time Adoption of International Financial Reporting Standards" (SLFRS 1). The amendment permits a subsidiary that elects to apply paragraph D16(a) of SLFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to SLFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of SLFRS 1.

The amendment is effective for annual reporting periods beginning on or after January 01, 2022 with earlier adoption permitted.

Amendments to "Financial Instruments" (SLFRS 9) – Fees in the '10 per cent' test for derecognition of financial liabilities

As part of its 2018-2020 annual improvements to SLFRS standards process, the CA Sri Lanka issued an amendment to "Financial Instruments" (SLFRS 9).The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after January 01, 2022, with earlier adoption permitted. The Group will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual period in which it will first apply the amendment and does not expect this will result in a material impact on its financial statements.

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 2021 Rs. '000	GROUP 2020 Rs. '000	BANK 2021 Rs. '000	BANK 2020 Rs. '000
Interest income	13.1	222	132,818,178	124,087,713	130,443,030	122,330,386
Fee and commission income	14.1	224	15,917,337	11,839,689	15,410,402	11,268,543
Net gains/(losses) from trading	15	225	1,936,007	1,878,060	1,936,007	1,878,086
Net gains/(losses) from derecognition of financial assets	16	225	3,001,574	6,390,197	3,001,574	6,390,197
Net other operating income	17	226	10,002,216	7,770,754	10,094,869	7,844,269
Total			163,675,312	151,966,413	160,885,882	149,711,481

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 2021 Rs. '000	GROUP 2020 Rs. '000	BANK 2021 Rs. '000	BANK 2020 Rs. '000
Interest income	13.1	222	132,818,178	124,087,713	130,443,030	122,330,386
Less: Interest expense	13.2	223	66,401,846	73,218,911	65,832,418	72,759,045
Net interest income			66,416,332	50,868,802	64,610,612	49,571,341

13.1 Interest income

For the year ended December 31,	Note	Page No.	GROUP 2021 Rs. '000	GROUP 2020 Rs. '000	BANK 2021 Rs. '000	BANK 2020 Rs. '000
Cash and cash equivalents			447,742	1,053,757	441,281	1,049,426
Balances with central banks			1,299,948	1,175,509	1,270,371	1,149,924
Placements with banks			778,021	777,425	737,349	754,313
Securities purchased under resale agreements			375,398	836,773	375,398	836,773

For the year ended December 31,	Note	Page No.	GROUP 2021 Rs. '000	GROUP 2020 Rs. '000	BANK 2021 Rs. '000	BANK 2020 Rs. '000
Financial assets recognised through profit or loss			1,101,385	1,831,327	1,101,385	1,831,327
Derivative financial instruments			167,377	34,902	167,377	34,902
Other financial instruments			934,008	1,796,425	934,008	1,796,425
Financial assets at amortised cost – Loans and advances to other customers			79,654,575	84,257,196	77,946,692	82,933,026
Financial assets at amortised cost – Debt and other financial instruments			25,951,467	13,206,226	25,422,968	12,893,403
Financial assets measured at fair value through other comprehensive income			22,034,788	18,053,545	22,015,431	18,031,388
Interest accrued on impaired loans and advances to other customers	34.2 (a) & 34.2 (b)	248	1,174,854	2,895,955	1,132,155	2,850,806
Total			132,818,178	124,087,713	130,443,030	122,330,386

13.2 Interest expense

For the year ended December 31,	Note	Page No.	GROUP 2021 Rs. '000	GROUP 2020 Rs. '000	BANK 2021 Rs. '000	BANK 2020 Rs. '000
Due to banks			3,326,777	2,845,641	3,287,374	2,657,662
Derivative financial liabilities			196,903	65,473	196,903	65,473
Securities sold under repurchase agreements			6,190,149	3,516,363	6,207,288	3,524,261
Financial liabilities at amortised cost – due to depositors			51,533,473	61,416,382	50,947,510	61,120,047
Refinance borrowings			679,976	578,780	679,976	578,780
Foreign currency borrowings			624,395	603,597	624,395	603,597
Subordinated liabilities			3,398,554	3,756,921	3,398,554	3,756,921
Interest expense on lease liabilities	49.1	277	451,619	435,754	490,418	452,304
Total			66,401,846	73,218,911	65,832,418	72,759,045

13.3 Net interest income from Government Securities

Interest income and interest expenses on Government Securities given in the Notes 13.3 (a), 13.3 (b) and 13.3 (c) below have been extracted from interest income and interest expenses given in Notes 13.1 and 13.2 respectively and disclosed separately, as required by the guidelines issued by the Central Bank of Sri Lanka.

13.3 (a) Net interest income from Sri Lanka Government Securities

For the year ended December 31,	GROUP 2021 Rs. '000	GROUP 2020 Rs. '000	BANK 2021 Rs. '000	BANK 2020 Rs. '000
Interest income	46,873,585	31,523,186	46,854,228	31,501,029
Securities purchased under resale agreements	363,247	618,309	363,247	618,309
Financial assets recognised through profit or loss	418,180	662,961	418,180	662,961
Financial assets at amortised cost – Debt and other financial instruments	24,057,370	12,188,371	24,057,370	12,188,371
Financial assets measured at fair value through other comprehensive income	22,034,788	18,053,545	22,015,431	18,031,388
Less: Interest expense	6,184,684	3,499,898	6,201,823	3,507,796
Securities sold under repurchase agreements	6,184,684	3,499,898	6,201,823	3,507,796
Net interest income	40,688,901	28,023,288	40,652,405	27,993,233

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13.3 (b) Net interest income from Bangladesh Government Securities

	GROUP		BANK	
For the year ended December 31,	**2021 Rs. '000**	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000
Interest income	**1,419,812**	1,823,578	**1,419,812**	1,823,578
Securities purchased under resale agreements	12,151	218,464	12,151	218,464
Financial assets recognised through profit or loss	515,828	1,133,464	515,828	1,133,464
Financial assets at amortised cost – Debt and other financial instruments	891,833	471,650	891,833	471,650
Less: Interest expense	**5,465**	16,465	**5,465**	16,465
Securities sold under repurchase agreements	5,465	16,465	5,465	16,465
Net interest income	**1,414,347**	1,807,113	**1,414,347**	1,807,113

13.3 (c) Net interest income from Maldives Government Securities

	GROUP		BANK	
For the year ended December 31,	**2021 Rs. '000**	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000
Interest income	**520,270**	303,081	–	–
Financial assets at amortised cost – Debt and other financial instruments	520,270	303,081	–	–
Net interest income	**520,270**	303,081	–	–

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.	**2021 Rs. '000**	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000
Fee and commission income	14.1	224	15,917,337	11,839,689	15,410,402	11,268,543
Less: Fee and commission expense	14.2	225	3,675,143	2,018,014	3,658,939	2,012,138
Net fee and commission income			**12,242,194**	9,821,675	**11,751,463**	9,256,405

14.1 Fee and commission income

	GROUP		BANK	
For the year ended December 31,	**2021 Rs. '000**	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000
Loans and advances related services	995,957	861,317	923,230	787,785
Credit and debit cards related services	6,011,952	3,723,129	6,007,304	3,723,129
Trade and remittances related services	5,618,954	4,431,425	5,418,288	4,250,211

For the year ended December 31,	GROUP 2021 Rs. '000	GROUP 2020 Rs. '000	BANK 2021 Rs. '000	BANK 2020 Rs. '000
Deposits related services	1,152,602	1,151,909	1,129,868	1,122,747
Guarantees related services	1,091,690	908,508	1,087,614	900,485
Other financial services	1,046,182	763,401	844,098	484,186
Total	15,917,337	11,839,689	15,410,402	11,268,543

14.2 Fee and commission expense

For the year ended December 31,	GROUP 2021 Rs. '000	GROUP 2020 Rs. '000	BANK 2021 Rs. '000	BANK 2020 Rs. '000
Loans and advances related services	52,020	48,591	48,802	47,443
Credit and debit cards related services	3,439,222	1,811,962	3,432,095	1,811,962
Trade and remittances related services	63,092	55,456	57,233	50,728
Other financial services	120,809	102,005	120,809	102,005
Total	3,675,143	2,018,014	3,658,939	2,012,138

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).

For the year ended December 31,	GROUP 2021 Rs. '000	GROUP 2020 Rs. '000	BANK 2021 Rs. '000	BANK 2020 Rs. '000
Derivative financial instruments	1,748,834	977,206	1,748,834	977,206
Foreign exchange gains/(losses) from banks and other customers	1,804,014	977,206	1,804,014	977,206
Net mark-to-market gains/(losses)	(55,180)	–	(55,180)	–
Financial assets recognised through profit or loss – measured at fair value				
Government Securities	(162,829)	557,579	(162,829)	557,579
Net mark-to-market gains/(losses)	(583,205)	226,036	(583,205)	226,036
Net capital gains	420,376	331,543	420,376	331,543
Equities	350,002	343,275	350,002	343,301
Net mark-to-market gains/(losses)	105,673	303,612	105,673	303,612
Net capital gains	207,954	20,468	207,954	20,506
Dividend income	36,375	19,195	36,375	19,183
Total	1,936,007	1,878,060	1,936,007	1,878,086

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.

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For the year ended December 31,	GROUP 2021 Rs. '000	GROUP 2020 Rs. '000	BANK 2021 Rs. '000	BANK 2020 Rs. '000
Financial assets measured at fair value through other comprehensive income				
Government Securities	3,001,574	6,390,197	3,001,574	6,390,197
Net capital gains	3,001,574	6,390,197	3,001,574	6,390,197
Total	3,001,574	6,390,197	3,001,574	6,390,197

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.

For the year ended December 31,	Note	Page No.	GROUP 2021 Rs. '000	GROUP 2020 Rs. '000	BANK 2021 Rs. '000	BANK 2020 Rs. '000
Gains/(losses) on sale of property, plant and equipment	17.1	226	4,054	5,820	5,164	926
Gains on revaluation of foreign exchange			8,832,749	7,395,513	8,785,121	7,361,099
Recoveries o/a loans written off			316,277	157,103	273,666	157,103
Dividend income from subsidiaries			–	–	101,800	98,200
Dividend income from associate			4,111	–	4,111	–
Dividend income from other equity securities			48,638	28,739	48,398	28,419
Gain on fair valuation of investment properties			5,284	–	–	–
Rental and other income	17.2	226	795,214	183,579	876,609	198,522
Less: Dividends received from associate transferred to investment account			(4,111)	–	–	–
Total			10,002,216	7,770,754	10,094,869	7,844,269

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 and other income

ACCOUNTING POLICY

Rental and other 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 individually 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	Average loan to value ratio
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;

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- 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.

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.

Due to the high level of economic uncertainty that prevailed throughout the year, the Bank used management overlays, such as additional provisions on loans in risk elevated industries and loans subject to moratoriums, and additional provisions by stressing PDs and LGDs, to capture unforeseeable events that cannot be assessed using modelled outcomes. As a result, the cumulative impairment provision under management overlays as of December 31, 2021 is Rs. 13.260 Bn. (Rs. 5.189 Bn. as at December 31, 2020). Accordingly, the additional impact to the Income Statement for the year ended December 31, 2021, as a result of the aforementioned management overlays is Rs. 8.071 Bn.

Scenario probability weighting (Bank)

As at December 31,	2021 %	2020 %
Best case	15.00	15.00
Base case	40.00	40.00
Worst case	45.00	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 202 for detailed explanation on significant assumptions and estimates used with the objective of capturing the impact of COVID-19 to ECL provisions .

			GROUP		BANK	
For the year ended December 31,	Note	Page No.	**2021 Rs. ’000**	2020 Rs. ’000	**2021 Rs. ’000**	2020 Rs. ’000
Loans and advances to other customers	34.2 (a) & 34.2 (b)	248	14,947,268	18,124,673	14,553,362	17,865,214
Other financial assets and off-balance sheet credit exposures			10,190,997	3,291,313	10,137,320	3,287,083
Total impairment charges	18.1 & 18.2	229	25,138,265	21,415,986	24,690,682	21,152,297
Investments in subsidiaries	37.1	255	–	–	–	327,855
Direct write-offs			1,661	3,546	1,661	3,546
Total			25,139,926	21,419,532	24,692,343	21,483,698

18.1 Impairment charge to the Income Statement – Group

For the year ended December 31,	Note	Page No.	2021 Stage 1 Rs. '000	2021 Stage 2 Rs. '000	2021 Stage 3 Rs. '000	2021 Total Rs. '000	2020 Stage 1 Rs. '000	2020 Stage 2 Rs. '000	2020 Stage 3 Rs. '000	2020 Total Rs. '000
Cash and cash equivalents	28.1	240	4,371	–	–	4,371	(2,526)	–	–	(2,526)
Placements with banks	30.1	242	34,148	–	–	34,148	(5,633)	–	–	(5,633)
Financial assets at amortised cost – Loans and advances to banks	33.1	246	(85)	–	–	(85)	(26)	–	–	(26)
Financial assets at amortised cost – Loans and advances to other customers (*)	34.2 (a)	248	3,607,700	6,767,014	4,572,554	14,947,268	3,863,356	3,901,554	10,359,763	18,124,673
Financial assets at amortised cost – Debt and other financial instruments	35.1 (a)	250	3,576,138	–	–	3,576,138	1,685,968	–	–	1,685,968
Financial assets measured at fair value through other comprehensive income	36.2	252	3,333,815	–	–	3,333,815	814,141	–	–	814,141
Contingent liabilities and commitments	58.3 (a)	296	551,897	570,466	2,120,247	3,242,610	767,211	57,245	(25,067)	799,389
Total			11,107,984	7,337,480	6,692,801	25,138,265	7,122,491	3,958,799	10,334,696	21,415,986

(*) During the year 2021, the Bank re-evaluated stage assessment criteria for individually impaired facilities and made the necessary changes to reflect the actual risk associated with customers subjected to individual impairment.

18.2 Impairment charge to the Income Statement – Bank

For the year ended December 31,	Note	Page No.	2021 Stage 1 Rs. '000	2021 Stage 2 Rs. '000	2021 Stage 3 Rs. '000	2021 Total Rs. '000	2020 Stage 1 Rs. '000	2020 Stage 2 Rs. '000	2020 Stage 3 Rs. '000	2020 Total Rs. '000
Cash and cash equivalents	28.1	240	4,313	–	–	4,313	(2,526)	–	–	(2,526)
Placements with banks	30.1	242	2,823	–	–	2,823	(5,651)	–	–	(5,651)
Financial assets at amortised cost – Loans and advances to banks	33.1	246	(85)	–	–	(85)	(26)	–	–	(26)
Financial assets at amortised cost – Loans and advances to other customers (*)	34.2 (b)	248	3,552,303	6,729,149	4,271,910	14,553,362	3,856,007	3,925,463	10,083,744	17,865,214
Financial assets at amortised cost – Debt and other financial instruments	35.1 (b)	250	3,558,879	–	–	3,558,879	1,681,829	–	–	1,681,829
Financial assets measured at fair value through other comprehensive income	36.2	252	3,333,815	–	–	3,333,815	814,141	–	–	814,141
Contingent liabilities and commitments	58.3 (b)	296	546,862	570,466	2,120,247	3,237,575	767,138	57,245	(25,067)	799,316
Total			10,998,910	7,299,615	6,392,157	24,690,682	7,110,912	3,982,708	10,058,677	21,152,297

(*) During the year 2021, the Bank re-evaluated stage assessment criteria for individually impaired facilities and made the necessary changes to reflect the actual risk associated with customers subjected to individual impairment.

19. Personnel expenses

ACCOUNTING POLICY

See Note 7.8 on pages 216 to 218.

For the year ended December 31,	Note	Page No.	GROUP 2021 Rs. '000	GROUP 2020 Rs. '000	BANK 2021 Rs. '000	BANK 2020 Rs. '000
Salary and bonus	19.1	230	13,162,309	11,522,602	12,772,557	11,174,423
Pension costs	19.1	230	1,952,582	1,937,810	1,906,726	1,884,067
Contributions to defined contribution/benefit plans – Funded schemes			1,870,673	1,702,824	1,834,810	1,673,272
Contributions to defined benefit plans – Unfunded schemes	49.2 (c) & 49.3 (c)	278 & 279	81,909	234,986	71,916	210,795
Equity-settled share-based payment expense	19.2 & 56.5	230 & 294	41,972	112,203	41,972	112,203
Other expenses	19.3	230	1,642,349	1,420,133	1,600,062	1,393,306
Total			16,799,212	14,992,748	16,321,317	14,563,999

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 plans, the details of which are given in Note 53 on pages 288 to 291.

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, 2021 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 257 to 268.

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.

For the year ended December 31,	Note	Page No.	GROUP 2021 Rs. '000	GROUP 2020 Rs. '000	BANK 2021 Rs. '000	BANK 2020 Rs. '000
Depreciation of property, plant and equipment	39.1 – 39.4	258 – 261	1,661,967	1,592,636	1,528,123	1,459,513
Depreciation of right-of-use assets	39.1 – 39.4	258 – 261	1,241,441	1,199,104	1,381,543	1,271,927
Amortisation of computer software	41.1	271	316,658	310,946	268,962	257,591
Amortisation of trademarks			–	9	–	–
Total			3,220,066	3,102,695	3,178,628	2,989,031

21. Other operating expenses

ACCOUNTING POLICY

These expenses are recognised in the Income Statement on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenses incurred in running the business and in maintaining the property, plant and equipment in a state of efficiency are charged to the Income Statement.

For the year ended December 31,	Note	Page No.	GROUP 2021 Rs. '000	GROUP 2020 Rs. '000	BANK 2021 Rs. '000	BANK 2020 Rs. '000
Directors' emoluments	21.1	231	86,178	81,117	54,243	53,249
Auditors' remuneration			41,784	34,298	24,724	23,530
Audit fees and expenses			24,649	20,140	12,516	11,500
Audit-related fees and expenses			8,562	7,725	8,562	7,600
Non-audit fees and expenses			8,573	6,433	3,646	4,430
Professional and legal expenses			1,060,863	834,415	1,464,852	1,197,049
Deposit insurance premium paid to the Central Banks			1,216,151	977,846	1,207,906	975,824
Donations including contribution made to the CSR Trust Fund			133,158	96,925	133,158	96,855
Establishment expenses			1,930,171	1,644,397	1,761,259	1,482,800
Maintenance of property, plant, and equipment			2,237,536	1,797,222	2,288,815	1,814,939
Loss on fair valuation of investment properties	40	269	–	12,096	–	–
Loss on revaluation of land & buildings	39.1 – 39.4	258 – 261	–	39,872	–	39,872
Office administration expenses			2,932,620	2,648,982	2,456,853	2,202,818
Total			9,638,461	8,167,170	9,391,810	7,886,936

21.1 Directors' emoluments

Directors' emoluments represent the fees paid to both Executive and Non-Executive Directors of the Group and the Bank.

22. Value Added Tax on financial services

ACCOUNTING POLICY

Refer Notes 9.4 on page 220.

For the year ended December 31,	Note	Page No.	GROUP 2021 Rs. '000	GROUP 2020 Rs. '000	BANK 2021 Rs. '000	BANK 2020 Rs. '000
Value Added Tax (*)	9.4	220	5,845,230	4,531,381	5,809,224	4,505,322
Total			5,845,230	4,531,381	5,809,224	4,505,322

(*) As per provisions of the Government Bill issued on January 07, 2022 (to be passed in parliament for enactment) it has been proposed to increase the VAT financial services payable by 3% and will be effective from January 01, 2022.

23. Income tax expense

ACCOUNTING POLICY

Income tax expense comprises of current and deferred tax expenses. 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 best estimate of expected tax payable to or recoverable from taxation authorities for the year and any adjustment to the tax payable or recoverable in respect of previous years. It is measured using tax rates enacted or substantively enacted, as at the reporting date in countries where the group operates. "Current tax" also include any tax expense arising from dividend income.

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 relevant statutes of tax jurisdictions in countries where the group operates. Major components of tax expense, the effective tax rates and a reconciliation between the profit before tax and tax expense, is computed as required by the Sri Lanka Accounting Standard – LKAS 12 on "Income Taxes".

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 liability is not recognised for:

- temporary differences on the initial recognition of goodwill, 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.

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 reassessed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax asset or liability 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 to the Group as at the reporting date in relation to difference in carrying amount of its assets and liabilities recorded in the Statement of Financial Position and the tax base.

Entity-wise breakup of income tax expense in the Income Statement is as follows:

			Applicable tax rate		GROUP		BANK	
For the year ended December 31,	Note	Page No.	2021 %	2020 %	2021 Rs. '000	2020 Rs. '000	2021 Rs. '000	2020 Rs. '000
Current year tax expense					12,998,493	10,178,040	12,661,181	9,866,955
Income tax expense of Domestic Banking Unit			24	28	9,690,464	6,547,171	9,690,464	6,547,171
Income tax expense of Off-shore Banking Centre			24	28	265,884	899,668	265,884	899,668
Income tax expense of Bangladesh operation			40	40	2,424,292	2,144,365	2,424,292	2,144,365
Profit remittance tax of Bangladesh operation			20	20	280,541	275,751	280,541	275,751
Income tax expense of Commercial Development Company PLC			24	28	82,943	56,035	–	–
Income tax expense of CBC Tech Solutions Limited			24	28	4,787	38,155	–	–
Income tax expense of CBC Finance Limited			24	28	82,737	83,977	–	–
Income tax expense of Commercial Bank of Maldives Private Limited			25	25	160,549	109,076	–	–
Income tax expense of Commex Sri Lanka S.R.L. – Italy			24	24	–	–	–	–
Income tax expense of CBC Myanmar Micro Finance Company Limited			25	25	–	6,714	–	–
Income tax expense of Commercial Insurance Brokers Private Limited			24	28	6,296	17,128	–	–
Under/(Over) provision	48	276			(1,477,813)	(121,298)	(1,419,755)	(113,565)
Effect of change in tax rates					(1,122,059)	–	(1,063,834)	–
In respect of prior years					(355,754)	(121,298)	(355,921)	(113,565)
Deferred tax reversal	42.1	272			(2,853,644)	(2,623,679)	(2,846,274)	(2,615,567)
Effect of change in tax rates					760,752	–	733,699	–
Origination and reversal of temporary differences					(3,614,396)	(2,623,679)	(3,579,973)	(2,615,567)
Total					8,667,036	7,433,063	8,395,152	7,137,823
Effective tax rate (including deferred tax) (%)					26.30	30.31	26.23	30.36
Effective tax rate (excluding deferred tax) (%)					34.96	41.01	35.13	41.48

23.1 Reconciliation of the accounting profit to income tax expense

A reconciliation between taxable income and the accounting profit multiplied by the statutory tax rates is given below:

For the year ended December 31,	Note	Page No.	GROUP 2021 Rs. '000	GROUP 2020 Rs. '000	BANK 2021 Rs. '000	BANK 2020 Rs. '000
Accounting profit before tax from operations			**32,957,324**	24,519,860	**32,001,203**	23,511,312
Tax effect at the statutory income tax rate			**9,326,948**	7,591,619	**9,003,255**	7,300,199
Domestic banking operation of the Bank			**6,122,792**	4,780,070	**6,122,792**	4,780,070
Off-shore banking operation of the Bank			**257,336**	209,320	**257,336**	209,320
Bangladesh operation of the Bank			**2,623,127**	2,310,809	**2,623,127**	2,310,809
Subsidiaries			**323,693**	291,420	**–**	–
Tax effect of exempt income			**(2,213,112)**	(1,528,341)	**(2,159,029)**	(1,528,341)
Tax effect of non-deductible expenses			**10,697,039**	10,912,337	**10,476,419**	10,683,266
Tax effect of deductible expenses			**(5,092,923)**	(7,070,526)	**(4,940,005)**	(6,861,120)
Qualifying payments			**–**	(2,800)	**–**	(2,800)
Profit remittance tax of Bangladesh operation			**280,541**	275,751	**280,541**	275,751
Under/(over) provision of taxes in respect of prior years	48	276	**(1,477,813)**	(121,298)	**(1,419,755)**	(113,565)
Deferred tax reversal	42.1	272	**(2,853,644)**	(2,623,679)	**(2,846,274)**	(2,615,567)
Income tax expense reported in the Income Statement at the effective income tax rate			**8,667,036**	7,433,063	**8,395,152**	7,137,823

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

	Note	Page No.	GROUP 2021	GROUP 2020	BANK 2021	BANK 2020
Amount used as the numerator:						
Profit for the year attributable to equity holders of the Bank (Rs. '000)			**24,062,469**	16,939,950	**23,606,051**	16,373,489
Number of ordinary shares used as the denominator:						
Weighted average number of ordinary shares for Basic EPS	24.2	234	**1,194,132,787**	1,105,618,050	**1,194,132,787**	1,105,618,050
Weighted average number of ordinary shares for diluted EPS	24.2	234	**1,194,132,787**	1,105,618,050	**1,194,132,787**	1,105,618,050
Basic earnings per ordinary share (Rs.)			**20.15**	15.32	**19.77**	14.81
Diluted earnings per ordinary share (Rs.)			**20.15**	15.32	**19.77**	14.81

24.2 Weighted average number of ordinary shares for basic and diluted earnings per share

	Note	Page No.	Outstanding number of shares 2021	Outstanding number of shares 2020	Weighted average number of shares 2021	Weighted average number of shares 2020
Number of shares in issue as at January 1,			1,166,905,638	1,027,506,586	1,166,905,638	1,027,506,586
Add: Number of shares satisfied in the form of issue and allotment of new shares from final dividend for 2019	52.1	288	–	24,201,866	-	24,201,866
Add : Number of shares satisfied in the form of issue and allotment of new shares from first & final dividend for 2020	52.1	288	26,841,407	–	26,841,407	26,841,407
Add: Number of shares issued to IFC parties (Private placement)	52.1	288	–	115,197,186	–	27,068,191
			1,193,747,045	1,166,905,638	1,193,747,045	1,105,618,050
Add: Number of shares issued under ESOP-2015	52.1	288	–	–	–	–
Add: Number of shares issued under ESOP-2019	52.1	288	474,254	–	385,742	–
Weighted average number of ordinary shares for basic earnings per ordinary share calculation			1,194,221,299	1,166,905,638	1,194,132,787	1,105,618,050
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 (*)			1,194,221,299	1,166,905,638	1,194,132,787	1,105,618,050

(*) 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, 2021 and December 31, 2020.

25. Dividends on ordinary shares

ACCOUNTING POLICY

Refer Note 7.7 on page 216.

	Note	Page No.	GROUP AND BANK Cash dividend 2021 Rs. '000	Cash dividend 2020 Rs. '000	Scrip dividend 2021 Rs. '000	Scrip dividend 2020 Rs. '000	Total 2021 Rs. '000	Total 2020 Rs. '000
Dividends for 2019 (Paid in 2020)								
Second interim dividend	25.1	234	–	3,082,520	–	–	–	3,082,520
Final dividend	25.1	234	–	–	–	2,055,014	–	2,055,014
Dividends for 2020 (Paid in 2021)								
First and Final dividend	25.2	234	5,253,070	–	2,334,698	–	7,587,768	–
Total amount paid during the year							7,587,768	5,137,534

25.1 Dividends for 2019 (Paid in 2020)

The Board of Directors of the Bank declared a second interim dividend of Rs. 3.00 per share in cash 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 shareholders' of the Bank for the year ended December 31, 2019, and these new shares were listed on July 06, 2020.

25.2 Dividends for 2020 (Paid in 2021)

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 the year 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".

The Board of Directors of the Bank recommended and paid a first and final dividend of Rs. 6.50 per share which was satisfied in the form of Rs. 4.50 in cash (Paid on April 5, 2021 and April 9, 2021) 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, and these new shares were listed on April 9, 2021.

This dividend was recommended and paid after the Financial Statements for the year 2020 were finalised and audited by the

Bank's external auditors and the payment is in compliance with the instructions given in the Banking Act Direction No 01 of 2021, dated January 19, 2021, on "Restrictions on Discretionary Payments of Licensed Banks".

25.3 Dividends for 2021 (To be paid in 2022)

The Bank did not declare cash dividends during the year 2021 (for the year ended December 31, 2021), in conformity with the restrictions imposed by the Central Bank of Sri Lanka on payment of cash dividends for the financial year 2021, as per instructions given in the Banking Act Direction No 11 of 2021, dated July 13, 2021, on "Restrictions on Discretionary Payments of Licensed Banks".

Since the Financial Statements for the year 2021 are finalised and audited by the Bank's external auditors, the Board of Directors of the Bank has now recommended the payment of a first and final dividend of Rs. 7.50 per share to be paid and satisfied in the form of Rs. 4.50 per share in cash and Rs. 3.00 per share in the form of issue and allotment of new shares for both voting and non-voting ordinary shareholders' of the Bank for the year ended December 31, 2021.

The above first and final dividend recommended by the Board of Directors is to be approved at the forthcoming Annual General Meeting to be held on March 30, 2022.

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, 2021				As at December 31, 2020			
	Note	Page No.	Financial instruments recognised through profit or loss (FVTPL) Rs. '000	Financial instruments at amortised cost (AC) Rs. '000	Financial instruments at fair value through other comprehensive income (FVOCI) Rs. '000	Total Rs. '000	Financial instruments recognised through profit or loss (FVTPL) Rs. '000	Financial instruments at amortised cost (AC) Rs. '000	Financial instruments at fair value through other comprehensive income (FVOCI) Rs. '000	Total Rs. '000
Financial assets										
Cash and cash equivalents	28	240	–	69,335,379	–	69,335,379	–	51,255,030	–	51,255,030
Balances with Central Banks	29	241	–	56,777,465	–	56,777,465	–	115,358,732	–	115,358,732
Placements with banks	30	241	–	12,498,709	–	12,498,709	–	16,421,867	–	16,421,867
Securities purchased under resale agreements			–	3,000,490	–	3,000,490	–	–	–	–
Derivative financial assets	31	242	3,245,120	–	–	3,245,120	2,636,717	–	–	2,636,717
Financial assets recognised through profit or loss – Measured at fair value	32	242	23,436,123	–	–	23,436,123	35,189,471	–	–	35,189,471
Financial assets at amortised cost – Loans and advances to banks	33	245	–	–	–	–	–	779,705	–	779,705
Financial assets at amortised cost – Loans and advances to other customers	34	246	–	1,029,584,075	–	1,029,584,075	–	909,829,172	–	909,829,172
Financial assets at amortised cost – Debt and other financial instruments	35	250	–	385,390,598	–	385,390,598	–	302,059,529	–	302,059,529
Financial assets measured at fair value through other comprehensive income	36	251	–	–	335,953,802	335,953,802	–	–	278,716,794	278,716,794
Total financial assets			26,681,243	1,556,586,716	335,953,802	1,919,221,761	37,826,188	1,395,704,035	278,716,794	1,712,247,017
Financial liabilities										
Due to banks	44	274	–	73,801,195	–	73,801,195	–	88,248,056	–	88,248,056
Derivative financial liabilities	45	275	2,092,198	–	–	2,092,198	1,501,262	–	–	1,501,262
Securities sold under repurchase agreements			–	151,424,854	–	151,424,854	–	91,411,522	–	91,411,522
Financial liabilities at amortised cost – Due to depositors	46	275	–	1,472,640,456	–	1,472,640,456	–	1,286,616,399	–	1,286,616,399
Financial liabilities at amortised cost – Other borrowings	47	276	–	32,587,051	–	32,587,051	–	54,555,933	–	54,555,933
Subordinated liabilities	51	286	–	38,303,466	–	38,303,466	–	38,247,138	–	38,247,138
Total financial liabilities			2,092,198	1,768,757,022	–	1,770,849,220	1,501,262	1,559,079,048	–	1,560,580,310

26.2 Classification of financial assets and financial liabilities – Bank

	Note	Page No.	As at December 31, 2021 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	As at December 31, 2020 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	240	–	68,078,076	–	68,078,076	–	50,250,627	–	50,250,627
Balances with Central Banks	29	241	–	52,897,908	–	52,897,908	–	110,971,105	–	110,971,105
Placements with banks	30	241	–	11,584,952	–	11,584,952	–	15,938,982	–	15,938,982
Securities purchased under resale agreements			–	3,000,490	–	3,000,490	–	–	–	–
Derivative financial assets	31	242	3,245,120	–	–	3,245,120	2,636,717	–	–	2,636,717
Financial assets recognised through profit or loss – Measured at fair value	32	242	23,436,123	–	–	23,436,123	35,189,471	–	–	35,189,471
Financial assets at amortised cost – Loans and advances to banks	33	245	–	–	–	–	–	779,705	–	779,705
Financial assets at amortised cost – Loans and advances to other customers	34	246	–	1,014,618,580	–	1,014,618,580	–	896,845,453	–	896,845,453
Financial assets at amortised cost – Debt and other financial instruments	35	250	–	369,417,889	–	369,417,889	–	292,727,566	–	292,727,566
Financial assets measured at fair value through other comprehensive income	36	251	–	–	335,463,338	335,463,338	–	–	278,461,369	278,461,369
Total financial assets			26,681,243	1,519,597,895	335,463,338	1,881,742,476	37,826,188	1,367,513,438	278,461,369	1,683,800,995
Financial liabilities										
Due to banks	44	274	–	73,777,420	–	73,777,420	–	87,451,306	–	87,451,306
Derivative financial liabilities	45	275	2,092,198	–	–	2,092,198	1,501,262	–	–	1,501,262
Securities sold under repurchase agreements			–	151,911,842	–	151,911,842	–	91,437,612	–	91,437,612
Financial liabilities at amortised cost – Due to depositors	46	275	–	1,443,093,453	–	1,443,093,453	–	1,265,965,918	–	1,265,965,918
Financial liabilities at amortised cost – Other borrowings	47	276	–	32,587,051	–	32,587,051	–	54,555,933	–	54,555,933
Subordinated liabilities	51	286	–	38,303,466	–	38,303,466	–	38,247,138	–	38,247,138
Total financial liabilities			2,092,198	1,739,673,232	–	1,741,765,430	1,501,262	1,537,657,907	–	1,539,159,169

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, 2021	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	257	–	–	15,805,471	15,805,471	–	–	15,008,982	15,008,982
Investment properties	40	269	–	–	72,400	72,400	–	–	–	–
Total non-financial assets at fair value			–	–	15,877,871	15,877,871	–	–	15,008,982	15,008,982
Financial assets										
Derivative financial assets	31	242								
Currency swaps			–	2,672,049	–	2,672,049	–	2,672,049	–	2,672,049
Forward contracts			–	572,517	–	572,517	–	572,517	–	572,517
Spot contracts			–	170	–	170	–	170	–	170
Currency options			–	384	–	384	–	384	–	384
Financial assets recognised through profit or loss – measured at fair value	32	242								
Government Securities			21,839,251	–	–	21,839,251	21,839,251	–	–	21,839,251
Equity shares			1,596,872	–	–	1,596,872	1,596,872	–	–	1,596,872
Financial assets measured at fair value through other comprehensive income	36	251								
Government Securities			279,331,825	61,181,770	–	340,513,595	278,841,485	61,181,770	–	340,023,255
Equity securities			396,346	–	53,510	449,856	396,346	–	53,386	449,732
Total financial assets at fair value			303,164,294	64,426,890	53,510	367,644,694	302,673,954	64,426,890	53,386	367,154,230
Total assets at fair value			303,164,294	64,426,890	15,931,381	383,522,565	302,673,954	64,426,890	15,062,368	382,163,212
Financial liabilities										
Derivative financial liabilities	45	275								
Currency swaps			–	1,698,238	–	1,698,238	–	1,698,238	–	1,698,238
Interest rate swaps			–	129,315	–	129,315	–	129,315	–	129,315
Forward contracts			–	258,788	–	258,788	–	258,788	–	258,788
Spot contracts			–	5,473	–	5,473	–	5,473	–	5,473
Currency options			–	384	–	384	–	384	–	384
Total liabilities at fair value			–	2,092,198	–	2,092,198	–	2,092,198	–	2,092,198

As at December 31, 2020	Note	Page No.	GROUP Level 1 Rs. '000	GROUP Level 2 Rs. '000	GROUP Level 3 Rs. '000	GROUP Total Rs. '000	BANK Level 1 Rs. '000	BANK Level 2 Rs. '000	BANK Level 3 Rs. '000	BANK Total Rs. '000
Non-financial assets										
Property, plant and equipment										
Land and buildings	39	257	–	–	15,417,319	15,417,319	–	–	14,616,368	14,616,368
Investment properties	40	269	–	–	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	242								
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	242								
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	251								
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	275								
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

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 258 to 261.

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 190 to 197.

Note 39.5 (b) on page 263 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 267 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 269.

Note 40.1 (b) on page 269 provides information on significant unobservable inputs used as at December 31, 2021 in measuring fair value of investment properties categorised as level 3 in the fair value hierarchy.

Note 40.1 (c) on page 270 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, 2021	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	240	–	69,335,379	–	69,335,379	69,335,379	–	68,078,076	–	68,078,076	68,078,076
Balances with Central Banks	29	241	–	56,777,465	–	56,777,465	56,777,465	–	52,897,908	–	52,897,908	52,897,908
Placements with banks	30	241	–	12,498,709	–	12,498,709	12,498,709	–	11,584,952	–	11,584,952	11,584,952
Securities purchased under resale agreements			–	3,000,490	–	3,000,490	3,000,490	–	3,000,490	–	3,000,490	3,000,490
Financial assets at amortised cost – Loans and advances to banks	33	245	–	–	–	–	–	–	–	–	–	–
Financial assets at amortised cost – Loans and advances to other customers	34	246	–	–	1,023,382,541	1,023,382,541	1,029,584,075	–	–	1,008,417,046	1,008,417,046	1,014,618,580
Financial assets at amortised cost – Debt and other financial instruments	35	250	299,805,766	21,283,153	–	321,088,919	385,390,598	283,833,057	21,283,153	–	305,116,210	369,417,889
Total financial assets			299,805,766	162,895,196	1,023,382,541	1,486,083,503	1,556,586,716	283,833,057	156,844,579	1,008,417,046	1,449,094,682	1,519,597,895
Financial liabilities												
Due to banks	44	274	–	–	73,801,195	73,801,195	73,801,195	–	–	73,777,420	73,777,420	73,777,420
Securities sold under repurchase agreements			–	151,424,854	–	151,424,854	151,424,854	–	151,911,842	–	151,911,842	151,911,842
Financial liabilities at amortised cost – Due to depositors	46	275	–	–	1,473,182,119	1,473,182,119	1,472,640,456	–	–	1,443,635,116	1,443,635,116	1,443,093,453
Financial liabilities at amortised cost – Other borrowings	47	276	–	–	32,587,051	32,587,051	32,587,051	–	–	32,587,051	32,587,051	32,587,051
Subordinated liabilities	51	286	–	–	38,730,460	38,730,460	38,303,466	–	–	38,730,460	38,730,460	38,303,466
Total financial liabilities			–	151,424,854	1,618,300,825	1,769,725,679	1,768,757,022	–	151,911,842	1,588,730,047	1,740,641,889	1,739,673,232

			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	240	–	51,255,030	–	51,255,030	51,255,030	–	50,250,627	–	50,250,627	50,250,627
Balances with Central Banks	29	241	–	115,358,732	–	115,358,732	115,358,732	–	110,971,105	–	110,971,105	110,971,105
Placements with banks	30	241	–	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	245	–	779,705	–	779,705	779,705	–	779,705	–	779,705	779,705
Financial assets at amortised cost – Loans and advances to other customers	34	246	–	–	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	250	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	274	–	–	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	275	–	–	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	276	–	–	54,555,933	54,555,933	54,555,933	–	–	54,555,933	54,555,933	54,555,933
Subordinated liabilities	51	286	–	–	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

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 237.

Type of financial instruments	Fair value as at December 31, 2021 (Rs. '000)	Valuation technique	Significant valuation inputs
Derivative financial assets	3,245,120	**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	2,092,198		• 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.	**2021 Rs. '000**	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000
Cash in hand			30,792,774	26,681,454	30,276,356	26,152,779
Coins and notes held in local currency			27,341,234	24,502,554	27,331,072	24,502,675
Coins and notes held in foreign currency			3,451,540	2,178,900	2,945,284	1,650,104
Balances with banks			25,099,804	22,759,243	24,358,860	22,283,515
Local banks			189,319	173,152	–	–
Foreign banks			24,910,485	22,586,091	24,358,860	22,283,515
Money at call and at short notice			13,450,414	1,817,574	13,450,415	1,817,574
Gross cash and cash equivalents (*)			69,342,992	51,258,271	68,085,631	50,253,868
Less: Provision for impairment	28.1	240	7,613	3,241	7,555	3,241
Net cash and cash equivalents			69,335,379	51,255,030	68,078,076	50,250,627

(*) 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.	**2021 Rs. '000**	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000
Movement in Stage 1 Impairment						
Balance as at January 1,			3,241	5,707	3,241	5,707
Charge/(write back) to the Income Statement	18.1 & 18.2	229	4,371	(2,526)	4,313	(2,526)
Exchange rate variance on foreign currency provisions			1	60	1	60
Balance as at December 31,			7,613	3,241	7,555	3,241

The maturity analysis of cash and cash equivalents is given in Note 61 on pages 298 and 299.

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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 2021 Rs. '000	GROUP 2020 Rs. '000	BANK 2021 Rs. '000	BANK 2020 Rs. '000
Statutory balances with Central Banks				
Balances with Central Bank of Sri Lanka	33,393,537	11,241,860	33,393,537	11,241,860
Balances with Bangladesh Bank	6,398,973	5,323,929	6,398,973	5,323,929
Balances with Maldives Monetary Authority	1,834,097	1,275,457	–	–
Non-statutory balances with Central Banks				
Balances with Central Bank of Sri Lanka	13,105,398	94,405,316	13,105,398	94,405,316
Balances with Bangladesh Bank	–	–	–	–
Balances with Maldives Monetary Authority	2,045,460	3,112,170	–	–
Total	56,777,465	115,358,732	52,897,908	110,971,105

The maturity analysis of balances with Central Banks is given in Note 61 on pages 298 and 299.

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, 2021, the minimum cash reserve requirement was 4.00% of the rupee deposit liabilities and this rate was applicable from September 1, 2021. The minimum cash reserve requirement during the period from June 16, 2020 to August 31, 2021 was 2.00%. (2.00% in 2020 and this rate was applicable from June 16, 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, 2021 was 17.00% for Domestic Banking Unit (DBU) and 15.00% for Off-shore Banking Unit (OBU)(17.00% for DBU and 15.00% for OBU in 2020) on time and demand liabilities (both local and foreign currencies), which includes a Cash Reserve Requirement of 4.00% on DBU and 2.00% for OBU (4.00% on DBU and 2.00% for OBU in 2020) and the balance 13.00% is permitted to be maintained in foreign currency and/or also in unencumbered securities held with the Bangladesh Bank for both DBU and OBU (13.00% for both DBU and OBU in 2020).

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 regulations of Maldives Monetary Authority, the Minimum Reserve Requirement (MRR) as at December 31, 2021 was 10.00% for Rufiyaa deposits while it was 5.00% for US Dollar deposits.(5.00% for Rufiyaa and 7.50% for US Dollar deposits in 2020). 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 2021 Rs. '000	GROUP 2020 Rs. '000	BANK 2021 Rs. '000	BANK 2020 Rs. '000
Placements – Within Sri Lanka			10,173,165	10,759,821	9,328,113	10,370,393
Placements – Outside Sri Lanka			2,362,769	5,665,092	2,262,769	5,571,592
Gross placements with banks			12,535,934	16,424,913	11,590,882	15,941,985
Less: Provision for impairment	30.1	242	37,225	3,046	5,930	3,003
Net placements with banks			12,498,709	16,421,867	11,584,952	15,938,982

30.1 Movement in provision for impairment during the year

	Note	Page No.	GROUP 2021 Rs. '000	GROUP 2020 Rs. '000	BANK 2021 Rs. '000	BANK 2020 Rs. '000
Movement in Stage 1 impairment						
Balance as at January 1,			3,046	8,621	3,003	8,596
Charge/(write back) to the Income Statement	18.1 & 18.2	229	34,148	(5,633)	2,823	(5,651)
Exchange rate variance on foreign currency provisions			31	58	104	58
Balance as at December 31,			37,225	3,046	5,930	3,003

The maturity analysis of placements with banks is given in Note 61 on pages 298 and 299.

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.

As at December 31,	Note	Page No.	GROUP 2021 Rs. '000	GROUP 2020 Rs. '000	BANK 2021 Rs. '000	BANK 2020 Rs. '000
Derivative financial assets – Held for trading						
Foreign currency derivatives			3,245,120	2,636,717	3,245,120	2,636,717
Currency swaps			2,672,049	1,880,510	2,672,049	1,880,510
Forward contracts			572,517	741,521	572,517	741,521
Spot contracts			170	9,872	170	9,872
Currency options			384	4,814	384	4,814
Total			3,245,120	2,636,717	3,245,120	2,636,717

The maturity analysis of derivative financial assets is given in Note 61 on pages 298 and 299.

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.

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As at December 31,	Note	Page No.	GROUP 2021 Rs. '000	GROUP 2020 Rs. '000	BANK 2021 Rs. '000	BANK 2020 Rs. '000
Government Securities	32.1	243	21,839,251	33,867,593	21,839,251	33,867,593
Equity securities	32.2	243	1,596,872	1,321,878	1,596,872	1,321,878
Total			23,436,123	35,189,471	23,436,123	35,189,471

The maturity analysis of financial assets recognised through profit or loss is given in Note 61 on pages 298 and 299.

32.1 Government securities

As at December 31,	GROUP 2021 Rs. 000	GROUP 2020 Rs.'000	BANK 2021 Rs.'000	BANK 2020 Rs.'000
Treasury Bills	7,565,140	7,641,631	7,565,140	7,641,631
Treasury Bonds	14,274,111	26,225,962	14,274,111	26,225,962
Total	21,839,251	33,867,593	21,839,251	33,867,593

32.2 Equity securities – Group and Bank

Sector/Name of the Company	As at December 31, 2021 Number of shares	Market price Rs.	Market value Rs. '000	Cost of the investment Rs. '000	As at December 31, 2020 Number of shares	Market price Rs.	Market value Rs. '000	Cost of the investment Rs. '000
Application Software								
hSenid Business Solutions Limited	20,900	34.60	723	261	–	–	–	–
Sub total			723	261			–	–
Automobiles and Components								
Kelani Tyres PLC	71,000	98.60	7,001	5,836	71,000	86.50	6,142	5,836
Subtotal			7,001	5,836			6,142	5,836
Banks								
DFCC Bank PLC	3,682	60.00	221	244	3,516	65.30	230	234
Hatton National Bank PLC	292,321	135.00	39,463	35,528	152,745	126.50	19,322	17,546
Hatton National Bank PLC (Non-voting)	240,249	122.25	29,370	25,760	48,000	100.60	4,829	5,000
National Development Bank PLC	356,160	68.90	24,539	44,426	244,110	78.10	19,065	36,021
Nations Trust Bank PLC	400,000	55.00	22,000	24,200	1,396	60.00	84	85
Sampath Bank PLC	619,311	52.10	32,266	28,331	206,437	135.60	27,993	28,331
Seylan Bank PLC	1,139	44.00	50	53	1,107	46.00	51	51
Subtotal			147,909	158,542			71,574	87,268
Capital Goods								
Access Engineering PLC	500,000	31.90	15,950	12,557	–	–	–	–
ACL Cables PLC	170,000	100.25	17,043	3,125	100,000	76.60	7,660	3,676
Aitken Spence PLC	210,000	82.40	17,304	8,494	239,409	57.80	13,838	9,684
Colombo Dockyard PLC	75,000	79.40	5,955	16,685	75,000	85.30	6,398	16,685
Hayleys PLC	80,000	130.00	10,400	2,257	68,313	414.50	28,316	19,269
Hemas Holdings PLC	300,000	66.90	20,070	23,201	–	–	–	–
John Keells Holdings PLC	200,000	150.00	30,000	31,178	165,000	149.60	24,684	25,728
Renuka Holdings PLC	117,158	19.40	2,273	3,180	117,158	15.00	1,757	3,180
Renuka Holdings PLC (Non-voting)	265,368	13.10	3,476	4,958	265,368	11.00	2,919	4,958
Royal Ceramics Lanka PLC	200,000	78.10	15,620	2,224	155,927	177.10	27,615	17,337
Subtotal			138,091	107,859			113,187	100,517

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Sector/Name of the Company	As at December 31, 2021 Number of shares	Market price Rs.	Market value Rs. '000	Cost of the investment Rs. '000	As at December 31, 2020 Number of shares	Market price Rs.	Market value Rs. '000	Cost of the investment Rs. '000
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	14.70	3,934	3,473	267,608	11.00	2,944	3,473
Tal Lanka Hotels PLC	212,390	22.10	4,694	6,625	212,390	16.90	3,589	6,625
Subtotal			8,628	10,098			6,533	10,098
Diversified Financials								
Central Finance Company PLC	205,782	93.00	19,138	19,420	202,767	83.00	16,830	19,177
Citizen Development Business Finance PLC (Non-voting)	105,390	88.80	9,359	3,398	105,390	65.00	6,850	3,398
Lanka Ventures PLC	100,000	55.00	5,500	3,033	100,000	54.50	5,450	3,033
People's Leasing & Finance PLC	1,557,692	10.70	16,667	19,963	–	–	–	–
VISA Inc.	19,424	USD 216.71	841,875	–	19,424	USD 218.73	794,490	–
Subtotal			892,539	45,814			823,620	25,608
Energy								
Lanka IOC PLC	685,975	73.20	50,213	15,013	685,975	22.40	15,366	15,013
Subtotal			50,213	15,013			15,366	15,013
Food & Staples Retailing								
Cargills (Ceylon) PLC	65,000	215.25	13,991	14,986	–	–	–	–
Sub total			13,991	14,986			–	–
Food, Beverage and Tobacco								
Ceylon Cold Stores PLC	25,000	530.00	13,250	14,789	–	–	–	–
Ceylon Grain Elevators PLC	250,000	121.75	30,438	18,156	250,000	111.00	27,750	18,156
Kotagala Plantations PLC	302,625	7.70	2,330	9,172	302,625	9.00	2,724	9,172
Lanka Milk Foods (CWE) PLC	250,000	268.75	67,188	27,866	250,000	148.90	37,225	27,866
Lion Brewery Ceylon PLC	20,000	550.00	11,000	11,021	10,000	585.00	5,850	5,560
Melstacorp PLC	245,960	56.10	13,798	9,814	245,960	52.00	12,790	9,814
Pelwatte Sugar Industries PLC	12,300	0.10	1	351	12,300	0.10	1	351
Renuka Foods PLC (Non-voting)	1,000	14.00	14	15	1,000	13.90	14	15
Subtotal			138,019	91,184			86,354	70,934
Health Care Equipment and Services								
Ceylon Hospitals PLC	121,900	151.00	18,407	12,868	121,900	103.20	12,580	12,868
Ceylon Hospitals PLC (Non-voting)	61,100	123.50	7,546	4,423	61,100	90.00	5,499	4,423
Subtotal			25,953	17,291			18,079	17,291
Insurance								
HNB Assurance PLC	350,000	48.40	16,940	19,339	–	–	–	–
People's Insurance PLC	126,500	34.30	4,339	1,898	126,500	28.20	3,567	1,898
Softlogic Life Insurance PLC	750,000	71.00	53,250	24,664	120,000	34.80	4,176	3,739
Subtotal			74,529	45,901			7,743	5,637
Materials								
Chemical Industries Colombo Holding PLC (Non-voting)	–	–	–	–	161,400	151.60	24,468	11,692
Chevron Lubricants Lanka PLC	100,000	113.00	11,300	10,618	–	–	–	–
CIC Holdings PLC (Non-voting)	408,100	49.10	20,038	7,391	–	–	–	–
Dipped Products PLC	100,000	50.70	5,070	1,212	200,000	347.30	69,460	24,239
Haycarb PLC	205,630	76.80	15,792	3,055	90,100	568.60	51,231	13,388
JAT Holdings PLC	1,000,000	21.50	21,500	22,999	–	–	–	–
Subtotal			73,700	45,275			145,159	49,319

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Sector/Name of the Company	As at December 31, 2021				As at December 31, 2020			
	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
Real Estate								
Overseas Reality Ceylon PLC	183,320	19.20	3,520	2,717	183,320	14.40	2,640	2,717
Subtotal			3,520	2,717			2,640	2,717
Telecommunication Services								
Dialog Axiata PLC	1,399,172	10.90	15,251	11,442	1,399,172	12.40	17,350	11,442
Subtotal			15,251	11,442			17,350	11,442
Utilities								
LVL Energy Fund PLC	648,100	10.50	6,805	6,481	648,100	10.20	6,611	6,481
Subtotal			6,805	6,481			6,611	6,481
Total			1,596,872	578,700			1,321,878	409,374
Mark to market gains/(losses)				1,018,172				912,504
Market value of equity securities				1,596,872				1,321,878

32.3 Industry/Sector composition of equity securities – Group and Bank

Industry/Sector	As at December 31, 2021			As at December 31, 2020		
	Market value Rs. '000	Cost of the investment Rs. '000	%	Market value Rs. '000	Cost of the investment Rs. '000	%
Application Software	723	261	0.05	–	–	–
Automobiles and Components	7,001	5,836	0.44	6,142	5,836	0.46
Banks	147,909	158,542	9.26	71,574	87,268	5.41
Capital Goods	138,091	107,859	8.65	113,187	100,517	8.56
Consumer Durables and Apparel	–	–	–	1,520	1,213	0.11
Consumer Services	8,628	10,098	0.54	6,533	10,098	0.49
Diversified Financials	892,539	45,814	55.87	823,620	25,608	62.33
Energy	50,213	15,013	3.14	15,366	15,013	1.16
Food & Staples Retailing	13,991	14,986	0.88	–	–	–
Food, Beverage and Tobacco	138,019	91,184	8.64	86,354	70,934	6.53
Health Care Equipment and Services	25,953	17,291	1.63	18,079	17,291	1.37
Insurance	74,529	45,901	4.67	7,743	5,637	0.59
Materials	73,700	45,275	4.62	145,159	49,319	10.98
Real Estate	3,520	2,717	0.22	2,640	2,717	0.20
Telecommunication Services	15,251	11,442	0.96	17,350	11,442	1.31
Utilities	6,805	6,481	0.43	6,611	6,481	0.50
Subtotal	1,596,872	578,700	100.00	1,321,878	409,374	100.00
Mark to market gains/(losses)		1,018,172			912,504	
Market value of equity securities	1,596,872	1,596,872	100.00	1,321,878	1,321,878	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.

As at December 31,	Note	Page No.	GROUP 2021 Rs. '000	GROUP 2020 Rs. '000	BANK 2021 Rs. '000	BANK 2020 Rs. '000
Gross loans and advances (Currency – United States Dollar)			–	779,790	–	779,790
Less: Provision for impairment	33.1	246	–	85	–	85
Net loans and advances			–	779,705	–	779,705

33.1 Movement in provision for impairment during the year

	Note	Page No.	GROUP 2021 Rs. '000	GROUP 2020 Rs. '000	BANK 2021 Rs. '000	BANK 2020 Rs. '000
Movement in Stage 1 impairment						
Balance as at January 1,			85	111	85	111
Charge/(write back) to the Income Statement	18.1 & 18.2	229	(85)	(26)	(85)	(26)
Balance as at December 31,			–	85	–	85

The maturity analysis of Loans and advances to banks is given in Note 61 on pages 298 and 299.

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 was 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, was continued to be recorded in the Statement of Financial Position until December 31, 2020.

During 2021, the parties concluded the transaction based on a judgement given by the Commercial High Court and negotiated settlement terms. Accordingly, arrangements were made to set off the both the deposit (made by the Bank) and the amount due to the said counterparty bank during the year 2021.

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.

As at December 31,	Note	Page No.	GROUP 2021 Rs. '000	GROUP 2020 Rs. '000	BANK 2021 Rs. '000	BANK 2020 Rs. '000
Gross loans and advances			1,094,930,882	961,859,118	1,078,685,128	947,841,905
Stage 1			857,740,593	750,494,287	845,769,327	740,254,706
Stage 2			156,082,998	106,934,723	153,840,165	105,011,766
Stage 3(*)			81,107,291	104,430,108	79,075,636	102,575,433
Less: Provision for impairment	34.2 (a) & 34.2 (b)	248	65,346,807	52,029,946	64,066,548	50,996,452
Stage 1			10,181,101	6,567,755	10,027,938	6,470,880
Stage 2			19,165,658	12,396,301	18,973,409	12,244,433
Stage 3			36,000,048	33,065,890	35,065,201	32,281,139
Net loans and advances			1,029,584,075	909,829,172	1,014,618,580	896,845,453

(*) During the year 2021, the Bank re-evaluated stage assessment criteria for individually impaired facilities and made the necessary changes to reflect the actual risk associated with customers subjected to individual impairment.

(*) As at December 31, 2021, gross loans and advances in stage 3 include Rs. 915.433 Mn (2020 - Rs. 879.849 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 298 and 299.

34.1 Analysis of financial assets at amortised cost – Loans and advances to other customers

34.1 (a) By product

As at December 31,	Note	Page No.	GROUP 2021 Rs. '000	GROUP 2020 Rs. '000	BANK 2021 Rs. '000	BANK 2020 Rs. '000
Loans and advances						
Overdrafts			115,975,321	104,436,468	114,325,421	102,957,967
Trade finance			93,498,752	80,580,434	92,849,637	80,063,332
Lease/hire purchase receivable	34.3	248	38,903,168	37,237,050	37,133,907	35,815,635
Credit cards			16,397,129	14,994,861	16,377,486	14,994,861
Pawning			7,649,037	4,615,697	7,649,037	4,615,697
Staff loans			13,097,185	11,941,045	13,076,333	11,919,726
Housing loans			74,664,952	67,147,827	74,664,952	67,147,827
Personal loans			51,358,069	51,145,421	50,913,883	50,632,378
Term loans (*)						
Short term			180,443,934	135,165,669	179,933,922	132,098,509
Long term			455,982,125	418,650,469	444,799,340	411,651,796
Bills of exchange			46,961,210	35,944,177	46,961,210	35,944,177
Total			1,094,930,882	961,859,118	1,078,685,128	947,841,905

(*) This includes loans granted under Saubagya COVID-19 relief schemes amounting to Rs. 13,600.963 Mn. (approx) as at December 31, 2021. (2020 – Rs. 25,534.788 (approx) Mn.)

34.1 (b) By currency

As at December 31,	GROUP 2021 Rs. '000	GROUP 2020 Rs. '000	BANK 2021 Rs. '000	BANK 2020 Rs. '000
Sri Lankan Rupee	824,624,056	714,427,226	816,304,202	707,118,270
United States Dollar	169,120,449	146,750,563	165,546,832	144,098,079
Great Britain Pound	1,369,259	1,512,981	1,369,259	1,512,981
Euro	5,507,223	9,548,883	5,507,223	9,548,883
Australian Dollar	502,605	708,584	502,605	708,584
Japanese Yen	175,531	187,489	175,531	187,489
Bangladesh Taka	89,272,959	84,659,542	89,272,959	84,659,542
Maldivian Rufiyaa	4,074,842	3,611,052	–	–
Others	283,958	452,798	6,517	8,077
Total	1,094,930,882	961,859,118	1,078,685,128	947,841,905

34.1 (c) By industry

As at December 31,	GROUP 2021 Rs. '000	GROUP 2020 Rs. '000	BANK 2021 Rs. '000	BANK 2020 Rs. '000
Agriculture and fishing	93,304,092	78,617,259	92,952,360	78,331,232
Arts, entertainment and recreation	1,172,974	1,288,474	1,172,974	1,288,474
Construction	56,370,508	46,454,293	54,881,005	45,374,182
Consumption and other	168,260,117	216,286,919	168,136,211	216,240,633
Education	4,295,475	3,470,636	4,096,411	3,241,612
Financial services	70,326,837	36,023,186	71,600,700	36,381,176
Healthcare, social services and support services	26,354,594	18,480,398	24,365,739	18,410,556
Information technology and communication services	15,155,899	11,633,615	15,155,899	11,633,615
Infrastructure development	26,786,632	17,421,563	26,743,469	17,421,563
Lending to overseas entities	144,737,204	129,398,136	136,811,304	122,689,880
Manufacturing	147,215,372	122,921,837	146,739,879	122,464,825
Professional, scientific, and technical activities	26,850,133	26,000,516	26,850,133	24,789,072
Tourism	68,495,166	66,751,110	68,147,775	66,318,745
Transport and storage	20,968,768	13,055,953	20,819,383	12,954,106
Wholesale and retail trade	224,637,111	174,055,223	220,211,886	170,302,234
Total	1,094,930,882	961,859,118	1,078,685,128	947,841,905

34.2 Movement in provision for impairment during the year

34.2 (a) Group

	Note	Page No.	Stage 1 2021 Rs. '000	Stage 1 2020 Rs. '000	Stage 2 2021 Rs. '000	Stage 2 2020 Rs. '000	Stage 3 2021 Rs. '000	Stage 3 2020 Rs. '000	Total 2021 Rs. '000	Total 2020 Rs. '000
Balance as at January 1,			6,567,755	2,702,070	12,396,301	8,494,001	33,065,890	25,622,009	52,029,946	36,818,080
Charge/(write back) to the Income Statement	18.1	229	3,607,700	3,863,356	6,767,014	3,901,554	4,572,554	10,359,763	14,947,268	18,124,673
Net write-off during the year			(482)	(166)	(158)	(982)	(856,261)	(365,444)	(856,901)	(366,592)
Exchange rate variance on foreign currency provisions			6,128	2,495	2,501	1,728	95,686	39,600	104,315	43,823
Interest accrued on impaired loans and advances	13.1	222	–	–	–	–	(1,174,854)	(2,895,955)	(1,174,854)	(2,895,955)
Other movements			–	–	–	–	297,033	305,917	297,033	305,917
Balance as at December 31,			10,181,101	6,567,755	19,165,658	12,396,301	36,000,048	33,065,890	65,346,807	52,029,946

34.2 (b) Bank

	Note	Page No.	Stage 1 2021 Rs. '000	Stage 1 2020 Rs. '000	Stage 2 2021 Rs. '000	Stage 2 2020 Rs. '000	Stage 3 2021 Rs. '000	Stage 3 2020 Rs. '000	Total 2021 Rs. '000	Total 2020 Rs. '000
Balance as at January 1,			6,470,880	2,613,480	12,244,433	8,318,831	32,281,139	24,879,180	50,996,452	35,811,491
Charge/(write back) to the Income Statement	18.2	229	3,552,303	3,856,007	6,729,149	3,925,463	4,271,910	10,083,744	14,553,362	17,865,214
Net write-off during the year			(482)	(166)	(158)	(906)	(691,667)	(110,886)	(692,307)	(111,958)
Exchange rate variance on foreign currency provisions			5,237	1,559	(15)	1,045	93,581	39,274	98,803	41,878
Interest accrued on impaired loans and advances	13.1	222	–	–	–	–	(1,132,155)	(2,850,806)	(1,132,155)	(2,850,806)
Other movements			–	–	–	–	242,393	240,633	242,393	240,633
Balance as at December 31,			10,027,938	6,470,880	18,973,409	12,244,433	35,065,201	32,281,139	64,066,548	50,996,452

34.3 Lease/Hire purchase receivable

As at December 31,	Note	Page No.	GROUP 2021 Rs. '000	GROUP 2020 Rs. '000	BANK 2021 Rs. '000	BANK 2020 Rs. '000
Gross lease/hire purchase receivable			38,903,168	37,237,050	37,133,907	35,815,635
Within one year	34.3 (a) & 34.3 (b)	249	16,083,734	14,897,348	15,118,010	14,144,117
From one to five years	34.3 (a) & 34.3 (b)	249	22,587,556	22,205,874	21,784,617	21,541,276
After five years	34.3 (a) & 34.3 (b)	249	231,878	133,828	231,280	130,242
Less: Provision for impairment	34.3 (c) (i) & 34.3 (c) (ii)	249	1,225,984	1,161,222	1,120,043	1,004,123
Stage 1			146,460	95,265	141,800	91,742
Stage 2			449,788	258,301	430,723	229,125
Stage 3			629,736	807,656	547,520	683,256
Net lease/hire purchase receivable			37,677,184	36,075,828	36,013,864	34,811,512

34.3 (a) Lease/Hire purchase receivable – Group

As at December 31,	Within one year 2021 Rs. '000	Within one year 2020 Rs. '000	One to five years 2021 Rs. '000	One to five years 2020 Rs. '000	After five years 2021 Rs. '000	After five years 2020 Rs. '000	Total 2021 Rs. '000	Total 2020 Rs. '000
Total lease/hire purchase receivable	20,086,140	19,329,556	26,172,436	25,702,437	269,681	137,042	46,528,257	45,169,035
Less: Unearned lease/hire purchase income	4,002,406	4,432,208	3,584,880	3,496,563	37,803	3,214	7,625,089	7,931,985
Gross lease/hire purchase receivable	16,083,734	14,897,348	22,587,556	22,205,874	231,878	133,828	38,903,168	37,237,050
Less: Provision for impairment	767,400	708,728	450,994	451,251	7,590	1,243	1,225,984	1,161,222
Stage 1	63,619	39,602	82,474	55,393	367	270	146,460	95,265
Stage 2	192,650	98,480	250,460	159,161	6,678	660	449,788	258,301
Stage 3	511,131	570,646	118,060	236,697	545	313	629,736	807,656
Net lease/hire purchase receivable	15,316,334	14,188,620	22,136,562	21,754,623	224,288	132,585	37,677,184	36,075,828

34.3 (b) Lease/Hire purchase receivable – Bank

As at December 31,	Within one year 2021 Rs. '000	Within one year 2020 Rs. '000	One to five years 2021 Rs. '000	One to five years 2020 Rs. '000	After five years 2021 Rs. '000	After five years 2020 Rs. '000	Total 2021 Rs. '000	Total 2020 Rs. '000
Total lease/hire purchase receivable	18,934,294	18,417,920	25,222,489	24,891,164	269,043	133,107	44,425,826	43,442,191
Less: Unearned lease/hire purchase income	3,816,284	4,273,803	3,437,872	3,349,888	37,763	2,865	7,291,919	7,626,556
Gross lease/hire purchase receivable	15,118,010	14,144,117	21,784,617	21,541,276	231,280	130,242	37,133,907	35,815,635
Less: Provision for impairment	709,568	629,680	402,921	373,618	7,554	825	1,120,043	1,004,123
Stage 1	61,075	37,736	80,359	53,745	366	261	141,800	91,742
Stage 2	182,243	87,187	241,809	141,374	6,671	564	430,723	229,125
Stage 3	466,250	504,757	80,753	178,499	517	–	547,520	683,256
Net lease/hire purchase receivable	14,408,442	13,514,437	21,381,696	21,167,658	223,726	129,417	36,013,864	34,811,512

34.3 (c) Movement in provision for impairment during the year

34.3 (c) (i) Group

	Stage 1 2021 Rs. '000	Stage 1 2020 Rs. '000	Stage 2 2021 Rs. '000	Stage 2 2020 Rs. '000	Stage 3 2021 Rs. '000	Stage 3 2020 Rs. '000	Total 2021 Rs. '000	Total 2020 Rs. '000
Balance as at January 1,	95,265	81,639	258,301	270,610	807,656	800,885	1,161,222	1,153,134
Charge/(write back) to the Income Statement	51,195	13,626	191,487	(12,233)	(172,300)	154,813	70,382	156,206
Net write-off during the year	–	–	–	(76)	7,035	(125,223)	7,035	(125,299)
Interest accrued on impaired loans and advances	–	–	–	–	(12,131)	(21,673)	(12,131)	(21,673)
Other movements	–	–	–	–	(524)	(1,146)	(524)	(1,146)
Balance as at December 31,	146,460	95,265	449,788	258,301	629,736	807,656	1,225,984	1,161,222

34.3 (c) (ii) Bank

	Stage 1 2021 Rs. '000	Stage 1 2020 Rs. '000	Stage 2 2021 Rs. '000	Stage 2 2020 Rs. '000	Stage 3 2021 Rs. '000	Stage 3 2020 Rs. '000	Total 2021 Rs. '000	Total 2020 Rs. '000
Balance as at January 1,	91,742	74,991	229,125	200,721	683,256	666,670	1,004,123	942,382
Charge/(write back) to the Income Statement	50,058	16,751	201,598	28,404	(114,327)	101,115	137,329	146,270
Net write-off during the year	–	–	–	–	(8,754)	(61,710)	(8,754)	(61,710)
Interest accrued on impaired loans and advances	–	–	–	–	(12,131)	(21,673)	(12,131)	(21,673)
Other movements	–	–	–	–	(524)	(1,146)	(524)	(1,146)
Balance as at December 31,	141,800	91,742	430,723	229,125	547,520	683,256	1,120,043	1,004,123

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.

As at December 31,	Note	Page No.	GROUP 2021 Rs. '000	GROUP 2020 Rs. '000	BANK 2021 Rs. '000	BANK 2020 Rs. '000
Government Securities – Sri Lanka			346,865,782	282,664,666	346,474,056	282,294,843
Treasury Bonds			262,947,127	186,530,856	262,947,127	186,530,856
Sri Lanka Sovereign Bonds			83,918,655	96,133,810	83,526,929	95,763,987
Government Securities – Bangladesh			21,778,691	11,254,899	21,778,691	11,254,899
Treasury Bills			4,664,885	–	4,664,885	–
Treasury Bonds			17,113,806	11,254,899	17,113,806	11,254,899
Government Securities – Maldives			15,605,634	8,969,091	–	–
Treasury Bills			15,605,634	8,969,091	–	–
Other instruments			6,832,912	1,286,715	6,832,912	1,286,715
Debentures	35.2	251	6,521,553	561,716	6,521,553	561,716
Trust certificates	35.3	251	309,749	724,589	309,749	724,589
Corporate investments in Bangladesh	35.4	251	1,610	410	1,610	410
Less: Provision for impairment	35.1(a) & 35.1(b)	250	5,692,421	2,115,842	5,667,770	2,108,891
Total			385,390,598	302,059,529	369,417,889	292,727,566

35.1 Movement in provision for impairment during the year

35.1 (a) Group

	Note	Page No.	Stage 1 2021 Rs. '000	Stage 1 2020 Rs. '000	Stage 2 2021 Rs. '000	Stage 2 2020 Rs. '000	Stage 3 2021 Rs. '000	Stage 3 2020 Rs. '000	Total 2021 Rs. '000	Total 2020 Rs. '000
Balance as at January 1,			1,962,972	276,905	–	–	152,870	152,870	2,115,842	429,775
Charge/(write back) to the Income Statement	18.1	229	3,576,138	1,685,968	–	–	–	–	3,576,138	1,685,968
Exchange rate variance on foreign currency provisions			441	99	–	–	–	–	441	99
Balance as at December 31,			5,539,551	1,962,972	–	–	152,870	152,870	5,692,421	2,115,842

35.1 (b) Bank

	Note	Page No.	Stage 1 2021 Rs. '000	Stage 1 2020 Rs. '000	Stage 2 2021 Rs. '000	Stage 2 2020 Rs. '000	Stage 3 2021 Rs. '000	Stage 3 2020 Rs. '000	Total 2021 Rs. '000	Total 2020 Rs. '000
Balance as at January 1,			1,956,021	274,192	–	–	152,870	152,870	2,108,891	427,062
Charge/(write back) to the Income Statement	18.2	229	3,558,879	1,681,829	–	–	–	–	3,558,879	1,681,829
Balance as at December 31,			5,514,900	1,956,021	–	–	152,870	152,870	5,667,770	2,108,891

The maturity analysis of financial assets at amortised cost – Debt and other financial instruments is given in Note 61 on pages 298 and 299.

35.2 Debentures

As at December 31,	GROUP				BANK			
	2021		2020		2021		2020	
	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	3,000,000	328,529	3,000,000	328,529	3,000,000	328,529
Ceylon Electricity Board	50,000,000	5,333,014	–	–	50,000,000	5,333,014	–	–
People's Leasing & Finance PLC	6,070,000	626,823	–	–	6,070,000	626,823	–	–
Subtotal	–	6,521,553	–	561,716	–	6,521,553	–	561,716

35.3 Trust certificates

As at December 31,	GROUP		BANK	
	2021 Carrying value Rs. '000	2020 Carrying value Rs. '000	2021 Carrying value Rs. '000	2020 Carrying value Rs. '000
Richard Pieris Arpico Finance Ltd.	309,749	724,589	309,749	724,589
Subtotal	309,749	724,589	309,749	724,589

35.4 Corporate investments in Bangladesh

As at December 31,	GROUP		BANK	
	2021 Carrying value Rs. '000	2020 Carrying value Rs. '000	2021 Carrying value Rs. '000	2020 Carrying value Rs. '000
Prize bonds	1,610	410	1,610	410
Subtotal	1,610	410	1,610	410

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.

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			GROUP		BANK	
As at December 31,	Note	Page No.	**2021 Rs. '000**	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000
Government securities						
Government Securities – Sri Lanka	36.1	252	340,513,595	280,100,559	340,023,255	279,845,258
Less: Provision for impairment	36.2	252	5,009,649	1,675,834	5,009,649	1,675,834
			335,503,946	278,424,725	335,013,606	278,169,424
Equity securities	36.3 (a) & 36.3 (b)	252 & 253	449,856	292,069	449,732	291,945
Quoted shares			396,346	239,773	396,346	239,773
Unquoted shares			53,510	52,296	53,386	52,172
Total			335,953,802	278,716,794	335,463,338	278,461,369

The maturity analysis of financial assets measured at fair value through other comprehensive income is given in Note 61 on pages 298 and 299.

36.1 Government Securities

	GROUP		BANK	
As at December 31,	**2021 Rs. '000**	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000
Treasury Bills	31,820,664	26,934,822	31,330,324	26,679,521
Treasury Bonds	234,301,757	174,357,979	234,301,757	174,357,979
Sri Lanka Sovereign Bonds (SLSB)	13,209,404	22,296,574	13,209,404	22,296,574
Sri Lanka Development Bonds (SLDB)	61,181,770	56,511,184	61,181,770	56,511,184
Subtotal	340,513,595	280,100,559	340,023,255	279,845,258

36.2 Movement in provision for impairment during the year

			GROUP		BANK	
	Note	Page No.	**2021 Rs. '000**	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000
Movement in Stage 1 Impairment						
Balance as at January 1,			1,675,834	861,693	1,675,834	861,693
Charge/(write back) to the income statement	18.1 & 18.2	229	3,333,815	814,141	3,333,815	814,141
Balance as at December 31,			5,009,649	1,675,834	5,009,649	1,675,834

36.3 Equity securities

36.3 (a) Equity securities – As at December 31, 2021

	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	1,428,400	15.90	22,712	9,999	1,428,400	15.90	22,712	9,999
Subtotal			22,712	9,999			22,712	9,999

Sector/Name of the Company	GROUP Number of shares	GROUP Market price Rs.	GROUP Market value Rs. '000	GROUP Cost of investment Rs. '000	BANK Number of shares	BANK Market price Rs.	BANK Market value Rs. '000	BANK Cost of investment Rs. '000
Retailing								
RIL Property PLC	26,128,266	14.30	373,634	209,026	26,128,266	14.30	373,634	209,026
Subtotal			373,634	209,026			373,634	209,026
Total – quoted shares			396,346	219,025			396,346	219,025
Unquoted shares:								
Other financial services								
Central Depository of Bangladesh Ltd.	3,427,083	BDT2.75	22,067	22,067	3,427,083	BDT2.75	22,067	22,067
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	EUR841.90	7,259	7,259	47	EUR841.90	7,259	7,259
Total – unquoted shares			53,510	53,510			53,386	53,386
Total equity securities			449,856	272,535			449,732	272,411

36.3 (b) Equity securities – As at December 31, 2020

Sector/Name of the Company	GROUP Number of shares	GROUP Market price Rs.	GROUP Market value Rs. '000	GROUP Cost of investment Rs. '000	BANK Number of shares	BANK Market price Rs.	BANK Market value Rs. '000	BANK Cost of investment Rs. '000
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
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

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 CBC Finance Ltd. and CBC Myanmar Microfinance Company Limited, whose financial years end on March 31 (up until December 31, 2020) and September 30, respectively.

The reason for using a different reporting date by 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 a 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 September 30, due to requirements imposed by the Financial Regulatory Department of Myanmar. However, during the year 2021, the financial year of CBC Finance Ltd. changed from March 31, to December 31 with special approval obtained from CBSL.

Accordingly, as at December 31, 2021, all subsidiaries in the Group have a common financial year which ends on December 31, except for the CBC Myanmar Microfinance Company Limited. The Financial Statements of the Bank's subsidiaries are prepared using consistent accounting policies.

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,				2021		2020		2021		2020	
			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	1,468,800	261,198	1,263,600
(10,800,000 Ordinary shares)									(@Rs.136.00)		(@ Rs. 117.00)
(10,800,000 Ordinary shares as at December 31, 2020)											
Unquoted:											
CBC Tech Solutions Limited			100	–	–	–	–	5,000	5,000	5,000	5,000
(500,001 Ordinary shares)											
(500,001 Ordinary shares as at December 31, 2020)											
Commercial Insurance Brokers (Pvt) Ltd.			60	–	–	–	–	375,000	375,000	375,000	375,000
(359,999 Ordinary Shares)											
(359,999 Ordinary Shares as at December 31, 2020)											
Unquoted:											
CBC Finance Ltd.			100	–	–	–	–	3,791,046	3,791,046	3,791,046	3,791,046
(221,793,474 Ordinary Shares)											
(221,793,474 Ordinary shares as at December 31, 2020)											
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, 2020)											

As at December 31,				GROUP				BANK			
				2021		2020		**2021**		2020	
			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, 2020)											
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, 2020)											
Gross total				–	–	–	–	6,179,062	7,343,886	6,179,062	7,138,686
Provision for impairment	37.1	255						(370,633)	–	(370,633)	–
Net total				–	–	–	–	5,808,429	7,343,886	5,808,429	7,138,686

(*) Unless otherwise indicated, holding percentage remains unchanged from 2020 to 2021.

37.1 Movement in provision for impairment o/a subsidiaries during the year

			GROUP		BANK	
	Note	Page No.	**2021 Rs. '000**	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000
Balance as at January 1,			–	–	370,633	42,778
Charge/(write back) to the Income Statement	18	226	–	–	–	327,855
Balance as at December 31,			–	–	370,633	370,633

The maturity analysis of investment in subsidiaries is given in Note 61 on pages 298 and 299.

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".

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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,	Incorporation and operation	Ownership interest %	No. of shares	2021 Cost Rs. '000	2021 Carrying value Rs. '000	2020 Cost Rs. '000	2020 Carrying value Rs. '000
Equity Investments Lanka Ltd.	Sri Lanka	22.92	4,110,938	44,331	60,428	44,331	64,155
				44,331	60,428	44,331	64,155

38.1 Reconciliation of summarised financial information

Reconciliation of the summarised financial information to the carrying amount of the interest in the associate recognised in the Consolidated Financial Statements is as follows:

	Note	Page No.	Equity Investments Lanka Ltd. 2021 Rs. '000	Equity Investments Lanka Ltd. 2020 Rs. '000
Cost of investments			44,331	44,331
Add: Share of profit applicable to the Group				
Investment in associate – As at January 1,			19,824	12,490
Total comprehensive income	38.2 (a)	256	384	7,334
Profit/(loss) for the period recognised in income statement, net of tax			1,896	3,898
Profit or loss and other comprehensive income, net of tax			(1,512)	3,436
Dividend received			(4,111)	–
Balance as at December 31,			60,428	64,155

38.2 Summarised financial information in respect of the associate is set out below:

38.2 (a) Summarised Income Statement

For the year ended December 31,	Equity Investments Lanka Ltd. 2021 Rs. '000	Equity Investments Lanka Ltd. 2020 Rs. '000
Revenue	41,059	49,129
Expenses	(32,788)	(32,123)
Income tax	–	–
Profit from continuing operations, net of tax	8,271	17,006
Group's share of profit from continuing operations, net of tax	1,896	3,898
Other comprehensive income, net of tax	(6,597)	14,989
Group's share of other comprehensive income from continuing operations, net of tax	(1,512)	3,436
Share of results of equity accounted investee recognised in Income Statement and Statement of Profit or Loss and Other Comprehensive Income	384	7,334

38.2 (b) Summarised Statement of Financial Position

As at December 31,	Equity Investments Lanka Ltd.	
	2021	2020
	Rs. '000	Rs. '000
Non-current assets	**231,839**	338,604
Current assets	**157,072**	167,505
Non-current liabilities	**(2,042)**	(2,197)
Current liabilities	**(123,220)**	(224,002)
Net assets	**263,649**	279,910
Group's share of net assets	**60,428**	64,155
Acquisition of the control of the associate	**–**	–
Carrying amount of interest in associate	**60,428**	64,155

The Group recognises the share of net assets of the associate under the Equity Method to arrive at the Directors' valuation.

The maturity analysis of Investment in associate is given in Note 61 on pages 298 and 299.

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 – 2021

	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 2021 Rs. '000**	Total 2020 Rs. '000
Cost/valuation												
Balance as at January 1,			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
Additions/transfers during the year			902	92,282	–	463,458	41,985	385,486	50,186	1,153,755	2,188,054	1,948,928
Transfer of accumulated depreciation on assets revalued			–	–	–	–	–	–	–	–	–	(629,302)
Surplus on revaluation of property			–	–	–	–	–	–	–	–	–	3,684,535
Revaluation loss in excess of cumulative reserve	21	231	–	–	–	–	–	–	–	–	–	(39,872)
Disposals during the year			–	–	–	(66,450)	(50,882)	(127,557)	–	–	(244,889)	(186,877)
Exchange rate variance			–	–	–	14,576	6,537	29,845	–	93,369	144,327	84,726
Transfers/adjustments			–	555,672	–	747	–	(3,471)	(555,672)	–	(2,724)	(900)
Balance as at December 31,			9,387,336	6,680,805	1,179,686	7,344,119	548,928	7,451,982	69,719	8,416,150	41,078,725	38,993,957
Accumulated depreciation and impairment losses												
Balance as at January 1,			–	1,966	22,163	5,223,064	395,048	5,693,271	–	2,271,815	13,607,327	11,608,061
Charge for the year	20	230	–	260,704	36,673	686,340	63,104	615,146	–	1,241,441	2,903,408	2,791,740
Impairment loss			–	–	–	–	–	–	–	–	–	-
Transfer of accumulated depreciation on assets revalued			–	–	–	–	–	–	–	–	–	(629,302)
Disposals during the year			–	–	–	(61,831)	(32,644)	(122,529)	–	–	(217,004)	(183,796)
Exchange rate variance			–	–	–	9,818	4,936	25,687	–	–	40,441	20,624
Transfers/adjustments			–	–	–	142	–	(223)	–	–	(81)	-
Balance as at December 31,			–	262,670	58,836	5,857,533	430,444	6,211,352	–	3,513,256	16,334,091	13,607,327
Net book value as at December 31, 2021			9,387,336	6,418,135	1,120,850	1,486,586	118,484	1,240,630	69,719	4,902,894	24,744,634	-
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

39.2 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			–	–	–	–	–	–	–	–	–	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	231	(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			–	–	–	–	–	–	–	–	–	89,709
Charge for the year	20	230	–	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

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,	2021			2020		
	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	1,122,440	–	1,122,440	1,121,538	–	1,121,538
Freehold buildings	2,503,836	602,173	1,901,663	1,855,883	539,333	1,316,550
Leasehold buildings	341,196	290,875	50,321	341,196	312,540	28,656
Total	3,967,472	893,048	3,074,424	3,318,617	851,873	2,466,744

39.3 Bank – 2021

	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 2021 Rs. '000**	Total 2020 Rs. '000
Cost/valuation												
Balance as at January 1,			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
Additions/transfers during the year			–	92,282	–	434,054	5,054	362,567	28,666	1,770,376	2,692,999	1,841,478
Transfer of accumulated depreciation on assets revalued			–	–	–	–	–	–	–	–	–	(494,319)
Surplus on revaluation of property			–	–	–	–	–	–	–	–	–	3,585,430
Revaluation loss in excess of cumulative reserve	21	231	–	–	–	–	–	–	–	–	–	(39,872)
Disposals during the year			–	–	–	(66,237)	(9,608)	(124,145)	–	–	(199,990)	(164,956)
Exchange rate variance			–	–	–	15,032	6,470	28,160	–	79,552	129,214	69,491
Transfers/adjustments			–	555,672	–	747	–	(3,471)	(555,672)	–	(2,724)	(900)
Balance as at December 31,			8,774,704	6,489,618	100,037	7,210,989	207,085	7,211,576	43,378	9,092,739	39,130,126	36,510,627
Accumulated Depreciation and Impairment Losses												
Balance as at January 1,			–	–	22,163	5,159,339	164,881	5,540,550	–	2,411,300	13,298,233	11,207,072
Charge for the year	20	230	–	255,340	2,934	669,772	17,994	582,083	–	1,381,543	2,909,666	2,731,440
Impairment loss			–	–	–	–	–	–	–	–	–	–
Transfer of accumulated depreciation on assets revalued			–	–	–	–	–	–	–	–	–	(494,319)
Disposals during the year			–	–	–	(61,738)	(9,608)	(119,473)	–	–	(190,819)	(163,053)
Exchange rate variance			–	–	–	9,969	4,934	22,757	–	–	37,660	17,093
Transfers/adjustments			–	–	–	142	–	(223)	–	–	(81)	–
Balance as at December 31,			–	255,340	25,097	5,777,484	178,201	6,025,694	–	3,792,843	16,054,659	13,298,233
Net book value as at December 31, 2021			8,774,704	6,234,278	74,940	1,433,505	28,884	1,185,882	43,378	5,299,896	23,075,467	-
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

39.4 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)	–
Surplus on revaluation of property			1,559,250	2,026,180	–	–	–	–	–	–	3,585,430	–
Revaluation loss in excess of cumulative reserve	21	231	(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

	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
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	230	–	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

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,	**2021**			2020		
	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	2,448,315	588,536	1,859,779	1,800,362	527,085	1,273,277
Leasehold buildings	98,138	74,237	23,901	98,138	69,482	28,656
Total	3,505,025	662,773	2,842,252	2,857,072	596,567	2,260,505

The maturity analysis of Property, plant and equipment is given in Note 61 on pages 298 and 299.

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	1,195,000	988,300
Holiday Bungalow – Bandarawela, Ambatenne Estate, Bandarawela	1	423	5,649	90,800	18,600	108,591	87,060
Holiday Bungalow – Haputale, No. 23, Lilly Avenue, Welimada Road, Haputale	1	258	5,662	51,400	24,400	74,580	59,305
Branch Buildings							
Battaramulla – No. 213, Kaduwela Road, Battaramulla	1	14	11,216	52,500	87,375	135,506	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	488,455	386,080
Chilaw – No. 44, Colombo Road, Chilaw	1	35	9,420	114,693	37,708	151,457	130,965
City Office – No. 98, York Street, Colombo 01	1	–	24,599	–	600,000	573,913	38,687
Duplication Road – Nos. 405, 407, R A De Mel Mawatha, Colombo 03	1	20	4,194	370,000	30,000	396,263	227,332

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
Galewela – No. 49/57, Matale Road, Galewela	1	99	5,632	39,600	16,900	56,077	46,337
Galle Main Street – No. 130, Main Street, Galle	1	7	3,675	60,750	9,600	69,893	62,006
Galle Fort – No. 22, Church Street, Fort, Galle	1	100	11,625	262,015	98,185	357,745	438,477
Gampaha – No. 51, Queen Mary's Road, Gampaha	1	33	4,775	105,280	10,720	115,407	83,866
Hikkaduwa – No. 217, Galle Road, Hikkaduwa	1	37	7,518	43,470	29,680	72,193	60,999
Ja-Ela – No. 140, Negombo Road, Ja-Ela	1	13	7,468	43,000	30,000	72,063	56,771
Jaffna – No. 474, Hospital Road, Jaffna	1	78	52,035	429,825	–	908,720	1,000,000
Kandy – No. 120, Kotugodella Veediya, Kandy	1	45	44,500	521,000	272,000	783,286	625,107
Karapitiya – No. 89, Hirimbura Cross Road, Karapitiya	1	38	3,627	73,720	19,180	92,421	103,454
Kegalle – No. 186, Main Street, Kegalle	1	85	2,650	172,500	7,200	179,412	163,036
Keyzer Street – No. 32, Keyzer Street, Colombo 11	1	7	6,100	109,000	23,000	131,303	104,054
Kollupitiya – No. 285, Galle Road, Colombo 03	1	17	16,254	299,000	65,500	361,523	284,840
Kotahena – No. 198, George R De Silva Mawatha, Kotahena, Colombo 13	1	28	26,722	279,000	190,000	464,250	391,250
Kurunegala – No. 4, Suratissa Mawatha, Kurunegala	1	50	10,096	257,390	42,610	298,935	276,760
Maharagama – No. 154, High Level Road, Maharagama	1	18	8,440	133,000	67,000	196,955	134,360
Matale – No. 70, King Street, Matale	1	51	8,596	201,000	65,000	263,833	180,771
Matara – No. 18, Station Road, Matara	1	38	8,137	69,465	30,835	99,336	86,384
Minuwangoda – No. 9, Siriwardena Mawatha, Minuwangoda	1	25	5,550	71,250	14,985	85,611	71,984
Narahenpita – No. 201, Kirula Road, Narahenpita, Colombo 05	1	22	11,193	263,000	137,000	393,773	268,857
Narammala – No. 55, Negombo Road, Narammala	1	41	5,353	71,871	20,624	91,984	80,021
Negombo – Nos. 24, 26, Fernando Avenue, Negombo	1	37	11,360	167,000	39,000	204,227	167,680
Nugegoda – No. 100, Stanley Thilakaratne Mawatha, Nugegoda	1	39	11,150	485,000	115,000	594,773	202,800
Nuwara Eliya – No. 36/3, Buddha Jayanthi Mawatha, Nuwara Eliya	1	42	10,184	187,000	76,800	261,240	192,823
Panadura – No. 375, Galle Road, Panadura	1	12	6,168	30,750	40,092	68,837	72,940
Peliyagoda Stores – No. 37, New Nuge Road, Peliyagoda	1	–	14,676	–	116,000	110,200	7,737
Pettah – People's Park Shopping Complex, Colombo 11	1	–	3,147	–	80,000	76,364	58,960
Pettah-Stores – People's Park Shopping Complex, Colombo 11	1	–	225	–	6,670	6,319	4,750
Pettah – Main Street – No. 280, Main Street, Pettah, Colombo 11	1	20	22,760	530,000	320,000	835,472	531,132
Trincomalee – No. 420, Courts Road, Trincomalee	1	100	11,031	125,425	–	281,068	100,000
Union Place – No. 1, Union Place, Colombo 02	1	30	63,385	720,000	1,480,000	2,135,652	1,383,072
Wellawatte – No. 343, Galle Road, Colombo 06	1	45	51,225	818,000	1,282,000	2,052,604	1,643,410
Wennappuwa – Nos. 262, 264, Colombo Road, Wennappuwa	1	36	9,226	81,000	34,000	113,741	81,793
Total – Bank	40			8,774,704	5,841,664	15,008,982	11,070,810
Subsidiaries							
Commercial Development Company PLC							
Tangalle – No. 148, Matara Road,Tangalle	1	49	4,257	80,000	27,000	107,159	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	404,955	392,251
CBC Finance Limited.							
Kandy – No. 182, Katugastota Road, Kandy	1	3	3,714	18,100	26,900	43,572	39,768
Kandy – No. 187, Katugastota Road, Kandy	1	12	9,480	65,630	85,320	147,803	133,317
Total – Group	45			9,386,434	6,032,851	15,805,471	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.						
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						
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%						

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
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%						
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. 420, Courts Road, Trincomalee	Market comparable method		100,000	–	125,425	–	25,425	–
	• Price per perch for land	Rs. 1,250,000 p.p.						

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
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.						
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%						

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
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%						
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.						

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
Commercial Insurance Brokers (Private) Limited								
G J Sumanasena	Market comparable method		337,000	55,251	355,000	51,967	18,000	(3,284)
Colombo No. 347, Dr. Colvin R De Silva Mawatha, Colombo 02	● 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 characterised by the real estate market.	Gross Annual Rentals Years purchase (Present value of 1 unit per period) Void period	Estimated fair value would increase/(decrease) if; Gross Annual Rentals would increase/(decrease) Years purchase would increase/(decrease) Void period would decrease/(increase)

39.6 Title restriction on property, plant and equipment

There were no restrictions existed on the title of the property, plant and equipment of the Group/Bank as at the reporting date.

39.7 Property, plant and equipment pledged as security for liabilities – Bank

There were no items of property, plant and equipment pledged as securities for liabilities as at the reporting date.

39.8 Compensation from third parties for items of property, plant and equipment – Bank

The compensation received/receivable from third parties for items of property, plant and equipment that were impaired, lost or given up at the reporting date of the Bank is as follows:

As at December 31,	2021 Rs. '000	2020 Rs. '000
Total claims lodged	9,157	9,510
Total claims received	(7,364)	(4,775)
Total claims rejected	(45)	–
Total claims receivable	1,748	4,735

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,	2021 Rs. '000	2020 Rs. '000
Computer equipment	2,693,950	2,348,509
Office equipment, furniture and fixtures	3,640,247	2,983,424
Motor vehicles	65,005	58,828

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,	2021 Rs. '000	2020 Rs. '000
Computer equipment	86,011	160,704
Office equipment, furniture and fixtures	88,034	116,135

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,		2021 Rs. '000	2020 Rs. '000
Computer equipment	Cost	477,722	417,123
	Depreciation	469,614	400,671
	NBV	8,108	16,452
Office equipment, furniture and fixtures	Cost	178,389	182,898
	Depreciation	173,429	173,354
	NBV	4,960	9,544

39.12 Borrowing costs

There were no capitalised borrowing costs related to the acquisition of property, plant and equipment during the year 2021 (2020 – 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.

	Note	Page No.	GROUP 2021 Rs. '000	GROUP 2020 Rs. '000	BANK 2021 Rs. '000	BANK 2020 Rs. '000
Cost/Valuation						
Balance as at January 1,			67,116	46,350	–	–
Additions resulting from acquisitions			–	32,821	–	–
Subsequent additions during the year			–	41	–	–
Fair value gains/(losses)	17 & 21	226 & 231	5,284	(12,096)	–	–
Balance as at December 31,			72,400	67,116	–	–

The maturity analysis of investment properties is given in Note 61 on pages 298 and 299.
There were no capitalised borrowing cost related to the acquisition of Investment properties during the year 2021 (2020 – 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	–	47,250	–	42,750
C B C Finance Ltd							
Lot – 04, Plan No. 1652, Bulumulla, Kiribathkumbura	–	19	Bare Land	5,800	–	5,612	–
Lot – 01, Plan No 1366, Boyagama, Pilimathalawa	–	312	Bare Land	19,350	–	18,754	–
Total	1			25,150	47,250	24,366	42,750

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, 2021

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 – Land (Rs. '000)	Carrying value of the investment property before fair valuation – Building (Rs. '000)	Fair value of the investment property – Land (Rs. '000)	Fair value of the investment property – Building (Rs. '000)	Fair value gains/(losses) recognised in Income Statement – Land (Rs. '000)	Fair value gains/(losses) recognised in Income Statement – 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%	–	42,750	-	47,250	–	4,500

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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)
C B C Finance Ltd								
K M U Dissanayake Lot – 04, Plan No. 1652, Bulumulla, Kiribathkumbura	Market comparable method ● Price per perch	Rs. 310,000 p.p	5,612	–	5,800	–	188	–
Lot – 01, Plan No. 1366, Boyagama, Pilimathalawa	Market comparable method ● Price per perch	Rs. 62,000 p.p.	18,754	–	19,350	–	596	–
Total			24,366	42,750	25,150	47,250	784	4,500

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.		Estimated fair value would increase/(decrease) if;
	Price per perch for land	Price per perch of land would increase/(decrease)
	Price per square foot for building	Price per square foot for building would increase/(decrease)
	Depreciation rate for building	Depreciation rate for building would (decrease)/increase

41. Intangible assets

ACCOUNTING POLICY

The Group's intangible assets include the value of acquired goodwill, trademarks and computer software.

Basis of recognition

An intangible asset is recognised if it is probable that future economic benefits associated with the asset will flow to the entity and the cost of the asset can be measured reliably in accordance with the Sri Lanka Accounting Standard – LKAS 38 on "Intangible Assets".

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, these assets are stated in the Statement of Financial Position at cost, less accumulated amortisation and accumulated impairment losses, if any.

Subsequent expenditure

Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Useful economic lives, amortisation and impairment

The useful economic lives of intangible assets are assessed to be either finite or indefinite. Useful economic lives, amortisation and impairment of finite and indefinite intangible assets are described below:

- **Intangible assets with finite lives and amortisation**

Intangible assets with finite lives are amortised over the useful economic lives. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates, which require prospective application.

The amortisation expense on intangible assets with finite lives is expensed as incurred.

- **Goodwill**

Goodwill that arises on the acquisition of subsidiaries is presented with intangible assets. Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed.

Subsequent to initial recognition, goodwill is measured at cost less accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

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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.	2021 Rs. '000	2020 Rs. '000	2021 Rs. '000	2020 Rs. '000
Computer software	41.1	271	913,139	773,768	818,839	659,590
Software under development	41.2	272	914,353	581,601	906,025	573,273
Goodwill arising on business combination			445,147	445,147	–	–
Total			2,272,639	1,800,516	1,724,864	1,232,863

41.1 Computer software

			GROUP		BANK	
	Note	Page No.	2021 Rs. '000	2020 Rs. '000	2021 Rs. '000	2020 Rs. '000
Cost/valuation						
Balance as at January 1,			2,789,928	2,522,952	2,500,261	2,293,819
Additions during the year			361,616	229,494	319,209	178,763
Disposals/write-off during the year			(41,845)	(280)	(758)	–
Exchange rate variance			16,162	13,062	9,146	2,979
Transfers/adjustments			98,711	24,700	98,711	24,700
Balance as at December 31,			3,224,572	2,789,928	2,926,569	2,500,261
Accumulated amortisation and impairment losses						
Balance as at January 1,			2,016,160	1,698,136	1,840,671	1,581,223
Amortisation for the year	20	230	316,658	310,946	268,962	257,591
Impairment loss			–	–	–	–
Disposals/write-off during the year			(24,321)	(280)	(758)	–
Exchange rate variance			8,486	7,358	4,405	1,857
Transfers/adjustments			(5,550)	–	(5,550)	–
Balance as at December 31,			2,311,433	2,016,160	2,107,730	1,840,671
Net book value as at December 31,			913,139	773,768	818,839	659,590

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41.2 Software under development

	GROUP		BANK	
	2021 Rs. '000	2020 Rs. '000	2021 Rs. '000	2020 Rs. '000
Cost/valuation				
Balance as at January 1,	581,601	375,742	573,273	367,414
Additions during the year	448,838	230,559	448,838	230,559
Disposals during the year	–	–	–	–
Transfers/adjustments	(116,086)	(24,700)	(116,086)	(24,700)
Balance as at December 31,	914,353	581,601	906,025	573,273

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 2021 (2020 – Nil).

The maturity analysis of intangible assets is given in Note 61 on pages 298 and 299.

42. Deferred tax assets and liabilities

ACCOUNTING POLICY

There is no legally enforceable right to set off Deferred Tax assets against the Deferred Tax liabilities if it does not relates to the same taxable entity or the same taxation authority.

	GROUP		BANK	
As at December 31,	2021 Rs. '000	2020 Rs. '000	2021 Rs. '000	2020 Rs. '000
Recognised under deferred tax assets	10,036,105	2,735,566	9,793,129	2,499,860
Recognised under deferred tax liabilities	349,106	403,846	–	–
Summary of net deferred tax assets	9,686,999	2,331,720	9,793,129	2,499,860

42.1 Summary of net deferred tax assets

			GROUP				BANK			
			2021		2020		2021		2020	
	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,			7,948,348	2,331,720	72,398	113,707	8,538,501	2,499,860	689,757	294,059
Amount reversing/(originating) to Income Statement	23	232	17,836,261	2,853,644	9,367,632	2,623,679	17,703,307	2,846,274	9,347,208	2,615,567
Amount reversing/(originating) to Statement of Profit or Loss and Other Comprehensive Income			14,565,275	4,555,403	(1,344,489)	(376,457)	14,558,421	4,501,101	(1,351,271)	(378,356)
Amount reversing/(originating) to Retained Earnings on expired ESOP			(321,300)	(77,112)	(147,193)	(41,214)	(321,300)	(77,112)	(147,193)	(41,214)
Exchange rate variance			–	23,344	–	12,005	–	23,006	–	9,804
Balance as at December 31,			40,028,584	9,686,999	7,948,348	2,331,720	40,478,929	9,793,129	8,538,501	2,499,860

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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	
	2021	2020	**2021**	2020	**2021**	2020
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000	**Rs. '000**	Rs. '000
Deferred tax assets on:						
Post employment benefit obligation	513,663	936,268	(400,240)	(56,059)	(22,365)	65,846
Unrealised losses on financial assets measured at fair value through other comprehensive income	3,839,657	366,456	(537,472)	–	4,010,673	542,394
Provision for loan losses	9,432,483	6,610,157	2,822,326	2,402,886	–	–
Right-of-use assets	116,586	90,735	25,851	40,100	–	–
Equity-settled Share-based payments	36,127	121,381	(8,142)	31,417	–	–
Hedging Reserve	17,792	39,865	–	–	(22,073)	24,942
Brought forward losses	3,496	–	3,496	(28,089)	–	–
Short-term employment benefit obligation	8,865	8,533	332	2,738	–	–
	13,968,669	8,173,395	1,906,151	2,392,993	3,966,235	633,182
Deferred tax liabilities on:						
Accelerated depreciation for tax purposes – Property, plant and equipment	392,061	556,292	164,231	43,877	–	–
Accelerated depreciation for tax purposes – Leased assets	589,254	1,378,413	789,159	161,274	–	–
Revaluation surplus on freehold buildings	1,397,191	1,686,611	17,447	37,963	271,973	(562,453)
Revaluation surplus on freehold land	1,903,164	2,220,359	–	–	317,195	(447,609)
Effect of Exchange rate variance	–	–	(23,344)	(12,428)	–	423
	4,281,670	5,841,675	947,493	230,686	589,168	(1,009,639)
Deferred tax effect on profit or loss and other comprehensive income for the year			2,853,644	2,623,679	4,555,403	(376,457)
Net deferred tax asset as at December 31,	9,686,999	2,331,720				

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	
	2021	2020	**2021**	2020	**2021**	2020
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000	**Rs. '000**	Rs. '000
Deferred tax assets on:						
Post employment benefit obligation	489,646	901,842	(391,698)	(62,426)	(20,498)	64,207
Unrealised losses on financial assets measured at fair value through other comprehensive income	3,839,200	366,288	(538,021)	–	4,010,933	542,643
Provision for loan losses	9,139,841	6,272,520	2,867,321	2,394,688	–	–
Right-of-use assets	115,378	89,134	26,244	42,438	–	–
Equity-settled Share-based payments	36,127	121,381	(8,142)	31,417	–	–
Hedging Reserve	17,792	39,865	–	–	(22,073)	24,942
	13,637,984	7,791,030	1,955,704	2,406,117	3,968,362	631,792

For the year ended/as at December 31,	Statement of financial position		Profit or loss		Other comprehensive income	
	2021	2020	**2021**	2020	**2021**	2020
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000	**Rs. '000**	Rs. '000
Deferred tax liabilities on:						
Accelerated depreciation for tax purposes – Property, plant and equipment	327,780	474,636	146,856	51,450	–	–
Accelerated depreciation for tax purposes – Leased assets	555,663	1,305,075	749,412	130,329	–	–
Revaluation surplus on freehold buildings	1,080,751	1,317,355	17,308	37,898	219,296	(572,622)
Revaluation surplus on freehold land	1,880,661	2,194,104	–	–	313,443	(437,949)
Effect of Exchange rate variance	–	–	(23,006)	(10,227)	–	423
	3,844,855	5,291,170	890,570	209,450	532,739	(1,010,148)
Deferred tax effect on profit or loss and other comprehensive income for the year			2,846,274	2,615,567	4,501,101	(378,356)
Net deferred tax asset as at December 31,	9,793,129	2,499,860				

The maturity analysis of deferred tax assets given in Note 61 on pages 298 and 299.

43. Other assets

As at December 31,	GROUP		BANK	
	2021	2020	**2021**	2020
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
Deposits and prepayments	1,444,557	1,298,651	1,413,803	1,275,498
Reimbursement under special senior citizen deposit scheme	6,913,583	2,982,737	6,913,583	2,982,737
Reimbursement under special deposit account scheme	73,114	16,357	73,114	16,357
Reimbursement under additional incentive scheme on inward workers' remittances	1,902,852	–	1,902,852	–
Reimbursement under incentives for general public on foreign currency held in hand	3,145	–	3,145	–
Clearing account balance	5,789,230	5,001,397	5,789,230	5,001,397
Unamortised cost on staff loans (Day 1 difference)	5,133,446	4,965,361	5,133,446	4,965,361
Other accounts	5,823,250	5,930,650	5,795,302	5,377,799
Total	27,083,177	20,195,153	27,024,475	19,619,149

The maturity analysis of other assets is given in Note 61 on pages 298 and 299.

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	
	2021	2020	**2021**	2020
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
Borrowings	72,585,648	85,263,031	72,561,873	84,466,281
Local currency borrowings	193,865	913,719	–	–
Foreign currency borrowings	72,391,783	84,349,312	72,561,873	84,466,281
Securities sold under repurchase (Repo) agreements (*)	1,215,547	2,985,025	1,215,547	2,985,025
Total	73,801,195	88,248,056	73,777,420	87,451,306

(*) 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 298 and 299.

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,			**2021**	2020	**2021**	2020
	Note	Page No.	**Rs. '000**	Rs. '000	**Rs. '000**	Rs. '000
Derivative financial liabilities – Held for trading						
Foreign currency derivatives			1,962,883	1,358,886	1,962,883	1,358,886
Currency swaps			1,698,238	1,132,513	1,698,238	1,132,513
Forward contracts			258,788	216,709	258,788	216,709
Spot contracts			5,473	5,016	5,473	5,016
Currency options			384	4,648	384	4,648
Derivative financial liabilities – Cash flow hedges held for risk management						
Interest rate swaps - USD	45.1	275	74,135	142,376	74,135	142,376
Interest rate swaps - LKR			55,180	–	55,180	–
Total			2,092,198	1,501,262	2,092,198	1,501,262

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, gain (net of tax) of Rs. 46.169 Mn., (2020 – loss (net of tax) of Rs. 64.139 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 298 and 299.

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,	**2021**	2020	**2021**	2020
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
Local currency deposits	1,063,816,968	967,297,104	1,059,847,557	964,759,360
Current account balances	84,663,624	61,440,763	84,663,969	61,441,113
Savings deposits	430,411,206	345,520,769	430,571,124	345,795,367
Time deposits	548,717,236	560,306,283	544,587,562	557,493,591
Certificates of deposit	24,902	29,289	24,902	29,289
Foreign currency deposits	408,823,488	319,319,295	383,245,896	301,206,558
Current account balances	66,784,343	47,108,754	56,116,885	39,808,968
Savings deposits	124,954,064	97,540,150	118,933,105	93,773,096
Time deposits	217,085,081	174,670,391	208,195,906	167,624,494
Total	1,472,640,456	1,286,616,399	1,443,093,453	1,265,965,918

46.1 Analysis of due to customers/deposits from customers

As at December 31,	GROUP 2021 Rs. '000	GROUP 2020 Rs. '000	BANK 2021 Rs. '000	BANK 2020 Rs. '000
(a) By product				
Current account balances	151,447,967	108,549,517	140,780,854	101,250,081
Savings deposits	555,365,270	443,060,919	549,504,229	439,568,463
Time deposits	765,802,317	734,976,674	752,783,468	725,118,085
Certificates of deposit	24,902	29,289	24,902	29,289
Total	1,472,640,456	1,286,616,399	1,443,093,453	1,265,965,918
(b) By currency				
Sri Lankan Rupee	1,063,799,085	967,296,908	1,059,829,674	964,759,164
United States Dollar	249,019,760	188,476,649	234,573,692	177,515,480
Great Britain Pound	10,899,892	11,506,592	10,896,505	11,503,421
Euro	9,627,165	10,354,089	9,556,336	10,270,310
Australian Dollar	6,520,439	6,719,107	6,520,439	6,719,107
Bangladesh Taka	119,743,557	93,574,613	119,743,557	93,574,613
Maldivian Rufiyaa	11,029,795	7,037,885	–	–
Other currencies	2,000,763	1,650,556	1,973,250	1,623,823
Total	1,472,640,456	1,286,616,399	1,443,093,453	1,265,965,918
(c) By institution/customers				
Deposits from banks	9,496,875	2,740,854	9,800,433	2,837,563
Deposits from finance companies	4,503,781	7,924,439	4,474,719	7,664,420
Deposits from other customers	1,458,639,800	1,275,951,106	1,428,818,301	1,255,463,935
Total	1,472,640,456	1,286,616,399	1,443,093,453	1,265,965,918

The maturity analysis of financial liabilities at amortised cost – Due to depositors is given in Note 61 on pages 298 and 299.

47. Financial liabilities at amortised cost – Other borrowings

As at December 31,	GROUP 2021 Rs. '000	GROUP 2020 Rs. '000	BANK 2021 Rs. '000	BANK 2020 Rs. '000
Refinance borrowings	23,654,334	33,159,015	23,654,334	33,159,015
Borrowings from International Finance Corporation (IFC)	8,932,717	21,396,918	8,932,717	21,396,918
Total	32,587,051	54,555,933	32,587,051	54,555,933

The maturity analysis of financial liabilities at amortised cost – Other borrowings is given in Note 61 on pages 298 and 299.

48. Current tax liabilities

	Note	Page No.	GROUP 2021 Rs. '000	GROUP 2020 Rs. '000	BANK 2021 Rs. '000	BANK 2020 Rs. '000
Balance as at January 1,			6,991,005	5,197,188	6,777,992	4,967,644
Provision for the year			12,998,493	10,178,040	12,661,181	9,866,955
Reversal of (over)/under provision	23	232	(1,477,813)	(121,298)	(1,419,755)	(113,565)
Self-assessment payments			(8,963,620)	(7,748,870)	(8,660,823)	(7,428,411)
Withholding tax/other credits			(139,143)	(585,419)	(139,110)	(580,871)
Exchange rate variance			77,850	71,364	74,695	66,240
Balance as at December 31,			9,486,772	6,991,005	9,294,180	6,777,992

The maturity analysis of current tax liabilities is given in Note 61 on pages 298 and 299.

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49. Other liabilities

ACCOUNTING POLICY

Other liabilities include provisions made on fees and expenses, gratuity/pensions, leave encashment, lease liability, 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 2021 Rs. '000	GROUP 2020 Rs. '000	BANK 2021 Rs. '000	BANK 2020 Rs. '000
Accrued expenditure			3,626,452	3,076,619	3,559,798	3,003,243
Cheques sent on clearing			5,789,230	5,001,397	5,789,230	5,001,397
Lease liability	49.1	277	5,339,877	4,987,197	5,751,209	4,939,273
Provision for gratuity payable	49.2 (b)	278	984,392	1,842,918	866,986	1,719,971
Provision for unfunded pension scheme	49.3 (b)	279	235,116	280,530	235,116	280,530
Provision for leave encashment	49.4 (b)	280	938,088	926,686	938,088	926,686
Payable on oil hedging transactions			324,368	1,160,141	324,368	1,160,141
Impairment provision in respect of off-balance sheet credit exposures	58.3 (a) & 58.3 (b)	296	5,365,567	2,120,258	5,356,900	2,116,849
Other payables			10,650,428	14,176,537	10,389,188	13,889,579
Total			33,253,518	33,572,283	33,210,883	33,037,669

The maturity analysis of other liabilities is given in Note 61 on pages 298 and 299.

49.1 Lease liability

	Note	Page No.	GROUP 2021 Rs. '000	GROUP 2020 Rs. '000	BANK 2021 Rs. '000	BANK 2020 Rs. '000
Balance as at January 1,			4,987,197	5,055,939	4,939,273	5,146,689
Additions during the year			871,554	551,253	1,492,250	496,145
Accretion of interest	13.2	223	451,619	435,754	490,418	452,304
Payments			(1,088,502)	(1,116,209)	(1,270,788)	(1,208,181)
Exchange rate variance			118,009	60,460	100,056	52,316
Balance as at December 31,			5,339,877	4,987,197	5,751,209	4,939,273

The maturity analysis of lease liability is given in Note 61 on pages 298 and 299.

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 Group and the Bank as at December 31, 2021.

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	(161,493)	40,239	(155,908)	37,721
1% decrease in incremental borrowing rate	170,451	(43,219)	164,649	(40,478)

49.1 (b) Undiscounted cash flow

The following table illustrates the maturity analysis of the lease liability on the basis of undiscounted cash flows.

As at December 31,	BANK 2021 Rs. '000	BANK 2020 Rs. '000
Less than one year	1,370,034	1,191,223
Between one to five years	4,729,864	3,968,076
Over five years	1,377,251	1,588,791
Total	7,477,149	6,748,090

49.2 Provision for gratuity payable

An actuarial valuation of the retirement gratuity payable was carried out as at December 31, 2021 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. Staff turnover rates used in this valuation have been determined based on the staff turnover statistics of the Bangladesh Operations of the Bank.
	Normal retirement age	57 Years
	Weighted average duration of defined benefit obligation	13 Years
Financial	Rate of discount	**Bangladesh operation** In the absence of long term high quality corporate bonds or government bonds with the term that matches liabilities a long term interest rate of 8.00% p.a. (2020 – 7.00% p.a.) has been used to discount future liabilities considering anticipated long term rate of inflation.
	Salary increases	**Bangladesh operation** A salary increment of 9.00% p.a. (2020 – 9.00% p.a.) has been used in respect of the active employees.

49.2 (b) Movement in the provision for gratuity payable (*)

			GROUP		BANK	
			2021	2020	**2021**	2020
	Note	Page No.	**Rs. '000**	Rs. '000	**Rs. '000**	Rs. '000
Balance as at January 1,			1,842,918	2,114,432	1,719,971	2,020,984
Expense recognised in the Income Statement	49.2 (c)	278	59,467	207,998	49,474	183,807
Exchange rate variance			29,179	10,758	29,179	10,758
Amount paid during the year			(950,581)	(489,137)	(941,807)	(486,518)
Actuarial (gains)/losses recognised in other comprehensive income			3,409	(1,133)	10,169	(9,060)
Balance as at December 31,			**984,392**	1,842,918	**866,986**	1,719,971

(*) The Bank converted the gratuity liability of its Sri Lankan Operations which was a DBP into a DCPF during the year 2020. Please refer Note 7.8.2.4 on page 217 Similarly, the gratuity liability of the Bangladesh Operations of the Bank transferred in to separate fund namely "Bangladesh Employees' Gratuity Fund" which is independently administered by a Board of Trustees, who shall be appointed by the Bank, during the year 2021. Please refer Note 49.5.3 on page 283.

49.2 (c) Expense recognised in the Income Statement – Gratuity

	GROUP		BANK	
For the year ended December 31,	**2021**	2020	**2021**	2020
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
Interest cost	30,094	153,018	21,252	143,141
Current service cost	39,487	54,980	28,222	40,666
Past service cost	(10,114)	–	–	–
Total	**59,467**	207,998	**49,474**	183,807

49.2 (d) Sensitivity analysis on actuarial valuation – Gratuity

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, 2021.

	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	(10,770)	–
1% decrease in discount rate	10,345	–
1% increase in salary	10,570	–
1% decrease in salary	(11,183)	–

49.3 Provision for unfunded pension scheme

An actuarial valuation of the unfunded pension liability was carried out as at December 31, 2021 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 staff turnover 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. Staff turnover rates used in this valuation have been determined based on the staff turnover statistics of the Bank.
	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. Disability rates used in this valuation : 10.00% of Mortality table.
	Normal retirement age	55 to 60 years as opted by employees.
Financial	Rate of discount	In the absence of a deep market in long term bonds in Sri Lanka, a long term interest rate of 11.00% p.a. (2020 - 8.00% p.a.) has been used to discount future liabilities considering anticipated long term rate of inflation.
	Salary increases	A salary increment of 10.00% p.a. (2020 - 8.00% 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 of increase was assumed for this valuation.

49.3 (b) Movement in the provision for unfunded pension scheme

			GROUP		BANK	
	Note	Page No.	2021 Rs. '000	2020 Rs. '000	2021 Rs. '000	2020 Rs. '000
Balance as at January 1,			280,530	257,031	280,530	257,031
Expense recognised in the Income Statement	49.3 (c)	279	22,442	26,988	22,442	26,988
Amount paid during the year			(49,531)	(48,692)	(49,531)	(48,692)
Transfers			–	–	–	–
Actuarial (gains)/losses recognised in other comprehensive income			(18,325)	45,203	(18,325)	45,203
Balance as at December 31,			**235,116**	280,530	**235,116**	280,530

49.3 (c) Expense recognised in the Income Statement – Unfunded pension scheme

	GROUP		BANK	
For the year ended December 31,	2021 Rs. '000	2020 Rs. '000	2021 Rs. '000	2020 Rs. '000
Interest cost	22,442	26,988	22,442	26,988
Total	**22,442**	26,988	**22,442**	26,988

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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, 2021.

	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	(9,298)	(9,298)
1% decrease in discount rate	10,116	10,116
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, 2021 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	Disability rates used in this valuation : 10.00% of Mortality table.
Financial	Rate of discount	In the absence of a deep market in long term bonds in Sri Lanka, a long term interest rate of 11.00% p.a. (2020 - 8.00% p.a.) has been used to discount future liabilities considering anticipated long term rate of inflation.
	Salary increases	A salary increment of 10.00% p.a. (2020 - 8.00% 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.	2021 Rs. '000	2020 Rs. '000	2021 Rs. '000	2020 Rs. '000
Balance as at January 1,			926,686	781,362	926,686	781,362
Expense recognised in the Income Statement	49.4 (c)	280	74,135	82,043	74,135	82,043
Amount paid during the year			(116,083)	(135,277)	(116,083)	(135,277)
Actuarial (gains)/losses recognised in other comprehensive income			53,350	198,558	53,350	198,558
Balance as at December 31,			938,088	926,686	938,088	926,686

49.4 (c) Expense recognised in the Income Statement – Leave encashment

	GROUP		BANK	
For the year ended December 31,	2021 Rs. '000	2020 Rs. '000	2021 Rs. '000	2020 Rs. '000
Interest cost	74,135	82,043	74,135	82,043
Current service cost	–	–	–	–
Total	74,135	82,043	74,135	82,043

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, 2021.

	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	(111,234)	(111,234)
1% decrease in discount rate	134,157	134,157
1% increase in salary	138,405	138,405
1% decrease in salary	(116,362)	(116,362)

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, 2021 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 staff turnover 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. Staff turnover rates used in this valuation have been determined based on the staff turnover statistics of the Bank.
	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. Disability rates used in this valuation: 10.00% of Mortality table.
	Normal retirement age	55 to 60 years as opted by employees.
Financial	Rate of discount	In the absence of a deep market in long term bonds in Sri Lanka, a long term interest rate of 11.00% p.a. (2020 - 8.00% p.a.) has been used to discount future liabilities considering anticipated long term rate of inflation.
	Salary increases	A salary increment of 10.00% p.a. (2020- 8.00% 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 of increase was assumed for this valuation.

49.5.1 (b) Movement in the present value of defined benefit obligation – Bank

	2021 Rs. '000	2020 Rs. '000
Balance as at January 1,	294,685	247,761
Interest cost	23,575	26,015
Current service cost	3,174	3,913
Benefits paid during the year	(37,761)	(19,405)
Actuarial (gains)/losses	(29,271)	36,401
Balance as at December 31,	**254,402**	294,685

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49.5.1 (c) Movement in the fair value of plan assets

	2021 Rs. '000	2020 Rs. '000
Fair value as at January 1,	255,617	214,198
Expected return on plan assets	23,575	22,491
Contribution paid into plan	41,493	33,563
Benefits paid by the plan	(37,761)	(19,405)
Actuarial gains/(losses) on plan assets	(10,955)	4,770
Fair value as at December 31,	**271,969**	255,617

49.5.1 (d) Liability recognised in the Statement of Financial Position

	Note	Page No.	2021 Rs. '000	2020 Rs. '000
Present value of defined benefit obligations as at December 31,	49.5.1 (b)	281	254,402	294,685
Fair value of plan assets	49.5.1 (c)	282	(271,969)	(255,617)
Net liability recognised under other liabilities			**(17,567)**	39,068

49.5.1 (e) Plan assets consist of the following:

As at December 31,	2021 Rs. '000	2020 Rs. '000
Deposits held with the Bank	271,969	255,617
Total	**271,969**	255,617

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, 2021 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 staff turnover 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. Staff turnover rates used in this valuation have been determined based on the staff turnover statistics of the Bank.
	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. Disability rates used in this valuation : 10.00% of Mortality table.
	Normal retirement age	55 to 60 years as opted by employees.
Financial	Rate of discount	In the absence of a deep market in long term bonds in Sri Lanka, a long term interest rate of 11.00% p.a. (2020 - 8.00% p.a.) has been used to discount future liabilities considering anticipated long term rate of inflation.
	Salary increases	A salary increment of 10.00% p.a. (2020 - 8.00% 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 of increase was assumed for this valuation.

49.5.2 (b) Movement in the present value of defined benefit obligation – Bank

	2021 Rs. '000	2020 Rs. '000
Balance as at January 1,	98,216	68,860
Interest cost	7,857	7,230
Current service cost	296	450
Benefits paid during the year	(7,506)	(5,938)
Actuarial (gains)/losses	(19,155)	27,614
Balance as at December 31,	79,708	98,216

49.5.2 (c) Movement in the fair value of plan assets

	2021 Rs. '000	2020 Rs. '000
Fair value as at January 1,	75,084	56,053
Expected return on plan assets	7,857	5,886
Contribution paid into plan	23,353	12,805
Benefits paid by the plan	(7,506)	(5,938)
Actuarial gains/(losses) on plan assets	(4,017)	6,278
Fair value as at December 31,	94,771	75,084

49.5.2 (d) Liability recognised in the Statement of Financial Position

	Note	Page No.	2021 Rs. '000	2020 Rs. '000
Present value of defined benefit obligations as at December 31,	49.5.2 (b)	283	79,708	98,216
Fair value of plan assets	49.5.2 (c)	283	(94,771)	(75,084)
Net liability recognised under other liabilities			(15,063)	23,132

49.5.2 (e) Plan assets consist of the following:

As at December 31,	2021 Rs. '000	2020 Rs. '000
Deposits held with the Bank	94,771	75,084
Total	94,771	75,084

49.5.3 Gratuity Fund Bangladesh Operations – Defined Benefit Plan

An actuarial valuation of the retirement gratuity payable was carried out as at December 31, 2021 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".

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.

49.5.3 (a) Actuarial assumptions

Type of assumption	Criteria	Description
Demographic	Mortality - In service	A 1967-70 Mortality table issued by the Institute of Actuaries, London.
	Staff turnover	The 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. Staff turnover rates used in this valuation have been determined based on the staff turnover statistics of the Bangladesh Operations of the Bank.
	Normal retirement age	57 Years
	Average future working life time	13 Years
Financial	Rate of discount	In the absence of long term high quality corporate bonds or government bonds with the term that matches liabilities, a long term interest rate of 8.00% p.a. has been used to discount future liabilities considering anticipated long term rate of inflation.
	Salary increases	A salary increment of 9.00% p.a. has been used.

49.5.3 (b) Movement in the present value of defined benefit obligation – Bank

	2021 Rs. '000	2020 Rs. '000
Balance as at January 1,	–	–
Transferred	515,053	–
Interest cost	10,626	–
Current service cost	14,111	–
Benefits paid during the year	(29,750)	–
Actuarial (gains)/losses	(48,760)	–
Exchange rate variance	(4,412)	–
Balance as at December 31,	**456,868**	–

49.5.3 (c) Movement in the fair value of plan assets

	2021 Rs. '000	2020 Rs. '000
Fair value as at January 1,	–	–
Transferred	515,053	–
Expected return on plan assets	12,258	–
Contribution paid into plan	22,366	–
Benefits paid by the plan	(29,750)	–
Actuarial gains/(losses) on plan assets	(10,470)	–
Exchange rate variance	(4,873)	–
Fair value as at December 31,	**504,584**	–

49.5.3 (d) Liability recognised in the Statement of Financial Position

	Note	Page No.	2021 Rs. '000	2020 Rs. '000
Present value of defined benefit obligations as at December 31,	49.5.3 (b)	284	456,868	–
Fair value of plan assets	49.5.3 (c)	284	(504,584)	–
Net liability recognised under other liabilities			(47,716)	–

49.5.3 (e) Plan assets consist of the following:

As at December 31,	2021 Rs. '000	2020 Rs. '000
Deposits held with the Bank	504,584	–
Total	504,584	–

49.5.4 Defined Contribution Plans

49.5.4 (a) Defined Contribution Plan - Pension Fund 2006

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.

The Bank is in the process of evaluating its pension liabilities in light of the retirement age revision mandated by the "Minimum Retirement Age of Workers Act No. 28 of 2021." However, as the majority of Bank employees had already consented to retire at the age of 60, the Bank is of the view that the potential impact on the Bank's Financial Statements from the revision of the retirement age is insignificant.

49.5.4 (b) Defined Contribution Plan - Pension Fund 2020

The Bank converted its gratuity scheme of Sri Lankan operations, which was a Defined Benefit Plan (DBP), to a Define Contribution Plan (DCP) during the year 2020. Refer Note 7.8.2.4 for further details on page no 217.

50. Due to subsidiaries

	GROUP		BANK	
As at December 31,	2021 Rs. '000	2020 Rs. '000	2021 Rs. '000	2020 Rs. '000
Local subsidiaries				
Commercial Development Company PLC	–	–	21,050	31,079
CBC Tech Solutions Limited	–	–	27,649	65,936
CBC Finance Limited	–	–	–	–
Commercial Insurance Brokers (Private) Limited	–	–	–	–
Subtotal	–	–	48,699	97,015
Foreign subsidiaries				
Commex Sri Lanka S.R.L. – Italy	–	–	–	–
Commercial Bank of Maldives Private Limited	–	–	–	–
CBC Myanmar Microfinance Company Limited	–	–	–	–
Subtotal	–	–	–	–
Total	–	–	48,699	97,015

The maturity analysis of Due to subsidiaries is given in Note 61 on pages 298 and 299.

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	
			2021	2020	**2021**	2020
	Note	Page No.	**Rs. '000**	Rs. '000	**Rs. '000**	Rs. '000
Balance as at January 1,			37,204,430	36,810,680	37,204,430	36,810,680
Amount borrowed during the year (*)			8,595,470	–	8,595,470	–
Repayments/redemptions during the year			(9,502,140)	–	(9,502,140)	–
Subtotal			36,297,760	36,810,680	36,297,760	36,810,680
Exchange rate variance			975,000	393,750	975,000	393,750
Balance as at December 31, (before adjusting for amortised interest and transaction cost)	51.1	287	37,272,760	37,204,430	37,272,760	37,204,430
Unamortised transaction cost			(15,263)	(27,473)	(15,263)	(27,473)
Net effect of amortised interest payable			1,045,969	1,070,181	1,045,969	1,070,181
Adjusted balance as at December 31,			38,303,466	38,247,138	38,303,466	38,247,138

(*) The Bank announced a debenture issue in May 2021 to issue 50,000,000 Basel III compliant - Tier II, listed, rated, unsecured, subordinated redeemable debentures of Rs. 100/- each, with a non-viability conversion feature amounting to Rs. 5 Bn. with an option to issue up to a further 50,000,000 debentures amounting to Rs. 5 Bn. This debenture issue was opened for investors on September 13, 2021, and initial issue was oversubscribed on the same day. The allotment and the listing of debentures were concluded on September 21, 2021, and September 28, 2021, respectively.

The quantum of funds raised through the above Debenture Issue was utilised to achieve the following objectives as stipulated in the prospectus.

(a) Expansion of the lending portfolio.

(b) Improving the Tier II capital base thus, increasing the Capital Adequacy Ratio (CAR).

(c) Reducing maturity gaps in the assets and liabilities of the Bank.

As stated in the prospectus, the following table indicates utilisation of funds raised through the above debentures.

Objective number	Objective as per prospectus	Amount allocated as per prospectus	Proposed date of utilisation as per prospectus	Amount allocated from proceeds (A)	% of total proceeds	Amounts utilised (B)	% of utilisation against allocation (B/A)	Clarification if not fully-utilised including where the funds are invested (eg: whether lent to related party/s etc.)
1	Expansion of the lending portfolio	Rs. 8.595 Bn.	Within 6 months from date of receipt of cash flows	Rs. 8.595 Bn.	100	Rs. 8.595 Bn.	100	N/A
2	Improving the Tier II capital base thus, increasing the Capital Adequacy Ratio (CAR)		Subsequent to the allotment of Debentures					
3	Reducing maturity gaps in the assets and liabilities of the Bank		Within 6 months from date of receipt of cash flows as and when funds are disbursed for lending					

51.1 Categories of subordinated liabilities

Categories	Colombo Stock Exchange Listing	Interest payable frequency	Allotment date	Maturity date	Effective annual yield 2021 %	Effective annual yield 2020 %	GROUP 2021 Rs. '000	GROUP 2020 Rs. '000	BANK 2021 Rs. '000	BANK 2020 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
2016/2021 – 12.00% p.a.	Listed	Biannually	28.10.2016	27.10.2021	12.36	12.36	–	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
2021/2026 – 9.00% p.a.	Listed	Biannually	21.09.2021	20.09.2026	9.20	–	4,237,470	–	4,237,470	–
2021/2028 – 9.50% p.a.	Listed	Biannually	21.09.2021	20.09.2028	9.73	–	4,358,000	–	4,358,000	–
Floating rate subordinated loans										
IFC Borrowings – 6 M LIBOR + 5.75%		Biannually	13.03.2013	14.03.2023	5.907	6.005	15,000,000	14,025,000	15,000,000	14,025,000
Total							37,272,760	37,204,430	37,272,760	37,204,430

51.2 Subordinated liabilities by maturity

As at December 31,	GROUP 2021 Rs. '000	GROUP 2020 Rs. '000	BANK 2021 Rs. '000	BANK 2020 Rs. '000
Payable within one year	–	9,502,140	–	9,502,140
Payable after one year	37,272,760	27,702,290	37,272,760	27,702,290
Total	37,272,760	37,204,430	37,272,760	37,204,430

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, 2021.

The maturity analysis of subordinated liabilities is given in Note 61 on pages 298 and 299.

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.

	Note	Page No.	GROUP 2021 Rs. '000	GROUP 2020 Rs. '000	BANK 2021 Rs. '000	BANK 2020 Rs. '000
Balance as at January 1,			52,187,747	40,916,958	52,187,747	40,916,958
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 plans			40,866	–	40,866	–
Transfer from employee share option reserve	56.5	294	3,646	–	3,646	–
Issue of ordinary shares as part of the final dividend satisfied in the form of issue and allotment of new shares			2,334,698	2,055,014	2,334,698	2,055,014
Ordinary voting shares			2,198,757	1,922,505	2,198,757	1,922,505
Ordinary non-voting shares			135,941	132,509	135,941	132,509
Balance as at December 31,			54,566,957	52,187,747	54,566,957	52,187,747

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52.1 Movement in number of shares

	Number of ordinary voting shares		Number of ordinary non-voting shares	
	2021	2020	**2021**	2020
Balance as at January 1,	**1,098,934,937**	961,252,317	**67,970,701**	66,254,269
Issue of ordinary voting shares to IFC parties (Private placement)	**–**	115,197,186	**–**	–
Issue of ordinary voting shares under the employee share option plan	**474,254**	–	**–**	–
Issue of ordinary shares as part of the final dividend satisfied in the form of issue and allotment of new shares	**25,071,337**	22,485,434	**1,770,070**	1,716,432
Balance as at December 31,	**1,124,480,528**	1,098,934,937	**69,740,771**	67,970,701

The shares of Commercial Bank of Ceylon PLC are quoted on the Colombo Stock Exchange. The non-voting ordinary shares of the Bank, rank *pari passu* in respect of all rights with the ordinary voting shares of the Bank except voting rights on Resolutions passed at General Meetings.

The holders of ordinary shares are entitled to receive dividends declared from time to time and are entitled to one vote per share at General Meetings of the Bank.

The Bank has offered employee share option plans. Refer Note 53 for details on pages 288 to 291.

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)	(9,451,610)
Number of options exercised up to December 31, 2021	(992,744)	(180,133)	–
Number of options to be exercised as at December 31, 2021	–	–	–

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:

Description of the valuation input	Tranches		
	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	2021	2020	2021	2020	2021	2020
No. of voting shares vested and to be vested as at January 1,	–	–	–	4,048,728	9,451,610	9,451,610
Exercised during the year	–	–	–	–	–	–
Number of options expired	–	–	–	(4,048,728)	(9,451,610)	–
No. of voting shares vested and to be vested as at December 31,	–	–	–	–	–	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 on page 230).

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	87.39
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	206,866
Option granted to other executive officers	4,716,598	4,706,872	10,996,130
Total options vested on the date of vesting	4,805,785	4,805,882	11,202,996
Options cancelled due to non-acceptance	–	–	–
Number of options exercised up to December 31, 2021	(73,510)	(394,997)	(5,747)
Number of options to be exercised as at December 31, 2021	4,732,275	4,410,885	11,197,249

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.

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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		87.39	
Year	**2021**	2020	**2021**	2020	**2021**	2020
No. of voting shares vested and to be vested as at January 1,	4,805,785	–	4,805,882	–	–	–
Granted during the year	–	4,805,785	–	4,805,882	11,202,996	–
Exercised during the year	(73,510)	–	(394,997)	–	(5,747)	–
Number of options expired	–	–	–	–	–	–
No. of voting shares vested and to be vested as at December 31,	4,732,275	4,805,785	4,410,885	4,805,882	11,197,249	–

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 230).

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 291 to 294.

			GROUP		BANK	
As at December 31,	Note	Page No.	**2021 Rs. '000**	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000
Statutory reserve fund	54.1	291	10,590,338	9,285,233	10,204,368	9,024,065
Total			10,590,338	9,285,233	10,204,368	9,024,065

54.1 Statutory reserve fund

	GROUP		BANK	
As at December 31,	**2021 Rs. '000**	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000
Balance as at January 1,	9,285,233	8,387,701	9,024,065	8,205,391
Transfers made during the year	1,401,177	959,230	1,180,303	818,674
Statutory reserve attributable to non-controlling interest	(96,072)	(61,698)	–	–
Balance as at December 31,	10,590,338	9,285,233	10,204,368	9,024,065

The statutory reserve fund of the Bank 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 of the Bank 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 2021 Rs. '000	GROUP 2020 Rs. '000	BANK 2021 Rs. '000	BANK 2020 Rs. '000
Balance as at January 1,			8,124,261	5,182,185	7,596,260	5,144,433
Total comprehensive income			24,071,116	16,714,932	23,612,102	16,152,169
Profit for the year			24,062,469	16,939,950	23,606,051	16,373,489
Other comprehensive income, net of tax			8,647	(225,018)	6,051	(221,320)
Dividends paid			(7,587,768)	(5,137,534)	(7,587,768)	(5,137,534)
Unclaimed dividend absorbed/(dividend paid) in respect of previous years			94,070	100	93,786	(114)
Transfer of cost o/a of expired ESOP Shares (net of tax)			244,188	105,980	244,188	105,980
Transfers to other reserves			(15,055,105)	(8,747,532)	(14,930,303)	(8,668,674)
Movement due to change in ownership			–	6,130	–	–
Balance as at December 31,			9,890,762	8,124,261	9,028,265	7,596,260

56. Other reserves

56. (a) Current year – 2021

	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	293	10,504,768	579,943	11,084,711	9,662,912	532,740	10,195,652
General reserve	56.2	293	74,970,003	13,750,000	88,720,003	74,970,003	13,750,000	88,720,003
Fair value reserve	56.3	293	463,884	(12,443,197)	(11,979,313)	462,331	(12,442,506)	(11,980,175)
Foreign currency translation reserve	56.4	293	3,325,924	1,181,148	4,507,072	2,911,866	1,152,856	4,064,722
Employee share option reserve	56.5	294	433,503	(282,974)	150,529	433,503	(282,974)	150,529
Hedging reserve	56.6	294	(102,511)	46,169	(56,342)	(102,511)	46,169	(56,342)
Total			89,595,571	2,831,089	92,426,660	88,338,104	2,756,285	91,094,389

56. (b) Previous 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	293	7,837,785	2,666,983	10,504,768	7,088,054	2,574,858	9,662,912
General reserve	56.2	293	67,120,003	7,850,000	74,970,003	67,120,003	7,850,000	74,970,003
Fair value reserve	56.3	293	1,783,503	(1,319,619)	463,884	1,785,441	(1,323,110)	462,331
Foreign currency translation reserve	56.4	293	2,765,992	559,932	3,325,924	2,471,983	439,883	2,911,866
Employee share option reserve	56.5	294	468,494	(34,991)	433,503	468,494	(34,991)	433,503
Hedging reserve	56.6	294	(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

56.1 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	
	2021	2020	**2021**	2020
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
Balance as at January 1,	10,504,768	7,837,785	9,662,912	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	579,943	(1,009,733)	532,740	(1,010,572)
Movement due to change in ownership	–	4,514	–	–
Balance as at December 31,	11,084,711	10,504,768	10,195,652	9,662,912

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	
	2021	2020	**2021**	2020
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
Balance as at January 1,	74,970,003	67,120,003	74,970,003	67,120,003
Transfers during the year	13,750,000	7,850,000	13,750,000	7,850,000
Balance as at December 31,	88,720,003	74,970,003	88,720,003	74,970,003

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	
	2021	2020	**2021**	2020
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
Balance as at January 1,	463,884	1,783,503	462,331	1,785,441
Net fair value gains/(losses) on remeasuring financial assets at fair value through other comprehensive income	(12,441,685)	(1,323,055)	(12,442,506)	(1,323,110)
Share of other comprehensive income of associate	(1,512)	3,436	–	–
Balance as at December 31,	(11,979,313)	463,884	(11,980,175)	462,331

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	
	2021 Rs. '000	2020 Rs. '000	2021 Rs. '000	2020 Rs. '000
Balance as at January 1,	3,325,924	2,765,992	2,911,866	2,471,983
Net unrealised gains/(losses) arising from translating the Financial Statements of foreign operations	1,278,891	596,723	1,152,856	439,883
Foreign Currency Translation Reserve attributable to non-controlling Interest	(97,743)	(36,791)	–	–
Balance as at December 31,	4,507,072	3,325,924	4,064,722	2,911,866

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.	2021 Rs. '000	2020 Rs. '000	2021 Rs. '000	2020 Rs. '000
Balance as at January 1,			433,503	468,494	433,503	468,494
Share-based payments expense during the year	19	230	41,972	112,203	41,972	112,203
Transfers to stated capital	52	287	(3,646)	–	(3,646)	–
Transfer to retained earnings on expired ESOP			(321,300)	(147,194)	(321,300)	(147,194)
Balance as at December 31,			150,529	433,503	150,529	433,503

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	
	2021 Rs. '000	2020 Rs. '000	2021 Rs. '000	2020 Rs. '000
Balance as at January 1,	(102,511)	(38,372)	(102,511)	(38,372)
Net gains/(losses) that arose during the year, net of tax	46,169	(64,139)	46,169	(64,139)
Balance as at December 31,	(56,342)	(102,511)	(56,342)	(102,511)

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:

	2021 Rs. '000	2020 Rs. '000
Balance as at January 1,	1,755,897	1,589,234
Profit for the year	227,819	146,847
Other comprehensive income, net of tax	109,263	46,456
Dividends paid for the year	(15,200)	(16,020)
Unclaimed dividend absorbed/(dividend paid) in respect of previous years	32	24
Reinstatement of non-controlling interest due to partial disposal of a subsidiary	–	(10,644)
Balance as at December 31,	2,077,811	1,755,897

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 may contain credit risk and are therefore part of the overall risk of the Group.

			GROUP		BANK	
As at December 31,			**2021**	2020	**2021**	2020
	Note	Page No.	**Rs. '000**	Rs. '000	**Rs. '000**	Rs. '000
Contingencies			**537,650,958**	599,110,072	**536,752,669**	598,121,484
Guarantees			**74,840,308**	65,796,764	**75,099,826**	65,581,771
Performance bonds			**36,147,208**	38,047,779	**36,127,300**	37,957,159
Documentary credits			**84,535,733**	75,498,646	**83,555,655**	74,875,507
Other contingencies	58.1	295	**342,127,709**	419,766,883	**341,969,888**	419,707,047
Commitments			**147,728,070**	131,451,613	**145,647,114**	130,590,214
Undrawn commitments on direct advances			**145,471,161**	130,418,187	**143,400,310**	129,571,427
Capital commitments	58.2	296	**2,256,909**	1,033,426	**2,246,804**	1,018,787
Total			**685,379,028**	730,561,685	**682,399,783**	728,711,698

58.1 Other contingencies

	GROUP		BANK	
As at December 31,	**2021**	2020	**2021**	2020
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
Forward exchange contracts:	**39,196,883**	86,003,856	**39,196,883**	86,003,856
Forward exchange sales	**31,322,089**	63,965,641	**31,322,089**	63,965,641
Forward exchange purchases	**7,874,794**	22,038,215	**7,874,794**	22,038,215
Currency Swaps/Currency Options :	**178,108,955**	221,408,936	**178,108,955**	221,408,936
Currency swaps	**177,918,097**	220,259,925	**177,918,097**	220,259,925
Currency options	**190,858**	1,149,011	**190,858**	1,149,011
Others:	**124,821,871**	112,354,091	**124,664,050**	112,294,255
Acceptances	**73,963,348**	64,371,311	**73,959,540**	64,369,512
Bills for collection	**49,172,892**	46,389,435	**49,018,879**	46,331,398
Bullion on consignment	**14,882**	14,545	**14,882**	14,545
Other contingencies	**1,670,749**	1,578,800	**1,670,749**	1,578,800
Subtotal	**342,127,709**	419,766,883	**341,969,888**	419,707,047

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:

	GROUP		BANK	
As at December 31,	**2021 Rs. '000**	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000
Commitments in relation to property, plant and equipment	**1,168,032**	548,170	**1,157,927**	533,531
Approved and contracted for	965,532	382,670	955,427	368,031
Approved but not contracted for	202,500	165,500	202,500	165,500
Commitments in relation to intangible assets	**1,088,877**	485,256	**1,088,877**	485,256
Approved and contracted for	1,088,877	485,256	1,088,877	485,256
Approved but not contracted for	–	–	–	–
Subtotal	**2,256,909**	1,033,426	**2,246,804**	1,018,787

58.3 Movement in provision for impairment during the year

58.3 (a) Group

			Stage 1		Stage 2		Stage 3		Total	
	Note	Page No.	**2021 Rs. '000**	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000
Balance as at January 1,			1,536,100	768,100	244,482	187,237	339,676	364,743	2,120,258	1,320,080
Charge/(write back) to the Income Statement	18.1	229	551,897	767,211	570,466	57,245	2,120,247	(25,067)	3,242,610	799,389
Exchange rate variance on foreign currency provisions			2,699	789	–	–	–	–	2,699	789
Balance as at December 31,			**2,090,696**	1,536,100	**814,948**	244,482	**2,459,923**	339,676	**5,365,567**	2,120,258

58.3 (b) Bank

			Stage 1		Stage 2		Stage 3		Total	
	Note	Page No.	**2021 Rs. '000**	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000
Balance as at January 1,			1,532,691	764,857	244,482	187,237	339,676	364,743	2,116,849	1,316,837
Charge/(write back) to the Income Statement	18.2	229	546,862	767,138	570,466	57,245	2,120,247	(25,067)	3,237,575	799,316
Exchange rate variance on foreign currency provisions			2,476	696	–	–	–	–	2,476	696
Balance as at December 31,			**2,082,029**	1,532,691	**814,948**	244,482	**2,459,923**	339,676	**5,356,900**	2,116,849

58.4 Contingent liabilities and commitments of subsidiaries and the associate

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 the associate

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, 2020 – Nil)

59. Net assets value per ordinary share

	GROUP		BANK	
As at December 31,	**2021**	2020	**2021**	2020
Amounts used as the numerator:				
Total equity attributable to equity holders of the Bank (Rs. '000)	**167,474,717**	159,192,812	**164,893,979**	157,146,176
Number of ordinary shares used as the denominator:				
Total number of shares	**1,194,221,299**	1,166,905,638	**1,194,221,299**	1,166,905,638
Net assets value per share (Rs.)	**140.24**	136.42	**138.08**	134.67

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, 2021 for which, adjustments to the Financial Statements have not been made due to the uncertainty of its outcome. In addition, there are cases filed against the Bank that has not been listed here on the basis of non-materiality to operations.

Plaintiff	Nature of the case	Courts and case No.	Value of the action (Rs. '000)	Description of the case	Present status
Customer	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.	Trial/Call on April 06, 2022
Customer	Recovery of Money	Commercial High Court **CHC/ 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.	Call on March 08, 2022
Customer	Special	District Court **CHC /193/2020/MR**	458,895	Plaintiffs have filed this 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.	Order with regard to the interim reliefs issued against the first Defendant on March 07, 2022
Customer	Special	District Court of Kaduwela **514/SPL**	463,918	Plaintiffs have filed this 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.	Pre-Trial on March 15, 2022
Customer	Recovery of Money	Commercial High Court **CHC/87/2021/MR**	1,341,350	Plaintiff has filed the action seeking interim reliefs inter alia preventing the first Defendant, RDA from claiming on the Bank Guarantees issued by the Bank.	Objections of the first Defendant on March 22, 2022
Customer	Recovery of Money	District Court of Colombo **01423/2020/DMR**	US$ 250,000/-	Action has been instituted to recover a sum of US$.250,000/- or equivalent in Sri Lankan Rupees together with legal interest thereon as damages due to a Guarantee which the Plaintiff could not claim from Surety.	Pre-Trial on March 08, 2022
Beneficiary	Recovery of Money	Commercial High Court **CHC/219/2021/MR**	463,967	Plaintiff has filed this action to recover a sum of Rs. 463,967,380.97 due on the guarantees issued by the Bank in favour of the Plaintiff. The applicant of the above guarantees has already obtained an interim injunction in District Court Kaduwela, Case No. 514/SPL against the Bank preventing the payment on the said Guarantees.	Answer of the Defendant Bank on April 07, 2022
Beneficiary	Recovery of Money	Commercial High Court **CHC/222/2021/MR**	442,520	Plaintiff has filed this action to recover a sum of Rs. 442,519,529.51 due on the guarantees issued by the Bank in favour of the Plaintiff. The applicant of the above guarantees has already obtained an interim injunction in Commercial High Court, Case No. 193/2020/MR against the Bank preventing the payment on the said Guarantees.	Summons returnable on March 08, 2022

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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 31.12.2021 Rs. '000**	Total as at 31.12.2020 Rs. '000
Interest earning assets							
Financial assets							
Cash and cash equivalents	13,442,801	–	–	–	–	13,442,801	1,814,333
Balances with Central Banks	15,024,338	–	–	–	–	15,024,338	96,288,395
Placements with banks	12,498,709	–	–	–	–	12,498,709	16,421,867
Securities purchased under resale agreements	3,000,490	–	–	–	–	3,000,490	–
Derivative financial assets	–	–	–	–	–	–	–
Financial assets recognised through profit or loss – Measured at fair value	21,839,251	–	–	–	–	21,839,251	33,867,593
Financial assets at amortised cost – Loans and advances to banks	–	–	–	–	–	–	–
Financial assets at amortised cost – Loans and advances to other customers	358,036,376	274,532,946	220,016,588	118,950,845	58,047,320	1,029,584,075	909,829,172
Financial assets at amortised cost – Debt and other financial instruments	15,391,308	60,285,386	131,508,480	82,025,042	96,180,382	385,390,598	302,059,529
Financial assets measured at fair value through other comprehensive income	83,688,977	32,653,114	144,009,553	41,347,033	33,805,269	335,503,946	278,424,725
Total interest earning assets as at 31.12.2021	522,922,250	367,471,446	495,534,621	242,322,920	188,032,971	1,816,284,208	
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
Non–interest earning assets							
Financial assets							
Cash and cash equivalents	55,892,578	–	–	–	–	55,892,578	49,440,697
Balances with Central Banks	28,333,268	12,502,993	658,745	258,121	–	41,753,127	19,070,337
Placements with banks	–	–	–	–	–	–	–
Securities purchased under resale agreements	–	–	–	–	–	–	–
Derivative financial assets	2,034,514	881,313	18,251	311,042	–	3,245,120	2,636,717
Financial assets recognised through profit or loss – measured at fair value	1,596,872	–	–	–	–	1,596,872	1,321,878
Financial assets at amortised cost – Loans and advances to banks	–	–	–	–	–	–	779,705
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	429,589	449,856	292,069
Non–Financial Assets							
Investment in associate	–	–	–	–	60,428	60,428	64,155
Property, plant and equipment and right–of–use assets	–	–	–	–	24,744,634	24,744,634	25,386,630
Investment properties	–	–	–	–	72,400	72,400	67,116
Intangible assets	–	–	–	–	2,272,639	2,272,639	1,800,516
Deferred tax assets	–	–	10,036,105	–	–	10,036,105	2,735,566
Other assets	18,389,621	2,583,560	1,723,546	511,491	3,874,959	27,083,177	20,195,153
Total non–interest earning assets as at 31.12.2021	106,246,853	15,967,866	12,436,647	1,100,921	31,454,649	167,206,936	–
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 assets – as at 31.12.2021	629,169,103	383,439,312	507,971,268	243,423,841	219,487,620	1,983,491,144	–
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
Percentage – as at 31.12.2021 (*)	31.72	19.33	25.61	12.27	11.07	100.00	
Percentage – as at 31.12.2020(*)	29.60	18.11	27.58	14.21	10.50		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 31.12.2021 Rs. '000**	Total as at 31.12.2020 Rs. '000
Interest-bearing liabilities							
Financial liabilities							
Due to banks	36,311,909	17,005,877	3,820,066	4,994,403	4,991,741	67,123,996	76,883,502
Derivative financial liabilities	–	–	–	–	–	–	–
Securities sold under repurchase agreements	130,487,916	20,883,203	53,735	–	–	151,424,854	91,411,522
Financial liabilities at amortised cost – due to depositors	834,112,626	453,998,852	24,291,044	8,789,967	–	1,321,192,489	1,178,066,882
Financial liabilities at amortised cost – Other borrowings	12,831,402	7,626,273	6,232,011	907,690	4,989,675	32,587,051	54,555,933
Subordinated liabilities	811,337	222,422	23,390,787	7,914,760	5,964,160	38,303,466	38,247,138
Total interest – bearing liabilities as at 31.12.2021	1,014,555,190	499,736,627	57,787,643	22,606,820	15,945,576	1,610,631,856	
Total Interest – bearing liabilities as at 31.12.2020	803,373,827	512,518,102	78,512,086	18,817,379	25,943,583		1,439,164,977
Non-interest bearing liabilities							
Financial liabilities							
Due to banks	6,677,199	–	–	–	–	6,677,199	11,364,554
Derivative financial liabilities	1,353,381	609,502	129,315	–	–	2,092,198	1,501,262
Securities sold under repurchase agreements	–	–	–	–	–	–	–
Financial liabilities at amortised cost – Due to depositors	151,447,967	–	–	–	–	151,447,967	108,549,517
Financial liabilities at amortised cost – Other borrowings	–	–	–	–	–	–	–
Subordinated liabilities	–	–	–	–	–	–	–
Non-financial liabilities							
Current tax liabilities	2,371,693	7,115,079	–	–	–	9,486,772	6,991,005
Deferred tax liabilities	–	–	349,106	–	–	349,106	403,846
Other liabilities	14,257,098	11,023,809	3,041,196	1,884,869	3,046,546	33,253,518	33,572,283
Equity							
Stated capital	–	–	–	–	54,566,957	54,566,957	52,187,747
Statutory reserves	–	–	–	–	10,590,338	10,590,338	9,285,233
Retained earnings	–	–	–	–	9,890,762	9,890,762	8,124,261
Other reserves	–	–	–	–	92,426,660	92,426,660	89,595,571
Non-controlling Interest	–	–	–	–	2,077,811	2,077,811	1,755,897
Total non-interest-bearing liabilities and equity as at 31.12.2021	176,107,338	18,748,390	3,519,617	1,884,869	172,599,074	372,859,288	
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 liabilities and equity – as at 31.12.2021	1,190,662,528	518,485,017	61,307,260	24,491,689	188,544,650	1,983,491,144	
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
Percentage – as at 31.12.2021 (*)	60.03	26.14	3.09	1.23	9.51	100.00	
Percentage – as at 31.12.2020 (*)	53.29	30.13	4.57	1.21	10.80		100.00

(*) Total liabilities and shareholders' funds of each maturity bucket as a percentage of total liabilities and shareholders' funds employed by the 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, 2021 and comparative figures for the year ended December 31, 2020.

For the year ended December 31,	Personal banking		Corporate banking	
	2021 Rs. '000	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000
External operating income:				
Net interest income	32,270,665	26,764,757	8,623,181	8,996,447
Foreign exchange profit	223,310	96,113	133,161	141,319
Net fee and commission income	6,469,190	5,590,664	3,448,082	2,269,088
Other income	654,622	451,804	11,077	5,079
Total operating income	39,617,787	32,903,338	12,215,501	11,411,933
Impairment charges and other losses	(9,208,638)	(12,548,294)	(9,287,430)	(6,165,407)
Net operating income	30,409,149	20,355,044	2,928,071	5,246,526
Segment result	12,369,922	6,427,440	604,247	3,058,224
Profit from operations				
Share of profit of associate (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	
	2021 Rs. '000	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000
Other information				
Segment assets	589,421,251	628,115,371	426,521,897	323,883,043
Investment in associate	–	–	–	–
Total assets	589,421,251	628,115,371	426,521,897	323,883,043
Segment liabilities	1,124,769,169	1,022,841,375	302,425,307	237,889,091
Total liabilities	1,124,769,169	1,022,841,375	302,425,307	237,889,091

For the year ended December 31,	Personal banking		Corporate banking	
	2021 Rs. '000	2020 Rs. '000	**2021 Rs. '000**	2020 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	
2021 Rs. '000	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000
6,913,097	5,439,904	13,922,653	3,707,529	766,718	496,073	3,920,018	5,464,092	66,416,332	50,868,802
1,959,462	1,391,472	5,696,483	5,652,485	106	70	2,624,242	1,091,259	10,636,764	8,372,718
1,611,173	1,273,871	18,217	8,005	264,667	314,503	430,865	365,544	12,242,194	9,821,675
279,152	796,000	3,168,281	6,167,497	1,068,770	838,796	(878,869)	(592,883)	4,303,033	7,666,293
10,762,884	8,901,247	22,805,634	15,535,516	2,100,261	1,649,442	6,096,256	6,328,012	93,598,323	76,729,488
(476,662)	(206,221)	(5,780,798)	(2,289,624)	(386,483)	(210,012)	85	26	(25,139,926)	(21,419,532)
10,286,222	8,695,026	17,024,836	13,245,892	1,713,778	1,439,430	6,096,341	6,328,038	68,458,397	55,309,956
6,411,835	5,237,040	14,390,893	10,440,327	636,451	437,531	(1,457,920)	(1,084,600)	32,955,428	24,515,962
								32,955,428	24,515,962
								1,896	3,898
								(8,667,036)	(7,433,063)
								(227,819)	(146,847)
								24,062,469	16,939,950

International operations		Dealing/treasury		NBFI, Real Estate & Services		Unallocated/eliminations		Total/consolidated	
2021 Rs. '000	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000
254,416,091	209,243,351	770,572,291	602,609,010	13,385,658	11,306,239	(70,886,472)	(12,725,016)	1,983,430,716	1,762,431,998
–	–	–	–	–	–	60,428	64,155	60,428	64,155
254,416,091	209,243,351	770,572,291	602,609,010	13,385,658	11,306,239	(70,826,044)	(12,660,861)	1,983,491,144	1,762,496,153
214,486,976	174,499,274	216,394,172	152,504,141	7,711,555	6,016,087	(51,848,563)	7,797,476	1,813,938,616	1,601,547,444
214,486,976	174,499,274	216,394,172	152,504,141	7,711,555	6,016,087	(51,848,563)	7,797,476	1,813,938,616	1,601,547,444

International operations		Dealing/treasury		NBFI, Real Estate & Services		Unallocated/eliminations		Total/consolidated	
2021 Rs. '000	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000
								35,831,577	(3,846,592)
								(5,122,200)	2,068,509
								(10,829,366)	960,434
								(984,836)	(1,150,811)
								–	(41)
								(810,454)	(460,053)
								18,084,721	(2,428,554)

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 199, 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,	**2021** **Rs. '000**	2020 Rs. '000	**2021** **Rs. '000**	2020 Rs. '000
Short-term employment benefits	220,354	208,366	215,786	203,080
Post-employment benefits	9,875	8,988	9,875	8,988
Total	230,229	217,354	225,661	212,068

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	
	2021 **Rs. '000**	2020 Rs. '000	**2021** **Rs. '000**	2020 Rs. '000
Assets				
Financial assets at amortised cost – Loans and advances	16,410	38,620	15,202	49,472
Total	16,410	38,620	15,202	49,472
Liabilities				
Securities sold under repurchase agreements	1,275	–	164	–
Financial liabilities at amortised cost – Due to depositors	219,516	320,489	248,634	368,470
Subordinated liabilities	17,000	2,000	17,000	2,000
Total	237,791	322,489	265,798	370,470

63.2.2.2 Commitments and contingencies – Bank

	Year-end balance		Annual average balance	
	2021	2020	**2021**	2020
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
Undrawn facilities	19,170	29,544	15,602	19,485
Total	**19,170**	29,544	**15,602**	19,485

63.2.2.3 Direct and indirect accommodation – Bank

	Year-end balance	
	2021	2020
Direct and indirect accommodation as a percentage of the Bank's regulatory capital	0.02	0.04

63.2.2.4 Income Statement – Bank

For the year ended December 31,			**2021**	2020
	Note	Page No.	**Rs. '000**	Rs. '000
Interest income			608	4,315
Interest expense			12,426	27,337
Compensation to KMP	63.2.1	302	225,661	212,068

63.2.2.5 Share-based transactions of KMP and CFM

	Year-end balance	
	2021	2020
Number of ordinary shares held by KMP and CFM	953,183	868,595
Dividends paid (in Rs. '000)	6,056	1,670

	ESOP 2015		ESOP 2019	
As at the year end	**2021**	2020	**2021**	2020
Number of cumulative exercisable options under the Employee Share Option Plan (ESOP)				
Tranche I	–	–	89,187	89,187
Tranche II	–	–	38,323	99,010
Tranche III	–	138,632	206,866	–

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	
	2021	2020	**2021**	2020
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
Assets				
Financial assets at amortised cost – Loans and advances	**1,718,761**	1,396,450	**1,008,569**	2,398,934
Other assets	**101,001**	150,759	**104,770**	108,539
Total	**1,819,762**	1,547,209	**1,113,339**	2,507,473
Liabilities				
Securities sold under repurchase agreements	**514,167**	26,000	**328,287**	97,948
Financial liabilities at amortised cost – Due to depositors	**867,900**	748,353	**1,008,768**	483,366
Other liabilities	**74,978**	56,183	**68,854**	62,730
Total	**1,457,046**	830,536	**1,405,909**	644,044

63.3.1.2 Commitments and contingencies

	Year-end balance		Annual average balance	
	2021	2020	**2021**	2020
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
Undrawn facilities	**100,542**	101,300	**106,842**	92,540
Total	**100,542**	101,300	**106,842**	92,540

63.3.1.3 Direct and indirect accommodation

	Year-end balance	
	2021	2020
Direct and indirect accommodation as a percentage of the Bank's Regulatory Capital	**1.11**	0.96

63.3.1.4 Income Statement

For the year ended December 31,	**2021**	2020
	Rs. '000	Rs. '000
Interest income	**32,091**	207,530
Interest expense	**37,484**	33,700
Other income	**149,502**	126,742
Other expenses	**958,131**	738,331
Dividend income	**101,800**	98,200

63.3.1.5 Other transactions

For the year ended December 31,	**2021**	2020
Payments made to CBC Tech Solutions Limited in relation to purchase of computer hardware and software (Rs. '000)	**68,083**	68,083
Number of ordinary shares (non-voting) of the Bank held by the subsidiaries as at the year-end	**–**	–
Dividend paid (Rs. '000)	**5**	5

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.

Subsidiary Company	Nature of the transaction	Year-end balance 2021 Rs. '000	Year-end balance 2020 Rs. '000	Annual average balance 2021 Rs. '000	Annual average balance 2020 Rs. '000
CBC Finance Limited	**Transactions with CDC PLC**				
	As at December 31,				
	Term deposits	467,000	200,000	433,500	73,973
	For the year ended December 31,				
	Interest expense	28,749	6,288		
	Transactions with CBC Tech Solutions Limited				
	As at December 31,				
	Term deposits	125,250	70,000	109,450	20,986
	For the year ended December 31,				
	Interest expense	7,070	1,638		

63.3.2 Transactions with the associate

63.3.2.1 Statement of Financial Position

	Year-end balance 2021 Rs. '000	Year-end balance 2020 Rs. '000	Annual average balance 2021 Rs. '000	Annual average balance 2020 Rs. '000
Assets				
Financial assets at amortised cost – Loans and advances	–	–	–	–
Total	–	–	–	–
Liabilities				
Financial liabilities at amortised cost – Due to depositors	10,004	1,679	3,221	2,526
Total	10,004	1,679	3,221	2,526

63.3.2.2 Commitments and contingencies

	Year-end balance 2021 Rs. '000	Year-end balance 2020 Rs. '000	Annual average balance 2021 Rs. '000	Annual average balance 2020 Rs. '000
Undrawn facilities	–	–	–	–
Total	–	–	–	–

63.3.2.3 Income Statement

For the year ended December 31,	2021 Rs. '000	2020 Rs. '000
Interest income	–	–
Interest expense	53	122
Other income	–	–
Other expenses	–	–

63.3.2.4 Other transactions

	2021	2020
Number of ordinary shares (voting) of the Bank held by the associate as at the year-end	13,000	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	
	2021	2020	**2021**	2020
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
Assets				
Financial assets at amortised cost – Loans and advances	–	–	–	148
Total	–	–	–	148
Liabilities				
Securities sold under repurchase agreements	1,672,505	–	261,531	–
Financial liabilities at amortised cost – Due to depositors	1,636,664	9,992,934	6,607,977	6,602,249
Total	3,309,169	9,992,934	6,869,508	6,602,249

63.4.1.2 Income Statement

For the year ended December 31,	**2021**	2020
	Rs. '000	Rs. '000
Interest income	–	45
Interest expense	476,883	525,861
Contribution made/taxes paid by the Bank	1,632,532	1,820,430

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,	**2021**	2020	**2021**	2020
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
Depreciation of property, plant and equipment	2,903,408	2,791,740	2,909,666	2,731,440
Amortisation of intangible assets	316,658	310,946	268,962	257,591
Impairment charges and other losses	25,138,265	21,415,986	24,690,682	21,152,297
Impairment charges subsidiaries	–	–	–	327,855
Fair value (gains)/losses on investment properties	(5,284)	12,096	–	–
Loss on revaluation of land and buildings	–	39,872	–	39,872
Accretion of interest on lease liability	451,619	435,754	490,418	452,304
Contributions to defined benefit plans – Unfunded schemes	81,909	234,986	71,916	210,795
Provision made o/a of leave encashment	74,135	82,043	74,135	82,043
Equity-settled Share-based payments	41,972	112,203	41,972	112,203
Unamortised interest payable o/a subordinated liabilities	12,210	11,701	12,210	11,701
Mark to market (gains)/losses on other financial instruments at fair value through profit or loss	477,532	(529,648)	477,532	(529,648)
Mark to market (gains)/losses on derivative financial instruments	55,180	–	55,180	–

For the year ended December 31,	GROUP 2021 Rs. '000	GROUP 2020 Rs. '000	BANK 2021 Rs. '000	BANK 2020 Rs. '000
Effect of exchange rate variances on loans and receivables to banks	–	(21,892)	–	(21,892)
Effect of exchange rate variances on property, plant and equipment and right-of-use assets	(103,886)	(64,102)	(91,554)	(52,398)
Effect of exchange rate variances on intangible assets	(7,676)	(5,666)	(4,741)	(1,122)
Effect of exchange rate variances on defined benefit plans	29,179	10,758	29,179	10,758
Effect of exchange rate variances on subordinated liabilities	975,000	393,750	975,000	393,750
Net effect of exchange rate variances on net deferred tax assets	(23,344)	(12,005)	(23,006)	(9,804)
Net effect of exchange rate variances on income tax liability	77,850	71,364	74,695	66,240
Net effect of exchange rate variance on lease liability	118,009	60,460	100,056	52,316
Grossed up notional tax and withholding tax credits	(139,143)	(585,419)	(139,110)	(580,871)
Total	30,473,593	24,764,927	30,013,192	24,705,430

65. Change in operating assets

For the year ended December 31,	GROUP 2021 Rs. '000	GROUP 2020 Rs. '000	BANK 2021 Rs. '000	BANK 2020 Rs. '000
Net (increase)/decrease in derivative financial instruments	(608,403)	(805,790)	(608,403)	(805,790)
Net (increase)/decrease in balances with central banks	58,581,267	(69,257,500)	58,073,197	(71,509,978)
Net (increase)/decrease in placements with banks	3,889,011	8,487,575	4,351,207	8,593,910
Net (increase)/decrease in securities purchased under resale agreements	(3,000,490)	13,147,534	(3,000,490)	13,147,534
Net (increase)/decrease in other financial assets recognised through profit or loss	11,275,816	(13,191,790)	11,275,816	(13,191,790)
Net (increase)/decrease in loans and receivables to customers	(134,702,172)	(34,067,357)	(132,326,489)	(30,064,923)
Net (increase)/decrease in financial assets measured at fair value through other comprehensive income	(77,023,218)	(83,571,404)	(76,789,223)	(83,572,933)
Net (increase)/decrease in financial assets at amortised cost – Debt and other financial instruments	(81,785,007)	(198,751,695)	(75,127,002)	(195,329,795)
Net (increase)/decrease in other assets	(6,888,024)	3,248,716	(7,405,326)	3,703,098
Total	(230,261,220)	(374,761,711)	(221,556,713)	(369,030,667)

66. Change in operating liabilities

For the year ended December 31,	GROUP 2021 Rs. '000	GROUP 2020 Rs. '000	BANK 2021 Rs. '000	BANK 2020 Rs. '000
Net increase/(decrease) in due to banks	(14,446,861)	34,440,631	(13,673,886)	35,945,612
Net increase/(decrease) in derivative financial instruments	603,997	(83,136)	603,997	(83,136)
Net increase/(decrease) in securities sold under repurchase agreements	60,013,332	40,294,180	60,474,230	40,217,589
Net increase/(decrease) in deposits from banks, customers and debt securities issued	186,024,057	217,633,812	177,127,535	212,658,258
Net increase/(decrease) in other borrowings	(21,968,882)	31,307,040	(21,968,882)	31,307,040
Net increase/(decrease) in other liabilities	(2,155,443)	2,115,855	(2,123,296)	2,027,671
Net increase/(decrease) in due to subsidiaries	–	–	(48,316)	42,723
Total	208,070,200	325,708,382	200,391,382	322,115,757

67. 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 204 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 Group Chief Risk Officer reports to the BIRMC thus ensuring its independence.

Risk measurement and reporting

The Bank uses robust risk measurement techniques based on the type of risk and industry best practices. The Bank also carries out stress testing which is a key aspect of the Internal Capital Adequacy Assessment Process (ICAAP). The risk management framework of the Bank provides an insight on the impact of extreme, but plausible scenarios on the Bank's risk profile. The results are reported to the EIRMC and 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.

67.1 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.).

67.1.1 Credit quality analysis

67.1.1 (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, 2021	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			30,276,356	30,276,356	–	–	–
Rating 0-4: Investment grade			35,373,724	–	35,373,724	–	–
Rating 5-6: Moderate risk			2,435,551	–	2,435,551	–	–
Rating 7-8: High risk			–	–	–	–	–
Rating 9: Extreme risk			–	–	–	–	–
Gross carrying amount			68,085,631	30,276,356	37,809,275	–	–
Less: Provision for impairment			7,555	–	7,555	–	–
Net carrying amount	28	240	68,078,076	30,276,356	37,801,720	–	–
Placements with Central Bank and Other Banks							
Risk free investments (Excluding Statutory Reserve)			13,105,398	13,105,398	–	–	–
Rating 0-4: Investment grade			11,590,882	–	11,590,882	–	–
Rating 5-6: Moderate risk			–	–	–	–	–
Rating 7-8: High risk			–	–	–	–	–
Rating 9: Extreme risk			–	–	–	–	–
Gross carrying amount			24,696,280	13,105,398	11,590,882	–	–
Less: Provision for impairment			5,930	–	5,930	–	–
Net carrying amount	29 & 30	241	24,690,350	13,105,398	11,584,952	–	–
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			–	–	–	–	–
Rating 7-8: High risk			–	–	–	–	–
Rating 9: Extreme risk			–	–	–	–	–
Gross carrying amount			–	–	–	–	–
Less: Provision for impairment			–	–	–	–	–
Net carrying amount	33	245	–	–	–	–	–
Financial assets at amortised cost – Loans and advances to other customers							
Government Securities (Risk free investments)			–	–	–	–	–
Rating 0-4: Investment grade (*)			781,407,131	–	693,942,543	80,421,587	7,043,001
Rating 5-6: Moderate risk			223,404,861	–	148,341,718	58,362,563	16,700,580
Rating 7-8: High risk			25,814,803	–	3,307,734	15,028,167	7,478,902
Rating 9: Extreme risk			48,058,333	–	177,332	27,848	47,853,153
Gross carrying amount			1,078,685,128	–	845,769,327	153,840,165	79,075,636
Less: Provision for impairment			64,066,548	–	10,027,938	18,973,409	35,065,201
Net carrying amount	34	246	1,014,618,580	–	835,741,389	134,866,756	44,010,435
Financial assets at amortised cost – Debt and other financial instruments							
Government Securities (Risk free investments)			284,725,818	284,725,818	–	–	–

As at December 31, 2021	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 0-4: Investment grade			90,205,361	–	90,205,361	–	–
Rating 5-6: Moderate risk			1,610	–	1,610	–	–
Rating 7-8: High risk			152,870	–	–	–	152,870
Rating 9: Extreme risk			–	–	–	–	–
Gross carrying amount			375,085,659	284,725,818	90,206,971	–	152,870
Less: Provision for impairment			5,667,770	–	5,514,900	–	152,870
Net carrying amount	35	250	369,417,889	284,725,818	84,692,071	–	–
Financial assets measured at fair value through other comprehensive income							
Government Securities (Risk free investments)			265,632,081	265,632,081	–	–	–
Rating 0-4: Investment grade			74,391,174	–	74,391,174	–	–
Rating 5-6: Moderate risk			449,732	449,732	–	–	–
Rating 7-8: High risk			–	–	–	–	–
Rating 9: Extreme risk			–	–	–	–	–
Gross carrying amount			340,472,987	266,081,813	74,391,174	–	–
Less: Provision for impairment			5,009,649	–	5,009,649	–	–
Net carrying amount	36	251	335,463,338	266,081,813	69,381,525	–	–
Off-balance sheet (**)							
Contingent liabilities and commitments							
(i) Lending commitments							
Grade 0-6: Investment grade to moderate risk			143,400,310	–	139,418,405	3,616,084	365,821
Grade 7-9: High risk to extreme risk			–	–	–	–	–
Gross carrying amount			143,400,310	–	139,418,405	3,616,084	365,821
(ii) Contingencies							
Grade 0-6: Investment grade to moderate risk			536,752,669	268,010,348	263,917,835	1,840,922	2,983,564
Grade 7-9: High risk to extreme risk			–	–	–	–	–
Gross carrying amount			536,752,669	268,010,348	263,917,835	1,840,922	2,983,564
Total contingent liabilities and commitments	58	295	680,152,979	268,010,348	403,336,240	5,457,006	3,349,385
Provision for impairment	58.3 (b)	296	5,356,900	–	2,082,029	814,948	2,459,923

As at December 31, 2020	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
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	240	50,250,627	26,152,779	24,097,848	–	–

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
Placements with Central Bank 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	241	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	245	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	246	896,845,453	–	733,783,826	92,767,333	70,294,294
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	250	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			–	–	–	–	–

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As at December 31, 2020	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
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	251	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	295	727,692,911	355,337,535	368,695,997	2,859,858	799,521
Provision for impairment	58.3 (b)	296	2,116,849	–	1,532,691	244,482	339,676

(*) 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 pages 295 and 296.

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.

67.1.1 (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.

	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
Cash and cash equivalents					
Gross carrying amount as at January 1, 2021	50,253,868	26,152,779	24,101,089	–	–
Transfer to Stage 1	–	–	–	–	–
Transfer to Stage 2	–	–	–	–	–
Transfer to Stage 3	–	–	–	–	–
New assets originated or purchased	19,649,337	4,123,577	15,525,760	–	–
Financial assets derecognised or repaid (excluding write-offs)	(1,817,574)	–	(1,817,574)	–	–
As at December 31, 2021	68,085,631	30,276,356	37,809,275	–	–
Placements with Central Bank and Other Banks					
Gross carrying amount as at January 1, 2021	110,347,301	–	110,347,301	–	–
Transfer to Stage 1	–	–	–	–	–
Transfer to Stage 2	–	–	–	–	–
Transfer to Stage 3	–	–	–	–	–
New assets originated or purchased	24,696,280	–	24,696,280	–	–
Financial assets derecognised or repaid (excluding write-offs)	(110,347,301)	–	(110,347,301)	–	–
As at December 31, 2021	24,696,280	–	24,696,280	–	–

	Carrying amount	Not subject to ECL	Subject to 12-month ECL (Stage 1)	Subject to Lifetime ECL not credit impaired (Stage 2)	Subject to Lifetime ECL credit impaired (Stage 3)
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Financial assets at amortised cost – Loans and advances to banks					
Gross carrying amount as at January 1, 2021	779,790	–	779,790	–	–
Transfer to Stage 1	–	–	–	–	–
Transfer to Stage 2	–	–	–	–	–
Transfer to Stage 3	–	–	–	–	–
Financial assets derecognised or repaid (excluding write-offs)	(779,790)	–	(779,790)	–	–
As at December 31, 2021	–	–	–	–	–
Financial assets at amortised cost – Loans and advances to other customers					
Gross carrying amount as at January 1, 2021	947,841,905	–	740,254,706	105,011,766	102,575,433
Transfer to Stage 1	–	–	14,755,909	(13,531,224)	(1,224,685)
Transfer to Stage 2	–	–	(37,213,850)	59,086,325	(21,872,475)
Transfer to Stage 3	–	–	(3,669,537)	(4,270,785)	7,940,322
New assets originated or purchased	505,250,921	–	469,012,166	34,049,647	2,189,108
Financial assets derecognised or repaid (excluding write-offs)	(394,031,721)	–	(337,369,676)	(37,058,965)	(19,603,080)
Write-offs (*)	(929,627)	–	(391)	(84)	(929,152)
Changes to contractual cash flows due to modifications not resulting in derecognition	20,553,650	–	–	10,553,485	10,000,165
As at December 31, 2021	1,078,685,128	–	845,769,327	153,840,165	79,075,636
Financial assets at amortised cost – Debt and other financial instruments					
Gross carrying amount as at January 1, 2021	294,836,457	197,785,756	96,897,831	–	152,870
Transfer to Stage 1	–	–	–	–	–
Transfer to Stage 2	–	–	–	–	–
Transfer to Stage 3	–	–	–	–	–
New assets originated or purchased	107,674,053	101,713,040	5,961,013	–	–
Financial assets derecognised or repaid (excluding write-offs)	(33,993,067)	(14,683,780)	(19,309,287)	–	–
Reclassification adjustment	–	–	–	–	–
Foreign exchange adjustments	6,568,216	(89,198)	6,657,414	–	–
As at December 31, 2021	375,085,659	284,725,818	90,206,971	–	152,870
Financial assets measured at fair value through other comprehensive income					
Gross carrying amount as at January 1, 2021	280,137,202	201,329,443	78,807,759	–	–
Transfer to Stage 1	–	–	–	–	–
Transfer to Stage 2	–	–	–	–	–
Transfer to Stage 3	–	–	–	–	–
New assets originated or purchased	194,086,697	186,842,735	7,243,962	–	–
Financial assets derecognised or repaid (excluding write-offs)	(121,758,562)	(104,472,602)	(17,285,960)	–	–
Reclassification adjustment	–	–	–	–	–
Foreign exchange adjustments	4,461,110	1,215	4,459,895	–	–
Change in fair value due to remeasurement	(16,453,460)	(17,618,980)	1,165,520	–	–
As at December 31, 2021	340,472,987	266,081,811	74,391,176	–	–
Contingent liabilities and commitments					
Gross carrying amount as at January 1, 2021	727,692,911	355,337,535	368,695,997	2,859,858	799,521
Transfer to Stage 1	–	–	950,603	(949,641)	(962)

	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
Transfer to Stage 2	–	–	(3,530,865)	3,754,729	(223,864)
Transfer to Stage 3	–	–	(316,640)	(205,849)	522,489
Net change due to new exposures originated or exposures derecognised or repaid (excluding write-offs)	(47,539,932)	(87,327,187)	37,537,145	(2,091)	2,252,201
As at December 31, 2021	680,152,979	268,010,348	403,336,240	5,457,006	3,349,385

(*) During the year loans and advances written-off amounting to Rs. 685.642 Mn., was being subjected to enforcement activities.

	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					
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	–	–
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

	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
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
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

67.1.1 (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.

	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, 2021			3,241	–	–	3,241
Transfer to Stage 1			–	–	–	–
Transfer to Stage 2			–	–	–	–
Transfer to Stage 3			–	–	–	–
Net remeasurement of impairment			(1,124)	–	–	(1,124)
New assets originated or purchased			6,332	–	–	6,332

	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
Financial assets derecognised or repaid (excluding write-offs)			(895)	–	–	(895)
Foreign exchange adjustments			1	–	–	1
As at December 31, 2021	28.1	240	**7,555**	–	–	**7,555**
Placements with Central Bank and Other Banks						
Provision for impairment (ECL) as at January 1, 2021			3,003	–	–	3,003
Transfer to Stage 1			–	–	–	–
Transfer to Stage 2			–	–	–	–
Transfer to Stage 3			–	–	–	–
Net remeasurement of impairment			–	–	–	–
New assets originated or purchased			5,826	–	–	5,826
Financial assets derecognised or repaid (excluding write-offs)			(3,003)	–	–	(3,003)
Foreign exchange adjustments			104	–	–	104
As at December 31, 2021	30.1	242	**5,930**	–	–	**5,930**
Financial assets at amortised cost – Loans and advances to banks						
Provision for impairment (ECL) as at January 1, 2021			85	–	–	85
Transfer to Stage 1			–	–	–	–
Transfer to Stage 2			–	–	–	–
Transfer to Stage 3			–	–	–	–
Financial assets derecognised or repaid (excluding write-offs)			(85)	–	–	(85)
As at December 31, 2021	33.1	246	–	–	–	–
Financial assets at amortised cost – Loans and advances to other customers						
Provision for impairment (ECL) as at January 1, 2021			6,470,880	12,244,433	32,281,139	50,996,452
Transfer to Stage 1			1,112,720	(857,754)	(254,966)	–
Transfer to Stage 2			(792,269)	2,475,531	(1,683,262)	–
Transfer to Stage 3			(39,996)	(632,774)	672,770	–
Net remeasurement of impairment			1,186,680	2,381,767	3,708,633	7,277,080
New assets originated or purchased			2,863,733	3,934,433	501,304	7,299,470
Financial assets derecognised or repaid (excluding write-offs)			(778,565)	(2,242,555)	(3,050,647)	(6,071,767)
Write-offs and recoveries			(482)	(158)	(691,667)	(692,307)
Foreign exchange adjustments			5,237	(15)	93,581	98,803
Unwinding of discount			–	–	(1,132,155)	(1,132,155)
Other movements			–	–	242,393	242,393
Changes to contractual cash flows due to modifications not resulting in derecognition			–	1,670,501	4,378,078	6,048,579
As at December 31, 2021	34.2 (b)	248	**10,027,938**	**18,973,409**	**35,065,201**	**64,066,548**
Financial assets at amortised cost – Debt and other financial instruments						
Provision for impairment (ECL) as at January 1, 2021			1,956,021	–	152,870	2,108,891
Transfer to Stage 1			–	–	–	–
Transfer to Stage 2			–	–	–	–
Transfer to Stage 3			–	–	–	–
Net remeasurement of impairment			3,922,155	–	–	3,922,155
New assets originated or purchased			151	–	–	151
Financial assets derecognised or repaid (excluding write-offs)			(363,427)	–	–	(363,427)
Reclassification adjustment			–	–	–	–
As at December 31, 2021	35.1 (b)	250	**5,514,900**	–	**152,870**	**5,667,770**
Financial assets measured at fair value through other comprehensive income						
Provision for impairment (ECL) as at January 1, 2021			1,675,834	–	–	1,675,834
Transfer to Stage 1			–	–	–	–

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	Note	Page No.	12-month ECL (Stage 1) Rs. '000	Lifetime ECL – not credit impaired (Stage 2) Rs. '000	Lifetime ECL – credit impaired (Stage 3) Rs. '000	Total Rs. '000
Transfer to Stage 2			–	–	–	–
Transfer to Stage 3			–	–	–	–
Net remeasurement of impairment			3,514,986	–	–	3,514,986
New assets originated or purchased			75,245	–	–	75,245
Financial assets derecognised or repaid (excluding write-offs)			(256,416)	–	–	(256,416)
Reclassification adjustment			–	–	–	–
As at December 31, 2021	36.2	252	5,009,649	–	–	5,009,649
Contingent liabilities and commitments						
Provision for impairment (ECL) as at January 1, 2021			1,532,691	244,482	339,676	2,116,849
Transfer to Stage 1			70,078	(67,475)	(2,603)	–
Transfer to Stage 2			(38,578)	149,953	(111,375)	–
Transfer to Stage 3			(484)	(2,073)	2,557	–
Net remeasurement of impairment			(52,145)	42,244	7,427	(2,474)
New exposures originated or purchased			1,100,870	612,002	2,428,786	4,141,658
Exposures derecognised or repaid (excluding write-offs)			(532,879)	(164,185)	(204,545)	(901,609)
Foreign exchange adjustments			2,476	–	–	2,476
As at December 31, 2021	58.3 (b)	296	2,082,029	814,948	2,459,923	5,356,900

	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, 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	240	3,241	–	–	3,241
Placements with Central Bank 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			–	–	–	–
Net remeasurement of impairment			–	–	–	–
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	242	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			–	–	–	–

	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
Net remeasurement of impairment			(26)	–	–	(26)
As at December 31, 2020	33.1	246	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
Unwinding of discount			–	–	(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)	248	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)	250	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	252	1,675,834	–	–	1,675,834
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)	296	1,532,691	244,482	339,676	2,116,849

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67.1.1 (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.

	Note	Page No.	2021 Rs. '000	2020 Rs. '000
Debt instruments at FVTPL				
Government Securities – Sri Lanka				
Treasury bills			1,782,169	883,328
Treasury bonds			5,219,111	7,547,800
Government Securities – Bangladesh				
Treasury bills			5,782,971	6,758,303
Treasury bonds			9,055,000	18,678,162
Subtotal – Debt instruments at FVTPL	32.1	243	21,839,251	33,867,593
Equity instruments at FVTPL				
Rated AAA			60,119	35,990
Rated AA+ to AA-			132,637	52,373
Rated A+ to A			1,021,457	881,092
Rated BBB+			9,359	–
Unrated			373,300	352,423
Subtotal – Equity instruments at FVTPL	32.2	243	1,596,872	1,321,878
Total	32	242	23,436,123	35,189,471

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, 2021	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)	26,160,622	572,517	126,174,859	2,672,049	1,103,111	170	95,101	384	153,533,693	3,245,120
Derivative financial liabilities (Note 2)	6,483,380	(258,788)	56,743,238	(1,827,553)	5,449,768	(5,473)	95,101	(384)	68,771,487	(2,092,198)
Note 1										
Derivative financial assets by counterparty type										
Banks	1,045,000	10,277	125,174,859	2,465,767	920,906	170	16,044	66	127,156,809	2,476,280
Other customers	25,115,622	562,240	1,000,000	206,282	182,205	–	79,057	318	26,376,884	768,840
Total	26,160,622	572,517	126,174,859	2,672,049	1,103,111	170	95,101	384	153,533,693	3,245,120
Note 2										
Derivative financial liabilities by counterparty type										
Banks	650,000	(266)	52,838,955	(1,138,159)	476,165	(434)	79,057	(318)	54,044,177	(1,139,177)
Other customers	5,833,380	(258,522)	3,904,283	(689,394)	4,973,603	(5,039)	16,044	(66)	14,727,310	(953,021)
Total	6,483,380	(258,788)	56,743,238	(1,827,553)	5,449,768	(5,473)	95,101	(384)	68,771,487	(2,092,198)

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										
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										
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)

67.1.2 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:

	2021 Rs. '000	2020 Rs. '000
Stage 3 loans and advances to other customers as at January 1,	**70,294,294**	71,783,803
Newly classified as impaired loans and advances during the year	**12,100,621**	23,934,129
Net change in already impaired loans and advances during the year	**(4,238,959)**	(5,458,157)
Net payment, write-off and recoveries and other movements during the year	**(34,145,521)**	(19,965,481)
Impaired loans and advances to customers as at December 31,	**44,010,435**	70,294,294

Refer Note 18 for methodology of impairment assessment, on "Impairment charges on loans and advances to customers" on pages 226 to 229.

Details of provision for impairment for loans and advances to other customers, are detailed in Note 34 on pages 246 to 249.

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,	**2021**		2020	
	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	**7,043,001**	**5,136,063**	21,856,496	19,338,054
Rating 5-6: Moderate risk	**16,700,580**	**10,016,789**	20,721,485	16,643,993
Rating 7-8: High risk	**7,478,902**	**5,492,123**	8,870,661	7,645,813
Rating 9: Extreme risk	**47,853,153**	**23,365,460**	51,126,791	26,666,434
Total	**79,075,636**	**44,010,435**	102,575,433	70,294,294

67.1.3 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, 2021, 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, 2021 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	Stage 2	Stage 3	Total	
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
PD 1% increase across all age buckets	3,282,741	521,041	–	3,803,782	(3,803,782)
PD 1% decrease across all age buckets (*)	(2,433,713)	(520,407)	–	(2,954,120)	2,954,120
LGD 5% increase	1,137,779	2,330,667	2,137,949	5,606,395	(5,606,395)
LGD 5% decrease (*)	(1,137,779)	(2,330,667)	(2,137,949)	(5,606,395)	5,606,395
Probability weighted forward looking Macro Economic Indicators (**)					
– Base case 10% increase, worst case 5% decrease and best case 5% decrease	(50,878)	(84,893)	–	(135,771)	135,771
– Base case 10% decrease, worst case 5% increase and best case 5% increase	50,701	84,714	–	135,415	(135,415)

(*) The PD/LGD decrease is capped at 0%, if applicable.
(**) Please refer Note 18 for explanation on forward looking Macro Economic Indicators.

67.1.4 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 Adequacy 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,	2021		2020	
	Rs. '000	Composition (%)	Rs. '000	Composition (%)
LTV ratio				
Less than 50%	14,656,389	22.71	16,110,557	29.77
51% – 70%	15,284,539	23.69	12,167,172	22.49
71% – 90%	18,030,113	27.94	13,947,060	25.78
91% – 100%	2,373,719	3.68	1,792,030	3.31
More than 100% (*)	14,182,945	21.98	10,092,060	18.65
Total	64,527,705	100.00	54,108,879	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 a 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.

67.1.5 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:

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67.1.5 (a) Industry-wise distribution

As at December 31, 2021	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	–	–	–	–	–
Financial assets measured at FVTPL	–	254,076	28,698	–	19,470
Government securities	–	–	–	–	–
Quoted equity securities	–	254,076	28,698	–	19,470
Financial assets at AC – Loans and advances to banks	–	–	–	–	–
Financial assets at AC – Loans and advances to other customers (*)	86,950,254	136,875,888	58,820,254	18,898,846	47,015,068
Financial assets at AC – Debt and other financial instruments	–	5,332,910	–	–	–
Government securities	–	–	–	–	–
Other investments	–	5,332,910	–	–	–
Financial assets measured at FVOCI	–	22,712	–	–	373,634
Government securities	–	–	–	–	–
Equity securities	–	22,712	–	–	373,634
Total	86,950,254	142,485,586	58,848,952	18,898,846	47,408,172

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

(*) Loans and advances to other customers referred above do not agree with the Note 34.1 (c) on page 247 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
–	–	–	68,078,076	–	–	–	–	–	–	68,078,076
–	–	–	52,897,908	–	–	–	–	–	–	52,897,908
–	–	–	11,584,952	–	–	–	–	–	–	11,584,952
–	–	–	3,000,490	–	–	–	–	–	–	3,000,490
–	60	9,449	3,235,611	–	–	–	–	–	–	3,245,120
–	100,403	15,974	22,980,249	–	–	–	37,253	–	–	23,436,123
–	–	–	21,839,251	–	–	–	–	–	–	21,839,251
–	100,403	15,974	1,140,998	–	–	–	37,253	–	–	1,596,872
–	–	–	–	–	–	–	–	–	–	–
25,140,149	204,100,922	14,613,393	70,267,313	26,226,776	1,054,749	3,876,141	23,181,624	161,683,553	135,913,650	1,014,618,580
–	80,280	–	364,004,699	–	–	–	–	–	–	369,417,889
–	–	–	362,738,130	–	–	–	–	–	–	362,738,130
–	80,280	–	1,266,569	–	–	–	–	–	–	6,679,759
–	–	–	335,058,372	8,620	–	–	–	–	–	335,463,338
–	–	–	335,013,606	–	–	–	–	–	–	335,013,606
–	–	–	44,766	8,620	–	–	–	–	–	449,732
25,140,149	204,281,665	14,638,816	931,107,670	26,235,396	1,054,749	3,876,141	23,218,877	161,683,553	135,913,650	1,881,742,476

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

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67.1.5 (b) Geographical distribution of loans and advances

The Western Province has recorded a higher percentage of lending based on geographical distribution of the Bank's lending portfolio. It has accounted for 77% (approximately) of total advances portfolio of the Bank (excluding Bangladesh operations) as at December 31, 2021. 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 thereby reflecting a fairly diversified geographical concentration as given below.

As at December 31, 2021

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	9,014,862	243,021	1,648,083	750,949	284,385	5,357	4,154,739	2,795,812	21,230,413	1,928,065	68,999	42,124,685
Eastern	667,814	207,635	1,101,555	201,439	200,954	925	681,411	1,510,663	3,737,455	213,758	–	8,523,609
North Central	609,540	28,950	1,538,530	185,745	110,745	338	794,010	2,144,945	7,807,070	71,131	–	13,291,004
Northern	5,164,010	857,905	3,051,813	679,061	554,276	1,062	4,103,385	3,768,105	15,587,606	2,429,403	22,931	36,219,557
North Western	3,027,071	60,218	2,592,115	253,019	2,999,299	805	1,430,074	2,099,549	7,239,490	406,959	–	20,108,599
Sabaragamuwa	4,434,705	774,729	2,471,244	450,378	222,499	4,244	3,105,764	2,031,204	12,927,466	838,274	–	27,260,507
Southern	5,384,533	2,074,018	3,114,127	751,968	738,866	5,776	6,013,836	4,399,526	18,308,545	1,050,384	–	41,841,579
Uva	941,639	–	1,051,816	213,792	67,510	82	1,867,459	1,187,999	6,180,691	225,885	–	11,736,873
Western	66,606,158	80,326,737	18,249,874	11,493,752	2,415,464	12,812,122	49,272,824	28,448,277	290,258,900	112,482,160	5,248,661	677,614,929
Bangladesh	11,520,550	5,227,974	1,194,708	176,147	–	235,392	1,343,045	619,047	15,690,846	58,378,032	41,511,497	135,897,238
Net Loans and advances	107,370,882	89,801,187	36,013,865	15,156,250	7,593,998	13,066,103	72,766,547	49,005,127	398,968,482	178,024,051	46,852,088	1,014,618,580

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

Please refer Note 34 on pages 246 to 249 for the gross carrying amount of the loans and advances to other customers.

67.2 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.

67.2.1 Exposure to liquidity risk

The Bank uses the key ratios given below for managing liquidity risk:

		Minimum Requirement			
		2021 %	2020 %	**2021 %**	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	**20.00**	20.00	**38.73**	44.99
	Off shore Banking Centre	**20.00**	20.00	**36.39**	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	**100.00**	90.00	**425.97**	599.38
	All-Currency Liquidity Requirement	**100.00**	90.00	**242.52**	422.86
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.		**100.00**	90.00	**157.47**	157.49

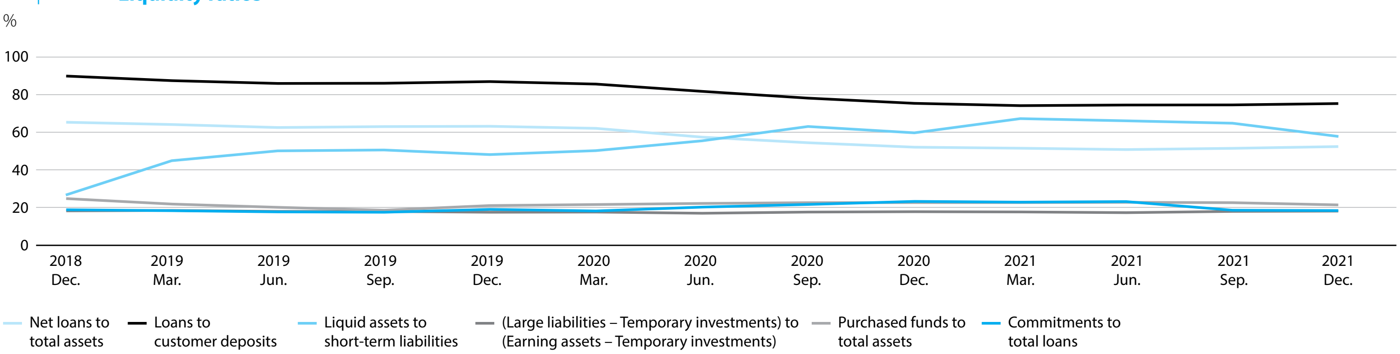
Details of LCR and NSFR are given in Disclosure 04 and 05 as per Basel III disclosures under Pillar 3 on page 363.

Details of the reported LAR 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	
	2021 %	2020 %	**2021 %**	2020 %
As at December 31,	**38.73**	44.99	**36.39**	32.70
Average for the period	**44.16**	38.77	**34.47**	28.09
Maximum for the period	**47.38**	44.99	**38.28**	32.70
Minimum for the period	**38.73**	31.04	**32.79**	25.09
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 2018 to December 2021:

Graph – 46: **Liquidity ratios**



67.2.2 Maturity analysis of financial assets and financial liabilities

67.2.2 (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, 2021 Rs. '000**	Total as at December 31, 2020 Rs. '000
Interest earning financial assets:							
Cash and cash equivalents	13,442,860	–	–	–	–	13,442,860	1,814,333
Balances with central banks	13,610,417	–	–	–	–	13,610,417	94,905,791
Placements with banks	11,584,952	–	–	–	–	11,584,952	15,938,982
Securities purchased under resale agreements	3,000,490	–	–	–	–	3,000,490	–
Financial assets measured at FVTPL	21,839,251	–	–	–	–	21,839,251	33,867,593
Financial assets at amortised cost – Loans and advances to other customers	354,514,043	271,753,521	215,440,805	116,448,192	56,462,019	1,014,618,580	896,845,453
Financial assets at amortised cost – Debt and other financial instruments	3,482,239	56,588,821	131,508,480	81,657,967	96,180,382	369,417,889	292,727,566
Financial assets measured at FVOCI	83,198,637	32,653,114	144,009,553	41,347,033	33,805,269	335,013,606	278,169,424
Total interest earning assets as at December 31, 2021	504,672,889	360,995,456	490,958,838	239,453,192	186,447,670	1,782,528,045	
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
Non-interest earning financial assets:							
Cash and cash equivalents	54,635,216	–	–	–	–	54,635,216	48,436,294
Balances with central banks	26,235,299	12,176,561	650,505	225,126	–	39,287,491	16,065,314
Derivative financial assets	2,034,514	881,313	18,251	311,042	–	3,245,120	2,636,717
Financial assets measured at FVTPL	1,596,872	–	–	–	–	1,596,872	1,321,878
Financial assets at amortised cost – Loans and advances to banks	–	–	–	–	–	–	779,705
Financial assets measured at FVOCI	–	–	–	20,267	429,465	449,732	291,945
Non-financial assets							
Investments in subsidiaries	–	–	–	–	5,808,429	5,808,429	5,808,429
Investment in associate	–	–	–	–	44,331	44,331	44,331
Property, plant and equipment and right-of-use assets	–	–	–	–	23,075,467	23,075,467	23,212,394
Intangible assets	–	–	–	–	1,724,864	1,724,864	1,232,863
Deferred tax assets	–	–	9,793,129	–	–	9,793,129	2,499,860
Other assets	18,330,919	2,583,560	1,723,546	511,491	3,874,959	27,024,475	19,619,149
Total Non-interest earning assets as at December 31, 2021	102,832,820	15,641,434	12,185,431	1,067,926	34,957,515	166,685,126	
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 assets – As at December 31, 2021	607,505,709	376,636,890	503,144,269	240,521,118	221,405,185	1,949,213,171	
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
Percentage – As at December 31, 2021 (*)	31.17	19.32	25.81	12.34	11.36	100.00	
Percentage – As at December 31, 2020 (*)	29.11	18.08	27.77	14.31	10.73		100.00

(*) Total assets of each maturity bucket as a percentage of total assets employed by the Bank.

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(ii) Remaining contractual period to maturity of the liabilities and equity 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, 2021 Rs. '000**	Total as at December 31, 2020 Rs. '000
Interest-bearing financial liabilities:							
Due to banks	36,309,862	16,977,260	3,691,864	4,959,403	4,991,742	66,930,131	75,969,784
Securities sold under repurchase agreements	130,974,904	20,883,203	53,735	–	–	151,911,842	91,437,612
Financial liabilities at amortised cost – Due to depositors	822,884,320	447,264,891	23,894,133	8,269,255	–	1,302,312,599	1,164,715,837
Financial liabilities at amortised cost – Other borrowings	12,831,403	7,626,273	6,232,011	907,690	4,989,674	32,587,051	54,555,933
Subordinated liabilities	811,336	222,422	23,390,787	7,914,760	5,964,161	38,303,466	38,247,138
Total interest-bearing liabilities as at December 31, 2021	1,003,811,825	492,974,049	57,262,530	22,051,108	15,945,577	1,592,045,089	
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
Non-interest bearing financial liabilities:							
Due to banks	6,847,289	–	–	–	–	6,847,289	11,481,522
Derivative financial liabilities	1,353,381	609,502	129,315	–	–	2,092,198	1,501,262
Financial liabilities at amortised cost – Due to depositors	140,780,854	–	–	–	–	140,780,854	101,250,081
Non-financial liabilities							
Current tax liabilities	2,323,545	6,970,635	–	–	–	9,294,180	6,777,992
Other liabilities	14,214,463	11,023,809	3,041,196	1,884,869	3,046,546	33,210,883	33,037,669
Due to subsidiaries	48,699	–	–	–	–	48,699	97,015
Equity							
Stated capital	–	–	–	–	54,566,957	54,566,957	52,187,747
Statutory reserves	–	–	–	–	10,204,368	10,204,368	9,024,065
Retained earnings	–	–	–	–	7,778,265	7,778,265	7,596,260
Other reserves	–	–	–	–	92,344,389	92,344,389	88,338,104
Total non-interest bearing liabilities and equity as at December 31, 2021	165,568,231	18,603,946	3,170,511	1,884,869	167,940,525	357,168,082	
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 liabilities and equity – as at December 31, 2021	1,169,380,056	511,577,995	60,433,041	23,935,977	183,886,102	1,949,213,171	
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
Percentage – as at December 31, 2021 (*)	59.99	26.25	3.10	1.23	9.43	100.00	
Percentage – as at December 31, 2020 (*)	53.19	30.29	4.57	1.21	10.74		100.00

(*) Total liabilities and equity of each maturity bucket as a percentage of total liabilities and equity employed by the Bank.

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67.2.2 (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,	**2021** **Rs. '000**	2020 Rs. '000
Financial assets		
Non-derivative financial assets		
Balances with central banks	875,631	817,095
Financial assets at amortised cost – Loans and advances to banks	–	779,705
Financial assets at amortised cost – Loans and advances to other customers	388,351,016	381,194,186
Financial assets at amortised cost – Debt and other financial instruments	309,346,829	253,060,392
Financial assets measured at fair value through other comprehensive income	219,611,587	242,254,114
Total	918,185,063	878,105,492
Financial liabilities		
Non-derivative financial liabilities		
Securities sold under repurchase agreements	53,735	–
Financial liabilities at amortised cost – Due to depositors	32,163,388	64,388,053
Financial liabilities at amortised cost – Other borrowings	12,129,375	25,572,065
Subordinated liabilities	37,269,708	27,687,027
Total	81,616,206	117,647,145

67.2.2 (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 as at December 31, 2021:

As at December 31, 2021	**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	68,084,097	–	–	–	–	68,084,097
Balances with central banks	39,845,716	12,176,561	650,505	225,126	–	52,897,908
Placements with banks	11,858,941	–	–	–	–	11,858,941
Securities purchased under resale agreements	3,001,958	–	–	–	–	3,001,958
Derivative financial assets	2,034,514	881,313	18,251	311,042	–	3,245,120
Financial assets recognised through profit or loss – measured at fair value	9,432,990	7,692,577	6,477,941	1,298,100	–	24,901,608
Financial assets at amortised cost – Loans and advances to banks	–	–	–	–	–	–
Financial assets at amortised cost – Loans and advances to other customers	380,271,862	308,776,456	265,538,546	135,937,878	70,913,153	1,161,437,895
Financial assets at amortised cost – Debt and other financial instruments	10,980,792	73,994,663	164,561,016	112,112,000	113,091,597	474,740,068
Financial assets measured at fair value through other comprehensive income	38,476,785	50,257,331	238,394,534	58,563,653	46,580,770	432,273,073
Total financial assets	563,987,655	453,778,901	675,640,793	308,447,799	230,585,520	2,232,440,668
Financial liabilities						
Due to banks	43,777,869	17,768,093	3,941,172	5,208,711	4,991,742	75,687,587
Derivative financial liabilities	1,353,381	609,502	129,315	–	–	2,092,198
Securities sold under repurchase agreements	133,583,242	21,834,887	58,018	–	–	155,476,147
Financial liabilities at amortised cost – due to depositors	969,548,468	459,867,397	26,171,456	9,775,158	2,373	1,465,364,852
Financial liabilities at amortised cost – other borrowings	12,881,064	7,942,884	6,576,688	1,928,203	5,777,219	35,106,058
Subordinated liabilities	1,092,420	2,213,429	27,621,931	10,661,138	7,190,216	48,779,134
Total financial liabilities	1,162,236,444	510,236,192	64,498,580	27,573,210	17,961,550	1,782,505,976

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

67.2.3 Liquidity reserves

The table below sets out the components of the Bank's liquidity reserves:

As at December 31,	**2021**		2020	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	Rs. '000	**Rs. '000**	Rs. '000	Rs. '000
Balances with central banks	52,897,908	52,897,908	110,971,105	110,971,105
Balances with other banks	37,809,275	37,809,275	24,101,089	24,101,089
Coins and notes held	30,276,356	30,276,356	26,152,779	26,152,779
Unencumbered debt securities issued by sovereigns	580,345,153	498,220,592	512,839,927	463,364,173
Total	**701,328,692**	**619,204,131**	**674,064,900**	**624,589,146**

67.2.4 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, 2021			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	240	–	–	68,078,076	–	68,078,076
Balances with central banks	29	241	–	32,559,843	20,338,065	–	52,897,908
Placements with banks	30	241	–	–	11,584,952	–	11,584,952
Securities purchased under resale agreements			–	–	3,000,490	–	3,000,490
Derivative financial assets	31	242	–	–	3,245,120	–	3,245,120
Financial assets recognized through profit or loss – measured at fair value	32	242	–	–	23,436,123	–	23,436,123
Financial assets at amortised cost – Loans and advances to banks	33	245	–	–	–	–	–
Financial assets at amortised cost – Loans and advances to other customers	34	246	–	–	1,014,618,580	–	1,014,618,580
Financial assets at amortised cost – Debt and other financial instruments	35	250	–	–	369,417,889	–	369,417,889
Financial assets measured at fair value through other comprehensive income (**)	36	251	170,890,589	–	164,572,749	–	335,463,338
Total			170,890,589	32,559,843	1,678,292,044	–	1,881,742,476

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	240	–	–	50,250,627	–	50,250,627
Balances with central banks	29	241	–	10,665,765	100,305,340	–	110,971,105
Placements with banks	30	241	–	–	15,938,982	–	15,938,982
Securities purchased under resale agreements			–	–	–	–	–
Derivative financial assets	31	242	–	–	2,636,717	–	2,636,717
Financial assets recognised through profit or loss – measured at fair value	32	242	–	–	35,189,471	–	35,189,471
Financial assets at amortised cost – Loans and advances to banks (*)	33	245	–	779,705	–	–	779,705
Financial assets at amortised cost – Loans and advances to other customers	34	246	–	–	896,845,453	–	896,845,453
Financial assets at amortised cost – Debt and other financial instruments	35	250	–	–	292,727,566	–	292,727,566
Financial assets measured at fair value through other comprehensive income (**)	36	251	104,906,825	–	173,554,544	–	278,461,369
Total			104,906,825	11,445,470	1,567,448,700	–	1,683,800,995

(*) 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.

67.3 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.

67.3.1 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, 2021	Note	Page No.	Market risk measurement		
			Carrying amount Rs. '000	Trading portfolios Rs. '000	Non-trading portfolios Rs. '000
Assets subject to market risk					
Cash and cash equivalents	28	240	40,754,559	–	40,754,559
Balances with central banks	29	241	19,504,371	–	19,504,371
Placements with banks	30	241	11,584,952	–	11,584,952
Securities purchased under resale agreements			3,000,490	–	3,000,490
Derivative financial assets	31	242	3,245,120	3,245,120	–
Financial assets recognised through profit or loss – Measured at fair value	32	242	23,436,123	23,436,123	–
Financial assets at amortised cost – Loans and advances to banks	33	245	–	–	–
Financial assets at amortised cost – Loans and advances to other customers	34	246	1,014,618,580	–	1,014,618,580
Financial assets at amortised cost – Debt and other financial instruments	35	250	369,417,889	–	369,417,889
Financial assets measured at fair value through other comprehensive income	36	251	335,463,338	–	335,463,338
Total			1,821,025,422	26,681,243	1,794,344,179
Liabilities subject to market risk					
Due to banks	44	274	73,777,420	–	73,777,420
Derivative financial liabilities	45	275	2,092,198	2,092,198	–
Securities sold under repurchase agreements			151,911,842	–	151,911,842
Financial liabilities at amortised cost – Due to depositors	46	275	1,381,652,340	–	1,381,652,340
Financial liabilities at amortised cost – Other borrowings	47	276	32,587,051	–	32,587,051
Subordinated liabilities	51	286	38,303,466	–	38,303,466
Total			1,680,324,317	2,092,198	1,678,232,119

As at December 31, 2020	Note	Page No.	Market risk measurement		
			Carrying amount Rs. '000	Trading portfolios Rs. '000	Non-trading portfolios Rs. '000
Assets subject to market risk					
Cash and cash equivalents	28	240	25,751,193	–	25,751,193
Balances with central banks	29	241	99,729,245	–	99,729,245
Placements with banks	30	241	15,938,982	–	15,938,982
Derivative financial assets	31	242	2,636,717	2,636,717	–
Financial assets recognised through profit or loss – Measured at fair value	32	242	35,189,471	35,189,471	–
Financial assets at amortised cost – Loans and advances to banks	33	245	779,705	–	779,705
Financial assets at amortised cost – Loans and advances to other customers	34	246	896,845,453	–	896,845,453
Financial assets at amortised cost – Debt and other financial instruments	35	250	292,727,566	–	292,727,566
Financial assets measured at fair value through other comprehensive income	36	251	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	274	87,451,306	–	87,451,306
Derivative financial liabilities	45	275	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	275	1,204,524,805	–	1,204,524,805
Financial liabilities at amortised cost – Other borrowings	47	276	54,555,933	–	54,555,933
Subordinated liabilities	51	286	38,247,138	–	38,247,138
Total			1,477,718,056	1,501,262	1,476,216,794

67.3.2 Exposure to interest rate risk – Sensitivity analysis

67.3.2 (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 table 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, 2021	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	13,442,860	–	–	–	–	54,635,216	68,078,076
Balances with central banks	13,610,416	–	–	–	–	39,287,492	52,897,908
Placements with banks	11,584,952	–	–	–	–	–	11,584,952
Securities purchased under resale agreements	3,000,490	–	–	–	–	–	3,000,490
Financial assets at amortised cost – Loans and advances to Banks	–	–	–	–	–	–	–
Financial assets at amortised cost – Loans and advances to other customers	539,387,596	216,261,635	121,660,524	54,429,256	56,245,305	26,634,264	1,014,618,580
Financial assets at amortised cost – Debt and other financial instruments	3,482,239	56,588,821	131,508,480	81,657,967	96,180,382	–	369,417,889
Financial assets measured at fair value through other comprehensive income	69,031,895	31,161,778	148,971,616	45,484,693	40,363,624	449,732	335,463,338
Total financial assets	653,540,448	304,012,234	402,140,620	181,571,916	192,789,311	121,006,704	1,855,061,233
Financial liabilities							
Due to banks	48,124,365	18,805,766	–	–	–	6,847,289	73,777,420
Securities sold under repurchased agreements	130,974,904	20,883,203	53,735	–	–	–	151,911,842
Financial liabilities at amortised cost – Due to depositors	798,029,025	450,329,584	24,850,880	15,818,972	13,284,138	140,780,854	1,443,093,453
Financial liabilities at amortised cost – Other borrowings	20,947,684	4,623,572	1,213,704	895,691	4,906,400	–	32,587,051
Subordinated liabilities	16,030,705	–	8,393,840	7,914,760	5,964,161	–	38,303,466
Total financial liabilities	1,014,106,683	494,642,125	34,512,159	24,629,423	24,154,699	147,628,143	1,739,673,232
Interest rate sensitivity gap	(360,566,235)	(190,629,891)	367,628,461	156,942,493	168,634,612	(26,621,439)	115,388,001
Cumulative gap	(360,566,235)	(551,196,126)	(183,567,665)	(26,625,172)	142,009,440	115,388,001	

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
Securities purchased under resale agreements	–	–	–	–	–	–	–
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

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 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	

67.3.2 (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.

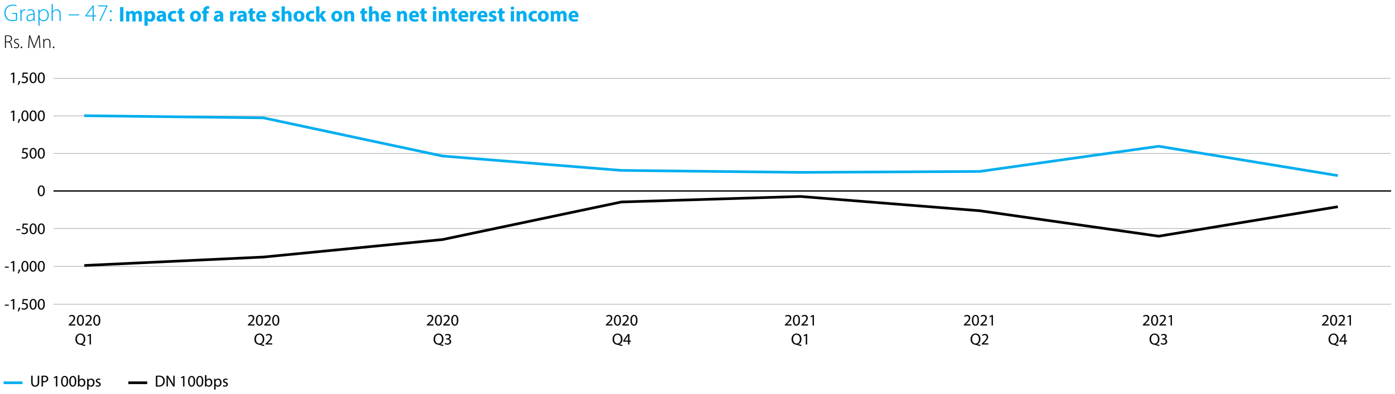
The following table demonstrates the sensitivity of the Bank's Income Statement (net impact) due to change in interest rates by 100 bps on rupee denominated assets and liabilities and 25bps on FCY denominated assets and liabilities with all other variables held constant as at the reporting date.

Sensitivity of projected net interest income

Net Interest Income (NII)	**2021**		2020	
	Parallel increase Rs. '000	**Parallel decrease Rs. '000**	Parallel increase Rs. '000	Parallel decrease Rs. '000
As at December 31,	195,232	(195,288)	267,122	(132,005)
Average for the period	258,265	(200,260)	708,925	(648,050)
Maximum for the period	655,218	(655,219)	1,060,589	(1,040,836)
Minimum for the period	(87,864)	245,713	249,879	(132,005)

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.

Graph – 47: **Impact of a rate shock on the net interest income**



67.3.3 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, 2021 and December 31, 2020 and the exposure as a percentage of the total capital funds:

Foreign exchange position as at December 31, 2021

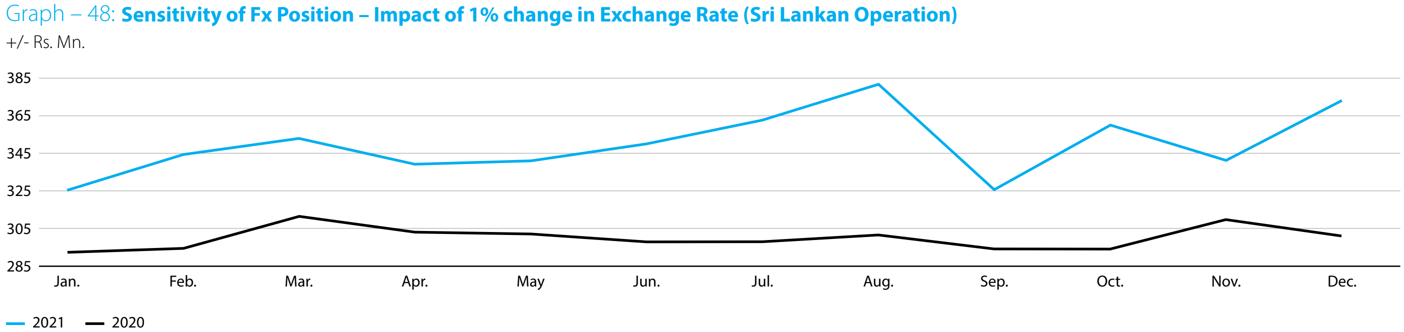
Currency	Spot			Forward			Net open position	Net position in other exchange contracts	Overall exposure in respective foreign currency	Overall exposure in Rs.
	Assets	Liabilities	Net	Assets	Liabilities	Net				
	2	3	4=2-3	5	6	7=5-6	8	9	10=4+7+8	11
	'000	'000	'000	'000	'000	'000	'000	'000	'000	'000
United States Dollar	11,424	30,554	(19,130)	20,320	544	19,776	11,464	–	12,110	2,421,949
Great Britain Pound	263	356	(93)	350	200	150	(33)	–	23	6,459
Euro	1,435	1,448	(13)	–	–	–	(19)	–	(32)	(7,192)
Japanese Yen	6,690	419	6,271	–	5,755	(5,755)	(859)	–	(343)	(597)
Australian Dollar	25	48	(23)	99	–	99	(39)	–	37	5,287
Canadian Dollar	19	38	(19)	–	–	–	(48)	–	(67)	(10,439)
Other currencies in USD	213	194	19	–	–	–	188	–	206	41,259
Total exposure							USD 11,513	–	USD 12,284	2,456,726
Total capital funds (capital base) as per the audited Basel III computation – Bank										173,756,083
Total exposure as a percentage of total capital funds (%)										1.41

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

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.

Graph – 48: **Sensitivity of Fx Position – Impact of 1% change in Exchange Rate (Sri Lankan Operation)**



67.3.4 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.

	2021			2020		
	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,	1,596,872	396,346	1,993,218	1,321,878	239,773	1,561,651
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)	159,687	39,635	199,322	132,188	23,977	156,165
Shock of 10% on equity prices (downward)	(159,687)	(39,635)	(199,322)	(132,188)	(23,977)	(156,165)

67.4 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.

67.5 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.

67.5.1 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,	**2021 Rs. '000**	2020 Rs. '000
Common equity Tier 1 (CET1) capital after adjustments	132,375,019	134,689,261
Total common equity Tier 1 (CET1) capital	147,698,440	142,208,308
Equity capital (stated capital)/assigned capital	54,566,955	52,187,747
Reserve fund	10,204,369	9,024,067
Published retained earnings/(accumulated retained losses)	3,654,269	3,670,981
Published accumulated other comprehensive income (OCI)	(9,597,685)	1,922,007
General and other disclosed reserves	88,870,532	75,403,506
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	15,323,421	7,519,047
Goodwill (net)	–	–
Other intangible assets (net)	1,724,864	1,232,863
Revaluation losses of property, plant and equipment	–	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	3,805,427	3,782,513
Deferred tax assets (net)	9,793,130	2,499,858
Additional Tier 1 (AT1) capital after adjustments	–	–
Total Additional Tier 1 (AT1) capital	–	–
Qualifying Additional Tier 1 capital instruments	–	–
Instruments issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	–	–
Total Adjustments to AT1 capital	–	–
Investment in own shares	–	–
Others (Specify)	–	–
Tier 2 Capital after adjustments	41,381,064	36,707,570
Total Tier 2 Capital	41,381,064	36,707,570
Qualifying Tier 2 capital instruments	24,075,840	22,235,336
Revaluation gains	4,630,226	2,848,860
Eligible impairment	12,674,998	11,623,374
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	132,375,019	134,689,261
Total Tier 1 capital	132,375,019	134,689,261
Total capital	173,756,083	171,396,831

67.5.2 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.

67.5.3 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 2 on pages 361 to 374.

68. Repurchase and reverse repurchase transactions in scripless treasury bonds and scripless treasury bills

The following additional information on repurchase and reverse repurchase transactions are disclosed as required by the "Registered Stock and Securities Ordinance and Local Treasury Bills Ordinance Direction No. 1 of 2019," issued by the Central Bank of Sri Lanka (CBSL).

68.1 Carrying value of securities allocated for repurchase transactions

	BANK	
As at December 31,	**2021** **Rs. '000**	2020 Rs. '000
Carrying Value of Securities Allocated for Repurchase Transactions	170,890,589	104,906,825
Market Value of Securities Received for Reverse Repurchase Transactions	3,312,794	–

68.2 Haircuts for repurchase and reverse repurchase transactions

Minimum haircuts applicable for each maturity bucket as at December 31, 2021 are given below.

Remaining term to maturity of the eligible security	Minimum haircut (%) Repurchase transactions	Minimum haircut (%) Reverse repurchase transactions
Up to 1 year	4.00	4.00
More than 1 year and up to 3 years	6.00	6.00
More than 3 years and up to 5 years	8.00	8.00
More than 5 years and up to 8 years	10.00	10.00
More than 8 years	12.00	12.00

68.3 penalties imposed on the Bank for non-compliance

No penalties have been imposed on the Bank for non compliance with the above mentioned Direction No. 1 of 2019 issued by the CBSL during the years ended December 31, 2021 & 2020.

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 2021

The Bank did not pay interim dividends for 2021 for the reasons mentioned in Note 25 on pages 234 and 235.

Since the Financial Statements for the year 2021 are finalised and audited by the Bank's external auditors, the Board of Directors of the Bank has now recommended the payment of a first and final dividend of Rs. 7.50 per share to be paid and satisfied in the form of Rs. 4.50 per share in cash and Rs. 3.00 per share in the form of issue and allotment of new shares for both voting and non-voting ordinary shareholders' of the Bank for the year ended December 31, 2021.

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, 2022. 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 2021 has been estimated at Rs. 8,956.660 Mn. (Actual total dividend (both cash and scrip dividends) paid for the year 2020 amounted to Rs. 7,587.768 Mn.). Accordingly, the dividend per ordinary share (for both voting and non-voting) for the year 2021 would be Rs. 7.50 (2020 – Rs. 6.50).

Changes proposed by the Government Budget 2022

The Government of Sri Lanka in its Budget for 2022 has proposed a one-time tax, referred to as a surcharge tax of 25% to be imposed on companies that have earned a taxable income in excess of LK Rs. 2,000 million for the year of assessment 2020/2021. The proposed tax should be deemed an expenditure in the Financial Statements relating to the year of assessment 2020/2021.

The Bill introducing the proposed tax was published after the reporting period and it has not been placed on the Order Paper of the Parliament for its first reading before the date these Financial Statements were authorized for issue. The proposed tax has not been substantively enacted by the end of the reporting period. Therefore, the Financial Statements have not been adjusted to reflect the consequences of this proposal.

SUPPLEMENTARY INFORMATION

Annex 1: Compliance with Governance Directions and Codes

Annex 1.1: Compliance with Banking Act Direction

The Banking Act Direction No. 11 of 2007 and subsequent amendments thereto on Corporate Governance for Licensed Commercial Banks in Sri Lanka issued by the Central Bank of Sri Lanka

Section	Principle, compliance, and implementation	Complied
3 (1)	**Responsibilities of the Board**	
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 38 to 45 and page 117 to 128. 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 provided direction and guidance for preparation of the five year Corporate Strategic Plan from 2021-2025 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 2022-2026 was approved on December 17, 2021 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 159 to 178 and the "Report of the BIRMC" on pages 132 and 133 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 44 on page 128. The AGM 2020 was held by virtual means in the year 2021, with the use of a digital platform owing to COVID19 pandemic. Accordingly, a reduction in the attendance of the shareholders was noticed in the year 2021. 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 Group Chief HR Officer coordinates communication between the Board and the employees.	✓

Section	Principle, compliance, and implementation	Complied
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.	✓
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 also 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 2021 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/Group Chief Executive Officer (GCEO) are separated in the Board Charter to maintain a balance of power. Further, functions and responsibilities of the Chairman and the GCEO are defined and approved in line with Section 3 (5) of this Direction as given on pages 125 and 126.	✓
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 121 and 122 together with the number of meetings of the Board. The Bank has minimised obtaining approval via circular resolutions and it is carried out only on an exceptional basis and such resolutions are ratified by the Board at the next meeting.	✓

Section	Principle, compliance, and implementation	Complied
3 (1) (iv)	**Arrangements for Directors to include proposals in the agenda** Notice of Meeting is circulated two weeks prior to the meeting and Directors may submit proposals for inclusion in the agenda on discussion with the Chairman on matters relating to the business of the Bank.	✓
3 (1) (v)	**Notice of Meetings** Notice of Meetings, together with the agenda and Board papers for the Board meetings are circulated to the Directors seven days prior to the meeting providing Directors adequate time to attend and submit any urgent proposals.	✓
3 (1) (vi)	**Directors' attendance** The Directors are apprised of their attendance in accordance with the Banking Act Direction No. 11 of 2007 (the Direction). Details of the Directors' attendance are set out on page 122. 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 126 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 GCEO 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 106 to 109 and "Directors' Interest in Contracts with the Bank" as disclosed on page 158.	✓
3 (1) (xiii)	**Formal schedule of matters reserved for Board decision** The Board has put in place systems and controls to facilitate the effective discharge of Board functions. Pre set agenda of meetings ensures the direction and control of the Bank are firmly under Board's control and authority in line with regulatory codes, guidelines and international best practice.	✓
3 (1) (xiv)	**Inform Central Bank on probable solvency issues** The Bank is solvent and no situations have arisen to challenge its solvency. A Board approved procedure is in place to inform the Director of Bank Supervision prior to taking any decision or action if the Bank is about to become insolvent or about to suspend payments to its depositors and other creditors.	✓

Section	Principle, compliance, and implementation	Complied
3 (1) (xv)	**Capital adequacy** The Board monitors capital adequacy and other prudential measures to ensure compliance with regulatory requirements, and the Bank's defined risk appetite. The Bank is in compliance with the minimum capital adequacy requirements. Refer Annex: 2 Basel III- Disclosures under Pillar 3 as per Banking Act Direction No. 01 of 2016, on pages 361 to 374.	✓
3 (1) (xvi)	**Publish Corporate Governance Report in this Annual Report** This Report forms part of the Corporate Governance Report of the Bank which is set out on pages 117 to 128.	✓
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 of Twelve (12) Directors as at December 31, 2021.	✓
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 122.	✓
3 (2) (iii)	**Board balance** There are two (2) Executive Directors and Ten (10) 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 Ten (10) 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 122.	✓
3 (2) (ix)	**Formal and transparent procedure for appointments to the Board** The Board has established a BNC, Terms of Reference of which comply with the specimen given in the Code of Best Practice on Corporate Governance. The Board has also developed a succession plan together with the BNC to ensure the orderly succession of appointments to the Board.	✓
3 (2) (x)	**Election of Directors filling casual vacancies** All Directors appointed to the Board are subject to election by shareholders at the first AGM after their appointment.	✓
3 (2) (xi)	**Communication of reasons for removal or resignation of Director** Resignations of Directors and the reasons are promptly informed to the regulatory authorities and shareholders as per CSE's Continuing Listing Requirements together with a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders.	✓

Section	Principle, compliance, and implementation	Complied
3 (2) (xii)	**Prohibition of Directors or employees of a Bank becoming a Director of another bank** The Board and the BNC take into account this requirement in their deliberations when considering appointments of Directors. None of the Directors are directors or employees of any other banks registered in Sri Lanka. Ms Lee, Director of the Bank, is also on the Board of Directors of DBS Group Holdings Ltd., Singapore and DBS Bank Ltd., Singapore. The CBSL has communicated that it has no objection to the said appointment.	✓
3 (3)	**Criteria to assess fitness and propriety of Directors**	
3 (3) (i)	**Age of Director should not exceed 70** There are no Directors who are over 70 years of age.	✓
3 (3) (ii)	**Directors should not be Directors of more than 20 companies/entities/institutions inclusive of subsidiaries or associate companies of the Bank.** No Director holds directorships in excess of 20 companies/entities/institutions inclusive of subsidiaries or associates of the Bank.	✓
3 (4)	**Management functions delegated by the Board**	
3 (4) (i)	**Understand and study delegation arrangements**	✓
3 (4) (ii)	**Extent of delegation should not hinder the Board's ability to discharge its functions**	✓
3 (4) (iii)	**Review delegation arrangements periodically to ensure relevance to operations of the Bank** The Board reviews and approves the delegation arrangements of the Bank annually and ensures that the extent of delegation addresses the business needs of the Bank whilst enabling the Board to discharge their functions effectively. Consequently, the Board takes time to study and understand the delegation arrangements as referred to in the Section 3 (4) (i) and (ii) above.	✓
3 (5)	**The Chairman and Chief Executive Officer**	
3 (5) (i)	**Separation of roles** There is a clear separation of duties between the roles of the Chairman and the GCEO, 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 GCEO are disclosed in the Annual Report on page 106 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 GCEO. 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.	✓

Section	Principle, compliance, and implementation	Complied
3 (5) (viii)	**Encourage participation of Non-Executive Directors and relationships between Non-Executive and Executive Directors** Ten (10) 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 GCEO and/or any other officer. The AGM 2020 was held by virtual means in the year 2021, with the use of a digital platform owing to COVID-19 pandemic. Accordingly, a reduction in the attendance of the shareholders was noticed in the year 2021. The shareholder participation at AGMs is given on page 128 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 GCEO by the Board of Directors.	✓
3 (6)	**Board appointed committees**	
3 (6) (i)	**Establishing Board Committees, their functions and reporting** The Board has established nine (9) committees of which five (5) are mandatory with the remainder appointed to meet the business needs of the Bank. All the Sub committees of the Bank have its own written Terms of Reference. 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 129 to 145. 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 108.	✓
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.	✓

Section	Principle, compliance, and implementation	Complied
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.	✓
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, without the presence 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 four audit firms have been obtained to assist the Internal Audit Department to carry out the audit function. Prior approval of the BAC has been obtained in this regard. The Committee reviewed the reports submitted by Internal Audit Department and ensures that appropriate action is taken on the recommendations. The Group Chief Internal Auditor (GCIA), 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 GCIA 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 Group Chief Financial Officer, GCIA and a representative of the External Auditors normally attend meetings. Other Board members and Managing Director/GCEO 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 129 to 131.	✓

Section	Principle, compliance, and implementation	Complied
m.	**Explicit authority, resources and access to information** The Terms of Reference for the BAC includes: (i) explicit authority to investigate into any matter within its Terms of Reference; (ii) the resources which it needs to do so; (iii) full access to information; and (iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary. Refer the "Report of the BAC" on pages 129 to 131	✓
n.	**Regular meetings** The BAC has scheduled regular quarterly meetings and additional meetings are scheduled when required. Accordingly, the Committee met eight (8) times during the year. Members of the BAC are served with due notice of issues to be discussed and the conclusions in discharging its duties and responsibilities are recorded in the minutes of the meetings maintained by the Secretary of the BAC.	✓
o.	**Disclosure in Annual Report** The "Report of the BAC" on pages 129 to 131 includes the following: (i) details of the activities of the BAC; (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** GCIA serves as the Secretary for the BAC and maintains minutes of the Committee meetings	✓
q.	**Whistleblowing policy and relationship with External Auditor** The Bank has a whistleblowing 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, GCEO and KMP; (b) setting goals and targets for the Directors, GCEO and KMP; and (c) evaluating performance of the GCEO and KMP against agreed targets and goals and determining the basis for revising remuneration, benefits and other payments of performance-based incentives. (d) The GCEO attends all meetings of the Committee, except when matters relating to the GCEO are being discussed. Refer the "Report of the BHRRC" on pages 136 and 137.	✓
3(6)(iv)	**Board Nomination Committee (BNC)**	
a.	**Appointment of Directors, GCEO and KMP** The Committee has developed and implemented a procedure to appoint new Directors, GCEO and the members of the Corporate Management of the Bank. The Committee has also developed a proactive process for planning and assessment of candidates for the succession of Executive and Non-Executive Directors, GCEO and KMP appointments within the Bank, its Subsidiaries, and Associate (the Group).	✓
	The Committee also oversee appointment and composition of the Sharia Supervisory Board (SSB or Sharia Board) of the Bank's Islamic Banking Unit (IBU). The Committee is chaired by the Chairman of the Bank and comprises two other NEDs, whom are independent. The GCEO may be present at meetings by invitation. Refer the "Report of the BNC" on pages 134 and 135.	

Section	Principle, compliance, and implementation	Complied
b.	**Re-election of Directors** The Committee makes recommendations regarding the re-election of current Directors, considering the performance and contribution made by the Director concerned towards the overall discharge of the Board's responsibilities also considering the requirements of the Articles of Association. Refer the "Statement of Compliance" given on pages 146 to 151.	✓
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 GCEO. The Committee considers the applicable statutes and guidelines in setting the criteria.	✓
d.	**Fit and proper persons** The Committee obtains annual declarations from Directors, GCEO 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 BNC obtains declarations 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 GCEO 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/GCEO and the Group Chief Risk Officer (GCRO) who serves as a non-board member. Other KMP supervising credit, market, liquidity, operational, and strategic risks are invited to attend the meetings on a regular basis.	✓
b.	**Risk assessment** The Committee has approved the policies on Credit Risk Management, Market Risk Management and Operational Risk Management, which provide a framework for management and assessment of risks. Further, Internal Capital Adequacy Assessment Process is being reviewed by the committee, annually. 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 2021.	✓
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.	✓

Section	Principle, compliance, and implementation	Complied
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 Group Chief 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 pages 138 and 139. 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 302 to 306. 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, excluded from the Financial Statements. Refer page 158 for more details.	✓
3 (7) (ii)	**Related party transactions covered by with the Direction** The Related Party Transactions Policy approved by the Board, covers the following transactions: (a) The grant of any type of accommodation, as defined in the Monetary Board's Directions on maximum amount of accommodation; (b) The creation of any liabilities of the Bank in the form of deposits, borrowings and investments; (c) The provision of any services of a financial or non-financial nature to the Bank or received from the Bank; (d) The creation or maintenance of reporting lines and information flows between the Bank and any related parties, which may lead to sharing of potentially proprietary, confidential or otherwise sensitive information that may give benefits to such related parties.	✓
3 (7) (iii)	**Prohibited transactions** The Bank's Related Party Transactions Policy prohibits transactions, which would grant related parties more favourable treatment than that accorded to other customers. These include the following: (a) Granting of "total net accommodation" to related parties, exceeding a prescribed percentage of the Bank's regulatory capital; (b) Charging of a lower rate of interest than the Bank's best lending rate or paying more than the Bank's deposit rate for a comparable transaction with an unrelated comparable counterparty; (c) Providing of preferential treatment, such as favourable terms, covering trade losses and/or waiving fees/commissions, that extend beyond the terms granted in the normal course of business undertaken with unrelated parties; (d) Providing services to or receiving services from a related party without an evaluation procedure; (e) Maintaining reporting lines and information flows that may lead to sharing potentially proprietary, confidential or otherwise sensitive information with related parties, except as required for the performance of legitimate duties and functions.	✓
3 (7) (iv)	**Granting accommodation to a Director or close relation of a Director** A procedure is in place for granting accommodation to Directors or to a close relation/Close Family Member (CFM) of Directors. Such accommodation requires approval at a meeting of the Board of Directors, by not less than two-third of the number of Directors, other than the Director concerned, voting in favour of such accommodation or through circulation of papers, which require approval by all. The terms and conditions of the facility include a proviso that it will be secured by such security, as may from time to time be determined by the Monetary Board as well. Refer section on "Conflicts of Interest" on page 121 for more details.	✓

Section	Principle, compliance, and implementation	Complied
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 2021 in the newspapers (in Sinhala, Tamil and English), in accordance with the formats prescribed by the Supervisory and Regulatory Authorities and applicable accounting standards.	✓
3 (8) (ii)	**Disclosures in Annual Report**	
a.	**A statement to the effect that the Annual Audited Financial Statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures** Disclosures on the compliance with the applicable accounting standards and regulatory requirements in preparation of the Annual Audited Financial Statements, have been made in the "Statement of Directors' Responsibility" and "Managing Director's/Group Chief Executive Officer's and Group Chief Financial Officer's Statement of Responsibility". Refer page 157.	✓
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 pages 3 and 4. Statement of Compliance on pages 146 to 151. Statement of Directors' Responsibility for Financial Reporting on pages 152 and 153. Directors' Statement on Internal Control over Financial Reporting on pages 154 and 155.	✓
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 156.	✓
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 106 to 109. Directors' Interests in Contracts with the Bank on page 158. Details of remuneration paid by the Bank are given in Note 21 to the Financial Statements on page 231.	✓

Section	Principle, compliance, and implementation	Complied
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, 2021.	✓

	Category of related party	Rs. Mn.	%
a	Subsidiary companies of the Bank	1,819	1.05
b	Associate of the Bank	–	–
c	Directors of the Bank*	18	0.01
d	Members of the Corporate Management of the Bank	310	0.18
e	Close relations of the Bank's directors or members of the Corporate Management	42	0.02
f	Shareholder owning a material interest in the Bank	–	–
g	Entities in which Directors/KMP or their close relations have a substantial interest	3,885	2.24

* *Include both NEDs and EDs*

Section	Principle, compliance, and implementation	Complied
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, 2021	644
Accommodation granted – as at December 31, 2021	343
Deposits – as at December 31, 2021	414
Investments – as at December 31, 2021	170

Section	Principle, compliance, and implementation	Complied
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.	✓
h.	**Report confirming compliance with prudential requirements, regulations, laws, and internal controls** The Statement of Directors' Responsibility for Financial Reporting on pages 152 and 153 and item 35 on "Corporte Governance" in the Statement of Compliance on page 150, clearly sets out details regarding compliance with prudential requirements, regulations, laws, and internal controls.	✓
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 1.2: 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 Twelve (12) eminent professionals drawn from multiple fields and ten (10) out of them are NEDs. They bring diverse perspectives and independent judgement to deliberate on matters set before the Board. Directors are elected by shareholders at the AGMs with the exception of the Group Chief Executive Officer (GCEO) 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 Figure 28 on page 122. 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 125.	✓
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 of Directors and the Members of the Corporate Management. Refer Section on "Role of the Company Secretary" on page 126 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 enhance 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.	✓

Code ref.	Compliance and implementation	Complied
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 Section on "Induction and Training of Directors" on page 127.	✓
A.2	**Separating the business of the Board from the executive responsibilities for management of the Company** The positions of the Chairman and the GCEO 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 GCEO is an Executive Director appointed by the Board. The roles of the Chairman and the GCEO are clearly defined in the approved Board paper and the Board Charter.	✓
A.3	**Chairman's role in preserving good corporate governance** The Chairman provides leadership to the Board, preserving order and facilitating the effective discharge of duties of the Board and is responsible for ensuring the effective participation of all Directors and maintaining open lines of communication with 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 GCEO, 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 Directors 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, Executive Directors and a NED are professionals with vast experience on matters of finance.	✓
A.5	**Board balance** The Chairman is an Independent Non-Executive Director. The Board comprises of ten (10) 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 a week 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 Section on "Appointments/retirements and resignations of Directors" given on page 126 and Report of the BNC on pages 134 and 135.	✓
A.8	**All Directors should submit themselves for re-election at regular intervals** Refer Section on "Re-election/election of Directors" on pages 126 and 127. 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 127.	✓

Code ref.	Compliance and implementation	Complied
A.10	**Annual Report to disclose specified information regarding Directors** Information specified in the Code with regard to Directors is disclosed within this Annual Report as follows: • Profiles including qualifications, expertise, material business interests and key appointments on pages 106 to 109. • Directors' Interest in contracts with the Bank on page 158. • Remuneration paid to Directors in Note 21 to the Financial Statements on page 231. • Related Party Disclosures in Note 63 to the Financial Statements on pages 302 to 306. • Membership of committees and attendance at Board meetings and Committee meetings on page 122 and pages 129 to 145.	✓
A.11	**Appraisal of the CEO** Refer section on "Appraisal of the Chief Executive Officer" on page 127.	✓
B.	**Directors' remuneration**	
B.1	**Remuneration procedure** Refer section on "Directors' and Executive remuneration" on page 127 and Report of the BHRRC on pages 136 and 137.	✓
B.2	**Level and make-up of remuneration** Refer section on "Level and make up of remuneration" on page 127.	✓
B.3	**Disclosures related to remuneration in Annual Report** • Section on Directors' and Executive remuneration – Refer page 127. • Details of remuneration of the Board – Refer Note 21 to the Financial Statements on page 231. • Report of the BHRRC – Refer pages 136 and 137. • Compensation to KMP – Refer Note 63.2.1 to the Financial Statements on page 302.	✓
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 material 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 128 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 https://www.combank.lk/financials, 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.	✓

Code ref.	Compliance and implementation	Complied
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 Bank's or Group's net assets nor any major related party transactions apart from those disclosed as follows: • Shareholder engagement and voting on page 128. • Statement of Compliance pages 146 to 151. • Related Party Disclosures as disclosed in Note 63 to the Financial Statements on page 302 to 306.	✓
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 38 to 103. • Annual Report of the Board of Directors – Refer pages 3 and 4. • Statement of Compliance – Refer pages 146 to 151. • Statement of Directors' Responsibility for Financial Reporting – Refer pages 152 and 153. • Directors' Statement on Internal Control over Financial Reporting – Refer pages 154 and 155. • Managing Director/Group Chief Executive Officer's and Group Chief Financial Officer's Statement of Responsibility on page 157. • Independent Auditors' Report on pages 182 to 184. • Related Party Transactions disclosed in Note 63 to the Financial Statements on pages 302 to 306 and the process in place is described in the Report of the BRPTRC on pages 138 and 139. 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 67 to 73.	✓
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 given in the Section on "Risk Governance & Management" on pages 159 to 178 and the Report of the BIRMC on pages 132 and 133.	✓
D.3	**Board Audit Committee** The BAC comprises of five (05) independent NEDs and a summary of its responsibilities and activities are given in the Report of the BAC as appearing on pages 129 to 131. It is supported by the Internal Audit function of the Bank reporting 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. The Board also obtains assurance from its External Auditors on the effectiveness of internal controls on financial reporting which is given on pages 154 and 155.	✓

Code ref.	Compliance and implementation	Complied
D.4	**Board Related Party Transactions Review Committee (BRPTRC)** The BRPTRC Committee comprises of 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 pages 138 and 139. 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 of the Bank 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 successor " on pages 14 and 15 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 Officers 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 Group 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 117 to 128 comply with the disclosure requirements of the Code.	✓
E. & F.	**Encourage voting at AGM** The Bank has 16,609 ordinary voting shareholders of which 714 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.	✓

Code ref.	Compliance and implementation	Complied
G.	**Internet of things and cyber security** The Bank is certified under the globally accepted, de-facto standard for Information Security Management Systems (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/ GCEO 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 GCEO, 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. The ISP which is primarily aligned to the ISO/IEC 27001:2013 Standard includes policies for the domains covering organization of information security, physical and logical access control, asset management, operations and communication security, HR security, supplier relationships, information security incident management, business continuity management, etc. Network security management controls and information transfer policies and procedures have been defined in the ISP to ensure protection of information/ supporting information processing facilities in the Bank's network/s and to maintain the security of information transferred within the organization and with external entities. 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 incidents, results of internal and external information security audits, 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 and BAC for discussion on cyber risk management. Refer reports of the BIRMC, BTC and BAC on pages 132 & 133, 143 & 144 and 129 to 131 for further information.	✓
H.	**Environment, Society and Governance (ESG)**	
H.1	**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 38 to 103. • Governance and Risk Management on pages 104 to 178. • Connecting with Stakeholders and Materiality Matters on pages 20 to 27. 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 53rd Annual Report" on pages 5 and 6.	✓

Annex 1.3: 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.

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	235 to 236
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	213
(iii) Information about financial assets pledged as collateral and about financial or non-financial assets held as collateral.	*Notes to the Financial Statements:* Note 67.1.4 – Collateral Held	321
(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 the following notes*	
	• Note 28.1 – Cash and cash equivalents, 30.1 – Placements with banks,	240 & 242
	• Note 33.1 – Financial assets at amortised cost – Loans and advances to banks,	246
	• Notes 34.2 and 34.3 (c) – Financial assets at amortised cost – Loans and advances to other customers and Lease/hire purchase receivable,	248
	• Note 35.1 – Financial assets at amortised cost – Debt and other financial instruments,	250
	• Note 36.2 – Financial assets measured at fair value through other comprehensive income	252
(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	222 to 233
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	222 to 224
(ii) Fee income and expense.	*Notes to the Financial Statements:* Note 14 – Net fee and commission income	224 & 225
(iii) Amount of impairment losses by class of financial assets.	*Notes to the Financial Statements:* Note 18 – Impairment charges and other losses	226 to 229
(iv) Interest income on impaired financial assets.	*Notes to the Financial Statements:* Note 13.1 – Interest income	222 to 223
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	210
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	251 to 253
(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	252 & 253

Disclosure requirements	Description	Page No/s.
(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	226
(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.	188 and 190 to 197
(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.	188 and 190 to 197
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	*Significant Accounting Policies* Note 7.1.6 Reclassification of financial assets and liabilities. During the year 2021, the Bank did not reclassify financial assets. However, during the year 2020, the Bank reclassified financial assets. Refer Note 36.1 for details	213
(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 2021, the Bank did not reclassify financial instruments from FVOCI to amortised cost or from FVTPL to amortised cost or FVOCI. However, during the year 2020, the Bank reclassified financial assets as disclosed under Note 7.1.6 Reclassification of financial assets and liabilities and Note 36.1 – Government Securities	–
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.	212 275
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	237 238
(ii) Description of how fair value was determined.	*Significant Accounting Policies:* Note 4 – Fair value measurement	207
(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	238 240 263 & 267
(iv) (a) Reconciliations of movements between levels of fair value measurement hierarchy. (b) Additional disclosures for financial instruments that fair value is determined using level 3 inputs.	There were no movements between levels of fair value hierarchy during the year under review. *Notes to the Financial Statements:* Note 27.2 – Level 3 Fair value measurement	– 238
(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 67 – Financial Risk Review	204 to 207 308 to 336
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.	204 to 207 159 to 178
2.1.3 Changes from the prior period.	There were no major policy changes during the year under review.	–

Disclosure requirements	Description	Page No/s.
2.2 Quantitative disclosures		
2.2.1 Summary of quantitative data about exposure to each risk at the reporting date.	*Notes to the Financial Statements:* Note 67 – Financial Risk Review	308 to 336
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 67.1.1 – Credit Quality Analysis Note 67.1.4 – Collateral Held	309 to 320 321
(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 67.1.1 – Credit Quality Analysis Note 18 – Impairment charges and other losses – collateral valuation for description on collaterals Note 67.1.4 – 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	309 to 320 226 to 229 321 214
(c) Information about collateral or other credit enhancements obtained or called.	*Notes to the Financial Statements:* Note 67.1.4 – Collateral held	321
(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	214 226 to 229
– 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	226 to 229
– 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	215
– 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	215
– How instruments are grouped if ECL are measured on a collective basis	*Notes to the Financial Statements:* Note 18 – Impairment charges and other losses	226 to 229
– 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	215
– 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"	228
– 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	214
(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 – 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"	227

Disclosure requirements	Description	Page No/s.
– 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	207 & 208 214
(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.	240 242 & 246 248 250 252
(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 67.1 – Credit risk	308
(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	348 226
(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 67.5 – Capital management and Pillar III disclosures as per Basel III	335
(ii) Liquidity risk		
(a) A maturity analysis of financial liabilities.	*Notes to the Financial Statements:* Note 61 – Maturity Analysis – Group Note 67.2.2 – Maturity analysis of financial assets and financial liabilities – Bank	298 & 299 326
(b) Description of approach to risk management.	*Significant Accounting Policies:* Note 3 – Financial Risk Management Refer the Section on "Risk Governance and Management"	204 to 207 159 to 178
(c) Pillar III disclosures of the Banking Act Directions No. 1 of 2016 on Capital requirements under Basel III for Licensed Banks	Annex 2 – Basel III – Disclosures under pillar III as per Banking Act Direction No. 01 of 2016	361 to 374
(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 67.3.2 – Exposure to interest rate risk – sensitivity analysis	332
(b) Additional information, if the sensitivity analysis is not representative of the Bank's risk exposure.	*Notes to the Financial Statements:* Note 67.3.3 – Exposure to currency risk – Non-trading portfolio	333
(c) Pillar III disclosures of the Banking Act Directions No. 1 of 2016 on Capital requirements under Basel III for Licensed Banks	Annex 2 – Basel III – Disclosures under pillar III as per Banking Act Direction No. 01 of 2016	361 to 374
(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 2 – Basel III – Disclosures under pillar III as per Banking Act Direction No. 01 of 2016	361 to 374
(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	242 to 245 251 to 253

Disclosure requirements	Description	Page No/s.
• Discussion of important policies covering the valuation and accounting of equity holdings in the banking book.	Note 67.3.4 – Exposure to equity price risk	335
(b) Quantitative Disclosures		
• Value disclosed in the Statement of Financial Position of investments, as well as the fair value of those investments; for quoted securities, a comparison to publicly quoted share values where the share price is materially different from fair value.	*Notes to the Financial Statements:* Note 32 – Financial assets recognised through profit or loss – measured at fair value Note 36 – Financial assets measured at fair value through other comprehensive income	 242 to 245 251 to 253
• The types and nature of investments	*Significant Accounting Policies:* Note 7.1.3.4 – Financial assets measured at FVOCI Note 7.1.3.5 – Financial assets measured at FVTPL *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	 211 211 242 to 245 251 to 253
• The cumulative realised gains/(losses) arising from sales and liquidations in the reporting period	*Notes to the Financial Statements:* Note 15 – Net gains/(losses) from trading Note 16 – Net gains/(losses) from derecognition of financial assets	 225 225 & 226
(vi) Interest rate risk in the banking book		
(a) Qualitative Disclosures • Nature of interest rate risk in the banking book (IRRBB) and key assumptions.	*Notes to the Financial Statements:* Note 67.3.2 – Exposure to Interest Rate Risk – Sensitivity analysis Refer the Section on "Risk Governance and Management"	 332 159 to 178
(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 67.3.2 – Exposure to Interest Rate Risk – Sensitivity analysis Refer the Section on "Risk Governance and Management"	 332 159 to 178
2.2.3 Information on concentrations of risk.	*Notes to the Financial Statements:* Note 67.1.5 – Concentration of credit risk	 321
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 67.5 – Capital Management and Pillar III disclosures as per Basel III	 335
(ii) Quantitative disclosure		
(a) The amount of Tier 1 capital, with separate disclosure of: • Paid-up share capital/common stock • Reserves • Non-controlling interests in the equity of subsidiaries • Innovative instruments • Other capital instruments • Deductions from Tier 1 capital (b) The total amount of Tier 2 and Tier 3 capital (c) Other deductions from capital (d) Total eligible capital	*Notes to the Financial Statements:* Note 67.5 – Capital Management and Pillar III disclosures as per Basel III Refer the Section on "Risk Governance and Management"	 335 159 to 178
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 67.5 – Capital Management and Pillar III disclosures as per Basel III Refer the Section on "Risk Governance and Management"	 335 159 to 178
(ii) Quantitative disclosures (a) Capital requirements for credit risk, market risk, and operational risk (b) Total and Tier 1 capital ratio	Refer the Section on "Risk Governance and Management"	159 to 178

Annex 2: 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,	**2021**	2020	**2021**	2020
Regulatory capital (Rs. '000)				
Common equity	138,148,271	139,730,833	132,375,019	134,689,261
Tier 1 capital	138,148,271	139,730,833	132,375,019	134,689,261
Total capital	179,968,392	176,611,213	173,756,083	171,396,831
Regulatory capital ratios (%)				
Common equity Tier 1 capital ratio (minimum requirement – 7.50%)	12.049	13.356	11.923	13.217
Tier 1 capital ratio (minimum requirement – 9.00%)	12.049	13.356	11.923	13.217
Total capital ratio (minimum requirement – 13.00%)	15.696	16.882	15.650	16.819
Leverage ratio (minimum requirement – 3%)	5.44	5.88	5.29	5.74
Regulatory liquidity				
Statutory liquid assets (Rs. '000)			574,028,850	587,155,074
Statutory liquid assets ratio (minimum requirement – 20%)				
Domestic Banking Unit (%)			38.73	44.99
Off-shore Banking Unit (%)			36.39	32.70
Liquidity coverage ratio – Rupee (minimum requirement: 2021– 100%, 2020 - 90%) (%)			425.97	599.38
Liquidity coverage ratio – All currency (minimum requirement: 2021 – 100%, 2020 – 90%) (%)			242.52	422.86
Net stable funding ratio (minimum requirement: 2021 – 100%, 2020 – 90%) (%)			157.47	157.49

Disclosure 2

Basel III computation of capital ratios

	GROUP		BANK	
As at December 31,	**2021**	2020	**2021**	2020
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
Common equity Tier 1 (CET1) capital after adjustments	138,148,271	139,730,833	132,375,019	134,689,261
Total common equity Tier 1 (CET1) capital	150,107,907	143,866,880	147,698,440	142,208,308
Equity capital (stated capital)/Assigned Capital	54,566,955	52,187,747	54,566,955	52,187,747
Reserve fund	10,590,338	9,285,232	10,204,369	9,024,067
Published retained earnings/(Accumulated retained losses)	4,456,337	4,124,307	3,654,269	3,670,981
Published accumulated other comprehensive Income (OCI)	(9,337,629)	2,171,371	(9,597,685)	1,922,007
General and other disclosed reserves	88,870,532	75,403,506	88,870,532	75,403,506
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	961,374	694,717	–	–

As at December 31,	GROUP 2021 Rs. '000	GROUP 2020 Rs. '000	BANK 2021 Rs. '000	BANK 2020 Rs. '000
Total adjustment to CET1 capital	11,959,636	4,136,047	15,323,421	7,519,047
Goodwill (net)	445,147	445,147	–	–
Intangible assets (net)	1,827,489	1,355,368	1,724,864	1,232,863
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	–	–	3,805,427	3,782,513
Deferred tax assets (net)	9,687,000	2,331,719	9,793,130	2,499,858
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	41,820,121	36,880,380	41,381,064	36,707,570
Total Tier 2 capital	41,820,121	36,880,380	41,381,064	36,707,570
Qualifying Tier 2 capital instruments	24,075,840	22,235,336	24,075,840	22,235,336
Revaluation gains	4,630,226	2,848,860	4,630,226	2,848,860
Eligible Impairment	13,114,055	11,796,184	12,674,998	11,623,374
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	138,148,271	139,730,833	132,375,019	134,689,261
Total Tier 1 capital	138,148,271	139,730,833	132,375,019	134,689,261
Total capital	179,968,392	176,611,213	173,756,083	171,396,831
Total risk weighted amount (RWA)	1,146,567,889	1,046,175,415	1,110,253,962	1,019,068,225
Risk weighted amount for credit risk	1,049,124,433	955,864,361	1,013,999,808	929,869,882
Risk weighted amount for market risk	26,488,977	35,942,531	26,478,346	35,628,469
Risk weighted amount for operational risk	70,954,479	54,368,523	69,775,808	53,569,874
CET 1 capital ratio (including capital conservation buffer, countercyclical capital buffer & surcharge on D-SIBs) (%)	12.049	13.356	11.923	13.217
Of which: capital conservation buffer (%)	1.500	1.500	1.500	1.500
Of which: countercyclical buffer (%)	–	–	–	–
Of which: capital surcharge on D-SIBs (%)	1.500	1.500	1.500	1.500
Total Tier 1 capital ratio (%)	12.049	13.356	11.923	13.217
Total capital ratio (including capital conservation buffer, countercyclical capital buffer and surcharge on D-SIBs) (%)	15.696	16.882	15.650	16.819
Of which: capital conservation buffer (%)	1.500	1.500	1.500	1.500
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 2021 Rs. '000	GROUP 2020 Rs. '000	BANK 2021 Rs. '000	BANK 2020 Rs. '000
Tier 1 capital	138,148,271	139,730,833	132,375,019	134,689,261
Total exposures	2,540,662,512	2,375,340,709	2,502,461,384	2,345,864,995
On-balance sheet items (excluding derivatives and securities financing transactions, but including collateral)	1,950,600,933	1,751,851,828	1,913,202,128	1,722,426,381
Derivative exposures	316,862,091	424,368,169	316,862,091	424,368,169
Securities financing transaction exposures	160,995,039	103,367,009	160,995,039	103,367,009
Other off-balance sheet exposures	112,204,449	95,753,703	111,402,126	95,703,436
Basel III leverage ratio (minimum requirement 3%) (%)	5.44	5.88	5.29	5.74

Disclosure 4
Liquidity coverage ratio (LCR)

As at December 31,	2021 Total unweighted value Rs. '000	2021 Total weighted value Rs. '000	2020 Total unweighted value Rs. '000	2020 Total weighted value Rs. '000
Total stock of High Quality Liquid Assets (HQLA)	411,237,029	402,280,333	374,992,798	362,921,544
Total adjusted level 1 assets	353,800,576	353,800,576	296,085,549	296,085,549
Level 1 assets	353,800,576	353,800,576	296,085,549	296,085,549
Total adjusted level 2A assets	56,461,517	47,992,289	78,235,345	66,500,043
Level 2A assets	56,461,517	47,992,289	78,235,345	66,500,043
Total adjusted level 2B assets	974,936	487,468	671,904	335,952
Level 2B assets	974,936	487,468	671,904	335,952
Total cash outflows	1,800,587,157	346,248,270	1,605,854,701	293,551,795
Deposits	1,043,355,301	104,335,530	984,455,378	98,445,538
Unsecured wholesale funding	435,778,812	205,318,978	321,215,910	153,023,623
Secured funding transaction	–	–	–	–
Undrawn portion of committed (irrevocable) facilities and other contingent funding obligations	302,262,234	17,402,952	290,163,923	32,063,144
Additional requirements	19,190,810	19,190,810	10,019,490	10,019,490
Total cash inflows	283,012,740	180,375,458	301,547,923	207,726,008
Maturing secured lending transactions backed by collateral	84,188,544	78,487,428	63,387,344	52,844,324
Committed facilities	–	–	–	–
Other inflows by counterparty which are maturing within 30 calendar days	162,950,470	98,932,468	181,980,157	140,104,057
Operational deposits	29,962,602	–	26,625,169	–
Other cash inflows	5,911,124	2,955,562	29,555,253	14,777,627
Liquidity coverage ratio (%) (stock of high quality liquid assets/ total net cash outflows over the next 30 calendar days) *100		242.52		422.86

Disclosure 5
Net stable funding ratio (NSFR)

As at December 31,	BANK 2021 Rs. '000	BANK 2020 Rs. '000
Total available stable funding (ASF)	1,447,182,314	1,288,573,931
Total required stable funding (RSF)	919,021,123	818,207,892
Required stable funding – On balance sheet assets	909,050,700	809,526,504
Required stable funding – Off balance sheet items	9,970,423	8,681,388
NSFR (minimum requirement – 100%) (%)	157.47	157.49

Disclosure 6

Main features of regulatory capital instruments

Description of the capital Instrument	Stated capital	2016-2026 listed rated unsecured subordinated redeemable debentures	2016-2026 listed rated unsecured subordinated redeemable debentures
Issuer	Commercial Bank	Commercial Bank	Commercial Bank
Unique Identifier (e.g., ISIN or Bloomberg Identifier for Private Placement)			
Governing law(s) of the instrument	Sri Lanka	Sri Lanka	Sri Lanka
Original date of issuance	Not Applicable	March 9, 2016	October 28, 2016
Par value of instrument		Rs. 100/-	Rs. 100/-
Perpetual or dated	Perpetual	Dated	Dated
Original maturity date, if applicable	Not Applicable	March 8, 2026	October 27, 2026
Amount recognised in regulatory capital (in Rs. '000 as at the reporting date)	54,566,955	1,749,090	1,928,200
Accounting classification (equity/liability)	Equity	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
Subsequent call dates, if applicable	Not Applicable	Not Applicable	Not Applicable
Coupons/dividends:			
Fixed or floating dividend/coupon	Not Applicable	Fixed	Fixed
Coupon rate and any related index		11.25% p.a.	12.25% p.a.
Non-cumulative or cumulative	Non-cumulative	Cumulative	Cumulative
Convertible or non-convertible			
If convertible, conversion trigger (s)	Not Applicable	Not Convertible	Not Convertible
If convertible, fully or partially	Not Applicable	Not Applicable	Not Applicable
If convertible, mandatory or optional	Not Applicable	Not Applicable	Not Applicable
If convertible, conversion rate	Not Applicable	Not Applicable	Not Applicable

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	2021 - 2026 Basel III Compliant – Tier 2 Listed Rated Unsecured Subordinated Redeemable Debentures with a Non - viability Conversion	2021 - 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	Commercial Bank	International Finance Corporation
Sri Lanka	Sri Lanka	Sri Lanka	Sri Lanka	United States
July 23, 2018	July 23, 2018	September 21, 2021	September 21, 2021	March 13, 2013
Rs. 100/-	Rs. 100/-	Rs. 100/-	Rs. 100/-	
Dated	Dated	Dated	Dated	Dated
July 22, 2023	July 22, 2028	September 20, 2026	September 20, 2028	March 14, 2023
4,196,920	1,606,160	4,237,470	4,358,000	6,000,000
Liability	Liability	Liability	Liability	Liability
Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Fixed	Fixed	Fixed	Fixed	Floating
12.00% p.a.	12.50% p.a.	9.00% p.a.	9.50% p.a.	6 Months LIBOR + 5.75%
Cumulative	Cumulative	Cumulative	Cumulative	Cumulative
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."	"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."	"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 0Directions 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
Fully	Fully	Fully	Fully	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 occurrence of trigger points as detailed above.	Optional. At the discretion of the monetary board of the Central Bank of Sri Lanka upon occurrence 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
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.	The price based on the simple average of the daily volume 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 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 key ratios mentioned under Basel III accord including the Capital Adequacy ratios (CARs).

As part of the budgeting process 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 taken to maintain the CARs above the said threshhold in 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 monitor the level of achievement against pre-determined targets to take timely corrective action in case of significant 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 individual counterparty or 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. However, prior to taking such decisions, the Bank will assesss 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 Funding and Liquidity" given on page 41.

Disclosure 8

Credit risk under standardised approach

Credit risk exposures and credit risk mitigation (CRM) effects

	GROUP					
As at December 31, 2021	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	750,846,656	62,000,000	750,846,656	1,240,000	14,886,038	1.98
Claims on Foreign Sovereigns and their Central Banks	47,534,393	–	47,534,393	–	47,534,393	100.00
Claims on Public Sector Entities (PSEs)	5,336,687	–	5,336,687	–	1,070,276	20.06
Claims on Official Entities and Multilateral Development Banks(MDBs)	1,138,148	–	1,138,148	–	–	–
Claims on Banks Exposures	50,824,506	137,198,061	50,824,506	8,728,045	19,687,931	33.06
Claims on Financial Institutions	15,132,705	–	15,132,705	–	7,974,298	52.70
Claims on Corporates	548,860,023	424,373,359	496,421,785	77,258,107	545,042,797	95.01
Retail Claims	395,478,077	44,100,887	352,120,793	16,366,053	300,839,272	81.64
Claims Secured by Residential Property	82,813,288	–	82,813,288	–	51,831,185	62.59
Claims Secured by Commercial Real Estate	–	–	–	–	–	–
Non-Performing Assets (NPAs)	27,846,677	–	27,846,677	–	30,319,657	108.88
Higher-risk Categories	–	–	–	–	–	–
Cash Items and Other Assets	65,362,687	–	65,362,687	–	29,938,586	45.80
Total	1,991,173,847	667,672,307	1,895,378,325	103,592,205	1,049,124,433	52.48

Credit risk exposures and credit risk mitigation (CRM) effects (Contd.)

As at December 31, 2021	BANK					
	Exposures before credit conversion factor (CCF) and CRM		Exposures post CCF and CRM		RWA and RWA density (%)	
	On-balance sheet amount (a)	Off-balance sheet amount (b)	On-balance sheet amount (c)	Off-Balance Sheet Amount (d)	RWA (e)	RWA density {e/(c+d)}
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	(%)
Claims on Central Government and Central Bank of Sri Lanka	750,356,315	62,000,000	750,356,315	1,240,000	14,886,038	1.98
Claims on foreign sovereigns and their central banks	27,682,127	–	27,682,127	–	27,682,127	100.00
Claims on public sector entities (PSEs)	5,336,687	–	5,336,687	–	1,070,276	20.06
Claims on Official Entities and Multilateral Development Banks (MDBs)	1,138,148	–	1,138,148	–	–	-
Claims on Banks exposures	49,169,804	137,198,065	49,169,804	8,728,045	18,033,229	31.15
Claims on financial institutions	15,132,705	–	15,132,705	–	7,974,298	52.70
Claims on corporates	533,607,350	423,423,068	482,354,241	76,455,784	530,172,930	94.88
Retail claims	395,478,077	44,100,887	352,120,793	16,366,053	300,839,272	81.64
Claims secured by residential property	82,813,288	–	82,813,288	–	51,831,185	62.59
Claims Secured by Commercial Real Estate	–	–	–	–	–	–
Non-performing assets (NPAs)	27,422,272	–	27,422,272	–	29,895,252	109.02
Higher-risk Categories	1,361,804	–	1,361,804	–	3,404,510	250.00
Cash items and other assets	63,118,431	–	63,118,431	–	28,210,691	44.69
Total	1,952,617,008	666,722,020	1,858,006,615	102,789,882	1,013,999,808	51.71

Disclosure 9
Credit risk under standardised approach
Exposures by asset classes and risk weights (Post CCF and CRM)

As at December 31, 2021	GROUP										
	0%	10%	20%	35%	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	Rs. '000	Rs. '000
Claims on Central Government and Central Bank of Sri Lanka	603,226,277	148,860,379	–	–	–	–	–	–	–	–	752,086,656
Claims on Foreign Sovereigns and their Central Banks	–	–	–	–	–	–	–	47,534,393	–	–	47,534,393
Claims on Public Sector Entities (PSEs)	–	–	5,333,014	–	–	–	–	3,673	–	–	5,336,687
Claims on Official Entities and Multilateral Development Banks(MDBs)	1,138,148	–	–	–	–	–	–	–	–	–	1,138,148
Claims on Banks Exposures	–	–	43,429,283	–	10,242,388	–	–	5,880,880	–	–	59,552,551
Claims on Financial Institutions	–	–	622,788	–	13,320,355	–	–	1,189,562	–	–	15,132,705
Claims on Corporates	–	–	22,616,028	–	21,088,547	–	–	529,975,317	–	–	573,679,892
Retail Claims	1,891,721	–	5,466,085	–	–	28,945,062	199,219,841	132,964,137	–	–	368,486,846
Claims Secured by Residential Property	–	–	–	47,664,774	–	–	–	35,148,514	–	–	82,813,288
Claims Secured by Commercial Real Estate	–	–	–	–	–	–	–	–	–	–	–
Non-Performing Assets (NPAs)	–	–	–	–	413,632	–	–	22,073,453	5,359,592	–	27,846,677
Higher-risk Categories	–	–	–	–	–	–	–	–	–	–	–
Cash Items and Other Assets	30,792,717	–	5,789,230	–	–	–	–	28,780,740	–	–	65,362,687
Total	637,048,863	148,860,379	83,256,428	47,664,774	45,064,922	28,945,062	199,219,841	803,550,669	5,359,592	–	1,998,970,530

Exposures by asset classes and risk weights (post CCF and CRM) (Contd.)

	BANK										
As at December 31, 2021	0% Rs. '000	10% Rs. '000	20% Rs. '000	35% 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	602,735,936	148,860,379	–	–	–	–	–	–	–	–	751,596,315
Claims on Foreign Sovereigns and their Central Banks	–	–	–	–	–	–	–	27,682,127	–	–	27,682,127
Claims on Public Sector Entities (PSEs)	–	–	5,333,014	–	–	–	–	3,673	–	–	5,336,687
Claims on Official Entities and Multilateral Development Banks(MDBs)	1,138,148	–	–	–	–	–	–	–	–	–	1,138,148
Claims on Banks Exposures	–	–	43,429,283	–	10,242,388	–	–	4,226,178	–	–	57,897,849
Claims on Financial Institutions	–	–	622,788	–	13,320,355	–	–	1,189,562	–	–	15,132,705
Claims on Corporates	–	–	22,616,028	–	21,088,547	–	–	515,105,450	–	–	558,810,025
Retail Claims	1,891,721	–	5,466,085	–	–	28,945,062	199,219,841	132,964,137	–	–	368,486,846
Claims Secured by Residential Property	–	–	–	47,664,774	–	–	–	35,148,514	–	–	82,813,288
Claims Secured by Commercial Real Estate	–	–	–	–	–	–	–	–	–	–	–
Non-Performing Assets (NPAs)	–	–	–	–	413,632	–	–	21,649,048	5,359,592	–	27,422,272
Higher-risk Categories	–	–	–	–	–	–	–	–	–	1,361,804	1,361,804
Cash Items and Other Assets	30,276,356	–	5,789,230	–	–	–	–	27,052,845	–	–	63,118,431
Total	636,042,161	148,860,379	83,256,428	47,664,774	45,064,922	28,945,062	199,219,841	765,021,534	5,359,592	1,361,804	1,960,796,497

Disclosure 10

Market risk under standardised measurement method

	GROUP		BANK	
As at December 31,	**2021** **Rs. '000**	2020 Rs. '000	**2021** **Rs. '000**	2020 Rs. '000
(a) Capital charge for interest rate risk	2,581,624	4,225,720	2,581,624	4,225,720
General interest rate risk	652,661	918,969	652,661	918,969
(i) Net long or short position	652,661	918,969	652,661	918,969
(ii) Horizontal disallowance	–	–	–	–
(iii) Vertical disallowance	–	–	–	–
(iv) Options	–	–	–	–
Specific interest rate risk	1,928,963	3,306,751	1,928,963	3,306,751
(b) Capital charge for equity	405,300	334,665	405,300	334,665
(i) General equity risk	207,593	171,844	207,593	171,844
(ii) Specific equity risk	197,707	162,821	197,707	162,821
(c) Capital charge for foreign exchange and gold	456,643	112,144	455,261	71,316
(d) Capital charge for market risk [(a) + (b) + (c)]	3,443,567	4,672,529	3,442,185	4,631,701
Total risk - weighted amount for Market Risk [(d)*100 / CAR]	26,488,977	35,942,531	26,478,346	35,628,469

Disclosure 11

Operational risk under the Alternative Standardised Approach (ASA) – Group

As at December 31,			2021			2020		
			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		167,464	157,810	285,894	210,049	167,464	157,810
Trading and sales	18		3,852,135	7,747,014	18,704,206	3,956,306	3,852,135	7,747,013
Payment and settlement	18		690,845	730,737	1,575,958	651,440	690,845	730,737
Agency services	15		–	–	–	–	–	–
Asset management	12		–	–	–	–	–	–
Retail brokerage	12		–	–	–	–	–	–
Sub total (a)			4,710,444	8,635,561	20,566,058	4,817,795	4,710,444	8,635,560
Retail banking (Loans and advances)	12	0.035	487,202,436	513,177,931	550,644,113	452,610,049	487,202,436	513,177,931
Commercial banking (Loans and advances)	15	0.035	719,146,950	927,864,854	1,220,373,745	606,642,106	719,146,950	927,864,854
Sub total (b)			1,206,349,386	1,441,042,785	1,771,017,858	1,059,252,155	1,206,349,386	1,441,042,785
Total (a) + (b)			1,211,059,830	1,449,678,346	1,791,583,916	1,064,069,950	1,211,059,830	1,449,678,345
Capital charge for operational risk			6,669,652	8,581,039	12,421,558	5,953,036	6,669,652	8,581,039
Average capital charge (c)					9,224,083			7,067,909
RWA for operational risk [(c)*100/ CAR]					70,954,479			54,368,523

Operational risk under the Alternative Standardised Approach (ASA) – Bank

As at December 31,			2021			2020		
			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		167,464	157,810	285,894	210,049	167,464	157,810
Trading and sales	18		3,661,995	7,414,971	18,457,281	3,911,019	3,661,995	7,414,971
Payment and settlement	18		690,845	730,737	1,575,958	651,440	690,845	730,737
Agency services	15		–	–	–	–	–	–
Asset management	12		–	–	–	–	–	–
Retail brokerage	12		–	–	–	–	–	–
Sub total (a)			4,520,304	8,303,518	20,319,133	4,772,508	4,520,304	8,303,518
Retail banking (Loans and advances)	12	0.035	481,442,015	506,645,437	542,594,578	448,200,815	481,442,015	506,645,437
Commercial banking (Loans and advances)	15	0.035	708,987,024	913,988,024	1,199,495,133	604,168,024	708,987,024	913,988,024
Sub total (b)			1,190,429,039	1,420,633,461	1,742,089,711	1,052,368,839	1,190,429,039	1,420,633,461
Total (a) + (b)			1,194,949,343	1,428,936,979	1,762,408,844	1,057,141,347	1,194,949,343	1,428,936,979
Capital charge for operational risk			6,557,893	8,420,981	12,233,691	5,913,377	6,557,893	8,420,981
Average capital charge (c)					9,070,855			6,964,084
RWA for operational risk [(c)*100/ CAR]					69,775,808			53,569,874

Disclosure 12

Differences between accounting and regulatory scopes and mapping of financial statement categories with regulatory risk categories – Bank

As at December 31, 2021	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	1,949,213,171	1,970,247,264	1,952,617,008	23,436,123	15,323,420
Cash and cash equivalents	68,078,076	68,083,391	68,083,391	–	–
Balances with Central Banks	52,897,908	52,892,510	52,892,510	–	–
Placements with banks	11,584,952	11,362,769	11,362,769	–	–
Securities purchased under re-sale agreements	3,000,490	3,000,490	3,000,490	–	–
Derivative financial assets	3,245,120	–	–	–	–
Financial assets recognised through profit or loss – Measured at fair value	23,436,123	23,436,123	–	23,436,123	
Financial assets at amortised cost – Loans and advances to banks	–	–	–	–	–
Financial assets at amortised cost – Loans and advances to other customers	1,014,618,580	1,024,562,903	1,035,899,060	–	–
Financial assets at amortised cost – Debt and other financial instruments	369,417,889	370,780,734	370,780,734	–	–
Financial assets measured at fair value through other comprehensive income	335,463,338	353,322,608	353,322,608	–	–
Investments in subsidiaries	5,808,429	5,808,429	2,003,003	–	3,805,427
Investment in associate	44,331	44,331	44,331	–	–
Property, plant and equipment and right-of-use assets	23,075,467	17,844,404	17,844,404	–	–
Intangible assets	1,724,864	1,724,864	–	–	1,724,864
Deferred tax assets	9,793,129	–	–	–	9,793,129
Other assets	27,024,475	37,383,708	37,383,708	–	–
Liabilities	1,784,319,192	1,775,318,573	–	–	–
Due to banks	73,777,420	72,784,604	–	–	–
Derivative financial liabilities	2,092,198	–	–	–	–
Securities sold under repurchase agreements	151,911,842	151,918,199	–	–	–
Financial liabilities at amortised cost – Due to depositors	1,443,093,453	1,424,755,039	–	–	–
Financial liabilities at amortised cost – Other borrowings	32,587,051	32,502,704	–	–	–
Current tax liabilities	9,294,180	9,242,343	–	–	–
Deferred tax liabilities	–	1,073,574	–	–	–
Other liabilities	33,210,883	45,735,914	–	–	–
Due to subsidiaries	48,699	48,699	–	–	–
Subordinated liabilities	38,303,466	37,257,497	–	–	–
Off-balance sheet liabilities	682,399,783	682,399,783	666,722,020	–	–
Guarantees	75,099,826	75,099,826	63,355,154	–	–
Performance bonds	36,127,300	36,127,300	36,127,300	–	–
Letter of credit	83,555,655	83,555,655	83,555,655	–	–
Other contingent items	341,969,889	341,969,889	340,283,601	–	–
Undrawn loan commitments	143,400,310	143,400,310	143,400,310	–	–
Other commitments	2,246,803	2,246,803	–	–	–

Differences between accounting and regulatory scopes and mapping of financial statement categories with regulatory risk categories – Bank (Contd.)

As at December 31, 2021	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	164,893,979	194,928,691	–	–	–
Equity capital (stated capital)/assigned capital:					
Of which amount eligible for CET1	54,566,957	54,566,957	–	–	–
Of which amount eligible for AT1	–	–	–	–	–
Retained earnings	9,028,265	27,082,800	–	–	–
Accumulated other comprehensive income	(12,036,519)	(56,342)	–	–	–
Other reserves	113,335,276	113,335,276	–	–	–

Disclosure 13

Explanations of Differences between Accounting and Regulatory Exposure Amounts

As at December 31, 2021		Reasons for differences						
	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	(5,315)	(7,555)	–	–	2,240	–	–	–
Balances with Central Banks	5,398	–	–	–	5,398	–	–	–
Placements with banks	222,183	(5,930)	–	–	228,113	–	–	–
Derivative financial assets	3,245,120	–	–	–	3,245,120	–	–	–
Financial assets at amortised cost – Loans and advances to other customers	(9,944,323)	(17,164,986)	–	–	12,354,109	(5,133,446)	–	–
Financial assets at amortised cost – Debt and other financial instruments	(1,362,845)	(2,358,190)	–	–	995,345	–	–	–
Financial assets measured at fair value through other comprehensive income	(17,859,270)	2,968,526	(20,829,036)	–	1,240	–	–	–
Property, plant and equipment and right-of-use assets	5,231,063	–	–	–	–	–	5,231,063	–
Deferred tax assets	9,793,129	–	–	–	–	–	–	9,793,129
Other assets	(10,359,233)	–	–	–	(14,835,004)	–	4,475,771	–

Explanations of Differences between Accounting and Regulatory Exposure Amounts (Contd.)

As at December 31, 2021	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	992,816	–	–	–	992,816	–	–	–
Derivative financial liabilities	2,092,198	–	–	–	2,092,198	–	–	–
Securities sold under repurchase agreements	(6,357)	–	–	(6,357)	–	–	–	–
Financial liabilities at amortised cost – due to depositors	18,338,414	–	–	(392,140)	18,730,554	–	–	–
Financial liabilities at amortised cost – other borrowings	84,347	–	–	–	84,347	–	–	–
Current tax liabilities	51,837	–	–	–	–	–	–	51,837
Deferred tax liabilities	(1,073,574)	–	–	–	–	–	–	(1,073,574)
Other liabilities	(12,525,031)	8,429,803	–	–	(20,954,834)	–	–	–
Subordinated liabilities	1,045,969	–	–	(5,507)	1,051,476	–	–	–
Shareholders' equity								
Retained earnings	(18,054,535)	(26,955,188)	–	404,004	–	–	(1,842,527)	10,339,176
Accumulated other comprehensive income	(11,980,177)	–	(11,980,177)	–	–	–	–	–

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 pages 226 to 229 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 the 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" profit or loss 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 210 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 recognizes 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 IBR. In addition, the Bank recognizes 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 159 to 178.

Disclosure 15

Risk management related to key risk exposures

The quantitative disclosures relating to key risk areas such as credit, market, liquidity, operational, and interest rate risk in the banking book are presented and discussed in the Section on "Risk Governance and Management" on pages 159 to 178 and in Note 67 of the Financial Statements on Financial Risk Review on pages 308 to 336.

D-SIB Assessment Exercise
(As per the CBSL Direction No. 10 of 2019)

	GROUP	
	2021 Rs. '000	2020 Rs. '000
Size Indicator		
Section 1 – Total Exposures		
Total exposures measure	2,540,662,511	2,375,340,709
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)	63,989,509	52,431,787
(i) Funds deposited	50,149,790	41,433,076
(ii) Lending	13,839,719	10,998,711
b. Holdings of securities issued by other financial institutions	1,292,987	823,563
c. Net positive current exposure of securities financing transactions (SFTs) with other financial institutions	2,531,984	2,798,298
d. Over-the-counter (OTC) derivatives with other financial institutions that have a net positive mark to market value	4,069,292	3,894,131
Intra-financial system assets (a + b + c + d)	71,883,772	59,947,779
Section 3 – Intra-Financial System Liabilities		
a. Funds deposited by or borrowed from other financial institutions (including unused portion of committed lines obtained)	130,831,756	127,918,135
(i) Funds deposited	18,622,547	15,482,943
(ii) Borrowings	112,209,209	112,435,192
b. Net negative current exposure of securities financing transactions with other financial institutions	295,021	(5)
c. Over-the-counter derivatives with other financial institutions that have a net negative mark to market value	1,671,733	2,486,482
Intra-financial system liabilities (a + b + c)	132,798,510	130,404,612
Section 4 – Securities Outstanding		
Securities outstanding	22,204,430	23,179,430
Substitutability/Financial Institution Infrastructure Indicators		
Section 5 – Payments made in the reporting year (excluding intragroup payments)		
Payments activity	10,017,954,179	7,663,939,028

	GROUP	
	2021 Rs. '000	2020 Rs. '000
Section 6 – Assets Under Custody		
Assets under custody	**8,011,578**	5,446,768
Section 7 – Underwritten Transactions in Debt and Equity Markets		
Underwriting activity	**–**	–
Section 8 – Trading Volume		
a. number of shares or securities	**9,242**	5,531
b. value of the transactions	**533,950**	171,971
Trading Volume (a+b)	**543,192**	177,502
Complexity indicators		
Section 9 – Notional Amount of Over-the-Counter (OTC) Derivatives		
OTC derivatives	**222,505,837**	307,412,791
Section 10 – Level 2 Assets		
Level 2 assets	**57,436,453**	78,907,249
Section 11 – Trading and available for sale (AFS) securities		
a. debt instruments	**363,949,718**	315,290,030
b. equity instruments	**449,856**	292,069
c. derivatives	**3,245,120**	2,636,717
Trading and available for sale (AFS) securities (a+b+c)	**367,644,694**	318,218,816
Section 12 – Cross-Jurisdictional Liabilities		
Cross-jurisdictional liabilities (excluding derivatives and intragroup liabilities)	**147,024,936**	174,819,921
Section 13 – Cross-Jurisdictional Claims		
Cross-jurisdictional claims (excluding derivatives and intragroup claims)	**66,100,684**	58,931,898

Annex 3: 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	199 and 200	Note 1.3 – Notes to Financial Statements
102-3	Location of headquarters	Inner Back Cover	Corporate information
102-4	Location of Operations	8	About the Bank
102-5	Ownership and legal form	8 and Inner Back Cover	About the Bank/ Corporate information
102-6	Markets served	8, 52, 53	About the Bank
102-7	Scale of the organisation	9	A snapshot of the Bank's profile
102-8	Information on employees and other workers	62	Employees by type and gender
102-9	Supply chain	65	Partnership for the goals
102-10	Significant changes to the organisation and its supply chain	5 and 6	Report boundary
102-11	Precautionary principle or approach	6	Precautionary principle
102-12	External initiatives	6 and 65	Basis for preparation/Partnership for the goals
102-13	Membership of associations	65	Partnership for the goals
Strategy			
102-14	Statement from senior decision-maker	14 and 15	Joint message from the Chairman and his Successor
Ethics and integrity			
102-16	Values, principles, standards and norms of behaviour	Inner Front Cover, 45 and 354	Ethics and conduct
Governance			
102-18	Governance structure	6, 119 and 120	Governance Structure
102-19	Delegating authority	119 and 120	Bank's approach to governance
102-22	Composition of the highest governance body and its committees	104 to 109 and 122 to 124	Board of Directors and profiles, Composition of the Board
102-23	Chair of the highest governance body	126	Segregation of roles
102-24	Nominating and selecting the highest governance body	126 to 127 and 134 to 135	Appointment of Directors, Report of the BNC
102-25	Conflicts of interest	121, 138 and 139	Conflicts of interests, Report of the BRPTRC
102-35	Remuneration Benefits policies	127, 136 to 137 and 352	Remuneration and benefits policy
102-36	Process for determining remuneration	127, 136 and 137	Directors' and Executive remuneration, Report of the BHRRC
Stakeholder engagement			
102-40	List of stakeholder groups	20	Connecting with stakeholders
102-41	Collective bargaining agreements	61	Collective bargaining
102-42	Identifying and selecting stakeholders	20	Connecting with stakeholders
102-43	Approach to stakeholder engagement	20 to 22	Connecting with stakeholders
102-44	Key topics and concerns raised	21 and 22	Mode and frequency of stakeholder engagement
Reporting practice			
102-45	Entities included in the consolidated financial statements	5	Report boundary
102-46	Defining report content and topic boundaries	5 to 6 and 23 to 26	Report boundary/ Materiality matters
102-47	List of material topics	27	Materiality matters
102-48	Restatement of information	5 to 6	Report boundary
102-49	Changes in reporting	5 to 6	Report boundary
102-50	Reporting period	5	Introducing our 53rd Annual Report
102-51	Date of most recent report	5	Introducing our 53rd Annual Report
102-52	Reporting cycle	5	Introducing our 53rd Annual Report
102-53	Contact point for questions regarding the report	6	Introducing our 53rd Annual Report
102-54	Claims of reporting in accordance with the GRI Standards		This report has been prepared in accordance with the GRI Standards: Core option
102-55	GRI content index	375 to 376	
102-56	External assurance	4, 6 and 379 to 385	Responsibility for sustainability practices and external assurance

GRI Standard/Disclosure		Page No.	Report commentary title
GRI 103: Management Approach 2016			
103-1	Explanation of the material topic and its boundary	25 and 27	Material matters/Business model
103-2	The management approach and its components	25 and 27, 34 and 39	Material matters/Business model
103-3	Evaluation of the management approach	25 and 27, 34 and 39	Material matters/Business model
GRI 200: Economic			
GRI 201: Economic performance 2016			
201-1	Direct economic value generated and distributed	377	Our sustainability footprint
GRI 203: Indirect economic impact 2016			
203-1	Infrastructure investments and services supported	47 to 50	Responding to the COVID-19 Pandemic
203-2	Significant indirect economic impacts	48 to 50	Supporting SMEs and Micro Enterprises
GRI 207: Tax 2019			
207-1	Approach to tax	219 and 220	Income tax expenses
207-2	Tax governance, control and risk management	219 and 220	Income tax expenses
207-3	Stakeholder engagement	22	Income tax expenses
207-4	Country-by-country reporting	219 and 220	Income tax expenses
GRI 300: Environmental			
GRI 302: Energy 2016			
302-1	Energy consumption within the organisation	377	Our sustainability footprint
302-4	Reduction of energy consumption	377	Our sustainability footprint
GRI 305: Emissions 2016			
305-1	Direct (Scope 1) GHG emissions	377	Our sustainability footprint
305-2	Energy indirect (Scope 2) GHG emissions	377	Our sustainability footprint
GRI 400: Social			
GRI 401: Employment 2016			
401-1	New employee hires and employee turnover	377	Our sustainability footprint
401-3	Parental leave	377 and 378	Our sustainability footprint
GRI 403: Occupational health and safety 2018			
403-1 to 403-7	Occupational health and safety management system	59 and 60	A transformed working environment
403-9	Work related injuries		There has been no injuries during the year
GRI 404: Training and education 2016			
404-1	Average hours of training per year per employee	378	Our sustainability footprint
404-3	Percentage of employees receiving regular performance and career development reviews	378	Our sustainability footprint
GRI 405: Diversity and equal opportunity 2016			
405-1	Diversity of governance bodies and employees	62 and 378	Our sustainability footprint
405-2	Ratio of basic salary and remuneration of women to men	378	Our sustainability footprint
GRI 418: Customer privacy 2016			
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data		The Bank did not come across any complaint that had resulted in a reputational damage or significant financial loss
Non GRI disclosures			
	Instability and lack of policy consistency	28 to 32	Operating context and outlook
	Economic slowdown	28 to 32	Operating context and outlook
	Directed lending	47 to 50	Financial relief initiatives
	Higher regulatory capital	69	
	Envisaged upturn in private sector credit and improvement in asset quality	28 to 32	Operating context and outlook
	Changing customer expectations	46 to 53	Customer centricity

Annex 4: Our Sustainability Footprint

GRI Disclosures – 5 Year Summary

Disclosure		Unit of Measure	2021		2020		2019		2018		2017	
201–1	Direct economic value:											
	– Generated	Rs. Mn.	160,886		149,711		148,706		138,049		114,357	
	– Distributed to		118,366		116,450		124,544		117,032		102,268	
	– Depositors		65,832		72,759		80,571		72,524		64,011	
	– Employees		16,321		14,564		14,083		13,071		11,268	
	– Business partners		12,762		9,636		10,426		10,497		8,819	
	– Government		14,361		11,808		12,691		14,286		11,609	
	– Shareholders		8,957		7,586		6,679		6,571		6,478	
	– Community		133		97		94		83		83	
	– Retained		42,520		33,261		24,162		21,017		12,089	
302–1	Energy consumption within the organisation	Gigajoules	42,906		45,045		50,296		49,958		54,820	
302–4	Reduction of energy consumption	Gigajoules	2,139		5,251		(338)		4,862		1,539	
305–1	Direct (Scope 1) GHG emissions	CO_2 Tonnes.	Pending		1,079		1,282		1,369		1,305	
305–2	Energy indirect (Scope 2) GHG emissions	CO_2 Tonnes.	Pending		8,413		10,957		10,838		12,395	
401–1	New employee hires		Nos.	%	Nos.	%	Nos.	%	Nos.	%	Nos.	%
	Female		82	1.62	41	0.81	57	1.13	70	1.41	46	0.92
	– 18–30 Years		78	1.54	41	0.81	52	1.03	67	1.34	43	0.86
	– 31–50 Years		4	0.08	–	–	5	0.10	3	0.06	3	0.06
	– Above 50 Years		–	–	–	–	–	–	–	–	–	–
	Male		144	2.84	117	2.31	207	4.12	242	4.86	214	4.29
	– 18–30 Years		125	2.47	106	2.09	197	3.92	233	4.68	211	4.23
	– 31–50 Years		16	0.32	11	0.22	9	0.18	8	0.16	2	0.04
	– Above 50 Years		3	0.06	–	–	1	0.02	1	0.02	1	0.02
	Total		226	4.46	158	3.12	264	5.25	312	6.26	260	5.21
	Attrition											
	Female		54	1.07	52	1.03	73	1.45	72	1.44	55	1.10
	– 18–30 Years		21	0.41	12	0.24	31	0.61	10	0.20	24	0.48
	– 31–50 Years		9	0.18	9	0.18	18	0.36	41	0.82	21	0.42
	– Above 50 Years		24	0.47	31	0.61	24	0.48	21	0.42	10	0.20
	Male		115	2.27	111	2.19	154	3.05	191	3.82	187	3.75
	– 18–30 Years		52	1.03	51	1.01	91	1.80	107	2.14	94	1.89
	– 31–50 Years		37	0.73	32	0.63	43	0.85	51	1.02	46	0.92
	– Above 50 Years		26	0.51	28	0.55	20	0.40	33	0.66	47	0.94
	Total		169	3.34	163	3.22	227	4.50	263	5.26	242	4.86
401–3	Parental leave											
	– Entitled to leave	Nos.	1,196		1,185		1,196		1,189		1,213	
	– Availed for leave	Nos.	50		69		84		58		52	
	– Due to return	Nos.	59		73		64		48		57	

Disclosure		Unit of Measure	2021	2020	2019	2018	2017
	– Return to work	Nos.	**59**	73	64	48	53
	– Still employed	Nos.	**70**	61	45	51	57
	– Return ratio	%	**100.00**	100.00	100.00	100.00	92.98
	– Retained ratio	%	**95.89**	95.31	93.75	96.23	91.94
404–1	Average training hours	Hours					
	Female		**2**	2	19	20	17
	– Corporate management		**3**	1	32	29	2
	– Executive officers		**5**	2	23	22	19
	– Junior executive assistants & allied grades		**3**	1	10	10	10
	– Banking & graduate trainees		**10**	8	64	86	98
	Male		**3**	7	27	26	25
	– Corporate management		**7**	6	34	35	32
	– Executive officers		**5**	6	28	25	24
	– Junior executive assistants & allied grades		**3**	5	16	16	15
	– Banking and graduate trainees		**8**	28	83	79	78
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		**23.68**	23.43	23.63	24.08	24.35
	– Male		**76.32**	76.57	76.37	75.92	75.65
	Age group						
	– 18–30 Years		**33.12**	34.86	37.34	39.94	41.17
	– 31–50 Years		**58.44**	57.37	55.15	52.93	52.27
	– Above 50 Years		**8.44**	7.77	7.51	7.13	6.56
405–2	Remuneration ratio women to men	Male:Female					
	– Corporate management		**1 : 0.70**	1 : 0.75	1 : 0.97	1:0.75	1:0.75
	– Executive officers		**1 : 1.06**	1 : 1.05	1 : 1.09	1:1.11	1:0.90
	– Junior executive assistants and allied grades		**1 : 1.08**	1 : 1.10	1 : 1.10	1:1.09	1:0.92
	– Banking and graduate trainees		**1 : 0.98**	1 : 1.00	1 : 1.01	1:1.02	1:0.97
	– Office assistants and other		**1 : 0.84**	1 : 0.79	1 : 0.79	1:0.82	1:1.05
418–1	Substantiated complaints	The Bank did not come across any complaint that had resulted in a reputational damage or significant financial loss.					

Annex 5: Independent Assurance Reports

Annex 5.1: Independent Assurance Report to Commercial Bank of Ceylon PLC on Integrated Reporting Presented in the Annual Report – 2021

Building a better working world

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Independent Assurance Report to the Board of Directors of Commercial Bank of Ceylon PLC in the Integrated Annual Report – 2021

Scope

We have been engaged by the management of Commercial Bank of Ceylon PLC ("the Bank") to perform an independent assurance engagement, as defined by the Sri Lankan Standard on Assurance Engagements, on the following elements of its Integrated Annual Report for the year ended December 31, 2021 (the "Integrated Report").

- Reasonable assurance engagement on the information on financial capital management as specified on pages 33 to 37 of the Integrated Report.
- Limited assurance engagement on other information on management of the capitals (other than financial capital), stakeholder engagement, business model, strategy, organizational overview & external environment and outlook presented in the Integrated Report.

Criteria applied by Commercial Bank of Ceylon PLC

The Integrated Report is prepared based on the Guiding Principles and Content Elements of the International Integrated Reporting Council (IIRC)'s Integrated Reporting Framework (<IR> Framework) (the "criteria") publicly available at IIRC's website at "www.integratedreporting.org".

Commercial Bank of Ceylon PLC's responsibilities

Commercial Bank of Ceylon PLC's management is responsible for selecting the criteria, and for presenting the Integrated Report in accordance with the said criteria, in all material respects. This responsibility includes establishing and maintaining internal controls, maintaining adequate records and making estimates that are relevant to the preparation of the Integrated Report, such that it is free from material misstatement, whether due to fraud or error.

Ernst & Young's responsibilities

Our responsibility is to express a conclusion on the presentation of the Integrated Report in accordance with the Guiding Principles and Content Elements of the International Integrated Reporting Council (IIRC)'s Integrated Reporting Framework (<IR> Framework) based on the evidence we have obtained.

We conducted our engagement in accordance with the Sri Lanka Standard on Assurance Engagements SLSAE 3000: Assurance Engagements other than Audits or Reviews of Historical Financial Information (SLSAE 3000) issued by the Institute of Chartered Accountants of Sri Lanka and the terms of reference for this engagement as agreed with Commercial Bank of Ceylon PLC in the engagement letter dated February 02, 2022.

The standards require that we plan and perform our engagement to express a conclusion on whether we are aware of any material modifications that need to be made to the Integrated Report in order for it to be in accordance with the criteria, and to issue a report. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risk of material misstatement, whether due to fraud or error.

We believe that the evidence obtained is sufficient and appropriate to provide a basis for our independent assurance conclusion.

Our Independence and Quality Control

We have maintained our independence and confirm that we have met the requirements of the Code of Ethics for Professional Accountants issued by the Institute of Chartered Accountants of Sri Lanka and have the required competencies and experience to conduct this assurance engagement.

EY also applies Sri Lanka Standard on Quality Control (SLSQC 1), Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements, 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.

Partners: H M A Jayesinghe FCA FCMA, R N de Saram ACA FCMA, Ms. N A De Silva FCA, W R H De Silva FCA ACMA, Ms. Y A De Silva FCA, Ms. K R M Fernando FCA ACMA, N Y R L Fernando ACA, W K B S P Fernando FCA FCMA, Ms. L K H L Fonseka FCA, D N Gamage ACA ACMA, A P A Gunasekera FCA FCMA, A Herath FCA, D K Hulangamuwa FCA FCMA LLB (London), 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, C A Yalagala ACA ACMA

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Description of procedures performed

We performed our procedures to provide reasonable and limited assurance engagement in accordance with SLSAE 3000.

Procedures performed in the reasonable assurance engagement depend on our judgement, including the assessment of the risks of material misstatement whether due to fraud or error. In making those risk assessments, we have considered internal control relevant to the preparation and presentation of the reasonable assurance indicators in order to design the assurance procedures that are appropriate in the circumstances. Our procedures also included assessing the appropriateness of the reasonable assurance indicators, the suitability of the criteria in preparing and presenting the reasonable assurance indicators within the Integrated Report and obtaining an understanding of the compilation of the financial information to the sources from which it was obtained.

Procedures performed in the limited assurance engagement consisted of making inquiries, primarily of persons responsible for preparing the Integrated Report and related information and applying analytical and other appropriate procedures. These procedures vary in nature and timing from and are less in extent than for a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

Although we considered the effectiveness of management's internal controls when determining the nature and extent of our procedures, our assurance engagement was not designed to provide assurance on internal controls. Our procedures did not include testing controls or performing procedures relating to checking aggregation or calculation of data within IT systems.

We also performed the below procedures as we considered necessary in the circumstances:

- Perform a comparison of the content of the Integrated Annual Report against the Guiding Principles and Content Elements given in the International Integrated Reporting Council (IIRC)'s Integrated Reporting Framework (<IR> Framework).
- Perusing the Integrated Annual Report – Financial Capital element information to understand whether the information contained are properly derived from the audited financial statements.
- Interviewing the selected key management personnel and relevant staff to understand the internal controls, governance structure and reporting process relevant to the Integrated Report.
- Obtaining an understanding of the relevant internal policies and procedures developed by the Bank, including those relevant to determining what matters most to the stakeholders, how the Bank creates value, the external environment, strategy, approaches to putting members first, governance and reporting.
- Obtaining an understanding of the description of the Bank's strategy and how the Bank creates value, what matters most to the stakeholders and enquiring the management as to whether the description in the Integrated Report accurately reflects their understanding.
- Perusing the Board of Directors meeting minutes during the financial year to ensure consistency with the content of the Integrated Report.
- Perusing the relevant supporting evidence related to qualitative & quantitative disclosures within the Integrated Report against identified material aspects.
- Perusing the Integrated Report in its entirety to ensure it is consistent with our overall knowledge obtained during the assurance engagement.

Emphasis of matter

Social, natural, and intellectual capital management data/information are subjected to inherent limitations given their nature and the methods used for determining, calculating, and estimating such data.

We also do not provide any assurance on the assumptions and achievability of prospective information presented in the Integrated Report.

Restricted use

This report is intended solely for the information and use of Commercial Bank of Ceylon PLC and is not intended to be and should not be used by anyone other than the specified party.

Conclusion

Based on our procedures and the evidence obtained, we conclude that:

- The information on financial capital management as specified on pages 33 to 37 of the Integrated Report are properly derived from the audited financial statements of the Bank for the year ended December 31, 2021.
- Nothing has come to our attention that causes us to believe that other information presented in the Integrated Report are not fairly presented, in all material respects, in accordance with the Guiding Principles and Content Elements of the International Integrated Reporting Council (IIRC)'s Integrated Reporting Framework (<IR> Framework).

Ernst & Young

Chartered Accountants

February 25, 2022

Colombo

Annex 5.2: Independent Assurance Report to Commercial Bank of Ceylon PLC on Sustainability Reporting Criteria Presented in the Integrated Annual Report –2021

Building a better working world

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Independent Assurance Report to the Board of Directors of Commercial Bank of Ceylon PLC on the Sustainability Reporting Criteria Presented in the Integrated Annual Report - 2021

Scope

We have been engaged by the management of Commercial Bank of Ceylon PLC ("the Bank") to perform an independent assurance engagement, as defined by the Sri Lankan Standard on Assurance Engagements, on the sustainability reporting criteria presented in the Integrated Annual Report for the year ended December 31, 2021 (the "Report").

- Reasonable assurance on the information on financial performance as specified on page 377 of the Report.
- Limited assurance on other information presented in the Report, prepared in accordance with the GRI Standards: Core option.

Criteria applied by Commercial Bank of Ceylon PLC

The sustainability reporting criteria presented in the Report has been prepared in accordance with The Global Reporting Initiative's (GRI) Sustainability Reporting Guidelines, publicly available at GRI's global website "www.globalreporting.org".

This Report has been prepared in accordance with the GRI Standards: Core option (the "criteria").

Commercial Bank of Ceylon PLC's responsibilities

Commercial Bank of Ceylon PLC's management is responsible for selecting the criteria, and for presenting the Report in accordance with the said criteria, in all material respects. This responsibility includes establishing and maintaining internal controls, maintaining adequate records and making estimates that are relevant to support the sustainability reporting process of the Report, such that it is free from material misstatement, whether due to fraud or error.

Ernst & Young's responsibilities

Our responsibility is to express a conclusion on the presentation of the Report in accordance with the GRI Standards: Core option based on the evidence we have obtained.

We conducted our engagement in accordance with the Sri Lanka Standard on Assurance Engagements SLSAE 3000: Assurance Engagements other than Audits or Reviews of Historical Financial Information (SLSAE 3000) issued by the Institute of Chartered Accountants of Sri Lanka and the terms of reference for this engagement as agreed with Commercial Bank of Ceylon PLC in the engagement letter dated February 02, 2022.

The standards require that we plan and perform our engagement to express a conclusion on whether we are aware of any material modifications that need to be made to the Report in order for it to be in accordance with the criteria, and to issue a report. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risk of material misstatement, whether due to fraud or error.

We believe that the evidence obtained is sufficient and appropriate to provide a basis for our independent assurance conclusion.

Our Independence and Quality Control

We have maintained our independence and confirm that we have met the requirements of the Code of Ethics for Professional Accountants issued by the Institute of Chartered Accountants of Sri Lanka and have the required competencies and experience to conduct this assurance engagement.

EY also applies Sri Lanka Standard on Quality Control (SLSQC 1), Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements, 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.

Description of procedures performed

We performed our procedures to provide an independent assurance engagement in accordance with SLSAE 3000.

Procedures performed in the reasonable assurance engagement depend on our judgement, including the assessment of the risks of material misstatement whether due to fraud or error. In making those risk assessments, we have considered internal control relevant to the preparation and presentation of the reasonable assurance Indicators in order to design the assurance procedures that are appropriate in the circumstances. Our procedures also included assessing the appropriateness of the reasonable assurance indicators, the suitability of the criteria in preparing

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Principals: G B Goudian ACMA, Ms. P S Paranavitane ACMA LLB (Colombo), T P M Ruberu FCMA FCCA

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and presenting the reasonable assurance indicators within the Report and obtaining an understanding of the compilation of the financial information to the sources from which it was obtained.

Procedures performed in the limited assurance engagement consisted of making inquiries, primarily of persons responsible for preparing the Report and related information and applying analytical and other appropriate procedures. These procedures vary in nature and timing from and are less in extent than for a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

Although we considered the effectiveness of management's internal controls when determining the nature and extent of our procedures, our assurance engagement was not designed to provide assurance on internal controls. Our procedures did not include testing controls or performing procedures relating to checking aggregation or calculation of data within IT systems.

We also performed the below procedures as we considered necessary in the circumstances:

- Perform a comparison of the content of the Report against the Global Reporting Initiative (GRI) - GRI Standards guideline.
- Interviewing relevant organization's personnel to understand the process for collection, analysis, aggregation and presentation of data.
- Review and validation of the information contained in the Report.
- Check the calculations performed by the organization on a sample basis through recalculation.
- Advice, make recommendations and suggestions on the Sustainability Reporting indicators to improve the presentation standard.
- Independently review the content of the Report and request changes if required.
- Express an independent assurance conclusion on the performance indicators presented in the Sustainability Reporting criteria.

Emphasis of matter

Social, natural, and intellectual capital management data/information are subjected to inherent limitations given their nature and the methods used for determining, calculating, and estimating such data.

We also do not provide any assurance on the assumptions and achievability of prospective information presented in the Report.

Restricted use

This report is intended solely for the information and use of Commercial Bank of Ceylon PLC and is not intended to be and should not be used by anyone other than the specified party.

Conclusion

Based on our procedures and the evidence obtained, we conclude that:

- The information on financial performance as specified on page 377 of the Report is properly derived from the audited financial statements of the Bank for the year ended December 31, 2021.
- 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 the GRI Standards: Core option.

Ernst & Young

Chartered Accountants
February 25, 2022
Colombo

ANNEX 5.3: Independent Assurance Statement on Non-Financial Reporting – DNV

DNV

Introduction

DNV represented by DNV Business Assurance Lanka (Private) Limited ('DNV') has been commissioned by the management of Commercial Bank of Ceylon PLC ('Commercial Bank' or 'the Bank', Corporate Registration Number PQ 116) to carry out an independent assurance engagement of its non-financial/ sustainability performance disclosed in the Bank's Annual Report 2021 ('the Report') in its printed format. The non-financial performance in this Report covers the disclosures related to material matters for the reporting period January 01, 2021 – December 31, 2021.

The Report comprises sustainability disclosures which have been prepared by Commercial Bank 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 as well as performance trends related to identified material matters/topics.

The reporting topic boundaries for non-financial performance are based on the internal and external materiality assessment carried out by Commercial Bank and covers identified material topics for the Bank's banking and associated operations as brought out in the Report in the sections 'Introducing our 53rd Annual Report' and 'Material Matters'. 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.

We performed our assurance (Type 2, Moderate level) activities based on AccountAbility's AA1000 Assurance Standard v3, and DNV's assurance methodology VeriSustain™ . In doing so, we evaluated the qualitative and quantitative disclosures presented in the Report, together with 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. Our assurance engagement was planned and carried out during February 2022 – March 2022.

The intended user of this assurance statement is the Management of Commercial Bank. We disclaim any liability or responsibility to a third party for decisions, whether investment or otherwise, based on this Assurance Statement. We planned and performed our work to obtain the evidence we considered necessary to provide a basis for our assurance opinion and this process did not involve engagement with any external stakeholders.

Responsibilities of the Management of Commercial Bank and of the Assurance Provider

The Management of the Bank has the sole responsibility for the preparation of the Report as well as the processes for collecting, analysing and reporting the information presented in the Report and also responsible for ensuring the maintenance and integrity of its website and any referenced disclosures on non-financial performance and management approach. In performing this assurance work, DNV's responsibility is to the Management of Commercial Bank; however, this statement represents our independent opinion and is intended to inform the outcome of the assurance to the stakeholders of the Bank.

DNV'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 material misstatements or errors. We were not involved in the preparation of any statements or data included in the Report except for this Assurance Statement.

We did not come across limitations to scope of the agreed assurance agreement during our assurance process. We understand that any reported data on financial performance of the Bank including its subsidiaries within the Report are based on financial disclosures and data which has been subjected to a separate independent statutory audit process and is not included in our scope of work.

Basis of our Opinion

We planned and performed our work to obtain the evidence considered necessary to provide a basis for our assurance opinion, and as part of the assurance engagement, a multi-disciplinary team of sustainability and assurance specialists conducted remote assessments and interactions with key internal stakeholders at the Bank's Head Office in Colombo, Sri Lanka. We adopted a risk-based approach, that is, we concentrated our remote verification efforts on the issues of high material relevance to the Bank and its key stakeholders. Due to the COVID-19 pandemic and associated travel restrictions, we carried out remote assessments as in-person discussions and onsite assessments were not feasible. We undertook the following activities:

- Reviewed Commercial Bank's approach to addressing the Guiding Principles and Content Elements of the <IR> Framework, including stakeholder engagement and materiality determination process, as well as outcomes as brought out in the Report;

[1] *The VeriSustain protocol is available on request from www.dnv.com and is based on our professional experience, international assurance best practices including the International Standard on Assurance Engagements 3000 (ISAE 3000) Revised (Assurance Engagements other than Audits or Reviews of Historical Financial Information) and GRI's Reporting Principles. GRI's Principles for defining Report Content and Quality.*

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- Verified the value creation disclosures related to the capitals identified by the Bank (capitals of the <IR> Framework) as well as claims made in the Report;
- Examined and reviewed selected evidences including documents, data and other information made available by the Bank related to non-financial disclosures presented within the Report;
- Assessed the robustness of the data management system, data accuracy, information flow and controls for the reported disclosures;
- Conducted interviews with the senior management team of the Bank and other representatives, including data owners and decision-makers from various functions of the Bank to validate the non-financial disclosures and mechanisms for implementing the Bank's sustainability related policies. We were free to choose interviewees and interviewed those with overall responsibility to deliver the Bank's sustainability objectives;
- Performed sample-based checks of the processes for generating, gathering and managing the specified performance data and information included in the Report using selected GRI topic-specific Standards.

Opinion and Observations

On the basis of our assurance work undertaken, nothing has come to our attention to suggest that the Report does not properly describe Commercial Bank of Ceylon PLC'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 identified capitals, related strategies and management approach and chosen topic-specific disclosures from the GRI Standards for identified material topics. Without affecting our assurance opinion, we also provide the following observations.

Principles of the AA1000 AccountAbility Principles Standard (2018)

Inclusivity

The participation of stakeholders in developing and achieving an accountable and strategic response to Sustainability.

The Report brings out the process through which the Bank has identified and prioritised its key stakeholder groups – investors, customers, employees, government institutions and regulators, business partners and the society and environment. The ongoing processes for engagement with these stakeholder groups are brought out within the Report along with descriptions of the key topics, feedback and expectations raised, as well as the Bank's responses.

Nothing has come to our attention to suggest that the Report does not meet the requirements related to the Principle of Inclusivity.

Materiality

The process of determining the issues that are most relevant to an organization and its stakeholders.

The Report describes the process through which the Bank analysed its external environment towards identifying emerging matters and trends for its identified stakeholder groups across political, economic, social, technological and legal/regulatory dimensions. This was used to refresh the Bank's existing process of identifying and determining its material matters based on the relevance, impact and probability of occurrence of each material matter, as well as its potential to impact the Bank's ability towards value creation.

Nothing has come to our attention to suggest that the Report does not meet the requirements related to the Principle of Materiality.

Responsiveness

The extent to which an organization responds to stakeholder issues.

The Report brings out the Bank's strategic planning processes, policies, management approaches, and internal control and governance mechanisms related to its identified material matters. The Report explains how its stakeholder engagement processes helped to adapt and integrate legitimate concerns and challenges as well as evolving challenges into the business model and overall strategy of the Bank towards deriving and creating value.

Nothing has come to our attention to suggest that the Report does not meet the requirements related to the Principle of Responsiveness.

Impact

The level to which an organisation monitors, measures and is accountable for how its actions affect its broader ecosystems.

The Report explains the strategic planning processes and control mechanisms in place towards monitoring, measuring and evaluating the Bank's significant impacts connected to its identified material topics and capitals. The outputs of these processes are brought out within the Report through performance metrics and descriptions of value creation and its outcomes.

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 the process for gathering information developed by Commercial Bank for its sustainability performance reporting to be appropriate, and the qualitative and quantitative data included in the Report was found to be identifiable and traceable; the personnel responsible were able to demonstrate the origin and interpretation of the data and

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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 the Bank's non-financial performance for its identified material matters through chosen GRI topic-specific Standards while ensuring inbuilt controls to facilitate transparency and reliability of information. The majority of the data and information verified through our remote assessments including interactions with the teams at the Head Office 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 VeriSustain

Completeness

How much of all the information that has been identified as material to the organisation and its stakeholders is reported.

The Report uses the Content Elements and Guiding Principles of the <IR> Framework to bring out the key strategies, business model, management approach and value creation approaches across six capitals, as well as non-financial performance related to identified material matters using chosen GRI topic-specific Standards covering the Bank's chosen scope and boundaries of reporting across Sri Lanka and Bangladesh.

Nothing has come to our attention to suggest that the Report does not meet the requirements related to the Principle of Completeness with respect to scope, boundary and time.

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 non-financial performance during the reporting period in a neutral manner in terms of presenting report content such as relevant information, key challenges and expectations, and operational context and outlook so as to not unduly influence stakeholder opinions made based on the reported data and information.

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 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 Code of Conduct[2] 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. We were not involved in the preparation of any statements or data included in the Report except for this Assurance Statement and Management Report. DNV maintains complete impartiality toward stakeholders interviewed during the assurance process. We did not provide any services to Commercial Bank or its subsidiaries in the scope of assurance for the reporting period that could compromise the independence or impartiality of our work.

For DNV

Radhakrishnan, Kiran
Digitally signed by Radhakrishnan, Kiran
Date: 2022.03.03 18:12:43 +05'30'

Kiran Radhakrishnan

Lead Assessor,

DNV Business Assurance India Private Limited, India.

Wickramasinghe, Rohitha
Digitally signed by Wickramasinghe, Rohitha

Rohitha Wickramasinghe

Operations Manager – Sri Lanka

DNV Business Assurance Lanka (Private) Limited

Vadakepatth, Nandkumar
Digitally signed by Vadakepatth, Nandkumar

Vadakepatth Nandkumar

Assurance Reviewer,

DNV Business Assurance India Private Limited, India

March 03, 2022

Colombo,

Sri Lanka.

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DNV Business Assurance Lanka (Private) Limited is part of DNV – Business Assurance, a global provider of certification, verification, assessment and training services, helping customers to build sustainable business performance. www.dnv.com

[2] *The DNV Code of Conduct is available on request from www.dnv.com*

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Annex 6: Financial Statements (US Dollars)

Income Statement

	GROUP			BANK		
For the year ended December 31,	**2021 USD '000**	2020 USD '000	Change %	**2021 USD '000**	2020 USD '000	Change %
Gross income	**818,377**	759,832	7.70	**804,429**	748,557	7.46
Interest income	**664,091**	620,439	7.04	**652,215**	611,652	6.63
Less: Interest expense	**332,009**	366,095	(9.31)	**329,162**	363,795	(9.52)
Net interest income	**332,082**	254,344	30.56	**323,053**	247,857	30.34
Fee and commission income	**79,587**	59,198	34.44	**77,052**	56,343	36.76
Less: Fee and commission expense	**18,376**	10,090	82.12	**18,295**	10,061	81.84
Net fee and commission income	**61,211**	49,108	24.64	**58,757**	46,282	26.95
Net gains/(losses) from trading	**9,680**	9,390	3.09	**9,680**	9,390	3.08
Net gains/(losses) from derecognition of financial assets	**15,008**	31,951	(53.03)	**15,008**	31,951	(53.03)
Net other operating income	**50,011**	38,854	28.72	**50,474**	39,221	28.69
Total operating income	**467,992**	383,647	21.98	**456,973**	374,701	21.96
Less: Impairment charges and other losses	**125,700**	107,098	17.37	**123,462**	107,418	14.94
Net operating income	**342,292**	276,550	23.77	**333,511**	267,283	24.78
Less: Expenses						
Personnel expenses	**83,996**	74,964	12.05	**81,607**	72,820	12.07
Depreciation and amortisation	**16,100**	15,513	3.78	**15,893**	14,945	6.34
Other operating expenses	**48,192**	40,836	18.01	**46,959**	39,435	19.08
Total operating expenses	**148,289**	131,313	12.93	**144,459**	127,200	13.57
Operating profit before taxes on financial services	**194,003**	145,237	33.58	**189,052**	140,083	34.96
Less: Taxes on financial services	**29,226**	22,657	28.99	**29,046**	22,527	28.94
Operating profit after taxes on financial services	**164,777**	122,580	34.42	**160,006**	117,557	36.11
Share of profits of associate, net of tax	**9**	19	(51.36)	**–**	–	–
Profit before tax	**164,787**	122,599	34.41	**160,006**	117,557	36.11
Less: Income tax expense	**43,335**	37,165	16.60	**41,976**	35,689	17.62
Profit for the year	**121,451**	85,434	42.16	**118,030**	81,867	44.17
Profit attributable to:						
Equity holders of the Bank	**120,312**	84,700	42.05	**118,030**	81,867	44.17
Non-controlling interest	**1,139**	734	55.14	**–**	–	–
Profit for the year	**121,451**	85,434	42.16	**118,030**	81,867	44.17
Earnings per share						
Basic earnings per ordinary share (USD)	**0.10**	0.08	31.53	**0.10**	0.07	33.49
Diluted earnings per ordinary share (USD)	**0.10**	0.08	31.53	**0.10**	0.07	33.49

US Dollar Accounts

The Income Statement and the Statement of Financial Position given on pages 386 and 387 are solely for the convenience of stakeholders.

Statement of Financial Position

As at December 31,	GROUP 2021 USD '000	GROUP 2020 USD '000	GROUP Change %	BANK 2021 USD '000	BANK 2020 USD '000	BANK Change %
Assets						
Cash and cash equivalents	346,677	256,275	35.28	340,390	251,253	35.48
Balances with Central Banks	283,887	576,794	(50.78)	264,490	554,856	(52.33)
Placements with banks	62,494	82,109	(23.89)	57,925	79,695	(27.32)
Securities purchased under resale agreements	15,002	–	–	15,002	–	–
Derivative financial assets	16,226	13,184	23.07	16,226	13,184	23.07
Financial assets recognised through profit or loss – Measured at fair value	117,181	175,947	(33.40)	117,181	175,947	(33.40)
Financial assets at amortised cost – Loans and advances to banks	–	3,899	–	–	3,899	–
Financial assets at amortised cost – Loans and advances to other customers	5,147,920	4,549,146	13.16	5,073,093	4,484,227	13.13
Financial assets at amortised cost – Debt and other financial instruments	1,926,953	1,510,298	27.59	1,847,089	1,463,638	26.20
Financial assets measured at fair value through other comprehensive income	1,679,769	1,393,584	20.54	1,677,317	1,392,307	20.47
Investments in subsidiaries	–	–	–	29,042	29,042	–
Investment in associate	302	321	(5.81)	222	222	–
Property, plant and equipment and right–of–use assets	123,723	126,933	(2.53)	115,377	116,062	(0.59)
Investment properties	362	336	7.87	–	–	–
Intangible assets	11,363	9,003	26.22	8,624	6,164	39.91
Deferred tax assets	50,181	13,678	266.87	48,966	12,499	291.75
Other assets	135,416	100,976	34.11	135,122	98,096	37.75
Total assets	9,917,456	8,812,481	12.54	9,746,066	8,681,090	12.27
Liabilities						
Due to banks	369,006	441,240	(16.37)	368,887	437,257	(15.64)
Derivative financial liabilities	10,461	7,506	39.36	10,461	7,506	39.36
Securities sold under repurchase agreements	757,124	457,058	65.65	759,559	457,188	66.14
Financial liabilities at amortised cost – Due to depositors	7,363,202	6,433,082	14.46	7,215,467	6,329,830	13.99
Financial liabilities at amortised cost – Other borrowings	162,935	272,780	(40.27)	162,935	272,780	(40.27)
Current tax liabilities	47,434	34,955	35.70	46,471	33,890	37.12
Deferred tax liabilities	1,746	2,019	(13.55)	–	–	–
Other liabilities	166,268	167,861	(0.95)	166,054	165,188	0.52
Due to subsidiaries	–	–	–	243	485	(49.80)
Subordinated liabilities	191,517	191,236	0.15	191,517	191,236	0.15
Total liabilities	9,069,693	8,007,737	13.26	8,921,596	7,895,359	13.00
Equity						
Stated capital	272,835	260,939	4.56	272,835	260,939	4.56
Statutory reserves	52,952	46,426	14.06	51,022	45,120	13.08
Retained earnings	49,454	40,621	21.74	45,141	37,981	18.85
Other reserves	462,133	447,978	3.16	455,472	441,691	3.12
Total equity attributable to equity holders of the Bank	837,374	795,964	5.20	824,470	785,731	4.93
Non–controlling interest	10,389	8,779	18.33	–	–	–
Total equity	847,763	804,744	5.35	824,470	785,731	4.93
Total liabilities and equity	9,917,456	8,812,481	12.54	9,746,066	8,681,090	12.27
Contingent liabilities and commitments	3,426,895	3,652,808	(6.18)	3,411,999	3,643,558	(6.36)
Net assets value per share (USD)	0.70	0.68	2.80	0.69	0.67	2.53

An exchange rate of 1USD equals 200 LKR for both the years, has been used to facilitate comparison.

Annex 7: 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

Bank of Ceylon (UK) Limited (GBP)
London
BIC: BCEYGB2L
A/C: 0088033458

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. Luxembourg

Clearstream Banking S/A
Luxembourg
BIC: CEDELULL
A/C: 52511-USD and 52511-EUR

10. Switzerland

UBS AG (CHF)
Zurich
BIC: UBSWCHZH
A/C: 0230000000085408050000W

11. Italy

Banca Intesa BCI (EUR)
Milan
BIC: BCITITMM
A/C: 100100003820

Banco Popolare Society Coperation (EUR)
Verona
BIC: BAPPIT22
A/C: 400000082

Unicredito Italiano SPA (EUR)
Rome
BIC: UNCRITMM
A/C: 0995 4268

12. United Arab Emirates

Mashreq Bank (AED)
Dubai
BIC: BOMLAEAD
A/C: AE270330000010195511268

13. Pakistan

Standard Chartered Bank (ACU$)
Karachi
BIC: SCBLPKK
A/C: 15000297601USD and 15000288701USD*

14. Maldives

Commercial Bank of Maldives Private Limited (ACU$)
Malé
BIC: CBMVMVMV
A/C: 1600100051

15. India

Axis Bank Ltd. (ACU$)
Mumbai
BIC: AXISINBB
A/C: 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

16. Bangladesh

Commercial Bank of Ceylon PLC (ACU$)
Dhaka
BIC: CCEYBDDH
A/C: 2802000017

17. Sri Lanka

Bank of China Colombo Ltd (CNY)
Colombo
BIC: BKCHLKLXXXX
A/C: 100002800004204

Commercial Bank of Ceylon PLC (ACU$)
Colombo
BIC: CCEYLKLX
A/C: 1420825031*

18. Singapore

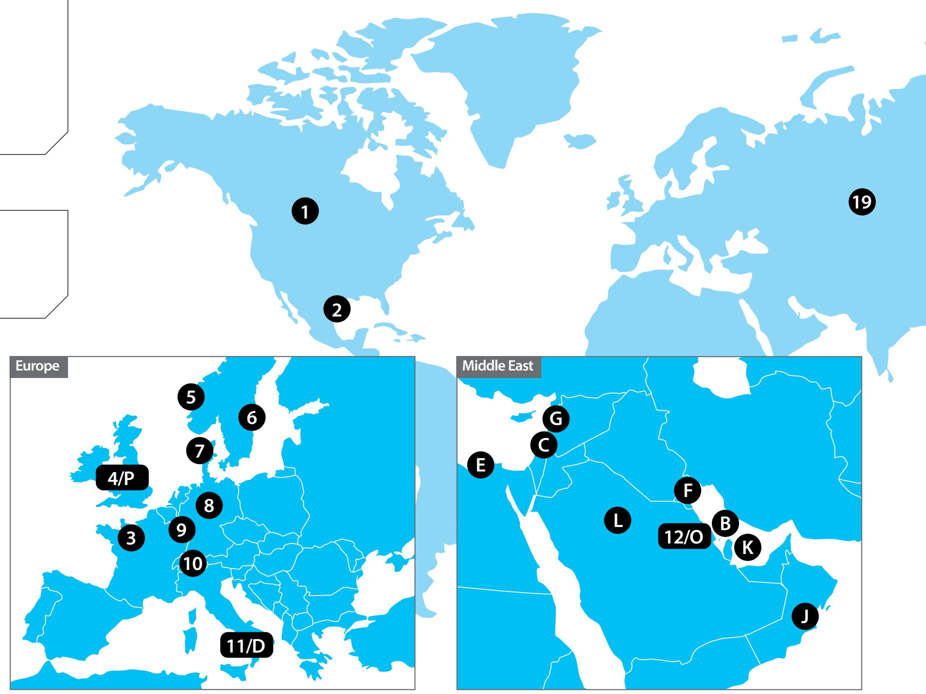
Citibank NA
BIC: CITISGSG
A/C: (USD) 851122001,
(EUR) 851122028 and (GBP) 851122036

Oversea – Chinese Banking Corp Ltd.
BIC: OCBCSGSG
A/C: (USD) 503212862301,
(SGD) 695703165001

Standard Chartered Bank (SGD)
BIC: SCBLSGSG
A/C: 109344561 and 102318735*

19. China

Standard Chartered Bank (CNY)
Shanghai
BIC: SCBLCNSX
A/C: 501510533540

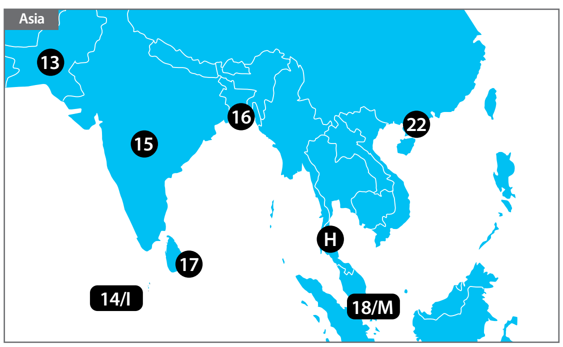


20. Korea

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



21. 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

22. Hong Kong

Standard Chartered Bank
BIC: SCBLHKHH
A/C: (HKD) 41109468048,
(HKD) 44709419107* and
(CNY) 44709448344

23. Australia

National Australia Bank (AUD)
Melbourne
BIC: NATAAU33
A/C: 1803020052500 and
1803152323500*

24. New Zealand

Bank of New Zealand (NZD)
Wellington
BIC: BKNZNZ22985
A/C: 2659680000 and 2690700000*

A. Australia

Ceylon Exch. Pvt Ltd
Direct Forex
Kapruka Pvt Ltd
Lanka Currency Converter Pty Ltd

B. Bahrain

Nat. Finance & Exch. Co. WLL
Nonoo Exch. Co. SP
Zenj Exch. Co. WLL

C. Israel

AMT Financial Services Ltd
Unigiros Ltd
S T B Union Ltd

D. Italy

National Exch. Co. SRL

E. Jordan

Al Alami Exch. Co
Al Nasir Establishment for Exch
Alawneh Exch. Co
Hekmat Nawras & Partners Exch/Zarqa Exch
Kalil Al Rahman Exch. Co

F. Kuwait

Al Muzaini Exch. Co
Al Sultan Exch. Co. WLL
Almulla International Exch
Aman Exch. Co. WLL
Bahrain Exch. Co.WLL
Burgan Bank
City Int Exch. Co.WLL
EtemadCo. Co. Ltd
Joy Alukkas Exch. Co. WLL
Kuwait Asian International Exch
Kuwait Bahrain Int'L Exch
Lulu Exch. Co. WLL
National Exch. Co
National Money Exch. Co
Oman Exch. Co. WLL
UAE Exch. Centre Kuwait

G. Lebanon

Crystal Exch. Co. SAL

H. Malaysia

Tranglo SDN BHD

I. Maldives

Commercial Bank of Maldives

J. Oman

Al Jadeed Exch. LLC
Bank Muscat
Global Money Exch. Co.LLC
Joyalukkas Exch. LLC
Laxmidas Tharia Ved Exch. Co
Lulu Exch. Co. LLC
Modern Exch. Co.LLC
Oman & UAE Exch. Centre / Unimoni Exch
Purshottam Kanji Exch. Co.LLC

K. Qatar

Al Dar For Exch. Works
Al Mana Exch. WLL
Al Mirqab Exch. Co. WLL
Al Zaman Exch
Al Sadd Exch. Co. WLL
Alfardan Exch. Co.
Arabian Exch. Co.
City Exch. Co.WLL
Doha Bank
Doha Exch
Eastern Exch. Establishment
Gulf Exch. Co.
Habib Qatar International Exch
Islamic Exch.Co.WLL
Lulu Exch. Co.
Trust Exch. Co.

L. Saudi Arabia

Alrajhi Banking & Investment Corp.
Arab National Bank
Bank Albilad
The National Commercial Bank
The Saudi British Bank

M. Singapore

Ample Transfers PTE Ltd

N. South Korea

Coinone Transfer Inc
Global Money Express
Gmoney Trans Co. Ltd
KEB Hana Bank
Kookmin Bank

O. United Arab Emirates

Al Ahalia Money Exch. Bureau
Al Ansari Exch. Est
Al Dahab Exch
Al Fardan Exch
Al Faud Exch
Al Ghurair Exch. LLP
Al Ghurair International Exch
Al Rostamani Intl' Exch
Delma Exch
Deniba International Exch
Emirates India Int'L Exch. Co
Federal Exch
GCC Exch
Index Exch
Joyalukkas Exch
Lari Exch
Leela Megh Exch. LLC
Lulu International Exch. Ll
Orient Exch. Co. LLC
SAAD Exch
Universal Exch. Centre
Wall Street Exch. Centre
Worldwide Cash Express Ltd

P. United Kingdom

Brac Saajan Exch. Ltd
Earthport PLC
Ezremit Ltd./ BFC Bank
GCC Exch. UK Ltd
Global Exch. Ltd
LCC Trans-Sending Ltd

Global

Moneygram International
Muthoot Finserve USA Inc
Payoneer Inc
Placid Express
Prabhu Group Inc
Ria Financial Services
Transfast Remittance LLC

e-Exchange Agent Network

* Accounts of Bangladesh Operations.

Annex 8: 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 uncollectibility.

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 interest 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 offered 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".

De minimis
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).

Interest Cover
A ratio showing the number of times interest charges is covered by earnings before interest and tax.

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 9: 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
CET 1	Common Equity Tier 1
CFM	Close Family Members
CPC	Credit Policy Committee
CRAB	Credit Rating Agency of Bangladesh
CRM	Credit Risk Mitigation
CSE	Colombo Stock Exchange
CCF	Credit Conversion Factor
DBU	Domestic Banking Unit
DPD	Days Past Due
DRP	Disaster Recovery Plan
D-SIB	Domestic systemically Important Bank
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
GRI	Global Reporting Initiatives
HQLA	High Quality Liquid Assets
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
IIRC	International Integrated Reporting Council
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
MSME	Micro Small and Medium Enterprises
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
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
RUA	Right of Use Asset
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
SLSB	Sri Lanka Sovereign Bond
UNGC	United Nations Global Compact
WSME	Women, Small and Medium Enterprises
VaR	Value at Risk
YoY	Year-on-Year
12mECL	12 months Expected Credit Loss

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Notice of Meeting – Annual General Meeting

Notice is hereby given that the Fifty-Third (53rd) Annual General Meeting (AGM) of the Commercial Bank of Ceylon PLC (the 'Company') will be held on Wednesday, March 30, 2022 at 2.30 p.m. at the Galadari Hotel, No. 64, Lotus Road, Colombo 01, 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, 2021 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. 7.50 per issued and fully paid ordinary (voting) and (non-voting) share constituting a total sum of Rs. 8,956,659,742.50 based on the issued ordinary (voting) and (non-voting) shares as at February 24, 2022 [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, 2021 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 Record Date [i.e. the third (3rd) market day from and excluding the date of the meeting] (the '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. 7.50 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 24, 2022 to the Entitled Shareholders;

- 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. 5,060,162,376.00 (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. 313,833,469.50 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. 3,373,441,584.00 (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. 209,222,313.00 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 26.2999997614 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 24, 2022; and
- 01 new fully paid ordinary (non-voting) share for every 24.9000015709 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 24, 2022.

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 2021" dated March 7, 2022 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 42,755,914 new ordinary (voting) shares, based on the issued and fully paid ordinary (voting) shares as at February 24, 2022, (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 2,800,834 new ordinary (non-voting) shares based on the issued and fully paid ordinary (non-voting) shares as at February 24, 2022 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 1,124,480,528 existing issued and fully paid ordinary (voting) shares as at February 24, 2022 (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 69,740,771 existing issued and fully paid ordinary (non-voting) shares as at February 24, 2022.

(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, 2021:

"The allotment and issue of 42,755,914 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 2,800,834 new ordinary (non-voting) shares credited as fully paid to 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 42,755,914 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 2,800,834 new ordinary (non-voting) shares credited as fully paid to 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 Prof A K W Jayawardane who retires by rotation in terms of Article 86 of the Articles of Association
   (ii) To re-elect Mr L D Niyangoda who retires by rotation in terms of Article 86 of the Articles of Association
   (iii) To elect Mrs D L T S Wijewardena who was appointed to the Board in terms of Article 92 of the Articles of Association
4. (i) 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, 2022; and

   (ii) To authorize the Board of Directors to determine the remuneration of the Auditors for the financial year ending December 31, 2022
5. To authorize the Board of Directors to determine donations for the year 2022.
6. Any Other Business

   (i) 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 Justice K Sripavan, former Chairman of the Company, who relinquished office on March 1, 2022 upon reaching the age of 70 years, 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

Colombo, March 7, 2022

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 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.

Circular to the Shareholders on the First and Final Dividend for 2021

Dear Shareholder/s,

First and Final Dividend for the year ended December 31, 2021 to be Satisfied Partly by the Distribution of Cash and Partly by the Allotment and Issue of New Shares.

Commercial Bank of Ceylon PLC (the 'Company') managed to minimise the disruptions to its operations and customer service arising from the COVID-19 pandemic during the year while strictly adhering to the guidelines given by the health authorities when conducting its operations. The Company complied with the Directions and guidelines issued by the regulator, Central Bank of Sri Lanka and continued to extend required support and concessions to the affected customers. In addition, the Company also 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 2021.

The Board of Directors of the Company, is pleased to inform its Shareholders that, a first and final dividend distribution of Rs. 7.50 per each existing issued and fully paid ordinary (voting) and (non-voting) share has been recommended for the financial year ended December 31, 2021 for due declaration by the Shareholders at the Annual General Meeting ('AGM') to be held on Wednesday, March 30, 2022 (the date of the AGM) at 2.30 p.m. at the Galadari Hotel, No. 64, Lotus Road, Colombo 01, 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, 2021, 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. 5,060,162,376.00 [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. 313,833,469.50 shall be made to the entitled shareholders of the ordinary (non-voting) shares of the Company as at February 24, 2022 totaling to Rs. 5,373,995,845.50 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. 3,582,663,897.00 based on the issued and fully paid ordinary (voting) and (non-voting) shares of the Company as at February 24, 2022 (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) 42,755,914 number of new ordinary (voting) shares, calculated based on the issued and fully paid ordinary (voting) shares as at February 24, 2022 [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 24, 2022; and

(b) 2,800,834 number of new ordinary (non-voting) shares calculated based on the issued and fully paid ordinary (non-voting) shares as at February 24, 2022 and on the basis of their market value (closing price) as at end of trading on February 24, 2022.

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 26.2999997614 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 24, 2022; and

(b) 01 new fully-paid ordinary (non-voting) share for every 24.9000015709 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 24, 2022.

The above share ratio is based on a value of Rs. 78.90 per ordinary (voting) share and Rs. 74.70 per ordinary (non-voting) share (subject to applicable government taxes) as at the end of trading on February 24, 2022. 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 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 Record Date [i.e. the third (3rd) market day from and excluding the date of the meeting] (the 'Entitled Shareholders').

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 –

$$\frac{\text{Number of shares held by a shareholder as at end of trading on the Record Date X 1}}{26.2999997614}$$

For non-voting shareholders –

$$\frac{\text{Number of shares held by a shareholder as at end of trading on the Record Date X 1}}{24.9000015709}$$

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, 2021 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 five (05) market days from and exculding the Record Date. 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, 2022 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 011 233 2317 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 7, 2022

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:

Prof Ananda Kithsiri Wijenayaka Jayawardane	whom failing
Mr Sharhan Muhseen	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 Sanath Chandima Udayakumara Manatunge	whom failing
Ms Judy Lee	whom failing
Mr Raja Senanayake	whom failing
Mrs Dehiwala Liyanage Thushara Samanthi Wijewardena	

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 Third (53rd) Annual General Meeting (AGM) of Commercial Bank of Ceylon PLC which is scheduled to be held on Wednesday, March 30, 2022 at 2.30 p.m. virtually by using a digital platform, and at any adjournment thereof and at every poll which may be taken in consequence thereof. I/We the undersigned hereby authorize my/our Proxy to vote on my/our behalf in accordance with the preference as indicated below. (Please indicate your preference with a "✓" in the relevant box.)

	For	Against
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, 2021 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 Prof A K W Jayawardane who retires by rotation in terms of Article 86 of the Articles of Association		
ii. To re-elect Mr L D Niyangoda who retires by rotation in terms of Article 86 of the Articles of Association		
iii. To elect Ms J Lee who was appointed to the Board in terms of Article 92 of the Articles of Association		
4. (i) To re-appoint Messrs Ernst & Young, Chartered Accountants as recommended by the Board of Directors, as Auditors to the Company for the Financial Year ending December 31, 2022.		
(ii) To authorize the Board of Directors to determine the remuneration of the Auditors for the Financial Year ending December 31, 2022.		
5. To authorize the Board of Directors to determine donations for the year 2022.		
6. Any other business: (i) 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 Justice K Sripavan, former Chairman of the Company, who relinquished office on March 1, 2022 upon reaching the age of 70 years, at 37.5% of the original cost (excluding VAT) or at market value, whichever shall be lower.		

Signed on this .... day of .... Two Thousand and Twenty Two.

....	....	....
Folio Number	Signature/s of shareholder/s	NIC/PP/Co. Reg. No. of shareholder/s

Notes

Instructions as to completion of this Form of Proxy are given below.

(i). 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.

(ii). 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.

(iii). 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.

(iv). 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.

(v). 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:

Prof Ananda Kithsiri Wijenayaka Jayawardane	whom failing
Mr Sharhan Muhseen	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 Sanath Chandima Udayakumara Manatunge	whom failing
Ms Judy Lee	whom failing
Mr Raja Senanayake	whom failing
Mrs Dehiwala Liyanage Thushara Samanthi Wijewardena	

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 Third (53rd) Annual General Meeting (AGM) of Commercial Bank of Ceylon PLC which is scheduled to be held on Wednesday, March 30, 2022 at 2.30 p.m. virtually by using a digital platform, and at any adjournment thereof and at every poll which may be taken in consequence thereof. I/We the undersigned hereby authorize my/our Proxy to vote on my/our behalf in accordance with the preference as indicated below. (Please indicate your preference with a "✓" in the relevant box.)

Item in the Notice of Meeting	For	Against
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 Two.

....	....	....
Folio Number	Signature/s of shareholder/s	NIC/PP/Co. Reg. No. of shareholder/s

Notes

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. As regards voting on the said two (02) 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.

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i. The Chairman of the Meeting; or

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iii. A member or members present in person or by attorney or representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the Meeting.

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Stakeholder Feedback Form

Dear Reader,

Your opinion matters. Please share your views with us

WHICH STAKEHOLDER GROUPS DO YOU BELONG TO? (You may tick more than one)

☐ Shareholder	☐ Customer	☐ Community	☐ Public Authority
☐ Investor	☐ Employee	☐ Student	☐ Regulatory Body
☐ Journalist	☐ Supplier	☐ Analyst	☐ NGO
☐ Service Provider	☐ Special Interest Group	☐ Other	

DOES THE REPORT ADDRESS ISSUES OF GREATEST INTEREST TO YOU?

☐ Comprehensively ☐ Partially ☐ Not at all

RATE YOUR OVERALL IMPRESSION OF THIS REPORT IN TERMS OF:

	Excellent	Good	Fair	Poor
Informative	☐	☐	☐	☐
Transparent	☐	☐	☐	☐
Trustworthy	☐	☐	☐	☐
Comprehensive	☐	☐	☐	☐
User friendly	☐	☐	☐	☐
Design and layout	☐	☐	☐	☐
Style of language	☐	☐	☐	☐
Overall rating	☐	☐	☐	☐

PLEASE IDENTIFY ANY ADDITIONAL ISSUES THAT YOU THINK SHOULD BE REPORTED ON:

....

....

....

....

DO YOU HAVE ANY ADDITIONAL COMMENTS ON THE REPORT – OR ON BANK'S PERFORMANCE IN GENERAL?

....

....

....

....

To request information or submit a comment/query to the Bank, please provide the following details and return this page to –

The Company Secretary

Commercial Bank of Ceylon PLC
"Commercial House"
21, Sir Razik Fareed Mawatha
P.O. Box 856
Colombo 01
Sri Lanka

Name	:
Permanent Mailing Address	:
Contact Number/s	
- Tel	:
- Fax	:
- Email	:
Name of Company (If applicable)	:
Designation (If applicable)	:
Company address (If applicable)	:

Please tick (✓) the appropriate box

	Yes	No
Would you like to receive soft copies of the Commercial Bank's Interim Financial Reports via email?	☐	☐
Would you like to receive news and press releases of Commercial Bank via email?	☐	☐
Would you like to receive any news on our products/services?	☐	☐

CORPORATE INFORMATION

General

Name of Company

Commercial Bank of Ceylon PLC

Company Registration Number

PQ 116

Legal Form

A public limited liability Company incorporated in Sri Lanka on June 25, 1969 under the Companies Ordinance No. 51 of 1938 and quoted in the Colombo Stock Exchange in March 1970.

The Company was re-registered under the Companies Act No. 07 of 2007. Commercial Bank of Ceylon PLC is a Licensed Commercial Bank under the Banking Act No. 30 of 1988.

Accounting Year-end

December 31

Tax Payer Identification Number (TIN)

124006007

Registered Office

"Commercial House"
No. 21, Sir Razik Fareed Mawatha,
P.O. Box 856,
Colombo 01, Sri Lanka.
Telephone (General):
+94 11 248 6000-3 (4 lines), 4486000, 7486000, 5486000, 2430420, 2336700, 2445010-15 (6 lines),
Facsimile: 2449889
SWIFT Code – Sri Lanka: CCEYLKLX
SWIFT Code – Bangladesh: CCEYBDDH
E-mail: email@combank.net
Web: http://www.combank.net, www.combank.lk

Head Office

"Commercial House",
No. 21, Sir Razik Fareed Mawatha,
P.O. Box 856, Colombo 01,
Sri Lanka.

Stock Exchange Listing

The Ordinary Shares and the Unsecured Subordinated Redeemable Debentures of the Bank are listed on the Colombo Stock Exchange.

Group Chief Compliance Officer

Ms A V P K T Amarasinghe

Information Centre

Telephone: +94 11 2353333, 7353333

Credit Ratings

Sri Lanka Operation

- National Long-term rating: 'AA-(lka)' Outlook was re-affirmed by Fitch Ratings Lanka Limited in August 2021.
- Stable Subordinated debentures: 'A(lka)' by Fitch Ratings Lanka Limited in September 2021.

Bangladesh Operation

- AAA was re-affirmed by Credit Rating Information & Services Limited in June 2021.

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 2573894, 2576871
Facsimile: 2573609
E-mail: sspsec@sltnet.lk
(Kindly direct any queries about the administration of the shareholding to the above Company)

Subsidiaries and Associate

Local Subsidiaries

Commercial Development Company PLC
CBC Tech Solutions Limited
CBC Finance Limited
Commercial Insurance Brokers (Pvt) Limited

Foreign Subsidiaries

Commercial Bank of Maldives Private Limited
CBC Myanmar Microfinance Company Limited
Commex Sri Lanka S.R.L. - Italy

Associate

Equity Investments Lanka Limited

Board of Directors and Board Committees

Board of Directors

Justice K Sripavan - *Chairman*
Prof A K W Jayawardane - *Deputy Chairman*
Mr S Renganathan - *Managing Director/Group 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)*
Ms D L T S Wijewardena *(appointed w.e.f. March 31, 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
Ms D L T S Wijewardena
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
Ms D L T S Wijewardena
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 & 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
Ms N T M S Cooray
Mr S C U Manatunge

Board Investment Committee

Ms J Lee - Chairperson
Mr K Dharmasiri
Mr S Renganathan
Mr K Dharmasiri
Ms N T M S Cooray
Mr S C U Manatunge
Mr S Muhseen

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
Mr S Muhseen
Ms D L T S Wijewardena

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
Mr S Muhseen

FATCA GIIN Number

GIIN 3TU322.00000.LE.144 (for CBC-CMB)
GIIN 3TU322.00000.BR.050 (for CBC Dhaka)

This Integrated Annual Report is GHG-neutral

Produced by Smart Media (Pvt) Limited, a GHG-neutral company that reduces and offsets its direct and indirect greenhouse gas emissions through certified sources.

Net-zero GHG since 2011

For Investor Relations and clarification on this Report please write to:
The Group 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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