COMMERCIAL BANK

In sync with the future

Where banking matters rather than banks

Commercial Bank of Ceylon PLC

Annual Report 2018

IN SYNC WITH THE FUTURE

Where banking matters rather than banks

For the banking industry, the years ahead will be nothing like those preceding.

Many emerging trends are challenging the conventional business models of banks. Leveraging technology, “new” players are entering the arena for the provision of “banking” services. Customers tend to value experience, simplicity and convenience most, above everything else. Yet, significant and mounting regulatory and fiscal requirements restrict the way banks can respond.

Being cognisant that we are in an era where “banking is necessary, banks are not”, we are gearing ourselves to innovate and offer value propositions to be at the centre of the day-to-day lives of our customers. This is a journey we undertake, as always, in close step with our stakeholders.

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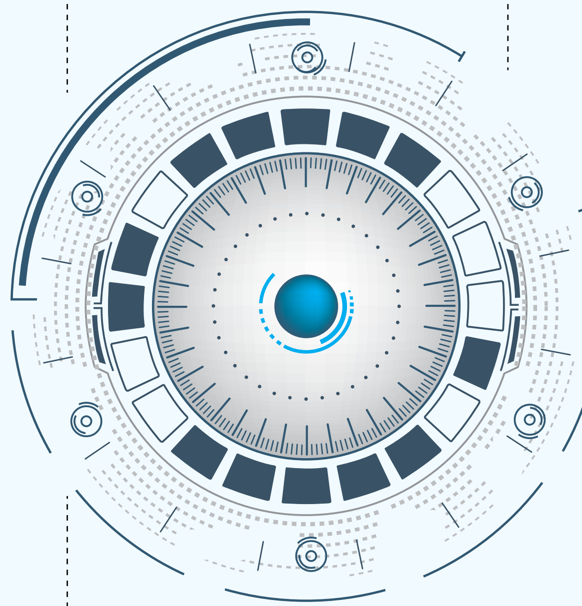


This Annual Report is published within three months of the date of the Statement of Financial Position. The web version is also published online on the same date as the date of issue of this Annual Report at http://combank2018.annualreports.lk/

Scan to view the online version
http://combank2018.annualreports.lk/

Reference to other pages within the report

Reference to further reading online

Our Vision

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

Our Mission

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

Annual Report of the Board of Directors

The Directors have pleasure in presenting to the shareholders the 50th Annual Report of the Bank together with the Audited Financial Statements of the Group and the Bank for the year ended December 31, 2018 and the Independent Auditors' Report thereon conforming to all relevant statutory requirements.

In terms of Sections 150 (1), 151, 152 and 153 (1) & (2) of the Companies Act No. 07 of 2007, the Board of Directors of the Bank is responsible for the preparation of the Financial Statements of the Group and the Bank, which reflect a true and fair view of the financial position and performance of the Group and the Bank. In this regard, the Board of Directors wishes to confirm that the Income Statement, Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows, Significant Accounting Policies and Notes thereto appearing on pages 157 to 353 have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards as mandated by the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 and the Companies Act No. 07 of 2007.

This Report also provides the information as required by the Companies Act No. 07 of 2007, 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) and the recommended best practice.

The Financial Statements of the Group and the Bank for the year ended December 31, 2018, including comparatives for 2017, were approved and authorised for issue by the Board of Directors in accordance with the Resolution of the Directors on February 22, 2019. The appropriate number of copies of the Annual Report will be submitted to the CSE and to the Sri Lanka Accounting and Auditing Standards Monitoring Board within the statutory deadlines.

In order to structure this Report in a way that it communicates the Bank's efforts to create value to all its stakeholders in the short, medium and long term through its business model, the Bank identified the emerging trends that are going to impact the conventional business models of financial institutions. These trends were then categorised into risks and opportunities based on their importance to the Bank and importance to the stakeholders, together with the stakeholders that are likely to be affected most. Through its annual strategic planning exercise, the Bank has identified its strategic imperatives and executes the required strategies on an ongoing basis to mitigate the risks and exploit the opportunities. The Strategic Report (pages 10 – 35) and the Management Discussion and Analysis (pages 36 – 73) contained in this Report provide a detailed account thereof. The underlying governance structure and the risk management framework too are detailed in the Report on pages 74 to 114 and 115 to 139 respectively.

The Bank's External Auditors, Messrs Ernst & Young, who were appointed in accordance with a resolution passed at the 49th Annual General Meeting held on March 28, 2018, have expressed their opinion, given on pages 152 to 154 of this Annual Report. The details on their remuneration are given in Note 22 on page 215 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 associates. The Auditors do not have any interest in contracts with the Bank, or any of its subsidiaries and associates.

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

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

The extent of compliance with the requirements of Section 168 of the Companies Act No. 07 of 2007 and other relevant statutes is given in detail on pages 102 to 107.

Signed in accordance with a resolution of the Directors.

K G D D Dheerasinghe
Chairman

M P Jayawardena
Deputy Chairman

S Renganathan
Managing Director/CEO

S Swarnajothi
Director

Prof A K W Jayawardane
Director

K Dharmasiri
Director

L D Niyangoda
Director

Ms N T M S Cooray
Director

G S Jadeja
Director

T L B Hurulle
Director

Justice K Sripavan
Director

S C U Manatunge
Director/Chief Operating Officer

Mrs J R Gamage
Company Secretary

Colombo
February 22, 2019

Introducing our 50th Annual Report

Printed integrated annual report
Limited copies of this report are available on request

Online HTML
Comprehensive report containing additional information

Mobile format
For readers on the go

Portable digital format
For offline convenience

Covering the 12-month period from January 1 to December 31, 2018, this is the 50th Annual Report of Commercial Bank of Ceylon PLC. Having commenced reporting in line with the IIRC Framework in 2013, this integrated report is consistent with our usual annual reporting cycle for financial and sustainability reporting and follows our most recent Report for the year ended December 31, 2017, for which comparatives are given, where applicable, within this Report.

Transcending the medium

To cater to the communications needs of the Bank's diverse stakeholder groups, this Report is available in multiple mediums and formats.

Strategic orientation

This Annual Report provides stakeholders with insight into the Bank's current and future strategies which are aimed at propelling its growth.

Non-financial information

With the growing interest in the Bank's future potential, this Annual Report includes disclosures on non-financial information, further enhancing clarity of its strategic imperatives.

Basis of preparation

This Report has been prepared in line with the IIRC 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:

- 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)

Report boundary

The financial performance of the Group, includes the six subsidiaries: Commercial Development Company PLC, ONEzero Company Ltd., Serendib Finance Ltd., Commex Sri Lanka S.R.L. Italy, Commercial Bank of Maldives Private Limited and CBC Myanmar Microfinance Company Limited and the two associates: Equity Investments Lanka Ltd. and Commercial Insurance Brokers (Pvt) Ltd. as depicted in the Consolidated Financial Statements on pages 157 and 353.

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

During the year under review, no significant changes in the organisation type, structure, ownership, supply chain or topic boundaries took place. No changes in reporting or restatements were made of previously reported financial, social or environmental information, other than the adoption of Sri Lanka Accounting Standard – SLFRS 9 on "Financial Instruments", which became effective from January 1, 2018 and confining the GRI disclosures to the most material topics.

Responsibility for sustainability practices and external assurance

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

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

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

Quality assurance

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

Qualitative criteria taken into account include:

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

Precautionary Principle

We are keenly aware of the direct and indirect social and environmental impact of our actions. The indirect consequences are more significant, resulting from the business activities of our customers to whom we lend. The negative impacts are avoided or reduced through credit policies, SMES screening, post-disbursement supervision, dedicated green products and risk management processes.

The Bank's business model and operations do not directly create a significant negative impact on the environment. However, every effort is made to reduce our own carbon footprint through initiatives such as solar energy usage, energy efficient air conditioning and the elimination of paper usage in our processes.

Contact

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

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

About the Bank

Largest and systemically important

Commercial Bank of Ceylon PLC is the largest private sector commercial bank and third largest bank in Sri Lanka in terms of total assets, which stand at Rs. 1.303 Tn. (USD 7.123 Bn.) as at the end of 2018. It is a systemically important Bank in the country and accounts for 11.1% of sector assets, approximately.

A century old legacy

The Bank's origins date back to 1920's, marking half a century under its present name. Commercial Bank of Ceylon PLC. Its 5,027 employees serve over three million customers through a wide local and international network of branches, subsidiaries, agency arrangements, Business Promotion Officers, in several Middle Eastern countries and correspondent banking relationships.

Growing international footprint

With the acquisition of the Bangladesh operations of Crédit Agricole Indosuez in 2003, the Bank began its expansion beyond Sri Lanka's shores. So far it has established subsidiaries in Italy, the Maldives and in Myanmar which also has a representative office in Yangon.

Risk profile

Receiving the highest rating for a local private sector bank, Commercial Bank is rated AA(lka) with a stable outlook by Fitch Ratings Lanka Ltd. Its risk profile reflects a restrained risk appetite, a robust funding base, a secure level of liquidity, a sound domestic franchise and a consistently stable performance.

Diversification is a strength that spans the Bank's four main business segments of Personal Banking, Corporate Banking, Treasury, and International Operations. Its international operations in Bangladesh, Maldives, Italy, and Myanmar now account for 10.55% of consolidated assets and 20.14% of consolidated profit before taxes. Customer deposits fund 75.42% of total assets, demonstrating the Bank's strong domestic franchise.

Vibrant financial intermediation

Both loans to customers and deposits from customers grew by over Rs. 100 Bn. each for the fourth and third consecutive years respectively , endorsing its systemic importance to the industry.

For the past five years the Bank's loans to deposits ratio was at 82.96 % on average with both loans and deposits growing correspondingly. This illustrates the robustness of the Bank's financial intermediation and its ability to deploy funding resources at an optimum while pursuing productive assets. The Bank's asset quality is one of the best in the industry, while its Current Account and Savings Account (CASA) make up 37.55% of total deposits, the highest among the peer banks.

Strong capitalisation

With the regulatory minimum being 8.875%, the Bank holds a Total Tier 1 ratio of 11.338% as at December 31, 2018 reflecting its capital strength and resilience. The Bank's growth was prudent with gearing in terms of on-balance sheet assets as well as risk-weighted assets remaining at 10.85 times and 7.64 times as at end 2018.

Demonstrating the strength of the franchise, the Bank's shares reported the highest price to Book Value of 0.98 times and the highest market capitalisation of Rs. 115 Bn. (USD 628 Mn.) among the Banking and Finance institutions and the third largest institution in terms of market capitalisation on the Colombo Stock Exchange as at December 31, 2018.

Ownership of the Bank

Of approximately 10,600 ordinary voting shareholders of the Bank, DFCC Bank PLC (13.56%), entities related to the State including Employees' Provident Fund, Employees' Trust Fund Board and Sri Lanka Insurance Corporation (19.84%), Mr Y S H I Silva (8.08%), NTAsian Discovery Master Fund (5.70%), Melstacorp PLC (4.61%) and International Finance Corporation (4.44%) are the major shareholders, holding an ownership stake of over 46%.

Our regional presence and global connectivity Figure – 01

Financial Highlights

Table – 01

	GROUP 2018	GROUP 2017	GROUP Change %	BANK 2018	BANK 2017	BANK Change %
Results for the year – (Rs. Bn.)						
Gross income	**139.657**	115.605	20.81	**138.049**	114.357	20.72
Operating profit before taxes on financial services	**32.144**	28.173	14.10	**31.643**	28.064	12.75
Profit before taxation (PBT)	**26.099**	23.280	12.11	**25.591**	23.183	10.39
Income tax expenses	**8.236**	6.654	23.77	**8.047**	6.602	21.90
Profit after taxation (PAT)	**17.863**	16.627	7.44	**17.544**	16.581	5.81
Revenue to the Governments	**15.323**	11.587	32.24	**15.127**	11.472	31.86
Gross dividends	**6.571**	6.478	1.44	**6.571**	6.478	1.44
Position at the year end – (Rs. Bn.)						
Shareholders' funds (stated capital and reserves)	**119.398**	107.995	10.56	**118.406**	107.099	10.56
Deposits from customers	**994.371**	857.270	15.99	**983.037**	850.128	15.63
Gross loans and advances	**897.956**	760.454	18.08	**890.229**	754.708	17.96
Total assets	**1,319.912**	1,155.821	14.20	**1,303.485**	1,143.374	14.00
Information per ordinary share (Rs.)						
Earnings (Basic)	**17.55**	17.05	2.93	**17.36**	17.03	1.94
Dividends – Cash	**–**	–	–	**4.50**	4.50	–
Dividends – Shares	**–**	–	–	**2.00**	2.00	–
Net assets value	**118.13**	108.44	8.94	**117.15**	107.54	8.94
Market value at the year end – Voting	**N/A**	N/A	–	**115.00**	135.80	(15.32)
Market value at the year end – Non-voting	**N/A**	N/A	–	**95.00**	105.00	(9.52)
Ratios						
Return on average shareholders' funds – (ROE) (%)	**15.71**	17.78	(2.07)	**15.56**	17.88	(2.32)
Return on average assets – (ROA) (%)	**1.44**	1.53	(0.09)	**1.43**	1.54	(0.11)
Total impairment provision as a % of gross loans and advances (%)	**3.38**	2.37	(1.01)	**3.27**	2.29	(0.98)
Cost of risk (%)	**0.98**	0.13	(0.85)	**0.96**	0.09	(0.87)
Non-performing loans ratio – Gross (%)	**–**	–	–	**3.24**	1.88	(1.36)
Non-performing loans ratio – Net (%)	**–**	–	–	**1.71**	0.92	(0.79)
Price earnings – Ordinary voting shares (times)	**N/A**	N/A	–	**6.62**	7.97	(16.93)
Dividend Yield – Ordinary voting shares (%)	**N/A**	N/A	–	**5.65**	4.79	0.86
Dividend cover on ordinary shares (times)	**N/A**	N/A	–	**2.67**	2.62	0.05
Statutory ratios (%)						
Liquid assets ratio – Domestic Banking Unit (DBU)	**N/A**	N/A	–	**24.47**	27.28	(2.81)
Liquid assets ratio – Off Shore Banking Unit (OBC)	**N/A**	N/A	–	**30.20**	30.95	(0.75)
Capital Adequacy Ratios (under Basel III) (%)						
Common Equity Tier (CET) I capital ratio (Minimum requirement – 2018 – 7.375%, 2017 – 6.250%)	**11.434**	12.122	(0.688)	**11.338**	12.111	(0.773)
Tier I capital ratio (Minimum requirement – 2018 – 8.875%, 2017 – 7.750%)	**11.434**	12.122	(5.68)	**11.338**	12.111	(0.773)
Total capital ratio (Minimum requirement – 2018 – 12.875%, 2017 – 11.750%)	**15.626**	15.701	(0.075)	**15.603**	15.746	(0.143)
Liquidity coverage ratio (%)						
Rupee – (Minimum requirement – 2018 – 90%, 2017 – 80%)	**N/A**	N/A	–	**236.20**	272.15	(35.95)
All currency – (Minimum requirement – 2018 – 90%, 2017 – 80%)	**N/A**	N/A	–	**238.69**	209.17	29.50

Financial Goals and Achievements – Bank

Table – 02

Financial indicator	Goal	Achievement 2018	2017	2016	2015	2014
Return on average assets (ROA) (%)	Over 2	**1.43**	1.54	1.53	1.42	1.60
Return on average shareholders' funds (%)	Over 20	**15.56**	17.88	19.52	16.90	17.01
Growth in income (%)	Over 20	**20.72**	24.10	19.62	7.03	0.96
Growth in profit for the year (%)	Over 20	**5.81**	14.25	21.92	6.47	7.03
Growth in total assets (%)	Over 20	**14.00**	12.96	15.05	10.58	31.29
Dividend per share (DPS) (Rs.)	Over Rs. 5.00	**6.50**	6.50	6.50	6.50	6.50
Capital Adequacy Ratios						
CET I capital ratio (%) – Minimum requirement as per Basel III – 7.375%	2% buffer over the regulatory minimum requirement	**11.338**	12.111	N/A	N/A	N/A
Tier I capital ratio (%) – Minimum requirement as per Basel III – 8.875%		**11.338**	12.111	N/A	N/A	N/A
Tier I capital ratio (%) – Minimum requirement as per Basel II – 5%	N/A	**N/A**	N/A	11.56	11.60	12.93
Total capital ratio (%) – Minimum requirement as per Basel III – 12.875%	2% buffer over the regulatory minimum requirement	**15.603**	15.746	N/A	N/A	N/A
Total capital ratio (%) – Minimum requirement as per Basel II – 10%	N/A	**N/A**	N/A	15.89	14.26	15.97

A snapshot of the Bank's profile

Figure – 02

Commercial Bank of Ceylon PLC

6
Subsidiaries (2017 – 6)

2
Associates (2017 – 2)

285
Branches
(2017 – 280)

850
ATMs
(2017 – 775)

54
Correspondent banks
(2017 – 55)

5,027
Employees (2017 – 4,982)

Over 3.5 million Customers

Rs. 983 Bn.
Customer deposits
(2017 – Rs. 850 Bn.)

Rs. 890 Bn.
Gross loans and advances
(2017 – Rs. 755 Bn.)

Rs. 1.303 Tn.
Total assets
(2017 – Rs. 1.143 Tn.)

16.55%
5-year CAGR in total assets
(2017 – 17.44%)

Profitability

Rs. 17.544 Bn.
Profit After Taxation
- 2018 – Rs. 17.544 Bn
- 2017 – Rs. 16.581 Bn.

Rs. 17.36
Earnings Per Share (Basic)
- 2018 – Rs. 17.36
- 2017 – Rs. 17.03

1.43%
Return on Assets
- 2018 – 1.43%
- 2017 – 1.54%

15.56%
Return on Equity
- 2018 – 15.56%
- 2017 – 17.88%

Credit Quality

3.24%
Gross NPL ratio
- 2018 – 3.24%
- 2017 – 1.88%

1.71%
Net NPL ratio
- 2018 – 1.71%
- 2017 – 0.92%

47.21%
Provision cover
- 2018 – 47.21%
- 2017 – 51.05%

12.38%
Open credit exposure ratio
- 2018 – 12.38%
- 2017 – 7.60%

Stability

11.338%
CET 1 ratio
- 2018 – 11.338%
- 2017 – 12.111%

15.603%
Total capital ratio
- 2018 – 15.603%
- 2017 – 15.746%

139.18%
Net stable funding ratio
- 2018 – 139.18%
- 2017 – 127.87%

5.82 times
Leverage ratio
- 2018 – 5.82 times
- 2017 – 5.83 times

Liquidity

24.47%
Liquid assets ratio – DBU
- 2018 – 24.47%
- 2017 – 27.28%

238.69%
Liquidity coverage ratio (All currency)
- 2018 – 238.69%
- 2017 – 209.17%

Share Valuation

Rs. 117.15
Net Assets Value
- 2018 – Rs. 117.15
- 2017 – Rs. 107.54

Rs. 115 Bn.
Market capitalisation
- 2018 – Rs. 115 Bn.
- 2017 – Rs. 133 Bn.

Rs. 6.50
Dividends Per Share
- 2018 – Rs. 6.50
- 2017 – Rs. 6.50

0.98 times
Price to Book Value
- 2018 – 0.98 times
- 2017 – 1.26 times

AA(lka)
Rating from Fitch Ratings Lanka Ltd. [2017 – AA(lka)]

Top 1000 Banks
Only Sri Lankan bank to be ranked for the 8th consecutive year

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

Chairman's Statement

The Board continued to ensure the highest standards of corporate governance and adherence to the Bank's Code of Ethics. I take this opportunity to state that, as at the date of publishing this Annual Report, we had complied with all applicable regulatory requirements and best practices to maintain our position as one of the most compliant financial institutions.

Dear friends,

The year 2018 showcases the Bank's resilience, stature and progress under challenging circumstances. Despite the environment being continually in flux, the Bank turned in a strong performance, staying on plan towards sustainable growth, demonstrating the effectiveness of strategy and resilience.

Business performance

In all key areas of business activity, the Bank has posted appreciably high performance and has met the targets set in the Corporate Plan and Budget for 2018. Total assets of the Bank grew by 14.00% to Rs. 1.303 Tn. by end 2018 thereby increasing our market share by 85 bps to 11.1% over the past five years. On either side of the Bank's balance sheet, both the advances and deposits portfolios accounted for 66% of assets and 75% of funding and grew by 16.77% and 15.63% respectively during the year. With this trend continuing, it is likely that the Bank will achieve the milestone in deposits of Rupees one trillion in the 1st quarter of 2019. Growth in core business coupled with revaluation and capital gains enabled the Bank to record an increase in both fund-based income and fee-based income, registering a growth of total operating income by 30.56%. Operating expenses were effectively managed in line with the growth in business volumes. Yet adoption of SLFRS 9 and the industry-wide deterioration in asset quality saw increased impairment charges resulting in growth in profit before taxes slowing down to 10.39%. Higher tax burden on the sector restricted the growth in profit after taxes to 5.81% at Rs. 17.544 Bn. Our subsidiaries in the Maldives and Myanmar improved their performance and made an increased contribution to the Group's bottom line.

The Board of Directors recommended a final dividend of Rs. 2.00 per share for approval by the shareholders at the forthcoming AGM, to be fulfilled by way of a scrip issue of shares, which together with the two interim dividends already paid in cash adding to a total dividend for the year of Rs. 6.50 per share. Fitch Ratings Lanka Ltd. reaffirmed the Bank's rating at AA (lka) with a stable outlook, the highest for a private sector bank in Sri Lanka while Credit Rating Information and Services Limited (CRISL) reaffirmed Bangladesh Operations at AAA, the only bank to receive this rating from CRISL, during the year.

Navigating through the unpredictable

The challenges that contributed to the tumultuous environment were a result of the rapidly evolving adverse domestic and global developments.

During the year, we navigated through the challenges posed by higher impairment provisioning arising from changes to accounting standards, increased capital adequacy requirements arising from Basel III, volatile and rising interest rates, shortage of liquidity and steep depreciation of the Rupee.

Nevertheless, the Bank's balance sheet showed a healthy growth, manifesting sufficient liquidity and capital improvement. Besides the rights issue of shares in 2017, a Basel III compliant debenture for Rs. 10.0 Bn. was issued during the year, strengthening the Tier II capital. The Board of Directors also approved an additional issue of Basel III compliant debenture for Rs. 7.5 Bn. with an option to issue a further Rs. 7.5 Bn. in the event of an over subscription, during the second quarter of 2019.

During the year, the Board provided strategic direction with a focus on improving the risk management and credit evaluation processes without hampering or disrupting targeted credit growth. Taking into account rapidly evolving changes in the operating environment, some of which may even require modifications to the existing business models, a new Board Committee with a mandate to focus on strategic directions was established. The mandate and activities of this new Committee are outlined in the Board Strategy Development Committee Report on page 101. The decisions of the Committee were effectively communicated to the staff in a timely manner, through the Corporate Management. Further, the Board reviewed and approved the charters of all other Board Committees to ensure that their mandates are aligned with the regulatory developments and the Bank's current requirements.

Defining the future

While the future holds many challenges, we are confident of our ability to make astute judgements of our direction and way forward.

The recent past has witnessed significant transformation in the banking industry with FinTechs encroaching into some areas of conventional banking services. In light of these developments, the banking industry has been challenged to re-examine its business models and service offering in order to stay relevant and also to relook at the strengths and opportunities which are unique to banking and package them with technological capabilities demanded by the market. With our customers gravitating towards digital platforms, simplicity and convenience, we have embraced the ethos of customer centricity to deliver enhanced value to all our stake owners. When the customer needs us, we are committed and geared to be already at service.

Given the importance of the Small and Medium Enterprises (SMEs) sector, we have built a robust SME portfolio that our Retail Banking arm is focused on expanding. Further, with the intention of gradually migrating these SMEs towards corporate status as they grow, we have focused on offering them an integrated service to facilitate their growth.

Delivering and deriving value

In Corporate Banking, the Bank re-examined the sector concentration with the dual expectation of seizing untapped potential while mitigating concentration risk where applicable. Corporate Banking, Trade Finance and Investment Banking capabilities as well as synergies of our overseas outfits were collectively and interchangeably used to create best value for our customers. We also undertook calculated expansion to offshore markets, especially looking to strengthen our retail banking footprint in Bangladesh and our microfinancing segment in Myanmar. Our teams deployed in overseas markets will continue to explore new opportunities in their respective regions.

Taking our responsibility seriously as the leading private sector Bank and gearing ourselves to meet the challenges of the environment we are continuously engaged in introducing progressive changes to the Bank's already strong credit culture.

Our Treasury made a significant contribution to the profitability of the Bank making considerable efforts to enhance return on investments and maximise capital gains from trading in government securities. The Treasury is also focused on increasing trading activities to better manage the Bank's asset portfolio.

With direction and guidance from the Board, the marketing team is focused on creating value through brand building exercises with a focus on ensuring maximum return on marketing expenditure.

Harnessing people power and other resources

The Bank's commitment and efforts are focused on attuning its activities to face the challenges posed by the environment, through prudent growth and customer centricity. The financial services sector has witnessed the entry of new players with many bringing with them the technology to disrupt the industry. The Bank is resolute in its stance of keeping abreast of these challenges by embracing innovation and operational excellence to drive future growth.

The Board deliberated on maximising returns on capital investments, particularly on IT systems which would provide our people with the tools they need to exceed customer expectations. In evaluating capital expenditure, we focused on trade-offs between cost of capital and returns in an environment where banking is becoming increasingly capital intensive.

During the year, we introduced measures that were designed to augment the skills and capabilities of our people at work. Employee engagement and satisfaction remained at the heart of our activities with significant efforts made to maintain cordial industrial relations. I add, with great satisfaction, that we were the first in the industry to finalise the Collective Agreement on time. In collaboration with our people, we also relaunched the pension fund.

I extend my warm gratitude for the contribution and support of every member of the Board. I also take this opportunity to thank the former Managing Director/Chief Executive Officer, Mr Jegan Durairatnam for his unstinting service over a period of 36 years of illustrious career in the Bank. During the year, the Board welcomed the new Managing Director/Chief Executive Officer, Mr S Renganathan and the new Chief Operating Officer, Mr S C U Manatunge, two career bankers. I wish them all success in piloting the Bank through these challenging times and remain confident that they have the support of one of the strongest banking teams in the region, to boldly blaze a trail into the future.

Dharma Dheerasinghe
Chairman

Colombo
February 22, 2019

Managing Director's Review

In an increasingly challenging macroeconomic and regulatory environment, our ethos of being prudent, customer centric, innovative and agile helped us remain relevant and deliver enhanced value to our stakeholders. Our approach was to anticipate the contours of the future, plot a safe course and follow its trajectory, all the while nimbly making astute course corrections where necessary.

I would like to begin this note by expressing the Bank's sincere appreciation and gratitude to my predecessor Mr. Jegan Durairatnam, who retired in July 2018, after rendering 36 long years of service to Commercial Bank. I would like to extend my gratitude to Mr Durairatnam on a personal note as well, for the invaluable guidance and unstinted support extended to me.

ComBank Team

Our ComBank team is our biggest strength and Commercial Bank takes immense pride in its ability to rise as one, both in good and bad times. We have a highly dedicated team, with an admirable attitude and commitment who strives for excellence in order to create value for our stakeholders.

In Sri Lanka, our head count has remained in the mid-4,000 range over the past 10 years, while our branch network has nearly doubled and profits quadrupled, as illustrated on pages 66 to 69 under Employees. This is a result of our work culture and ethos at the Bank, where honesty, integrity, fairness, responsibility and accountability play an integral role. Our Code of Ethics is based on the UN Global Compact Principles and the Universal Declaration of Human Rights and every employee is committed to living by it.

During 2018, we continued our intense focus in developing talent and made substantial investments to keep abreast with global benchmarks in developing human capital. Our prudent decisions with regard to succession planning and accurate placement of talent are amply demonstrated by the Bank's outstanding performance under challenging conditions.

Geographical Reach

We possess the largest international footprint owned by a private sector bank in Sri Lanka and in 2018 our International Operations continued to support our solid performance. Cumulatively Italy, Bangladesh, Maldives, and Myanmar contributed 11.38% of the Group's total assets.

Our Operations in Bangladesh reported a profit after tax of BDT 1,380.80 Mn. (Rs. 2,871.30 Mn.), which accounted for approximately 15% of the Bank's profit after tax. It continues to be one of the best performing foreign banks in Bangladesh. We were the first Sri Lankan Bank to establish a Representative Office in Myanmar in 2014. In the year under review, we successfully established a fully owned subsidiary, CBC Myanmar Micro Finance Company Ltd, in Nay Pyi Taw, Myanmar. We will continue to strategically expand our presence within the region, reaching out to become a "world-class regional bank".

Collaborating and co-creating

As a leading financial institution in the country, we continued to form mutually beneficial partnerships with our customers and external organisations. The synergies achieved through our strategy of partnering with customers throughout their journey, have kept us going strong during these challenging times.

We broke new ground by introducing relationship management for SME customers through ComBank Biz Club. Our Bank on Wheels solution was a result of our intimate knowledge of rural communities, carefully harvested by our Agriculture and Micro Finance Units. This not only enables financial inclusion but also prepares such communities for the future of banking.

To further facilitate customer convenience, we enhanced our online platform which now allows retail customers to make investments, apply for personal loans and obtain instant approval, and obtain loans against Fixed Deposits and cross currency trading. We also launched 24x7 fully-automated Cheque Deposit Machines in urban centres for the convenience of retail customers and SME entrepreneurs.

We collaborated by creating partnerships with many local and international organisations, from procurement of world class technologies, to strengthening our system capabilities and enhancing knowledge sharing in various disciplines. Through our collaborative partnerships we also acquired technical expertise for New Product Development.

We continued to create private and public partnerships in matters of national importance, leading the way as a responsible corporate citizen. The outstanding amount of funds disbursed by the Bank under the Government's Enterprise Sri Lanka scheme is one such example.

Remaining compliant

As we continue our journey ahead with confidence and launch innovative products and services, our intense scrutiny and focus on the regulatory aspects of the business remain tighter than ever. In 2018, we continued to work closely with the regulators to ensure compliance in every aspect, including BASEL III capital requirements and SLFRS 9 Accounting Standard.

Greener and cost effective

Sustainable banking practices will always be a key focus area for Commercial Bank. In 2018, our commitment to deploy sustainable energy sources resulted in an average annual energy saving of 8%, through our strategies to interweave sustainability into business practices. Initiatives to reduce carbon footprint include: the establishment of Green Banking Channels, waste disposal systems, use of solar power, reduction of paper use through digitisation of processes, and development of green buildings for branches. A number of our branches now have almost zero electricity cost, while several others exporting power to the national grid.

Through a carbon footprint evaluation conducted during the year, we gained a better understanding of our impact on the environment and have begun exploring avenues of reduction. Through our agreement with IFC, our lending officers have been trained to identify and promote green financing opportunities.

We will continue to champion the cause of green banking whilst we concentrate on streamlining our processes through centralisation and continue to promote channel migration amongst our customers.

Various efforts to improve processes, channel migration and centralised activities have contributed to improve our Cost to Income Ratio (before taxes on financial services) from 41.08% to 36.85% by end 2018.

Year 2018 at a glance

Commercial Bank recorded impressive growth in all key areas, despite challenges encountered due to increased taxation and higher levels of non-performing advances, which resulted in increased provisions for impairment charges.

We demonstrated resilience to the challenges, by reaching out with robust and prudent assets and liabilities management and reached high in increasing market share, providing adequate cushioning against non-performing advances, and maintaining a stable and growing profitability.

Commercial Bank Group recorded an operating profit of Rs. 32.1 Bn., an approximate increase of 14.1% compared to 2017, despite a substantial increase in impairment charges from approximately Rs. 1 Bn. in 2017 to Rs. 8.8 Bn. in 2018.

However, the growth in the Group's profit after tax was limited to 7.44% at Rs. 17.9 Bn. as a result of the debt repayment levy paid since October and increased taxation on financial services due to the revocation of a substantial portion of the tax concessions allowed in the past.

Business volumes across all segments grew as deposits were up by 15.99% to Rs. 994.40 Bn. and net loans to customers up by 16.86% to Rs. 867.60 Bn., both recording average growth in excess of Rs. 10 Bn. a month. Our loan book and deposits grew by over Rs. 100 Bn. each for the third consecutive year.

Reflecting the trend of asset quality deterioration observed across the industry, gross and net non-performing loans ratios increased during the year to 3.24% and 1.71% respectively from 1.88% and 0.92% in 2017. However, the Bank continues to showcase its strength and prudent management practices by having the higher cumulative provision for impairment as a percentage of non-performing loans and advances at 92%.

We reached out and reached high to launch many innovative products and services in 2018, many of which are customised to meet the exact requirements of our customers.

In Sync with the future

Being future-ready means not only ensuring our team and customers are geared to capitalise on the best of digital innovations, but also having a strategic plan in place to navigate the changing macroeconomic and regulatory landscapes. We aim to strike the perfect balance between sound financial performance, innovative products and services, robust digital offerings and prudent management of investments.

In terms of digital offerings, we launched Sri Lanka's first Digital Banking Account "Flash", which we will keep developing to suit our customer's requirements. We intend on introducing a digital data analytics solution that will help us better understand the customer's lifestyle, resulting in customised product offerings.

In 2018, we increased the number of Cash Recycler Machines (CRM) and Cash Deposit Machines (CDM) in our network. We pioneered the launch of Automated Banking Centres (ABC), with the intention of providing 24x7 access to banking services. We also premiered the opening of savings accounts online to our existing and prospective customers, a move that has received an extremely positive response. Our efforts in channel migration and creating greater awareness about our ABC will continue, whilst we actively focus on providing an enriched customer experience through automated and digital platforms.

Commercial Bank will reach out to the future by promoting digitisation and automation, streamlining operations through centralisation, and improve product offerings through data analytics, green banking and sustainability initiatives and focused CSR initiatives.

Reaching out to say thank you

I extend my sincere appreciation to the Chairman and the Board of Directors for their invaluable advice and guidance; the capable management team and all our members of Commercial Bank family in Sri Lanka, Bangladesh, Italy, Maldives, Myanmar and other overseas locations, for their commitment and dedication.

I would also like to extend my heartfelt gratitude to our customers for their loyal patronage and shareholders for their unwavering support.

My gratitude is extended to the banking and financial services regulatory authorities and other stakeholders in Sri Lanka, Bangladesh, Italy, Maldives, and Myanmar for their support and cooperation.

As we navigate through an uncertain future, we remain focused on delivering on the goals and aspirations of our stakeholders – from customers and employees to the communities and the nations within which we operate. We will continue to explore uncharted territories, backed by our investments in talent and technology on our journey towards sustainable growth.

S Renganathan
Managing Director/CEO

Colombo
February 22, 2019

Board of Directors and Profiles

Mrs J R Gamage
Company Secretary

Mr T L B Hurulle
Director

Mr L D Niyangoda
Director

Mr G S Jadeja
Director

Mr S C U Manatunge
Director

Mr S Renganathan
Director

Mr K G D D Dheerasinghe
Chairman

Mr M P Jayawardena
Deputy Chairman

Mr S Swarnajothi
Director

Prof A K W Jayawardane
Director

Mr K Dharmasiri
Director

Ms N T M S Cooray
Director

Justice K Sripavan
Director

Mr K G D D Dheerasinghe

Chairman

Chairman of the Board since July 2014.

Chairman of the Board Human Resources and Remuneration Committee (BHRRC), Board Nomination Committee (BNC), Board Credit Committee (BCC), Board Investment Committee (BIC) and Board Strategy Development Committee (BSDC). Independent Non-Executive Director since December 2011.

Skills and experience:
An eminent Economist with a distinguished career of over 43 years in the Banking Industry. Published widely and presented papers on many aspects of Economics including Debt Capital Markets and Financial Globalisation in Sri Lanka and overseas. Holds a B.Com and B.Phil. (Econ) with First Class Honours from the University of Colombo and MA (Econ) from the University of Leeds, UK. Honorary Fellow of the Institute of Bankers of Sri Lanka and Honorary ACI Diploma holder.

Member of the Sri Lanka Institute of Directors since December 2015.

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

Previous appointments:
Senior Deputy Governor of the Central Bank of Sri Lanka. Chairman, Monetary Policy Committee and Sovereign Ratings Committee. Secretary to the Monetary Board, Alternate Executive Director for Bangladesh, Bhutan, India and Sri Lanka at the International Monetary Fund. Chairman, Bartleet Finance PLC, Director, Fitch Ratings Lanka Limited, Council Member, University of Sri Jayewardenepura, Chairman, Commex SRL (Italy).

Shareholding of Bank:
Holds 23,870 voting shares

Mr M P Jayawardena

Deputy Chairman since July 2014.

Chairman of the Board Integrated Risk Management Committee (BIRMC), Independent Non-Executive Director since December 2011.

Skills and experience:
A senior finance professional with wide experience in the corporate sector, both in Sri Lanka and overseas. Fellow of The Institute of Chartered Accountants of Sri Lanka.

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

Previous appointments:
Head of Treasury, Zambia Consolidated Copper Mines Ltd.

Shareholding of Bank:
Nil

Mr S Renganathan

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

Skills and experience:
A senior banker counting over 38 years, he led the Bank's acquisition of the Bangladesh operations of Credit Agricole Indosuez (CAI), Commercial Bank's first ever acquisition of a banking operation, subsequently building up the same as Country Manager. He has also held several other key positions at the Bank including Chief Operating Officer, Deputy General Manager – Personal Banking and the first Chief Risk Officer of the Bank.

Fellow of the Chartered Institute of Management Accountants, UK (FCMA), Chartered Global Management Accountant (CGMA), Fellow of the IFS School of Finance, UK (Fifs), Fellow of the London Institute of Banking and Finance UK (FLIBF) and a Fellow of the Institute of Bankers of Sri Lanka (FIB). Member of Sri Lanka Institute of Directors since December 2013.

Other current appointments:
Managing Director of Commercial Development Company PLC, Deputy Chairman of Commercial Bank of Maldives (Pvt) Ltd., Director of International Chamber of Commerce Sri Lanka.

Director of Lanka Financial Services Bureau Limited (LFSB).

Director of Sri Lanka Bank's Association Guarantee Ltd.

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

Shareholding of Bank:
Holds 323,903 voting and 11,916 non-voting shares

Mr S Swarnajothi

Appointed as an Independent Non-Executive Director in August 2012, Chairman of the Board Audit Committee (BAC).

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

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

Member of Sri Lanka Institute of Directors since December 2015.

Other current appointments:
Member of the Tax Appeals Commission, which position he had held since May 2014, Member of the National Salaries and Cadre Commission – March 2016.

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

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

Shareholding of Bank:
Holds 10,944 non-voting shares

Prof A K W Jayawardane

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

Chairman of the Board Technology Committee (BTC).

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

Holds a PhD in Construction Management and a Master of Science Degree in Construction from the Loughborough University of Technology, UK and a BSc. Eng. in Civil Engineering Degree with first class honours from the University of Moratuwa. Also a Corporate Member, a Fellow and an International Professional Engineer of the Institution of Engineers, Sri Lanka (IESL), CEng, FIE(SL), IntPE(SL), Fellow of the National Academy of Sciences of Sri Lanka, FNAS(SL), Founder Member of the Society of Structural Engineers Sri Lanka MSSE(SL), Fellow of the Institute of Project Managers, Sri Lanka, FIPM (SL).

Member of Sri Lanka Institute of Directors since December 2015.

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

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

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

Shareholding of Bank:
Nil

Mr K Dharmasiri

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

Skills and experience:
A senior banker counting over 37 years at Bank of Ceylon and retiring as its General Manager/Chief Executive Officer, he has diversified experience both within and outside Sri Lanka.

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

Member of Sri Lanka Institute of Directors since December 2015.

Other current appointments:
None

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

Shareholding of Bank:
Nil

Mr L D Niyangoda

Appointed as an Independent Non-Executive Director in August 2016.

Skills and experience:
He has a proven track record of over 31 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 36 years.

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

Member of numerous professional bodies, including the Council for Agricultural Research Policy of Sri Lanka, Standing Committee of Agriculture and Veterinary Studies, University Grants Commission and Faculty of Agriculture, University of Peradeniya.

Member of Sri Lanka Institute of Directors since March 2000.

Other current appointments:
Chairman of A Baur & Co. (Pvt) Ltd., Director of Baur Asia (Pte) Ltd., Singapore.

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

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., Chairman Jetwing Hotels Ltd., Member, Advisory Council for Tourism and a member of the Board of the Management of several other institutions.

Previous appointments:
Former Chairperson of the Sri Lanka Institute of Directors. Director – Finance and Administration on the Board of J Walter Thompson, Non-Executive Director on the Boards of Capital Alliance Finance PLC, Trade Finance and Investments PLC and serves on the Boards of many other private and public companies.

Shareholding of Bank:
Holds 190,000 voting and 50,575 non-voting shares

Mr G S Jadeja

A Non-Executive Director appointed in September 2016.

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

Holds an MBA in Finance from Baruch College CUNY, a Master's Degree in Hotel Management from Oberoi School of Hotel Management (A Cornell University Affiliate Programme), and B.A. (Honors) from St. Stephen's College, University of Delhi.

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

Previous appointments:
Held several key positions as Regional Industry Head – Asia, Senior Manager – Latin America and The Caribbean Region, Mexico/Bogota, Manager – East Asia and The Pacific Region, Hong Kong, Senior/Principal Investment Officer – Financial Markets Division, Washington D.C. at The International Finance Corporation.

Also served as a Director Acquisition/Integration and Business Development, New York, NY, Director Finance and Assistant to the CFO, Manager/Senior Manager – Finance at American Express Travel Related Services Inc.

Shareholding of Bank:
Nil

Mr T L B Hurulle

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

Skills and experience:
Holds a Diploma in Refrigeration and Air Conditioning (Dip.R) London, Southbank University, and Engineering Apprentices I & II Programmes, University of Moratuwa. Certificate in Science and Technology of Refrigeration –City & Guilds Institute, London.

Member of Sri Lanka Institute of Directors since August 2017.

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

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

Shareholding of Bank:
Nil

Justice K Sripavan

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

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

Skills and experience:
Appointed as the Chief Justice of the Democratic Socialist Republic of Sri Lanka in January 30, 2015 and held office until March 01, 2017.

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

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

Member of Sri Lanka Institute of Directors since August 2017.

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

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

Shareholding of Bank:
Nil

Mr S C U Manatunge

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

Skills and experience:
Mr Sanath Manatunge was the former Deputy General Manager – Corporate Banking. He counts for 29 years of banking experience at the Bank, having held corporate management/senior positions such as Chief Risk Officer, Head of Credit Risk and Chief Manager – Corporate Banking prior to being appointed as the DGM – CB.

Mr Manatunge is a Fellow of 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) and a Fellow of the Institute of Certified Management Accountants of Sri Lanka (FCMA).

Mr Manatunge 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.

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

Other current appointments:
Director of the Bank's Maldivian Subsidiary – Commercial Bank of Maldives Pvt Ltd.

Previous appointments:
Director of Bank's IT subsidiary, OneZero Company Ltd.

Shareholding of Bank:
Holds 57,553 voting shares

Mrs J R Gamage

Company Secretary

Appointed as Company Secretary since May 2014.

Skills and experience:
An Attorney-at-Law who counts over 20 years experience at the Bank. She was appointed as the Company Secretary of Commercial Bank in May 2014. She holds a Diploma in Company Secretarial Practice from the Institute of Chartered Corporate Secretaries of Sri Lanka and a Post-Attorney Diploma in Banking and Insurance Laws from the Incorporated Council of Legal Education of Sri Lanka. She has received extensive training on Secretarial and Legal fields at a leading law firm prior to joining the Bank.

Previous appointments:
None

Shareholding of Bank:
Holds 90,573 voting shares

Our Value Creation Model

Commercial Bank's business model primarily revolves around **financial intermediation and maturity transformation,** two essential activities required for the economic development of the country. It is through these two activities that the Bank delivers value to and derives value from its stakeholders.

Financial intermediation and maturity transformation

Financial intermediation refers to the intermediary role the Bank plays between various stakeholders – depositors and borrowers, importers and exporters, money remitters and beneficiaries, entrepreneurs and investors, tax authorities and tax payers and so on. Maturity transformation refers to the process of converting short-term funds into long term lending and investments.

Capitals

By delivering value over a period close to a century of operations, the Bank has been able to build a base of loyal stakeholders who takes a long-term view of the Bank whom we respectfully call "capitals". Besides financial and intellectual capitals that reside within the Bank, we call these stakeholders capitals – as in customer capital, investor capital, human capital and so on – since, although not owned by the Bank, they provide "inputs" for our activities that enable delivery of value to and deriving of value from them, leading to creation of value for all stakeholders. Through the activities we undertake in furtherance of financial intermediation and maturity transformation and also as a result of the interactions among these various capitals, we are able to augment the capitals, a reflection of value created. Refer diagram on pages 22 and 23 for the amount of the capitals the Bank had as at 1 January 2018 (inputs), a summary of activities undertaken during the year to deliver value to the various stakeholders and the amount of the capitals the Bank had as at December 31, 2018 (outputs).

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 borrowing from depositors and others incurring interest expenses and lending such funds to borrowers and investors earning interest income. The interest margin which is the difference between the lending rate and the borrowing rate compensates the Bank for credit risk, funding risk and the interest rate risk. All other services provided by the Bank not involving funds are fee-based operations. Reflecting efficient financial intermediation, the Bank generated 70.57% of its total operating income by way of net interest income (80% in 2017) and the balance from fee based sources, exchange profit, trading gains and recoveries of loans written off/ provisions reversals for the year 2018.

Gearing

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

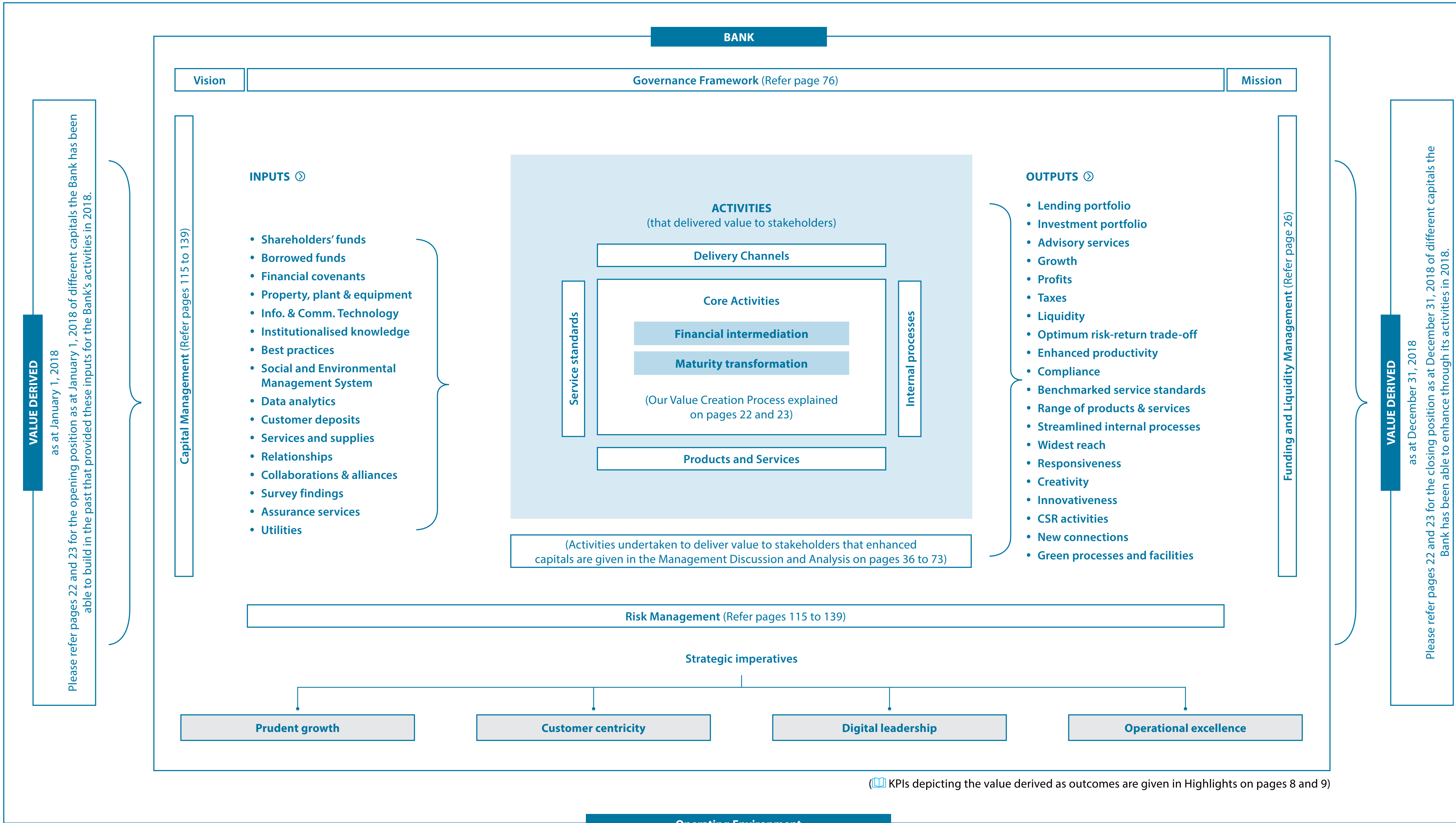
Gearing primarily remains the foundation of our business model, which enables us to operate at around 10 times higher business volumes compared to the shareholders' equity. It is our license to mobilise deposits from the public that has made it possible. However, we are well aware that gearing exposes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

Stakeholder returns

As shown in Table 5 on page 41, 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 2018 while its shares ranked third among all listed companies in the Colombo Stock Exchange as at end 2018. Further details on the performance of the Bank's shares are found in the section on "Investor Relations" on pages 354 to 373.

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

The Bank's business model that delivers value to and derives value from its stakeholders Figure – 03



Our business model

The diagram overleaf depicts the inputs used and the activities undertaken to deliver value to the stakeholders in the process of financial intermediation and maturity transformation, the two primary activities of the Bank. It also illustrates the consequent outputs generated by deriving value from them.

The Bank's business model that delivers value to and derives value from its stakeholders

Financial capital

Indicator of value derived	Value derived as at January 1, 2018	Activities undertaken to create financial capital*	Value derived as at December 31, 2018
Shareholders' funds	Rs. 107.1 Bn.	Grew the business volumes prudently through robust and efficient financial intermediation and maturity transformation, thereby strengthening the leadership position	Rs. 118.4 Bn.
Subordinated liabilities	Rs. 25.2 Bn.		Rs. 38.0 Bn.
Deposits from customers	Rs. 850.1 Bn.		Rs. 983.0 Bn.
Borrowings from banks/ other borrowings	Rs. 57.1 Bn.		Rs. 50.1 Bn.
Market share in total assets	11.1%		11.1%
Market capitalisation	Rs. 133.3 Bn.		Rs. 114.9 Bn.**
CSE ranking in market cap	4		3
Price to Book Value	Highest among the BFI sector		Highest among the BFI sector

*** Reflects the overall market trend.*

Manufactured capital

Indicator of value derived	Value derived as at January 1, 2018	Activities undertaken to create manufactured capital*	Value derived as at December 31, 2018
Branch network	280	• Maintained profitable mix of owned and rented buildings • Conducted cost-efficient transport arrangements • Improved procurement services	285
Number of ATMs	775		850
Number of CDMs	40		40
Bank on wheels	1		2
Investment in capital expenditure	Rs. 14.6 Bn.		Rs. 15.3 Bn.

Intellectual capital

Indicator of value derived	Value derived as at January 1, 2018	Activities undertaken to create intellectual capital*	Value derived as at December 31, 2018
Brand equity	Rs. 20.3 Bn.	• Invested in centralisation • Improved processes and procedures • Developed new products and services • Expanded network, conducted research and development • Deepened technological expertise • Supported knowledge sharing initiatives	Rs. 29.3 Bn.
Value of intangible assets	Rs. 0.8 Mn.		Rs. 0.9 Mn.
Receipt of awards and accolades	Most awarded bank in Sri Lanka		Most awarded bank in Sri Lanka
World's Top 1000 Banks	Included in 2017		Included in 2018
Fitch rating	AA (lka)		AA (lka)
Employees serving for > 20 years	854		834

INTERACTIONS

Human capital

Indicator of value derived	Value derived as at January 1, 2018	Activities undertaken to create human capital*	Value derived as at December 31, 2018
Number of employees	4,982	• Revised selection criteria for new recruits to match current demands • Conducted employee surveys • Invested in training and development • Enriched career development • Reinforced performance management and appraisals	5,027
Number of new recruits	243		312
Retention ratio	91.9%		96.0%
Return to work from maternity	93.0%		100%
Profit per employee	Rs. 3.3 Mn.		Rs. 3.5 Mn.
Average service period	11 years and 7 months		11 years and 10 months

Social and network capital

Indicator of value derived	Value derived as at January 1, 2018	Activities undertaken to create social and network capital*	Value derived as at December 31, 2018
Number of customers	Over 3 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	10.6%		10.2%
Market share in exports	18.6%		19.5%
CASA ratio	39.2%		37.6%
Number of suppliers	Over 850		Over 1,100
Number of correspondent banks	55		54
CSR Trust investment in society	Rs. 412.4 Mn.		Rs. 475.4 Mn.

Natural capital

Indicator of value derived	Value derived as at January 1, 2018	Activities undertaken to create natural capital*	Value derived as at December 31, 2018
Energy consumption	54,820 Gigajoules	• Screened loans through SEMS • Promoted paper reduction and recycling • Increased usage of renewable energy • Switched to energy-efficient appliances	49,958 Gigajoules
Solar panel installation locations	20		34
Number of facilities subjected to SEMS screening	9,595		9,685
Online banking users	184,255		279,254
Mobile banking users	570,071		630,030

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

Managing Financial Capital

Total RWA for Credit Risk and Market Risk of the Bank increased to Rs. 890.4 Bn. and Rs. 15.7 Bn. respectively during 2018 from Rs. 713.8 Bn. and Rs. 6.3 Bn. as at end 2017. The RWA for Operational Risk meanwhile decreased to Rs. 38.5 Bn. during 2018 compared to Rs. 57.4 Bn. in 2017 due to migration to the Alternative Standardised Approach from the Basic Indicator Approach in 2018. The overall increase in RWA during 2018 was Rs. 167.3 Bn. mainly contributed to by loan book growth

Capital acts as a buffer to absorb unanticipated losses and serves as a regulatory restraint on unjustified asset expansion. These are the probable reasons to have prompted regulators to prescribe higher capital, both in terms of quality and quantity. Capital also helps banks to acquire property and equipment to establish and perpetuate business, and protect itself against uninsured depositors.

The need to retain capital has resulted in certain limitations being imposed on banks, inhibiting the growth of the banking industry in the face of tightening regulatory requirements and reporting standards. Already, both Basel III and SLFRS 9, have had a profound impact on the emerging banking landscape. Required to hold on to more capital and liquidity, banks will be forced to take less risk, and bear the brunt of higher costs and lower returns.

Among others, restrictive capital definitions, difficulty in raising fresh capital due to lacklustre market conditions, higher risk-weighted assets, additional capital buffers and higher capital adequacy ratios (CARs) required under Basel III regulations, higher impairment provisioning under SLFRS 9, Debt Repayment Levy and removal of most tax concessions previously available are exerting pressure on capital management of banks.

To remain solvent in such a landscape, the Bank considers it a priority to pro-actively manage the capital at its disposal. The Bank assesses its capital requirements through the Internal Capital Adequacy Assessment Process (ICAAP) and the annual strategic planning and budgeting exercise. The tools it deploys include: prudent capital allocation, balancing risk-weighted assets, timely pricing, dividend policy, products and services portfolio and capital instruments for managing capital.

Capital management objectives

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

- Compliance with the regulatory requirements
- Maintaining internal capital targets which are more stringent than the regulatory requirements
- Optimum capital usage for maximum profitability (which meets investor expectations)
- Supporting future business expansion
- Supporting desired credit rating
- Satisfying Basel III capital requirements while bearing the impact of SLFRS 9 due to additional provisions under the expected credit loss model which requires provisions on loan commitments/off balance sheet exposures and foreign currency denominated Government securities as well.

Progress in 2018

Despite the stressful environment that prevailed, the Bank was able to manage capital well during the year. As a result, the Bank's capital remained at a comfortable level throughout the year, allowing sufficient leeway for future business expansion. The primary contributors for this success included:

- Accurate alignment of capital planning with corporate strategy
- Expanding the Tier II capital base by Rs. 10 Bn. via an issue of listed, rated, redeemable, subordinated Basel III compliant debentures
- Relatively low levels of gearing that the Bank is currently operating at
- Investing in Government securities which do not attract capital charge

Given the recent developments ICAAP revealed the need for strengthening the corporate plan and budgeting exercise in 2019. This prompted the Bank to announce a Basel III compliant debenture issue in December 2018 which will be issued during the first half of 2019. The ICAAP also assisted the Bank in realigning business processes to optimise capital utilisation.

In addition, to ensure the adequacy of processes to identify, record, and assess potential risks and related risk management controls, the Bank reviewed its Risk Control Self Assessment processes twice during the year and implemented necessary actions to fill identified gaps.

In order to have disposable assets at hand which can be reallocated for more capital-efficient projects, the Bank focused on generating tradable loan assets. This move supported the Bank's CARs and profitability ratios over the past five years.

Total RWA for Credit Risk and Market Risk of the Bank increased to Rs. 890.4 Bn. and Rs. 15.7 Bn. respectively during 2018 from Rs. 713.8 Bn. and Rs. 6.3 Bn. as at end 2017. The RWA for Operational Risk meanwhile decreased to Rs. 38.5 Bn. during 2018 compared to Rs. 57.4 Bn. in 2017 due to migration to the Alternative Standardized Approach from the Basic Indicator Approach in 2018. The overall increase in RWA during 2018 was Rs. 167.3 Bn. mainly contributed to by loan book growth.

The CET 1 Capital ratio stood at 11.3% as against the minimum regulatory requirement of 7.375%.

Keeping well above the regulatory requirement of 12.875%, the total capital ratio stood at 15.6% at end of 2018.

The Bank's Basel Work Group met periodically to assess the capital adequacy and other capital related issues and to formulate and escalate its suggestions for implementation by way of strategies.

The Bank's strong reputation for managing capital prudently and effectively through retained earnings has borne fruit over the years. This is evident from its handling of past issues of equity and debt instruments. Thanks to a loyal shareholder base that takes a long-term view of their investment in the Bank, and especially one that is ever willing to be supportive at favourable terms, the Bank retains its strong position even in times when additional capital is required for business expansion.

2019 and beyond

The way banks manage and report the asset side of their balance sheets was heavily impacted by the implementation of SLFRS 9 and Basel III. For this reason, capital planning has become an essential exercise for all banks.

During the year, the Bank aligned its strategies to optimise the level of capital in line with regulatory prerequisites under Basel III guidelines.

The Bank has received approval from the regulator to adopt Alternative Standardised Approach (ASA) as against the Basic Indicator Approach (BIA), a move that is expected to improve CAR going forward.

The net interest income of banks are under pressure due to the implementation of the SLFRS 9 impairment model which restricts the Bank's ability to plough back profits as capital for future expansion purposes. This emphasises the need to move to a ratings-based calculation on expected loss compared to the days past due (DPD) method.

During 2018, the Bank validated its rating models through an independent party. This is a pre-requisite for relying on the rating based expected loss calculation as it can provide much improved loan loss provision figures and ease pressure on the scarce capital. In addition, a number of automation initiatives were implemented for back office functions with the aim of bringing about cost advantages to the Bank. In turn these are expected to lead to an improvement of profits that could end up as capital through retention.

To create better shareholder value, the Bank will rebalance its portfolios both from a liquidity perspective and a profitability perspective. This will be done in line with the Bank's comprehensive understanding of the regulatory controls in place and the business requirements for growing in a sustainable manner.

To improve NIMs, it is likely that all players in the banking environment will begin applying risk-based pricing, an approach that will be vigorously pursued by the Bank as well. The need to adopt more robust risk-based pricing techniques is more important than ever and is likely to be adopted across the industry, especially with developments to facilitate a level playing field for such adoption already in the pipeline.

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

While past borrowings have primarily been from a funding and liquidity perspective, going forward the Bank will explore borrowings from a capital perspective by going for convertible structures as was done in 2017 and 2018. It will also explore options for adopting a scientific approach to capital allocation.

The Bank's Funds Transfer Pricing (FTP) system is largely based on duration rather than risk associated with the loans granted. To recover the cost of additional capital to be consumed from the end user, the Bank is currently evaluating a FTP mechanism which will also capture the cost of capital through an appropriate yield curve.

Further details are given under "Disclosure 6 – Summary discussion on adequacy/meeting current and future capital requirements" on page 402.

Managing Funding and Liquidity

The resilience of the financial services industry depends a great deal on funding and liquidity. Recent history, such as the circumstances that led to the financial crisis in 2007, underlined the importance of funding and liquidity. In fact, it is just as vital as capital and yet, unlike for capital, there were no internationally agreed standards for liquidity. Then came Basel III, which included provisions to strengthen the funding and liquidity risk management of banks. Its goal was to promote resilience in a bank's short-term and long-term liquidity risk profile. This was achieved through the Liquidity Coverage Ratio (LCR), and the Net Stable Funding Ratio (NSFR), which came into effect in 2015 and 2019, respectively. In addition to the conventional Statutory Liquid Assets Ratio, these measures are geared to prevent banks from relying excessively on short-term wholesale funding to support long-term assets.

The Bank accords as much importance to funding and liquidity as it does to capital, ensuring that it has sustainable sources of funding and maintains adequate levels of liquidity at all times, never compromising on liquidity in its drive to generate returns for investors. This contributed greatly towards public trust in the Bank.

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

Encouraging the use of electronic cash and cards to reduce cash holdings and establishing credit lines with strong overseas counterparties, enabling it to access foreign currency funds at attractive prices the Bank has further strengthened its funding and liquidity.

Stable funding sources of the Bank for onward lending include:

- Retail deposits 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

With a substantial portion of retail customer deposits likely to remain with the Bank for the medium to long term, such deposits are considered more stable than wholesale funding sources.

Objectives

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 stressed operating conditions
- Compliance with the regulatory requirements
- Maintaining internal funding and liquidity targets which are more stringent than the regulatory requirements
- Optimum usage of liquid assets for maximum profitability thereby meeting the expectations of investors
- Funding future business expansion at optimum cost
- Supporting desired credit rating
- Ensuring smooth transition to Basel III funding and liquidity requirements

The year under review witnessed shortages in market liquidity thus prompting the CBSL to reduce the Statutory Reserve ratio from 7.50% to 6.00% from mid November 2018, releasing Rs. 90 Bn. to improve market liquidity.

Progress in 2018

Throughout the year, the Bank maintained optimum levels of funding and liquidity, with guidance from ALCO under normal as well as stressed conditions. This is evident from the indicators in Graph 49 on page 339. Maintaining such optimum levels of liquidity allowed the Bank to earn higher fund-based income.

Plans for contingency funding and liquidity requirements in the event of any stressed conditions are also in place.

Of the Bank's assets, 75% were funded by customer deposits, while of the Bank's liabilities, 83% were made up of customer deposits as at December 31, 2018. Sufficiently diversified by type and maturity, the funding portfolio represented stable sources of funding. At 239% (for all currencies), the LCR was well above the minimum requirement of 90%, as at December 31, 2018.

The NSFR, which became a prudential requirement with effect from January 1, 2019, was at 139% as at December 31, 2018 based on the test computations done.

Movement of liquidity ratios over the past four years is given in Graph 49 on page 339.

At year end, the Bank's FVOCI assets portfolio stood at Rs. 176.506 Bn. (compared to the AFS portfolio of Rs. 154.714 Bn. as at December 31, 2017), being available for use to meet any funding requirements as the need arises in the normal course of business or due to market stress.

Movement of the liquidity coverage ratio and net stable funding ratio are given in Figure 2 on page 9.

Periodic tests were conducted at varying degrees of risk thresholds revealed that liquidity strains could be withstood with the resources at disposal and contingency plans in place even during a severe stress scenario.

2019 and beyond

The Bank will continue to migrate short-term reliance for funding towards medium to long-term tenors. This takes on greater significance in light of the LCR and the NSFR. It also prepares the Bank for any potential liquidity tightness in the region. The Bank will also gradually reduce its dependence on low liquidity value deposits such as interest sensitive wholesale funding. Improving its funding profile further will be another focus for the Bank. It will continue evaluating broad-basing its funding sources to other multilateral lending institutions and also by diversifying borrowing currencies.

Creating a Sustainable Future

The Bank has a holistic understanding of sustainability – **creating value for all the stakeholders sustainably in the short, medium and long term.** By ensuring that its overall performance continues to be strengthened into the future based on the strategic imperatives of prudent growth, customer centricity, leading by innovation and operational excellence, while also being keenly aware of the impact of its operations on the environment and society, the Bank is able to combine and strengthen the strands that determine its sustained performance. The Bank is conscious of the needs of all its stakeholders and continues to responsibly deliver value to them.

The profitability of the Bank is a key determinant of its future well-being and the extent to which the Bank is able to deliver value to its diverse stakeholders. In order for the Bank to successfully deliver this value proposition, it promotes integrated thinking within the Organisation by creating awareness among its staff of the role they play in this process. Social and environmental considerations are integrated into all the Bank's core business activities while employees are encouraged to pursue activities that range from responsible lending, investments, new product development, procurement etc. to social and environmental initiatives such as recycling, use of renewable energy, and the support of culture, health, and education etc. This ensures that the Bank successfully achieves its role as an intermediary by balancing the interests of stakeholders and optimising the trade-off between risk and return.

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

Positioned in an industry that is subject to regular scrutiny of regulatory authorities where it operates, the Bank complies with all stipulated regulations. These compliance responsibilities are given the highest priority and are abided by in word and spirit. During the year, no significant gaps, lapses, or inaccuracies were observed in this regard.

Stemming from a culture of integrated thinking, the Bank also has a Code of Conduct that states expected behaviour among the staff with regard to ethics, conduct, and compliance. This ensures that a culture of overall well-being is sustained for all. The Supplier Code of Conduct also maintains certain regulations with regard to compliance and to social and environmental considerations across the supplier value chain as well. Furthermore, the Bank continued to deliver value to its customers by providing myriad banking products and services through an expanding network of 285 branches, 850 ATMs, Business Promotion Officers and an array of digital channels, with benchmarked service standards and streamlined internal processes.

The Bank also demonstrates its future-centricity by gradually incorporating disruptive technologies into its offerings. These dynamic solutions ensure that the Bank delivers value to its customers, thereby deriving their continued trust and reinforcing its leadership position in the industry.

Values that support the Bank's brand

Honesty

We strive to earn and retain the trust of our stakeholders through transparent actions that inspire them and align with their values.

Integrity

Maintaining our integrity is of paramount importance to us in ensuring that our brand value keeps growing for all stakeholders.

Fairness

We focus on doing the right thing by all our stakeholders so that their trust in us continues to deepen, enriching invaluable relationships.

Responsible citizenship

Continuing our commitment to the community we focus on making lives better and being a force for good.

Accountability

We live by our brand values, ready to take responsibility for our actions towards all stakeholders.

Operating Environment

Context matters. Especially for a systemically important bank like the Commercial Bank. The Bank's position, performance, and value delivery are intrinsically linked to the socio-political, economic trends in the global arena and in Sri Lanka. The following section outlines the latest developments in the global and the local economies as well as the emerging trends in the Sri Lankan banking sector that played a key role in shaping Commercial Bank in the year 2018.

Accelerated pace of change and key technological advances within the last decade have driven the sector to revisit conventional strategies and revamp business models. The Bank is well aware that the coming decade will bring about a plethora of changes, and is strategically prepared to weather any storm, capitalise on opportunities, and drive innovation.

Global economy Table – 03

GDP Growth rate	2017 %	2018 (Estimated) %	2019 (Projected) %
World Output	3.8	**3.7**	3.5
Advanced Economies	2.4	**2.3**	2.0
United States	2.2	**2.9**	2.5
Euro Area	2.4	**1.8**	1.6
Japan	1.9	**0.9**	1.1
United Kingdom	1.8	**1.4**	1.5
Emerging Market and Developing Economies	4.7	**4.6**	4.5
Russia	1.5	**1.7**	1.6
China	6.9	**6.6**	6.2
India	6.7	**7.3**	7.5
ASEAN-5	5.3	**5.2**	5.1

Source: IMF World Economic Outlook Update January 2019

Global economy is estimated to have grown by 3.7%, a marginal decrease from the growth of 3.8% recorded in 2017, but remained resilient supported by activity in advanced economies including the US, the UK, and Japan. Global activity was impacted by the accelerated growth in the US economy, the trade war between China and the US, uncertainty in the European markets resulting from Brexit, and the strengthening US dollar leading to a tightening of financial conditions within the emerging markets.

The US markets are expected to remain strong in the near term supported by strong labour market conditions, solid corporate profits, increase in oil production, and favourable financial conditions. Marking the eighth rate hike since 2015, the US Federal Reserve raised the target federal funds rate by 0.25%, taking it to a target range of 2.25% – 2.50% in December 2018. These activities led to a strengthening of the US Dollar during the year. 2018 was defined by the ongoing trade war between China and the US, which will continue to affect the markets of both countries and the world economy as a whole. In the United Kingdom GDP growth was strong, partially reflecting an increase in Government spending while the Japanese economy contracted largely due to factors related to natural disasters. The European markets display a downward trend in growth largely driven by the uncertainty that surrounds Brexit, though the markets have time to assess and premeditate its impact.

The financial conditions have eased in China with prompt action by the People's Bank of China reacting to the grim outlook, amidst domestic imbalances and rising trade tensions. Chinese policy is now swinging firmly from tightening to stimulus as the leadership gears for the impact of tariffs.

The growth in Emerging Markets (EM) decelerated in 2018 as a result of tightening of financial conditions due to higher interest rates in the US which resulted in strengthening of the US Dollar. The outlook for EM economies is not that strong especially due to country-specific factors, tighter financial conditions, geopolitical tensions, and higher oil import bills.

Oil prices remained extremely volatile in 2018 and could continue to do so into 2019. However, due to increasing production and resilient shale growth in the US, coupled with weak demand stemming from the concerns of the US-China trade war and political uncertainty in the European markets, prices could be expected to stabilise around USD 55-65 per barrel for Brent crude in 2019. International gold price fell nearly by 5% in 2018 as investors moved away from the gold market due to rising equity markets. However, the gold market is expected to pick up in 2019.

Looking ahead to 2019, global trade is expected to remain subdued. The impact of the trade war was contained to a certain extent in 2018, but is expected to affect trade especially in the US and China to a larger extent in 2019. Global growth is expected to decelerate to 3.5%. Downside risks include the tightening of global financial conditions impacting EMs, uncertainties regarding China's reforms process, and geopolitical uncertainties including risks related to Brexit.

Sri Lankan economy

The Sri Lankan economy experienced a turbulent year with GDP growth reaching 3.3% in the first nine months of 2018. It is well below the IMF and the ADB forecasts for 2018 of 4.3% and 3.8% respectively and comparatively lower than other economies in the region that has experienced GDP growth of up to 7%.

The sub-par economic performance in Sri Lanka was partially due to heightened challenges in the global financial and geopolitical arena that greatly affected the external sector. Similarly domestic challenges like stagnant fixed investment, weak domestic demand and investment, tightening of monetary policy, and political instability that loomed over the island in the fourth quarter which led to inconsistent economic policies, affected macroeconomic stability.

The agricultural sector rebounded to reach a growth of 4.3% in the nine months ended September 30, 2018, while the services sector too expanded by 4.4%. The tourism industry recorded an increase of 11.6% in earnings to post USD 3,211.9 Mn. mainly due to arrivals which grew by 11.6% to reach 1.7 million visitors while the construction sector fell by 0.4% in nine months ended September 30, 2018, displaying the predicted slowdown of industrial activities in 2018.

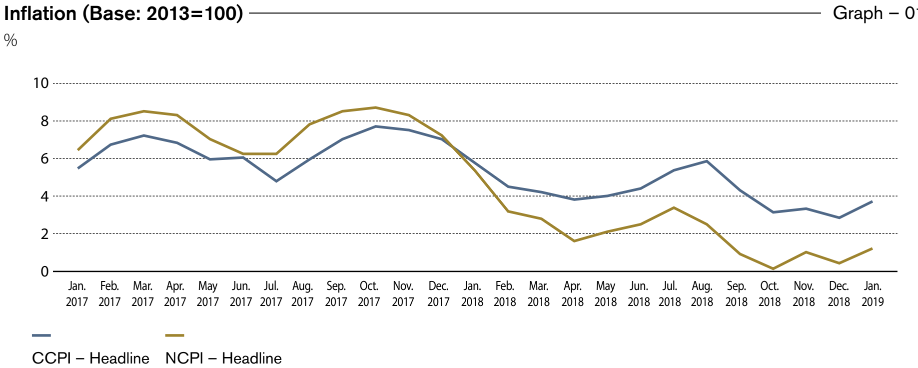
The trade deficit widened to USD 7,953 Mn. in nine months ended September 30, 2018, an increase of 16% in comparison to 2017 as a result of import expenditure growth of 10.4% outpacing export earnings growth of 5.6%. Capital outflows, particularly from Government rupee securities, the tightening conditions in the global markets, the strengthening of the US dollar in view of monetary policy normalisation and speculation in the domestic market exerted pressure on the exchange rate. As a result, despite several short term measures taken to relieve the pressure, the Sri Lankan Rupee (LKR) depreciated by 19% against the US dollar in 2018, the sharpest decline in a decade. The gross official reserves of the country declined to USD 6.9 Bn. (equivalent to 3.7 months of imports) by end 2018 from USD 8.0 Bn. (equivalent to 4.6 months of imports) reported in 2017.

Headline inflation remained in low single digit levels while core inflation too remained subdued. The tight monetary policy continued in 2018 as well. The Government initiated several structural reforms such as the implementation of the new Inland Revenue Act and the introduction of Fuel Pricing Formula in keeping with its policy of revenue driven fiscal consolidation.

It is encouraging to note that, Sri Lanka was named the No. 1 destination to visit in 2019 by Lonely Planet. This will boost Sri Lanka's chances of achieving the tourist arrival targets and increase annual earnings from the industry. Sri Lanka also climbed up 11 places to be ranked 100 among 190 countries in the Ease of Doing Business Index compiled by the World Bank. However, three major credit rating agencies Standard & Poor's, Moody's, and Fitch Ratings, in November 2018 downgraded Sri Lanka's sovereign rating despite reservations of many other analysts. A higher rate of inflation could also be expected due to potential risks arising from global commodity prices, inclement weather, and the impact of rupee depreciation on domestic prices.

It is reported that Sri Lanka will have USD 5.9 Bn. external debt repayments in 2019 included an international sovereign bond of USD 1 Bn. which matured in January and was repaid.

Inflation (Base: 2013=100) Graph – 01



Sri Lankan banking sector

The financial sector performed reasonably well despite the turbulent market conditions referred to above. While the non-banking sector experienced a slowdown, the banking sector of Sri Lanka recorded favourable levels of asset growth as well as improvements in liquidity and capital levels. The Central Bank of Sri Lanka (CBSL) implemented several prudent measures to maintain a stable financial system and to strengthen the resilience of the financial system to external challenges.

In 2018 (guidelines issued much earlier), the CBSL issued directions on Basel III liquidity standards, net stable funding ratio, leverage ratio, foreign currency borrowings by Licensed Commercial Bank s (LCBs) to bolster risk management aspects and to promote transparency and prudent practices with regard to foreign borrowings. The CBSL also issued guidelines to licensed banks for the adoption of SLFRS 9 on Financial Instruments, the implementation of which will ensure that the Sri Lankan banking sector is in line with international best practices.

The CBSL continued the tight monetary policy and widely used Open Market Operations (OMOs) to facilitate market liquidity. However, due to the persistent liquidity deficit in the domestic money market, the Monetary Board reduced the Statutory Reserve Ratio (SRR) applicable on all rupee deposit liabilities of commercial banks to 6.00% from 7.50% in November 2018. The reduction in SRR released a substantial amount of rupee liquidity to the banking system, which could have led to a reduction in interest rates and excess aggregate demand. In order to neutralise the impact of the SRR reduction and maintain its neutral monetary policy stance, the CBSL simultaneously raised Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) to 8.00% and 9.00% respectively.

With the objective of curtailing import expenditure, the Government introduced a 200% LC margin while lowering the loan to value ratio on vehicle imports and imposed a 100% cash margin requirement on selected consumer goods imports with effect from October 1, 2018. These measures had a marginal impact on the industry in 2018, but is expected to hinder the trade finance volumes going forward.

Market interest rates stabilised at high levels causing the growth rate of credit granted by commercial banks to the private sector to decelerate during major part of the year. However, the latter part of the year saw signs of acceleration in the market.

Assets of the banking sector grew by 14.6% to reach Rs. 11.8 Tn. at the end of 2018, a significant growth compared to the growth of 13.8% recorded in 2017. Total loans and advances, which accounted for 65.2% of total assets grew by 19.6% primarily supported by growth in term loans and overdrafts. Both the banking as well as the non-banking financial services sectors experienced a substantial deterioration in asset quality with the gross and net Non-Performing Ratio (NPL) ratios of the banking sector rising to 3.4% and 2.0% respectively as at end 2018 compared to 2.5% and 1.3% a year ago. Deposits too recorded a satisfactory growth of 14.8% during the year. However, due to the shift in deposits from current accounts and savings accounts (CASA) to time deposits with the increasing gap in interest rates between them, CASA ratio of the banking sector declined to 32% by end 2018 from 34.2% in 2017.

Reflecting the growth in business volumes, interest income and interest expenses grew by 14.0% and 12.8% respectively, leading to a growth of 16.3% in net interest income. Sharp depreciation of the Sri Lankan Rupee also contributed to a growth of 21.0% in non-interest income. Yet, the sector failed to record a growth in profit before tax due to increase in operating expenses by 23.9% and impairment provisioning by 34.7%. In addition, banks were required to comply with the requirements of SLFRS 9 effective from January 01, 2018, resulting in the banks having to absorb the shortfall in provisions at the transition day which ranged around 30% to 50% of the cumulative impairment provision up to end of 2017 through the Statement of changes in Equity. Further, the introduction of SLFRS 9 resulted in a substantial increase in impairment provision for the year due to the shift in focus from the incurred loss to expected loss.

Increase in taxation due to the implementation of the new Inland Revenue Act effective from April 1, 2018 and the introduction of Debt Repayment Levy effective from October 1, 2018, saw the profit after tax dip by 9.1%.

The additional impairment provisions coupled with the increased tax burden exerted added pressure on the industry bottom lines, squeezing the regulatory capital of banks, making it arduous for the industry to meet the increased capital adequacy requirements imposed by the regulator effective from January 2019 and making the sector less attractive for investors.

In order to strengthen the legal and regulatory framework of the financial institutions, a new Banking Act is being drafted, while initiating amendments to other legislation related to the financial sector. The CBSL is planning to introduce a more cost reflective alternative benchmark interest rate, which will be based on the marginal cost of banks, to improve the banking sector's competitiveness. Further, the CBSL is in the process of introducing a superior alternative USD/LKR reference rate for the benefit of all stakeholders, including foreign investors.

The CBSL entered into an MoU with the Securities and Exchange Commission of Sri Lanka (SEC) and the Insurance Regulatory Commission of Sri Lanka (IRCSL) to conduct effective consolidated risk-based supervision, enabling group-wide assessment of contagion and reputation risks that may emanate from relationships among members of corporate groups operating across different financial sub-sectors to contain systemic risk

In the new age of technology, ICT security has become a key concern, especially for banks that may be targets for cyber attacks and information security breaches. The CBSL has issued guidelines to the sector to improve resilience to such threats in line with international standards. The National Card Scheme "LankaPay" was launched in 2018 and commenced issuing LankaPay cards to customers and this initiative will continue in 2019 under the guidance of the CBSL.

In 2019, the banking sector will also delve more into virtual banking platforms, digital payment mechanisms, and integrate ICT in operations to move towards a cashless society while enhancing privacy, safety, and convenience.

To encourage virtual banking platforms, the National Payment Council appointed committees to study the latest developments in FinTech and Blockchain technologies to understand the emergence of new payment technologies in the world. As per the recommendations made by the FinTech Committee, a National Quick Response (QR) Code Standard for Local Currency Payments branded as "LANKAQR" was issued to all financial institutions and mobile phone based electronic money (e-money) systems operators to facilitate QR code based payments. Similarly, with regard to Blockchain technology, an inter-industry working committee is preparing a framework for a Blockchain based shared know-your-customer (KYC) solution.

Bangladesh economy

Bangladesh has made substantial progress in growing its economy, reducing poverty, and improving life expectancy, literacy rates and per capita food production, while also improving employment opportunities, and basic infrastructure. Asian Development Bank projects the GDP growth of the country to hover at 7.9% in 2018 and 7.5% in 2019, the highest among the South Asian region (https://www.adb.org).

Private consumption is expected to be underpinned by remittance growth, while strong Government consumption and investment are also expected to increase. This rapid growth has aided Bangladesh to reach lower middle-income country status in 2015. However, risks of natural disasters and a shaky global trade environment may cloud future prospects. Inflation for 2018 is forecasted at 5.8%, while it is expected to increase marginally to close at 6.3% in 2019.

Standard & Poor and Fitch issued a credit rating of BB- for Bangladesh with a stable outlook, while Moody's credit rating was set at Ba3 with a stable outlook. Foreign direct investment in Bangladesh rose by 5.11% during the fiscal year 2017-18, from USD 2.45 Bn. in 2017 to USD 2.58 Bn. in 2018. The country is in an important juncture where it could move up the middle income bracket with right policies and action. The World Bank has identified the creation of job opportunities as the country's top priority (https://www.worldbank.org). Over the past decade Commercial Bank of Ceylon PLC (CBC), Bangladesh, has been creating inroads to contribute towards this economic growth and improve the lives of its people.

Connecting with Stakeholders

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

Given this unique connection, we believe that it is imperative for the Bank to identify and effectively communicate and engage with key stakeholder groups so that we may better understand and address their concerns (Figure 5) while balancing the distribution of value created.

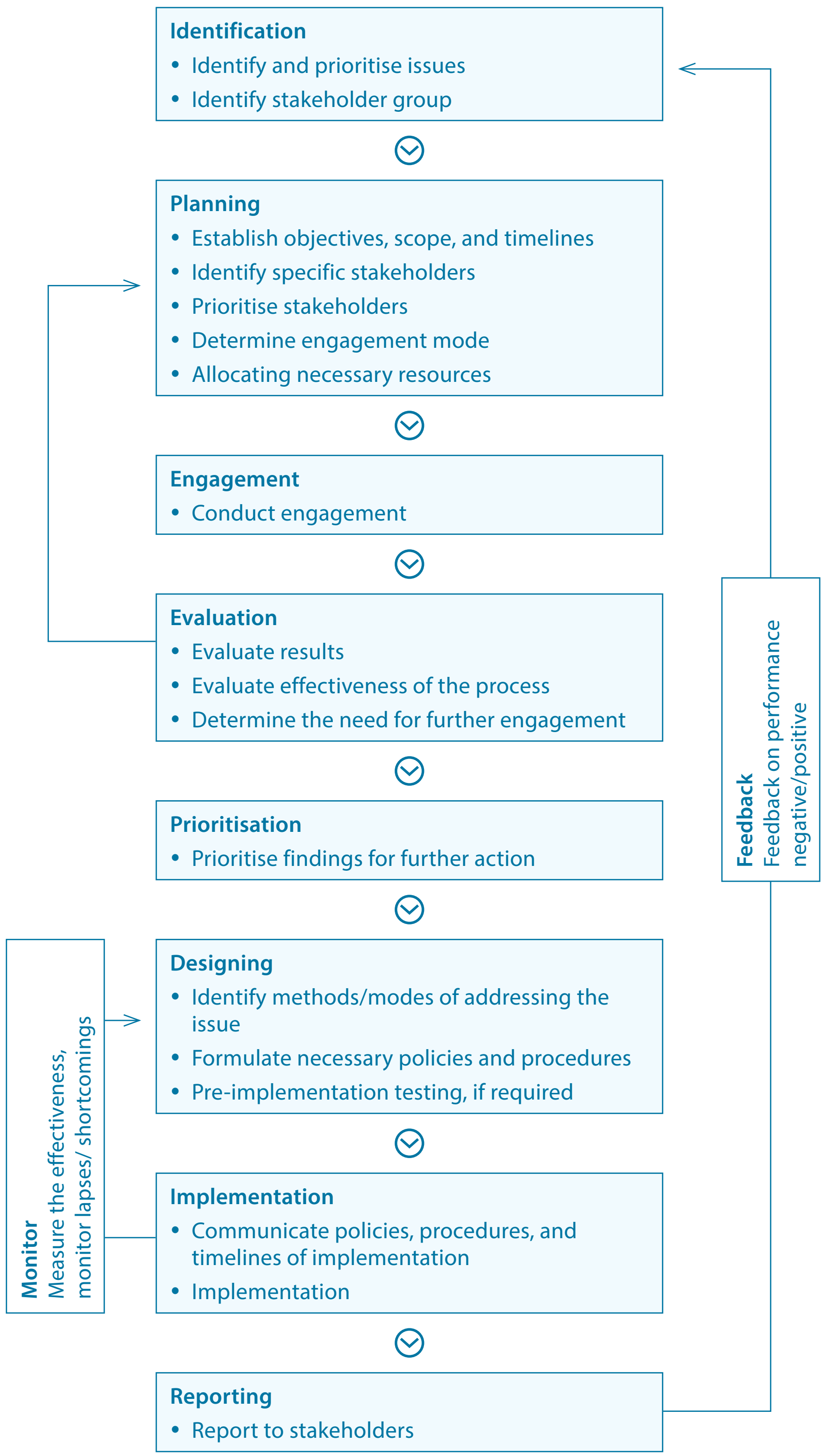
Our stakeholders are –

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

While formal mechanisms are in place to connect with our stakeholder groups (refer Figure 04 on page 31), responsibility for such engagement is shared across the Bank at every stakeholder point of contact.

We strongly believe that by engaging with our stakeholders we are able to better prepare ourselves for the future, improve our business model, drive innovation, and garner invaluable insights for our strategic planning process.

Our stakeholder engagement process Figure – 04



How we connect with our stakeholders

Figure – 05

Investors

Stakeholder aspirations

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

Mode and frequency

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

Customers

Stakeholder aspirations

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

Mode and frequency

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

Employees

Stakeholder aspirations

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

Mode and frequency

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

Society and environment

Stakeholder aspirations

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

Mode and frequency

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

Business partners

Stakeholder aspirations

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

Mode and frequency

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

Government institutions and regulators

Stakeholder aspirations

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

Mode and frequency

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

Material Matters

As a responsible corporate citizen and one that is focused on running a sustainable business, the Bank's strategy centres on creating value: Delivering value to stakeholders and, in turn, deriving value from them. Creating value responsibly means first understanding the needs of the stakeholder against the overarching trends which impact our operations.

Being relevant to stakeholders, however, means ensuring that our strategy is fit for the times. For the year under review, the Bank first analysed its external environment to identify matters arising from emerging trends and their relevance to key stakeholder groups, as given below:

Analysis of Commercial Bank's external environment Figure – 06

	Political A	Economic B	Social C	Technological D	Environmental E	Legal/Regulatory F	
Investors	Instability and lack of policy consistency	Economic slowdown	Growing influence of social media	Unorthodox competition and financial disintermediation		Implementation of SLFRS 9 – Financial instruments	1
	Directed lending	Depreciating currencies against USD	Demand for non-financial information and long termism			Basel III compliance requirements	2
		Rising borrowing costs	Demand for more transparency and accountability			Higher regulatory capital	3
		Rising tax burden					4
		Negative rating outlook for sector					5
		Huge CAPEX requirements					6
Customers		Import restrictions	Changing customer expectations	New technological advance such as cloud computing, AI, Robotics and Blockchain		Compliance requirements under FATCA	7
		Slowdown in private sector credit		Digitalisation and automation		General Data Protection Regulation (GDPR)	8
		Deteriorating asset quality		Cybersecurity threats		Compliance with Based Erosion and Profit Shifting (BEPS)	9
Employees			Need to enhance productivity	Technology driving change in job skills			10
			Staff recruitment and retention becoming more challenging				11

	Political A	Economic B	Social C	Technological D	Environmental E	Legal/Regulatory F	
Society and environment	Geopolitical conflicts	Declining worker remittances	Need to commit to Sustainable Development Goals (SDGs)		Increasing frequency and magnitude of natural disasters and poor disaster preparedness		12
	Increasing levels of corruption	Sri Lanka's global competitiveness declining	Increasing conflicts		Increasing demand for green banking and green lending		13
			Increasing drug pedaling and drug and alcohol addiction				14
			Being classified as a hub for money laundering				15
			Infrastructure out of sync with development needs				16
Business partners		A more collaborative approach					17

Next, the Bank mapped matters material to the Bank according to their impact on stakeholders and the Bank itself, categorising them as risks, opportunities or both, as portrayed in the matrices that follow. For the purpose of this study, the Bank defined material matters as those that significantly affect the Bank's ability to create value over the short, medium and long term. Materiality of each matter is determined by its relevance, the magnitude of its impact, and the probability of occurrence.

Matters material to the Bank Figure – 07

Opportunities to be seized

Importance to stakeholder / Importance to the Bank	Low	Moderate	High
High		2A, 2C, 12C, 17C	7C, 7D, 8D, 13E
Moderate		1C, 1D, 2B, 3C	10C
Low			

Risks to be mitigated

Importance to stakeholder / Importance to the Bank	Low	Moderate	High
High	13C, 7F, 14C	7B, 10D, 12E, 13A, 16C	1A, 1B, 3F, 7C, 7D, 8B, 9D, 15C
Moderate	8F, 9F, 12A	2A, 2B, 2F, 3B, 5B, 12B, 13B	1D, 1F, 4B, 6B, 9B, 10C, 11C
Low		1C,	

Following this study, the Bank identified four strategic imperatives, and the strategies necessary to seize opportunities, mitigate risks and continue its value creation journey, as outlined in the section on Management Discussion and Analysis on pages 36 to 73

Management approach

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

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

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

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

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

External ratings (refer page 117) and awards and accolades (refer page 71) bear testimony to the success of the Bank's approach in managing its affairs.

While majority of material matters affect the Bank's economic performance (GRI 201: Economic Performance) following are matters identified by the Bank as material where GRI disclosures are made within this report.

Table – 04

Reference	Material matter	GRI Disclosure	Page No.
14D	Cybersecurity threats	GRI 418: Customer Privacy	420
15C	Need to enhance productivity	GRI 404: Training and Education	67
		GRI 405: Diversity and Equal Opportunity	68
15D	Technology driving change in job skills	GRI 404: Training and Education	67
		GRI 405: Diversity and Equal Opportunity	68
16C	Staff recruitment and retention become more challenging	GRI 401: Employment	67
17E	Increasing frequency and magnitude of natural disasters and poor disaster preparedness	GRI 302: Energy	70
		GRI 305: Emissions	70
20C	Being classified as a hub for money laundering	GRI 205: Anti-corruption	40
21C	Infrastructure out of sync with development needs	GRI 203: Indirect Economic Impact	46

Management Discussion and Analysis

This section of the Report covers the Bank's progress in implementing strategies that harness and enhance its future potential in the short, medium, and long term. The Bank is also conscious of the responsibility of contributing towards the Sustainable Development Goals, while striving to execute strategies under its key strategic imperatives. In light of the mega trends shaping the operating environment, the Bank continued to focus on four strategic imperatives. Under each imperative, we identified and executed a number of strategies to deliver value to our stakeholders. These strategies are set to steer the Bank on a steady course towards a future where banking will matter more than banks.

Our strategies enable us to maintain robust interactions between the financial, manufactured, intellectual, human, social, and network capitals, as well as natural capital (refer page 21 for Our Business Model). Woven into the canvas of this narrative is the Bank's value creation story. Just as the Bank delivers value to its stakeholders in terms of economic, social, and environmental aspects, it also derives value from these stakeholders. Developed over a period of time, the value so derived from these stakeholders transforms into capital which, in turn delivers great value enabling the Bank to sustain its performance.

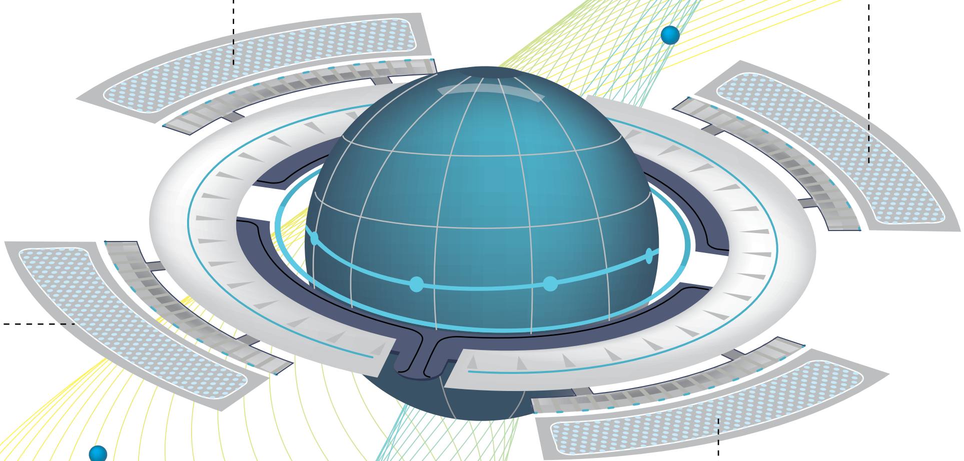
Our strategic imperatives and strategies Figure – 08

Prudent Growth
Growing the business judiciously

- **Creating long-term value** by combining prudent banking with pragmatism
- **Focusing on pure banking** by remaining true to our original ideals of being a banker first and foremost
- **Managing risks prudently** by strengthening risk management to enhance asset quality and minimise operational losses
- **Remaining well capitalised and liquid** by maintaining sound capital and liquidity beyond compliance
- **Being well diversified** by enhancing the value proposition and expanding geographies to minimise risk

Customer centricity
Providing convenient and simple products and services

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



Lead by innovation
Improving lives and livelihoods of stakeholders

- **Fortifying digital leadership** by leveraging platforms and technologies to align with changing customer aspirations
- **Reinforcing co-creation** by working across all stakeholder segments to generate mutually valued outcomes
- **Collaborating for renewed success** by widening international reach and introducing innovative solutions through collaboration
- **Spreading green banking** by encouraging environment-friendly investment within Sri Lanka and the region
- **Supporting the community** by providing innovative solutions for the well-being of the communities

Operational excellence
Augmenting efficiencies in resource utilisation

- **Centralising work processes** to enable branches to enhance the customer experience
- **Continuing process improvements** by meeting changing business needs and standards of quality
- **Optimising resources** maintaining a proper mix of capex and opex models to contribute towards operational excellence
- **Investing in employees** by re-orienting them to better align with changing needs and improving productivity
- **Safeguarding the environment** by reducing carbon footprint to contribute less towards climate change

Prudent Growth

At Commercial Bank, we are aware of our responsibility as a bank – an institution that is entrusted with the fiduciary duty of accepting and deploying vast sums of uncollateralised public funds. We undertake to leverage such funds responsibly through the creation of credit which in turn is essential for the growth and development of people and economies of the countries we operate in. Thus, while Banking is an essential service in modern society, it is vital that bankers earn the trust of customers for the smooth functioning of the industry. This has been a focal point in the Bank's strategy for prudent growth which has engendered the trust of over 3.5 million customers, a virtue of a sustainable bank. As a member operating within a well-regulated and secure financial system, the Board of Directors is well aware of their fiduciary responsibility of governing the Bank's activities meticulously while ensuring the Bank is adequately capitalised. This approach has enabled us to become the largest private sector bank in Sri Lanka in terms of business volumes and the third largest listed entity in terms of market capitalisation on the Colombo Stock Exchange. Our Bangladesh operations continued to be the third in terms of profitability among the nine foreign banks and the first among regional banks operating in Bangladesh.

39 Creating long-term value

39 Focusing on pure banking

40 Managing risks prudently

41 Remaining well capitalised and liquid

41 Being well diversified

Prudent growth over the year

Net loans to customers as at December 31, 2018

16.77% ↑

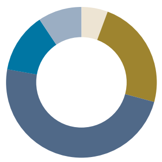
2018	Rs. 861.100 Bn.
2017	Rs. 737.447 Bn.

Total deposits as at December 31, 2018

15.63% ↑

2018	Rs. 983.037 Bn.
2017	Rs. 850.128 Bn.

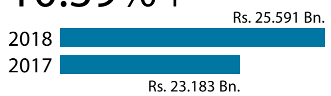
Funding structure as at December 31, 2018



Demand deposits	6%
Savings deposits	23%
Time deposits	49%
Borrowings	13%
Capital	9%

Profit before taxation

10.39% ↑



Capital adequacy as at December 31, 2018

Tier I	11.34% ↓ (2017 – 12.11%)
Total capital	15.60% ↓ (2017 – 15.75%)

CASA ratio as at December 31, 2018

Creating long-term value

Sustainability and long-term value creation call for a keen focus on prudent growth which has always been at the heart of our culture, policies and operating philosophy. Over a history of close to 100 years, it is through responsible banking that we have delivered value to and derived value from our stakeholders in the long term, including the communities and natural environment within which we operate. Our investments today, in new technology, people and processes have already created potential for tomorrow's prudent growth. Prudent growth also calls for best in class risk management and corporate governance practices and a well-diversified asset base, all underpinned by commensurate amounts of liquidity and capital. Historically, strategies adopted in this regard have helped the Bank to grow at a healthy pace and to remain creditworthy.

While the Bank's reputation for abiding by the letter of the law is legendary, its adherence to the spirit of the law is equally well known. We do not believe in growing and generating revenue today, without a thought for future sustainability. Instead, we practise responsible lending, independently evaluating all loan applications to assess the borrowers' capacity to honour timely repayment obligations. Within a rapidly changing industry, continuously disrupted by technological innovation, with spirited new players and stiff competition, the temptation to snatch up short term gains is strong. At Commercial Bank, we remain steadfast in our determination to think and act with the long term sustainability of future generations in mind. We constantly monitor economic, financial and other emerging developments in both local and global markets. We remain resolute in our efforts to ensure that the decisions taken today are prudent, framed by an astute and educated estimation of the future – one that is sustainable and fully subscribed to.

Subscribing to the future also means complementing prudence with pragmatism. Such a philosophy ensures that we remain agile enough to adapt to emerging trends and developments. Ours is an evolution that must remain fluid – though judiciously so – as banking keeps changing in shape and colour, challenging the conventional business model with every innovation that is introduced to the market today by non-banking players. So we embrace innovation within the principle of prudence, leading the market in a number of significant areas as outlined later in this discussion (refer page 56 under Lead by Innovation).

Prudence is, in fact, our competitive advantage – one that sets us apart in the industry.

Given our dedication for prudent growth, despite many challenges, the Bank was able to reach yet another strong performance this year, by recording a growth over and above the industry growth. In turn, this positively impacted our market share in total assets – which stood at 11.1% by end 2018 up from 10.2% in 2013

During the year under review, the total assets of the Bank grew by 14.00% reaching Rs. 1.303 Tn. by December 31, 2018 compared to Rs. 1.143 Tn. as at December 31, 2017. Highlighting the Bank's strength in financial intermediation and maturity transformation, loans to customers grew by 16.77% and accounted for 66% of total assets. The asset growth of the banking industry moderated to 14.59% for the year. The Bank's International Operations now contributes 11.51% to the Bank's total assets and 21.60% of profit before tax as per management accounts (refer page 41 under Being well diversified).

Commercial Bank declared Best Bank in Sri Lanka by FinanceAsia for record 8th time

The Bank was declared the Best Bank in Sri Lanka at the Country Awards for Achievement of 2018 at the FinanceAsia awards, considered Asia's leading financial publishing company.

Focusing on pure banking

In a widely expanding banking universe, with new and unexpected developments appearing on the horizon with rapidly increasing intensity, our customers find safe passage with us because we remain true to our original ideals of being a responsible banker first and foremost. Remaining true to such values has led to a substantial growth in our core business, higher stakeholder satisfaction levels and a loyal customer base.

We offer products that are uncomplicated, providing customers with a banking experience that, together with superior customer service, keeps boosting their confidence in the Bank. A decade after the global financial crisis and the tightening of banking regulations around the world, our customers continue to place their confidence in our ethos, prudence, and integrity. Our portfolio of products and services ensure that our customers experience no surprises when banking with us, but instead have a clear understanding of their banking transactions.

Thus we believe in the value of keeping fundamentals intact. It has helped us gradually improve the market share and consolidate our leadership position in business volumes.

Success of financial intermediation –

- **66%** of assets in loans to customers – **Rs. 861.100 Bn.**
- **75.42%** of total liabilities and equity is in deposits – **Rs. 983.037 Bn.**
- The loans to deposits ratio of **90.56%** is one of the lowest in the industry (entire loan book is funded by deposits)

Deposits

Deposits, the Bank's largest source of funding, accounted for 75.42% of the total assets as at end 2018 compared to 74.35% a year ago. The wide gap in interest rates between CASA and time deposits, resulted in the shifting of funds from CASA accounts to time deposits reducing the CASA ratio. Despite this, the Bank compares well with the industry CASA ratio.

Loans to customers

Loans to customers accounted for two thirds of total assets underlining the importance of maintaining a high quality portfolio to ensure the profitability and stability of the Bank.

In Sri Lanka, the financial services industry witnessed a deterioration in asset quality throughout the year. While our focus on strengthening our risk management framework and recovery efforts contributed to arrest the trend, the Bank's Non-Performing Loans (NPLs) ratio increased to 3.24% as against the industry NPL ratio of 3.4%.

Returns to shareholders

While balancing the shareholder returns, the Bank's dividend policy seeks to support its business expansion in the long-term.

Final dividend of Rs. 2.00 per share was proposed for 2018 which together with the two interim dividends add up to a total dividend of Rs. 6.50 per share for the year. In tandem with the declining trend experienced in the market as reflected by the sharp drop in ASPI and S&P SL20, the Bank's shares too traded at a discount to its book value towards the latter part of the year. The price to book value stood at 0.98 times as at December 31, 2018, yet remained the highest among all the banks listed on the Colombo Stock Exchange (CSE).

Managing risks prudently

From AirBnB to Uber, non-banking players are disrupting traditional business models and customers expect all online interactions with service producers to be on par with such international giants. Commercial Bank is already exploring new technologies such as Blockchain and partnering with financial technology (FinTech) companies, while taking steps to ensure that the online banking experience of customers continues to be world class, in a rapidly advancing digital era.

Prudence is essential in such a dynamic and fast-paced world. Forecasting and evaluating financial risks while identifying prudent and conservative practices to avoid or minimise their impact has long been the Bank's preferred method of conducting business. With a risk profile that reflects a moderate risk appetite, a strong funding base, a comfortable level of liquidity, a solid domestic franchise and a consistently robust performance, the Bank has been rated AA(lka) since 2010, the highest rating for a local private sector bank by Fitch Ratings Lanka Ltd. with a stable outlook.

The Bank continued to expand both within Sri Lanka and beyond her shores (refer page 41 under Being well diversified), well within its capacity based on available capital and liquidity, avoiding any room for "overtrading". It is this prudent growth that has enabled the Bank to maintain a conservative risk profile (refer pages 115 to 139 under Risk Management). As discussed previously, it is this conservative outlook that has in turn endeared the Bank to its like-minded stakeholders.

Anti-corruption

The prioritisation of risks to minimise the impact of unforeseen events and maximise the realisation of opportunities include systems and processes that ensure the continuity of business, prevent corruption and ensure compliance at all times. The Bank places a premium on the trust and confidence of its customers – a strength it has carefully cultivated for close to a century. As given in the Bank's Code of Ethics this is an organisation that forbids corruption. Through on-site audits and online surveillance the Inspection Department reinforces the provisions of the Code. The scope and frequency of audits are determined using a risk-based model and this approach ensures that customers continue to benefit from the highest levels of integrity.

The Bank's Anti-Money Laundering Unit, under the purview of the Compliance Officer, initiated a programme to upgrade its software system to be on par with global standards, thus strengthening its monitoring and reporting of suspicious activities to the Financial Intelligence Unit (FIU) of the CBSL. The software will initially be implemented in our subsidiary in the Maldives and subsequently rolled out to Sri Lanka and Bangladesh.

Customer privacy

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

Commercial Bank has been the industry leader in customer protection in full compliance with the ISO 27001:2013 certification for the past eight years and is implementing a "Baseline Security Standard" plan for all the business functions of the Bank.

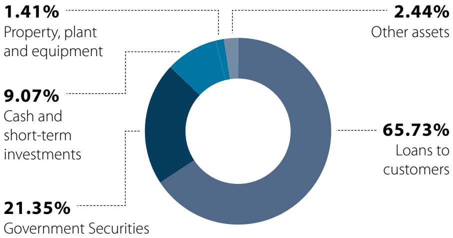
The disaster recovery data centre akin to the live data centre is tested on a regular basis through well structured and co-ordinated drills to warrant its reliance in the event of a disaster thereby ensuring the continuity of our services to the customers. Outcome is reported to the CBSL and if any shortcomings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

Funding

Diversifying our funding portfolio and generating financing from a variety of sources, such as depositors, debt holders, and equity holders, ensures that we continue to have a strong and resilient funding profile. As at December 31, 2018, customer deposits and equity capital together funded 84.50% of total assets, compared to 83.72%

or Rs. 957.227 Bn., as at December 31, 2017. All forms of other liabilities accounted for 15.50% or Rs. 202.042 Bn. Significant growth in deposits and borrowings of USD 100 Mn. from International Finance Corporation (IFC) coupled with the capital funds from the rights issue of shares during the previous year reduced the need for further borrowings in 2018. Bank continued to meet part of its funding requirements through short and medium term borrowings through securities sold under re-purchase agreements, subordinated liabilities, multi-lateral and other funding agencies.

Composition of total assets Graph – 02



Gearing

The business model of a bank differs from that of other organisations primarily because of its focus on financial intermediation and maturity transformation, leading to significantly lower Return on Assets (ROA), in comparison with those earned by corporates in other sectors. As a result, banks have to resort to the process of gearing to optimise returns to shareholders which are acceptable in terms of Return on Equity (ROE). While prudently mobilising deposits from the public, we also take precautions to mitigate internal and external risks that gearing exposes us to through a sound risk management framework with necessary oversight from the Board of Directors. Excessive gearing is avoided by maintaining an optimum balance between risk and return to ensure that a reasonable return is generated for the growth of the Bank and the satisfaction of our shareholders.

Gearing and profitability Table – 05

	2018	2017	2016	2015	2014
ROA (%)	**1.43**	1.54	1.53	1.42	1.60
Gearing (times)	**10.85**	11.61	12.76	11.90	10.63
ROE (%)	**15.56**	17.88	19.52	16.90	17.01

The above statistics bear testimony to the Bank's approach to prudent and sustainable growth.

Remaining well capitalised and liquid

To be dynamic in our financial intermediation and maturity transformation process while simultaneously mitigating risk, it is imperative that we maintain adequate capital for absorbing unanticipated losses. This is at the heart of our strategy for prudent growth and has proved successful over the years, with Commercial Bank currently ranked among the Top 1000 Banks in the World – the first Sri Lankan Bank to enter this elite league in 2008 and remained therein for the past eight consecutive years.

The Bank is committed to ensuring that it has adequate capital, to provide leeway to support future growth, to absorb unexpected losses and to capitalise on business opportunities. The Bank's current capital levels reflect its prudent management. The Bank is well capitalised with a loyal base of shareholders.

9.08% of assets as at year's end compared to 9.37% the previous year was funded through equity. The successful rights issue of shares in 2017 and internally generated funds enabled the Bank to meet the enhanced capital adequacy requirements under the Basel III which is fully, effective from January 2019. Consequently, both the Common Equity Tier 1 ratio and the total capital ratio stood at 11.34% and 15.60%, respectively as at December 31, 2018, exceeding the higher levels of minimum capital requirements imposed on the Bank under Basel III as a Domestic Systemically Important Bank (D-SIB), providing sufficient funding for planned expansion of the Bank's operations. The equity funding also resulted in the equity multiplier (gearing ratio) declining to 10.85 times from 11.61 times a year ago.

Spanning the banking sector, there were liquidity shortages throughout the year that prompted the CBSL to reduce the Statutory Reserve Ratio, thereby injecting liquidity to the market. Nevertheless, the liquid asset ratios of the Bank's Domestic Banking Unit and the Off-shore Banking Unit were 24.47% and 30.20% respectively as at December 31, 2018 as against the minimum prescribed ratio of 20%, while the loans-to-deposits ratio was 90.56%. As per the Banking Act Direction No. 8 of 2018 issued by the CBSL Net Stable Funding Ratio (NSFR) became effective from January 2019 at 90% for the first half of the year and at 100% thereafter. Test calculations done as at December 31, 2018 revealed that the Bank's ratio was well above the minimum requirement at 139.18%.

Against the statutory minimum of 100%, the Liquidity Coverage Ratio (all currency) and Liquidity Coverage Ratio (Rupee) were 238.69% and 236.20% respectively as at December 31, 2018, demonstrating the unencumbered high quality liquid assets at the Bank's disposal.

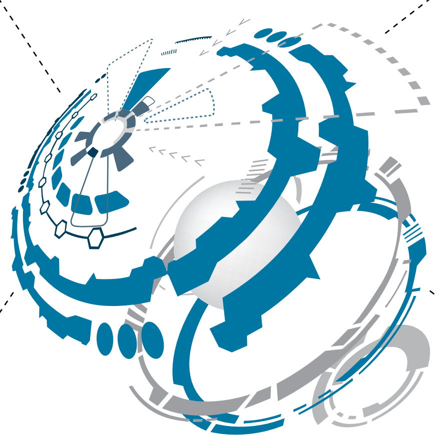
Being well diversified

The Bank is fairly diversified across its four main business segments of Personal Banking, Corporate Banking, Treasury and International Operations. This diversification also extends across our funding mix, as described previously, as well as our products, customer segments, rates, and tenure among other factors as discussed further in this Report. Our Operations in Bangladesh now accounts for 9.42% of total assets and 19.20% of profit before taxes, while the overseas subsidiaries in the Maldives, Italy, and Myanmar account for 1.13% of Group's assets and 0.94% of Group's profit before taxes.

Figure – 09

Personal Banking
contribution to profit before tax 45.08%,
contribution to total assets 42.28%.

Treasury
contribution to profit before tax 11.26%,
contribution to total assets 21.74%.



Corporate Banking
contribution to profit before tax 22.06%,
contribution to total assets 24.47%.

International Operations
contribution to profit before tax 21.60%,
contribution to total assets 11.51%.

Both Corporate and Personal Banking are equally strong and complement each other – with the latter's excess deposits being utilised for funding corporate lending

** Based on management accounts.*

Commercial Bank bags 4 Awards at 2018 Asian Banking and Finance Awards

The Bank won four awards at the 2018 Asian Banking and Finance Awards, three in the "Wholesale Banking" category and one in the "Retail Banking" category.

Diversifying our lending portfolio

With a fairly well diversified loans-to-customers portfolio across several industry sectors, the Bank's exposure to any particular sector does not exceed 10% of the total

Key contributors to the loans to customers growth came from term loans, overdrafts, and import loans. Heightened focus on Small and Medium Enterprises (SMEs), new customer acquisition, higher Single Borrower Limit, etc. contributed to strong growth in this portfolio. By diversifying our advances portfolio which is composed of different products, including currencies, commodities, loans, and mortgages for example, the Bank continues to mitigate risks and remain open to market opportunities. While this allows us to enhance asset quality, performance, and resilience, it also helps us to minimise portfolio concentration risk. The Bank is also mindful to include companies with mixed ratings in its portfolio while implementing efficient risk monitoring practices to have a balanced portfolio with the optimum risk return trade off.

Reaching diverse customer groups

The diversity of customers is another strength of the Bank. Understanding the different financial services requirements of its customers, the Bank has segmented this stakeholder group into five primary segments in order to better cater to them (refer Table 06 on page 43). This also allows us to align our value proposition in terms of products, services and delivery channels as illustrated in Table 07 on page 43.

Customer segmentation Table – 06

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

The type of segmentation illustrated here provides the Bank with greater knowledge and understanding of the customer and enables it to better align with the banking requirements of each category (refer Table 07).

Channel mix and target market on perceived customer preference Table – 07

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

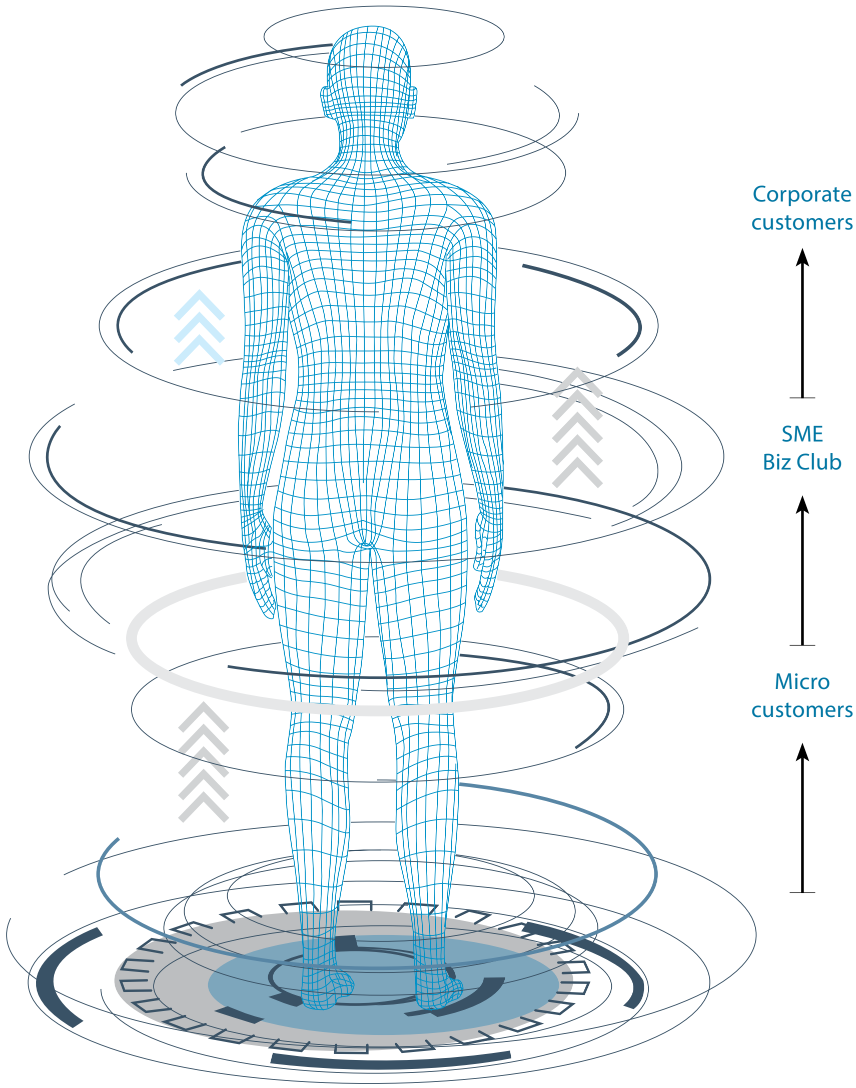
The four business lines, Personal Banking, Corporate Banking, Treasury and International Operations, work in collaboration with each other and the various service units of the Bank to drive growth and further strengthen the Bank's brand.

Serving the diverse personal banking needs of our customers remains a key focus for the Bank with many technological enhancements being made to increase convenience and security during the year, for example in areas such as mobile banking and credit cards. Providing advisory services to our corporate customers will be a key priority over the years that follow (refer page 49 on Customer centricity).

We continue to be the one of the largest financier to the SME segment in the country. Launched in 2017, the Commercial Bank Biz Club – the first of its kind in Sri Lanka, continued to bring SME customers together in order to create new business opportunities and to provide them with support that goes beyond lending (refer page 54 under supporting SME customers).

For instance, the Bank helps introduce accounting software package vendors to this customer group to boost their knowledge of accurate book keeping, continuing to support them as they master this vital business skill. This year our Personal Banking and Corporate Banking arms joined forces to propel SME customers on a journey that will help many of them to move up the life cycle to the position of a corporate customer.

Micro Customers Figure – 10



By developing our Micro and SME customer segments, we are contributing towards financial inclusion while growing our corporate customer base.

While such upward mobility is good for business, it also means that we must continually canvass new SME customers to this segment which would otherwise dwindle. Our focus on financial inclusion over the years has already provided us with a wealth of potential customers. The Bank's Agricultural and Micro Finance Units (AMFUs) have taken the effort to extend banking services to the unbanked and under-banked in the rural areas of the country (refer page 54 under Strengthening ties with Micro customers). Now many of our Micro customers are ready to be introduced to the SME Sector – an outcome that is serving the Bank in good stead.

As more top-tier SME customers move into the Bank's corporate customer segment, fresh Micro customers are channelled into the group while many are groomed to join the SME cluster over the next few years by contributing towards a sustainable ecosystem, as we strive to contribute towards Sustainability Development Goal 1: No Poverty

During the year under review, a series of town hall meetings were conducted across the country to ensure that all employees were aware of our plans to serve the SME segment.

Skills Development Programme for COMBANK Biz Club members in Wayamba

An Entrepreneurship Skills Development programme was recently conducted in the Wayamba region by the Bank, as part of its ongoing initiative to support its "Biz Club" members and entrepreneurs in the SME sector.

Providing treasury services diversely

- *Key player in interbank foreign exchange and fixed income securities*
- *Contributed 19% of Bank's assets through fixed income securities*
- *Mobilised USD 394 Mn. by way of foreign currency borrowings at year end*

Responsible for managing the Bank's balance sheet, our Treasury plays a vital role in maintaining the financial security and stability of the Bank. By efficiently managing the capital, funding, and liquidity requirements of the Bank the Treasury helps other business lines to meet customer needs unhindered.

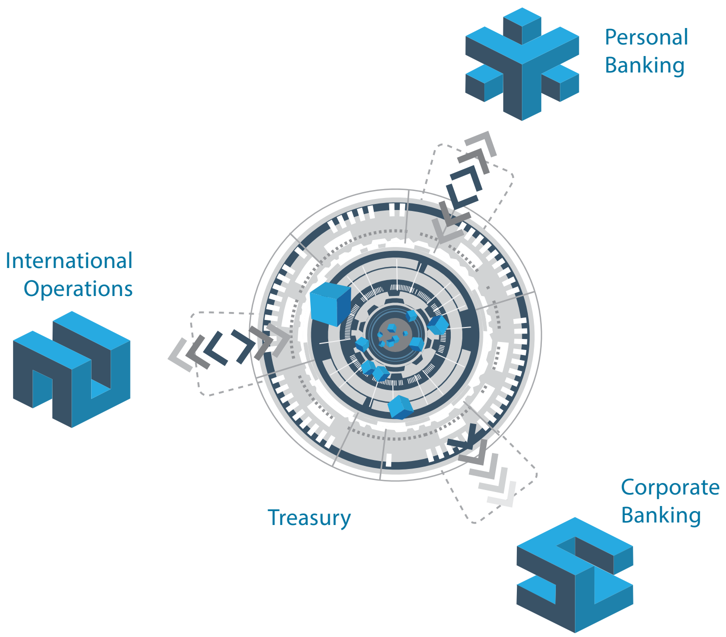
Our Treasury arm is a market maker, continuing to offer products that help manage market risk – interest rate and exchange rate risks in particular – and underlying margins and mismatches in assets and liabilities.

Having one of the largest Fixed Income Securities portfolios in Sri Lanka, which accounted for around 19.15% of the Bank's total assets, the Treasury successfully supported the liquidity position of the Bank, and made a significant contribution to earnings during the year. Handling a large business volume while being a low cost base for the Bank, the Treasury Division's assets require relatively lower capital allocation.

While rising US dollar interest rates may have an impact on our cost of borrowings in the short and medium term, through our business in Bangladesh we were able to mitigate the impact by lending in US dollars. Given the current financial climate, the Bank abandoned its usual policy of using excess US dollars to generate rupees and invest in rupee Treasury Bills and Bonds. Instead, rupees were converted back to US dollars to invest in USD denominated Sri Lanka Government Bonds. As a result, the Bank's foreign currency bond portfolio saw a significant increase. These products, some of which were tax efficient, contributed towards improving the Net Interest Margin (NIM). The Bank also received the CBSL approval to invest in long term Sri Lanka Sovereign Bonds, special approval to invest in National Savings Bank bonds and DFCC bonds resulting in higher investment income.

The setting up of their own treasuries by a number of corporates in the country can be considered both a challenge and an opportunity. While this makes maintaining margins challenging, it also makes it easier for the Bank to provide this customer segment with new products such as foreign currency options, interest rate derivatives, structured deposits and other hedging mechanisms.

Managing the capital, funding, and liquidity requirements of the Bank —— Figure – 11



Treasury's efficient management of the Bank's capital, funding, and liquidity contributes towards other business lines being able to better serve customer needs.

Customer relationship-building programmes conducted during the year include –

- Annual train journey and overnight stay with 100 customers (a 15-year tradition)
- Talk by overseas analysts on economic outlook
- Regular client meetings and luncheons
- Customer-friendly technology innovations
- Training and development of dealers to keep them abreast of new developments

Reaching diverse geographical locations

10 REDUCED INEQUALITIES

Geographical diversification allows us to mitigate risks in instances such as extreme weather which can be disastrous for sectors such as agriculture but have less of an impact on other industries. However, such diversification exposes the Bank to a wider investment arena that includes a range of asset classes, but it also provides more robust opportunities for growth.

Commercial Bank's 262nd Branch opening at Pitigala

Within Sri Lanka, geographical diversification also helps us steer away from densely populated industry sectors and discover underserved markets. For instance, while we serve many of the country's top-tier conglomerates, our 16 AMFUs have long been instrumental in furthering financial inclusion in the country, bringing banking and banking technology to the unbanked and under-banked segments of the community through innovations such as our "Bank on Wheels".

This innovative idea introduced in 2017 is unique in Sri Lanka's banking landscape because unlike those of peers, it is a completely equipped, and automated mobile bank.

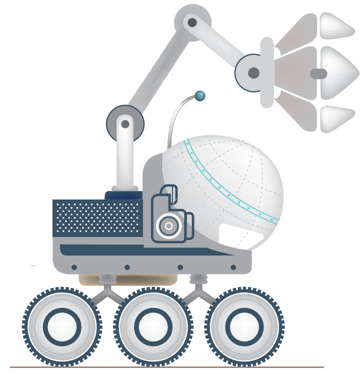
Managed by branches in the North and the East of the country, these vehicles visit communities which are hard-to-reach at a specific time each week, providing a range of basic over-the-counter banking facilities.

With an employee at hand to help customers to use the Bank's automated channels on board, our "Bank on Wheels", not only brings banking to rural communities but also converts them to digital banking users – gearing them for the future of banking

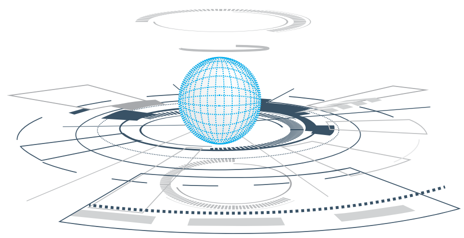
This banking channel is more cost efficient as it allows the Bank to get to know a community and its banking needs, and introduce them to digital banking with the intention of setting up a mini banking unit or branch to serve them depending on the demand.

Our "Bank on Wheels" is another contributor towards financial inclusion.

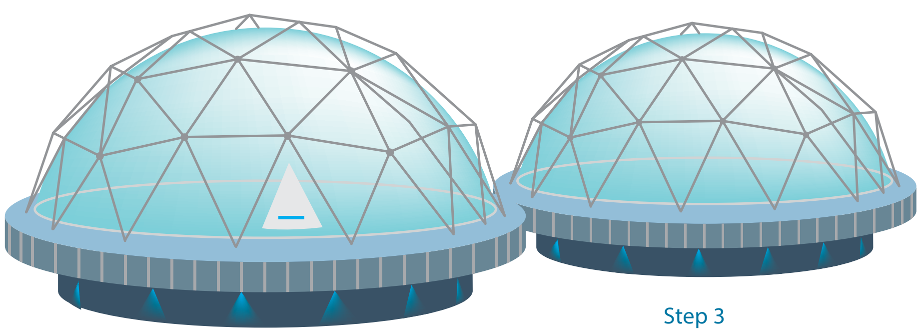
Banking for the unbanked and under-banked Figure – 12



Step 1
Bank on Wheels



Step 2
ATM or branch (if necessary)



Step 3
Digital banking customers

This year, the Bank piloted the second such mobile banking unit and will look at launching more to extend its reach. Each vehicle is affiliated with a branch and connected online to the main banking system.

One of the Bank's key strengths is its island-wide network of 266 branches, many of which remain open on public, bank, mercantile holidays and weekends.

Exploring new and diverse channels

The new digital platform purchased from Fiserv will be operational in 2019 to provide customers with a seamless digital banking experience. We have also invested in Data Analytics which will provide us a detailed picture of customer trends allowing us to be where the customer is, when needed.

Commercial Bank will be a pioneer in offering customers an omni-channel banking experience in Sri Lanka

With the regulator's approval, we will be able to offer customers the ability to carry out banking functions from registration to loan requisition and account application online.

Combined with Flash, our digital bank account which is accessible via smart phone (refer page 57 under Fortifying digital leadership), our moniker as "the Nation's bank" is further fortified as we continue to extend the horizons of banking. In the near future, Flash will be customised to be in Sinhala and Tamil to ensure wider reach and greater ease of use. The Bank has taken initial steps to extend Flash, beyond Sri Lankan shores to both Bangladesh and Maldives.

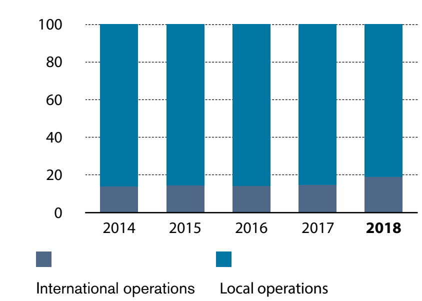
In addition to internet banking, the Bank has its network of branches and its network of 830 ATMs (refer page 65 under Optimising resources for details).

Commercial Bank opens 264th branch at Enderamulla

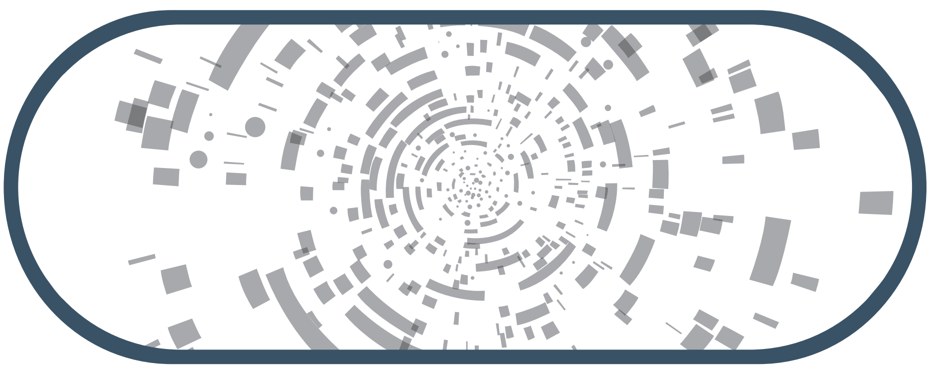
Reaching out through a range of subsidiaries

Non-financial subsidiaries of the Bank deliver non-core banking activities, allowing the Bank to focus on products and services that cater to the ever-evolving banking needs of existing and potential customers. While growing organically in the domestic market, the Bank has taken steps to leverage inorganic and regional growth opportunities through subsidiaries, primarily to geographically diversify its risk exposures and sources of revenue, thereby enhancing its sustainability of operations and long-term value creation (refer pages 147 to 150 for an update on Subsidiaries and associates).

Contribution to PBT from the International and local operations — Graph – 03



An omni-channel banking experience — Figure – 13



Our goal is to be where our customers are when they need us.

Reaching out to other overseas customers

The Bank's presence in Bangladesh, the Maldives, Italy and Myanmar provides the Bank with greater insulation against local economic and political instability

Commercial Bank celebrates 10 years of remittance services in Oman

The Bank commemorated the milestone of 10 years of remittance services to Sri Lanka from Oman by hosting the employees of Exchange Houses and the Bank's premier customers in the Sultanate to an event in Muscat.

Global Remittances

The Bank began its global remittances business in 2003, first entering Kuwait and gradually expanding to other countries.

The Bank currently has 118 remittance partners for Combank eExchange, a number that continues to grow. In addition, it has integrated with renowned international money transfer system such as Western Union, RIA, Moneygram, Xpress Money and Cash Express for real time remittances.

17.5% of the total remittances received to the country are forwarded through the Bank.

With its Business Promotion Officers placed in key markets around the world to cater to the banking needs of Sri Lankans working in these markets, the Bank offers products and services including money transfer facilities via our e-Exchange remittance services.

Customer Centricity

The Bank places its customers at the centre of all its activities, in its endeavours to enhance their overall experience. This calls for a perfect understanding of the customer, in addition to developing and delivering products and services in ways that exceed their expectations, despite the many challenges. Accordingly, the Bank has segmented the market in terms of a number of criteria and identified the channel and products/services mix for each market segment based on their perceived preferences. This has enabled us to differentiate our value proposition and build customer loyalty.

[Refer to page 43].

Customer centricity over the year

Credit card growth as at December 31, 2018

34.61% ↑

2018	Rs. 12.982 Bn.
2017	Rs. 9.639 Bn.

Market share in imports ↓

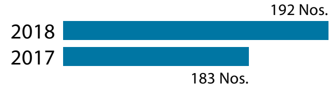
2018	10.20%
2017	10.56%

Market share in exports ↑

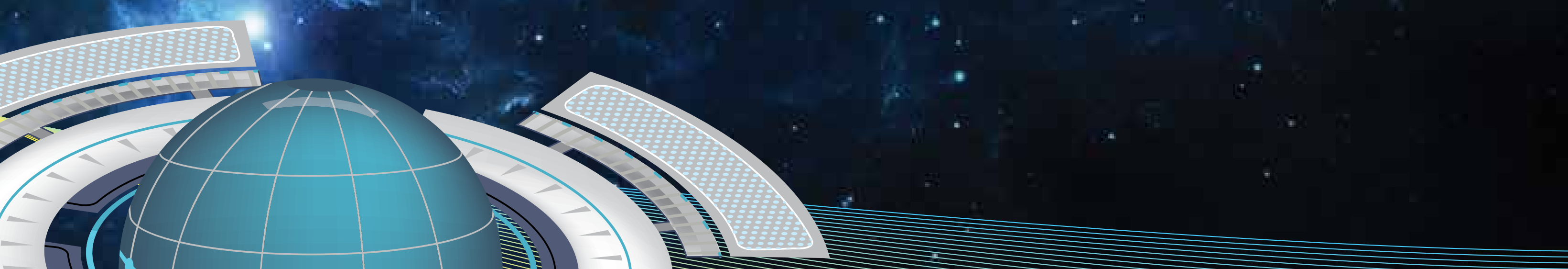
Growth in *Divisaru* savings

53% ↑

Off-site ATMs as at December 31, 2018 ↑



Total ATMs as at December 31, 2018 ↑



Growing Corporate customer base

Our corporate customers rely on us to be a trusted partner for their success and we always strive to fulfil this obligation as we strongly believe in being an integral part of our customer's growth. Living up to their expectations and continuing their loyalty is the key to our success and we do so by using our global and local networks, insights, and experience to enable them to reach their full potential in the industries and communities within which they operate. In addition, our team brings a vast range of expertise coupled with an unmatched experience in corporate lending, international trade, project financing, investment banking and Islamic Banking.

The Bank managed to maintain balance between growth and asset quality despite the challenging environment faced by our customers. We have managed to keep the NPA level below the industry average. The Bank has focused on strengthening the monitoring mechanisms and taking proactive measures to mitigate the impact on NPLs in the years to come.

Corporate Banking

Contribution to total assets

24.47%

Bank's share of the Country's imports

10.20%

Bank's share of the Country's exports

19.49%

Funds raised by Investment Banking Unit

Rs. 14 Bn.

Contribution to profits before tax

22.06%

** Based on management accounts.*

Pledge loans

This year, we partnered with a reputed logistics company to re-launch Pledge Loans. Previously this product line was inactive due to the excessive manpower and resources needed on the part of the Bank to keep a track of pledged stock. However, with the logistics company now taking on the role of gatekeepers on behalf of the Bank, the Bank is ready to serve this customer segment once again.

Credit card securitisation

During the second half of the year, we launched credit card securitisation which offers all our credit card merchants the chance to borrow against their credit card proceeds. This product is also open to non customers who route their proceeds through our accounts, ensuring that we strengthen the flow to our CASA funding as well.

Commercial Bank POS power for retail outlets at Colombo City Centre

Retail outlets at Colombo City Centre, Sri Lanka's trendiest shopping mall, have been powered by Point-of-Sale (POS) machines supplied by the Bank.

Corporate card

Current regulations in Sri Lanka require a company credit card to be issued in the name of an employee who is accountable for the payment of funds despite it being settled by the company. Plans are under way to re-launch a corporate card in early 2019 improving customer convenience.

Trade financing

In supporting our corporate customer, the Bank has invested resources in strengthening the trade finance arm by the end of 2018, and was able to grow the Bank's share of the country's exports up to 19.49% (November 2018) from 18.58% in 2017, while our share of the country's imports (including crude oil) decreased marginally to 10.20% from 10.56% in 2017. The increase in transaction volumes of our trade financing arm has contributed to the increase in fee-based income by 17.89% in 2018. Our focus in 2019 is to achieve a further growth in our share of the country's exports and imports business.

Investment banking

During the year, we entered into a collaborative alliance with Asia Securities Holdings (Private) Limited in order to provide customers of both institutions with investment banking services. The Memorandum of Understanding (MOU) signed between the two parties will facilitate our corporate customers experience a wide range of investment banking services, including equity and debt capital raising through listed and unlisted instruments, mergers and acquisitions (M&A) advisory, shareholder value maximisation advisory as well as corporate financial restructuring advisory services.

The Bank's Investment Banking arm helped finance several large-scale renewable energy generation projects during the year, as well as projects in waste management, and pollution control systems through dedicated loan products (refer page 59 under Spreading green banking for more details).

Offshore Banking Unit

Our Offshore Banking Unit (OBU) maintains retail and other accounts of non-resident Sri Lankan customers and the corporate accounts of BOI companies registered under section 17 of the BOI Act.

The OBU has aided many local corporates to conduct their banking activities in overseas markets with ease and familiarity. The unit continues to canvass existing customers with off-shore interests while approaching non-resident customers for deposits with the support of our BPOs and overseas representatives offering attractive rates.

The OBU's trade and current transaction volumes remained robust during the year, resulting in total commission and fee-based income recording a substantial growth over the previous year.

Islamic Banking

Commercial Bank's Islamic Banking Window – Al Adalah – has been in operation since June 2011 offering Sharia-compliant products to customers based on the concept of "profit and loss sharing" as an alternative to conventional interest-based financial transactions.

One of the clear strengths for Commercial Bank is its increasing experience and knowledge in Islamic banking backed by the overall quality of other services on offer.

The Bank continued to focus on marketing Islamic Banking offerings through the branch network. The Islamic Banking Unit also continued to provide financing through Offshore Banking and International Trade and Finance facilities.

The Islamic Banking Unit intends to conduct a review of processes to enhance service efficiency and customer convenience.

Personal Banking

Contribution to total assets

42.28%

Growth in advances

18.71%

Growth in credit cards

34.61%

Growth in deposits

14.81%

Contribution to profits before tax

45.08%

Bank's share of the Country's foreign remittances

17.5%

** Based on Management Accounts.*

Remaining relevant to mass market customers

Our Personal Banking customers, whose interests are predominantly transactional banking, continue to drive growth for the Bank. Having understood the importance of this customer segment, the Bank has taken measures to stay relevant.

During the year the Bank introduced and relaunched products and services to be in line with our changing customer needs. This year the Bank has also made many significant investments to keep abreast of technological advances and evolving digital platforms.

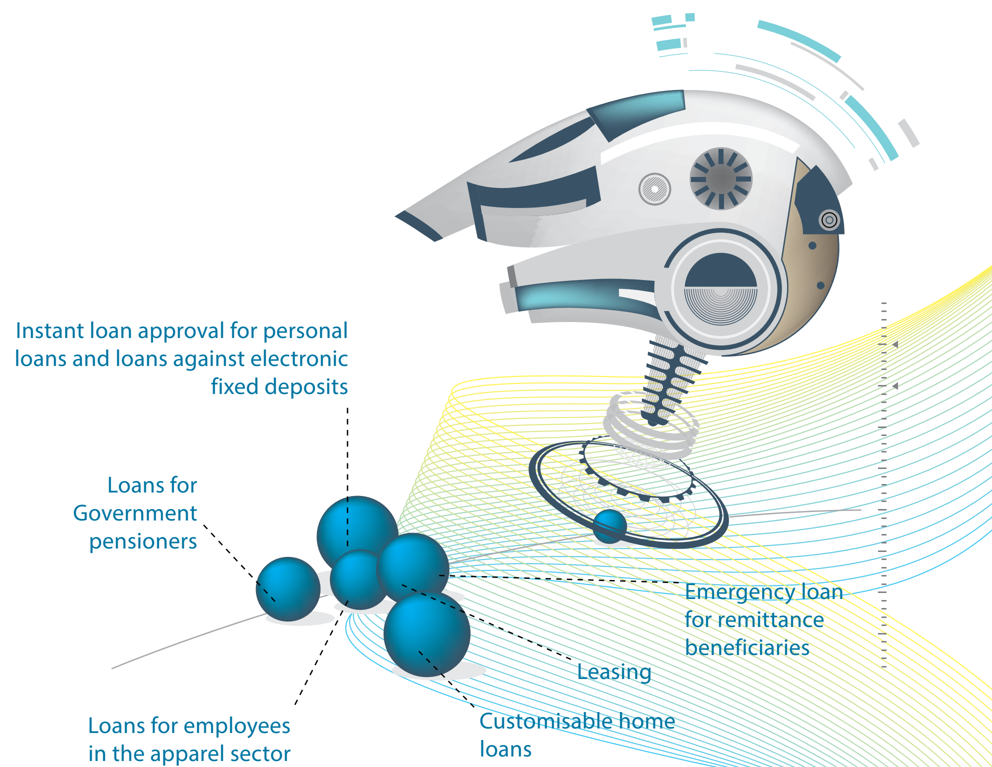
In line with this stance, the Bank integrated its ATM switch to the core banking system for customer transactions to be recorded in real time. We also supported our customers through revisiting lending products and services to better suit their requirements in a tough operating environment. In the near future we will be leveraging many technological innovations in the market – from automation to artificial intelligence – to launch convenient customer solutions.

Commercial Bank's milestone 800th ATM installed at Giriulla branch

Enhancing convenience

We introduced online loan approval to our customers in 2017 and also extended this facility for loans against electronic fixed deposits based on a rating model. With the necessary documentation the loan amount will be released to the customer's account immediately – a convenience we hope to extend to other loan products and for credit cards in the near future. During the year 2018, the Bank committed to leverage on this initiative.

Supporting the mass market Figure – 14



Our mass market customers continue to drive growth, adding to our CASA portfolio. Through the range of loans on offer, they are able to finance all their funding requirements.

Loan schemes

Our loan scheme for government pensioners too has shown strong growth. The Bank offers loans of up to Rs. 2.5 Mn. for up to 10 years for pensioners under the age of 69 years. Availability of loan insurance cover makes the product even more attractive.

During the year, we also launched a special personal loan scheme for employees in the apparel sector, the largest foreign exchange earning sector in the country. Through these loans the Bank is able to help this customer segment to fund their requirements enhancing their quality of life.

The Bank's housing loan scheme has recorded a satisfactory growth of Rs. 62.388 Bn., 16.33% over the previous year. Our systems are able to provide customers with a range of repayment options to suit their capacity to repay, ensuring that the product continues to gain customer acceptance.

Leasing

The Bank recorded a reasonable growth in its leasing portfolio during the first half of the year. However, the full year performance was affected due to the industry-wide increase in NPL's during the latter part of 2018. The Bank is optimistic of a favourable operating environment to improve its focus in this area and has already made plans to grow this segment going forward.

Power Bonus Account re-launched

During the year, the Bank launched an improved version of its "Power Savings" Account, renamed "Power Bonus Account". This product aims to incentivise minimal withdrawals. It offers an attractive 60% bonus on the regular interest of the "Power Bonus Account" on a quarterly basis and also has the flexibility of a Savings Account with the attractiveness of a Fixed Deposit.

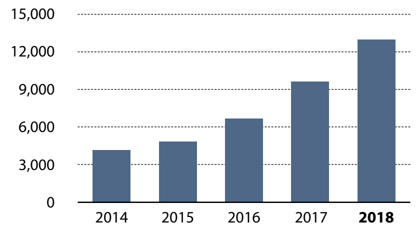
Commercial Bank offers 60% bonus on interest with "Power Bonus" account

Credit cards

The Bank has introduced many firsts to the market, leading to credit cards witnessing a 34.61% year-on-year growth despite a year where managing NPAs was a key challenge

Credit card advances Graph – 04

Rs. Mn.



Commercial Bank issues UnionPay cards for the first time in Sri Lanka

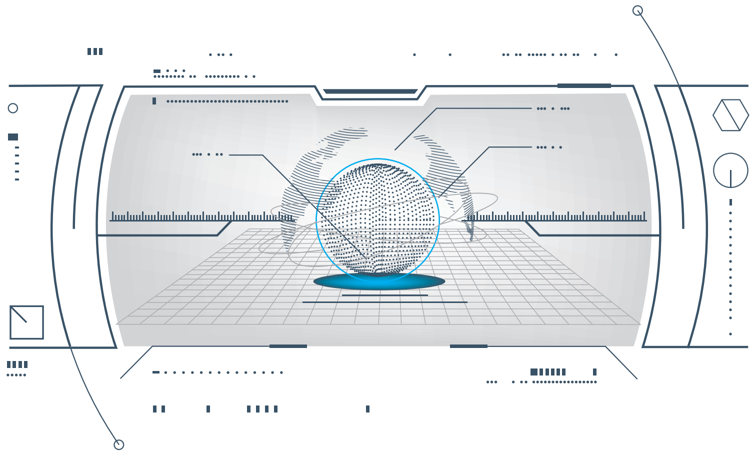
The Bank has become the first Bank in Sri Lanka to issue UnionPay Credit and Debit Cards, the card brand with the largest customer base in the world, making Sri Lanka the 51st market in the world to issue UnionPay cards.

UnionPay credit and debit card holders are able to withdraw money from more than 780 Commercial Bank ATM terminals in Sri Lanka. This partnership between Sri Lanka's largest private bank and one of the world's largest payment card schemes – China UnionPay, will facilitate tourist visits to Sri Lanka from China and a further 125 countries where UnionPay cards are accepted.

The Bank was the first to start acquiring UnionPay cards on the ecommerce platform.

Achievements in credit cards Figure – 15

- ATM withdrawals for UnionPay cardholders
- App for mobile digital banking system
- First to market with WeChat Pay, AliPay and Union Pay



- Soon to begin UnionPay ecommerce acquiring
- First to introduce NFC-enabled credit cards
- First to introduce tokenisation (one-click online purchasing)
- First to be fully EMV compliant

Mobile digital banking system

The Bank will soon introduce a downloadable app targeting QR based transactions which could connect a customer's Mastercard, Visa Card or the new Lanka Pay JCB Credit or Debit cards to their smart phone and benefit from a fully mobile digital banking system. The customer simply needs to install the app, register the credit or debit cards in the application, scan the QR code at the merchant locations and pay. This EMV Co-standard based payment app is a cost effective option for merchants too. EMVCo facilitates worldwide interoperability and acceptance of secure payment transactions, and it is supported by a range of banks, merchants, processors, vendors and other industry stakeholders. As a result, unlike similar products currently in the market which run on closed systems, this is a fully interoperable payment system provides customers with wider reach and convenience.

We will also be the first to market and to enable the acceptance of all three major Chinese payment brands: WeChat Pay, AliPay and Union Pay on our credit cards so that overseas visitors are able to make payments for goods and services through QR codes.

NFC enabled Credit and Debit cards

NFC or near-field communication technology is another area in which we have already made an impact. We are one of the few banks in Sri Lanka to offer NFC enabled Credit and Debit cards of both Visa and Mastercard and are the largest NFC issuer and acquirer in the market. The new NFC-enabled chip and PIN Credit Card offers maximum protection against the skimming or cloning of a card and against counterfeit transactions. This further minimises fraudulent transactions at Point-of-Sale (POS) due to the PIN requirement.

Commercial Bank launches NFC – enabled Chip & PIN Credit Cards with Mastercard

First to introduce tokenisation

In collaboration with Mastercard International we were the first to introduce payment processing through Mastercard Payment Gateway Services (MPGS) in Sri Lanka. The Bank now provides merchants with a secure, cost-effective way to perform card-on-file transactions through tokenisation. These one-click online purchases are fully compliant with Payment Card Industry Data Security Standard (PCI-DSS) requirements. After the first purchase, merchants are able to store the tokenised card number on their systems reducing the risk of exposing actual card numbers and the vulnerability to fraud.

First to be fully EMV compliant

The Bank was the first to convert its vast ATM network to be fully EMV (Europay, Mastercard and Visa) compliant. The network can now acquire and process ATM transactions through the EMV integrated circuit, providing customers with greater security and convenience. We were also the first in Sri Lanka to activate our entire EMV chip card base (Debit and Credit cards) to perform secured EMV transactions through the LankaPay ATM network. This allowed the Bank's own cardholders to securely perform transactions using other bank ATMs connected through the LankaPay network.

Commercial Bank achieves another first on LankaPay network

The Bank enabled its entire automated teller machine (ATM) network to acquire and process ATM transactions through the EMV (Europay, Mastercard and Visa) integrated circuit, becoming the first ATM Network to be fully EMV compliant in Sri Lanka.

Supporting SME customers

Defined as a registered company with less than Rs. 250 Mn. credit exposure, the country's SMEs are the backbone of its economy.

This year too, the Bank focused on increasing its SME portfolio, while providing strong support to the members of this sector, supporting their growth along the value chain

Launched in 2017, the Commercial Bank Biz Club came into its own this year. This by-invitation-only membership segregates SME customers into four tiers, allowing the Bank to tailor its banking services to the needs of each segment. As the premier lender to SMEs in Sri Lanka, during the year, the Bank launched its Biz Club at a further seven locations covering the Uva – Sabaragamuwa, Southern, South Western, Central, Northern, Eastern, Colombo North, Wayamba, and North Central regions.

Commercial Bank assists over 7,000 entrepreneurs through Financial Literacy programmes

The Bank conducted a Financial Literacy Programme for paddy and dairy farmers in the Nochchiyagama area, in collaboration with the Central Bank of Sri Lanka, bringing the total number of entrepreneurs assisted through such programmes to 7,000 within a six year period.

Dubbed "Best Domestic Bank" and "Best SME Bank" in Sri Lanka by International Finance Magazine (IFM) it is clear that, the Bank's efforts in the SME space has not gone unnoticed (refer page 71 for a full list of Awards and accolades).

Bolstering knowledge and skills

5 GENDER EQUALITY

This year the Bank launched its first newsletter for SME customers. This informative quarterly missive keeps entrepreneurs abreast of macro-economic trends and national level events. Many millennials are attracted to the prospect of running their own start-ups as opposed to the traditional concept of employment. Most, however, lack the knowledge to do so successfully, so the Bank is making every effort to fill part of this knowledge or skills gaps.

Considering the importance of women entrepreneurs in the rural economy, capacity building and awareness programmes on a range of useful topics, from succession planning to financial management, continue to boost the knowledge and expertise levels of this customer group.

During the year, we paid special attention to women entrepreneurs, introducing programmes such as capacity building and financial literacy in our efforts to strengthen financial inclusion and gender equality in the country. Our work in this area helps us to contribute towards Sustainable Development Goals 5 and 10: Gender Equality and Reduced Inequalities respectively as we strive to promote economic inclusion without prejudice.

Providing networking opportunities

As discussed on page 46, the Bank boosts the business knowledge and skills of all SME customers with those on the top tier being transferred to the Corporate Banking customer segment on reaching eligibility. This year, the Corporate Banking and Personal Banking teams collaborated to provide this group with a greater awareness of industry and banking trends.

During the year, the Bank conducted 13 Financial Literacy and Entrepreneurial Skill Development programmes for Micro, Small & Medium Enterprises (MSMEs), bringing the total number of programmes to 77 and assisting 7,952 MSMEs island wide, within a six-year period. In addition to financial literacy workshops and soft skills training programmes the Bank held networking events aimed at helping this segment make useful business connections.

Enterprise Sri Lanka programme

Continuing to live up to our moniker of "the Nation's bank," Commercial Bank disbursed Rs. 10 Bn. in support of the 'Enterprise Sri Lanka' Programme operated by the Ministry of Finance and Mass Media

The programme provides avenues for loans to be granted to entrepreneurs, SMEs, and large businesses. The loans are issued to recipients through several selected state and private banks while including the involvement of entities such as the Asian Development Bank. While participating banks take on the credit risk, the Government reimburses part of the loan interest to the participating banks. We are one of the largest in terms of loan disbursement among the private banks.

Commercial Bank reaches Rs. 10 Bn. mark in lending to SMEs under "Enterprise Sri Lanka"

Strengthening ties with micro customers

As "the Nation's Bank" we continue to focus on serving the banking needs of micro-entrepreneurs located within urban centres and the outskirts.

Supporting livelihoods

Our Divisaru account dedicated to micro entrepreneurs continues to support all sectors including fishing, livestock and agriculture thus aiding our Bank to contribute towards Sustainable Development Goal 2: Zero Hunger, by supporting small scale farmers. In addition, we offer this customer segment higher interest rates to inculcate the savings habit.

Customers are able to open Divisaru savings accounts as single accounts, joint accounts, sole proprietor accounts or partnership accounts. A savings plan is available for new micro entrepreneurs or prospective micro borrowers who expect to obtain micro financing facilities in the future. This plan is also useful in meeting the additional financial requirements of the existing Micro Finance borrowers during emergencies. We also offer micro loans that extend up to 25 times an agreed value of monthly savings (up to a maximum of Rs. 125,000) at concessionary rates.

Reaching out to rural entrepreneurs

With the objective of livelihood development of micro entrepreneurs, the Bank has established sixteen dedicated AMFU in provinces that made a lower contribution to the GDP.

Our AMFUs identify and groom the micro entrepreneurs to enter into the formal Banking sector through an individualistic approach with rural communities to bring financial inclusion to a larger population of Sri Lankans. Our "Bank on Wheels" is directed by them to the communities that would most benefit from its services (refer page 46 under Reaching diverse geographical locations).

Commercial Bank launches "Bank on Wheels"

The Bank introduced mobile banking in the literal sense with the launch of "Bank on Wheels" – a modified and branded vehicle designed to provide basic over-the-counter banking facilities to customers living outside city limits.

Continuing to focus on High Net Worth customers

The Bank continues to win the trust of high net worth customers looking for a safe and secure banking services provider with a proven track record.

Relationship management

To support the wealth management needs of its high net worth customers, the Bank opened a dedicated Elite branch in Colombo 07. A dedicated Relationship Officer is available at the branch to take care of a customer's daily financial needs, provide sound advice on investment portfolios and provide timely updates on all banking matters.

In addition to the personalized service provided by the Elite banking team, this customer segment is entitled to a wide range of privileges, discounts and benefits offered exclusively for them. Additionally, all Elite customers receive preferential services from the entire branch network of the Bank.

The Branch also offers exclusive access to legal, accounting, travel and global healthcare insurance solutions through selected partners. To date the Elite branch has carried out a number of educational and lifestyle based events for its customers.

Lead by Innovation

Despite its prudent approach to banking, the Bank has made a name for itself as one that dares to blaze its own trail. Our leadership in innovation has resulted in the development of many novel products and services in the banking sphere, such as our mobile banking application and exploration of Blockchain technology. It has also encompassed the non-digital sphere, including our efforts to promote green banking, and the non-banking sphere such as our pioneering work in the community. These initiatives have helped the Bank to enhance its ***Social and Network Capital*** *(relationships with customers, suppliers, business partners and the community) and its* ***Intellectual Capital*** *(including knowledge, systems, and processes used by employees).*

57 Fortifying digital leadership
57 Reinforcing co-creation
58 Collaborating for renewed success
59 Spreading green banking
60 Supporting the community

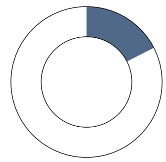
Leading by innovation over the year

FDs opened in the form of eFDs

20%

Market share of remittances

17.50%



Value of online transactions per annum

Value of mobile transactions per annum

39.34% ↑

2018 Rs. 13.67 Bn.

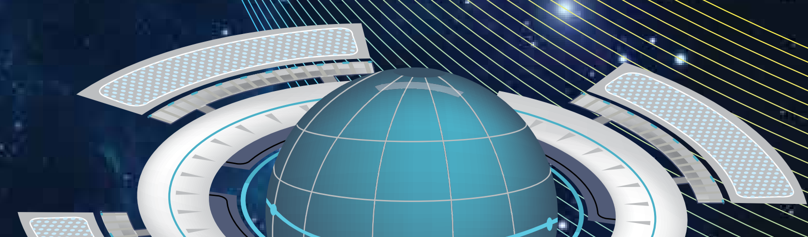
2017 Rs. 9.81 Bn.

Green Banking disbursements during the year

Rs. 6.4 Bn.

Percentage of local suppliers in Sri Lanka and Bangladesh

90%



Fortifying digital leadership

During the year under review, the new digital banking platform purchased from Fiserv was customised to meet the Bank's requirements. The system will be ready to roll out in 2019, providing greater convenience and functionality for customers. In the meantime, the Bank has focused on gearing customers and employees for a digital future as it continued to upgrade the back-end systems.

There has traditionally been indifference towards the use of online banking in Sri Lanka despite the quick uptake of online services in other sectors. However, the Bank remains focused on encouraging an increasing the customer base to sign up for our digital services.

The Bank's new focus is to fight against this indifference and move a majority of all banking transactions to the digital sphere by 2020.

Already about 20% of total fixed deposits are opened electronically with the Bank being able to offer better rates due to cost efficiencies

Around 20% of credit card servicing such as bill payments is also conducted digitally. Prepaid cards too can now be topped up digitally. With the title of Best Internet Bank in Sri Lanka under our belt (by Global Banking and Finance Review of the UK) for the third successive year, we are well placed to meet the needs of tomorrow. Our new digital platform too will make online banking an integral part of a customer's day-to-day lives.

Commercial Bank adjudged Best Internet Bank in Sri Lanka for the 3rd year in a row

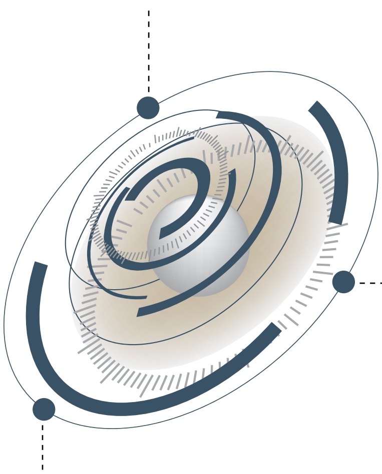
The Bank was named the Best Internet Bank in Sri Lanka by Global Banking and Finance Review of the UK, for the third successive year.

Our customers are able to use any one of our 830 ATMs to apply for mobile or internet banking. While digital banking will allow greater convenience for our customers, it will also free up our front line employees to play a greater sales role, understanding our customers better and being able to align them with products and services that better suit their needs.

Future-ready banking Figure – 16

Systems and processes

- Strengthen policies and procedures for digital revolution
- Safeguard against cyber crime
- Introduce digital banking sign-up via ATMs



People

- Create digital bankers
- Prepare digital-ready customers
- Convert a majority of banking transactions to digital

Technology

- Launch digital platform
- Roll out digital innovations across the region
- Explore and exploit new technologies

The Bank focused on gearing customers and employees for a digital future as it continued to upgrade in-house systems.

Reinforcing co-creation

The Bank continues to design customised products in conversation with stakeholders. Comments and responses from customers resulted in the Bank's investment in technological innovations that would offer greater convenience and provide a better picture of customer needs.

The Bank on Wheels concept, succession planning for entrepreneurs and the ComBank Biz Club for SMEs were the outcomes of our engagement with customers.

We will continue to co-create banking products and services in conversation with our stakeholder groups

As technology leaps ahead at an ever increasing tempo, the Bank has made efforts to match the pace of transformation and has had multiple collaborations with other innovative, local and overseas service providers, such as Fiserv, IBM and Kashmi who are able to provide our customers with solutions that ensure the Bank remains relevant and ahead of the industry (refer example of Kashmi in following sub-section).

Collaborating for renewed success

Collaboration has been at the heart of the Bank's success – particularly as it expands its influence in the region and beyond. As the customer base further diversifies, it is natural that employees and partners follow suit to cater to the needs of diverse customers.

Collaborating with business partners

The Bank also works with business partners across the region and beyond to ensure that the in-depth financial industry knowledge and wide-ranging banking skills of its employees are supported by local knowledge, to be in sync with the local customers

In the Maldives the Bank has partnered with Tree Top Investments to better understand the local banking scenario so that the services are relatable to this customer segment. In the Middle East, the Bank's business partners help provide remittance services for expatriate customers (refer page 48 under Reaching out to other overseas customers for details).

Partnership for Remittance

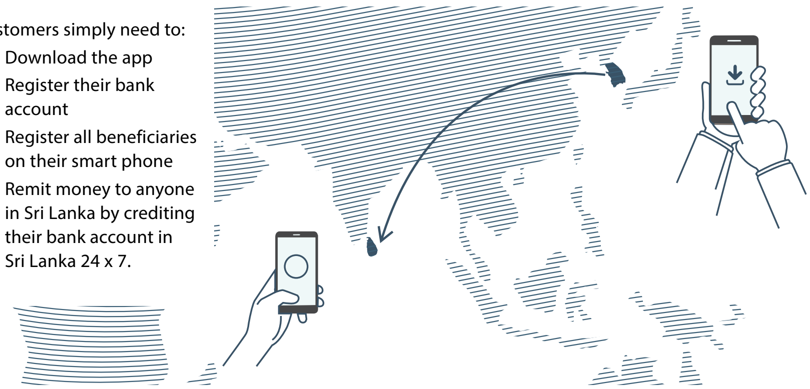
Commercial Bank is one of the most active players in Sri Lanka in the field of remittances, offering migrant and expatriate workers a range of options including "e-Exchange" MoneyGram, Ria and Express Money remittance services. The Bank set up a money remittance business in South Korea in 2014 and expanded it in 2018 by collaborating with Global Money Express Co. Ltd to launch "mobile-to-account" remittance service, the first Sri Lankan bank to do so. As South Korean regulators have approved the digital KYC (Know Your Customer) process, the 30,000 strong Sri Lankan expatriates workers there can now avail themselves of real time remittance services through Commercial Bank.

Remittance in South Korea

Figure – 17

Customers simply need to:

1. Download the app
2. Register their bank account
3. Register all beneficiaries on their smart phone
4. Remit money to anyone in Sri Lanka by crediting their bank account in Sri Lanka 24 x 7.



South Korea is an active market for Sri Lankan workers who on average earn well above the average earning levels of Sri Lankan expatriates in the Middle East and in the countries of East Asia. According to the Sri Lanka Bureau of Foreign Employment, an estimated 5,000 to 6,000 new visas are offered to Sri Lanka by South Korea every year making this market a potentially lucrative one for the Bank.

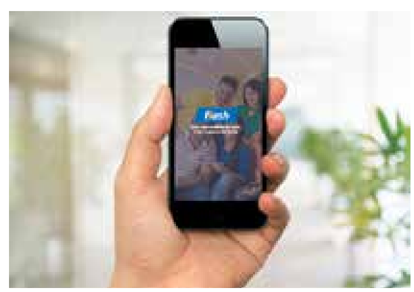
Partnerships using Blockchain

While waiting for regulatory clearance for Blockchain-related banking services in Sri Lanka, the Bank has partnered with Ripplenet, a global payments network leveraging Blockchain technology that facilitates both inward and regulator-enabled outward Blockchain technology-powered remittances. These remittances are instant, with an end-to-end tracing and tracking solution that ensures the process is transparent. It also makes viable remittances of lower denominations due to the lower rates that apply. Blockchain also removes the requirement for a middleman resulting in lower costs. Ripplenet's technology is equipped with an anti-fraud feature that makes it difficult for outsiders to tamper with transactions. A network of over 200 banking partners, such as Bank of America, Crédit Agricole, Santander, Al Rajhi Bank, and National Bank of Kuwait, are connected to our partner Blockchain system.

Flash Digital Bank Account

Our partnership with Singapore-based FinTech company "Kashmi", is a good example of the type of functionality, we hope to offer customers in the future. This partnership has already resulted in the soft launch of Flash, Sri Lanka's first fully-fledged digital bank account. It provides our customers, especially the millennial generation, with a seamless banking experience, wherever they are.

Using their mobile phones, customers are able to make payments via QR codes to both individuals and merchants, while also making use of location-specific marketing alerts about discounts and promotions. NFC (Near-Field Communication) based payments allow for simple tap-and-go spending where users do not wish to use cash. For additional security, Flash users can register their biometrics to reduce further risk. Flash also offers unique personal financial management tools that encourage, empower and embolden users to better engage with their finances, and make wise and informed decisions about spending and saving.



Commercial Bank introduces Flash – Sri Lanka's first fully-fledged Digital Bank Account

The Bank launched Sri Lanka's first fully-fledged Digital Bank Account designed to be the next evolution in digital financial services and financial wellness.

Branded "Flash", the product was developed in partnership with the Singapore-based company 'Kashmi' that introduced an innovative social payments app in Singapore in 2016.

Collaboration with suppliers

Business partners that the Bank engages with are evaluated for sustainability practices and where concerns are identified we initiate regular dialogue on the issues, working towards resolving them and encouraging best practices. For instance, the services of debt collection agents to recover unsecured personal loans and credit card dues are covered by an agreement which sets out rules for ethical conduct. These agencies are regularly monitored and any breach or violation is swiftly dealt with, which may even lead to termination of contract. With regard to business partners where significant influence may not be viable every effort is made to resolve the issues amicably. Wherever possible, we have made stand-by arrangements to face any contingency.

During the year we engaged with an estimated 1,100 number of business partners and have created an estimated value of over Rs. 7 Bn. Over 90% value so created has been for the suppliers of local origin in both in Sri Lanka and Bangladesh.

The Bank is among Sri Lanka's 10 most valuable consumer brands and has been for 15 years, consecutively (as per Brand Finance Lanka), supporting the Bank's growth over the years. With suppliers of solar panels and air conditioners in particular – areas that have a high potential for energy saving – we have leveraged this brand strength, to ensure compliance with our sustainability standards.

Collaborating with our supply chain to ensure it remains sustainable is important to us

Ranging from corporates to SMEs and individuals, our business partners deliver and derive value through provision of products and services as illustrated in the Figure 18 above.

Our business partners Figure – 18

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

Extending our reach
- Correspondent banks
- Franchise partners
- Exchange houses
- Agents
- FinTech companies

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

Infrequent engagement
- Premises providers
- Contractors
- Professional service providers

Collaboration for sustainable finance

We pride ourselves in having pioneered the adoption of sustainable banking practices in Sri Lanka for the betterment of the communities within which we operate. We continue to work on the formulation of a Sustainable Banking Initiative (SBI) in the country in partnership with 18 members of the Sri Lanka Banks' Association. Together we aim to achieve the following:

- Provide a platform that facilitates proactive decision-making
- Coordinate efforts to increase efficiency and effectiveness within banks
- Agree on minimum standards or principles for integrating environmental and social considerations into operations

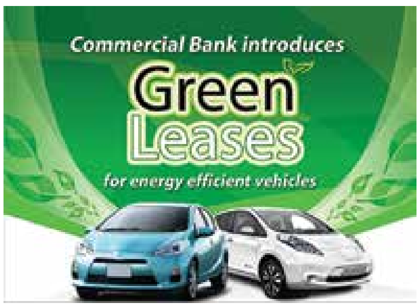
Funded by DEG of Germany, OeEB of Austria, Proparco of France and FMO of Netherlands, the SBI is supported by the Sri Lanka Banks' Association (SLBA).

Spreading green banking

Leading the way in Green financing over the past several years, the Bank financed the first commercially-viable wind power project and the first commercial-scale solar power project developed in Sri Lanka.

Our green financing strategy is proving successful and contributes towards the fight against climate change meeting the Sustainable Development Goals 7 and 12: Affordable and Clean Energy, and Responsible Consumption and Production respectively.

Named "Green Company of the Year" at the 2018 Asia Corporate Excellence and Sustainability (ACES) Awards, the Bank is committed to becoming one of the top green financing institutions in the country



Commercial Bank expands scope of its Green Loans, adds Green Leasing to support environment

The Bank expanded the scope of its "Green Loans" to encompass technology and products that contribute to environment conservation and to include leasing of electric and hybrid vehicles.

Our agreement with IFC to promote green financing, ensures that our lending officers are trained to identify and further green financing opportunities.

Disbursements of Green Loans Table – 08

Green loans by purpose	%
Renewable Energy	27
Energy and resource efficiency	59
Smart agriculture	8
Others	6

With its continued commitment to green financing, the Bank currently supports projects that focus on:

- Renewable energy
- Energy efficiency
- Water efficiency
- Waste management
- Emission reductions
- Drip irrigation
- Rain water harvesting

The Bank is also developing new lending products that will promote green lending.

To guide the Bank in its assessment and management of social and environmental risks during the course of its operations we upgraded our Social and Environmental Management System (SEMS) with technical input from the IFC. As part of the Loan Origination System, the SEMS plays a key role in managing the risk profile and ensuring that the Bank follows responsible lending and investment activities.

A total of Rs. 5.446 Bn. in green loan facilities was disbursed during the year under review. These loans are expected to reduce the environmental footprint of borrowers.

During the year, the Bank expanded the scope of its "Green Loans" to encompass technology and products that contribute to environmental conservation, including the leasing of electric and hybrid vehicles. Our re-launched Green Loans and Green Leases now facilitate:

- The purchase of energy-efficient household equipment
- The installation of energy-efficient lighting for households
- The purchase of hybrid or electric vehicles, solar panels and other machinery or equipment used for renewable energy, energy efficiency, emission reductions, water and wastewater management and waste management

Offered at relatively low interest rates and with longer repayment periods, these loans and leases are available to both employees with permanent positions and self-employed professionals between the ages of 18 and 65, who have a minimum disposable income of Rs. 50,000 a month. Business entities too can avail themselves of these green leases, which were previously limited to households seeking funds for switching to solar power.

With a greater part of our International Operations team's lending being evaluated through SEMS, we will soon be taking the concept of green financing beyond our borders

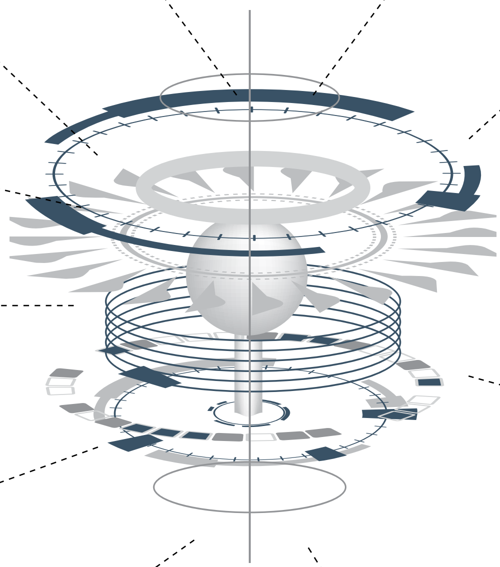
Supporting the community

Giving back to the communities within which we operate has always been a priority for the Bank. While we derive intangible value in the form of goodwill and brand strength from the community, we have sought meaningful ways in which to deliver value. This section briefly covers the more innovative of these projects.

The Sustainable Bank

Creating value for the community begins with how we run our business. To serve the banking needs of the Nation – especially those of the most vulnerable – we follow sustainable business practices that are aligned with Sustainable Development Goals and the principles of the United Nations Global Compact (UNGC) where relevant to the Bank. They include the following:

The Bank's sustainability focus Figure – 19



The CSR Trust

Our CSR Trust, which is funded annually by the Bank, rolls out a majority of the Bank's CSR (Corporate Social Responsibility) initiatives under four main pillars:

- Education
- Community
- Healthcare
- Other projects

During the year, the Trust contributed Rs. 63 Mn. towards the well-being of the community under these four CSR pillars

Established in 2004, the CSR Trust's aim is to strengthen the Bank's ability to act responsibly towards its stakeholders while generating measurable and sustainable social dividends for different segments of society – especially those that require empowerment. While many of the Trust's activities focus purely on supporting the community in essential areas where a need has been identified with the set objectives of the Trust Deed, a few stand out as innovative and worthy of brief mention here.

The Bank partners with organisations and Government authorities to implement the initiatives of the CSR Trust and contribute towards the Sustainable Development Goals – particularly 3, 4 and 6: Good Health and Well Being, Quality Education and Clean Water & Sanitation.

Highlights of the year include:

Increasing employability

– The Bank continued its collaboration with HeadStart (Pvt) Limited, Microsoft – Sri Lanka, and Dialog Axiata under the supervision of the Department of Education Western Province to improve A/L and O/L results, digital skills and employability of students.

  During the year, the Trust funded the 329 monthly e-learning workshops and four e-learning conferences benefiting over 5,000 teachers. The project saw over 40,000 digital contents been developed and close to 90,000 content files been shared through Microsoft "One drive".

  The Trust also supported the 27 Internet of Things (IOT) workshops with the intention of improving soft skills of students, in addition to its primary aim of the smart school project. The students who underwent training have developed over 100 innovations, with some of them been recognised at all island competitions.

- Six new fully equipped IT labs were added during the year and close to 150 items of equipment were donated based on a survey conducted by the Trust on current conditions of the labs previously donated.

Commercial Bank partners with SLT Campus and Cisco to offer and IT hardware course in selected schools

Students in grades eight to ten in selected schools can now benefit from a comprehensive 150-hour IT hardware course funded by the Bank and implemented in collaboration with SLT Campus (Pvt) Ltd. and Cisco Networking Academy.

- The Trust partnered *Sasnaka Sansada* Foundation to conduct two "Train the Trainer" programmes in collaboration with the Mathematics Department of the Ministry of Education using the 12 essential learning concepts of mathematics introduced by the Department to improve teaching skills. Forty undergraduates were trained under this initiative and were deployed to roll-out the "*Ganitha Saviya*" programme in 25 under-privileged schools. "Math Lab" project also increased its footprint with the establishment of 14 new labs under the patronage of the Trust.

Commercial Bank completes 20 Maths Camps to develop knowledge of students

The Bank recently conducted Maths Camps at three schools and donated Maths Labs to four more schools under the Bank's Sustainable Maths Lab Development project. This has brought the total number of Maths Camps conducted by the Bank during a two year period to 20, benefiting approximately 1,000 students.

Promoting vocational training

- The Bank launched a vocational training project, in support of the large number of school leavers who have not received admission to local universities, in partnership with the Department of Technical Education and Training, the Vocational Training Authority, various technical colleges and large corporates such as Access Engineering PLC.
- The Bank continues to work with technological partners on the "Smart Schools" project under the supervision of the Department of Education, to promote the concept of teaching through technology, improving digital skills of these students.

Preventing the spread of kidney disease

- The "Rain drops" rainwater harvesting project commenced in 2016 with a target group of 25 families in Gannoruwa. The project has seen fortification with the recent findings of a survey conducted by the Centre for Education, Research and Training on Kidney Diseases (CERTKID) attached to University of Peradeniya, which has proven test results of reduction in Chronic Kidney Disease of families who were part of the project.

  The Trust previously contributed towards installation of 5,000-liter capacity water tanks to 25 families affected by the Chronic Kidney Disease of unknown origin (CKDu). The success of the project has encouraged many others to donate water tanks to the village taking the total to 110.

  The most affected from this disease are the principal bread winner of the family. Hence, taking a step further, the Trust has also pledged to extend financial support to the community to start alternative livelihoods such as livestock, agriculture and cultivation of economical crops.

Operational Excellence

Over the years the pressure for products and services with higher cost efficiencies has created the need to gear up internal systems and processes to improve accuracy, speed and quality of service. Thus the Bank has been committed in its investments towards achieving operational excellence and enhancing productivity. Initiatives are directed at streamlining back office operations to speed up and simplify processes, whilst investing in best-in-class technology for integration and modernising legacy systems. These initiatives have also contributed to freeing back-office routine staff to improve customer interaction whilst gearing them with focused training and development. The success and the impact of our efforts are readily reflected in the financial performance reported year after year supported by the growth in Social and Network Capital.

64 Centralising work processes

64 Continuing process improvements

64 Optimising resources

66 Investing in employees

70 Safeguarding the environment

Operational excellence over the year

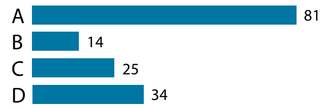
Profit per employee

2018 Rs. 3.490 Mn.

2017 Rs. 3.328 Mn.

Deposits per employee as at December 31, 2018

Investment in training (hours)



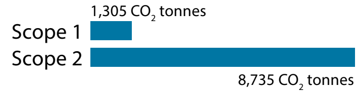
A Banking and Executive Trainees

B Junior Executive Assistants and allied grades

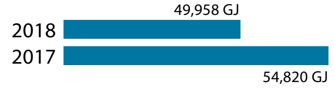
C Executive Officers

D Corporate Management

Carbon footprint



Energy consumption



Cost to income ratio

46.35%

Centralising work processes

Centralisation for Retail

The centralised automated reconciliation system, launched in 2017 to minimise errors and increase efficiency, showed positive results during the year under review. With optimum utilisation of staff to ensure cost efficiency, the Bank's Personal Banking arm is planning to implement a solution that would centralise the credit function to reduce the need for additional back office staff at branches while increasing focus at customer touch points.

By maintaining a single processing centre the Bank is able to provide improved and more cost-effective banking services

Combined with our plans to upgrade digital and online banking services, we will be able to focus more on introducing tailor made products and services that best suit customer needs.

At the Bank, decision making on risk management is largely centralised through several risk management committees. Due to the highly specialised nature of the Bank's business, this provides greater security to our customers in the long term (refer pages 115 to 139 in Risk Management).

Continuing process improvements

Every year the Bank introduces a number of process improvements with the aim of achieving greater operational excellence.

Lean banking

With the services of an external consultant the Bank launched a pilot lean banking project at its Export Department. This project provided encouraging results, with the Bank being able to release 12 employees for redeployment. Following this success the Bank has taken steps to roll out the lean banking project at other departments.

Optimising resources

With the significant increase in demand for commercial and residential real estate in Sri Lanka, the Bank's strategy of ensuring a healthy mix of owned and rented properties is paying dividends

Back office departments occupy many of the Bank's owned buildings while branch employees are placed in strategically located premises in close proximity to the branches – the majority of which are rented. With a number of 10-year rent agreements in high-cost city centres coming to an end in 2019, the Bank will look to optimise utilisation of rented properties. Renting property outside of urban centres remains cost effective as land owners in such areas still value the stability offered by a Bank as the tenant, especially with agreed terms and conditions. The Bank is looking into optimising its branch network together with its strategy of migrating more customers towards digital banking products and services.

With an increasing number of Bank branches presenting a standardised facade and layout, customers are enjoying a better experience at every touch point. Their first point of contact is now automated which provides the services customers require with greater convenience and speed. Manned counters are available within the interior of a branch for those customers with complex or non-conventional banking needs – or those who still simply wish to conduct their transactions with a friendly and familiar, trusted banking employee.

Network of delivery points in Sri Lanka

Figure – 20

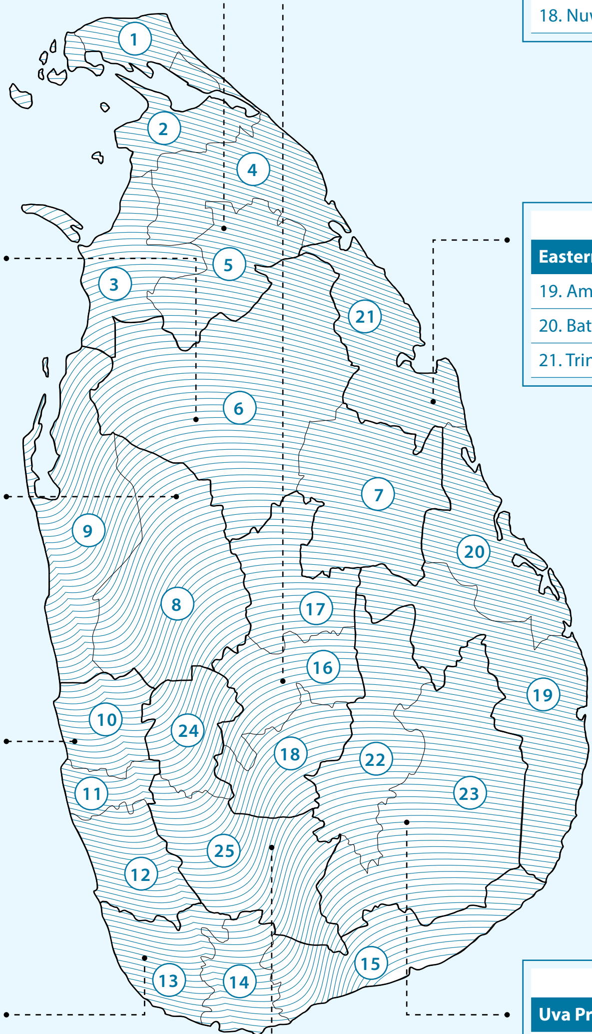
	Branches	ATMs	CRMs
Northern Province	18	40	10
1. Jaffna District	12	25	7
2. Kilinochchi District	2	5	1
3. Mannar District	1	2	–
4. Mullaitivu District	1	2	–
5. Vavuniya District	2	6	2

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

	Branches	ATMs	CRMs
North-Western Province	21	60	18
8. Kurunegala District	13	43	12
9. Puttalam District	8	17	6

	Branches	ATMs	CRMs
Western Province	133	364	76
10. Gampaha District	42	130	27
11. Colombo District	78	203	43
12. Kalutara District	13	31	6

	Branches	ATMs	CRMs
Southern Province	29	70	15
13. Galle District	13	37	7
14. Matara District	10	21	4
15. Hambantota District	6	12	4



	Branches	ATMs	CRMs
Central Province	22	47	12
16. Kandy District	15	29	8
17. Matale District	3	10	2
18. Nuwara Eliya District	4	8	2

	Branches	ATMs	CRMs
Eastern Province	10	21	5
19. Ampara District	4	8	–
20. Batticaloa District	5	11	4
21. Trincomalee District	1	2	1

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

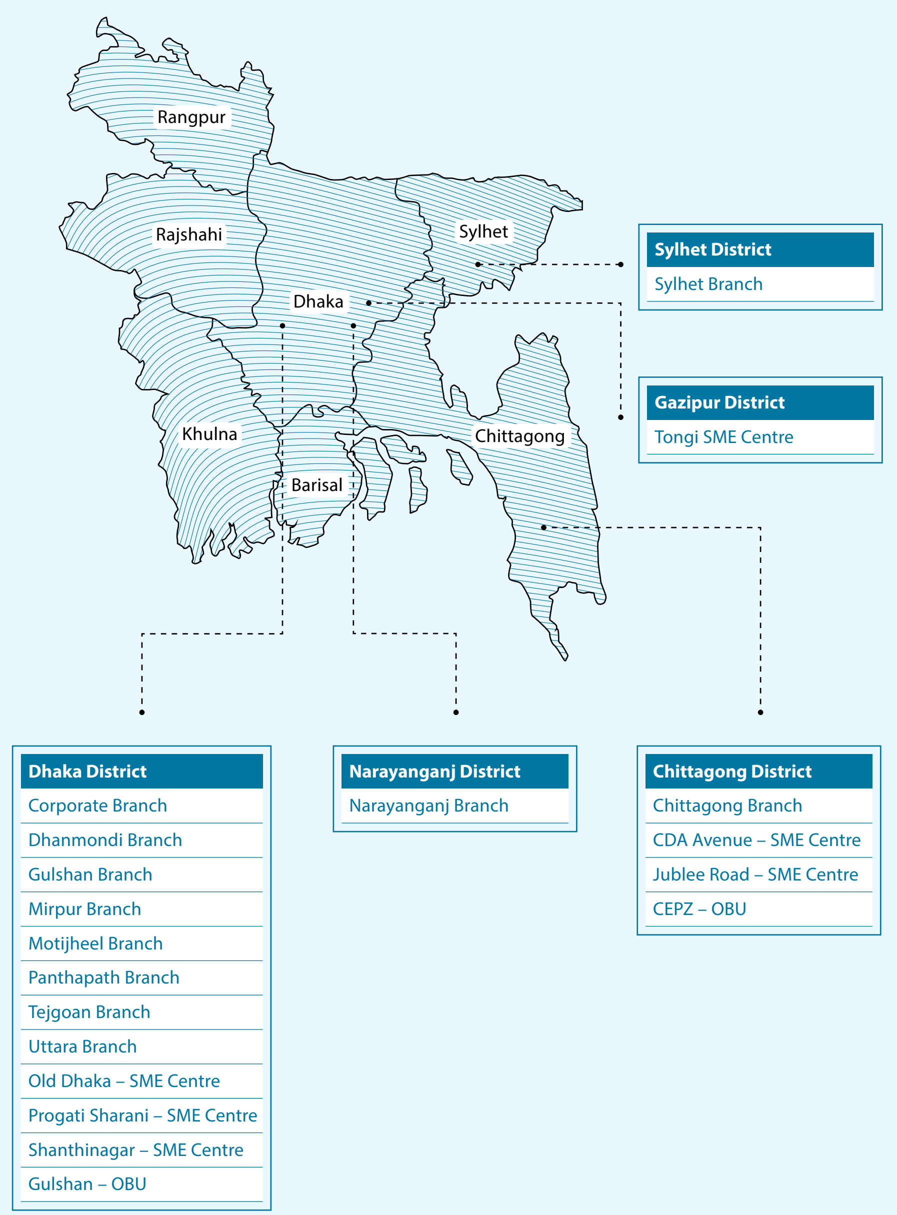
	Branches	ATMs	CRMs
Sabaragamuwa Province	16	30	13
24. Kegalle District	6	11	6
25. Ratnapura District	10	19	7

Number of Branches		266
Automated Teller Machines (Off-site ATMs = 192)	ATMs	670
Cash Recycler Machines	CRMs	160

Cash Deposit Machines	CDMs	40
Envelop Deposit Machines (for cheques)	EDMs	34
Automated Cheque Deposit Units	ACDs	3

Banking hours is given online.
http://combank2018.annualreports.lk/bn.html

Network of delivery points in Bangladesh Figure – 21



SME: Small & Medium Enterprises OBU: Off-shore Banking Unit

The Bank's network increased by five new branches during the year, taking the total to 266 in Sri Lanka

In 2017, we completed the purchase of 100 automated teller machines with the capability of both deposits and withdrawals. This year we purchased a further 60 machines, providing customers with a convenient one-stop solution for their day-to-day transactional banking requirements.

During the year we launched Sri Lanka's first fully-automated cheque deposit service machine at our City Office in York Street, Colombo. Now, customers are no longer required to fill manual forms prior to depositing. They simply need to key in the account number along with the account holder's telephone number prior to placing the cheque in the allocated slot. In total, during the year, we installed three automated cheque deposit machines which are in great demand especially in metropolitan areas.

Investing in employees

Our people's competencies, capabilities and experience, and their motivations to innovate – also referred to as **Human Capital** – are at the heart of our success and our plans for the future. Through their dedication and commitment they create value for the Bank and its stakeholders, and in turn the Bank, creates value for them.

Our excellence in delivering value to our customers is supported by a strong team of over 5,000 employees with a wealth of experience spanning across each level of the Organisation, gathered over the years.

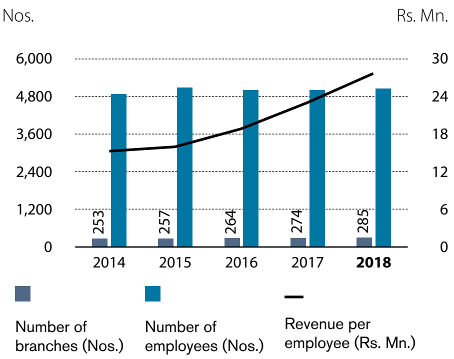
Employees by type and gender Table – 09

	Sri Lanka		Bangladesh		Bank	
	Count	%	Count	%	Count	%
Female	**1,305**	**24.95**	**81**	**27.36**	**1,386**	**25.08**
Permanent	1,128	21.56	61	20.60	1,189	21.52
Contract	1	0.02	20	6.76	21	0.38
Outsourced	176	3.37	–	–	176	3.18
Male	**3,925**	**75.05**	**215**	**72.64**	**4,140**	**74.92**
Permanent	3,601	68.85	177	59.80	3,778	68.36
Contract	1	0.02	38	12.84	39	0.71
Outsourced	323	6.18	–	–	323	5.85
Total	**5,230**		**296**		**5,526**	

Employee numbers

Over the last five years, permanent employee numbers have remained stable with a total of 4,731 in Sri Lanka and 296 in Bangladesh as at December 31, 2018 although branch numbers and annual profit has maintained a steady upward trajectory.

Revenue per employee vs branch numbers and number of employees Graph – 05



Employee recruitment and retention

Employee recruitment has been challenging as new opportunities prompt the youth to steer away from choosing banking as a career. The changes introduced to the recruitment selection criteria has helped the Bank to on-board high quality talent to its workforce. During 2018, the Bank recruited 270 (5.74%) employees for Sri Lanka and 42 (15.11%) employees for Bangladesh.

All employment separation processes in every country that the Bank operates in are completely compliant with applicable labour laws. Employees who leave the Bank are interviewed and their feedback escalated to Top Management. Experienced Commercial Bank employees under 30 years of age are in high demand in the markets we serve as is evidenced by the higher attrition rates for this category.

The percentage of employees leaving the Bank in Sri Lanka, and Bangladesh was 5.07% (numbering 239) and 8.36% (numbering 24) respectively during the year.

With employees transforming into digital bankers in the near future, the Bank is confident that employee numbers will remain largely static with more back-office employees being retrained and redeployed to customer touch points. (Refer page 68 for gender, category and age-wise employee breakdown)

Voluntary Retirement Scheme (VRS)

The Bank offered employees of every grade the chance to retire early if they had served the Bank for 20 years subject to certain criteria. A total of 50 staff members took up this offer resulting in cost efficiencies to respective units and career advancement opportunities to staff members.

Pensions

The Bank was happy to make arrangements to re-establish a long standing request for a pension fund for our employees who were recruited after 2000, during the year. Available balance in the gratuity fund will be transferred to a new fund for those who choose to join the new scheme. Thereafter, on behalf of the employees, a certain monthly contribution is made to the fund by the Bank. Employees are required to remain in employment for over five years to claim the benefits from the fund. Employees who select this scheme would be guaranteed a return equal to or above the existing gratuity scheme and are given a lump sum payment at termination or retirement from employment.

Training and development

During the year under review, the Bank invested significantly in the development of knowledge and skills of its Managers. Training programmes were conducted within Sri Lanka and overseas to ensure that branch Managers have the required skills and exposure to serve our diverse range of customers.

The Bank understands the critical importance of ensuring the best in customer service and is keen to provide employees with the necessary skills to meet customer needs. Designed to take customer service to a higher level the new scientific training programme, launched during the year is focused on activity-based training rather than classroom learning. This means that in addition to product knowledge, front-line employees learn to sharpen their people-skills.

The Bank is focused on ensuring that employees are "future ready" through innovations such as apps, chat bots, artificial intelligence and online training modules that they can engage in at their convenience

Initiatives taken to convert our employees into digital bankers have occupied the Bank's time and energy during the year. This includes ensuring that our people are well-versed in everything from digital banking lingo to actual systems and processes. While training programmes through Branch TV and other digital channels have been successful we are mindful of the needs of our millennial employees. This is the era of search engines where information has to be just a click away. For this reason the Bank is employing a chat bot and many other innovations that will provide employees with the necessary information at their finger tips.

All employees receive annual performance review, a medium through which training needs are identified for each individual.

Leadership transfer and promotions

The Bank's robust succession plan resulted in a successful leadership transfer, following the retirement of the previous Managing Director/Chief Executive Officer. All cascading staff changes subsequent to this leadership change were effected without any disruption to business.

The Bank was proud to promote a total of 100 executives – one of the largest executive grade batches during the year – a strong testament to the skills of the resource pool of its cadre

Succession planning

While succession planning was previously only conducted for Senior Management level employees (Grades IV and V), during the year under review the Bank extended this to include executive grades as well. In addition, executives in Grade I and above are now focused in talent discussions which will be greater impetus for their career development.

The Bank has also taken the initial steps for purchasing an internationally accepted Human Resource Information System (HRIS) that will ensure that all key systems such as learning and development, appraisals, and talent management run smoothly and interact seamlessly with each other. This also makes it compulsory for all employees to carry out their regular HR functions through an online system, taking them one step closer to being the digital bankers of the future.

Compensation

Remuneration for our staff consists of a guaranteed "fixed" pay and a variable pay that is based on each employee's performance during the year. The fixed pay is determined through negotiations under the Collective Agreement for Junior Executive Officer Grade and below. For employees in higher grades in Sri Lanka and all staff in Bangladesh the fixed pay is determined by regular market surveys.

Employees in the executive categories are provided with performance based rewards linked to the performance appraisal system, a well-defined rewards matrix aligned with the Bank's overall strategy. All other employee grades working in Sri Lanka are covered by the Collective Agreements signed with Ceylon Bank Employees' Union (CBEU).

The overall compensation review ensures that our executives receive compensation that is on par with market prices. As Sri Lanka's largest private sector bank, Commercial Bank is a trendsetter in the market and ensures fair and competitive payment without discrimination.

Collective Agreement and freedom of association

The new Collective Agreement was signed on time with the concurrence of all parties with effect from January 1, 2018. Commercial Bank was the first in the market to complete the Collective Agreement which is valid for three years. The Management continues to maintain cordial relations with our branch of the CBEU and the Executive Association of the Bank.

68.55% of our employees in Sri Lanka are members of the Ceylon Bank Employees' Union while 18.41% hold membership in the Commercial Bank Executive Association. Our employees in Bangladesh do not hold membership in any trade association.

The Bank recognises the rights of employees to enjoy freedom of association and ensures that all accepted channels of communication with them remain open for dialogue

Diversity and equal opportunity

Bank upholds the principle of equal opportunity irrespective of gender, age, race or religion from recruitment to career development and progression. Female representation on our team is lower than in the national labour force despite our commitment to gender diversity. Transferability within our wide network deters females at recruitment.

The mix of female employees receiving training, promotion and representation at Senior Management level in proportion to the overall staff mix evince our commitment to equal opportunity.

Employees by category and gender Table – 10

Employment Category	Age 18-30 years		Age 31-50 years		Age over 50 years		Total
	Male	Female	Male	Female	Male	Female	
Corporate and Senior Management	–	–	7	–	12	4	23
Executive Officers	132	33	1,350	348	146	79	2,088
Junior Executive Assistants and Allied Grades	1,074	335	661	262	21	65	2,418
Banking and Executive Trainees	351	83	3	–	–	–	437
Office Assistants and Others	–	–	29	1	31	–	61
Total	**1,557**	**451**	**2,050**	**611**	**210**	**148**	**5,027**

In addition, the Bank continues to ensure that the ratio of basic salary and remuneration of women and men at all locations of operation and across all employee categories remains equal as we work to enhance gender equality while contributing towards Sustainable Development Goals 5: Gender Equality. (refer Table 10 on page 68 for employee category-wise ratios).

Employee well-being and welfare

Human rights and values are upheld by the leaders and Managers of the Bank at all times. The Inspection Department ensures compliance with the Bank's Code of Ethics and its comprehensive policy framework through regular verification. The Code is based on the UNGC principles and the Universal Declaration of Human Rights proclaimed by the United Nations.

Any information of violations received through the Bank's Whistle-Blower Charter or "Speak out" web portal, are investigated promptly with disciplinary actions, including even dismissal, swiftly taken against violators.

The Bank added three holiday bungalows for employee use in Anuradhapura, Kirinda and Kandy. As customary, the Bank, organised a range of events to celebrate cultural events, team spirit and employee milestones and talents.

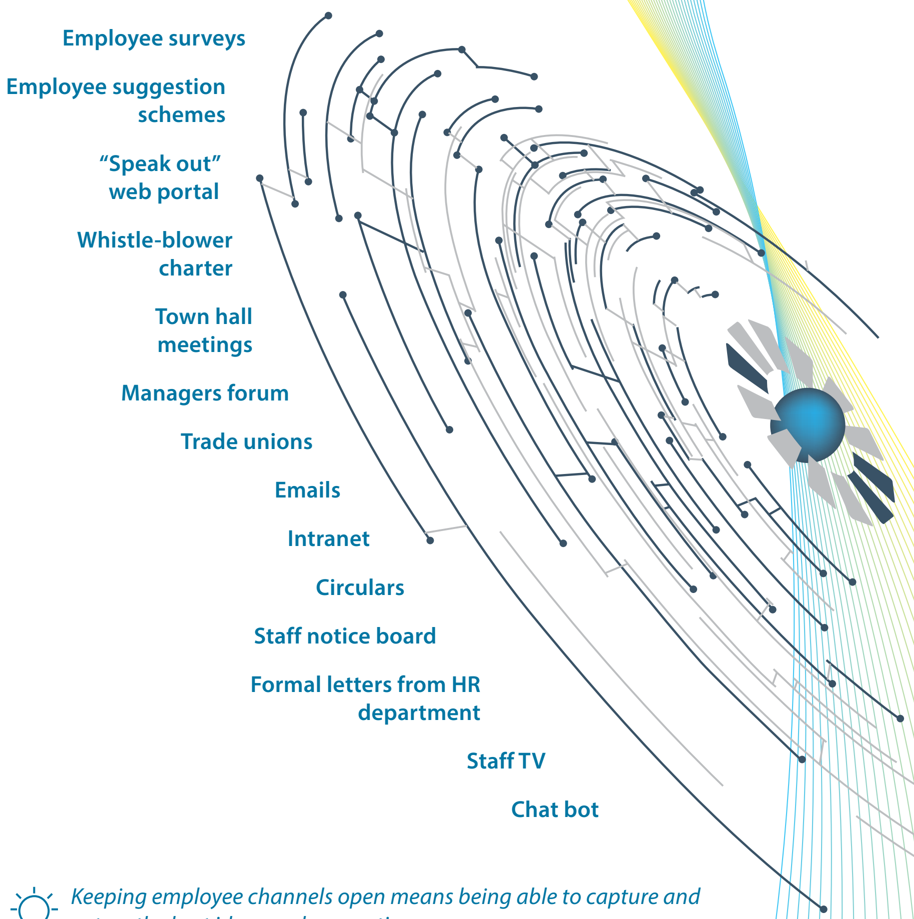
Employee communications

The Bank employs a number of effective communications channels to ensure that every employee is aware of the Bank's strategic direction, its policies and procedures, the high standards expected, and the corporate values each must display in their day-to-day interactions with external and internal customers.

These channels also ensure that the best ideas of our people are captured and acted upon. During the year, the Bank's Senior Management reached out to employees through skip level meetings for Junior Executive Officers (JEOs) and Executive Officers (EOs). In the absence of their managers these employees were encouraged to suggest improvements to the Bank in their respective areas of expertise. Many of such ideas and suggestions from the Bank's Junior Executive Officers and Executive Officers were adopted during the year. Separate town hall meetings were conducted for EOs and JEOs to discuss the Bank's future strategic priorities enabling them to play an active role in shaping the Bank's future.

The same was true of the Manager's forum during which the Bank's leadership team presented the Bank's future direction and welcomed questions and views from the audience. Their suggestions were documented and included in action plans to encourage business inclusion. As our employees are the Bank's front line, we value their suggestions immensely to stay connected with our customers.

Employee communication channels Figure – 22



Keeping employee channels open means being able to capture and act on the best ideas and suggestions.

Safeguarding the environment

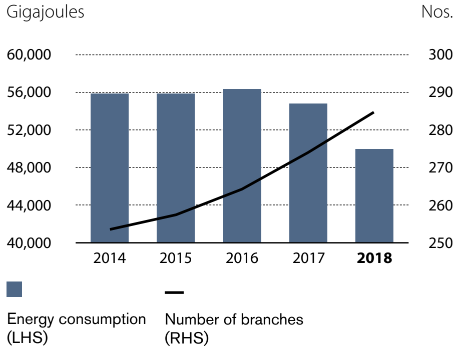
During the year, we alerted customers to our many paperless banking options such as online banking, mobile banking, e-statements and e-passbook which help to reduce the use of paper. As mentioned previously, we are in the process of converting a majority of all banking transactions to digital by 2020 (refer Fortifying digital leadership on page 57).

We also eliminated unproductive paper-based processes during the year and continue to look for new ways to reduce the use of paper.

Sustainable energy

During the year the Bank continued its focus on renewable energy. In 2016, we launched a pilot project installing solar panels capable of providing 10% of the energy needs of five branches. This project provided a great value to the Bank, and as a result, in 2017, we increased the number of solar panels at each branch to cover 50% or more of its energy needs. In 2018, this provided us with a higher return on investment than expected, with some branch premises securing a 0% electricity bill, while others, such as our Peliyagoda warehouse, actually transmitting power back to the national grid. This year, we increased the number of solar powered branches from 20 to 34. We will proceed prudently, ensuring cost-effective long-term energy solutions for the Bank. Expanding infrastructure and upgrading technology to provide clean energy is an important initiative that can help the environment as we contribute towards Sustainable Development Goal 7: Affordable and Clean Energy.

Energy consumption vs number of branches Graph – 06



With the cooling of interiors consuming up a bulk of the energy, we have now begun converting our standard air conditioners to inverter types. Although the initial investment will be high, the energy consumption is expected to be very low, bringing the Bank many benefits in the medium term. In combination with our solar powered branches, this initiative has provided a 8% year on year reduction in the Bank's energy costs, while the electricity cost at the Head Office alone reduce by 8% year on year over the last four years.

During the year, the Bank consumed 49,958 Gigajules (GJ) of direct energy compared to 54,820 GJ in 2017, a reduction of 4,862 GJ year on year (refer Graph 06 above for energy consumption over the past five years).

Carbon footprint

A carbon footprint evaluation was conducted during the year collecting activity data from 11 Greenhouse Gas (GHG) sources covering the entire Sri Lankan operation. The Bank was awarded a Greenhouse Gas verification statement by Sri Lanka Climate Fund (Pvt) Ltd., under the Ministry of Mahaweli Development and Environment, after verifying the total Greenhouse Gas emissions for 2017 in accordance with ISO 14064-1:2006 at a "reasonable level of assurance". The inventory revealed that direct GHG emission of the Bank (Scope 1) were 1,305 tonnes and indirect GHG emissions (Scope 2) was 8,735 tonnes of CO_2 equivalent. The certification demonstrates the Bank's readiness to manage its carbon footprint. The Bank will begin initiating programmes that will help it become carbon neutral in the future.

The performance of the Bank in 2018 (compared to 2017) as shown in the Financial Statements on pages 157 to 168 and described in the Financial Review on pages 142 to 150 bears testimony to the strategies adopted under each of the four strategic imperatives described above.

Awards and Accolades

Figure – 23

Corporate awards

- Only Sri Lankan bank to be ranked among the "Top 1000 Banks in the World" for the 9th time, the 8th consecutive year
- The Best Domestic Bank in Sri Lanka – Asiamoney Country Awards 2018, Asiamoney, UK
- The Best Bank for Premium Banking Services in Sri Lanka – Asiamoney Country Awards 2018, Asiamoney, UK
- 2018 Sri Lanka Bank of the Year – Frost & Sullivan Best Practices Awards, Frost & Sullivan, Global
- The Best Trade Finance Bank in Sri Lanka – The Asian Banker Transaction Awards 2018, The Asian Banker Magazine, Singapore
- Domestic Trade Finance Bank Of The Year, Sri Lanka – ABF Wholesale Banking Awards, Asian Banking & Finance Magazine, Singapore
- Best Bank in Sri Lanka – FinanceAsia, Hong Kong
- Automobile Lending Initiative of the Year, Sri Lanka – ABF Retail Banking Awards, Asian Banking & Finance Magazine, Singapore
- Sri Lanka's Best Bank – Euromoney, UK
- Best Private Bank Sri Lanka 2018 – International Business Magazine, UAE
- Best Domestic Bank in Sri Lanka – International Finance Magazine, UK
- Best Commercial Bank – Sri Lanka 2018 – Global Business Outlook, UK
- Best Foreign Bank – Bangladesh 2018 – Global Business Outlook, UK
- Most Responsible Bank Sri Lanka 2018 – Capital Finance International (CFI.co), UK
- Best Annual Report Among Banking Institutions – Edmund J Cooray Memorial Trophy – Gold Award, CA Sri Lanka
- Integrated Reporting – Best Disclosure on Capital Management – Gold Award, CA Sri Lanka
- Corporate Governance Disclosure – Gold Award, CA Sri Lanka
- Integrated Reporting – Silver Award, CA Sri Lanka

Sustainability and CSR awards

- The Best Bank for CSR in Sri Lanka – Asiamoney Country Awards 2018, Asiamoney, UK
- Best Corporate Social Responsibility Practices – Sri Lanka CSR Leadership Awards, World CSR Congress, India
- Support and Improvement in Quality of Education – Sri Lanka CSR Leadership Awards, World CSR Congress, India
- Developing Sustainable Strategies – Sri Lanka CSR Leadership Awards, World CSR Congress, India
- Concern for Health – Sri Lanka CSR Leadership Awards, World CSR Congress, India
- Best SME Bank in Sri Lanka – International Finance Magazine, UK
- Green Company of the Year – Asia Corporate Excellence & Sustainability Awards, MORS Group, Malaysia
- Best Green Bank Sri Lanka 2018 – Capital Finance International (CFI.co), UK

Commercial Bank adjudged "Sri Lanka Bank of the Year" by Frost and Sullivan

The Bank was adjudged "2018 Sri Lanka Bank of the Year" by Frost and Sullivan, a global research and consulting organisation that presents Best Practices Awards to recognise companies in regional and global markets.

Digital Banking and Innovation awards

- Social Media Brand of the Year – Asia Customer Engagement Forum Awards 2018, ACEF, India
- The Best Transaction Bank in Sri Lanka – The Asian Banker Transaction Awards 2018, The Asian Banker Magazine, Singapore
- Domestic Technology & Operations Bank of The Year, Sri Lanka – ABF Wholesale Banking Awards, Asian Banking & Finance Magazine, Singapore
- Automobile Lending Initiative of the Year, Sri Lanka – ABF Retail Banking Awards, Asian Banking & Finance Magazine, Singapore
- Best Internet Bank in Sri Lanka 2018 – Global Banking and Finance Review, UK
- Outstanding Website in the Banking category – Annual International Web Awards, Web Marketing Association, USA
- Most Innovative Customer Service Banking Brand – Sri Lanka, Global Brands Magazine, UK
- Gold Award for Best acquirer on LankaPay Online Payment Platform – LankaPay Technnovation Awards 2018, LankaPay
- Silver Award for Most Innovative Bank of the Year – LankaPay Technnovation Awards 2018, LankaPay
- Merit Award for Overall Excellence in Interbank Payments – LankaPay Technnovation Awards 2018, LankaPay
- Merit Award for Bank of the Year for Excellence in Customer Convenience – LankaPay Technnovation Awards 2018, LankaPay
- Merit Award for Bank of the Year for Financial Inclusivity – LankaPay Technnovation Awards 2018, LankaPay

Our Journey

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

1957 EBL was acquired by Chartered Bank

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

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 Launched Internet Banking

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 branch
- Raised a 10-year subordinated debt of USD 75 Mn. from IFC

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

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

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

1971 Business of EBL integrated with Chartered Bank

1972 First two branches of CBC opened in Galewela and Matale

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

1979 Offshore Banking Centre formed

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

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
- 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

2017
- Commercial Bank of Maldives opened its second branch in Hulhumalé
- Established 100% owned CBC Myanmar Microfinance Company Limited, 3rd foreign subsidiary

2018
- **The second fully-owned subsidiary of CBC outside Sri Lanka, CBC Myanmar Microfinance Company Limited was opened in Nay Pyi Taw**
- **Launched the country's first fully-automated cheque deposit machine at City Office Branch in York Street Colombo**
- **Reached 850 ATMs in Sri Lanka and Bangladesh**
- **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**
- **Issued a Basel III compliant debenture amounting to Rs. 10 Bn.**
- **Opened five new branches**
- **Introduced Flash digital bank account**

Governance

How We Govern

Bank's approach to governance

Commercial Bank firmly believes in and values good corporate governance – a disciplined approach to making decisions and executing them.

With its mutually beneficial outcomes, it is considered a necessary condition above and beyond the legal and regulatory requirements. We are aware that it is the foundation for financial integrity, sustainable performance and investor confidence. It promotes fairness, transparency and accountability in dealing with all its stakeholders. Accordingly, the Bank is committed to good corporate governance which drives the Bank to conduct its affairs with the utmost intellectual honesty and diligence, being mindful of its obligations to the society and the environment. A culture that values good governance prevails across the Bank.

The Bank has adopted a time-tested corporate governance framework which is being regularly reviewed and updated in line with the evolving regulations and best practice, to guide the Board, Board committees, Management and staff in performing their stewardship roles. This framework is underpinned by leadership, integrity, accountability, transparency, sustainability and shareholder engagement. These guide the Bank in all its decisions relating to Board oversight, delegation of authority, division of responsibilities, resource allocation, risk management, compliance, performance appraisal and compensation, related party transactions, and financial reporting. The commitment to good corporate governance has in fact been a major contributory factor to the many achievements the Bank has accomplished.

Annual corporate governance report

Required to be published as per the Banking Act Direction No. 11 of 2007 on Corporate Governance (Direction), the annual corporate governance report of the Bank included on pages 74 to 114 elaborates the structure, overarching principles and components of the Bank's corporate governance framework and pages 374 to 390 that identify the extent of compliance with the applicable Direction and codes.

Following a review of the Bank's compliance with the Direction, Messrs Ernst & Young, External Auditors of the Bank have submitted their Assurance Statement thereon to the Central Bank of Sri Lanka.

The Bank is compliant with all the applicable laws, rules, regulations, and codes in the spirit of good governance.

Compliance with the Banking Act Direction No. 11 of 2007 and the Code of Best Practice on Corporate Governance of CA Sri Lanka is given in Annexes I and II on pages 374 and 386, respectively. As the Bank is compliant with all requirements of the Banking Act Direction No. 11 of 2007, the Colombo Stock Exchange (CSE) has exempted the Bank from disclosure of compliance with the Directions stipulated in Section 7.10 of the Continuing Listing Requirements on Corporate Governance.

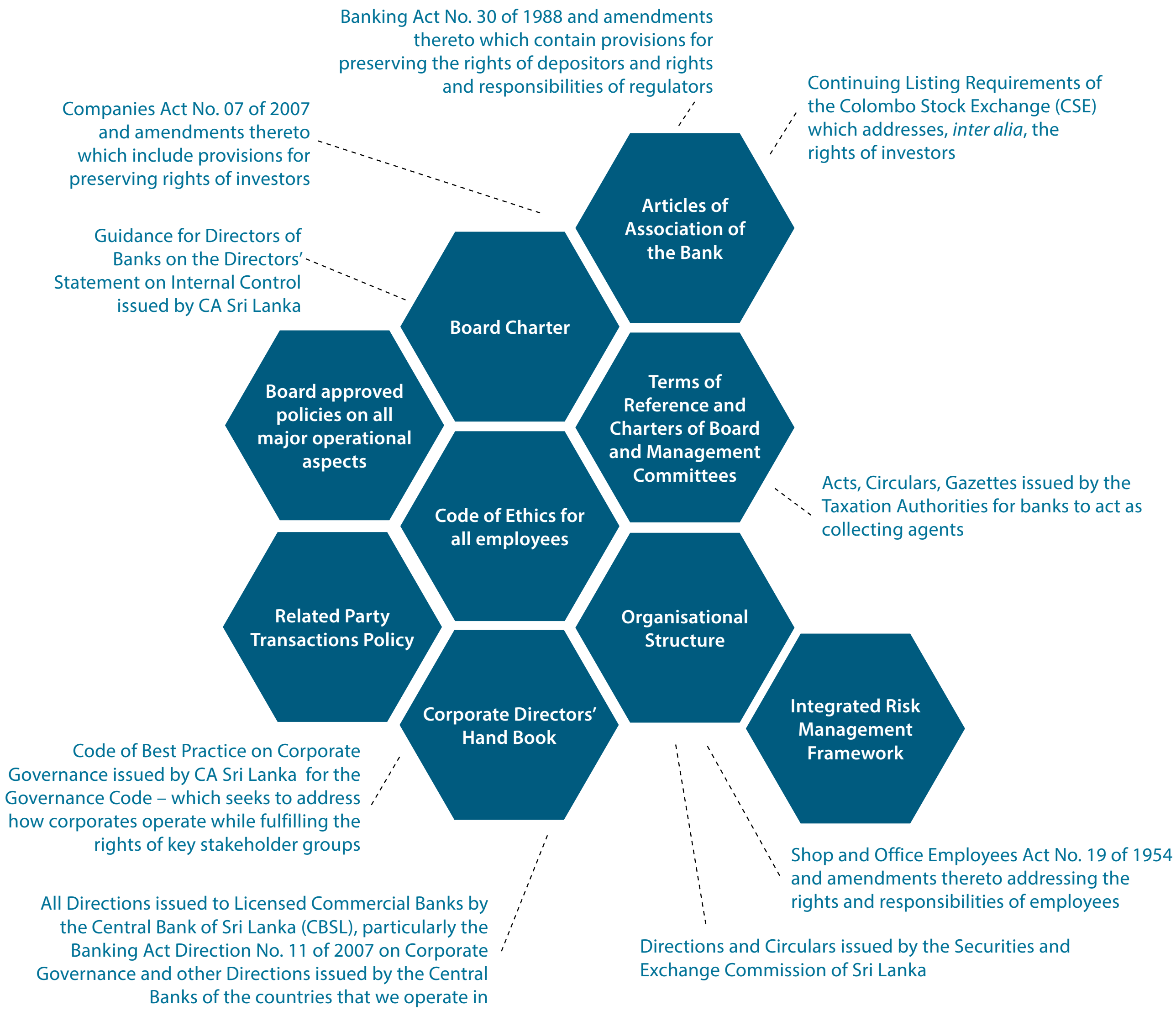
Key regulatory requirements and voluntary codes relevant to the Bank and elements of the Corporate Governance Framework of the Bank are depicted in Figure 24 on page 75.

Board of Directors approved the rules applicable to transactions on the Bank's shares in 2015. Board approved "Internal Rules applicable on the Bank share purchases/disposals by employees of the Bank" govern the transactions on the Bank's shares by employees. Code of Ethics issued to the employees also include guidelines with regard to insider dealing in securities.

In order to incentivise employees to achieve better performance, increase staff retention, and raise equity funding, the Bank has structured Employee Share Option Plans (ESOP). This entitles the eligible employees to buy a set number of shares at a fixed price during a given period of time. These plans have been approved by the shareholders at Extraordinary General Meetings (EGMs).

Key regulatory requirements, voluntary codes, and Corporate Governance Framework elements

Figure – 24



The key regulatory requirements and voluntary codes relevant to the Bank and elements of the Corporate Governance Framework of the Bank are depicted above.

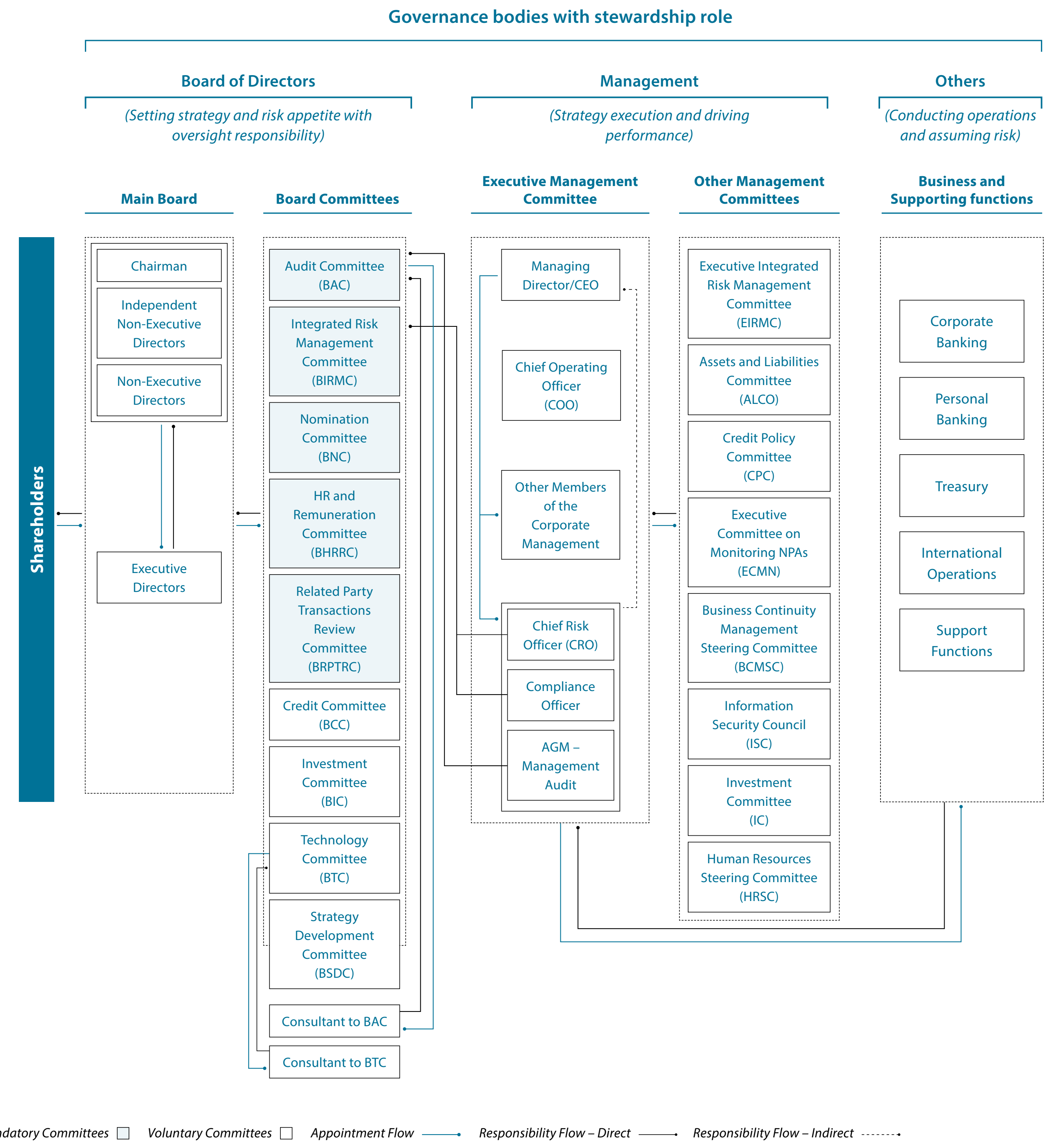
Governance structure

The governance structure of the Bank comprises several governance bodies with well-defined roles and responsibilities, greater accountability and clear reporting lines. These include the Board, Board committees, Management and Management committees. The Board and Board committees, assisted by consultants where necessary, are responsible for setting strategy, risk appetite, and oversight. Management and Management committees are responsible for executing strategy and driving performance. Strategic business units and support functions are responsible and accountable for conducting operations and assuming risk under the purview of the Management.

Figure 25 on page 76 provides an overview of the governance structure of the Bank.

Governance structure

Figure – 25



Board of Directors

As the highest decision-making authority of the Bank, the Board of Directors is responsible for providing leadership by setting strategic direction and risk appetite and for approving strategies. Under the due diligence and oversight of the Board, Corporate Management is responsible for the day-to-day operations and for implementing an effective system of internal control. Board and the Corporate Management have a clear mutual understanding of their respective roles, delegations and boundaries. Based on trust and respect, the Board and the Management work in a productive and harmonious relationship which is critical for good corporate governance and organisational effectiveness.

The Board comprises 12 Directors who are all eminent professionals in their respective fields with the skills and expertise necessary to constructively challenge the Management and enrich deliberations on matters set before the Board. They understand and appreciate the dynamism and complexity of the Bank's operations, particularly in the wake of emerging global developments threatening to challenge conventional business models. Nine of the Directors are Independent Non-Executive Directors (INEDs), ensuring more autonomy. Directors act in the best interest of the shareholders avoiding any conflicts of interest.

Profiles of Board members including their qualifications, memberships in Board committees and other significant appointments are given on pages 14 to 19. The Company Secretary, Mrs Ranjani Gamage, Attorney-at-Law, whose profile is given on page 19 assists the Board in discharging its responsibilities. Collectively they combine expertise in accounting, banking and finance, economics, engineering, information technology, and law. Having risen to the highest echelons of Government institutions or commercial organisations, they bring their independent judgement to bear on matters reserved for the Board. Bringing together banking, entrepreneurial, investor, and regulatory perspectives, our Board is able to explore matters from diverse points of view to facilitate long-term value creation.

Board process

Based on a schedule of meetings agreed at the beginning of each year, the Board meets at least once a month. If circumstances so require, additional meetings are also convened. Directors regularly attend the meetings and actively participate in deliberations. Details of attendance at Board meetings are given in the Table 11 on page 78. The Chairman is responsible for determining the agenda for the meetings. The agenda is prepared by the Chairman with the assistance of the Company Secretary and the Managing Director/Chief Executive Officer and is circulated to the Directors with the accompanying Board papers one week in advance of the meetings by the Company Secretary. This allows reasonable time for Board members to study and be better prepared for productive deliberations. Urgent Board papers are submitted at short notice or tabled at the meetings on an exceptional basis. Board members too can request items to be included in the agenda for discussion. Board members typically spend at least seven days a month on Board-related matters.

The Board is sufficiently diverse to bring unique perspectives to the boardroom. This has enhanced dynamics and effectiveness, promoting healthy and constructive exchange of views, leaving no room for group think. Minutes of deliberations and decisions made at the meetings are maintained in sufficient detail. Besides the two Executive Directors, other members of the Corporate Management are invited for meetings on a need basis. Members of the Board are allowed to seek independent professional advice, if necessary, at the Bank's expense. The Directors are covered by a Directors' and Officers' Liability Insurance Policy.

Conflicts of interest

Members of the Board avoid any conflict of interest by declaring such interest and withdrawing from taking part in deliberations on/exercising influence over matters where there is conflict of interest or the appearance of conflict of interest. Affiliations and transactions of Directors are regularly reviewed to ensure that there are no conflicts or relationships that might impair Directors' independence. Any banking facilities provided to the Directors are as permitted by the rules and regulations of the CBSL and within the terms and conditions such facilities are provided to the customers of the Bank. Such facilities, if any, are reviewed and recommended by the BCC and are submitted to the Board for approval. Once approved, details of such facilities are tabled at the immediately following meetings of the BRPTRC for information. Directors annually declare their interests and necessary procedures are in place to ensure that there are no conflicts of interest that will compromise independence of the members. The Bank maintains a register of such interests declared which is available for inspection by shareholders or their authorised representatives as required by Section 119 (1) (d) of the Companies Act No. 07 of 2007.

Board meetings

The Board held 16 scheduled meetings during the year of which one meeting was devoted exclusively to deliberations on strategy with all members of Corporate Management being present and another special meeting was held to present future plans of the two nominees for the posts of CEO and COO. 14 meetings were devoted to matters including large and material transactions, review of performance, review of policy frameworks, strategy and risk. Meetings provided an effective forum for discharging the oversight responsibility of the Board.

Playing an active role in strategy formulation, the Board provided clear directions to the Management for the preparation of the Bank's five-year strategic plan. The plan was then reviewed and approved at a meeting convened for the purpose. Board explored and evaluated alternative strategies prior to approval and allocation of resources for execution of same. Board continued to give prominence to the capital management strategy in the wake of the CBSL Direction No. 01 of 2016 which prescribed increased minimum capital ratios under Basel III that was to be fully implemented from January 1, 2019. Performance in relation to the strategic plan is reviewed regularly at the monthly Board meetings with sufficient attention and time devoted to reviewing progress and identifying areas of concern requiring further attention of the Board. Board committees regularly report to the Board on progress made and any concerns identified in relation to specialised areas referred to them for their oversight.

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

Composition of the Board and attendance Table – 11

Composition	No.
Executive Directors	2
Non-Executive Directors	10
Independent Directors	9
Non-Independent Directors	3
Male	11
Female	1
Age – below 50 years	1
Age – above 50 years	11

Name of Director	Age (Years)	Membership			Meeting attendance	
		Status		DOA	Eligible to attend	Attended
Mr K G D D Dheerasinghe *(Chairman)*	67	NED	ID	20.12.2011	16	16
Mr M P Jayawardena *(Deputy Chairman)*	66	NED	ID	28.12.2011	16	15
Mr S Renganathan*	56	ED	NID	17.07.2014	16	16
Mr S Swarnajothi	68	NED	ID	20.08.2012	16	16
Prof A K W Jayawardane	58	NED	ID	21.04.2015	16	15
Mr K Dharmasiri	66	NED	ID	21.07.2015	16	15
Mr L D Niyangoda	62	NED	ID	26.08.2016	16	15
Ms N T M S Cooray	61	NED	ID	19.09.2016	16	16
Mr G S Jadeja	59	NED	NID	19.09.2016	16	11
Mr T L B Hurulle	66	NED	ID	05.04.2017	16	16
Justice K Sripavan	66	NED	ID	26.04.2017	16	15
Mr S C U Manatunge **	48	ED	NID	27.07.2018	08	07
Mr J Durairatnam ***	60	ED	NID	28.04.2012	08	08

** Appointed as the MD/CEO with effect from July 27, 2018*

*** Appointed as Executive Director with effect from July 27, 2018*

**** Former Managing Director/Chief Executive Officer retired on July 26, 2018*

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

Board committees

In order to strengthen governance, the Board has delegated authority to nine Board committees. All the Directors serve in a minimum of two committees. These committees deal with and decide on certain subject-specific and specialised matters. The Board, however, retains responsibility for committee decisions. Four out of five mandatory committees were formed as required by the provisions in the Banking Act Direction No. 11 of 2007, while the Board Related Party Transactions Review Committee was formed in 2014 by early adopting the requirements of the "Code of Best Practice on Related Party Transactions", issued by the Securities and Exchange Commission of Sri Lanka (SEC), which became mandatory from January 1, 2016. The other four voluntary Board committees have been established considering the business, governance and risk management needs of the Bank as permitted by the Bank's Articles of Association. Of the four voluntary Board committees, Board Strategy Development Committee was set up during the year. These committees have been constituted with Board-approved terms of reference, hold regular meetings and proceedings are reported to the Board. During the year, Board committees sought guidance and advice of external consultants on several occasions.

Areas of oversight and responsibility, composition, activities in 2018 and attendance of members at the Board committee meetings are given in the respective Board committee reports on pages 89 to 101.

Executive Management Committee

Executive Management Committee (EMC) comprises the Managing Director/Chief Executive Officer and the Chief Operating Officer who are two Executive Directors and other members of the Corporate Management. Their qualifications and experience are given on pages 84 to 85 under Corporate Management and Profiles. Under the leadership of the Managing Director/Chief Executive Officer, its primary responsibility is to implement the strategy approved by the Board and deliver on the performance objectives while ensuring that the risks undertaken by the Bank are within the risk profile approved by the Board. The EMC lays down policies, makes operational decisions, monitors and manages financial performance, allocates capital, manages risk and solves operational and customer issues. It also reviews and deliberates on information to be submitted to the Board ensuring that all material information is shared with the Board in a timely manner to effectively fulfil their obligations as Directors. The meetings of the EMC provide an opportunity for all members of the Executive Management to gain a 360° view of the Bank's operations.

Names of the members of the Senior Management of the Bank's operations in Sri Lanka, Bangladesh, the Maldives and Myanmar are given on pages 86 to 88.

Other Management committees

In addition to the Board committees and the EMC, several other Management committees have been constituted under delegated authority from the Managing Director/Chief Executive Officer on specific subjects to facilitate decision-making in relation to the execution of the Board-approved strategies.

All the Management committees have approved terms of reference and operate under a structure and process similar to the Board committees. The secretaries of each Committee records minutes of the proceedings which are submitted to the Managing Director/Chief Executive Officer for approval. These committees undertake extensive deliberations, cooperate across departments and debate on matters considered critical for the Bank's operations as described in the Table 12 below.

Other Management committees Table – 12

Management Committee	Purpose and tasks	Composition
Executive Integrated Risk Management Committee (EIRMC)	Monitors and reviews all risk exposures and risk-related policies and procedures affecting credit, market and operational areas in line with the directives from the BIRMC.	Managing Director/Chief Executive Officer, Chief Operating Officer and key members of the Risk Management, Personal Banking, Corporate Banking, Treasury, Inspection, Compliance, and Finance Departments.
Assets and Liabilities Committee (ALCO)	Optimises the Bank's economic goals whilst maintaining liquidity and market risk within the Bank's predetermined risk appetite.	Managing Director/Chief Executive Officer, Chief Operating Officer and key members of the Treasury, Corporate Banking, Personal Banking, Integrated Risk Management, and Finance Departments.
Credit Policy Committee (CPC)	Reviews and approves credit policies and procedures pertaining to the effective management of all credit portfolios within the lending strategy of the Bank.	Managing Director/Chief Executive Officer, Chief Operating Officer and key members of the Corporate Banking, Personal Banking, Integrated Risk Management, Inspection, Credit Supervision and Recoveries, and Branch Credit Monitoring Departments.
Executive Committee on Monitoring NPAs (ECMN)	Reviews and monitors the Bank's Non-Performing Advances (NPAs) above a predetermined threshold to initiate timely corrective actions to prevent/reduce credit losses to the Bank.	Managing Director/Chief Executive Officer, Chief Operating Officer and key members of the Corporate Banking, Personal Banking, Credit Supervision and Recoveries, and Integrated Risk Management Departments.
Business Continuity Management Steering Committee (BCMSC)	Directs, guides, and oversees the activities of the Business Continuity Plan of the Bank in accordance with the Bank's strategy.	Key members of the Bank's Corporate Management covering all business lines.
Information Security Council (ISC)	Focuses continuously on meeting the information security objectives and requirements of the Bank in line with emerging technology and Bank Strategy.	Key members of the Integrated Risk Management, Information Systems Audit, Operations, and IT Departments.
Investment Committee (IC)	Oversees investment activities by providing guidance to the management on significant investment decisions and reviews performance.	Managing Director/Chief Executive Officer, Chief Operating Officer and key members of the Investment Banking, Treasury, and Finance Departments.
Human Resources Steering Committee (HRSC)	Setting guidelines and policies on any matter that may affect the Human Resource Management of the Bank and make recommendations on policy matter to the BHRRC and/or address any issues that may need to be reviewed at Board level.	Managing Director/Chief Executive Officer, Chief Operating Officer, Deputy General Manager – Human Resource Management, Deputy General Manager – Personal Banking, Deputy General Manager – Corporate Banking and Chief Financial Officer.

Board roles and responsibilities

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

Roles, responsibilities and powers of the Board

Role of the Board

- To represent and serve interests of shareholders by overseeing and appraising the Bank's strategies, policies and performance
- To provide leadership and guidance to the Management for the execution of strategies
- To optimise performance and build sustainable value for shareholders in accordance with the regulatory framework and internal policies
- To establish an appropriate governance framework
- To ensure regulators are apprised of the Bank's performance and any major developments

Key responsibilities

- Selecting, appointing, and evaluating the performance of the Managing Director/ Chief Executive Officer
- Setting strategic direction and monitoring its effective implementation
- Establishing systems of risk management, internal control, and compliance
- Ensuring the integrity of the financial reporting process
- Developing a suitable corporate governance structure, policies and framework
- Strengthening the safety and soundness of the Bank
- Appointing and overseeing the External Auditors' Responsibilities
- Approving interim and annual Financial Statements for publication

Powers reserved for the Board

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

Board's role in risk management

The Board is responsible for implementing an effective risk management function in the Bank. Accordingly, the Board with the support of the BIRMC has devised an effective risk management framework, set the risk appetite and tolerance limits and monitor the risk profile on a regular basis through risk reports submitted to it. Risk management was an integral part of the Board and committee deliberations throughout the year. Clarifications were sought from the Management for any deviations from the agreed risk profile and necessary guidance was given taking mitigatory action. Risks related to the business strategies were carefully reviewed at the special Board meeting held to deliberate on the strategic plan.

A synopsis of the important matters deliberated and decided upon by the Board during the year 2018 is given below:

Roles of Chairman and CEO

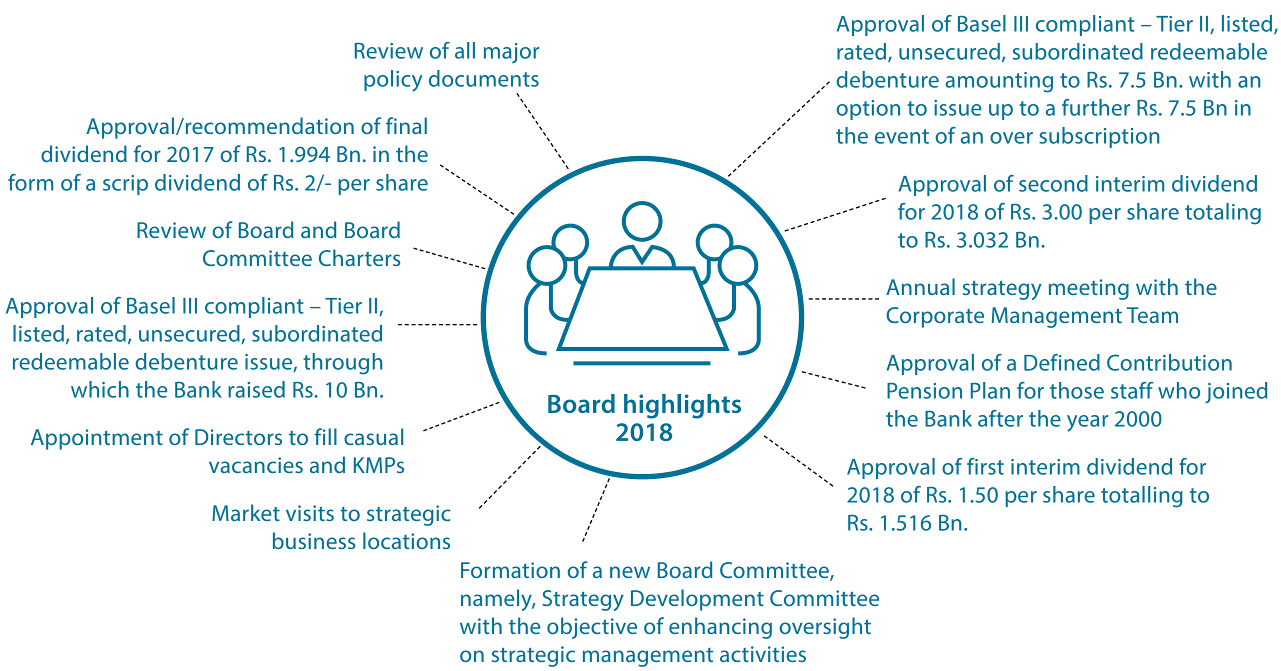
In line with best practice in Corporate Governance, the positions of Chairman and CEO are separate, facilitating balance of power and authority. The Chairman is a Non-Executive Independent Director while the CEO is an Executive Director appointed by the Board. Their respective roles are clearly set out in an approved Board paper and in the Board Charter.

Clear and effective separation of accountability and responsibility as set out in the said Board paper and the Board Charter has made the role of the Chairman distinctive. 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 by the Board in discharging its responsibilities. He also ensures the effective participation of all Directors in Board deliberations and maintains open lines of communication with Key Management Personnel (KMPs), acting as a sound Board on strategic and operational matters.

The CEO's role as set out in the Board Charter is to conduct the management functions as directed by the Board. Corporate objectives for the CEO and boundaries of his authority are set by the Board while his duties and responsibilities are jointly developed. The CEO leads the Management team in the day-to-day operations and implements strategies, plans, and budgets approved by the Board. The CEO conducts the affairs of the Group upholding good corporate governance and the highest standards of integrity and probity as established by the Board.

The Chairman and the Managing Director/ Chief Executive Officer, meet from time to time in between Board meetings to set Board agenda, to discuss current and future developments and any material issues impacting the Bank.

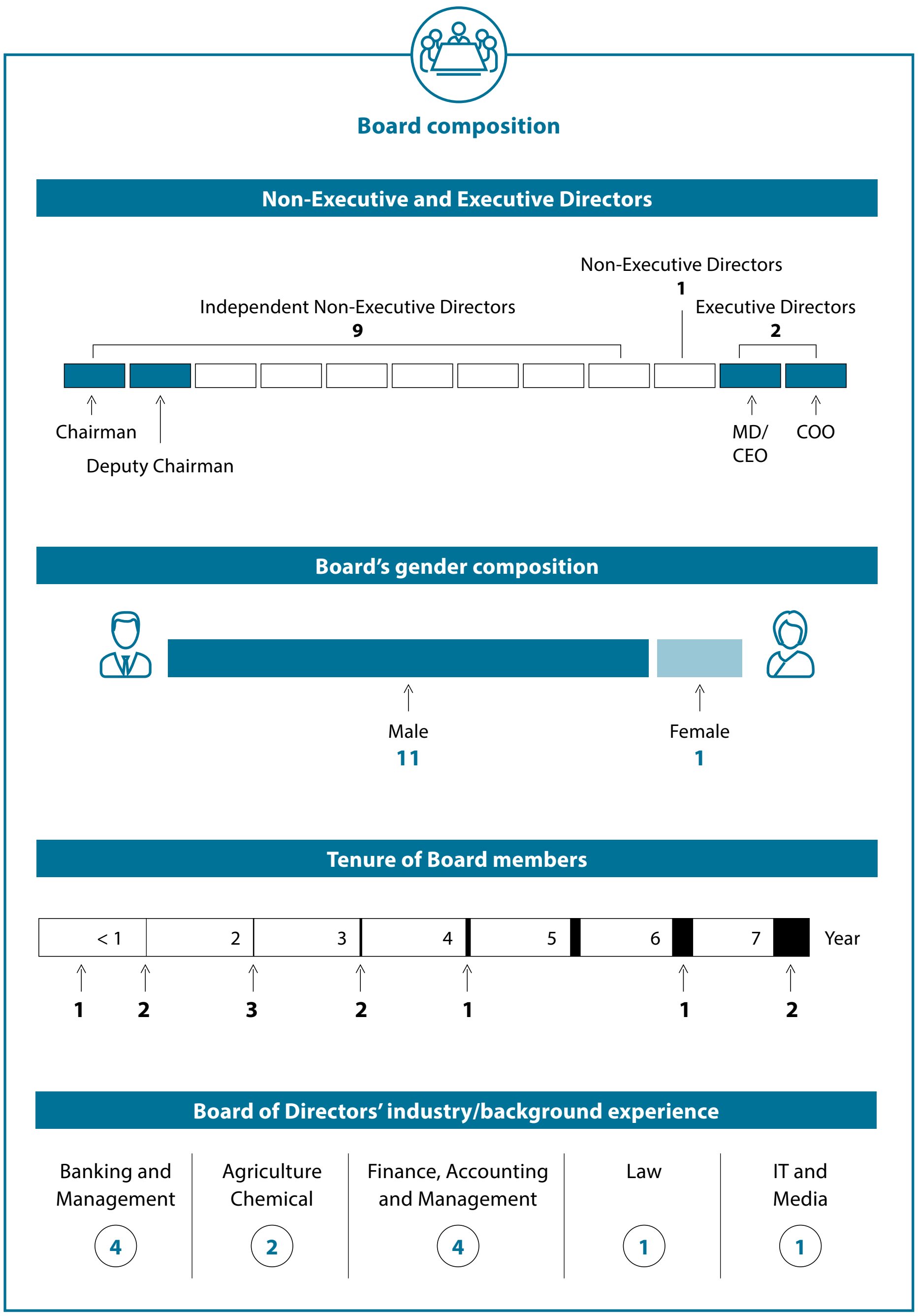
Board highlights 2018 Figure – 26



Role of Independent Non-Executive Directors

With nine of the 12 Directors being independent Directors, the Bank has a strong element of independence on the Board. Directorships constitute the only connection of the independent Directors with the Bank and therefore their judgement is unlikely to be influenced by external considerations. Independent Non-Executive Directors are expected to complement the skills and experience of the other members of the Board by bringing an objective and independent view on matters, challenging the Board and the Management constructively using their expertise and assisting in providing guidance on strategy.

Board composition Figure – 27



Role of the Company Secretary

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

- Ensuring conduct of the Board and General Meetings in accordance with the Articles of Association, the Board Charter, and relevant legislation;
- Maintaining statutory registers;
- Communicating promptly with the regulators and shareholders and filing statutory returns in time;
- Facilitating best practice of Corporate Governance including assisting the Directors with respect to their duties and responsibilities;
- Facilitating access to legal and independent professional advice in consultation with the Board, where necessary;
- Keeping the electronic support system and the Induction Pack for Directors up to date.

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

Appointment of Directors

Bank follows a formal and transparent procedure formulated by the BNC for nomination of candidates for appointment as Directors. The BNC having evaluated the resumes of potential candidates makes its recommendation to the Board for consideration as Non-Executive Directors. Such nominations may include an interview with the candidate. The appointment of new Directors is based on an annual assessment of the combined knowledge, experience, and diversity of the Board in relation to the Bank's strategic plans in order to identify additional perspectives to ensure its effectiveness at all times.

Executive Directors are appointed through a similar process except that candidates are selected from amongst the KMPs of the Bank.

Appointments of new Directors are promptly communicated to the CSE through announcements subsequent to obtaining approval from the CBSL for Fitness and Propriety. The communications typically include a brief résumé of the Director, relevant expertise, key appointments, shareholding and status of independence.

In July 2018, Mr S Renganathan was appointed as the Managing Director/Chief Executive Officer in place of the retiring Managing Director/Chief Executive Officer, Mr J Durairatnam. Mr S C U Manatunge who succeeded Mr S Renganathan as the COO, was appointed as an Executive Director.

Re-election of Directors

The two longest serving NEDs offer themselves for re-election at each Annual General Meeting (AGM) in rotation with the period of service being considered from the last date of re-election or appointment. If there are more than two Directors who qualify for re-election, the Directors may decide amongst themselves or draw lots to determine the Directors who will offer themselves for re-election. If a Director has been appointed as a result of a casual vacancy that has arisen since the previous AGM, that Director will offer himself/herself for re-election at the immediately succeeding AGM. Mr K G D D Dheerasinghe and Prof A K W Jayawardane, the two longest serving Directors since last re-election will be seeking re-election at the next AGM to be held on March 28, 2019.

Induction and training of Directors

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

Remuneration and Benefits Policy

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

Directors' and Executive remuneration

The BHRRC is responsible for making recommendations to the Board regarding the remuneration of Executive Directors. This vital committee comprises entirely of NEDs who also meet the criteria for independence as set out in the relevant regulations on corporate governance. They consult the Chairman and the CEO regarding the same and also seek professional advice whenever it is deemed necessary. Remuneration for NEDs is set by the Board as a whole. Remuneration for Executive Directors is set out with reference to the Remuneration and Benefit Policy. These processes ensure that no individual Director is involved in determining his or her own remuneration. The Board and the BHRRC engage the services of HR professionals on a regular basis to assist in the discharge of their duties in this regard.

The level and make up of remuneration

BHRRC is responsible to ensure that the remuneration of both Executive Directors and NEDs is sufficient to attract eminent professionals to the Board and retain them for driving the performance of the Bank. Bank has remuneration policies to determine remuneration and benefits of the Executive Directors and KMP which are attractive, motivating and capable of retaining high performing, qualified, and experienced employees at the Bank.

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

Guaranteed remuneration comprises the monthly salary and allowances which is determined with due reference to the qualifications, experience, levels of competencies, skills, roles, and responsibilities of each employee. These are reviewed on an annual basis and adjusted for such factors as promotions, performance and inflation. The annual performance bonus is determined with reference to a multi-layered performance criteria matrix which is clearly communicated to the relevant categories of employees at the beginning of the year. Details of the ESOPs and the eligibility criteria are given in Notes 53.2 and 54 to the Financial Statements on "Share-based Payment" on pages 294 and 295 respectively.

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

Board and Board Committee evaluations

The Board and Board committees annually appraise their own performance to ensure that they are discharging their responsibilities satisfactorily in accordance with the Board Charter which includes the responsibilities set out in the Banking Act Direction No. 11 of 2007 and other applicable regulations and codes on corporate governance. This process requires each Director to fill a Board Performance Evaluation Form which incorporates all criteria specified in the Board Performance Evaluation Checklist of the Governance Code. The responses are collated by the Company Secretary and submitted to the BNC to be discussed at a Board meeting. Board evaluations for 2017 and 2018 were taken up at the January 2018 and 2019 Board meetings, respectively.

Appraisal of the CEO

Assisted by the BHRRC, the Board as a whole assesses the performance of the CEO on an annual basis, based on criteria agreed with the CEO at the beginning of the year while taking into account the changes in operating environment. The Chairman discusses the evaluation with the CEO and provides him with formal and informal feedback. CEO's responses to the appraisal are given due consideration prior to same being approved. This exercise is finalised within four months from the financial year end.

Shareholder engagement and voting

The Bank recognises that the engagement with shareholders and potential investors is part and parcel of good corporate governance and has a structured process in place to facilitate same. Provision of meaningful information to the shareholders on a timely basis plays an important role in this regard. Accordingly, a Shareholder Communication Policy is in place to ensure that there is effective and timely communication of material matters to shareholders. The Bank maintains a number of information channels with the shareholders which includes the Annual Report, Annual and General Meetings, Interim Financial Statements, Announcements to the CSE, press releases, Bank's website, shareholder surveys as well as the Investor Feedback form in the Annual Report. Shareholders were notified of quarterly results, dividend declarations, retirement of the former CEO and the appointments of the present CEO and the new COO as Directors, through announcements made to the CSE and the media. The Bank's website also has an area dedicated to investors which includes Interim Financial Statements and Annual Reports with the most recent report being offered in both a PDF format as well as an interactive format to facilitate readability. The Interactive Report also has a tab for investor feedback.

Shareholders are encouraged to participate at the AGMs and exercise their votes. They play a key role in the re-election of Directors and the External Auditor and vote on material matters including the adoption of the Annual Report and Accounts. A total of 210 Voting and 101 Non-Voting shareholders attended the Annual General Meeting held on March 28, 2018 while a further 107 Voting shareholders exercised their right to vote through proxy.

Governance

Corporate Management and Profiles

01. S Renganathan
Managing Director/Chief Executive Officer

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

38 years in Banking

02. Sanath Manatunge
Chief Operating Officer

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

29 years in Banking

03. Nandika Buddhipala
Chief Financial Officer

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

28 years post-qualifying experience including 11 years in Banking

04. Isuru Tillakawardena
Deputy General Manager – Human Resource Management

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

28 years of experience including 9 years in Banking

05. Hasrath Munasinghe
Deputy General Manager – Marketing

FCIM/FSLIM/MSc in IT (University of Moratuwa)/ MBA (University of Southern Queensland, Aus)/ Postgraduate Diploma in Marketing (CIM, UK)/CMA (ICMA, Aus)/AIB (IBSL)/PGDBFA (ICASL)/CPM (APMF, Sing), GSLID (SLID) Certificate in Risk (CISI, UK)

25 years in Marketing including 8 years in Banking

06. Mrs Sandra Walgama
Deputy General Manager – Personal Banking

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

39 years in Banking

07. Prins Perera
Deputy General Manager – Treasury

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

29 years in Banking

08. Naveen Sooriyaarchchi
Deputy General Manager – Corporate Banking

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

38 years in Banking

09. Krishan Gamage
Assistant General Manager – Information Technology

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

20 years experience in Information Technology including 12 years in Banking

10. Prasanna Indrajith
Assistant General Manager – Finance

FCA/FCCA (UK)/FCMA (SL)/AIB(SL)/BSc BAd (Special) (University of Sri Jayewardenepura)

24 years experience in Finance-related fields including 22 years in Banking

11. Chinthaka Dharmasena
Assistant General Manager – Services

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

18 years of experience in Manufacturing and Supply Chain Management and 7 years in Banking

12. Selva Rajasooriyar
Assistant General Manager – Compliance

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

38 years in Banking

13. S Prabagar
Assistant General Manager – Operations

MBA (University of London), AIB (SL)/BCom (Bharathidasan University, India)/DISSCA (Diploma in System Security and Control Audit – CA Sri Lanka)/CISA (Certified Information Systems Auditor – USA pending certification)

23 years in Banking

14. Asela Wijesiriwardane
Assistant General Manager – Treasury

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

22 years in Banking

15. Priyantha De Silva
Assistant General Manager – Credit Supervision and Recoveries

AIB (SL)/CIMA-Finalist

38 years in Banking

16. B A H S Preena
Assistant General Manager – Corporate and Trade Services

MBA (University of Colombo)/AIB (SL)

31 years in Banking

17. Delakshan Hettiarachchi
Assistant General Manager – Personal Banking I/SME

MBA (Cardiff Metropolitan University)/AIB (SL)

35 years in Banking

18. Kapila Hettihamu
Chief Risk Officer

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

23 years in Banking

19. John Premanath
Assistant General Manager – Management Audit

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

28 years in Banking

20. Mrs Mithila Shamini
Assistant General Manager – Personal Banking II

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

32 years in Banking

21. 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)

29 years in Banking

22. Mrs Dharshanie Perera
Assistant General Manager – Personal Banking III

AIB (SL)

34 years in Banking

23. Ms Tamara Bernard
Assistant General Manager – Corporate and Investment Banking

AIB (SL)/MDS (University of Colombo)/MBA (University of Sri Jayewardenepura)

29 years in Banking

Governance

Senior Management

Corporate Banking


Sidath Pananwala
Head of Corporate Banking


Kelum Amarasinghe
Head of Foreign Operations and Travels


Dr Shanthikumar Fernando
Chief Manager – Research and Development


Mahinda Wijeratne
Chief Manager – Offshore Banking Centre


Feroza Ameen
Chief Manager – Islamic Banking


Dilrukshi Nanayakkara
Chief Manager – Corporate Banking


Sushara Vidyasagara
Chief Manager – Investment Banking


Prasad Fernando
Chief Manager – Imports


Lawrian Somanader
Chief Manager – Exports

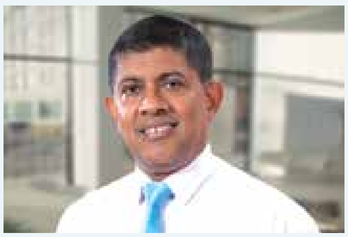
Personal Banking


Yasmin Weerasuriya
Senior Regional Manager – Greater Colombo


Saneth Jayasundara
Regional Manager – Central


Amal Alles
Regional Manager – Colombo Metro


S Ganeshan
Regional Manager – Colombo Inner


S B Wasala
Regional Manager – Colombo Outer


Sanath Perera
Regional Manager – Colombo North


Dharshanee Keerthirathne
Regional Manager – Colombo South

Support Services


Vajira Thotagammana
Head of Information Technology


Amitha De S Munasinghe
Head of Central Systems Support


Ajith Naranpanawe
Head of Inspection
(Since retired)


Saman Kalansuriya
Head of Retail Lending


Thusitha Suraweera
Head of Card Centre


Sujeeva Ranasinghe
Head of Human Resource Management


Priyanthi Perera
Head of Operations


Pradeep Banduwansa
Head of Digital Banking


Namal Gamage
Head of Legal


Thayalan Gnanapragasam
Chief Manager – Central Administration and Staff Advances


Sampath Weerasuriya
Chief Manager – Security and Safety


Ranjani Gamage
Company Secretary


Tilak Wakista
Chief Manager – Premises


Nalin Samaranayake
Chief Manager – Recoveries


Pushpa Chandrasiri
Chief Manager –
Human Resource Development


Upulani Gunapala
Chief Manager – ALM/Compliance


Sanath Elpitiya
Chief Manager – Retail Deposits and Delivery Channels

Treasury

Chandrima Leelaratne
Chief Manager – Treasury Processing

Tivanka Damunupola
Chief Dealer

Bangladesh Operation

Varuna Kolamunna
Country Manager

D Das Gupta
Senior General Manager

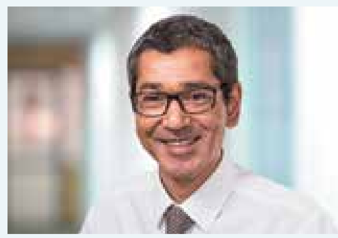
Najith Meewanage
Chief Operating Officer

A K Nandy
Senior Deputy General Manager – Chittagong

Binoy Gopal Roy
Deputy General Manager – Finance and Accounts

Mostafa Anowar Sohel
Senior Assistant General Manager – Human Resources

Shakir Khusru
Assistant General Manager – Personal Banking



Shakeel Imdadul Islam
Assistant General Manager – Corporate Banking

Maldivian Operation

Dilan Rajapakse
Managing Director – Commercial Bank of Maldives Private Limited

Myanmar Operation

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

Board Committee Reports

Board Audit Committee Report

Composition of the Committee

Board Audit Committee (the BAC) consists of following members whose profiles are given on pages 14 to 19.

Board members

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

Regular attendees by invitation

Mr S Renganathan
(Managing Director/Chief Executive Officer) Appointed w.e.f. July 27, 2018. (Attended six meetings as Chief Operating Officer up to July 26, 2018)
Mr J Durairatnam
(Managing Director/Chief Executive Officer) Retired w.e.f. July 26, 2018
Mr S C U Manatunge
(Director/Chief Operating Officer) Appointed w.e.f. July 27, 2018
Mr K D N Buddhipala *(Chief Financial Officer)*
Mr V S Rajasooriyar
(Assistant General Manager – Compliance)
Mr S K K Hettihamu *(Chief Risk Officer)*
Mr J Premanath *(Assistant General Manager – Management Audit)*
Mr Reyaz Mihular
(Senior practicing Chartered Accountant appointed as Consultant to BAC w.e.f. October 08, 2018 and invited to attend meetings)

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

**Independent Non-Executive Director*

Attendance at Meetings

Name	Eligible to attend/ Attended
Mr S Swarnajothi	10/10
Prof A K W Jayawardane	10/08
Mr K Dharmasiri	10/10
Ms N T M S Cooray	10/09
Justice K Sripavan	10/10
Mr S Renganathan	10/10
Mr J Durairatnam	06/06
Mr S C U Manatunge	04/04

The Committee held ten (10) meetings during the financial year ended December 31, 2018. The proceedings of these meetings with adequate details of matters discussed are regularly reported to the Board.

Representatives of the Bank's External Auditors, Messrs Ernst & Young also participated in five (5) meetings by invitation, with their appointment during the year 2018. The Committee also invited members of the Senior Management of the Bank to participate in the meetings from time to time on a need basis.

Committee continuously monitored the progress of the implementation of SLFRS 9 which became effective from January 2018.

Charter of the Committee

The Charter of the BAC approved by the Board, clearly defines the Terms of Reference of the Committee and is annually reviewed to ensure that new developments relating to the Committee's functions are addressed. The Charter of the Committee was last reviewed and approved by the Board in November, 2018.

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

The Banking Act Direction No. 11 of 2007 on "Corporate Governance for Licensed Commercial Banks in Sri Lanka" and its subsequent amendments (hereinafter referred to as the Direction), "Rules on Corporate Governance under Listing Rules of the CSE" and "Code of Best Practice on Corporate Governance", issued by CA Sri Lanka further regulate the composition, roles, and functions of the Committee.

The Committee is empowered by the Board to:

- Ensure that financial reporting system in place are effective and well managed in order to provide accurate, appropriate and timely information to the Board, Regulatory Authorities, the Management, and other stakeholders.
- Review the appropriateness of accounting policies, ensure adherence to statutory and regulatory compliance requirements as well as applicable accounting standards.
- Ensure that the Bank adopts and adheres to high standards of Corporate Governance practices, conforming to the highest ethical standards and good industry practices in the best interests of all stakeholders.
- Evaluate the adequacy, efficiency and effectiveness of risk management measures, internal controls and governance processes in place to avoid, mitigate, or transfer current and evolving risks.
- Monitor all aspects of internal and external audit and inspection programmes of the Bank and review Internal and External Audit Reports for follow up with the Management on their findings and recommendations.
- Review the Interim Financial Statements and Annual Financial Statements of the Bank in order to monitor the integrity of such statements prepared for disclosure, prior to submission to the Board.

Activities in 2018

Reporting of financial position and performance

The Committee assisted the Board in its oversight on the preparation of Financial Statements to evidence a true and fair view on financial position and performance. This process is based on the Bank's accounting records and in accordance with the stipulated requirements of the Sri Lanka Accounting Standards. In fulfilling its oversight responsibilities, the Committee reviewed and discussed the Interim and Consolidated Financial Statements, including the acceptability of the accounting principles, reasonableness of significant estimates and judgements.

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

Progress of implementation of SLFRS 9

The Committee continuously monitored the progress of implementation of SLFRS 9 as per the requirements of Sri Lanka Accounting Standard – SLFRS 9 on "Financial Instruments" (SLFRS 9) that became effective in the preparation of Financial Statements from January 1, 2018.

Accordingly, the Committee reviewed and discussed the following:

- Development of relevant accounting policies and impairment methodology documentation
- Classification of all assets and measurement in line with the Bank's business model and product characteristics
- Development of Expected Credit Loss (ECL) models using forward looking information for computation of impairment which replaces the incurred loss model under LKAS 39
- First day impact and impact to the Capital Adequacy Ratios

Implementation of Basel III

The Committee reviewed the progress in implementation of Basel III Direction No. 01 of 2016 issued by the Central Bank of Sri Lanka (CBSL) which was effective from July 1, 2017. Bank has fully complied with the requirements of the aforesaid Direction and submitted returns under Basel III guidelines.

Committee reviewed the progress of computation for "Operational Risk" under "The Standardised Approach" and "Alternative Standardised Approach" as per requirement in the CBSL guidelines.

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 2017, as per the Section 10 of Banking Act Direction No. 01 of 2016 on "Regulatory Framework on Supervisory Review Process".

Oversight on regulatory compliance

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

Identification of risks and control measures

The Bank has adopted a risk-based audit approach to assess the effectiveness of internal control procedures in place to identify and manage all significant risks reviewed by the Committee. The risk rating of branches and certain business units of the Bank has been reviewed to capture current risk profiles of such business units while providing insight to emerging and potential risks. Reviewed Risk Rating Methodology had been approved by the Committee during the year 2018 and adopted for assessing and measuring risks identified during audit assignments carried out by the inspection function. The Committee seeks and obtains the required assurances from the Management/Business Units on the remedial action in respect of the identified risks to maintain the effectiveness of internal control procedures.

Internal audit and inspection

The Committee ensured that the internal audit function is independent of the activities it audited and that it was performed with impartiality, proficiency and due professional care.

The Committee approved the Programme of Inspection formulated by the Inspection Department and the Information Systems Audit Unit (ISAU) and reviewed its progress of implementation regularly.

The Bank's Inspection Department carried out, online and on-site inspections of local business units including subsidiaries and overseas operations. With the concurrence of the Board, the Bank continued to engage the services of four (4) firms of Chartered Accountants approved by the CBSL in order to supplement Bank's Inspection Department in carrying out inspection assignments.

ISAU conducted on-site/off-site audits including monitoring through system-based Audit Tools, reviews of change management activities and verification of compliance with industry standards such as ISO 27001:2013/PCI-DSS/Baseline Security Standards (BSS) to ensure safeguarding IT assets of the Bank, subsidiaries and overseas operations. The Committee reviewed reports submitted by ISAU.

Six hundred and thirty nine (639) inspection reports on Business Units and Departments including subsidiaries and overseas operations received the attention of the Committee and the operational deficiencies, risks highlighted and the recommendations were given due attention.

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

The Committee evaluated the Internal Audit Function covering key areas such as scope, quality of internal audits, independence, and resources.

Members of the Committee visited some of the branches during the year 2018 to get a better understanding of branch operations.

External audit

With regard to the external audit function of the Bank, the role played by the Committee is as follows:

- Assisting the Board in engaging External Auditors for audit services, in compliance with the provisions of the Direction and agree on their remuneration with the approval of the shareholders.
- Monitoring and evaluating the independence, objectivity and effectiveness of External Auditor.
- Reviewing non-audit services provided by the Auditors, with a view to ensuring that such functions do not fall within the restricted services and provision of such services will not impair the External Auditors' independence and objectivity.

- Discussing the audit plan, scope and the methodology proposed to be adopted in conducting the audit with the Auditors prior to commencement of the annual audit.
- Discussing all relevant matters arising from the interim and final audits, and any matters the Auditor may wish to discuss, including matters that may need to be discussed in the absence of KMP.
- Reviewing the External Auditors' Management Letter and the Management's responses thereto.

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

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

The members of the Committee evaluated the Bank's former External Auditor Messrs KPMG covering key areas such as scope and delivery of audit, resources, and quality assurance initiatives, during the year 2018.

Mechanism of internal controls relating to financial reporting

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

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

In addition, the Committee regularly monitored all exceptional items charged to the income statement, long outstanding items in the Bank's chart of accounts, credit quality, risk management procedures and adherence to classification of non-performing loans and provisioning requirements specified by the CBSL. The Committee also reviewed the credit monitoring and follows-up procedures and the Internal Control Procedures in place to ensure that necessary control and mitigatory measures are available in respect of newly-identified risks.

Ethics and good governance

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

Sri Lanka Accounting Standards

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

Evaluation of the Committee

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

S Swarnajothi
Chairman – Board Audit Committee

Colombo
February 22, 2019

Board Integrated Risk Management Committee Report

Composition of the Committee

Board Integrated Risk Management Committee (the BIRMC) consists of following Board members, whose profiles are given on pages 14 to 19.

Board members

- Mr M P Jayawardena* *(Chairman)*
- Mr S Renganathan *(Managing Director/Chief Executive Officer) Appointed w.e.f. July 30, 2018*
- Mr J Durairatnam *Retired w.e.f. July 26, 2018*
- Mr S Swarnajothi* *(Director)*
- Mr K Dharmasiri* *(Director)*
- Mr L D Niyangoda* *(Director)*
- Mr T L B Hurulle* *(Director)*

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

Regular attendees by invitation

- Mr S C U Manatunge *(Director/Chief Operating Officer) Appointed w.e.f. July 30, 2018*
- Mr V S Rajasooriyar *(Compliance Officer)*
- Mr K S A Gamage *(Assistant General Manager – Information Technology)*

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

**Independent Non-Executive Director*

Attendance at Meetings

Name	Eligible to attend/ Attended
Mr M P Jayawardena	05/05
Mr S Renganathan	05/05
Mr J Durairatnam	03/03
Mr S Swarnajothi	05/05
Mr K Dharmasiri	05/05
Mr L D Niyangoda	05/04
Mr T L B Hurulle	05/05
Mr S C U Manatunge	02/02

During the year under review, BIRMC held four (4) meetings on a quarterly basis and one additional meeting specifically to discuss and recommend Internal Capital Adequacy Assessment Process (ICAAP) as at December 31, 2017. The proceedings of the Committee meetings are reported to the Board of Directors.

Range of risk issues deliberated for the Group during 2018 included strategic growth, market and price volatility, operational performances, competition, compliance, and emerging trends.

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 2018, and clearly sets out the membership, authority, duties and responsibilities of the BIRMC as described in the "Risk Management" section of this report on pages 115 to 139.

The BIRMC assists the Board of Directors in fulfilling its responsibilities for overseeing the Bank's risk management framework and activities, including the review of major risk exposures and the steps taken to monitor and control those exposures pertaining to the myriad of risks faced by the Bank in its business operations. Duties of the BIRMC include determining the adequacy and effectiveness of such measures, and to ensure that the actual overall risk profile of the Bank conforms to the desirable risk profile of the Bank, as defined by the Board.

All key risks such as credit, operational, market, liquidity, information technology, strategic, etc. are assessed by the BIRMC regularly through a set of defined risk indicators. The Committee works closely with KMP 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 2018

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

- 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.
- Approval of parameters and limits set by the Management against various categories of risk upon ascertaining that they are in accordance with the relevant laws and regulations as well as the desired policy levels stipulated by the Board of Directors.
- Reviewed periodic reports from the Management on the metrics used to measure, monitor and manage risks, including acceptable and appropriate levels of risk exposures. The reviews covered movements from inherent to residual risk levels which indicate the progress in implementing controls and assessing the effectiveness of measures for addressing the sources of risk.
- The key risk indicators designed to monitor the level of specific risks were reviewed regularly, with a view of determining the adequacy of such indicators to serve the intended risk management objectives and took proactive measures to control risk exposures. The actual results computed monthly were reviewed against each risk indicator and prompt corrective action was initiated to mitigate the effects of specific risks, in case such risks exceeded the prudent thresholds defined by the Board of Directors.
- Reviewed and revised the Terms of Reference of all Management Committees dealing with specific risks or some aspects of risk, such as the EIRMC, ECMN, CPC, ISC, ALCO, etc. Actions initiated by the Senior Management were monitored periodically to verify the effectiveness of the measures taken by these respective committees.

- Local and global macroeconomic factors were discussed with a view to identify impact of such factor related changes on the banking sector as a whole and the Bank, in order to initiate remedial action in a proactive manner.
- The 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.
- Based on the observations and recommendations of the BIRMC, the existing model used for rating Lending Units on their performance level under credit risk review was revamped and further fine-tuned to highlight risk concerns.
- Reviewed and approved the 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.
- Findings from the biannual Risk Control Self Assessment (RCSA) exercise were reviewed.
- Monitored the effectiveness and the independence of the risk management function within the Bank and ensured the adequacy of resources deployed for this purpose.
- Initiated appropriate action against failures of the risk owners through the Management, in order to improve the overall effectiveness of the risk management of the Bank.
- 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.
- The risk profiles of the subsidiaries of the Bank were monitored through periodic review of key risk indicators and comprehensive annual risk reviews.
- Conducted the annual review of the adequacy of Business Continuity and Disaster Recovery plans of the Bank, in line with the statutory requirements.
- The BIRMC members participated in knowledge enhancing session covering technology risk resilience and anti-money laundering compliance challenges, conducted by the CBSL.

During the year 2018, the BIRMC supported execution of the overall business strategy within a set of prudent risk parameters that are reinforced by an effective risk management framework.

M P Jayawardena
Chairman – Board Integrated Risk Management Committee

Colombo
February 22, 2019

Board Nomination Committee Report

Composition of the Committee

The Board Nomination Committee (the BNC) consists of the following members whose profiles are given on pages 14 to 19.

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

Regular attendees by invitation
- Mr J Durairatnam *(Managing Director/Chief Executive Officer) Retired w.e.f. July 26, 2018*
- Mr S Renganathan *(Managing Director/Chief Executive Officer) Appointed w.e.f. July 30, 2018*

Secretary to the Committee
Mrs Ranjani Gamage *(Company Secretary)*

**Independent Non-Executive Director*

Attendance at Meetings

Name	Eligible to attend/ Attended
Mr K G D D Dheerasinghe	01/01
Mr M P Jayawardena	01/01
Mr S Swarnajothi	01/01
Mr G S Jadeja	01/01
Mr J Durairatnam	01/01
Mr S Renganathan	00/00

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

To hold a meeting there shall be a quorum of three members of the Committee who are Non-Executive Directors of whom at least one should be independent. The Committee shall meet as the need arises. One (01) Committee meeting was held during the year under review. The proceedings of the Committee meetings are regularly reported to the Board of Directors.

Convened a special Board meeting to select and appoint the Managing Director/Chief Executive Officer and Executive Director/Chief Operating Officer for transparency and good governance.

Terms of reference of the Committee

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

Authority of the Committee

- The Committee has the authority to discuss issues under its purview and report back to the Board with recommendations, enabling the Board to take a final decision on the matter.
- The members of the Committee have the authority to express their independent views when making decisions.
- The Committee regularly reviews the structure, size, composition including gender representation and competencies of the Board and makes recommendations to the Board with regard to any changes.
- The Committee recommends to the Board on insurance covers to be taken in respect of all Directors and KMP including indemnity insurance covers.
- If a need arises, professionals from outside may be invited for advice on specific issues.
- Bank staff may be present at Committee meetings for advice or special assignments, on invitation.

Charter of the Committee

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

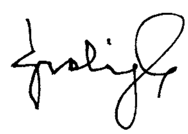
- To implement a procedure to select/appoint new Directors including Chairman, Chief Executive Officer and KMP.
- To consider and recommend (or not recommend) the re-election of current Directors, taking into account the performance and contribution made by them towards the overall discharge of the Board's responsibilities.
- To set the criteria such as qualifications, competencies, experience, independence, conflict of interest and key other attributes required for eligibility to be considered for appointment or promotion to the post of Chief Executive Officer and key management positions.
- To ensure that Directors, Chief Executive Officer and KMP are fit and proper persons to hold office as per the criteria set out in the Companies Act No. 07 of 2007, Direction issued by the CBSL and other relevant statutes.
- To consider and recommend from time to time, the requirements of additional/new expertise and the succession arrangements for retiring Directors and KMP.
- To make recommendations on any other matter/s referred to the Committee by the Board of Directors.

Activities in 2018

During the year the Committee unanimously decided and convened a special Board meeting to select and appoint the Managing Director/Chief Executive Officer and an Executive Director/Chief Operating Officer of the Bank for transparency and good governance instead of a Nomination Committee meeting.

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

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



K G D D Dheerasinghe
Chairman – Board Nomination Committee

Colombo
February 22, 2019

Board Human Resources and Remuneration Committee Report

Composition of the Committee

Board Human Resources and Remuneration Committee (the BHRRC) consists of following members whose profiles are given on pages 14 to 19.

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

Regular attendees by invitation
- Mr J Durairatnam
  (Managing Director/Chief Executive Officer)
  Retired on July 26, 2018
  Participated in all deliberations, except those matters impacting his own terms and conditions of employment
- Mr S Renganathan
  (Managing Director/Chief Executive Officer)
  Appointed w.e.f. July 30, 2018
  Participated in all deliberations after his appointment except those matters impacting his own terms and conditions of employment

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

**Independent Non-Executive Director*

Attendance at Meetings

Name	Eligible to attend/ Attended
Mr K G D D Dheerasinghe	05/05
Mr M P Jayawardena	05/05
Mr S Swarnajothi	05/04
Mr J Durairatnam	03/03
Mr S Renganathan	02/02

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

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

Considering the representations made by employee organisations and deliberations by the Management, a Defined Contributory Pension Scheme was recommended for the staff members who joined the Bank from the year 2000.

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, skills and competencies required, to be considered for appointment or promotion to the post of Managing Director and to key management positions.
- Setting guidelines and policies to ensure that the Bank upholds and adheres to the provisions of the laws of the land particularly those provisions of the Banking Act No. 30 of 1988, including the Directions issued by the Monetary Board/Director of Bank Supervision in accordance with the provisions of such Act.
- Providing guidance and policy direction for relevant matters connected to general areas of human resources management of the Bank.
- Ensuring that the performance-related element of remuneration is designed and tailored to align employee interests with those of the Bank and its main stakeholders and support sustainable growth.
- Structuring remuneration packages to ensure that a significant portion of the remuneration is linked to performance, to promote a pay for performance culture.
- Promoting a culture of regular performance reviews to enable staff to obtain feedback from their superiors in furtherance of achieving their objectives and development goals.
- Developing a robust pipeline of raising talent capable and available to fill key positions in the Bank.

Methodology

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

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

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

Charter of the Committee

Evaluate, assess, decide and recommend to the Board, matters that may affect the Human Resource Management of the Bank specifically;

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

Activities in 2018

During the year, the Committee interviewed, based on the succession plan, suitable candidates to fill the vacancies in the Corporate Management and such recommendations were accordingly approved by the Board of Directors. The changes that took place in the key management positions during the year, and the ability of the Bank to ensure a smooth transition in each of these cases, signify the importance of and the attention paid to the talent management process of the Bank. In all promotions to the Corporate Management grade, the Committee applied previously approved leadership competency framework to judge the suitability of the candidates.

Further, the Committee determined the bonus payable for 2017 performance according to the Variable Pay Plan for executive staff and the grant of annual increments to the executive staff who are not covered by the Collective Agreement. Performance of the members of the Corporate Management during the financial year 2017 including that of Managing Director and Chief Operating Officer were reviewed. At the conclusion of the review process for 2017, the key performance areas and the respective KPIs of the Corporate Management members for 2018 were carefully perused by the Committee and agreed on, subject to changes.

In view of the fresh Collective Agreement signed with the Ceylon Bank Employees' Union (CBEU) for a period of three years with effect from January 2018, salary revisions were effected in the Bank for all executive grades. A salary survey was conducted for the positions of Managing Director/Chief Executive Officer and Chief Operating Officer through external consultants.

The pensions and the outdoor medical scheme for the retired staff members of the Bank, who are entitled to pension under the system which prevailed before year 2000, were also reviewed by the Committee on the recommendation of the Managing Director and the proposal was recommended for the approval of the Board.

The Committee also reviewed, the succession plan prepared by the Management for the Corporate Management positions.

Considering the representations made by employee organisations and deliberations by the Management, it was recommended that staff members who joined the Bank from the year 2000 are to be considered for a Defined Contributory Pension Scheme. The Committee considered the report made by representatives of NDBIB who analysed and recommended the proposal made by Management as an acceptable scheme. The Committee recommended the scheme for approval of the Board of Directors.

The Committee considered the recommendation of the Management for the recomposition of the HR Steering Committee where all Deputy General Manager grade members are to be included to the current composition. The Committee also reviewed the revised Terms of Reference of the HR Steering Committee and recommended same for the approval of the Board of Directors.

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

Colombo
February 22, 2019

Board Related Party Transactions Review Committee Report

Composition of the Committee

Board-Related Party Transactions Review Committee (the BRPTRC) comprised following Independent Non-Executive Directors (in line with the requirements of the Code of Best Practice on Corporate Governance issued by CA Sri Lanka which was issued in December 2017), whose profiles are given on 14 to 19.

Board members

- Justice K Sripavan* *(Chairman)*
  Appointed as Chairman w.e.f. March 28, 2018
- Mr S Swarnajothi* *(Director)*
- Mr L D Niyangoda* *(Director)*
- Mr K G D D Dheerasinghe*
  (Former Chairman of the BRPTRC) Resigned w.e.f. March 28, 2018

Regular attendees by invitation

- Mr S Renganathan
  (Managing Director/Chief Executive Officer)
- Mr J Durairatnam
  (Managing Director/Chief Executive Officer) Retired w.e.f. July 26, 2018
- Mr S C U Manatunge
  (Director/Chief Operating Officer) – Appointed w.e.f. July 30, 2018

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

**Independent Non-Executive Director*

Attendance at Meetings

Name	Eligible to attend/ Attended
Justice K Sripavan	04/04
Mr S Swarnajothi	04/04
Mr L D Niyangoda	04/03
Mr K G D D Dheerasinghe	01/01
Mr S Renganathan	04/04
Mr J Durairatnam	02/02
Mr S C U Manatunge	02/02

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

The RPT policy was reviewed, updated and communicated to those who are responsible for adherence after obtaining the approval of the Board of Directors.

Charter of the Committee

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

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

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

Methodology adopted by the Committee

- Monitoring the systems in place to obtain declarations from all Directors (at the time of joining the Board and annually thereafter) informing the Company Secretary, the primary contact point for Directors, of any existing or potential RPT carried out by them or their Close Family Members (CFM) or any changes to the position already disclosed.
- Monitoring the systems in place to obtain confirmations on any new appointments accepted by Directors of the Bank in other entities as KMP informing the Company Secretary to identify and capture such transactions carried out by the Bank with such entities which need to be disclosed under "Directors Interest in Contracts with the Bank" in the Annual Report.
- Monitoring the systems in place to capture and feed relevant information on RPT which also includes information on KMP and CFM into the Bank's data collection system and the accuracy of such information.

Activities in 2018

During 2018, the RPT Policy was further reviewed and updated. The amended Policy was submitted to the Board and the approval of the Board of Directors was obtained in November 2018. Arrangements were made to disseminate the amended RPTs Policy among relevant stakeholders and also to obtain their acknowledgement that they have understood the applicable regulatory requirements relating to the capturing and reporting of RPT.

Justice K Sripavan
Chairman – Board-Related Party Transactions Review Committee

Colombo
February 22, 2019

Board Credit Committee Report

Composition of the Committee

Board Credit Committee (the BCC) consists of following members whose profiles are given on pages 14 to 19.

Board members

- Mr K G D D Dheerasinghe* *(Chairman)*
- Prof A K W Jayawardane* *(Director)*
- Mr S Renganathan* *(Managing Director/Chief Executive Officer)* –
- Mr J Durairatnam *(Managing Director/Chief Executive Officer) Retired w.e.f. – July 27, 2018*
- Mr S C U Manatunge *(Director/Chief Operating Officer) Appointed w.e.f. – July 30, 2018*

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

**Independent Non-Executive Director*

Attendance at Meetings

Name	Eligible to attend/ Attended
Mr K G D D Dheerasinghe	12/12
Prof A K W Jayawardane	12/12
Mr S Renganathan	12/12
Mr J Durairatnam	07/05
Mr S C U Manatunge	05/05

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

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

Charter of the Committee

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

The Committee is empowered to:

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

Activities in 2018

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

K G D D Dheerasinghe
Chairman – Board Credit Committee

Colombo
February 22, 2019

Board Investment Committee Report

Measures on strengthening the capital structure of the Bank was a key focus area of the Committee.

Composition of the Committee

Board Investment Committee (the BIC) consists of following members whose profiles are given on pages 14 to 19.

Board members

- Mr K G D D Dheerasinghe* *(Chairman)*
- Mr S Renganathan *(Managing Director/Chief Executive Officer) Appointed w.e.f. July 27, 2018*
- Mr J Durairatnam *(Managing Director/Chief Executive Officer) Retired on July 26, 2018*
- Mr K Dharmasiri* *(Director)*
- Mr G S Jadeja *(Director)*
- Mr S C U Manatunge *(Director/Chief Operating Officer) Appointed w.e.f. July 30, 2018*

Regular attendees by invitation

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

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

**Independent Non-Executive Director*

Attendance at Meetings

Name	Eligible to attend/ Attended
Mr K G D D Dheerasinghe	12/12
Mr S Renganathan	12/12
Mr J Durairatnam	06/06
Mr K Dharmasiri	12/12
Mr G S Jadeja	12/08
Mr S C U Manatunge	06/06

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.

Charter of the Committee

The Committee is responsible for the investment-related decisions of the Bank. Hence, the Committee will oversee investment activities by providing assistance and guidance, evaluate strategic relevance and financial viability of various investment proposals, monitoring, the Bank's various investment activities, in accordance with investment policies of the Bank.

Within this framework, the Committee performs the following duties:

- Approve investment proposals, borrowings and execution of agreements.
- Review existing investment portfolio performance, monitor adherence to investment policies and decisions of the Investment Committee.
- Review and recommend significant investment decisions to be undertaken by the Bank to the Board of Directors.
- Review, amend and approve investment policies and operational parameters relating to investments of the Bank.

Methodology adopted by the Committee

The Committee meets monthly and reviews progress of strategic and significant investments, liquidity situation of the Bank, market developments and the country's economic outlook. The Committee also reviews the monthly performance of Treasury and Investment Banking Division, where the interest rate risk, repricing risk and other market risks are discussed.

The Committee from time to time would issue instructions to Executive Officers of the Bank on investment-related activities.

Activities in 2018

- Issuance of Basel III compliant subordinated debt by the Bank to meet its capital adequacy requirements.
- Review of the Bank's Foreign Currency Investment Limit from time to time in alignment with the growth in Foreign Currency balance sheet and investment opportunities.
- Evaluation of business risks associated in Treasury operations with the evolving regulatory framework for Government debt operations in Sri Lanka.
- Evaluate and approve strategic equity investments by the Bank.
- Investment in foreign currency bonds issued by local banks.

K G D D Dheerasinghe
Chairman – Board Investment Committee

Colombo
February 22, 2019

Board Technology Committee Report

This year we focused on customer centricity, operational excellence and IT Governance to drive the Bank to a digital era.

Composition of the Committee

The Board Technology Committee (the BTC) consists of following members whose profiles are given on pages 14 to 19.

Board members

- Prof A K W Jayawardane* *(Chairman)*
- Mr S Renganathan* *(Managing Director/Chief Executive Officer)*
- Mr J Durairatnam* *(Managing Director/Chief Executive Officer) Retired w.e.f. July 26, 2018*
- Mr T L B Hurulle * *(Director)*
- Mr K Dharmasiri* *(Director) Appointed w.e.f. March 28, 2018*
- Mr S C U Manatunge *(Director/Chief Operating Officer) Appointed w.e.f. July 30, 2018*
- Ms N T M S Cooray* *(Director) Resigned w.e.f. March 28, 2018*

Regular attendees by invitation

- Mr L H Munasinghe *(Deputy General Manager – Marketing)*
- Mr D B Saparamadu *(Consultant)*
- Mr U K P Banduwansa *(Head of Digital Banking)*

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

**Independent Non-Executive Director*

Attendance at Meetings

Name	Eligible to attend/ Attended
Prof A K W Jayawardane	04/04
Mr S Renganathan	04/04
Mr J Durairatnam	02/02
Mr T L B Hurulle	04/04
Mr K Dharmasiri	03/03
Mr S C U Manatunge	02/02
Ms N T M S Cooray	01/00

The committee held four (4) meetings during 2018. The proceedings of the committee meetings were regularly reported to the Board of Directors.

Charter of the Committee

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

The Committee has been empowered to:

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

Activities in 2018

Committee is focused on improving the following areas, which will be key components that will drive the Bank to a digital era.

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

- Widen the cash depositing facility by extending cash recycle machine and cash deposit machine.
- Enhance customer experience by implementing cheque deposit machines.
- Electronic Fund Transfer to enhance customer transaction efficiency.

Adopting Disruptive Technologies to create a new market and value network to enhance customer experience and convenience.

- Establish Business Analytic Unit to support business decisions.
- Adopt Artificial Intelligence (AI) and Machine Learning (ML) technology for increased personalised customer service.

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

- Infrastructure upgrade along with main system upgrade with increased availability and Disaster Recovery.
- High availability architecture to improve service uptime.
- Implement voucher scanning process for branches to save time and increase accuracy.

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

- Enhance security infrastructure with professional reviews.
- Payment Card Industry Data Security Standards (PCIDSS) Certified to ensure that Bank accept, process, store, or transmit credit card information and maintain a secure environment.
- Project Management tool implementation.

The Committee also reviewed significant items for procurement and recommended them for approval by the Board of Directors.

Prof A K W Jayawardane
Chairman – *Board Technology Committee*

Colombo
February 22, 2019

Board Strategy Development Committee Report

The Committee deliberated various strategies to enhance the Bank's performance to the highest level.

Composition of the Committee

The Board Strategy Development Committee (the BSDC) consists of following members whose profiles are given on pages 14 to 19.

Board members

- Mr K G D D Dheerasinghe* *(Chairman)*
- Mr M P Jayawardena* *(Deputy Chairman)*
- Mr S Renganathan** *(Managing Director/Chief Executive Officer)*
- Prof A K W Jayawardane* *(Director)*
- Mr K Dharmasiri* *(Director)*
- Mr L D Niyangoda* *(Director)*
- Mr G S Jadeja*** *(Director)*

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

**Independent Non-Executive Director and appointed w.e.f. August 2, 2018*
*** Appointed w.e.f. August 2, 2018*
**** Appointed w.e.f. December 19, 2018*

Attendance at Meetings

Name	Eligible to attend/ Attended
Mr K G D D Dheerasinghe	05/05
Mr M P Jayawardena	05/05
Mr S Renganathan	05/05
Prof A K W Jayawardane	05/05
Mr K Dharmasiri	05/05
Mr L D Niyangoda	05/03
Mr G S Jadeja	00/00

The Committee had five (5) meetings since its establishment in August 2018. The proceedings of the committee meetings were regularly reported to the Board of Directors.

Charter of the Committee

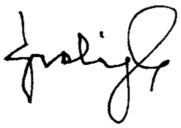
The Committee was formed by the Board in August 2018 to have an overall bank-wide strategic management oversight.

The Committee is empowered:

- To assist the Board in performing its oversight responsibilities relating to the Bank's strategy.
- To advise and monitor the Management on;
  - Defining of business strategies geared for the sustainable development of the Bank; and
  - Establishment of processes for planning, implementing, assessing, and adjusting of the business strategy.
- To oversee the Management's engagement on the strategic perspective, direction, and development of the strategy for the Bank and its business units.
- To oversee the Management's implementation of the approved strategic plan and the progress against strategic milestones and goals.
- To oversee the Management's implementation of major business transformation projects and their execution.
- To engage in detail discussion and provide guidance to the Management on:
  - Whether the governance, risk appetite, financial and capital planning, liquidity and funding management, control environment and resources can 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 2018

The Committee deliberated on various strategy related matters at these meetings and major decisions taken at the Committee meetings were tabled at the subsequent Board meetings for ratification.



K G D D Dheerasinghe
Chairman – Board Strategy Development Committee

Colombo
February 22, 2019

Statement of Compliance

Further to the Annual Report of the Board of Directors on the Affairs of the Company on page 4, given below is the extent of compliance with the requirements of Section 168 of the Companies Act No. 07 of 2007 and other relevant statutes.

Table – 13

	Disclosure requirement	Reference to the relevant statute/rule	Page reference for compliance and other necessary disclosures	Page/s
Mandatory disclosures as required by the Companies Act No. 07 of 2007 and amendments there to (CA)				
1.	The nature of the business of the Group and the Bank together with any changes thereof during the accounting period	Section 168 (1) (a)	Notes to the Financial Statements: Item 1.3: Principal business activities, nature of operations of the Group and ownership by the Bank in its subsidiaries and associates	169 and 170
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, 2018	157 to 353
3.	Auditors' Report on the Financial Statements of the Group and the Bank	Section 168 (1) (c)	Independent Auditors' Report	152 to 154
4.	Accounting Policies of the Group and the Bank and any changes therein	Section 168 (1) (d)	Notes to the Financial Statements: Significant Accounting Policies adopted in the preparation of the Financial Statements of the Group and the Bank	169 to 195
5.	Particulars of the entries made in the Interests Registers of the Bank and its subsidiaries during the accounting period	Section 168 (1) (e)	The Bank and all its Subsidiaries maintain Interests Registers All Directors have made declarations as required by the Sections 192 (1) and (2) of the Companies Act aforesaid and all related entries were made in the Interests Registers during the year under review The Interests Registers are available for inspection by shareholders or their authorised representatives as required by the Section 119 (1) (d) of the Companies Act No. 07 of 2007	
6.	Remuneration and other benefits paid to Directors of the Bank and its subsidiaries during the accounting period	Section 168 (1) (f)	Note 22 to the Financial Statements: Other operating expenses	215
			Board Human Resources and Remuneration Committee Report	95 and 96
7.	Total amount of donations made by the Bank and its subsidiaries during the accounting period	Section 168 (1) (g)	Note 22 to the Financial Statements: Other operating expenses	215
8.	Information on directorate of the Bank and its subsidiaries during and at the end of the accounting period	Section 168 (1) (h)	Corporate Governance Report (CGR)	74 to 116
			Refer "Board of Directors and Profiles" for details of members of the Board of Directors of the Bank	14 to 19
			Refer "Group Structure" for details of members of the Board of Directors of the Group	430 and 431
			Recommendations for re-election (i) In terms of Article 85 of the Articles of Association, two Directors are required to retire by rotation at each Annual General Meeting (AGM). Article 86 provides that the Directors to retire by rotation at an AGM shall be those who (being subject to retirement by rotation) have been longest in office, since their last re-election or appointment	
			(ii) The Board recommended the re-election of the following Directors, after considering the contents of the affidavits and declarations submitted by them and all other related issues: (a) Directors to retire by rotation Mr K G D D Dheerasinghe Prof A K W Jayawardane (b) Directors appointed to fill casual vacancies Mr S C U Manatunge	

	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 over nine years – None [In terms of the Banking Act Direction No. 11 of 2007 on "Corporate Governance for Licensed Commercial Banks in Sri Lanka", the total period of service of a Director (other than a Director who holds the position of Chief Executive Officer) shall not exceed nine years].	
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 22 to the Financial Statements: Other operating expenses	215
10.	Auditors' relationship or any interest with the Bank and its subsidiaries (Lead Auditor's independence)	Section 168 (1) (j)	Independence confirmation has been provided by Messrs Ernst & Young as required by Section 163 (3) of the Companies Act No. 07 of 2007, in connection with the audit for the year ended December 31, 2018 confirming that Ernst & Young is not aware of any relationship with or interest in the Bank or any of its subsidiaries that in their judgement, may reasonably be thought to have a bearing on their independence within the meaning of the Code of Professional Conduct and Ethics issued by CA Sri Lanka, applicable as at the reporting date No prohibited non-audit services have been provided by Messrs Ernst & Young as per the Direction issued by the CBSL on "Guidelines for External Auditors relating to their Statutory Duties". The Directors are satisfied as the BAC has assessed each service, having regard to Auditor independence requirements of applicable laws, rules and regulations, and concluded in respect of each non-audit service or type of non-audit service that the provision of that service or type of service would not impair the independence of Messrs Ernst & Young	
11.	Acknowledgement of the contents of this report/signatures on behalf of the Board of Directors	Section 168 (1) (k)	The Board of Directors have acknowledged the contents of this Annual Report as disclosed	4
Other Disclosures as required by Recommended Best Practices (RBP) or Listing Rules (LR) of the Colombo Stock Exchange				
12.	Vision, Mission and Corporate Conduct	RBP	The business activities of the Group and the Bank are conducted maintaining the highest level of ethical standards in achieving our "Vision and Mission", which reflect our commitment to high standards of business conduct and ethics The Bank issues a copy of its Code of Ethics to each and every staff member and all employees are required to abide by the provisions contained therein	3
13.	Review of business operations of the Group and the Bank and future developments	RBP	Chairman's Message and Managing Director's Review	10 to 11 and 12 to 13
			Management discussion and analysis	36 to 73
			Note 63 to the Financial Statements: Operating segments	309 to 311
14.	Gross income	RBP	Notes 13 and 63 to the Financial Statements: Gross income and operating segments	202 and 309
15.	Dividends on ordinary shares	RBP	Notes 26 and 70 to the Financial Statements: Dividends and Events after the reporting period	220 and 353
			Item 4 of the Section on "Investor Relations"	362
16.	Reserves and appropriations	RBP	Statement of Changes in Equity	160 to 167
			Notes 55, 56 and 57 to the Financial Statements: Statutory reserves, Retained earnings and other reserves	297 , 298 and 299

	Disclosure requirement	Reference to the relevant statute/rule	Page reference for compliance and other necessary disclosures	Page/s
17.	Corporate Social Responsibility (CSR)	RBP	Social and network capital: CSR trust	61 to 62
18.	Property, plant and equipment, Intangible assets and leasehold property	LR 7.6 (VIII)	Note 40 to the Financial Statements: Property plant and equipment	258 to 271
			Note 41 to the Financial Statements: Intangible assets	271 to 273
			Note 42 to the Financial Statements: Leasehold property	274
			Note 59.3 to the Financial Statements: Capital commitments	304
19.	Market value of properties	LR 7.6 (XII)	Notes 40.5 (b) to the Financial Statements: Property, plant and equipment and Information on valuation of freehold land and buildings of the Bank	265 to 269
20.	Issue of shares and debentures			
20.1	Issue of shares by the Bank	LR 7.6 (XIII)	Notes 53 and 53.1 to the Financial Statements: Stated capital and movements in number of shares	293
20.2	Issue of debentures by the Bank	LR 7.6 (XIII)	Note 52 to the Financial Statements: Subordinated liabilities and item 10 of the section on "Investor Relations"	291 and 292 366 and 367
20.3	Issue of shares and debentures by the subsidiaries and associates	CA S.168 (1) (e)	During the year 2018, Serendib Finance Ltd., issued 11,689,070 shares and 73,937,153 shares (22,624,434 shares in 2017) at Rs. 17.11 per share and Rs. 10.82 per share (Rs. 22.10 per share in 2017) for total considerations of Rs. 200 Mn. and Rs. 800 Mn. (Rs. 500 Mn. in 2017) to the Bank in order to raise required funds to meet the shortfall in statutory minimum core capital requirement During the year 2018, CBC Mynmar Microfinance Company Limited (CBCMMCL) did not issue any shares. During the year 2017, CBCMMCL issued 420,000 shares at USD 1 per share for a total consideration of Rs. 64.512 Mn. to the Bank, upon formation of that company as a fully owned subsidiary of the Bank. Except for the above share issues, the other subsidiaries and associates of the Bank did not make any share or debenture issues during the year	
21.	Share information and substantial shareholdings			
21.1	Distribution schedule of shareholdings, names and the number of shares held by the 20 largest holders of Voting and Non-Voting shares and the percentage of such shares held, public holding percentage and number of shareholders representing public holding	LR 7.6 (X) LR 7.6 (III) LK 7.6 (IV) LR 7.13.1	Item 5 of the section on "Investor Relations"	362 to 365
21.2	Information on earnings, dividend, net assets and market value per share	LR 7.6 (XI)	Financial Highlights	08
			Item 4 of the section on "Investor Relations"	362
21.3	Information on shares traded and the number of shares represented by the stated capital	LR 7.6 (IX)	Items 1 – 3 of the Section on "Investor Relations"	357 to 361
21.4	Own share purchases	CA S.64	The Bank does not purchase its own shares	
21.5	Equitable treatment to shareholders	RBP	Statement of Directors' Responsibility – item (k)	108 and 109
22.	Information on Directors' meetings and Board Committees			
22.1	Directors' meetings	CGR	Details of the meetings of the Board of Directors	78
22.2	Board committees	CGR	Board committees reports	89 to 101
23.	Disclosure of Directors' dealings in shares and debentures			

	Disclosure requirement	Reference to the relevant statute/rule	Page reference for compliance and other necessary disclosures	Page/s
23.1	Directors' interests in ordinary voting and non-voting shares of the Bank	LR 7.6 (V)	Item 5.4 of the section on "Investor Relations"	365
			Directors' shareholdings in ordinary voting shares and ordinary non-voting shares have not changed subsequent to the date of the Statement of Financial Position up to February 05, 2019, the date being one month prior to the date of Notice of the Annual General Meeting	
23.2	Directors' interests in debentures	LR 7.6. (V) & RBP	Mr S Renganathan, MD/CEO, held 20,000 debentures of the Bank as at December 31, 2018. Except Mr S Renganathan there were no debentures registered in the name of any other Director as at the beginning and at the end of the year	
24.	Employee share option plans and profit sharing plans	LR 7.6. (XIV)	Note 53.2 to the Financial Statements: Employee share option plan – 2008	294 and 295
			Note 54 to the Financial Statements: Share-based payments	295 to 297
			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	2018		2017	
	Mr S Renganathan	**Mr S C U Manatunge**	Mr S Renganathan	Mr S C U Manatunge
As at January 1	**98,986**	**57,370**	153,362	122,967
Vested during the year	**85,647**	**52,985**	37,933	23,467
Additional options granted due to the rights issue	**N/A**	**N/A**	2,014	1,566
Exercised during the year	**Nil**	**Nil**	94,323	90,630
Expired during the year	**Nil**	**Nil**	Nil	Nil
As at December 31	**184,633**	**110,355**	98,986	57,370

	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	114
			Note 22 to the Financial Statements: Other operating expenses	215
			Note 64 to the Financial Statements: Related party disclosures	312 to 316
		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"	70
28.	Declaration on statutory payments	RBP	Statement of Directors' responsibility – item (h)	108

	Disclosure requirement	Reference to the relevant statute/rule	Page reference for compliance and other necessary disclosures	Page/s
29.	Events after the reporting period	RBP	Note 70 to the Financial Statements: Events after the reporting period	353
30.	Going concern	RBP	Statement of Directors' responsibility – item (m)	109
31.	Directors' responsibility for financial reporting	CBSL Direction 3.8. (ii) (a)	Statement of Directors' responsibility	108 and 109
32.	Appointment of Auditors and their remuneration	RBP	The Board of Directors of the Bank resolved to adopt a policy of rotation of Auditors, once in every five years, in keeping with the principles of good Corporate governance, although the mandatory requirement is only partner rotation once in every five years. Accordingly, the present Auditors Messrs Ernst & Young were appointed as Auditors of the Bank, at the last AGM held on March 28, 2018 to carry out the audit for the year ended December 31, 2018 and will hold the office until the conclusion of the next AGM of the Bank which is to be held in March 2019. Accordingly, Messrs Ernst & Young will serve for a maximum period of five years consecutively, subject to them being re-elected by shareholders, upon a recommendation of the Board of Directors, annually	
			The retiring Auditors, Messrs Ernst & Young have signified their willingness to continue to function as the Auditor to the Bank.	
		CA S.168 (1) (I)	A resolution to appoint Messrs Ernst & Young as Auditors and granting authority to the Directors to fix their remuneration will be proposed at the forthcoming AGM to be held on March 28, 2019 for shareholder approval.	
			Expenses incurred in respect of Audit fees and fees for other services rendered during the year are given in Note 22 to the Financial Statements: Other operating expenses	215
33.	Information on ratios, market prices of shares and credit ratings	LR 7.6 (XI)	Section on "Investor Relations"	354 to 373
34.	Risk management and system of internal controls	LR 7.6 (VI)	Risk Management	115 to 139
			Board Integrated Risk Management Committee report	92 and 93
			Note 69 to the Financial Statements: Financial risk review	319 to 353
			The Directors' Statement on Internal Control over financial reporting	110 and 111
			The Independent Auditors' Report	152 to 154
			Independent Assurance' Report	112
35.	Corporate governance	RBP	The Directors declare that – (a) the Bank has complied with all applicable laws and regulations in conducting its business and have not engaged in any activity contravening the relevant laws and regulations. Officers responsible for ensuring compliance with the provisions in various laws and regulations, confirm compliance in each quarter to the Board Integrated Risk Management Committee; (b) they have declared all material interests in contracts involving the Bank and refrained from voting on matters in which they were materially interested; (c) the business is a going concern with supporting assumptions or qualifications as necessary, and that the Board of Directors has reviewed the Bank's corporate/business plans and is satisfied that the Bank has adequate resources to continue its operations in the foreseeable future. Accordingly, the Financial Statements of the Bank, its subsidiaries and associates are prepared based on the going concern assumption; (d) 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; and (e) they have conducted a review of internal controls covering financial, operational and compliance controls, risk management and have obtained a reasonable assurance of their effectiveness and proper adherence.	

	Disclosure requirement	Reference to the relevant statute/rule	Page reference for compliance and other necessary disclosures	Page/s
36.	Focus on new regulations	RBP	The Bank has quantified the impact on adoption of the Sri Lanka Accounting Standard – SLFRS 9 – "Financial Instruments" and Sri Lanka Accounting Standard – SLFRS 15 – "Revenue from contracts with customers" which became effective from January 01, 2018 and required disclosures have been made in the Financial Statements presented in this Annual Report The Bank has evaluated the implications on adoption of the Sri Lanka Accounting Standard – SLFRS 16 – "Leases" effective from January 1, 2019 and developed the required financial models to assess the impairment on financial assets under the new framework	
37.	Sustainability	RBP	The Bank is an early champion of adopting sustainability practices and sustainability reporting. The Bank has considered the sustainability aspects when formulating its business strategies	
			Annex 4: GRI Content Index	412 and 413
38.	Human resources	RBP	The Bank continues to invest in human capital development and implement effective human resource practices and policies to improve workforce efficiency, effectiveness and productivity and also to foster collaborative partnerships that enrich the work and learning environment for our staff.	
			Specific measures taken in this regard are detailed in the "Board Human Resources and Remuneration Committee Report"	95 and 96
39.	Technology	RBP	As encapsulated in the Vision and the Mission, our business processes are underpinned by technology. All of our processes involve information technology, and we use technology to deliver superior products and services to our customers. Correspondingly, the business is more heavily intertwined with technology than ever before	
			Key achievements in this regard during the year are detailed in the "Board Technology Committee Report"	100
40.	Operational excellence	RBP	To increase efficiency and reduce operating cost, the Bank has ongoing initiatives to drive policy and process standardisation and to optimise the use of existing technology platforms	
41.	Outstanding litigation	RBP	In the opinion of the Directors and in consultation with the Bank's lawyers, litigation currently pending against the Group and the Bank will not have a material impact on the reported financial results or future operations	
			Note 61 to the Financial Statements: Litigation against the Bank	306
42.	Annual General Meeting and the Notice of Meeting	CA S.133 and CA S.135 (a)	The 50th AGM of the Bank will be held at the Galadari Hotel, "Grand Ballroom", No. 64, Lotus Road, Colombo 01, on Thursday, March 28, 2019 at 3.00pm Notice relating to the 50th AGM of the Bank is enclosed at the end of the Annual Report	

Statement of Directors' Responsibility

The Statement sets out the responsibility of the Board of Directors, in relation to the Financial Statements of the Commercial Bank of Ceylon PLC (the Bank) and the Consolidated Financial Statements of the Bank and its subsidiaries (the Group). The responsibilities of the External Auditors in relation to the Financial Statements are set out in the "Independent Auditors' Report" given on pages 152 to 154.

In terms of Sections 150 (1), 151, 152 and 153 (1) & (2) of the Companies Act No. 07 of 2007, the Board of Directors of the Bank are responsible for ensuring that the Group and the Bank keep proper books of account of all the transactions and prepare Financial Statements that give a true and fair view of the financial position of the Group and the Bank as at 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 the Statement of Financial Position as at December 31, 2018, the Income Statement and Statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows for the year then ended and Notes thereto.

Accordingly, the Board of Directors confirm that the Financial Statements of the Group and the Bank give a true and fair view of the:

- financial position of the Group and the Bank as at December 31, 2018 ; 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 157 to 353 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 2018, prepared and presented in this Annual Report are in agreement with the underlying books of account and are in conformity with the requirements of the following:

- Sri Lanka Accounting Standards;
- Companies Act No. 07 of 2007 (Companies Act);
- Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995;
- Banking Act No. 30 of 1988 and amendments thereto;
- Listing Rules of the Colombo Stock Exchange (CSE); and
- Code of Best Practice on Corporate Governance issued by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka);

(c) these Financial Statements comply with the prescribed format issued by the CBSL for the preparation of annual financial statements of licensed commercial banks;

(d) proper accounting records which correctly record and explain the Bank's transactions have been maintained as required by the Section 148 (1) of the Companies Act to determine at any point of time the Bank's financial position, with reasonable accuracy, enabling preparation of the Financial Statements, in accordance with the Companies Act to facilitate proper audit of the Financial Statements;

(e) they have taken appropriate steps to ensure that the Group and the Bank maintain proper books of account and review the financial reporting system directly by them at their regular meetings and also through the BAC, the Report of the said Committee is given on pages 89 to 91. The Board of Directors also approves the Interim Financial Statements prior to their release, following a review and recommendation by the BAC;

(f) they accept responsibility for the integrity and objectivity of the Financial Statements presented in this Annual Report;

(g) they have taken reasonable measures to safeguard the assets of the Group and the Bank and to prevent and detect frauds and other irregularities. In this regard, the Board of Directors have instituted an effective and comprehensive system 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 110 and 111;

(h) to the best of their knowledge, all taxes, duties and levies payable by the Bank and its subsidiaries, all contributions, levies and taxes payable on behalf of and in respect of the employees of the Bank and its subsidiaries, and all other known statutory dues as were due and payable by the Bank and its subsidiaries as at the reporting date have been paid or, where relevant, provided for, except as specified in Note 61 to the Financial Statements on "Litigation against the Bank" on page 306;

(i) as required by the Section 56 (2) of the Companies Act, they have authorised distribution of the dividends paid and proposed upon being satisfied that the Bank and all its subsidiaries would satisfy the solvency test after such distributions are made in accordance with the Section 57 of the Companies Act and have obtained in respect of dividends paid and proposed, and also for which approval is now sought, necessary certificates of solvency from the External Auditors;

(j) as required by the Sections 166 (1) and 167 (1) of the Companies Act, they have prepared this Annual Report in time and ensured that a copy thereof is sent to every shareholder of the Bank, who have expressed desire to receive a hard copy or to other shareholders a soft copy each in a CD containing the Annual Report within the stipulated period of time as required by the Rule No. 7.5 (a) and (b) on Continuing Listing Requirements of the Listing Rules of the CSE;

(k) that all shareholders in each category have been treated equitably in accordance with the original terms of issue;

(l) that the Bank and its quoted subsidiary have met all the requirements under the Section 7 on Continuing Listing Requirements of the Listing Rules of the CSE, where applicable;

(m) that after considering the financial position, operating conditions, regulatory and other factors and such matters required to be addressed in the "Code of Best Practice on Corporate Governance" issued by CA Sri Lanka, the Board of Directors have a reasonable expectation that the Bank and its subsidiaries possess adequate resources to continue in operation for the foreseeable future. For this reason, we continue to adopt the Going Concern basis in preparing the Financial Statements;

(n) the Financial Statements of the Group and the Bank have been certified by the Bank's Chief Financial Officer, the officer responsible for their preparation, as required by the Sections 150 (1) (b) and 152 (1) (b) of the Companies Act and also have been signed by three Directors and the Company Secretary of the Bank on February 22, 2019 as required by the Sections 150 (1) (c) and 152 (1) (c) of the Companies Act and other regulatory requirements; and

(o) the Bank's External Auditors, Messrs Ernst & Young who were appointed in terms of the Section 158 of the Companies Act and in accordance with a resolution passed at the last Annual General Meeting, were provided with every opportunity to undertake the inspections they considered appropriate. They carried out reviews and sample checks on the system of internal controls as they considered appropriate and necessary for expressing their opinion on the Financial Statements and maintaining accounting records. They have examined the Financial Statements made available to them by the Board of Directors of the Bank together with all the financial records, related data and Minutes of shareholders' and Directors' meetings and expressed their opinion which appears as reported by them on pages 152 to 154.

Accordingly, the Board of Directors are of the view that they have discharged their responsibilities as set out in this Statement.

By Order of the Board,

Mrs Ranjani Gamage
Company Secretary

Colombo
February 22, 2019

Directors' Statement on Internal Control over Financial Reporting

Responsibility

In line with the Section 3 (8) (ii) (b) of the Banking Act Direction No. 11 of 2007, and principle D.1.5 of Code of Best Practice on Corporate Governance 2017 issued by CA Sri Lanka (Code) the Board of Directors presents this report on internal control.

The Board of Directors (the Board) is responsible for the adequacy and effectiveness of the system of internal controls in place at Commercial Bank of Ceylon PLC (the Bank). However, such a system is designed to manage the Bank's key areas of risk within an acceptable risk profile, rather than to eliminate the risk of failure to achieve the policies and business objectives of the Bank. Accordingly, the system of internal controls can only provide reasonable but not absolute assurance against material misstatement of management and financial information and records or against financial losses or fraud.

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Bank and this process includes enhancing the system of internal controls as and when there are changes to business environment or regulatory guidelines. The process is regularly reviewed by the Board and accords with the "Guidance for Directors of Banks on the Directors" Statement on Internal Control' issued by CA Sri Lanka. The Board has assessed the internal control taking into account all main principles for the assessment of internal control system as given in that guidance.

The Board is of the view that the system of internal controls in place over financial reporting is sound and adequate to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of Financial Statements for external purposes is in accordance with relevant accounting principles and regulatory requirements.

The Management assists the Board in the implementation of the Board's policies and procedures on risk and control by identifying and assessing the risks faced, and in the design, operation and monitoring of suitable internal controls to mitigate and control these risks.

Key features of the process adopted in applying and reviewing the design and effectiveness of the internal control system on financial reporting

The key processes that have been established in reviewing the adequacy and integrity of the system of internal controls with respect to financial reporting include the following:

- Various appointed committees are established by the Board to assist the Board in ensuring the effectiveness of the Bank's daily operations and that the Bank's operations are in accordance with the corporate objectives, strategies and the annual budget as well as the policies and business directions that have been approved.
- Policies/Charters are developed covering all functional areas of the Bank and these are approved by the Board or Board-approved committees. Such policies and Charters are reviewed and approved periodically.
- The Inspection/Internal Audit Department of the Bank checks for compliance with policies and procedures and the effectiveness of the internal control systems on an ongoing basis using samples and rotational procedures and highlight significant findings in respect of any non-compliance. Audits are carried out on all departments, branches, subsidiaries and overseas operations in accordance with the annual audit plan reviewed and approved by the BAC. The frequency of audits of branches is determined by the level of risk assessed, to provide an independent and objective report. Findings of the internal audit are submitted to the BAC for review at their periodic meetings. Initiative taken by Inspection/Internal Audit Department to audit certain selected areas of the business "On Line" during the year 2016 on a limited scope, was enhanced to cover all Branches in Sri Lanka and Bangladesh, Digital Banking Unit, Card Centre, Treasury and Finance during 2018 as well. Through this initiative the controls are being tested on a near or real time basis. A significant improvement in methodology was made by testing the entire population of the data rather than on a random sample basis. The findings were tabled at the BAC Meeting for review. The "Online Auditing" initiative has further strengthened the review of the design and effectiveness of the internal control system of the Bank by the BAC.
- The BAC of the Bank reviews internal control issues identified by the Internal Audit Department, regulatory authorities, External Auditors and Management, and evaluates the adequacy and effectiveness of the risk management and internal control systems. The BAC also carries out an annual evaluation to review the effectiveness of internal audit functions with particular emphasis on the scope, quality of internal audits, independence and resources. The Minutes of the BAC meetings are tabled at the meetings of the Board of Directors of the Bank on a periodic basis. Details of the activities undertaken by the BAC of the Bank are set out in the "Board Audit Committee Report" which appears on pages 89 to 91.
- In assessing the internal control system over financial reporting, identified officers of the Bank continued to review and update all procedures and controls that are connected with significant accounts and disclosures of the Financial Statements of the Bank. The Internal Audit Department of the Bank continued to verify the suitability of design and effectiveness of these procedures and controls on an ongoing basis. The assessment included subsidiaries and the Bangladesh operations of the Bank as well.

Since the adoption of new Sri Lanka Accounting Standards comprising SLFRSs and LKASs in 2012, processes that are required to comply with new requirements of recognition, measurement, presentation and disclosures were introduced and implemented in 2013. Continuous monitoring is in progress and steps are being taken to make improvements to the processes where required, to enhance effectiveness and efficiency. The Bank has documented procedures relating to these new requirements and updates the procedure manuals as and when necessary and also obtained approval of the BAC and the Board for changes made to the documented procedures. Automating the processes relating to various computations required under SLFRSs and LKASs including loan impairments are in progress. The Banks' Internal Audit Department commenced testing these processes since first quarter 2013 and continued to do so in 2018 as well. The test results were tabled regularly for review by the BAC during the year 2018.

The Board also has taken into consideration the requirements of the Sri Lanka Accounting Standard – SLFRS 9 on "Financial Instruments" that is effective from January 01, 2018, as it has a significant impact on the calculation of impairment of financial instruments on an "expected credit loss model" compared to the "incurred credit loss model" which was hither to applied until December 31, 2017 under the Sri Lanka Accounting Standard – LKAS 39 on "Financial Instruments – Recognition and Measurement".

The Bank carried out a gap analysis with the assistance of Messrs KPMG and Messrs Ernst & Young to identify areas expected to have a potentially higher impact on amounts already reported in Financial Statements as at December 31, 2017 consequent to adoption of SLFRS 9. Subsequent to that and as per the Implementation Plan of the Working Committee formed, Bank developed statistical models to compute the expected credit loss as require by SLFRS 9. The Bank has completed the initial high level assessment of the potential impact on its Financial Statements for the year ended December 31, 2017, resulting from the application of SLFRS 9 with the assistance of Messrs KPMG. The above assessment together with the impact of the additional loan loss provision on the Financial Statements as at December 31, 2017, resulting from the application of SLFRS 9 which has been disclosed in the Financial Statements was validated by the Bank's External Auditors, Messrs Ernst & Young. The progress of the implementation of SLFRS 9 in the Bank is monitored by the BAC on an ongoing basis. The policies, procedures and controls related to SLFRS 9 implementation are being developed.

The comments made by the External Auditors in connection with the internal control system during the financial year 2017 were taken into consideration and appropriate steps have been taken to incorporate them where appropriate. The Assurance Report of the External Auditors in connection with internal control over financial reporting is appearing on page 112.

Confirmation

Based on the above processes, the Board of Directors confirms that the financial reporting system of the Bank has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes has been done in accordance with the Sri Lanka Accounting Standards and regulatory requirements of the Central Bank of Sri Lanka.

Review of the Statement by External Auditors

The External Auditors, Messrs Ernst & Young, have reviewed the above Directors' Statement on Internal Control included in this Annual Report of the Bank for the year ended December 31, 2018 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 112 of this Annual Report.

By Order of the Board,

K G D D Dheerasinghe
Chairman

M P Jayawardena
Deputy Chairman

S Renganathan
Managing Director/Chief Executive Officer

Colombo
February 22, 2019

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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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, 2018.

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 22, 2019

Managing Director's and Chief Financial Officer's Statement of Responsibility

The Financial Statements of the Commercial Bank of Ceylon PLC (the Bank) and the Consolidated Financial Statements of the Bank and its subsidiaries (the Group) as at December 31, 2018 are prepared and presented in conformity with the requirements of the following:

- Sri Lanka Accounting Standards issued by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka);
- Companies Act No. 07 of 2007;
- Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995;
- Banking Act No. 30 of 1988 and amendments thereto and the Directions, Determinations and Guidelines issued by the Central Bank of Sri Lanka (CBSL);
- Listing Rules of the Colombo Stock Exchange (CSE); and
- Code of Best Practice on Corporate Governance 2017 issued by the CA Sri Lanka.

The formats used in the preparation of the Financial Statements and disclosures made comply with the specified formats prescribed by the CBSL. The Group presents the financial results to its shareholders on a quarterly basis.

The Significant Accounting Policies have been consistently applied by the Group. Application of Significant Accounting Policies and estimates that involve a high degree of judgement and complexity were discussed with the BAC and Bank's External Auditors.

With effect from January 01, 2018, the Bank applied the Sri Lanka Accounting Standard – SLFRS 9 on "Financial Instruments", which replaced the Sri Lanka Accounting Standard – LKAS 39 on "Financial Instruments; Recognition and Measurement" which was effective until December 31, 2017. The adoption of Sri Lanka Accounting Standard – SLFRS 9 on "Financial Instruments" had a significant impact on the calculation of impairment of financial instruments on an "expected credit loss model" compared to the "incurred credit loss model" which was hither to applied until December 31, 2017 under the Sri Lanka Accounting Standard – LKAS 39 on "Financial Instruments – Recognition and Measurement". As permitted by the paragraph 7.2.15 of the Sri Lanka Accounting Standard – SLFRS 9 on "Financial Instruments", the Bank has opted not to restate Financial Statements of prior periods, and has recognised the difference between the previous carrying amount under the Sri Lanka Accounting Standard – LKAS 39 on "Financial Instruments – Recognition and Measurement" and the carrying amount at the beginning of the annual reporting period the Sri Lanka Accounting Standard – SLFRS 9 on "Financial Instruments "that includes the date of initial application, in the opening retained earnings as at January 1, 2018 as disclosed in Note 12 on pages 196 to 201. Accordingly, comparative information has not been amended to comply with the current presentation.

We confirm that to the best of our knowledge, the Financial Statements, Significant Accounting Policies and other financial information included in this Annual Report, fairly present in all material respects the financial position, results of the operations and the Cash Flows of the Group during the year under review. We also confirm that the Group has adequate resources to continue in operation and have applied the Going Concern basis in preparing these Financial Statements.

We are responsible for establishing, implementing and maintaining Internal Controls and Procedures within the Bank and all of its subsidiaries. We ensure that effective Internal Controls and Procedures are in place, ensuring material information relating to the Group are made known to us for safeguarding assets, preventing and detecting fraud and/or error as well as other irregularities, which is reviewed, evaluated and updated on an ongoing basis. We have evaluated the Internal Controls and Procedures of the Group for the financial period under review and are satisfied that there were no significant deficiencies and weaknesses in the design or operation of the Internal Controls and Procedures, to the best of our knowledge. We confirm, based on our evaluations that there were no significant deficiencies and material weaknesses in the design or operation of internal controls and fraud that involves management or other employees. The Bank's Internal Audit Department also conducts periodic reviews to ensure that the Internal Controls and Procedures are consistently followed.

The Financial Statements of the Group were audited by Messrs Ernst & Young, Chartered Accountants and their Report is given on pages 152 to 154. The BAC pre-approves the audit and non-audit services provided by Messrs Ernst & Young, in order to ensure that the provision of such services does not contravene with the guidelines issued by the CBSL on permitted non-audit services or impair Ernst & Young's independence and objectivity.

The BAC, *inter alia*, reviewed all the Internal and External Audit and Inspection Programmes, the efficiency of Internal Control Systems and procedures and also reviewed the quality of Significant Accounting Policies and their adherence to statutory and regulatory requirements, the details of which are given in the "Board Audit Committee Report" appearing on pages 89 to 91. The Bank engaged the services of four firms of Chartered Accountants approved by the CBSL to strengthen the audit and inspection functions. The continuous inspection and audit functions, engagement of firms of Chartered Accountants and effective functioning of the BAC, ensure that the internal controls and procedures are followed consistently. To ensure complete independence, the External Auditors and the Internal Auditors have full and free access to the members of the BAC to discuss any matter of substance. However, there are inherent limitations that should be recognised in weighing the assurances provided by any system of internal control and accounting.

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

We confirm that to the best of our knowledge –

- The Bank and the Group have complied with all applicable laws and regulations and guidelines and there is no material litigation against the Group/Bank other than those disclosed in Note 61 on page 306 of the Financial Statements.
- All taxes, duties, levies and all statutory payments payable by the Group/Bank and all contributions, levies and taxes payable on behalf of and in respect of the employees of the Bank/Group as at December 31, 2018 have been paid, or where relevant provided for.

S Renganathan
Managing Director/CEO

K D N Buddhipala
Chief Financial Officer

Colombo
February 22, 2019

Directors' Interest in Contracts with the Bank

Related party disclosures as per the Sri Lanka Accounting Standard – LKRS 24 on "Related Party Disclosures" is disclosed in Note 64 to the Financial Statements on pages 312 to 316 of this Annual Report. In addition, the Bank carries out transactions in the ordinary course of business on an arm's length basis with entities where the Chairman or a Director of the Bank is the Chairman or a Director of such entities.

The results of such transactions at the reporting date is given below:

Table – 14

	Director/Company	Accommodation granted/Deposits		Current limit as at 31.12.2018 Rs '000	Balance/Outstanding as at 31.12.2018 Rs '000	Balance/Outstanding as at 31.12.2017 Rs '000
(a)	**Mr M P Jayawardena**					
	CIC Holdings PLC	Loans and advances	Combined	750,000	750,000	6,640
		Off-balance sheet accommodation	Limits available	1,559,250	421,704	356,919
		Deposits		–	8,741	33,991
	CIC Vetcare (Pvt) Ltd.	Loans and advances	Combined	100,000	136,975	161,218
		Off-balance sheet accommodation	Limits available	152,000	44,954	13,005
		Deposits		–	1,640	444
	CIC Poultry Farms Ltd.	Loans and advances	Combined	600,000	584,947	355,146
		Off-balance sheet accommodation	Limits available	100,000	–	100
		Deposits		–	25	25
	Cal Exports Lanka (Pvt) Ltd.	Loans and advances		21,895	9,748	557
		Off-balance sheet accommodation		109,800	–	–
		Deposits		–	7	1,961
	Rainforest Ecolodge (Pvt) Ltd.	Deposits		–	115	9
(b)	**Prof A K W Jayawardena**					
	Sierra Cables PLC	Loans and advances	Combined	1,070,933	467,088	588,169
		Off-balance sheet accommodations	Limits available	1,169,299	1,355,594	1,215,861
		Deposits		–	50,984	22,915
	Mother Lanka Foundation	Deposits		–	3,450	N/A
(c)	**Mr S Renganathan**					
	International Chamber of Commerce – Sri Lanka	Deposits			26,238	24,166
(d)	**Ms N T M S Cooray**					
	The Solutions Group (Pvt) Ltd.	Off-balance sheet accommodation		–	–	600
		Deposits		–	7,038	2,658
	Ceylon Tea Brokers PLC	Loans and advances		–	–	145,417
		Deposits		–	3,140	6,880
	Jetwing Hotels Ltd.	Deposits		–	2,526	1,819
	Negombo Hotels Ltd.	Deposits		–	2,338	2,187
	The Lighthouse Hotel PLC	Deposits		–	11,825	7,168
	Jetwing Travels (Pvt) Ltd.	Loans and advances		43,822	11,303	17,824
		Off-balance sheet accommodation		59,537	49,655	37,413
		Deposits		–	1,043,843	1,061,490
	Jetwing Air (Pvt) Ltd.	Loans and advances		20,000	–	–
		Off-balance sheet accommodation		36,906	36,906	30,608
		Deposits		–	87,343	34,918
	Jetwing Hotel Management Services (Pvt) Ltd.	Deposits		–	127	127
	Jetwing Real Estate (Pvt) Ltd.	Loans and advances		120,970	100,512	141,304
	Jetwing Events (Pvt) Ltd.	Off-balance sheet accommodation		100	100	100
		Deposits		–	17,652	19,786
	Go Vacation Lanka Co. (Pvt) Ltd.	Off-balance sheet accommodation		600	100	100
		Deposits		–	11,012	7,548
	N J Cooray Builders (Pvt) Ltd.	Deposits		–	389	1,319
	Yarl Hotels (Pvt) Ltd.	Deposits		–	812	118
	Jetwing Symphony Ltd.	Deposits		–	488	1,105
	Capital Alliance Holdings Ltd.	Deposits		–	79	97
(e)	**Mr L D Niyangoda**					
	A Baur & Company (Pvt) Ltd.	Loans and advances	Combined	8,499,000	7,587,503	5,748,724
		Off-balance sheet accommodation	Limits available	5,890,000	2,923,910	3,532,959
		Deposits		–	7,628,927	5,870,859
(f)	**Mr T L B Hurulle**					
	Kanrich Finance Ltd	Loans and advances		15,405	9,678	16,781
		Deposits		–	9,247	11,489

Risk Management

Bank's approach to risk management

The business model of a bank primarily centres around the two activities of financial intermediation and maturity transformation. With substantially lower Return on Assets (ROA), these activities encourage and enable banks to operate at higher levels of gearing in order to generate returns to the investors attractive in terms of Return on Equity (ROE). However, they expose banks to a multitude of industry specific risks over and above those that other organisations have to face, making it imperative that banks have solid frameworks to manage associated risks. It is an effective risk management system that enables banks to optimise the trade-off between risk and return.

In addition, certain emerging global developments are now threatening to disrupt the conventional business models of banks. These include digitalisation, unorthodox competition from FinTechs and TechFins, exponential technologies such as artificial intelligence, robotics and Blockchain, demographic changes, tightening regulations on supervision, anti-money laundering and privacy laws, cyber threats, increasing concerns on sustainability etc. (refer page 33 for a list of such emerging developments). In particular, these developments have elevated the magnitude of strategic risks for banks. In such context, the Bank set up a Board Strategy Development Committee during the year (terms of reference, authority, activities undertaken, etc. of the Committee is given in the page 101. A study published in Harvard Business Review (July-August 2015) in fact found strategic risks to be the most damaging type of risk for companies now. Since they offer both potential for opportunities and significant risks, they call for a more focused strategy to evolve the business model to ensure sustainability of banks. Risk management needs to take these developments too into consideration when devising measures for managing risk.

Certain macroeconomic shocks and regulatory developments made things even more complicated and dynamic for the Sri Lankan financial services industry. Year 2018 was characterised by lackluster economic growth, unprecedented level of rupee depreciation, import restrictions, rising interest rates, one-time impact of SLFRS 9 adoption, phased in implementation of Basel III Framework, political instability and lack of policy consistency. Banking Sector felt the impact of these developments in the form of deteriorating asset quality, rising impairment costs, lower interest margins, escalating costs – all leading to lower levels of profitability.

Commercial Bank has a sound Risk Management Framework (RMF) with necessary oversight of the Board of Directors, for identifying, assessing, measuring, mitigating, monitoring and reporting risks, enabling such risks to be prudently managed. The Bank is cognisant of the fact that it needs to strengthen this framework on an ongoing basis in the wake of increasing intensity of regulatory supervision and various emerging developments.

Objectives of risk management

The primary objectives of the risk management function of the Bank are:

- to assist in decisions relating to accepting, transferring, mitigating and minimising risks and recommending ways of doing so;
- to evaluate the risk profile against the approved risk appetite on an ongoing basis;
- to estimate potential losses that could arise from risk exposures assumed;
- to periodically conduct stress testing to ensure that the Bank holds sufficient buffers of capital and liquidity to meet unexpected losses and honour contractual obligations;
- to integrate risk management with strategy development and execution; and
- to institutionalise a strong risk culture within the Bank.

Key development in 2018

SLFRS 9 implementation

Bank implemented SLFRS 9 which became effective from January 1, 2018, during the year. This Accounting Standard requires impairment provisioning to be based on forward looking expected credit loss model using statistical computation of Exposure at Default (EAD), Probability of Default (PD) and Loss Given Default (LGD). Further, the off-balance sheet exposures are also subjected to impairment under the new Accounting Standard. The permitted changes on account of the "Day 1" impact of the migration of SLFRS 9 was adjusted against the bank's retained earnings brought forward to 2018, resulting in a net assets reduction by Rs. 5.3 Bn. The Bank has been preparing for this development over the past several years by focusing on capital planning strategies to withstand the impact associated with such changes.

Other developments

Other key initiatives, developments and outcomes relating to risk management during the year included:

- Intensified focus on maintaining asset quality and cybersecurity;
- Expanded coverage of the credit risk review to 41.3% of the total portfolio (against the CBSL minimum requirement of 30% – 40%) and provided feedback on credit evaluation for continuous improvement;
- Conducted SEMS evaluation on all facilities which may have social and environmental implications;
- Obtained CBSL approval to move into Alternative Standardised Approach for operational risk computation which has resulted in a capital saving;
- Further enhanced the scope of Risk Control Self-Assessment by onboarding several more business functions/processes;
- Initiated a process for Root Cause Analysis of cash management related risk events in order to determine the adequacy of controls associated with the incidents;
- Information Security Management System of the Bank was re-validated by external auditors and recommended for renewal of the ISO/IEC 27001:2013 certification; and
- Mobile banking application of the Bank was externally validated for adherence to minimum compliance standards for payment related mobile applications, issued by the CBSL during 2018.

Overall risk profile of the Bank underwent changes with regard to credit quality, interest rate and FX rate related risks during 2018. Despite the formidable challenges in the operating environment, as a result of the strategic responses to these developments and the rigorous risk management framework in place, the Bank was able to successfully strengthen its stability and resilience, and enhance profitability during the year as evident from the operating results posted for the year.

Risk appetite and risk profile of the Bank

The Bank has a clearly defined Risk Appetite Statement incorporating the strategic focus, the types of risk and the maximum amount of aggregate risk exposure the Bank is prepared to assume at any given point in time. Taking into account the regulatory requirements, the ability to withstand losses and stress with the available capital, funding and liquidity positions and the quality of the risk management framework, risk appetite has been expressed in terms of desired asset quality, maximum operational losses, maximum loss on forex operations, minimum liquid assets ratio and maximum repricing gaps on interest rate risk, among other exhaustive list of risk parameters in use to ascertain overall risk profile of the Bank.

Aided by the solid risk management framework, the Bank monitors its risk profile which is the actual risk exposures across all the risk categories on an ongoing basis and takes swift remedial action for any deviations to ensure that it is kept within the risk appetite. With a stable capital adequacy and a strong liquidity position which define the capacity to assume risk, the Bank's risk profile is characterised by a portfolio of high quality assets and stable sources of funding fairly diversified in terms of geographies, sectors, products, currencies, size and tenors.

Risk profile as at December 31, 2018 and December 31, 2017 compared to risk appetite as defined by the policy parameters is given below:

Table – 15

Risk category and parameter	Key risk indicator	Policy parameter	Actual position 31.12.2018	Actual position 31.12.2017
Credit risk:				
Quality of lending portfolio	Gross NPA ratio	4% – 5%	**3.24%**	1.88%
	Net NPA ratio	2.5% – 3.5%	**1.71%**	0.92%
	Impairment percentage over total NPA	85% – 60%	**61.45%**	74.23%
	Weighted average rating score of the overall lending portfolios	35% – 40%	**56.62%**	57.63%
Concentration	Loans and advances by product – Highest exposure to be maintained as a percentage of the total loan portfolio	30% – 40%	**20.43%**	21.46%
	Advances by economic sub sector (using HHI-Herfindahl-Hirschman-index)	0.015 – 0.025	**0.0151**	0.016
	Exposures exceeding 5% of the eligible capital (using HHI)	0.05 – 0.10	**0.0056**	0.0071
	Exposures exceeding 15% of the eligible capital (using HHI)	0.10 – 0.20	**0.0067**	0.0095
	Exposure to any sub sector to be maintained at	4% – 5%	**4.75%**	4.04%
	Aggregate of exposures exceeding 15% of the eligible capital	20% – 30%	**20.32%**	24.71%
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.	**1,538.85 Mn.**	Rs. 1,243.61 Mn.
	Repricing gaps (RSA/RSL in each maturity bucket – up to one year period)	<1.5 Times (other than for the 1 month bucket which is <2.5 Times)	**0.98 Times (2.99 times for 1 month bucket)**	0.89 Times (2.34 times for 1 month bucket)
Operational risk	Operational loss tolerance limit (as a percentage of last three years average gross income)	3% – 5%	**1.7%**	2.85%
Strategic risk:				
	Capital adequacy ratios:			
	CET 1	Over 11%	**11.34%**	12.11%
	Total capital	Over 15%	**15.60%**	15.75%
	ROE	Over 20%	**15.56%**	17.88%
	Creditworthiness – Fitch Rating	AA(lka)	**AA(lka)**	AA(lka)

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

Credit ratings

The Bank is rated AA(lka)/Stable by Fitch Ratings Lanka Limited while its Bangladesh operations is rated AAA by Credit Rating Information and Services Limited (CRISL). The rating of AA(lka) is the strongest rating given to a Sri Lankan non-state sector bank while AAA is the highest credit rating given to any financial institution in Bangladesh by CRISL. These credit ratings depict the creditworthiness of the Bank and its ability to borrow which in turn takes into account the underlying risk profile.

Types of risks

Conventionally, the Bank is exposed to credit, market, liquidity, operational, reputational, IT, legal and strategic risks which taken together determine the risk profile of the Bank. The Bank manages these risks through its robust risk management framework. Changes in various external and internal factors affect the risk profile on an ongoing basis. External factors include movements in macroeconomic variables, political instability, changes in Government fiscal and monetary policies, regulatory developments and growing stakeholder pressures. Such developments could impact disposable income of people, demand for banking products and services, funding mix, interest margins and tax liabilities of the Bank. Internal factors may include lapses in implementing the risk management framework, assumptions about macroeconomic variables turning out to be different, execution gaps in internal processes etc. Unlike internal factors which are inherently undesirable, external factors may at times have upside potential for banks to leverage. These factors, if not properly managed, may affect the risk profile of the Bank, hampering the objective of creating value for all its stakeholders through financial sustainability, overall stability and superior performance.

In addition, the Bank has identified certain potentially disruptive emerging risks and uncertainties. These have made the operating environment even more volatile and unpredictable for financial services institutions, leading to some of the long-standing assumptions about markets, competition and even business fundamentals to be less valid today. These call for the Bank to better understand the customer and deliver on their expectations while achieving execution excellence in internal processes. Believing that these offer opportunities to differentiate its value proposition for future growth, the Bank deals with these developments through appropriate strategic responses.

Summary of key risks Figure – 28

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

Bank

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

Increasing trend in risk Decreasing trend in risk No significant change

All these developments have made the operating environment very complex, dynamic and competitive and risk management very challenging. Nevertheless, the effective management of these risks and uncertainties is a *sine qua non* to the execution of the Bank's strategy, creating value in the short, medium and long term for all its stakeholders. Hence, deliberations on risk management were on top of the agenda in all Board, Board Committee, and Executive Committee meetings of the Bank.

Risk management framework

In order to ensure a structured approach to managing all its risk exposures, the Bank has developed an overarching risk management framework based on the Three Lines of Defence model. Underpinned by rigorous organisational structures, systems, processes, procedures, and industry best practices, Risk Management Framework (RMF) takes into account all plausible risks and uncertainties the Bank is exposed to. The Three Lines of Defence model, which is the international standard, enables the Bank to have unique perspectives and specific skills for managing risk and guides its day-to-day operations with the optimum balance of responsibilities.

The components of the Bank's RMF include risk governance comprising Board oversight, Management and respective committees, well-defined risk capacity, appetite and tolerance levels, Risk Control Self-Assessment, system of internal control, independent compliance and audit functions, infrastructure, risk culture and contingency planning for business continuity, disaster recovery and contingency funding.

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.

Risk governance

As an essential element of the risk management framework, risk governance is basically the application of the best practice in corporate governance to risk management, comprising Board oversight, Board committees, executive functions and executive committees through which authority is exercised and decisions are taken and implemented. It facilitates accountability for risk at all levels of the Bank and across all risk types the Bank is faced with, enabling a disciplined approach to managing risk. The organisation of the Bank's risk governance is given in Figure 30. Given the highly specialised nature and also in the interest of an integrated and consistent approach, decision-making on risk management is centralised to a greater extent in several risk management committees.

Board of Directors

As the body responsible for strategy and policy formulation, objective setting and for overseeing executive function, the Board of Directors has the overall responsibility for understanding the risks assumed by the Bank and the Group and for ensuring that they are appropriately managed. The Board discharges this responsibility directly by determining the risk appetite of the Bank which is strongly correlated to achieving its strategic goals and indirectly by delegating oversight responsibility to four Board committees which work closely with the executive functions and executive level committees to review and assess the effectiveness of the risk management function and report to the Board on a

Three Lines of Defence Figure – 29

1st Line of Defence

Business lines/Corporate functions

- Owns and manages associated risks
- Evaluates risk using informed judgment
- Ensures that risks accepted are within the Bank's risk appetite and risk management policies
- Comprises a robust system of internal controls and an organisation culture of risk awareness which is nurtured with regular training

Line Management/Business Units

2nd Line of Defence

Risk management and control

- Independently monitors effective implementation of risk management framework
- Facilitates high levels of risk awareness throughout the organisation and implementation of risk management framework
- Maintains a sound risk management policy framework
- Carries out measurement, monitoring and reporting to Management and Board Integrated Risk Management Committee
- Objectively challenges first line of defence

Risk/Compliance Departments

3rd Line of Defence

Assurance

- Comprises internal audit, external audit and regulatory reviews providing independent assurance to the Board over the first and second lines of defence
- Facilitates high standards of governance and control systems
- Carries out timely reporting of findings to Management and Board Audit Committee

Inspection/Audit

regular basis. These reports provide a comprehensive perspective of the Bank's risk management efforts and outcomes, enabling the Board to identify the risk exposures, any potential gaps and mitigating actions necessary, on a timely basis. The tone at the top and the corporate culture reinforced by the ethical leadership of the Board play a key role in managing risk at the Bank.

Besides the tone at the top and the Three Lines of Defence, the ethical conduct of the business too plays a significant role in managing risk in the Bank. The Bank's Code of Ethics sets out the Bank's unwavering commitment and expectations of all the employees to undertaking business in a responsible, transparent and disciplined manner and demands the highest level of honesty, integrity and accountability from all employees.

Apart from the Bank, the Board of Directors carefully monitors the risk profile of all the subsidiaries in the Group; Commercial Development Company PLC, ONEzero Company Limited. Serendib Finance Limited, Commex Sri Lanka S.R.L. Italy, Commercial Bank of Maldives Private Limited and CBC Myanmar Microfinance Company Limited.

Board committees

The Board has setup four Board committees to assist it in discharging its oversight responsibilities for risk management. The four Board committees are:

- Board Audit Committee (BAC)
- Board Integrated Risk Management Committee (BIRMC)
- Board Credit Committee (BCC)
- Board Strategy Development Committee (BSDC)-set up in August 2018

Among other things, these committees periodically review and make recommendations to the Board on risk appetite, risk profile, strategic decisions, risk management and internal controls framework, risk policies, limits and delegated authority.

Details relating to composition, terms of reference, authority, meetings held and attendance, activities undertaken during the year etc., of each of these Board committees are given on pages 89 to 101.

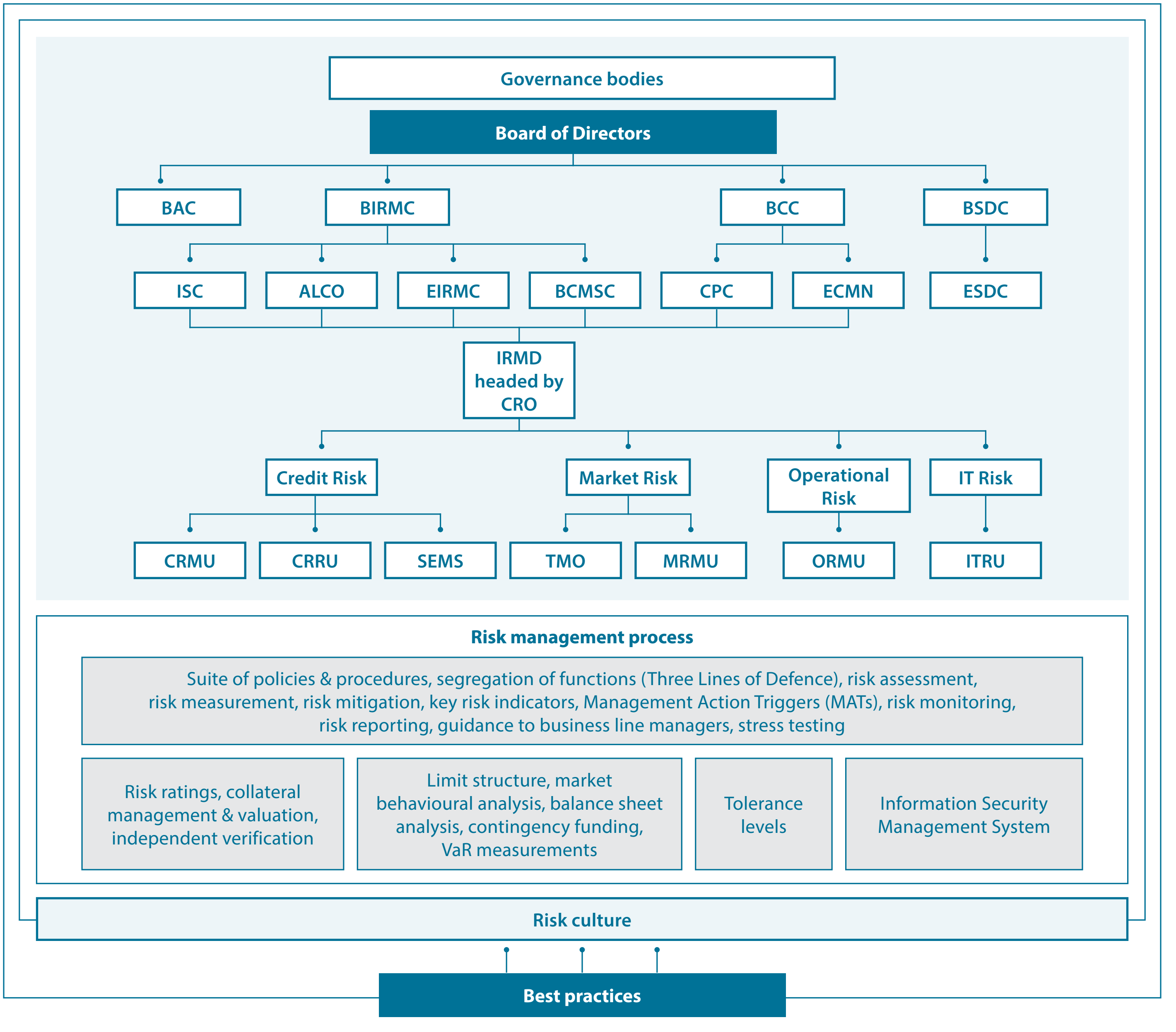
Executive committees

Responsibility for the execution of the strategies and plans in accordance with the mandate of the Board of Directors while maintaining the risk profile within the approved risk appetite, rests with the Executive Management. Spearheaded by the Executive Integrated Risk Management Committee (EIRMC), a number of committees (listed below) on specific aspects of risk have been set up to facilitate risk management across the First and the Second Lines of Defence. Comprising members from units responsible for credit risk, market risk, liquidity risk, operational risk and IT risk, EIRMC coordinates communication with the BIRMC to ensure that risk is managed within the risk appetite. Details relating to composition of each of the executive committees are given in the section on "How We Govern" on page 79.

- 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)

Integrated Risk Management Department (IRMD) is headed by the Chief Risk Officer who participates in the above executive committees and also participates in the four Board committees overseeing risk management. The IRMD independently monitors compliance of the First Line of Defence to the laid down policies, procedures and limits and escalates deviations to the relevant executive committees. It also provides the perspective on all types of risk for the above committees to carry out independent risk evaluations and share their findings with the Line Managers and Senior Management to ensure effective communication of material issues and to initiate deliberations and necessary action.

Risk governance structure Figure – 30



BAC – Board Audit Committee, BIRMC – Board Integrated Risk Management Committee, BCC – Board Credit Committee, BSDC – Board Strategy Development Committee, ISC – Information Security Council, ALCO – Asset & Liability Committee, EIRMC – Executive Integrated Risk Management Committee, BCMSC – Business Continuity Management Steering Committee, CPC – Credit Policy Committee, ECMN – Executive Committee on Monitoring NPAs, ESDC – Executive Strategy Development Committee, IRMD – Integrated Risk Management Department, CRMU – Credit Risk Management Unit, CRRU – Credit Risk Review Unit, SEMS – Social & Environmental Management System, TMO – Treasury Middle Office, MRMU – Market Risk Management Unit, ORMU – Operational Risk Management Unit, ITRU – IT Risk Management Unit

Risk management infrastructure

Risk management infrastructure of the Bank includes both human and physical resources that enhance the preparedness to identify and manage risk including the mandate, policies and procedures, limits, tools, databases, competencies, communication etc. Significant investments have been made in resources to build capacity in risk management infrastructure and to maintain it up to date by embracing international best practices. This is as part of the overall risk management system in line with the Board-approved roadmap in the direction of achieving a fully-fledged risk management system in the near future.

Given that managing risk is a responsibility of each and every employee of the Bank for which each and every employee needs to understand the risks the Bank is exposed to, IRMD provides appropriate training/awareness to the employees, risk owners in particular, disseminating knowledge and enhancing skills on all aspects related to risk, inculcating the desired risk culture.

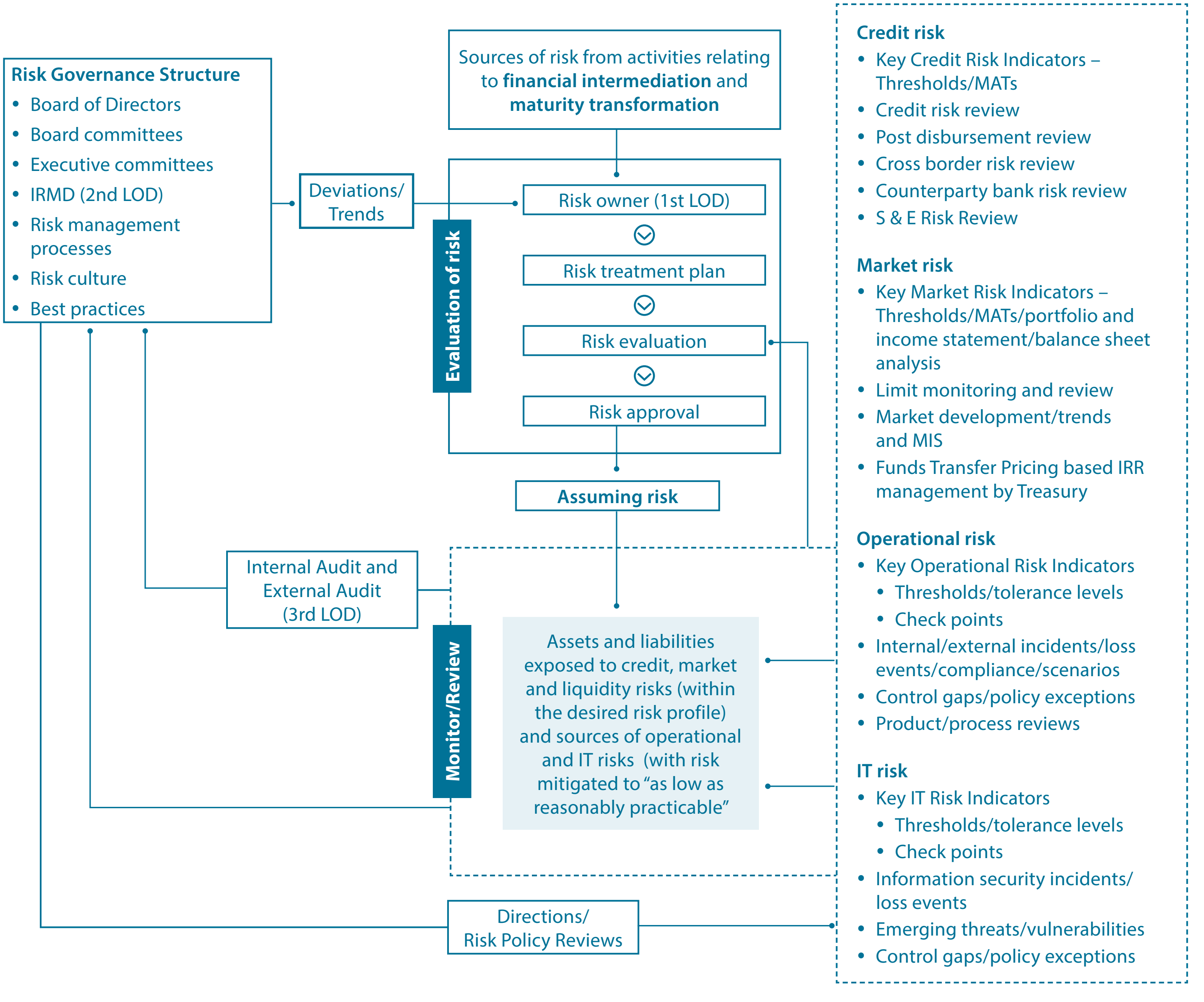
Risk management policy, procedures and limits

The Bank has a comprehensive risk management policy that addresses all the risks managed by the Bank, encompassing compliance with the regulatory requirements including the Banking Act Direction No. 07 of 2011 – Integrated Risk Management Framework for Licensed Commercial Banks based on the Basel Framework and subsequent directives issued by the CBSL. Apart from institutionalising the risk knowledge base, this helps minimise bias and subjectivity in risk decisions. This key document clearly defines the objectives, outlines priorities and processes and roles of the Board and the Management in managing risk, shaping the risk culture of the Bank. The Risk Assessment Statement (RAS) sets out the limits for risks and forms an integral part of the risk management framework. The RAS and all risk policies are reviewed by the BIRMC and Board of Directors at least annually or more frequently depending on the regulatory and business needs.

The overall risk exposure of the Bank including its overseas operations is compliant with the regulatory framework of the CBSL. Additionally, in order to ensure compliance, the risk management framework takes into account the regulatory requirements of the respective countries where the Bank conducts its operations.

The Bank has issued detailed operational guidelines to facilitate implementation of the risk management policy and the limits specified in the RAS. These guidelines relate to specification of types of facilities, processes and terms and conditions under which the Bank conducts business, providing clarity to the employees in their day-to-day work.

Risk management framework Figure – 31



Risk management tools

The Bank employed a combination of qualitative and quantitative tools for identifying, measuring, managing and reporting risks. The choice of a tool(s) for managing a particular risk depended on the likelihood of occurrence and the impact of the risk as well as the availability of data. These tools varied from threat analysis, risk policies, risk registers, risk maps, risk dashboards, diversification, Social and Environmental Management System, workflow-based operational risk management system, insurance and benchmarking to limits, gap analysis, NPV analysis, swaps, caps and floors, hedging, risk rating, risk scoring, risk modelling, duration, scenario analysis, marking to market, stress testing and VaR analysis.

A description of the different types of risks managed by the risk management function of the Bank and risk mitigation measures adopted are as follows:

Credit risk

Credit risk is the risk of potential loss resulting from the failure of a customer/borrower or counterparty to honour its financial or contractual obligations to the Bank. It may arise from direct lending activities as well as from commitments and contingencies. Total credit risk of the Bank constitutes counterparty risk, concentration risk and settlement risk.

Maximum credit risk exposure Table – 16

	As at December 31, 2018	
	Rs. Mn.	%
Net carrying amount of credit exposure		
Cash and cash equivalents	39,534	2.1
Placements with banks	19,899	1.1
Financial assets at amortised cost – Loans and advances to banks	763	0.0
Financial assets at amortised cost – Loans and advances to other customers	861,100	46.8
Financial assets at amortised cost – Debt and other financial instruments/ Financial Investments (Held to maturity) and loans and receivables	83,855	4.6
Financial assets measured at fair value through other comprehensive income/Financial Investments – Available for sale	176,507	9.6
	1,181,658	
Off-balance sheet maximum exposure		
Lending commitments	161,062	8.8
Contingencies	496,475	27.0
	657,537	
Maximum credit exposure	1,839,195	100.0
Stage 3 (credit impaired) loans and advances to other customers	52,978	
Impaired loans as a % of gross loans and advances to other customers	5.9	
Allowance for impairment – loans and advances to other customers	29,129	
Net carrying amount of loans and advances to other customers	861,100	
Allowance for impairment as a % of gross loans and advances to other customers	3.3	
Impairment charge – loans and advances to other customers	8,123	

The Bank's maximum credit exposure increased by 17% in 2018 compared to the previous year (maximum credit exposure in 2017 was Rs. 1.572 Tn.). Both retail banking and corporate banking portfolios contributed to this growth.

According to the SLFRS 9 classification, the credit impaired (Stage 3) loans to customers stood at Rs. 52.9 Bn. which is 5.9% of the gross loans and advances to other customers portfolio of the Bank.

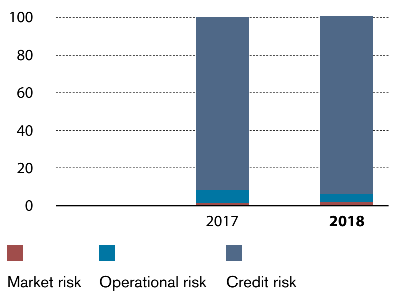
The shift from incurred loss method to expected loss method with the adoption of SLFRS 9 has broadened the basis of allowance for impairment in 2018 which resulted in a cumulative impairment allowance of Rs. 29.1 Bn. and an impairment charge of Rs. 8.1 Bn.

Managing credit risk

Given that credit risk accounts for over 90% of the risk-weighted assets, management of credit risk is critical to the Bank. We endeavour to manage credit risk management going beyond mere regulatory compliance in order to enhance value. It is managed through the credit risk management framework approved by the Board which comprises a robust risk governance structure and a comprehensive suite of risk management processes which include policies and procedures, risk ratings, collateral management and valuation, segregation of credit risk management functions, social and environmental risk management, independent verification of risk assessments, credit risk monitoring, providing direction to business line managers and internal audit.

Risk–weighted assets composition as at December 31 — Graph – 07

%

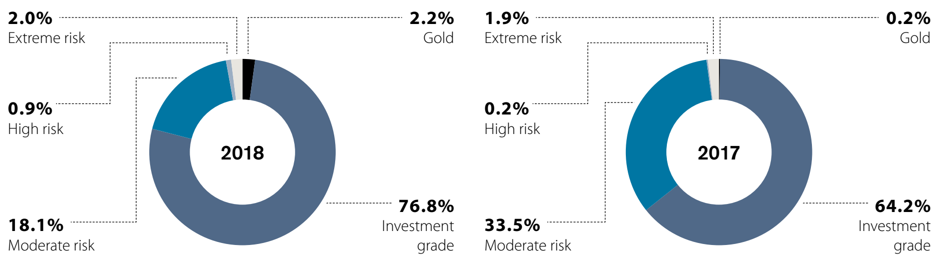


Review of credit risk

Elevated levels of attention given to loan approvals and disbursements coupled with concerted efforts in monitoring the loans and advances portfolios paved the way to keep the NPL ratios well below the established policy parameters amidst the challenging market conditions prevailed in 2018.

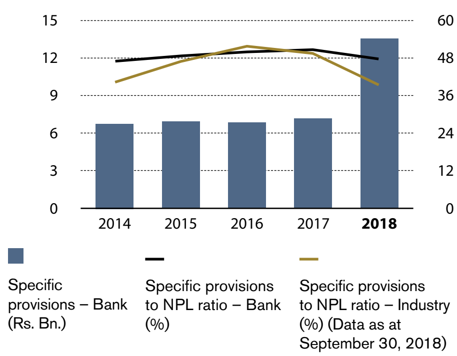
The effective credit risk management framework referred to above that guides the Bank throughout the process of on-boarding new exposure and monitoring existing exposure contributes immensely to preserve the quality of the loan book. In addition, the Bank is cautious and exercises restraint in the choice of customers, products, segments and geographies it caters to. Continuous monitoring of age analysis and the underlying movement across arrears buckets of past due loans enabled the Bank to swiftly take action, thereby moderating default risk during the year.

Risk ratings wise distribution of loans and advances to other customers — Graph – 08



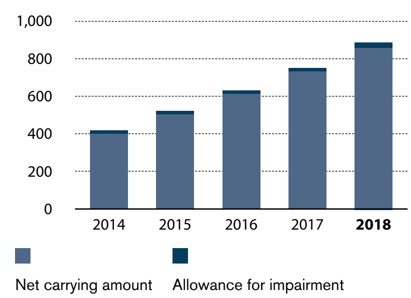
Provision cover of the Bank — Graph – 09

Rs. Bn. %



Gross loans and advances to other customers — Graph – 10

Rs. Bn.



76.8%

Distribution of borrower ratings

Borrowers with Investment Grade Ratings where default risk is considered to be very low, comprised 76.8% of the total loans and advances to other customers.

85.0%

Distribution of country rating

Exposure to countries which are rated AAA to BBB- (S&P or equivalent) accounted for 85% of the total cross-border exposure of the Bank.

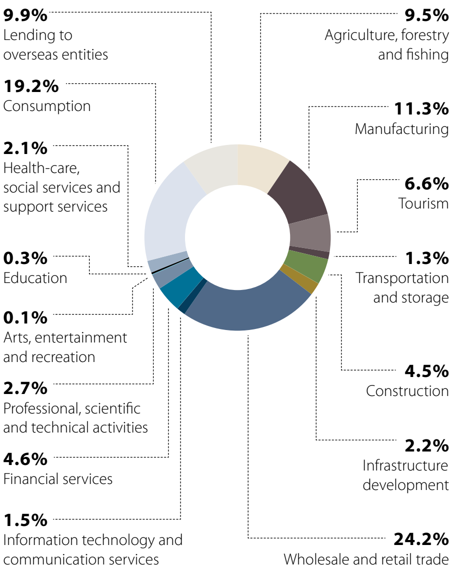
Concentration risk

Management of concentration risk is primarily through diversification of business across industry sectors, products, counterparties and geographies. The Bank's RAS defines the limits for these segments and the Board, BIRMC, EIRMC and the CPC monitor these exposures to ensure compliance. Based on the trends and events shaping the business environment, they also make recommendations on modifications to specified limits.

The stage 3 credit impaired loans and advances to other customers distribution to identified industry sectors as at year end is given in Table 17.

Graph 12 depicts that the tenor-wise breakdown of the portfolio of total loans and advances to other customers is within the risk appetite of the Bank.

Industry wise analysis of loans and advances to other customers as at December 31, 2018 — Graph – 11

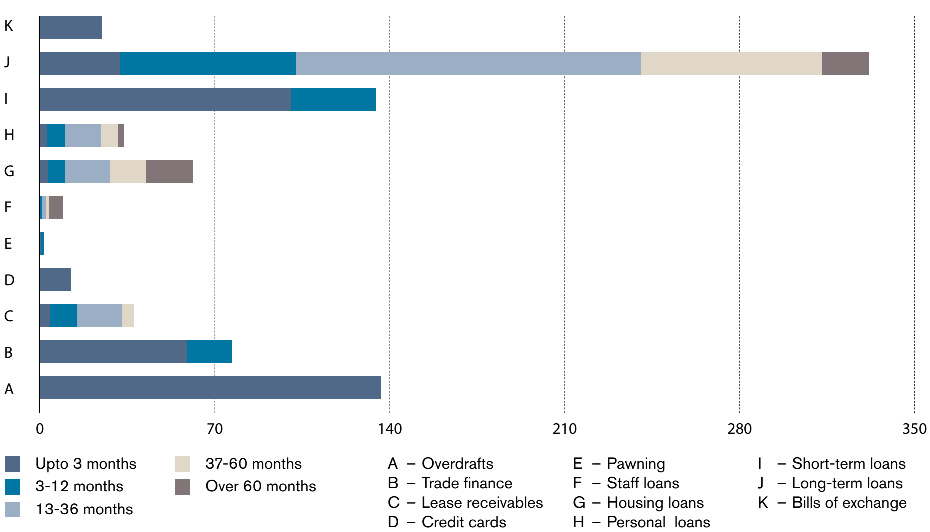


Distribution of stage 3 credit impaired loans and advances to other customers as at December 31, 2018 — Table – 17

Industry category	Stage 3 loans and advances	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	5,103,767	100,143	1,586,912	1,687,055	42,052
Manufacturing	8,505,534	564,587	2,432,630	2,997,218	29,927
Tourism	3,516,885	1,630,282	329,124	1,959,406	517
Transportation and storage	1,026,569	93,135	202,526	295,660	8,898
Construction	8,132,041	3,250,480	1,270,274	4,520,753	6,512
Infrastructure development	234,892	128,518	27,585	156,104	1,324
Wholesale and retail trade	14,197,826	1,061,412	3,151,869	4,213,281	229,935
Information technology and communication services	1,631,252	299,627	209,224	508,851	829
Financial services	202,962	–	119,253	119,253	10
Professional, scientific and technical activities	357,056	–	139,640	139,640	5,480
Arts, entertainment and recreation	51,124	–	18,392	18,392	1,639
Education	90,957	–	61,547	61,547	630
Healthcare, social services and support services	313,640	463	115,634	116,097	943
Consumption	8,546,352	15,350	3,429,433	3,444,783	195,227
Lending to overseas entities	1,066,702	172,864	185,738	358,602	–
Total	**52,977,559**	**7,316,861**	**13,279,781**	**20,596,642**	**523,923**

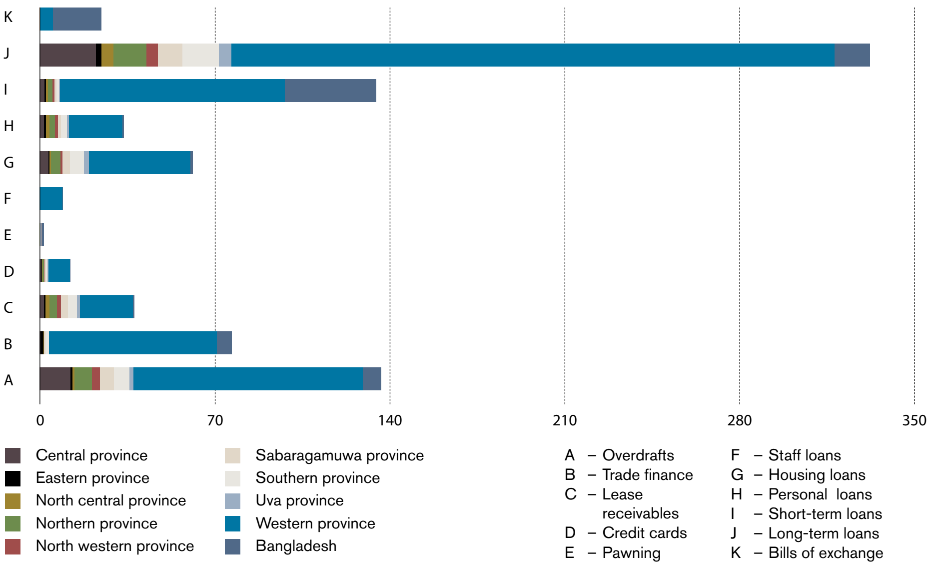
Loans and advances to other customers by tenor wise as at December 31, 2018 (based on residual maturity) — Graph – 12

Rs. Bn.



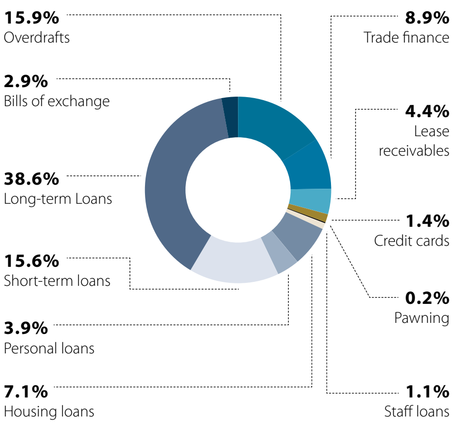
Geographical analysis of loans and advances product wise to other customers as at December 31, 2018 Graph – 13

Rs. Bn.



A geographical analysis (Graph13) reflects a high concentration of loans and advances in the Western Province which is due to concentration of economic activities in that province and the head quarters of most borrowing entities being located there.

Product wise analysis of loans and advances to other customers as at December 31, 2018 Graph – 14



Product-wise analysis of loans and advances (Graph 14) also reflects the effectiveness of the Bank's credit policies with risk being diversified across the Bank's range of credit products.

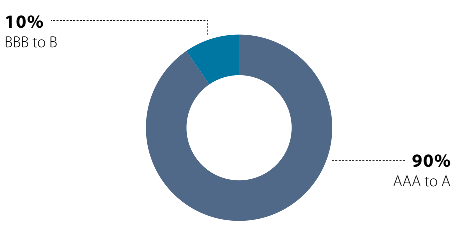
The relatively high exposure of 38.6% to long-term loans is rigorously monitored and mitigated with collateral.

Counterparty risk

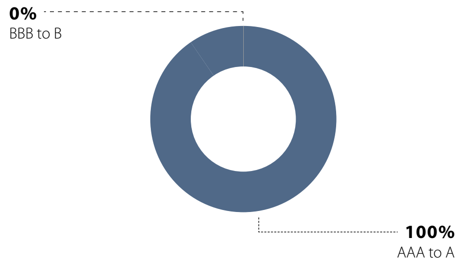
Counterparty risk is managed through the laid down policies/procedures and limit structures including single borrower limits and Group exposure limits with sub-limits for products etc. The limits set by the Bank are far more stringent than those stipulated by the regulator. This provides the Bank with a greater leeway in managing its concentration levels with regard to the counterparty exposures.

Loans and receivables to banks, both local and foreign, constitutes a key component of counterparty risk. It is being monitored through a specific set of policies, procedures and a limit structure. At frequent intervals, the counterparty bank exposures are monitored against the established prudent limits whilst market information on the financial/economic performance of these counterparties are subject to a rigorous scrutiny throughout the year and the limits are revised to reflect the latest information where deemed necessary.

The concentration of counterparty bank exposures in Sri Lanka as at December 31, 2018 (Fitch ratings-wise) Graph – 15



The concentration of counterparty bank exposures in Bangladesh as at December 31, 2018 (CRAB ratings-wise*) Graph – 16



** Equal CRISL/Alpha ratings are given where CRAB ratings are unavailable*

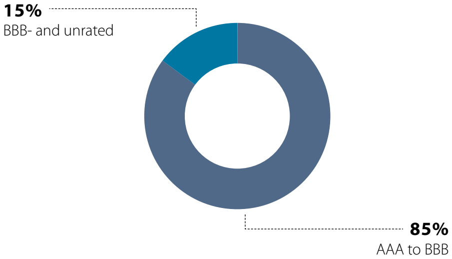
The analysis uses Fitch Ratings for local banks in Sri Lanka and Credit Ratings Agency in Bangladesh (CRAB) for local banks in Bangladesh (Equivalent CRISL/Alpha ratings have been used where CRAB ratings are not available). Exposures for local banks in Sri Lanka rated AAA to A category stood at 90% (Graph 15) whilst 100% of exposure of local banks in Bangladesh consisted of AAA to A rated counterparty banks (Graph 16).

Cross-border risk

The risk that the Bank will be unable to obtain payment from its customers or third parties on their contractual obligations as a result of certain actions taken by foreign governments, mainly relating to convertibility and transferability of foreign currency is referred to as the cross-border risk. Cross-border assets comprise loans and advances, interest-bearing deposits with other banks, trade and other bills and acceptances and predominantly relate to short-term money market activities.

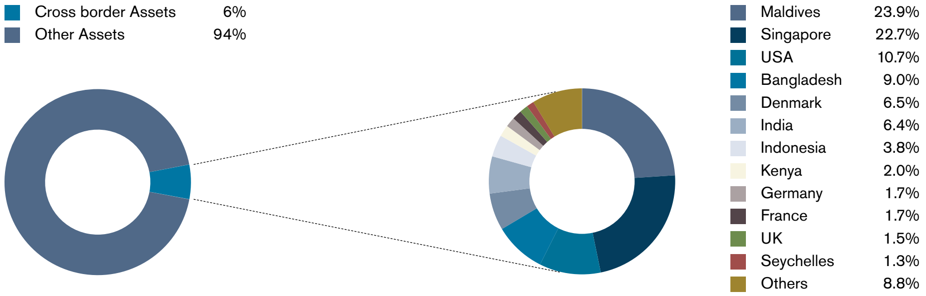
In addition to the limit structures in place to minimise risk arising from over concentration, the Bank continuously monitors macroeconomic and market developments of the countries with exposure to counterparties besides stringent evaluations of counterparties and maintaining frequent dialogue with them. Timely action is taken to suspend limits to countries with adverse economic/political developments.

The concentration of cross border exposure (Sri Lanka and Bangladesh operations) – S & P Rating wise as at December 31, 2018 — Graph – 17



** Note – excluding the investments in Bangladesh operations and direct lending in Maldives/Bangladesh*

Cross border exposure of the Bank (Sri Lanka and Bangladesh operations) — Graph – 18



Total cross-border exposure is only 6% of total assets of the Bank (Graph 18). The Bank has exposures to cross-border through a spread of countries which primarily include the Maldives, Singapore, USA, Bangladesh, Denmark, etc.

Market risk

Market risk is the risk of loss arising from movements in market driven variables such as interest rates, exchange rates, commodity prices, equity and debt prices and their correlations. The Bank's operations are exposed to these variables and correlations in varying magnitudes.

Market risk categories — Table – 18

Major market risk category	Risk components	Description	Tools to monitor	Severity	Impact	Exposure
Interest rate		Risk of loss arising from movements or volatility in interest rates				
	Re-pricing	Differences in amounts of interest earning assets and interest-bearing liabilities getting re-priced at the same time or due to timing differences in the fixed rate maturities and appropriately re-pricing of floating rate assets, liabilities and off-balance sheet instruments	Re-pricing gap limits and interest rate sensitivity limits	High	High	High
	Yield curve	Unanticipated changes in shape and gradient of the yield curve	Rate shocks and reports	High	High	High
	Basis	Differences in the relative movements of rate indices which are used for pricing instruments with similar characteristics	Rate shocks and reports	High	Medium	Medium
Foreign exchange		Possible impact on earnings or capital arising from movements in exchange rates arising out of maturity mismatches in foreign currency positions other than those denominated in base currency, Sri Lankan Rupee (LKR)	Risk tolerance limits for individual currency exposures as well as aggregate exposures within regulatory limits for NOP	High	Medium	Medium
Equity		Possible loss arising from changes in prices and volatilities of individual equities	Mark-to-market calculations are carried out daily for Fair Value Through Profit and Loss (FVTPL) and Fair Value Through Other Comprehensive Income (FVOCI) portfolios	Low	Low	Negligible
Commodity		Exposures to changes in prices and volatilities of individual commodities	Mark to market calculations	Low	Low	Negligible

Managing market risk

The market risk is managed through the market risk management framework approved by the Board, which comprises a robust risk governance structure and a comprehensive suite of risk management processes which include policies, market risk limits, Management Action Triggers (MATs), risk monitoring and risk assessment.

Review of market risk

Market risk arises mainly from the Non-Trading Portfolio (Banking Book) which accounts for 92.03% of the total assets and 93.53% of the total liabilities which are subject to market risk. Exposure to market risk arises mainly from IRR and FX risk as the Bank has negligible exposure to commodity related price risk and equity and debt price risk which was less than 13% of the total risk weighted exposure for market risk.

The Bank's exposure to market risk analysed by Trading Book and Non-Trading Portfolios (or Banking Book) are set out in the Table 19.

Bank's exposure to market risk as at December 31, 2018 Table – 19

			Market risk measurement	
Description	Note	Carrying amount Rs. '000	Trading portfolio Rs. '000	Non-trading portfolio Rs. '000
Assets subject to market risk				
Cash and cash equivalent	29	20,050,789		20,050,789
Balances with Central Bank	30	14,517,678		14,517,678
Placements with banks	31	19,898,515		19,898,515
Securities purchased under resale agreements		9,513,512		9,513,512
Derivative financial assets	32	7,909,962	7,909,962	
Financial assets recognised through profit or loss/ Held for trading – measured at fair value	33	5,520,167	5,520,167	
Financial assets at amortised cost – Loans and advances to banks	34	763,074		763,074
Financial assets at amortised cost – Loans and advances to other customers	35	861,100,315		861,100,315
Financial assets at amortised cost – Debt and other financial instruments/Financial Investments – Held to maturity and Loans and receivables	36	83,855,436		83,855,436
Financial assets measured at fair value through other comprehensive income/Financial Investments – Available for sale	37	176,506,729		176,506,729
Total		1,199,636,177	13,430,129	1,186,206,048
Liabilities subject to market risk				
Due to banks	45	50,101,081		50,101,081
Derivative financial liabilities	46	8,021,783	8,021,783	
Securities sold under repurchase agreements		49,104,462		49,104,462
Financial liabilities at amortised cost – due to depositors	47	937,860,201		937,860,201
Financial liabilities at amortised cost – other borrowings	48	25,361,912		25,361,912
Subordinated liabilities	52	37,992,457		37,992,457
Total		1,108,441,896	8,021,783	1,100,420,113

Market risk portfolio analysis

The gap report is prepared by stratifying Rate Sensitive Assets (RSA) and Rate Sensitive Liabilities (RSL) into various time bands according to maturity (if they are fixed rates) or time remaining to their next repricing (if they are floating rates). Savings deposits balances are distributed in line with the findings of a behavioural analysis conducted by the Bank. Vulnerability of the Bank to interest rate volatility is indicated by the gap between RSA and RSL.

Interest rate sensitivity gap analysis of assets and liabilities of the banking book as at December 31, 2018 – Bank Table – 20

Description	Up to 3 Months Rs. '000	3-12 months Rs. '000	1-3 years Rs. '000	3-5 years Rs. '000	More than 5 years Rs. '000	Non-sensitive Rs. '000	Total as at December 31, 2018 Rs. '000
Financial assets							
Total financial assets	663,813,887	211,889,702	156,942,471	85,338,912	44,428,076	83,143,599	1,245,556,647
Financial liabilities							
Total financial liabilities	424,198,862	379,023,098	92,962,198	57,569,454	118,320,870	73,522,744	1,145,597,226
Period gap	239,615,025	(167,133,396)	63,980,273	27,769,458	(73,892,794)		
Cumulative gap	239,615,025	72,481,629	136,461,902	164,231,360	90,338,566		
RSA/RSL	1.56	0.56	1.69	1.48	0.38		

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 repricing risk, yield curve risk and basis risk.

Sensitivity of projected NII

Regular stress tests are carried out on Interest Rate Risk in Banking Book (IRRBB) encompassing changing positions and new economic variables together with systemic and specific stress scenarios. Change in value of the Fixed Income Securities (FIS) portfolio in FVTPL and FVOCI categories due to abnormal market movements is measured using both Economic Value of Equity (EVE) and Earnings At Risk (EAR) perspectives. Results of stress tests on IRR are analysed to identify the impact of such scenarios on the Bank's profitability and capital.

Impact on NII due to rate shocks on LKR and FCY is continuously monitored to ascertain the Bank's vulnerability to sudden interest rate movements [Refer Note 69.3.2 (b) on page 348].

Sensitivity of NII to rate shocks Table – 21

	2018		2017	
	Parallel increase Rs. '000	**Parallel decrease Rs. '000**	Parallel increase Rs. '000	Parallel decrease Rs. '000
As at December 31,	**1,560,756**	**(1,557,263)**	1,243,611	(1,241,623)
Average for the year	**1,493,675**	**(1,490,832)**	920,414	(918,225)
Maximum for the year	**1,646,558**	**(1,639,199)**	1,243,611	(1,241,623)
Minimum for the year	**1,269,334**	**(1,267,132)**	706,442	(704,325)

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 recorded an unprecedented depreciation of 19.14% (Source Bloomberg) during the year under review, the highest in the decade. The Bank has strategically managed the negative impacts associated therewith having converted them into opportunities.

Bank's exposure to FX risk Table – 22

Currency	Net open position (NOP) '000	Overall exposure in respective foreign currency '000	Overall exposure in Rs. '000
United States Dollar	**10,854**	**5,809**	**1,063,097**
Great Britain Pound	**(7)**	**(15)**	**(3,466)**
Euro	**(8)**	**(11)**	**(2,308)**
Japanese Yen	**(968)**	**787**	**1,304**
Australian Dollar	**(0)**	**6**	**747**
Canadian Dollars	**(7)**	**1**	**177**
Other currencies (in USD)	**73**	**138**	**25,243**
Total exposure (in USD)	**10,896**	**5,928**	**1,084,795**
Total capital funds as at December 31, 2018			**147,398,355**
Total exposure as a % of capital funds as at December 31, 2018			**0.74**

Stress testing is conducted on NOP by applying rate shocks ranging from 6% to 15% in order to estimate the impact on profitability and capital adequacy of the Bank (Refer Note 69.3.3 on page 349). The impact of a 1% change in exchange rate on the NOP indicates a loss of Rs. 229.74 Mn. on the positions as at December 31, 2018.

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. Table 23 summarises the impact of a shock of 10% on equity price on profit, other comprehensive income (OCI) and equity.

Impact of 10% shocks on equity portfolio Table – 23

	2018			2017		
	Financial assets recognised through profit or loss Rs. '000	Financial assets fair value through other comprehensive income Rs. '000	Total Rs. '000	Held for trading Rs. '000	Available for sale Rs. '000	Total Rs. '000
Market value of Equity Securities as at December 31,	768,807	195,149	963,956	314,745	500,278	815,023
Stress Level	Impact on Income Statement Rs. '000	Impact on OCI Rs. '000	Impact on Equity Rs. '000	Impact on Income Statement Rs. '000	Impact on OCI Rs. '000	Impact on Equity Rs. '000
Shock of 10% on equity price (upward)	76,881	19,515	96,396	31,475	50,028	81,503
Shock of 10% on equity price (downward)	(76,881)	(19,515)	(96,396)	(31,474)	(50,028)	(81,502)

Commodity price risk

The Bank has a negligible exposure to commodity price risk which is limited to the extent of the fluctuations in gold price on the pawning portfolio. The portfolio is less than 0.13% of total market risk exposure.

Liquidity risk

Liquidity risk is the Bank's inability to meet "on" or "off" balance sheet contractual and contingent financial obligations as they fall due, without incurring unacceptable losses.

Banks are vulnerable to liquidity and solvency problems arising from 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.

The Bank has maintained the following liquid asset ratios as at December 31, 2018:

Liquid asset ratios Table – 24

	Domestic Banking Unit (DBU) %	Off-Shore Banking Unit (OBC) %
Statutory Liquid Assets Ratio (SLAR)	24.47	30.20

	Local currency %	All currency %
Liquidity Coverage Ratio (LCR)	236.20	238.69

Managing liquidity risk

The Bank manages liquidity risk through the liquidity risk management framework which comprises a robust risk governance structure and a comprehensive suite of risk management processes which include policies and procedures, measurement approaches, mitigation measures, stress testing methodologies, contingency funding arrangements and VaR measurements.

238.69% Liquidity Coverage Ratio (LCR)

Liquidity Coverage Ratio of the Bank stood at 238.69% as at December 31, 2018, well above the minimum statutory requirement of 90%.

139.18% – Net Stable Funding Ratio (NSFR)

Net Stable Funding Ratio of the Bank stood at 139.18% as at December 31, 2018, well above the minimum statutory requirement of 90%.

Liquidity risk review

The net loans to deposits ratio is regularly monitored by the ALCO to ensure that the asset and liability portfolios of the Bank are geared to maintain a healthy liquidity position. NSFR indicating stability of funding sources compared to loans and advances granted was maintained well above the policy threshold of 100%, which is considered healthy to support the Bank's business model and growth.

The key ratios used for measuring liquidity under the stock approach are given in Table 25 below:

Table – 25

Liquidity ratios %	**As at December 31, 2018**	As at December 31, 2017
Loans to customer deposits	**0.91**	0.89
Net loans to total assets	**0.66**	0.64
Liquid assets to short-term liabilities	**0.26**	0.45
Purchased funds to total assets	**0.26**	0.24
(Large liabilities – Temporary Investments) to (Earning assets – Temporary Investments)	**0.19**	0.20
Commitment to total loans	**0.19**	0.17

Maturity gap analysis of assets and liabilities as at December 31, 2018 – Bank

Maturity analysis of financial assets and liabilities of the Bank (Tables 26 and 27) indicates sufficient funding for foreseeable adverse situations based on prescribed behavioural patterns observed.

(i) Remaining contractual period of maturity of the assets employed by the Bank as at December 31, is detailed below:

Table – 26

Descriptions	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, 2018 Rs. '000**	Total as at December 31, 2017 Rs. '000
Interest earning assets:							
Financial assets							
Cash and cash equivalents	8,959,135	–	–	–	–	**8,959,135**	3,457,539
Balances with Central Banks	5,908,142	2,000,899	–	68,550	–	**7,977,591**	1,155,988
Placements with banks	19,898,515	–	–	–	–	**19,898,515**	17,633,269
Securities purchased under resale agreements	9,513,512	–	–	–	–	**9,513,512**	–
Derivative financial assets	–	–	–	–	–	**–**	–
Financial assets recognised through profit or loss/Held for trading – measured at fair value	4,751,363	–	–	–	–	**4,751,363**	4,096,168
Financial assets at amortised cost – Loans and advances to banks	–	–	–	–	–	**–**	–
Financial assets at amortised cost – Loans and advances to other customers	320,738,308	201,409,774	193,654,783	99,943,495	45,353,955	**861,100,315**	737,446,567
Financial assets at amortised cost – Debt and other financial instruments/ Financial Investments – Held to maturity and Loans and receivables	8,599,196	11,063,223	30,343,068	30,561,901	3,288,048	**83,855,436**	112,275,229
Financial assets measured at fair value through other comprehensive income/ Financial Investments – Available for sale	14,825,940	50,792,907	55,334,538	54,075,630	1,233,344	**176,262,359**	154,167,170
Total interest earning assets as at December 31, 2018	**393,194,111**	**265,266,803**	**279,332,389**	**184,649,576**	**49,875,347**	**1,172,318,226**	–
Total interest earning assets as at December 31, 2017	277,041,769	281,538,977	258,419,287	162,241,361	50,990,536		1,030,231,930

Descriptions	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, 2018 Rs. '000**	Total as at December 31, 2017 Rs. '000
Non-interest earning assets:							
Financial assets							
Cash and cash equivalents	30,575,341	–	–	–	–	**30,575,341**	29,767,080
Balances with Central Banks	27,250,735	16,305,044	1,237,212	809,047	804,961	**46,406,999**	43,645,458
Placements with banks	–	–	–	–	–	**–**	–
Securities purchased under resale agreements	–	–	–	–	–	**–**	–
Derivative financial assets	3,304,750	3,982,426	589,427	–	33,359	**7,909,962**	2,334,536
Financial assets recognised through profit or loss/Held for trading – measured at fair value	768,804	–	–	–	–	**768,804**	314,745
Financial assets at amortised cost – Loans and advances to banks	–	–	763,074	–	–	**763,074**	640,512
Financial assets at amortised cost – Loans and advances to other customers	–	–	–	–	–	**–**	–
Financial assets at amortised cost – Debt and other financial instruments/ Financial Investments – Held to maturity and Loans and receivables	–	–	–	–	–	**–**	–
Financial assets measured at fair value through other comprehensive income/ Financial Investments – Available for sale	–	–	–	20,652	223,718	**244,370**	546,962
Non-financial assets							
Investments in subsidiaries	–	–	–	–	4,263,631	**4,263,631**	3,065,935
Investments in associates	–	–	–	–	44,331	**44,331**	44,331
Property, plant and equipment	–	–	–	–	15,301,246	**15,301,246**	14,634,710
Intangible assets	–	–	–	–	906,112	**906,112**	776,810
Leasehold property	–	–	–	–	71,652	**71,652**	72,594
Deferred tax assets	–	–	–	–	–	**–**	–
Other assets	17,802,945	225,991	1,890,106	530,631	3,461,449	**23,911,122**	17,298,162
Total non-interest earning assets as at December 31, 2018	**79,702,575**	**20,513,461**	**4,479,819**	**1,360,330**	**25,110,459**	**131,166,644**	
Total non-interest earning assets as at December 31, 2017	70,311,817	15,953,121	2,669,183	1,253,731	22,953,983		113,141,835
Total assets – as at December 31, 2018	**472,896,686**	**285,780,264**	**283,812,208**	**186,009,906**	**74,985,806**	**1,303,484,870**	
Total assets – as at December 31, 2017	347,353,586	297,492,098	261,088,470	163,495,092	73,944,519		1,143,373,765
Percentage – as at December 31, 2018 (*)	**36.29**	**21.92**	**21.77**	**14.27**	**5.75**	**100.00**	
Percentage – as at December 31, 2017 (*)	30.38	26.02	22.83	14.30	6.47		100.00

(*) Total assets of each maturity bucket as a percentage of total assets employed by the Bank.

(ii) Remaining contractual period to maturity of the liabilities and share holders' funds employed by the Bank as at the date of Statement of Financial Position is detailed below:

Table – 27

Descriptions	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, 2018 Rs. '000**	Total as at December 31, 2017 Rs. '000
Interest – bearing liabilities:							
Financial liabilities							
Due to banks	11,625,888	16,648,582	–	–	–	**28,274,470**	48,954,474
Derivative financial liabilities	–	–				**–**	–
Securities sold under repurchase agreements	38,858,224	6,974,167	3,272,071	–	–	**49,104,462**	49,676,767
Financial liabilities recognised through profit or loss – measured at fair value	–	–	–	–	–	**–**	–
Financial liabilities at amortised cost – due to depositors	504,105,648	352,184,128	24,892,407	14,112,967	16,088,136	**911,383,286**	789,533,286
Financial liabilities at amortised cost – other borrowings	266,300	1,499,941	8,463,641	8,507,200	6,624,830	**25,361,912**	23,786,094
Subordinated liabilities	739,373	387,827	9,477,720	22,104,087	5,283,450	**37,992,457**	25,165,924
Total interest bearing liabilities as at December 31, 2018	**555,595,433**	**377,694,645**	**46,105,839**	**44,724,254**	**27,996,416**	**1,052,116,587**	
Total interest bearing liabilities as at December 31, 2017	524,871,276	306,214,684	38,492,219	30,031,857	37,506,509		937,116,545
Non-interest bearing liabilities :							
Financial liabilities							
Due to banks	21,826,611	–	–	–	–	**21,826,611**	8,166,517
Derivative financial liabilities	3,404,297	4,432,899	184,587	–	–	**8,021,783**	3,678,494
Securities sold under repurchase agreements	–	–	–	–	–	**–**	–
Financial liabilities recognised through profit or loss – measured at fair value	–	–	–	–	–	**–**	–
Financial liabilities at amortised cost – due to depositors	71,654,028	–	–	–	–	**71,654,028**	60,594,225
Financial liabilities at amortised cost – other borrowings	–	–	–	–	–	**–**	–
Subordinated liabilities	–	–	–	–	–	**–**	–

Descriptions	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, 2018 Rs. '000**	Total as at December 31, 2017 Rs. '000
Non-financial liabilities							
Debt securities issued	–	–	–	–	–	**–**	–
Current tax liabilities	1,274,349	5,292,009	–	–	–	**6,566,358**	4,143,911
Deferred tax liabilities	(554,786)	(328,268)	(515,164)	151,947	1,892,519	**646,248**	3,274,826
Other provisions	–	–	–	–	–	**–**	–
Other liabilities	4,178,679	11,518,944	3,623,579	1,474,469	3,410,680	**24,206,351**	19,225,364
Due to subsidiaries	40,955	–	–	–	–	**40,955**	74,523
Equity							
Stated capital	–	–	–	–	39,147,882	**39,147,882**	37,143,541
Statutory reserves	–	–	–	–	7,354,143	**7,354,143**	6,476,952
Retained earnings	–	–	–	–	5,063,076	**5,063,076**	4,987,446
Other reserves	–	–	–	–	66,840,848	**66,840,848**	58,491,421
Total non-interest bearing liabilities as at December 31, 2018	**101,824,133**	**20,915,584**	**3,293,002**	**1,626,416**	**123,709,148**	**251,368,283**	
Total non-interest bearing liabilities as at December 31, 2017	75,376,089	14,424,025	3,532,019	1,636,826	111,288,261		206,257,220
Total liabilities and equities – as at December 31, 2018	**657,419,566**	**398,610,229**	**49,398,841**	**46,350,670**	**151,705,564**	**1,303,484,870**	
Total liabilities and equities – as at December 31, 2017	600,247,365	320,638,709	42,024,238	31,668,683	148,794,770		1,143,373,765
Percentage – as at December 31, 2018 (*)	**50.43**	**30.58**	**3.79**	**3.56**	**11.64**	**100.01**	
Percentage – as at December 31, 2017 (*)	52.50	28.04	3.68	2.77	13.01		100.00

(*) Total liabilities and shareholders' funds of each maturity bucket as a percentage of total liabilities and shareholders' funds employed by the Bank.

Maturity analysis of financial assets and financial liabilities of the Bank (Tables 26 and 27) 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

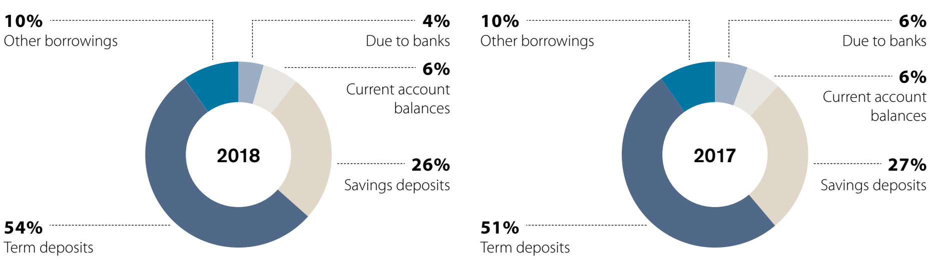
In the absence of a contractual agreement about maturity, savings deposits are treated as a non-maturing demand deposit. There is no exact repricing frequency for the product and the Bank resets rate offered on these deposits based on repricing gap, liquidity and profitability etc. Since, there is no exact repricing 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 19 provides a product-wise analysis of the Bank's funding diversification as at end of 2017 and 2018.

Funding diversification by product Graph – 19



Operational risk

Operational risk is the risk of losses stemming from inadequate or failed internal processes, people and systems, or from external events such as natural disasters, social or political events. It is inherent in all banking products and processes and our objective is to control it in a cost-effective manner. Operational risk includes legal risk but excludes strategic and reputational risk.

Managing operational risk

The Bank manages operational risk through the operational risk management framework which comprises a robust risk governance structure and a comprehensive suite of risk management processes which include policies, risk assessment, risk mitigation through insurance coverage, policies and procedures relating to outsourcing of business activities, managing technology risk, a comprehensive Business Continuity Plan (BCP) and Disaster Recovery Plan (DRP), creating a culture of risk awareness across the Bank, stress testing and monitoring and reporting.

Review of operational risk

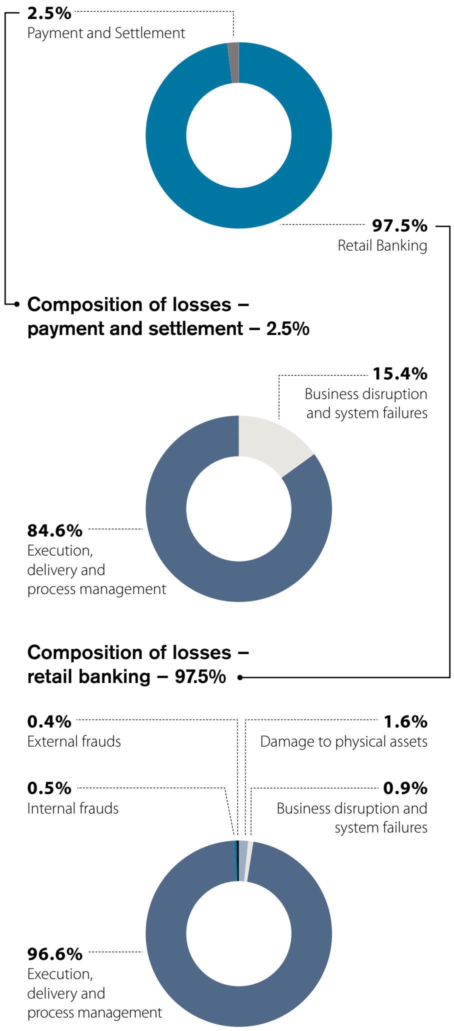
The Bank has a low appetite for operational risks and has established tolerance levels for all material operational risk loss types based on historical loss data, budgets and forecasts, performance of the Bank, existing systems and controls governing Bank operations etc. Following thresholds have been 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

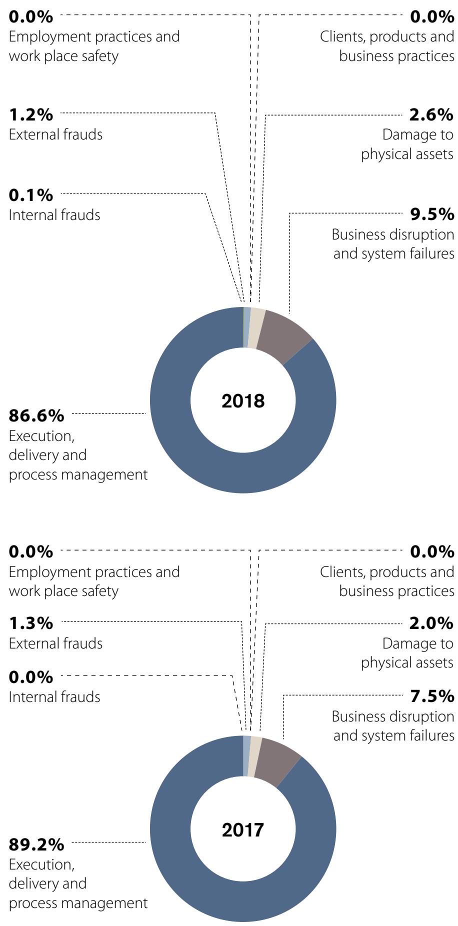
Operational losses for the financial year 2018 were below the internal alert level at 1.70% (of average audited gross income for past three years). The Bank has been consistently maintaining operational losses below the alert level for the past nine years, reflecting the "tone at the top", effectiveness of the governance structures and the rigour of processes and procedures in place to manage operational risk.

The Graph 20 analyses the operational risk losses incurred by the Bank under each business line/category during the year 2018.

Composition of losses – 2018 — Graph – 20



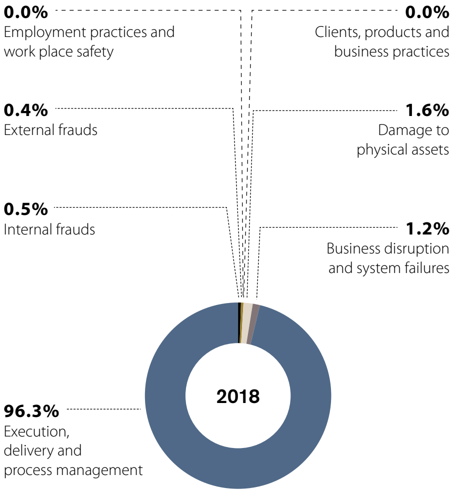
Operational loss events by category – % of total losses by number of events — Graph – 21

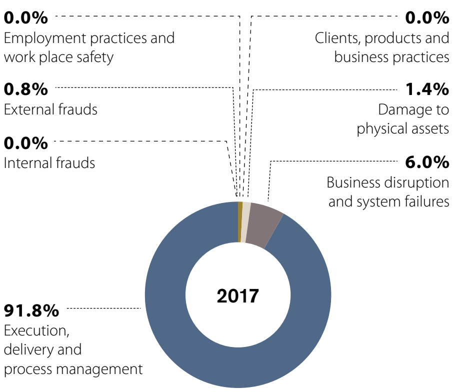


When analysing the losses incurred during 2018 under the Basel II defined business lines, it is evident that the majority (97.5%) of losses with financial impact falls under the business line of "Retail Banking", followed by the losses reported under the "Payment and Settlement" business line. Losses relating to other business lines remain negligible.

The Graphs 21 and 22 depict the comparison of operational losses reported during 2018 and 2017 under each Basel II loss event type, both in terms of number of occurrences and value.

Operational loss events by category – % of total losses by value Graph – 22





As typical with operational risk losses, majority of the losses encountered by the Bank during 2018 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 account for more than 95% 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 0.0072%.

When considering the values of the losses incurred by the Bank during the year, they can mainly be categorised under Execution, Delivery and Process Management related and Damage to Physical Assets. The losses for the year were primarily driven by a limited number of events in Execution, Delivery, and Process Management category, majority of which the Bank managed to resolve through subsequent recovery/rectification with minimum financial impact to the Bank. Further, necessary process improvements have been introduced to prevent recurrence. After the recovered amounts are discounted, the net loss amounts to a mere 0.76% of capital allocation pertaining to operational risk for 2018, under Alternative Standardised Approach of capital computation as per Basel II. This trend of exceptionally low levels of operational risk losses of the Bank bears testimony to the effectiveness of the Bank's Operational Risk Management Framework and the internal control environment.

IT risk

IT risk is the business risk associated with use, ownership, operation, involvement, influence and adoption of IT within an organisation. It is a major component of operational risk comprising IT-related events such as system interruptions, errors, frauds through system manipulations, cyber attacks, obsolescence in applications, falling behind competitors concerning the technology, etc., that could potentially affect the whole business. Given the uncertainty with regard to frequency and magnitude, managing IT risk poses challenges. Hence, the Bank has accorded top priority to addressing IT risk, giving more focus to cybersecurity strategies and continually investing on improving the cybersecurity capabilities. The Bank's cybersecurity strategy is focused on securely enabling new technology and business initiatives while maintaining a persistent focus on protecting the Bank and its customers from cyber threats.

The IT Risk Unit of the IRMD is responsible for implementing the IT risk management framework for the Bank, ensuring that the appropriate governance framework, policies, processes and technical capabilities are in place to manage all significant IT risks. The IT Risk Management Policy, aligned with the Operational Risk Management Policy complements the Information Security Policy, the related processes, objectives and procedures relevant for managing risk and improving information security of the Bank.

RCSA is used as one of the core mechanisms for IT risk identification and assessment, while the IT Risk Unit carries out independent IT risk reviews in line with the established structure of the operational risk management process. Results of these independent IT risk assessments together with audit findings, analysis of information security incidents, internal and external loss data are also employed for IT risk identification and assessment purposes.

IT risk mitigation involves prioritising, evaluating and implementing the appropriate risk-reducing controls or risk treatment techniques recommended from the risk identification and assessment process. The Bank has a multilayered approach of building controls in to each layer of technology, including data, applications, devices, network, etc. This ensures robust end-to-end protection, while enhancing the cyber threat detection, prevention, response and recovery opportunities. Being the first local bank to be certified under the ISO/IEC 27001 information security standard in 2010, the Bank has maintained the certification throughout, by successfully under-going the annual audits.

The Bank has continued to invest in information security, embarking upon a roadmap to improve its resilience towards the cyber threats. Some of the initiatives in this regard during the year included:

- The Network Operations Centre established with the objective to improve the cyber incident response capabilities expanded its security incident and event monitoring functions with a view to establishing a fully-fledged Security Operations Centre in line with the guidelines of the CBSL;
- Since selected key business units have been certified under ISO 27001 Standard, controls applicable to centralised IT systems and processes are already in place across business units. The Bank has initiated a project to implement the few remaining controls that need to be applied at business unit level to ensure adherence to the CBSL Baseline Security Standard across all branches and departments as well.
- The subsidiaries of the Bank have also implemented Information Security Management Systems/ Frameworks aligned to the Commercial Bank Group Information Security Policy Framework introduced during 2017 with the aim of maintaining an appropriate level of information security protection Group-wide.

- The Bank has devised a Cybersecurity Roadmap in line with the CBSL Road Map on Technology Risk Resilience and is in the process of implementing same.

Given that risk management relies heavily on an effective monitoring mechanism, the IT Risk Unit carries out continuous, independent monitoring of the Bank's IT risk profile using a range of tools and techniques including Key IT Risk Indicators (KIRIs).

Legal risk

Defined as the exposure to the adverse consequences resulting from inaccurately drafted contracts, their execution, the absence of written agreements or inadequate agreements, legal risk is an integral part of operational risk. It includes, but is not limited to, exposure to fines, penalties, or punitive damages resulting from supervisory actions, as well as cost of private settlements.

Legal risk is managed by ensuring that applicable regulations are fully taken into consideration in all relations and contracts with individuals and institutions who maintain business relationships with the Bank, and that they are supported by required documentation whereas risk of breaching the rules and regulations is managed by establishing and operating a sufficient mechanism for verification of conformity of operations with applicable regulations.

Compliance and regulatory risk

Compliance and regulatory risk refers to the potential risk to the Bank arising from failure to comply with applicable laws, rules and regulations and codes of conduct and may lead to regulatory sanctions, financial losses, disruptions to business activities and reputational damage. A compliance function reporting directly to the Board of Directors is in place to assess the Bank's compliance with external and internal regulations. A comprehensive compliance policy specifies how this key risk is identified, monitored and managed by the Bank in a structured manner. The Bank's culture and the code of ethics too play a key role in managing this risk.

Strategic risk

Strategic risks are the risks that are associated with the strategic decisions and may manifest in the Bank not being able to keep up with the changing market dynamics, leading to loss of market share and failure to achieve strategic goals. Corporate planning and budgeting process and critical evaluation of their alignment with the Bank's vision, mission and the risk appetite facilitate management of strategic risk. The detailed scorecard-based qualitative model aligned to ICAAP is used to measure and monitor strategic risk of the Bank. This scorecard-based approach takes into consideration a range of factors, including the size and sophistication of the organisation, the nature and complexity of its activities in measuring strategic risk and highlights the areas that need emphasis to mitigate potential strategic risks.

Reputational risk

Reputational risk is the risk of adverse impact on earnings, assets and liabilities or brand value arising from negative stakeholder perception of the Bank's business practices, activities and financial condition. The Bank recognises that reputational risk is driven by a wide range of other business risks that must all be actively managed. In addition, the exponential growth in channels of communication such as social media has widened the stakeholder base and expanded the sources of reputational risk. Accordingly, reputational risk is broadly managed through the systems and controls adopted for all other risk types such as credit, market, operational risk etc., which are underpinned by the code of conduct, communication policy and business ethics. Further, reputational risk is measured through the detailed scorecard-based model developed by the Bank to measure and monitor reputational risk under ICAAP. Timely actions are initiated to mitigate potential reputational risks by critically evaluating the criteria given in the said scorecard.

Capital Adequacy and ICAAP Framework

In line with the Basel requirements and as prescribed in the ICAAP framework, the Bank used internal models to assess and quantify the risk profile, to stress test risk drivers and to assess capital requirements to support them. Internal limits which are more stringent than the regulatory requirement provide early warnings with regard to capital adequacy.

ICAAP supports the regulatory review process providing valuable inputs for evaluating the required capital in line with future business plans. It integrates strategic plans and risk management plans with the capital plan in a meaningful manner with inputs from Senior Management, Management Committees, Board Committees and the Board. It also supports profit optimisation through proactive decisions on exposures both current and potential through measurement of vulnerabilities by carrying out stress testing and scenario-based analysis. The ICAAP process also identifies gaps in managing qualitative and quantitative aspects of reputational risk and strategic risk which are not covered under Pillar 1 of Basel II.

The Bank is compliant with both regulatory and its own prudential requirements of capital adequacy. With a loyal base of shareholders and profitable operations, the Bank is also well positioned to meet capital requirements in the longer term to cover its material risks and to support business expansion.

Target and actual capital levels Table – 28

Capital ratios	Goal (internal requirement)	2018 (%)	2017 (%)
CET 1 (regulatory minimum 7.375%)	> 10%	**11.338**	12.111
Total capital (regulatory minimum 12.875%)	> 15%	**15.603**	15.746

(refer page 397 for the detailed capital adequacy computation)

Basel III minimum capital requirements and buffers

The Banking Act Direction No. 01 of 2016 introduced capital requirements under Basel III for licensed commercial banks commencing from July 1, 2017 with specified timelines to gradually increase minimum capital ratios to be fully implemented by January 1, 2019.

A comparison of the position as at December 31, 2018 and the minimum capital requirement prescribed by the CBSL effective from January 1, 2019 as given below demonstrates the capital strength of the Bank and bears testimony to the ability to meet stringent requirements imposed by the regulator.

Basel III readiness Table – 29

Ratios (%)	Bank's position as at December 31, 2018	Minimum capital ratio prescribed by the CBSL from January 1, 2019
Common Equity Tier 1 (CET 1) including Capital Conservation Buffer (CCB) and Capital Surcharge on Domestic Systemically Important Banks (D-SIBs)	**11.338**	8.50
Total Tier 1 including CCB and Capital Surcharge on D-SIBs	**11.338**	10.00
Total Capital including CCB and Capital Surcharge on D-SIBs	**15.603**	14.00

The Bank foresees challenges in meeting the increasing capital requirements in the years to come, primarily due to the significant impact on the internal capital generation capabilities of the Bank from SLFRS 9 adoption which increased impairment allowance for 2017 (for Day 1 Impact) and 2018 by Rs. 13.4 Bn and the Debt Repayment Levy which increased the tax burden by Rs. 650 Mn. The Bank issued Rs. 10 Bn Basel III compliant debentures in July 2018, to raise the capital.

"Basel Workgroup" of the Bank consists of representation from members from a cross section of business units and supporting units to ascertain levels of capital adequacy in line with strategic direction of the Bank. While ICAAP acts as a foundation for such assessment, the Basel Workgroup is constantly on the lookout for improvements amidst changing landscape in different frontiers, to recommend to the ALCO on the desired way forward including indications on current and future capital needs, anticipated capital expenditure based assessments and desirable capital levels, etc.

The Bank is aware of the importance of capital as a scarce and valuable resource. The Bank has access to contributions from shareholders as well as built up capital over a period of time by adopting prudent dividend policies, ploughing back a portion of the profits, etc. In addition, the Bank is continuously finding ways to improve judicious allocation of capital to requirements associated with the day-to-day activities so that an optimised level of capital allocation can be achieved. The challenges associated with mobilising capital from external sources are also given due cognisance, but not excluded as a sustainable option to boost the capital in the long run. The Bank is reasonably comfortable with the current availability of capital buffer to withstand an ambitious growth/ stressed market conditions, but not complacent with current comfort levels and believe in providing stakeholder confidence that the Bank is known for, through sound capital buffer levels.

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 and resilience of capital, funding, liquidity and earnings.

It also supports a number of business processes, including strategic planning, the ICAAP including capital management, liquidity management, setting of risk appetite triggers and risk tolerance limits, mitigating risks through actions such as reviewing and changing limits, limiting or reducing exposures and hedging thereof, facilitating the development of risk mitigation or contingency plans across a range of stressed conditions supporting communication with internal and external stakeholders.

The Bank's stress testing governance framework sets out the responsibilities for and approaches to stress testing activities which are conducted at Bank, business line and risk type level. The Bank's stress testing programme uses one or a combination of stress testing techniques, including scenario analysis, sensitivity analysis and reverse stress testing to perform stress testing for different purposes.

The framework covers all the material risks such as credit risk, credit concentration risk, operational risk, liquidity risk, FX risk, IRRBB using EVE and EAR perspectives. The Bank looks at different degrees of stress levels which are defined as Minor, Moderate and Severe in the Stress Testing Policy. The resultant impact on the capital through these stress tests is carefully analysed. If the stress tests bring about a deterioration of the capital which has no impact on the policy level on capital maintenance, same is defined as minor risk, while a deterioration of up to 1% is considered moderate risk. If the impact results in the capital falling below the statutory requirement such a level will be considered severe risk, warranting immediate attention of the Management to rectify the situation.

As it provides a broader view of all risks borne by the Bank in relation to its risk tolerance and strategy in a hypothetical stress situation, stress testing has become an effective communication tool to Senior Management, risk owners and risk managers as well as supervisors and regulators. The results of the stress testing are reported to the EIRMC and BIRMC on a quarterly basis for appropriate, proactive decision making. Extracts from the stress testing results are set out in Table 30.

Impact on CAR at minor, moderate and severe stress levels:

Table – 30

Particulars	Description	2018 Minor %	2018 Moderate %	2018 Severe %	2017 Minor %	2017 Moderate %	2017 Severe %
Credit risk – asset quality downgrade	Increasing the direct non-performing facilities over the direct performing facilities for the entire portfolio	**-0.14**	**-0.36**	**-0.68**	-0.15	-0.37	-0.73
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	**-0.06**	**-0.14**	**-0.27**	-0.07	-0.17	-0.34
Foreign exchange risk	Percentage shock in the exchange rates for the Bank and Maldives operations (gross positions in each book without netting)	**-0.05**	**-0.09**	**-0.14**	-0.05	-0.09	-0.13
Liquidity risk (LKR) – Sri Lanka	1. Withdrawal of percentage of the clients, banks and other banking institution deposits from the Bank within a period of three months 2. Rollover of loans to a period greater than three months	**-0.02**	**-0.10**	**-0.28**	-0.09	-0.25	-0.50
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	**-0.30**	**-0.58**	**-0.86**	-0.05	-0.09	-0.14

Business continuity management

Business Continuity Management (BCM) framework of the Bank encompasses business continuity, disaster recovery, crisis management, incident management, emergency management and contingency planning activities. These activities will ensure that the Bank is committed to serve its customers, employees, shareholders and suppliers with minimum business interruptions in the event of an unforeseen disruption to its business activities arising from man-made, natural or technical disasters.

The scope of the BCM includes programme initiation and management, risk evaluation and business impact analysis, developing business continuity strategies, emergency preparedness and response, developing and implementing business continuity plans, awareness building and training, business continuity plan exercise, audit and maintenance, crisis communications and coordination with external agencies.

During the year, the Business Continuity Plan (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 were 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 September 2018, 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 very minimum disruptions, which bears testimony to the maturity attained by the Bank by conducting such exercises over the years. The BCM Unit of the Bank continued with other regular tasks that included on-going alternate site-testing, workshops/awareness sessions on BCP conducted for business units, etc.

Monitoring and reporting

It is the responsibility of the risk management function of the Bank to identify, measure, monitor and report risk. In order to enhance the effectiveness of its role, staff attached to it was given regular training, enabling them to develop and refine their skills. They were well aided by IT systems which enabled extraction of data, analysis and modeling. Regular and ad hoc reports were 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 provided information on aggregate measures of risks across products, portfolios, tenures, and geographies compared against agreed policy parameters, providing a clear representation of the risk profile and sensitivities of the risks assumed by the Bank and the Group.

Plans for 2019 and beyond

The Bank envisages the importance of the risk management function to increase in the wake of the widening and deepening banking regulation, pervasive technological advances and macroeconomic shocks. Hence, the Bank will continue to strengthen the risk management framework further through the necessary changes to the mandate, structure, resourcing, competencies, technologies, MIS, data analytics etc., thereby aligning business strategies with sound risk management practices and making risk management function more forward looking and proactive. Specific initiatives in this regard will include:

- Getting the credit rating model externally validated;
- Automating the Credit Risk Review function;
- Looking for an early warning system to ascertain any behavioural patterns related deterioration in asset quality;
- Ensuring full compliance with Baseline Security Standards (BSS) of the CBSL;
- Establishing a Security Operations Centre as per the guidelines of the CBSL;
- Active participation of risk management function in strategy setting and planning process;
- Issue of 75 Mn. listed, unsecured, rated redeemable, subordinated Basel III compliant debentures of Rs. 100 each with a non viability conversion feature, with an option to issue further 75 Mn. debentures in the event of an oversubscription for a minimum tenure of five years and a maximum tenure of 10 years, during the year 2019, to further strengthen Tier-II capital.
- Adopting a more forward-looking approach to risk management.

Basel III – Market Discipline

Please refer Annex 3 on pages 396 to 411 for the minimum disclosure requirements under Pillar 3 as per the Banking Act Direction No. 01 of 2016.

Financial Reports

Financial Review

Sustaining performance of the Bank into the foreseeable future as a going concern is one of the two dimensions of sustainability as applicable to the Bank, the second dimension being how the Bank conducts its enterprise giving due consideration to the wider community and the environment so that benefits accrue to all the stakeholders. They are two mutually inclusive aspects. It is the sustained performance of the Bank that enables it to give due consideration to the society and the environment while the Bank cannot sustain its performance in the long run unless it gives due consideration to the social and environmental aspects. A profitable operation is a precondition for being sustainable.

By delivering value to and deriving value from stakeholders through various activities connected to financial intermediation and maturity transformation as elaborated in the section on Our Value Creation Model on pages 20 to 23 and the Management Discussion and Analysis on pages 36 to 73, the Bank has been able to build both financial as well as other capitals such as manufactured, intellectual, human, social and network and natural. This financial review provides an analysis of how the Bank grew its financial capital (which plays multiple roles) during the year while the activities undertaken to deliver value to various stakeholders and how such activities have contributed to build other capitals of the Bank by deriving value from them during the year is given on pages 22 and 23 in terms of various indicators.

An overview

The Bank ended 2018 with a solid performance in all key sectors weathering many challenges posed by the operating environment, the increase in impairment allowances, volatile and escalating interest rates, depreciating domestic currency and increased tax burden in particular. With compounded annual growth rates of 19.52%, 16.86% and 16.55% respectively, loans to customers, deposits and total assets again doubled over the past five years. Our growth rates have been in excess of the industry averages, enabling us to continue to enhance our market share in total assets from 10.2% in 2013 to 11.1% by end 2018.

The Banker
TOP 1000
WORLD BANKS 2018

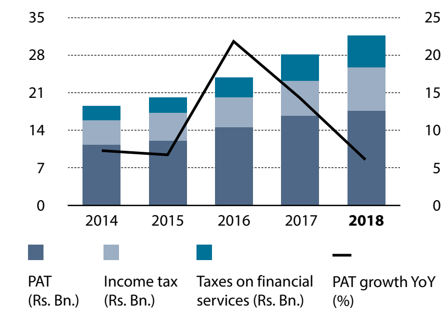
Commercial Bank in World's Top 1000 Banks for record 8th consecutive year

The Bank was ranked among the Top 1000 Banks of the World in 2018, and remains the only Bank in the country to be on this prestigious ranking for eight consecutive years.

Profit after tax of the Bank increased to Rs. 17.544 Bn., a growth of 5.81% compared to 2017. Although lower by our historical performance standards, this is significant when viewed against the challenges posed by the operating environment. Despite a 30.56% growth in total operating income, a substantial increase in impairment charge for the year primarily due to the change in methodology of calculation of impairment allowance and deterioration in asset quality, to Rs. 8.575 Bn. from Rs. 0.678 Bn. in 2017 reduced the growth in net operating income to 14.57%. Increase in operating expenses were proportionate to the growth in business volumes and the total operating income. A significant increase in tax burden limited the growth in profit after tax to 5.81%.

Profit growth Graph – 23

Rs. Bn. %

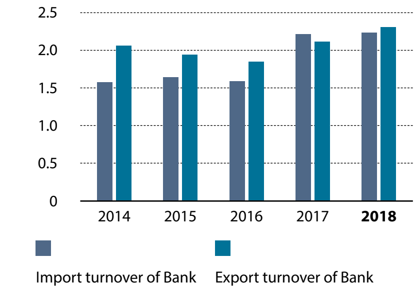


The Bank once again recorded a growth of over Rs. 100 Bn. each in both loans to customers (for the fourth consecutive year) and deposits (for the third consecutive year) during the year.

The Bank recorded a considerable growth in export turnover and a marginal growth in import turnover.

Import and export turnover Graph – 24

USD Bn.



In tandem with the drop experienced in the share market as witnessed by ASPI and S&P SL20 dropping by 5% and 15% during the year respectively, share prices of the Bank also decreased. However, our market capitalisation remained the highest among peers in the Banking, Finance and Insurance sector, on the Colombo Stock Exchange and also ranked third among all listed companies.

Having due regard to dividend policy and the increasing capital requirements which is of paramount importance to support growth plans, the Board of Directors has recommended a final dividend of Rs. 2.00 per share in the form of shares despite the growth in profit after tax being lower in 2018. This final dividend together with the two interim dividends paid, amounted to a total dividend of Rs. 6.50 per share for the year which is consistent with dividends paid for the past six years.

Given that the Bank accounted for 98.76% of the assets and 98.21% 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 Group performance as given on pages 147 to 150.

Income Statement

Fund based operations

Interest income which accounted for 85.09% (90.10% in 2017) of the gross income of Rs. 138.049 Bn. grew to Rs. 117.466 Bn. during the year from Rs. 103.034 Bn. in 2017 recording a growth of 14.01%. The main contributory factors were the growth in average interest earning assets by Rs. 133.288 Bn. (13.37%) and the average interest rate thereon improving by 17 bps to 10.38%.

Interest expenses, which accounted for 61.74% of the interest income (62.13% in 2017), grew by a lower 13.30% as a result of timely repricing of liabilities amidst a shift from low cost funds to high cost time deposits, to Rs. 72.524 Bn. during the year, up from Rs. 64.011 Bn. in 2017. The main contributory factors were the growth in average interest bearing liabilities by Rs. 121.248 Bn. (13.28%) and continuing decline of the CASA ratio to 37.55% from 39.23% in 2017.

Consequently, net interest income grew by 15.17% (compared to 18.89% in 2017) to Rs. 44.942 Bn. from Rs. 39.023 Bn. in 2017, accounting for 70.57% of the total operating income (80.00% in 2017). This compares well against the growth of 16.30% in net interest income (NII) of the banking sector for the year. Net interest spread improved to 3.37% from 3.20% in 2017. Net interest income as a percentage of average assets of 3.67% too compares well with the 3.60% for the banking sector.

Fee-based operations

Fee and commission income too recorded an impressive growth of 17.89% to Rs. 11.988 Bn. for the year. The sources that recorded significant growth included services related to credit and debit cards, trade finance and remittance and guarantees related services. The Bank managed to record a significant increase in the number of credit and debit cards in issue as well as their utilisation. The Bank's market share in both the trade finance and remittance business also increased during the year.

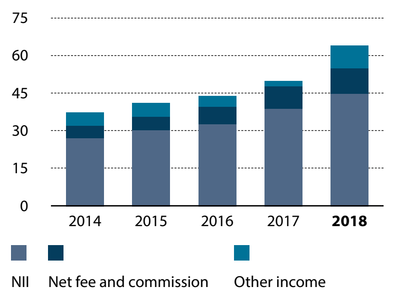
Fee and commission expenses which relate mostly to credit and debit cards related services increased by 17.30%. Consequently, net fee and commission income increased by 17.99% to Rs. 10.150 Bn. accounting for 15.94% of the total operating income (17.64% in 2017).

Total operating income

Total operating income grew by 30.56% to Rs. 63.687 Bn. compared to 13.41% in 2017. Main contributory factors included improvements in NII and net fee and commission income as explained above, a substantial increase in gains from revaluation of foreign exchange, and capital gains on Government Securities. This was partly offset by the exchange losses on swabs that matured during the year which in turn was due to adverse impact of the steep depreciation of the Rupee against the US dollar.

Total operating income Graph – 25

Rs. Bn.

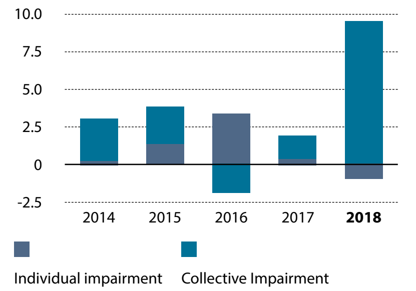


Impairment charges

Consequent to the implementation of SLFRS 9 with effect from January 1, 2018 and the drop in asset quality during the year, the entire financial services industry witnessed a substantial increase in the impairment allowance. Primarily due to differences in impairment methodology under SLFRS 9 that requires impairment allowances to be based on forward looking expected credit loss model compared to LKAS 39 where the impairment allowance was made on incurred loss method, foreign currency denominated Government Securities being subjected to impairment primarily due to sovereign risk associated and unutilised limits too being subjected to impairment coupled with deteriorating asset quality, impairment charge for the year increased to Rs. 8.575 Bn. compared to Rs. 678 Mn. in 2017.

Impairment charges Graph – 26

Rs. Bn.



In addition, the cumulative impact of impairment allowance as at January 1, 2018 arising from the change in methodology from LKAS 39 to SLFRS 9 (day 1 impact), the deferred tax impact thereon and the impact of reclassification of asset categories amounted to Rs. 4.822 Bn. was charged against the retained earnings as at January 1, 2018. Consequently, cumulative impairment allowance increased to Rs. 30.733 Bn. as at December 31, 2018 (under SLFRS 9) compared to Rs. 17.261 Bn. as at end 2017 (under LKAS 39).

Operating expenses

Total operating expenses increased by 17.12% to Rs. 23.469 Bn. for the year from Rs. 20.038 Bn. in 2017. The increase corresponds to the impact on staff remuneration consequent to the new collective agreement applicable to non-executive staff, salary revisions to executive staff, and general increase in other overhead expenses in commensurate with the rate of inflation.

Growth in net operating income by 14.57% partly offset by growth in operating expenses by 17.12% saw operating profit before taxes on financial services increased only up to 12.75%. A substantial increase in taxes on financial services (which include Value Added Tax (VAT), Nations Building Tax (NBT) and Debt Repayment Levy (DRL), primarily due to imposition of DRL effective October 01, 2018 (which cost the Bank Rs. 650 Mn. for the 3 months ended December 31, 2018) reduced the growth in operating profit after taxes on financial services to 10.39%.

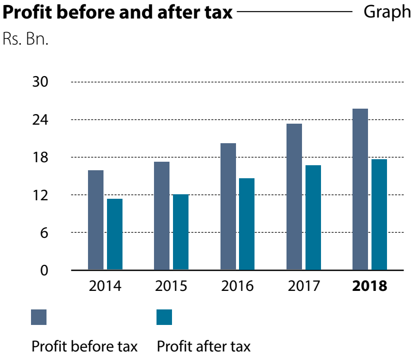
The Bank's Cost to income ratio (including taxes on financial services) improved to 46.35% from 51.08% in 2017 while cost to income ratio excluding taxes on financial services too improved to 36.85% from 41.08% in 2017.

Profit before tax and profit after tax

Profit before tax increased to Rs. 25.591 Bn. for the year, up by 10.39% from Rs. 23.183 Bn. reported in 2017. Income tax for the year increased more than proportionately by 21.90% to Rs. 8.047 Bn compared to Rs. 6.602 Bn in 2017, thereby limiting the profit after tax to Rs. 17.544 Bn., a growth of 5.81% compared to growth in profit after tax of 14.25% reported for 2017. The higher increase in income tax was mainly due to removal of tax concessions on income earned on certain Government securities for tax purposes, profit from listed corporate debt instruments, and income earned in foreign currency outside the country being made liable to income tax etc. following the enactment of the Inland Revenue Act No. 24 of 2017 which became effective from April 1, 2018. Consequently, the effective tax rates of the Bank increased as follows:

	2018 %	2017 %	Increase (bps)
Effective tax rate (excluding taxes on financial services)	**31.45**	28.48	297
Effective tax rate (including taxes on financial services)	**50.57**	45.87	470

Profit before and after tax Graph – 27



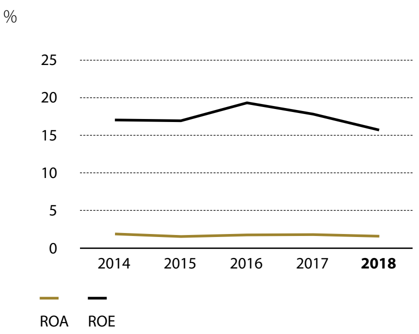
Segmental performance

All four main business segments recorded robust growth in both business volumes. Personal Banking Division made the highest contribution to the profit before tax, of the Group accounting for 57.70% followed by 10.00% from the Corporate Banking division, 24.26% from International Operations, and 5.13% from Treasury.

Profitability

Return on Assets (ROA) and Return on Equity (ROE) reduced to 1.43% and 15.56% as against 1.54% and 17.88% respectively reported in 2017 mainly due to the provisions for additional taxes during the year. Despite the Bank's ROA and ROE recording decreases during the year, these ratios are well above the industry averages of 1.1% and 13.2%.

ROA & ROE of the Bank Graph – 28

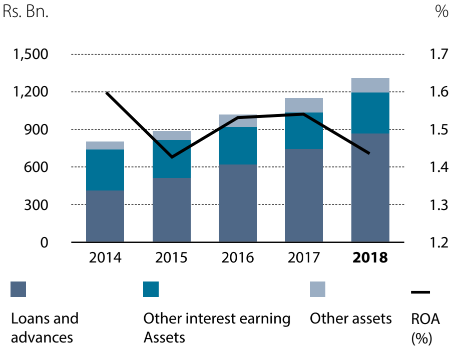


Statement of Financial Position

Assets

Total assets of the Bank grew by 14.00% during the year to reach Rs. 1.303 Tn. at the year end compared to Rs. 1.143 Tn. as at December 31, 2017, a noteworthy growth of Rs. 160.111 Bn. in absolute terms during the year. 77% or Rs. 123.654 Bn. of which came from loans to customers, reflecting the robustness of the Bank's primary activities of financial intermediation, and maturity transformation. The asset growth of the banking industry moderated to 14.6% for the year.

Composition of total assets Graph – 29



Contribution from the Bank's International Operations now accounts for 11.38% of total assets (11.11% in 2017) and 15.61% of net operating income (11.95% in 2017) of the Group.

Loans to customers

Loans to customers is the single biggest asset of the Bank on its balance sheet, accounting for 66.06% of total assets compared to 64.50% a year ago. The Bank continued to sustain its growth momentum in loans to customers from last year, recording a 16.77% growth to Rs. 861.100 Bn. as at December 31, 2018 compared to Rs. 737.447 Bn. a year ago. This is lower than the industry growth of 19.40% for the year due to conscious decision taken by the Bank to slow down credit growth. Key contributors to the loans to customers growth came from term loans, overdrafts, trade finance, personal loans, and housing loans. Heightened focus on SMEs, new customer acquisition, higher Single Borrower Limit, etc. contributed to this achievement.

Asset quality

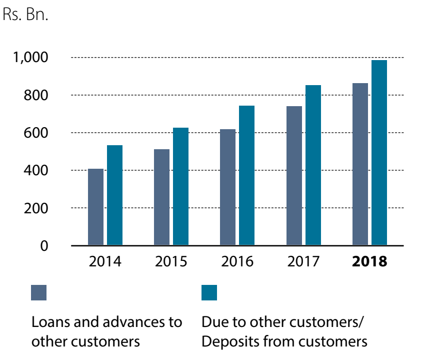
The sustainability of the Bank's operations largely depends on the quality of the portfolio of loans to customers which accounts for two thirds of total assets. Reflecting the industry-wide trend of a deteriorating asset quality, the Bank too experienced an increase in NPLs. However, due to the conservative risk profile with a moderate risk appetite, robust risk management framework and the strengthened recovery initiatives, the Bank managed to contain the increase in the gross and the net NPL ratios to 3.24% and 1.71% as at December 31, 2018 from 1.88% and

0.92%, respectively a year ago and compared to industry averages of 3.40% and 2.00% respectively.

Cumulative impairment allowance for loans to customers as a percentage of the loans to customers as at the end of the year amounted to 3.27% compared to 2.29% in 2017. Provision cover dropped to 47.21% in 2018 from 51.05% in 2017 while open credit exposure ratio (which is net exposure on NPLs as a percentage of regulatory capital) increased from 7.60% at end 2017 to 12.38% as at December 31, 2018 but stood below the industry average of 14.5%.

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

Deposits and advances Graph – 30



Deposits

With the solid domestic franchise in Sri Lanka, customer deposits continued to be the single biggest source of funding for the Bank, accounting for 75.42% of the total assets as at December 31, 2018 compared to 74.35% a year ago. Deposits grew by Rs. 132.909 Bn. or 15.63% during the year and reached Rs. 983.037 Bn. as at December 31, 2018 compared to Rs. 850.128 Bn. as at the previous year end. With the wide gap in interest rates between CASA and time deposits, shift of funds from current and savings accounts to high yielding time deposits continued as evident from the CASA ratio declining further to 37.55% as at December 31, 2018 from 39.23% a year ago. Nevertheless, this compares well with the industry CASA ratio of 32.00%.

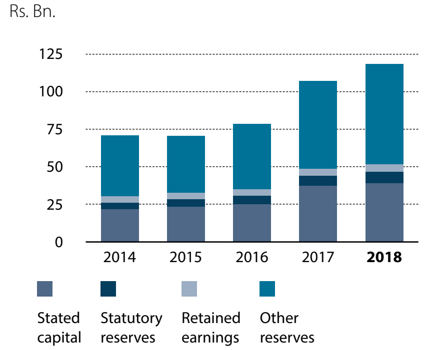
Other liabilities

The Bank continued to have a strong and resilient funding profile. Customer deposits and equity capital together funded 84.50% of the total assets as at December 31, 2018 (83.72% in 2017) with all forms of other liabilities such as trade related payables and borrowings accounting for 15.50% or Rs. 202.042 Bn. compared to 16.28% or Rs. 186.147 Bn. as at December 31, 2017. Significant growth in deposits, Rs. 10 Bn. raised from the debenture issue, borrowings of USD 100 Mn. from IFC coupled with the capital funds from the rights issue of shares in 2017 lowered the need for other borrowings during the year. Securities sold under repurchase agreements, borrowings from IFC, China Development Bank, and subordinated liabilities represented significant forms of borrowings as at the year end.

Capital

Reflecting the profitability of the Bank and the prudent dividend policy, equity capital of the Bank grew to Rs. 118.406 Bn. as at December 31, 2018 from Rs. 107.099 Bn. a year ago. With an on balance sheet multiplier (gearing ratio) of 11.0 times compared to the industry average of 11.45 times, equity funded 9.08% of the assets as at the current year end, compared to the 9.37% as at December 31, 2017. Bank ploughed back Rs. 9.609 Bn. out of profit of the year 2017 after setting aside the dividends declared. However, risk weighted assets of the Bank grew by 21.50% to Rs. 944.682 Bn. in 2018. Consequently, both the Common Equity Tier 1 ratio and the total capital ratio decreased to 11.338% (minimum requirement – 8.875%) and 15.603% (minimum requirement 12.875%), respectively as at December 31, 2018, yet exceeding the higher capital adequacy requirements imposed on the Bank under Basel III as a Domestic Systemically Important Bank. Given the pending increase in total capital adequacy ratio to 14% with effect from January 1, 2019, through the deliberations on the corporate plan, the Bank has already made necessary arrangements to augment capital creating sufficient leeway for the planned expansion of the Bank's operations. The equity multiplier in terms of risk weighted assets marginally improved to 6.41 times from 6.35 times a year ago.

Shareholders' funds Graph – 31



Liquidity

Compared to the liquidity shortage that prevailed in the market during the year, the Bank maintained a healthy liquidity position throughout the year. The Bank is mindful of the trade-off between liquidity and profitability and had a liquid asset ratio of 23.54% as at December 31, 2018 (27.64% as at December 31, 2017). Loans to deposits ratio was 90.55% (88.78% in 2017). Given its importance, review of liquidity is a permanent agenda item in the fortnightly ALCO meetings of the Bank.

Available stable funding based on definitions prescribed by the CBSL stood at Rs. 1.008 Tn. as at December 31, 2018, leading to a Net Stable Funding Ratio (NSFR) of 139.18% (based on the test calculations done) comfortably above the statutory minimum of 100% which is effective from January 2019.

Demonstrating the availability of unencumbered high quality liquid assets at the disposal of the Bank, the Liquidity Coverage Ratio (all currency) stood at 238.69% as at December 31, 2018 as against the statutory minimum of 100% effective from January 2019.

Core Financial Soundness Indicators (FSIs)

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

Financial soundness indicators Table – 31

Financial soundness indicator (%)	2018	2017	2016	2015	2014
Capital adequacy (under Basel II and Basel III):					
Common Equity Tier 1 ratio	**11.34**	12.11	N/A	N/A	N/A
Tier 1 capital ratio	**11.34**	12.11	10.37*	11.60*	12.93*
Total capital ratio	**15.60**	15.75	14.87*	14.26*	15.97*
Non-performing loans [net of interest in suspense and specific provisions] to equity	**12.71**	6.39	8.65	10.36	10.95
Equity to total assets	**9.08**	9.37	7.74	8.00	8.86
Asset quality:					
Gross NPL ratio	**3.24**	1.88	2.18	2.74	3.47
Net NPL ratio	**1.71**	0.92	1.09	1.41	1.86
Total provisions made against gross loans and receivables	**1.97**	1.40	1.53	1.75	1.65
Provision coverage ratio	**47.21**	51.05	50.11	48.49	46.34
Earnings and profitability:					
Net interest income to total operating income	**70.56**	78.02	74.43	73.51	72.82
Interest margin (Net interest income to average assets)	**3.67**	3.62	3.47	3.62	3.88
Operating expenses to gross income	**17.00**	17.33	20.20	22.22	21.62
Impairment charge to total operating income	**13.46**	1.39	3.47	9.55	8.64
Return on assets	**1.43**	1.54	1.53	1.42	1.60
Return on equity	**15.56**	17.88	19.52	16.90	17.01
Cost to income ratio	**46.35**	51.08	51.06	48.92	49.26
Liquidity:					
Statutory liquid assets ratio (DBU)	**24.47**	27.28	27.19	26.24	33.15
Statutory liquid assets ratio (OBU)	**30.20**	30.95	30.19	49.13	31.43
Liquidity Coverage ratio (All currency)	**238.69**	209.17	150.45	–	–
Net Stable Funding ratio	**139.18**	127.87	–	–	–
CASA ratio	**37.55**	39.23	41.67	49.70	48.38
Gross Loans to deposits ratio	**90.56**	88.78	85.64	84.31	79.79
Assets and funding structure:					
Deposits to total assets	**75.42**	74.35	73.06	70.94	66.54
Borrowings to total assets	**4.86**	4.28	3.37	2.50	2.85
Equity to total assets	**9.08**	9.37	7.74	8.00	8.86
Deposits to gross loans	**110.43**	112.64	116.76	118.61	125.33

**Computed under Basel II guidelines*

Subsidiaries and associates

The group structure of the Bank consists of the Bank and six subsidiaries (including three foreign subsidiaries) and two associates as depicted on pages 430 to 431.

Given below is an overview of operations of the subsidiaries and associates of the Bank.

Commercial Development Company PLC (CDC)

Established in 1980 as the Bank's first subsidiary, CDC was responsible for building the present Head Office building of Commercial Bank, "Commercial House". The Bank holds a 92.41% stake in CDC as at end of 2018, which is the only listed Subsidiary of the Group, which handles a major portion of the Bank's utility services. A large part of its income is derived from rental earned on building, hiring of vehicles to the Bank, and outsourcing staff.

CDC recorded a post-tax profit of Rs. 328.546 Mn. for the year 2018, recording a decrease of Rs. 98.234 Mn. from Rs. 426.780 Mn. recorded in the previous year. The decrease in profit was primarily attributable due to a lower gain recognised on revaluation of the investment property in 2018.

ONEzero Company Ltd. (ONEzero)

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

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

Company recorded a post-tax profit of Rs. 64.261 Mn. for the year 2018, a significant growth of 45.15% compared to the previous year.

Serendib Finance Limited (SFL)

SFL is a 100% owned subsidiary of the Bank and is a Licensed Finance Company (LFC) under the Finance Business Act No. 42 of 2011.

SFL has grown and expanded its asset base up to Rs.5.425 Bn. by end 2018 since the acquisition of the company, which had a total asset base of Rs. 1.8 Bn. in 2014.

Upon acquisition by the Bank, SFL underwent vast changes in risk management and corporate governance structures. Subsequent to new business plans and strategies devised, the company has shown signs of reaching its true potential during the last quarter of the year.

The leasing business, the Company's key strength, performed well over the past four years, although at a slower pace due to regulatory restrictions.

SFL's is on course to improve its performance in the near future based on its current business strategy which is twofold;

(a) To capitalise on business strengths by utilising its existing resource base and employing professional lending staff for non-leasing business. SFL has been able to disburse a substantial amount in new lending facilities towards end of the year.

(b) Improve the risk profile of the asset portfolio by enhanced lending to higher investment grade customers and strengthening the recovery function of the Company.

These strategies are expected to contribute towards enhanced profitability in 2019.

Commercial Bank of Maldives Private Limited (CBM)

CBM was founded in May 2013 together with Tree Top Investments, the Bank's Maldivian partner, which contributes vital local market knowledge to the team and has a stake of 45% while Commercial Bank holds a 55% stake in the company. Established during the latter part of 2016, CBM opened its Head Office and first branch in the capital, Malé. During the year, it opened its second branch on the island of Hulhumalé.

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 Maldives.

In its second year of operation, CBM recorded a post-tax profit of Rs. 270.67 Mn., an impressive growth of Rs. 237.69 Mn. compared to Rs. 32.98 Mn. in 2017.

CBC Myanmar Microfinance Company Limited (CBC Myanmar)

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

Similar to the concept of Grameen banking, the operations in Myanmar presently offer group loans to customers with a compulsory saving requirement. Plans are afoot to provide individual loans to established micro and small entrepreneurs during the first quarter of 2019.

By end December 2018, after just six months in operation, CBC Myanmar was able to develop a loan portfolio serving over 2,300 customers.

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

Commex, a fully-owned subsidiary of Bank, began money transfer operations in Italy, in 2016. As a result, Commercial Bank became the first Sri Lankan bank to be licensed by the Central Bank of Italy to operate as a money transfer company. The license allows Commex to expand across the European Union using passporting rights.

By further increasing the total number of agents to twelve, during the year, Commex expanded its agent network to Napoli and Messina, two major cities situated in the South where a large number of Sri Lankan expatriates reside.

Commex moved people with the right skills into key management positions in the region to ensure it remained poised to make the best of potential opportunities. This helped the subsidiary to fully comply with the General Data Privacy Regulation (GDPR) imposed by the European Union since mid-2018.

Commercial Insurance Brokers (Pvt) Ltd. (CIBL)

The Bank holds an indirect stake of 18.48% in CIBL, through its subsidiary Commercial Development Company PLC. The line of business of CIBL includes insurance brokering for all types of insurance through reputed life and general insurance companies in Sri Lanka.

Bank's International Operation

Figure – 32

Commex Sri Lanka S. R. L. – Italy

Year of establishment	2016 – commenced business under the Authorised Payments Institute (API) Licence issued by the Bank of Italy in Rome
Bank's stake	Fully owned subsidiary
Nature of business operations	Serves the fund-transfer needs of Sri Lankan expatriates in Italy Twelve agents cover all major cities of Italy
Legend	This license allows the Bank to expand further across Europe and plans to do so are currently being laid out. One of the first Sri Lankan banks to launch money transfer facilities in Italy
Contribution to the Group	Assets of Rs. 128.555 Mn. and loss of Rs. 38.555 Mn. in 2018.

Commercial Bank's Bangladesh Operation

Year of acquisition	2003 – banking business of Crédit Agricole Indosuez acquired
Bank's stake	Branch operation
Nature of business operations	Fully-fledged commercial banking license [Reaffirmed at AAA] in June 2018 by Credit Rating Information and Services Limited
Legend	• The Bank's first overseas venture • First among regional banks and third among the nine foreign banks in Bangladesh in terms of profitability • Includes 11 branches, 6 SME centres, 2 offshore banking units, and 20 ATM machines (including three off-site)
Contribution to the Group	Accounted for 9.42% of our assets and 19.20% of our profit before tax in 2018

Commercial Bank of Maldives Private Limited (CBM)

Year of establishment	2016
Bank's stake	55% Tree Top Investments is the Bank's Maldivian Partner which was founded in 2013 and holds the balance 45% stake in CBM. It provides the Bank with vital local market knowledge
Nature of business operations	Fully-fledged Tier 1 bank under the license issued by the Maldives Monetary Authority offering an extensive range of financial services using advanced technology and the regional expertise of our Treasury arm
Legend	Two branches – in Malé and Hulhumalé
Contribution to the Group	Assets of Rs. 14.24 Bn. Profit before tax of Rs. 427.243 Mn. in 2018

CBC Myanmar Microfinance Company Limited

Year of establishment	2015 – Representative Office and micro finance license 2017 – Myanmar Microfinance Company Limited 2018 – Commenced business operations
Bank's stake	Fully owned subsidiary
Nature of business operations	Offering microfinancing
Legend	Commercial operations begun in 2018
Contribution to the Group	Assets of Rs. 323.117 Mn. and Profit before tax of Rs. 12.696 Mn. in 2018

CIBL recorded a profit after tax of Rs. 32.828 Mn. for the year ended 2018 up from Rs. 28.711 Mn. in 2017. The company's total assets stood at Rs. 344.009 Mn. as at December 31, 2018.

Equity Investments Lanka Ltd. (EQUILL)

The Bank owns a 22.92% stake in EQUILL, a venture capital company established 28 years ago. EQUILL invests in equity and equity featured debt instruments.

The Company recorded a post tax loss of Rs. 0.241 Mn. compared to the loss of Rs. 6.716 Mn. recorded for the previous financial year.

Returns to shareholders

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

Bank proposed a final dividend of Rs. 2.00 per share for the year ended December 31, 2018 which together with the two interim dividends paid add up to a total dividend of Rs. 6.50 for the year. Reflecting the overall trend in the market, the Bank's shares were trading at 0.98 times marginal discount to its book value as at December 31, 2018, but has the highest market capitalisation among all the banks listed on the CSE.

Commercial Bank of Ceylon PLC – Bangladesh Operations

Bangladesh has made substantial progress in growing its economy, lifting people out of poverty, and improving the lives of its people by increased employment, increased access to health and education, and improved basic infrastructure. With a forecast real GDP growth of 7.1% up to 2030, Bangladesh is poised to become the 26th largest economy in the world by 2030 – up from its current ranking of 42. Over the past decade alone, Commercial Bank of Ceylon PLC (CBC), Bangladesh, has taken great strides and contributed towards this economic growth and improve the lives of its people.

During the past 15 years, our Bangladesh operations have grown to take on a leadership position among the country's regional banks. Its network now comprises 11 branches, 6 SME centres, 2 Offshore Banking Units, and 20 ATMs (including 3 in off-site locations). In addition, the Bank recently introduced Automatic Banking Centres (ABCs), through which customers can make real-time cash and cheque deposits round the clock.

Our proven expertise together with market knowledge in foreign exchange, money market, fixed income products, and the ability to offer consistent, cost-effective fund management as well as trade finance services in Bangladesh, provides us with an edge over competition. Online banking continues to gain in popularity with the total number of online fund transfers amounting to BDT 656 Mn. during the year.

Against strong competition from international and large local banks, we were named best Regional Bank in terms of performance in deposits, advances, and profitability. Our remit in Bangladesh includes Corporate Banking, Retail Banking, and Treasury Operations.

Key performance indicators during the year, including past statistics

The progress of the Bank in core banking areas is detailed below.

(Amount in BDT Mn.) Table – 32

Particulars	2018	2017	2016	2015	2014	Percentage change from 2017 to 2018
Total deposits	**35,221.65**	28,808.18	23,124.88	21,935.55	18,633.81	22.26
Gross advances	**38,448.10**	32,113.53	24,456.51	22,621.26	18,328.43	19.73
Profit before tax and provisions	**2,439.98**	1,817.79	1,478.40	1,798.66	1,675.81	22.26
Profit before tax	**2,439.98**	1,758.56	1,381.93	1,592.10	1,630.56	38.75
Profit after tax	**1,406.65**	988.4	785.13	904.1	947.49	42.32

All information above is based on management accounts

Key financial ratios for the past five years is as follows:

Our cost to income ratio has reduced over the past five years, as a result of leveraging the expertise and state-of-the-art systems and processes of our Sri Lankan operations. One of the most preferred employers in the banking industry in Bangladesh, the Bank's annual profit per employee increased over 2018 due to investments made by the Bank in training and developing our people.

Table – 33

Ratio	**2018**	2017	2016	2015	2014	Change from 2017 to 2018
Cost/Income ratio (%)	**25.28**	28.62	32.76	24.98	28.15	3.34
Net interest margin (%)	**4.53**	4.46	5.11	6.44	6.30	0.07
Profit per employee (in Mn. BDT)	**8.16**	6.26	5.38	6.24	7.73	1.90
Return on asset (gross) (%)	**4.31**	3.81	3.74	4.63	5.09	0.50
Return on capital employed (%)	**13.29**	11.18	9.90	12.61	14.86	2.11

Recognition received during the year

During the year, the UK-based Global Business Outlook magazine awarded the Bank "Best Foreign Bank" in Bangladesh. The Bank also received a "AAA" rating for the 8th consecutive year from Credit Rating Information and Services Limited (CRISL) based on 2017 financial statements. For our customers – particularly in the corporate sector – our regional footprint affords greater opportunity and support for growth with their trusted Bank (Refer page 147 for information on local subsidiaries). Our work in this area helps us to contribute towards Sustainable Development Goals 17: Partnerships for the Goals, as we promote international trade, help developing countries in the region to increase their exports, and promote investment for the least developed.

Future outlook

Currently, the Bank is present in five key districts, namely: Dhaka, Chittagong, Sylhet, Narayangonj and Gazipur. Plans to cover one more district by 2019 are currently under way.

Despite severe competition among international and large local banks, CBC has recorded consistent growth in business volumes specially catering to multinationals and large local corporates by offering better service and commitment.

As our branch network and other customer touchpoints keep on expanding, we continue to provide integrated products and service offering that are relevant to varying customer segments. We have begun gradually attracting SME and retail clients, which will help us to improve profitability and mobilise low cost deposits in the medium term.

Financial Calendar – 2018

Dividend Calendar

	2018	2019
Final dividends for the previous year paid/payable	**On March 28, 2018**	On April 8, 2019
First interim dividend for the year paid/payable	**On November 21, 2018**	In the second half of 2019
Second interim dividend for the year paid/payable	**On February 15, 2019**	In the second half of 2019
Final dividend for the year to be proposed	**On March 28, 2019**	In March 2020
Final dividend for the year to be paid	**On April 8, 2019**	In April 2020

Annual General Meeting (AGM) Calendar

	2018	2019
Annual Report and Accounts for the year signed/to be signed	**On February 22, 2019**	In February 2020
Annual General Meeting to be held	**On March 28, 2019**	In March 2020

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)

	2018 Submitted on	2019 To be submitted on or before
For the three months ended/ending March 31, (unaudited)	**May 15, 2018**	May 15, 2019
For the six months ended/ending June 30, (audited)	**August 15, 2018**	August 15, 2019
For the nine months ended/ending September 30, (unaudited)	**November 13, 2018**	November 15, 2019
For the year ended/ending December 31, (audited)	**February 22, 2019**	February 28, 2020

Interim Financial Statements Calendar – Publication in the Newspapers

(As per the Direction Ref. No. 02/04/003/0401/001 dated January 26, 2006 and the Direction Ref. No. 02/04/003/0401/001 dated February 21, 2006 of the Central Bank of Sri Lanka)

	2018 Published on/to be published on or before			2019 To be published on or before
	English	Sinhala	Tamil	In all three languages
For the three months ended/ending March 31, (unaudited)	**May 23, 2018**	**May 30, 2018**	**May 30, 2018**	May 31, 2019
For the six months ended/ending June 30, (audited)	**August 21, 2018**	**August 27, 2018**	**August 28, 2018**	August 31, 2019
For the nine months ended/ending September 30, (unaudited)	**November 19, 2018**	**November 26, 2018**	**November 27, 2018**	November 30, 2019
For the year ended/ending December 31, (audited)	**March 29, 2019**	**March 29, 2019**	**March 29, 2019**	March 31, 2020

Independent Auditors' Report

Building a better working world

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HMAJ/WDPL

TO THE SHAREHOLDERS OF COMMERCIAL BANK OF CEYLON PLC

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Commercial Bank of Ceylon PLC ("the Bank") and the consolidated financial statements of the Bank and its subsidiaries ("the Group"), which comprise the statement of financial position as at December 31, 2018, and the income statement, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements of the Bank and the Group give a true and fair view of the financial position of the Bank and the Group as at December 31, 2018, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards ("SLAuSs"). Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the Code of Ethics issued by CA Sri Lanka ("Code of Ethics") and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of our financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Key audit matter	How our audit addressed the key audit matter
Impairment allowance for Loans and advances to other customers including Group's transition to SLFRS 9: Our audit considered impairment allowance for loans and advances to other customers as a key audit matter. The materiality of the reported amounts for loans and advances to other customers (and impairment allowance thereof), the subjectivity associated with Management's impairment estimation and transition to Sri Lanka Financial Reporting Standard 9: Financial Instruments (SLFRS 9) underpinned our basis for considering it as a key audit matter As at December 31, 2018, 66 % of its total assets of the Group consisted of loans and advances to other customers amounting to Rs. 867,611 Mn., net of impairment allowance of Rs. 30,344 Mn. (Note 35). The impact on transition to SLFRS 9 on the Group's Financial Statements has been quantified and presented in Note 12 of the Financial Statements. The estimation of impairment allowance for loans and advances from other customers involved complex manual calculations. Significant estimates and assumptions used by the Management in such calculations, its sensitivities and the basis for impairment allowance are disclosed in Notes 7.1.12, 19, and 69.1.3.	To assess the reasonableness of the impairment allowance, our audit procedures (among others) were designed to obtain sufficient and appropriate audit evidences, included the following: • We evaluated design effectiveness of controls over estimation of impairment of loans and advances to other customers, which included assessing the level of oversight, review and approval of impairment policies by the Board Audit Committee and Management. • We test-checked the underlying calculations and data. • In addition to the above, following focused procedures were performed: For loans and advances to other customers individually assessed for impairment: – We assessed the main criteria used by the Management for determining whether an impairment event had occurred. – Where impairment indicators existed, we assessed the reasonableness of management's estimated future recoveries including the expected future cash flows, discount rates and the valuation of collateral held. We also compared the actual recoveries against previously estimated amounts of future recoveries. For loans and advances to other customers collectively assessed for impairment: – We assessed the completeness of the underlying information in loans and advances used in the impairment calculations by agreeing details to the Group's source documents and information in IT systems. – We also considered reasonableness of macro-economic and other factors used by management in their judgemental overlays for various types of loan portfolios, by comparing them with publicly available data and information sources. • We assessed the adequacy of the related financial statement disclosures as set out in Note 35. • We also assessed the adequacy of the Group's disclosure on the impact of the initial adoption of SLFRS 9 as set out in Note 12. This included testing of the quantitative impact of the transition.
Preparation and presentation of financial statements The Bank uses a multitude of complex IT systems in its operations. As a result, preparation of financial statements inclusive of key disclosures are heavily dependent on information derived from multiple systems that are being used. The process of preparing key disclosures such as Fair value, Risk management and Related Party involves running multiple system reports, collation and spread sheet based analysis further calculations. Accordingly, we considered the risk of any control lapses of the preparation of accounting and financial information as a key audit matter	We performed the following procedures, among others. • Understanding and evaluation of design effectiveness of key controls implemented by Management over generation of multiple system reports and collation of required information underpinning the significant financial statement disclosures. • Examining Management's reconciliations between source systems and the general ledgers through to the consolidation spreadsheet, including substantiation of the source system balances. • Test-checking; – source data with those of the related systems, and – calculations and categorisations performed by Management to ensure accuracy and reasonability of functions and procedures respectively. • Assessing if the significant disclosures are being made in line with applicable accounting standards. • Testing material post-closing adjustments to appropriate supporting evidence. We then considered whether the journals were posted appropriately and were consistent with our conclusions on the judgements and estimates made by Management.

Other information included in the 2018 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 judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal controls of the Bank and the Group.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our Auditor's Report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our Auditor's Report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with ethical requirements in accordance with the Code of Ethics regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our Auditor's Report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

As required by Section 163 (2) of the Companies Act No. 07 of 2007, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Bank.

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditors' report is 1884.

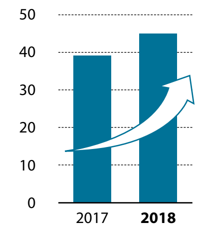
Chartered Accountants

Colombo
February 22, 2019

Financial Statements Highlights – Bank

Net interest income (NII) Graph – 32

Rs. Bn.



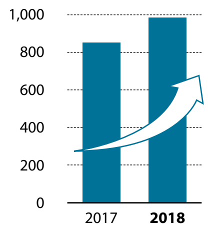
15.17%

2018: Rs. 44.942 Bn.

2017: Rs. 39.023 Bn.

Financial liabilities at amortised cost – due to depositors Graph – 33

Rs. Bn.



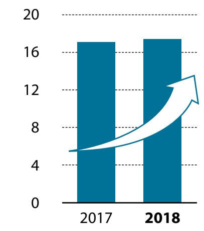
15.63%

2018: Rs. 983.037 Bn.

2017: Rs. 850.128 Bn.

Earnings per share – Basic Graph – 34

Rs.



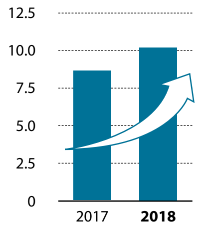
1.94%

2018: Rs. 17.36

2017: Rs. 17.03

Net fee and commission income Graph – 35

Rs. Bn.



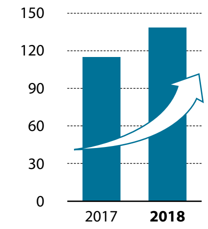
17.99%

2018: Rs. 10.150 Bn.

2017: Rs. 8.602 Bn.

Gross income Graph – 36

Rs. Bn.



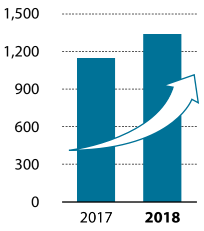
20.72%

2018: Rs. 138.049 Bn.

2017: Rs. 114.357 Bn.

Total assets Graph – 37

Rs. Bn.



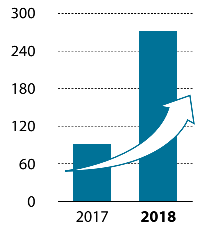
14.00%

2018: Rs. 1,303.485 **Bn.**

2017: Rs. 1,143.374 Bn.

Net gains/(losses) from derecognition of financial assets Graph – 38

Rs. Mn.



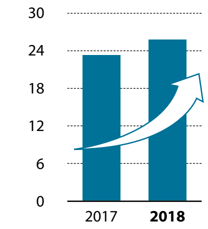
198.01%

2018: Rs. 272.004 Mn.

2017: Rs. 91.272 Mn.

Profit before tax Graph – 39

Rs. Bn.



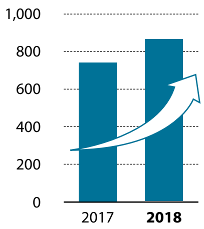
10.39%

2018: Rs. 25.591 Bn.

2017: Rs. 23.183 Bn.

Financial assets at amortised cost – Loans and advances to other customers Graph – 40

Rs. Bn.



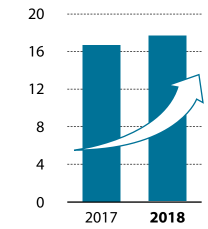
16.77%

2018: Rs. 861.100 Bn.

2017: Rs. 737.447 Bn.

Profit after tax Graph – 41

Rs. Bn.



5.81%

2018: Rs. 17.544 Bn.

2017: Rs. 16.581 Bn.

Financial Statements – Table of Content

Income Statement

For the year ended December 31,	Note	Page No.	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000	GROUP Change %	BANK 2018 Rs. '000	BANK 2017 Rs. '000	BANK Change %
Gross income	13	202	**139,657,195**	115,605,156	20.81	**138,049,307**	114,357,349	20.72
Interest income	14.1	203	**118,551,239**	104,049,102	13.94	**117,465,670**	103,034,386	14.01
Less: Interest expense	14.2	204	**72,933,030**	64,481,804	13.11	**72,523,912**	64,010,991	13.30
Net interest income	14	202	**45,618,209**	39,567,298	15.29	**44,941,758**	39,023,395	15.17
Fee and commission income	15.1	206	**12,494,090**	10,510,800	18.87	**11,988,070**	10,169,211	17.89
Less: Fee and commission expense	15.2	206	**1,859,698**	1,586,334	17.23	**1,837,900**	1,566,851	17.30
Net fee and commission income	15	205	**10,634,392**	8,924,466	19.16	**10,150,170**	8,602,360	17.99
Net gains/(losses) from trading	16	207	**(3,033,236)**	233,956	(1,396.50)	**(3,033,236)**	233,956	(1,396.50)
Net gains/(losses) from derecognition of financial assets	17	207	**272,004**	91,272	198.01	**272,004**	91,272	198.01
Net other operating income	18	208	**11,373,098**	720,026	1,479.54	**11,356,799**	828,524	1,270.73
Total operating income			**64,864,467**	49,537,018	30.94	**63,687,495**	48,779,507	30.56
Less: Impairment charges and other losses	19	208	**8,833,362**	989,315	792.88	**8,575,199**	677,642	1,165.45
Net operating income			**56,031,105**	48,547,703	15.41	**55,112,296**	48,101,865	14.57
Less: Expenses								
Personnel expenses	20	213	**13,289,668**	11,338,517	17.21	**13,070,939**	11,268,016	16.00
Depreciation and amortisation	21	213	**1,603,118**	1,416,927	13.14	**1,469,109**	1,307,804	12.33
Other operating expenses	22	215	**8,993,958**	7,618,993	18.05	**8,929,179**	7,461,964	19.66
Total operating expenses			**23,886,744**	20,374,437	17.24	**23,469,227**	20,037,784	17.12
Operating profit before taxes on financial services			**32,144,361**	28,173,266	14.10	**31,643,069**	28,064,081	12.75
Less: Taxes on financial services	23	215	**6,051,861**	4,896,620	23.59	**6,051,861**	4,881,137	23.98
Operating profit after taxes on financial services			**26,092,500**	23,276,646	12.10	**25,591,208**	23,182,944	10.39
Share of profits of associates, net of tax	39.1	257	**6,048**	3,678	64.44	**–**	–	–
Profit before tax			**26,098,548**	23,280,324	12.11	**25,591,208**	23,182,944	10.39
Less: Income tax expense	24	216	**8,235,717**	6,653,817	23.77	**8,047,380**	6,601,700	21.90
Profit for the year			**17,862,831**	16,626,507	7.44	**17,543,828**	16,581,244	5.81
Profit attributable to:								
Equity holders of the Bank			**17,734,706**	16,605,963	6.80	**17,543,828**	16,581,244	5.81
Non-controlling interest	58	302	**128,125**	20,544	523.66	**–**	–	–
Profit for the year			**17,862,831**	16,626,507	7.44	**17,543,828**	16,581,244	5.81
Earnings per share								
Basic earnings per ordinary share (Rs.)	25.1	218	**17.55**	17.05	2.93	**17.36**	17.03	1.94
Diluted earnings per ordinary share (Rs.)	25.2	219	**17.55**	17.03	3.05	**17.36**	17.01	2.06

The Notes appearing on pages 169 to 353 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 2018 Rs. '000	GROUP 2017 Rs. '000	GROUP Change %	BANK 2018 Rs. '000	BANK 2017 Rs. '000	BANK Change %
Profit for the year			17,862,831	16,626,507	7.44	17,543,828	16,581,244	5.81
Other comprehensive income, net of tax								
Items that will never be reclassified to profit or loss								
Net actuarial gains/(losses) on defined benefit plans			104,581	(536,508)	119.49	107,376	(529,902)	120.26
Gains/(losses) on remeasurement of defined benefit liability/asset			149,721	(718,572)	120.84	153,602	(709,396)	121.65
Less: Deferred tax charge/(reversal) on actuarial gains/(losses)			45,140	(182,064)	124.79	46,226	(179,494)	125.75
Net change in revaluation surplus			(10,010)	1,636,524	(100.61)	–	1,396,663	–
Changes in revaluation surplus/(deficit)			–	3,845,981	–	–	3,542,214	–
Less: Deferred tax charge/(reversal) on revaluation surplus			10,010	2,209,457	(99.55)	–	2,145,551	–
Net change in fair value on investments in equity			(17,314)	–	–	(17,314)	–	–
Change in fair value on investments in equity at fair value through other comprehensive income			(17,314)	–	–	(17,314)	–	–
Less: Deferred tax charge/(reversal) on change in fair value on investments in equity			–	–	–	–	–	–
Realised gains/(losses) from disposal of investment in equity			2,909	–	–	2,909	–	–
Share of other comprehensive income of associates			(61)	–	–	–	–	–
Items that are or may be reclassified to profit or loss								
Net gains/(losses) arising from translating the Financial Statements of foreign operations	57.5	301	3,003,952	(503,140)	697.04	2,557,517	(525,093)	587.06
Net gains/(losses) on investment in financial assets at fair value through other comprehensive income/financial investments – Available for sale			(1,043,629)	5,501,319	(118.97)	(1,042,248)	5,501,302	(118.95)
Government Securities			(1,043,629)	5,407,140	(119.30)	(1,042,248)	5,407,123	(119.28)
Fair value gains/(losses) that arose during the year, net of tax			(1,203,677)	5,434,372	(122.15)	(1,202,296)	5,434,355	(122.12)
Fair value gains/(losses) recycled to the Income Statement on reclassification, net of tax			–	38,181	–	–	38,181	–
Fair value gains/(losses) realised to the Income Statement on disposal, net of tax			(169,275)	(65,413)	(158.78)	(169,275)	(65,413)	(158.78)
Fair value gains/(losses) recycled to the Income Statement as impairment, net of tax			329,323	–	–	329,323	–	–
Equity securities			–	94,179	–	–	94,179	–
Fair value gains/(losses) arose during the year, net of tax			–	94,179	–	–	94,179	–
Fair value gains/(losses) realised and recycled to the Income Statement on disposal, net of tax			–	–	–	–	–	–
Cash flow hedges – effective portion of changes in fair value, net of tax	57.7	302	27,231	(3,212)	947.79	27,231	(3,212)	947.79
Share of other comprehensive income of associates			(8,371)	3,526	(337.41)	–	–	–
Other comprehensive income for the year, net of tax			2,059,288	6,098,509	(66.23)	1,635,471	5,839,758	(71.99)
Total comprehensive income for the year			19,922,119	22,725,016	(12.33)	19,179,299	22,421,002	(14.46)
Attributable to:								
Equity holders of the Bank			19,598,286	22,682,517	(13.60)	19,179,299	22,421,002	(14.46)
Non-controlling interest			323,833	42,499	661.98	–	–	–
Total comprehensive income for the year			19,922,119	22,725,016	(12.33)	19,179,299	22,421,002	(14.46)

Statement of Financial Position

As at December 31,	Note	Page No.	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000	GROUP Change %	BANK 2018 Rs. '000	BANK 2017 Rs. '000	BANK Change %
Assets								
Cash and cash equivalents	29	231	**44,355,962**	34,673,424	27.92	**39,534,476**	33,224,619	18.99
Balances with Central Banks	30	232	**55,406,535**	45,546,349	21.65	**54,384,590**	44,801,446	21.39
Placements with banks	31	233	**19,898,515**	17,633,269	12.85	**19,898,515**	17,633,269	12.85
Securities purchased under resale agreements			**9,513,512**	–	–	**9,513,512**	–	–
Derivative financial assets	32	233	**7,909,962**	2,334,536	238.82	**7,909,962**	2,334,536	238.82
Financial assets recognised through profit or loss/Held for trading – measured at fair value	33	234	**5,520,167**	4,410,913	25.15	**5,520,167**	4,410,913	25.15
Financial assets at amortised cost – Loans and advances to banks	34	238	**763,074**	640,512	19.14	**763,074**	640,512	19.14
Financial assets at amortised cost – Loans and advances to other customers	35	239	**867,611,976**	742,444,130	16.86	**861,100,315**	737,446,567	16.77
Financial assets at amortised cost – Debt and other financial instruments/financial investments – Held to maturity and loans and receivables	36	247	**89,274,413**	118,078,273	(24.39)	**83,855,436**	112,275,229	(25.31)
Financial assets measured at fair value through other comprehensive income/financial investments – Available for sale	37	250	**176,760,611**	154,913,643	14.10	**176,506,729**	154,714,132	14.09
Investments in subsidiaries	38	254	**–**	–	–	**4,263,631**	3,065,935	39.06
Investments in associates	39	256	**105,320**	109,844	(4.12)	**44,331**	44,331	–
Property, plant and equipment	40	258	**17,015,236**	16,317,044	4.28	**15,301,246**	14,634,710	4.55
Intangible assets	41	271	**1,433,931**	1,251,226	14.60	**906,112**	776,810	16.65
Leasehold property	42	274	**103,064**	104,516	(1.39)	**71,652**	72,594	(1.30)
Deferred tax assets	43	275	**188,487**	–	–	**–**	–	–
Other assets	44	278	**24,051,472**	17,362,977	38.52	**23,911,122**	17,298,162	38.23
Total assets			**1,319,912,237**	1,155,820,656	14.20	**1,303,484,870**	1,143,373,765	14.00
Liabilities								
Due to banks	45	278	**52,362,052**	60,244,892	(13.08)	**50,101,081**	57,120,991	(12.29)
Derivative financial liabilities	46	278	**8,021,783**	3,678,494	118.07	**8,021,783**	3,678,494	118.07
Securities sold under repurchase agreements			**48,951,394**	49,532,385	(1.17)	**49,104,462**	49,676,767	(1.15)
Financial liabilities at amortised cost – due to depositors	47	280	**994,370,875**	857,269,981	15.99	**983,037,314**	850,127,511	15.63
Financial liabilities at amortised cost – other borrowings	48	281	**25,361,912**	23,786,094	6.62	**25,361,912**	23,786,094	6.62
Current tax liabilities	49	281	**6,735,997**	4,202,850	60.27	**6,566,358**	4,143,911	58.46
Deferred tax liabilities	43	275	**971,424**	3,565,215	(72.75)	**646,248**	3,274,826	(80.27)
Other liabilities	50	282	**24,547,513**	19,508,115	25.83	**24,206,351**	19,225,364	25.91
Due to subsidiaries	51	290	**–**	–	–	**40,955**	74,523	(45.04)
Subordinated liabilities	52	291	**37,992,457**	25,165,924	50.97	**37,992,457**	25,165,924	50.97
Total liabilities			**1,199,315,407**	1,046,953,950	14.55	**1,185,078,921**	1,036,274,405	14.36
Equity								
Stated capital	53	293	**39,147,882**	37,143,541	5.40	**39,147,882**	37,143,541	5.40
Statutory reserves	55	297	**7,444,178**	6,492,552	14.66	**7,354,143**	6,476,952	13.54
Retained earnings	56	298	**4,949,955**	5,086,609	(2.69)	**5,063,076**	4,987,446	1.52
Other reserves	57	299	**67,855,834**	59,272,098	14.48	**66,840,848**	58,491,421	14.27
Total equity attributable to equity holders of the Bank			**119,397,849**	107,994,800	10.56	**118,405,949**	107,099,360	10.56
Non-controlling interest	58	302	**1,198,981**	871,906	37.51	**–**	–	–
Total equity			**120,596,830**	108,866,706	10.77	**118,405,949**	107,099,360	10.56
Total liabilities and equity			**1,319,912,237**	1,155,820,656	14.20	**1,303,484,870**	1,143,373,765	14.00
Contingent liabilities and commitments	59	303	**658,860,264**	565,277,821	16.56	**658,721,983**	564,794,885	16.63
Net assets value per ordinary share (Rs.)	60	305	**118.13**	108.44	8.94	**117.15**	107.54	8.94
Memorandum information								
Number of employees						**5,027**	4,982	
Number of customer service centres						**285**	280	

The Notes appearing on pages 169 to 353 form an integral part of these Financial Statements.

Certification

These Financial Statements have been prepared in compliance with requirements of the Companies Act No. 07 of 2007.

K D N Buddhipala
Chief Financial Officer

The Board of Directors is responsible for the preparation and presentation of these Financial Statements.

Approved and signed for and on behalf of the Board.

K G D D Dheerasinghe
Chairman

M P Jayawardena
Deputy Chairman

S Renganathan
Managing Director/ Chief Executive Officer

Mrs J R Gamage
Company Secretary

February 22, 2019
Colombo

Statement of Changes in Equity – Group

	Note	Page No.	Stated capital Rs. '000	Statutory reserve fund Rs. '000	Retained earnings Rs. '000
Balance as at January 1, 2017			24,978,003	5,647,993	4,553,778
Total comprehensive income for the year 2017					
Profit for the year			–	–	16,605,963
Other comprehensive income, net of tax			–	–	(532,590)
Net actuarial gains/(losses) on defined benefit plans			–	–	(536,116)
Share of other comprehensive income of associates, net of tax			–	–	3,526
Net change in revaluation surplus			–	–	–
Net fair value gains/(losses) on remeasuring financial investments available for sale			–	–	–
Net gains/(losses) arising from translating the Financial Statements of foreign operations			–	–	–
Cash flow hedges – effective portion of changes in fair value, net of tax			–	–	–
Total comprehensive income for the year 2017			–	–	16,073,373
Transactions with owners, recognised directly in equity, contributions and distributions to owners					
Proceeds from rights issue of ordinary shares	53	293	10,143,872	–	–
Issue of ordinary shares under employee share option plans	53	293	386,311	–	–
Transfer o/a share-based payment transactions	53	293	28,806	–	–
Dividends to equity holders			1,606,549	–	(5,955,851)
Second interim dividend for 2016	26	220	–	–	(2,674,799)
Final cash dividend for 2016			–	–	–
Final dividend for 2016 satisfied in the form of issue and allotment of new shares	53	293	1,606,549	–	(1,785,054)
Unclaimed dividend absorbed/(dividend paid) in respect of previous years			–	–	(2,279)
First interim dividend for 2017	26	220	–	–	(1,493,719)
Share-based payment transactions	57.6	302	–	–	–
Derecognition of revaluation reserve to the retained earnings			–	–	–
Profit due to change in ownership			–	–	5,262
Movement due to change in ownership			–	–	(2,334)
Revaluation gain on disposal of Freehold land and building			–	–	36,940
Transfers during the year	55 & 57	297 & 299	–	844,559	(9,624,559)
Total transactions with equity holders			12,165,538	844,559	(15,540,542)
Balance as at December 31, 2017			37,143,541	6,492,552	5,086,609

			Other reserves						
Revaluation reserve	Available-for-sale reserve	Fair value reserve	Foreign currency translation reserve	Hedging reserve	General reserve	Employee share option reserve	Shareholders' funds	Non-controlling interest	Total equity
Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
6,250,554	(7,208,805)	–	860,502	–	43,490,003	420,282	78,992,310	823,113	79,815,423
–	–	–	–	–	–	–	16,605,963	20,544	16,626,507
1,622,567	5,501,319	–	(511,529)	(3,212)	–	–	6,076,555	21,955	6,098,510
–	–	–	–	–	–	–	(536,116)	(392)	(536,508)
–	–	–	–	–	–	–	3,526	–	3,526
1,622,567	–	–	–	–	–	–	1,622,567	13,958	1,636,525
–	5,501,319	–	–	–	–	–	5,501,319	–	5,501,319
–	–	–	(511,529)	–	–	–	(511,529)	8,389	(503,140)
–	–	–	–	(3,212)	–	–	(3,212)	–	(3,212)
1,622,567	5,501,319	–	(511,529)	(3,212)	–	–	22,682,518	42,499	22,725,017
–	–	–	–	–	–	–	10,143,872	–	10,143,872
–	–	–	–	–	–	–	386,311	–	386,311
–	–	–	–	–	–	(28,806)	–	–	–
–	–	–	–	–	–	–	(4,349,302)	(3,690)	(4,352,992)
–	–	–	–	–	–	–	(2,674,799)	(1,845)	(2,676,644)
–	–	–	–	–	–	–	–	(369)	(369)
–	–	–	–	–	–	–	(178,505)	–	(178,505)
–	–	–	–	–	–	–	(2,279)	–	(2,279)
–	–	–	–	–	–	–	(1,493,719)	(1,476)	(1,495,195)
–	–	–	–	–	–	138,341	138,341	–	138,341
–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	5,262	–	5,262
(7,650)	–	–	–	–	–	–	(9,984)	9,984	–
(31,468)	–	–	–	–	–	–	5,472	–	5,472
–	–	–	–	–	8,780,000	–	–	–	–
(39,118)	–	–	–	–	8,780,000	109,535	6,319,972	6,294	6,326,266
7,834,003	(1,707,486)	–	348,973	(3,212)	52,270,003	529,817	107,994,800	871,906	108,866,706

Statement of Changes in Equity – Group (Contd.)

	Note	Page No.	Stated capital Rs. '000	Statutory reserve fund Rs. '000	Retained earnings Rs. '000
Balance as at December 31, 2017			37,143,541	6,492,552	5,086,609
Impact of adoption of SLFRS 9			–	–	(5,140,993)
Recognition of SLFRS 9 ECLs including those measured at FVOCI			–	–	(5,749,369)
Deferred tax on transitional adjustments			–	–	1,855,263
Transfer of AFS reserve build o/a reclassification of AFS portfolio to HTM portfolio, net of tax			–	–	(1,587,069)
Impact of reclassifying financial investment from AFS to FVTPL			–	–	340,182
Remeasurement impact of reclassifying financial investment from L&R to FVOCI			–	–	–
Transfer of AFS reserve to fair value reserve			–	–	–
Balance as at January 1, 2018			37,143,541	6,492,552	(54,384)
Total comprehensive income for the year 2018					
Profit for the year			–	–	17,734,706
Other comprehensive income, net of tax			–	–	99,246
Net actuarial gains/(losses) on defined benefit plans			–	–	104,769
Realised gain/(loss) from disposal of investment in equity			–	–	2,909
Share of other comprehensive income of associates, net of tax			–	–	(8,432)
Deferred tax charge reversal on revaluation surplus			–	–	–
Net fair value gains/(losses) on remeasuring financial assets measured at fair value through other comprehensive income			–	–	–
Net gains/(losses) arising from translating the Financial Statements of foreign operations			–	–	–
Cash flow hedges – effective portion of changes in fair value, net of tax			–	–	–
Total comprehensive income for the year 2018			–	–	17,833,952
Transactions with owners, recognised directly in equity, contributions and distributions to owners					
Issue of ordinary shares under employee share option plans	53	293	203,083	–	–
Transfer o/a share-based payment transactions	53	293	6,414	–	–
Dividends to equity holders			1,794,844	–	(6,498,747)
Second interim dividend for 2017	26	220	–	–	(2,989,996)
Final cash dividend for 2017			–	–	–
Final dividend for 2017 satisfied in the form of issue and allotment of new shares	53	293	1,794,844	–	(1,994,271)
Unclaimed dividend absorbed/(dividend paid) in respect of previous years			–	–	1,604
First interim dividend for 2018	26	220	–	–	(1,516,084)
Share-based payment transactions	57.6	302	–	–	–
Write back of dividend payable			–	–	–
Profit due to change in ownership			–	–	3,344
Movement due to change in ownership			–	–	(2,584)
Transfers during the year	55 & 57	297 & 299	–	951,626	(6,331,626)
Total transactions with equity holders			2,004,341	951,626	(12,829,613)
Balance as at December 31, 2018			39,147,882	7,444,178	4,949,955

The Notes appearing on pages 169 to 353 form an integral part of these Financial Statements.

			Other reserves						
Revaluation reserve	Available-for-sale reserve	Fair value reserve	Foreign currency translation reserve	Hedging reserve	General reserve	Employee share option reserve	Shareholders' funds	Non-controlling interest	Total equity
Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
7,834,003	(1,707,486)	–	348,973	(3,212)	52,270,003	529,817	107,994,800	871,906	108,866,706
–	1,707,486	(325,412)	–	–	–	–	(3,758,919)	–	(3,758,919)
–	–	194,256	–	–	–	–	(5,555,113)	–	(5,555,113)
–	–	(47,775)	–	–	–	–	1,807,488	–	1,807,488
–	1,587,069	–	–	–	–	–	–	–	–
–	(340,182)	–	–	–	–	–	–	–	–
–	–	(11,294)	–	–	–	–	(11,294)	–	(11,294)
–	460,599	(460,599)	–	–	–	–	–	–	–
7,834,003	–	(325,412)	348,973	(3,212)	52,270,003	529,817	104,235,881	871,906	105,107,787
–	–	–	–	–	–	–	17,734,706	128,125	17,862,831
(10,010)	–	(1,060,943)	2,808,079	27,231	–	–	1,863,603	195,685	2,059,288
–	–	–	–	–	–	–	104,769	(188)	104,581
–	–	–	–	–	–	–	2,909	–	2,909
–	–	–	–	–	–	–	(8,432)	–	(8,432)
(10,010)	–	–	–	–	–	–	(10,010)	–	(10,010)
–	–	(1,060,943)	–	–	–	–	(1,060,943)	–	(1,060,943)
–	–	–	2,808,079	–	–	–	2,808,079	195,873	3,003,952
–	–	–	–	27,231	–	–	27,231	–	27,231
(10,010)	–	(1,060,943)	2,808,079	27,231	–	–	19,598,309	323,810	19,922,119
–	–	–	–	–	–	–	203,083	–	203,083
–	–	–	–	–	–	(6,414)	–	–	–
–	–	–	–	–	–	–	(4,703,903)	(4,181)	(4,708,084)
–	–	–	–	–	–	–	(2,989,996)	–	(2,989,996)
–	–	–	–	–	–	–	–	(2,531)	(2,531)
–	–	–	–	–	–	–	(199,427)	–	(199,427)
–	–	–	–	–	–	–	1,604	37	1,641
–	–	–	–	–	–	–	(1,516,084)	(1,687)	(1,517,771)
–	–	–	–	–	–	68,581	68,581	–	68,581
–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	3,344	–	3,344
(4,862)	–	–	–	–	–	–	(7,446)	7,446	–
–	–	–	–	–	5,380,000	–	–	–	–
(4,862)	–	–	–	–	5,380,000	62,167	(4,436,341)	3,265	(4,433,076)
7,819,131	–	(1,386,355)	3,157,052	24,019	57,650,003	591,984	119,397,849	1,198,981	120,596,830

Statement of Changes in Equity – Bank

	Note	Page No.	Stated capital Rs. '000	Statutory reserve fund Rs. '000	Retained earnings Rs. '000
Balance as at January 1, 2017			24,978,003	5,647,890	4,464,077
Total comprehensive income for the year 2017					
Profit for the year			–	–	16,581,244
Other comprehensive income, net of tax			–	–	(529,902)
Net actuarial gains/(losses) on defined benefit plans			–	–	(529,902)
Net change in revaluation surplus			–	–	–
Net fair value gains/(losses) on remeasuring financial investments available for sale			–	–	–
Net gains/(losses) arising from translating the Financial Statements of the foreign operation			–	–	–
Cash flow hedges – effective portion of changes in fair value, net of tax			–	–	–
Total comprehensive income for the year 2017			–	–	16,051,342
Transactions with owners, recognised directly in equity, contributions and distributions to owners					
Proceeds from right issue of ordinary shares	53	293	10,143,872	–	–
Issue of ordinary shares under employee share option plans	53	293	386,311	–	–
Transfer o/a share-based payment transactions	53	293	28,806	–	–
Dividends to equity holders			1,606,549	–	(5,955,851)
Second interim dividend for 2016	26	220	–	–	(2,674,799)
Final dividend for 2016 satisfied in the form of issue and allotment of new shares	53	293	1,606,549	–	(1,785,054)
Unclaimed dividend absorbed/(dividend paid) in respect of previous years			–	–	(2,279)
First interim dividend for 2017	26	220	–	–	(1,493,719)
Share-based payment transactions	57.6	302	–	–	–
Revaluation gain on disposal of freehold land and building			–	–	36,940
Transfers during the year	55 & 57	297 & 299	–	829,062	(9,609,062)
Total transactions with equity holders			12,165,538	829,062	(15,527,973)
Balance as at December 31, 2017			37,143,541	6,476,952	4,987,446

Revaluation reserve	Available-for-sale reserve	Fair value reserve	Other reserves Foreign currency translation reserve	Hedging reserve	General reserve	Employee share option reserve	Total equity
Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
5,722,859	(7,208,796)	–	839,346	–	43,490,003	420,282	78,353,664
–	–	–	–	–	–	–	16,581,244
1,396,663	5,501,302	–	(525,093)	(3,212)	–	–	5,839,758
–	–	–	–	–	–	–	(529,902)
1,396,663	–	–	–	–	–	–	1,396,663
–	5,501,302	–	–	–	–	–	5,501,302
–	–	–	(525,093)	–	–	–	(525,093)
–	–	–	–	(3,212)	–	–	(3,212)
1,396,663	5,501,302	–	(525,093)	(3,212)	–	–	22,421,002
–	–	–	–	–	–	–	10,143,872
–	–	–	–	–	–	–	386,311
–	–	–	–	–	–	(28,806)	–
–	–	–	–	–	–	–	(4,349,302)
–	–	–	–	–	–	–	(2,674,799)
–	–	–	–	–	–	–	(178,505)
–	–	–	–	–	–	–	(2,279)
–	–	–	–	–	–	–	(1,493,719)
–	–	–	–	–	–	138,341	138,341
(31,468)	–	–	–	–	–	–	5,472
–	–	–	–	–	8,780,000	–	–
(31,468)	–	–	–	–	8,780,000	109,535	6,324,694
7,088,054	(1,707,494)	–	314,253	(3,212)	52,270,003	529,817	107,099,360

Statement of 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, 2017			37,143,541	6,476,952	4,987,446
Impact of adoption of SLFRS 9					(4,822,089)
Recognition of SLFRS 9 ECLs including those measured at FVOCI			–	–	(5,305,558)
Deferred tax on transitional adjustments			–	–	1,730,356
Transfer of AFS reserve build o/a reclassification of AFS portfolio to HTM portfolio, net of tax			–	–	(1,587,069)
Impact of reclassifying financial investment from AFS to FVTPL			–	–	340,182
Remeasurement impact of reclassifying financial investment from L&R to FVOCI			–	–	–
Transfer of AFS reserve to fair value reserve			–	–	–
Balance as at January 1, 2018			37,143,541	6,476,952	165,357
Total comprehensive income for the year 2018					
Profit for the year			–	–	17,543,828
Other comprehensive income, net of tax			–	–	110,285
Net actuarial gains/(losses) on defined benefit plans			–	–	107,376
Realised gain/(loss) from disposal of investment in equity			–	–	2,909
Net change in revaluation surplus			–	–	–
Net fair value gains/(losses) on remeasuring financial assets measured at fair value through other comprehensive income			–	–	–
Net gains/(losses) arising from translating the Financial Statements of the foreign operations			–	–	–
Cash flow hedges – effective portion of changes in fair value, net of tax			–	–	–
Total comprehensive income for the year 2018			–	–	17,654,113
Transactions with owners, recognised directly in equity, contributions and distributions to owners					
Issue of ordinary shares under employee share option plans	53	293	203,083	–	–
Transfer o/a share-based payment transactions	53	293	6,414	–	–
Dividends to equity holders			1,794,844	–	(6,499,203)
Second interim dividend for 2017	26	220	–	–	(2,989,996)
Final dividend for 2017 satisfied in the form of issue and allotment of new shares	53	293	1,794,844	–	(1,994,271)
Unclaimed dividend absorbed/(dividend paid) in respect of previous years			–	–	1,148
First interim dividend for 2018	26	220	–	–	(1,516,084)
Share-based payment transactions	57.6	302	–	–	–
Transfers during the year	55 & 57	297 & 299	–	877,191	(6,257,191)
Total transactions with equity holders			2,004,341	877,191	(12,756,394)
Balance as at December 31, 2018			39,147,882	7,354,143	5,063,076

The Notes appearing on pages 169 to 353 form an integral part of these Financial Statements.

Revaluation reserve	Available-for-sale reserve	Fair value reserve	Other reserves Foreign currency translation reserve	Hedging reserve	General reserve	Employee share option reserve	Total equity
Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
7,088,054	(1,707,494)	–	314,253	(3,212)	52,270,003	529,817	107,099,360
–	1,707,494	(325,420)	–	–	–	–	(3,440,015)
–	–	194,256	–	–	–	–	(5,111,302)
–	–	(47,775)	–	–	–	–	1,682,581
–	1,587,069	–	–	–	–	–	–
–	(340,182)	–	–	–	–	–	–
–	–	(11,294)	–	–	–	–	(11,294)
–	460,607	(460,607)	–	–	–	–	–
7,088,054	–	(325,420)	314,253	(3,212)	52,270,003	529,817	103,659,345
–	–	–	–	–	–	–	17,543,828
–	–	(1,059,562)	2,557,517	27,231	–	–	1,635,471
–	–	–	–	–	–	–	107,376
–	–	–	–	–	–	–	2,909
–	–	–	–	–	–	–	–
–	–	(1,059,562)	–	–	–	–	(1,059,562)
–	–	–	2,557,517	–	–	–	2,557,517
–	–	–	–	27,231	–	–	27,231
–	–	(1,059,562)	2,557,517	27,231	–	–	19,179,299
–	–	–	–	–	–	–	203,083
–	–	–	–	–	–	(6,414)	–
–	–	–	–	–	–	–	(4,704,359)
–	–	–	–	–	–	–	(2,989,996)
–	–	–	–	–	–	–	(199,427)
–	–	–	–	–	–	–	1,148
–	–	–	–	–	–	–	(1,516,084)
–	–	–	–	–	–	68,581	68,581
–	–	–	–	–	5,380,000	–	–
–	–	–	–	–	5,380,000	62,167	(4,432,695)
7,088,054	–	(1,384,982)	2,871,770	24,019	57,650,003	591,984	118,405,949

Statement of Cash Flows

For the year ended December 31,	Note	Page No.	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000	BANK 2018 Rs. '000	BANK 2017 Rs. '000
Cash flows from operating activities						
Profit before income tax			**26,098,548**	23,280,324	**25,591,208**	23,182,944
Adjustments for:						
Non-cash items included in profit before tax	65	317	**12,380,685**	1,078,540	**12,056,211**	646,164
Change in operating assets	66	317	**(169,379,105)**	(125,489,870)	**(167,137,925)**	(120,342,936)
Change in operating liabilities	67	318	**138,876,499**	100,265,879	**135,473,881**	97,246,867
(Gains)/losses on sale of property, plant and equipment	18	208	**(9,311)**	18,774	**3,633**	35,018
Share of profits in associates, net of tax	39.1	257	**(6,048)**	(3,678)	**–**	–
Dividend income from subsidiaries and associates	18	208	**–**	–	**(80,575)**	(100,443)
Interest expense on subordinated liabilities	14.2	204	**3,105,553**	2,377,694	**3,105,553**	2,377,694
Net unrealised gains/(losses) arising from translating the Financial Statements of foreign operations	57.5	301	**3,003,952**	(503,140)	**2,557,517**	(525,093)
Profit due to change in ownership	18	208	**–**	–	**(3,344)**	(5,262)
Benefits paid on defined benefit plans			**(382,409)**	(184,464)	**(376,995)**	(179,855)
Income tax paid	49	281	**(5,971,026)**	(3,810,701)	**(5,856,270)**	(3,753,679)
Net cash from (used in) operating activities			**7,717,338**	(2,970,642)	**5,332,894**	(1,418,581)
Cash flows from investing activities						
Net purchase of property, plant and equipment	40.1 to 40.4	260 to 263	**(2,079,875)**	(2,163,733)	**(1,936,205)**	(1,959,075)
Proceeds from sale of property, plant and equipment			**53,314**	58,032	**18,954**	41,408
Purchase of financial investments			**(697,591)**	(179,751)	**(697,591)**	(179,751)
Proceeds from sale and maturity of financial investments			**2,096,712**	3,530,785	**2,096,712**	3,530,785
Net purchase of intangible assets	41.1 & 41.2	273	**(406,641)**	(352,329)	**(333,181)**	(346,360)
Proceeds due to change in ownership			**4,962**	7,803	**4,962**	7,803
Net cash flow from investment in subsidiaries and associates			**–**	–	**(1,255,800)**	(564,253)
Dividends received from investments in subsidiaries and associates	18	208	**–**	4,111	**80,575**	100,443
Net cash from (used in) investing activities			**(1,029,119)**	904,918	**(2,021,574)**	631,000
Cash flows from financing activities						
Proceeds from rights issue of ordinary shares	53	293	**–**	10,143,872	**–**	10,143,872
Net proceeds from issue of ordinary voting shares	53	293	**203,083**	386,311	**203,083**	386,311
Proceeds from issue of subordinated liabilities	52	291	**10,000,000**	–	**10,000,000**	–
Interest paid on subordinated liabilities			**(2,496,230)**	(2,362,270)	**(2,496,230)**	(2,362,270)
Dividend paid to non-controlling interest	58	302	**(4,218)**	(3,690)	**–**	–
Dividend paid to shareholders of the Bank			**(4,703,903)**	(4,349,302)	**(4,703,903)**	(4,349,302)
Net cash from/(used in) financing activities			**2,998,732**	3,814,921	**3,002,950**	3,818,611
Net increase/(decrease) in cash and cash equivalents			**9,686,951**	1,749,197	**6,314,270**	3,031,030
Cash and cash equivalents as at January 1,			**34,673,424**	32,924,227	**33,224,619**	30,193,589
Gross cash and cash equivalents as at December 31,	29	231	**44,360,375**	34,673,424	**39,538,889**	33,224,619
Less: Impairment charges			**(4,413)**	–	**(4,413)**	–
Cash and cash equivalents as per Statement of Financial Position			**44,355,962**	34,673,424	**39,534,476**	33,224,619

The Notes appearing on pages 169 to 353 form an integral part of these Financial Statements.

Notes to the Financial Statements

1. Reporting Entity

1.1 Corporate information

Commercial Bank of Ceylon PLC (the "Bank") is a public limited liability company listed on the Colombo Stock Exchange (CSE), incorporated on June 25, 1969 under the Companies Ordinance No. 51 of 1938, and domiciled in Sri Lanka. It is a licensed commercial bank regulated under the Banking Act No. 30 of 1988 and amendments thereto. The Bank was re-registered under the Companies Act No. 07 of 2007 on January 23, 2008, under the Company Registration No. PQ 116. The registered office of the Bank is situated at "Commercial House", No. 21, Sir Razik Fareed Mawatha, Colombo 01, Sri Lanka.

The ordinary shares of the Bank (both Ordinary Voting and Non-Voting shares) have a primary listing on the CSE. The unsecured subordinated debentures of the Bank are also listed on the CSE.

The staff strength of the Bank as at December 31, 2018 was 5,027 (4,982 as at December 31, 2017).

Corporate information is presented in the inner back cover of this Annual Report.

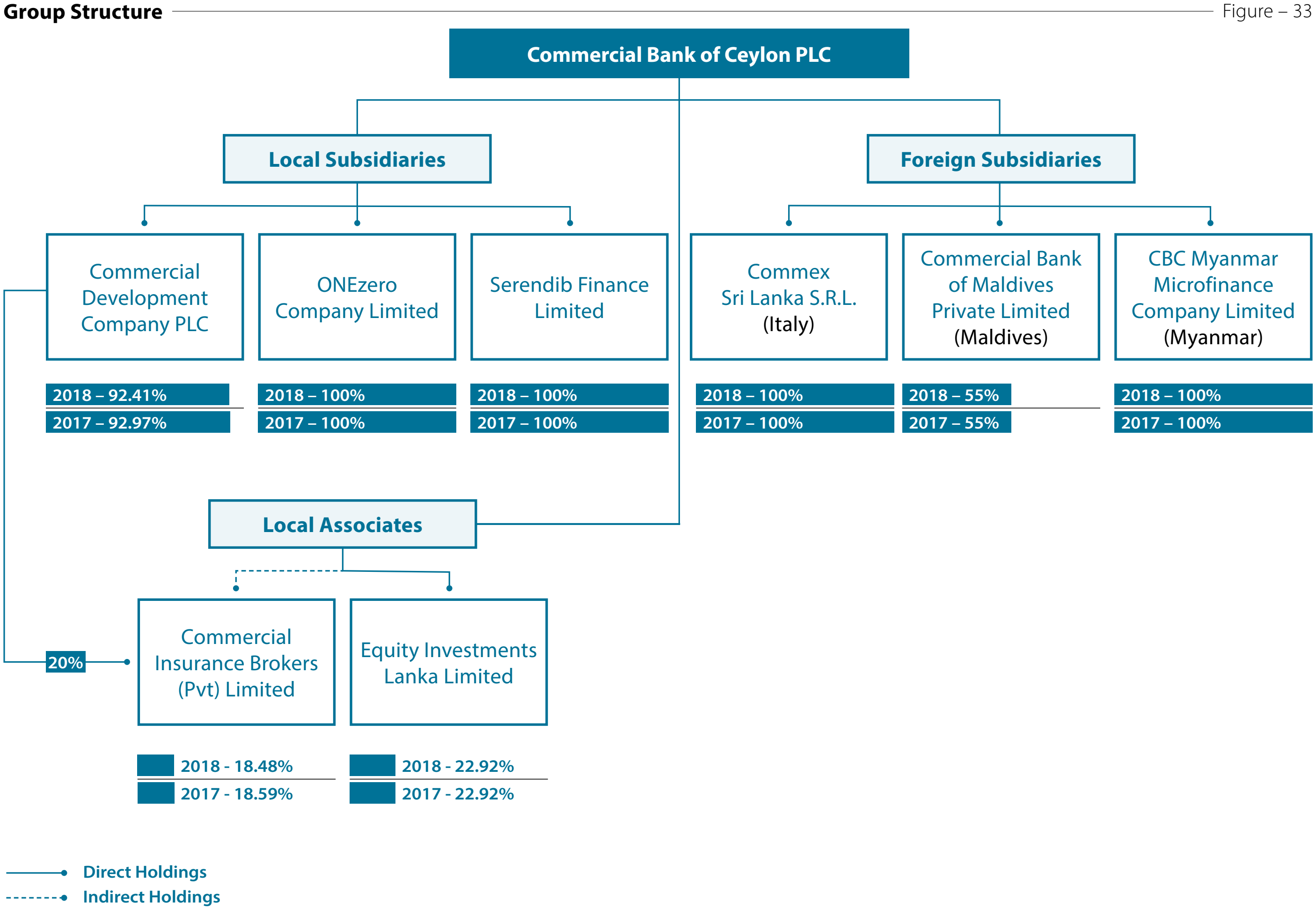
1.2 Consolidated Financial Statements

The Consolidated Financial Statements as at and for the year ended December 31, 2018, comprise the Bank (Parent Company) and its Subsidiaries (together referred to as the "Group" and individually as "Group entities") and the Group's interest in its Associates.

The Bank does not have an identifiable parent of its own. The Bank is the Ultimate Parent of the Group.

1.3 Principal business activities, nature of operations of the Group and ownership by the Bank in its subsidiaries and associates

Group Structure Figure – 33



Principal business activities and nature of business operations of the Group

Table – 34

Entity	Principal business activities
Commercial Bank of Ceylon PLC	Banking and related activities such as accepting deposits, personal banking, trade financing, offshore banking, RFC & NRFC operations, travel related services, corporate and retail credit, syndicated financing, project financing, development banking, lease & hire purchase, rural credit, issuing of local and international debit and credit cards, internet banking, mobile banking, money remittance facilities, dealing in Government Securities and treasury related products, salary remittance package, bullion trading, export and domestic factoring, pawning, margin trading, e-Banking services, bancassurance and Islamic banking products and services etc.
Subsidiaries	
Commercial Development Company PLC (CDC)	Property development, related ancillary services and outsourcing of staff for non-critical functions of the Bank (Parent).
ONEzero Company Limited	Providing Information & Communication Technology (ICT) related products, services and solutions to the corporate sector.
Serendib Finance Limited	Providing financial services including leasing, hire purchase loans etc.
Commex Sri Lanka S.R.L.	Operating as an agent to the Bank (parent) for opening accounts, providing money transfer services, issuance and encashment of foreign currencies and travellers cheques, collecting applications for credit facilities and handling of ATM cards etc.
Commercial Bank of Maldives Private Limited	Offering of extensive range of banking and related financial services
CBC Myanmar Microfinance Company Limited	Providing microfinance services to the people of Myanmar. The Company also provides savings, business/livelihood development services for the clients adopting a credit plus approach.
Associates	
Commercial Insurance Brokers (Pvt) Limited (CIB)	Providing professional service and handle all insurance portfolios of individuals as well as many leading and reputed organisations in Sri Lanka engaged in diverse business activities.
Equity Investments Lanka Limited	Providing investment services, risk capital and venture capital management

2. Basis of Accounting

2.1 Statement of compliance

The Consolidated Financial Statements of the Group and the separate Financial Statements of the Bank, have been prepared and presented in accordance with the Sri Lanka Accounting Standards (SLFRSs and LKASs), laid down by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and in compliance with the requirements of the Companies Act and the Banking Act and provide appropriate disclosures as required by the Listing Rules of the CSE. These Financial Statements, except for information on cash flows have been prepared following the accrual basis of accounting.

These SLFRSs and LKASs are available at 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 180 to 195.

The formats used in the preparation and presentation of the Financial Statements and the disclosures made therein also comply with the specified formats prescribed by the Central Bank of Sri Lanka (CBSL) in the Circular No. 02 of 2019 on "Publication of Annual and Quarterly Financial Statements and Other Disclosures by Licensed Banks".

2.2 Responsibility for Financial Statements

The Board of Directors of the Bank is responsible for the preparation and presentation of the Financial Statements of the Group and the Bank as per the provisions of the Companies Act No. 07 of 2007 and Sri Lanka Accounting Standards.

The Board of Directors acknowledges their responsibility for Financial Statements as set out in the "Annual Report of the Board of Directors", "Statement of Directors' Responsibility" and the certification on the Statement of Financial Position on pages 4, 108 and 159, respectively.

These Financial Statements include the following components:

- an Income Statement and a Statement of Profit or Loss and Other Comprehensive Income providing the information on the financial performance of the Group and the Bank for the year under review. Refer pages 157 and 158;
- a Statement of Financial Position (SOFP) providing the information on the financial position of the Group and the Bank as at the year end. Refer page 159;
- a Statement of Changes in Equity depicting all changes in shareholders' funds during the year under review of the Group and the Bank. Refer pages 160 to 167;
- a Statement of Cash Flows providing the information to the users, on the ability of the Group and the Bank to generate cash and cash equivalents and utilisation of those cash flows. Refer page 168;
- Notes to the Financial Statements comprising Significant Accounting Policies and other explanatory information. Refer pages 169 to 353.

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, 2018 (including comparatives for 2017), were approved and authorised for issue by the Board of Directors in accordance with Resolution of the Directors on February 22, 2019.

2.4 Basis of measurement

The Financial Statements of the Group have been prepared on the historical cost basis except for the following material items stated in the SOFP.

Table – 35

Items	Basis of measurement	Note No./s	Page/s
Financial instruments measured at fair value through profit or loss including derivative financial instruments (from January 1, 2018) Held-for-trading financial instruments including derivative financial instruments (Up to December 31, 2017)	Fair value	32, 33 & 46	233,234 & 278
Financial assets measured at fair value through other comprehensive income (from January 1, 2018) Financial investments – Available for sale (Up to December 31, 2017)	Fair value	37	250
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	40	258
Defined benefit obligation	Net liability for defined benefit obligations are recognised as the present value of the defined benefit obligation, less net total of the plan assets, plus unrecognised actuarial gains, less unrecognised past service cost, and unrecognised actuarial losses	50	282
Equity settled share-based payment arrangements	Fair Value on grant date	54	295

2.5 Going concern basis of accounting

The Management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future.

Furthermore, the Management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the Financial Statements of the Group continue to be prepared on a going concern basis.

2.6 Functional and presentation currency

Items included in these Financial Statements are measured using the currency of the primary economic environment in which the Bank operates (the Functional Currency).

Each entity in the Group determines its own functional currency and items included in the Financial Statements of these entities are measured using that Functional Currency. There was no change in the Group's Presentation and Functional Currency during the year under review.

These Financial Statements are presented in Sri Lankan Rupees, the Group's Functional and Presentation Currency.

The information presented in US Dollars in the Sections on "Annexes 9 and 10" on pages 426 and 427 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 after more than 12 months from the Reporting date is presented in Note 62 on pages 307 and 309.

2.8 Rounding

The amounts in the Financial Statements have been rounded-off to the nearest rupees thousands, except where otherwise indicated as permitted by the Sri Lanka Accounting Standard – LKAS 1 on "Presentation of Financial Statements" (LKAS 1).

2.9 Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the SOFP, only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the assets and settle the liabilities simultaneously. Income and expenses are not offset in the Income Statement, unless required or permitted by an Accounting Standard or Interpretation (issued by the IFRS Interpretations Committee and Standard Interpretations Committee) and as specifically disclosed in the Significant Accounting Policies of the Bank.

2.10 Materiality and aggregation

Each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature or function are presented separately, unless they are immaterial as permitted by the LKAS 1 and amendments to the LKAS 1 on "Disclosure Initiative" which was effective from January 1, 2016.

Notes to the Financial Statements are presented in a systematic manner which ensures the understandability and comparability of Financial Statements of the Group and the Bank. Understandability of the Financial Statements is not compromised by obscuring material information with immaterial information or by aggregating material items that have different natures or functions.

2.11 Comparative information

Comparative information including quantitative, narrative and descriptive information is disclosed in respect of the previous period in the Financial Statements in order to enhance the understanding of the current period's Financial Statements and to enhance the inter period comparability. The presentation and classification of the Financial Statements of the previous year are amended, where relevant for better presentation and to be comparable with those of the current year. The Group/ Bank has not restated the comparative information for 2017 for financial instruments within the scope of Sri Lanka Accounting Standard – SLFRS 9 on "Financial Instruments" (SLFRS 9). Therefore, the comparative information for 2017 is reported under Sri Lanka Accounting Standard – LKAS 39 on "Financial Instruments: Recognition and Measurement" (LKAS 39) and is not comparable to the information presented for 2018. Differences arising from adoption of SLFRS 9 have been recognised directly in equity as of January 1, 2018 and are disclosed in Note 12 on pages 196 to 201.

2.12 Use of significant accounting judgements and assumptions and estimates

In preparing the Financial Statements of the Group in conformity with SLFRSs and LKASs, the Management has made judgements, estimates and assumptions which affect the application of Accounting Policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively.

Significant areas of critical judgements, assumptions and estimation uncertainty, in applying 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 Accounting Policies that have the most significant effects on the amounts recognised in these Financial Statements is included in Notes 2.12.1 and 2.12.2 below.

2.12.1 Determination of control over investees

Management applies its judgement to determine whether the control indicators set out in Note 38 on page 254 indicates that the Group controls the investees.

2.12.2 Classification of financial assets and liabilities

Applicable from January 1, 2018

As per SLFRS 9, 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, 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 182.
- The contractual cash flow characteristics of the financial assets as set out in Note 7.1.3.2 on page 183.

Applicable up to December 31, 2017

The Significant Accounting Policies of the Group provided scope for assets to be classified at inception into different financial asset categories under certain circumstances as per LKAS 39.

- In classifying financial assets or liabilities at "Fair value through profit or loss" (FVTPL), the Group has determined that it has met the criteria for this designation set out in Notes 32, 33 and 46 on pages 233, 234 and 278.

- In classifying financial assets as "Held to maturity" (HTM), the Group has determined that it has both the positive intention and ability to hold the assets until their maturity date as required by Note 36 on page 247.
- In classifying financial assets as "Loans and Receivables" (L&R), the Group has determined that it has met the criteria for this designation set out in Notes 34, 35 and 36 on pages 238, 239 and 247.
- In classifying financial assets as "Available for sale" (AFS), the Group has determined that all non-derivative financial assets that are designated as AFS or those financial assets not classified as loans and receivables, FVTPL or HTM be classified as AFS as set out in Note 37 on page 250.

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 2.12.3 to 2.12.10 below.

2.12.3 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 inputs used in making measurements. Methodologies used for valuation of financial instruments and fair value hierarchy are stated in Note 28 on pages 225 to 230.

2.12.4 Impairment losses on financial assets

The measurement of impairment losses both under SLFRS 9 and LKAS 39 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses.

Accordingly, the Group reviews its individually significant loans and advances at each reporting date to assess whether an impairment loss should be provided in the Income Statement. In particular, the Management's judgement is required in the estimation of the amount and timing of future cash flows when determining the impairment loss.

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.

The individual impairment provision applies to financial assets evaluated individually for impairment and is based on Management's best estimate of the present value of the future cash flows that are expected to be received. In estimating these cash flows, Management makes judgements about a borrower's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable.

A collective impairment provision is established for:

- groups of homogeneous loans and advances that are not considered individually significant; and
- groups of assets that are individually significant but that were not found to be individually impaired.

As per SLFRS 9, the Group's Expected Credit Loss (ECL) calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Group's criteria for qualitatively assessing whether there has been a significant increase in credit risk and if so allowances for financial assets measured on a Life time expected credit loss (LTECL) basis;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various statistical formulas and the choice of inputs;
- Determination of associations between macro-economic inputs, such as GDP growth, inflation, interest rates, exchange rates and unemployment and the effect on Probability of Default (PDs), Exposure At Default (EAD) and Loss Given Default (LGD);
- Selection of forward-looking macro-economic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

As per LKAS 39, the collective provision for groups of homogeneous loans is established using statistical methods (such as, net flow rate methodology, risk migration analysis) or, a formula approach based on historical loss rate experience, using the statistical analysis of historical data on delinquency to estimate the amount of loss. Management applies judgement to ensure that the estimate of loss arrived at, on the basis of historical information is appropriately adjusted to reflect the economic conditions and portfolio factors as at the reporting date. The loss rates are regularly reviewed against actual loss experience.

In assessing the need for collective impairment, Management considers factors such as credit quality (for example, loan to collateral ratio, level of restructured performing loans), portfolio size, concentrations and economic factors. To estimate the required allowance, assumptions are made to define how inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions (including policy rates, inflation, growth in Gross Domestic Product, sovereign rating etc.).

The accuracy of the provision depends on the model assumptions and parameters used in determining the collective provision.

Refer Note 19 on page 208 for details.

2.12.4.1 Impairment losses on financial investments – available for sale (AFS) (up to December 31, 2017)

The Group reviewed the debt securities classified as AFS investments at each Reporting date to assess whether they are impaired. This required similar judgements as applied on the individual assessment of loans and advances.

The Group also recorded impairment charges on AFS equity investments when there had been a significant or prolonged decline in the fair value below their cost along with the historical share price movements, duration and extent up to which the fair value of an investment is less than its cost.

Refer Note 7.1.12.6.2 on page 189 for details.

2.12.5 Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for an asset or a Cash Generating Unit (CGU) at each reporting date or more frequently, if events or changes in circumstances necessitate to do so. This requires the estimation of the "Value in use" of such individual assets or the CGUs. Estimating "Value in use" requires the Management to make an estimate of the expected future cash flows from the asset or the CGU and also to select a suitable discount rate in order to calculate the present value of the relevant cash flows. This valuation requires the Group to make estimates about expected future cash flows and discount rates and hence, they are subject to uncertainty.

Refer Note 7.5 on page 190 for details.

2.12.6 Revaluation of property, plant and equipment

The Group measures land and buildings at revalued amounts with changes in fair value being recognised in Equity through Other Comprehensive Income (OCI). The Group engages independent professional valuers to assess fair value of land and buildings in terms of Sri Lanka Accounting Standard – SLFRS 13 on "Fair Value Measurement" (SLFRS 13). The key assumptions used to determine the fair value of the land and building and sensitivity analyses are provided in Note 40.5 (b) and 40.5 (c) on pages 265 to 269.

2.12.7 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 21 on page 213.

2.12.8 Deferred tax assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profit will be available and can be utilised against such tax losses. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax-planning strategies.

Refer Note 43 on page 275 for details.

2.12.9 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 increases etc. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

Refer Note 50 on pages 282 to 290 for the assumptions used.

2.12.10 Provisions for liabilities, commitments and contingencies

The Group receives legal claims in the normal course of business. Management has made judgements as to the likelihood of any claim succeeding in making provisions. The time of concluding legal claims is uncertain, as is the amount of possible outflow of economic benefits. Timing and cost ultimately depends on the due processes in respective legal jurisdictions.

Information about significant areas of estimation uncertainty and critical judgements in applying Accounting Policies other than those stated above that have significant effects on the amounts recognised in the Consolidated Financial Statements are described in Notes 7.9 to 7.14 on pages 192 and 193.

2.13 Events after the reporting period

Events after the reporting period are those events, favourable and unfavourable, that occur between the reporting date and the date when the Financial Statements are authorised for issue.

In this regard, all material and important events that occurred after the reporting period have been considered and appropriate disclosures are made in Note 70 on page 353, where necessary.

3. Financial Risk Management

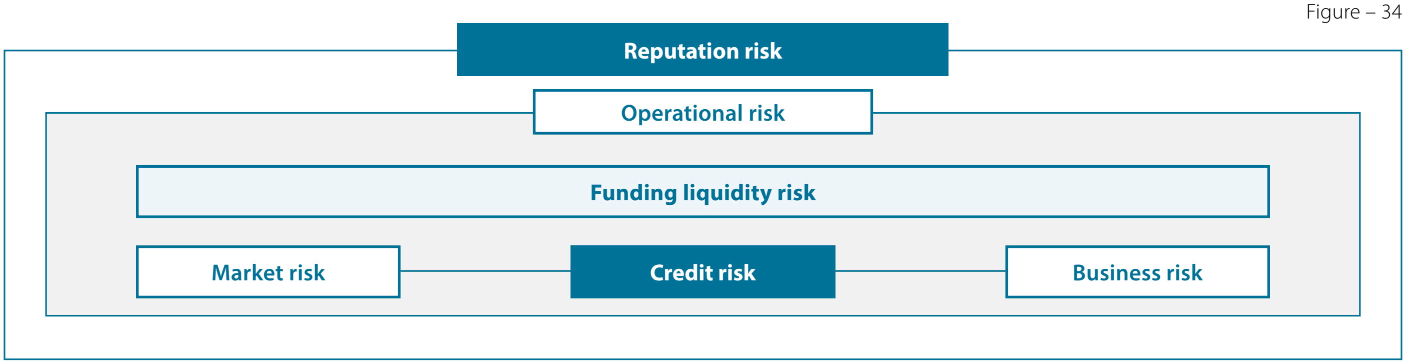
3.1 Introduction and overview

Risk is inherent in the Bank's activities, but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities.

The Group has exposure mainly to the following risks from financial instruments:

- Credit risk;
- Market risk;
- Liquidity risk; and
- Operational risk.

Figure – 34



3.2 Bank's risk management framework

The Board of Directors of the Bank has the overall responsibility for the establishment and oversight of the Bank's Risk Management Framework.

The Risk Management Policy of the Bank translates overall risk appetite on business activities in a holistic approach to provide the guidance required for convergence of strategic and risk perspectives of the Bank.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The Risk Management Policy Framework constitutes the Credit Policy, Lending Guidelines, ALM Policy including Liquidity Risk Policy, Foreign Exchange Policy, Operational Risk Policy, IT Risk Policy, Market Risk Policy, Stress Testing Policy, etc., which have been firmly established to provide control and guidance for decision making throughout the Bank in an uniform manner.

The Committee structure embedded to the system acts as a fact finding and decision making authority through meaningful discussions of multiple points of view. The Risk Management Committees effectively deliberate on matters at hand to provide guidance to the business lines with a view to managing risk in accordance with the strategic goals and risk appetite of the Bank.

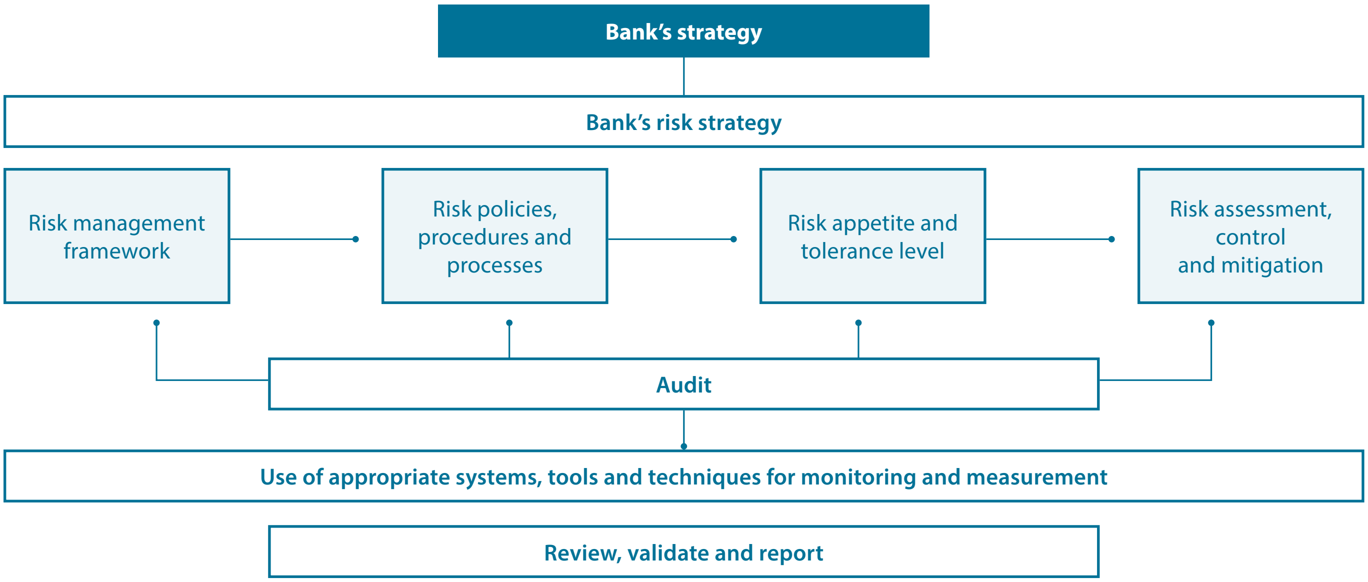
The Board of Directors of the Bank has formed a mandatory Board Committee namely, the Board Integrated Risk Management Committee (BIRMC) as per Banking Act Direction No. 11 of 2007 on Corporate Governance. The performance of the Committee and the duties and roles of members are reviewed by the Board annually.

The meetings of the Executive Integrated Risk Management Committee (EIRMC) are conducted on a monthly basis to discuss Credit, Operational and IT risk matters of the Bank while priority is given for liquidity and market risks at the Assets and Liabilities Committee (ALCO) meetings that convene at least once a fortnight.

Risk and Control Self-Assessment (RCSA) framework is adopted to identify risks involved in business activities of the Bank and to implement appropriate risk mitigatory measures after assessing criticality of such risks. The Integrated Risk Management Department carries out semi-annual Bank-wide RCSA function focusing on adherence to laws, regulations, and regulatory guidelines as well as internal controls and approved policies.

Further, the Internal Audit function of the Bank independently monitors and evaluates the risk management function of the Bank and provides their views on adequacy of the Risk Management Framework to the Board Audit Committee (BAC).

Bank's Financial Risk Management Framework Figure – 35



Credit risk

The risk that the Bank will incur a loss due to its customers or counterparties fail to discharge their contractual obligations.

The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations and by monitoring exposures in relation to such limits.

Management of credit risk

Lending Guidelines of the Bank formulated in consultation with lending units provide expected granularity of credit assessment, risk grading, their acceptability of collateral, etc., as well as limits on exposures and concentration levels to various sectors, counterparties, geographies, and segments.

A robust risk grading system incorporating Basel requirements of facility rating and counterparty rating are adopted by the Bank for evaluation of credit proposals. This risk grading framework consists 10 grades of varying degrees of risk as indicators for the Lending Officers to evaluate and arrive at suitable risk-reward trade-offs in their propositions. These risk grades are reviewed by the Integrated Risk Management Department regularly.

Portfolio level credit risk analyses are taken up at monthly EIRMC as well as quarterly BIRMC meetings. Individual credit proposals evaluated by the Lending Officers are approved by the Authorising Officers within the hierarchy in Delegated Authority Levels whilst ensuring a minimum of four eyes principle when approving any lending proposals. Escalation of approving levels occurs based on exposure levels as well as final risk ratings of borrowers.

The Executive Credit Committee (ECC) and the Board Credit Committee (BCC) are entrusted with approval of high value facilities while the Board will be the ultimate authority for approving facilities beyond predetermined threshold levels. Deliberations take place at BCC level on facilities taken up for approval within the specified threshold and recommendation for approval of the Board based on quantum of exposures proposed is exercised.

The Integrated Risk Management Department provides risk approval for individual proposals above predetermined threshold levels, consequent to a rigorous independent risk evaluation guided by Credit Policy, Lending Guidelines, and circular instructions within a limit framework stemming from risk appetite of the Bank.

Market risk

The risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices. The Bank classifies exposures to market risk into either trading or non-trading portfolios and manages each of those portfolios separately.

The market risk for the trading portfolio is monitored and managed closely.

Management of market risk

Market Risk Policy, ALM Policy and Foreign Exchange Risk Policy are the three main policies that constitute the framework governing the Market Risk Management function of the Bank.

Due to the business model adopted by the Bank, exposure to equity and commodity risk was kept at bay throughout the year.

However, Interest Rate Risk arising from the Banking Book as well as Trading Book and Foreign Exchange Risk arising from dealing in currencies other than local currency, continued to expose the Bank to associated risk elements.

Volatile interest scenarios experienced by the country during the period impacted the financial market in Sri Lanka and challenged the Net Interest Margin. Interest Rates of the Banking Book was subjected to varying degrees of rate shocks to identify impact on earnings perspective in such rate scenarios. The results reflected predictions which assisted the Bank in formulating strategies to manage the financial position in an effective manner with the limited choices available.

Trading Book too was subjected to Value at Risk (VaR) framework internally carried out by the Bank on a regular basis. The Bank also carried out sensitivity analysis on a regular basis to ascertain the impact on portfolios maintained, mainly in Government Securities and marking to market such portfolios to reflect fair value for decision making process.

Foreign exchange positions were maintained within the regulatory framework in a market where much volatility was observed in the major currency that the Bank deals in, i.e., US Dollars. The positions were subjected to sensitivity analysis to provide insight to possible losses/gains arising from currency appreciation/depreciation, as the reporting currency of the Bank being Sri Lankan Rupees.

Liquidity risk

The risk that the Bank will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Bank might be unable to meet its payment obligations when they fall due under both normal and stress circumstances.

To limit this risk, Management has arranged diversified funding sources in addition to its core deposit base and adopted a policy of managing assets with liquidity in mind and monitoring future cash flows and liquidity on a daily basis. The Bank has developed internal control processes and contingency plans for managing liquidity risk. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding, if required.

Management of liquidity risk

Market Risk Management Policy and the ALM Policy of the Bank approved by the Board of Directors set the tone for managing liquidity risk of the Bank. Liquidity risk of the Bank is given utmost priority when managing a wide range of other risks due to the fact that it is considered as the most critical risk for any financial institution.

The Bank's Treasury Department is entrusted with managing liquidity of the Bank on real time basis to ensure smooth functioning of business activities of all other business units of the Bank.

Having access to a substantial stable Current Account and Savings Account (CASA) base due to its wide branch network and the top of the mind perception created in the depositors in general, for stability provides immense strength to the Bank in managing liquidity.

Having high quality liquid assets at the disposal of the Bank is another plus factor for the Bank. The strength of such was amply reflected in the Basel III computation the Bank carries out for arriving at Liquidity Coverage Ratio and Net Stable Funding Ratio as per the CBSL Directions that recorded very healthy results as compared to regulatory minimum threshold levels.

Contingency funding plans in force, constant monitoring of salient liquidity ratios and scenario based stress testing being carried out regularly, provide the sense of Bank with required indicators enabling the Bank to take proactive measures that could provide time to overcome any adverse liquidity position on a future date.

Operational risk

The risk that the Bank will incur a loss due to systems failure, human error, fraud or external events. When controls fail to operate effectively, operational risks can cause damage to reputation, have legal or regulatory implications or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but it endeavours to manage these risks through a control framework and by monitoring and responding to potential risks.

Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, such as the use of internal audit.

Management of operational risk

Sound Operational Risk Management practices are embedded into the work process through the Bank's culture, internal policy framework and as per regulatory requirements.

Circular instructions and Operational Risk Management Policy play a major part in bringing together business practices with accepted benchmarks to ensure minimum disruption to processes, personnel, technology and infrastructure.

Internal control framework and audit function with firmly established "three lines of defences" serve the Bank to manage operational risk at current acceptable levels.

IT Risk of the Bank is managed through strict monitoring of Key IT Risk Indicators while Vulnerability Assessment and Penetration Tests are being carried out by both internal and external parties at regular intervals to identify the relevant risks.

Refer Note 69 on pages 319 to 353 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 Management" on pages 115 to 139. The said write-up does not form part of the Financial Statements.

4. Fair Value Measurement

"Fair value" is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When one is available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted pricing in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The fair value of an asset or a liability is measured using the assumptions that market participants would use the fair value hierarchy when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. External professional valuers are involved for valuation of significant assets such as land and building.

An analysis of fair value measurement of financial and non-financial assets and liabilities is provided in Note 28 on pages 225 to 230

5. Changes in Accounting Policies

The Group has consistently applied the Accounting Policies as set out in Notes 6 to 10 on pages 180 to 195 to all periods presented in these Financial Statements, except for the changes arising out of transition to SLFRS 9 and Sri Lanka Accounting Standard – SLFRS 7 (revised) on "Financial Instruments: Disclosures" (SLFRS 7) and Sri Lanka Accounting Standard – SLFRS 15 "Revenue from Contracts with Customers" (SLFRS 15) as set out below:

5.1 New and amended standards and interpretations

In these financial statements, the Group has applied SLFRS 9, SLFRS 7 and SLFRS 15, which are effective for the annual reporting periods beginning on or after January 1, 2018, for the first time. The Group has not early adopted any other standard, interpretation or amendment that has been issued but not effective.

5.1.1 SLFRS 9 – Financial Instruments

SLFRS 9 issued in December 2014 replaced LKAS 39 and is applicable for annual reporting periods beginning on or after January 1, 2018. The Group elected as a policy choice permitted under SLFRS 9, to continue to apply hedge accounting in accordance with LKAS 39.

In accordance with the option given in SLFRS 9 not to restate the comparatives, the Group has not restated comparative information for 2017 for financial instruments within the scope of SLFRS 9. Therefore, comparative information for 2017 is reported under LKAS 39 and is not comparable with the information presented for 2018.

Differences arising from the adoption of SLFRS 9 have been recognised directly in equity as of January 1, 2018 and are disclosed in Note 12 on pages 196 to 201

5.1.1.1 Changes to classification and measurement

To determine their classification and measurement category, SLFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' cash flow characteristics.

Classification and measurement categories as specified in LKAS 39 for financial assets (FVTPL, HTM, L&R and AFS) have been replaced by;

- Financial assets measured at amortised cost
- Financial assets measured at Fair value through other comprehensive income (FVOCI)
- Financial assets measured at Fair value through profit or loss (FVTPL)

FVOCI includes debt and equity instruments measured at fair value through other comprehensive income. On derecognition of debt instruments measured at FVOCI, cumulative gains or losses are recycled to profit or loss. However, cumulative gains or losses on derecognition of equity instruments measured at FVOCI are not reclassified to profit or loss and transferred directly to retained earnings.

SLFRS 9 largely retains the existing requirements in LKAS 39 for the classification of financial liabilities. However, under LKAS 39, all fair value changes of liabilities designated under the fair value option were recognised in profit or loss. Under SLFRS 9 fair value changes are generally presented as follows:

- The amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in Other Comprehensive Income (OCI); and
- The remaining amount of change in the fair value is presented in profit or loss.

Note 7.1.4 on page 184 provides an explanation on how the Bank classifies financial liabilities under SLFRS 9.

Under SLFRS 9, derivatives embedded in a host financial asset are no longer treated as separate derivatives. Instead such financial instruments are classified based on the business model and their contractual terms, as explained in Notes 7.1.3.1 and 7.1.3.2 respectively on page 182 to 183. The accounting treatment for derivatives embedded in financial liabilities and non-financial host contracts has not changed. The Group's accounting policies for embedded derivatives are set out in Notes 32 and 46 on pages 233 and 278

The following assessments have been made on the basis of the facts and circumstances that existed at the transition date; i.e. January 1, 2018.

- The determination of the business model within which a financial asset is held.
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
- The designation of certain investments in equity instruments not held for trading as at FVOCI.
- For financial liabilities designated at FVTPL, the determination of whether presenting the effects of changes in the financial liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.

The Group's classification of its financial assets and liabilities is given in Notes 7.1.3 and 7.1.4 on pages 182 and 184 The quantitative impact of applying SLFRS 9 as at January 1, 2018 is disclosed in Note 12 on pages 196 to 201

5.1.1.2 Changes to the impairment calculation

The adoption of SLFRS 9 has fundamentally changed the Group's accounting for loan loss impairments by replacing the incurred loss approach under LKAS 39 with a forward-looking expected credit loss (ECL) approach. SLFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts but not to equity investments. Under SLFRS 9, credit losses are recognised earlier than under LKAS 39.

The allowance is based on the ECLs associated with the PD in the next twelve months unless there has been a significant increase in credit risk since origination. Lifetime expected credit loss is provided for financial assets for which the credit risk has increased significantly from initial recognition and the credit impaired assets subsequent to initial recognition. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset.

If a debt security had low credit risk at the date of initial application of SLFRS 9, then the Group has assumed that credit risk on the asset had not increased significantly since its initial recognition.

Details of the Group's impairment method are disclosed in Note 19 on page 208

5.1.2 SLFRS 7 (Revised) – Financial Instruments: Disclosures

The Group adopted SLFRS 7 together with SLFRS 9, effective from January 1, 2018. Changes including transition disclosures as shown in Note 12 on pages 196 to 201 together with detailed qualitative and quantitative information about the ECL calculations such as the assumptions and inputs used are disclosed as per the requirements of the Standards in Note 19 on page 208.

Movements during the year in the ECL allowances are presented in Note 29.1 (page 231 Note 31.1 (page 233), Note 34.1 (page 238), Note 35.2 (page 242), Note 36.1 (page 248), Note 37.2 (page 251) and Note 59.4 (page 305).

5.1.3 SLFRS 15 – Revenue from contracts with customers

SLFRS 15 replaces revenue recognition guidance, including LKAS 18 on "Revenue", LKAS 11 on "Construction Contracts" and IFRIC 13 on "Customer Loyalty Programmes" and is effective for annual reporting periods beginning on or after January 1, 2018.

SLFRS 15 provides a comprehensive framework for determining whether, how much, and when revenue is recognised. SLFRS 15 requires new qualitative and quantitative disclosure aimed at enabling users of Financial Statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

Entities are required to apply five-step model to determine when to recognise revenue and at what amount. The model specifies that revenue is recognised when or as an entity transfers control of goods and services to a customer at the amount at which the entity expects to be entitled.

There is no significant impact on the Financial Statement of the Group and the Bank resulting from the application of SLFRS 15.

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 172

These Accounting Policies have been applied consistently by Group entities.

Set out below is an index of Significant Accounting Policies, the details of which are available on the pages that follow:

Table – 36

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 7.5 on page 190). 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 remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

6.1.2 Non-Controlling Interests (NCI)

Details of NCI are given in Note 58 on page 302.

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 38 and 59.5 (a) on pages 254 to 256 and 305 respectively.

6.1.4 Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Subsequently, it is accounted for as an Associate or in accordance with the Group's Accounting Policy for financial instruments depending on the level of influence retained.

6.1.5 Associates

Details of associates, how they are accounted in the Financial Statements of the investee together with their fair values and the Group's share of contingent liabilities of such associates are set out in Notes 39 and 59.5(b) on pages 256 to 258 and 305 respectively.

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 (from January 1, 2018)
- Available-for-sale equity instruments (Up to December 31, 2017);
- A financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; and
- Qualifying cash flow hedges to the extent that the hedge is effective.

6.2.2 Foreign currency translations

The Group's Consolidated Financial Statements are presented in Sri Lankan Rupees, which is also the Bank's Functional Currency. The Financial Statements of the Offshore Banking Centre of the Bank and the Financial Statements of the foreign operations of the Bank have been translated into the Group's Presentation Currency as explained under Notes 6.2.3 and 6.2.4 below.

6.2.3 Transactions of the offshore banking centre

These are recorded in accordance with Note 6.2.1 above, except the application of the annual weighted average exchange rate for translation of the Income Statement and the Statement of Profit or Loss and Other Comprehensive Income. Net gains and losses are dealt through the profit or loss.

6.2.4 Foreign operations

The results and financial position of overseas operations that have a functional currency different from the Bank's presentation currency are translated into the Bank's presentation currency as follows:

- Assets and liabilities, including goodwill and fair value adjustments arising on acquisition, are translated at the rates of exchange ruling as at the reporting date.
- Income and expenses are translated at the average exchange rate for the period, unless this average rate is not a reasonable approximation of the rate prevailing at the transaction date, in which case income and expenses are translated at the exchange rates ruling at the transaction date.
- All resulting exchange differences are recognised in the OCI and accumulated in the Foreign Currency Translation Reserve (Translation Reserve), which is a separate component of Equity, except to the extent that the translation difference is allocated to the NCI.

When a foreign operation is disposed of such that the control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. If the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, then the relevant proportion of the cumulative amount of the translation reserve is reattributed to NCI.

7. Significant Accounting Policies – Recognition of Assets and Liabilities

7.1 Financial instruments – initial recognition, classification and subsequent measurement

7.1.1 Date of recognition

The Group initially recognises loans and advances, deposits and subordinated liabilities, etc., on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Group becomes a party to the contractual provisions of the instrument.

7.1.2 Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their cash flow characteristics and the business model for managing the instruments. Refer Notes 7.1.3 and 7.1.4 for further details on classification of financial instruments.

A financial asset or financial liability is measured initially at fair value plus or minus transaction costs that are directly attributable to its acquisition or issue, except in the case of financial assets and financial liabilities at fair value through profit or loss as per SLFRS 9 and trade receivables that do not have a significant financing component as defined by SLFRS 15.

Transaction cost in relation to financial assets and financial liabilities at fair value through profit or loss are dealt with through the Income Statement.

Trade receivables that do not have significant financing component are measured at their transaction price at initial recognition as defined in SLFRS 15.

When the fair value of financial instruments (except trade receivables that do not have significant financing component) at initial recognition differs from the transaction price, the Group accounts for the Day 1 profit or loss, as described below.

7.1.2.1 "Day 1" profit or loss

When the transaction price of the instrument differs from the fair value at origination and fair value is based on a valuation technique using only inputs observable in market transactions, the Group recognises the difference between the transaction price and fair value in net gains/(losses) from trading. In those cases, where the fair value is based on models for which some inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in profit or loss when the inputs become observable, or when the instrument is derecognised. The "Day 1 loss" arising in the case of loans granted to employees at concessionary rates under uniformly applicable schemes is deferred and amortised using Effective Interest Rates (EIR) in "Interest income" and "Personnel Expenses" over the remaining service period of the employees or tenure of the loan whichever is shorter.

Refer Notes 14 and 20 on pages 202 and 213

7.1.3 Classification and subsequent measurement of financial assets

From January 1, 2018 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.

Up to December 31, 2017 as per LKAS 39, the Group classified its financial assets into one of the following categories:

- Financial assets at fair value through profit or loss (FVTPL), and within this category
  - Held for trading
  - Designated at fair value through profit or loss
- Loans and receivables
- Held to maturity
- Available for sale

Details of the impact on reclassification and measurement from LKAS 39 to SLFRS 9 are disclosed in transition disclosures given in Note 12 on pages 196 to 201.

7.1.3.1 Business model assessment

With effect from January 1, 2018, 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 realised.

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 minimise 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 7.1.3.8 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 34 and Note 35 on pages 238 to 247.

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 159.

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 36 on page 247.

7.1.3.3.4 Cash and cash equivalents

Details of "Cash and cash equivalents" are given in Note 29 on page 231.

7.1.3.3.5 Balances with central banks

Details of "Balances with central banks" are given in Note 30 on page 232.

7.1.3.3.6 Placement with banks

Details of "Placement with banks" are given in Note 31 on page 233.

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.

Financial assets measured at FVOCI are given in 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 for selling financial assets, where the asset's 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 37 on page 250.

7.1.3.4.2 Equity instruments designated at FVOCI

Upon initial recognition, the Group elects to classify irrevocably some of its equity investments held for strategic and statutory purposes as equity instruments at FVOCI. Details of "Equity instruments at FVOCI" are given in Note 37 on pages 250.

7.1.3.5 Financial assets measured at FVTPL

As per SLFRS 9, all financial assets other than those classified at amortised cost or FVOCI are classified as measured at FVTPL. Financial assets at fair value through profit or loss include financial assets that are held for trading or managed and whose 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 and financial assets designated upon initial recognition at fair value through profit or loss which are discussed in Notes 7.1.3.5.1 and 7.1.3.5.2 below.

As per LKAS 39, financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss.

7.1.3.5.1 Financial assets Held for trading

Details of "Financial Assets Held for trading" are given in Note 33 on pages 234.

7.1.3.5.1.1 Derivatives recorded at fair value through profit or loss

Details of "Derivative financial assets" recorded at fair value through profit or loss are given in Note 32 on pages 233.

7.1.3.5.2 Financial assets designated at fair value through profit or loss

As per SLFRS 9, 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.

As per LKAS 39, the Group designated financial assets at fair value through profit or loss in the following circumstances:

- the assets are managed, evaluated and reported internally on a fair value basis; or
- the designation eliminates or significantly reduces an accounting mismatch, which would otherwise have arisen; or
- the asset contains an embedded derivative that significantly modifies the cash flows which would otherwise have been required under the contract.

Financial assets designated at fair value through profit or loss are recorded in the SOFP at fair value. Changes in fair value are recorded in "Net gain or loss on financial assets and liabilities designated at fair value through profit or loss". Interest earned is accrued in "Interest Income", using the EIR, while dividend income is recorded in "Other operating income" when the right to receive the payment has been established.

The Group has not designated any financial assets upon initial recognition as at fair value through profit or loss as at the end of the reporting period.

7.1.3.6 Financial investments – Held-to-maturity (Up to December 31, 2017)

Details of "Financial investments – Held to maturity" are given in Note 36 on page 247.

7.1.3.7 Financial investments – Loans and receivables (Up to December 31, 2017)

Details of "Financial investments – Loans and receivables" are given in Note 36 on page 247.

7.1.3.8 Financial investments – Available for sale (Up to December 31, 2017)

Details of "Financial investments – Available for sale" are given in Note 37 on page 250.

7.1.4 Classification and subsequent measurement of financial liabilities

As per SLFRS 9, the Group classifies financial liabilities, other than financial guarantees and loan commitments into one of the following categories:

- Financial liabilities at fair value through profit or loss, and within this category as –
  - Held-for-trading; or
  - Designated at fair value through profit or loss;
- Financial liabilities measured at amortised cost.

The subsequent measurement of financial liabilities depends on their classification.

SLFRS 9 largely retains the existing requirements in LKAS 39 for the classification of financial liabilities.

Refer Notes 7.1.4.1 and 7.1.4.2 as detailed below:

7.1.4.1 Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Refer Notes 7.1.4.1.1 and 7.1.4.1.2 below.

7.1.4.1.1 Financial liabilities held for trading

Details of "Derivative financial liabilities" classified under Financial Liabilities Held for Trading are given in Note 46.1 on page 279.

7.1.4.1.2 Financial liabilities designated at fair value through profit or loss

Financial liabilities designated at fair value through profit or loss are recorded in the 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 fair value through profit or loss" 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 fair value through profit or loss as at the end of the reporting period.

7.1.4.2 Financial liabilities at amortised cost

Financial liabilities issued by the Group that are not designated at FVTPL are classified as financial liabilities at amortised cost under "Due to banks", "Due to depositors", "Securities sold under repurchase agreements", "Other borrowings" or "Subordinated liabilities" as appropriate, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument.

After initial recognition, such financial liabilities are subsequently measured at amortised cost using the EIR method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR.

The EIR amortisation is included in "Interest expense" in the Income Statement. Gains and losses too are recognised in the Income Statement when the liabilities are derecognised as well as through the EIR amortisation process.

7.1.4.2.1 Due to banks

Details of "Due to banks" are given in Note 45 on page 278.

7.1.4.2.2 Due to depositors

Details of "Due to depositors" are given in Note 47 on page 280.

7.1.4.2.3 Securities sold under repurchase agreements (repos)

When the Group sells a financial asset and simultaneously enters into an agreement to repurchase the asset (or a similar asset) at a fixed price on a future date (repos), the arrangement is accounted for as a financial liability in the SOFP reflecting the transaction's economic substance as a deposit. Subsequent to initial recognition, these securities are measured at amortised cost using the EIR with the corresponding interest payable being recognised as interest expense in profit or loss.

Details of "Securities sold under repurchase agreements (repos)" are given in the SOFP on page 159.

7.1.4.2.4 Other Borrowings

Details of "Other Borrowings" are given in Note 48 on page 281.

7.1.4.2.5 Subordinated liabilities

Details of "Subordinated liabilities" are given in Note 52 on page 291.

7.1.5 Derivatives held for risk management purposes and hedge accounting

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets and liabilities. Derivatives held for risk management purposes are measured at fair value in the SOFP.

The Group designates certain derivatives held for risk management as well as certain non-derivative financial instruments as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument and hedged item, including risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at inception of the hedge relationship and on an ongoing basis, of whether the hedging instrument is expected to be highly effective in offsetting the changes in fair value or cash flow of the respective hedged item during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80% to 125%. The Group makes an assessment for a cash flow hedge of a forecast transaction, of whether the forecast transaction is highly probable to occur and presents an exposure to variations in cash flows that could ultimately affect profit or loss.

The Group currently uses cash flow hedging relationships for risk management purposes as discussed in the Notes 7.1.5.1 to 7.1.5.5 below:

7.1.5.1 Fair value hedges

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect the profit or loss, changes in the fair value of the derivative are recognised immediately in profit or loss in the same line item as the hedged item that is attributable to the hedged risk.

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. However, if the derivative is novated to a central counterparty by both parties as a consequence of laws or regulations without changes in its terms except for those are necessary for the novation, then the derivative is not considered as expired or terminated.

Any adjustment up to the point of discontinuation to a hedged item for which the effective interest method is used is amortised to profit or loss as part of the recalculated EIR of the item over its remaining life.

7.1.5.2 Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability that could affect the profit or loss, the effective portion of changes in the fair value of the derivative are recognised in

OCI and presented in the hedging reserve within equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

The amount recognised in OCI is reclassified to profit or loss as a reclassification adjustment in the same period as the hedged cash flows affect profit or loss, and in the same line item in the Statement of Profit or Loss and OCI.

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. However, if the derivative is novated to a central counterparty by both parties as a consequence of laws or regulations without changes in its terms except for those are necessary for the novation, then the derivative is not considered as expired or terminated.

Details of "Cash flow hedges" are given in Notes 32.2 and 46.2 on pages 234 and 279.

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 recognised immediately in profit or loss. The amount recognised in OCI is reclassified to profit or loss as a reclassification adjustment on disposal of the foreign operation.

7.1.5.4 Other non-trading derivatives

If the derivative is not held for trading, and is not designated in a qualifying hedging relationship, then all changes in its fair value are recognised immediately in profit or loss as a component of net income from other financial instruments at fair value through profit or loss.

7.1.5.5 Embedded derivatives

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.

As per SLFRS 9, 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 are not separated as explained in Note 7.1.3.1 and 7.1.3.2 on pages 182 and 183.

As per LKAS 39, the Group treated derivatives embedded in financial assets in addition to derivatives embedded in financial liabilities and non-financial host contracts as separate derivatives if they fulfilled the same criteria mentioned above.

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

As per SLFRS 9, Financial assets are not reclassified subsequent to their initial recognition, except and only in those rare circumstances when the Group changes its objective of the business model for managing such financial assets which may include the acquisition, disposal or termination of a business line.

Financial Liabilities are not reclassified as such reclassifications are not permitted by SLFRS 9.

7.1.6.1 Timing of reclassification of financial assets

Consequent to the change in the business model, the Bank reclassifies all affected assets prospectively from the first day of the first reporting period following the change in the business model (the reclassification date). Accordingly, prior periods are not restated.

7.1.6.2 Measurement of reclassification of financial assets

7.1.6.2.1 Reclassification of Financial Instruments at 'Fair value through profit or loss'

- To Fair value through other comprehensive income

  The fair value on reclassification date becomes the new gross carrying amount. The EIR is calculated based on the new gross carrying amount. Subsequent changes in the fair value is recognised in OCI.

- To Amortised Cost

  The fair value on reclassification date becomes the new carrying amount. The EIR is calculated based on the new gross carrying amount.

7.1.6.2.2 Reclassification of Financial Instruments at 'Fair value through other comprehensive income'

- To Fair value through profit or loss
  The accumulated balance in OCI is reclassified to profit and loss on the reclassification date.
- To Amortised Cost
  The financial asset is reclassified at fair value. The cumulative balance in OCI is removed and is used to adjust fair value on the reclassification date. The adjusted amount becomes the amortised cost.

EIR determined at initial recognition and gross carrying amount are not adjusted as a result of reclassification.

7.1.6.2.3 Reclassification of Financial Instruments at "Amortised Cost"

- To Fair value through other comprehensive income
  The asset is remeasured to fair value, with any difference recognised in OCI. EIR determined at initial recognition is not adjusted as a result of reclassification.
- To Fair value through profit or loss
  The fair value on the reclassification date becomes the new carrying amount. The difference between amortised cost and fair value is recognised in profit and loss.

7.1.7 Derecognition of financial assets and financial liabilities

7.1.7.1 Financial assets

The Group derecognises a financial asset (or where applicable a part 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 as per SLFRS 9.

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 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.

As per SLFRS 9, 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. In other cases, it is presented as interest income.

As per LKAS 39, if the terms of a financial asset were modified because of financial difficulties of the borrower and the asset was not derecognised, then impairment of the asset was measured using pre-modification interest rate.

7.1.8.2 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 28 on pages 178 and 225.

7.1.12 Identification and measurement of impairment of financial assets

7.1.12.1 Overview of the ECL principles

As per SLFRS 9, the Group records an allowance for expected credit losses for loans and advances to banks and other customers, debt and other financial instruments measured at amortised cost, debt instruments measured at fair value through other comprehensive income, 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, it 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 significant increase in credit risk has occurred.
- Stage 3: If a financial asset is credit-impaired, it is moved to Stage 3 and the Group recognises an allowance for LTECL, with probability of default at 100%. Refer Note 7.1.12.3 for a description on how the Group defines credit impaired and default.
- 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 lifetime expected credit losses. 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

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information analysis, based on the Group's historical experience and expert credit assessment and including forward looking information.

The Group considers an exposure to have significantly increased credit risk when contractual payments of a customer are more than 30 days past due in accordance with the rebuttable presumption in SLFRS 9.

The Group individually reviews at each reporting date, loans and advances above a predefined threshold to identify whether the credit risk has increased significantly since origination, before an exposure is in default. Such indicators include, *inter alia*:

- When reasonable and supportable forecasts of future economic conditions directly affect the performance of a customer/group of customers, portfolios or instruments.
- When there is a significant change in the geographical locations or natural catastrophes that directly impact the performance of a customer/group of customers or an instruments.
- When the value of collateral is significantly reduced and/or realisibility of collateral is doubtful.
- When a customer is subject to litigation, that significantly affects the performance of the credit facility.
- Frequent changes in the senior management of an institutional customer.
- Delay in the commencement of business operations/projects by more than two years from the originally agreed date.
- Modification of terms resulting in concessions, including extensions, deferment of payments, waiver of covenants
- When the customer is deceased/insolvent.
- When the Bank is unable to contact or find the customer
- A fall of 50% or more in the turnover and/ or profit before tax of the customer when compared to the previous year
- Erosion in net-worth by more than 25% when compared to the previous year.

Credit facilities/exposures which have one or more of the above indicators are treated as facilities with significant increase in credit risk and assessed accordingly in ECL computations. The Group regularly monitors the effectiveness of the criteria used to identify significant increase in credit risk to confirm that the criteria is capable of identifying significant increase in credit risk 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 significant increase in credit risk based on the generally accepted investment/ non-investment grade definitions published by international rating agencies. Debt instruments are moved to stage 2 if their credit risk increases to the extent that they are no longer considered investment grade.

7.1.12.3 Definition of default and credit impaired assets

The Group considers loans and advances to other customers be defaulted when:

- The borrower is unlikely to pay its obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- The borrower becomes 90 days past due on its contractual payments.

In addition, the Group classifies the financial investments under Stage 3 when the external credit rating assigned to the particular investment is "default".

In assessing whether a borrower is in default, Group reviews its individually significant loans and advances above a predefined threshold at each reporting date. The Group considers non performing credit facilities/customers with one or more of indicators set out in Note 7.1.12.2 above as credit impaired. Further, as per "CBSL Guidelines to Licensed Banks on the Adoption of Sri Lanka Accounting Standard – SLFRS 9: Financial Instruments", all the credit facilities/ customers classified as non-performing as per CBSL Directions are assessed as Stage 3 exposure.

7.1.12.4 Movement between the stages

Financial assets can be transferred between the different categories (other than POCI) depending on their relative change in credit risk since initial recognition. Financial instruments are transferred out of stage 2 if their credit risk is no longer considered to be significantly increased since initial recognition based on the assessments described in Note 7.1.12.2. Financial instruments are transferred out of stage 3 when they no longer exhibit any evidence of credit impairment as described above.

7.1.12.5 Grouping financial assets measured on collective basis

The Group calculates ECLs 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 into homogeneous portfolios, based on a combination of product and customer characteristics.

7.1.12.6 Identification and measurement of impairment of financial assets under LKAS 39

The Group assessed whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired as at the reporting date. A financial asset or a group of financial assets is "impaired" when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s) and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets (including equity securities) were similar to the qualitative criteria given in Section 7.1.12.2 for identification of credit-impaired assets.

In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost was considered as an objective evidence of impairment.

7.1.12.6.1 Impairment of financial assets measured at amortised cost

Details of the individual and collective assessment of impairments are given in Note 19 on pages 208 to 212.

7.1.12.6.2 Impairment of financial investments – Available for sale

For available-for-sale financial investments, the Group assessed at each reporting date whether there was objective evidence that an investment was impaired.

In the case of debt instruments classified as AFS, the Group assessed individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment was the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss. Future interest income based on the reduced carrying amount/impaired balance was accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income on such assets was recorded within "Interest income".

In the case investments classified as AFS, objective evidence also included a "significant" or "prolonged" decline in the fair value of the investment below its cost. In general, the Group considered a decline of 20% to be "significant" and a period of nine months to be "prolonged". However, in specific circumstances a smaller decline or a shorter period was considered appropriate. Where there was evidence of impairment, the cumulative impairment loss on that investment previously recognised in Equity through the OCI was removed from Equity and charged to profit or loss.

If, in a subsequent period, the fair value of an impaired available-for-sale debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, then such impairment loss was reversed through profit or loss; otherwise, any increase in fair value was recognised through OCI. Any subsequent recovery in the fair value of an available-for-sale equity instrument was recognised in OCI.

The Group wrote off certain financial investments – available for sale, either partially or in full and any related provision for impairment losses, when the Group determines that there was no realistic prospect of recovery.

7.2 Non-current assets held for sale and disposal groups

The Group intends to recover the value of non-current assets and disposal groups classified as held for sale as at the reporting date principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for sale in its present condition, Management has committed to the sale and the sale is expected to have been completed within one year from the date of classification.

As per the Sri Lanka Accounting Standard – SLFRS 5 on "Non-current Assets Held for Sale and Discontinued Operations", these assets are measured at the lower of the carrying amount and fair value, less costs to sell. Thereafter, the Group assesses at each reporting date or more frequently if events or changes in circumstances indicate that the investment or a group of investment is impaired. The Group recognises an impairment loss for any initial or subsequent write down of the assets to fair value less costs to sell and also recognises a gain for any subsequent increase in fair value less costs to sell of an asset, only to the extent of the cumulative impairment losses that have been recognised previously. Impairment loss is first allocated to good will, 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 40 on pages 258 to 271.

7.3.1 Depreciation

Details of "Depreciation" are given in Note 21 on pages 213 and 214.

7.3.2 Borrowing costs

As per the Sri Lanka Accounting Standard – LKAS 23 on "Borrowing Costs", the Group capitalises borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of the asset. A qualifying asset is an asset which takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are recognised in the profit or loss in the period in which they occur.

7.4 Intangible assets

Details of "Intangible assets" are given in Note 41 on pages 271 to 273.

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 21 on pages 213 and 214

7.5 Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than investment properties and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Good will is tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The "recoverable amount" of an asset or CGU is the greater of its value in use and its fair value less costs to sell. "Value in use" is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

The Group's corporate assets do not generate separate cash inflows and are used by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGUs to which the corporate assets are allocated.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a *pro rata* basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

7.6 Dividends payable

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are recommended and declared by the Board of Directors and approved by the shareholders. Interim dividends are deducted from Equity when they are declared and no longer at the discretion of the Bank.

Dividends for the year, that are approved after the reporting date and not provided for, are disclosed as an event after the reporting period in accordance with the Sri Lanka Accounting Standard – LKAS 10 on "Events after the Reporting Period" in Note 70 on page 353.

7.7 Employee benefits

7.7.1 Defined Benefit Plans (DBPs)

A defined benefit plan is a post-employment benefit plan other than a Defined contribution plan as defined in the Sri Lanka Accounting Standard – LKAS 19 on "Employee Benefits".

7.7.1.1 Defined benefit pension plans

7.7.1.1.1 Description of the plans and employee groups covered

The Bank operates three types of Defined Benefit Pension Plans for its employees as described below:

(a) The Bank has an approved Pension Fund, which was established in 1992. As per the Deed of Trust, only those employees who were less than 45 years of age as at January 1, 1992 were covered by the Pension Fund in order to leave a minimum contribution for a period of 10 years before they are eligible to draw pension from the Pension Fund. Further, only the employees who joined the Bank on or before December 31, 2001, were in pensionable service of the Bank:

During 2006, the Bank offered a restructured pension scheme to convert the DBP to a Defined Contribution Plan (DCP) for the pensionable employees of the Bank and over 99% of them accepted it. As a result, the above Pension Fund now covers only those employees who did not opt for the restructured pension scheme and those employees who were covered by the Pension Fund previously but retired before the restructured pension scheme came into effect:

(b) Provision for pensions has been made for those employees who retired on or before December 31, 2001, and on whose behalf the Bank could not make contributions to the Retirement Pension Fund for more than 10 years. This liability although not funded has been provided for in full in the Financial Statements:

(c) Provision has been made in the Financial Statements for Retirement Gratuity from the first year of service for all employees who joined the Bank on or after January 1, 2002, as they are not in pensionable service of the Bank under either the DBP or DCP. However, if any of these employees resign before retirement, the Bank is liable to pay gratuity to such employees. This liability although not funded has been provided for in full in the Financial Statements.

The subsidiaries of the Bank do not operate Pension Funds.

The Bank's net obligation in respect of Defined Benefit Pension Plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets, as per the Sri Lanka Accounting Standard – LKAS 19 on "Employee Benefits" as detailed in Note 50 on pages 282 to 290.

The past service cost is recognised as an expense on a straight-line basis over the period until the benefits become vested. If the benefits are already vested following the introduction of, or changes to, a pension plan, past service cost is recognised immediately.

7.7.1.1.2 Recognition of actuarial gains or losses

Actuarial gains or losses are recognised in the OCI in the period in which they arise.

7.7.1.1.3 Recognition of retirement benefit obligation

The defined benefit asset or liability comprises the present value of the defined benefit obligation, less past service cost not yet recognised and less the fair value of plan assets out of which the obligations are to be settled directly. The value of any asset is restricted to the sum of any past service cost not yet recognised and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the Projected Unit Credit Method. When the calculation results in a potential asset for the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurement of the net defined benefit liability, which comprises actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in OCI. The Group determines the net interest expense/(income) on the net defined benefit liability/(asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then net-defined benefit liability/(asset), taking into account any changes in the net-defined benefit liability/(asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

Amounts recognised in profit or loss as expenses on DBPs and provisions made on DBPs together with the details of valuation methods are given in Notes 20 and 50 on pages 213 and 282 respectively.

7.7.2 Defined Contribution Plans (DCPs)

A defined contribution plan is a post-employment plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligations to pay a further amount. Obligations to DCPs are recognised in the profit or loss as the related service is provided. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. The Group has three such plans as explained in Notes 7.7.2.1, 7.7.2.2 and 7.7.2.3 below.

Amounts recognised in profit or loss as expenses on DCPs are given in Note 20 on page 213.

7.7.2.1 Defined contribution pension plan

As explained in Note 7.7.1.1.1 (a), during 2006, the Bank restructured its pension scheme which was a DBP to a DCP. This restructured plan was offered on a voluntary basis to the eligible employees of the Bank. The scheme provides for lump sum payments instead of commuted/monthly pensions to the eligible employees at the point of their separation, in return for surrendering their pension rights.

The lump sum offered consisted of a past service package and a future service package. The shortfall on account of the past service package in excess of the funds available in the Pension Fund was borne by the Bank in 2006.

The future service package includes monthly contributions to be made by the Bank for the employees who accepted the offer, to be made during their remaining period of service, at predetermined contribution rates to be applied on their salaries, which are estimated to increase for this purpose at 10% p.a. based on the salary levels that prevailed as at the date of implementation of this scheme. In addition, interest to be earned on the assets of the DCP is also allocated to the employees who opted for the restructured scheme.

The assets of this Fund are held separately from those of the Bank and are independently administered by the Trustees as per the provisions of the Trust Deed.

7.7.2.2 Employees' Provident Fund

The Bank and employees contribute to an approved Private Provident Fund at 12% and 8% respectively, on the salaries of each employee. Other local entities of the Group and their employees contribute at the same percentages as above to the Employees' Provident Fund managed by the CBSL.

7.7.2.3 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.

7.7.3 Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefits that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value and the fair value of any related assets is deducted. The discount rate used as the yield as at the reporting date is the current market rate that has been extrapolated to reflect long-term rate of discount based on market rates of interest on short-term Corporate/Government Bonds and anticipated long-term rate of inflation. The calculation is performed using the Projected Unit Credit Method. Remeasurements are recognised in profit or loss in the period in which they arise.

The Group does not have any other long-term employee benefit plans.

7.7.4 Terminal benefits

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for a restructuring. If benefits are not expected to be wholly settled within 12 months of the reporting date, then they are discounted.

7.7.5 Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

7.7.6 Share-based payment arrangements

Share-based payment arrangements in which the Group receives services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Group. Senior Executive Employees of the Group receive remuneration in the form of share-based payment transactions, where by employees render services as consideration for equity instruments (equity-settled transactions). The Group does not operate any cash-settled share-based payment transactions.

The Group applies the requirements of the Sri Lanka Accounting Standard – SLFRS 2 on "Share-based Payment" (SLFRS 2) in accounting for equity-settled share-based payment transactions, if any, that were granted after January 1, 2012 and had not vested at the same date. As per SLFRS 2, on the grant date fair value of equity-settled share-based payment awards (i.e., share options) granted to employees is recognised as personnel expense, with a corresponding increase in equity, over the period in which the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of share awards for which the related service and non-market performance vesting conditions are expected to be met, so that the amount ultimately recognised as an expense is based on the number of share awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

The Employee Share Option Plan – 2015, which was granted is subjected to the above accounting treatment.

However, the Employee Share Option Plan – 2008 which was granted prior to January 1, 2012, the effective date of the SLFRS 2 was not subjected to the above accounting treatment and the proceeds received during the year by the Group in consideration for shares issued were accounted for as Stated Capital within Equity.

The details of Employee Share Option Plans are given in Notes 53.2 and 54 on pages 294 to 297.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted Earnings per Share as disclosed in Notes 25.2 and 25.3 on page 219.

7.8 Other liabilities

Details of "Other liabilities" are given in Note 50 on pages 282 to 290.

7.9 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.

7.10 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.

7.11 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.

7.12 Financial guarantees, letters of credit and undrawn loan commitments

"Financial guarantees" are contracts that require the Group to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. Undrawn loan commitments and Letters of Credits are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer.

Financial guarantees are initially recognised in the financial statements (within other liabilities) at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the Income Statement, and – under LKAS 39 – the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee, or – under SLFRS 9 – an ECL provision if appropriate.

The premium received is recognised in profit or loss in "Net fees and commission income" on a straight-line basis over the life of the guarantee.

Similar to financial guarantee contracts for letters of credit and undrawn loan commitments, a provision was made if they were an onerous contract under LKAS 39, but from January 1, 2018, these contracts are in the scope of the ECL requirements. The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded on in the SOFP. The nominal values of these instruments together with the corresponding ECLs are disclosed in Note 59 on page 303.

Loan commitments at below market interest rates drawdown are initially measured at fair value and subsequently measured at the higher of the amount of the ECL allowance and the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

7.13 Commitments

All discernible risks are accounted for in determining the amount of known liabilities as explained in Note 7.8 above.

Details of the Commitments are given in Notes 59.2 and 59.3 on page 304.

7.14 Contingent liabilities and commitments

A detailed list of "Contingent liabilities and commitments" and "Litigation against the Bank and the Group" are given in Notes 59 and 61 on pages 303 and 306 respectively.

7.15 Stated capital and reserves

Details of the "Stated capital and reserves" are given in Notes 53, 55, 56 and 57 to the Financial Statements on pages 293, 297, 298 and 299 respectively.

7.16 Earnings per share (EPS)

Details of "Basic and Diluted EPS" are given in Note 25 on pages 218 and 219.

7.17 Operating segments

Details of "Operating segments" are given in Note 63 on pages 309 to 311.

7.18 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 13 to 22 on pages 202 to 215.

8.1 Interest income and expense

Details of "Interest income and expense" are given in Note 14 on pages 202 to 205.

8.2 Fee and commission income and expense

Details of "Fees and commission income and expense" are given in Note 15 on pages 205 to 206.

8.3 Net gains/(losses) from trading

Details of "Net gains/(losses) from trading" are given in Note 16 on page 207.

8.4 Net gains/(losses) from derecognition of financial assets

Details of "Net gains/(losses) from derecognition of financial assets" are given in Note 17 on page 207.

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 16 and 18 on pages 207 and 208.

8.6 Leases

The determination of whether an arrangement is a lease or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

8.6.1 Finance leases

8.6.1.1 Finance leases – Group as a lessee

Finance leases that transfer substantially all risks and rewards incidental to ownership of the leased item to the Group are classified as finance leases and capitalised at the commencement of the lease at the lower of the fair value of the leased property and the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

8.6.1.2 Finance leases – Group as a lessor

When the Group is the lessor under a lease agreement that transfers substantially all of the risks and rewards incidental to the ownership of the asset to the lessee, the net investment in lease (i.e., after deduction of unearned charges) are included in "loans and advances to banks" or "loans and advances to other customers", as appropriate. The finance income receivable is recognised in "interest income" over the periods of the leases so as to achieve a constant rate of return on the net investment in the leases.

8.6.2 Operating leases

8.6.2.1 Operating leases – group as a lessee

Assets held under leases other than finance leases are classified as operating leases and are not recognised in the Group's SOFP. Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease. Contingent rental payable is recognised as an expense in the period in which they are incurred.

8.6.2.2 Operating leases – Group as a lessor

Assets leased under leases other than finance leases are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

Contingent rents are recognised as revenue in the period in which they are earned.

Details of "Operating leases" are given in Note 68 on page 318.

8.7 Rental income and expenses

Rental income and expense are recognised in profit or loss on an accrual basis.

9. Significant accounting policies – income tax expense

9.1 Current tax

Details of "Income tax expense" are given in Note 24 on pages 216 to 218.

9.2 Deferred tax

Details of "Deferred tax assets and liabilities" are given in Note 43 on pages 275 to 277.

9.3 Tax exposures

In determining the amount of current and deferred tax, the Group considers the impact of tax exposures, including whether additional taxes and penalties are due. Finalisation of the tax liability with authorities may change the position already recorded in the Financial Statements and such changes to tax liabilities could impact the tax expense in the period in which such a determination is made either as an over or under provision.

9.4 Crop Insurance Levy (CIL)

As per the provisions of the Section 14 of the Finance Act No. 12 of 2013, the CIL was introduced with effect from April 1, 2013 and is payable to the National Insurance Trust Fund. Currently, the CIL is payable at 1% of the profit after tax.

9.5 Withholding tax on dividends distributed by the Bank, subsidiaries and associates

9.5.1 Withholding tax on dividends distributed by the Bank

Withholding tax that arises from the distribution of dividends by the Bank is recognised at the time the liability to pay the related dividend is recognised.

9.5.2 Withholding tax on dividends distributed by the subsidiaries and associates

Dividends received by the Bank from its subsidiaries and associates, have attracted a 14% deduction at source after April 1, 2018. (10% up to March 31, 2018)

9.6 Economic Service Charge (ESC)

As per the provisions of the Finance Act No. 11 of 2004, and amendments thereto, the ESC was introduced with effect from April 1, 2004. Currently, the ESC is payable at 0.5% of the total turnover and is deductible from the income tax payments. Unclaimed ESC, if any, can be carried forward and set off against the income tax payable in the three subsequent years including the current year of assessment.

9.7 Value Added Tax (VAT) on financial services

The value additional attributable to the supply of financial services is calculated by adjusting the economic depreciation computed on rates prescribed by the Department of Inland Revenue to the accounting profit before income tax and emoluments payable. Emoluments payable include benefits in money and not in money including contribution or provision relating to terminal benefits.

The amount of VAT charged in determining the profit or loss for the period is given in Note 23 on page 215.

9.8 Nation Building Tax (NBT) on financial services

With effect from January 1, 2014, NBT of 2% was introduced on supply of financial services via an amendment to the NBT Act No. 9 of 2009. NBT is chargeable on the same base used for calculation of VAT on financial services as explained in Note 9.7 above.

The amount of NBT charged in determining the profit or loss for the period is given in Note 23 on page 215.

9.9 Debt Repayment Levy (DRL) on financial services

As per the Finance Act No. 35 of 2018, with effect from October 1, 2018, DRL of 7% was introduced on the value addition attributable to the supply of financial services by each financial institution. DRL is chargeable on the same base used for calculation of VAT on financial services as explained in Note 9.7 above.

The amount of DRL charged in determining the profit or loss for the period is given in Note 23 on page 215.

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). Cash and cash equivalents comprise of short-term, highly liquid investments that are readily convertible to known amounts cash and are subject to an insignificant risk of changes in value. Gross cash and cash equivalents as referred to in the Statement of Cash Flows are comprised those items as explained in Note 29 on page 231.

The Statement of Cash Flows is given on page 168.

11. New accounting standards issued but not yet effective

Sri Lanka Accounting Standard – SLFRS 16 "Leases" (SLFRS 16) which has been issued but not yet effective as at the reporting date, has not been applied in preparing these Consolidated Financial Statements. The Group plans to apply this standard on the respective effective date:

The details are given in the Table below.

Table – 37

Accounting standard	Summary of the requirements	Possible impact on Consolidated Financial Statements
SLFRS 16 – "Leases"	SLFRS 16 eliminates the current dual accounting model for lessees which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead there will be a single on-balance sheet accounting model that is similar to current finance lease accounting. SLFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019.	The Group and the Bank are assessing the potential impact on its Financial Statements resulting from the application of SLFRS 16, based on operating leases set-out in Note 68 on page 318.

12. Transition disclosures

12.1 Reconciliation between the carrying amounts under LKAS 39 to the balances reported under SLFRS 9 as at January 1, 2018

12.1 (a) Group

Description	Note	LKAS 39 Measurement as at December 31, 2017	
		Category	Rs '000
Financial assets			
Cash and cash equivalents		Loans and receivables	34,673,424
Balances with central banks		Loans and receivables	45,546,349
Placements with banks		Loans and receivables	17,633,269
Securities purchased under resale agreements		Loans and receivables	–
Financial assets at amortised cost – Loans and advances to banks		Loans and receivables	640,512
Financial assets at amortised cost – Loans and advances to other customers		Loans and receivables	742,444,130
Financial assets at amortised cost – Debt and other financial instruments		N/A	–
From: Financial Investments – Loans and receivables	(i)		
From: Financial Investments – Held to maturity	(ii)		
Financial investments – Loans and receivables		Loans and receivables	48,712,477
To: Financial assets at amortised cost	(i)		
To: Financial assets measured at fair value through other comprehensive income	(iii)		
		Total loans and receivables	**889,650,161**
Financial investments – Available for sale		Available for sale	154,913,643
To: Financial assets measured at fair value through other comprehensive income	(iv)		–
To: Financial assets recognised through profit or loss	(v)		–
		Total available for sale	**154,913,643**
Financial investments – Held to maturity		Held to maturity	69,365,796
To: Financial assets at amortised cost – Debt and other financial instruments	(ii)		
		Total held to maturity	**69,365,796**
Financial assets measured at fair value through other comprehensive income		N/A	–
From: Financial investments – Available for sale	(iv)		–
From: Financial investments – Loans and receivables	(iii)		–
		N/A	–
Derivative financial assets		Fair value through profit or loss	2,334,536
Financial assets recognised through profit or loss/Held for trading		Fair value through profit or loss	4,410,913
From: Financial investments – Available for sale	(v)		–
		Total fair value through profit or loss	**6,745,449**
Total financial assets			**1,120,675,049**
Total assets subject to transition impact			**1,120,675,049**
Financial liabilities			
Due to banks		Financial liabilities at amortised cost	60,244,892
Securities sold under repurchase agreements		Financial liabilities at amortised cost	49,532,385
Financial liabilities at amortised cost – Due to depositors		Financial liabilities at amortised cost	857,269,981
Financial liabilities at amortised cost – Other borrowings		Financial liabilities at amortised cost	23,786,094
Subordinated liabilities		Financial liabilities at amortised cost	25,165,924
		Total amortised cost	**1,015,999,276**
Derivative financial liabilities		Fair value through profit or loss	3,678,494
Financial liabilities recognised through profit or loss – Measured at fair value		Fair value through profit or loss	–
		Total fair value through profit or loss	**3,678,494**
Total financial liabilities			**1,019,677,770**
Non-financial liabilities			
Deferred tax liabilities	(vi)	N/A	3,565,215
Other liabilities	(vii)	N/A	19,508,115
Total non-financial liabilities			**23,073,330**
Total liabilities subject to transition impact			**1,042,751,100**

	Remeasurement		SLFRS 9 Measurement as at January 1, 2018	
Reclassification	ECL	Other	Rs '000	Category
–	(5,286)	–	34,668,138	Financial assets at amortised cost
–	–	–	45,546,349	Financial assets at amortised cost
–	(31,533)	–	17,601,736	Financial assets at amortised cost
–	–	–	–	Financial assets at amortised cost
–	(139)	–	640,373	Financial assets at amortised cost
–	(4,600,816)	–	737,843,314	Financial assets at amortised cost
77,511,571	(69,680)	–	77,441,891	Financial assets at amortised cost
8,145,775	(3,524)	–		
69,365,796	(66,156)	–		
(48,712,477)	–	–	–	N/A
(8,145,775)	–	–		
(40,566,702)	–	–		
28,799,094	**(4,707,454)**	**–**	**913,741,801**	**Total financial assets at amortised cost**
(154,913,643)	–	–		N/A
(154,573,461)	–	–		
(340,182)	–	–		
(154,913,643)	**–**	**–**		**N/A**
(69,365,796)	–	–		N/A
(69,365,796)				
(69,365,796)	–	–		**N/A**
195,140,163	–	(11,294)	195,128,869	Financial assets measured at fair value through other comprehensive income
154,573,461	–	–		
40,566,702	–	(11,294)		
195,140,163	**–**	**(11,294)**	**195,128,869**	**Total financial assets measured at fair value through other comprehensive income**
–	–	–	2,334,536	Fair value through profit or loss
340,182	–	–	4,751,095	Fair value through profit or loss
340,182				
340,182	**–**	**–**	**7,085,631**	**Total Fair value through profit or loss**
–	**(4,707,454)**	**(11,294)**	**1,115,956,301**	
–	**(4,707,454)**	**(11,294)**	**1,115,956,301**	
–	–	–	60,244,892	Financial liabilities at amortised cost
–	–	–	49,532,385	Financial liabilities at amortised cost
–	–	–	857,269,981	Financial liabilities at amortised cost
–	–	–	23,786,094	Financial liabilities at amortised cost
–	–	–	25,165,924	Financial liabilities at amortised cost
–	**–**	**–**	**1,015,999,276**	**Total amortised cost**
–	–	–	3,678,494	Fair value through profit or loss
–	–	–	–	Fair value through profit or loss
–	**–**	**–**	**3,678,494**	**Total fair value through profit or loss**
–	**–**	**–**	**1,019,677,770**	
–	–	(1,807,488)	1,757,727	N/A
–	847,659	–	20,355,774	N/A
–	**847,659**	**(1,807,488)**	**22,113,501**	
–	**847,659**	**(1,807,488)**	**1,041,791,271**	

Notes

(i) As at January 1, 2018, the Group has classified financial investments – loans and receivables (other than those described in Note iii) into amortised cost since these assets are managed within a business model of collecting contractual cash flows.

(ii) As at January 1, 2018, the Group did not have any debt instruments that did not meet the SPPI criterion within its held-to-maturity portfolio. Therefore, it elected to classify all of these instruments as debt instruments measured at amortised cost.

(iii) As at January 1, 2018, the Group has classified investments in Sri Lanka Development Bonds (SLDBs) as FVOCI Investments, as these instruments are managed within a business model of collecting contractual cash flows and selling. These investments were previously classified under loans and receivables as per LKAS 39. The remeasurement impact on these SLDBs at fair value amounted to a loss of Rs. 11.294 Mn.

(iv) As at January 1, 2018, the Group has assessed its Government Securities held for liquidity purposes under AFS amounting to Rs. 154,366.556 Mn. and classified into debt instruments measured at FVOCI as these are managed within a business model of collecting contractual cash flows and selling. In addition the Group has elected the option to irrevocably designate its previous AFS equity instruments amounting to Rs. 206.905 Mn. as Equity instruments at FVOCI.

(V) As at January 1, 2018, the Group has classified its "VISA Inc" Shares to FVTPL from AFS, as they are neither held for trading nor designated at FVOCI.

(vi) The net decrease in deferred tax liabilities was due to impact that arose from expected credit loss and remeasurement of SLDB investments at fair value.

(vii) The increase in other liabilities was due to the inclusion of expected credit loss related to contingent liabilities and commitments.

12.1 (b) Bank

Description	Note	LKAS 39 Measurement as at December 31, 2017 Category	Rs '000
Financial assets			
Cash and cash equivalents		Loans and receivables	33,224,619
Balances with central banks		Loans and receivables	44,801,446
Placements with banks		Loans and receivables	17,633,269
Securities purchased under resale agreements		Loans and receivables	–
Financial assets at amortised cost – Loans and advances to banks		Loans and receivables	640,512
Financial assets at amortised cost – Loans and advances to other customers		Loans and receivables	737,446,567
Financial assets at amortised cost – Debt and other financial instruments		N/A	–
From: Financial investments – Loans and receivables	(i)		–
From: Financial investments – Held to maturity	(ii)		–
Financial investments – Loans and receivables		Loans and receivables	48,712,477
To: Financial assets at amortised cost	(i)		
To: Financial assets measured at fair value through other comprehensive income	(iii)		
		Total loans and receivables	**882,458,890**
Financial investments – Available for sale		Available for sale	154,714,132
To: Financial assets measured at fair value through other comprehensive income	(iv)		–
To: Financial assets recognised through profit or loss	(v)		–
		Total available for Sale	**154,714,132**
Financial investments – Held to maturity		Held to maturity	63,562,752
To: Financial assets at amortised cost – Debt and other financial instruments	(ii)		–
		Total Held to maturity	**63,562,752**
Financial assets measured at fair value through other comprehensive income		N/A	–
From: Financial investments – Available for sale	(iv)		–
From: Financial investments – Loans and receivables	(iii)		–
		N/A	–
Derivative financial assets		Fair value through profit or loss	2,334,536
Financial assets recognised through profit or loss/held for trading		Fair value through profit or loss	4,410,913
From: Financial investments – Available for sale	(v)		
		Total fair value through profit or loss	**6,745,449**
Total Financial assets			**1,107,481,223**
Total assets subject to transition impact			**1,107,481,223**
Financial liabilities			
Due to banks		Financial liabilities at amortised cost	57,120,991
Securities sold under repurchase agreements		Financial liabilities at amortised cost	49,676,767
Financial liabilities at amortised cost – Due to depositors		Financial liabilities at amortised cost	850,127,511
Financial liabilities at amortised cost – Other borrowings		Financial liabilities at amortised cost	23,786,094
Subordinated liabilities		Financial liabilities at amortised cost	25,165,924
		Total amortised cost	**1,005,877,287**
Derivative financial liabilities		Fair value through profit or loss	3,678,494
Financial liabilities recognised through profit or loss – Measured at fair value		Fair value through profit or loss	–
		Total fair value through profit or loss	**3,678,494**
Total financial liabilities			**1,009,555,781**
Non-financial liabilities			
Deferred tax liabilities	(vi)	N/A	3,274,826
Other liabilities	(vii)	N/A	19,225,364
Total non-financial liabilities			**22,500,190**
Total liabilities subject to transition impact			**1,032,055,971**

	Remeasurement		SLFRS 9 Measurement as at January 1, 2018	
Reclassification	ECL	Other	Rs '000	Category
–	(5,286)	–	33,219,333	Financial assets at amortised cost
–	–	–	44,801,446	Financial assets at amortised cost
–	(31,533)	–	17,601,736	Financial assets at amortised cost
–	–	–	–	Financial assets at amortised cost
–	(139)	–	640,373	Financial assets at amortised cost
–	(4,157,005)	–	733,289,562	Financial assets at amortised cost
71,708,527	(69,680)	–	71,638,847	Financial assets at amortised cost
8,145,775	(3,524)	–	–	
63,562,752	(66,156)	–	–	
(48,712,477)	–	–	–	N/A
(8,145,775)	–	–	–	
(40,566,702)	–	–	–	
22,996,050	**(4,263,643)**	–	**901,191,297**	**Total financial assets at amortised cost**
(154,714,132)	–	–	–	N/A
(154,373,950)	–	–	–	
(340,182)	–	–	–	
(154,714,132)	–	–	–	**N/A**
(63,562,752)	–	–	–	N/A
(63,562,752)	–	–	–	
(63,562,752)	–	–	–	**N/A**
194,940,652	–	(11,294)	194,929,358	Financial assets measured at fair value through other comprehensive income
154,373,950	–	–	–	
40,566,702	–	(11,294)	–	
194,940,652	–	(11,294)	194,929,358	**Total Financial assets measured at fair value through other comprehensive income**
	–	–	2,334,536	Fair value through profit or loss
340,182	–	–	4,751,095	Fair value through profit or loss
340,182	–	–	–	
340,182	–	–	**7,085,631**	**Total fair value through profit or loss**
–	**(4,263,643)**	**(11,294)**	**1,103,206,286**	
–	**(4,263,643)**	**(11,294)**	**1,103,206,286**	
–	–	–	57,120,991	Financial liabilities at amortised cost
–	–	–	49,676,767	Financial liabilities at amortised cost
–	–	–	850,127,511	Financial liabilities at amortised cost
–	–	–	23,786,094	Financial liabilities at amortised cost
–	–	–	25,165,924	Financial liabilities at amortised cost
–	–	–	**1,005,877,287**	**Total amortised cost**
–	–	–	3,678,494	Fair value through profit or loss
–	–	–	–	Fair value through profit or loss
–	–	–	**3,678,494**	**Total fair value through profit or loss**
–	–	–	**1,009,555,781**	
–	–	(1,682,581)	1,592,245	N/A
–	847,659	–	20,073,023	N/A
–	**847,659**	**(1,682,581)**	**21,665,268**	
	847,659	**(1,682,581)**	**1,031,221,049**	

Notes

(i) As at January 1, 2018, the Bank has classified financial investments- loans and receivables (other than those described in Note iii) into amortised cost since these assets are managed within a business model of collecting contractual cash flows.

(ii) As at January 1, 2018, the Bank did not have any debt instruments that did not meet the SPPI criterion within its held-to-maturity portfolio. Therefore, it elected to classify all of these instruments as debt instruments measured at amortised cost.

(iii) As at January 1, 2018, the Bank has classified investments in Sri Lanka Development Bond (SLDB) as FVOCI Investments, as these instruments are managed within a business model of collecting contractual cash flows and selling. These investments were previously classified under loans and receivables as per LKAS 39. The remeasurement impact on these SLDBs at fair value amounted to a loss of Rs. 11.294 Mn.

(iv) As at January 1, 2018, the Bank has assessed its Government securities held for liquidity purposes under AFS amounting to Rs. 154,167.169 Mn. and classified into debt instruments measured at FVOCI as these are managed within a business model of collecting contractual cash flows and selling. In addition the Bank has elected the option to irrevocably designate its previous AFS equity instruments amounting to Rs. 206.781 Mn. as Equity instruments at FVOCI.

(v) As at January 1, 2018, the Bank has classified its "VISA Inc" Shares to FVTPL from AFS, as they are neither held to trading nor designated at FVOCI.

(vi) The net decrease in deferred tax liabilities was due to impact that arose from expected credit loss and remeasurement of SLDB investments at fair value.

(vii) The increase in other liabilities was due to the inclusion of expected credit loss related to contingent liabilities and commitments.

12.2 Impact of transition to SLFRS 9 on reserves and retained earnings

	Note	Page No.	GROUP Rs. '000	BANK Rs. '000
Fair value reserve				
Closing balance under LKAS 39 as at December 31, 2017 (A)			–	–
Recognition of Expected Credit Loss (ECL) under SLFRS 9 for debt financial assets at FVOCI			194,256	194,256
Remeasurement impact of reclassifying financial investment from L&R to FVOCI			(11,294)	(11,294)
Deferred tax on Transitional adjustments			(47,775)	(47,775)
Transfer of AFS reserve to fair value reserve			(460,599)	(460,607)
Opening balance under SLFRS 9 as at January 1, 2018 (B)			(325,412)	(325,420)
Impact of adoption of SLFRS 9 on fair value reserve (C=B-A)			**(325,412)**	**(325,420)**
Available-for-sale reserve				
Closing balance under LKAS 39 as at December 31, 2017 (D)			(1,707,486)	(1,707,494)
Transfer of AFS reserve build o/a reclassification of AFS portfolio to HTM portfolio			1,587,069	1,587,069
Impact of reclassifying financial investment from AFS to FVTPL			(340,182)	(340,182)
Transfer of AFS reserve to fair value reserve			460,599	460,607
Opening balance under SLFRS 9 as at January 1, 2018 (E)			–	–
Impact of adoption of SLFRS 9 on Available for reserve (F=E-D)			**1,707,486**	**1,707,494**
Retained earnings				
Closing balance under LKAS 39 as at December 31, 2017 (G)			5,086,609	4,987,446
Recognition of SLFRS 9 ECLs including those measured at FVOCI	12.3	201	(5,749,369)	(5,305,558)
Deferred tax in relation to ECL			1,855,263	1,730,356
Transfer of AFS reserve build o/a reclassification of AFS portfolio to HTM portfolio			(1,587,069)	(1,587,069)
Impact of reclassifying financial investment from AFS to FVTPL			340,182	340,182
Opening balance under SLFRS 9 as at January 1, 2018 (H)			(54,384)	165,357
Impact of adoption of SLFRS 9 on retained earnings (I=H-G)			**(5,140,993)**	**(4,822,089)**
Total change in equity due to adopting SLFRS 9 (C+F+I)			**(3,758,919)**	**(3,440,015)**

12.3 Impact of transition to SLFRS 9 on impairment

The following sub notes provide a reconciliation on the aggregate opening provision for impairment under LKAS 39 and provision for loan commitments and financial guarantee contracts in accordance with Sri Lanka Accounting Standard – LKAS 37 on "Provisions Contingent Liabilities and Contingent Assets" (LKAS 37) to the ECL allowances under SLFRS 9. Further details are disclosed in Notes 29-31, 34-37 and 59 on pages 231 to 233, 238 to 254 and 303.

12.3 (a) Group

	Impairment under LKAS 39/ LKAS 37 as at December 31, 2017 Rs. '000	Remeasurement Rs. '000	ECLs under SLFRS 9 as at January 1, 2018 Rs. '000
Impairment allowance for loans and receivables and held-to-maturity investments as per LKAS 39/financial assets at amortised cost under SLFRS 9	18,009,807	4,707,454	**22,717,261**
Available-for-sale debt investment securities as per LKAS 39/debt financial assets at FVOCI under SLFRS 9	–	12,339	**12,339**
Financial investments loans and receivables as per LKAS 39/debt financial assets at FVOCI under SLFRS 9	–	181,917	**181,917**
	18,009,807	4,901,710	**22,911,517**
Letters of credit for customers	–	120,546	**120,546**
Loans and other commitments	–	727,113	**727,113**
	–	847,659	**847,659**
Total impairment	**18,009,807**	**5,749,369**	**23,759,176**

12.3 (b) Bank

	Impairment under LKAS 39/ LKAS 37 as at December 31, 2017 Rs. '000	Remeasurement Rs. '000	ECLs under SLFRS 9 as at January 1, 2018 Rs. '000
Impairment allowance for loans and receivables and held-to-maturity investments as per LKAS 39/financial assets at amortised cost under SLFRS 9	17,261,410	4,263,643	**21,525,053**
Available-for-sale debt investment securities as per LKAS 39/debt financial assets at FVOCI under SLFRS 9	-	12,339	**12,339**
Financial investments loans and receivables as per LKAS 39/debt financial assets at FVOCI under SLFRS 9	-	181,917	**181,917**
	17,261,410	4,457,899	**21,719,309**
Letters of credit for customers	–	120,546	**120,546**
Loans and other commitments	–	727,113	**727,113**
	–	847,659	**847,659**
Total impairment	**17,261,410**	**5,305,558**	**22,566,968**

13. Gross income

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

For the year ended December 31,	Note	Page No.	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000	BANK 2018 Rs. '000	BANK 2017 Rs. '000
Interest income	14.1	203	**118,551,239**	104,049,102	**117,465,670**	103,034,386
Fee and commission income	15.1	206	**12,494,090**	10,510,800	**11,988,070**	10,169,211
Net gains/(losses) from trading	16	207	**(3,033,236)**	233,956	**(3,033,236)**	233,956
Net gains/(losses) from derecognition of financial assets	17	207	**272,004**	91,272	**272,004**	91,272
Net other operating income	18	208	**11,373,098**	720,026	**11,356,799**	828,524
Total			**139,657,195**	115,605,156	**138,049,307**	114,357,349

14. Net interest income

Interest income and expense are recognised in the Income Statement using the effective interest rate (EIR) method.

As per SLFRS 9, the interest income and expense presented in the Income Statement include:
– Interest on financial assets measured at amortised cost calculated using EIR method;
– Interest on financial assets measured at fair value through other comprehensive Income (FVOCI) calculated using EIR method;
– Interest on financial assets measured at fair value through profit or loss (FVTPL) calculated using EIR method;
– Interest on financial liabilities measured at amortised cost calculated using EIR method.

As per LKAS 39, the interest income and expense recognised in the Income Statement included:

- Interest on held for trading financial instruments calculated using EIR method;
- Interest on loans and receivables calculated using EIR method;
- Interest on available-for-sale investments calculated using EIR method;
- Interest on held-to-maturity investments calculated using EIR method;
- Interest on financial liabilities measured at amortised cost calculated using EIR method.

Effective Interest Rate (EIR)

The 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.

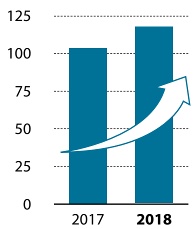
For the year ended December 31,	Note	Page No.	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000	BANK 2018 Rs. '000	BANK 2017 Rs. '000
Interest income	14.1	203	**118,551,239**	104,049,102	**117,465,670**	103,034,386
Less: Interest expense	14.2	204	**72,933,030**	64,481,804	**72,523,912**	64,010,991
Net interest income			**45,618,209**	39,567,298	**44,941,758**	39,023,395

14.1 Interest income

For the year ended December 31,	Note	Page No.	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000	BANK 2018 Rs. '000	BANK 2017 Rs. '000
Cash and cash equivalents			**411,412**	362,695	**392,932**	356,930
Balances with central banks			**26,734**	4,400	**23,613**	3,263
Placements with banks			**529,738**	215,909	**529,738**	215,920
Securities purchased under resale agreements			**508,616**	139,153	**508,616**	139,153
Financial assets recognised through profit or loss/held for trading			**323,335**	469,012	**323,335**	469,012
Derivative financial instruments			**56,173**	24,111	**56,173**	24,111
Other financial instruments			**267,162**	444,901	**267,162**	444,901
Financial assets at amortised cost – Loans and advances to other customers			**95,081,154**	78,132,371	**94,238,090**	77,294,117
Financial assets at amortised cost – Debt and other financial instruments/financial investments – Held to maturity and loans and receivables			**6,828,671**	8,512,118	**6,626,740**	8,355,520
Financial assets measured at fair value through other comprehensive income/financial investments – Available for sale			**14,478,042**	15,349,974	**14,457,491**	15,335,424
Interest accrued on impaired loans and advances to other customers	36.2 (d) & 35.3 (a)	243	**360,876**	861,057	**360,876**	861,057
Other interest income			**2,661**	2,413	**4,239**	3,990
Total			**118,551,239**	104,049,102	**117,465,670**	103,034,386

Interest income – Bank Graph – 42

Rs. Bn.



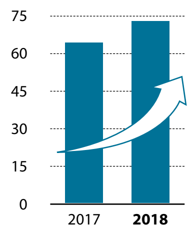
14.01%

2018: Rs. 117.466 Bn.

2017: Rs. 103.034 Bn.

Interest expense – Bank Graph – 43

Rs. Bn.



13.30%

2018: Rs. 72.524 Bn.

2017: Rs. 64.010 Bn.

14.2 Interest expense

For the year ended December 31,	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000	BANK 2018 Rs. '000	BANK 2017 Rs. '000
Due to banks	**2,313,673**	2,069,416	**1,953,745**	1,617,094
Derivative financial liabilities	**57,860**	38,702	**57,860**	38,702
Securities sold under repurchase agreements	**3,815,335**	5,943,417	**3,828,078**	5,965,608
Financial liabilities at amortised cost – due to depositors	**62,397,741**	53,385,259	**62,335,808**	53,344,577
Refinance borrowings	**427,958**	352,074	**427,958**	352,074
Foreign currency borrowings	**814,910**	315,242	**814,910**	315,242
Subordinated liabilities	**3,105,553**	2,377,694	**3,105,553**	2,377,694
Total	**72,933,030**	64,481,804	**72,523,912**	64,010,991

14.3 Net interest income from Government Securities

Interest income and interest expenses on Government Securities given in the Notes 14.3 (a), 14.3 (b) and 14.3 (c) below have been extracted from interest income and interest expenses given in Notes 14.1 and 14.2 respectively and disclosed separately, as required by the Guidelines issued by the Central Bank of Sri Lanka.

14.3 (a) Net interest income from Sri Lanka Government Securities

For the year ended December 31,	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000	BANK 2018 Rs. '000	BANK 2017 Rs. '000
Interest income	**20,458,655**	22,331,944	**20,438,104**	22,317,394
Securities purchased under resale agreements	**423,571**	81,635	**423,571**	81,635
Financial assets recognised through profit or loss/held for trading	**219,287**	296,520	**219,287**	296,520
Financial assets at amortised cost – Debt and other financial instruments/ financial investments – Held to maturity and loans and receivables	**5,337,755**	6,603,815	**5,337,755**	6,603,815
Financial assets measured at fair value through other comprehensive income/ financial investments – Available for sale	**14,478,042**	15,349,974	**14,457,491**	15,335,424
Less: Interest expense	**3,815,115**	5,942,176	**3,827,858**	5,964,367
Securities sold under repurchase agreements	**3,815,115**	5,942,176	**3,827,858**	5,964,367
Net interest income	**16,643,540**	16,389,768	**16,610,246**	16,353,027

Notional tax credit on secondary market transactions

"Interest income from Government Securities were subjected to withholding tax at source (Notional Tax) as per the Inland Revenue Act No. 10 of 2006, effective up to March 31, 2018. Accordingly, interest income accrued or received on outright or reverse repurchase transactions on Government Securities, Treasury Bills, and Treasury Bonds less interest expense accrued or paid on repurchase transactions with such Government Securities, Treasury Bills, and Bonds from which such interest income earned was grossed up by the amount of Notional Tax.

However, as per the provision of the Inland Revenue Act No. 24 of 2017 effective from April 1, 2018, interest income from Government Securities are excluded from withholding tax. Hence, notional tax credit hitherto claimed by the Bank was discontinued from April 1, 2018 with implementation of Inland Revenue Act No. 24 of 2017.

Accordingly, interest income from Government Securities for the period from January 1, 2018 to March 31, 2018 been grossed up by notional tax amounting to Rs. 348.978 Mn. (Rs. 1,338.116 Mn. for the year ended December 31, 2017) and Rs. 348.311 Mn. (Rs. 1,336.673 Mn. for the year ended December 31, 2017) by the Group and the Bank respectively.

14.3 (b) Net interest income from Bangladesh Government Securities

For the year ended December 31,	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000	BANK 2018 Rs. '000	BANK 2017 Rs. '000
Interest income	**727,417**	1,003,916	**727,417**	1,003,916
Securities purchased under resale agreements	**85,045**	57,518	**85,045**	57,518
Financial assets recognised through profit or loss/held for trading	**47,875**	148,381	**47,875**	148,381
Financial assets at amortised cost – Debt and other financial instruments/ financial investments – Held to maturity and loans and receivables	**594,497**	798,017	**594,497**	798,017
Less: Interest expenses	**220**	1,240	**220**	1,240
Securities sold under repurchase agreements	**220**	1,240	**220**	1,240
Net interest income	**727,197**	1,002,676	**727,197**	1,002,676

14.3 (c) Net interest income from Maldives Government Securities

For the year ended December 31,	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000	BANK 2018 Rs. '000	BANK 2017 Rs. '000
Interest income	**201,931**	156,598	**–**	–
Financial assets at amortised cost – Debt and other financial instruments/ financial investments – Held to maturity and loans and receivables	**201,931**	156,598	**–**	–
Net interest income	**201,931**	156,598	**–**	–

15. Net fee and commission income

Fee and commission income and expenses that are integral to the EIR of a financial asset or financial liability are capitalised and included in the measurement of the EIR and recognised in the Income Statement over the expected life of the instrument.

Other fee and commission income, including account servicing fees, investment management fees, sales commission 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, which became effective from January 1, 2018, the Bank adopts principles based five step model for revenue recognition. Accordingly, revenue is recognised only when all of the following criteria are met:

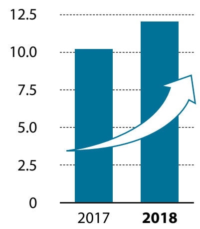
- The parties to the contract have approved the contract/s;
- The entity can identify each party's rights regarding the goods or services to be transferred;
- The entity can identify the payment terms for the goods or services to be transferred;
- The contract has commercial substance;
- It is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.

The Bank has assessed the scope of the new guidance and concluded that it will be limited to fees and commission revenue of the Bank.

For the year ended December 31,	Note	Page No.	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000	BANK 2018 Rs. '000	BANK 2017 Rs. '000
Fee and commission income	15.1	206	**12,494,090**	10,510,800	**11,988,070**	10,169,211
Less: Fee and commission expense	15.2	206	**1,859,698**	1,586,334	**1,837,900**	1,566,851
Net fee and commission income			**10,634,392**	8,924,466	**10,150,170**	8,602,360

Fee and commission income – Bank Graph – 44

Rs. Bn.



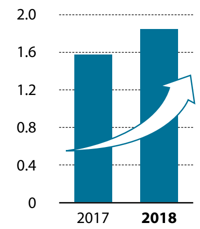
17.89%

2018: Rs. 11.988 Bn.

2017: Rs. 10.169 Bn.

Fee and commission expense – Bank Graph – 45

Rs. Bn.



17.30%

2018: Rs. 1.838 Bn.

2017: Rs. 1.567 Bn.

15.1 Fee and commission income

For the year ended December 31,	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000	BANK 2018 Rs. '000	BANK 2017 Rs. '000
Loans and advances related services	**944,858**	834,468	**873,137**	742,996
Credit and debit cards related services	**4,191,679**	3,389,773	**4,191,679**	3,388,707
Trade and remittances related services	**3,812,516**	3,184,574	**3,683,242**	3,176,106
Deposits related services	**1,952,323**	1,687,448	**1,733,475**	1,680,926
Guarantees related services	**1,063,585**	798,583	**1,062,969**	798,281
Other financial services	**529,129**	615,954	**443,568**	382,195
Total	**12,494,090**	10,510,800	**11,988,070**	10,169,211

15.2 Fee and commission expense

For the year ended December 31,	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000	BANK 2018 Rs. '000	BANK 2017 Rs. '000
Loans and advances related services	**66,131**	58,313	**49,769**	42,114
Credit and debit cards related services	**1,631,600**	1,385,010	**1,631,600**	1,385,010
Trade and remittances related services	**47,204**	44,205	**43,990**	40,921
Other financial services	**114,763**	98,806	**112,541**	98,806
Total	**1,859,698**	1,586,334	**1,837,900**	1,566,851

16. Net gains/(losses) from trading

"Net gains/(losses) from trading" comprise gains less losses relating to trading assets and liabilities, and include all realised and unrealised fair value changes, dividends, and foreign exchange differences.

	GROUP		BANK	
For the year ended December 31,	**2018 Rs. '000**	2017 Rs. '000	**2018 Rs. '000**	2017 Rs. '000
Derivative financial instruments	**(3,121,949)**	107,201	**(3,121,949)**	107,201
Foreign exchange gains/(losses) from banks and other customers	**(3,121,949)**	107,201	**(3,121,949)**	107,201
Financial assets recognised through profit or loss/ Held for trading – Measured at fair value				
Government Securities	**(4,839)**	122,390	**(4,839)**	122,390
Net mark-to-market gains/(losses)	**(24,572)**	94,672	**(24,572)**	94,672
Net capital gains	**19,733**	27,718	**19,733**	27,718
Equities	**93,552**	4,365	**93,552**	4,365
Net mark-to-market gains/(losses)	**80,151**	(9,046)	**80,151**	(9,046)
Net capital gains	**1,026**	3,251	**1,026**	3,251
Dividend income	**12,375**	10,160	**12,375**	10,160
Total	**(3,033,236)**	233,956	**(3,033,236)**	233,956

17. Net gains/(losses) from derecognition of financial assets

"Net gains/(losses) from derecognition of financial assets" comprised realised gains less losses related to debt instruments measured at FVOCI and financial assets measured at amortised cost as per SLFRS 9 after January 1, 2018.

As per LKAS 39, this included realised gains less losses related to available-for-sale investments, held-to-maturity investments, and loans and receivables.

	GROUP		BANK	
For the year ended December 31,	**2018 Rs. '000**	2017 Rs. '000	**2018 Rs. '000**	2017 Rs. '000
Financial assets measured at fair value through other comprehensive income/ financial investments – Available for sale				
Government Securities	**272,004**	91,202	**272,004**	91,202
Net capital gains	**272,004**	91,202	**272,004**	91,202
Financial assets at amortised cost – Debt and other financial instruments/ financial investments – Held to maturity and loans and receivables				
Government Securities	**–**	70	**–**	70
Net capital gains	**–**	70	**–**	70
Total	**272,004**	91,272	**272,004**	91,272

18. Net other operating income

For the year ended December 31,	Note	Page No.	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000	BANK 2018 Rs. '000	BANK 2017 Rs. '000
Gains/(losses) on sale of property, plant and equipment	18.1	208	**9,311**	(18,774)	**(3,633)**	(35,018)
Gains on revaluation of foreign exchange			**11,185,438**	489,824	**11,022,107**	481,012
Recoveries o/a loans written off *			**21,288**	32,820	**21,288**	32,820
Dividend income from subsidiaries			**–**	–	**80,575**	96,332
Dividend income from associates			**–**	4,111	**–**	4,111
Dividend income from other equity securities			**34,119**	37,938	**33,879**	37,758
Profit due to change in ownership			**3,344**	5,262	**3,344**	5,262
Rental and other income	18.2	208	**122,942**	178,218	**199,239**	206,247
Less: Dividends received from associates transferred to investment account			**–**	(4,111)	**–**	–
Less: Profit due to change in ownership			**(3,344)**	(5,262)	**–**	–
Total			**11,373,098**	720,026	**11,356,799**	828,524

(*) For a better presentation and to be comparable with the current year classification, the Group and the Bank has netted off the recoveries against provision amounting to Rs.1,236.599 Mn. for the year ended December 31, 2017, under "individual/collective impairment for financial assets at amortised cost-Loans and advances to other customers within the "Impairment charges". Until December 31, 2017, this amount had been reported separately under "Recoveries of loans written off" (previously classified as "recoveries of loan written off and provision reversals") within "Net other operating income".

18.1 Gains/(losses) on sale of property, plant and equipment

The gains or losses on disposal of property, plant and equipment is determined as the difference between the carrying amount of the assets at the time of disposal and the proceeds of disposal, net of incremental disposal costs. This is recognised as an item in "other income" in the year in which the Bank transfers control of the asset to the buyer.

18.2 Rental income

Rental income is recognised in the Income Statement on an accrual basis.

19. Impairment charges and other losses

Impairment charges as per SLFRS 9

The Group recognises loss allowances for Expected Credit Loss (ECL) on the following financial instruments that are not measured at FVTPL:

- Cash and cash equivalents;
- Placements with banks;
- Loans and advances to banks;
- Loans and advances to other customers;
- Financial assets at amortised cost – Debt and other financial instruments;
- Debt instruments at fair value through other comprehensive income;
- Loan commitments and financial guarantee contracts.

No impairment loss is recognised on equity investments.

The assessment of credit risk and the estimation of ECL are required to be unbiased and probability-weighted, and should incorporate all available information relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money.

Impairment charges on loans and advances to customers

For loans and advances above a predefined threshold, the Group individually assesses for significant increase in credit risk. If a particular loan is credit impaired, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. If the Group determines that no provision is required under individual impairment, such financial assets are then collectively assessed for any impairments along with the remaining portfolio.

The Group computes ECL using three main components; a probability of default (PD), a loss given default (LGD), and the exposure at default (EAD) under the collective assessment. These parameters are generally derived from internally developed statistical models and historical data are then adjusted to reflect forward-looking information.

- PD – The probability of default represents the likelihood of a borrower defaulting on its financial obligation (as per "definition of default and credit impaired" above) either over the next 12 months (12mPD) or over the remaining lifetime (Lifetime PD) of the obligation. PD estimates are estimates at a certain date and days past due is the primary input into the determination of the term structure of PD for exposures. Days past due are determined by counting the number of days since the due date. The Group employs statistical models to analyse the data collected and generates estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.
- LGD – The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. The Group estimates LGD parameters based on historical recovery rates of claims against defaulted counterparties. They are calculated on a discounted cash flow basis using EIR as the discounting factor. LGD is usually expressed as a percentage of the EAD.
- EAD – The exposure at default represents the expected exposure in the event of a default. The Group estimates EAD, taking into account the repayment of principal and interest from the reporting date to the default event together with any expected drawdowns of committed facilities. To calculate EAD for a Stage 1 loan, the Group assesses the possible default events within 12 months. For all other loans 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 for external credit rating.

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 guidelines issued by the Central Bank of Sri Lanka.

EAD of a debt instrument is its gross carrying amount.

Credit cards and revolving facilities

The Group's product offering includes a variety of corporate and retail overdraft and credit cards facilities. The Group reviews the sanction limits at least annually and therefore has the right to cancel and/or reduce the limits. Therefore, the Group calculates only the 12-month ECL (12mECL) allowance on these facilities. The EAD is arrived by taking the maximum of either sanction limit adjusted for Credit Conversion Factor (CCF) and the gross carrying amount of the loan (utilised amount). EAD of Stage 3 contracts are limited to the gross carrying amount which is the utilised amount since 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)s for undrawn loan commitments, the Group estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan. For loan commitments and letters of credit, the ECL is recognised within "other liabilities".

Financial guarantee contracts

The Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and the ECL provision. For this purpose, the Bank estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The ECLs related to financial guarantee contracts are recognised within "other liabilities".

Forward-looking information

The Group incorporates forward-looking information into both its assessment as to whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The Group also obtained experienced credit judgement from economic experts and Credit and Risk Management Departments to formulate a base case, a best case and a worst case scenario. The base case represents a most-likely outcome and is aligned with information used by the Group for strategic planning and budgeting. The Group has identified and documented key drivers of credit risk both quantitative and qualitative for various portfolio segments. Quantitative economic factors are based on economic data and forecasts published by CBSL and supranational organisations such as IMF.

Quantitative drivers of credit risk	Qualitative drivers of credit risk
GDP growth	Status of industry business
Unemployment rate	Regulatory impact
Interest rate (AWPLR)	Government policies
Rate of inflation	
Exchange rate	

The calculation of ECLs

The Group measures loss allowance at an amount equal to LTECL, except for following, which are measured as 12mECL.

- Loans and receivables on which credit risk has not increased significantly since the initial recognition.
- Debt instruments that are determined to have low credit risk at the reporting date.

The Group considers a debt instrument to have a low credit risk when they have an "investment grade" credit risk rating.

ECLs are measured as follows:

- Financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of expected cash flows;
- Undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive;
- Financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.

Financial assets that are not credit-impaired at the reporting date

As described above, the Group calculates 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to EAD and multiplied by the economic factor adjustment, expected LGD and discounted by an approximation to the original EIR. When loan has shown a significant increase in credit risk since origination, the Group records an allowance for LTECLs based on PDs estimated over the lifetime of the instrument.

Financial assets that are credit-impaired at the reporting date

Impairment allowance on credit impaired financial assets assessed on individual basis is computed as the difference between the asset's gross carrying amount and the present value of estimated future cash flows. The expected future cash flows are based on the estimates made by credit officers as at the reporting date, reflecting reasonable and supportable assumptions and projections of future recoveries and expected future receipts of interest. The Group regularly reviews the assumptions for projecting future cash flows.

Further, for loans identified in Note 7.1.12.3 definition of default and credit impaired assets (Stage 3) will be assessed for impairment with 100% PD.

Impairment charges as per LKAS 39

For financial assets carried at amortised cost (such as amounts due from banks, loans and advances to customers as well as held-to-maturity investments), the Group first assessed whether objective evidence of impairment existed for individually significant financial assets or collectively for financial assets that are not individually significant. Assets that are individually assessed for impairment and for which an impairment loss was not recognised were included in a collective assessment of impairment together with the financial assets that are not individually significant.

Individual assessment of impairment

For financial assets above a predetermined threshold (i.e. for individually significant financial assets), if there is objective evidence that an impairment loss had been incurred, the amount of the loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that had not been incurred). The carrying amount of the asset was reduced through the use of a provision account and the amount of impairment loss was recognised in profit or loss. Interest income continued to be accrued and recorded in "interest income" on the reduced carrying amount/impaired balance and was accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The present value of the estimated future cash flows was discounted at the financial asset's original EIR. If a loan had a variable interest rate, the discount rate for measuring any impairment loss was the current EIR. If the Bank had reclassified trading assets to loans and advances, the discount rate for measuring any impairment loss was the new EIR determined at the reclassification date.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure was probable.

Collective assessment of impairment

Those financial assets for which, the Group determined that no provision was required under individual impairment, are then collectively assessed for any impairments that had been incurred but not identified. For the purpose of a collective evaluation of impairment, financial assets were grouped on the basis of similar risk characteristics such as internal credit ratings, asset type, industry, geographical location, collateral type, past-due status, etc. Future cash flows on a group of financial assets that were collectively evaluated for impairment, are estimated based on the historical loss experiences of assets with similar credit risk characteristics to those in the group.

Collateral valuation*

The Bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, gold, Government Securities, Letters of Credit/Guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements, etc.

Collateral repossessed*

The Bank's policy is to carry collaterals repossessed at fair value at the repossession date and such assets will be disposed at the earliest possible opportunity. These assets are recorded under assets held for sale as per the Sri Lanka Accounting Standard – SLFRS 5 on "Non-Current Assets Held for Sale and Discontinued Operations".

Write-off of financial assets*

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

**The policies mentioned above on collateral valuation, collateral repossessed, and write-off of financial assets remain unchanged in both SLFRS 9 and LKAS 39.*

			GROUP		BANK	
For the year ended December 31,	Note	Page No.	**2018 Rs. '000**	2017 Rs. '000	**2018 Rs. '000**	2017 Rs. '000
Loans and advances to other customers			**8,379,540**	988,639	**8,123,248**	719,450
Individual impairment (**)	35.2 (d)	243	**(1,002,000)**	(223,174)	**(1,002,000)**	(223,174)
Collective impairment (**)			**9,381,540**	1,211,813	**9,125,248**	942,624
Other financial assets			**452,856**	–	**450,985**	–
Total impairment charges	19.1 & 19.2	212	**8,832,396**	988,639	**8,574,233**	719,450
Investments in subsidiaries	38.1	256	**–**	–	**–**	(42,484)
Direct write-offs			**966**	676	**966**	676
Total			**8,833,362**	989,315	**8,575,199**	677,642

(**) For a better presentation and to be comparable with the current year classification, the Group and the Bank has netted off the recoveries against provision amounting to Rs.1,236.599 Mn. for the year ended December 31, 2017, under "individual/collective impairment for financial assets at amortised cost – Loans and advances to other customers" within the "Impairment charges". Until December 31, 2017, this amount had been reported separately under "Recoveries of loans written off" (previously classified as "recoveries of loan written off and provision reversals") within "Net other operating income".

19.1 Impairment charge to the Income Statement – Group

For the year ended December 31,	Note	Page No.	2018 Stage 1 Rs. '000	2018 Stage 2 Rs. '000	2018 Stage 3 Rs. '000	2018 Total Rs. '000	2017 Total Rs. '000
Cash and cash equivalents	29.1	231	(1,450)	–	–	(1,450)	–
Placements with banks	31.1	233	(21,553)	–	–	(21,553)	–
Financial assets at amortised cost – Loans and advances to banks	34.1	238	(103)	–	–	(103)	–
Financial assets at amortised cost – Loans and advances to other customers	35.2 & 35.3	242 & 243	(324,074)	1,632,467	7,071,147	8,379,540	988,639
Individual impairment			–	–	(1,002,000)	(1,002,000)	(223,174)
Collective impairment			(324,074)	1,632,467	8,073,147	9,381,540	1,211,813
Financial assets at amortised cost – Debt and other financial instruments/ Financial Investments – Held to maturity and loans and receivables	36.1	248	198,443	–	–	198,443	–
Financial assets measured at fair value through other comprehensive income/financial investments – Available for sale	37.2	251	401,438	–	–	401,438	–
Contingent liabilities and commitments	59.4	305	(130,732)	(22,769)	29,582	(123,919)	–
Total			121,969	1,609,698	7,100,729	8,832,396	988,639

19.2 Impairment charge to the income statement – Bank

For the year ended December 31,	Note	Page No.	2018 Stage 1 Rs. '000	2018 Stage 2 Rs. '000	2018 Stage 3 Rs. '000	2018 Total Rs. '000	2017 Total Rs. '000
Cash and cash equivalents	29.1	231	(1,450)	–	–	(1,450)	–
Placements with banks	31.1	233	(21,553)	–	–	(21,553)	–
Financial assets at amortised cost – Loans and advances to banks	34.1	238	(103)	–	–	(103)	–
Financial assets at amortised cost – Loans and advances to other customers	35.2 & 35.3	242 & 243	(393,953)	1,704,548	6,812,653	8,123,248	719,450
Individual impairment			–	–	(1,002,000)	(1,002,000)	(223,174)
Collective impairment			(393,953)	1,704,548	7,814,653	9,125,248	942,624
Financial assets at amortised cost – Debt and other financial instruments/ financial investments – Held to maturity and loans and receivables	36.1	248	196,572	–	–	196,572	–
Financial assets measured at fair value through other comprehensive income/financial investments – Available for sale	37.2	251	401,438	–	–	401,438	–
Contingent liabilities and commitments	59.4	305	(130,732)	(22,769)	29,582	(123,919)	–
Total			50,219	1,681,779	6,842,235	8,574,233	719,450

20. Personnel expenses

For the year ended December 31,	Note	Page No.	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000	BANK 2018 Rs. '000	BANK 2017 Rs. '000
Salary and bonus	20.1	213	**10,154,809**	8,538,989	**9,963,292**	8,509,813
Pension costs	20.1	213	**1,800,395**	1,596,841	**1,778,443**	1,569,187
Contributions to defined contribution/benefit plans – Funded schemes			**1,439,123**	1,308,050	**1,428,776**	1,289,938
Contributions to defined benefit plans – Unfunded schemes	50.1 (c) & 50.2 (c)	283 & 284	**361,272**	288,791	**349,667**	279,249
Equity-settled share-based payment expense	20.2 & 57.6	213 & 302	**68,581**	138,341	**68,581**	138,341
Other expenses	20.3	213	**1,265,883**	1,064,346	**1,260,623**	1,050,675
Total			**13,289,668**	11,338,517	**13,070,939**	11,268,016

20.1 Salary, bonus, and pension costs

Salary, bonus and contributions to defined contribution/benefit plans, reported above also include amounts paid to and contribution made on behalf of Executive Directors.

20.2 Share-based payment

The Bank has an equity-settled share-based compensation plan, the details of which are given in Note 54 on page 295.

20.3 Other expenses

This includes expenses such as overtime payments, medical and hospitalisation charges, expenses incurred on staff training/recruitment and staff welfare activities, etc.

21. Depreciation and amortisation

Depreciation

Depreciation is calculated to write-off the cost of items of property, plant and equipment less their estimated residual values using the straight-line method over their estimated useful lives and is recognised in the Income Statement. Leased assets under finance leases are depreciated over the shorter of the lease term and their useful lives. Freehold land is not depreciated.

The estimated useful lives of the property, plant and equipment of the Bank as at December 31, 2018 are as follows:

Class of asset	Depreciation percentage per annum	Period (years)
Freehold and leasehold buildings	2.5	40
Motor vehicles	20	5
Computer equipment	20	5
Office equipment, furniture and fixtures		
Office equipment	20	5
Office interior work	20	5
Furniture and fittings	10	10
Machinery and equipment	10	10

The above rates are compatible with the rates used by all Group entities, and these rates have not 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 40 on pages 258 to 271.

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 rate is compatible with the rates used by all Group entities, and these rates have not changed during the year.

The unamortised balances of intangible assets with finite lives are reviewed for impairment whenever there is an indication for impairment and recognised in the Income Statement to the extent that they are no longer probable of being recovered from the expected future benefits.

Amortisation method, useful lives, and residual values are reviewed at each reporting date and adjusted, if required.

For the year ended December 31,	Note	Page No.	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000	BANK 2018 Rs. '000	BANK 2017 Rs. '000
Depreciation of property, plant and equipment	40.1 & 40.3	260 & 262	**1,383,581**	1,185,698	**1,279,378**	1,097,096
Amortisation of computer software	41.1	273	**218,076**	229,764	**188,789**	209,766
Amortisation of trademarks			**9**	13	**–**	–
Amortisation of leasehold property	42	274	**1,452**	1,452	**942**	942
Total			**1,603,118**	1,416,927	**1,469,109**	1,307,804

22. Other operating expenses

For the year ended December 31,	Note	Page No.	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000	BANK 2018 Rs. '000	BANK 2017 Rs. '000
Directors' emoluments	22.1	215	**79,801**	65,205	**52,316**	45,901
Auditors' remuneration			**33,855**	30,260	**22,536**	22,696
Audit fees and expenses			**21,719**	16,556	**10,780**	10,563
Audit-related fees and expenses			**7,040**	7,620	**6,920**	6,825
Non-audit fees and expenses			**5,096**	6,084	**4,836**	5,308
Professional and legal expenses			**550,885**	361,880	**823,904**	443,387
Deposit insurance premium paid to the central banks			**774,100**	682,108	**773,891**	681,944
Donations including contribution made to the CSR Trust Fund			**82,985**	83,104	**82,975**	83,043
Establishment expenses			**2,900,280**	2,677,614	**2,918,044**	2,714,360
Maintenance of property, plant and equipment			**1,297,628**	1,187,143	**1,295,365**	1,205,215
Office administration expenses			**3,274,424**	2,531,679	**2,960,148**	2,265,418
Total			**8,993,958**	7,618,993	**8,929,179**	7,461,964

22.1 Directors' emoluments

Directors' emoluments represent the salaries paid to both Executive and Non-Executive Directors of the Group and the Bank.

23. Taxes on financial services

For the year ended December 31,	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000	BANK 2018 Rs. '000	BANK 2017 Rs. '000
Value Added Tax	**4,759,005**	4,319,890	**4,759,005**	4,304,407
Nation Building Tax	**642,858**	576,730	**642,858**	576,730
Debt Repayment Levy	**649,998**	–	**649,998**	–
Total	**6,051,861**	4,896,620	**6,051,861**	4,881,137

24. Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the Income Statement, except to the extent it relates to items recognised directly in Equity or in OCI.

Current tax

"Current tax" comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax receivable or payable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted, as at the reporting date. Current tax also includes any tax arising from dividends.

Accordingly, provision for taxation is made on the basis of the accounting profit for the year, as adjusted for taxation purposes, in accordance with the provisions of the Inland Revenue Act No. 10 of 2006 and amendments (up to March 31, 2018) thereto, and the Inland Revenue Act No. 24 of 2017, effective from April 1, 2018. This Note also includes the major components of tax expense, the effective tax rates and a reconciliation between the profit before tax and tax expense, as required by the Sri Lanka Accounting Standard – LKAS 12 on "Income Taxes".

Provision for taxation on the overseas operations is made on the basis of the accounting profit for the year, as adjusted for taxation purposes, in accordance with the provisions of the relevant statutes in those countries, using the tax rates enacted or substantively enacted as at the reporting date.

Additional taxes that arise from the distribution of dividends by the Group, are recognised at the same time as the liability to pay the related dividend is recognised. These amounts are generally recognised in profit or loss as they generally relate to income arising from transactions that were originally recognised in profit or loss.

Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available, against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available, against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted as at the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects as at the reporting date to recover or settle the carrying amount of its assets and liabilities.

Entity-wise breakup of income tax expense in the Income Statement is as follows:

For the year ended December 31,	Note	Page No.	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000	BANK 2018 Rs. '000	BANK 2017 Rs. '000
Current year tax expense			**9,648,955**	6,679,675	**9,453,100**	6,564,443
Income tax expense of Domestic Banking Unit			**6,434,902**	4,870,548	**6,434,902**	4,870,548
Income tax expense of Offshore Banking Centre			**916,565**	232,412	**916,565**	232,412
Income tax expense of Bangladesh operation			**2,024,177**	1,450,193	**2,024,177**	1,450,193
Profit remittance tax of Bangladesh operation			**64,972**	–	**64,972**	–
Withholding tax on dividends received			**12,684**	11,470	**12,484**	11,290
Income tax expense of Commercial Development Company PLC			**37,843**	37,450	**–**	–
Income tax expense of ONEzero Company Limited			**25,333**	17,684	**–**	–
Income tax expense of Serendib Finance Limited			**2,697**	45,744	**–**	–
Income tax expense of Commercial Bank of Maldives Private Limited			**129,782**	13,518	**–**	–
Income tax expense of Commex Sri Lanka S.R.L. – Italy			**–**	656	**–**	–
Prior years						
Under/(Over) provision of taxes in respect of prior years	49	281	**(537,943)**	(99,996)	**(564,363)**	(100,000)
Deferred tax expense	43.1	275	**(875,295)**	74,138	**(841,357)**	137,257
Effect of change in tax rates			**(10,455)**	–	**(10,455)**	–
Origination and reversal of temporary differences			**(864,840)**	74,138	**(830,902)**	137,257
Total			**8,235,717**	**6,653,817**	**8,047,380**	**6,601,700**
Effective tax rate (including deferred tax) (%)					**31.45**	28.48
Effective tax rate (excluding deferred tax) (%)					**34.73**	27.88

24.1 Income tax rates of the Bank and its subsidiaries

	2018 %	2017 %
Bank		
Domestic banking operations	**28**	28
Offshore banking operation	**28**	28
Bangladesh operation	**40**	42.5
Subsidiaries		
Commercial Development Company PLC	**28**	28
ONEzero Company Limited	**28**	28
Serendib Finance Limited	**28**	28
Commercial Bank of Maldives Private Limited	**25**	25
Commex Sri Lanka S.R.L. – Italy	**24**	24

24.2 Reconciliation of the accounting profit to income tax expense

A reconciliation between taxable income and the accounting profit multiplied by the statutory tax rates is given below:

For the year ended December 31,	Note	Page No.	Tax Rate 2018 %	Tax Rate 2017 %	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000	BANK 2018 Rs. '000	BANK 2017 Rs. '000
Accounting profit before tax from operations					**26,098,548**	23,280,324	**25,591,208**	23,182,944
Tax effect at the statutory income tax rate					**7,827,455**	7,031,752	**7,664,509**	6,959,962
Domestic banking operation of the Bank			**28**	28	**4,884,657**	4,808,919	**4,884,657**	4,808,919
Offshore banking operation of the Bank			**28**	28	**852,915**	744,242	**852,915**	744,242
Bangladesh operation of the Bank			**40**	42.5	**1,926,937**	1,406,801	**1,926,937**	1,406,801
Subsidiaries			**24, 25 & 28**	24, 25 & 28	**162,946**	71,790	**–**	–
Tax effect of exempt income					**(959,495)**	(1,490,271)	**(959,495)**	(1,490,271)
Tax effect of non-deductible expenses					**10,414,248**	7,840,250	**10,321,800**	7,550,140
Tax effect of deductible expenses					**(7,710,255)**	(6,711,539)	**(7,650,516)**	(6,464,691)
Qualifying payments					**(654)**	(1,987)	**(654)**	(1,987)
Profit remittance tax of Banglasesh operation					**64,972**	–	**64,972**	–
Under/(over) provision of taxes in respect of prior years	49	281			**(537,943)**	(99,996)	**(564,363)**	(100,000)
Withholding tax on dividends received					**12,684**	11,470	**12,484**	11,290
Deferred tax expense	43.1	275			**(875,295)**	74,138	**(841,357)**	137,257
Income tax expense reported in the Income Statement at the effective income tax rate					**8,235,717**	6,653,817	**8,047,380**	6,601,700

25. Earnings Per Share (EPS)

The Group computes basic and diluted EPS for its ordinary shares. Basic EPS is calculated by dividing the profit or loss that is attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is calculated by dividing the profit or loss that is attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding, adjusted for the effects of all potentially dilutive ordinary shares, which comprise share options granted to employees.

Details of Basic and Diluted EPS are given below:

25.1 Basic earnings per ordinary share

	Note	Page No.	GROUP 2018	GROUP 2017	BANK 2018	BANK 2017
Amount used as the numerator:						
Profit for the year attributable to equity holders of the Bank (Rs. '000)			**17,734,706**	16,605,963	**17,543,828**	16,581,244
Number of ordinary shares used as the denominator:						
Weighted average number of ordinary shares	25.3	219	**1,010,429,126**	973,851,054	**1,010,429,126**	973,851,054
Basic earnings per ordinary share (Rs.)			**17.55**	17.05	**17.36**	17.03

25.2 Diluted earnings per ordinary share

	Note	Page No.	GROUP 2018	GROUP 2017	BANK 2018	BANK 2017
Amount used as the numerator:						
Profit for the year attributable to equity holders of the Bank (Rs. '000)			**17,734,706**	16,605,963	**17,543,828**	16,581,244
Number of ordinary shares used as the denominator:						
Weighted average number of ordinary shares	25.3	219	**1,010,550,909**	974,886,321	**1,010,550,909**	974,886,321
Diluted earnings per ordinary share (Rs.)			**17.55**	17.03	**17.36**	17.01

25.3 Weighted average number of ordinary shares for basic and diluted earnings per share

	Note	Page No.	Outstanding number of shares 2018	Outstanding number of shares 2017	Weighted average number of shares 2018	Weighted average number of shares 2017
Number of shares in issue as at January 1,			**995,899,302**	890,734,540	**995,899,302**	890,734,540
Add: Number of shares satisfied in the form of issue and allotment of new shares from final dividend for 2016	53.1	293	**–**	11,425,159	**–**	11,425,159
Add: Number of shares satisfied in the form of issue and allotment of new shares from final dividend for 2017	53.1	293	**13,083,951**	–	**13,083,951**	13,083,951
Add: Number of shares exercised in the form of Rights Issue in 2017	53.1	293	**–**	90,461,066	**–**	56,449,510
			1,008,983,253	992,620,765	**1,008,983,253**	971,693,160
Add: Number of shares issued under Employee Share Option Plan (ESOP) 2008	53.1	293	**1,568,665**	2,518,564	**1,315,042**	1,737,730
Add: Number of shares issued under Employee Share Option Plan (ESOP) 2015	53.1	293	**170,659**	759,973	**130,831**	420,164
Weighted average number of ordinary shares for basic earnings per ordinary share calculation			**1,010,722,577**	995,899,302	**1,010,429,126**	973,851,054
Add: Bonus element on number of outstanding options under ESOP 2008 as at the year end			**–**	–	**121,783**	625,382
Add: Bonus element on number of outstanding options under ESOP 2015 as at the year end			**–**	–	**–**	409,885
Weighted average number of ordinary shares for diluted earnings per ordinary share calculation(*)			**1,010,722,577**	995,899,302	**1,010,550,909**	974,886,321

(*) The market value of the Bank's shares for the purpose of calculating the dilutive effect of share options has been based on the excess of quoted market price as of December 31, 2018 and December 31, 2017 over the offer price.

26. Dividends

	GROUP		BANK	
	2018 Second interim Rs. 3.00 per share for 2017 (paid on February 20, 2018) Rs. '000	2017 Second interim Rs. 3.00 per share for 2016 (paid on February 17, 2017) Rs. '000	2018 Second interim Rs. 3.00 per share for 2017 (paid on February 20, 2018) Rs. '000	2017 Second interim Rs. 3.00 per share for 2016 (paid on February 17, 2017) Rs. '000
On ordinary shares				
Net dividend paid to the ordinary shareholders out of normal profits	**2,714,372**	2,418,709	**2,714,372**	2,418,709
Withholding tax deducted at source	**275,624**	256,090	**275,624**	256,090
Gross ordinary dividend paid	**2,989,996**	2,674,799	**2,989,996**	2,674,799

	First interim Rs. 1.50 per share for 2018 (paid on November 21, 2018) Rs. '000	First interim Rs. 1.50 per share for 2017 (paid on November 20, 2017) Rs. '000	First interim Rs. 1.50 per share for 2018 (paid on November 21, 2018) Rs. '000	First interim Rs. 1.50 per share for 2017 (paid on November 20, 2017) Rs. '000
On ordinary shares				
Net dividend paid to the ordinary shareholders out of normal profits	**1,312,647**	1,350,719	**1,312,647**	1,350,719
Withholding tax deducted at source	**203,437**	143,000	**203,437**	143,000
Gross ordinary dividend paid	**1,516,084**	1,493,719	**1,516,084**	1,493,719
Total gross ordinary dividend paid	**4,506,080**	4,168,518	**4,506,080**	4,168,518

The Board of Directors of the Bank approved the payment of a second interim dividend of Rs. 3.00 per share for both the voting and non-voting ordinary shareholders of the Bank for the year ended December 31, 2018 and this dividend was paid on February 15, 2019.

Further, the Board of Directors of the Bank has recommended the payment of a final dividend of Rs. 2.00 per share which is to be satisfied in the form of issue and allotment of new shares for both voting and non-voting ordinary shares of the Bank for the year ended December 31, 2018 (Bank declared a final dividend of Rs. 2.00 per share for 2017 in 2018 and this was satisfied in the form of issue and allotment of new shares for both voting and non-voting ordinary shares of the Bank). The total dividend recommended by the Board is to be approved at the forthcoming Annual General Meeting to be held on March 28, 2019. In accordance with provisions of the Sri Lanka Accounting Standard – LKAS 10 on "Events after the Reporting Period", the second interim dividend referred to above and the proposed final dividend for the year ended December 31, 2018 have not been recognised as liabilities as at the year end. Final dividend payable for the year 2018 has been estimated at Rs. 2,022.010 Mn. (Actual final dividend for 2017 amounted to Rs. 1,994.271 Mn.).

Accordingly, the dividend per ordinary share (for both voting and non-voting) for the year 2018 would be Rs. 6.50 (2017 – Rs. 6.50).

27. 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:

27.1 Classification of financial assets and financial liabilities – Group

27.1 (a) Group

As at December 31, 2018	Note	Page No.	Financial instruments recognised through profit or loss (FVTPL) Rs. '000	Financial instruments at amortised cost (AC) Rs. '000	Financial instruments at fair value through other comprehensive income (FVOCI) Rs. '000	Total Rs. '000
Financial assets						
Cash and cash equivalents	29	231	–	44,355,962	–	44,355,962
Balances with central banks	30	232	–	55,406,535	–	55,406,535
Placements with banks	31	233	–	19,898,515	–	19,898,515
Securities purchased under resale agreements			–	9,513,512	–	9,513,512
Derivative financial assets	32	233	7,909,962	–	–	7,909,962
Financial assets recognised through profit or loss – Measured at fair value	33	234	5,520,167	–	–	5,520,167
Financial assets at amortised cost – Loans and advances to banks	34	238	–	763,074	–	763,074
Financial assets at amortised cost – Loans and advances to other customers	35	239	–	867,611,976	–	867,611,976
Financial assets at amortised cost – Debt and other financial instruments	36	247	–	89,274,413	–	89,274,413
Financial assets measured at fair value through other comprehensive income	37	250	–	–	176,760,611	176,760,611
Total financial assets			13,430,129	1,086,823,987	176,760,611	1,277,014,727
Financial liabilities						
Due to banks	45	278	–	52,362,052	–	52,362,052
Derivative financial liabilities	46	278	8,021,783	–	–	8,021,783
Securities sold under repurchase agreements			–	48,951,394	–	48,951,394
Financial liabilities at amortised cost – Due to depositors	47	280	–	994,370,875	–	994,370,875
Financial liabilities at amortised cost – Other borrowings	48	281	–	25,361,912	–	25,361,912
Subordinated liabilities	52	291	–	37,992,457	–	37,992,457
Total financial liabilities			8,021,783	1,159,038,690	–	1,167,060,473

27.1 (b) Group

As at December 31, 2017	Note	Page No.	Held for Trading (HFT) Rs. '000	Held to Maturity (HTM) Rs. '000	Loans and receivables Rs. '000	Available for Sale (AFS) Rs. '000	Other amortised cost Rs. '000	Total Rs. '000
Financial assets								
Cash and cash equivalents	29	231	–	–	34,673,424	–	–	34,673,424
Balances with central banks	30	232	–	–	45,546,349	–	–	45,546,349
Placements with banks	31	233	–	–	17,633,269	–	–	17,633,269
Derivative financial assets	32	233	2,334,536	–	-	–	–	2,334,536
Other financial instruments – Held for trading	33	234	4,410,913	–	-	–	–	4,410,913
Loans and receivables to banks	34	238	–	–	640,512	–	–	640,512
Loans and receivables to other customers	35	239	–	–	742,444,130	–	–	742,444,130
Financial investments – Available for sale	37	250	–	–	-	154,913,643	–	154,913,643
Financial investments – Held to maturity	36	247	–	69,365,796	-	–	–	69,365,796
Financial investments – Loans and receivables	36	247	–	–	48,712,477	–	–	48,712,477
Total financial assets			6,745,449	69,365,796	889,650,161	154,913,643	–	1,120,675,049
Financial liabilities								
Due to banks	45	278	–	–	–	–	60,244,892	60,244,892
Derivative financial liabilities	46	278	3,678,494	–	–	–	-	3,678,494
Securities sold under repurchase agreements			–	–	–	–	49,532,385	49,532,385
Due to other customers/ deposits from customers	47	280	–	–	–	–	857,269,981	857,269,981
Other borrowings	48	281	–	–	–	–	23,786,094	23,786,094
Subordinated liabilities	52	291	–	–	–	–	25,165,924	25,165,924
Total financial liabilities			3,678,494	–	–	–	1,015,999,276	1,019,677,770

27.2 Classification of financial assets and financial liabilities – Bank

27.2 (a) Bank

As at December 31, 2018	Note	Page No.	Financial instruments recognised through profit or loss (FVTPL) Rs. '000	Financial instruments at Amortised Cost (AC) Rs. '000	Financial instruments at fair value through other comprehensive income (FVOCI) Rs. '000	Total Rs. '000
Financial assets						
Cash and cash equivalents	29	231	–	39,534,476	–	39,534,476
Balances with central banks	30	232	–	54,384,590	–	54,384,590
Placements with banks	31	233	–	19,898,515	–	19,898,515
Securities purchased under resale agreements			–	9,513,512	–	9,513,512
Derivative financial assets	32	233	7,909,962	–	–	7,909,962
Financial assets recognised through profit or loss – Measured at fair value	33	234	5,520,167	–	–	5,520,167
Financial assets at amortised cost – Loans and advances to banks	34	238	–	763,074	–	763,074
Financial assets at amortised cost – Loans and advances to other customers	35	239	–	861,100,315	–	861,100,315
Financial assets at amortised cost – Debt and other financial instruments	36	247	–	83,855,436	–	83,855,436
Financial assets measured at fair value through other comprehensive income	37	250	–	–	176,506,729	176,506,729
Total financial assets			13,430,129	1,069,049,918	176,506,729	1,258,986,776
Financial liabilities						
Due to banks	45	278	–	50,101,081	–	50,101,081
Derivative financial liabilities	46	278	8,021,783	–	–	8,021,783
Securities sold under repurchase agreements			–	49,104,462	–	49,104,462
Financial liabilities at amortised cost – Due to depositors	47	280	–	983,037,314	–	983,037,314
Financial liabilities at amortised cost – Other borrowings	48	281	–	25,361,912	–	25,361,912
Subordinated liabilities	52	291	–	37,992,457	–	37,992,457
Total financial liabilities			8,021,783	1,145,597,226	–	1,153,619,009

27.2 (b) Bank

As at December 31, 2017	Note	Page No.	Held for Trading (HFT) Rs. '000	Held to Maturity (HTM) Rs. '000	Loans and receivables Rs. '000	Available for Sale (AFS) Rs. '000	Other amortised cost Rs. '000	Total Rs. '000
Financial assets								
Cash and cash equivalents	29	231	–	–	33,224,619	–	–	33,224,619
Balances with central banks	30	232	–	–	44,801,446	–	–	44,801,446
Placements with banks	31	233	–	–	17,633,269	–	–	17,633,269
Derivative financial assets	32	233	2,334,536	–	–	–	–	2,334,536
Other financial instruments – Held for trading	33	234	4,410,913	–	–	–	–	4,410,913
Loans and receivables to banks	34	238	–	–	640,512	–	–	640,512
Loans and receivables to other customers	35	239	–	–	737,446,567	–	–	737,446,567
Financial investments – Available for sale	37	250	–	–	–	154,714,132	–	154,714,132
Financial investments – Held to maturity	36	247	–	63,562,752	–	–	–	63,562,752
Financial investments – Loans and receivables	36	247	–	–	48,712,477	–	–	48,712,477
Total financial assets			6,745,449	63,562,752	882,458,890	154,714,132	–	1,107,481,223
Financial liabilities								
Due to banks	45	278	–	–	–	–	57,120,991	57,120,991
Derivative financial liabilities	46	278	3,678,494	–	–	–	–	3,678,494
Securities sold under repurchase agreements			–	–	–	–	49,676,767	49,676,767
Due to other customers/ deposits from customers	47	280	–	–	–	–	850,127,511	850,127,511
Other borrowings	48	281	–	–	–	–	23,786,094	23,786,094
Subordinated liabilities	52	291	–	–	–	–	25,165,924	25,165,924
Total financial liabilities			3,678,494	–	–	–	1,005,877,287	1,009,555,781

28. Fair value measurement

The Group measures the fair value using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurement. An analysis of fair value measurement of financial and non-financial assets and liabilities is provided below:

Level 1
Inputs that are quoted market prices (unadjusted) in an active market for identical instruments.

When available, the Group measures the fair value of an instrument using active quoted prices or dealer price quotations (assets and long positions are measured at a bid price; liabilities and short positions are measured at an ask price), without any deduction for transaction costs. A market is regarded as active if transactions for asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2
Inputs other than quoted prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices).

This category includes instruments valued using;

(a) quoted prices in active markets for similar instruments,

(b) quoted prices for identical or similar instruments in markets that are considered to be less active, or

(c) other valuation techniques in which almost all significant inputs are directly or indirectly observable from market data.

Level 3
Inputs that are unobservable.

This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation.

This category includes instruments that are valued based on quoted prices of similar instruments for which significant unobservable adjustments or assumptions are required to reflect difference between the instruments.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which observable market prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, risk premiums in estimating discount rates, bond and equity prices, foreign exchange rates, expected price volatilities and corrections.

Observable prices or model inputs such as market interest rates are usually available in the market for listed equity securities and Government Securities such as Treasury Bills and Treasury Bonds. Availability of observable prices and model inputs reduces the need for Management judgement and estimation while reducing uncertainty associated in determining the fair values.

Models are adjusted to reflect the spread for bid and ask prices to reflect costs to close out positions, credit and debit valuation adjustments, liquidity spread and limitations in the models. Also, profit or loss calculated when such financial instruments are first recorded ("Day 1" profit or loss) is deferred and recognised only when the inputs become observable or on derecognition of the instrument.

28.1 Assets and liabilities measured at fair value and fair value hierarchy

The following table provides an analysis of assets and liabilities measured at fair value as at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised. These amounts were based on the values recognised in the Statement of Financial Position:

As at December 31, 2018			GROUP				BANK			
	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	40	258	–	–	11,566,268	11,566,268	–	–	11,224,488	11,224,488
Total non-financial assets at fair value			–	–	11,566,268	11,566,268	–	–	11,224,488	11,224,488
Financial assets										
Derivative financial assets	32	233								
Currency swaps			–	4,534,509	–	4,534,509	–	4,534,509	–	4,534,509
Interest rate swaps			–	33,359	–	33,359	–	33,359	–	33,359
Forward contracts			–	3,340,657	–	3,340,657	–	3,340,657	–	3,340,657
Spot contracts			–	1,437	–	1,437	–	1,437	–	1,437
Financial assets recognised through profit or loss – measured at fair value	33	234								
Government Securities			4,751,360	–	–	4,751,360	4,751,360	–	–	4,751,360
Equity shares			768,807	–	–	768,807	768,807	–	–	768,807
Financial assets measured at fair value through other comprehensive income	37	250								
Government Securities			117,577,351	59,534,461	–	177,111,812	117,323,593	59,534,461	–	176,858,054
Equity securities			195,149	–	49,344	244,493	195,149	–	49,220	244,369
Total financial assets at fair value			123,292,667	67,444,423	49,344	190,786,434	123,038,909	67,444,423	49,220	190,532,552
Total assets at fair value			123,292,667	67,444,423	11,615,612	202,352,702	123,038,909	67,444,423	11,273,708	201,757,040
Financial liabilities										
Derivative financial liabilities	46	278								
Currency swaps			–	5,946,484	–	5,946,484	–	5,946,484	–	5,946,484
Interest rate swaps			–	–	–	–	–	–	–	–
Forward contracts			–	2,069,807	–	2,069,807	–	2,069,807	–	2,069,807
Spot contracts			–	5,492	–	5,492	–	5,492	–	5,492
Total liabilities at fair value			–	8,021,783	–	8,021,783	–	8,021,783	–	8,021,783

As at December 31, 2017	Note	Page No.	GROUP Level 1 Rs. '000	GROUP Level 2 Rs. '000	GROUP Level 3 Rs. '000	GROUP Total 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	40	258	–	–	11,559,056	11,559,056	–	–	11,218,112	11,218,112
Total non-financial assets at fair value			–	–	11,559,056	11,559,056	–	–	11,218,112	11,218,112
Financial assets										
Derivative financial assets	32	233								
Currency swaps			–	1,067,259	–	1,067,259	–	1,067,259	–	1,067,259
Interest rate swaps			–	–	–	–	–	–	–	–
Forward contracts			–	1,264,900	–	1,264,900	–	1,264,900	–	1,264,900
Spot contracts			–	2,377	–	2,377	–	2,377	–	2,377
Other financial instruments – Held for trading	33	234								
Government Securities			4,096,168	–	–	4,096,168	4,096,168	–	–	4,096,168
Equity shares			314,745	–	–	314,745	314,745	–	–	314,745
Financial investments – Available for sale	37	250								
Government Securities			154,366,556	–	–	154,366,556	154,167,169	–	–	154,167,169
Equity securities			500,278	–	46,809	547,087	500,278	–	46,685	546,963
Total financial assets at fair value			159,277,747	2,334,536	46,809	161,659,092	159,078,360	2,334,536	46,685	161,459,581
Total assets at fair value			159,277,747	2,334,536	11,605,865	173,218,148	159,078,360	2,334,536	11,264,797	172,677,693
Financial liabilities										
Derivative financial liabilities	46	278								
Currency swaps			–	2,656,376	–	2,656,376	–	2,656,376	–	2,656,376
Interest rate swaps			–	4,462	–	4,462	–	4,462	–	4,462
Forward contracts			–	1,015,648	–	1,015,648	–	1,015,648	–	1,015,648
Spot contracts			–	2,008	–	2,008	–	2,008	–	2,008
Total liabilities at fair value			–	3,678,494	–	3,678,494	–	3,678,494	–	3,678,494

28.2 Level 3 fair value measurement

Property, Plant and Equipment (PPE)

Reconciliation from the beginning balance to the ending balance for the land and buildings in the Level 3 of the fair value hierarchy is available in Notes 40.1 to 40.4 on pages 260 to 263.

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 160 to 167.

Note 40.5 (b) on pages 265 to 269 provides information on significant unobservable inputs used as at December 31, 2017 in measuring fair value of land and buildings categorised as Level 3 in the fair value hierarchy.

Note 40.5 (c) on page 269 provides details of valuation techniques used and sensitivity of fair value measurement to changes in significant unobservable inputs.

28.3 Financial instruments not measured at fair value and fair value hierarchy

Methodologies and assumptions used to determine fair value of financial instruments which are not already recorded at fair value in the Statement of Financial Position are as follows:

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost (e.g. fixed rate loans and receivables, due to depositors, subordinated liabilities) are estimated based on the Discounted Cash Flow approach. This approach employs the current market interest rates of similar financial instruments as a significant unobservable input in measuring the fair value and hence it is categorised under Level 3 in the fair value hierarchy.

Sensitivity of significant unobservable inputs used to measure fair value of fixed rate financial instruments

A significant increase/(decrease) in the market interest rate would result in lower/(higher) fair value being disclosed.

Assets for which fair value approximates carrying value

For financial assets and liabilities with short-term maturities or with short-term re-pricing intervals, it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings deposits which do not have a specific maturity.

The following table sets out the fair values of financial assets and liabilities not measured at fair value and related fair value hierarchy used:

As at December 31, 2018	Note	Page No.	GROUP Level 1 Rs. '000	GROUP Level 2 Rs. '000	GROUP Level 3 Rs. '000	GROUP Total fair values Rs. '000	GROUP Total carrying amount Rs. '000	BANK Level 1 Rs. '000	BANK Level 2 Rs. '000	BANK Level 3 Rs. '000	BANK Total fair values Rs. '000	BANK Total carrying amount Rs. '000
Financial assets												
Cash and cash equivalents	29	231	–	44,355,962	–	44,355,962	44,355,962	–	39,534,476	–	39,534,476	39,534,476
Balances with central banks	30	232	–	55,406,535	–	55,406,535	55,406,535	–	54,384,590	–	54,384,590	54,384,590
Placements with banks	31	233	–	19,898,515	–	19,898,515	19,898,515	–	19,898,515	–	19,898,515	19,898,515
Securities purchased under resale agreements			–	9,513,512	–	9,513,512	9,513,512	–	9,513,512	–	9,513,512	9,513,512
Financial assets at amortised cost – Loans and advances to banks	34	238	–	763,074	–	763,074	763,074	–	763,074	–	763,074	763,074
Financial assets at amortised cost – Loans and advances to other customers	35	239	–	–	867,999,907	867,999,907	867,611,976	–	–	861,488,246	861,488,246	861,100,315
Financial assets at amortised cost – Debt and other financial instruments	36	247	84,744,366	–	–	84,744,366	89,274,413	79,325,389	–	–	79,325,389	83,855,436
Total financial assets not at fair value			84,744,366	129,937,598	867,999,907	1,082,681,871	1,086,823,987	79,325,389	124,094,167	861,488,246	1,064,907,802	1,069,049,918
Financial liabilities												
Due to banks	45	278	–	–	52,362,052	52,362,052	52,362,052	–	–	50,101,081	50,101,081	50,101,081
Securities sold under repurchase agreements			–	48,951,394	–	48,951,394	48,951,394	–	49,104,462	–	49,104,462	49,104,462
Financial liabilities at amortised cost – due to depositors	47	280	–	–	994,649,810	994,649,810	994,370,875	–	–	983,316,249	983,316,249	983,037,314
Financial liabilities at amortised cost – other borrowings	48	281	–	–	25,361,912	25,361,912	25,361,912	–	–	25,361,912	25,361,912	25,361,912
Subordinated liabilities	52	291	–	–	38,170,028	38,170,028	37,992,457	–	–	38,170,028	38,170,028	37,992,457
Total financial liabilities not at fair value			–	48,951,394	1,110,543,802	1,159,495,196	1,159,038,690	–	49,104,462	1,096,949,270	1,146,053,732	1,145,597,226

As at December 31, 2017	Note	Page No.	GROUP Level 1 Rs. '000	GROUP Level 2 Rs. '000	GROUP Level 3 Rs. '000	GROUP Total fair values Rs. '000	GROUP Total carrying amount Rs. '000	BANK Level 1 Rs. '000	BANK Level 2 Rs. '000	BANK Level 3 Rs. '000	BANK Total fair values Rs. '000	BANK Total carrying amount Rs. '000
Financial assets												
Cash and cash equivalents	**29**	231	–	34,673,424	–	34,673,424	34,673,424	–	33,224,619	–	33,224,619	33,224,619
Balances with central banks	**30**	232	–	45,546,349	–	45,546,349	45,546,349	–	44,801,446	–	44,801,446	44,801,446
Placements with banks	**31**	233	–	17,633,269	–	17,633,269	17,633,269	–	17,633,269	–	17,633,269	17,633,269
Loans and receivables to banks	**34**	238	–	640,512	–	640,512	640,512	–	640,512	–	640,512	640,512
Loans and receivables to other customers	**35**	239	–	–	741,818,598	741,818,598	742,444,130	–	–	736,821,035	736,821,035	737,446,567
Financial investments – Held to maturity	**36**	247	68,892,386	–	–	68,892,386	69,365,796	63,089,342	–	–	63,089,342	63,562,752
Financial investments – Loans and receivables	**36**	247	–	–	48,712,477	48,712,477	48,712,477	–	–	48,712,477	48,712,477	48,712,477
Total financial assets not at fair value			68,892,386	98,493,554	790,531,075	957,917,015	959,015,957	63,089,342	96,299,846	785,533,512	944,922,700	946,021,642
Financial liabilities												
Due to banks	**45**	278	–	–	60,244,892	60,244,892	60,244,892	–	–	57,120,991	57,120,991	57,120,991
Securities sold under repurchase agreements			–	49,532,385	–	49,532,385	49,532,385	–	49,676,767	–	49,676,767	49,676,767
Due to other customers/deposits from customers	**47**	280	–	–	856,454,642	856,454,642	857,269,981	–	–	849,312,172	849,312,172	850,127,511
Other borrowings	**48**	281	–	–	23,786,094	23,786,094	23,786,094	–	–	23,786,094	23,786,094	23,786,094
Subordinated liabilities	**52**	291	–	–	25,731,210	25,731,210	25,165,924	–	–	25,731,210	25,731,210	25,165,924
Total financial liabilities not at fair value			–	49,532,385	966,216,838	1,015,749,223	1,015,999,276	–	49,676,767	955,950,467	1,005,627,234	1,005,877,287

28.4 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 28.1 on page 226.

Type of financial instruments	**Fair value as at December 31, 2018 (Rs. '000)**	Valuation technique	Significant valuation inputs
Derivative financial assets	**7,909,962**	**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	**8,021,783**		• Interest rate differentials between currencies under consideration

29. Cash and cash equivalents

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 that are subject to an insignificant risk of changes in fair value and are used by the Group in the management of its short-term commitments. These items are brought to Financial Statements at face values or the gross values, where appropriate. There were no cash and cash equivalents held by the Group companies that were not available for use by the Group.

Cash and cash equivalents are carried at amortised cost in the Statement of Financial Position.

As at December 31,	Note	Page No.	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000	BANK 2018 Rs. '000	BANK 2017 Rs. '000
Cash in hand			**24,585,211**	23,577,061	**24,272,784**	23,280,599
Coins and notes held in local currency			**19,489,030**	20,846,435	**19,488,100**	20,836,652
Coins and notes held in foreign currency			**5,096,181**	2,730,626	**4,784,684**	2,443,947
Balances with banks			**10,892,192**	6,748,718	**10,392,621**	6,700,666
Local banks			**–**	–	**–**	–
Foreign banks			**10,892,192**	6,748,718	**10,392,621**	6,700,666
Money at call and at short notice			**8,882,972**	4,347,645	**4,873,484**	3,243,354
Gross cash and cash equivalents (*)			**44,360,375**	34,673,424	**39,538,889**	33,224,619
Less: Provision for impairment	29.1	231	**4,413**	–	**4,413**	–
Net cash and cash equivalents			**44,355,962**	34,673,424	**39,534,476**	33,224,619

(*) Gross cash and cash equivalents are reported in the Statement of Cash Flows.

29.1 Movement in provision for impairment during the year

	Note	Page No.	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000	BANK 2018 Rs. '000	BANK 2017 Rs. '000
Movement in Stage 1 Impairment						
Balance as at January 01,	12.1	196	**5,286**	–	**5,286**	–
Charge/(write back) to the Income Statement	19.1 & 19.2	212	**(1,450)**	–	**(1,450)**	–
Exchange rate variance on foreign currency provisions			**577**	–	**577**	–
Balance as at December 31,			**4,413**	–	**4,413**	–

The maturity analysis of cash and cash equivalents is given in Note 62 on pages 307 to 309.

30. Balances with central banks

Balances with central banks are carried at amortised cost in the Statement of Financial Position.

			GROUP		BANK	
As at December 31,			**2018**	2017	**2018**	2017
	Note	Page No.	**Rs. '000**	Rs. '000	**Rs. '000**	Rs. '000
Statutory balances with central banks	30.1	232	**55,406,535**	45,546,349	**54,384,590**	44,801,446
Total			**55,406,535**	45,546,349	**54,384,590**	44,801,446

30.1 Statutory balances with central banks

	GROUP		BANK	
As at December 31,	**2018**	2017	**2018**	2017
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
Balances with Central Bank of Sri Lanka	**39,866,912**	40,199,840	**39,866,912**	40,199,840
Balances with Bangladesh Bank	**14,517,678**	4,601,606	**14,517,678**	4,601,606
Balances with Maldives Monetary Authority	**1,021,945**	744,903	**–**	–
Total	**55,406,535**	45,546,349	**54,384,590**	44,801,446

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, 2018, the minimum cash reserve requirement was 6.00% of the rupee deposit liabilities (7.50% in 2017). 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, 2018 was 18.50% (19.50% in 2017) on time and demand liabilities (both local and foreign currencies), which includes a 5.50% (6.50% in 2017) cash reserve requirement and the balance 13.00% (13.00% in 2017) is permitted to be maintained in foreign currency and/or also in unencumbered securities held with the Bangladesh Bank.

Balances with Maldives Monetary Authority

The Maldives Banking Act No. 24 of 2010 Section 25 requires the Bank to maintain a statutory reserve on all deposits liabilities denominated in both foreign currency and local currency deposits excluding interbank deposits of other banks in Maldives and Letter of Credit margin deposits. According to the Bank regulations of Maldives Monetary Authority, the Minimum Reserve Requirement (MRR) as at December 31, 2018 was 10% (10% in 2017). The reserve requirement for local currency is to be met in the form of Rufiyaa deposits, while reserve requirement for foreign currency is to be met in the form of US dollar deposits.

The maturity analysis of balances with central banks is given in Note 62 on pages 307 to 309.

31. Placements with Banks

As at December 31,	Note	Page No.	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000	BANK 2018 Rs. '000	BANK 2017 Rs. '000
Placements – Within Sri Lanka			**10,727,288**	–	**10,727,288**	–
Placements – Outside Sri Lanka			**9,182,011**	17,633,269	**9,182,011**	17,633,269
Gross placements with banks			**19,909,299**	17,633,269	**19,909,299**	17,633,269
Less: Provision for impairment	31.1	233	**10,784**	–	**10,784**	–
Net placements with banks			**19,898,515**	17,633,269	**19,898,515**	17,633,269

31.1 Movement in provision for impairment during the year

	Note	Page No.	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000	BANK 2018 Rs. '000	BANK 2017 Rs. '000
Movement in Stage 1 Impairment						
Balance as at January 1,	12.1	196	**31,533**	–	**31,533**	–
Charge/(write back) to the Income Statement	19.1 & 19.2	212	**(21,553)**	–	**(21,553)**	–
Exchange rate variance on foreign currency provisions			**804**	–	**804**	–
Balance as at December 31,			**10,784**	–	**10,784**	–

The maturity analysis of placements with banks is given in Note 62 on pages 307 to 309.

32. Derivative financial assets

The Bank uses derivatives such as interest rate swaps, foreign currency swaps and forward foreign exchange contracts, etc. Derivative financial assets are recorded at fair value. Changes in the fair value of derivatives are included in "Net Gains/(Losses) from Trading" in the Income Statement.

Under SLFRS 9, embedded derivatives are no longer separated from a host financial asset under the scope of the standard unlike LKAS 39. Instead, financial assets are classified entirely based on the business model and their contractual terms. The accounting for non-financial host contracts has not changed.

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 profit or loss.

As at December 31,	Note	Page No.	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000	BANK 2018 Rs. '000	BANK 2017 Rs. '000
Derivative financial assets	32.1	234	**7,876,603**	2,334,536	**7,876,603**	2,334,536
Derivative financial assets – Cash flow hedges held for risk management	32.2	234	**33,359**	–	**33,359**	–
Total			**7,909,962**	2,334,536	**7,909,962**	2,334,536

32.1 Derivative financial assets – Held for trading

As at December 31,	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000	BANK 2018 Rs. '000	BANK 2017 Rs. '000
Foreign currency derivatives				
Currency swaps	**4,534,509**	1,067,259	**4,534,509**	1,067,259
Forward contracts	**3,340,657**	1,264,900	**3,340,657**	1,264,900
Spot contracts	**1,437**	2,377	**1,437**	2,377
Total	**7,876,603**	2,334,536	**7,876,603**	2,334,536

32.2 Derivative financial assets – Cash flow hedges held for risk management

The Group uses interest rate swaps to hedge the interest rate risk arising from a floating rate borrowing denominated in foreign currencies.

The fair value of the derivative financial assets denominated as cash flow hedge is as follows:

As at December 31,	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000	BANK 2018 Rs. '000	BANK 2017 Rs. '000
Interest rate swaps	**33,359**	–	**33,359**	–
Total	**33,359**	–	**33,359**	–

During the year, gain (net of tax) of Rs. 27.231 Mn., (2017 – Net loss of Rs. 3.212 Mn.) relating to the effective portion of cash flow hedges were recognised in OCI.

The maturity analysis of derivative financial assets is given in Note 62 on pages 307 to 309.

33. Financial assets recognised through profit or loss/held for trading – Measured at fair value

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 hold 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. The definition for held for trading has not changed under SLFRS 9 compared to LKAS 39.

Financial assets held for trading are measured at fair value through profit or loss in the SOFP. Interest and dividend income are recorded in "Interest Income" and "Net Gains/(Losses) from Trading" respectively in the Income Statement, according to the terms of the contract, or when the right to receive the payment has been established.

Financial assets held for trading include instruments such as Government and other debt securities and equity instruments that have been acquired principally for the purpose of selling or repurchasing in the near term.

Further as per SLFRS 9, financial assets recognised through profit or loss includes all financial assets other than those classified under FVOCI and amortised cost.

As at December 31,	Note	Page No.	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000	BANK 2018 Rs. '000	BANK 2017 Rs. '000
Government Securities	33.1	235	**4,751,360**	4,096,168	**4,751,360**	4,096,168
Equity securities	33.2	235	**768,807**	314,745	**768,807**	314,745
Total			**5,520,167**	4,410,913	**5,520,167**	4,410,913

33.1 Government Securities

As at December 31,	GROUP 2018 Rs. 000	GROUP 2017 Rs.'000	BANK 2018 Rs.'000	BANK 2017 Rs.'000
Treasury bills	3,669,706	933,056	3,669,706	933,056
Treasury bonds	1,081,654	3,163,112	1,081,654	3,163,112
Total	4,751,360	4,096,168	4,751,360	4,096,168

The maturity analysis of financial assets recognised through profit or loss/held for trading – Measured at fair value is given in Note 62 on pages 307 to 309.

33.2 Equity securities – Group and Bank

Sector/Name of the Company	As at December 31, 2018 No. of shares	Market price Rs.	Market value Rs. '000	Cost of the investment Rs. '000	As at December 31, 2017 No. of shares	Market price Rs.	Market value Rs. '000	Cost of the investment Rs. '000
Bank, Finance and Insurance								
Central Finance Company PLC	197,911	88.70	17,555	18,937	196,189	92.30	18,108	18,937
Citizen Development Business Finance PLC (Non-voting)	101,965	70.00	7,138	3,398	101,965	56.00	5,710	3,398
Hatton National Bank PLC	84	214.00	18	12	84	249.00	21	12
Lanka Ventures PLC	100,000	42.10	4,210	3,033	100,000	55.00	5,500	3,033
National Development Bank PLC	214,865	106.80	22,948	34,381	207,628	136.40	28,320	34,381
People's Insurance Limited	126,500	19.10	2,416	1,898	126,500	23.00	2,910	1,898
Sampath Bank PLC	44,165	235.00	10,379	7,853	32,341	315.70	10,210	5,430
VISA Inc.(*)	19,424	US$. 131.94	468,993	–	–	–	–	–
Subtotal			533,657	69,512			70,779	67,089
Beverage, Food and Tobacco								
Lanka Milk Foods (CWE) PLC	250,000	130.00	32,500	27,866	250,000	157.00	39,250	27,866
Melstacrop Limited	245,960	50.30	12,372	9,814	245,960	59.50	14,635	9,814
Renuka Foods (Non-voting)	1,000	10.50	11	15	1,000	13.80	14	15
Subtotal			44,883	37,695			53,899	37,695
Chemicals and Pharmaceutical								
Chemical Industries Colombo Holding PLC (Non-voting)	161,400	30.00	4,842	11,692	161,400	47.40	7,650	11,692
Haycarb PLC	107,100	130.00	13,923	15,914	107,100	147.50	15,797	15,914
Subtotal			18,765	27,606			23,447	27,606
Construction and Engineering								
Colombo Dockyard PLC	75,000	55.60	4,170	16,685	75,000	88.50	6,638	16,685
Subtotal			4,170	16,685			6,638	16,685

(*) Investment in VISA Inc has been reclassified from "financial investments – Available for sale" to "Financial assets recognised through profit or loss" w.e.f. January 1, 2018.

Sector/Name of the Company	As at December 31, 2018				As at December 31, 2017			
	No. of shares	Market price Rs.	Market value Rs. '000	Cost of the investment Rs. '000	No. of shares	Market price Rs.	Market value Rs. '000	Cost of the investment Rs. '000
Diversified Holdings								
Hayleys PLC	68,313	187.00	12,775	19,269	68,313	241.00	16,463	19,269
Hemas Holdings PLC	60	88.80	5	2	60	126.00	8	2
John Keells Holdings PLC	130,611	159.70	20,859	20,527	130,611	148.50	19,396	20,527
Subtotal			33,639	39,798			35,867	39,798
Healthcare								
Ceylon Hospitals PLC	121,900	71.10	8,667	12,868	121,900	83.00	10,118	12,868
Ceylon Hospitals PLC (Non-voting)	61,100	69.00	4,216	4,423	61,100	65.30	3,990	4,423
Subtotal			12,883	17,291			14,108	17,291
Hotels and Travels								
John Keells Hotels PLC	267,608	7.80	2,087	3,473	267,608	8.80	2,355	3,473
Taj Lanka Hotels PLC	212,390	13.00	2,761	6,625	212,390	15.90	3,377	6,625
Subtotal			4,848	10,098			5,732	10,098
Investment Trusts								
Renuka Holdings PLC	117,158	16.60	1,945	3,180	117,158	24.00	2,812	3,180
Renuka Holdings PLC (Non-voting)	265,368	14.70	3,901	4,958	265,368	17.00	4,511	4,958
Subtotal			5,846	8,138			7,323	8,138
Land and Property								
CT Land Development PLC	25,000	28.10	703	531	15,000	45.50	683	531
Overseas Reality Ceylon PLC	183,320	16.50	3,025	2,717	183,320	17.60	3,226	2,716
RIL Property PLC	3,333,333	6.90	23,000	26,667	2,500,000	7.20	18,000	20,000
Subtotal			26,728	29,915			21,909	23,247
Manufacturing								
ACL Cables PLC	100,000	37.00	3,700	3,676	100,000	42.40	4,240	3,676
Dipped Products PLC	200,000	85.00	17,000	24,239	200,000	85.00	17,000	24,239
Lanka Walltiles PLC	60	71.00	4	5	60	99.40	6	5
Pelwatte Sugar Industries PLC	12,300	0.10	1	351	12,300	0.10	1	351
Royal Ceramics Lanka PLC	155,927	74.60	11,632	18,057	155,927	114.50	17,854	18,057
Ceylon Grain Elevators PLC	250,000	59.50	14,875	18,156	–	–	–	–
Subtotal			47,212	64,484			39,101	46,328

Sector/Name of the Company	As at December 31, 2018 No. of shares	Market price Rs.	Market value Rs. '000	Cost of the investment Rs. '000	As at December 31, 2017 No. of shares	Market price Rs.	Market value Rs. '000	Cost of the investment Rs. '000
Plantations								
Kotagala Plantations PLC	302,625	6.70	2,028	9,172	201,750	12.20	2,461	9,172
Subtotal			2,028	9,172			2,461	9,172
Power and Energy								
Hemas Power PLC	106,249	21.10	2,242	2,053	106,249	18.20	1,934	2,053
Lanka IOC PLC	685,984	24.60	16,875	15,013	685,984	28.00	19,208	15,013
LVL Energy Fund PLC	648,100	8.40	5,444	6,481	–	–	–	–
Subtotal			24,561	23,547			21,142	17,066
Telecommunications								
Dialog Axiata PLC	949,172	10.10	9,587	6,300	949,172	13.00	12,339	6,300
Subtotal			9,587	6,300			12,339	6,300
Total			768,807	360,241			314,745	326,513
Mark to market gains/(losses)				408,566				(11,768)
Market value of equity securities				768,807				314,745

33.3 Industry/sector composition of equity securities – Group and Bank

Industry/Sector	As at December 31, 2018 Market value Rs. '000	Cost of the investment Rs. '000	%	As at December 31, 2017 Market value Rs. '000	Cost of the investment Rs. '000	%
Bank, Finance and Insurance	533,657	69,512	69.41	70,779	67,089	22.49
Beverage, Foods and Tobacco	44,883	37,695	5.84	53,899	37,695	17.12
Chemicals and Pharmaceutical	18,765	27,606	2.44	23,447	27,606	7.45
Construction and Engineering	4,170	16,685	0.54	6,638	16,685	2.11
Diversified Holdings	33,639	39,798	4.38	35,867	39,798	11.40
Health Care	12,883	17,291	1.68	14,108	17,291	4.48
Hotels and Travels	4,848	10,098	0.63	5,732	10,098	1.82
Investment Trusts	5,846	8,138	0.76	7,323	8,138	2.33
Land and Property	26,728	29,915	3.48	21,909	23,247	6.96
Manufacturing	47,212	64,484	6.14	39,101	46,328	12.42
Plantations	2,028	9,172	0.26	2,461	9,172	0.78
Power and Energy	24,561	23,547	3.19	21,142	17,066	6.72
Telecommunications	9,587	6,300	1.25	12,339	6,300	3.92
Subtotal	768,807	360,241	100.00	314,745	326,513	100.00
Mark to market gains/(losses)	–	408,566	–	–	(11,768)	–
Market value of equity securities	768,807	768,807	100.00	314,745	314,745	100.00

34. Financial assets at amortised cost – Loans and advances to banks

"Financial assets at amortised cost – Loans and advances to banks" include amounts due from banks.

As per SLFRS 9, Loans and advances to Banks are assets that are held within a business model whose objective is to hold the assets in order to collect contractual cash flows and the contractual terms of the assets give rise on specific dates to cash flows that are solely payment of principal and interest on the principal outstanding.

As per LKAS 39 "Loans and advances to banks" comprised non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Those that the Group intends to sell immediately or in the near term and those that the Group, upon initial recognition, designates as at fair value through profit or loss
- Those that the Group, upon initial recognition, designates as available for sale
- Those for which the Group may not recover substantially all of its initial investment, other than because of credit deterioration
- Finance lease receivables

Even though the classification definition varies with SLFRS 9, the measurement criteria remains the same under both standards.

After initial measurement, loans and receivables to banks are subsequently measured at gross carrying amount using the EIR, less provision for impairment, except when the Group designates at fair value through profit or loss. EIR is calculated by taking into account any discount or premium on acquisition and fees and costs. The amortisation is included in "Interest Income" while the losses arising from impairment are recognised in "Impairment charges and other losses" in the Income Statement.

			GROUP		BANK	
As at December 31,	Note	Page No.	**2018 Rs. '000**	2017 Rs. '000	**2018 Rs. '000**	2017 Rs. '000
Gross loans and receivables			**763,110**	640,512	**763,110**	640,512
Less: Provision for impairment	34.1	238	**36**	–	**36**	–
Net loans and receivables			**763,074**	640,512	**763,074**	640,512

34.1 Movement in provision for impairment during the year

			GROUP		BANK	
	Note	Page No.	**2018 Rs. '000**	2017 Rs. '000	**2018 Rs. '000**	2017 Rs. '000
Movement in Stage 1 impairment						
Balance as at January 1,	12.1	196	**139**	–	**139**	–
Charge/(write back) to the income statement	19.1 & 19.2	212	**(103)**	–	**(103)**	–
Balance as at December 31,			**36**	–	**36**	–

The maturity analysis of loans and receivable to banks is given in Note 62 on pages 307 to 309.

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. 763.110 Mn.) which has been kept as a deposit with them. This action has been contested by the Bank. In view of the stance taken by the Bank in this regard, both the deposit (made by the Bank) and the amount due to the said counterparty bank, have been recorded in the Statement of Financial Position.

34.2 By currency

As at December 31,	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000	BANK 2018 Rs. '000	BANK 2017 Rs. '000
United States Dollar	763,110	640,512	763,110	640,512
Subtotal	**763,110**	640,512	**763,110**	640,512

35. Financial assets at amortised cost – Loans and advances to other customers

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.

As per LKAS 39, "Loans and receivables to other customers" comprised non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those that the Group intends to sell immediately or in the near term and those that the Group, upon initial recognition, designates as at fair value through profit or loss
- those that the Group, upon initial recognition, designates as available for sale
- those for which the Group may not recover substantially all of its initial investment, other than because of credit deterioration

Even though the classification definition varies with SLFRS 9, the measurement criteria remains the same under both standards.

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 2018 Rs. '000	GROUP 2017 Rs. '000	BANK 2018 Rs. '000	BANK 2017 Rs. '000
Gross loans and advances			**897,955,796**	760,453,937	**890,229,368**	754,707,977
Stage 1			**750,597,718**	–	**745,651,617**	–
Stage 2			**92,317,199**	–	**91,600,192**	–
Stage 3			**55,040,879**	–	**52,977,559**	–
Less: Provision for impairment			**30,343,820**	18,009,807	**29,129,053**	17,261,410
Stage 1	35.2 (a)	242	**2,814,943**	–	**2,659,185**	–
Stage 2	35.2 (b)	242	**5,984,306**	–	**5,873,226**	–
Stage 3	35.2 (c)	243	**21,544,571**	–	**20,596,642**	–
Provision for individual impairment	35.3 (a)	243	–	7,853,654	–	7,853,654
Provision for collective impairment	35.3 (b)	244	–	10,156,153	–	9,407,756
Net loans and advances			**867,611,976**	742,444,130	**861,100,315**	737,446,567

The maturity analysis of Loans and advances to other customers is given in Note 62 on pages 307 to 309.

35.1 Analysis

35.1 (a) By product

As at December 31,	Note	Page No.	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000	BANK 2018 Rs. '000	BANK 2017 Rs. '000
Loans and advances						
Overdrafts			141,993,985	118,072,316	140,966,522	117,362,030
Trade finance			77,680,497	58,291,188	77,599,050	58,275,965
Lease/hire purchase receivable	35.4	244	41,233,899	40,766,415	38,635,036	37,865,183
Credit cards			12,975,517	9,639,046	12,975,517	9,639,046
Pawning			1,577,472	1,339,259	1,577,472	1,339,259
Staff loans			9,311,033	7,980,429	9,300,749	7,973,685
Housing loans			62,534,866	53,628,645	62,388,165	53,628,645
Personal loans			36,968,592	28,401,829	34,832,746	28,272,669
Term loans						
Short term			136,652,308	88,668,616	136,353,991	87,600,808
Long term			352,283,284	336,559,097	350,881,443	335,643,590
Bills of exchange			24,744,343	17,107,097	24,718,677	17,107,097
Subtotal			897,955,796	760,453,937	890,229,368	754,707,977

35.1 (b) By currency

As at December 31,	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000	BANK 2018 Rs. '000	BANK 2017 Rs. '000
Sri Lankan Rupee	692,648,484	600,058,048	687,970,789	595,745,318
United States Dollar	137,588,618	113,192,698	136,516,513	112,496,635
Great Britain Pound	952,806	892,245	952,806	892,245
Euro	1,850,804	1,500,772	1,850,804	1,500,772
Australian Dollar	611,436	690,992	611,436	690,992
Japanese Yen	176,039	135,765	176,039	135,765
Singapore Dollar	–	5,504	–	5,504
Bangladesh Taka	62,142,187	43,164,009	62,142,187	43,164,009
Maldivian Rufiyaa	1,909,104	737,167	–	–
Others	76,318	76,737	8,794	76,737
Subtotal	897,955,796	760,453,937	890,229,368	754,707,977

35.1 (c-i) By industry*

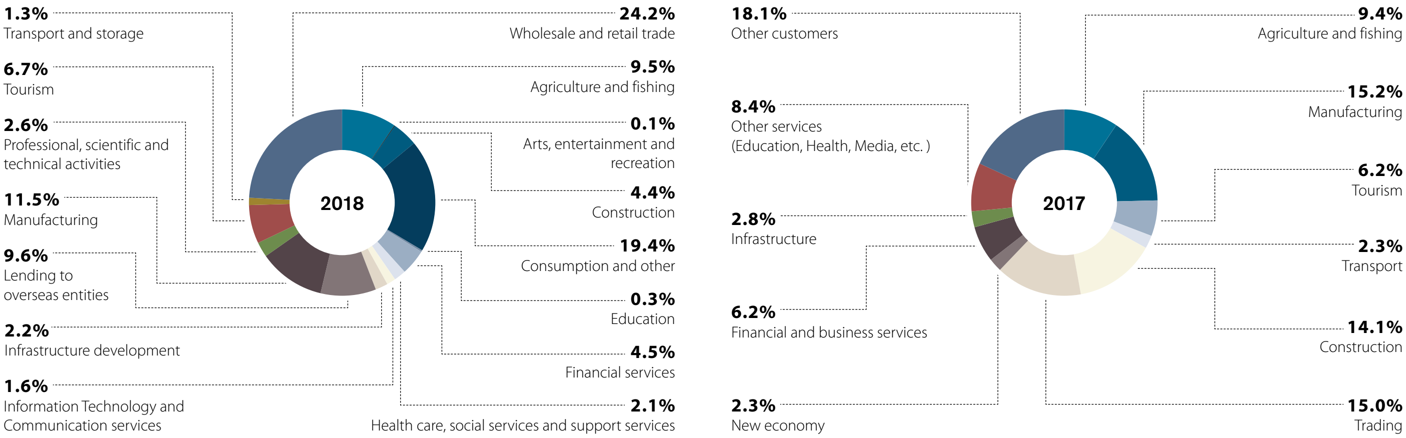
As at December 31,	GROUP 2018 Rs. '000	BANK 2018 Rs. '000
Agriculture and fishing	84,677,466	84,363,522
Arts, entertainment and recreation	949,302	949,302
Construction	40,689,218	39,405,660
Consumption and other	176,273,517	173,937,599
Education	2,670,021	2,670,021
Financial services	40,046,006	39,756,387
Healthcare, social services and support services	18,546,251	18,546,251
Information technology and communication services	12,835,806	13,856,776
Infrastructure development	19,215,514	19,215,514
Lending to overseas entities	85,552,523	85,552,523
Manufacturing	103,027,652	102,830,411
Professional, scientific and technical activities	23,318,540	23,318,540
Tourism	60,387,096	59,495,850
Transport and storage	11,480,382	11,315,073
Wholesale and retail trade	218,286,502	215,015,939
Subtotal	**897,955,796**	**890,229,368**

** Classification for 2018 has been changed according to the new sector-wise classification issued by Central Bank of Sri Lanka*

35.1 (c-ii) By industry

As at December 31,	GROUP 2017 Rs. '000	BANK 2017 Rs. '000
Agriculture and fishing	71,041,888	70,786,178
Manufacturing	115,028,848	114,980,885
Tourism	47,671,546	46,808,711
Transport	17,190,601	17,083,533
Construction	106,784,977	106,328,774
Trading	114,649,323	113,037,048
New economy (e – Commerce, IT, etc.)	17,479,610	17,479,610
Financial and business services	46,764,237	47,393,198
Infrastructure	20,886,155	20,886,155
Other services (Education, Health, Media, etc.)	64,040,605	63,062,660
Other customers	138,916,147	136,861,225
Subtotal	760,453,937	754,707,977

Sectorial classification of loans and advances – Bank Graph – 46



35.2 Movement in provision for impairment during the year (Under SLFRS 9)

35.2 (a) Movement in Stage 1 Impairment

			GROUP		BANK	
	Note	Page No.	2018 Rs. '000	2017 Rs. '000	2018 Rs. '000	2017 Rs. '000
Balance as at January 1,			3,126,167	–	3,041,886	–
Charge/(write back) to the income statement	19.1 & 19.2	212	(324,074)	–	(393,953)	–
Net write-off/(recoveries) during the year			(800)	–	(800)	–
Exchange rate variance on foreign currency provisions			13,650	–	12,052	–
Interest accrued/(reversals) on impaired loans and advances			–	–	–	–
Other movements			–	–	–	–
Balance as at December 31,			**2,814,943**	–	**2,659,185**	–

35.2 (b) Movement in Stage 2 – Impairment

			GROUP		BANK	
	Note	Page No.	2018 Rs. '000	2017 Rs. '000	2018 Rs. '000	2017 Rs. '000
Balance as at January 1,			4,348,188	–	4,165,027	–
Charge/(write back) to the Income Statement	19.1 & 19.2	212	1,632,467	–	1,704,548	–
Net write-off/(recoveries) during the year			(819)	–	(819)	–
Exchange rate variance on foreign currency provisions			4,470	–	4,470	–
Interest accrued/(reversals) on impaired loans and advances			–	–	–	–
Other movements			–	–	–	–
Balance as at December 31,			**5,984,306**	–	**5,873,226**	–

35.2 (c) Movement in stage 3 – Impairment

	Note	Page No.	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000	BANK 2018 Rs. '000	BANK 2017 Rs. '000
Balance as at January 1,			15,136,256	–	14,211,504	–
Charge/(write back) to the income statement	19.1 & 19.2	212	7,071,147	–	6,812,653	–
Net write-off/(recoveries) during the year			(590,601)	–	(355,284)	–
Exchange rate variance on foreign currency provisions			278,179	–	278,179	–
Interest accrued/(reversals) on impaired loans and advances	14.1	203	(360,876)	–	(360,876)	–
Other movements			10,466	–	10,466	–
Balance as at December 31,			**21,544,571**	–	**20,596,642**	–

35.2 (d) Movement in total impairment

	Note	Page No.	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000	BANK 2018 Rs. '000	BANK 2017 Rs. '000
Balance as at January 1,			22,610,611	–	21,418,417	–
Charge/(write back) to the Income Statement	19.1 & 19.2	212	8,379,540	–	8,123,248	–
Net write-off/(recoveries) during the year			(592,220)	–	(356,903)	–
Exchange rate variance on foreign currency provisions			296,299	–	294,701	–
Interest accrued/(reversals) on impaired loans and advances	14.1	203	(360,876)	–	(360,876)	–
Other movements			10,466	–	10,466	–
Balance as at December 31,			**30,343,820**	–	**29,129,053**	–

35.3 Movement in provision for individual and collective impairment during the year (Under LKAS 39)

35.3 (a) Movement in provision for individual impairment

	Note	Page No.	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000	BANK 2018 Rs. '000	BANK 2017 Rs. '000
Balance as at January 1,			–	8,453,457	–	8,453,457
Charge/(write back) to the Income Statement	19.1 & 19.2	212	–	(223,174)	–	(223,174)
Net write-off/(recoveries) during the year			–	(70,133)	–	(70,133)
Exchange rate variance on foreign currency provisions			–	30,057	–	30,057
Interest accrued/(reversals) on impaired loans and advances	14.1	203	–	(861,057)	–	(861,057)
Other movements			–	524,504	–	524,504
Balance as at December 31,			–	7,853,654	–	7,853,654

35.3 (b) Movement in provision for collective impairment

	Note	Page No.	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000	BANK 2018 Rs. '000	BANK 2017 Rs. '000
Balance as at January 1,			–	9,399,591	–	8,919,222
Charge/(write back) to the income statement	19.1 & 19.2	212	–	1,211,813	–	942,624
Net write-off/(recoveries) during the year			–	(449,059)	–	(449,059)
Exchange rate variance on foreign currency provisions			–	(6,192)	–	(5,031)
Balance as at December 31,			–	10,156,153	–	9,407,756
Total of individual and collective – Impairment			–	18,009,807	–	17,261,410

35.4 Lease/Hire purchase receivable

	Note	Page No.	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000	BANK 2018 Rs. '000	BANK 2017 Rs. '000
Gross lease/Hire purchase receivable	35.1 (a)	240	41,233,899	40,766,415	38,635,036	37,865,183
Within one year	35.4 (a)	244	16,540,861	15,149,364	15,678,711	14,297,074
From one to five years	35.4 (b)	245	24,492,495	25,307,569	22,865,357	23,564,939
After five years	35.4 (c)	245	200,543	309,482	90,968	3,170
Less: Provision for impairment	35.4 (d)	245	1,125,076	776,038	818,897	387,664
Stage 1	35.4 (d) (I)	245	108,543	–	79,063	–
Stage 2	35.4 (d) (II)	246	191,150	–	108,098	–
Stage 3	35.4 (d) (III)	246	825,383	–	631,736	–
Provision for individual impairment			–	133,536	–	133,536
Provision for collective impairment			–	642,502	–	254,128
Net lease receivable			40,108,823	39,990,377	37,816,139	37,477,519

35.4 (a) Lease/Hire purchase receivable within one year

	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000	BANK 2018 Rs. '000	BANK 2017 Rs. '000
Total lease/hire purchase receivable within one year	21,381,158	19,613,099	20,175,028	18,418,203
Less: Unearned lease/hire purchase income	4,840,297	4,463,735	4,496,317	4,121,129
Gross lease/hire purchase receivable within one year	16,540,861	15,149,364	15,678,711	14,297,074
Less: Provision for impairment	565,361	470,871	467,528	333,890
Stage 1	42,240	–	32,820	–
Stage 2	64,097	–	37,560	–
Stage 3	459,024	–	397,148	–
Provision for individual impairment	–	119,231	–	119,231
Provision for collective impairment	–	351,640	–	214,659
Subtotal	15,975,500	14,678,493	15,211,183	13,963,184

35.4 (b) Lease/Hire purchase receivable from one to five years

	GROUP		BANK	
	2018 Rs. '000	2017 Rs. '000	2018 Rs. '000	2017 Rs. '000
Total lease/hire purchase receivable from one to five years	**28,796,807**	29,262,074	**26,725,184**	27,056,087
Less: Unearned lease/hire purchase income	**4,304,312**	3,954,505	**3,859,827**	3,491,148
Gross lease/hire purchase receivable from one to five years	**24,492,495**	25,307,569	**22,865,357**	23,564,939
Less: Provision for impairment	**546,121**	251,182	**350,398**	53,773
Stage 1	**65,008**	–	**46,163**	–
Stage 2	**122,738**	–	**69,647**	–
Stage 3	**358,375**	–	**234,588**	–
Provision for individual impairment	**–**	14,305	**–**	14,305
Provision for collective impairment	**–**	236,877	**–**	39,468
Subtotal	**23,946,374**	25,056,387	**22,514,959**	23,511,166

35.4 (c) Lease/hire purchase receivable after five years

	GROUP		BANK	
	2018 Rs. '000	2017 Rs. '000	2018 Rs. '000	2017 Rs. '000
Total lease/hire purchase receivable after five years	**211,729**	311,269	**100,556**	3,215
Less: Unearned lease/hire purchase income	**11,186**	1,787	**9,588**	45
Gross lease/hire purchase receivable after five years	**200,543**	309,482	**90,968**	3,170
Less: Provision for impairment	**13,594**	53,985	**971**	1
Stage 1	**1,295**	–	**80**	–
Stage 2	**4,315**	–	**891**	–
Stage 3	**7,984**	–	**–**	–
Provision for individual impairment	**–**	–	**–**	–
Provision for collective impairment	**–**	53,985	**–**	1
Subtotal	**186,949**	255,497	**89,997**	3,169

35.4 (d) Movement in provision for impairment during the year – (Under SLFRS 9)

35.4 (d) (i) Movement in Stage 1 – Impairment

	GROUP		BANK	
	2018 Rs. '000	2017 Rs. '000	2018 Rs. '000	2017 Rs. '000
Balance as at January 1,	**133,155**	–	**98,055**	–
Charge/(write back) to the income statement	**(24,612)**	–	**(18,992)**	–
Net write-off/(recoveries) during the year	**–**	–	**–**	–
Exchange rate variance on foreign currency provisions	**–**	–	**–**	–
Interest accrued/(reversals) on impaired loans and advances	**–**	–	**–**	–
Other movements	**–**	–	**–**	–
Balance as at December 31,	**108,543**	–	**79,063**	–

35.4 (d) (ii) Movement in Stage 2 – Impairment

	GROUP		BANK	
	2018 Rs. '000	2017 Rs. '000	2018 Rs. '000	2017 Rs. '000
Balance as at January 1,	145,397	–	59,536	–
Charge/(write back) to the income statement	46,359	–	49,168	–
Net write-off/(recoveries) during the year	(606)	–	(606)	–
Exchange rate variance on foreign currency provisions	–	–	–	–
Interest accrued/(reversals) on impaired loans and advances	–	–	–	–
Other movements	–	–	–	–
Balance as at December 31,	191,150	–	108,098	–

35.4 (d) (iii) Movement in Stage 3 – Impairment

	GROUP		BANK	
	2018 Rs. '000	2017 Rs. '000	2018 Rs. '000	2017 Rs. '000
Balance as at January 1,	584,884	–	267,196	–
Charge/(write back) to the income statement	497,133	–	434,640	–
Net write-off/(recoveries) during the year	(255,622)	–	(69,088)	–
Exchange rate variance on foreign currency provisions	–	–	–	–
Interest accrued/(reversals) on impaired loans and advances	(889)	–	(889)	–
Other movements	(123)	–	(123)	–
Balance as at December 31,	825,383	–	631,736	–

35.4 (d) (iv) Movement in total impairment

	GROUP		BANK	
	2018 Rs. '000	2017 Rs. '000	2018 Rs. '000	2017 Rs. '000
Balance as at January 1,	863,436	–	424,787	–
Charge/(write back) to the income statement	518,880	–	464,816	–
Net write-off/(recoveries) during the year	(256,228)	–	(69,694)	–
Exchange rate variance on foreign currency provisions	–	–	–	–
Interest accrued/(reversals) on impaired loans and advances	(889)	–	(889)	–
Other movements	(123)	–	(123)	–
Balance as at December 31,	1,125,076	–	818,897	–

35.4 (e) Movement in provision for impairment during the year – (Under LKAS 39)

35.4 (e) (i) Movement in provision for individual impairment

	GROUP		BANK	
	2018 Rs. '000	2017 Rs. '000	**2018 Rs. '000**	2017 Rs. '000
Balance as at January 1,	–	241,185	–	241,185
Charge/(write back) to the income statement	–	11,842	–	11,842
Net write-off/(recoveries) during the year	–	(106,092)	–	(106,092)
Exchange rate variance on foreign currency provisions	–	–	–	–
Interest accrued/(reversals) on impaired loans and advances	–	(15,171)	–	(15,171)
Other movements	–	1,772	–	1,772
Balance as at December 31,	–	133,536	–	133,536

35.4 (e) (ii) Movement in provision for collective impairment

	GROUP		BANK	
	2018 Rs. '000	2017 Rs. '000	**2018 Rs. '000**	2017 Rs. '000
Balance as at January 1,	–	681,035	–	262,381
Charge/(write back) to the income statement	–	38,311	–	68,591
Net write-off/(recoveries) during the year	–	(76,844)	–	(76,844)
Exchange rate variance on foreign currency provisions	–	–	–	–
Balance as at December 31,	–	642,502	–	254,128
Total	–	776,038	–	387,664

36. Financial assets at amortised cost – Debt and other financial instruments/financial investments – held to maturity and loans and receivables

As per SLFRS 9, "Financial investments" are measured at amortised cost if it meets both of the following conditions and is not designated at FVTPL:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial measurement, these 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.

This comprises Financial Investments – Loans and receivables except SLDB Investments and Held to maturity investments that were previously classified under LKAS 39.

As per LKAS 39, this included financial investments – Held to maturity and loans and receivables

Held-to-maturity financial investments were non-derivative financial assets with fixed or determinable payments and fixed maturities, that the Group had the positive intention and ability to hold to maturity, and which are not designated at fair value through profit or loss or available for sale. After initial measurement, held-to-maturity financial investments were subsequently measured at amortised cost using the EIR, less provision for impairment. EIR is calculated by taking into account any discount or premium on acquisition and fees. The amortisation is included in "Interest Income" while the losses arising from impairment of such investments are recognised in "Impairment charges and other losses" in the Income Statement.

Financial investments classified as loans and receivables included unquoted debt instruments. After initial measurement, these are subsequently measured at gross carrying amount using the EIR, less provision for impairment. EIR was 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 2018 Rs. '000	GROUP 2017 Rs. '000	BANK 2018 Rs. '000	BANK 2017 Rs. '000
Government securities – Sri Lanka			**68,228,143**	94,122,004	**67,948,005**	94,122,004
Treasury bonds			**32,982,542**	38,675,911	**32,982,542**	38,675,911
Sri Lanka sovereign bonds			**35,245,601**	14,879,391	**34,965,463**	14,879,391
Sri Lanka development bonds(*)			**–**	40,566,702	**–**	40,566,702
Government Securities – Bangladesh			**9,539,364**	10,007,450	**9,539,364**	10,007,450
Treasury bills			**4,368,976**	1,197,755	**4,368,976**	1,197,755
Treasury bonds			**5,170,388**	8,809,695	**5,170,388**	8,809,695
Government Securities – Maldives			**5,140,927**	5,803,044	**–**	–
Treasury bills			**5,140,927**	5,803,044	**–**	–
Other instruments			**6,634,319**	8,145,775	**6,634,319**	8,145,775
Debentures	36.2	249	**5,952,635**	8,045,593	**5,952,635**	8,045,593
Trust certificates	36.3	249	**680,203**	98,087	**680,203**	98,087
Corporate investments in Bangladesh	36.4	250	**1,481**	2,095	**1,481**	2,095
Less: Provision for impairment	36.1	248	**268,340**	–	**266,252**	–
Total			**89,274,413**	118,078,273	**83,855,436**	112,275,229

(*) Sri Lanka development bonds investment has been reclassified from "Financial investments – Loans and receivables" to "Financial assets measured at fair value through other comprehensive income" w.e.f. January 1, 2018.

36.1 Movement in provision for impairment during the year

	Note	Page No.	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000	BANK 2018 Rs. '000	BANK 2017 Rs. '000
Movement in Stage 1 Impairment						
Balance as at January 1,	12.1	196	**69,680**	–	**69,680**	–
Charge/(write back) to the income statement	19.1 & 19.2	212	**198,443**	–	**196,572**	–
Exchange rate variance on foreign currency provisions			**217**	–	**–**	–
Balance as at December 31,			**268,340**	–	**266,252**	–

The maturity analysis of Financial assets at amortised cost – Debt and other financial instruments/financial investments – Held to maturity and loans and receivables is given in Note 62 on pages 307 and 309.

36.2 Debentures

As at December 31,	GROUP 2018 No. of debentures	GROUP 2018 Carrying value Rs. '000	GROUP 2017 No. of debentures	GROUP 2017 Carrying value Rs. '000	BANK 2018 No. of debentures	BANK 2018 Carrying value Rs. '000	BANK 2017 No. of debentures	BANK 2017 Carrying value Rs. '000
Commercial Leasing and Finance PLC	10,000,000	1,097,500	10,000,000	1,097,500	10,000,000	1,097,500	10,000,000	1,097,500
Dunamis Capital PLC	500,000	50,403	500,000	50,403	500,000	50,403	500,000	50,403
Hayleys PLC	10,878,400	1,114,983	10,878,400	1,114,983	10,878,400	1,114,983	10,878,400	1,114,983
Hemas Holdings PLC	525,900	54,048	525,900	54,048	525,900	54,048	525,900	54,048
Lanka ORIX Leasing Company PLC	20,000,000	2,045,370	20,000,000	2,045,370	20,000,000	2,045,370	20,000,000	2,045,370
MTD Walkers PLC	1,528,701	156,627	3,000,000	307,373	1,528,701	156,627	3,000,000	307,373
Orient Finance PLC	1,968,800	197,173	1,968,800	197,173	1,968,800	197,173	1,968,800	197,173
Richard Pieris and Company PLC	2,111,400	217,127	5,353,500	550,326	2,111,400	217,127	5,353,500	550,326
Singer (Sri Lanka) PLC	4,672,900	482,582	9,598,100	997,423	4,672,900	482,582	9,598,100	997,423
Singer Finance (Lanka) PLC	2,902,500	319,130	4,435,230	478,005	2,902,500	319,130	4,435,230	478,005
Softlogic Finance PLC	2,123,400	217,692	3,223,400	330,465	2,123,400	217,692	3,223,400	330,465
Central Finance Company PLC	–	–	2,084,400	300,475	–	–	2,084,400	300,475
Lion Brewery (Ceylon) PLC	–	–	200,000	206,286	–	–	200,000	206,286
Mercantile Investments and Finance PLC	–	–	418,650	42,551	–	–	418,650	42,551
Nawaloka Hospitals PLC	–	–	2,290,000	237,167	–	–	2,290,000	237,167
People's Leasing & Finance PLC	–	–	328,800	36,045	–	–	328,800	36,045
Subtotal		5,952,635		8,045,593		5,952,635		8,045,593

As per SLFRS 9, the above debentures are classified as financial assets at amortised cost-debt and other financial instruments since the investments are held within a business model whose objective is to hold assets to contractual cash flows.

However, under LKAS 39, the debentures were classified under financial investments – Loans and receivables due to the absence of an active market.

36.3 Trust certificates

As at December 31,	GROUP 2018 Carrying value Rs. '000	GROUP 2017 Carrying value Rs. '000	BANK 2018 Carrying value Rs. '000	BANK 2017 Carrying value Rs. '000
Richard Pieris Arpico Finance Ltd.	680,203	49,976	680,203	49,976
People's Leasing Company PLC	–	48,111	–	48,111
Subtotal	680,203	98,087	680,203	98,087

36.4 Corporate investments in Bangladesh

As at December 31,	GROUP 2018 Carrying value Rs. '000	GROUP 2017 Carrying value Rs. '000	BANK 2018 Carrying value Rs. '000	BANK 2017 Carrying value Rs. '000
Price bonds	**1,481**	2,095	**1,481**	2,095
Subtotal	**1,481**	**2,095**	**1,481**	**2,095**

37. Financial assets measured at fair value through other comprehensive income/financial investments – Available for sale

As per SLFRS 9, this comprises debt instruments measured at FVOCI and equity instruments designated at FVOCI.

Debt instruments at FVOCI

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated at FVTPL:

- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and foreign exchange gains and losses and ECL and reversals are recognised in profit or loss. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

These instruments comprise Government Securities that had previously been classified as available for sale and SLDB investments classified as Loans and receivables under LKAS 39.

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 as other operating income when the right of the payment has been established. Equity instruments at FVOCI are not subject to an impairment assessment.

These instruments comprise quoted and unquoted shares that had been previously classified as Available for sale under LKAS 39.

As per LKAS 39, Available-for-sale financial investments included equity and debt securities. Equity investments classified as available for sale were those which were neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category were intended to be held for an indefinite period of time and may be sold in response to needs for liquidity or in response to changes in the market conditions.

The Group had not designated any loans or receivables as available for sale. After initial measurement, available-for-sale financial investments are subsequently measured at fair value.

Unrealised gains and losses were recognised in Equity through OCI in the "Available-for-sale reserve". When these financial investments were disposed, the cumulative gain or loss previously recognised in Equity was recycled to profit or loss through "Operating income". Interest earned while holding available-for-sale financial investments was reported as "Interest income" using the EIR. Dividend earned while holding available-for-sale financial investments were recognised in the Income Statement as "Operating income" when the right to receive the payment had been established. The losses arising from impairment of such investments were recognised in the Income Statement in "Impairment charges and other losses" and removed from the "Available-for-sale reserve".

As at December 31,	Note	Page No.	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000	BANK 2018 Rs. '000	BANK 2017 Rs. '000
Government Securities						
Government Securities – Sri Lanka	37.1	251	**177,111,812**	154,366,556	**176,858,054**	154,167,169
Less: Provision for impairment	37.2	251	**595,694**	–	**595,694**	–
			176,516,118	154,366,556	**176,262,360**	154,167,169
Equity securities			**244,493**	547,087	**244,369**	546,963
Quoted shares – (Market value)	37.3 (a) & 37.4 (a)	252 & 253	**195,149**	500,278	**195,149**	500,278
Unquoted shares	37.3 (b) & 37.4 (b)	252 & 254	**49,344**	46,809	**49,220**	46,685
Total			**176,760,611**	154,913,643	**176,506,729**	154,714,132

The maturity analysis of financial assets measured at fair value through other comprehensive income/financial Investments – Available for sale is given in Note 62 on pages 307 to 309.

37.1 Government Securities

As at December 31,	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000	BANK 2018 Rs. '000	BANK 2017 Rs. '000
Treasury bills	**21,770,401**	15,367,792	**21,516,643**	15,168,405
Treasury bonds	**73,941,454**	136,195,443	**73,941,454**	136,195,443
Sri Lanka sovereign bonds	**21,865,496**	2,803,321	**21,865,496**	2,803,321
Sri Lanka development bonds (*)	**59,534,461**	–	**59,534,461**	–
Subtotal	**177,111,812**	154,366,556	**176,858,054**	154,167,169

(*) Sri Lanka development bonds investment has been reclassified from "Financial investments – Loans and receivables" to "Financial assets measured at fair value through other comprehensive income" w.e.f. January 1, 2018.

37.2 Movement in provision for impairment during the year

	Note	Page No.	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000	BANK 2018 Rs. '000	BANK 2017 Rs. '000
Movement in Stage 1 Impairment						
Balance as at January 1,	12.2	200	**194,256**	–	**194,256**	–
Charge/(write back) to the income statement	19.1 & 19.2	212	**401,438**	–	**401,438**	–
Balance as at December 31,			**595,694**	–	**595,694**	–

37.3 Equity securities – 2018

37.3 (a) Equity securities (quoted) – As at December 31, 2018

	GROUP				BANK			
	No. of shares	Market price Rs.	Market value Rs. '000	Cost of investment Rs. '000	No. of shares	Market price Rs.	Market value Rs. '000	Cost of investment Rs. '000
Sector/type of securities								
Quoted shares:								
Bank, Finance and Insurance								
DFCC Bank PLC	3,496	93.00	325	155	3,496	93.00	325	155
Hatton National Bank PLC	12,202	214.00	2,611	337	12,202	214.00	2,611	337
Nations Trust Bank PLC	1,367	89.20	122	25	1,367	89.20	122	25
National Development Bank PLC	5,826	106.80	622	215	5,826	106.80	622	215
Sampath Bank PLC	6,209	235.00	1,459	327	6,209	235.00	1,459	327
Seylan Bank PLC	1,060	78.00	83	24	1,060	78.00	83	24
Subtotal			5,222	1,083			5,222	1,083
Land and Property								
RIL Property PLC	26,128,266	6.90	180,285	209,026	26,128,266	6.90	180,285	209,026
Subtotal			180,285	209,026			180,285	209,026
Manufacturing								
Alumex PLC	714,200	13.50	9,642	9,999	714,200	13.50	9,642	9,999
Subtotal			9,642	9,999			9,642	9,999
Total			195,149	220,108			195,149	220,108

37.3 (b) Equity securities (unquoted) – As at December 31, 2018

	GROUP				BANK			
	No. of shares	Market price Rs.	Market value Rs. '000	Cost of investment Rs. '000	No. of shares	Market price Rs.	Market value Rs. '000	Cost of investment Rs. '000
Sector/Type of securities								
Unquoted shares:								
Bank, Finance and Insurance								
Central Depository of Bangladesh Ltd.	3,427,083	BDT 2.75	20,651	20,651	3,427,083	BDT 2.75	20,651	20,651
Credit Information Bureau of Sri Lanka	5,637	100.00	564	564	4,400	100.00	440	440
LankaClear (Pvt) Ltd.	1,000,000	10.00	10,000	10,000	1,000,000	10.00	10,000	10,000
Lanka Financial Services Bureau Ltd.	225,000	10.00	2,250	2,250	225,000	10.00	2,250	2,250
Lanka Ratings Agency Ltd.	689,590	12.50	8,620	8,620	689,590	12.50	8,620	8,620
Society for Worldwide Interbank Financial Telecommunication (SWIFT)	47	EUR 841.90	7,259	7,259	47	EUR 841.90	7,259	7,259
Total			49,344	49,344			49,220	49,220

37.3 (c) Sector/industry composition of equity securities – As at December 31, 2018

Sector/Industry	GROUP Market value Rs. '000	GROUP Cost of investment Rs. '000	BANK Market value Rs. '000	BANK Cost of investment Rs. '000
Bank, Finance and Insurance	**54,566**	**50,427**	**54,442**	**50,303**
Land and property	**180,285**	**209,026**	**180,285**	**209,026**
Manufacturing	**9,642**	**9,999**	**9,642**	**9,999**
Total	**244,493**	**269,452**	**244,369**	**269,328**

37.4 Equity securities – 2017

37.4 (a) Equity securities (quoted) – As at December 31, 2017

	GROUP No. of shares	GROUP Market price Rs.	GROUP Market value Rs. '000	GROUP Cost of investment Rs. '000	BANK No. of shares	BANK Market price Rs.	BANK Market value Rs. '000	BANK Cost of investment Rs. '000
Sector/type of securities								
Quoted shares:								
Bank, Finance and Insurance								
DFCC Bank PLC	3,496	122.80	429	155	3,496	122.80	429	155
Hatton National Bank PLC	11,950	249.00	2,976	315	11,950	249.00	2,976	315
Nations Trust Bank PLC	1,333	78.00	104	22	1,333	78.00	104	22
National Development Bank PLC	5,424	136.40	740	215	5,424	136.40	740	215
Sampath Bank PLC	4,600	315.70	1,452	72	4,600	315.70	1,452	72
Seylan Bank PLC	1,015	87.20	89	24	1,015	87.20	89	24
VISA Inc. (*)	19,424	USD 114.02	340,182	–	19,424	USD 114.02	340,182	–
Subtotal			345,972	803			345,972	803
Land and Property								
RIL Property PLC	19,596,200	7.20	141,093	156,770	19,596,200	7.20	141,093	156,770
Subtotal			141,093	156,770			141,093	156,770
Manufacturing								
Alumex PLC	714,200	18.50	13,213	9,999	714,200	18.50	13,213	9,999
Subtotal			13,213	9,999			13,213	9,999
Total			500,278	167,572			500,278	167,572

** Investment in VISA Inc. has been reclassified from "financial investments – Available-for-sale" to "Financial assets recognised through profit or loss" w.e.f. January 1, 2018.*

37.4 (b) Equity securities (unquoted) – As at December 31, 2017

	GROUP				BANK			
	No. of shares	Market price Rs.	Market value Rs. '000	Cost of investment Rs. '000	No. of shares	Market price Rs.	Market value Rs. '000	Cost of investment Rs. '000
Sector/type of securities								
Unquoted shares:								
Bank, Finance and Insurance								
Central Depository of Bangladesh Ltd.	3,427,083	BDT 2.75	17,491	17,491	3,427,083	BDT 2.75	17,491	17,491
Credit Information Bureau of Sri Lanka	5,637	100.00	564	564	4,400	100.00	440	440
Fitch Rating Lanka Ltd.	62,500	10.00	625	625	62,500	10.00	625	625
LankaClear (Pvt) Ltd.	1,000,000	10.00	10,000	10,000	1,000,000	10.00	10,000	10,000
Lanka Financial Services Bureau Ltd.	225,000	10.00	2,250	2,250	225,000	10.00	2,250	2,250
Lanka Ratings Agency Ltd.	689,590	12.50	8,620	8,620	689,590	12.50	8,620	8,620
Society for Worldwide Interbank Financial Telecommunication (SWIFT)	47	EUR 841.90	7,259	7,259	47	EUR 841.90	7,259	7,259
Total			46,809	46,809			46,685	46,685

37.4 (c) Sector/industry composition of equity securities – As at December 31, 2017

	GROUP		BANK	
Sector/Industry	Market value Rs. '000	Cost of investment Rs. '000	Market value Rs. '000	Cost of investment Rs. '000
Bank, Finance and Insurance	392,781	47,612	392,657	47,488
Land and property	141,093	156,770	141,093	156,770
Manufacturing	13,213	9,999	13,213	9,999
Total	547,087	214,381	546,963	214,257

38. Investments in subsidiaries

Subsidiaries are investees controlled by the Group. The Group "controls" an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group reassesses whether it has control if there are changes to one or more of the elements of control. This includes circumstances in which protective rights held (e.g. those resulting from a lending relationship) become substantive and lead to the Group having power over an investee.

The cost of an acquisition is measured at fair value of the consideration, including contingent consideration. The acquired identifiable assets, liabilities and contingent liabilities are measured at their fair values at the date of acquisition. Subsequent to the initial measurement the Bank continues to recognise the investments in subsidiaries at cost.

The Financial Statements of subsidiaries are included in the Consolidated Financial Statements from the date on which control commences until the date when control ceases.

The Financial Statements of all subsidiaries in the Group have a common financial year which ends on December 31, except for the Serendib Finance Ltd., and CBC Myanmar Microfinance Company Limited, whose financial year ends on March 31. The Financial Statements of the Bank's subsidiaries are prepared using consistent accounting policies.

The reason for using a different reporting date by the Serendib Finance Ltd., is due to the requirement imposed by the Central Bank of Sri Lanka for licensed finance companies to publish their key financial data and key performance indicators for a 12-month period ending March 31 and 6-month period ending September 30, every year, in accordance with the format prescribed by the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka. Similarly, the financial year of CBC Myanmar Microfinance Company Limited ends on March 31, due to requirements imposed by the Financial Regulatory Department of Myanmar.

All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions, income and expenses are eliminated in full.

There are no significant restrictions on the ability of subsidiaries to transfer funds to the Parent (the Bank) in the form of cash dividend or repayment of loans and advances.

All subsidiaries of the Bank have been incorporated in Sri Lanka except Commex Sri Lanka S.R.L., Commercial Bank of Maldives Private Limited and CBC Myanmar Microfinance Company Limited which were incorporated in Italy, Republic of Maldives and Myanmar respectively.

As at December 31,	Note	Page No.	Holding (****) %	GROUP 2018 Cost Rs. '000	GROUP 2018 Market value/ Directors' valuation Rs. '000	GROUP 2017 Cost Rs. '000	GROUP 2017 Market value/ Directors' valuation Rs. '000	BANK 2018 Cost Rs. '000	BANK 2018 Market value/ Directors' valuation Rs. '000	BANK 2017 Cost Rs. '000	BANK 2017 Market value/ Directors' valuation Rs. '000
Local subsidiaries:											
Quoted:											
Commercial Development Company PLC (*)			92.41	–	–	–	–	268,203	777,388	269,821	780,963
(11,089,705 Ordinary shares)									(@ Rs.70.10)		(@ Rs.70.00)
(11,156,619 Ordinary shares as at December 31, 2017)			(92.97 in 2017)								
Unquoted:											
ONEzero Company Ltd.			100	–	–	–	–	5,000	5,000	5,000	5,000
(500,001 Ordinary shares)									(@ Rs.10.00)		(@ Rs.10.00)
(500,001 Ordinary shares as at December 31, 2017)											
Unquoted:											
Serendib Finance Ltd.			100	–	–	–	–	2,616,046	2,616,046	1,616,046	1,616,046
(138,978,909 Ordinary shares)											
(53,352,686 Ordinary shares as at December 31, 2017)											
Foreign subsidiaries:											
Unquoted:											
Commex – Sri Lanka S.R.L. (incorporated in Italy) (**)			100	–	–	–	–	131,725	88,948	112,400	69,622
(300,000 Ordinary shares) (300,000 Ordinary shares as at December 31, 2017)											
Commercial Bank of Maldives Private Limited			55	–	–	–	–	984,707	984,707	1,040,934	1,040,934
(104,500 Ordinary shares)											
(104,500 Ordinary shares as at December 31, 2017)											
CBC Myanmar Microfinance Co. Limited (***)			100	–	–	–	–	300,728	300,728	64,512	64,512
(1,920,000 Ordinary shares)											
(420,000 Ordinary shares as at December 31, 2017)											
Gross Total				–	–	–	–	4,306,409	4,772,817	3,108,713	3,577,077
Provision for impairment	38.1	256						(42,778)	–	(42,778)	–
Net total				–	–	–	–	4,263,631	4,772,817	3,065,935	3,577,077

(*) During 2015 the Board of Directors of the Bank resolved to reduce the shareholding of Commercial Development Company PLC, (in which the Bank originally had a stake of 94.55%) to comply with the requirements of the Listing Rule No. 7.13 of the Colombo Stock Exchange on Minimum Public Holding. Accordingly, the Bank disposed 256,000 shares since November 2015 through the Colombo Stock Exchange and reduced the shareholding in the above Company to 92.41% by December 31, 2018 and is in the process of taking steps to dispose the required number of shares to adhere to the requirements of the Listing Rules.

Consequent to the above disposal, ownership interests of the Bank has changed while retaining control. As per SLFRS 10 on "Consolidated Financial Statements", changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control are equity transactions and hence, the resulting gain/loss is recognised in equity.

(**)The investment made in Commex Sri Lanka S.R.L. Italy has been written down to account for pre-operational expenses.

(***)The CBC Myanmar Microfinance Company Limited was incorporated in 2017 as a fully-owned subsidiary in Myanmar. The Bank obtained a licence from the Myanmar Microfinance Supervisory Enterprise to operate a non-saving deposit organisation.

(****) Unless otherwise indicated, holding percentage remains unchanged from 2017 to 2018.

The maturity analysis of investment in subsidiaries is given in Note 62 on pages 307 to 309.

38.1 Movement in provision for impairment o/a subsidiaries during the year

	Note	Page No.	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000	BANK 2018 Rs. '000	BANK 2017 Rs. '000
Balance as at January 1,			–	–	**42,778**	165,940
Charge/(write back) to the income statement	19	208	–	–	–	(42,484)
Pre-operational expenses written-off o/a Commex Sri Lanka S.R.L. – Italy				–	–	(80,678)
Balance as at December 31,			–	–	**42,778**	42,778

39. Investments in associates

Associates are those entities in which the Group has significant influence, but not control, over the variable returns through its power over the investee. Significant influence is presumed to exist when the Group holds 20% or more of the voting power of another entity.

Investments in associates are accounted for using the equity method and are recognised initially at cost, in terms of Sri Lanka Accounting Standards – LKAS 28 on "Investments in Associates and Joint Ventures". The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The Consolidated Financial Statements include the Group's share of the income and expenses and equity movements of equity-accounted investees, after adjustments to align the Accounting Policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. Accordingly, under the Equity Method, investments in associates are carried at cost plus post-acquisition changes in the Group's share of net assets of the associates and are reported as a separate line item in the Statement of Financial Position. The income statement reflects the Group's share of the results of operations of the associates. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in Equity through OCI. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in associate.

When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equal the share of losses not recognised previously.

The Group discontinues the use of the Equity Method from the date that it ceases to have significant influence over an associate and accounts for such investments in accordance with the Sri Lanka Accounting Standard – SLFRS 9 on "Financial Instruments.

Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

After application of the Equity Method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and recognises the loss as "Share of profit of Associate" in the income statement.

In the separate financial statements, Investment in associates are accounted at cost.

As at December 31,	Incorporation and operation	Ownership interest %	No. of shares	2018 Cost Rs. '000	2018 Carrying value Rs. '000	2017 Cost Rs. '000	2017 Carrying value Rs. '000
Equity Investments Lanka Ltd.	Sri Lanka	22.92	4,110,938	**44,331**	**58,102**	44,331	66,528
Commercial Insurance Brokers (Pvt) Ltd.	Sri Lanka	18.48*	120,000	**100**	**47,218**	100	43,316
				44,431	**105,320**	44,431	109,844

(*) 20% stake of Commercial Insurance Brokers (Pvt) Ltd., is held by Commercial Development Company PLC, a 92.41% owned subsidiary of the Bank, which is listed on the Colombo Stock Exchange. The Bank has a significant influence over financial and operating activities of Commercial Insurance Brokers (Pvt) Ltd., though it effectively holds only 18.48%. as at December 31, 2018 (18.59% as at December 31, 2017).

39.1 Reconciliation of summarised financial information

Reconciliation of the summarised financial information to the carrying amount of the interest in associates recognised in the Consolidated Financial Statements is as follows:

	2018			2017		
	Equity Investments Lanka Ltd. Rs. '000	Commercial Insurance Brokers (Pvt) Ltd. Rs. '000	Total Rs. '000	Equity Investments Lanka Ltd. Rs. '000	Commercial Insurance Brokers (Pvt) Ltd. Rs. '000	Total Rs. '000
Cost of investments	**44,331**	**100**	**44,431**	44,331	100	44,431
Add: Share of profit applicable to the Group						
Investment in associate – As at January 1,	**22,197**	**43,216**	**65,413**	24,290	40,138	64,428
Total comprehensive income	**(8,426)**	**6,042**	**(2,384)**	2,018	5,186	7,204
Profit/(loss) for the period recognised in income statement, net of tax	**(55)**	**6,103**	**6,048**	(1,539)	5,217	3,678
Profit or loss and other comprehensive income, net of tax	**(8,371)**	**(61)**	**(8,432)**	3,557	(31)	3,526
Movement due to change in equity	**–**	**(281)**	**(281)**	–	(419)	(419)
Transactions which are recorded directly in equity	**–**	**–**	**–**	–	–	–
Dividend received	**–**	**(1,859)**	**(1,859)**	(4,111)	(1,689)	(5,800)
Balance as at December 31,	**58,102**	**47,218**	**105,320**	66,528	43,316	109,844

39.2 Summarised financial information in respect of associates is set out below:

39.2 (a) Summarised income statement

For the year ended December 31,	2018			2017		
	Equity Investments Lanka Ltd. Rs. '000	Commercial Insurance Brokers (Pvt) Ltd. Rs. '000	Total Rs. '000	Equity Investments Lanka Ltd. Rs. '000	Commercial Insurance Brokers (Pvt) Ltd. Rs. '000	Total Rs. '000
Revenue	**23,265**	**294,872**	**318,137**	21,048	274,885	295,933
Expenses	**(22,425)**	**(243,439)**	**(265,864)**	(27,159)	(230,556)	(257,715)
Income Tax	**(1,081)**	**(18,605)**	**(19,686)**	(605)	(15,618)	(16,223)
Profit from continuing operations, net of tax	**(241)**	**32,828**	**32,587**	(6,716)	28,711	21,995
Group's share of profit from continuing operations, net of tax	**(55)**	**6,103**	**6,048**	(1,539)	5,217	3,678
Other comprehensive income, net of tax	**(36,522)**	**(327)**	**(36,849)**	15,519	(166)	15,353
Group's share of other comprehensive income from continuing operations, net of tax	**(8,371)**	**(61)**	**(8,432)**	3,557	(31)	3,526
Share of results of equity accounted investee recognised in income statement and Statement of Profit or Loss and Other Comprehensive Income	**(8,426)**	**6,042**	**(2,384)**	2,018	5,186	7,204

39.2 (b) Summarised Statement of Financial Position

As at December 31,	2018		2017	
	Equity Investments Lanka Ltd. Rs. '000	Commercial Insurance Brokers (Pvt) Ltd. Rs. '000	Equity Investments Lanka Ltd. Rs. '000	Commercial Insurance Brokers (Pvt) Ltd. Rs. '000
Non-current assets	161,215	144,361	202,474	138,530
Current assets	96,838	199,648	97,902	165,034
Non-current liabilities	(1,810)	(27,235)	(1,448)	(23,485)
Current liabilities	(2,743)	(61,267)	(8,672)	(47,072)
Net assets	253,500	255,507	290,256	233,007
Group's share of net assets	58,102	47,218	66,528	43,316
Less: Unrealised profits	–	–	–	–
Carrying amount of interest in associates	58,102	47,218	66,528	43,316

The Group recognises the share of net assets of the associates under the Equity Method to arrive at the Directors' valuation.

The maturity analysis of Investments of Associates is given in Note 62 on pages 307 and 309.

40. Property, plant and equipment

The Group applies the requirements of the Sri Lanka Accounting Standard – LKAS 16 on "Property, plant and equipment" in accounting for its owned assets (including buildings under operating leases where the Group is the lessor) which are held for and used in the provision of services, for rental to others or for administrative purposes and are expected to be used for more than one year.

Basis of recognition

Property, plant and equipment is recognised if it is probable that future economic benefits associated with the asset will flow to the Group and cost of the asset can be reliably measured.

Basis of measurement

An item of property, plant and equipment that qualifies for recognition as an asset is initially measured at its cost. Cost includes expenditure that is directly attributable to the acquisition of the asset and subsequent costs (excluding the costs of day-to-day servicing) as explained in note below. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use and the costs of dismantling and removing the items and restoring the site on which they are located and capitalised borrowing costs. Purchased software which is integral to the functionality of the related equipment is capitalised as part of Computer Equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

- Cost model

  The Group applies the Cost Model to all property, plant and equipment except freehold land and freehold 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 and 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 and buildings of the Group are revalued by independent professional valuers every three years or more frequently if the fair values are substantially different from carrying amounts, to ensure that the carrying amounts do not differ from the fair values as at the reporting date. The next revaluation exercise on the freehold land and buildings of the Bank will be carried out on or before December 31, 2020.

  On revaluation of an asset, any increase in the carrying amount is recognised in Revaluation Reserve in Equity through OCI or used to reverse a previous loss on revaluation of the same asset, which was charged to the income statement. In this circumstance, the increase is recognised as income only to the extent of the amounts written down previously . Any decrease in the carrying amount is recognised as an expense in the income statement or charged to Revaluation Reserve in Equity through OCI, only to the extent of any credit balance existing in the Revaluation Reserve in respect of that asset. Any balance remaining in the Revaluation Reserve in respect of an asset, is transferred directly to Retained Earnings on retirement or disposal of the asset

  The Group revalued all its freehold land and freehold and leasehold buildings as at December 31, 2017. Methods and significant assumptions including unobservable market inputs employed in estimating the fair value together with the sensitivity of same are given in Note 40.5 (b) and Note 40.5 (c).

  The Bank carried out a revaluation of all its freehold land and buildings as at December 31, 2017 as required by Section 7.1 (b) of the Direction No. 01 of 2014 on "Valuation of Immovable Property of Licensed Commercial Banks" issued by the CBSL and recognised the revaluation gains/(losses) in the Financial Statements.

Subsequent expenditure

Subsequent expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the Group. Ongoing repairs and maintenance are expensed as incurred.

Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset), is recognised in "Net other operating income" in profit or loss in the year the asset is derecognised.

When replacement costs are recognised in the carrying amount of an item of property, plant and equipment, the remaining carrying amount of the replaced part is derecognised as required by Sri Lanka Accounting Standard – LKAS 16 on "Property, plant and equipment".

Capital work-in-progress

These are expenses of capital nature directly incurred in the construction of buildings, major plant and machinery and system development, awaiting capitalisation. These are stated in the Statement of Financial Position at cost less any accumulated impairment losses. Capital work-in-progress is transferred to the relevant asset when it is in the location and condition necessary for it to be capable of operating in the manner intended by Management (i.e., available for use).

40.1 Group – 2018

	Note	Page No.	Freehold land Rs. '000	Freehold buildings Rs. '000	Leasehold buildings Rs. '000	Computer equipment Rs. '000	Motor vehicles Rs.'000	Office equipment, furniture and fixtures Rs. '000	Capital work-in-progress Rs. '000	**Total 2018 Rs. '000**	Total 2017 Rs. '000
Cost/valuation											
Balance as at January 1,			7,362,729	4,198,028	1,332,104	4,983,219	353,334	5,811,340	177,440	**24,218,194**	18,861,131
Additions/transfers during the year			102,916	4,162	720	1,039,612	177,210	603,155	153,227	**2,081,002**	2,163,733
Transfer of accumulated depreciation on assets revalued			–	–	–	–	–	–	–	**–**	(356,903)
Surplus on revaluation of property			–	–	–	–	–	–	–	**–**	3,845,981
Disposals during the year			–	–	–	(98,158)	(59,437)	(138,500)	(21)	**(296,116)**	(284,381)
Exchange rate variance			–	–	–	34,006	9,401	87,955	–	**131,362**	(11,367)
Transfers/adjustments			–	92,065	(92,065)	(1,200)	–	–	–	**(1,200)**	–
Balance as at December 31,			7,465,645	4,294,255	1,240,759	5,957,479	480,508	6,363,950	330,646	**26,133,242**	24,218,194
Accumulated depreciation and impairment losses											
Balance as at January 1,			–	1,701	50,447	3,506,201	253,608	4,089,193	–	**7,901,150**	7,291,465
Charge for the year	21	213	–	154,847	34,620	556,860	48,812	588,442	–	**1,383,581**	1,185,698
Impairment loss			–	–	–	–	–	–	–	**–**	–
Transfer of accumulated depreciation on assets revalued			–	–	–	–	–	–	–	**–**	(356,903)
Disposals during the year			–	–	–	(97,384)	(38,361)	(129,959)	–	**(265,704)**	(207,575)
Exchange rate variance			–	–	–	26,524	9,881	62,647	–	**99,052**	(11,535)
Transfers/adjustments			–	37,084	(37,084)	(73)	–	–	–	**(73)**	–
Balance as at December 31,			–	193,632	47,983	3,992,128	273,940	4,610,323	–	**9,118,006**	7,901,150
Net book value as at December 31, 2018			7,465,645	4,100,623	1,192,776	1,965,351	206,568	1,753,627	330,646	**17,015,236**	
Net book value as at December 31, 2017			7,362,729	4,196,327	1,281,657	1,477,018	99,726	1,722,147	177,440		16,317,044

40.2 Group – 2017

	Note	Page No.	Freehold land Rs. '000	Freehold buildings Rs. '000	Leasehold buildings Rs. '000	Computer equipment Rs. '000	Motor vehicles Rs.'000	Office equipment, furniture and fixtures Rs. '000	Capital work-in-progress Rs. '000	Total 2017 Rs. '000	Total 2016 Rs. '000
Cost/valuation											
Balance as at January 1,			4,914,283	3,014,202	1,083,368	4,265,073	349,833	5,190,415	43,957	18,861,131	17,730,795
Additions/transfers during the year			306,932	74,797	71,292	798,192	22,107	752,372	138,041	2,163,733	1,501,070
Transfer of accumulated depreciation on assets revalued			–	(282,656)	(74,247)	–	–	–	–	(356,903)	–
Surplus on revaluation of property			2,175,514	1,418,299	252,168	–	–	–	–	3,845,981	–
Disposals during the year			(34,000)	(21,263)	–	(76,893)	(17,230)	(130,437)	(4,558)	(284,381)	(390,405)
Exchange rate variance			–	–	–	(3,153)	(1,376)	(6,838)	–	(11,367)	19,671
Transfers/adjustments			–	(5,351)	(477)	–	–	5,828	–	–	–
Balance as at December 31,			7,362,729	4,198,028	1,332,104	4,983,219	353,334	5,811,340	177,440	24,218,194	18,861,131
Accumulated depreciation and impairment losses											
Balance as at January 1,			–	185,414	92,183	3,121,246	229,322	3,663,300	–	7,291,465	6,549,362
Charge for the year	21	213	–	101,848	32,513	459,910	42,892	548,535	–	1,185,698	1,093,088
Impairment loss			–	–	–	–	–	–	–	–	–
Transfer of accumulated depreciation on assets revalued			–	(282,656)	(74,247)	–	–	–	–	(356,903)	–
Disposals during the year			–	(2,850)	–	(72,861)	(17,230)	(114,634)	–	(207,575)	(368,632)
Exchange rate variance			–	–	–	(3,203)	(1,376)	(6,956)	–	(11,535)	17,647
Transfers/adjustments			–	(55)	(2)	1,109	–	(1,052)	–	–	–
Balance as at December 31,			–	1,701	50,447	3,506,201	253,608	4,089,193	–	7,901,150	7,291,465
Net book value as at December 31, 2017			7,362,729	4,196,327	1,281,657	1,477,018	99,726	1,722,147	177,440	16,317,044	
Net book value as at December 31, 2016			4,914,283	2,828,788	991,185	1,143,827	120,511	1,527,115	43,957		11,569,666

There were no capitalised borrowing cost related to the acquisition of property, plant and equipment during the year 2018 (2017 – Nil).

The carrying amount of Group's revalued assets that would have been included in the Financial Statements had the assets been carried at cost less depreciation/amortisation is as follows:

As at December 31,	2018			2017		
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Class of asset						
Freehold land	**1,131,986**	**–**	**1,131,986**	951,487	–	951,487
Freehold buildings	**1,693,921**	**449,795**	**1,244,126**	1,602,138	407,082	1,195,056
Leasehold buildings	**329,750**	**291,584**	**38,166**	421,815	286,829	134,986
Total	**3,155,657**	**741,379**	**2,414,278**	2,975,440	693,911	2,281,529

40.3 Bank – 2018

	Note	Page No.	Freehold land	Freehold buildings	Leasehold buildings	Computer equipment	Motor vehicles	Office equipment, furniture and fixtures	Capital work-in-progress	**Total 2018**	Total 2017
			Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
Cost/valuation											
Balance as at January 1,			7,144,134	4,073,978	192,102	4,937,841	124,853	5,691,860	173,454	**22,338,222**	17,374,681
Additions/transfers during the year			99,276	4,162	–	1,034,115	67,576	578,976	153,227	**1,937,332**	1,959,075
Transfer of accumulated depreciation on assets revalued			–	–	–	–	–	–	–	**–**	(277,190)
Surplus on revaluation of property			–	–	–	–	–	–	–	**–**	3,542,214
Disposals during the year			–	–	–	(97,495)	(655)	(136,980)	(21)	**(235,151)**	(246,416)
Exchange rate variance			–	–	–	29,662	9,401	71,386	–	**110,449**	(14,142)
Transfers/adjustments			–	92,065	(92,065)	(1,200)	–	–	–	**(1,200)**	–
Balance as at December 31,			7,243,410	4,170,205	100,037	5,902,923	201,175	6,205,242	326,660	**24,149,652**	22,338,222
Accumulated depreciation and impairment losses											
Balance as at January 1,			–	–	50,445	3,486,636	114,223	4,052,208	–	**7,703,512**	7,066,856
Charge for the year	21	213	–	152,043	2,934	548,794	10,748	564,859	–	**1,279,378**	1,097,096
Impairment loss			–	–	–	–	–	–	–	**–**	–
Transfer of accumulated depreciation on assets revalued			–	–	–	–	–	–	–	**–**	(277,190)
Disposals during the year			–	–	–	(96,721)	(655)	(128,779)	–	**(226,155)**	(169,990)
Exchange rate variance			–	–	–	24,960	9,881	56,903	–	**91,744**	(13,260)
Transfers/adjustments			–	37,084	(37,084)	(73)	–	–	–	**(73)**	–
Balance as at December 31,			–	189,127	16,295	3,963,596	134,197	4,545,191	–	**8,848,406**	7,703,512
Net book value as at December 31, 2018			7,243,410	3,981,078	83,742	1,939,327	66,978	1,660,051	326,660	**15,301,246**	
Net book value as at December 31, 2017			7,144,134	4,073,978	141,657	1,451,205	10,630	1,639,652	173,454		14,634,710

40.4 Bank – 2017

	Note	Page No.	Freehold land Rs. '000	Freehold buildings Rs. '000	Leasehold buildings Rs. '000	Computer equipment Rs. '000	Motor vehicles Rs. '000	Office equipment – furniture and fixtures Rs. '000	Capital work-in-progress Rs. '000	Total 2017 Rs. '000	Total 2016 Rs. '000
Cost/valuation											
Balance as at January 1,			4,797,273	2,912,283	192,473	4,226,605	123,882	5,082,194	39,971	17,374,681	16,343,864
Additions/transfers during the year			229,349	74,797	106	791,165	2,347	723,270	138,041	1,959,075	1,369,729
Transfer of accumulated depreciation on assets revalued			–	(277,190)	–	–	–	–	–	(277,190)	–
Surplus on revaluation of property			2,151,512	1,390,702	–	–	–	–	–	3,542,214	–
Disposals during the year			(34,000)	(21,263)	–	(76,284)	–	(110,311)	(4,558)	(246,416)	(358,526)
Exchange rate variance			–	–	–	(3,645)	(1,376)	(9,121)	–	(14,142)	19,614
Transfers/adjustments			–	(5,351)	(477)	–	–	5,828	–	–	–
Balance as at December 31,			7,144,134	4,073,978	192,102	4,937,841	124,853	5,691,860	173,454	22,338,222	17,374,681
Accumulated depreciation and impairment losses											
Balance as at January 1			–	180,665	44,659	3,108,029	107,331	3,626,172	–	7,066,856	6,374,879
Charge for the year	21	213	–	99,430	5,788	453,049	8,268	530,561	–	1,097,096	1,022,648
Impairment loss			–	–	–	–	–	–	–	–	–
Transfer of accumulated depreciation on assets revalued			–	(277,190)	–	–	–	–	–	(277,190)	–
Disposals during the year			–	(2,850)	–	(72,281)	–	(94,859)	–	(169,990)	(348,273)
Exchange rate variance			–	–	–	(3,270)	(1,376)	(8,614)	–	(13,260)	17,602
Transfers/adjustments			–	(55)	(2)	1,109	–	(1,052)	–	–	–
Balance as at December 31,			–	–	50,445	3,486,636	114,223	4,052,208	–	7,703,512	7,066,856
Net book value as at December 31, 2017			7,144,134	4,073,978	141,657	1,451,205	10,630	1,639,652	173,454	14,634,710	
Net book value as at December 31, 2016			4,797,273	2,731,618	147,814	1,118,576	16,551	1,456,022	39,971		10,307,825

There were no capitalised borrowing cost related to the acquisition of property, plant and equipment during the year 2018 (2017 – Nil).

The carrying amount of Bank's revalued assets that would have been included in the Financial Statements had the assets been carried at cost less depreciation/amortisation is as follows:

As at December 31,	2018			2017		
	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	**969,020**	**–**	**969,020**	869,744	–	869,744
Freehold buildings	**1,638,400**	**440,206**	**1,198,194**	1,542,173	399,003	1,143,170
Leasehold buildings	**98,138**	**59,972**	**38,166**	190,203	55,217	134,986
Total	**2,705,558**	**500,178**	**2,205,380**	2,602,120	454,220	2,147,900

The maturity analysis of Property, plant and equipment is given in Note 62 on pages 307 to 309.

40.5 (a) Information on freehold land and buildings of the Bank – Extents and locations

[As required by the Rule No. 7.6 (viii) of the "Continuing Listing Requirements" of the Colombo Stock Exchange]

Location	Extent (perches)	Buildings (square feet)	Revalued amounts land Rs. '000	Revalued amounts buildings Rs. '000	Net book value/ revalued amount Rs. '000	Net book value before revaluation Rs. '000
CEO's Bungalow – No. 27, Queens Road, Colombo 3	64	5,616	961,000	39,000	996,100	550,910
Holiday Bungalow – Bandarawela, Ambatenne Estate, Bandarawela	423	5,649	72,100	17,000	88,420	66,613
Holiday Bungalow – Haputale, No. 23, Lilly Avenue, Welimada Road, Haputale	258	5,662	41,200	21,300	61,435	43,650
Branch Buildings						
Battaramulla – No. 213, Kaduwela Road, Battaramulla	14	11,216	52,500	99,000	146,550	126,769
Battaramulla – No. 213, Kaduwela Road, Battaramulla	13	Bare Land	50,000	–	50,000	50,000
Borella – No. 92, D S Senanayake Mawatha, Borella, Colombo 8	16	16,880	196,000	216,000	403,360	333,711
City Office – No. 98, York Street, Colombo 01	–	24,599	–	–	42,985	–
Chilaw – No. 44, Colombo Road, Chilaw	35	9,420	91,754	42,390	133,084	98,672
Duplication Road – Nos. 405, 407, R A De Mel Mawatha, Colombo 03	20	4,194	220,400	10,000	229,377	231,814
Galewela – No. 49/57, Matale Road, Galewela	99	5,632	29,700	16,300	45,593	36,358
Galle City – No. 59, Wackwella Road, Galle	7	3,675	54,000	9,150	62,769	47,850
Galle Fort – No. 22, Church Street, Fort, Galle	100	11,625	255,650	45,000	299,525	247,000
Gampaha – No. 51, Queen Mary's Road, Gampaha	33	4,775	74,025	11,595	85,036	67,208
Hikkaduwa – No. 217, Galle Road, Hikkaduwa	37	7,518	35,670	27,780	62,633	49,184
Ja-Ela – No. 140, Negombo Road, Ja-Ela	13	7,468	33,000	26,000	58,257	48,091
Jaffna – No. 474, Hospital Road, Jaffna	78	Bare Land	1,000,000	–	1,000,000	581,000
Kandy – No. 120, Kotugodella Veediya, Kandy	45	44,500	396,000	256,600	643,436	560,250
Karapitiya – No. 89, Hirimbura Cross Road, Karapitiya	38	3,627	–	–	99,276	–
Kegalle – No. 186, Main Street, Kegalle	85	2,650	156,700	7,200	163,612	134,250
Keyzer Street – No. 32, Keyzer Street, Colombo 11	7	6,100	82,000	24,000	105,351	80,050
Kollupitiya – No. 285, Galle Road, Colombo 3	17	16,254	225,000	68,000	290,280	173,036
Kotahena – No. 198, George R De Silva Mawatha, Kotahena, Colombo 13	28	26,722	197,000	210,000	401,750	331,845
Kurunegala – No. 4, Suratissa Mawatha, Kurunegala	50	10,096	236,800	43,200	278,920	231,399
Maharagama – No. 154, High Level Road, Maharagama	18	8,440	93,000	47,000	138,120	82,619
Matale – No. 70, King Street, Matale	51	8,596	125,000	61,000	184,257	130,000
Matara – No. 18, Station Road, Matara	38	8,137	60,080	28,770	88,028	73,990
Minuwangoda – No. 9, Siriwardena Mawatha, Minuwangoda	25	5,550	56,250	17,483	73,150	47,541
Narahenpita – No. 201, Kirula Road, Narahenpita, Colombo 5	22	11,193	176,000	104,000	276,286	210,604
Narammala – No. 55, Negombo Road, Narammala	41	5,353	61,605	19,910	81,020	69,094
Negombo – Nos. 24, 26, Fernando Avenue, Negombo	37	11,360	136,000	36,000	170,560	100,280
Nugegoda – No. 100, Stanley Thilakaratne Mawatha, Nugegoda	39	11,150	150,000	60,000	207,600	193,925
Nuwara Eliya – No. 36/3, Buddha Jayanthi Mawatha, Nuwara Eliya	42	10,184	124,800	74,400	197,074	147,243
Panadura – No. 375, Galle Road, Panadura	12	6,168	36,900	42,400	77,180	64,828
Peliyagoda Stores – No. 37, New Nuge Road, Peliyagoda	–	14,676	–	–	9,143	–
Pettah – People's Park Shopping Complex, Colombo 11	–	3,147	–	67,000	64,320	50,091
Pettah Stores – People's Park Shopping Complex, Colombo 11	–	225	–	5,500	5,250	4,145
Pettah – Main Street – No. 280, Main Street, Pettah, Colombo 11	20	22,760	360,000	190,000	543,711	419,041
Trincomalee – No. 474, Power House Road, Trincomalee	100	Bare Land	100,000	–	100,000	90,300
Union Place – No. 1, Union Place, Colombo 2	30	63,385	500,000	1,000,000	1,460,000	1,119,643
Wellawatte – No. 343, Galle Road, Colombo 6	45	51,225	650,000	1,100,000	1,717,109	715,791
Wennappuwa – Nos. 262, 264, Colombo Road, Wennappuwa	36	9,226	54,000	31,000	83,931	67,103
Total			7,144,134	4,073,978	11,224,488	7,675,898

40.5 (b) Information on freehold land and buildings of the Bank – Valuations

[As required by the Rule No. 7.6 (viii) of the "Continuing Listing Requirements" of the Colombo Stock Exchange]

Date of valuation: December 31, 2017

Name of professional valuer/ location and address	Method of valuation and significant unobservable inputs	Range of estimates for unobservable inputs	Net book value before revaluation of		Revalued amount of		Revaluation gain/(loss) recognised on	
			Land Rs. '000	Buildings Rs. '000	Land Rs. '000	Buildings Rs. '000	Land Rs. '000	Buildings Rs. '000
H M N Herath								
Chilaw No. 44, Colombo Road, Chilaw	Market comparable method		63,522	35,150	91,754	42,390	28,232	7,240
	• Price per perch for land	Rs. 2,600,000 p.p.						
	• Price per square foot for building	Rs. 5,000 p.sq.ft.						
	• Depreciation rate	10%						
Gampaha No. 51, Queen Mary's Road, Gampaha	Market comparable method		57,575	9,633	74,025	11,595	16,450	1,962
	• Price per perch for land	Rs. 2,250,000 p.p.						
	• Price per square foot for building	Rs. 4,500 p.sq.ft.						
	• Depreciation rate	45%						
Minuwangoda No. 9, Siriwardena Mawatha, Minuwangoda	Market comparable method		31,250	16,291	56,250	17,483	25,000	1,192
	• Price per perch for land	Rs. 2,250,000 p.p.						
	• Price per square foot for building	Rs. 4,500 p.sq.ft.						
	• Depreciation rate	30%						
P B Kalugalagedara								
Keyzer Street No. 32, Keyzer Street, Colombo 11	Market comparable method		56,000	24,050	82,000	24,000	26,000	(50)
	• Price per perch for land	Rs. 11,000,000 p.p.						
	• Price per square foot for building	Rs. 500 to Rs. 6,000 p.sq.ft.						
Kollupitiya No. 285, Galle Road, Colombo 3	Market comparable method		115,000	58,036	225,000	68,000	110,000	9,964
	• Price per perch for land	Rs. 15,000,000 p.p.						
	• Price per square foot for building	Rs. 1,250 to Rs. 5,000 p.sq.ft.						
Kotahena No. 198, George R De Silva Mawatha, Kotahena, Colombo 13	Investment method		140,000	191,845	197,000	210,000	57,000	18,155
	• Gross monthly rental	Rs. 2,800,000 p.m.						
	• Years purchase (present value of one unit per period)	18.18						
	• Void period	4 months p.a.						
Mr R S Wijesuriya								
Battaramulla No. 213, Kaduwela Road, Battaramula	Market comparable method		52,500	74,269	52,500	99,000	–	24,731
	• Price per perch for land	Rs. 3,750,000 p.p.						
	• Price per square foot for building	Rs. 8,500 p.sq.ft.						
Battaramulla No. 213, Kaduwela Road, Battaramulla	Market comparable method		50,000	–	50,000	–	–	–
	• Price per perch for land	Rs. 3,750,000 p.p.						
Panadura No. 375, Galle Road, Panadura	Market comparable method		30,750	34,078	36,900	42,400	6,150	8,322
	• Price per perch for land	Rs. 3,000,000 p.p.						
	• Price per square foot for building	Rs. 6,500 p.sq.ft.						

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
Sarath G Fernando								
Holiday Bungalow – Bandarawela Ambatenne Estate, Bandarawela	Market comparable method		56,700	9,913	72,100	17,000	15,400	7,087
	• Price per perch for land	Rs. 75,000 to Rs. 250,000 p.p.						
	• Price per square foot for building	Rs. 4,250 to Rs. 4,750 p.sq.ft.						
	• Depreciation rate	35%						
Holiday Bungalow – Haputale No. 23, Lilly Avenue, Welimada Road, Haputale	Market comparable method		30,900	12,750	41,200	21,300	10,300	8,550
	• Price per perch for land	Rs. 200,000 p.p.						
	• Price per square foot for building	Rs. 3,500 to Rs. 6,500 p.sq.ft.						
	• Depreciation rate	40%						
Kandy No. 120, Kotugodella Veediya, Kandy	Market comparable method		354,000	206,250	396,000	256,600	42,000	50,350
	• Price per perch for land	Rs. 9,500,000 p.p.						
	• Price per square foot for building	Rs. 6,500 to Rs. 10,000 p.sq.ft.						
	• Depreciation rate	30% and 35%						
Kegalle No.186, Main Street, Kegalle	Market comparable method		128,000	6,250	156,700	7,200	28,700	950
	• Price per perch for land	Rs. 1,250,000 to Rs. 3,000,000 p.p.						
	• Price per square foot for building	Rs. 6,000 p.sq.ft.						
	• Depreciation rate	55%						
Matale No. 70, Kings Street, Matale	Market comparable method		75,000	55,000	125,000	61,000	50,000	6,000
	• Price per perch for land	Rs. 750,000 to Rs. 2,500,000 p.p.						
	• Price per square foot for building	Rs. 9,750 p.sq.ft.						
	• Depreciation rate	20%						
Nuwara Eliya No. 36/3, Buddha Jayanthi Mawatha, Nuwara Eliya	Market comparable method		82,000	65,243	124,800	74,400	42,800	9,157
	• Price per perch for land	Rs. 2,000,000 to Rs. 3,000,000 p.p.						
	• Price per square foot for building	Rs. 9,750 p.sq.ft.						
	• Depreciation rate	25%						
S A S Fernando								
Galle City No. 59, Wackwella Road, Galle	Market comparable method		40,500	7,350	54,000	9,150	13,500	1,800
	• Price per perch for land	Rs. 8,000,000 p.p.						
	• Price per square foot for building	Rs. 2,000 to Rs. 3,000 p.sq.ft.						
Galle Fort No. 22, Church Street, Fort, Galle	Market comparable method		210,000	37,000	255,650	45,000	45,650	8,000
	• Price per perch for land	Rs. 3,000,000 p.p.						
	• Price per square foot for building	Rs. 3,180 p.sq.ft.						

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
Hikkaduwa No. 217, Galle Road, Hikkaduwa	Market comparable method		26,370	22,814	35,670	27,780	9,300	4,966
	• Price per perch for land	Rs. 750,000 to Rs. 1,100,000 p.p.						
	• Price per square foot for building	Rs. 3,000 to Rs. 4,000 p.sq.ft.						
Matara No. 18, Station Road, Matara	Market comparable method		50,695	23,295	60,080	28,770	9,385	5,475
	• Price per perch for land	Rs. 1,000,000 to Rs. 2,000,000 p.p.						
	• Price per square foot for building	Rs. 3,000 to Rs. 3,750 p.sq.ft.						
Trincomalee No. 474, Power House Road, Trincomalee	Market comparable method		90,300	–	100,000	–	9,700	–
	• Price per perch for land	Rs. 1,000,000 p.p.						
S T Sanmuganathan								
Jaffna No. 474, Hospital Road, Jaffna	Market comparable method		581,000	–	1,000,000	–	419,000	–
	• Price per perch for land	Rs. 5,000,000 p.p.						
Siri Nissanka								
Borella No. 92, D S Senanayake Mawatha, Colombo 08.	Market comparable method		156,300	177,411	196,000	216,000	39,700	38,589
	• Price per perch for land	Rs. 12,500,000 p.p.						
	• Price per square foot for building	Rs. 12,750 p.sq.ft.						
CEO's Bungalow No. 27, Queens Road, Colombo 03	Market comparable method		544,850	6,060	961,000	39,000	416,150	32,940
	• Price per perch for land	Rs. 15,000,000 p.p.						
	• Price per square foot for building	Rs. 7,000 p.sq.ft.						
Narahenpita No. 201, Kirula Road, Narahenpita, Colombo 05	Market comparable method		132,300	78,304	176,000	104,000	43,700	25,696
	• Price per perch for land	Rs. 8,000,000 p.p.						
	• Price per square foot for building	Rs. 9,350 p.sq.ft.						
Pettah – Main Street No. 280, Main Street, Pettah, Colombo 11	Investment method		280,000	139,041	360,000	190,000	80,000	50,959
	• Gross monthly rental	Rs. 2,557,500 p.m.						
Union Place No. 1, Union Place, Colombo 02	Market comparable method		450,000	669,643	500,000	1,000,000	50,000	330,357
	• Price per perch for land	Rs. 18,000,000 p.p.						
	• Price per square foot for building	Rs. 16,500 p.sq.ft.						
Duplication Road Nos. 405, 407, R A De Mel Mawatha, Colombo 03	Market comparable method		229,349	2,465	220,400	10,000	(8,949)	7,535
	• Price per perch for land	Rs. 11,000,000 p.p.						
	• Price per square foot for building	Rs. 2,300 p.sq.ft.						
Maharagama No. 154, Highlevel Road, Maharagama	Market comparable method		53,250	29,369	93,000	47,000	39,750	17,631
	• Price per perch for land	Rs. 5,250,000 p.p.						
	• Price per square foot for building	Rs. 5,600 p.sq.ft.						

Name of professional valuer/ location and address	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
Nugegoda No. 100, Stanley Thilakaratne Mawatha, Nugegoda	Market comparable method		156,000	37,925	150,000	60,000	(6,000)	22,075
	• Price per perch for land	Rs. 7,500,000 p.p.						
	• Price per square foot for building	Rs. 8,350 p.sq.ft.						
Wellawatte No. 343, Galle Road, Colombo 06	Market comparable method		249,520	466,271	650,000	1,100,000	400,480	633,729
	• Price per perch for land	Rs. 15,000,000 p.p.						
	• Price per square foot for building	Rs. 22,000 p.sq.ft.						
W D P Rupananda								
Ja-Ela No. 140, Negombo Road, Ja-Ela	Market comparable method		29,000	19,091	33,000	26,000	4,000	6,909
	• Price per perch for land	Rs. 2,500,000 p.p.						
	• Price per square foot for building	Rs. 5,000 p.sq.ft.						
	• Depreciation rate	30%						
Negombo Nos. 24, 26, Fernando Avenue, Negombo	Market comparable method		73,000	27,280	136,000	36,000	63,000	8,720
	• Price per perch for land	Rs. 3,000,000 to Rs. 4,000,000 p.p.						
	• Price per square foot for building	Rs. 4,000 to Rs. 5,250 p.sq.ft.						
	• Depreciation rate	30%						
Pettah People's Park Shopping Complex, Colombo 11	Investment method		–	50,091	–	67,000	–	16,909
	• Gross monthly rental	Rs. 460,000 p.m.						
	• Years purchase (Present value of 1 unit per period)	18.18						
	• Void period	4 months p.a.						
Pettah People's Park Shopping Complex, Colombo 11	Investment method		–	4,145	–	5,500	–	1,355
	• Gross monthly rental	Rs. 41,500 p.m.						
	• Years purchase (Present value of 1 unit per period)	18.18						
	• Void period	4 months p.a.						
Wennappuwa Nos. 262, 264, Colombo Road, Wennappuwa	Market comparable method		42,000	25,103	54,000	31,000	12,000	5,897
	• Price per perch for land	Rs. 1,500,000 p.p.						
	• Price per square foot for building	Rs. 3,750 to Rs. 5,250 p.sq.ft.						
	• Depreciation rate	30%						
W S Pemaratne								
Galewela No. 49/57, Matale Road, Galewela	Market comparable method		22,275	14,083	29,700	16,300	7,425	2,217
	• Price per perch for land	Rs. 300,000 p.p.						
	• Price per square foot for building	Rs. 2,350 to Rs. 4,000 p.sq.ft.						
	• Depreciation rate	25%						

Name of professional valuer/ location and address	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
Kurunegala No. 4, Suratissa Mawatha, Kurunegala	Market comparable method		199,325	32,074	236,800	43,200	37,475	11,126
	• Price per perch for land	Rs. 5,000,000 p.p.						
	• Price per square foot for building	Rs. 3,500 to Rs. 4,750 p.sq.ft.						
	• Depreciation rate	12%						
Narammala No. 55, Negombo Road, Narammala	Market comparable method		53,391	15,703	61,605	19,910	8,214	4,207
	• Price per perch for land	Rs. 1,500,000 p.p.						
	• Price per square foot for building	Rs. 4,000 p.sq.ft.						
	• Depreciation rate	7%						
Total			4,992,622	2,683,276	7,144,134	4,073,978	2,151,512	1,390,702

p.p. – per perch p.sq.ft. – per square foot p.m. – per month p.a. – per annum

40.5 (c) Valuation techniques and sensitivity of the fair value measurement of the freehold land and buildings of the Bank

Description of the above valuation techniques together with narrative descriptions on sensitivity of the fair value measurement to changes in significant unobservable inputs are tabulated below:

Valuation technique	Significant unobservable valuation inputs (ranges of each property are given in the table above)	Sensitivity of the fair value measurement to inputs
Market comparable method This method considers the selling price of a similar property within a reasonably recent period of time in determining the fair value of the property being revalued. This involves evaluation of recent active market prices of similar assets, making appropriate adjustments for differences in size, nature, location and condition of specific property. In this process, outlier transactions, indicative of particularly motivated buyers or sellers are too compensated for since the price may not adequately reflect the fair market value.	Price per perch for land Price per square foot for building Depreciation rate for building	Estimated fair value would increase/(decrease) if; Price per perch would increase/(decrease) Price per square foot would increase/(decrease) Depreciation rate for building would decrease/(increase)
Investment method This method involves the capitalisation of the expected rental income at an appropriate rate of years 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)

40.6 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.

40.7 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.

40.8 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,	2018 Rs. '000	2017 Rs. '000
Total claims lodged	11,649	17,096
Total claims received	(4,059)	(11,573)
Total claims rejected	–	–
Total claims receivable	**7,590**	5,523

40.9 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,	2018 Rs. '000	2017 Rs. '000
Computer equipment	1,699,267	1,458,542
Office equipment, furniture and fixtures	2,273,634	2,044,143
Motor vehicles	60,140	39,566

40.10 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,	2018 Rs. '000	2017 Rs. '000
Computer equipment	94,636	121,472
Office equipment, furniture and fixtures	102,653	100,175

40.11 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,		2018 Rs. '000	2017 Rs. '000
Computer equipment	Cost	**302,799**	182,081
	Depreciation	**283,466**	174,972
	NBV	**19,333**	7,109
Office equipment, furniture and fixtures	Cost	**112,046**	98,637
	Depreciation	**105,588**	90,156
	NBV	**6,458**	8,481

40.12 Borrowing costs

There were no capitalised borrowing costs related to the acquisition of property, plant and equipment during the year 2018 (2017 – Nil).

41. Intangible assets

The Group's intangible assets include the value of acquired goodwill, trademarks and computer software.

Basis of recognition

An intangible asset is recognised if it is probable that future economic benefits associated with the asset will flow to the entity and the cost of the asset can be measured reliably in accordance with the Sri Lanka Accounting Standard – LKAS 38 on "Intangible Assets".

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, these assets are stated in the Statement of Financial Position at cost, less accumulated amortisation and accumulated impairment losses, if any.

Subsequent expenditure

Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Useful economic lives, amortisation and impairment

The useful economic lives of intangible assets are assessed to be either finite or indefinite. Useful economic lives, amortisation and impairment of finite and indefinite intangible assets are described below:

- **Intangible assets with finite lives and amortisation**

Intangible assets with finite lives are amortised over the useful economic lives. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates, which require prospective application.
The amortisation expense on intangible assets with finite lives is expensed as incurred.

- **Goodwill**

Goodwill that arises on the acquisition of subsidiaries is presented with intangible assets. Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed.

Subsequent to initial recognition, goodwill is measured at cost less accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

- **Computer software**

Software acquired by the Group is measured at cost less accumulated amortisation and any accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when the Group is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally-developed software include all costs directly attributable to developing the software and capitalised borrowing costs, and are amortised over its useful life. Internally-developed software is stated at capitalised cost less accumulated amortisation and any accumulated impairment losses.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

- **Research and development costs**

Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the Group can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale.
- Its intention to complete and its ability to use or sell the asset.
- The asset will generate future economic benefits.
- The availability of resources to complete the asset.
- The ability to measure reliably the expenditure during development.
- The ability to use the intangible asset generated.

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses.

As at the reporting date, the Group does not have development costs capitalised as an internally-generated intangible asset.

As at December 31,	Note	Page No.	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000	BANK 2018 Rs. '000	BANK 2017 Rs. '000
Computer software	41.1	273	**698,913**	539,408	**579,486**	473,390
Software under development	41.2	273	**334,954**	311,748	**326,626**	303,420
Goodwill arising on business combination			**400,045**	400,045	**–**	–
Trademarks			**19**	25	**–**	–
Total			**1,433,931**	1,251,226	**906,112**	776,810

41.1 Computer software

			GROUP		BANK	
	Note	Page No.	2018 Rs. '000	2017 Rs. '000	2018 Rs. '000	2017 Rs. '000
Cost/valuation						
Balance as at January 1,			1,942,915	1,682,677	1,847,585	1,589,301
Additions during the year			378,969	267,071	305,509	259,734
Disposals/write-off during the year			(215,892)	(8,355)	(215,892)	–
Exchange rate variance			26,829	1,522	10,034	(1,450)
Transfers/adjustments			1,200	–	1,200	–
Balance as at December 31,			2,134,021	1,942,915	1,948,436	1,847,585
Accumulated amortisation and impairment losses						
Balance as at January 1,			1,403,507	1,176,543	1,374,195	1,165,450
Amortisation for the year	21	213	218,076	229,764	188,789	209,766
Impairment loss			–	–	–	–
Disposals/write-off during the year			(202,301)	(1,114)	(202,301)	–
Exchange rate variance			15,753	(1,686)	8,194	(1,021)
Transfers/adjustments			73	–	73	–
Balance as at December 31,			1,435,108	1,403,507	1,368,950	1,374,195
Net book value as at December 31,			698,913	539,408	579,486	473,390

41.2 Software under development

	GROUP		BANK	
	2018 Rs. '000	2017 Rs. '000	2018 Rs. '000	2017 Rs. '000
Cost/valuation				
Balance as at January 1,	311,748	226,490	303,420	216,794
Additions during the year	27,672	189,620	27,672	189,620
Disposals during the year	–	–	–	–
Transfers/adjustments	(4,466)	(104,362)	(4,466)	(102,994)
Balance as at December 31,	334,954	311,748	326,626	303,420

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 2018 (2017 – Nil).

The maturity analysis of intangible assets is given in Note 62 on pages 307 to 309.

42. Leasehold property

	Note	Page No.	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000	BANK 2018 Rs. '000	BANK 2017 Rs. '000
Cost/Valuation						
Balance as at January 1,			128,700	128,700	84,840	84,840
Additions during the year			–	–	–	–
Balance as at December 31,			128,700	128,700	84,840	84,840
Accumulated amortisation						
Balance as at January 1,			24,184	22,732	12,246	11,304
Amortisation for the year	21	213	1,452	1,452	942	942
Balance as at December 31,			25,636	24,184	13,188	12,246
Net book value as at December 31,			103,064	104,516	71,652	72,594

The carrying amount of revalued assets that would have been included in the Financial Statements had the assets been carried at cost less depreciation/amortisation is as follows:

As at December 31, 2018	GROUP Cost Rs. '000	GROUP Accumulated amortisation Rs. '000	GROUP Net book value Rs. '000	BANK Cost Rs. '000	BANK Accumulated amortisation Rs. '000	BANK Net book value Rs. '000
Class of asset						
Leasehold land	23,715	16,411	7,304	14,846	13,187	1,659
Total	23,715	16,411	7,304	14,846	13,187	1,659

As at December 31, 2017	GROUP Cost Rs. '000	GROUP Accumulated amortisation Rs. '000	GROUP Net book value Rs. '000	BANK Cost Rs. '000	BANK Accumulated amortisation Rs. '000	BANK Net book value Rs. '000
Class of asset						
Leasehold land	101,298	16,573	84,725	14,846	12,245	2,601
Total	101,298	16,573	84,725	14,846	12,245	2,601

The maturity analysis of leasehold property is given in Note 62 on pages 307 to 309.

43. Deferred tax assets and liabilities

Net deferred tax (assets)/liabilities of an entity cannot be set-off against another entity's deferred tax (assets)/liabilities as there is no legally enforceable right to set-off.

	GROUP		BANK	
	2018 Rs. '000	2017 Rs. '000	2018 Rs. '000	2017 Rs. '000
Recognised under deferred tax assets	188,487	–	–	–
Recognised under deferred tax liabilities	971,424	3,565,215	646,248	3,274,826
Summary of net deferred tax liability	782,937	3,565,215	646,248	3,274,826

43.1 Summary of net deferred tax liability

			GROUP				BANK			
			2018		2017		2018		2017	
	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,			13,035,986	3,565,215	(2,069,702)	(668,150)	12,013,759	3,274,826	(3,126,090)	(963,935)
Amount originating/(reversing) to income statement	24	217	(3,367,030)	(875,295)	254,859	74,138	(3,236,067)	(841,357)	508,142	137,257
Amount originating/(reversing) to statement of profit or Loss and other comprehensive income			(248,368)	(69,543)	14,850,829	4,158,232	(277,989)	(77,837)	14,631,707	4,096,878
Amount originating/(reversing) to retained earnings (Deferred tax on SLFRS 9 Transitional adjustments)			(6,455,314)	(1,807,488)	–	–	(6,009,218)	(1,682,581)	–	–
Tax effect on pre-acquisition reserves			–	–	–	–	–	–	–	–
Deferred tax on re-classification of revaluation surplus to revaluation reserve			–	–	–	–	–	–	–	–
Exchange rate variance			–	(29,952)	–	995	–	(26,803)	–	4,626
Balance as at December 31,			2,965,274	782,937	13,035,986	3,565,215	2,490,485	646,248	12,013,759	3,274,826

43.2 Reconciliation of net deferred tax liability – Group

For the year ended/as at December 31,	Statement of financial position		Profit or loss		Other comprehensive income	
	2018	2017	**2018**	2017	**2018**	2017
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000	**Rs. '000**	Rs. '000
Deferred tax liabilities on:						
Accelerated depreciation for tax purposes – Own assets	**603,379**	501,389	**(101,990)**	(78,923)	**–**	–
Accelerated depreciation for tax purposes – Leased assets	**2,048,376**	2,250,845	**202,469**	(226,336)	**–**	–
Revaluation surplus on freehold buildings	**1,109,315**	1,146,902	**37,587**	20,394	**–**	(441,244)
Revaluation surplus on freehold land (*)	**1,772,750**	1,762,741	**–**	–	**(10,009)**	(1,762,741)
Tax effect on actuarial gains on defined benefit plans	**2,762**	(21,569)	**–**	–	**(24,331)**	88,033
Effective interest rate on deposits	**–**	1,432	**1,432**	554	**–**	–
Effect of exchange rate variance	**–**	–	**(31,802)**	752	**1,850**	243
	5,536,582	5,641,740	**107,696**	(283,559)	**(32,490)**	(2,115,709)
Deferred tax assets on:						
Defined benefit plans	**532,058**	434,236	**97,822**	48,092	**–**	–
Tax effect on actuarial losses on defined benefit plans	**78,403**	85,738	**–**	–	**(7,335)**	24,559
Unrealised gain/(loss) on financial assets measured at fair value through other comprehensive income	**825,146**	737,639	**–**	–	**135,282**	(2,138,046)
Specific provision on lease receivable	**–**	56,254	**(56,254)**	–	**–**	–
Leave encashment	**130,824**	181,231	**(50,407)**	2,015	**–**	–
Tax effect on actuarial losses on leave encashment	**67,835**	83,159	**–**	–	**(15,324)**	69,715
Straight lining of lease rentals	**57,627**	47,740	**9,887**	8,504	**–**	–
Derecognision of commission income	**–**	131,046	**(131,046)**	20,413	**–**	–
Equity-settled share-based payments	**165,755**	148,349	**17,406**	30,670	**–**	–
Impairment provision	**2,827,014**	144,888	**826,863**	82,216	**–**	–
Carried forward tax loss on leasing business	**–**	–	**–**	(7,485)	**–**	–
Hedging reserve	**(9,341)**	1,249	**–**	–	**(10,590)**	1,249
Deferred tax on previous losses	**73,522**	24,996	**48,526**	24,996	**–**	–
Performance bonus	**4,802**	–	**4,802**	–	**–**	–
	4,753,645	2,076,525	**767,599**	209,421	**102,033**	(2,042,523)
Deferred tax effect on profit or loss and other comprehensive income for the year			**875,295**	(74,138)	**69,543**	(4,158,232)
Net deferred tax liability as at December 31,	**782,937**	**3,565,215**				

(*) As per the Inland Revenue Act No. 24 of 2017, which became effective from April 01, 2018, capital assets/business assets will attract tax at applicable corporate tax rate on the gains at the time of disposal. Accordingly, deferred tax liability has been recognised at 28% on the revaluation surplus relating to freehold land in these Financial Statements.

43.3 Reconciliation of net deferred tax liability – Bank

For the year ended/as at December 31,	Statement of financial position		Profit or loss		Other comprehensive income	
	2018	2017	**2018**	2017	**2018**	2017
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000	**Rs. '000**	Rs. '000
Deferred tax liabilities on:						
Accelerated depreciation for tax purposes – Own assets	**531,123**	448,849	**(82,274)**	(69,665)	**–**	–
Accelerated depreciation for tax purposes – Leased assets	**1,913,755**	2,127,270	**213,515**	(200,584)	**–**	–
Revaluation surplus on freehold buildings	**820,530**	857,785	**37,255**	19,930	**–**	(383,924)
Revaluation surplus on freehold land (*)	**1,756,155**	1,756,155	**–**	–	**–**	(1,756,155)
Tax effect on actuarial gains on defined benefit plans	**2,858**	(22,492)	**–**	–	**(25,350)**	85,508
Effective interest rate on deposits	**–**	1,432	**1,432**	554	**–**	–
Effect of exchange rate variance	**–**	–	**(28,653)**	4,383	**1,850**	243
	5,024,421	5,168,999	**141,275**	(245,382)	**(23,500)**	(2,054,328)
Deferred tax assets on:						
Defined benefit plans	**517,921**	422,019	**95,902**	46,522	**–**	–
Tax effect on actuarial losses on defined benefit plans	**78,059**	85,461	**–**	–	**(7,402)**	24,515
Unrealised gain/(loss) on financial assets measured at fair value through other comprehensive income	**824,543**	737,665	**–**	–	**134,653**	(2,138,029)
Specific provision on lease receivable	**–**	56,254	**(56,254)**	–	**–**	–
Leave encashment	**130,824**	181,231	**(50,407)**	2,015	**–**	–
Tax effect on actuarial losses on leave encashment	**67,835**	83,159	**–**	–	**(15,324)**	69,715
Straight lining of lease rentals	**57,627**	47,740	**9,887**	8,504	**–**	–
Derecognition of commission income	**–**	131,046	**(131,046)**	20,414	**–**	–
Equity-settled share-based payments	**165,755**	148,349	**17,406**	30,670	**–**	–
Impairment provision	**2,544,950**	–	**814,594**	–	**–**	–
Hedging reserve	**(9,341)**	1,249	**–**	–	**(10,590)**	1,249
	4,378,173	1,894,173	**700,082**	108,125	**101,337**	(2,042,550)
Deferred tax effect on profit or loss and other comprehensive income for the year			**841,357**	(137,257)	**77,837**	(4,096,878)
Net deferred tax liability as at December 31,	**646,248**	3,274,826				

(*) As per the Inland Revenue Act No. 24 of 2017, which became effective from April 01, 2018, capital assets/business assets will attract tax at applicable corporate tax rate on the gains at the time of disposal. Accordingly, deferred tax liability has been recognised at 28% on the revaluation surplus relating to freehold land in these Financial Statements.

The maturity analysis of deferred tax liabilities given in Note 62 on pages 307 to 309.

44. Other assets

As at December 31,	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000	BANK 2018 Rs. '000	BANK 2017 Rs. '000
Receivables	**17,081**	46,212	**17,081**	46,171
Deposits and prepayments	**2,250,371**	1,530,984	**2,260,494**	1,563,026
Clearing account balance	**7,777,825**	6,135,630	**7,777,825**	6,135,630
Unamortised cost on staff loans (Day 1 difference)	**4,081,846**	3,676,965	**4,081,846**	3,676,965
Other accounts	**9,924,349**	5,973,186	**9,773,876**	5,876,370
Total	**24,051,472**	17,362,977	**23,911,122**	17,298,162

The maturity analysis of other assets is given in Note 62 on pages 307 to 309.

45. Due to banks

These represent call money borrowings, credit balances in Nostro Accounts and borrowings from banks. Subsequent to initial recognition, these are measured at amortised cost using the EIR method. Interest paid/payable on these borrowings is recognised in profit or loss.

As at December 31,	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000	BANK 2018 Rs. '000	BANK 2017 Rs. '000
Borrowings	**52,273,032**	54,538,743	**50,012,061**	51,414,842
Local currency borrowings	**2,260,971**	8,939,723	**–**	5,815,822
Foreign currency borrowings	**50,012,061**	45,599,020	**50,012,061**	45,599,020
Securities sold under repurchase (Repo) agreements (*)	**89,020**	5,706,149	**89,020**	5,706,149
Total	**52,362,052**	60,244,892	**50,101,081**	57,120,991

(*) Securities sold under repurchase (Repo) agreements are shown on the face of the Statement of Financial Position except for the Repos with banks.

The maturity analysis of due to banks is given in Note 62 on pages 307 to 309.

46. Derivative financial liabilities

As at December 31,	Note	Page No.	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000	BANK 2018 Rs. '000	BANK 2017 Rs. '000
Derivative financial liabilities – Held for trading	46.1	279	**8,021,783**	3,674,032	**8,021,783**	3,674,032
Derivative financial liabilities – Cash flow hedges held for risk management	46.2	279	**–**	4,462	**–**	4,462
Total			**8,021,783**	3,678,494	**8,021,783**	3,678,494

46.1 Derivative financial liabilities – Held for trading

Derivative financial liabilities are classified as held for trading, if they are incurred principally for the purpose of repurchasing in the near term or held as a part of a portfolio that is managed together for short-term profit or position taking.

This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships. The accounting for derivatives embedded in financial liabilities and non-financial host contracts has not changed.

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,	**2018** Rs. '000	2017 Rs. '000	**2018** Rs. '000	2017 Rs. '000
Foreign currency derivatives				
Currency swaps	**5,946,484**	2,656,376	**5,946,484**	2,656,376
Forward contracts	**2,069,807**	1,015,648	**2,069,807**	1,015,648
Spot contracts	**5,492**	2,008	**5,492**	2,008
Total	**8,021,783**	3,674,032	**8,021,783**	3,674,032

46.2 Derivative financial liabilities – Cash flow hedges held for risk management

The Group uses interest rate swaps to hedge the interest rate risk arising from a floating rate borrowing denominated in foreign currencies.

The fair value of the derivative financial liability denominated as cash flow hedge is as follows.

	GROUP		BANK	
As at December 31,	**2018** Rs. '000	2017 Rs. '000	**2018** Rs. '000	2017 Rs. '000
Interest rate swaps	**–**	4,462	**–**	4,462
Total	**–**	4,462	**–**	4,462

The maturity analysis of derivative financial liabilities is given in Note 62 on pages 307 to 309.

47. Financial liabilities at amortised cost – Due to depositors

These include non-interest-bearing deposits, savings deposits, term deposits, deposits payable at call, and certificates of deposit. Subsequent to initial recognition deposits are measured at amortised cost using the EIR method, except where the Group designates liabilities at fair value through profit or loss. Interest paid/payable on these deposits is recognised in profit or loss.

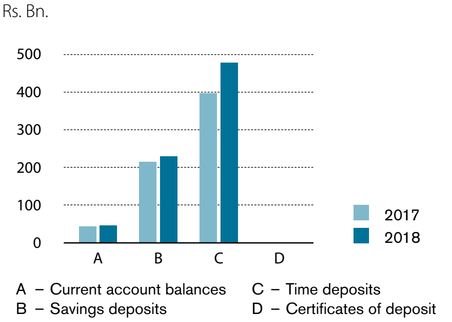
	GROUP		BANK	
As at December 31,	2018 Rs. '000	2017 Rs. '000	2018 Rs. '000	2017 Rs. '000
Local currency deposits	**747,951,765**	649,709,858	**748,142,891**	650,161,430
Current account balances	**45,166,224**	42,488,222	**45,177,113**	42,497,439
Savings deposits	**227,412,160**	212,687,511	**227,493,335**	213,055,712
Time deposits	**475,290,328**	394,357,770	**475,389,390**	394,431,924
Certificates of deposit	**83,053**	176,355	**83,053**	176,355
Foreign currency deposits	**246,419,110**	207,560,123	**234,894,423**	199,966,081
Current account balances	**32,286,978**	23,401,770	**26,476,915**	18,954,618
Savings deposits	**72,501,383**	60,355,737	**69,972,029**	59,001,649
Time deposits	**141,630,749**	123,802,616	**138,445,479**	122,009,814
Total	**994,370,875**	857,269,981	**983,037,314**	850,127,511

47.1 Analysis of due to customers/deposits from customers

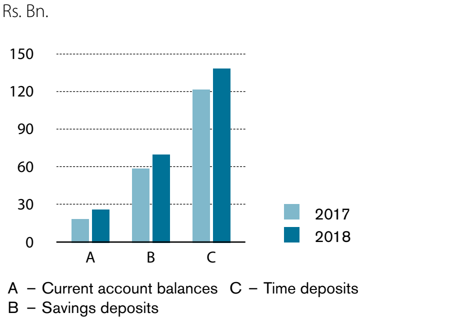
	GROUP		BANK	
As at December 31,	2018 Rs. '000	2017 Rs. '000	2018 Rs. '000	2017 Rs. '000
(a) By product				
Current account balances	**77,453,202**	65,889,992	**71,654,028**	61,452,057
Savings deposits	**299,913,543**	273,043,248	**297,465,364**	272,057,361
Time deposits	**616,921,077**	518,160,386	**613,834,869**	516,441,738
Certificates of deposit	**83,053**	176,355	**83,053**	176,355
Subtotal	**994,370,875**	857,269,981	**983,037,314**	850,127,511
(b) By currency				
Sri Lankan Rupee	**747,951,768**	649,709,858	**748,142,892**	650,161,430
United States Dollar	**144,023,440**	133,126,818	**136,589,434**	127,914,412
Great Britain Pound	**8,836,477**	7,753,315	**8,836,477**	7,753,315
Euro	**62,620,046**	43,047,102	**62,620,046**	43,047,102
Australian Dollar	**12,725,445**	10,673,908	**12,644,251**	10,513,278
Bangladesh Taka	**12,321,533**	8,887,830	**12,318,915**	8,887,302
Maldivian Rufiyaa	**4,058,311**	2,271,481	**–**	–
Other currencies	**1,833,855**	1,799,669	**1,885,299**	1,850,672
Subtotal	**994,370,875**	857,269,981	**983,037,314**	850,127,511
(c) By institution/customers				
Deposits from banks	**2,425,725**	12,153,761	**2,425,725**	12,153,761
Deposits from finance companies	**8,303,951**	6,666,165	**8,340,126**	6,705,055
Deposits from other customers	**983,641,199**	838,450,055	**972,271,463**	831,268,695
Subtotal	**994,370,875**	857,269,981	**983,037,314**	850,127,511

The maturity analysis of financial liabilities at amortised cost – Due to depositors is given in Note 62 on pages 307 to 309.

Deposits – Local Currency – Bank Graph – 47



Deposits – Foreign Currency – Bank Graph – 48



48. Financial liabilities at amortised cost – Other borrowings

As at December 31,	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000	BANK 2018 Rs. '000	BANK 2017 Rs. '000
Refinance borrowings	**7,210,334**	6,624,731	**7,210,334**	6,624,731
Borrowings from International Finance Corporation (IFC)	**18,151,578**	17,161,363	**18,151,578**	17,161,363
Total	**25,361,912**	23,786,094	**25,361,912**	23,786,094

The maturity analysis of financial liabilities at amortised cost – Other borrowings is given in Note 62 on pages 307 to 309.

49. Current tax liabilities

	Note	Page No.	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000	BANK 2018 Rs. '000	BANK 2017 Rs. '000
Balance as at January 01,			**4,202,850**	3,464,682	**4,143,911**	3,440,736
Provision for the year			**9,648,955**	6,679,675	**9,453,100**	6,564,443
Reversal of (over)/under provision	24	216	**(537,943)**	(99,996)	**(564,363)**	(100,000)
Self-assessment payments			**(5,971,026)**	(3,810,701)	**(5,856,270)**	(3,753,679)
Notional tax credits (*)			**(348,978)**	(1,338,116)	**(348,311)**	(1,336,673)
Withholding tax/other credits			**(750,000)**	(646,991)	**(733,426)**	(625,096)
Exchange rate variance			**492,139**	(45,703)	**471,717**	(45,820)
Balance as at December 31,			**6,735,997**	4,202,850	**6,566,358**	4,143,911

(*) Notional tax credit on secondary market transactions

"Interest income from Government Securities were subjected to withholding tax at source (Notional Tax) as per Inland Revenue Act No. 10 of 2006, effective upto March 31, 2018. Accordingly, interest income accrued or received on outright or reverse repurchase transactions on Government Securities, Treasury Bills And Treasury Bonds less interest expense accrued or paid on repurchase transactions with such Government Securities, Treasury Bills and Bonds from which such interest income earned was grossed up by the amount of Notional Tax.

However, as per the provision of the Inland Revenue Act No. 24 of 2017 effective from April 1, 2018, interest income from Government Securities are excluded from withholding tax. Hence, notional tax credit hitherto claimed by the Bank was discontinued from April 1, 2018 with implementation of Inland Revenue Act No 24 of 2017.

Accordingly, interest income from Government Securities for the period from January 1, 2018 to MArch 31, 2018 been grossed up by notional tax amounting to Rs 348.978 Mn. (Rs. 1,338.116 Mn. for the year ended December 31, 2017) and Rs.348.311 Mn. (Rs. 1,336.673 Mn. for the year ended December 31, 2017) by the Group and the Bank respectively.

The maturity analysis of current tax liabilities is given in Note 62 on pages 307 to 309.

50. Other liabilities

Other liabilities include provisions made on account of interest, fees and expenses, gratuity/pensions, leave encashment, and other provisions. These liabilities are recorded at amounts expected to be payable as at the reporting date.

			GROUP		BANK	
As at December 31,			2018	2017	2018	2017
	Note	Page No.	**Rs. '000**	Rs. '000	**Rs. '000**	Rs. '000
Accrued expenditure			**2,724,062**	2,895,090	**2,658,304**	2,865,751
Cheques sent on clearing			**7,774,059**	6,119,528	**7,774,059**	6,119,528
Provision for gratuity payable	50.1. (b)	283	**1,778,016**	1,515,410	**1,726,920**	1,474,387
Provision for unfunded pension scheme	50.2. (b)	284	**242,819**	285,095	**242,819**	285,095
Provision for leave encashment	50.3. (b)	285	**709,495**	944,251	**709,495**	944,251
Payable on oil hedging transactions			**1,135,326**	952,929	**1,135,326**	952,929
Impairment provision in respect of off-balance sheet credit exposures	59.4	305	**726,640**	–	**726,640**	–
Other payables			**9,457,096**	6,795,812	**9,232,788**	6,583,423
Total			**24,547,513**	19,508,115	**24,206,351**	19,225,364

The maturity analysis of other liabilities is given in Note 62 on pages 307 to 309.

50.1 Provision for gratuity payable

An actuarial valuation of the retirement gratuity payable was carried out as at December 31, 2018 by Mr M Poopalanathan, AIA, of Messrs Actuarial & Management Consultants (Pvt) Ltd., a firm of professional Actuaries. The valuation method used by the actuaries to value the liability is the "Projected Unit Credit Method (PUC)", the method recommended by the Sri Lanka Accounting Standard – LKAS 19 on "Employee Benefits".

50.1 (a) Actuarial assumptions

Type of assumption	Criteria	Description
Demographic	Mortality – in service	A 67/70 Mortality table issued by the Institute of Actuaries, London
	Staff turnover	The staff turnover rate at an age represents the probability of an employee leaving within one year of that age due to reasons other than death, ill health, and normal retirement. The same withdrawal rates which were used in the last valuation (as at December 31, 2017) to determine the liabilities of the active employees in the gratuity, were used in the actuarial valuation carried out as at December 31, 2018.
	Normal retirement age	The employees who are aged over the specified retirement age have been assumed to retire on their respective next birthdays.
Financial	Rate of discount	**Sri Lankan operation** In the absence of a deep market in long-term bonds in Sri Lanka, a long-term interest rate of 11.50% p.a. (2017 – 11.00% p.a.) has been used to discount future liabilities considering anticipated long term rate of inflation.
		Bangladesh operation In the absence of long-term high quality corporate bonds or government bonds with the term that matches liabilities a long-term interest rate of 8.00% p.a. (2017 - 8.00% p.a.) has been used to discount future liabilities considering anticipated long-term rate of inflation.
	Salary increases	**Sri Lankan operation** A salary increment of 11.00% p.a. (2017 – 11.50% p.a.) has been used in respect of the active employees.
		Bangladesh operation A salary increment of 10.00% p.a. (2017 – 10% p.a.) has been used in respect of the active employees.

50.1 (b) Movement in the provision for gratuity payable

	Note	Page No.	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000	BANK 2018 Rs. '000	BANK 2017 Rs. '000
Balance as at January 01,			**1,515,410**	1,010,095	**1,474,387**	983,180
Expense recognised in the Income Statement	50.1 (c)	283	**328,544**	264,079	**316,939**	254,537
Exchange rate variance			**52,568**	(7,279)	**52,568**	(7,279)
Amount paid during the year			**(51,231)**	(67,216)	**(45,817)**	(62,607)
Actuarial (gains)/loss recognised in other comprehensive income			**(67,275)**	315,731	**(71,157)**	306,556
Balance as at December 31,			**1,778,016**	1,515,410	**1,726,920**	1,474,387

50.1 (c) Expense recognised in the income statement – Gratuity

For the year ended December 31,	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000	BANK 2018 Rs. '000	BANK 2017 Rs. '000
Interest cost	**159,617**	105,960	**155,673**	102,993
Current service cost	**168,927**	158,119	**161,266**	151,544
Total	**328,544**	264,079	**316,939**	254,537

50.1 (d) Sensitivity analysis on actuarial valuation

The following table illustrates the impact arising from the possible changes in the discount rate and salary escalation rates on the gratuity valuation of the Group and the Bank as at December 31, 2018.

Variable	GROUP Sensitivity effect on statement of financial position (Benefit obligation) Rs. '000	BANK Sensitivity effect on statement of financial position (Benefit obligation) Rs. '000
1% increase in discount rate	**(253,450)**	**(249,806)**
1% decrease in discount rate	**313,475**	**309,315**
1% increase in salary	**319,562**	**315,346**
1% decrease in salary	**(262,110)**	**(258,358)**

50.2 Provision for unfunded pension scheme

An actuarial valuation of the unfunded pension liability was carried out as at December 31, 2018 by Mr M Poopalanathan, AIA, of Messrs Actuarial & Management Consultants (Pvt) Ltd., a firm of professional actuaries. The valuation method used by the actuary to value the liability is the "Projected Unit Credit Method (PUC)", the method recommended by the Sri Lanka Accounting Standard, LKAS 19 on "Employee Benefits".

50.2 (a) Actuarial assumptions

Type of Assumption	Criteria	Description
Demographic	Mortality – in service	A 67/70 Mortality table issued by the Institute of Actuaries, London
	After retirement	A (90) Annuities table (Males and Females) issued by the Institute of Actuaries, London
	Staff turnover	The withdrawal rate at an age represents the probability of an active employee leaving within one year of that age due to reasons other than death, ill health, and normal retirement. The same withdrawal rates which were used in the last valuation (as at December 31, 2017) to determine the liabilities of the active employees in the funded scheme, were used in the actuarial valuation carried out as at December 31, 2018.
	Disability	Assumptions similar to those used in other comparable schemes for disability were used as the data required to do a "scheme specific" study was not available.
	Normal retirement age	55 or 60 years as opted by the employees.
Financial	Rate of discount	In the absence of a deep market in long-term bonds in Sri Lanka, a long-term interest rate of 11.50% p.a. (2017 – 11.00% p.a.) has been used to discount future liabilities considering anticipated long-term rate of inflation.
	Salary increases	A salary increment of 11.00% p.a. (2017 – 11.50% p.a.) has been used in respect of the active employees.
	Post retirement pension increase rate	There is no agreed rate of increase even though the pension payments are subject to periodic increases, and increases are granted solely at the discretion of the Bank. Therefore, no specific rate was assumed for this valuation.

50.2 (b) Movement in the provision for unfunded pension scheme

			GROUP		BANK	
	Note	Page No.	2018 Rs. '000	2017 Rs. '000	2018 Rs. '000	2017 Rs. '000
Balance as at January 01,			**285,095**	214,886	**285,095**	214,886
Expense recognised in the Income Statement	50.2 (c)	284	**32,728**	24,712	**32,728**	24,712
Amount paid during the year			**(47,283)**	(45,317)	**(47,283)**	(45,317)
Transfers			**12,435**	–	**12,435**	–
Actuarial (gains)/losses recognised in other comprehensive income			**(40,156)**	90,814	**(40,156)**	90,814
Balance as at December 31,			**242,819**	285,095	**242,819**	285,095

50.2 (c) Expense recognised in the Income Statement – Unfunded pension scheme

	GROUP		BANK	
For the year ended December 31,	2018 Rs. '000	2017 Rs. '000	2018 Rs. '000	2017 Rs. '000
Interest cost	**32,728**	24,712	**32,728**	24,712
Current service cost	**–**	–	**–**	–
Total	**32,728**	24,712	**32,728**	24,712

50.2 (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, 2018.

Variable	GROUP Sensitivity effect on statement of financial position (Benefit obligation) Rs. '000	BANK Sensitivity effect on statement of financial position (Benefit obligation) Rs. '000
1% increase in discount rate	(9,993)	(9,993)
1% decrease in discount rate	10,901	10,901
1% increase in salary	–	–
1% decrease in salary	–	–

50.3 Provision for leave encashment

An actuarial valuation of the leave encashment liability was carried out as at December 31, 2018 by Mr M Poopalanathan, AIA, of Messrs Actuarial & Management Consultants (Pvt) Ltd., a firm of professional actuaries. The valuation method used by the actuaries to value the liability is the "Projected Unit Credit Method (PUC)", the method recommended by the Sri Lanka Accounting Standard, LKAS 19 on "Employee Benefits".

50.3 (a) Actuarial assumptions

Type of assumption	Criteria	Description
Demographic	Mortality – in service	A 1967/70 Mortality table issued by the Institute of Actuaries, London
	Staff turnover	The probability of a member withdrawing from the scheme within a year of ages between 20 and 55 years.
	Disability	The probability of a member becoming disable within a year of ages between 20 and 55 years.
Financial	Rate of discount	In the absence of a deep market in long-term bonds in Sri Lanka, a long-term interest rate of 11.50% p.a. (2017 – 11.00% p.a.) has been used to discount future liabilities considering anticipated long-term rate of inflation.
	Salary increases	A salary increment of 11.00% p.a. (2017 – 11.50% p.a.) has been used in respect of the active employees.

50.3 (b) Movement in the provision for leave encashment

			GROUP		BANK	
	Note	Page No.	2018 Rs. '000	2017 Rs. '000	2018 Rs. '000	2017 Rs. '000
Balance as at January 1,			944,251	688,073	944,251	688,073
Expense recognised in the Income Statement	50.3 (c)	286	103,868	79,128	103,868	79,128
Amount paid during the year			(283,895)	(71,931)	(283,895)	(71,931)
Actuarial (gains)/losses recognised in other comprehensive income			(54,729)	248,981	(54,729)	248,981
Balance as at December 31,			**709,495**	**944,251**	**709,495**	**944,251**

50.3 (c) Expense recognised in the income statement – Leave encashment

For the year ended December 31,	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000	BANK 2018 Rs. '000	BANK 2017 Rs. '000
Interest cost	**103,868**	79,128	**103,868**	79,128
Current service cost	**–**	–	**–**	–
Total	**103,868**	79,128	**103,868**	79,128

50.3 (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 valuation of the Bank as at December 31, 2018.

Variable	GROUP Sensitivity effect on statement of financial position (Benefit obligation) Rs. '000	BANK Sensitivity effect on statement of financial position (Benefit obligation) Rs. '000
1% increase in discount rate	**(85,806)**	**(85,806)**
1% decrease in discount rate	**104,379**	**104,379**
1% increase in salary	**107,117**	**107,117**
1% decrease in salary	**(89,364)**	**(89,364)**

50.4 Employee retirement benefit

50.4.1 Pension fund – Defined benefit plan

An actuarial valuation of the Retirement Pension Fund was carried out as at December 31, 2018 by Mr M Poopalanathan, AIA, of Messrs Actuarial and Management Consultants (Pvt) Ltd., a firm of professional actuaries. The valuation method used by the actuaries to value the fund is the "Projected Unit Credit Method (PUC)", the method recommended by the Sri Lanka Accounting Standard – LKAS 19 on "Employee Benefits".

The assets of the fund, which are independently administered by the Trustees as per the provisions of the Trust Deed are held separately from those of the Bank.

50.4.1 (a) Actuarial assumptions

Type of assumption	Criteria	Description
Demographic	Mortality – in service	A 67/70 Mortality table issued by the Institute of Actuaries, London
	After retirement	A (90) Annuities table (Males and Females) issued by the Institute of Actuaries, London
	Staff Turnover	The withdrawal rate at an age represents the probability of an active employee leaving within one year of that age due to reasons other than death, ill health and normal retirement. The same withdrawal rates which were used in the last valuation (as at December 31, 2017) to determine the liability on account of the active employees in the funded scheme, were used in the actuarial valuation carried out as at December 31, 2018.
	Disability	Assumptions similar to those used in other comparable schemes for disability were used as the data required to do a "scheme specific" study was not available.
	Normal retirement age	55 or 60 years as opted by the employees.
Financial	Rate of discount	In the absence of a deep market in long-term bonds in Sri Lanka, a long-term interest rate of 11.50% p.a. (2017 – 11.00% p.a.) has been used to discount future liabilities considering anticipated long-term rate of inflation.
	Salary increases	A salary increment of 11.00% p.a. (2017 – 11.50% p.a.) has been used in respect of the active employees.
	Post-retirement pension increase rate	There is no agreed rate of increase even though the pension payments are subject to periodic increases and increases are granted solely at the discretion of the Bank. Therefore, no specific rate was assumed for this valuation.

50.4.1 (b) Movement in the present value of defined benefit obligation – Bank

	2018 Rs. '000	2017 Rs. '000
Balance as at January 1,	**204,441**	160,833
Interest cost	**22,489**	18,496
Current service cost	**3,823**	3,518
Benefits paid during the year	**(17,619)**	(16,842)
Actuarial (gain)/loss	**4,695**	38,436
Balance as at December 31,	**217,829**	204,441

50.4.1 (c) Movement in the fair value of plan assets

	2018 Rs. '000	2017 Rs. '000
Fair value as at January 1,	**160,530**	160,752
Expected return on plan assets	**17,658**	18,486
Contribution paid into plan	**46,001**	1,710
Benefits paid by the plan	**(17,619)**	(16,842)
Actuarial gain/(loss) on plan assets	**(1,710)**	(3,576)
Fair value as at December 31,	**204,860**	160,530

50.4.1 (d) Liability recognised in the statement of financial position

	2018 Rs. '000	2017 Rs. '000
Present value of defined benefit obligations as at December 31,	**217,829**	204,441
Fair value of plan assets	**(204,860)**	(160,530)
Net liability recognised under other liabilities	**12,969**	43,911

50.4.1 (e) Plan assets consist of the following:

	2018 Rs. '000	2017 Rs. '000
Deposits held with the Bank	**204,860**	160,530
Total	**204,860**	160,530

50.4.2 W&OP Fund – Defined benefit plan

An actuarial valuation of the Retirement Pension W&OP Fund was carried out as at December 31, 2018 by Mr M Poopalanathan, AIA, of Messrs Actuarial & Management Consultants (Pvt) Ltd., a firm of professional actuaries. The valuation method used by the actuaries to value the fund is the "Projected Unit Credit Method (PUC)", the method recommended by the Sri Lanka Accounting Standard – LKAS 19 on "Employee Benefits".

The assets of the fund, which are independently administered by the Trustees as per the provisions of the Trust Deed are held separately from those of the Bank.

50.4.2 (a) Actuarial assumptions

Type of assumption	Criteria	Description
Demographic	Mortality – In service	A 67/70 Mortality table issued by the Institute of Actuaries, London
	After retirement	A (90) Annuities table (Males and Females) issued by the Institute of Actuaries, London
	Staff Turnover	The withdrawal rate at an age represents the probability of an active employee leaving within one year of that age due to reasons other than death, ill health and normal retirement. The same withdrawal rates which were used in the last valuation (as at December 31, 2017) to determine the liability on account of the active employees in the funded scheme, were used in the actuarial valuation carried out as at December 31, 2018.
	Disability	Assumptions similar to those used in other comparable schemes for disability were used as the data required to do a "scheme specific" study was not available.
	Normal retirement age	55 or 60 years as opted by the employees.
Financial	Rate of discount	In the absence of a deep market in long-term bonds in Sri Lanka, a long-term interest rate of 11.50% p.a. (2017 – 11.00% p.a.) has been used to discount future liabilities considering anticipated long-term rate of inflation.
	Salary increases	A salary increment of 11.00% p.a. (2017 – 11.50% p.a.) has been used in respect of the active employees.
	Post-retirement pension increase rate	There is no agreed rate of increase even though the pension payments are subject to periodic increases and increases are granted solely at the discretion of the Bank. Therefore, no specific rate was assumed for this valuation.

50.4.2 (b) Movement in the present value of defined benefit obligation – Bank

	2018 Rs. '000	2017 Rs. '000
Balance as at January 1,	67,534	48,419
Interest cost	6,061	5,568
Current service cost	348	409
Transfers	(12,435)	–
Benefits paid during the year	(5,589)	(5,003)
Actuarial (gain)/loss	5,368	18,141
Balance as at December 31,	61,287	67,534

50.4.2 (c) Movement in the fair value of plan assets

	2018 Rs. '000	2017 Rs. '000
Fair value as at January 1,	48,270	50,182
Expected return on plan assets	5,310	5,771
Contribution paid into plan	19,524	212
Benefits paid by the plan	(5,589)	(5,003)
Actuarial gain/(loss) on plan assets	(667)	(2,892)
Fair value as at December 31,	66,848	48,270

50.4.2 (d) Liability recognised in the Statement of Financial Position

	2018 Rs. '000	2017 Rs. '000
Present value of defined benefit obligations as at December 31,	61,287	67,534
Fair value of plan assets	(66,848)	(48,270)
Net liability recognised under other liabilities	(5,561)	19,264

50.4.2 (e) Plan assets consist of the following:

	2018 Rs. '000	2017 Rs. '000
Deposits held with the Bank	66,848	48,270
Total	66,848	48,270

50.4.3 Pension fund – Defined contribution plan

During 2006, the Bank restructured its pension scheme which was a Defined Benefit Plan (DBP) to a Define Contribution Plan (DCP). This restructured plan was offered on a voluntary basis to the eligible employees of the Bank. The scheme provided for lump sum payments instead of commuted/monthly pension to the eligible employees at the point of their separation, in return for surrendering their pension rights. The lump sum offered consisted of a past service package and future service package. The cost to be incurred on account of the past service package in excess of the funds available in the pension fund was borne by the Bank in 2006.

The future service package includes monthly contributions to be made by the Bank for the employees who accepted the offer, to be made during their remaining period of service, at predetermined contribution rates to be applied on their salaries, estimated to increase for this purpose at 10% p.a. In addition, interest to be earned on the assets of the DCP is also allocated to the employees who joined the restructured scheme.

51. Due to subsidiaries

	GROUP		BANK	
As at December 31,	**2018**	2017	**2018**	2017
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
Local subsidiaries				
Commercial Development Company PLC	–	–	**23,400**	42,732
ONEzero Company Ltd.	–	–	**17,555**	31,791
Serendib Finance Ltd.	–	–	–	–
Subtotal	–	–	**40,955**	74,523
Foreign subsidiaries				
Commex Sri Lanka S.R.L. – Italy	–	–	–	–
Commercial Bank of Maldives Private Limited	–	–	–	–
CBC Myanmar Microfinance Company Limited	–	–	–	–
Subtotal	–	–	–	–
Total	–	–	**40,955**	74,523

The maturity analysis of Due to subsidiaries is given in Note 62 on pages 307 to 309.

52. Subordinated liabilities

These represent the funds borrowed by the Group for long-term funding requirements. Subsequent to initial recognition these are measured at their amortised cost using the EIR method, except where the Group designates them at fair value through profit or loss. Interest paid/payable is recognised in profit or loss.

	Note	Page No.	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000	BANK 2018 Rs. '000	BANK 2017 Rs. '000
Balance as at January 1,			**24,699,430**	24,410,680	**24,699,430**	24,410,680
Amount borrowed during the year (*)			**10,000,000**	–	**10,000,000**	–
Repayments/redemptions during the year			**–**	–	**–**	–
Subtotal			**34,699,430**	24,410,680	**34,699,430**	24,410,680
Exchange rate variance			**2,205,000**	288,750	**2,205,000**	288,750
Balance as at December 31, (before adjusting for amortised interest and transaction cost)	**52.1**	**292**	**36,904,430**	24,699,430	**36,904,430**	24,699,430
Unamortised transaction cost			**(51,384)**	(63,594)	**(51,384)**	(63,594)
Net effect of amortised interest payable			**1,139,411**	530,088	**1,139,411**	530,088
Adjusted balance as at December 31,			**37,992,457**	25,165,924	**37,992,457**	25,165,924

(*) The Bank announced a debenture issue in January 2018 to issue 50,000,000 Basel III compliant – Tier II, listed, rated, unsecured, subordinated redeemable debentures of Rs. 100.00 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 July 16, 2018 and was oversubscribed on the the same day. The allotment and listing of debentures was also concluded in July 23, 2018 and July 30, 2018 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) Increasing Tier II Capital base of the Bank thus strengthening its Total Eligible Capital as per BASEL III requirements.
(c) Reduce maturity gaps by matching medium to long-term liabilities with medium to long-term assets.

As stated in the prospectus 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		Within 3 months from date of receipt of cash flows					
2.	Improve the Tier II capital base thus, increasing the Capital Adequacy Ratio (CAR)	Rs. 10.0 Bn.	Subsequent to the allotment of Debentures	Rs. 10.0 Bn.	100	Rs. 10.0 Bn.	100	N/A
3.	Reduce maturity gaps in the assets and liabilities of the Bank		Within 3 months from date of receipt of cash flows as and when funds are disbursed for lending					

52.1 Categories of subordinated liabilities

Categories	Colombo Stock Exchange Listing	Interest payable frequency	Allotment date	Maturity date	Effective annual yield 2018 %	Effective annual yield 2017 %	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000	BANK 2018 Rs. '000	BANK 2017 Rs. '000
Fixed Rate Debentures										
2016/2021 – 10.75% p.a.	Listed	Biannually	09.03.2016	08.03.2021	**11.04**	11.04	**4,430,340**	4,430,340	**4,430,340**	4,430,340
2016/2021 – 12.00% p.a.	Listed	Biannually	28.10.2016	27.10.2021	**12.36**	12.36	**5,071,800**	5,071,800	**5,071,800**	5,071,800
2016/2026 – 11.25% p.a.	Listed	Biannually	09.03.2016	08.03.2026	**11.57**	11.57	**1,749,090**	1,749,090	**1,749,090**	1,749,090
2016/2026 – 12.25% p.a.	Listed	Biannually	28.10.2016	27.10.2026	**12.63**	12.63	**1,928,200**	1,928,200	**1,928,200**	1,928,200
2018/2023 – 12.00% p.a.	Listed	Biannually	23.07.2018	22.07.2023	**12.36**	–	**8,393,840**	–	**8,393,840**	–
2018/2028 – 12.50% p.a.	Listed	Biannually	23.07.2018	22.07.2028	**12.89**	–	**1,606,160**	–	**1,606,160**	–
Floating rate subordinated loans										
IFC Borrowings – 6 M LIBOR + 5.75%		Biannually	**13.03.2013**	**14.03.2023**	**8.385**	**7.013**	**13,725,000**	**11,520,000**	**13,725,000**	**11,520,000**
Total							**36,904,430**	**24,699,430**	**36,904,430**	**24,699,430**

52.2 Subordinated liabilities by maturity

As at December 31,	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000	BANK 2018 Rs. '000	BANK 2017 Rs. '000
Payable within one year	**–**	–	**–**	–
Payable after one year	**36,904,430**	24,699,430	**36,904,430**	24,699,430
Total	**36,904,430**	24,699,430	**36,904,430**	24,699,430

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, 2018.

The maturity analysis of Subordinated liabilities is given in Note 62 on pages 307 to 309.

53. Stated capital

Ordinary shares in the Bank are recognised at the amount paid per ordinary share net of directly attributable issue cost.

			GROUP		BANK	
			2018	2017	2018	2017
	Note	Page No.	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at January 1,			**37,143,541**	24,978,003	**37,143,541**	24,978,003
Issue of ordinary voting shares under the employee share option plan			**203,083**	386,311	**203,083**	386,311
Transfer from employee share option reserve	57.6	302	**6,414**	28,806	**6,414**	28,806
Issue of ordinary shares as part of the final dividend satisfied in the form of issue and allotment of new shares			**1,794,844**	1,606,549	**1,794,844**	1,606,549
Ordinary voting shares			**1,679,774**	1,503,566	**1,679,774**	1,503,566
Ordinary non-voting shares			**115,070**	102,983	**115,070**	102,983
Rights issue of ordinary voting shares			–	9,616,179	–	9,616,179
Rights issue of ordinary non-voting shares			–	527,693	–	527,693
Balance as at December 31,			**39,147,882**	37,143,541	**39,147,882**	37,143,541

53.1 Movement in number of shares

	Number of ordinary voting shares		Number of ordinary non-voting shares	
	2018	2017	2018	2017
Balance as at January 1,	**931,971,691**	833,521,887	**63,927,611**	57,212,653
Issue of ordinary voting shares under the employee share option plan	**1,739,324**	3,278,537	–	–
Issue of ordinary shares as part of the final dividend satisfied in the form of issue and allotment of new shares	**11,998,388**	10,521,802	**1,085,563**	903,357
Rights issue of ordinary voting shares	–	84,649,465	–	5,811,601
Balance as at December 31,	**945,709,403**	931,971,691	**65,013,174**	63,927,611

The shares of Commercial Bank of Ceylon PLC are quoted on the Colombo Stock Exchange. The non-voting ordinary shares of the Bank, rank *pari passu* in respect of all rights with the ordinary voting shares of the Bank except voting rights on Resolutions passed at General Meetings.

The holders of ordinary shares are entitled to receive dividends declared from time to time and are entitled to one vote per share at General Meetings of the Bank.

The Bank has offered an Employee Share Option Plan. Please see Note 53.2 below for details.

53.2 Employee Share Option Plan – 2008

The Bank obtained the approval of the shareholders at an Extraordinary General Meeting held on April 16, 2008, to introduce an Employee Share Option Plan for the benefit of all the Executive Officers in Grade III and above by creating up to 3% of the ordinary voting shares at the rate of 1% shares each year over a period of three to five years, upon the Bank achieving specified performance targets.

Option price is determined on the basis of the weighted average market price of Bank's voting shares, during the period of ten market days immediately prior to each option offer date.

Number of options offered under each tranche is based on the overall performance of the Bank and the individual performance of the eligible employees in the preceding year. In the event of a rights issue of shares, capitalisation of reserves, stock splits or stock dividends by the Bank during the vesting period, the number of options offered and the price are suitably adjusted as per the applicable rules of ESOP – 2008 which have been drafted in line with the accepted market practices.

One-third of the options offered under each tranche is vested to eligible employees after one year from the date of offer, second One-third of the options after two years from the date of offer and final One-third after three years from the date of offer as detailed below:

	Tranche I			Total
Date granted	April 30, 2008	April 30, 2008	April 30, 2008	
Price (Rs.) – (*)	46.91	46.91	46.91	
	1/3 of Options	1/3 of Options	1/3 of Options	
Exercisable between	April 30, 2009 to April 29, 2013	April 30, 2010 to April 29, 2014	April 30, 2011 to April 29, 2015	
Original number of options	777,308	777,308	777,308	2,331,924
Additions consequent to share splits and rights issues	692,095	789,320	1,057,059	2,538,474
Number of options cancelled before vesting	(52,943)	(52,943)	(52,943)	(158,829)
Number of options vested	1,416,460	1,513,685	1,781,424	4,711,569
Options cancelled due to non-acceptance	–	–	–	–
Number of options exercised up to December 31, 2018	(1,416,460)	(1,513,685)	(1,781,424)	(4,711,569)
Number of options to be exercised as at December 31, 2018	–	–	–	–

(*) Adjusted on account of rights issue of shares and sub division of shares.

	Tranche II			Total
Date granted	April 30, 2011	April 30, 2011	April 30, 2011	
Price (Rs.) – (*)	129.78	129.78	129.78	
	1/3 of Options	1/3 of Options	1/3 of Options	
Exercisable between	April 30, 2012 to April 29, 2016	April 30, 2013 to April 29, 2017	April 30, 2014 to April 29, 2018	
Original number of options	1,213,370	1,213,386	1,230,817	3,657,573
Additions consequent to share splits and rights issues	1,213,370	1,213,386	1,230,817	3,657,573
Number of options cancelled before vesting	(30,980)	(41,307)	(95,236)	(167,523)
Number of options vested	2,395,760	2,385,465	2,366,398	7,147,623
Options cancelled due to non-acceptance	(1,337,809)	(1,020,819)	(864,316)	(3,222,944)
Number of options exercised up to December 31, 2018	(1,057,951)	(1,364,646)	(1,502,082)	(3,924,679)
Number of options to be exercised as at December 31, 2018	–	–	–	–

(*) Adjusted on account of rights issue of shares and sub division of shares.

	Tranche III			Total
Date granted	April 30, 2012	April 30, 2012	April 30, 2012	
Price (Rs.) – (*)	102.69	102.69	102.69	
	1/3 of Options	1/3 of Options	1/3 of Options	
Exercisable between	April 30, 2013 to April 29, 2017	April 30, 2014 to April 29, 2018	April 30, 2015 to April 29, 2019	
Original number of options	2,596,558	2,616,965	2,623,341	7,836,864
Number of options cancelled before vesting	–	(49,706)	(79,964)	(129,670)
Number of options vested	2,596,558	2,567,259	2,543,377	7,707,194
Options cancelled due to non-acceptance	(210,926)	(325,903)	–	(536,829)
Number of options exercised up to December 31, 2018	(2,385,632)	(2,241,356)	(1,405,678)	(6,032,666)
Number of options to be exercised as at December 31, 2018	**–**	**–**	**1,137,699**	**1,137,699**

(*) Adjusted on account of rights issue of shares and sub division of shares.

The Employee Share Option Plan – 2008 was exempted from the requirements of the SLFRS 2 on "Share-based payment" as it was granted prior to January 1, 2012, the effective date of the aforesaid Accounting Standard.

The details of Employee Share Option Plans within the scope of the SLFRS 2 on "Share-based Payment" are reported in Note 54 to the Financial Statements below:

54. Share-based payment

54.1 Description of the share-based payment arrangement

As at the reporting date, the Group had the following equity settled share-based payment arrangement which was granted after January 1, 2012, the effective date of the Accounting Standard SLFRS 2 on "Share-based Payment".

Employee Share Option Plan – 2015

The Bank obtained the approval of the shareholders at an Extraordinary General Meeting held on March 31, 2015, to introduce an Employee Share Option Plan for the benefit of all Executive Officers in Grade 1A and above by creating up to 2% of the ordinary voting shares at the rate of 0.5% shares in the first two years and 1% share in the last year over a period of three to five years, upon the Bank achieving specified performance targets. The performance conditions include minimum performance targets over the budget and over the industry peers and the service conditions include the fulfilment of the minimum service period at vesting dates of each tranche.

Key terms and conditions related to the offer are detailed below:

		Tranches		
		Tranche 1	Tranche 2	Tranche 3
Percentage of issue of new voting shares (Maximum)		0.50	0.50	1.0
Option grant date		April 1, 2015	April 1, 2015	April 1, 2015
Exercisable between		October 1, 2016 to September 30, 2019	October 1, 2017 to September 30, 2020	October 1, 2018 to September 30, 2021
Date of vesting		September 30, 2016	September 30, 2017	September 30, 2018
Vesting conditions		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 option granted to key management personnel		81,869	85,912	138,632
Option granted to other executive officers		4,073,989	4,142,949	9,313,432
Total options vested on the date of vesting		4,155,858	4,228,861	9,452,064

All options are to be settled by physical delivery of ordinary voting shares of the Bank. There are neither cash settlement alternatives nor the Bank has a past practise of cash settlement for these types of options.

The exercise price of each tranche is computed based on a volume-weighted average market price of the Bank's ordinary (voting) shares, during the period of thirty (30) market days, six months prior to the date of vesting.

54.2 Measurement of fair value

As required by SLFRS 2 on "Share-based Payment", the fair value of the ESOP 2015 was estimated at the grant date using the Binomial Valuation Model taking into consideration various terms and conditions upon which the share options are granted.

The inputs used in measurement of fair value at the grant date of ESOP 2015 were as follows:

	Tranches		
Description of the valuation input	Tranche 1	Tranche 2	Tranche 3
Expected dividend rate (%)	3.50	3.50	3.50
Risk free rate (%)	8.00	8.00	8.00
Probability of share price increase (%)	80.00	80.00	80.00
Probability of share price decrease (%)	20.00	20.00	20.00
Size of annual increase of share price (%)	20.00	20.00	20.00
Size of annual reduction in share price (%)	10.00	10.00	10.00
Exercise price (Rs.)	122.73	227.54	250.24

Growths in share prices stated above have been based on evaluation of the historical volatility of the Bank's share price over past 10 years, adjusted for post-war growth in All Share Price Index published by the Colombo Stock Exchange.

54.3 Reconciliation of outstanding share options

The number and weighted-average exercise prices of share options are as follows:

	Tranche 1			
	2018		2017	
	Number of options	WAEP (*)	Number of options	WAEP (*)
Number of voting shares vested and to be vested as at January 1,	15,740,334	166.96	16,203,130	213.55
Number of shares granted from the rights issue	–	–	297,177	191.41
Granted during the year	1,158,684	136.35	–	–
Exercised during the year – Before rights issue	–	–	(456,776)	122.73
Exercised during the year – After rights issue	(170,659)	124.94	(303,197)	126.42
Number of voting shares vested and to be vested as at December 31,	16,728,359	197.24	15,740,334	190.67
Exercisable as at December 31,	16,728,359		7,447,408	

(*) Weighted Average Exercise Price.

54.4 Expense recognised in income statement

The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date, reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. Accordingly, the expense in the Income Statement represents the movement in cumulative expense recognised as at the beginning and end of that period and is recognised in employee benefits expense [Refer Note 20].

55. Statutory reserves

Reserves

Several statutory and voluntary reserves are maintained by the Group in order to meet various legal and operational requirements. The details of these reserves including the nature and purpose of maintaining them are given in Notes 55, 56 and 57 on pages 297 to 299.

			GROUP		BANK	
As at December 31,			2018	2017	2018	2017
	Note	Page No.	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Statutory reserve fund	55.1	298	7,444,178	6,492,552	7,354,143	6,476,952
Subtotal			7,444,178	6,492,552	7,354,143	6,476,952

55.1 Statutory reserve fund

	GROUP		BANK	
	2018	2017	2018	2017
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at January 1,	6,492,552	5,647,993	6,476,952	5,647,890
Transfers made during the year	1,012,527	852,024	877,191	829,062
Statutory reserve attributable to non-controlling interest	(60,901)	(7,465)	–	–
Balance as at December 31,	7,444,178	6,492,552	7,354,143	6,476,952

The statutory reserve fund is maintained as per the requirements under Section 20 (1) of the Banking Act No. 30 of 1988. Accordingly, the fund is built up by allocating a sum equivalent to not less than 5% of the profit after tax, but before declaring any dividend or any profits that are transferred elsewhere until the reserve is equal to 50% of the Bank's stated capital and thereafter a further sum equivalent to 2% of such profit until the amount of the said reserve fund is equal to the stated capital of the Bank.

The balance in the statutory reserve fund will be used only for the purposes specified in the Section 20 (2) of the Banking Act No. 30 of 1988.

56. Retained earnings

			GROUP		BANK	
			2018	2017	2018	2017
	Note	Page No.	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at January 01,			5,086,609	4,553,778	4,987,446	4,464,077
Impact of adopting SLFRS 9	12.2	200	(5,140,993)	–	(4,822,089)	–
Balance as at January 1, – Adjusted			(54,384)	4,553,778	165,357	4,464,077
Total comprehensive income			17,833,952	16,073,373	17,654,113	16,051,342
Profit for the year			17,734,706	16,605,963	17,543,828	16,581,244
Other comprehensive income, net of tax			99,246	(532,590)	110,285	(529,902)
Dividends paid			(6,500,351)	(5,953,572)	(6,500,351)	(5,953,572)
Revaluation gain on disposal of freehold land and building			–	36,940	–	36,940
Unclaimed dividend absorbed/(dividend paid) in respect of previous years			1,604	(2,279)	1,148	(2,279)
Transfers to other reserves			(6,331,626)	(9,624,559)	(6,257,191)	(9,609,062)
Profit on sale of partial disposal of a subsidiary			3,344	5,262	–	–
Reinstatement of non-controlling interest due to partial disposal of a subsidiary			(2,584)	(2,334)	–	–
Balance as at December 31,			4,949,955	5,086,609	5,063,076	4,987,446

57. Other reserves

57. (a) (i) Current year – 2018

			GROUP				
	Note	Page No.	Balance as at January 1, Rs. '000	Impact of adopting SLFRS 9 Rs. '000	Balance as at January 1, – Adjusted Rs. '000	Movement/ transfers Rs. '000	Balance as at December 31, Rs. '000
Revaluation reserve	57.1	300	7,834,003	–	7,834,003	(14,872)	7,819,131
General reserve	57.2	300	52,270,003	–	52,270,003	5,380,000	57,650,003
Available-for-sale reserve	57.3	301	(1,707,486)	1,707,486	–	–	–
Fair value reserve	57.4	301	–	(325,412)	(325,412)	(1,060,943)	(1,386,355)
Foreign currency translation reserve	57.5	301	348,973	–	348,973	2,808,079	3,157,052
Employee share option reserve	57.6	302	529,817	–	529,817	62,167	591,984
Hedging reserve	57.7	302	(3,212)	–	(3,212)	27,231	24,019
Total			59,272,098	1,382,074	60,654,172	7,201,662	67,855,834

57. (a) (ii) Current year – 2018

			BANK				
	Note	Page No.	Balance as at January 1, Rs. '000	Impact of adopting SLFRS 9 Rs. '000	Balance as at January 1, – Adjusted Rs. '000	Movement/ transfers Rs. '000	Balance as at December 31, Rs. '000
Revaluation reserve	57.1	300	7,088,054	–	7,088,054	–	7,088,054
General reserve	57.2	300	52,270,003	–	52,270,003	5,380,000	57,650,003
Available-for-sale reserve	57.3	301	(1,707,494)	1,707,494	–	–	–
Fair value reserve	57.4	301	–	(325,420)	(325,420)	(1,059,562)	(1,384,982)
Foreign currency translation reserve	57.5	301	314,253	–	314,253	2,557,517	2,871,770
Employee share option reserve	57.6	302	529,817	–	529,817	62,167	591,984
Hedging reserve	57.7	302	(3,212)	–	(3,212)	27,231	24,019
Total			58,491,421	1,382,074	59,873,495	6,967,353	66,840,848

57 (b) Previous year – 2017

			GROUP			BANK		
	Note	Page No.	Balance as at January 1, Rs. '000	Movement/ transfers Rs. '000	Balance as at December 31, Rs. '000	Balance as at January 1, Rs. '000	Movement / Transfers Rs. '000	Balance as at December 31, Rs. '000
Revaluation reserve	57.1	300	6,250,554	1,583,449	7,834,003	5,722,859	1,365,195	7,088,054
General reserve	57.2	300	43,490,003	8,780,000	52,270,003	43,490,003	8,780,000	52,270,003
Available-for-sale reserve	57.3	301	(7,208,805)	5,501,319	(1,707,486)	(7,208,796)	5,501,302	(1,707,494)
Foreign currency translation reserve	57.4	301	860,502	(511,529)	348,973	839,346	(525,093)	314,253
Employee share option reserve	57.5	301	420,282	109,535	529,817	420,282	109,535	529,817
Hedging reserve	57.6	302	–	(3,212)	(3,212)	–	(3,212)	(3,212)
Total			43,812,536	15,459,562	59,272,098	43,263,694	15,227,727	58,491,421

57.1 Revaluation reserve

The revaluation reserve relates to revaluation of freehold land and buildings and represents the fair value changes of the land and buildings, as at the date of revaluation.

The Bank carried out a revaluation of all its freehold lands and buildings as at December 31, 2017 and recognised Rs. 1,396.663 Mn., as revaluation surplus.

	GROUP		BANK	
	2018 Rs. '000	2017 Rs. '000	**2018 Rs. '000**	2017 Rs. '000
Balance as at January 1,	**7,834,003**	6,250,554	**7,088,054**	5,722,859
Surplus on revaluation of freehold land and buildings	**–**	3,828,390	**–**	3,542,214
Deferred tax effect on revaluation surplus on freehold land and buildings	**(10,010)**	(2,205,823)	**–**	(2,145,551)
Revaluation gain on disposal of freehold land and buildings	**–**	(31,468)	**–**	(31,468)
Movement due to changes in equity	**(4,862)**	(7,650)	**–**	–
Balance as at December 31,	**7,819,131**	7,834,003	**7,088,054**	7,088,054

57.2 General reserve

The Bank transfers the surplus profit, after payment of interim dividend and after retaining sufficient profits to pay final dividends proposed, from the retained earnings account to the General Reserve account. The purpose of setting up the General Reserve is to meet potential future unknown liabilities.

	GROUP		BANK	
	2018 Rs. '000	2017 Rs. '000	**2018 Rs. '000**	2017 Rs. '000
Balance as at January 1,	**52,270,003**	43,490,003	**52,270,003**	43,490,003
Transfers during the year	**5,380,000**	8,780,000	**5,380,000**	8,780,000
Balance as at December 31,	**57,650,003**	52,270,003	**57,650,003**	52,270,003

57.3 Available-for-sale reserve

The available-for-sale reserve is comprised of the cumulative net change in fair value of financial investments available for sale until such investments are derecognised or impaired.

	Note	Page No.	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000	BANK 2018 Rs. '000	BANK 2017 Rs. '000
Balance as at January 1,			(1,707,486)	(7,208,805)	(1,707,494)	(7,208,796)
Impact of adopting SLFRS 9	12.2	200	1,707,486	–	1,707,494	–
Balance as at January 1, – Adjusted			–	–	–	–
Net fair value gains/(losses) on remeasuring financial investments available for sale			–	5,501,319	–	5,501,302
Balance as at December 31,			–	(1,707,486)	–	(1,707,494)

57.4 Fair value reserve

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.

	Note	Page No.	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000	BANK 2018 Rs. '000	BANK 2017 Rs. '000
Balance as at January 1,			–	–	–	–
Impact of adopting SLFRS 9	12.2	200	(325,412)	–	(325,420)	–
Balance as at January 1, – Adjusted			(325,412)	–	(325,420)	–
Net fair value gains/(losses) on remeasuring financial assets fair value through other comprehensive income			(1,060,943)	–	(1,059,562)	–
Balance as at December 31,			(1,386,355)	–	(1,384,982)	–

57.5 Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign currency differences arising from the translation of the Financial Statements of foreign operations.

As at the reporting date, the assets and liabilities of the Bank's Bangladesh Operation 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 2018 Rs. '000	GROUP 2017 Rs. '000	BANK 2018 Rs. '000	BANK 2017 Rs. '000
Balance as at January 1,	348,973	860,502	314,253	839,346
Net gains/(losses) arising from translating the Financial Statements of foreign operations	3,003,952	(503,140)	2,557,517	(525,093)
Foreign Currency Translation Reserve attributable to non-controlling Interest	(195,873)	(8,389)	–	–
Balance as at December 31,	3,157,052	348,973	2,871,770	314,253

57.6 Employee share option reserve

The employee share option reserve is used to recognise the value of equity-settled share-based payments to be provided to employees, including Key Management Personnel, as part of their remuneration.

			GROUP		BANK	
			2018	2017	2018	2017
	Note	Page No.	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at January 1,			529,817	420,282	529,817	420,282
Transfers during the year	20	213	68,581	138,341	68,581	138,341
Transfers to stated capital	53	293	(6,414)	(28,806)	(6,414)	(28,806)
Balance as at December 31,			591,984	529,817	591,984	529,817

57.7 Hedging reserve

The hedging reserve comprises the effective portion of the cumalative 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	
	2018	2017	2018	2017
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at January 1,	(3,212)	–	(3,212)	–
Transfers during the year	27,231	(3,212)	27,231	(3,212)
Balance as at December 31,	24,019	(3,212)	24,019	(3,212)

58. Non-controlling interest

Non-Controlling Interest (NCI) are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. Accordingly, the Bank has non-controlling interest of two subsidiaries namely, Commercial Development Company PLC (NCI of 7.59%) and Commercial Bank of Maldives Private Limited (NCI of 45%) as at the reporting date as follows:

	2018	2017
	Rs. '000	Rs. '000
Balance as at January 1,	871,906	823,113
Profit for the year	128,125	20,544
Other comprehensive income, net of tax	195,685	21,955
Dividends paid for the year	(4,218)	(3,690)
Unclaimed dividend absorbed/(dividend paid) in respect of previous years	37	–
Reinstatement of non-controlling interest due to partial disposal of a subsidiary	7,446	9,984
Balance as at December 31,	1,198,981	871,906

59. Contingent liabilities and commitments

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be readily measured as defined in the Sri Lanka Accounting Standard – LKAS 37 on "Provisions, Contingent Liabilities and Contingent Assets".

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other undrawn commitments to lend. Letters of credit and guarantees commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees and standby letters of credit carry a similar credit risk to loans.

Contingent liabilities are not recognised in the Statement of Financial Position but are disclosed unless its occurrence is remote.

Operating lease commitments of the Group (as a lessor and as a lessee) form part of commitments and pending legal claims against the Group form part of contingencies.

Even though these obligations may not be recognised on the Statement of Financial Position, they do contain credit risk and are therefore part of the overall risk of the Bank as disclosed in Note 59.1 on page 304.

In the normal course of business, the Bank makes various irrevocable commitments and incurs certain contingent liabilities with legal recourse to its customers.

			GROUP		BANK	
As at December 31,			2018	2017	2018	2017
	Note	Page No.	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Contingencies			**497,339,745**	438,543,821	**497,201,464**	438,454,025
Guarantees			**48,466,580**	64,869,807	**48,412,151**	64,869,608
Performance bonds			**45,115,711**	30,604,509	**45,112,151**	30,601,521
Documentary credits			**49,478,564**	45,146,266	**49,398,272**	45,078,313
Other contingencies	59.1	304	**354,278,890**	297,923,239	**354,278,890**	297,904,583
Commitments			**161,520,519**	126,734,000	**161,520,519**	126,340,860
Undrawn commitments	59.2	304	**161,062,099**	124,977,782	**161,062,099**	124,594,675
Capital commitments	59.3	304	**458,420**	1,756,218	**458,420**	1,746,185
Total			**658,860,264**	565,277,821	**658,721,983**	564,794,885

59.1 Other contingencies

As at December 31,	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000	BANK 2018 Rs. '000	BANK 2017 Rs. '000
Forward exchange contracts:	**98,922,263**	68,436,909	**98,922,263**	68,436,909
Forward exchange sales	**52,853,513**	24,380,254	**52,853,513**	24,380,254
Forward exchange purchases	**46,068,750**	44,056,655	**46,068,750**	44,056,655
Interest Rate Swap agreements/currency swaps:	**182,984,415**	164,800,830	**182,984,415**	164,800,830
Interest rate swaps	**–**	–	**–**	–
Currency swaps	**182,984,415**	164,800,830	**182,984,415**	164,800,830
Others:	**72,372,212**	64,685,500	**72,372,212**	64,666,844
Acceptances	**41,931,557**	40,336,138	**41,931,557**	40,321,501
Bills for collection	**29,200,428**	23,310,642	**29,200,428**	23,306,623
Stock of Travellers' Cheques	**1,230,582**	1,030,549	**1,230,582**	1,030,549
Bullion on consignment	**9,645**	8,171	**9,645**	8,171
Subtotal	**354,278,890**	297,923,239	**354,278,890**	297,904,583

59.2 Undrawn commitments

As at December 31,	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000	BANK 2018 Rs. '000	BANK 2017 Rs. '000
On direct advances	**106,223,235**	105,053,514	**106,223,235**	104,670,407
On indirect advances	**54,838,864**	19,924,268	**54,838,864**	19,924,268
Subtotal	**161,062,099**	124,977,782	**161,062,099**	124,594,675

59.3 Capital commitments

The Group has commitments for acquisition of property, plant and equipment and intangible assets incidental to the ordinary course of business which have been approved by the Board of Directors, the details of which are as follows:

As at December 31,	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000	BANK 2018 Rs. '000	BANK 2017 Rs. '000
Commitments in relation to property, plant and equipment	**406,011**	1,539,657	**406,011**	1,529,624
Approved and contracted for	**215,011**	1,425,307	**215,011**	1,415,274
Approved but not contracted for	**191,000**	114,350	**191,000**	114,350
Commitments in relation to intangible assets	**52,409**	216,561	**52,409**	216,561
Approved and contracted for	**52,409**	216,561	**52,409**	216,561
Approved but not contracted for	**–**	–	**–**	–
Subtotal	**458,420**	1,756,218	**458,420**	1,746,185

59.4 Movement in provision for impairment during the year

	Note	Page No.	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000	BANK 2018 Rs. '000	BANK 2017 Rs. '000
Movement in Stage 1 Impairment						
Balance as at January 1,			656,764	–	656,764	–
Charge/(write back) to the Income Statement	19.1 & 19.2	212	(130,732)	–	(130,732)	–
Exchange rate variance on foreign currency provisions			2,900	–	2,900	–
Balance as at December 31,			528,932	–	528,932	–
Movement in Stage 2 Impairment						
Balance as at January 1,			111,946	–	111,946	–
Charge/(write back) to the Income Statement	19.1 & 19.2	212	(22,769)	–	(22,769)	–
Balance as at December 31,			89,177	–	89,177	–
Movement in Stage 3 impairment						
Balance as at January 1,			78,949	–	78,949	–
Charge/(write back) to the Income Statement	19.1 & 19.2	212	29,582	–	29,582	–
Balance as at December 31,			108,531	–	108,531	–
Movement in total impairment						
Balance as at January 1,	12.1	196	847,659	–	847,659	–
Charge/(write back) to the Income Statement	19.1 & 19.2	212	(123,919)	–	(123,919)	–
Exchange rate variance on foreign currency provisions			2,900	–	2,900	–
Balance as at December 31,			726,640	–	726,640	–

59.5 Contingent liabilities and commitments of subsidiaries and associates

59.5 (a) Contingent liabilities and commitments of subsidiaries

Contingent liabilities and commitments of the subsidiary, Commercial Bank of Maldives Private Limited have been included in the Consolidated Financial Statements of the Group while other subsidiaries of the Group do not have any contingencies or commitments as at the reporting date.

59.5 (b) Contingent liabilities and commitments of associates

The associates of the Group do not have any contingencies as at the reporting date.

60. Net assets value per ordinary share

As at December 31,	GROUP 2018	GROUP 2017	BANK 2018	BANK 2017
Amounts used as the numerator:				
Total equity attributable to equity holders of the Bank (Rs. '000)	119,397,849	107,994,800	118,405,949	107,099,360
Number of ordinary shares used as the denominator:				
Total number of shares	1,010,722,577	995,899,302	1,010,722,577	995,899,302
Net assets value per share (Rs.)	118.13	108.44	117.15	107.54

61. Litigation against the Bank

Litigation is a common occurrence in the banking industry due to the nature of the business. The Bank has an established protocol for dealing with such legal claims. In respect of pending legal claims where the Bank had already made provisions for possible losses in its Financial Statements or has a realisable security to cover the damages are not included below as the Bank does not expect cash outflows from such claims. However, further adjustments are made to the Financial Statements if necessary on the adverse effects of legal claims based on the professional advice obtained on the certainty of the outcome and also based on a reasonable estimate.

Set out below are the unresolved legal claims against the Bank as at December 31, 2018 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.

(i) Court action has been initiated by a customer in District Court, Colombo under proceedings number DMR 3/2014 for Rs. 14.000 Mn. to recover a sum of Rs. 13.063 Mn. including interest on cheques paid with a fraudulent signature. The case which was initially filed at the District Court was later referred to the Commercial High Court under proceedings number 315/2015/MR. The matter is fixed for trial on June 12, 2019.

(ii) Court action has been initiated in District Court, Colombo under proceedings number DMR/974/2016 to recover a sum of Rs. 26.237 Mn. together with interest as damages incurred by the plaintiff due to the delay by the Bank in refunding the amount with regard to a duplicated telegraphic transfer for USD 0.025 Mn. Further trial fixed for March 29, 2019.

(iii) Court action has been initiated in District Court, Colombo under proceedings number DMR/2274/2015 to recover a sum of Rs. 3.374 Mn. as parking charges and interest thereon due to a dispute over parking facility provided to the Bank. Trial is due on April 1, 2019.

(iv) Court action has been initiated in District Court, Kaduwela under proceedings number 584/L for Rs. 15.000 Mn. and interest thereon in seeking declaration that the plaintiff is the lawful owner of the property mortgaged by her daughter as security for a loan (currently in the Past-due section) obtained from the Bank. Further, trial is fixed for May 28, 2019.

(v) An appeal was filed by the Bank under proceedings number HCALT 405/2014 in Provincial High Court of the Eastern Province against the order of the Labour Tribunal for payment of compensation and reinstatement in employment of an outsourced office helper. The office helper too filed a case in Provincial High Court in proceedings number HCALT 404/2014 refusing compensation and asking for reinstatement. Appeal made by the Bank was dismissed and case filed by outsourced office helper was decided in favour of him. Bank has appealed in the Supreme Court against the judgement of both cases under proceedings number SC/SPL/LA/220/15 and SC/SPL/LA/221/15. Next hearing of the cases fixed for September 24, 2019.

(vi) Court action has been initiated in Colombo High Court under proceedings number 112/2005 (1) to claim Rs. 5.584 Mn. and Rs. 10.000 Mn. as damages for disposing of shares owned by the plaintiff which were held under lien to the Bank. Plaintiff alleges that the transaction has taken place without obtaining her consent. Judgement was delivered in favour of the plaintiff. Bank has appealed in the Supreme Court (Appeal No. 09/2010) against the Judgement delivered. Appeal is fixed for argument on September 3, 2019.

(vii) Court action has been initiated by a customer in Colombo High Court under proceedings number 36/96 (1) to claim a sum of Rs. 183.050 Mn. regarding a forward exchange contract. Judgement was delivered in favour of the Bank dismissing the plaintiff's action, but the plaintiff has appealed against the Judgement in the Supreme Court (Appeal No. 38/2006). Next hearing on June 28, 2019.

(viii) Court action has been initiated in the Commercial High Court of the Western Province under proceedings number 571/2008/MR to prevent the Bank from exercising the inherent rights of the Bank to set off a deposit of the plaintiff amounting to USD 15.000 Mn. against a sum due from the plaintiff in terms of a hedging agreement. Commercial High Court issued the Judgement in favour of the Bank and dismissed plaintiff's application for an interim injunction. Presently the case is at the Trial stage. Written submissions due on March 18, 2019 .

(ix) Court action has been initiated by the Plaintiff in District Court, Colombo under proceedings number DMR/2855/18 to claim a sum of Rs. 1.688 Mn. being the 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. Plaintiff has also claimed Rs. 50.000 Mn. as damages. Answer by the Bank is due on March 29, 2019.

(x) Court action has been initiated by a previous security services provider of the Bank in High Court under proceedings number 591/17/MR to recover a sum of Rs. 14.874 Mn., being the increment in salaries paid to the workers by the Company, under the Budgetary Relief Allowance of Workers Act No. 4 of 2016. Further trial fixed for June 20, 2019.

62. Maturity analysis

Group

(i) Remaining contractual period to maturity as at the date of Statement of Financial Position of the assets employed by the Group is detailed below:

As at December 31,	Up to 3 months Rs. '000	3 to 12 months Rs. '000	1 to 3 years Rs. '000	3 to 5 years Rs. '000	More than 5 years Rs. '000	**Total as at 31.12.2018 Rs. '000**	Total as at 31.12.2017 Rs. '000
Interest earning assets							
Financial assets							
Cash and cash equivalents	13,737,957	–	–	–	–	**13,737,957**	3,660,584
Balances with central banks	6,930,087	2,000,899	–	68,550	–	**8,999,536**	1,900,891
Placements with banks	19,898,515	–	–	–	–	**19,898,515**	17,633,269
Securities purchased under resale agreements	9,513,512	–	–	–	–	**9,513,512**	–
Financial assets recognised through profit or loss/ Held for trading – measured at fair value	4,751,360	–	–	–	–	**4,751,360**	4,096,168
Financial assets at amortised cost – Loans and advances to other customers	322,606,365	202,673,446	195,584,843	100,522,684	46,224,638	**867,611,976**	742,444,130
Financial assets at amortised cost – Debt and other financial instruments/financial investments – Held to maturity and Loans and receivables	11,830,726	13,250,670	30,343,068	30,561,901	3,288,048	**89,274,413**	118,078,273
Financial assets measured at fair value through other comprehensive income/financial Investments – Available for sale	14,825,940	51,046,665	55,334,538	54,075,631	1,233,344	**176,516,118**	154,366,556
Total Interest earning assets as at 31.12.2018	**404,094,462**	**268,971,680**	**281,262,449**	**185,228,766**	**50,746,030**	**1,190,303,387**	
Total Interest earning assets as at 31.12.2017	282,029,063	285,562,116	260,210,317	162,929,129	51,449,246		1,042,179,871
Non-Interest earning assets							
Financial assets							
Cash and cash equivalents	30,618,005	–	–	–	–	**30,618,005**	31,012,840
Balances with central banks	27,250,735	16,305,044	1,237,212	809,047	804,961	**46,406,999**	43,645,458
Derivative financial assets	3,304,750	3,982,426	589,427	–	33,359	**7,909,962**	2,334,536
Financial assets recognised through profit or loss/ Held for trading – measured at fair value	768,807	–	–	–	–	**768,807**	314,745
Financial assets at amortised cost – Loans and advances to banks	–	–	763,074	–	–	**763,074**	640,512
Financial assets measured at fair value through other comprehensive income/financial Investments – Available for sale	–	–	–	20,651	223,842	**244,493**	547,087

As at December 31,	Up to 3 months Rs. '000	3 to 12 months Rs. '000	1 to 3 years Rs. '000	3 to 5 years Rs. '000	More than 5 years Rs. '000	**Total as at 31.12.2018 Rs. '000**	Total as at 31.12.2017 Rs. '000
Non-Financial Assets							
Investments in associates	–	–	–	–	105,320	**105,320**	109,844
Property, plant and equipment	–	–	–	–	17,015,236	**17,015,236**	16,317,044
Intangible assets	–	–	–	–	1,433,931	**1,433,931**	1,251,226
Leasehold property	–	–	–	–	103,064	**103,064**	104,516
Deferred tax assets	188,487	–	–	–	–	**188,487**	–
Other assets	17,943,295	225,991	1,890,106	530,631	3,461,449	**24,051,472**	17,362,977
Total non-interest earning assets as at 31.12.2018	80,074,079	20,513,461	4,479,819	1,360,329	23,181,162	**129,608,850**	
Total non-interest earning assets as at 31.12.2017	71,622,392	15,953,121	2,669,183	1,253,731	22,142,358		113,640,785
Total assets – as at 31.12.2018	**484,168,541**	**289,485,141**	**285,742,268**	**186,589,095**	**73,927,192**	**1,319,912,237**	
Total assets – as at 31.12.2017	353,651,455	301,515,237	262,879,500	164,182,860	73,591,604		1,155,820,656
Percentage – as at 31.12.2018 (*)	**36.68**	**21.93**	**21.65**	**14.14**	**5.60**	**100.00**	
Percentage – as at 31.12.2017 (*)	30.60	26.09	22.74	14.20	6.37		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 31.12.2018 Rs. '000**	Total as at 31.12.2017 Rs. '000
Interest-bearing liabilities							
Financial liabilities							
Due to banks	11,867,462	17,259,154	918,605	490,220	–	**30,535,441**	52,078,375
Securities sold under repurchase agreements	38,705,156	6,974,167	3,272,071	–	–	**48,951,394**	49,532,385
Financial liabilities at amortised cost – Due to depositors	506,721,299	354,302,657	24,892,407	14,113,093	16,088,136	**916,117,592**	792,237,948
Financial liabilities at amortised cost – Other borrowings	266,300	1,499,941	8,463,641	8,507,200	6,624,830	**25,361,912**	23,786,094
Subordinated liabilities	739,373	387,827	9,477,720	22,104,087	5,283,450	**37,992,457**	25,165,924
Total Interest-bearing liabilities as at 31.12.2018	**558,299,590**	**380,423,746**	**47,024,444**	**45,214,600**	**27,996,416**	**1,058,958,796**	
Total Interest-bearing liabilities as at 31.12.2017	526,595,425	308,076,794	39,503,405	31,118,593	37,506,509		942,800,726

	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 31.12.2018 Rs. '000**	Total as at 31.12.2017 Rs. '000
Non-interest bearing liabilities							
Financial liabilities							
Due to banks	21,826,611	–	–	–	–	**21,826,611**	8,166,517
Derivative financial liabilities	3,404,297	4,432,899	184,587	–	–	**8,021,783**	3,678,494
Financial liabilities at amortised cost – Due to depositors	78,243,789	3,560	5,934	–	–	**78,253,283**	65,032,033
Non-financial liabilities							
Current tax liabilities	1,443,988	5,292,009	–	–	–	**6,735,997**	4,202,850
Deferred tax liabilities	(229,610)	(328,268)	(515,164)	151,947	1,892,519	**971,424**	3,565,215
Other liabilities	15,865,542	2,387,328	2,045,280	838,683	3,410,680	**24,547,513**	19,508,115
Equity							
Stated capital	–	–	–	–	39,147,882	**39,147,882**	37,143,541
Statutory reserves	–	–	–	–	7,444,178	**7,444,178**	6,492,552
Retained earnings	–	–	–	–	4,949,955	**4,949,955**	5,086,609
Other reserves	–	–	–	–	67,855,834	**67,855,834**	59,272,098
Non-controlling Interest					1,198,981	**1,198,981**	871,906
Total non-interest-bearing liabilities as at 31.12.2018	**120,554,617**	**11,787,528**	**1,720,637**	**990,630**	**125,900,029**	**260,953,441**	
Total non-interest-bearing liabilities as at 31.12.2017	80,371,453	14,424,025	3,532,019	1,636,826	113,055,607		213,019,930
Total liabilities and equity – as at 31.12.2018	**678,854,207**	**392,211,274**	**48,745,081**	**46,205,230**	**153,896,445**	**1,319,912,237**	
Total liabilities and equity – as at 31.12.2017	606,966,878	322,500,819	43,035,424	32,755,419	150,562,116		1,155,820,656
Percentage – as at 31.12.2018 (*)	**51.44**	**29.71**	**3.69**	**3.50**	**11.66**	**100.00**	
Percentage – as at 31.12.2017 (*)	52.52	27.90	3.72	2.83	13.03		100.00

(*) Total liabilities and share holders' funds of each maturity bucket as a percentage of total liabilities and shareholders' funds employed by the Group.

63. Operating Segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Corporate Management Team headed by the Managing Director/Chief Executive Officer (being the chief operating decision-maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

The Group has five strategic divisions which are reportable segments, namely:

Operating segment

- Personal banking
- Corporate banking
- International operations
- Investment banking
- Dealing and treasury

Segment performance is evaluated based on operating profits or losses which, in certain respects, are measured differently from operating profits or losses in the Consolidated Financial Statements. Income taxes are managed on a group basis and are not allocated to operating segments.

The following table presents the income, profit and asset and liability information on the Group's strategic business divisions for the year ended December 31, 2018 and comparative figures for the year ended December 31, 2017:

	Personal banking		Corporate banking		International operations	
For the year ended December 31,	**2018 Rs. '000**	2017 Rs. '000	**2018 Rs. '000**	2017 Rs. '000	**2018 Rs. '000**	2017 Rs. '000
External operating income:						
Net interest income	**28,043,793**	26,884,392	**7,618,264**	4,639,252	**5,534,068**	4,044,558
Foreign exchange profit	**340,879**	217,330	**377,715**	699,565	**1,697,686**	1,015,851
Net fee and commission income	**6,952,468**	6,135,191	**2,140,757**	1,803,963	**1,501,710**	934,398
Other in come	**204,482**	130,584	**20,088**	96,048	**16,889**	–
Total operating income	**35,541,622**	33,367,497	**10,156,824**	7,238,828	**8,750,353**	5,994,807
Impairment loss expenses	**(4,178,709)**	(1,628,321)	**(4,123,622)**	832,688	**(2,128)**	(193,682)
Net operating income	**31,362,913**	31,739,176	**6,033,202**	8,071,516	**8,748,225**	5,801,125
Segment result	**15,059,939**	16,281,986	**2,453,781**	5,414,227	**6,330,706**	4,086,117
Profit from operations						
Share of profit of associates – Net of tax						
Income tax expense						
Non-controlling interest						
Net profit for the year, attributable to equity holders of the parent						

	Personal banking		Corporate banking		International operations	
As at December 31,	**2018 Rs. '000**	2017 Rs. '000	**2018 Rs. '000**	2017 Rs. '000	**2018 Rs. '000**	2017 Rs. '000
Other information						
Segment assets	**488,427,548**	443,643,154	**303,406,929**	240,649,838	**150,228,340**	128,456,896
Investment in associates	**–**	–	**–**	–	**–**	–
Total assets	**488,427,548**	443,643,154	**303,406,929**	240,649,838	**150,228,340**	128,456,896
Segment liabilities	**782,113,216**	690,860,560	**171,867,079**	151,728,410	**147,762,473**	103,813,211
Total liabilities	**782,113,216**	690,860,560	**171,867,079**	151,728,410	**147,762,473**	103,813,211

	Personal banking		Corporate banking		International operations	
For the year ended December 31,	**2018 Rs. '000**	2017 Rs. '000	**2018 Rs. '000**	2017 Rs. '000	**2018 Rs. '000**	2017 Rs. '000
Information on cash flows						
Cash flows from operating activities	**78,859,644**	3,977,097	**(44,494,188)**	(7,219,784)	**6,033,177**	322,609
Cash flows from investing activities	**–**	–	**–**	–	**–**	–
Cash flows from financing activities	**–**	–	**–**	–	**–**	–
Capital expenditure –						
Property, plant and equipment	**–**	–	**–**	–	**–**	–
Intangible assets	**–**	–	**–**	–	**–**	–
Net cash flow generated during the year	**–**	–	**–**	–	**–**	–

	Investment banking		Dealing/treasury		Unallocated/eliminations		Total/consolidated	
	2018 Rs. '000	2017 Rs. '000	**2018 Rs. '000**	2017 Rs. '000	**2018 Rs. '000**	2017 Rs. '000	**2018 Rs. '000**	2017 Rs. '000
	310,750	381,502	**1,735,010**	1,559,382	**2,376,324**	2,058,212	**45,618,209**	39,567,298
	–	–	**1,876,109**	(1,335,721)	**3,771,099**	–	**8,063,488**	597,025
	35,718	45,242	**3,739**	5,672	**–**	–	**10,634,392**	8,924,466
	(19,418)	12,161	**267,165**	61,424	**59,172**	148,012	**548,378**	448,229
	327,050	438,905	**3,882,023**	290,757	**6,206,595**	2,206,224	**64,864,467**	49,537,018
	(2,287)	–	**(526,616)**	–	**–**	–	**(8,833,362)**	(989,315)
	324,763	438,905	**3,355,407**	290,757	**6,206,595**	2,206,224	**56,031,105**	48,547,703
	156,239	287,326	**1,339,758**	126,225	**752,077**	(2,919,235)	**26,092,500**	23,276,646
							26,092,500	23,276,646
							6,048	3,678
							(8,235,717)	(6,653,817)
							(128,125)	(20,544)
							17,734,706	16,605,963

	Investment banking		Dealing/treasury		Unallocated/eliminations		Total/consolidated	
	2018 Rs. '000	2017 Rs. '000	**2018 Rs. '000**	2017 Rs. '000	**2018 Rs. '000**	2017 Rs. '000	**2018 Rs. '000**	2017 Rs. '000
	15,076,223	17,270,623	**283,021,383**	262,780,975	**79,646,494**	62,909,326	**1,319,806,917**	1,155,710,812
	–	–	**–**	–	**105,320**	109,844	**105,320**	109,844
	15,076,223	17,270,623	**283,021,383**	262,780,975	**79,751,814**	63,019,170	**1,319,912,237**	1,155,820,656
	15,181,543	17,380,467	**74,683,675**	75,403,237	**7,707,421**	7,768,065	**1,199,315,407**	1,046,953,950
	15,181,543	17,380,467	**74,683,675**	75,403,237	**7,707,421**	7,768,065	**1,199,315,407**	1,046,953,950

	Investment banking		Dealing/treasury		Unallocated/eliminations		Total/consolidated	
	2018 Rs. '000	2017 Rs. '000	**2018 Rs. '000**	2017 Rs. '000	**2018 Rs. '000**	2017 Rs. '000	**2018 Rs. '000**	2017 Rs. '000
	465,912	140,802	**(33,147,207)**	(191,366)	**–**	–	**7,717,338**	(2,970,642)
	1,404,083	3,362,948	**–**	–	**–**	–	**1,404,083**	3,362,948
	–	–	**–**	–	**2,998,732**	3,814,921	**2,998,732**	3,814,921
	–	–	**–**	–	**–**	–	**(2,026,561)**	(2,105,701)
	–	–	**–**	–	**–**	–	**(406,641)**	(352,329)
	–	–	**–**	–	**–**	–	**9,686,951**	1,749,197

64. Related party disclosures

The Bank carried out transactions in the ordinary course of business on an arm's length basis at commercial rates with parties who are defined as related Parties as per the Sri Lanka Accounting Standard – LKAS 24 – "Related Party Disclosures", other than, transactions that the Key Management Personnel (KMP) have availed under schemes uniformly applicable to all staff at concessionary rates.

64.1 Parent and ultimate controlling party

The Bank does not have an identifiable parent of its own.

64.2 Key Management Personnel (KMP)

KMP are those persons having authority and responsibility for planning, directing and controlling the activities of the entity directly or indirectly.

KMP of the Bank

The Board of Directors of the Bank has been classified as KMP of the Bank.

KMP of the Group

As the Bank is the ultimate parent of the subsidiaries listed out in Note 1.1 on page 169, the Board of Directors of the Bank has the authority and responsibility for planning, directing and controlling the activities of the Group directly or indirectly. Accordingly, the Board of Directors of the Bank is also KMP of the Group. Therefore, officers who are only Directors of the subsidiaries and not of the Bank have been classified as KMP only for that respective subsidiary.

64.2.1 Transactions with KMP

64.2.1.1 Compensation of KMP – Bank

For the year ended December 31,	**2018** Rs. '000	2017 Rs. '000
Short-term employment benefits	**191,982**	159,190
Post-employment benefits	**8,481**	7,831
Total	**200,463**	167,021

64.2.1.2 Compensation of KMP – Group

For the year ended December 31,	**2018** Rs. '000	2017 Rs. '000
Short-term employment benefits	**194,031**	161,282
Post-employment benefits	**8,481**	7,831
Total	**202,512**	169,113

64.2.2 Transactions, arrangements and agreements involving KMP and their Close Family Members (CFM)

CFM of a KMP are those family members who may be expected to influence, or be influenced by, that KMP in their dealings with the Bank. They may include KMP's domestic partner and children, children of the KMP's domestic partner and dependants of the KMP or the KMP's domestic partner. CFM are related parties to the Group/Bank.

64.2.2.1 Statement of Financial Position – Bank

	Year-end balance		Annual average balance	
	2018	2017	**2018**	2017
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
Assets				
Loans and advances	**53,063**	18,890	**31,796**	9,282
Credit cards	**637**	115	**1,134**	427
Total	**53,700**	19,005	**32,930**	9,709
Liabilities				
Deposits	**262,328**	228,579	**265,877**	167,137
Securities sold under repurchase agreements	**–**	7,844	**2,534**	30,123
Debentures	**2,000**	2,000	**2,000**	2,000
Total	**264,328**	238,423	**270,411**	199,260

64.2.2.2 Commitments and contingencies – Bank

	Year-end balance		Annual average balance	
	2018	2017	**2018**	2017
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
Undrawn facilities	**16,293**	18,035	**15,429**	13,024
Total	**16,293**	18,035	**15,429**	13,024

64.2.2.3 Direct and indirect accommodation – Bank

	Year-end balance	
	2018	2017
	%	%
Direct and indirect accommodation as a % of the Bank's regulatory capital	**0.05**	0.03

No impairment losses have been recorded against balances outstanding with KMP and CFM.

64.2.2.4 Income Statement

For the year ended December 31,			**2018**	2017
	Note	Page No.	**Rs. '000**	Rs. '000
Interest income			**3,597**	777
Interest expense			**24,594**	17,226
Compensation to KMP	64.2.1.1	312	**200,463**	167,021

64.2.2.5 Share-based transactions of KMP and CFM

Year end balance	Year-end balance 2018	Year-end balance 2017
Number of ordinary shares held	**866,367**	1,206,569
Dividends paid (in Rs. '000)	**7,353**	6,304
Number of cumulative exercisable options under the Employee Share Option Plan (ESOP) 2008		
Tranche II	**–**	50,270
Tranche III	**35,341**	105,695
Number of cumulative exercisable options under the Employee Share Option Plan (ESOP) 2015		
Tranche I	**59,615**	83,416
Tranche II	**61,400**	85,912
Tranche III	**138,632**	–

64.2.3 Transactions, arrangements and agreements involving entities which are controlled, and/or significantly influenced by the KMP or their CFM

No significant transactions during the year.

64.3 Transactions with Group entities

The Group entities include the subsidiaries and the associates of the Bank.

64.3.1 Transactions with subsidiaries

64.3.1.1 Statement of Financial Position

	Year-end balance		Annual average balance	
	2018	2017	**2018**	2017
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
Assets				
Loans and advances	**1,185,845**	841,060	**835,099**	879,790
Other receivables	**32,226**	31,439	**31,833**	62,148
Credit card Advances	**1**	–	**22**	–
Total	**1,218,072**	872,499	**866,954**	941,938
Liabilities				
Deposits	**244,403**	502,575	**258,565**	120,953
Securities sold under repurchase agreements	**153,068**	142,550	**140,023**	202,877
Other	**18,293**	74,523	**46,039**	47,292
Total	**415,764**	719,648	**444,627**	371,122

64.3.1.2 Commitments and contingencies

	Year-end balance		Annual average balance	
	2018	2017	**2018**	2017
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
Undrawn facilities	**100,299**	100,000	**96,552**	84,881
Total	**100,299**	100,000	**96,552**	84,881

64.3.1.3 Direct and indirect accommodation

	Year-end balance	
	2018 %	2017 %
Direct and indirect accommodation as a % of the Bank's Regulatory Capital	**0.89**	0.79

64.3.1.4 Income Statement

For the year ended December 31,	**2018 Rs. '000**	2017 Rs. '000
Interest income	**109,490**	143,796
Interest expense	**36,329**	32,695
Other income	**176,633**	182,826
Expenses	**596,795**	523,214

64.3.1.5 Other transactions

For the year ended December 31,	**2018 Rs. '000**	2017 Rs. '000
Payments made to OneZero Company Ltd. in relation to purchase of computer hardware and software	**760**	29,738

64.3.2 Transactions with associates

64.3.2.1 Statement of Financial Position

	Year-end balance		Annual average balance	
	2018 Rs. '000	2017 Rs. '000	**2018 Rs. '000**	2017 Rs. '000
Assets				
Loans and advances	**2**	–	**74**	32
Total	**2**	–	**74**	32
Liabilities				
Deposits	**33,261**	35,468	**17,367**	19,945
Securities sold under repurchase agreements	**–**	–	**16,399**	16,228
Total	**33,261**	35,468	**33,766**	36,173

64.3.2.2 Commitments and contingencies

	Year-end balance		Annual average balance	
	2018 Rs. '000	2017 Rs. '000	**2018 Rs. '000**	2017 Rs. '000
Undrawn facilities	**1,000**	1,000	**1,000**	–
Total	**1,000**	1,000	**1,000**	–

64.3.2.3 Income Statement

For the year ended December 31,	2018 Rs. '000	2017 Rs. '000
Interest income	21	8
Interest expense	3,178	3,666
Other income	14,428	21,213
Expenses	–	71,194

64.3.2.4 Other transactions

	2018	2017
Number of ordinary shares of the Bank held by the associates as at the year-end	4,741	46,154
Dividend paid (Rs. '000)	144	278

64.4 Transactions with other related entities

Other related entities include significant investors (either entities or individuals) that have control, joint control or significant influence, post-employment benefit plans for the Bank's employees.

64.4.1 Transactions with post-employment benefit plans for the employees of the Bank

64.4.1.1 Statement of Financial Position

	Year-end balance		Annual average balance	
	2018 Rs. '000	2017 Rs. '000	2018 Rs. '000	2017 Rs. '000
Assets				
Loans and advances	–	–	15	474
Total	–	–	15	474
Liabilities				
Deposits	10,478,031	9,427,494	9,971,838	8,452,541
Securities sold under repurchase agreements	–	–	–	83,265
Total	10,478,031	9,427,494	9,971,838	8,535,806

64.4.1.2 Income Statement

For the year ended December 31,	2018 Rs. '000	2017 Rs. '000
Interest income	4	114
Interest expense	1,204,076	1,075,241
Contribution made/taxes paid by the Bank	1,114,613	1,005,342

65. Non-cash items included in profit before tax

	GROUP		BANK	
As at December 31,	**2018**	2017	**2018**	2017
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
Depreciation of property, plant and equipment	**1,383,581**	1,185,698	**1,279,378**	1,097,096
Amortisation of leasehold property	**1,452**	1,452	**942**	942
Amortisation of intangible assets	**218,076**	229,764	**188,789**	209,766
Impairment charges and other losses	**8,832,396**	989,315	**8,574,233**	720,126
Other impairment	**–**	–	**–**	(42,484)
Contributions to defined benefit plans – Unfunded schemes	**361,272**	288,791	**349,667**	279,249
Provision made o/a of leave encashment	**103,868**	79,128	**103,868**	79,128
Equity-settled share-based payments	**68,581**	138,341	**68,581**	138,341
Unamortised interest payable o/a subordinated liabilities	**12,210**	12,211	**12,210**	12,211
Mark to market on other financial instruments at fair value through profit or loss	**(55,580)**	(85,627)	**(55,580)**	(85,627)
Loss on written off intangible assets	**–**	7,241	**–**	–
Effect of exchange rate variances on investment in subsidiaries	**–**	–	**56,485**	(26,349)
Effect of exchange rate variances on loans and receivables to banks	**(122,562)**	(16,054)	**(122,562)**	(16,054)
Effect of exchange rate variances on property, plant and equipment	**(32,310)**	(168)	**(18,705)**	882
Effect of exchange rate variances on intangible assets	**(11,076)**	(3,208)	**(1,840)**	429
Effect of exchange rate variances on defined benefit plans	**52,568**	(7,279)	**52,568**	(7,279)
Effect of exchange rate variances on subordinated liabilities	**2,205,000**	288,750	**2,205,000**	288,750
Net effect of exchange rate variances on net deferred tax liability	**(29,952)**	995	**(26,803)**	4,626
Net effect of exchange rate variances on income tax liability	**492,139**	(45,703)	**471,717**	(45,820)
Grossed up notional tax and withholding tax credits	**(1,098,978)**	(1,985,107)	**(1,081,737)**	(1,961,769)
Total	**12,380,685**	1,078,540	**12,056,211**	646,164

66. Change in operating assets

	GROUP		BANK	
As at December 31,	**2018**	2017	**2018**	2017
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
Net (increase)/decrease in derivative financial instruments	**(5,542,067)**	(1,281,707)	**(5,542,067)**	(1,281,707)
Net increase in debt securities, treasury bills & bonds and equity shares held at fair value through profit and loss	**–**	–	**–**	–
Net (increase)/decrease in balances with central banks	**(9,860,186)**	(1,611,091)	**(9,583,144)**	(928,241)
Net (increase)/decrease in placements with banks	**(2,276,030)**	(5,914,770)	**(2,276,030)**	(5,914,770)
Net (increase)/decrease in securities purchased under resale agreements	**(9,513,512)**	–	**(9,513,512)**	–
Net (increase)/decrease in other financial assets – Recognised through profit or loss/ held for trading	**(1,068,607)**	683,448	**(1,068,607)**	683,448
Net (increase)/decrease in loans and receivables to customers	**(138,148,203)**	(123,303,957)	**(135,934,002)**	(122,148,465)
Net (increase)/decrease in financial assets measured at fair value through other comprehensive income/financial investments – Available for sale	**(23,381,080)**	12,820,870	**(23,324,699)**	12,951,296
Net (increase)/decrease in financial assets at amortised cost – Debt and other financial instruments/financial investments – Held to maturity and loans and receivables	**27,099,075**	(6,002,245)	**26,717,096**	(2,844,501)
Net (increase)/decrease in other assets	**(6,688,495)**	(880,418)	**(6,612,960)**	(859,996)
Total	**(169,379,105)**	(125,489,870)	**(167,137,925)**	(120,342,936)

67. Change in operating liabilities

	GROUP		BANK	
As at December 31,	**2018**	2017	**2018**	2017
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
Net increase/(decrease) in due to banks	**(7,882,840)**	(10,853,499)	**(7,019,910)**	(10,487,820)
Net increase/(decrease) in derivative financial instruments	**4,347,751**	2,158,997	**4,347,751**	2,158,997
Net increase/(decrease) in securities sold under repurchase agreements	**(580,991)**	(20,096,576)	**(572,305)**	(20,190,702)
Net increase/(decrease) in deposits from banks, customers and debt securities issued	**137,100,894**	113,959,368	**132,909,803**	110,564,017
Net increase/(decrease) in other borrowings	**1,575,818**	14,515,940	**1,575,818**	14,515,940
Net increase/(decrease) in other provisions	**–**	(1,874)	**–**	(1,874)
Net increase/(decrease) in other liabilities	**4,315,867**	583,523	**4,266,292**	633,847
Net increase/(decrease) in due to subsidiaries	**–**	–	**(33,568)**	54,462
Total	**138,876,499**	100,265,879	**135,473,881**	97,246,867

68. Operating leases

68.1 Operating lease commitments (payables)

The Group has taken on leased a number of branches and office premises under operating leases. These leases have an average life of between five to ten years. Lease agreements include clauses to enable upward revision of the rental payments on a periodic basis to reflect market conditions. There are no restrictions placed upon the Group by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases are as follows:

	GROUP		BANK	
As at December 31,	**2018**	2017	**2018**	2017
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
Less than one year	**1,068,724**	937,070	**1,013,801**	890,519
Between one to five years	**3,018,540**	2,510,540	**2,829,454**	2,352,812
Over five years	**2,367,826**	2,186,383	**2,265,638**	2,076,645
Total	**6,455,090**	5,633,993	**6,108,893**	5,319,976

68.2 Operating lease commitments (receivables)

The Group has entered into operating leases to rent its own properties, (mainly consisting of areas not currently occupied by the branch). Lease agreements include clauses to enable upward revision of the rental income on a periodic basis to reflect market conditions. These leases have an average life of between five to ten years. There are no restrictions placed upon the Group by entering into these leases.

Future minimum rentals receivable under non-cancellable operating leases are as follows:

	GROUP		BANK	
As at December 31,	**2018**	2017	**2018**	2017
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
Less than one year	**9,597**	7,327	**6,380**	3,140
Between one to five years	**20,471**	13,589	**15,840**	5,740
Over five years	**6,941**	2,800	**6,941**	2,800
Total	**37,009**	23,716	**29,161**	11,680

69 Financial risk review

This note presents information about the Bank's exposure to financial risks and the Bank's management of capital.

Introduction

As a financial intermediary, the Bank is exposed to various types of risks including credit, market, liquidity and operational risks which are inherent in the Bank's activities. Managing these risks is critical for the sustainability of the Bank and plays a pivotal role in all activities of the Bank. Risk management function strives to identify potential risks in advance, analyse them and take precautionary steps to mitigate the impact of risk whilst optimising through risk adjusted returns within the risk appetite of the Bank.

Risk management framework

The overall responsibility and oversight of the risk management framework of the Bank is vested with the Board of Directors (BOD). The Board Integrated Risk Management Committee (BIRMC), a mandatory subcommittee set up by the Board, in turn is entrusted with the development of the Bank's Risk Management Policies and monitoring of due compliance of same through the Executive Integrated Risk Management Committee (EIRMC).

The Risk Management Policies spell out the risk appetite of the Bank and has incorporated risk exposure limits and controls to monitor adherence to the limits in force. These Policies and Systems are reviewed regularly to reflect the changing market conditions and the products and services offered.

The Bank strives to inculcate a risk management culture through continuous training, work ethics and standards.

Refer Note 3.2 on page 175 for more information on the risk management framework of the Bank.

Integrated Risk Management Department (IRMD)

Business Units are the risk owners and have the primary responsibility for risk management. The IRMD acts as the second line of defence in managing the risk. The IRMD through Chief Risk Officer reports to the BIRMC thus ensuring its independence.

Risk measurement and reporting

The Bank uses robust risk measurement techniques based on the type of risk and industry best practices. The Bank also carries out stress testing which is a key aspect of the Internal Capital Adequacy Assessment Process (ICAAP). The risk management framework of the Bank provides an insight on the impact of extreme, but plausible scenarios on the Bank's risk profile. The results are reported to the EIRMC and to the BIRMC on a periodic basis.

The Bank establishes policies, limits and thresholds within the risk appetite of the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept (risk appetite). The monitoring and control mechanism therefore, is based on risk appetite of the Bank.

69.1 Credit risk

The financial loss resulting from a borrower or counterparty to a financial instrument failing or delaying to meet its contractual obligations is referred to as credit risk. It arises principally from the loans and advances to banks and other customers, investments in debt securities and other financial instruments. In addition to the credit risk from direct funding exposure (i.e. on-balance sheet exposure), indirect liabilities such as Letters of Credit, Guarantees etc. also would expose the Bank to credit risk.

The Bank ensures stringent credit risk management practices overall elements of credit risk exposures (such as individual obliger default risk, country and sector concentration risks).

69.1.1 Credit quality analysis

69.1.1 (a) Maximum exposure to credit risk by risk rating (as per SLFRS 9)

The following table sets out information about the credit quality of financial assets measured at amortised cost, measured at FVOCI and contingent liabilities and commitments.

As at December 31, 2018	Note	Page No.	Carrying amount	Not subject to ECL	Subject to		
					12-month ECL (Stage 1)	Life time ECL – not credit impaired (Stage 2)	Life time ECL – credit impaired (Stage 3)
			Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cash and cash equivalents							
Risk free Investments			24,272,784	24,272,784	–	–	–
Rating 0-4: Investment grade			10,392,621	–	10,392,621	–	–
Rating 5-6: Moderate risk			4,873,484	–	4,873,484	–	–
Rating 7-8: High risk			–	–	–	–	–
Rating 9: Extreme risk			–	–	–	–	–
Gross carrying amount			39,538,889	24,272,784	15,266,105	–	–
Less : Provision for impairment			4,413	–	4,413	–	–
Net carrying amount	29	231	**39,534,476**	**24,272,784**	**15,261,692**	**–**	**–**
Placements with banks							
Government Securities (Risk free investments)							
Rating 0-4: Investment grade			15,471,661	–	15,471,661	–	–
Rating 5-6: Moderate risk			4,437,638	–	4,437,638	–	–
Rating 7-8 : High risk			–	–	–	–	–
Rating 9: Extreme risk			–	–	–	–	–
Gross carrying amount			19,909,299	–	19,909,299	–	–
Less: Provision for impairment			10,784	–	10,784	–	–
Net carrying amount	31	233	**19,898,515**	**–**	**19,898,515**	**–**	**–**

As at December 31, 2018	Note	Page No.	Carrying amount Rs. '000	Not subject to ECL Rs. '000	Subject to 12-month ECL (Stage 1) Rs. '000	Subject to Life time ECL – not credit impaired (Stage 2) Rs. '000	Subject to Life time ECL – credit impaired (Stage 3) Rs. '000
Financial assets at amortised cost – Loans and advances to banks							
Government Securities (Risk free investments)			–	–	–	–	–
Rating 0-4: Investment grade			–	–	–	–	–
Rating 5-6: Moderate risk			763,110	–	763,110	–	–
Rating 7-8: High risk			–	–	–	–	–
Rating 9: Extreme risk			–	–	–	–	–
Gross carrying amount			763,110	–	763,110	–	–
Less: Provision for impairment			36	–	36	–	–
Net carrying amount	34	238	763,074	–	763,074	–	–
Financial assets at amortised cost – Loans and advances to other customers							
Government Securities (Risk free investments)			–	–	–	–	–
Rating 0-4: Investment grade (*)			686,400,750	–	622,743,394	56,950,508	6,706,848
Rating 5-6: Moderate risk			159,144,668	–	119,388,804	32,390,548	7,365,316
Rating 7-8: High risk			8,209,350	–	3,485,765	1,911,451	2,812,134
Rating 9: Extreme risk			36,474,600	–	33,654	347,685	36,093,261
Gross carrying amount			890,229,368	–	745,651,617	91,600,192	52,977,559
Less: Provision for impairment			29,129,053	–	2,659,185	5,873,226	20,596,642
Net carrying amount	35	239	861,100,315	–	742,992,432	85,726,966	32,380,917
Financial assets at amortised cost – Debt and other financial instruments/financial investments – Held to maturity and loans and receivables							
Government Securities (Risk free investments)			42,521,906	42,521,906	–	–	–
Rating 0-4: Investment grade (*)			41,026,809	–	41,026,809	–	–
Rating 5-6: Moderate risk			416,346	–	416,346	–	–
Rating 7-8: High risk			156,627	–	–	156,627	–
Rating 9: Extreme risk			–	–	–	–	–
Gross carrying amount			84,121,688	42,521,906	41,443,155	156,627	–
Less: Provision for Impairment			266,252	–	262,381	3,871	–
Net carrying amount	36	247	83,855,436	42,521,906	41,180,774	152,756	–
Financial assets measured at fair value through other comprehensive income/ financial Investments – Available for sale							
Government Securities (Risk free investments)			95,458,096	95,458,096	–	–	–
Rating 0-4: Investment grade			81,405,180	5,222	81,399,958	–	–
Rating 5-6: Moderate risk			239,147	239,147	–	–	–
Rating 7-8: High risk			–	–	–	–	–
Rating 9: Extreme risk			–	–	–	–	–
Gross carrying amount			177,102,423	95,702,465	81,399,958	–	–
Less: Provision for impairment			595,694	–	595,694	–	–
Net carrying amount	**37**	**250**	176,506,729	95,702,465	80,804,264	–	–

As at December 31, 2018	Note	Page No.	Carrying amount Rs. '000	Not subject to ECL Rs. '000	Subject to 12-month ECL (Stage 1) Rs. '000	Subject to Life time ECL – not credit impaired (Stage 2) Rs. '000	Subject to Life time ECL – credit impaired (Stage 3) Rs. '000
Off-balance sheet (**)							
Contingent liabilities and commitments							
(i) Lending commitments							
Grade 0-6: Investment grade to moderate risk			**161,062,099**	**54,838,863**	**104,605,989**	**1,142,947**	**474,300**
Grade 7-9: High risk to extreme risk			–	–	–	–	–
Gross carrying amount			**161,062,099**	**54,838,863**	**104,605,989**	**1,142,947**	**474,300**
(ii) **Contingencies**							
Grade 0-6: Investment grade to moderate risk			**497,201,464**	**312,347,334**	**183,121,065**	**1,643,105**	**89,960**
Grade 7-9: High risk to extreme risk			–	–	–	–	–
Gross carrying amount			**497,201,464**	**312,347,334**	**183,121,065**	**1,643,105**	**89,960**
Total contingent liabilities and commitments	**59**	**303**	**658,263,563**	**367,186,197**	**287,727,054**	**2,786,052**	**564,260**
Provision for Impairment	**59.4**	**305**	**726,640**	**–**	**528,932**	**89,177**	**108,531**

(*) Investment grade also include Cash, Gold.

(**) Amounts reported above does not include capital commitments disclosed in the Note 59 on "Contingent Liabilities and Commitments" on pages 303 to 305.

Financial assets at amortised cost – Loans and advances to other customers and contingent liabilities and commitments categorised based on Bank's internal risk rating and other financial assets are categorised based on external credit rating of respective counterparties.

69.1.1 (b) Maximum exposure to credit risk by risk rating (as per LKAS 39)

The following table sets out information about the credit quality of financial assets classified as available for sale, held to maturity and loans and receivables.

As at December 31, 2017	Note	Page No.	Loans and receivables to other customers Rs. '000	Loans and receivables to banks Rs. '000	Financial investments Rs. '000	Lending commitments and contingencies Rs. '000
Maximum exposure to credit risk						
Carrying amount	34 to 37	238 to 254	737,446,567	640,512	271,400,274	–
Amount committed/contingencies	59	303	–	–	–	563,048,700
At amortised cost – Loans and receivable			–	–	–	–
Government Securities (Risk free investments)			–	–	40,566,702	–
Rating 0-4: Investment grade (*)			476,843,647	–	8,145,775	–
Rating 5-6: Moderate risk			249,066,153	640,512	–	–
Rating S: High risk			2,035,633	–	–	–
Rating 7-9: Extreme risk			26,762,544	–	–	–
Gross carrying amount			754,707,977	640,512	48,712,477	–
Less: Provision for impairment (individual and collective)			17,261,410	–	–	–
Net carrying amount	**34, 35 and 36**	238, 239 and 247	**737,446,567**	**640,512**	**48,712,477**	
Financial investments – Available for sale			–	–	–	–
Government Securities (Risk free investments)			–	–	154,167,169	–
Rating 0-4: Investment grade			–	–	546,963	–
Rating 5-6: Moderate risk			–	–	–	–
Rating S: High risk			–	–	–	–
Rating 7-9: Extreme risk			–	–	–	–

As at December 31, 2017	Note	Page No.	Loans and receivables to other customers Rs. '000	Loans and receivables to banks Rs. '000	Financial investments Rs. '000	Lending commitments and contingencies Rs. '000
Gross/net carrying amount	**37**	250	–	–	**154,714,132**	–
Financial investments – Held to maturity			–	–		–
Government Securities (Risk free investments)			–	–	53,555,302	–
Rating 0-4: Investment grade			–	–	–	–
Rating 5-6: Moderate risk			–	–	10,007,450	–
Rating S: High risk			–	–	–	–
Rating 7-9: Extreme risk			–	–	–	–
Gross/net carrying amount	**36**	247	–	–	**63,562,752**	–
Other financial instruments – Held for trading			–	–		–
Government Securities (Risk free investments)			–	–	2,357,876	–
Rating 0-4: Investment grade			–	–	314,745	–
Rating 5-6: Moderate risk			–	–	1,738,292	–
Rating S: High risk			–	–	–	–
Rating 7-9: Extreme risk			–	–	–	–
Gross/net carrying amount	**33**	234	–	–	**4,410,913**	–
Total net carrying amount			**737,446,567**	**640,512**	**271,400,274**	–
Off-balance sheet (**)						
Maximum exposure						
Lending commitments						
Grade 0-6: Investment grade to moderate risk			–	–	–	124,594,675
Contingencies			–	–	–	–
Grade 0-6: Investment grade to moderate risk			–	–	–	438,454,025
Total exposure	**59**	303	–	–	–	**563,048,700**

(*) Investment grade also include Cash, Gold.

(**) Amounts reported above does not include capital commitments disclosed in the Note 59 on "Contingent Liabilities and Commitments" on pages 303 to 305.

69.1.1 (c) 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 Rs. '000	Not subject to ECL Rs. '000	12-month ECL (Stage 1) Rs. '000	Life time ECL – not credit impaired (Stage 2) Rs. '000	Life time ECL – credit impaired (Stage 3) Rs. '000
Cash and cash equivalents					
Gross carrying amount as at January 1, 2018	33,224,619	23,280,599	9,944,020	–	–
Transfer to Stage 1	–	–	–	–	–
Transfer to Stage 2	–	–	–	–	–
Transfer to Stage 3	–	–	–	–	–
New assets originated or purchased	9,557,624	992,185	8,565,439	–	–
Financial assets derecognised or repaid (excluding write-offs)	(3,243,354)	–	(3,243,354)	–	–

	Carrying amount Rs. '000	Not subject to ECL Rs. '000	12-month ECL (Stage 1) Rs. '000	Life time ECL – not credit impaired (Stage 2) Rs. '000	Life time ECL – credit impaired (Stage 3) Rs. '000
As at December 31, 2018	**39,538,889**	**24,272,784**	**15,266,105**	**–**	**–**
Placements with banks					
Gross carrying amount as at January 1, 2018	17,633,269	–	17,633,269	–	–
Transfer to Stage 1	–	–	–	–	–
Transfer to Stage 2	–	–	–	–	–
Transfer to Stage 3	–	–	–	–	–
New assets originated or purchased	19,909,299	–	19,909,299	–	–
Financial assets derecognised or repaid (excluding write-offs)	(17,633,269)	–	(17,633,269)	–	–
As at December 31, 2018	**19,909,299**	**–**	**19,909,299**	**–**	**–**
Financial assets at amortised cost – Loans and advances to banks					
Gross carrying amount as at January 1, 2018	640,512	–	640,512	–	–
Transfer to Stage 1	–	–	–	–	–
Transfer to Stage 2	–	–	–	–	–
Transfer to Stage 3	–	–	–	–	–
Foreign exchange adjustments	122,598	–	122,598	–	–
As at December 31, 2018	**763,110**	**–**	**763,110**	**–**	**–**
Financial assets at amortised cost – Loans and advances to other customers					
Gross carrying amount as at January 1, 2018	754,707,977	–	653,127,277	69,036,479	32,544,221
Transfer to Stage 1	–	–	18,306,726	(18,002,628)	(304,098)
Transfer to Stage 2	–	–	(31,715,554)	37,146,989	(5,431,435)
Transfer to Stage 3	–	–	(11,470,573)	(12,389,882)	23,860,455
New assets originated or purchased	422,014,584	–	389,231,399	29,382,680	3,400,505
Financial assets derecognised or repaid (excluding write-offs)	(308,833,738)	–	(271,826,591)	(27,858,893)	(9,148,254)
Write-offs	(1,107,207)	–	(1,067)	(9,567)	(1,096,573)
Changes to contractual cash flows due to modifications not resulting in derecognition	23,447,752	–	–	14,295,014	9,152,738
As at December 31, 2018	**890,229,368**	**–**	**745,651,617**	**91,600,192**	**52,977,559**
Financial assets at amortised cost – Debt and other financial instruments/ financial investments – Held to maturity and loans and receivables					
Gross carrying amount as at January 1, 2018	71,708,527	48,683,362	23,025,165	–	–
Transfer to Stage 1	–	–	–	–	–
Transfer to Stage 2	–	–	(156,627)	156,627	–
Transfer to Stage 3	–	–	–	–	–
New assets originated or purchased	23,331,446	5,578,738	17,752,708	–	–
Financial assets derecognised or repaid (excluding write-offs)	(14,583,193)	(12,252,573)	(2,330,620)	–	–
Foreign exchange adjustments	3,664,908	512,379	3,152,529	–	–

	Carrying amount Rs. '000	Not subject to ECL Rs. '000	12-month ECL (Stage 1) Rs. '000	Life time ECL – not credit impaired (Stage 2) Rs. '000	Life time ECL – credit impaired (Stage 3) Rs. '000
As at December 31, 2018	**84,121,688**	**42,521,906**	**41,443,155**	**156,627**	**–**
Financial assets measured at fair value through other comprehensive income/financial investments – Available for sale					
Gross carrying amount as at January 1, 2018	195,279,170	151,910,811	43,368,359	–	–
Transfer to Stage 1	–	–	–	–	–
Transfer to Stage 2	–	–	–	–	–
Transfer to Stage 3	–	–	–	–	–
New assets originated or purchased	85,700,610	34,181,954	51,518,656	–	–
Financial assets derecognised or repaid (excluding write-offs)	(108,535,424)	(90,390,300)	(18,145,124)	–	–
Foreign exchange adjustments	4,897,118	–	4,897,118	–	–
Changes to contractual cash flows due to modifications not resulting in derecognition	(239,051)	–	(239,051)	–	–
As at December 31, 2018	**177,102,423**	**95,702,465**	**81,399,958**	**–**	**–**
Contingent liabilities and commitments					
Gross carrying amount as at January 1, 2018	563,048,700	257,583,082	300,521,203	3,932,984	1,011,431
Transfer to Stage 1	–	–	2,382,299	(2,322,013)	(60,286)
Transfer to Stage 2	–	–	(3,329,668)	3,335,220	(5,552)
Transfer to Stage 3	–	–	(530,422)	(175,917)	706,339
New assets originated or purchased	533,541,252	327,020,220	204,279,007	1,897,507	344,518
Financial assets derecognised or repaid (excluding write-offs)	(438,326,389)	(217,417,105)	(215,595,365)	(3,881,729)	(1,432,190)
As at December 31, 2018	**658,263,563**	**367,186,197**	**287,727,054**	**2,786,052**	**564,260**

Opening balances as at January 1, 2018 reported as per SLFRS 9 and reconciliation between SLFRS 9 and LKAS 39 are given in Note 12 on "Transition disclosures" on pages 196 to 201.

69.1.1 (d) Provision for impairment (ECL) movement

The following table shows 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) Rs. '000	Life time ECL – not credit impaired (Stage 2) Rs. '000	Life time ECL – credit impaired (Stage 3) Rs. '000	Total Rs. '000
Cash and cash equivalents						
Provision for impairment (ECL) as at January 1, 2018			**5,286**	–	–	**5,286**
Transfer to Stage 1			–	–	–	–
Transfer to Stage 2			–	–	–	–
Transfer to Stage 3			–	–	–	–
Net remeasurement of impairment			**(1,577)**	–	–	**(1,577)**
New assets originated or purchased			**4,989**	–	–	**4,989**
Financial assets derecognised or repaid (excluding write-offs)			**(4,862)**	–	–	**(4,862)**
Foreign exchange adjustments			**577**	–	–	**577**
As at December 31, 2018	29.1	231	**4,413**	–	–	**4,413**

	Note	Page No.	12-month ECL (Stage 1) Rs. '000	Life time ECL – not credit impaired (Stage 2) Rs. '000	Life time ECL – credit impaired (Stage 3) Rs. '000	Total Rs. '000
Placements with banks			–	–	–	–
Provision for impairment (ECL) as at January 1, 2018			31,533	–	–	31,533
Transfer to Stage 1			–	–	–	–
Transfer to Stage 2			–	–	–	–
Transfer to Stage 3			–	–	–	–
New assets originated or purchased			9,980	–	–	9,980
Financial assets derecognised or repaid (excluding write-offs)			(31,533)	–	–	(31,533)
Foreign exchange adjustments			804	–	–	804
As at December 31, 2018	31.1	233	10,784	–	–	10,784
Financial assets at amortised cost – Loans and advances to banks						
Provision for impairment (ECL) as at January 1, 2018			139	–	–	139
Transfer to Stage 1			–	–	–	–
Transfer to Stage 2			–	–	–	–
Transfer to Stage 3			–	–	–	–
Net remeasurement of impairment			(103)	–	–	(103)
As at December 31, 2018	34.1	238	36	–	–	36
Financial assets at amortised cost – Loans and advances to other customers						
Provision for impairment (ECL) as at January 1, 2018			3,041,886	4,165,027	14,211,503	21,418,416
Transfer to Stage 1			631,565	(552,887)	(78,678)	–
Transfer to Stage 2			(360,245)	627,849	(267,604)	–
Transfer to Stage 3			(96,237)	(852,199)	948,436	–
Net remeasurement of impairment			(1,174,547)	611,267	2,971,392	2,408,112
New assets originated or purchased			1,148,995	643,753	1,595,640	3,388,388
Financial assets derecognised or repaid (excluding write-offs)			(543,484)	(891,569)	(660,184)	(2,095,237)
Write-offs and recoveries			(800)	(819)	(355,284)	(356,903)
Foreign exchange adjustments			12,052	4,470	278,179	294,701
Unwinding of discount			–	–	(360,876)	(360,876)
Other movements			–	–	10,466	10,466
Changes to contractual cash flows due to modifications not resulting in derecognition			–	2,118,334	2,303,652	4,421,986
As at December 31, 2018	35.2	242	2,659,185	5,873,226	20,596,642	29,129,053

	Note	Page No.	12-month ECL (Stage 1) Rs. '000	Life time ECL – not credit impaired (Stage 2) Rs. '000	Life time ECL – credit impaired (Stage 3) Rs. '000	Total Rs. '000
Financial assets at amortised cost – Debt and other financial instruments/ financial investments – Held to maturity and loans and receivables						
Provision for impairment (ECL) as at January 1, 2018			69,680	–	–	69,680
Transfer to Stage 1			–	–	–	–
Transfer to Stage 2			(691)	691	–	–
Transfer to Stage 3			–	–	–	–
Net remeasurement of impairment			65,916	3,180	–	69,096
New assets originated or purchased			128,049	–	–	128,049
Financial assets derecognised or repaid (excluding write-offs)			(573)	–	–	(573)
As at December 31, 2018	36.1	248	262,381	3,871	–	266,252
Financial assets measured at fair value through other comprehensive income/financial investments – Available for sale						
Provision for impairment (ECL) as at January 1, 2018			194,256	–	–	194,256
Transfer to Stage 1			–	–	–	–
Transfer to Stage 2			–	–	–	–
Transfer to Stage 3			–	–	–	–
Net remeasurement of impairment			109,424	–	–	109,424
New assets originated or purchased			372,576	–	–	372,576
Financial assets derecognised or repaid (excluding write-offs)			(80,562)	–	–	(80,562)
As at December 31, 2018	37.2	251	595,694	–	–	595,694
Contingent liabilities and commitments						
Provision for impairment (ECL) as at January 1, 2018			656,764	111,946	78,949	847,659
Transfer to Stage 1			52,852	(27,051)	(25,801)	–
Transfer to Stage 2			(9,201)	9,557	(356)	–
Transfer to Stage 3			(559)	(3,920)	4,479	–
Net remeasurement of impairment			(47,426)	20,362	24,163	(2,901)
New assets originated or purchased			343,083	72,898	97,571	513,552
Financial assets derecognised or repaid (excluding write-offs)			(469,481)	(94,615)	(70,474)	(634,570)
Foreign exchange adjustments			2,900	–	–	2,900
As at December 31, 2018	59.4	305	528,932	89,177	108,531	726,640

69.1.1 (e) Age analysis by class of financial assets

The maximum exposure to credit risk for class of financial assets by risk rating and by age are given below:

As at December 31, 2017	Loans and receivables to other customers Rs. '000	Loans and receivables to banks Rs. '000	Financial investments Rs. '000	Lending commitments and contingencies Rs. '000
Government Securities (Risk free investments)	–	–	250,647,049	–
Gross carrying amount	–	–	250,647,049	–
Neither past due nor individually impaired				
Rating 0-4: Investment grade	472,230,045	–	9,007,483	282,344,809
Rating 5-6: Moderate risk	244,352,749	640,512	11,745,742	280,703,891
Gross carrying amount	716,582,794	640,512	20,753,225	563,048,700
Past due but not individually impaired				
Less than 3 months	8,160,289	–	–	–
3 to 6 months	856,410	–	–	–
6 to 12 months	724,801	–	–	–
12 to 18 months	469,520	–	–	–
More than 18 months	4,870,915	–	–	–
Gross carrying amount	15,081,935	–	–	–
Individually impaired				
Less than 3 months	12,533,705	–	–	–
3 to 6 months	1,292,185	–	–	–
6 to 12 months	404,605	–	–	–
12 to 18 months	1,209,297	–	–	–
More than 18 months	7,603,456	–	–	–
Gross carrying amount	23,043,248	–	–	–
Total gross carrying amount	754,707,977	640,512	271,400,274	563,048,700
Less: Provision for impairment				
Individual	7,853,654	–	–	–
Collective	9,407,756	–	–	–
Total provision for impairment	17,261,410	–	–	–
Total net carrying amount	737,446,567	640,512	271,400,274	563,048,700

The methodology of the impairment assessment is explained in the Note 19 on pages 208 to 212.

69.1.1 (f) Credit quality by class of financial assets

The table below shows the credit quality by the class of asset for all financial assets exposed to credit risk, based on the Bank's internal credit rating:

As at December 31, 2017	Note	Page No.	Neither past due nor individually impaired – Government guarantee Rs. '000	Neither past due nor individually impaired – Investment grade Rs. '000	Neither past due nor individually impaired – Moderate risk Rs. '000	Past due but not individually impaired Rs. '000	Individually impaired Rs. '000	Total Rs. '000
Cash and cash equivalents	29	231	–	33,224,619	–	–	–	33,224,619
Balances with central banks	30	232	44,801,446	–	–	–	–	44,801,446
Placements with banks	31	233	–	17,633,269	–	–	–	17,633,269
Securities purchased under resale agreements			–	–	–	–	–	–
Derivative financial assets	32	233	–	2,334,536	–	–	–	2,334,536
Other financial instruments – Held for trading	33	234	2,357,876	314,745	1,738,292	–	–	4,410,913
Loans and receivables to banks	34	238	–	–	640,512	–	–	640,512
Loans and receivables to other customers	35	239	–	469,669,456	242,786,716	9,800,801	15,189,594	737,446,567
Corporate banking			–	249,817,145	86,639,832	5,776,899	3,931,899	346,165,775
Amortised cost			–	251,613,579	87,342,167	6,116,798	6,517,529	351,590,073
Less: Provision for impairment			–	1,796,434	702,335	339,899	2,585,630	5,424,298
Personal banking			–	219,852,311	156,146,884	4,023,902	11,257,695	391,280,792
Amortised cost			–	220,616,463	157,010,582	8,965,140	16,525,719	403,117,904
Less: Provision for impairment			–	764,152	863,698	4,941,238	5,268,024	11,837,112
Financial investments – Held to maturity	36	247	63,562,752	–	–	–	–	63,562,752
Government Securities			63,562,752	–	–	–	–	63,562,752
Other investments			–	–	–	–	–	–
Financial investments – Loans and receivables	36	247	40,566,702	8,145,775	–	–	–	48,712,477
Government securities			40,566,702	–	–	–	–	40,566,702
Other investments			–	8,145,775	–	–	–	8,145,775
Financial investments – Available for sale	37	250	154,167,169	546,963	–	–	–	154,714,132
Government Securities			154,167,169	–	–	–	–	154,167,169
Quoted shares			–	500,278	–	–	–	500,278
Unquoted shares			–	46,685	–	–	–	46,685
Investment in unit trusts			–	–	–	–	–	–
Total			305,455,945	531,869,363	245,165,520	9,800,801	15,189,594	1,107,481,223

69.1.1 (g) Financial assets recognised through profit or loss(FVTPL)/ held-for-trading measured at fair value

Held-for-trading investments in debt and equity securities

The table below sets out the credit quality of debt and equity securities classified as financial assets recognised through profit or loss/ held-for-trading 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.	2018 Rs. '000	2017 Rs. '000
Debt instruments at FVTPL				
Government Securities – Sri Lanka				
Treasury bills			**1,947,069**	654,438
Treasury bonds			**729,974**	1,703,438
Government Securities – Bangladesh				
Treasury bills			**1,722,637**	278,618
Treasury bonds			**351,680**	1,459,674
Subtotal – Debt instruments at FVTPL			**4,751,360**	4,096,168
Equity instruments at FVTPL				
Rated AAA			**21,958**	12,341
Rated AA+ to AA-			**12,798**	16,492
Rated A+ to A			**523,574**	60,879
Rated BBB+			**7,138**	5,710
Unrated			**203,339**	219,323
Subtotal – Equity instruments at FVTPL			**768,807**	314,745
Total	33	234	**5,520,167**	4,410,913

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, 2018	Derivative type							
	Forward		SWAPS		Spot		Total	
	Notional amount Rs. '000	Fair value Rs. '000	Notional amount Rs. '000	Fair value Rs. '000	Notional amount Rs. '000	Fair value Rs. '000	Notional amount Rs. '000	Fair value Rs. '000
Derivative financial assets (Note 1)	**53,846,072**	**3,340,657**	**97,890,850**	**4,567,868**	**4,189,939**	**1,437**	**155,926,861**	**7,909,962**
Derivative financial liabilities (Note 2)	**38,630,808**	**(2,069,807)**	**85,093,565**	**(5,946,484)**	**2,255,444**	**(5,492)**	**125,979,817**	**(8,021,783)**
Note 1								
Derivative financial assets by counterparty type								
With banks	**11,448,568**	**502,967**	**97,019,953**	**4,560,325**	**1,808,638**	**613**	**110,277,159**	**5,063,905**
Other customers	**42,397,504**	**2,837,690**	**870,897**	**7,543**	**2,381,301**	**824**	**45,649,702**	**2,846,057**
Total	**53,846,072**	**3,340,657**	**97,890,850**	**4,567,868**	**4,189,939**	**1,437**	**155,926,861**	**7,909,962**
Note 2								
Derivative financial liabilities by counterparty type								
With banks	**24,576,549**	**(1,219,725)**	**79,194,194**	**(5,308,624)**	**703,977**	**(474)**	**104,474,720**	**(6,528,823)**
Other customers	**14,054,259**	**(850,082)**	**5,899,371**	**(637,860)**	**1,551,467**	**(5,018)**	**21,505,097**	**(1,492,960)**
Total	**38,630,808**	**(2,069,807)**	**85,093,565**	**(5,946,484)**	**2,255,444**	**(5,492)**	**125,979,817**	**(8,021,783)**

As at December 31, 2017	Derivative type							
	Forward		SWAPS		Spot		Total	
	Notional amount Rs. '000	Fair value Rs. '000	Notional amount Rs. '000	Fair value Rs. '000	Notional amount Rs. '000	Fair value Rs. '000	Notional amount Rs. '000	Fair value Rs. '000
Derivative financial assets (Note 1)	35,831,935	1,264,900	80,896,084	1,067,259	4,432,721	2,377	121,160,740	2,334,536
Derivative financial liabilities (Note 2)	26,602,410	(1,015,648)	83,904,746	(2,660,838)	1,569,843	(2,008)	112,076,999	(3,678,494)
Note 1								
Derivative financial assets by counterparty type								
With banks	10,081,268	170,229	78,629,102	972,827	3,617,099	2,375	92,327,469	1,145,431
Other customers	25,750,667	1,094,671	2,266,982	94,432	815,622	2	28,833,271	1,189,105
Total	35,831,935	1,264,900	80,896,084	1,067,259	4,432,721	2,377	121,160,740	2,334,536
Note 2								
Derivative financial liabilities by counterparty type								
With banks	3,146,244	(61,900)	83,904,746	(2,660,838)	1,569,843	(2,008)	88,620,833	(2,724,746)
Other customers	23,456,166	(953,748)	–	–	–	–	23,456,166	(953,748)
Total	26,602,410	(1,015,648)	83,904,746	(2,660,838)	1,569,843	(2,008)	112,076,999	(3,678,494)

69.1.2 Credit-impaired financial assets

Reconciliation of changes in the net carrying amount of life time ECL credit impaired (Stage 3) loans and advances as detailed below:

As at December 31,	2018 Rs. '000
Stage 3 loans and advances to other customers as at January 1,	**18,332,717**
Newly classified as impaired loans and advances during the year	**23,569,470**
Net change in already impaired loans and advances during the year	**(1,055,006)**
Net payment, write-off and recoveries and other movement during the year	**(8,466,264)**
Impaired loans and advances to customers as at December 31,	**32,380,917**

Reconciliation of changes in the net carrying amount of individually impaired loans and advances as detailed below:

As at December 31,	2017 Rs. '000
Impaired loans and advances to other customers as at January 1,	13,648,620
Newly classified as impaired loans and advances during the year	8,177,859
Net change in already impaired loans and advances during the year	361,095
Net payment, write-off and recoveries and other movement during the year	(6,997,980)
Impaired loans and advances to customers as at December 31,	15,189,594

Refer Note 19 for methodology of impairment assessment, on "Impairment losses on loans and advances to other customers" on pages 208 to 212.

Details of provision for impairment for loans and advances to other customers, are detailed in Note 35 on pages 239 to 247.

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,	2018	
	Gross carrying amount Rs. '000	Net carrying amount Rs. '000
Rating 0-4: Investment grade	**6,706,848**	**6,473,040**
Rating 5-6: Moderate risk	**7,365,316**	**7,093,268**
Rating 7-8 : High risk	**2,812,134**	**2,320,231**
Rating 9: Extreme risk	**36,093,261**	**16,494,378**
Total	**52,977,559**	**32,380,917**

Set out below is an analysis of the gross and net carrying amounts of individually impaired loans and advances to other customers by risk rating.

As at December 31,	2017	
	Gross carrying amount Rs. '000	Net carrying amount Rs. '000
Rating 0-4: Investment grade	4,613,603	4,470,693
Rating 5-6: Moderate risk	4,713,404	4,600,908
Rating S : High risk	763,567	642,017
Rating 7-9: Extreme risk	12,952,674	5,475,976
Total	23,043,248	15,189,594

69.1.3 Sensitivity of impairment provision on loans and advances to other customers

The Bank has estimated the impairment provision on loans and advances to other customers as at December 31, 2018, subject to various assumptions. The changes to such assumptions may lead to changes in inputs used for the computation of the impairment provision.

The following table demonstrates the sensitivity of the impairment provision of the Bank as at December 31, 2018 to a reasonably possible change in PDs, LGDs and forward looking information.

Sensitivity on ECL	Sensitivity effect on Statement of Financial Position [Increase/(Decrease) in impairment provision]				Sensitivity effect on Income Statement
	Stage 1 (Rs. '000)	Stage 2 (Rs. '000)	Stage 3 (Rs. '000)	Total (Rs. '000)	(Rs. '000)
PD 1% increase across all age buckets	1,593,338	467,401	–	2,060,739	(2,060,739)
PD 1% decrease across all age buckets *	(1,228,148)	(346,349)	–	(1,574,497)	1,574,497
LGD 5% increase	392,875	863,216	980,975	2,237,066	(2,237,066)
LGD 5% decrease *	(390,600)	(859,138)	(976,572)	(2,226,310)	2,226,310
Probability weighted Economic Scenarios					
– Base case 10% increase, worst case 5% decrease and best case 5% decrease	(4,387)	(7,014)	–	(11,401)	11,401
– Base case 10% decrease, worst case 5% increase and best case 5% increase	4,382	7,342	–	11,724	(11,724)

** The PD/LGD decrease is capped to 0%, if applicable.*

69.1.4 Collateral held

Loan-to-value ratio of residential mortgage lending

The table below stratifies eligible credit exposures by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan to the value of the collateral, which is used for the computation of Capital Adequecy Ratios. The value of the collateral for residential mortgage loan is based on the forced sale value determined by professional valuers.

As at December 31,	**2018**		2017	
	Rs. '000	**Composition (%)**	Rs. '000	Composition (%)
LTV ratio				
Less than 50%	**10,948,270**	**27.20**	11,804,905	29.83
51% – 70%	**8,888,518**	**22.08**	8,952,662	22.62
71% – 90%	**11,025,696**	**27.39**	10,466,905	26.45
91% – 100%	**1,807,976**	**4.50**	1,600,415	4.04
More than 100% *	**7,576,759**	**18.83**	6,745,986	17.06
	40,247,219	**100.00**	39,570,873	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).*

Assets obtained by taking the possession of collaterals

Repossession of collaterals is resorted to in extreme situations where action is necessitated to recover the dues. The repossessed assets are disposed, in an orderly and transparent manner and the proceeds are used to reduce or recover the outstanding claims and the amount recovered in excess of the dues is refunded to the customer.

69.1.5 Concentration of credit risk

By setting various concentration limits under different criteria within the established risk appetite framework (i.e., single borrower/group, industry sectors, product, counterparty and country etc.), the Bank ensures that an acceptable level of risk diversification is maintained on an ongoing basis. These limits are continuously monitored and periodically reviewed by the Credit Policy Committee, the Executive Integrated Risk Management Committee and the Board Integrated Risk Management Committee to capture the developments in the market, political and economic environment both locally and globally to strengthen the dynamic portfolio management practices and to provide an early warning on possible credit concentrations.

The maximum exposure to credit risk in respect of each item of financial assets in the Statement of Financial Position as at December 31, as per industry sector and by geographical region of financial assets is given below:

69.1.5 (a) Industry wise distribution

As at December 31, 2018	Agriculture, Forestry and Fishing	Manufacturing	Tourism	Transportation and storage	Construction	Infrastructure development	Wholesale and retail trade	Information technology and communication services
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Financial assets								
Cash and cash equivalents	–	–	–	–	–	–	–	–
Balances with central banks	–	–	–	–	–	–	–	–
Placements with banks	–	–	–	–	–	–	–	–
Securities purchased under resale agreements	–	–	–	–	–	–	–	–
Derivative financial assets	144,810	1,850,312	9,420	–	12	–	254,533	5
Financial assets recognised through profit or loss/Held for trading	2,028	47,212	4,848	–	30,897	–	103,084	9,587
Government securities	–	–						
Quoted equity securities	2,028	47,212	4,848	–	30,897	–	103,084	9,587
Financial assets at amortised cost – loans and advances to banks	–	–	–	–	–	–	–	–
Financial assets at amortised cost – loans and advances to other customers	81,667,447	98,451,570	56,566,467	10,892,443	38,586,302	18,888,958	208,633,620	13,204,339
Loans and advances*	81,667,447	98,451,570	56,566,467	10,892,443	38,586,302	18,888,958	208,633,620	13,204,339
Financial assets at amortised cost – debt and other financial instruments/ financial investments – Held to maturity and loans & receivables	–	–	–	–	152,756	–	1,868,572	–
Government securities	–	–	–	–	–	–	–	–
Other investments	–	–	–	–	152,756	–	1,868,572	–
Financial assets measured at fair value through other comprehensive income/ financial investments – available for sale	–	9,642	–	–	180,285	–	–	–
Government securities	–	–	–	–	–	–	–	–
Equity securities	–	9,642	–	–	180,285	–	–	–
Total	81,814,285	100,358,736	56,580,735	10,892,443	38,950,252	18,888,958	210,859,809	13,213,931

** Loans and advances to other customers referred above do not agree with the Note 35.1 (c-i) on page 241 since the amounts presented are net of impairment provisions.*

In 2018, industry-wise distribution note has been prepared based on the new CBSL classification.

Financial services Rs. '000	Professional, scientific and technical activities Rs. '000	Arts, entertainment and recreation Rs. '000	Education Rs. '000	Healthcare, social services and support services Rs. '000	Consumption Rs. '000	Lending to overseas entities Rs. '000	Total Rs. '000
39,534,476	–	–	–	–	–	–	39,534,476
54,384,590	–	–	–	–	–	–	54,384,590
19,898,515	–	–	–	–	–	–	19,898,515
9,513,512	–	–	–	–	–	–	9,513,512
5,636,056	–	–	13,913	–	901	–	7,909,962
5,290,863	–	–	–	31,648	–	–	5,520,167
4,751,360							4,751,360
539,503	–	–	–	31,648	–	–	768,807
763,074	–	–	–	–	–	–	763,074
39,550,148	22,979,537	917,964	2,573,713	18,134,481	164,968,496	85,084,830	861,100,315
39,550,148	22,979,537	917,964	2,573,713	18,134,481	164,968,496	85,084,830	861,100,315
81,834,108	–	–	–	–	–	–	83,855,436
77,226,928	–	–	–	–	–	–	77,226,928
4,607,180	–	–	–	–	–	–	6,628,508
176,308,182	8,620	–	–	–	–	–	176,506,729
176,262,360	–	–	–	–	–	–	176,262,360
45,822	8,620	–	–	–	–	–	244,369
432,713,524	22,988,157	917,964	2,587,626	18,166,129	164,969,397	85,084,830	1,258,986,776

As at December 31, 2017	Agriculture and fishing Rs. '000	Manufacturing Rs. '000	Tourism Rs. '000	Transport Rs. '000	Construction Rs. '000	Traders Rs. '000	New economy Rs. '000	Financial and business services Rs. '000
Financial assets								
Cash and cash equivalents	–	–	–	–	–	–	–	33,224,619
Balances with central banks	–	–	–	–	–	–	–	
Placements with banks	–	–	–	–	–	–	–	17,633,269
Securities purchased under resale agreements	–	–	–	–	–	–	–	–
Derivative financial assets	–	2,261	–	–	–	586,294	–	1,745,507
Other financial instruments – Held for trading	–	107,107	5,732	–	27,781	26,674	48,207	78,102
Government Securities	–	–						
Equity securities – Quoted shares	–	107,107	5,732	–	27,781	26,674	48,207	78,102
Loans and receivables to banks	–	–	–	–	–	–	–	640,512
Loans and receivables to other customers*	68,713,903	112,807,745	44,937,470	16,820,822	104,314,394	110,304,070	17,031,993	47,045,113
Financial investments – Available for sale	–	13,213	–	–	141,093	–	–	392,657
Government securities	–	–	–	–	–	–	–	–
Equity securities – Quoted shares	–	13,213	–	–	141,093	–	–	345,972
Equity securities – Unquoted shares	–	–	–	–	–	–	–	46,685
Investment in unit trusts	–	–	–	–	–	–	–	–
Financial investments – Held to maturity	–	–	–	–	–	–	–	–
Government Securities	–	–	–	–	–	–	–	–
Financial investments – Loans and receivables	–	2,233,016	–	–	–	997,423	–	4,678,169
Government Securities	–	–	–	–	–	–	–	–
Investment in unit trusts	–	2,233,016	–	–	–	997,423	–	4,678,169
Total	68,713,903	115,163,342	44,943,202	16,820,822	104,483,268	111,914,461	17,080,200	105,437,948

(*) Loans and advances to other customers referred above do not agree with the Note 35.1 (c-i) on page 241 due to impairment provisions.

Government	Infrastructure	Other services	Other customers	Total
Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
–	–	–	–	33,224,619
44,801,446	–	–	–	44,801,446
–	–	–	–	17,633,269
–	–	–	–	–
–	–	474	–	2,334,536
4,096,168	21,142	–	–	4,410,913
4,096,168				4,096,168
–	21,142	–	–	314,745
–	–	–	–	640,512
–	20,086,388	62,567,873	132,816,796	737,446,567
154,167,169	–	–	–	154,714,132
154,167,169	–	–	–	154,167,169
–	–	–	–	500,278
–	–	–	–	46,685
–	–	–	–	–
63,562,752	–	–	–	63,562,752
63,562,752	–	–	–	63,562,752
40,566,702	–	237,167	–	48,712,477
40,566,702	–	–	–	40,566,702
–	–	237,167	–	8,145,775
307,194,237	20,107,530	62,805,514	132,816,796	1,107,481,223

69.1.5 (b) Geographical distribution of loans and advances

The Western Province has recorded a higher percentage of lending based on geographical distribution of the Bank's lending portfolio. It has accounted for 77% (approximately) of total advances portfolio of the Bank (excluding Bangladesh operations) as at December 31, 2018. Although, Western Province is attracted with highest credit concentration, we believe that a sizable portion of these lending has been utilised to facilitate industries scattered around the country. For example, most of the large corporates which have island-wide operations are being accommodated by the branches and corporate banking division situated in the Western Province and thereby reflecting a fairly diversified geographical concentration contrary to the figures given below:

As at December 31, 2018

Country/province	Loans and advances by product											
	Overdrafts Rs.'000	Trade finance Rs.'000	Lease receivables Rs.'000	Credit cards Rs.'000	Pawning Rs.'000	Staff loans Rs.'000	Housing loans Rs.'000	Personal loans Rs.'000	Long-term loans Rs.'000	Short-term loans Rs.'000	Bills of exchange Rs.'000	Total Rs.'000
Sri Lanka												
Central	**12,368,967**	**324,872**	**1,712,947**	**733,356**	**53,850**	**–**	**3,501,982**	**1,800,433**	**22,507,179**	**1,877,627**	**77,610**	**44,958,823**
Eastern	**837,297**	**80,053**	**706,974**	**198,809**	**35,451**	**–**	**497,996**	**747,745**	**2,216,533**	**564,293**	**–**	**5,885,151**
North Central	**805,965**	**82,445**	**1,494,023**	**204,983**	**15,137**	**–**	**634,625**	**1,332,540**	**4,770,804**	**937,344**	**–**	**10,277,866**
Northern	**3,143,610**	**87,895**	**1,693,133**	**253,598**	**533,642**	**–**	**1,019,034**	**1,026,339**	**4,751,635**	**794,454**	**–**	**13,303,340**
North Western	**6,935,115**	**1,108,179**	**3,074,187**	**675,442**	**127,025**	**–**	**3,600,616**	**2,381,712**	**13,177,842**	**1,840,553**	**29,935**	**32,950,606**
Sabaragamuwa	**5,642,132**	**557,051**	**2,605,371**	**436,668**	**52,130**	**–**	**2,959,708**	**1,234,729**	**9,822,913**	**734,262**	**43,195**	**24,088,159**
Southern	**6,295,802**	**1,595,289**	**3,810,335**	**728,965**	**97,658**	**–**	**5,478,350**	**2,456,355**	**14,566,446**	**977,492**	**27,975**	**36,034,667**
Uva	**1,554,385**	**4,711**	**1,014,336**	**223,610**	**21,940**	**–**	**2,058,215**	**827,396**	**5,039,094**	**474,082**	**–**	**11,217,769**
Western	**91,827,217**	**67,267,786**	**21,210,246**	**8,698,453**	**608,281**	**9,127,287**	**40,600,871**	**21,432,269**	**241,468,259**	**89,931,190**	**5,127,244**	**597,299,103**
Bangladesh	**7,358,447**	**5,808,033**	**493,995**	**100,803**	**–**	**171,191**	**821,429**	**541,227**	**13,970,300**	**36,430,294**	**19,389,112**	**85,084,831**
Total	**136,768,937**	**76,916,314**	**37,815,547**	**12,254,687**	**1,545,114**	**9,298,478**	**61,172,826**	**33,780,745**	**332,291,005**	**134,561,591**	**24,695,071**	**861,100,315**

As at December 31, 2017

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	9,105,845	234,423	1,916,498	411,761	45,545	–	3,068,331	1,477,341	18,850,775	1,475,025	10,947	36,596,491
Eastern	1,117,710	30,735	627,422	96,299	24,244	–	359,754	530,338	2,204,475	138,066	–	5,129,043
North Central	1,106,922	87,888	1,502,978	105,245	9,554	–	563,567	424,136	5,643,030	369,027	–	9,812,347
Northern	2,526,778	95,605	1,216,214	117,523	430,787	–	737,940	777,142	3,536,515	434,081	–	9,872,585
North Western	6,748,789	948,591	2,956,376	356,880	117,380	–	3,301,358	1,833,343	12,636,399	1,737,537	8,657	30,645,310
Sabaragamuwa	5,023,234	544,685	2,638,106	213,385	46,153	–	2,863,952	950,615	8,441,449	805,885	137,733	21,665,197
Southern	6,014,775	1,464,661	3,603,623	388,474	89,707	–	4,908,557	1,948,311	13,632,876	968,028	10,519	33,029,531
Uva	1,516,886	25,906	1,006,287	121,106	16,417	–	1,832,132	629,553	4,376,394	425,507	–	9,950,188
Western	76,142,919	50,154,096	21,747,218	6,956,843	555,710	7,831,111	34,700,747	18,696,937	225,372,988	75,412,905	3,941,857	521,513,331
Bangladesh	5,193,417	3,925,396	258,288	58,047	–	117,336	476,542	385,564	10,368,545	25,758,410	12,690,999	59,232,544
Total	**114,497,275**	**57,511,986**	**37,473,010**	**8,825,563**	**1,335,497**	**7,948,447**	**52,812,880**	**27,653,280**	**305,063,446**	**107,524,471**	**16,800,712**	**737,446,567**

Please refer Note 35 on page 239 for the gross carrying amount of the loans and advances to other customers.

69.2 Liquidity risk

Liquidity risk is the Bank's inability to meet on or off-balance sheet contractual and contingent financial obligations, as they fall due without incurring unacceptable losses. The principal objective in liquidity risk management is to assess the need for funds to meet such obligations and to ensure the availability of adequate funding to fulfil those needs at the appropriate time, under both normal and stressed conditions.

Therefore, the Bank continuously analyses and monitors its liquidity profile, maintains adequate levels of high quality liquid assets, ensures access to diverse funding sources and has contingency funding agreements with peer banks to meet any unforeseen liquidity requirements. Exposures and ratios against tolerance limits as well as stressed scenarios are regularly monitored in order to identify the Bank's liquidity position and potential funding requirements.

Assets and Liability Management Committee (ALCO)

ALCO chaired by the Managing Director, has representatives from Treasury, Corporate Banking, Personal Banking, Risk and Finance Departments. The Committee meets fortnightly or more frequently to monitor and manage the assets and liabilities of the Bank and also the overall liquidity position to keep the Banks' liquidity at healthy levels, whilst satisfying the regulatory requirements.

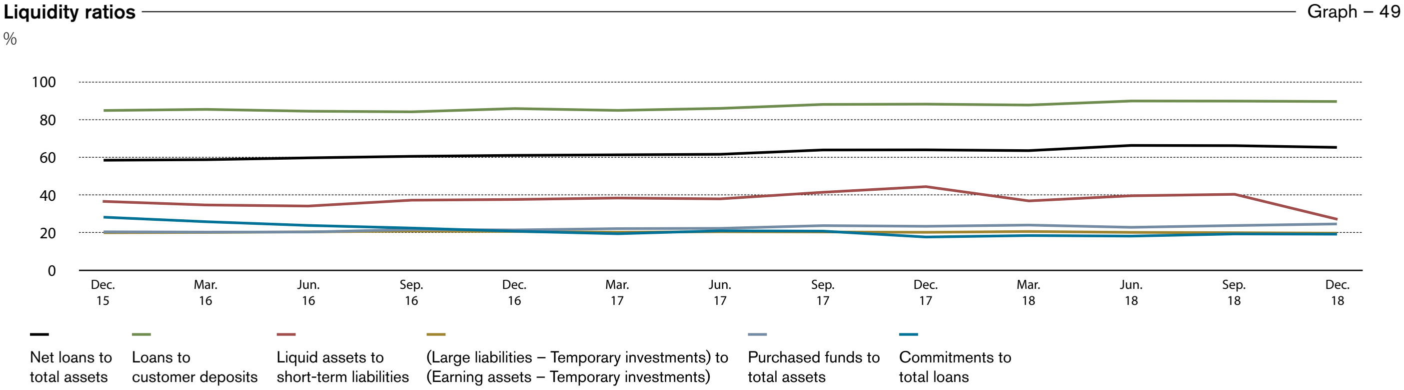
69.2.1 Exposure to liquidity risk

The key measure used by the Bank for managing liquidity risk is the ratio of liquid assets to total liabilities excluding shareholders' funds. For this purpose, "liquid assets" include cash and cash equivalents, placements with banks and Government Securities (net). Details of the reported ratio of liquid assets to external liabilities of the Domestic Banking Unit (DBU) and the Off shore Banking Centre (OBC) as at reporting dates are as follows:

	Domestic Banking Unit		Off shore Banking Centre	
	2018 %	2017 %	**2018 %**	2017 %
As at December 31,	**24.47**	27.28	**30.20**	30.95
Average for the period	**25.43**	26.66	**30.81**	31.72
Maximum for the period	**28.82**	27.98	**39.21**	37.00
Minimum for the period	**23.80**	25.75	**27.30**	27.80
Statutory minimum requirement	**20.00**	20.00	**20.00**	20.00

The graph below depicts the trends in liquidity ratios of the Bank calculated on a quarterly basis during the period from December 2017 to December 2018:

Liquidity ratios Graph – 49



69.2.2 Maturity analysis of financial assets and financial liabilities

69.2.2 (a) Remaining contractual period to maturity – Bank

(i) Remaining contractual period to maturity of the assets employed by the Bank as at December 31, is detailed below:

As at December 31,	Up to 3 months Rs. '000	3 to 12 months Rs.'000	1 to 3 years Rs. '000	3 to 5 years Rs. '000	More than 5 years Rs. '000	**Total as at December 31, 2018 Rs. '000**	Total as at December 31, 2017 Rs. '000
Interest earning assets:							
Financial assets							
Cash and cash equivalents	8,959,135	–	–	–	–	**8,959,135**	3,457,539
Balances with central banks	5,908,142	2,000,899	–	68,550	–	**7,977,591**	1,155,988
Placements with banks	19,898,515	–	–	–	–	**19,898,515**	17,633,269
Securities purchased under resale agreements	9,513,512	–	–	–	–	**9,513,512**	–
Derivative financial assets	–	–	–	–	–	**–**	–
Financial assets recognised through profit or loss/ held for trading – Measured at fair value	4,751,360	–	–	–	–	**4,751,360**	4,096,168
Financial assets at amortised cost – Loans and advances to banks	–	–	–	–	–	**–**	–
Financial assets at amortised cost – Loans and advances to other customers	320,738,308	201,409,774	193,654,783	99,943,495	45,353,955	**861,100,315**	737,446,567
Financial assets at amortised cost – Debt and other financial instruments/financial investments – Held to maturity and Loans and receivables	8,599,196	11,063,223	30,343,068	30,561,901	3,288,048	**83,855,436**	112,275,229
Financial assets measured at fair value through other comprehensive income/financial Investments – Available for sale	14,825,940	50,792,907	55,334,538	54,075,631	1,233,344	**176,262,360**	154,167,169
Total interest earning assets as at December 31, 2018	**393,194,108**	**265,266,803**	**279,332,389**	**184,649,577**	**49,875,347**	**1,172,318,224**	
Total Interest earning assets as at December 31, 2017	277,041,769	281,538,977	258,419,287	162,241,360	50,990,536		1,030,231,929
Non-interest earning assets:							
Financial assets							
Cash and cash equivalents	30,575,341	–	–	–	–	**30,575,341**	29,767,080
Balances with central banks	27,250,735	16,305,044	1,237,212	809,047	804,961	**46,406,999**	43,645,458
Placements with banks	–	–	–	–	–	**–**	–
Securities purchased under resale agreements	–	–	–	–	–	**–**	–
Derivative financial assets	3,304,750	3,982,426	589,427	–	33,359	**7,909,962**	2,334,536
Financial assets recognised through profit or loss/ held for trading – Measured at fair value	768,807	–	–	–	–	**768,807**	314,745
Financial assets at amortised cost – Loans and advances to banks	–	–	763,074	–	–	**763,074**	640,512
Financial assets at amortised cost – Loans and advances to other customers	–	–	–	–	–	**–**	–
Financial assets at amortised cost – Debt and other financial instruments/financial investments – Held to maturity and loans and receivables	–	–	–	–	–	**–**	–
Financial assets measured at fair value through other comprehensive income/financial investments – Available for sale	–	–	–	20,651	223,718	**244,369**	546,963

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, 2018 Rs. '000**	Total as at December 31, 2017 Rs. '000
Non-financial assets							
Investments in subsidiaries	–	–	–	–	4,263,631	**4,263,631**	3,065,935
Investments in associates	–	–	–	–	44,331	**44,331**	44,331
Property, plant and equipment	–	–	–	–	15,301,246	**15,301,246**	14,634,710
Intangible assets	–	–	–	–	906,112	**906,112**	776,810
Leasehold property	–	–	–	–	71,652	**71,652**	72,594
Deferred tax assets	–	–	–	–	–	**–**	–
Other assets	17,802,945	225,991	1,890,106	530,631	3,461,449	**23,911,122**	17,298,162
Total Non-interest earning assets as at December 31, 2018	**79,702,578**	**20,513,461**	**4,479,819**	**1,360,329**	**25,110,459**	**131,166,646**	–
Total Non-interest earning assets as at December 31, 2017	70,311,817	15,953,121	2,669,183	1,253,732	22,953,983		113,141,836
Total assets – As at December 31, 2018	**472,896,686**	**285,780,264**	**283,812,208**	**186,009,906**	**74,985,806**	**1,303,484,870**	
Total assets – As at December 31, 2017	347,353,586	297,492,098	261,088,470	163,495,092	73,944,519		1,143,373,765
Percentage – As at December 31, 2018*	**36.29**	**21.92**	**21.77**	**14.27**	**5.75**	**100.00**	
Percentage – As at December 31, 2017*	30.38	26.02	22.83	14.30	6.47		100.00

(*) Total assets of each maturity bucket as a percentage of total assets employed by the Bank.

(ii) Remaining contractual period to maturity of the liabilities and shareholders' funds employed by the Bank as at the date of Statement of Financial Position is detailed below:

As at December 31,	Up to 3 months Rs. '000	3 to 12 months Rs.'000	1 to 3 years Rs. '000	3 to 5 years Rs. '000	More than 5 years Rs. '000	**Total as at December 31, 2018 Rs. '000**	Total as at December 31, 2017 Rs. '000
Interest-bearing liabilities:							
Financial Liabilities							
Due to banks	11,625,888	16,648,582	–	–	–	**28,274,470**	48,954,474
Derivative financial liabilities	–	–				**–**	–
Securities sold under repurchase agreements	38,858,224	6,974,167	3,272,071	–	–	**49,104,462**	49,676,767
Financial Liabilities recognised through profit or loss – Measured at fair value	–	–	–	–	–	**–**	–
Financial liabilities at amortised cost – Due to depositors	504,105,648	352,184,128	24,892,407	14,112,967	16,088,136	**911,383,286**	789,533,286
Financial liabilities at amortised cost – Other borrowings	266,300	1,499,941	8,463,641	8,507,200	6,624,830	**25,361,912**	23,786,094
Subordinated liabilities	739,373	387,827	9,477,720	22,104,087	5,283,450	**37,992,457**	25,165,924
Total interest-bearing liabilities as at December 31, 2018	**555,595,433**	**377,694,645**	**46,105,839**	**44,724,254**	**27,996,416**	**1,052,116,587**	
Total Interest-bearing liabilities as at December 31, 2017	524,871,276	306,214,684	38,492,219	30,031,857	37,506,509		937,116,545

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, 2018 Rs. '000**	Total as at December 31, 2017 Rs. '000
Non-interest bearing liabilities:							
Financial liabilities							
Due to banks	21,826,611	–	–	–	–	**21,826,611**	8,166,517
Derivative financial liabilities	3,404,297	4,432,899	184,587	–	–	**8,021,783**	3,678,494
Securities sold under repurchase agreements	–	–	–	–	–	**–**	–
Financial liabilities recognised through profit or loss – measured at fair value	–	–	–	–	–	**–**	–
Financial liabilities at amortised cost – due to depositors	71,654,028	–	–	–	–	**71,654,028**	60,594,225
Financial liabilities at amortised cost – other borrowings	–	–	–	–	–	**–**	–
Subordinated liabilities	–	–	–	–	–	**–**	–
Non-financial liabilities							
Debt securities issued	–	–	–	–	–	**–**	–
Current tax liabilities	1,274,349	5,292,009	–	–	–	**6,566,358**	4,143,911
Deferred tax liabilities	(554,786)	(328,268)	(515,164)	151,947	1,892,519	**646,248**	3,274,826
Other provisions	–	–	–	–	–	**–**	–
Other liabilities	15,524,380	2,387,328	2,045,280	838,683	3,410,680	**24,206,351**	19,225,364
Due to subsidiaries	40,955	–	–	–	–	**40,955**	74,523
Equity							
Stated capital	–	–	–	–	39,147,882	**39,147,882**	37,143,541
Statutory reserves	–	–	–	–	7,354,143	**7,354,143**	6,476,952
Retained earnings	–	–	–	–	5,063,076	**5,063,076**	4,987,446
Other reserves	–	–	–	–	66,840,848	**66,840,848**	58,491,421
Total non-interest bearing liabilities as at December 31, 2018	**113,169,834**	**11,783,968**	**1,714,703**	**996,630**	**123,709,148**	**251,368,283**	
Total non-Interest bearing liabilities as at December 31, 2017	75,376,089	14,424,025	3,532,019	1,636,826	111,288,261		206,257,220
Total liabilities and equity – as at December 31, 2018	**668,765,267**	**389,478,613**	**47,820,542**	**45,714,884**	**151,705,564**	**1,303,484,870**	
Total liabilities and equity – as at December 31, 2017	600,247,365	320,638,709	42,024,238	31,668,683	148,794,770		1,143,373,765
Percentage – as at December 31, 2018*	**51.30**	**29.88**	**3.67**	**3.51**	**11.64**	**100.00**	
Percentage – as at December 31, 2017*	52.50	28.04	3.68	2.77	13.01		100.00

(*) Total liabilities and shareholders' funds of each maturity bucket as a percentage of total liabilities and shareholders' funds employed by the Bank.

69.2.2 (b) Non-derivative financial assets and financial liabilities expected to be recovered or settled after 12 months from the reporting date

The table below sets out the carrying amounts of non-derivative financial assets and financial liabilities expected to be recovered or settled after 12 months from the reporting date:

As at December 31,	2018 Rs. '000	2017 Rs. '000
Financial assets		
Non-derivative financial assets		
Balances with central banks	2,919,770	2,329,368
Financial assets at amortised cost – Loans and advances to banks	763,074	640,512
Financial assets at amortised cost – Loans and advances to other customers	338,952,233	307,676,926
Financial assets at amortised cost – Debt and other financial instruments/ financial investments – Held to maturity and Loans and receivables	64,193,017	73,901,390
Financial assets measured at fair value through other comprehensive income/ financial investments – Available for sale	110,887,882	49,613,501
Total	517,715,976	434,161,697
Financial liabilities		
Non-derivative financial liabilities		
Securities sold under repurchase agreements	3,272,071	2,746,663
Financial liabilities at amortised cost – Due to depositors	55,093,510	45,325,787
Financial liabilities at amortised cost – Other borrowings	23,595,671	21,036,561
Subordinated liabilities	36,865,257	24,630,973
Total	118,826,509	93,739,984

69.2.3 Liquidity reserves

The table below sets out the components of the Bank's liquidity reserves:

As at December 31,	2018		2017	
	Carrying amount Rs. '000	Fair value Rs. '000	Carrying amount Rs. '000	Fair value Rs. '000
Balances with central banks	54,384,590	54,384,590	44,801,446	44,801,446
Balances with other banks	15,266,105	15,266,105	9,944,020	9,944,020
Coins and notes held	24,272,784	24,272,784	23,280,599	23,280,599
Unencumbered debt securities issued by sovereigns	219,505,833	216,080,931	172,149,322	171,675,912
Total	313,429,312	310,004,410	250,175,387	249,701,977

69.2.4 Financial assets available to support future funding

The table below sets out the availability of the Bank's financial assets to support future funding.

As at December 31, 2018			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	29	231	–	–	**39,534,476**	–	**39,534,476**
Balances with central banks	30	232	–	**39,412,442**	**14,972,148**	–	**54,384,590**
Placements with banks	31	233	–	–	**19,898,515**	–	**19,898,515**
Securities purchased under resale agreements			–	–	**9,513,512**	–	**9,513,512**
Derivative financial assets	32	233	–	–	**7,909,962**	–	**7,909,962**
Financial assets recognised through profit or loss/ held for trading – Measured at fair value	33	234	–	–	**5,520,167**	–	**5,520,167**
Financial assets at amortised cost – Loans and advances to banks *	34	238	–	**763,074**	–	–	**763,074**
Financial assets at amortised cost – Loans and advances to other customers	35	239	–	–	**861,100,315**	–	**861,100,315**
Financial assets at amortised cost – Debt and other financial instruments/financial investments – Held to maturity and Loans and receivables	36	247	–	–	**83,855,436**	–	**83,855,436**
Financial assets measured at fair value through other comprehensive income/financial investments – Available for sale	37	250	**49,267,013**	–	**127,239,716**	–	**176,506,729**
Total			**49,267,013**	**40,175,516**	**1,169,544,247**	–	**1,258,986,776**

As at December 31, 2017			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	29	231	–	–	33,224,619	–	33,224,619
Balances with central banks	30	232	–	39,766,630	5,034,816	–	44,801,446
Placements with banks	31	233	–	–	17,633,269	–	17,633,269
Securities purchased under resale agreements			–	–	–	–	–
Derivative financial assets	32	233	–	–	2,334,536	–	2,334,536
Other financial instruments – Held for trading	33	234	–	–	4,410,913	–	4,410,913
Loans and receivables to banks *	34	238	–	640,512	–	–	640,512
Loans and receivables to other customers	35	239	–	–	737,446,567	–	737,446,567
Financial investments – Held to maturity	36	247	–	–	63,562,752	–	63,562,752
Financial investments – Loans and receivables	36	247	–	–	48,712,477	–	48,712,477
Financial investments – Available for sale **	37	250	58,768,665	–	95,945,467	–	154,714,132
Total			**58,768,665**	**40,407,142**	**1,008,305,416**	–	**1,107,481,223**

( ) Represents an amount where the Bank is prevented from exercising the right of lien against the claim made by the Bank due to a Court action.*

*(**) Market value of securities pledged as collateral is considered as encumbered.*

69.3 Market risk

Market risk is the risk of losses in on or off-balance sheet positions arising out of movements in prices affecting foreign exchange exposures, interest rate instruments, equity/debt instruments and commodity exposures. The Bank monitors market risk in both trading and non-trading portfolios on an ongoing basis.

69.3.1 Exposure to market risk – trading and non-trading portfolio

The table below sets out the allocation of assets and liabilities subject to market risk between trading and non-trading portfolios:

As at December 31, 2018				Market risk measurement	
	Note	Page No	Carrying amount Rs. '000	Trading portfolios Rs. '000	Non-trading portfolios Rs. '000
Assets subject to market risk					
Cash and cash equivalents	29	231	**20,050,789**	**–**	**20,050,789**
Balances with central banks	30	232	**14,517,678**	**–**	**14,517,678**
Placements with banks	31	233	**19,898,515**	**–**	**19,898,515**
Securities purchased under resale agreements			**9,513,512**	**–**	**9,513,512**
Derivative financial assets	32	233	**7,909,962**	**7,909,962**	**–**
Financial assets recognised through profit or loss/held for trading – Measured at fair value	33	234	**5,520,167**	**5,520,167**	**–**
Financial assets at amortised cost – Loans and advances to banks	34	238	**763,074**	**–**	**763,074**
Financial assets at amortised cost – Loans and advances to other customers	35	239	**861,100,315**	**–**	**861,100,315**
Financial assets at amortised cost – Debt and other financial instruments/ financial investments – Held to maturity and Loans and receivables	36	247	**83,855,436**	**–**	**83,855,436**
Financial assets measured at fair value through other comprehensive income/ Financial Investments – Available for sale	37	250	**176,506,729**	**–**	**176,506,729**
Total			**1,199,636,177**	**13,430,129**	**1,186,206,048**
Liabilities subject to market risk					
Due to banks	45	278	**50,101,081**	**–**	**50,101,081**
Derivative financial liabilities	46	278	**8,021,783**	**8,021,783**	**–**
Securities sold under repurchase agreements			**49,104,462**	**–**	**49,104,462**
Financial liabilities at amortised cost – Due to depositors	47	280	**937,860,201**	**–**	**937,860,201**
Financial liabilities at amortised cost – Other borrowings	48	281	**25,361,912**	**–**	**25,361,912**
Subordinated liabilities	52	291	**37,992,457**	**–**	**37,992,457**
Total			**1,108,441,896**	**8,021,783**	**1,100,420,113**

As at December 31,2017	Note	Page No	Carrying amount Rs. '000	Market risk measurement Trading portfolios Rs. '000	Non-trading portfolios Rs. '000
Assets subject to market risk					
Cash and cash equivalents	29	231	12,387,967	–	12,387,967
Balances with central banks	30	232	4,601,606	–	4,601,606
Placements with banks	31	233	17,633,269	–	17,633,269
Derivative financial assets	32	233	2,334,536	2,334,536	–
Other financial instruments – Held for trading	33	234	4,410,913	4,410,913	–
Loans and receivables to banks	34	238	640,512	–	640,512
Loans and receivables to other customers	35	239	737,446,567	–	737,446,567
Financial investments – Available for sale	37	250	154,714,132	–	154,714,132
Financial investments – Held to maturity	36	247	63,562,752	–	63,562,752
Financial investments – Loans and receivables	36	247	48,712,477	–	48,712,477
Total			1,046,444,731	6,745,449	1,039,699,282
Liabilities subject to market risk					
Due to banks	45	278	57,120,991	–	57,120,991
Derivative financial liabilities	46	278	3,678,494	3,678,494	–
Securities sold under repurchase agreements			49,676,767	–	49,676,767
Due to other customers/deposits from customers	47	280	807,630,072	–	807,630,072
Other borrowings	48	281	23,786,094	–	23,786,094
Subordinated liabilities	52	291	25,165,924	–	25,165,924
Total			967,058,342	3,678,494	963,379,848

69.3.2 Exposure to interest rate risk – Sensitivity analysis

69.3.2 (a) Exposure to interest rate risk – Non-trading portfolio

The possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments gives rise to interest rate risk. The Bank's policy is to continuously monitor portfolios and adopt hedging strategies to ensure that interest rate risk is maintained within prudent levels.

The tables below analyse the Bank's interest rate risk exposure on financial assets and financial liabilities. The Bank's assets and liabilities are included at carrying amounts and categorised by the earlier of contractual re-pricing or maturity dates.

Interest rate gap position of the non-trading portfolio of the Bank is given below:

As at December 31, 2018	Up to 3 months Rs. '000	3 to 12 months Rs. '000	1 to 3 years Rs. '000	3 to 5 years Rs. '000	More than 5 years Rs. '000	Non-sensitive Rs. '000	Total Rs. '000
Financial assets							
Cash and cash equivalents	7,899,330	–	–	–	–	31,635,146	39,534,476
Balances with central banks	14,517,678	–	–	–	–	39,866,912	54,384,590
Placements with banks	19,898,515	–	–	–	–	–	19,898,515
Securities purchased under resale agreements	9,513,512	–	–	–	–	–	9,513,512
Derivative financial assets	–	–	–	–	–	–	–
Other financial instruments held for trading	–	–	–	–	–	–	–
Loans and receivables to banks	–	–	–	–	–	763,074	763,074
Financial assets at amortised cost – Loans and advances to other customers	533,455,698	150,401,109	84,419,598	45,481,563	39,900,194	7,442,153	861,100,315
Financial assets measured at amortised cost – Debt and other financial instruments/ financial investments – Held to maturity and Loans and receivables	6,812,657	11,090,082	25,554,127	35,456,787	3,292,181	1,649,602	83,855,436
Financial assets measured at fair value through other comprehensive income/financial investments – Available for sale	71,716,497	50,398,511	46,968,746	4,400,562	1,235,701	1,786,712	176,506,729
Total financial assets	663,813,887	211,889,702	156,942,471	85,338,912	44,428,076	83,143,599	1,245,556,647
Financial liabilities							
Due to banks	26,297,708	4,574,999	7,320,000	7,320,000	–	4,588,374	50,101,081
Derivative financial liabilities	–	–	–	–	–	–	–
Securities sold under repurchased agreements	39,075,611	6,771,810	3,257,041	–	–	–	49,104,462
Financial liabilities at amortised cost – Due to depositors	512,016,994	351,834,901	23,818,232	13,279,035	13,153,783	68,934,369	983,037,314
Financial liabilities at amortised cost – Other borrowings	19,559,972	514,797	1,005,084	737,950	3,544,109	–	25,361,912
Subordinated liabilities	14,566,489	–	9,748,678	8,393,840	5,283,450	–	37,992,457
Total financial liabilities	611,516,774	363,696,507	45,149,035	29,730,825	21,981,342	73,522,743	1,145,597,226
Interest rate sensitivity gap	52,297,113	(151,806,805)	111,793,436	55,608,087	22,446,734	9,620,856	99,959,421
Cumulative gap	52,297,113	(99,509,692)	12,283,744	67,891,831	90,338,565	99,959,421	

As at December 31, 2017	Up to 3 months Rs. '000	3 to 12 months Rs. '000	1 to 3 years Rs. '000	3 to 5 years Rs. '000	More than 5 years Rs. '000	Non-sensitive Rs. '000	Total Rs. '000
Financial assets							
Cash and cash equivalents	3,952,578	–	–	–	–	29,272,041	33,224,619
Balances with central banks	4,601,606	–	–	–	–	40,199,840	44,801,446
Placements with banks	16,097,269	1,536,000	–	–	–	–	17,633,269
Securities purchased under resale agreements	–	–	–	–	–	–	–
Derivative financial assets	–	–	–	–	–	–	–
Other financial instruments – Held for trading	–	–	–	–	–	–	–
Loans and receivables to banks	–	–	–	–	–	640,512	640,512
Loans and receivables to other customers	460,905,113	134,400,971	65,554,128	38,341,792	31,537,815	6,706,748	737,446,567
Financial investments – Available for sale	10,573,104	68,317,215	46,631,198	28,638,006	–	554,609	154,714,132
Financial investments – Held to maturity	4,077,406	9,871,844	12,885,242	29,661,660	7,066,600	–	63,562,752
Financial investments – Loans and receivables	41,140,625	1,893,522	5,678,330	–	–	–	48,712,477
Total financial assets	541,347,701	216,019,552	130,748,898	96,641,458	38,604,415	77,373,750	1,100,735,774
Financial liabilities							
Due to banks	44,703,696	5,366,253	–	–	–	7,051,042	57,120,991
Derivative financial liabilities	–	–	–	–	–	–	–
Securities sold under repurchase agreements	36,290,396	10,652,592	2,733,779	–	–	–	49,676,767
Due to other customers/Deposits from customers	457,830,953	286,182,073	16,482,261	12,360,297	10,739,911	66,532,016	850,127,511
Other borrowings	18,293,434	814,083	1,002,777	908,493	2,767,307	–	23,786,094
Subordinated liabilities	11,664,201	327,156	–	9,500,724	3,673,843	–	25,165,924
Total financial liabilities	568,782,680	303,342,157	20,218,817	22,769,514	17,181,061	73,583,058	1,005,877,287
Interest rate sensitivity gap	(27,434,979)	(87,322,605)	110,530,081	73,871,944	21,423,354	3,790,692	94,858,487
Cumulative gap	(27,434,979)	(114,757,584)	(4,227,503)	69,644,441	91,067,795	94,858,487	

69.3.2 (b) Exposure to interest rate risk – Non-trading portfolio (rate shocks)

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and financial liabilities to various interest rate scenarios.

The following table demonstrates the sensitivity of the Bank's Income Statement as at the reporting date, due to change in interest rates by 100 bps with all other variables held constant:

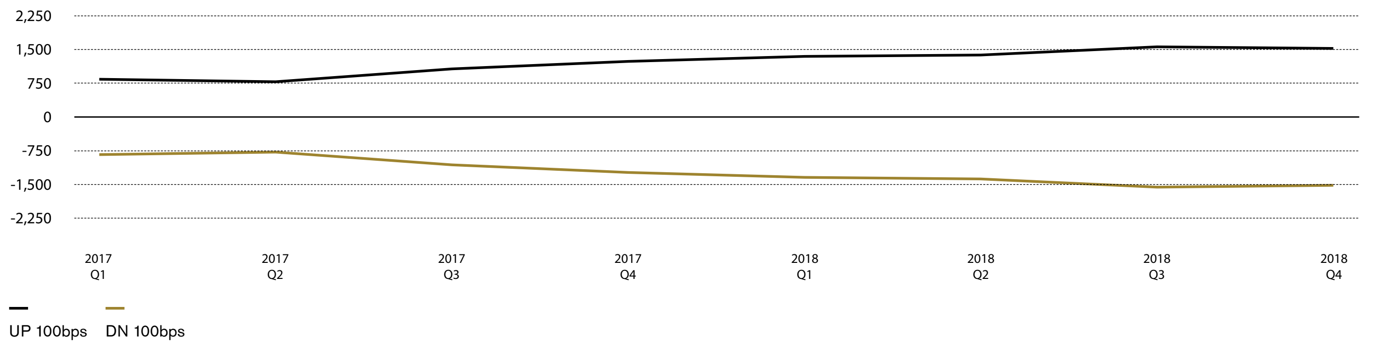
Sensitivity of projected net interest income

Net Interest Income (NII)	2018		2017	
	Parallel increase Rs. '000	**Parallel decrease Rs. '000**	Parallel increase Rs. '000	Parallel decrease Rs. '000
At at December 31,	**1,560,756**	**(1,557,263)**	1,243,611	(1,241,623)
Average for the period	**1,493,675**	**(1,490,832)**	920,414	(918,225)
Maximum for the period	**1,646,558**	**(1,639,199)**	1,243,611	(1,241,623)
Minimum for the period	**1,269,334**	**(1,267,132)**	706,442	(704,325)

The graph below depicts the impact on the Net Interest Income due to a rate shock of 100 bps on rupee denominated assets and liabilities and 25bps on FCY denominated assets and liabilities.

Impact of a rate shock on the net interest income Graph – 50

Rs. Mn.



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 FCN denominated assets and liabilities. The potential impact on the Bank's profitability due to changes in rupee and foreign currency interest rates is evaluated to ensure that the volatilities are prudently managed within the internal tolerance limits. Above graph depicts the sensitivity of NII to rate shocks during the years 2017 and 2018.

69.3.3 Exposure to currency risk – Non-trading portfolio

Currency risk arises as a result of fluctuations in the value of a financial instrument due to changes in foreign exchange rates. The Bank has established limits on position by currency and these positions are monitored on a daily basis.

The table below indicates the currencies to which the Bank had significant exposures as at December 31, 2018 and 2017 and the exposure as a percentage of the total capital funds:

Foreign exchange position as at December 31, 2018

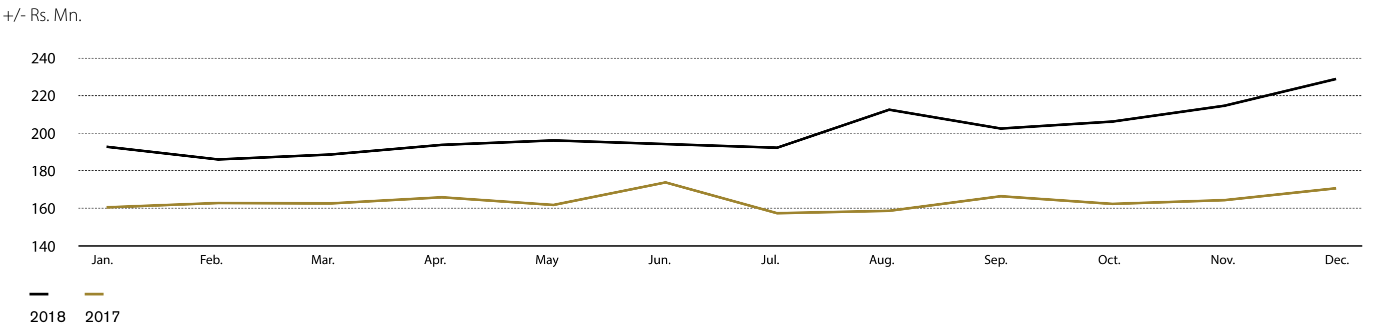
Currency	Spot			Forward			Net open position	Net position in other exchange contracts	Overall exposure in respective foreign currency	Overall exposure in Rs.
	Assets	Liabilities	Net	Assets	Liabilities	Net				
	2	3	4=2-3	5	6	7=5-6	8	9	10	11
	'000	'000	'000	'000	'000	'000	'000	'000	'000	'000
United States Dollar	**18,716**	**20,365**	**(1,649)**	**2,829**	**6,225**	**(3,396)**	**10,854**	–	**5,809**	**1,063,097**
Great Britain Pound	**666**	**101**	**566**	**30**	**604**	**(574)**	**(7)**	–	**(15)**	**(3,466)**
Euro	**3,522**	**2,435**	**1,087**	**461**	**1,550**	**(1,090)**	**(8)**	–	**(11)**	**(2,308)**
Japanese Yen	**14,126**	**3,320**	**10,806**	**38,645**	**47,696**	**(9,051)**	**(968)**	–	**787**	**1,304**
Indian Rupee	–	–	–	–	–	–	–	–	–	–
Australian Dollar	**468**	**79**	**390**	**150**	**534**	**(384)**	–	–	**6**	**747**
Canadian Dollar	**50**	**42**	**8**	–	–	–	**(7)**	–	**1**	**177**
Other currencies in USD	**300**	**189**	**111**	**17**	**63**	**(46)**	**73**	–	**138**	**25,243**
Total exposure							**USD 10,896**		**USD 5,928**	**1,084,794**
Total capital funds (capital base) as per the audited Basel III computation (Capital base of the Bank as at December 31, 2018)										**147,398,341**
Total exposure as a percentage of total capital funds (%)										**0.74**

Foreign exchange position as at December 31, 2017

Currency	Spot			Forward			Net open position	Net position in other exchange contracts	Overall exposure in respective foreign currency	Overall exposure in Rs.
	Assets	Liabilities	Net	Assets	Liabilities	Net				
	2 '000	3 '000	4=2-3 '000	5 '000	6 '000	7=5-6 '000	8 '000	9 '000	10 '000	11 '000
United States Dollar	22,289	22,822	(533)	5,350	389	4,961	2,734	–	7,162	1,100,083
Great Britain Pound	388	473	(85)	36	–	36	20	–	(29)	(5,991)
Euro	5,479	5,696	(217)	–	–	–	(52)	–	(269)	(49,344)
Japanese Yen	12,181	8,754	3,427	11,278	18,042	(6,764)	372	–	(2,965)	(4,039)
Indian Rupee	–	–	–	–	–	–	-	–	–	–
Australian Dollar	482	633	(151)	106	16	90	10	–	(51)	(6,106)
Canadian Dollar	65	13	52	–	–	–	(34)	–	18	2,201
Other currencies in USD	705	354	351	–	170	(170)	(88)	–	93	14,285
Total exposure							USD 2,595		USD 6,843	1,051,089
Total capital funds (capital base) as per the audited Basel III computation (Capital base of the Bank as at December 31, 2017)										122,415,882
Total exposure as a percentage of total capital funds (%)										0.86

The Bank regularly carries out sensitivity analysis on Net Open Position (NOP) due to possible changes in the USD/LKR exchange rate to assess the exposure to Foreign Exchange (FX) Risk. An appropriate shock based on historical USD/LKR exchange rate is applied on the NOP which is measured against the Board-approved threshold limits.

Sensitivity of Fx Position – Impact of 1% change in Exchange Rate (Sri Lankan Operation) Graph – 51



69.3.4 Exposure to equity price risk

Equity price risk arises as a result of any change in market prices and volatilities of individual equities. The Bank conducts mark-to-market calculations on a daily, quarterly and on a need basis to identify the impact due to changes in equity prices.

The table below summarises the impact (both to Income Statement and to equity) due to a change of 10% on equity prices.

	2018			2017		
	Financial assets recognised through profit or loss Rs. '000	**Financial assets fair value through other comprehensive income Rs. '000**	**Total Rs. '000**	Held for trading Rs. '000	Available for sale Rs. '000	Total Rs. '000
Market value of equity securities as at December 31,	**768,807**	**195,149**	**963,956**	314,745	500,278	815,023
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)	**76,881**	**19,515**	**96,396**	31,475	50,028	81,503
Shock of 10% on equity prices (downward)	**(76,881)**	**(19,515)**	**(96,396)**	(31,475)	(50,028)	(81,503)

69.4 Operational risk

Operational risk arises due to inadequate or failed internal processes, people and systems or from external events. Operational risk events which include legal and regulatory implications could lead to financial and reputational losses to the Bank.

The operational risk management framework of the Bank has been defined under the Board-approved operational risk management policy. Operational risk is managed by establishing an appropriate internal control system that requires a mechanism for segregation of related responsibilities within the Bank, and a detailed testing and verification of the Bank's overall operational systems, and achieving a full harmony between internal and external systems and establishing a fully independent backup facility for business continuity planning.

69.5 Capital management and Pillar III disclosures as per Basel III

Objective

The Bank is required to manage its capital taking into account the need to meet the regulatory requirements as well as the current and future business needs, stakeholder expectations and available options for raising capital.

69.5.1 Regulatory capital

Capital adequacy ratio (CAR) is calculated based on the CBSL directions stemming from Basel III accord. These guidelines require the Bank to maintain a CAR not less than 8.875% with minimum Tier 1 capital with buffers in relation to total risk weighted assets and a minimum total CAR with buffers of 12.875% in relation to total risk weighted assets.

As at December 31,	2018 Rs. '000	2017 Rs. '000
Common equity Tier 1 (CET1) capital after adjustments	107,110,518	94,151,253
Total common equity Tier 1 (CET1) capital	110,822,797	96,696,269
Equity capital (stated capital)/assigned capital	39,147,882	37,143,541
Reserve fund	7,354,143	6,476,952
Published retained earnings/(accumulated retained losses)	5,726,294	1,798,112
Published accumulated other comprehensive income (OCI)	352,491	(1,522,156)
General and other disclosed reserves	58,241,987	52,799,820
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	3,712,279	2,545,016
Goodwill (net)	–	–
Other intangible assets (net)	906,114	776,812
Revaluation losses of property, plant and equipment	3,813	3,813
Significant investments in the capital of financial institutions where the Bank owns more than 10% of the issued ordinary share capital of the entity	2,802,352	1,764,391
Additional Tier 1 (AT1) capital after adjustments	–	–
Total additional Tier 1 (ATI) capital	–	–
Qualifying additional Tier 1 capital instruments	–	–
Instruments issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	–	–
Total adjustments to AT1 capital	–	–
Investment in own shares	–	–
Others (Specify)	–	–
Tier 2 Capital after adjustments	40,287,823	28,264,629
Total Tier 2 Capital	40,287,823	28,264,629
Qualifying Tier 2 capital instruments	33,103,574	22,799,002
Revaluation gains	3,087,658	2,024,804
Loan loss provisions	4,096,591	3,440,823
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	107,110,518	94,151,253
Total Tier 1 capital	107,110,518	94,151,253
Total capital	147,398,341	122,415,882

69.5.2 Capital allocation

The Management monitors the capital adequacy ratio on a regular basis to ensure that it operates well above the internal limit set by the Bank. The allocation of capital between specific operations and activities, to a large extent, driven by optimisation of return on capital allocated. The amount of capital allocated to each operation or activity is based primarily on regulatory capital requirements, but in some cases, the regulatory requirements do not fully reflect the varying degree of risks associated with different activities. In such cases, the capital requirements may be flexed to reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum required level by the regulator.

69.5.3 Pillar III disclosures as per Basel III

Disclosures under these requirements mainly include the regulatory capital requirements and liquidity, risk weighted assets, discussion on adequacy to meet current and future capital requirements of banks and linkages between financial statements and regulatory exposures. It is required to disclose the templates specified by the Central Bank of Sri Lanka as per Basel III – Minimum disclosure requirements with effective from July 1, 2017.

70. Events after the reporting period

No circumstances have arisen since the reporting date which would require adjustments or disclosure in the Financial Statements other than disclosed below.

70.1 Interim dividend – 2018

The Bank declared and paid a second interim dividend of Rs. 3.00 per share on February 15, 2019 to both the voting and non-voting ordinary shareholders of the Bank for the year ended December 31, 2018.

In accordance with the Sri Lanka Accounting Standard – LKAS 10 on "Events after the Reporting Period", this second interim dividend has not been recognised as a liability as at December 31, 2018. Under the Inland Revenue Act No. 10 of 2006, a withholding tax of 14% has been imposed on dividends declared.

70.2 Final dividend – 2018

The Board of Directors of the Bank has recommended the payment of a final dividend of Rs. 2.00 per share which will be satisfied in the form of issue and allotment of new shares for both the voting and non-voting ordinary shareholders of the Bank for the year ended December 31, 2018.

This final dividend is yet to be approved at the Annual General Meeting to be held on March 28, 2019. In accordance with the Sri Lanka Accounting Standard – LKAS 10 on "Events after the reporting period", this proposed final dividend has not been recognised as a liability as at December 31, 2018. Under the Inland Revenue Act No. 10 of 2006, a withholding tax of 14% has been imposed on dividends declared.

Compliance with Sections 56 and 57 of Companies Act No. 07 of 2007

As required by the Section 56 of the Companies Act No. 07 of 2007, the Board of Directors of the Bank satisfied the solvency test in accordance with the Section 57, prior to recommending the final dividend. A statement of solvency completed and duly signed by the Directors on February 22, 2019 has been audited by Messrs Ernst & Young.

Annexes

Annex 1: Investor Relations

As providers of equity and debt capital, our investors expect optimal returns through the Bank's sustained and prudent growth. Presenting them with a timely, relevant, and balanced view of the Bank's fundamentals in terms of operational results, financial position, and cash flows is of paramount importance to us. Helping investors to comprehend the Bank's underlying strengths helps to bolsters confidence and loyalty, bringing together a group of investors with a long-term view in investment.

Besides ensuring the rights conferred on the investors by various statutes, the Bank strives to maintain effective two-way communication between investors and the investees contributing towards building mutual trust and confidence. The Bank is keen to ensure that all its investors are sufficiently informed so that they are able to make informed decisions.

The Bank has a strong reputation for actively engaging with its investors in a consistent, comprehensive and accurate manner, often going beyond the minimum regulatory requirements. In addition to our Annual Report, which is the Bank's main investor communications tool, the Annual General Meeting is a valued opportunity for the Bank to engage in dialogue with the investor community. These engagements will certainly help our investors to gain insight into the Bank's performance, strategic direction, approach to governance, risk management strategies adopted and future business strategies. During the year, we also invited shareholders to provide us with their views on the future direction of our Annual Reports, which feedback was taken into account in structuring and developing content of the Annual Report 2018. We also enclose a stakeholder feedback form in this Annual Report. Our stakeholders' comments and opinions are of great value to us. Many are taken on board and incorporated into our strategies for long-term value creation. The investor relations section of our website is another popular channel for stakeholders and the Bank continues to ensure that its pages are updated in a timely fashion along with the rest of the site.

Investor relations tools Figure – 36

Effective communication and active engagement with this important stakeholder group have made the Bank's shares a creditable investment proposition. As a result of a challenging economic environment, the stock market too witnessed a decline, with the ASPI and S&P SL20 dropping by 5% and 15%, respectively. This contributed to the decline in the Bank's share price which traded at a discount of 0.98 to book value at the end of December 2018. However, it still remained the highest among peers in the Banking, Finance and Insurance sector, and is a testament to our policy of sharing relevant information about our future prospects in addition to our current performance.

The Bank's public holding (free float) is 99.77% in voting shares and 84.41% in non-voting shares against the regulatory minimum of 10%. With its shares actively traded in the CSE, investors are provided with a convenient "enter and exit" mechanism.

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

The Bank has fully complied with all applicable requirements of Section 7.6 of the Listing Rules of the CSE on the contents of the Annual Report and Accounts of a listed entity. Please refer Table 38 on page 355 for references to the relevant sections of this Annual Report where specific information is disclosed together with the relevant page numbers.

Compliance with requirements of the Section 7.6 of the Listing Rules of the CSE Table – 38

Rule No.	Disclosure requirement	Section/reference	Page/s
7.6 (i)	Names of persons who during the financial year were Directors of the Bank	Corporate Governance Report	78
7.6 (ii)	Principal activities of the Bank and its subsidiaries during the year and any changes therein	Note 1.3 of the Accounting Policies Group Structure	169 430
7.6 (iii)	The names and the number of shares held by the 20 largest holders of voting and non-voting shares and the percentage of such shares held	Item 5.3 of the "Investor Relations"	364 & 365
7.6 (iv)	The float adjusted market capitalisation Public holding percentage (%), number of public shareholders and under which option the listed entity complies with the minimum public holding requirement	Not applicable since the Bank has complied with the minimum Public Holding requirement Item 5.3 of the "Investor Relations"	364 & 365
7.6 (v)	A statement of each Directors' holding and Chief Executive Officer's holding in shares of the entity at the beginning and end of each financial year	Item 5.4 of the "Investor Relations"	365
7.6 (vi)	Information pertaining to material foreseeable risk factors of the Bank	Item 7 of the "Investor Relations"	366
7.6 (vii)	Details of material issues pertaining to employees and industrial relations of the Bank	Item 8 of the "Investor Relations"	366
7.6 (viii)	Extents, locations, valuations and the number of buildings of the entity's land holdings and investment properties	Note 40.5 (a) and (b) to the Financial Statements on "Property, Plant and Equipment"	264 & 265
7.6 (ix)	Number of shares representing the Bank's stated capital	Note 53 to the Financial Statements on "Stated Capital" Item 3 of the "Investor Relations"	293-295 360 & 361
7.6 (x)	A distribution schedule of the number of holders in each class of equity securities, and the percentage of their total holdings as at the end of the year	Item 5.2 of the "Investor Relations"	363
7.6 (xi)	Ratios and market price information:		
	Equity – Dividend per share, dividend payout ratio, net asset value per share, market value per share	Items 2, 4 and 10.2 of the "Investor Relations"	357, 362 & 367
	Debt – Interest rate of comparable Government Securities, debt/equity ratio, interest cover and quick asset ratio, market prices and yield during the year	Items 10.1 and 10.2 of the "Investor Relations"	366 & 367
	Any changes in credit rating	Items 10.3 and 10.4 of the "Investor Relations"	367
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 40.5 (b) to the Financial Statements on "Property, plant and equipment"	265

Rule No.	Disclosure requirement	Section/reference	Page/s
7.6 (xiii)	Details of funds raised through Public Issues, Rights Issues, and Private Placements during the year	Note 53 to the Financial Statements on "Stated Capital" Not applicable since the Bank did not raise funds through a share issue during the year	293-295
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 entity confirming that the Entity or any of its subsidiaries has not, directly or indirectly, provided funds for the ESOS.	Note 53.2 and 54 to the Financial Statements on "Employee Share Option Plans"	294 & 295
	b. Information in respect of Employee Share Purchase Schemes The total number of shares issued under the ESPS during the financial year The number of shares issued to each category of employees during the financial year The price at which the shares were issued to the employees A declaration by the Directors of the entity confirming that the entity or any of its subsidiaries has not, directly or indirectly, provided funds for the ESPS	Not applicable as the Bank does not have Employee share purchase schemes	
7.6 (xv)	Disclosures pertaining to Corporate Governance practices in terms of Rules 7.10.3, 7.10.5 (c) and 7.10.6 (c) of Section 7 of the Rules.	Not applicable since the Bank received an exemption in terms of Section 7.10 (c) of the Listing Rules	
7.6 (xvi)	Related party transactions exceeding 10% of the equity or 5% of the total assets of the entity as per Audited Financial Statements, whichever is lower	The Bank did not have any related party transactions exceeding this threshold as at end 2018	
	Details of investments in a related party and/or amounts due from a related party to be set out separately The details shall include, as a minimum: i. The date of the transaction; ii. The name of the related party; iii. The relationship between the entity and the related party; iv. The amount of the transaction and terms of the transaction; v. The rationale for entering into the transaction	Item 20.3 of Annual Report of Board of Directors	104

The pages that follow contain information on the performance of the Bank's listed securities.

1. Our Listed Securities

The Bank's ordinary shares (both voting and non-voting) are listed on the Main Board of the Colombo Stock Exchange (CSE) under the ticker symbol "COMB". All debentures issued are also listed on the CSE. (Refer Table 39 for a summary of listed securities of the Bank).

Most daily newspapers, including the Daily News, Daily FT, The Island and Daily Mirror carry a summary of trading activity and daily prices of shares and debentures using the abbreviation of Commercial Bank or COMB.

2. Performance of Securities and Returns to Shareholders

Despite the lackluster performance of the bourse, there was strong investor interest in the shares of the Bank during the year, as depicted in the increased number of transactions compared to the previous year with turnover of shares traded recording an increase (Refer Table 44 on page 359). Both ASPI and S&P SL 20 indices decreased by 5.06% and 15.32% from 6,411 and 3,702 in 2017 to 6,052 and 3,135 respectively by the year end, primarily due to rising US interest rates and the depreciation of the Sri Lankan rupee. Foreign activities recorded a net outflow of USD 125 Mn. yet the total market capitalisation of the CSE remained almost at the end 2017 level at USD 2.839 Tn. Foreign companies were net sellers, while local companies and foreign and local individuals were net buyers. The Banks, Finance and Insurance sector index reflected a marginal drop during the year.

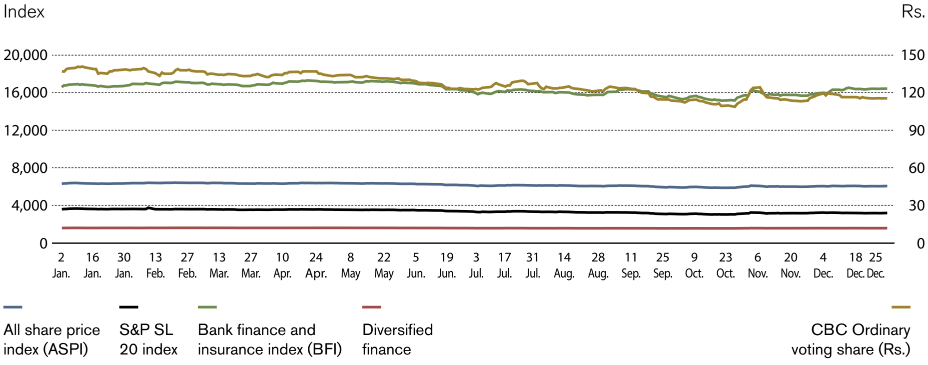
The market price of an ordinary voting share of the Bank decreased by 15.32% from Rs. 135.80 at the end of 2017 to Rs. 115 at the end of 2018 (Table 40). The Bank maintained its policy of issuing scrip dividends and continued with its Employee Share Option Plans. Market capitalisation for both voting and non-voting shares in turn decreased from Rs. 133 Bn. (USD 867.670 Mn.) in 2017 to Rs. 115 Bn. (USD 628.415 Mn.) in 2018, accounting for 4.05% of the total market capitalisation. Yet, the Bank's shares ranked third among all listed entities and first among the listed corporates in the Banking, Finance and Insurance sector.

During most of 2018, the movement of the non-voting share price followed the trend of the voting shares.

Summary of listed securities of the Bank — Table – 39

	Number in issue as at		Stock symbol
	December 31, 2018	December 31, 2017	
Equity			
Ordinary shares – Voting	**945,709,403**	931,971,691	COMB-N0000
Ordinary shares – Non-voting	**65,013,174**	63,927,611	COMB-X0000
Debt			
Fixed rate debentures March 2016/21	**44,303,400**	44,303,400	COMB/BD/08/03/21-C2341-10.75%
Fixed rate debentures March 2016/26	**17,490,900**	17,490,900	COMB/BD/08/03/26-C2342-11.25%
Fixed rate debentures March 2016/21	**50,718,000**	50,718,000	COMB/BD/27/10/21-C2360-12.00%
Fixed rate debentures March 2016/26	**19,282,000**	19,282,000	COMB/BD/27/10/26-C2359-12.25%
Fixed rate debentures March 2018/23	**83,938,400**	N/A	COMB/BD/22/07/23-C2404-12.00%
Fixed rate debentures March 2018/28	**16,061,600**	N/A	COMB/BD/22/07/28-C2405-12.50%

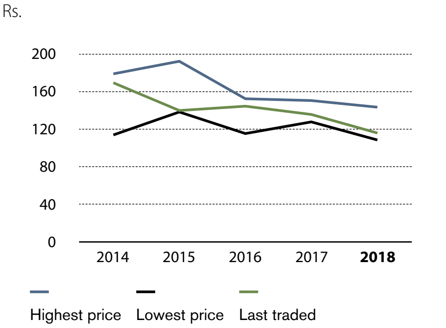
Performance of the ordinary voting shares – 2018 — Graph – 52



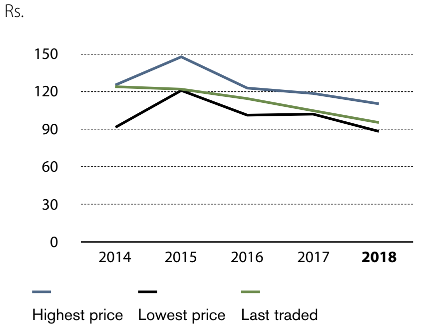
Share price of last five years — Table – 40

	2018	2017	2016	2015	2014
Ordinary shares – Voting					
Highest price (Rs.)	**142.50**	150.00	151.90	194.00	179.90
Lowest price (Rs.)	**107.50**	128.50	115.00	139.90	113.50
Last traded price (Rs.)	**115.00**	135.80	145.00	140.20	171.00
Ordinary shares – Non-voting					
Highest price (Rs.)	**110.00**	118.50	123.00	149.00	125.50
Lowest price (Rs.)	**88.00**	102.30	101.50	122.10	91.30
Last traded price (Rs.)	**95.00**	105.00	115.00	123.00	125.10

Share price trend – Voting — Graph – 53



Share price trend – Non-voting — Graph – 54



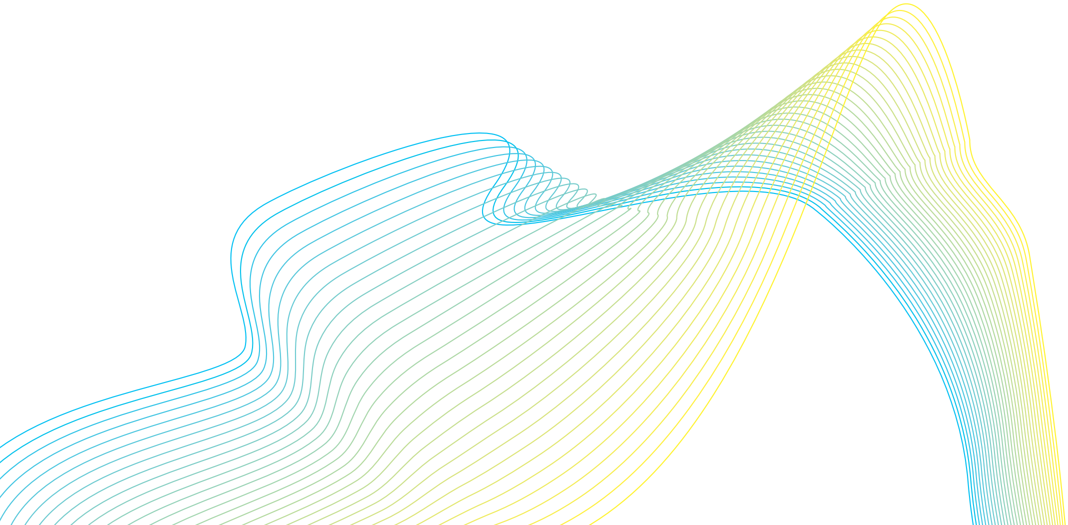
Sustainable value for investors

Ordinary shares – Voting — Table – 41

For the year ended December 31,	2018 Rs.	2017 Rs.
Highest price		
(10.01.2018 and 11.01.2018)	142.50	
(31.10.2017)		150.00
Lowest price		
(25.10.2018)	107.50	
(30.03.2017)		128.50
Year end price	115.00	135.80

Ordinary shares – Non-voting — Table – 42

For the year ended December 31,	2018 Rs.	2017 Rs.
Highest price		
(12.01.2018)	110.00	
(16.05.2017)		118.50
Lowest price		
(01.10.2018 and 02.10.2018)	88.00	
(31.03.2017)		102.30
Year end price	95.00	105.00



Information on shareholders' funds and Bank's market capitalisation

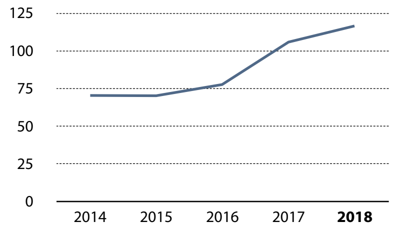
Table – 43

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.
2018	**118**	**115**	**2,839**	**4.05**	**3**	**628.415**
2017	107	133	2,899	4.60	4	867.670
2016	78	127	2,745	4.64	3	851.019
2015	70	115	2,938	3.92	3	798.009
2014	71	139	3,105	4.46	3	1,048.483

**Market capitalisation as at December 31, 2018 and 2017 includes both voting and non-voting shares.*

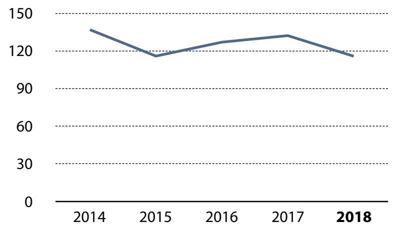
Shareholders' funds — Graph – 55

Rs. Bn.



Bank's market capitalisation — Graph – 56

Rs. Bn.



Number of transactions (No.)

Table – 44

	2018	2017	2016	2015	2014
Shares voting	**13,364**	11,811	15,189	15,575	17,846
Shares non-voting	**4,553**	4,432	3,721	5,073	7,382

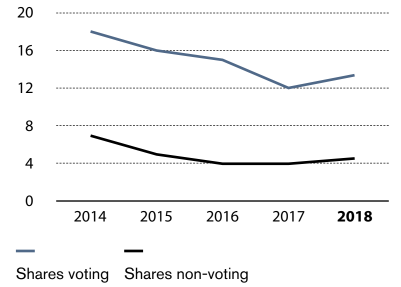
Number of shares traded (No. '000)

Table – 45

	2018	2017	2016	2015	2014
Shares voting	**95,286**	144,205	96,146	117,373	129,328
Shares non-voting	**10,637**	6,717	5,396	9,553	19,649

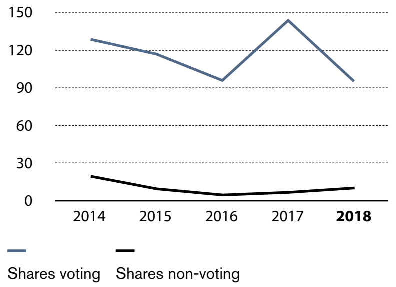
Number of transactions — Graph – 57

No. '000



Number of shares traded — Graph – 58

No. Mn.



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

Table – 46

Year			Basis	Number of shares issued/ (redeemed)	Number of shares: Ordinary shares voting	Number of shares: Ordinary shares non-voting	Number of shares: 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	–

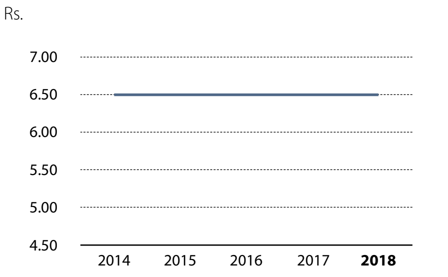
Year			Basis	Number of shares issued/ (redeemed)	Number of shares Ordinary shares voting	Ordinary shares non-voting	Cumulative redeemable preference shares
2010	Share split	Voting	1 for 2	117,402,608	351,223,879	16,120,797	–
	Share split	Non-voting	1 for 2	8,060,398	351,223,879	24,181,195	–
	ESOP	Voting		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	–

4. Dividends

The declaration of a dividend should always ensure that a balance between the shareholders' needs and the business needs of the Bank. For the year under review, the Bank paid two interim dividends totalling to Rs. 4.50 per share in cash. A final dividend of Rs. 2.00 per ordinary share has now been recommended by the Bank's Board of Directors. This will be met in the form of the issue and allotment of new shares for both voting and non-voting shareholders of the Bank for the year ended December 31, 2018. It will be submitted for the approval of the shareholders at the 50th AGM, to be held on March 28, 2019.

(A dividend of Rs. 6.50 per share was declared and paid by the Bank for the year ended December 31, 2017. It consisted of a cash dividend of Rs. 4.50 per share and balance entitlement of Rs. 2.00 per share satisfied in the form of issue and allotment of new shares).

Dividend per share Graph – 59



Dividend information Table – 47

Dividends	2018	2017	2016	2015	2014
Cash – Rs. Per share					
First interim paid	**1.50**	1.50	1.50	1.50	1.50
Second interim paid	**3.00**	3.00	3.00	–	1.00
Final proposed/paid		–	–	3.00	2.00
Total	**4.50**	4.50	4.50	4.50	4.50
Scrip – Rs. Per share					
Final proposed/alloted	**2.00**	2.00	2.00	2.00	2.00
Total	**6.50**	6.50	6.50	6.50	6.50
Dividend payout ratio (%)					
Cash	**25.92**	26.42	27.64	33.15	34.86
Total (cash and shares)	**37.44**	38.17	39.94	47.89	50.36

5. Shareholders

The Bank had 10,615 ordinary voting shareholders and 4,437 ordinary non-voting shareholders as at December 31, 2018 compared to 9,812 and 4,320 voting and non-voting shareholders as at December 31, 2017 (Tables 5.1 and 5.2 on page 363). With three new investors joining ranks, the percentage of ordinary voting shares held by the 20 largest shareholders increased to 70.23% from 67.32% in 2017. A rise was also recorded in the non-voting ordinary shares held by the 20 largest shareholders from 34.83% in 2017 to 46.90% in 2018.

Number of ordinary shareholders Table – 48

	2018	2017
Voting shareholders	**10,615**	9,812
Non-voting shareholders	**4,437**	4,320
Total	**15,052**	14,132

5.1 Composition of shareholders

Table – 49

	As at December 31, 2018				As at December 31, 2017			
	No. of shareholders	%	No. of shares	%	No. of shareholders	%	No. of shares	%
Ordinary shares – Voting								
Resident	10,336	97.37	640,513,129	67.73	9,524	97.06	614,635,782	65.95
Non-resident	279	2.63	305,196,274	32.27	288	2.94	317,335,909	34.05
Total	10,615	100.00	945,709,403	100.00	9,812	100.00	931,971,691	100.00
Individuals	10,055	94.72	203,708,919	21.54	9,260	94.37	186,657,813	20.03
Institutions	560	5.28	742,000,484	78.46	552	5.63	745,313,878	79.97
Total	10,615	100.00	945,709,403	100.00	9,812	100.00	931,971,691	100.00
Ordinary shares – Non-voting								
Resident	4,360	98.26	49,852,293	76.68	4,243	98.22	47,078,661	73.64
Non-resident	77	1.74	15,160,881	23.32	77	1.78	16,848,950	26.36
Total	4,437	100.00	65,013,174	100.00	4,320	100.00	63,927,611	100.00
Individuals	4,221	95.13	34,430,243	52.96	4,102	94.95	34,197,527	53.49
Institutions	216	4.87	30,582,931	47.04	218	5.05	29,730,084	46.51
Total	4,437	100.00	65,013,174	100.00	4,320	100.00	63,927,611	100.00

5.2 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 CSE)

Table – 50

	As at December 31, 2018				As at December 31, 2017			
	Number of shareholders	%	Number of shares	%	Number of shareholders	%	Number of shares	%
Ordinary shares – Voting								
1 – 1,000	5,619	52.93	1,269,681	0.13	5,003	50.99	1,118,801	0.12
1,001 – 10,000	3,241	30.53	11,833,928	1.25	3,091	31.50	11,273,062	1.21
10,001 – 100,000	1,435	13.52	41,064,271	4.34	1,411	14.38	40,094,004	4.30
100,001 – 1,000,000	244	2.30	68,631,856	7.26	233	2.38	65,888,648	7.07
Over – 1,000,000	76	0.72	822,909,667	87.02	74	0.75	813,597,176	87.30
Total	10,615	100.00	945,709,403	100.00	9,812	100.00	931,971,691	100.00
Ordinary shares – Non-voting								
1 – 1,000	2,462	55.49	580,673	0.89	2,349	54.38	557,060	0.87
1,001 – 10,000	1,363	30.72	4,597,203	7.07	1,354	31.34	4,608,957	7.21
10,001 – 100,000	514	11.58	14,812,051	22.78	518	11.99	14,886,791	23.29
100,001 – 1,000,000	92	2.07	23,303,602	35.84	91	2.11	22,204,420	34.74
Over – 1,000,000	6	0.14	21,719,645	33.42	8	0.18	21,670,383	33.89
Total	4,437	100.00	65,013,174	100.00	4,320	100.00	63,927,611	100.00

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

Voting shareholders Table – 51

As at December 31,		2018		2017*	
Ordinary shares voting		Number of shares	%	Number of shares	%
1.	DFCC Bank PLC A/C 1	**128,215,649**	**13.56**	126,930,224	13.62
2.	Employees' Provident Fund	**91,090,278**	**9.63**	89,933,984	9.65
3.	Mr Y S H I Silva	**76,373,675**	**8.08**	70,742,605	7.59
4.	Deutsche Bank AG Singapore – DSS A/C NT Asian Discovery Master Fund	**53,948,136**	**5.70**	53,263,322	5.72
5.	Melstacorp PLC	**43,550,677**	**4.61**	41,516,889	4.45
6.	Sri Lanka Insurance Corporation Ltd. – Life Fund	**42,927,124**	**4.54**	46,620,431	5.00
7.	CB NY S/A International Finance Corporation	**41,974,991**	**4.44**	41,442,164	4.45
8.	Sri Lanka Insurance Corporation Ltd. – General Fund	**36,911,420**	**3.90**	40,087,155	4.30
9.	Citibank New York S/A Norges Bank A/C 2	**18,395,709**	**1.95**	–	–
10.	Employee's Trust Fund Board	**16,783,623**	**1.77**	15,579,452	1.67
11.	BNYMSANV RE-LF Ruffer Absolute Return Fund	**16,625,393**	**1.76**	16,414,352	1.76
12.	Mrs L E M Yaseen	**15,765,606**	**1.67**	17,008,550	1.83
13.	HSBC International Nominees Ltd. – JPMCB T ROWE New Asia Fund	**14,922,939**	**1.58**	14,990,626	1.61
14.	BNYMSANV RE – First State Investments ICVC – Stewart Investors Indian Subcontinent Fund	**12,243,878**	**1.29**	9,897,978	1.06
15.	HSBC International Nominees Ltd. – SSBT – BMO Investments II (Ireland) Public Limited Company	**9,989,558**	**1.06**	9,862,752	1.06
16.	HSBC International Nominees Ltd. – BPSS LUX – Aberdeen Global Asia Pacific Equity Fund	**9,566,382**	**1.01**	9,444,947	1.01
17.	Mr M J Fernando	**9,036,300**	**0.96**	–	–
18.	HSBC International Nominees Ltd. – SSBT – Morgan Stanley Asset Management SA – Galaxy Fund	**8,904,006**	**0.94**	14,181,819	1.52
19.	Renuka Hotels Limited	**8,513,584**	**0.90**	–	–
20.	HSBC International Nominees Ltd. – JPMLU – T ROWE price SICAV	**8,465,919**	**0.90**	9,503,641	1.02
	Sub total	**664,204,847**	**70.23**	627,420,891	67.32
	Other shareholders	**281,504,556**	**29.77**	304,550,800	32.68
	Total	**945,709,403**	**100.00**	931,971,691	100.00

** Comparative shareholdings as at December 31, 2017 of the twenty largest shareholders as at December 31, 2018.*

Percentage of public holding of voting shares as at December 31, 2018 was 99.77% (99.71% as at December 31, 2017). (As per Rule No. 7.6 (iv) of the Listing Rules of the CSE).

Number of shareholders representing public holding as at December 31, 2018 – 10,580 (9,780 as at December 31, 2017). (As per Rule No. 7.13.1 of the Listing Rules of the CSE).

Non-voting shareholders

Table – 52

As at December 31,		2018		2017*	
Ordinary shares non-voting		Number of shares	%	Number of shares	%
1.	Citi Bank Newyork S/A Norges Bank Account No. 02	**9,990,652**	**15.37**	6,428,323	10.06
2.	Employees' Trust Fund Board	**5,057,600**	**7.78**	4,656,784	7.28
3.	Akbar Brothers (Pvt) Ltd. A/C No.01	**2,411,894**	**3.71**	689,509	1.08
4.	GF Capital Global Limited	**1,680,841**	**2.59**	1,627,959	2.55
5.	BNYMSANV RE-Butterfield Trust (Bermuda) Limited	**1,466,494**	**2.26**	1,442,008	2.26
6.	M J F Exports (Pvt) Ltd.	**1,112,164**	**1.71**	1,093,594	1.71
7.	Mr M F Hashim	**920,197**	**1.42**	904,832	1.42
8.	Saboor Chatoor (Pvt) Ltd.	**887,700**	**1.37**	872,800	1.37
9.	Mrs L V C Samarasinha	**874,514**	**1.35**	750,000	1.17
10.	Union Assurance PLC/No – 01A/C	**661,016**	**1.02**	649,979	1.02
11.	Mr T W A Wickramasinghe	**645,000**	**0.99**	522,000	0.82
12.	Mr J D Bandaranayake, Ms N Bandaranayake & Dr V Bandaranayake (Joint)	**618,135**	**0.95**	–	–
13.	Mr J D Bandaranayake, Dr V Bandaranayake & Ms I Bandaranayake (Joint)	**615,863**	**0.95**	–	–
14.	Mr R Gautam	**574,560**	**0.88**	495,200	0.77
15.	Mr G R Mallawaaratchy & Mrs B G P Mallawaaratchy (Joint)	**545,175**	**0.84**	536,072	0.84
16.	Northern Trust Company S/A Polar Capital Funds PLC	**527,557**	**0.81**	718,286	1.12
17.	Mr K S M De Silva	**520,176**	**0.80**	442,974	0.69
18.	Mr J G De Mel	**473,519**	**0.73**	–	–
19.	Mr A P Somasiri	**455,000**	**0.70**	–	–
20.	Mr A L Gooneratne	**437,717**	**0.67**	430,409	0.67
	Sub total	**30,475,774**	**46.90**	22,260,729	34.83
	Other shareholders	**34,537,400**	**53.10**	41,666,882	65.17
	Total	**65,013,174**	**100.00**	63,927,611	100.00

** Comparative shareholdings as at December 31, 2017 of the twenty largest shareholders as at December 31, 2018.*

Percentage of public holding of non-voting shares as at December 31, 2018 was 84.41% (89.66% as at December 31, 2017).
(As per Rule No. 7.6 (iv) of the Listing Rules of the CSE).

Number of shareholders representing public holding as at December 31, 2018 – 4,427 (4,309 as at December 31, 2017). (As per Rule No. 7.13.1 of the Listing Rules of the CSE).

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

Table – 53

	Ordinary shares – Voting		Ordinary shares – Non-voting	
	2018	2017	**2018**	2017
Mr K G D D Dheerasinghe – *Chairman*	**23,870**	23,567	**Nil**	Nil
Mr M P Jayawardena – *Deputy Chairman*	**Nil**	Nil	**Nil**	Nil
Mr. S Renganathan – Managing Director/ Chief Executive Officer*	**323,903**	319,792	**11,916**	11,718
Mr S Swarnajothi	**Nil**	Nil	**10,944**	10,762
Prof A K W Jayawardane	**Nil**	Nil	**Nil**	Nil
Mr K Dharmasiri	**Nil**	Nil	**Nil**	Nil
Mr L D Niyangoda	**Nil**	Nil	**Nil**	Nil
Ms N T M S Cooray	**190,000**	Nil	**50,575**	49,731
Mr G S Jadeja	**Nil**	Nil	**Nil**	Nil
Mr T L B Hurulle	**Nil**	Nil	**Nil**	Nil
Justice K Sripavan	**Nil**	Nil	**Nil**	Nil
Mr S C U Manatunga**	**57,553**	144,693	**Nil**	Nil

**Appointed as MD/CEO w.e.f. July 27, 2018*

***Appointed as Executive Director w.e.f. July 27, 2018*

6. Engaging with shareholders

During the year, the Bank has complied with its shareholder communication policy. This policy outlines the various formal channels through which it engages with shareholders. It covers the timely communication of quarterly performance as set out on pages 32 and 368 to 373. It also records significant events that may reasonably be expected to impact the share price. (More details are given in Financial Calendar on page 151.)

7. Material foreseeable risk factors

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

Information pertaining to the material foreseeable risk factors, that require disclosures as per the Rule No. 7.6 (vi) of the Listing Rules of the CSE is discussed in the Section on "Risk Management" on pages 115 to 139.

8. Material issues pertaining to employees and industrial relations pertaining to the Bank

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

During the year under review there were no material issues relating to employees and industrial relations pertaining to the Bank which warrant disclosure.

9. Quarterly performance in 2018 compared to 2017

(As per Rule No. 7.4 (a) (i) of the Listing Rules of the CSE)

The Bank duly submitted the Interim Financial Statements for the year 2018 to the CSE within applicable statutory deadlines. (The Bank duly complied with this requirement for 2017).

The Audited Income Statement for the year ended December 31, 2018 and the Audited Statement of Financial Position as at December 31, 2018 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 2017).

This Annual Report in its entirety is available on the Bank's website (http://www.combank.lk/newweb/en/investors). Shareholders may also elect to receive a hard copy of the Annual Report via mail on request. The Company Secretary of the Bank will respond to individual letters received from shareholders.

10. Debt securities

During the year the Bank issued two types of Tier II, listed, rated, unsecured, subordinated, redeemable debentures as shown below:

10.1 Debenture Composition

Table – 54

	Fixed Interest Rate 2018					
Type of Issue	Public	Public	Public	Public	Public	Public
Debenture Type	Type "A"	Type "B"	Type "A"	Type "B"	Type "A"	Type "B"
CSE Listing	Listed	Listed	Listed	Listed	Listed	Listed
Issue Date	March 9, 2016	March 9, 2016	October 28, 2016	October 28, 2016	July 23, 2018	July 23, 2018
Maturity Date	March 8, 2021	March 8, 2026	October 27, 2021	October 27, 2026	July 22, 2023	July 22, 2028
Interest Payable Frequency	Bi-Annually	Bi-Annually	Bi-Annually	Bi-Annually	Bi-Annually	Bi-Annually
Offered Interest Rate	10.75% p.a.	11.25% p.a.	12.00% p.a.	12.25% p.a.	12.00% p.a.	12.50% p.a.
Amount (Rs. Mn.)	4,430.34	1,749.09	5,071.80	1,928.20	8,393.84	1,606.16
Market Values						
– Highest (Rs.)	Not traded during the year	100.00	102.66	Not traded during the year	Not traded during the year	Not traded during the year
– Lowest (Rs.)		90	99.96			
– Year-end (Rs.)		90.00	102.66			
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	10.25	10.80	10.45	10.90	10.75	10.95
Other Ratios as at date of last trade						
– Interest Yield (%)	N/A	13.45	11.02	N/A	N/A	N/A
– Yield to Maturity (%)	N/A	13.30	11.06	N/A	N/A	N/A

10.2 Other ratios

Table – 55

	2018	2017
Debt equity ratio (%)	**45.39**	38.61
Net assets value per share (Rs.)	**117.15**	107.54
Interest cover (Times)	**10.00**	11.56
Liquid assets ratio (%) (Minimum 20%)		
Domestic Banking Unit (DBU)	**24.47**	27.28
Off-shore Banking Unit (OBU)	**30.20**	30.95

10.3 Credit ratings

- The Bank's credit rating, AA (lka) was reaffirmed by Fitch Ratings Lanka Ltd. in September 2018.
- The Bank's Bangladesh Operation's credit rating was reaffirmed at AAA by Credit Rating Information Services Ltd. in June 2018.

10.4 Credit ratings – Debentures

- The credit rating of the Bank's Subordinated Debentures affirmed in July 2018 at AA-(lka) by Fitch Ratings Lanka Ltd.

Fixed Interest Rate 2017				Fixed Interest Rate 2016			
Public	Public	Public	Public	Public	Public	Public	Public
Type "A"	Type "B"	Type "A"	Type "B"	Type "A"	Type "B"	Type "A"	Type "B"
Listed	Listed	Listed	Listed	Listed	Listed	Listed	Listed
March 9, 2016	March 9, 2016	October 28, 2016	October 28, 2016	March 9, 2016	March 9, 2016	October 28, 2016	October 28, 2016
March 8, 2021	March 8, 2026	October 27, 2021	October 27, 2026	March 8 ,2021	March 8 ,2026	October 27, 2021	October 27, 2026
Bi-Annually	Bi-Annually	Bi-Annually	Bi-Annually	Bi-Annually	Bi-Annually	Bi-Annually	Bi-Annually
10.75% p.a.	11.25% p.a.	12.00% p.a.	12.25% p.a.	10.75% p.a.	11.25% p.a.	12.00% p.a.	12.25% p.a.
4,430.34	1,749.09	5,071.80	1,928.20	4,430.34	1,749.09	5,071.80	1,928.20
85.33	Not traded during the year	96.00	Not traded during the year	Not traded during the year	Not traded during the year	Not traded during the year	Not traded during the year
81.40		87.17					
81.40		87.17					
10.75	11.25	12.00	12.25	10.75	11.25	12.00	12.25
11.04	11.57	12.36	12.63	11.04	11.57	12.36	12.63
9.70	10.10	9.80	10.10	12.05	12.45	12.15	12.50
17.96	- N/A -	15.98	- N/A -	- N/A -	- N/A -	- N/A -	- N/A -
17.52	- N/A -	15.74	- N/A -	- N/A -	- N/A -	- N/A -	- N/A -

Summary of the Income Statements – Group and Bank – 2018

Table – 56

	1st Quarter March 31 Rs. Mn.	2nd Quarter June 30 Rs. Mn.	3rd Quarter September 30 Rs. Mn.	4th Quarter December 31 Rs. Mn.	Total (Audited) Rs. Mn.
Group					
Net interest income	11,728.5	12,142.3	12,290.5	9,456.9	45,618.2
Net fee and commission income	2,446.4	2,545.7	2,594.6	3,047.7	10,634.4
Other operating income (Net)	715.1	1,444.4	3,394.0	3,058.4	8,611.9
Less: Impairment charges and other losses	1,622.2	2,406.2	3,405.4	1,399.6	8,833.4
Net operating income	13,267.8	13,726.2	14,873.7	14,163.4	56,031.1
Less: expenses	6,937.8	7,202.0	7,635.5	8,163.3	29,938.6
Operating profit	6,330	6,524.2	7,238.2	6,000.1	26,092.5
Add: share of profits/(losses) of associate companies	1.5	3.6	0.7	0.2	6.0
Profit before income tax	6,331.5	6,527.8	7,238.9	6,000.3	26,098.5
Less: income tax expense	1,965.7	2,288.2	2,077.3	1,904.5	8,235.7
Profit for the period	4,365.8	4,239.6	5,161.6	4,095.8	17,862.8
Quarterly profit as a percentage of the profit after tax	24.4	23.8	28.9	22.9	100.0
Cumulative quarterly profit as a percentage of the profit after tax	24.4	48.2	77.1	100.0	–

	1st Quarter March 31 Rs. Mn.	2nd Quarter June 30 Rs. Mn.	3rd Quarter September 30 Rs. Mn.	4th Quarter December 31 Rs. Mn.	Total (Audited) Rs. Mn.
Bank					
Net interest income	11,567.6	11,981.9	12,116.4	9,275.9	44,941.8
Net fee and commission income	2,342.4	2,437.3	2,469.1	2,901.4	10,150.2
Other operating income (net)	732.3	1,384.7	3,289.0	3,189.5	8,595.5
Less: impairment charges and other losses	1,463.6	2,171.8	3,228.9	1,710.9	8,575.2
Net operating income	13,178.7	13,632.1	14,645.6	13,655.9	55,112.3
Less: expenses	6,841.5	7,071.0	7,489.8	8,118.8	29,521.1
Profit before income tax	6,337.2	6,561.1	7,155.8	5,537.1	25,591.2
Less: income tax expense	1,956.1	2,296.0	2,040.9	1,754.4	8,047.4
Profit for the period	4,381.1	4,265.1	5,114.9	3,782.7	17,543.8
Quarterly profit as a percentage of the profit after tax	25.0	24.3	29.1	21.6	100.0
Cumulative quarterly profit as a percentage of the profit after tax	25.0	49.3	78.4	100.0	–

Summary of the Income Statements – Group and Bank – 2017

Table – 57

	1st Quarter March 31 Rs. Mn.	2nd Quarter June 30 Rs. Mn.	3rd Quarter September 30 Rs. Mn.	4th Quarter December 31 Rs. Mn.	Total (Audited) Rs. Mn.
Group					
Net interest income	8,786.8	9,303.0	10,553.9	10,923.6	39,567.3
Net fees and commission income	2,060.9	2,021.6	2,235.5	2,606.5	8,924.5
Other operating income (Net)	845.8	766.3	(56.7)	(510.2)	1,045.2
Less: Impairment charges for loans and other losses	251.9	708.6	658.5	(629.7)	989.3
Net operating income	11,441.6	11,382.3	12,074.2	13,649.6	48,547.7
Less: expenses	6,137.1	6,082.2	6,277.8	6,774.0	25,271.1
Operating profit	5,304.5	5,300.1	5,796.4	6,875.6	23,276.6
Add: share of profits/(losses) of associate companies	2.2	2.2	0.4	(1.1)	3.7
Profit before income tax	5,306.7	5,302.3	5,796.8	6,874.5	23,280.3
Less: income tax expense	1,493.0	1,461.8	1,677.4	2,021.6	6,653.8
Profit for the period	3,813.7	3,840.5	4,119.4	4,852.9	16,626.5
Quarterly profit as a percentage of the profit after tax	22.9	23.1	24.8	29.2	100.0
Cumulative quarterly profit as a percentage of the profit after tax	22.9	46.0	70.8	100.0	–

	1st Quarter March 31 Rs. Mn.	**2nd Quarter June 30 Rs. Mn.**	**3rd Quarter September 30 Rs. Mn.**	**4th Quarter December 31 Rs. Mn.**	**Total (Audited) Rs. Mn.**
Bank					
Net interest income	8,661.4	9,159.8	10,420.6	10,781.6	39,023.4
Net fees and commission income	2,021.2	1,956.2	2,173.7	2,451.3	8,602.4
Other operating income (net)	848.5	756.7	(36.3)	(415.2)	1,153.7
Less: impairment charges for loans and other losses	241.7	695.3	557.4	(816.8)	677.6
Net operating income	11,289.4	11,177.4	12,000.6	13,634.5	48,101.9
Less: expenses	6,067.6	5,974.2	6,193.6	6,683.6	24,919.0
Profit before income tax	5,221.8	5,203.2	5,807.0	6,950.9	23,182.9
Less: income tax expense	1,446.4	1,438.6	1,672.2	2,044.5	6,601.7
Profit for the period	3,775.4	3,764.6	4,134.8	4,906.4	16,581.2
Quarterly profit as a percentage of the profit after tax	22.8	22.7	24.9	29.6	100.0
Cumulative quarterly profit as a percentage of the profit after tax	22.8	45.5	70.4	100.0	–

Statement of Financial Position – Group – 2018

Table – 58

As at	March 31 Rs. Mn	June 30 Rs. Mn	September 30 Rs. Mn	December 31 (Audited) Rs. Mn
Assets				
Cash and cash equivalents	53,879	31,059	30,983	44,356
Balances with central banks	49,972	52,268	55,917	55,407
Placements with banks	5,832	13,116	10,487	19,899
Securities purchased under resale agreements	6,042	–	3,002	9,514
Derivative financial assets	2,302	1,215	4,949	7,910
Financial assets recognised through profit or loss/Held for trading – Measured at fair value	4,654	6,657	8,455	5,520
Financial assets at amortised cost – Loans and advances to banks	650	661	706	763
Financial assets at amortised cost – Loans and advances to other customers	784,976	813,726	840,068	867,612
Financial assets measured at fair value through other comprehensive income/financial investments Available for sale	140,771	117,700	117,833	176,761
Financial assets at amortised cost – Debt and other financial instruments/financial investments – Held to maturity and loans and receivables	143,334	139,530	142,720	89,274
Investments in subsidiaries	–	–	–	–
Investments in associates	108	108	104	105
Property, plant and equipment	16,250	16,302	16,682	17,015
Intangible assets	1,248	1,267	1,411	1,434
Leasehold property	104	104	103	103
Deferred tax assets	–	–	–	188
Other assets	20,600	19,772	21,866	24,051
Total assets	1,230,722	1,213,485	1,255,286	1,319,912
Liabilities				
Due to banks	49,388	44,661	46,633	52,362
Derivative financial liabilities	1,971	1,706	4,915	8,022
Securities sold under repurchase agreements	75,886	53,526	35,032	48,951
Financial liabilities at amortised cost – due to depositors	913,144	920,078	952,332	994,371
Financial liabilities at amortised cost – other borrowings	24,301	23,769	24,886	25,362
Debt securities issued	–	–	–	–
Current tax liabilities	4,722	5,617	5,915	6,736
Deferred tax liabilities	3,458	3,188	3,067	971
Other provisions	–	–	–	–
Other liabilities	21,988	20,230	24,053	24,548
Due to subsidiaries	–	–	–	–
Subordinated liabilities	25,601	25,565	36,950	37,992
Total Liabilities	1,120,459	1,098,340	1,133,783	1,199,315
Equity				
Stated capital	39,086	39,144	39,148	39,148
Statutory reserves	6,493	6,493	6,493	7,444
Retained earnings	4,441	8,657	13,772	4,950
Other reserves	59,343	59,924	61,091	67,856
Total equity attributable to equity holders of the Bank	109,363	114,218	120,504	119,398
Non-controlling interest	900	927	999	1,199
Total Equity	110,263	115,145	121,503	120,597
Total liabilities and equity	1,230,722	1,213,485	1,255,286	1,319,912
Contingent liabilities and commitments	552,479	618,594	656,791	658,860
Net assets value per ordinary share (Rs.)	108.26	113.01	119.22	118.13
Quarterly growth (%)				
Financial assets at amortised cost – Loans and advances to banks and loans and advances to other customers	5.72	3.66	3.24	3.28
Financial liabilities at amortised cost – due to depositors	6.52	0.76	3.51	4.41
Total assets	6.48	-1.40	3.44	5.15

Statement of Financial Position – Group – 2017

Table – 59

As at	March 31 Rs. Mn	June 30 Rs. Mn	September 30 Rs. Mn	December 31 (Audited) Rs. Mn
Assets				
Cash and cash equivalents	31,194	38,761	27,738	34,673
Balances with central banks	39,676	50,210	46,747	45,546
Placements with banks	11,332	9,333	12,379	17,633
Securities purchased under resale agreements	42	42	–	–
Derivative financial assets	1,143	1,396	2,363	2,335
Financial assets recognised through profit or loss/Held for trading – Measured at fair value	13,091	6,284	5,246	4,411
Financial assets at amortised cost – Loans and advances to banks	634	640	638	641
Financial assets at amortised cost – Loans and advances to other customers	646,839	673,250	712,066	742,444
Financial assets measured at fair value through other comprehensive income/financial investments Available for sale	171,489	162,539	156,346	154,914
Financial assets at amortised cost – Debt and other financial instruments/financial investments – Held to maturity and loans and receivables	109,395	122,197	116,574	118,078
Investments in subsidiaries	–	–	–	–
Investments in associates	105	108	108	110
Property, plant and equipment	11,604	11,757	11,948	16,317
Intangible assets	1,132	1,094	1,060	1,251
Leasehold property	106	105	105	105
Deferred tax assets	712	–	–	–
Other assets	19,484	17,408	17,135	17,363
Total assets	1,057,978	1,095,124	1,110,453	1,155,821
Liabilities				
Due to banks	52,951	58,503	45,185	60,245
Derivative financial liabilities	920	975	3,490	3,678
Securities sold under repurchase agreements	78,220	77,902	59,990	49,532
Financial liabilities at amortised cost – due to depositors	784,778	804,554	824,860	857,270
Financial liabilities at amortised cost – other borrowings	9,331	8,936	24,424	23,786
Debt securities issued	–	–	–	–
Current tax liabilities	3,805	3,747	3,733	4,203
Deferred tax liabilities	–	117	1,157	3,565
Other provisions	2	2	2	–
Other liabilities	21,449	17,564	18,128	19,508
Due to subsidiaries	–	–	–	–
Subordinated liabilities	25,273	25,142	25,371	25,166
Total Liabilities	976,729	997,442	1,006,340	1,046,953
Equity				
Stated capital	26,806	37,033	37,042	37,144
Statutory reserves	5,648	5,654	5,654	6,493
Retained earnings	3,913	7,759	11,870	5,087
Other reserves	44,062	46,411	48,714	59,272
Total equity attributable to equity holders of the Bank	80,429	96,857	103,280	107,996
Non-controlling interest	820	825	833	872
Total Equity	81,249	97,682	104,113	108,868
Total liabilities and equity	1,057,978	1,095,124	1,110,453	1,155,821
Contingent liabilities and commitments	511,791	527,618	562,482	565,278
Net assets value per ordinary share (Rs.)	88.98	97.34	103.79	108.44
Quarterly growth (%)				
Financial assets at amortised cost – Loans and advances to banks and loans and advances to other customers	4.30	4.08	5.76	4.26
Financial liabilities at amortised cost – due to depositors	5.58	2.52	2.52	3.93
Total assets	3.62	3.51	1.40	4.09

Statement of Financial Position – Bank – 2018

Table – 60

As at	March 31 Rs. Mn	June 30 (Audited) Rs. Mn	September 30 Rs. Mn	December 31 (Audited) Rs. Mn
Assets				
Cash and cash equivalents	52,044	26,619	28,362	39,534
Balances with central banks	49,174	51,381	54,989	54,385
Placements with banks	5,832	13,116	10,250	19,899
Securities purchased under re-sale agreements	6,042	–	3,002	9,514
Derivative financial assets	2,302	1,215	4,949	7,910
Financial assets recognised through profit or loss/Held for trading – measured at fair value	4,654	6,657	8,455	5,520
Financial assets at amortised cost – Loans and advances to banks	650	661	706	763
Financial assets at amortised cost – Loans and advances to other customers	779,615	808,394	834,290	861,100
Financial assets measured at fair value through other comprehensive income/financial investments Available for sale	140,577	117,461	117,594	176,507
Financial assets at amortised cost – Debt and other financial instruments/financial investments – Held to maturity and loans and receivables	138,133	135,484	138,002	83,855
Investments in subsidiaries	3,082	3,557	3,650	4,264
Investments in associates	44	44	44	44
Property, plant and equipment	14,585	14,638	14,988	15,301
Intangible assets	766	776	884	906
Leasehold property	72	72	72	72
Deferred tax assets	–	–	–	–
Other assets	20,503	19,640	21,394	23,911
Total Assets	1,218,075	1,199,715	1,241,631	1,303,485
Liabilities				
Due to banks	46,513	41,971	44,183	50,101
Derivative financial liabilities	1,971	1,706	4,915	8,022
Securities sold under repurchase agreements	76,031	53,672	35,179	49,104
Financial liabilities at amortised cost – due to depositors	905,634	911,180	943,615	983,037
Financial liabilities at amortised cost – other borrowings	24,301	23,769	24,886	25,362
Debt securities issued	–	–	–	–
Current tax liabilities	4,625	5,443	5,781	6,566
Deferred tax liabilities	3,192	3,008	2,898	646
Other provisions	–	–	–	–
Other liabilities	21,687	19,956	23,470	24,208
Due to subsidiaries	20	33	52	41
Subordinated liabilities	25,601	25,565	36,950	37,992
Total Liabilities	1,109,575	1,086,303	1,121,929	1,185,079
Equity				
Stated capital	39,086	39,144	39,148	39,148
Statutory reserves	6,477	6,477	6,477	7,354
Retained earnings	4,384	8,651	13,766	5,063
Other reserves	58,553	59,140	60,311	66,841
Total equity attributable to equity holders of the Bank	108,500	113,412	119,702	118,406
Non-controlling Interest	–	–	–	–
Total Equity	108,500	113,412	119,702	118,406
Total Liabilities and Equity	1,218,075	1,199,715	1,241,631	1,303,485
Contingent Liabilities and Commitments	552,216	618,495	656,592	658,722
Net Assets Value per Ordinary Share (Rs.)	107.40	112.21	118.43	117.15
Quarterly Growth (%)				
Financial assets at amortised cost – Loans and advances to banks & Loans and advances to other customers	5.71	3.69	3.21	3.22
Financial Liabilities at amortised cost - due to depositors	6.53	0.61	3.56	4.18
Total assets	6.53	-1.51	3.49	4.98

Statement of Financial Position – Bank – 2017

Table – 61

As at	March 31 Rs. Mn	June 30 (Audited) Rs. Mn	September 30 Rs. Mn	December 31 (Audited) Rs. Mn
Assets				
Cash and cash equivalents	29,312	36,755	25,896	33,225
Balances with central banks	39,252	49,731	46,164	44,801
Placements with banks	11,332	9,333	12,379	17,633
Securities purchased under re-sale agreements	42	42	–	–
Derivative financial assets	1,143	1,396	2,363	2,335
Financial assets recognised through profit or loss/Held for trading – measured at fair value	13,091	6,284	5,246	4,411
Financial assets at amortised cost – Loans and advances to banks	634	640	638	641
Financial assets at amortised cost – Loans and advances to other customers	642,171	668,687	707,431	737,447
Financial assets measured at fair value through other comprehensive income/financial investments Available for sale	171,420	162,344	156,151	154,714
Financial assets at amortised cost – Debt and other financial instruments/financial investments – Held to maturity and loans and receivables	106,478	118,735	111,773	112,275
Investments in subsidiaries	2,493	2,503	2,565	3,066
Investments in associates	44	44	44	44
Property, plant and equipment	10,351	10,456	10,628	14,635
Intangible assets	635	609	580	777
Leasehold property	73	73	73	73
Deferred tax assets	971	136	–	–
Other assets	19,372	17,348	17,054	17,297
Total Assets	1,048,814	1,085,116	1,098,985	1,143,374
Liabilities				
Due to banks	49,243	54,876	41,847	57,121
Derivative financial liabilities	920	975	3,490	3,678
Securities sold under repurchase agreements	78,463	78,121	60,213	49,677
Financial liabilities at amortised cost – due to depositors	780,813	799,902	818,564	850,128
Financial liabilities at amortised cost – other borrowings	9,331	8,936	24,424	23,786
Debt securities issued	–	–	–	–
Current tax liabilities	3,750	3,696	3,677	4,144
Deferred tax liabilities	–	–	921	3,275
Other provisions	2	2	2	–
Other liabilities	21,245	17,363	17,922	19,225
Due to subsidiaries	31	29	35	75
Subordinated liabilities	25,273	25,142	25,371	25,166
Total Liabilities	969,071	989,042	996,466	1,036,275
Equity				
Stated capital	26,806	37,033	37,042	37,144
Statutory reserves	5,648	5,648	5,648	6,477
Retained earnings	3,780	7,558	11,692	4,987
Other reserves	43,509	45,835	48,137	58,491
Total equity attributable to equity holders of the Bank	79,743	96,074	102,519	107,099
Non-controlling Interest	–	–	–	–
Total Equity	79,743	96,074	102,519	107,099
Total Liabilities and Equity	1,048,814	1,085,116	1,098,985	1,143,374
Contingent Liabilities and Commitments	511,791	527,618	562,482	564,795
Net Assets Value per Ordinary Share (Rs.)	88.22	96.55	103.02	107.54
Quarterly Growth (%)				
Financial assets at amortised cost – Loans and advances to banks & Loans and advances to other customers	4.24	4.13	5.79	4.24
Financial Liabilities at amortised cost – due to depositors	5.58	2.44	2.43	3.86
Total assets	3.62	3.46	1.28	4.06

Annex 2: Governance

Annex 2.1: Compliance with Banking Act Direction

The Banking Act Direction No. 11 of 2007 and subsequent amendments thereto on Corporate Governance for Licensed Commercial Banks in Sri Lanka issued by the Central Bank of Sri Lanka

Section	Principle, compliance, and implementation	Complied
3 (1)	**Responsibilities of the Board** The Board has strengthened the 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 20 to 23. These are communicated to all levels of employees through structured meetings and reinforced monthly at team meetings which review performance vis-à-vis strategic goals. The corporate values are included in the Code of Conduct and Business Ethics which is communicated to all employees via hard copy, via the Bank's intranet, through orientation programmes and reinforced at meetings.	✓
b.	**Approving overall business strategy including risk policy and management** The Board provides direction and guidance for preparation of the five year Corporate Strategic Plan from 2018-2022 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 2019-2023 was approved on December 19, 2018 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 Management on pages 115 to 139 and the Report of the BIRMC on pages 92 and 93 provide further insights on risk management policies and processes of the Bank.	✓
d.	**Communication with all stakeholders** The Board has approved and implemented the following communication policies with stakeholders: • **Shareholders** – The Shareholder Communication Policy of the Bank explicitly provides for effective and timely communication to shareholders of material matters and performance. Interim Financial Statements are made available to shareholders within 45 days for the first three quarters and within 60 days for the last quarter from the end of the relevant quarter and a quarterly press release is issued providing a review of the Bank's performance on a quarterly basis. Performance of the Bank is set out in the Annual Report of the Bank which is circulated to shareholders 15 working days prior to the AGM. The AGM is the key forum for contact with shareholders and the Bank has a history of well attended AGMs where shareholders take an active role in exercising their rights. Additionally, the Investor Relations page on the Bank's website contains the Interim Financial Statements and Annual Reports together with key disclosures on risk management. The Bank also provides information to equity analysts to facilitate high quality information in research reports which are made available to investors by stockbrokers. • **Customers** – Customers include *inter alia* depositors and borrowers. The Bank's Customer Complaint Handling Policy has been printed in all three languages and disseminated to all customer contact points of the Bank. This document outlines the policy set out by the Bank to handle customer complaints, provides contact numbers to reach as well as the Financial Ombudsman. There is a 24-hour trilingual customer hotline set up for this purpose and reports are reviewed by both the EIRMC and BIRMC. • **Staff** – Employees and representatives of the trade unions are given unrestricted access to the Management to discuss their concerns. The Deputy General Manager – Human Resource Management coordinates communication between the Board and the employees.	✓
e.	**Internal control system and management information systems** The Board is assisted in this regard by the BAC who reviews the adequacy and the integrity of the Bank's internal control system and management information system. The BAC has reviewed reports from the Internal Audit Department and the External Auditors in carrying out this function and also reviewed management responses on same, during the year.	✓

Section	Principle, compliance, and implementation	Complied
f.	**Key Management Personnel (KMP)** KMP are defined in the Sri Lanka Accounting Standards, who significantly influence policy, direct activities and exercise control over business activities, operations and risk management. All appointments of designated KMP are recommended by the BNC and approved by the Board. Further, for corporate governance reporting and monitoring purposes, the Bank has included all members of the Corporate Management in addition to the KMP identified for financial reporting purposes.	✓
g.	**Define areas of authority and key responsibilities for Directors and KMP** The Board Charter sets out the matters specifically reserved for Board, defining the areas of authority and key responsibilities of the Board of Directors. Areas of authority and key responsibilities for members of the Corporate Management are stated in the job descriptions of each member.	✓
h.	**Oversight of affairs of the Bank by KMP** The Board reviews the performance of the Bank vis-à-vis the strategic plan and receives reports from its committees on financial reporting, internal control, risk management, changes in KMP and other relevant matters delegated to the committees. Additionally, KMP make regular presentations to the Board on matters under their purview and are also called in by the Board to explain matters relating to their areas.	✓
i.	**Assess effectiveness of own governance practices** Completed Board evaluation forms were received from all Board members for 2018 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. The succession plan for the Chief Executive Officer and Chief Operating Officer was reviewed by the BNC and approved by the Board during 2018. Members of the BNC unanimously decided and recommended and the Board had a special meeting on May 25, 2018 to select the CEO and COO, in keeping with the principles of good corporate governance.	✓
k.	**Regular meetings with KMP** Progress towards corporate objectives is a regular agenda item for the Board and members of the Corporate Management are regularly involved in the Board level discussions on the same. Additionally, they make presentations on key agenda items or are called in for discussions at the meetings of the Board and its committees on policy and other matters relating to their areas on a regular basis.	✓
l.	**Regulatory environment and maintaining an effective relationship with regulator** Directors are briefed about regulatory developments at Board meetings by the KMP to facilitate effective discharge of their responsibilities. Members of the BAC and the BIRMC are also briefed on regulatory developments at their meetings by the Heads of Internal Audit, Risk, and Compliance. Board members attend the Director Forums arranged by the CBSL as well.	✓
m.	**Hiring External Auditors** The Board has adopted a policy of rotation of auditors, once in every five years, in keeping with the principles of good corporate governance. At the end of the five-year period, quotations are called from suitable audit firms, prior to the recommendation of new auditors as per the rotation policy. In addition, External Auditors submit a statement annually confirming their independence as required by Section 163 (3) of the Companies Act No. 07 of 2007 in connection with external audit.	✓
3 (1) (ii)	**Appointment of Chairman and CEO and defining and approving their functions and responsibilities** Positions of the Chairman and the Managing Director/Chief Executive Officer are separated in the Board Charter to maintain a balance of power. Further, functions and responsibilities of the Chairman and the CEO are defined and approved in line with Section 3 (5) of this Direction as given on page 378.	✓
3 (1) (iii)	**Regular Board meetings** Board meetings are held on the last Friday of each month on a regular basis and special meetings are scheduled as and when the need arises at which Directors present at the meeting actively participate in deliberating matters set before the Board. Attendance at Board meetings is given on page 78 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 78. No Director has been absent from three consecutive meetings.	✓
3 (1) (vii)	**Appointment and setting responsibilities of the Company Secretary** The Board appoints and sets responsibilities of the Company Secretary in accordance with the Companies Act, Banking Act Directions, and the Articles of Association of the Company under advisement of the BNC.	✓
3 (1) (viii)	**Directors' access to advice and services of Company Secretary** All Board members have full access, to the advice and services of the Company Secretary to ensure that proper Board procedures are followed and all applicable rules and regulations are complied with.	✓
3 (1) (ix)	**Maintenance of Board minutes** Company Secretary maintains the minutes of the Board meetings and circulates same to all Board members after review by the CEO and the Chairman. The minutes are reviewed and approved at the next Board meeting after incorporating any amendments/inclusions proposed by other Directors. Additionally, the Directors have access to past Board papers and minutes through a secure electronic link.	✓
3 (1) (x)	**Maintaining minutes with sufficient details to serve as a reference for regulators and supervisory authorities** The minutes of the meetings include: (a) a summary of data and information used by the Board in its deliberations; (b) the matters considered by the Board; (c) the fact-finding discussions and the issues of contention or dissent; (d) the testimonies and confirmations of relevant executives with regard to the Board's strategies and policies and adherence to relevant laws and regulations; (e) matters regarding the risks to which the Bank is exposed and an overview of the risk management measures including reports of the BIRMC; (f) the decisions and Board resolutions including reports and minutes of all Board committees; and (g) the actions to be taken by the KMP.	✓
3 (1) (xi)	**Directors' ability to seek independent professional advice** Directors can obtain independent professional advice, as and when necessary, in discharging their responsibilities according to a procedure approved by the Board. This function is coordinated by the Company Secretary.	✓
3 (1) (xii)	**Dealing with conflicts of interest** The Directors make declarations of their interests at appointment, annually and whenever there is a change in the same. A quarterly report is sent to the Board on possible areas of conflict (if any). Directors withdraw from the meeting, abstain from participating in the discussions, voicing their opinion or approving in situations where there is a conflict of interest. Additionally, such Director's presence is disregarded in counting the quorum in such instances. Key appointments of the Directors are included in their profiles on pages 14 to 19.	✓
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.	✓

Section	Principle, compliance, and implementation	Complied
3 (1) (xiv)	**Inform Central Bank on probable solvency issues** The Bank is solvent and no situations have arisen to challenge its solvency. A Board approved procedure is in place to inform the Director of Bank Supervision prior to taking any decision or action if the Bank is about to become insolvent or about to suspend payments to its depositors and other creditors.	✓
3 (1) (xv)	**Capital adequacy** The Board monitors capital adequacy and other prudential measures to ensure compliance with regulatory requirements, and the Bank's defined risk appetite. The Bank is in compliance with the minimum capital adequacy requirements.	✓
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 74 to 83 and pages 374 to 395.	✓
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 12 Directors as at December 31, 2018.	✓
3 (2) (ii)	**Period of service of a Director** The period of service of a Director is limited to nine years excluding the Executive Directors as per the Direction issued to Licensed Commercial Banks. Details of their tenures of service are given on page 78.	✓
3 (2) (iii)	**Board balance** There are two Executive Directors and ten NEDs which is compliant with the requirement to limit the number of Executive Directors to one-third of the total.	✓
3 (2) (iv)	**Independent NEDs** The Board has nine Independent Directors which is well above the regulatory requirement to satisfy the criteria for determining independence.	✓
3 (2) (v)	**Alternate Independent Directors** There are no alternate Directors.	✓
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 78.	✓
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. Accordingly, new Directors including the CEO and COO are appointed by the Board upon consideration of recommendations by the BNC. The Board has also developed a succession plan together with the BNC to ensure the orderly succession of appointments to the Board. Members of the BNC unanimously decided and had a special Board meeting on May 25, 2018 to select the CEO and COO, in keeping with the principles of good corporate governance.	✓

Section	Principle, compliance, and implementation	Complied
3 (2) (x)	**Re-election of Directors filling casual vacancies** All Directors appointed to the Board are subject to re-election by shareholders at the first AGM after their appointment.	✓
3 (2) (xi)	**Communication of reasons for removal or resignation of Director** Resignations of Directors and the reasons are promptly informed to the regulatory authorities and shareholders as per CSE's Continuing Listing Requirements together with a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders.	✓
3 (2) (xii)	**Prohibition of Directors or employees of a bank becoming a Director of another bank** The Board and the BNC take into account this requirement in their deliberations when considering appointments of Directors. None of the Directors are directors or employees of any other bank.	✓
3 (3)	**Criteria to assess fitness and propriety of Directors**	
3 (3) (i)	**Age of Director should not exceed 70** There are no Directors who are over 70 years of age.	✓
3 (3) (ii)	**Directors should not be Directors of more than 20 companies and not more than 10 companies classified as specified business entities** No Director holds directorships 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), (ii) and (iii) above.	✓
3 (5)	**The Chairman and Chief Executive Officer**	
3 (5) (i)	**Separation of roles** There is a clear separation of duties between the roles of the Chairman and the CEO, thereby preventing unfettered powers for decision-making being vested with one person.	✓
3 (5) (ii)	**A Non-Executive Independent Director as the Chairman or if not independent, designation of an Independent Director as the Senior Director** The Chairman is an Independent Non-Executive Director.	✓
3 (5) (iii)	**Disclosure of identity of Chairman and CEO and any relationships with the Board members** The identity of the Chairman and the CEO are disclosed in the Annual Report on page 16. The Board is aware that there are no relationships whatsoever, including financial, business, family, any other material/relevant relationship between the Chairman and the CEO. Similarly, no relationships prevail among the other members of the Board.	✓
3 (5) (iv)	**Chairman to provide leadership to the Board** Board approved list of functions and responsibilities of the Chairman includes, "Providing leadership to the Board" as a responsibility of the Chairman. The Board's Annual Assessment Form includes an area to measure the "Effectiveness of the Chairman in facilitating the effective discharge of Board functions". All key and appropriate issues are discussed by the Board on a timely basis.	✓
3 (5) (v)	**Responsibility for agenda lies with the Chairman but may be delegated to the Company Secretary** The Company Secretary draws up the agenda for the meetings in consultation with the Chairman.	✓

Section	Principle, compliance, and implementation	Complied
3 (5) (vi)	**Ensure that Directors are properly briefed and provided adequate information** The Chairman ensures that the Board is sufficiently briefed and informed regarding the matters arising at Board meetings. The following procedures ensure that: (a) Circulation of Board papers including minutes of the previous meeting seven days prior to meeting (b) Clarification of matters by KMP when required	✓
3 (5) (vii)	**Encourage active participation by all Directors and lead in acting in the interests of the Bank** This requirement is addressed in the list of functions and responsibilities of the Chairman approved by the Board.	✓
3 (5) (viii)	**Encourage participation of Non-Executive Directors and relationships between Non-Executive and Executive Directors** Ten members of the Board are NEDs which creates a conducive environment for active participation by the NEDs. Additionally, NEDs chair the committees of the Board providing further opportunity for active participation.	✓
3 (5) (ix)	**Refrain from direct supervision of KMP and executive duties** The Chairman does not get involved in the supervision of KMP or any other executive duties.	✓
3 (5) (x)	**Ensure effective communication with shareholders** The Bank historically has active shareholder participation at the AGM. At the AGM the shareholders are given the opportunity to take up matters for which clarification is needed. These matters are adequately clarified by the Chairman and/or CEO and/or any other officer.	✓
3 (5) (xi)	**CEO functions as the apex executive in charge of the day-to-day operations** The day-to-day operations of the Bank have been delegated to the CEO by the Board of Directors.	✓
3 (6)	**Board appointed committees**	
3 (6) (i)	**Establishing Board Committees, their functions and reporting** The Board has established nine committees with written Terms of Reference for each of which five are mandatory with the remainder appointed to meet the business needs of the Bank. Each committee has a Secretary to arrange the meetings and maintain minutes, records, etc., under the supervision of the Chairman of the Committee. The Reports of the Board Committees are given on pages 89 to 101. The Chairpersons of the committees are available at the AGM to clarify any matters that may be referred to them by the Chairman.	✓
3 (6) (ii)	**Audit Committee**	
a.	**Chairman to be an Independent Non-Executive Director with qualifications and experience in accountancy and/or audit** Chairman of the Committee, Mr S Swarnajothi is an Independent Non-Executive Director. Mr S Swarnajothi's profile is given on page 89.	✓
b.	**Committee to comprise solely of Non-Executive Directors** All members of the BAC are Independent Non-Executive Directors.	✓
c.	**Audit Committee functions** In accordance with the Terms of Reference, the BAC has made the following recommendations: (i) the appointment of the External Auditor for audit services to be provided in compliance with the relevant statutes; (ii) the implementation of the Central Bank Guidelines issued to Auditors from time to time; (iii) the application of the relevant Accounting Standards; and (iv) the service period, audit fee and any resignation or dismissal of the Auditor. The BAC ensures that the service period of the engagement of the external audit partner shall not exceed five years, and that the particular audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term.	✓
d.	**Review and monitor External Auditor's independence and objectivity and the effectiveness of the audit processes** The Board has adopted a policy of rotation of Auditors, once in every five years, in keeping with the principles of good corporate governance.	✓

Section	Principle, compliance, and implementation	Complied
e.	**Provision of non-audit services by External Auditor** Following action is taken prior to the assignment of non-audit services to External Auditors by the Bank: (i) If the Management is of the view that the independence is likely to be impaired with the assignment of any non-audit services to External Auditors, no assignment will be made to obtain such services. (ii) Further, relevant information is obtained from External Auditors to ensure that their independence is not impaired, as a result of providing any non-audit services. Assigning such non-audit services to External Auditors is discussed at BAC meetings and required approval is obtained to that effect.	✓
f.	**Determines scope of audit** The Committee discussed the Audit Plan and scope of the audit with External Auditors to ensure that it includes: (i) an assessment of the Bank's compliance with the relevant Directions in relation to corporate governance and the management's internal controls over financial reporting; and (ii) the preparation of Financial Statements for external purposes in accordance with relevant accounting principles and reporting obligations. As all audits within the Group are carried out by the same External Auditor, there was no requirement to discuss arrangements for coordinating activities with other auditors.	✓
g.	**Review financial information of the Bank** The BAC reviews the financial information of the Bank, in order to monitor the integrity of the Financial Statements of the Bank, its Annual Report, accounts and quarterly reports prepared for disclosure, and the significant financial reporting judgements contained therein. The review focuses on the following: (i) major judgemental areas; (ii) any changes in accounting policies and practices; (iii) significant adjustments arising from the audit; (iv) the going concern assumption; and (v) compliance with relevant Accounting Standards and other legal requirements. The BAC makes their recommendations to the Board on the above on a quarterly basis.	✓
h.	**Discussions with External Auditor on interim and final audits** The BAC discusses issues, problems and reservations arising from the interim and final audits with the External Auditor. The Committee met on two occasions with the External Auditor in the absence of executive staff of the Bank.	✓
i.	**Review of management letter and Bank's response** The BAC has reviewed the External Auditor's Management Letter and the Management's response thereto.	✓
j.	**Review of internal audit function** The Annual Audit Plan prepared by the Internal Audit Department is submitted to the BAC for approval. This Plan covers the scope and resource requirements relating to the Audit Plan. The services of four audit firms have been obtained to assist the Internal Audit Department to carry out the audit function. Prior approval of the BAC has been obtained in this regard. The Committee reviewed the reports submitted by Internal Audit Department and ensures that appropriate action is taken on the recommendations. The Assistant General Manager – Management Audit, who leads the Internal Audit Department, reports directly to the BAC and his performance appraisal is reviewed by the BAC. The BAC is kept apprised of terminations/resignations of senior internal audit staff members and recommends their appointment. The above processes ensure that audits are performed with impartiality, proficiency and due professional care.	✓
k.	**Internal investigations** Major findings of internal investigations and Management's responses thereto are reviewed by the BAC. It also ensure that the recommendations of such investigations were implemented.	✓

Section	Principle, compliance, and implementation	Complied
l.	**Attendees at Board Audit Committee meetings** The CEO, CFO, Assistant General Manager – Management Audit and a representative of the External Auditors normally attend meetings. Other Board members may also attend meetings upon the invitation of the Committee. The Committee met with the External Auditors without the Executive Directors being present on two occasions during the year.	✓
m.	**Explicit authority, resources and access to information** The Terms of Reference for the BAC includes: (i) explicit authority to investigate into any matter within its Terms of Reference; (ii) the resources which it needs to do so; (iii) full access to information; and (iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary. Refer the BAC Report on pages 89 to 91.	✓
n.	**Regular meetings** The BAC has scheduled regular quarterly meetings and additional meetings are scheduled when required. Accordingly, the Committee met 10 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 89 to 91 includes the following: (i) details of the activities of the Audit Committee; (ii) the number of BAC meetings held in the year; and (iii) details of attendance of each individual Director at such meetings.	✓
p.	**Maintain minutes of meetings** Assistant General Manager – Management Audit serves as the Secretary for the BAC and maintains minutes of the Committee meetings.	✓
q.	**Whistle-blowing policy and relationship with External Auditor** The Bank has a whistle-blowing policy which has been reviewed and approved by the BAC and the Board of Directors. Board's responsibility towards encouraging communication on any non-compliance and unethical practices are addressed in the Board Charter. A process is in place and proper arrangements are in effect to conduct a fair and independent investigation and appropriate follow-up action regarding any concerns raised by the employees of the Bank, in relation to possible improprieties in financial reporting, internal controls or other matters. The BAC is the key representative body for overseeing the Bank's relations with the External Auditor and meets the External Auditor on a regular basis to discharge this function.	✓
3 (6) (iii)	**Human Resources and Remuneration Committee (BHRRC)** **Charter of the Committee** The BHRRC is responsible for: (a) determining the remuneration policy relating to Directors, CEO and KMP; (b) setting goals and targets for the Directors, CEO and KMP; and (c) evaluating performance of the CEO and KMP against agreed targets and goals and determining the basis for revising remuneration, benefits and other payments of performance-based incentives. The CEO attends all meetings of the Committee, except when matters relating to the CEO are being discussed.	✓

Section	Principle, compliance, and implementation	Complied
3 (6) (iv)	**Nomination Committee**	
a.	**Appointment of Directors, CEO and KMP** The Committee has developed and implemented a procedure to appoint new Directors, CEO and KMP. The Committee is chaired by the Chairman of the Bank and comprises three other NEDs, two of whom are independent. The CEO may be present at meetings by invitation. Refer the BNC Report on page 94.	✓
b.	**Re-election of Directors** The Committee makes recommendations regarding the re-election of current Directors, considering the performance and contribution made by the Director concerned towards the overall discharge of the Board's responsibilities also considering the requirements of the Articles of Association.	✓
c.	**Eligibility criteria for appointments to key managerial positions including CEO** The Committee sets the eligibility criteria to be considered, including qualifications, experience and key attributes, for appointment or promotion to key managerial positions including the position of the CEO. The Committee considers the applicable statutes and guidelines in setting the criteria.	✓
d.	**Fit and proper persons** The Committee obtains annual declarations from Directors, CEO and COO to ensure that they are fit and proper persons to hold office as specified in the criteria given in the Section 3 (3) of this Direction and as set out in the statutes. Further, the BHRRC obtains declaration from KMP to ensure that they too are fit and proper persons to hold office as specified in the said Direction.	✓
e.	**Succession plan and new expertise** The Committee has developed a succession plan for the Directors whilst succession planning for KMP is carried out by the BHRRC. The need for new expertise may be identified by the Board or its committees and brought to the attention of the BNC who will take appropriate action.	✓
f.	**Committee to be chaired by an independent Director** The Committee was chaired by an Independent Non-Executive Director and the CEO was attended at the meetings by invitation.	✓
3 (6) (v)	**Integrated Risk Management Committee/Board Risk Management Committee**	
a.	**Composition of Integrated Risk Management Committee** The Committee comprises NEDs, the CEO and the Chief Risk Officer (CRO) who serves as a non-board member. Other KMP supervising credit, market, liquidity, operational, and strategic risks are invited to attend the meetings on a regular basis.	✓
b.	**Risk assessment** The Committee has approved the policies on Credit Risk Management, Market Risk Management and Operational Risk Management, which provide a framework for management and assessment of risks. Accordingly, monthly information on pre-established risk indicators is reviewed by the Committee in discharging its responsibilities as per the Terms of Reference.	✓
c.	**Review of management level committees on risk** The Committee reviews the reports of the management level Credit Policy Risk and Portfolio Review Committee and the Asset and Liability Management Committee (ALCO) to assess their adequacy and effectiveness in addressing specific risks and managing same within the quantitative and qualitative risk limits set out in the Risk Appetite Statement reviewed and approved by the Board on a regular basis. Further, adequacy and effectiveness of all management level risk-related committees such as EIRMC, ALCO, CPC and ECMN are reviewed by the BIRMC annually.	✓
d.	**Corrective action to mitigate risks exceeding prudential levels** Actual exposure levels under each risk category are monitored against the tolerance levels when preparation of "Risk Profile Dashboard" of the Bank, which is circulated among members of the BIRMC monthly and discussed in detail at quarterly meetings. The Committee takes prompt corrective action to mitigate the effects of specific risks in the case, such risks are at levels beyond the prudent levels decided by the Committee on the basis of the Bank's policies and regulatory and supervisory requirements.	✓

Section	Principle, compliance, and implementation	Complied
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 2018.	✓
f.	**Actions against officers responsible for failure to identify specific risks or implement corrective action** The Committee refers such matters, if any, to the Human Resources Department for necessary action with observations and suggestions.	✓
g.	**Risk Assessment Report to the Board** A comprehensive report of the meeting is submitted to the Board after each Committee meeting, by the Secretary of the Committee for their information, views, concurrence or specific directions.	✓
h.	**Compliance function** A compliance function has been established to assess the Bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations. This function is headed by a dedicated Compliance Officer who reports to the BAC and the BIRMC. The Compliance Officer submits a Positive Assurance Certificate on Compliance with mandatory banking and other statutory requirements on a quarterly basis to BAC and BIRMC.	✓
3 (7)	**Related Party Transactions**	
3 (7) (i)	**Avoid conflict of interest** The BRPTRC oversees the processes relating to this subject and their Report is on page 97. All members of the Board are required to make declarations of the positions held with related parties at the time of appointment and annually thereafter. This information is provided to the Finance Department, to capture relevant transactions. In the event of any change (during the year), the Directors are required to make a further declaration to the Company Secretary. Directors refrain from participating at relevant sessions, in which lending to related entities are discussed to avoid any kind of an influence and conflict of interest. Transactions carried out with related parties as defined by LKAS 24 on "Related Party Disclosures", in the normal course of business, are disclosed in Note 64 to the Financial Statements on "Related Party Disclosures" on pages 312 to 316. Directors' interest in contracts, which do not fall into the definition of related party transactions as per LKAS 24, are reported separately in the Annual Report, outside the Financial Statements. Refer page 114 for more details.	✓
3 (7) (ii)	**Related party transactions covered by direction** The Related Party Transactions Policy approved by the Board, covers the following transactions: (a) The grant of any type of accommodation, as defined in the Monetary Board's Directions on maximum amount of accommodation; (b) The creation of any liabilities of the Bank in the form of deposits, borrowings and investments; (c) The provision of any services of a financial or non-financial nature to the Bank or received from the Bank; (d) The creation or maintenance of reporting lines and information flows between the Bank and any related parties, which may lead to sharing of potentially proprietary, confidential or otherwise sensitive information that may give benefits to such related parties.	✓
3 (7) (iii)	**Prohibited transactions** The Bank's Related Party Transactions Policy prohibits transactions, which would grant related parties more favourable treatment than that accorded to other customers. These include the following: (a) Granting of "total net accommodation" to related parties, exceeding a 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.	✓

Section	Principle, compliance, and implementation	Complied
3 (7) (iv)	**Granting accommodation to a Director or close relation of a Director** A procedure is in place for granting accommodation to Directors or to 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-thirds of the number of Directors, other than the Director concerned, voting in favour of such accommodation or through circulation of papers, which require approval by all. The terms and conditions of the facility include a proviso that it will be secured by such security, as may from time to time be determined by the Monetary Board as well. Refer section on "Conflicts of Interest" on page 77 for more details.	✓
3 (7) (v)	**Accommodations granted to persons, concerns of persons, or close relations of persons, who subsequently are appointed as Directors of the Bank** The Company Secretary obtains declarations/affidavits from all Directors prior to their appointment and they are requested to declare any further transactions. Employees of the Bank are aware of the requirement to obtain necessary security, as defined by the Monetary Board, if the need arises. Processes for compliance with this regulation is also monitored by the Compliance Unit.	✓
3 (7) (vi)	**Favourable treatment or accommodation to bank employees or their close relations** No favourable treatment/accommodation is provided to Bank employees, other than staff benefits. Employees of the Bank are informed through operational circulars, to refrain from granting favourable treatment to other employees or their close relations or to any concern in which an employee or close relation has a substantial interest.	✓
3 (7) (vii)	**Remittance of accommodation subject to Monetary Board approval** No such situation has arisen during the year.	✓
3 (8)	**Disclosures**	
3 (8) (i)	**Publish annual and quarterly financial statements** Annual Audited Financial Statements and Interim Financial Statements of the Bank were prepared and published during 2018 in the newspapers (in Sinhala, Tamil and English), in accordance with the formats prescribed by the Supervisory and Regulatory Authorities and applicable accounting standards.	✓
3 (8) (ii)	**Disclosures in Annual Report**	
a.	**A statement to the effect that the Annual Audited Financial Statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures** Disclosures on the compliance with the applicable accounting standards and regulatory requirements in preparation of the Annual Audited Financial Statements, have been made in the "Statement of Directors' Responsibility" and "Managing Director's and Chief Financial Officer's Statement of Responsibility". Refer pages 108 and 113 respectively.	✓
b.	**Report by the Board on the Bank's internal control mechanism** The Annual Report includes the reports where the Board confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting and that the preparation of Financial Statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements: Annual Report of the Board of Directors on page 4. Statement of Compliance on pages 102 to 107. Statement of Directors' Responsibility on pages 108 and 109. Directors' Statement on Internal Control over Financial Reporting on pages 110 and 111.	✓
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 pages 110 to 111.	✓
d.	**Details of Directors, including names, fitness and propriety, transactions with the Bank and the total of fees/remuneration paid by the Bank** • Profiles of Board members are given on pages 14 to 19. • Directors' Interests in Contracts with the Bank on page 114. • Details of remuneration paid by the Bank are given in Note 22 to the Financial Statements on page 215.	✓

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:	✓

Category of related party	Percentage of the regulatory capital 2018	2017
KMP CFM and related entities	**2.92**	3.62
Subsidiaries	**0.87**	0.77

Section	Principle, compliance, and implementation	Complied
f.	**Aggregate values of remuneration to and transactions with Key Management Personnel** The aggregate values of remuneration paid to KMPs amounted to Rs. 484.74 Mn. The total deposits and repurchase agreements held and total net accommodations obtained, as at December 31, 2018 by the KMP amounted to Rs. 422.19 Mn. (Rs. 357.7 Mn. in 2017) and Rs. 264.26 Mn. (Rs. 152.26 Mn. in 2017), respectively.	✓
g.	**External Auditors Certification of Compliance** The factual findings report has been issued by the External Auditors on the level of compliance with the requirements of these regulations. The findings presented in their report addressed to the Board did not identify any inconsistencies to those reported above.	✓
h.	**Report confirming compliance with prudential requirements, regulations, laws, and internal controls** The Statement of Directors' Responsibility on pages 108 and 109 clearly sets out details regarding compliance with prudential requirements, regulations, laws, and internal controls. There were no instances of non-compliance during the year.	✓
i.	**Non-compliance Report** There were no supervisory concerns on lapses in the Bank's Risk Management Systems or non-compliance with the Direction that have been pointed out by the Director of the Bank Supervision Department of the CBSL and therefore, there is no disclosure in this regard.	✓
3 (9)	**Transitional and other general provisions** The Bank has complied with the transitional provisions.	✓

Annex 2.2: Compliance with Code of Best Practice on Corporate Governance

Compliance with the Code of Best Practice on Corporate Governance 2017 (the Code) issued by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka)

Code ref.	Compliance and implementation	Complied
A.	**Directors**	
A.1	**The Board** The Board of Commercial Bank comprises 12 eminent professionals drawn from multiple fields and 10 out of them are NEDs. They bring diverse perspectives and independent judgement to deliberate of matters set before the Board. Directors are elected by shareholders at the AGMs with the exception of the CEO and the COO who are appointed by the Board and remain as Executive Directors until retirement, resignation or termination of such appointment. Casual vacancies are filled by the Board based on the recommendations of the BNC as provided for in the Articles of Association. The Board is assisted by the Company Secretary.	✓
A.1.1	**Regular meetings** The Board meets on a monthly basis and each Board committee also has its own schedule of meetings as set out in the respective committee reports. The regularity of Board meetings and the structure and process of submitting information have been agreed to and documented by the Board. Attendance at meetings is summarised in Table 23 on page 78. Information required to be reported under this Section is reported on a regular basis.	✓
A.1.2	**Role and responsibilities of the Board** The roles and responsibilities of the Board are set out in the Board Charter as summarised on page 79. The Board Charter was updated with the new requirements of the Code of Best Practice on Corporate Governance.	✓
A.1.3	**Act in accordance with laws** The Board has an approved working procedure in place to facilitate compliance with the relevant laws, CBSL Directions and guidelines and international best practice with regard to the operations of the Bank. This includes provision to obtain independent professional advice as and when necessary by any Director coordinated through the Company Secretary. Independent professional advice was sought on matters in accordance with the above provision in 2018 on four (4) occasions for which the expenses were borne by the Bank.	✓
A.1.4	**Access to advice and services of Company Secretary** All Directors are able to obtain the advice and services of the Company Secretary. The appointment and removal of the Company Secretary is a matter involving the whole Board under advisement of the BNC as it is a Key Management Position. The Bank has obtained appropriate insurance cover as recommended by the BNC for the Board, Directors and KMP.	✓
A.1.5	**Independent judgement** The Board comprises senior professionals who are luminaries in their respective fields and use their independent judgement in discharging their duties and responsibilities on matters of strategy, performance, resource allocation, risk management, compliance, and standards of business conduct. The composition of the Board ensures that there is a sufficient balance of power and contribution by all Directors which minimises the tendency for one or a few members of the Board to dominate the Board processes or decision-making.	✓
A.1.6	**Dedicate adequate time and effort to matters of the Board and the Company** Board meetings and Board Committee meetings are scheduled well in advance and the relevant papers are circulated a week prior to the meeting using electronic means to ensure that Directors have sufficient time to review the same and call for additional information or clarifications, if required. While there is provision to circulate papers closer to the meeting in exceptional circumstances, this is generally discouraged. Members of the Corporate Management Team and external experts make presentations to the Board on the business environment, regulatory changes, operations, and other developments on a regular basis to facilitate enhancing the knowledge of the Board on matters relevant to the Bank's operations. The NEDs dedicate more than 12 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 four days for the affairs of the Bank.	✓
A.1.7	**If necessary in the best interest of the Bank, one-third of the Directors can call for a resolution to be presented to the Board.**	✓
A.1.8	**Board induction and training** Refer the Section on "Induction and Training of Directors" on page 82.	✓

Code ref.	Compliance and implementation	Complied
A.2	**Separating the business of the Board from the executive responsibilities for management of the Company** The positions of the Chairman and the CEO have been separated in line with best practice in order to maintain a balance of power and authority. The Chairman is an Independent Non-Executive Director whilst the CEO is an Executive Director appointed by the Board. The roles of the Chairman and the CEO are clearly defined in the approved Board paper and the Board Charter.	✓
A.3	**Chairman's role in preserving good corporate governance** The Chairman provides leadership to the Board, preserving order and facilitating the effective discharge of duties of the Board and is responsible for ensuring the effective participation of all Directors and maintaining open lines of communication with KMP, acting as a sound Board on strategic and operational matters. The agenda for Board meetings is developed by the Chairman in consultation with the Directors, the CEO, and the Company Secretary, taking into consideration matters relating to strategy, performance, resource allocation, risk management, and compliance. Sufficiently detailed information on matters included in the agenda is provided to the Directors on time. Both Executive and NEDs ensure the balance of power on the Board, for the benefit of the Bank, by effectively participating in decision making. All Directors have been made aware of their duties and responsibilities and the Board and Committee structures. All Directors are encouraged to seek information necessary to discuss matters on the agenda. Views expressed by Directors on issues under consideration are recorded in the minutes.	✓
A.4	**Availability of financial acumen and knowledge to offer guidance on matters of finance** The Chairman of the BAC and the Deputy Chairman of the Bank both of whom are NEDs are Fellow Members of the CA Sri Lanka ensuring a sufficiency of financial acumen within the Board on matters of finance. Additionally, the Executive Directors and two NEDs are professional bankers with vast experience on matters of finance.	✓
A.5	**Board balance** The Board comprises ten NEDs and two Executive Directors facilitating an appropriate balance within the Board. Nine NEDs are independent of management and free of business dealings that may be perceived to interfere with the exercise of their unfettered and independent judgement. They submit annual declarations to this effect which are evaluated to ensure compliance with the criteria for determining independence in line with the requirements of the applicable regulations and this Code. The Chairman is an Independent Non-Executive Director. There are no alternate Directors appointed to represent the Directors of the Bank. The Chairman holds a meeting at least once a year with only the NEDs without the presence of the Executive Directors. Directors' concerns regarding matters which are not resolved unanimously are recorded in the minutes.	✓
A.6	**Provision of appropriate and timely information** Board members receive information regarding matters set before the Board seven days prior to the meetings. 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 weeks after the meeting date.	✓
A.7	**Appointments to the Board and re-election** Refer Sections on "Appointment of Directors", "Re-Election of Directors" and BNC report on page 94.	✓
A.8	**All Directors should submit themselves for re-election at regular intervals** Refer Sections on "Re-Election of Directors" and Annual Report of the Board of Directors on page 82. 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. No Director resigned during the year prior to the completion of the appointed term.	✓
A.9	**Appraisal of Board and Committee performance** Refer Section on "Board and Board Committee Evaluations" on page 83.	✓
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 14 to 19. Remuneration paid to Directors in Note 22 to the Financial Statements on page 215. Related Party Transactions and other business interests in Note 64 on pages 312 to 316 and on page 114. Membership of committees and attendance at Board meetings and committee meetings on page 78.	✓

Code ref.	Compliance and implementation	Complied
A.11	**Appraisal of the CEO** Refer section on "Appraisal of the CEO" on page 83.	✓
B.	**Directors' remuneration**	
B.1	**Remuneration procedure** Refer section on "Directors' and Executive Remuneration", and BHRRC Report on pages 82, 95 and 96.	✓
B.2	**Level and make-up of remuneration** Refer section on "Level and make up of remuneration" on page 82.	✓
B.3	**Disclosures related to remuneration in Annual Report** (i) Statement of Remuneration Policy – Refer page 82. (ii) Details of remuneration of the Board as a whole – Refer Note 22 to the Financial Statements on page 215. (iii) Names of the members of the BHRRC and their Report – Refer pages 95 and 96.	✓
C	**Relations with shareholders**	
C.1	**Constructive use of the AGM and conduct of other general meetings** The AGM provides a forum for all shareholders to participate in decision-making matters reserved for the shareholders which typically include proposals to adopt the Annual Report and Accounts, appointment of Directors and Auditors and other matters requiring special resolutions as defined in the Articles of Association or the Companies Act No. 07 of 2007. Separate resolutions are proposed for each substantially separate issue. The Chairman ensures the presence of the Chairmen of the 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 15 working days in advance. The Bank ensures that all valid proxy appointments received for the AGM are counted and properly recorded. A summary of the procedures governing voting at general meetings is included on page 83 of this Annual Report. Where a vote is required on a show of hands, the Bank will ensure that information required under the Code will be made available at the meeting and be published in the website within a month from the date of the AGM.	✓
C.2	**Communication with shareholders** The Shareholder Communication Policy sets out multiple channels of communication for engaging with shareholders. Channels include investor relations section of the website at *http://www.combank.lk/newweb/en/investors*, press releases and notices in English, Sinhala and Tamil newspapers and required disclosures to the CSE which are published on the CSE website. The Bank's website provides information on risk management, economy and financial markets in addition to the financial information. The Interim Financial Statements are published in English, Sinhala and Tamil newspapers within stipulated deadlines. Every effort is made to ensure that the Annual Report provides a balanced review of the Bank's performance. The principal forum for shareholders is the AGM, while matters can also be raised through the Company Secretary. The Company Secretary keeps the Board apprised of issues raised by the shareholders to ensure that they are addressed in an appropriate manner in keeping with the corporate values of the Bank. Matters raised in writing are responded to in writing by the Company Secretary.	✓
C.3	**Disclosure of major and material transactions** The Shareholders Communication Policy addresses the need to disclose major and material transactions to shareholders as required by the rules and regulations of the SEC and the CSE and the Bank has in place a defined process for doing that. There were no transactions which would materially alter the Company's or Group's net assets nor any major related party transactions apart from those disclosed in the: • Annual Report of the Board of Directors on page 4 • Statement of Compliance pages 102 to 107 • Note 64 to the Financial Statements on pages 312 to 316.	✓

Code ref.	Compliance and implementation	Complied
D	**Accountability and audit**	
D.1	**Present a balanced and understandable assessment of the Company's financial position, performance, business model, governance, structure, risk management, internal controls, and challenges, opportunities and prospects** All efforts are taken to ensure that the Annual Report presents a balanced review of the Bank's financial position, performance, Business Model, Governance, Structure, Risk Management, Internal Controls, and Challenges, Opportunities and Prospects combining narrative and visual elements to facilitate readability and comprehension. Due care has been exercised to ensure that all statutory requirements are complied within the Annual Report and the issue of interim communications on financial performance which are reviewed by the BAC and recommended prior to publication. The following disclosures as required by the Code are included in this Report: • Management Discussion and Analysis – Refer pages 36 to 73. • Annual Report of the Board of Directors – Refer page 4. • Statement of Compliance pages 102 to 107. • Statement of Directors' Responsibility – Refer pages 108 and 109. • Statement of Going Concern of the Company is set out in the Statement of Directors' Responsibility – Refer pages 108 and 109 • Directors' Statement on Internal Control over Financial Reporting – Refer pages 110 and 111 and Independent Auditors' Report – Refer pages 152 to 154. • Managing Director's and Chief Financial Officer's Statement of Responsibility on page 113. • Related Party Transactions disclosed on page 105 of the Statement of Compliance, Note 64 in the Financial Statements on pages 312 to 316 and the process in place is described in the Report of the BRPTRC page 97. 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 142 to 150.	✓
D.2	**Process of risk management and a sound system of internal control to safeguard shareholders' investments and the Company's assets** The Board is responsible for determining the risk appetite for achieving the strategic objectives and formulates and implements appropriate processes for risk management and internal control systems to safeguard shareholder investments and assets of the Bank. The BIRMC assists the Board in discharge of its duties with regard to risk management and the BAC assists the Board in the discharge of its duties in relation to internal control which in turn is supported by the Inspection Department. Their responsibilities are summarised in the respective Committee Reports and have been formulated with reference to the requirements of the Code, the Banking Act Direction No. 11 of 2007 on Corporate Governance and the Bank's business needs. The BIRMC is supported by the Integrated Risk Management function of the Bank and a comprehensive report of how the Bank manages risk is included on pages 115 to 139 and the Committee Reports on pages 92 and 93.	✓
D.3	**Audit Committee** The BAC of the Board comprises five independent NEDs and a summary of its responsibilities and activities are given in the Report of the BAC. It is supported by the Internal Audit function of the Bank who reports directly to the BAC. The Chairman of the Committee is Mr S Swarnajothi, a Fellow member of CA Sri Lanka and a former Auditor General of Sri Lanka. The Committee has also appointed Mr Reyaz Mihular FCA, FCMA, Managing Partner of Messrs KPMG as a Consultant to the Committee who is invited to the meetings. The Board also obtains assurance from its External Auditors on the effectiveness of internal controls on financial reporting which is given on page 112.	✓
D.4	**Related Party Transactions Review Committee (BPRTRC)** The Bank formed a BRPTRC in December 2014 by early adopting the Code of Best Practice on Related Party Transactions as issued by the SEC which requirement became mandatory from January 1, 2016. The Committee comprises three Independent Non-Executive Directors. The two Executive Directors also attend the meetings by invitation. A summary of responsibilities and activities of the BRPTRC are given in the report of the BPRTRC on page 97. The Bank has a Board-Approved Related Party Transactions Policy in place which addresses requirements under this section.	✓

Code ref.	Compliance and implementation	Complied
D.5	**Code of Ethics** The Bank has an internally-developed Code of Business Conduct and Ethics which is applicable to Directors, other KMP, and all other employees. The Bank also has Board-adopted rules applicable to dealing in shares of the Bank which are fully compliant with the Listing Rules of the CSE. The Code of Conduct is in compliance with the requirements of the Schedule J of the Code which encompasses conflict of interest, bribery and corruption, entertainment and gifts, accurate accounting and record-keeping, corporate opportunities, confidentiality, fair dealing, protection and proper use of Company assets including information assets, compliance with laws, rules and regulations (including insider trading laws), fair and transparent procurement practices, and encouraging the reporting of any illegal, fraudulent, or unethical behaviour. The Code also requires any incidents involving any non-compliance be brought to the attention of those charged with governance. The BHRRC of the Bank reviews the Code on an annual basis to ensure that it is sufficient and relevant with reference to the current operations of the Bank. "Chairman's Statement" on pages 10 and 11 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 the employees of the Bank are required to declare details of their dealings in shares of the Bank in a prescribed format to the Company Secretary of the Bank immediately. In addition, the Directors of the Bank too are required to disclose their dealings in shares of the Bank to the Company Secretary, enabling her to inform such transactions to the CSE. The Bank's Chief Financial Officer too monitors daily share transactions list to identify whether Directors, other KMP or employees involved in financial reporting are dealing in shares.	✓
D.6	**Corporate governance disclosures** This Corporate Governance Report from pages 74 to 83 and pages 374 to 395 complies with the requirement to disclose the extent of compliance with the Code of Best Practice on Corporate Governance as specified in Principle D6.	✓
E & F	**Encourage voting at AGM** The Bank has 10,615 ordinary voting shareholders of which 5.28% are institutional shareholders. The Bank has regular dialogue with the large institutional shareholders and any concerns of these institutional shareholders expressed at the meetings is communicated to the Board as a whole. All shareholders are encouraged to exercise their voting powers at the AGM. The Bank facilitates the analysis of its securities by encouraging both foreign and local analysts covering the Bank with structured meetings where they are able to obtain information and explanations required for evaluating the current and future performance of the Bank, sector and country. Additionally, the investor relations page on the Bank's website has key information required by shareholders and analysts. The Interactive Annual Report also has a tab where investors can provide feedback and request for specified information. All prospectuses include a clause which require all prospective investors in shares and debentures of the Bank to seek independent professional advice before investing. The Board of Directors reviewed the Shareholder Communications Policy during the year.	✓
G	**Internet of things and cyber security** A Board-approved Information Security Policy (ISP) is in place. A designated officer has been appointed to independently monitor implementation of the ISP and report to the CRO who makes arrangements to regularly keep the Board of Directors informed of any exceptions through the BIRMC. Further, sufficient time is allocated in the agenda of the BTC for discussion on cyber risk management. Minutes of both the BIRMC and the BTC meetings are submitted to the Board for information. Refer reports of the BIRMC and BTC on pages 92 and 100 for further information. Four external and four internal vulnerability assessments are also undertaken during the year under review.	✓
H	**Environment, Society and Governance (ESG)**	
H.1	**ESG reporting** The Bank is an early champion of ESG and ESG reporting. ESG principles are embedded in our business operations and considered in formulating our business strategy as reported in this Report. Information required by the Code is given in the following sections of the Annual Report: Refer Management Discussion and Analysis on pages 36 to 73 Refer Governance and Risk Management on pages 74 to 114 and 115 to 139 Refer Connecting with Stakeholders and Materiality Matters on pages 31 to 35 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 50th Annual Report" on page 5.	✓

ANNEX 2.3: Other Disclosure Requirements as required by the CBSL

Disclosure requirements under the prescribed format issued by the Central Bank of Sri Lanka for preparation of Annual Financial Statements of Licensed Commercial Banks

Disclosure requirements			Description	Page No/s.
1.	**Information about the significance of financial instruments for financial position and performance**			
1.1	**Statement of Financial Position**			
1.1.1	Disclosures on categories of financial assets and financial liabilities.		*Notes to the Financial Statements:* Note 27 – Classification of financial assets and financial liabilities	221
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.	180
	(ii)	Reclassifications of financial instruments from one category to another.	*Significant Accounting Policies:* Note 7.1.6 – Reclassification of financial assets and liabilities	186
	(iii)	Information about financial assets pledged as collateral and about financial or non-financial assets held as collateral.	*Notes to the Financial Statements:* Note 69.1.4 – Collateral Held	333
	(iv)	Reconciliation of the allowance account for credit losses by class of financial assets.	*Notes to the Financial Statements:* Movement in provision for impairment during the year for each classes of assets are given in Notes 29.1 (Cash and cash equivalents), 31.1 (Placements with banks), 34.1 (Financial assets at amortised cost – Loans and advances to banks), 35.2 and 35.3 (Financial assets at amortised cost – Loans and advances other customers), 36.1 (Financial assets at amortised cost – Debt and other financial instruments), 37.2 (Financial assets measured at fair value through other comprehensive income)	231, 233, 238, 242, 243, 248, 251
	(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 13 to 24 the Financial Statements.	202 to 216
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 14 – Net interest income	202 to 205
	(ii)	Fee income and expense.	*Notes to the Financial Statements:* Note 15 – Net fee and commission income	205 to 206
	(iii)	Amount of impairment losses by class of financial assets.	*Notes to the Financial Statements:* Note 19 – Impairment charges and other losses	208 to 212
	(iv)	Interest income on impaired financial assets.	*Notes to the Financial Statements:* Note 14.1 – Interest income	203
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	182 to 189
1.3.2	Information on financial liabilities designated at FVTPL.		The Group/Bank has not designated any financial liability at FVTPL	184 to 185
1.3.3	Investments in equity instruments designated at FVOCI			
	(i)	Details of equity instruments that have been designated as at FVOCI and the reasons for the designation.	Note 37 – Financial assets measured at fair value through other comprehensive income/financial investments – available for sale	250 to 254
	(ii)	Fair value of each investment at the reporting date.	Note 37.3 and 37.4 – Equity securities	252 to 254
	(iii)	Dividends recognised during the period, separately for investments derecognised during the reporting period and those held at the reporting date.	Note 18 – Net other operating income	208
	(iv)	Transfer 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.	158 and 160 to 167

Disclosure requirements		Description	Page No/s.
	(v) If investments in equity instruments measured at FVOCI are derecognised during the reporting period, - reasons for disposing of the investments - fair value of the investments at the date of derecognition - the cumulative gain or loss on disposal.	Statement of Profit or Loss and Other Comprehensive Income and Statement of Changes in Equity.	158 and 160 to 167
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	Note 12 – Transition Disclosures.	196 to 201
	(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 period, the Bank has not reclassified financial instruments from FVOCI to amortised cost.	186
	(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 period, the Bank has not reclassified financial instruments from FVTPL to amortised cost or FVOCI.	186
1.3.5	Information on hedge accounting	The Bank applied hedge accounting principles for an interest rate SWAP entered into in March 2017. Refer Significant Accounting Policies. Note 7.1.5 – Derivatives held for risk management purposes and hedge accounting, Note 32.2 – Derivative financial assets – cash flow hedges for risk management.	185 and 234
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 28.1 – Assets and liabilities measured at fair value and fair value hierarchy, Note 28.3 – Financial instruments not measured at fair value and fair value hierarchy	226 and 228
	(ii) Description of how fair value was determined.	*Significant Accounting Policies:* Note 4 – Fair value measurement	178
	(iii) The level of inputs used in determining fair value.	*Notes to the Financial Statements:* Note 28.3 – Financial instruments not measured at fair value – fair value hierarchy, Note 28.4 – Valuation techniques and inputs in measuring the fair value, Note 40.5 (b) and 40.5 (c) – Information on valuations of freehold land and buildings of the Bank	228, 230, 265 and 269
	(iv) a. Reconciliations of movements between levels of fair value measurement hierarchy.	There were no movements between levels of fair value hierarchy during the period under review.	
	b. Additional disclosures for financial instruments that fair value is determined using level 3 inputs.	*Notes to the Financial Statements:* Note 28.2 – Level 3 – Fair value measurement	228
	(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	174 to 177
		Notes to the Financial Statements: Note 69 – Financial Risk Review	319 to 353
2.1.2	Management's objectives, policies and processes for managing those risks.	*Significant Accounting Policies:* Note 3 – Financial Risk Management	174 to 177
		Refer the Section on "Risk Management" for comprehensive disclosure of Management's objectives, policies and processes.	115 to 139

Disclosure requirements		Description	Page No/s.
2.1.3	Changes from the prior period.	There were no major policy changes during the period under review.	
2.2	**Quantitative disclosures**		
2.2.1	Summary of quantitative data about exposure to each risk at the reporting date.	*Notes to the Financial Statements:* Note 69 – Financial Risk Review	319 to 353
2.2.2	Disclosures about credit risk, liquidity risk, market risk, operational risk, interest rate risk and how these risks are managed.		
	(i) Credit risk		
	(a) Maximum amount of exposure (before deducting the value of collateral), description of collateral, information about credit quality of financial assets that are neither past due nor impaired and information about credit quality of financial assets.	*Notes to the Financial Statements:* Note 69.1.1 – Credit Quality Analysis	320 to 330
		Note 69.1.4 – Collateral Held	333 to 334
	(b) For financial assets that are past due or impaired, disclosures on age, factors considered in determining as impaired and the description of collateral on each class of financial asset.	*Notes to the Financial Statements:* Note 69.1.1 – Credit Quality Analysis	320 to 330
		Note 19 – Impairment charges and other losses – collateral valuation for description on collaterals	208 to 212
		Note 69.1.3 – Collateral Held	333
		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	188 to 189
	(c) Information about collateral or other credit enhancements obtained or called.	*Notes to the Financial Statements:* Note 69.1.4 – Collateral held	333 to 334
	(d) Credit risk management practices		
	- CRM practices and how they relate to the recognition and measurement ECL, including the methods, assumptions and information used to measure ECL	Note 7.1.12.1 – Overview of ECL principles	188
		Note 19 – Impairment charges and other losses	208 to 212
	- Quantitative and qualitative information to evaluate the amounts in the Financial Statements arising from ECL, including changes and the reasons for those changes.	Note 19.1 – Impairment charges and other losses	212
	- How the Bank determines whether the credit risk of financial instruments has increased significantly since initial recognition	Note 7.1.12.2 – Significant increase in credit risk	188
	- The Bank's definitions of default for different financial instruments, including the reasons for selecting those definitions	Note 7.1.12.3 – Definition of default and credit impaired assets	189
	- How instruments are grouped if ECL are measured on a collective basis	Note 19 – Impairment charges and other losses	208 to 212
	- How the bank determines that financial assets are credit-impaired	Note 7.1.12 – Identification and measurement of impairment of financial assets	188 to 189
	- The Bank's write-off policy, including the indicators that there is no reasonable expectation of recovery	"Write-off of financial assets" given in Note 19 – Impairment charges and other losses	208 to 212
	- How the modification requirements have been applied	Note 7.1.8 – Modification of financial assets and financial liabilities	187
	(e) ECL calculations		
	- Basis of the inputs, assumptions and the estimation techniques used when estimating ECL	Note 19 – Impairment charges and other losses	208 to 212
	- How forward-looking information has been incorporated into the determination of ECL.	"Forward-looking information" given in Note 19 – Impairment charges and other losses	208 to 212
	- Changes in estimation techniques or significant assumptions made during the reporting period	Note 5 – Changes in accounting policies, Note 7.1.12 – Identification and measurement of impairment of financial assets	178 to 180 and 188 to 189
	(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.	Movement in provision for impairment during the year for each classes of assets are given in Notes 29.1(Cash and cash equivalents), 31.1(Placements with banks), 34.1(Financial assets at amortised cost – Loans and advances to banks), 35.2 and 35.3 (Financial assets at amortised cost – Loans and advances other customers), 36.1 (Financial assets at amortised cost – Debt and other financial instruments), 37.2 (Financial assets measured at fair value through other comprehensive income).	231, 233, 238, 242, 243, 248 and 251

Disclosure requirements	Description	Page No/s.
(g) Collateral		
– Bank's maximum exposure to credit risk at the reporting date	Note 69.1 – Credit risk	320 to 338
– Description of collateral held as security and other credit enhancements		
(h) Written-off assets	Note 35.2 – Movement in impairment provision during the year and Note 35.3 – Movement in provision for individual and collective impairment during the year, Note 18 – Net other operating income	208, 242 and 243
(i) Pillar III disclosures of the Banking Act Directions No. 1 of 2016 on Capital requirements under Basel III for Licensed Banks	Note 69.5 – Capital management and Pillar III disclosures as per Basel III	352 to 353
(ii) Liquidity risk		
(a) A maturity analysis of financial liabilities.	*Notes to the Financial Statements:*	
	Note 62 – Maturity Analysis – Group	307 to 309
	Note 69.2.2 – Maturity analysis of financial assets and financial liabilities – Bank	340 to 343
(b) Description of approach to risk management.	*Significant Accounting Policies:*	
	Note 3 – Financial Risk Management	174 to 177
	Refer the Section on "Risk Management"	115 to 139
(c) Pillar III disclosures of the Banking Act Directions No. 1 of 2016 on Capital requirements under Basel III for Licensed Banks	Refer the Section on "Risk Management"	115 to 139
(iii) Market risk		
(a) A sensitivity analysis of each type of market risk to which the Bank is exposed.	*Notes to the Financial Statements:*	
	Note 69.3.2 – Exposure to interest rate risk – sensitivity analysis	347 to 349
(b) Additional information, if the sensitivity analysis is not representative of the Bank's risk exposure.	Note 69.3.3 – Exposure to currency risk – Non-trading portfolio	349 to 350
(c) Pillar III disclosures of the Banking Act Directions No. 1 of 2016 on Capital requirements under Basel III for Licensed Banks	Refer the Section on "Risk Management"	115 to 139
(iv) Operational risk		
Pillar III disclosures of the Banking Act Directions No. 1 of 2016 on Capital requirements under Basel III for Licensed Banks	Refer the Section on "Risk Management"	115 to 139
(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.	Note 33 – Financial assets recognised through profit or loss/ Held for trading – measured at fair value	234 to 237
	Note 37 – Financial assets measured at FVOCI/ Financial Investments available for sale.	250 to 254
• Discussion of important policies covering the valuation and accounting of equity holdings in the banking book.	Note 69.3.4 – Exposure to equity price risk	351
(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 33 – Financial assets recognised through profit or loss/ Held for trading – measured at fair value	234 to 237
	Note 37 – Financial assets measured at fair value through other comprehensive income/Financial investments – Available for sale	250 to 254
• The cumulative realised gains/(losses) arising from sales and liquidations in the reporting period	*Notes to the Financial Statements:*	
	Note 16 – Net gains/(losses) from trading	207
	Note 17 – Net gains/(losses) from derecognition of financial assets	207

Disclosure requirements		Description	Page No/s.
	(vi) Interest rate risk in the banking book		
	(a) Qualitative Disclosures	Note 69.3.2 – Exposure to Interest Rate Risk – Sensitivity analysis	347 to 349
	• Nature of interest rate risk in the banking book (IRRBB) and key assumptions.	Refer the Section on "Risk Management"	115 to 139
	(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).	Note 69.3.2 – Exposure to Interest Rate Risk – Sensitivity Analysis Refer the Section on "Risk Management"	347 to 349 115 to 139
2.2.3	Information on concentrations of risk.	*Notes to the Financial Statements:* Note 69.1.5 – Concentration of credit risk	334 to 338
3.	**Other disclosures**		
3.1	**Capital**		
3.1.1	Capital structure		
3.2	**Qualitative disclosures**		
	Summary information on the terms and conditions of the main features of all capital instruments, especially in the case of innovative, complex, or hybrid capital instruments.	*Notes to the Financial Statements:* Note 69.5 – Capital Management and Pillar III disclosures as per Basel III	352 to 353
3.3	**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	*Notes to the Financial Statements:* *Note 69.5 – Capital Management and Pillar III disclosures as per Basel III* Refer the Section on "Risk Management"	352 to 353 115 to 139
	(b) The total amount of Tier 2 and Tier 3 capital		
	(c) Other deductions from capital		
	(d) Total eligible capital		
3.4	**Capital adequacy**		
	(i) Qualitative disclosures		
	A summary discussion of the Bank's approach to assessing the adequacy of its capital to support current and future activities.	*Notes to the Financial Statements:* Note 69.5 – Capital Management and Pillar III disclosures as per Basel III Refer the Section on "Risk Management"	352 to 353 115 to 139
	(ii) Quantitative disclosures		
	(a) Capital requirements for credit risk, market risk, and operational risk	Refer the Section on "Risk Management"	115 to 139
	(b) Total and Tier 1 capital ratio		

Annex 3: Risk Management Report

Basel III – Disclosures under Pillar 3 as per the Banking Act Direction Number 01 of 2016

Disclosure 1

Key regulatory ratios – Capital and liquidity

As at December 31,	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000	BANK 2018 Rs. '000	BANK 2017 Rs. '000
Regulatory capital				
Common equity	**109,879,697**	95,725,306	**107,110,518**	94,151,253
Tier 1 capital	**109,879,697**	95,725,306	**107,110,518**	94,151,253
Total capital	**150,167,520**	123,989,935	**147,398,341**	122,415,882
Regulatory capital ratios (%)				
Common equity Tier 1 capital ratio (minimum requirement – 7.375%) (with effect from January 1, 2018) (%)	**11.431**	12.122	**11.338**	12.111
Tier 1 capital ratio (minimum requirement – 8.785%) (with effect from January 1, 2018) (%)	**11.431**	12.122	**11.338**	12.111
Total capital ratio (minimum requirement – 12.875%) (with effect from January 1, 2018) (%)	**15.623**	15.701	**15.603**	15.746
Regulatory liquidity				
Statutory liquid assets (Rs. '000)			**257,020,724**	243,945,792
Statutory liquid assets ratio (minimum requirement – 20%)				
Domestic Banking Unit (%)			**24.47**	27.28
Offshore Banking Unit (%)			**30.20**	30.95
Liquidity coverage ratio (%) – Rupee (Minimum requirement – 90%) (with effect from January 1, 2018)			**236.20**	272.15
Liquidity coverage ratio (%) – All currency (Minimum requirement – 90%) (with effect from January 1, 2018)			**238.69**	209.17

Disclosure 2

Basel III computation of capital ratios

	GROUP		BANK	
As at December 31,	**2018**	2017	**2018**	2017
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
Common equity Tier 1 (CETI) capital after adjustments	**109,879,697**	95,725,306	**107,110,518**	94,151,253
Total common equity Tier 1 (CET1) capital	**111,316,894**	96,980,344	**110,822,797**	96,696,269
Equity capital (stated capital)/assigned capital	**39,147,882**	37,143,541	**39,147,882**	37,143,541
Reserve fund	**7,444,403**	6,492,552	**7,354,143**	6,476,952
Published retained earnings/(accumulated retained losses)	**5,499,654**	1,783,969	**5,726,294**	1,798,112
Published accumulated other comprehensive Income (OCI)	**522,284**	(1,501,321)	**352,491**	(1,522,156)
General and other disclosed reserves	**58,241,987**	52,799,820	**58,241,987**	52,799,820
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	**460,684**	261,783	**–**	–
Total adjustments to CET 1 capital	**1,437,197**	1,255,038	**3,712,279**	2,545,016
Goodwill (net)	**400,045**	400,045	**–**	–
Intangible assets (net)	**1,033,339**	851,180	**906,114**	776,812
Revaluation losses of property, plant and equipment	**3,813**	3,813	**3,813**	3,813
Significant investments in the capital of financial institutions where the Bank owns more than 10% of the issued ordinary share capital of the entity	**–**	–	**2,802,352**	1,764,391
Additional Tier I (AT1) capital after adjustments	**–**	–	**–**	–
Total additional Tier I (ATI) capital	**–**	–	**–**	–
Qualifying additional Tier I capital instruments	**–**	–	**–**	–
Instruments issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	**–**	–	**–**	–
Total adjustments to 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	**40,287,823**	28,264,629	**40,287,823**	28,264,629
Total Tier 2 capital	**40,287,823**	28,264,629	**40,287,823**	28,264,629
Qualifying Tier 2 capital instruments	**33,103,574**	22,799,002	**33,103,574**	22,799,002
Revaluation gains	**3,087,658**	2,024,804	**3,087,658**	2,024,804
General provision	**4,096,591**	3,440,823	**4,096,591**	3,440,823
Instruments issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	**–**	–	**–**	–
Total adjustments to Tier 2 capital	**–**	–	**–**	–
Investment in own shares	**–**	–	**–**	–
Others (specify)				
CET 1 capital	**109,879,697**	95,725,306	**107,110,518**	94,151,253
Total Tier 1 capital	**109,879,697**	95,725,306	**107,110,518**	94,151,253
Total capital	**150,167,520**	123,989,935	**147,398,341**	122,415,882

As at December 31,	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000	BANK 2018 Rs. '000	BANK 2017 Rs. '000
Total risk weighted amount	**961,218,800**	789,711,397	**944,682,441**	777,427,117
Risk weighted amount for credit risk	**906,681,121**	725,500,975	**890,440,654**	713,765,370
Risk weighted amount for market risk	**15,786,211**	6,303,710	**15,707,609**	6,303,710
Risk weighted amount for operational risk	**38,751,468**	57,906,712	**38,534,178**	57,358,037
CET1 capital ratio (including capital conservation buffer, countercyclical capital buffer and surcharge on D – SIBs) (%)	**11.431**	12.122	**11.338**	12.111
Of which: capital conservation buffer (%)	**1.875**	1.250	**1.875**	1.250
Of which: countercyclical buffer (%)				
Of which: capital surcharge on D – SIBs (%)	**1.000**	0.500	**1.000**	0.500
Total Tier I capital ratio (%)	**11.431**	12.122	**11.338**	12.111
Total capital ratio (including capital conservation buffer,countercyclical capital buffer and surcharge on D-SIBs) (%)	**15.623**	15.701	**15.603**	15.746
Of which: capital conservation buffer (%)	**1.875**	1.250	**1.875**	1.250
Of which: countercyclical buffer (%)				
Of which: capital surcharge on D – SIBs (%)	**1.000**	0.500	**1.000**	0.500

Disclosure 3

Computation of leverage ratio

As at December 31,	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000	BANK 2018 Rs. '000	BANK 2017 Rs. '000
Tier I capital	**109,879,697**	95,725,306	**107,110,518**	94,151,253
Total exposures	**1,857,698,877**	1,626,970,079	**1,841,358,688**	1,613,561,019
On-balance sheet items (excluding derivatives and securities financing transactions, but including collateral)	**1,307,181,461**	1,151,136,046	**1,290,856,264**	1,137,316,666
Derivative exposures	**398,880,824**	328,406,037	**398,880,824**	328,817,950
Securities financing transaction exposures	**52,188,205**	61,017,837	**52,188,205**	61,017,837
Other off-balance sheet exposures	**99,448,387**	86,410,159	**99,433,395**	86,408,566
Basel III leverage ratio (%) (Minimum requirement 3%)	**5.91**	5.88	**5.82**	5.83

Disclosure 4

Basel III computation of liquidity coverage ratio

As at December 31,	2018		2017	
	Total unweighted value Rs. '000	Total weighted value Rs. '000	Total unweighted value Rs. '000	Total weighted value Rs. '000
Total stock of High Quality Liquid Assets (HQLA)	160,707,217	153,018,792	167,783,592	167,583,281
Total adjusted level 1 assets	110,448,524	110,448,524	167,382,970	167,382,970
Level 1 assets	110,448,524	110,448,524	167,382,970	167,382,970
Total adjusted level 2A assets	49,831,202	42,356,522	–	–
Level 2A assets	49,831,202	42,356,522	–	–
Total adjusted level 2B assets	427,491	213,746	400,622	200,311
Level 2B assets	427,491	213,746	400,622	200,311
Total cash outflows	1,304,126,474	219,126,881	1,126,874,188	204,822,466
Deposits	767,129,947	76,712,994	647,140,480	64,714,048
Unsecured wholesale funding	233,365,717	106,526,815	228,997,705	111,382,639
Secured funding transaction	–	–	–	–
Undrawn portion of committed (irrevocable) facilities and other contingent funding obligations	303,630,810	35,887,072	250,736,003	28,725,779
Additional requirements	–	–	–	–
Total cash inflows	253,447,001	155,019,572	190,872,659	124,705,986
Maturing secured lending transactions backed by the following collateral	61,274,814	54,621,691	37,491,907	37,069,704
Committed facilities	–	–	–	–
Other inflows by counterparty which are maturing within 30 calender days	109,687,516	64,171,184	74,594,943	47,223,317
Operational deposits	24,920,222	–	11,301,982	–
Other cash inflows	57,564,449	36,226,697	67,483,827	40,412,965
Liquidity coverage ratio (%) (stock of high quality liquid assets/ total net cash outflows over the next 30 calendar days) *100		238.69		209.17

Disclosure 5

Main features of regulatory capital instruments

Description of the capital Instrument	Stated capital	2016-2021 listed rated unsecured subordinated redeemable debentures	2016-2026 Listed rated unsecured subordinated redeemable debentures
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	N/A	March 9, 2016	March 9, 2016
Par value of instrument		Rs. 100/-	Rs. 100/-
Perpetual or dated	Perpetual	Dated	Dated
Original maturity date, if applicable	N/A	March 8, 2021	March 8, 2026
Amount recognised in regulatory capital (in Rs. '000 as at the reporting date)	39,147,882	2,658,204	1,749,090
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)	N/A	N/A	N/A
Subsequent call dates, if applicable	N/A	N/A	N/A
Coupons/dividends:			
Fixed or floating dividend/coupon	N/A	Fixed	Fixed
Coupon rate and any related index		10.75% p.a.	11.25% p.a.
Non-cumulative or cumulative	Non-cumulative	Cumulative	Cumulative
Convertible or non-convertible			
If convertible, conversion trigger (s)	N/A	N/A	N/A
If convertible, fully or partially	N/A	N/A	N/A
If convertible, mandatory or optional	N/A	N/A	N/A
If convertible, conversion rate	N/A	N/A	N/A

2016-2021 listed rated unsecured subordinated redeemable debentures	2016-2026 Listed rated unsecured subordinated redeemable debentures	2018-2023 Basel III compliant - Tier 2 listed rated unsecured subordinated redeemable debentures with a non-viability conversion	2018-2028 Basel III Compliant – Tier 2 listed rated unsecured subordinated redeemable debentures with a non-viability Conversion	2013-2023 Floating rate subordinated loans – Tier 2 IFC borrowing
Commercial Bank	Commercial Bank	Commercial Bank	Commercial Bank	International Finance Corporation
Sri Lanka	Sri Lanka	Sri Lanka	Sri Lanka	United States
October 28, 2016	October 28, 2016	July 23, 2018	July 23, 2018	March 13, 2013
Rs. 100/-	Rs. 100/-	Rs. 100/-	Rs. 100/-	
Dated	Dated	Dated	Dated	Dated
October 27, 2021	October 27, 2026	July 22, 2023	July 22, 2028	March 14, 2023
3,043,080	1,928,200	8,393,840	1,606,160	13,725,000
Liability	Liability	Liability	Liability	Liability
N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A
Fixed	Fixed	Fixed	Fixed	Floating
12% p.a.	12.25% p.a.	12% p.a.	12.5% p.a.	06 Months LIBOR + 5.75%
Cumulative	Cumulative	Cumulative	Cumulative	Cumulative
N/A	N/A	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."	N/A
N/A	N/A	Fully	Fully	N/A
N/A	N/A	Optional. At the discretion of the monetary board of the Central Bank of Sri Lanka upon occurance of trigger points as detailed above.	Optional. At the discretion of the monetary board of the Central Bank of Sri Lanka upon occurance of trigger points as detailed above.	N/A
N/A	N/A	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.	N/A

Disclosure 6

Summary discussion on adequacy/meeting current and future capital requirements

Bank prepares the Corporate Plan and Budget on a rolling basis covering a period of 5 years which includes the computation of Capital Adequacy ratios (CARs).

The Bank carefully analyses the CARs against increases in risk-weighted assets underlying the budgeted expansion of business volumes. The Bank has set up an internal guideline on minimum CARs and ensures that appropriate measures are employed to improve the CARs are also built into the budget.

Budgeting process of the Bank encapsulates all future capital requirements of the Bank and this process invariably captures estimated capital expenditure and the business growth in determining the optimum level of capital to be maintained. The Bank has prepared a capital augmentation plan covering the capital sourced from both internally and externally. The Bank has a well established monitoring process to ensure the level of achievement against the pre-determine target and corrective action is taken for any deviations.

Besides, 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. This process also proactively identifies the gaps in CARs in advance, allowing the Bank to take calculated decisions to optimise utilisation of capital.

The Bank has addressed all material risk exposures when formulating strategic plan and has a well-diversified assets portfolio which is neither overly exposed to any counterparty nor to any sector. Ways and means of improving the CARs are being monitored on an ongoing basis. Further, in extreme situations, the Bank will deliberate on strategically curtailing risk weighted assets expansion.

The Bank always strives to achieve a reasonable growth in profit which is above the industry average and is ever mindful to pay a consistent stream of dividends to the shareholders. Part of the profit generated is retained for future business expansion. Given the size of the Bank, capital generated through retained profits over the years could be considered as one of the primary sources of internal capital to the Bank. Besides the dividend policy of the Bank designed in such a manner to pay part of the dividend in the form of issuing shares, a vital internal capital for the Bank.

A comprehensive analysis of "Managing Financial Capital" given on pages 24 and 25.

Disclosure 7

Credit risk under standardised approach

Credit risk exposures and credit risk mitigation (CRM) effects

As at December 31, 2018 — **GROUP**

	Exposures before credit conversion factor (CCF) and CRM		Exposures post CCF and CRM		RWA and RWA density (%)	
	On-balance sheet amount Rs. '000	Off-balance sheet amount Rs. '000	On-balance sheet amount Rs. '000	Off-balance sheet amount Rs. '000	RWA Rs. '000	RWA density (%)
Claims on Central Government and Central Bank of Sri Lanka	299,661,319	41,175,000	299,661,319	823,500	23,308,812	7.76
Claims on foreign sovereigns and their central banks	29,694,585	–	29,694,585	–	29,694,585	100.00
Claims on public sector entities (PSEs)	5,585	–	5,585	–	5,585	100.00
Claims on Banks exposures	40,360,321	173,922,359	40,360,321	3,528,272	24,698,739	56.28
Claims on financial institutions	26,386,185	–	26,386,185	–	14,160,704	53.67
Claims on corporates	511,568,254	367,881,944	456,041,995	84,124,210	517,784,918	95.86
Retail claims	254,194,995	15,129,246	214,106,152	7,155,801	182,609,658	82.53
Claims secured by residential property	70,914,449	–	70,914,449	–	56,474,104	79.64
Non-performing assets (NPAs)	15,659,305	–	15,659,305	–	21,291,635	135.97
Cash items and other assets	67,457,672	–	67,457,672	–	36,652,381	54.33
Total	**1,315,902,670**	**598,108,549**	**1,220,287,568**	**95,631,783**	**906,681,121**	**68.90**

As at December 31, 2018 — **BANK**

	Exposures before credit conversion factor (CCF) and CRM		Exposures post CCF and CRM		RWA and RWA density (%)	
	On-balance sheet amount Rs. '000	Off-balance sheet amount Rs. '000	On-balance sheet amount Rs. '000	Off-balance sheet amount Rs. '000	RWA Rs. '000	RWA density (%)
Claims on Central Government and Central Bank of Sri Lanka	299,407,561	41,175,000	299,407,561	823,500	23,308,812	7.76
Claims on foreign sovereigns and their central banks	23,253,664	–	23,253,664	–	23,253,664	100.00
Claims on public sector entities (PSEs)	5,585	–	5,585	–	5,585	100.00
Claims on Banks exposures	35,851,262	173,922,359	35,851,262	3,527,857	20,189,266	51.27
Claims on financial institutions	26,386,185	–	26,386,185	–	14,160,704	53.67
Claims on corporates	505,795,279	367,776,631	450,269,021	84,122,312	512,010,044	95.81
Retail claims	254,194,996	15,129,246	214,106,152	7,155,801	182,609,658	82.53
Claims secured by residential property	70,914,449	–	70,914,449	–	56,474,104	79.64
Non-performing assets (NPAs)	15,282,546	–	15,282,546	–	20,914,876	136.85
Higher-risk categories	1,099,129	–	1,099,129	–	2,747,822	250.00
Cash items and other assets	65,258,983	–	65,258,983	–	34,766,119	53.27
Total	**1,297,449,639**	**598,003,236**	**1,201,834,537**	**95,629,470**	**890,440,654**	**68.63**

Disclosure 8

Credit risk under standardised approach

Exposures by asset classes and risk weights (Post CCF and CRM)

As at December 31, 2018	GROUP								
	0% Rs. '000	20% Rs. '000	50% Rs. '000	60% Rs. '000	75% Rs. '000	100% Rs. '000	150% Rs. '000	>150% Rs. '000	Total credit exposures amount Rs. '000
Claims on Central Government and Central Bank of Sri Lanka	183,940,757	116,544,062	–	–	–	–	–	–	300,484,819
Claims on foreign sovereigns and their central banks	–	–	–	–	–	29,694,585	–	–	29,694,585
Claims on public sector entities (PSEs)	–	–	–	–	–	5,585	–	–	5,585
Claims on official entities and multilateral development banks (MDBs)	–	–	–	–	–	–	–	–	–
Claims on Banks exposures	–	20,102,316	6,216,001	–	–	17,570,275	–	–	43,888,592
Claims on financial institutions	–	789,995	23,186,970	–	–	2,409,220	–	–	26,386,185
Claims on corporates	–	18,162,452	15,719,405	–	–	506,267,597	16,752	–	540,166,206
Retail claims	333,944	1,095,083	–	2,465,245	145,824,747	71,542,934	–	–	221,261,953
Claims secured by residential property	–	–	28,880,691	–	–	42,033,758	–	–	70,914,449
Claims secured by commercial real estate	–	–	–	–	–	–	–	–	–
Non-performing assets (NPAs)	–	–	53,977	–	–	4,286,691	11,318,637	–	15,659,305
Higher-risk categories	–	–	–	–	–	–	–	–	–
Cash items and other assets	24,585,211	7,775,099	–	–	–	35,097,362	–	–	67,457,672
Total	208,859,912	164,469,007	74,057,044	2,465,245	145,824,747	708,908,007	11,335,389	–	1,315,919,351

Credit risk under standardised approach (Contd.)

As at December 31, 2018	0%	20%	50%	60%	75%	100%	150%	>150%	BANK Total credit exposures amount
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Claims on Central Government and Central Bank of Sri Lanka	183,686,999	116,544,062	–	–	–	–	–	–	300,231,061
Claims on foreign sovereigns and their central banks	–	–	–	–	–	23,253,664	–	–	23,253,664
Claims on Public Sector Entities (PSEs)	–	–	–	–	–	5,585	–	–	5,585
Claims on official entities and Multilateral Development Banks (MDBs)	–	–	–	–	–	–	–	–	–
Claims on Banks exposures	–	20,102,317	6,216,000	–	–	13,060,802	–	–	39,379,119
Claims on financial institutions	–	789,995	23,186,970	–	–	2,409,220	–	–	26,386,185
Claims on corporates	–	18,162,452	15,719,405	–	–	500,492,725	16,752	–	534,391,334
Retail claims	333,944	1,095,083	–	2,465,245	145,824,747	71,542,934	–	–	221,261,953
Claims secured by residential property	–	–	28,880,691	–	–	42,033,758	–	–	70,914,449
Claims secured by commercial real estate	–	–	–	–	–	–	–	–	–
Non-performing assets (NPAs)	–	–	53,977	–	–	3,909,933	11,318,637	–	15,282,547
Higher-risk categories	–	–	–	–	–	–	–	1,099,129	1,099,129
Cash items and other assets	24,272,784	7,775,099	–	–	–	33,211,099	–	–	65,258,982
Total	208,293,727	164,469,008	74,057,043	2,465,245	145,824,747	689,919,720	11,335,389	1,099,129	1,297,464,008

Disclosure 9

Market risk under standardised measurement method

As at December 31,	GROUP 2018	GROUP 2017	BANK 2018	BANK 2017
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
(a) Capital charge for interest rate risk	339,612	354,758	339,612	354,758
General interest rate risk	72,544	150,553	72,544	150,553
(i) Net long or short position	72,544	150,553	72,544	150,553
(ii) Horizontal disallowance	–	–	–	–
(iii) Vertical disallowance	–	–	–	–
(iv) Options	–	–	–	–
Specific interest rate risk	267,068	204,205	267,068	204,205
(b) Capital charge for equity	73,975	58,849	73,975	58,849
(i) General equity risk	38,601	31,474	38,601	31,474
(ii) Specific equity risk	35,374	27,375	35,374	27,375
(c) Capital charge for foreign exchange and gold	1,618,888	327,079	1,608,768	327,079
(d) Capital charge for market risk [(a) + (b) + (c)]	2,032,475	740,686	2,022,355	740,686
Total risk – weighted amount for market risk [(d) * CAR]	15,786,211	6,303,710	15,707,609	6,303,710

Disclosure 10

Operational risk under the alternative standardised approach – Group

As at December 31, 2018	Capital charge factor %	Fixed factor	Gross income 1st year Rs. '000	Gross income 2nd year Rs. '000	Gross income 3rd year Rs. '000
Corporate finance	18		402,396	273,037	210,049
Trading and sales	18		880,078	844,325	3,956,308
Payment and settlement	18		511,789	591,811	651,440
Agency services	15		–	–	–
Asset management	12		–	–	–
Retail brokerage	12		–	–	–
Sub Total (a)			1,794,263	1,709,173	4,817,797
Retail banking (Loans and advances)	12	0.035	322,099,624	382,107,206	452,610,049
Commercial banking (Loans and advances)	15	0.035	477,587,106	556,018,749	606,642,106
Sub total (b)			799,686,730	938,125,955	1,059,252,155
The alternative standardised approach (a) + (b)			801,480,993	939,835,128	1,064,069,953
Capital charge for operational risk	4,989,252				
Risk-weighted amount for operational risk	38,751,468				

Operational risk under basic indicator approach – Group

As at December 31, 2017	Capital charge factor %	Fixed factor	Gross income 1st year Rs. '000	Gross income 2nd year Rs. '000	Gross income 3rd year Rs. '000
The basic indicator approach	15		41,020,866	44,349,587	50,710,320
Capital charge for operational risk	6,804,039				
Risk-weighted amount for operational risk	57,906,712				

Operational risk under the alternative standardised approach – Bank

As at December 31, 2018	Capital charge factor	Fixed factor	Gross income		
			1st year	2nd year	3rd year
	%		Rs. '000	Rs. '000	Rs. '000
Corporate finance	18		402,396	273,037	210,049
Trading and sales	18		897,167	766,080	3,911,019
Payment and settlement	18		511,789	591,811	651,440
Agency services	15		–	–	–
Asset management	12		–	–	–
Retail brokerage	12		–	–	–
Sub total (a)			1,811,352	1,630,928	4,772,508
Retail banking (Loans and advances)	12	0.035	318,400,031	378,807,792	448,200,815
Commercial banking (Loans and advances)	15	0.035	477,566,554	555,303,148	604,168,024
Sub Total (b)			795,966,585	934,110,940	1,052,368,839
The alternative standardised approach (a) + (b)			797,777,937	935,741,868	1,057,141,347
Capital charges for operational risk	4,961,275				
Risk-weighted amount for operational risk	38,534,178				

Operational risk under basic indicator approach – Bank

As at December 31, 2017	Capital charge factor	Fixed factor	Gross income		
			1st year	2nd year	3rd year
	%		Rs. '000	Rs. '000	Rs. '000
The basic indicator approach	15		40,773,807	44,057,659	49,959,921
Capital charge for operational risk	6,739,569				
Risk-weighted amount for operational risk	57,358,037				

The Bank has moved to Alternative Standardised Approach (ASA) with effect from June 2018 after obtaining approval from the Central Bank of Sri Lanka.

Disclosure 11

Differences between accounting and regulatory scopes and mapping of financial statement categories with regulatory risk categories – Bank Only

As at December 31, 2018	a Carrying values as reported in published financial statements Rs. '000	b Carrying values under scope of regulatory reporting Rs. '000	c Subject to credit risk framework Rs. '000	d Subject to market risk framework Rs. '000	e Not subject to capital requirements or subject to deduction from capital Rs. '000
Assets	**1,303,484,870**	**1,302,112,789**	**1,201,834,541**	**5,051,170**	**99,323,671**
Cash and cash equivalents	39,534,476	39,496,172	39,496,172	–	–
Balances with central banks	54,384,590	54,384,590	54,384,590	–	–
Placements with banks	19,898,515	19,863,797	19,863,797	–	–
Securities purchased under re-sale agreements	9,513,512	9,513,512	9,513,512	–	–
Derivative financial assets	7,909,962	–	–	–	–
Financial assets recognised through profit or loss/ held for trading – measured at fair value	5,520,167	5,520,167	468,997	5,051,170	–
Financial assets at amortised cost – loans and advances to banks	763,074	763,110	763,110	–	–
Financial assets at amortised cost – loans and advances to other customers	861,100,315	860,971,745	769,453,129	–	95,615,207
Financial assets at amortised cost – debt and other financial instruments/financial investments – held to maturity and loans and receivables	83,855,436	83,052,006	83,052,006	–	–
Financial assets measured at fair value through other comprehensive income/ financial investments – Available for sale	176,506,729	178,767,195	178,767,195	–	–
Investments in subsidiaries	4,263,631	4,263,631	1,461,279	–	2,802,352
Investments in associates and joint ventures	44,331	44,331	44,331	–	–
Property, plant and equipment	15,301,246	15,301,246	15,301,249	–	–
Intangible assets	906,112	906,112	–	–	906,112
Leasehold property	71,652	71,652	71,652	–	–
Deferred tax assets	–	–	–	–	–
Other assets	23,911,122	29,193,523	29,193,523	–	–
Liabilities	**1,185,078,921**	**1,180,597,811**	–	–	–
Due to banks	50,101,081	49,607,265	–	–	–
Derivative financial liabilities	8,021,783	–	–	–	–
Securities sold under repurchase agreements	49,104,462	49,110,188	–	–	–
Financial liabilities recognised through profit or loss – measured at fair value	–	–	–	–	–
Financial liabilities at amortised cost - due to depositors	983,037,314	961,873,321	–	–	–
Financial liabilities at amortised cost – other borrowings	25,361,912	25,347,338	–	–	–
Debt securities issued	–	–	–	–	–
Current tax liabilities	6,566,358	6,369,721	–	–	–
Deferred tax liabilities	646,248	3,612,000	–	–	–
Other provisions	–	–	–	–	–

As at December 31, 2018	a Carrying values as reported in published financial statements Rs. '000	b Carrying values under scope of regulatory reporting Rs. '000	c Subject to credit risk framework Rs. '000	d Subject to market risk framework Rs. '000	e Not subject to capital requirements or subject to deduction from capital Rs. '000
Other liabilities	**24,206,351**	**47,783,977**	–	–	–
Due to subsidiaries	**40,955**	**40,955**	–	–	–
Subordinated term debts	**37,992,457**	**36,853,046**	–	–	–
Off-balance sheet liabilities	**658,721,983**	**658,721,983**	**95,629,469**	–	**9,689,340**
Guarantees	**48,412,151**	**48,412,151**	**35,063,231**	–	**7,495,193**
Performance bonds	**45,112,151**	**45,112,151**	**20,860,414**	–	**1,695,662**
Letter of credit	**49,398,272**	**49,398,272**	**9,390,058**	–	**489,596**
Other contingent items	**354,278,889**	**354,278,889**	**14,262,837**	–	**8,889**
Undrawn loan commitments	**32,441,189**	**32,441,189**	**16,052,929**	–	–
Other commitments	**129,079,331**	**129,079,331**	–	–	–
Shareholders' equity	**118,405,949**	**121,514,978**	–	–	–
Equity capital (stated capital)/assigned capital:					
Of which amount eligible for CET1	**39,147,882**	**39,147,882**	–	–	–
Of which amount eligible for AT1	–	–	–	–	–
Retained earnings	**5,063,076**	**6,787,123**	–	–	–
Accumulated other comprehensive income	**(1,360,963)**	**24,019**	–	–	–
Other reserves	**75,555,954**	**75,555,954**	–	–	–

Disclosure 12

Explanations of Differences between Accounting and Regulatory Exposure Amounts

As at December 31, 2018	Differences observed between accounting carrying value and amounts considered for regulatory purposes	Reasons for differences						
		Net impact arising from Impairment (Stage 1,2 and 3)	Fair Value Adjustment	Effective Interest Rate (EIR) Adjustment	Re-classification of Interest Receivable/ Payable and others	Unamortised cost on staff loans (Day 1 difference)	Other SLFRS Adjustments	Tax Impact on SLFRS Adjustments
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Assets								
Cash and Cash Equivalents	38,304	(4,412)	–	–	42,716	–	–	–
Placements with Banks	34,718	(10,784)	–	–	45,502	–	–	–
Derivative Financial Assets	7,909,962	–	–	–	7,909,962	–	–	–
Financial assets at amortised cost – Loans and advances to banks	(36)	(36)	–	–	–	–	–	–
Financial assets at amortised cost – Loans and advances to other customers	128,570	(3,340,610)	–	–	7,551,026	(4,081,846)	–	–
Financial assets at amortised cost – Debt and other financial instruments/ Financial Investments – Held-to-maturity and Loans and receivables	803,430	(266,252)	–	–	1,069,682	–	–	–
Financial assets measured at fair value through other comprehensive income/ Financial Investments – Available for sale	(2,260,466)	(595,695)	(1,671,504)	–	6,733	–	–	–
Other Assets	(5,282,401)	–	–	–	(9,364,247)	4,081,846	–	–
Liabilities								
Due to banks	493,816	–	–	–	493,816	–	–	–
Derivative Financial Liabilities	8,021,783	–	–	–	8,021,783	–	–	–
Securities sold under repurchase agreements	(5,726)	–	–	(5,726)	–	–	–	–
Financial liabilities at amortised cost – due to depositors	21,163,993	–	–	(569,558)	21,733,551	–	–	–
Financial liabilities at amortised cost – other borrowings	14,574	–	–	–	14,574	–	–	–
Current Tax Liabilities	196,637	–	–	–	–	–	–	196,637
Deferred Tax Liabilities	(2,965,752)	–	–	–	–	–	–	(2,965,752)
Other Liabilities	(23,577,626)	726,640	–	–	(24,783,706)	–	632,391	(152,951)
Subordinated Term Debts	1,139,411	–	–	(6,768)	1,146,179	–	–	–
Shareholders' Equity								
Retained Earnings	(1,724,047)	(3,214,068)	–	582,052	635,171	–	(632,391)	905,189
Accumulated Other Comprehensive Income	(1,384,982)	–	(1,671,504)	–	–	–	–	286,522

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 19 on page 208 for details) model which is expected to capture future trends in the economy. However, the regulatory provision 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 guarantee and letter of credits, are subjected to impairment provision, whereas no such regulatory provision is required for those financial assets as per CBSL direction. As a result, SLFRS 9 recognises higher 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 difference" is recognised, when the transaction price differs from the fair value of other observable current market transactions in the same instrument. Eg: Employee below market loans. Refer Note 7.1.2.1 on page 182 for details. However, the carrying value of such transactions for regulatory reporting purposes is equal to cost/ transaction price.

Disclosure 13

Bank Risk Management Approach

"Effective risk management is at the core of the Bank's value creation model as we accept risk in the normal course of business. Significant resources are devoted to this critical function to ensure that it is well articulated, communicated and understood by all employees of the Bank as it is a shared responsibility. It is a dynamic and disciplined function increasing in sophistication and subject to stringent oversight by regulators and other stakeholders. The overarching objectives are to ensure that risks accepted are in line with the Bank's risk appetite and strategic priorities and that there is an appropriate trade-off between risk and reward enabling delivery of value to key stakeholders."The risk governance structure,responsibilities attributed throughout the bank, risk management framework, objectives, strategies, policy framework, risk appetite and tolerance limits for key risk types, and the overall risk management approach of the Bank are discussed in the section on "Risk Management" on pages 115 to 139.

Disclosure 14

Risk management related to key risk exposures

"The quantitative disclosures relating to key risk areas such as credit, market, liquidity, operational, and interest rate risk in the banking book are presented and discussed in the Risk Management Report on pages 319 to 353 and in the Financial Risk Management Report on pages 115 to 139."

Annex 4: GRI Content Index

GRI Standard/Disclosure		Page No.	Report commentary title
GRI 102: General Disclosures 2016			
Organisational profile			
102-1	Name of the organisation	Inner back cover	
102-2	Activities, brands, products and services	169 and 170	Note 1.3 - Principle business activities
102-3	Location of headquarters	Inner back cover	Note 1.1 - Corporate information
102-4	Location of operations	7	About the Bank
102-5	Ownership and legal form	7 and inner back cover	About the Bank
102-6	Markets served	7	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	67	Employee numbers
102-9	Supply chain	59	Collaboration with suppliers
102-10	Significant changes to the organisation and its supply chain	5	Report boundary
102-11	Precautionary principle or approach	6	
102-12	External initiatives	59	Collaboration for sustainable finance
102-13	Membership of associations	–	Not reported
Strategy			
102-14	Statement from senior decision-maker	10	Chairman's Statement
Ethics and integrity			
102-16	Values, principles, standards, and norms of behaviour	27	
Governance			
102-18	Governance structure	75 and 76	
102-19	Delegating authority	77	Board of Directors
102-22	Composition of the highest governance body and its committees	78	Composition of the Board
102-23	Chair of the highest governance body	80	Roles of Chairman and CEO
102-24	Nominating and selecting the highest governance body	81	Appointment of Directors
102-25	Conflicts of interest	77	Conflicts of interest
102-35	Remuneration policies	82	Remuneration and benefits policy
102-36	Process for determining remuneration	82	Remuneration and benefits policy
Stakeholder engagement			
102-40	List of stakeholder groups	31	Connecting with stakeholders
102-41	Collective bargaining agreements	68	Collective agreement and freedom of association
102-42	Identifying and selecting stakeholders	31	Connecting with stakeholders
102-43	Approach to stakeholder engagement	32	Connecting with stakeholders
102-44	Key topics and concerns raised	32	How we connect with our stakeholders
Reporting practice			
102-45	Entities included in the consolidated financial statements	5	Report boundary
102-46	Defining report content and topic boundaries	5 and 414	Report boundary/Material matters
102-47	List of material topics	33-35	Material matters, Material mapping
102-48	Restatements of information	5	Report boundary
102-49	Changes in reporting	5	Report boundary
102-50	Reporting period	5	Introducing our 50th annual report
102-51	Date of most recent report	5	Introducing our 50th annual report
102-52	Reporting cycle	5	Introducing our 50th annual report
102-53	Contact point for questions regarding the report	6	Contact

GRI Standard/Disclosure		Page No.	Report commentary title
102-54	Claims of reporting in accordance with the GRI Standards	5	Basis of preparation
102-55	GRI content index	412	
102-56	External assurance	415-419	
GRI 200: Economic			
GRI 201: Economic performance 2016		39-41	
201-1	Direct economic value generated and distributed	420	Our sustainability footprint
GRI 203: Indirect economic impact 2016		46	Reaching diverse locations
203-1	Infrastructure investments and services supported	46	Reaching diverse locations
GRI 205: Anti-corruption 2016		40	Anti-corruption
205-1	Operations assessed for risks related to corruption	420	Our sustainability footprint
205-3	Confirmed incidents of corruption and actions taken	420	Our sustainability footprint
GRI 300: Environmental			
GRI 302: Energy 2016		70	Sustainable energy
302-1	Energy consumption within the organisation	420	Our sustainability footprint
302-4	Reduction of energy consumption	420	Our sustainability footprint
GRI 305: Emissions		70	Carbon footprint
305-1	Direct (Scope 1) GHG emissions	420	Our sustainability footprint
305-2	Energy indirect (Scope 2) GHG emissions	420	Our sustainability footprint
GRI 400: Social			
GRI 401: Employment 2016		67	Employee recruitment and retention
401-1	New employee hires and employee turnover	67, 420	Our sustainability footprint
401-3	Parental leave	421	Our sustainability footprint
GRI 404: Training and education 2016		67	Training and development
404-1	Average hours of training per year per employee	421	Our sustainability footprint
404-3	Percentage of employees receiving regular performance and career development reviews	421	Our sustainability footprint
GRI 405: Diversity and equal opportunity 2016		68	Diversity and equal opportunity
405-1	Diversity of governance bodies and employees	68, 421	Our sustainability footprint
405-2	Ratio of basic salary and remuneration of women to men	421	Our sustainability footprint
GRI 418: Customer privacy 2016		40	Customer privacy
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	421	Our sustainability footprint
Non GRI disclosures			
	Risk management	115	
	Digitalisation and channel migration	57	
	Bank's CSR activities	61	

Annex 5: Materiality Mapping

Topic	Significance to Bank's Operations	Topic Boundary – Internal – Sri Lanka	Topic Boundary – Internal – Bangladesh	Topic Boundary – External – Customers	Topic Boundary – External – Communities	Topic Boundary – External – Suppliers	Materiality – To the Bank	Materiality – To the Stakeholder
GRI 200: Economic								
201 Economic performance	High	★	★				High	High
202 Market presence	High		★				Moderate	Moderate
203 Indirect economic impacts	Moderate			★			High	Moderate
204 Procurement practices	Moderate	★					Moderate	Moderate
205 Anti-corruption	High	★					High	High
206 Anti-competitive behaviour	Low							
GRI 300: Environmental								
301 Materials	Moderate	★					Moderate	Low
302 Energy	Moderate	★	★				High	Moderate
303 Water	Low							
304 Biodiversity	Low							
305 Emissions	Moderate	★					Moderate	High
306 Effluents and waste	Moderate	★				★	Low	Moderate
307 Environmental compliance	Low							
308 Supplier environmental assessment	Moderate					★	Moderate	Low
GRI 400: Social								
401 Employment	High	★	★				High	High
402 Labour/management relations	High	★	★			★	Moderate	Moderate
403 Occupational health and safety	Moderate	★	★				Moderate	Moderate
404 Training and education	High	★	★				High	High
405 Diversity and equal opportunity	High	★	★				Moderate	High
406 Non-discrimination	High	★	★				Moderate	High
407 Freedom of association and collective bargaining	High						Moderate	High
408 Child labour	Moderate					★	Low	Moderate
409 Forced or compulsory labour	Moderate					★	Low	Moderate
410 Security practices	Moderate	★	★				Moderate	Low
411 Rights of indigenous people	Low							
412 Human rights assessment	High					★	Moderate	Moderate
413 Local communities	Moderate	★			★		Moderate	Moderate
414 Supplier social assessment	Moderate					★	Moderate	Low
415 Public policy	Low							
416 Customer health and safety	Low							
417 Marketing and labelling	High	★	★				Moderate	Moderate
418 Customer privacy	High	★	★				High	High
419 Socio-economic compliance	High	★	★				Moderate	Moderate
Other Topics								
Risk management and business continuity	High	★	★				High	High
Digitalisation and channel migration	High	★	★				High	High
Bank's CSR activities	Moderate				★		Moderate	Moderate

Annex 6: Independent Assurance Report

Annex 6.1: Independent Assurance Report to Commercial Bank of Ceylon PLC on the Sustainability Reporting Criteria Presented in the Integrated Annual Report – 2018

Building a better working world

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Introduction and scope of the engagement

The management of Commercial Bank of Ceylon PLC ("the Company") engaged us to provide an independent assurance on the following elements of the sustainability reporting criteria presented in the Annual Report – 2018 ("the Report").

- Reasonable assurance on the information on financial performance as specified on page 39 of the Report.
- Limited assurance on other information presented in the Report, prepared in accordance with the requirements of the Global Reporting Initiative GRI Standards: "In accordance" – Core guidelines.

Basis of our work and level of assurance

We performed our procedures to provide limited assurance in accordance with Sri Lanka Standard on Assurance Engagements (SLSAE 3000): "Assurance Engagements Other than Audits or Reviews of Historical Financial Information", issued by the Institute of Chartered Accountants of Sri Lanka ("CA Sri Lanka").

The evaluation criteria used for this limited assurance engagement are based on the Sustainability Reporting Guidelines ("GRI Guidelines") and related information in particular, the requirements to achieve GRI Standards "In accordance" - Core guideline publication, publicly available at GRI's global website at "www.globalreporting.org".

Our engagement provides limited assurance as well as reasonable assurance. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement conducted in accordance with SLSAE 3000 and consequently does not enable to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express an opinion providing reasonable assurance.

Management of the Company's responsibility for the report

The management of the Company is responsible for the preparation of the self-declaration, the information and statements contained within the Report, and for maintaining adequate records and internal controls that are designed to support the sustainability reporting process in line with the GRI Sustainability Reporting Guidelines.

Ernst & Young's responsibility

Our responsibility is to express a conclusion as to whether we have become aware of any matter that causes us to believe that the Report is not prepared in accordance with the requirements of the Global Reporting Initiative, GRI Standards: "In accordance" - Core guidelines. This report is made solely to the Company in accordance with our engagement letter dated January 8, 2019. We disclaim any assumption of responsibility for any reliance on this report to any person other than the Company or for any purpose other than that for which it was prepared. In conducting our engagement, we have complied with the independence requirements of the Code for Ethics for Professional Accountants issued by the CA Sri Lanka.

Key assurance procedures

We planned and performed our procedures to obtain the information and explanations considered necessary to provide sufficient evidence to support our limited assurance conclusions. Key assurance procedures included:

- Interviewing relevant the Company's personnel to understand the process for collection, analysis, aggregation and presentation of data.
- Reviewing and validation of the information contained in the Report.
- Checking the calculations performed by the Company on a sample basis through recalculation.

- Reconciling and agreeing the data on financial performance are properly derived from the Company's audited financial statements for the year ended December 31, 2018.
- Comparison of the content of the Report against the criteria for a Global Reporting Initiative, GRI Standards: "In accordance" – Core guidelines.

Our procedures did not include testing electronic systems used to collect and aggregate the information.

Limitations and considerations

Environmental and social performance data are subject to inherent limitations given their nature and the methods used for determining, calculating and estimating such data.

Conclusion

Based on the procedures performed, as described above, we conclude that;

- The information on financial performance as specified on page 39 of the Report are properly derived from the audited financial statements of the Company for the year ended December 31, 2018.
- Nothing has come to our attention that causes us to believe that other information presented in the Report are not fairly presented, in all material respects, in accordance with the Company's sustainability practices and policies some of which are derived from Sustainability Reporting Guideline, GRI Standards – "In accordance" Core.

Ernst & Young

Ernst & Young
Chartered Accountants

February 22, 2019
Colombo

ANNEX 6.2: Independent Assurance Statement on Non-Financial Reporting – DNV GL

DNV·GL

Scope and approach

DNV GL represented by DNV GL Business Assurance Lanka (Private) Limited has been commissioned by the Management of Commercial Bank of Ceylon PLC ("Commercial Bank' or "the Bank", Company Registration Number PQ 116) to carry out an independent assurance engagement (Type 2, Moderate level) for the non-financial – qualitative and quantitative information (sustainability performance) reported in Commercial Bank's Annual Report 2018 ("the Report") in its printed format for the financial year ending December, 31 2018. The sustainability disclosures in this Report is prepared by the Bank, based on International Integrated Reporting Council's ("IIRC's") International <IR> Framework ("<IR> Framework") and includes references to the Global Reporting Initiative ("GRI"). Sustainability Reporting Standards 2016 ("GRI Standards"), for non-financial performance related to identified material topics.

We performed our work using Account Ability's AA1000 Assurance Standard 2008 (AA1000AS), with 2018 addendum and DNV GL's assurance methodology VeriSustain TMI , which is based on our professional experience, international assurance best practice including International Standard on Assurance Engagements 3000 (ISAE 3000) Revised* and GRI reporting principles on Content and Quality. Our assurance engagement was planned and carried out during January 2019-February 2019. The intended user of this assurance statement is the Management of the Bank ("the Management").

The reporting topic boundary of sustainability performance is based on internal and external materiality assessment covering Commercial Bank's banking and associated operations in Sri Lanka and Bangladesh. The Report excludes performance data and information related to the activities of Commercial Bank's six subsidiaries – Commercial Development Company PLC, ONEzero Company Ltd., Serendib Finance Ltd., Commex Sri Lanka S.R.L Italy, Commercial Bank of Maldives (Private) Limited, CBC Myanmar Microfinance Company Limited and the operations of its two associates, Equity Investments Lanka Ltd. and Commercial Insurance Brokers (Pvt.) Ltd. as the results of their operations are not significant (<1% revenue) compared to the overall results of the Bank. This is as set out in the Report in the section "Basis of Preparation".

We planned and performed our work to obtain the evidence we considered necessary to provide a basis for our assurance opinion and the process did not involve engagement with external stakeholders.

Responsibilities of the management of Commercial Bank and of the assurance providers

The Management of Commercial Bank have the sole responsibility for the preparation of the Report as well as the processes for collecting, analysing and reporting the information presented in the Report. In performing our assurance work, our responsibility is to the Management; however, our statement represents our independent opinion and is intended to inform the outcome of our assurance to the stakeholders of the Bank. DNV GL was not involved in the preparation of any statements or data included in the Report except for this Assurance Statement.

DNV GL provides a range of other services to Commercial Bank, none of which in our opinion, constitute a conflict of interest with this assurance work. DNV GL's assurance engagements are based on the assumption that the data and information provided by the client to us as part of our review have been provided in good faith. DNV GL expressly disclaims any liability or co-responsibility for any decision a person or an entity may make based on this Assurance Statement.

[1] *The VeriSustain protocol is available on www.dnvgl.com*

* *Assurance Engagements other than Audits or Reviews of Historical Financial Information.*

Basis of our opinion

A multidisciplinary team of sustainability and assurance specialists performed work at Commercial Bank's Head Office, and as part of assurance we visited sample branch operations in Sri Lanka. We undertook the following activities:

- Review of Commercial Bank's approach to non-financial reporting based on <IR> Framework including stakeholder relationships and materiality determination process and the outcome as reported in this Report. We did not have any direct engagement with external stakeholders;
- Interviews with selected senior managers responsible for management of sustainability issues and review of selected evidence to support issues discussed. We were free to choose interviewees and interviewed those with overall responsibility to deliver the Company's sustainability objectives;
- Site visits to the sample branch operations at Ja-ela, Negambo, Kochchikade and Seeduwa in Sri Lanka, and to review processes and systems with regard to the site level sustainability data and implementation of sustainability strategy. We were given the choice to select the sites we visited;
- Review of supporting evidence related to qualitative and quantitative disclosures within the Report against identified material aspect;
- Review of the processes for gathering and consolidating the specified performance data and, for a sample, checking the data consolidation. The reported data on economic performance and other financial data are based on audited financial statements issued by the Company's statutory auditors.

During the assurance process, we did not come across limitations to the scope of the agreed assurance engagement.

Opinion and observations

On the basis of the verification undertaken, nothing came to our attention that causes us to believe that the Report does not properly describe Commercial Bank's adherence to the criteria of reporting (Guiding Principles and Content Elements) related to the <IR> framework, representation of the material topics, business model, disclosures on value creation through six capitals, related strategies and Management approach and chosen topic-specific disclosures from the GRI Standards for identified material topics as below.:

- GRI 201: Economic-performance – 2016–201-1
- GRI 203: Indirect Economic Impacts-2016-203-1
- GRI 205: Anti-corruption – 2016-205-1; 205-3
- GRI 302: Energy 2016 – 302-1; 302-4
- GRI 305: Emissions – 2016-305-1; 305-2
- GRI 401: Employment – 2016 – 401-1; 401-3
- GRI 404: Training and education – 2016 – 404-1; 404-3
- GRI 405: Diversity and equal opportunity 2016-405-1; 405-2
- GRI 418: Customer privacy – 2016 – 418-1.

Without affecting our assurance opinion, we also provide the following observations.

AA1000 Accountability Principles Standard (2018)

Materiality

The process of determining the issues that is most relevant to an organisation and its stakeholders.

The report brings out the application of GRI materiality principles to arrive at highly significant material topics for the organisation. The materiality determination process was revalidated based on inputs from key stakeholders including employees, customers, investors, regulators, and society. It would be better to benchmark sustainability performance and trend analysis with respect to identified material topics with peer group. Nothing has come to our attention to suggest that the Bank has missed out key material issues related to its operations in Sri Lanka and Bangladesh.

Inclusivity

The participation of stakeholders in developing and achieving an accountable and strategic response to sustainability.

The Bank has a documented stakeholder engagement process, which helps in identifying, engaging and responding to key sustainability concerns of significant stakeholders. Process covers a wide range of stakeholders. This could be further leveraged to collect proactive inputs, ideas and suggestions through structured customer feedback mechanism. Nothing has come to our attention to suggest that the Report does not meet the requirements related to the principle of inclusivity.

Responsiveness

The extent to which an organisation responds to stakeholder issues.

The key stakeholder concerns are fairly responded within the Report i.e. the Report brings out disclosures such as Bank's business model, policies, management systems, governance mechanisms, disclosures on management approach. Nothing has come to our attention to suggest that the Report does not meet the requirements related to the Principle of Responsiveness. However, we are of the opinion that the adherence to this principle may further enhanced in future reporting periods by disclosing the Bank's short, medium and long-term goals with respect to material issues raised by stakeholders.

Impact

The level to which an organisation monitors, measures and is accountable for how its actions affect its broader ecosystems.

Commercial Bank has a defined process in place for monitoring, measurement and evaluation of impacts both qualitative and quantitative of its performance on the environment, society, and key stakeholders. The Report adequately describes how both positive and negative impacts due to the identified material topics create and change value for the Bank and its key stakeholders through appropriate performance metrics

DNV·GL

and information. Nothing has come to our attention to suggest that the Report does not meet the requirements related to the Principle of Impact.

Specific evaluation of the information on sustainability performance

We consider the methodology and process for gathering information developed by the Bank for its sustainability performance reporting to be appropriate, and the qualitative and quantitative data included in the Report was found to be identifiable and traceable; the personnel responsible were able to demonstrate the origin and interpretation of the data and its reliability.

Reliability

The accuracy and comparability of information presented in the report, as well as the quality of underlying data management systems.

The robustness of the data management and aggregation systems was evaluated during our visits to Commercial Bank's Head Office and branch sites; the sample data and information verified as part of assurance was found to be reliable. All that had come to our attention suggests that reported data has been properly collated from information gathered from the operational level. Nothing has come to our attention to suggest that the Report does not meet the requirements related to the Principle of Reliability.

Additional principles as per DNV GL VeriSustain

Completeness

How much of all the information that has been identified as material to the organisation and its stakeholders is reported.

The Report has brought out the Content Elements and Guiding Principles well. Business strategy is well in place with digitalisation well in focus. Resource allocation is carefully done considering the automation, growth and increasing footprint in the global market. Management approach for Business Continuity Plan (BCP) in Bangladesh which is referred as one of the critical risk to business and is identified as material need to be reported in detail for future reporting. Nothing has come to our attention to suggest that the Report does not meet the requirements related to the Principle of Completeness.

Neutrality

The extent to which a report provides a balanced account of an organisation's performance, delivered in a neutral tone.

Neutral tone of the disclosures on sustainability initiatives in terms of content and justification, makes the report balanced in its approach. Nothing has come to our attention to suggest that the Report does not meet the requirements related to the Principle of Neutrality. It is suggested that the future Reports may explicitly bring out sustainability challenges at various geographical locations of operations including Bangladesh.

For DNV GL

Mithu Ghose
Lead Assessor

DNV GL Business Assurance India Private Limited, India

Nandkumar Vadakepatth
Assurance Reviewer

DNV GL Business Assurance India Private Limited, India.

February, 22 2019
Colombo
Sri Lanka.

AA1000
Licensed Assurance Provider
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DNV GL Business Assurance Lanka (Private) Limited is part of DNV GL – Business Assurance, a global provider of certification, verification, assessment and training services, helping customers to build sustainable business performance. www.dnvgl.com

Annexes

Annex 7: Our Sustainability Footprint

GRI Disclosures – 5 Year Summary

Disclosure		Unit of Measure	2018	2017	2016	2015	2014
201-1	Direct economic value:						
	– Generated	(Rs. Mn.)	**138,049**	114,357	93,143	77,868	72,752
	– Distributed to		**117,032**	102,268	81,712	66,580	62,772
	– Depositors		**72,524**	64,011	47,915	35,685	34,610
	– Employees		**13,071**	11,268	10,794	10,181	8,903
	– Business partners		**10,497**	8,819	7,773	4,127	6,219
	– Government		**14,286**	11,609	9,368	10,824	7,355
	– Shareholders		**6,571**	6,478	5,800	5,700	5,630
	– Community		**83**	83	62	63	55
	– Retained		**21,017**	12,089	11,431	11,288	9,980
205-1	Operations assessed for risks related to corruption						
	– On-site audits	Nos.	**339**	335	271	265	264
	– Online audits	Nos.	**300**	243	223	216	213
	– Percentage of operations assessed	%	**100.00**	100.00	100.00	100.00	100.00
205-3	Confirmed incidents of corruption	Nos.	**Nil**	Nil	Nil	Nil	Nil
302-1	Energy consumption within the organisation	Gigajoules	**49,958**	54,820	56,359	55,877	55,944
302-4	Reduction of energy consumption	Gigajoules	**4,862**	1,539	(482)	67	(864)
305-1	Direct (Scope 1) GHG emissions	CO_2 Tonnes.	**1,305**	---------------------Not measured---------------------			
305-2	Energy indirect (Scope 2) GHG emissions	CO_2 Tonnes.	**8,735**	---------------------Not measured---------------------			

Disclosure		2018 Nos.	2018 %	2017 Nos.	2017 %	2016 Nos.	2016 %	2015 Nos.	2015 %	2014 Nos.	2014 %
401-1	New employee hires										
	Female	**70**	**1.41**	46	0.92	46	0.93	21	0.43	93	1.97
	– 18-30 Years	**67**	**1.34**	43	0.86	42	0.85	16	0.33	90	1.90
	– 31-50 Years	**3**	**0.06**	3	0.06	4	0.08	5	0.10	3	0.06
	– Above 50 Years	**–**	**–**	–	–	–	–	–	–	–	–
	Male	**242**	**4.86**	214	4.29	225	4.54	225	4.64	236	4.99
	– 18-30 Years	**233**	**4.68**	211	4.23	210	4.24	219	4.51	229	4.84
	– 31-50 Years	**8**	**0.16**	2	0.04	14	0.28	6	0.12	6	0.13
	– Above 50 Years	**1**	**0.02**	1	0.02	1	0.02	–	–	1	0.02
	Total	**312**	**6.26**	260	5.21	271	5.47	246	5.07	329	6.96
	Attrition										
	Female	**72**	**1.44**	55	1.10	54	1.09	25	0.51	49	1.02
	– 18-30 Years	**10**	**0.20**	24	0.48	16	0.32	12	0.24	26	0.54
	– 31-50 Years	**41**	**0.82**	21	0.42	16	0.32	8	0.16	13	0.27
	– Above 50 Years	**21**	**0.42**	10	0.20	22	0.44	5	0.10	10	0.21
	Male	**191**	**3.82**	187	3.75	175	3.52	160	3.26	158	3.30
	– 18-30 Years	**107**	**2.14**	94	1.89	91	1.83	83	1.69	99	2.07
	– 31-50 Years	**51**	**1.02**	46	0.92	43	0.87	44	0.90	16	0.33
	– Above 50 Years	**33**	**0.66**	47	0.94	41	0.83	33	0.67	43	0.90
	Total	**263**	**5.26**	242	4.86	229	4.61	185	3.77	207	4.32

Disclosure		Unit of Measure	2018	2017	2016	2015	2014
401-3	Parental leave						
	– Entitled to leave	Nos.	**1,189**	1,213	1,227	1,240	1,226
	– Availed for leave	Nos.	**58**	52	65	53	54
	– Due to return	Nos.	**48**	57	65	53	54
	– Return to work	Nos.	**48**	53	62	53	54
	– Still employed	Nos.	**51**	57	53	54	63
	– Return ratio	%	**100.00**	92.98	95.38	100.00	100.00
	– Retained ratio	%	**96.23**	91.94	100.00	100.00	100.00
404-1	Average training hours	Hours					
	Female		**20**	17	20	21	28
	– Corporate management		**29**	2	4	92	34
	– Executive officers		**22**	19	20	18	19
	– Junior executive assistants & allied grades		**10**	10	11	15	22
	– Banking & graduate trainees		**86**	98	85	59	101
	Male		**26**	25	25	28	27
	– Corporate management		**35**	32	30	47	44
	– Executive officers		**25**	24	19	21	17
	– Junior executive assistants & allied grades		**16**	15	18	24	26
	– Banking and graduate trainees		**79**	78	71	71	70
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		**24.08**	24.35	24.60	25.05	25.63
	– Male		**75.92**	75.65	75.40	74.95	74.37
	Age group						
	– 18-30 Years		**39.94**	41.17	43.62	45.87	48.22
	– 31-50 Years		**52.93**	52.27	50.07	47.79	45.55
	– Above 50 Years		**7.13**	6.56	6.31	6.34	6.23
405-2	Remuneration ratio women to men	Male:Female					
	– Corporate management		**1:0.75**	1:0.75	1:0.95	1:0.94	1:0.84
	– Executive officers		**1:1.11**	1:0.90	1:1.10	1:1.09	1:0.93
	– Junior executive assistants and allied grades		**1:1.09**	1:0.92	1:1.08	1:1.10	1:0.91
	– Banking and graduate trainees		**1:1.02**	1:0.97	1:1.01	1:1.04	1:1.00
	– Office assistants and other		**1:0.82**	1:1.05	1:1.01	1:N/A	1:N/A
418-1	Substantiated complaints	The Bank did not come across any complaint that had resulted in a reputational damage or significant financial loss.					

Annexes

Annex 8: Decade at a Glance

As at December 31, Rs. Mn.	CAGR %	**2018**	2017
Assets			
Cash and cash equivalents		**39,534**	33,225
Balances with central banks		**54,385**	44,801
Placements with banks		**19,899**	17,633
Government treasury bills, bonds and other securities		**–**	–
Securities purchased under resale agreements		**9,514**	–
Derivative financial assets		**7,910**	2,335
Dealing securities		**–**	–
Other financial instruments – Held for trading		**–**	4,411
Financial assets recognised through profit or loss – measured at fair value		**5,520**	–
Loans and receivables to banks		**–**	641
Financial assets at amortised cost – Loans and advances to banks	17.02	**763**	–
Loans and receivables to other customers		**–**	737,447
Financial assets at amortised cost – Loans and advances to other customers		**861,100**	–
Bills of exchange		**–**	–
Lease receivable		**–**	–
Loans and advances		**–**	–
Investments held to maturity		**–**	–
Financial investments – Held to maturity		**–**	63,563
Financial investments – Loans and Receivables		**–**	48,712
Financial assets at amortised cost – Debt and other financial instruments		**83,855**	–
Financial investments – Available for sale		**–**	154,714
Financial assets measured at fair value through other comprehensive income		**176,507**	–
		1,258,987	1,107,482
Investments in subsidiaries		**4,264**	3,066
Investments in associates		**44**	44
Property, plant & equipment		**15,301**	14,635
Intangible assets		**906**	777
Leasehold property		**72**	73
Deferred tax assets		**–**	–
Other assets		**23,911**	17,297
Total assets	16.73	**1,303,485**	1,143,374
Liabilities			
Due to banks		**50,101**	57,121
Derivative financial liabilities		**8,022**	3,678
Securities sold under repurchase agreements		**49,104**	49,677
Due to other customers/deposits from customers	17.19	**–**	850,128
Financial liabilities at amortised cost – due to depositors		**983,037**	–
Other borrowings		**–**	23,786
Financial liabilities at amortised cost – other borrowings		**25,362**	–
Current tax liabilities		**6,566**	4,144
Deferred tax liabilities		**646**	3,275
Other provisions		**–**	–
Other liabilities		**24,208**	19,225
Due to subsidiaries		**41**	75
Subordinated liabilities		**37,992**	25,166
Total Liabilities		**1,185,079**	1,036,275
Shareholders' funds			
Stated capital		**39,148**	37,144
Statutory reserves		**7,354**	6,477
Retained earnings		**5,063**	4,987
Other reserves		**66,841**	58,491
Total liabilities & shareholders' funds	16.73	**1,303,485**	1,143,374
Commitments and contingencies		**658,722**	564,795

CAGR – Compounded Annual Growth Rate

LKASs and SLFRSs						SLAS	
2016	2015	2014	2013	2012	2011	2010	2009
30,194	20,044	20,592	14,262	19,733	12,911	6,137	5,557
43,873	28,221	19,634	18,432	18,168	17,343	12,189	11,795
11,718	17,194	14,508	4,132	16,163	11,674	4,420	18,500
–	–	–	–	–	–	114,541	96,671
–	8,002	41,198	8,946	3,697	1,542	68	5,203
1,053	4,118	460	838	1,351	40	–	–
–	–	–	–	–	–	283	81
4,988	7,656	6,327	6,379	6,041	6,418	–	–
–	–	–	–	–	–	–	–
624	601	551	546	629	580	–	–
–	–	–	–	–	–	–	–
616,018	508,115	405,431	353,062	337,247	286,314	–	–
–	–	–	–	–	–	–	–
–	–	–	–	–	–	5,291	2,847
–	–	–	–	–	–	11,019	7,794
–	–	–	–	–	–	200,729	161,329
–	–	–	–	–	–	2,366	1,025
60,981	–	–	–	–	–	–	–
51,824	57,724	50,436	48,943	31,971	26,630	–	–
–	–	–	–	–	–	–	–
160,023	204,244	214,208	131,757	57,963	61,415	–	–
–	–	–	–	–	–	–	–
981,296	855,919	773,345	587,297	492,963	424,867	357,043	310,802
2,435	1,237	1,211	289	303	315	354	279
44	44	44	44	44	44	44	44
10,308	9,969	9,953	8,387	8,221	7,907	5,930	3,914
641	466	439	468	497	467	419	388
74	74	75	76	77	78	79	80
964	–	–	–	449	360	–	–
16,439	12,096	10,543	9,426	9,189	7,291	6,191	6,808
1,012,201	879,805	795,610	605,987	511,743	441,329	370,060	322,315
67,609	30,319	25,261	14,194	4,894	11,574	–	–
1,515	1,891	1,193	1,412	84	435	–	–
69,867	112,385	124,564	45,519	31,760	41,235	45,774	29,905
739,563	624,102	529,361	451,153	390,612	323,755	259,779	234,745
–	–	–	–	–	–	–	–
9,270	9,986	11,637	8,654	15,823	8,368	14,371	11,639
–	–	–	–	–	–	–	–
3,441	3,002	1,998	1,759	2,802	1,305	2,448	1,203
–	231	2,574	1,563	1,698	1,594	892	633
2	2	2	2	2	1	–	–
17,710	15,547	17,444	9,827	10,363	8,162	11,367	12,255
20	26	19	16	22	30	–	–
24,850	11,973	11,045	10,944	1,106	1,106	2,127	3,436
933,847	809,464	725,098	545,043	459,166	397,565	336,758	293,816
24,978	23,255	21,458	19,587	18,009	16,474	10,811	10,608
5,648	4,922	4,327	4,035	3,433	2,890	2,472	2,164
4,464	4,389	4,258	4,233	4,178	2,547	1,516	1,004
43,264	37,775	40,469	33,089	26,957	21,853	18,503	14,723
1,012,201	879,805	795,610	605,987	511,743	441,329	370,060	322,315
498,305	521,232	352,453	295,452	279,593	234,551	196,617	146,072

For the year ended December 31, Rs. Mn.		CAGR %	**2018**	2017
Operating results				
Gross income		17.05	**138,049**	114,357
Interest income			**117,466**	103,034
Interest expenses			**(72,524)**	(64,011)
Foreign exchange profit			**7,900**	588
Commission & other income			**12,683**	10,735
Operating expenses & impairment			**(39,934)**	(28,400)
Profit before tax		12.97	**25,591**	23,183
Income tax expenses			**(8,047)**	(6,602)
Profit for the year		12.11	**17,544**	16,581
Ratios				
Return on average-shareholders' funds (%)			**15.56**	17.88
Income growth (%)			**20.72**	24.10
Return on average assets (%)			**1.43**	1.54
Dividend per share			**6.50**	6.50
Ordinary share dividend cover (times)			**2.67**	2.62
Gross Dividends (Rs. Mn.) to ordinary shareholders			**6,570.96**	6,477.12
Advances to deposits and refinance (%)			**86.96**	86.07
Property, Plant and Equipment to shareholders' funds (%)			**13.75**	14.46
Total assets to shareholders' funds (times)			**11.01**	10.68
Capital funds to liabilities including contingent liabilities (%)			**6.42**	6.69
Cost/income Ratio (%)			**46.35**	51.08
Liquid assets Ratio – Domestic Banking Unit (DBU) (%)			**24.47**	27.28
Liquid assets Ratio – Offshore Banking Centre (OBC) (%)			**30.20**	30.95
(As specified in the Banking Act No. 30 of 1988)				
Group capital adequacy (%)	Tier I		**N/A**	N/A
	Tier I & II		**N/A**	N/A
Group capital adequacy (%) (under Basel III)				
	common equity Tier I capital ratio		**11.43**	12.12
	Tier I capital ratio		**11.43**	12.12
	Total capital ratio		**15.62**	15.70
Share information				
Market value of a voting ordinary share (Rs.)			**115.00**	135.80
Earnings per share (Rs.)			**17**	17
Price earnings ratio (times)			**7**	8
Net assets value per share (Rs.)			**117**	108
Earnings yield (%)			**15**	13
Dividend payout ratio (%) – Cash			**26**	26
Total dividend payout ratio %			**37**	38
Other information				
Number of employees			**5,027**	4,982
Number of delivery points – Sri Lanka		3.11	**266**	261
Number of delivery points – Bangladesh			**19**	19
Number of automated teller machines		8.16	**850**	775

CAGR – Compounded Annual Growth Rate

	LKASs and SLFRSs						SLAS	
	2016	2015	2014	2013	2012	2011	2010	2009
	93,143	77,868	72,753	73,736	63,395	45,860	41,522	43,741
	80,738	66,030	61,832	62,764	52,685	38,356	34,740	35,925
	(47,915)	(35,685)	(34,610)	(36,879)	(29,830)	(19,650)	(18,328)	(23,515)
	2,326	2,877	1,481	1,996	4,687	2,322	1,741	2,962
	10,079	8,961	9,440	8,976	6,023	5,182	5,041	4,854
	(25,177)	(25,040)	(22,407)	(22,347)	(19,270)	(15,313)	(13,876)	(13,035)
	20,051	17,143	15,736	14,510	14,295	10,897	9,318	7,191
	(5,539)	(5,240)	(4,556)	(4,065)	(4,197)	(3,014)	(3,794)	(2,887)
	14,512	11,903	11,180	10,445	10,098	7,883	5,524	4,304
	19.52	16.90	17.01	18.40	20.96	20.28	17.87	15.83
	19.62	7.03	0.96	16.31	38.24	10.45	(5.07)	(0.85)
	1.53	1.42	1.60	1.87	2.12	1.94	1.60	1.43
	6.50	6.50	6.50	6.50	6.50	6.00	7.00	7.00
	2.25	2.09	1.99	1.89	1.86	1.61	2.09	2.46
	5,769.02	5,700.24	5,700.24	5,522.47	5,421.42	4,904.70	2,642.25	1,751.47
	82.69	80.84	75.89	77.48	82.01	83.30	80.97	70.88
	14.07	14.94	14.85	14.65	16.73	19.31	19.30	15.38
	12.92	12.51	11.28	9.94	9.73	9.92	11.11	11.31
	5.47	5.29	6.54	7.25	7.12	6.92	6.26	6.48
	51.06	48.92	49.26	45.59	47.02	50.70	54.69	56.86
	27.19	26.24	33.15	33.66	25.40	25.70	29.93	39.27
	30.19	49.13	31.43	29.38	34.16	27.77	30.57	27.93
	11.59	11.55	13.07	13.30	12.63	12.11	10.86	11.92
	16.01	14.28	16.22	16.93	13.84	13.01	12.26	13.93
	–	–	–	–	–	–	–	–
	–	–	–	–	–	–	–	–
	–	–	–	–	–	–	–	–
	145.00	140.20	171.00	120.40	103.00	100.00	259.90	189.50
	16	13	13	12	12	9	7	6
	9	10	13	10	9	11	18	11
	88	80	81	72	63	54	44	38
	11	10	8	10	12	9	6	9
	28	33	35	37	37	42	34	41
	40	48	50	53	54	62	48	–
	4,987	4,951	4,852	4,730	4,602	4,524	4,321	4,071
	255	246	239	235	227	213	187	172
	19	18	18	18	17	17	17	15
	677	640	625	604	572	514	414	368

Annex 9: Income Statement (US Dollars)

For the year ended December 31,	GROUP 2018 USD '000	GROUP 2017 USD '000	GROUP Change %	BANK 2018 USD '000	BANK 2017 USD '000	BANK Change %
Gross income	**763,154**	631,722	20.81	**754,368**	624,904	20.72
Interest income	**647,821**	568,574	13.94	**641,889**	563,029	14.01
Less: interest expense	**398,541**	352,360	13.11	**396,306**	349,787	13.30
Net interest income	**249,280**	216,214	15.29	**245,583**	213,242	15.17
Fee and commission income	**68,274**	57,436	18.87	**65,509**	55,569	17.89
Less: fee and commission expense	**10,162**	8,668	17.24	**10,043**	8,562	17.30
Net fee and commission income	**58,112**	48,768	19.16	**55,466**	47,007	18.00
Net gains/(losses) from trading	**(16,575)**	1,278	(1,396.95)	**(16,575)**	1,278	(1,396.95)
Net fair value gains/(losses) from financial instruments at fair value through profit or loss	**–**	–	–	**–**	–	–
Net gains/(losses) from de-recognition financial assets	**1,486**	499	197.80	**1,486**	499	197.80
Net other operating income	**62,148**	3,935	1,479.36	**62,059**	4,527	1,270.86
Total operating income	**354,451**	270,694	30.94	**348,019**	266,553	30.56
Less: impairment charges and other losses	**48,270**	5,406	792.90	**46,859**	3,703	1,165.43
Net operating income	**306,181**	265,288	15.41	**301,160**	262,850	14.57
Less: expenses						
Personnel expenses	**72,621**	61,959	17.21	**71,426**	61,574	16.00
Depreciation and amortisation	**8,760**	7,743	13.13	**8,028**	7,146	12.34
Other operating expenses	**49,147**	41,634	18.05	**48,793**	40,776	19.66
Total operating expenses	**130,529**	111,336	17.24	**128,247**	109,496	17.12
Operating profit before taxes on financial services	**175,653**	153,952	14.10	**172,913**	153,354	12.75
Less: taxes on financial services	**33,070**	26,757	23.59	**33,070**	26,673	23.98
Operating profit after taxes on financial services	**142,583**	127,195	12.10	**139,843**	126,681	10.39
Share of profits of associates, net of tax	**33**	20	65.00	**–**	–	–
Profit before tax	**142,616**	127,215	12.11	**139,843**	126,681	10.39
Less: income tax expense	**45,004**	36,360	23.77	**43,975**	36,075	21.90
Profit for the year	**97,612**	90,855	7.44	**95,868**	90,606	5.81
Profit attributable to:						
Equity holders of the Bank	**96,912**	90,743	6.80	**95,868**	90,606	5.81
Non-controlling interest	**700**	112	525.00	**–**	–	–
	97,612	90,855	7.44	**95,868**	90,606	5.81
Basic earnings per ordinary share (USD)	**0.10**	0.09	11.11	**0.09**	0.09	–
Diluted earnings per ordinary share (USD)	**0.10**	0.09	11.11	**0.09**	0.09	–

US Dollar Accounts

The Income Statement and the Statement of Financial Position given on pages 426 and 427 are solely for the convenience of stakeholders and do not form part of the Financial Statements.

Annex 10: Statement of Financial Position (US Dollars)

As at December 31,	GROUP			BANK		
	2018 USD '000	2017 USD '000	Change %	**2018 USD '000**	2017 USD '000	Change %
Assets						
Cash and cash equivalents	**242,382**	189,472	27.92	**216,035**	181,555	18.99
Balances with central banks	**302,768**	248,887	21.65	**297,184**	244,817	21.39
Placements with banks	**108,735**	96,357	12.85	**108,735**	96,357	12.85
Securities purchased under resale agreements	**51,986**	–	–	**51,986**	–	–
Derivative financial assets	**43,224**	12,757	238.83	**43,224**	12,757	238.83
Financial assets recognised through profit or loss/ Held for trading – measured at fair value	**30,165**	24,103	25.15	**30,165**	24,103	25.15
Financial assets at amortised cost – loans and advances to banks	**4,170**	3,500	19.14	**4,170**	3,500	19.14
Financial assets at amortised cost – loans and advances to other customers	**4,741,049**	4,057,072	16.86	**4,705,466**	4,029,763	16.77
Financial assets at amortised cost – debt and other financial instruments/ financial Investments held to maturity and loans and receivables	**487,838**	645,236	(24.39)	**458,226**	613,526	(25.31)
Financial assets measured at fair value through other comprehensive income/financial Investments – available for sale	**965,905**	846,523	14.10	**964,518**	845,432	14.09
Investments in subsidiaries	**–**	–	–	**23,299**	16,754	39.07
Investments in associates	**576**	600	(4.00)	**242**	242	–
Property, plant and equipment	**92,979**	89,164	4.28	**83,613**	79,971	4.55
Intangible assets	**7,836**	6,837	14.61	**4,951**	4,245	16.63
Leasehold property	**563**	571	(1.40)	**392**	397	(1.26)
Deferred tax assets	**1,030**	–	–	**–**	–	–
Other assets	**131,429**	94,880	38.52	**130,662**	94,525	38.23
Total assets	**7,212,635**	6,315,959	14.20	**7,122,868**	6,247,944	14.00
Liabilities						
Due to banks	**286,131**	329,207	(13.08)	**273,776**	312,137	(12.29)
Derivative financial liabilities	**43,835**	20,101	118.07	**43,835**	20,101	118.07
Securities sold under repurchase agreements	**267,494**	270,669	(1.17)	**268,330**	271,458	(1.15)
Financial liabilities recognised through profit or loss – measured at fair value	**–**	–	–	**–**	–	–
Financial liabilities at amortised cost – due to depositors	**5,433,721**	4,684,535	15.99	**5,371,789**	4,645,506	15.63
Financial liabilities at amortised cost – other borrowings	**138,590**	129,979	6.62	**138,590**	129,979	6.62
Current tax liabilities	**36,809**	22,966	60.28	**35,882**	22,644	58.46
Deferred tax liabilities	**5,308**	19,482	(72.75)	**3,531**	17,895	(80.27)
Other provisions	**–**	–	–	**–**	–	–
Other liabilities	**134,139**	106,600	25.83	**132,274**	105,056	25.91
Due to subsidiaries	**–**	–	–	**224**	407	(44.96)
Subordinated liabilities	**207,608**	137,519	50.97	**207,609**	137,519	50.97
Total liabilities	**6,553,635**	5,721,058	14.55	**6,475,840**	5,662,702	14.36
Equity						
Stated capital	**213,923**	202,970	5.40	**213,923**	202,970	5.40
Statutory reserves	**40,679**	35,478	14.66	**40,187**	35,393	13.55
Retained earnings	**27,049**	27,796	(2.69)	**27,667**	27,254	1.52
Other reserves	**370,797**	323,891	14.48	**365,251**	319,625	14.27
Total equity attributable to equity holders of the Bank	**652,448**	590,135	10.56	**647,028**	585,242	10.56
Non-controlling interest	**6,552**	4,765	37.50	**–**	–	–
Total equity	**659,000**	594,900	10.77	**647,028**	585,242	10.56
Total liabilities and equity	**7,212,635**	6,315,959	14.20	**7,122,868**	6,247,944	14.00
Contingent liabilities and commitments	**3,600,329**	3,088,950	16.56	**3,599,574**	3,086,311	16.63
Net assets value per share (USD)	**0.65**	0.59	10.17	**0.64**	0.59	8.47

An exchange rate of 1 USD equals 183 LKR for both the years, has been used to facilitate comparison.

Annex 11: Correspondent Banks and Agent Network

01. Canada

Bank of Montreal (CAD)
Toronto
BIC: BOFMCAM2
A/C: 31441044203 and 31441044190*

02. United States of America

Bank of America NT and SA (USD)
San Francisco
BIC: BOFAUS6S
A/C: 6290890098

Citi Bank (USD)
New York
BIC: CITIUS33
A/C: 36141446 and 36241316*

Deutsche Bank Trust Company Americas (USD)
New York
BIC: BKTRUS33
A/C: 4034566

JP Morgan Chase Bank (USD)
New York
BIC: CHASUS33
A/C: 400808625

Standard Chartered Bank (USD)
New York
BIC: SCBLUS33
A/C: 3582052360001, 3582052360002 and 3582052637001*

Wells Fargo Bank N.A. (USD)
New York
BIC: PNBPUS3NNYC
A/C: 2000191002407 and 2000193003365*

03. France

Crédit Agricole SA (EUR)
Paris
BIC: AGRIFRPP
A/C: 20533624000*

04. United Kingdom

Standard Chartered Bank (GBP)
London
BIC: SCBLGB2L
A/C: 1804813401 and 01270435801*

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*

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

11. United Arab Emirates

Mashreq Bank (AED)
Dubai
BIC: BOMLAEAD
A/C: AE270330000010195511268

12. Pakistan

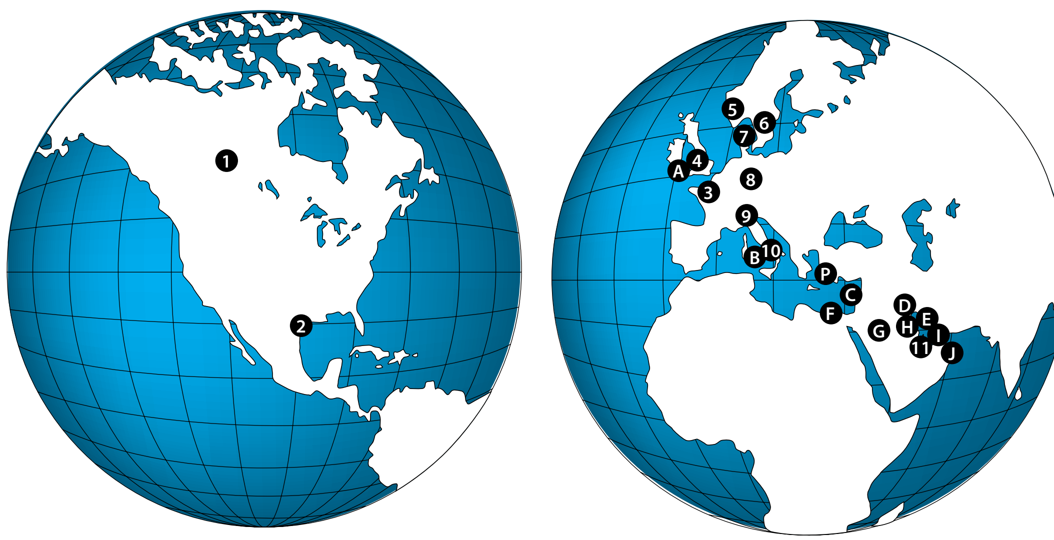
Standard Chartered Bank (ACU$)
Karachchi
BIC: SCBLPKK
A/C: 15000297601USD and 15000288701USD*

15. Bangladesh

Commercial Bank of Ceylon PLC (ACU$)
Dhaka
BIC: CCEYBDDH
A/C: 2802000017

16. Sri Lanka

Commercial Bank of Ceylon PLC (ACU$)
Colombo
BIC: CCEYLKLX
A/C: 1420825031*



9. Switzerland

UBS AG (CHF)
Zurich
BIC: UBSWCHZH
A/C: 0230000000085408050000W

10. Italy

Banca Intesa BCI (EUR)
Milan
BIC: BCITITMM
A/C: 100100003820

Banco Popolare Society Coperation (EUR)
Verona
BIC: BAPPIT22
A/C: 400000082

Unicredito Italiano SPA (EUR)
Rome
BIC: UNCRITMM
A/C: 0995 4268

13. Maldives

Commercial Bank of Maldives Private Limited (ACU$)
Malé
BIC: CBMVMVMV
A/C: 1600100051

14. India

Axis Bank Ltd. (ACU$)
Mumbai
BIC: AXISINBB
A/C: 910020049396568*

ICICI Bank Ltd. (ACU$)
Mumbai
BIC: ICICINBB
A/C: 406000181 and 406000220*

Standard Chartered Bank (ACU$)
Mumbai
BIC: SCBLINBB
A/C: 22205031885

17. Singapore

Citibank NA
BIC: CITISGSG
A/C: (USD) 851122001,
(EUR) 851122028 and (GBP) 851122036

Oversea – Chinese Banking Corp Ltd.
BIC: OCBCSGSG
A/C: (USD) 503212862301,
(SGD) 695703165001

Standard Chartered Bank (SGD)
BIC: SCBLSGSG
A/C: 109344561 and 102318735*

18. China

Standard Chartered Bank (CNY)
Shanghai
BIC: SCBLCNSX
A/C: 501510533540

19. Korea

Kookmin Bank (USD)
Seoul
BIC: CZNBKRSE
A/C: 7598USD010 and 7618USD013*

Korea Exchange Bank (USD)
Seoul
BIC: KOEXKRSE
A/C: 0963THR051080010

Woori Bank (USD)
Seoul
BIC: HVBKKRSE
A/C: W1027001US

20. Japan

Bank of Tokyo Mitsubishi Ltd. (JPY)
Tokyo
BIC: BOTKJPJT
A/C: 653-0461318*

Standard Chartered Bank (JPY)
Tokyo
BIC: SCBLJPJT
A/C: 2168531110

Sumitomo Mitsui Banking Corporation (JPY)
Tokyo
BIC: SMBCJPJT
A/C: 4395

21. Hong Kong

Standard Chartered Bank
BIC: SCBLHKHH
A/C: (HKD) 41109468048,
(HKD) 44709419107* and
(CNY) 44709448344

22. Australia

National Australia Bank (AUD)
Melbourne
BIC: NATAAU33
A/C: 1803020052500 and
1803152323500*

23. New Zealand

Bank of New Zealand (NZD)
Wellington
BIC: BKNZNZ22985
A/C: 2659680000 and 2690700000*

A. United Kingdom

Brac Saajan Exchange Ltd.
Currency Exchange Corp Ltd.
Earthport PLC
GCC Exchange Uk Ltd.
Global Exchange Ltd.
LCC Trans-Sending Ltd.

B. Italy

Commex Srilanka S R L
National Exchange Co

C. Israel

S T B Union Ltd.
Unigiros Ltd.

D. Kuwait

Al Mulla Int Exchange Co
Al Muzaini Exchange Co
Al Sultan Exchange Company Wll
Aman Exchange Company Wll
Bahrain Exchange Co
City Int Exchange Co
Dollarco Exchange Co
Etemadco Company Ltd.
Joy Alukkas Exchange Co Wll
Kuwait Bahrain Exchange Co
Kuwait National Exchange Co
Lulu Exchange Company Wll
National Exchange Co
National Money Exchange Co
Oman Exchange Co
UAE Exchange Centre

E. Baharain

Ezremit Limited – Bfc
Modern Exchange Co. Bscc
National Finance & Exchange Co
Nonoo Exchange Co
Zenj Exchange

F. Jordan

Al Alami Exchange Co
Al Nasir Establishment For Exchange
Alawneh Exchange Co
Kalil Al Rahman Exchange Co

G. Saudi Arabia

Alrajhi Banking & Inv Corp
Arab National Bank
Bank Albilad
The National Commercial Bank

H. United Arab Emirates

Al Ahalia Money Exchange Bureau
Al Ansari Exchange Co
Al Dahab Exchange
Al Faud Exchange
Al Ghurair Exchange Llp
Al Razouki Int Exchange Co
Al Rosatamani Exchange
Alukkas Exchange
Delma Exchange
Desert Exchange
G C C Exchange
Habib Exchange Co
Lari Exchange
Leela Megh Exchange LLC
Lulu International Exchange
Noor Ahalia Exchange
Orient Exchange Co
Saad Exchange
UAE Exchange Centre
Universal Exchange Centre
Wall Street Exchange Centre

I. Qatar

Al Dar For Exchange Works
Al Fardan Exchange Co
Al Mana Exchange Wll
Al Mirqab Exchange Co. Wll
Al Saad Exchange Co
Al Zaman Exchange Co
Arabian Exchange Company Wll
City Exchange Ltd.
Doha Bank
Doha Exchange Co. LLC
Eastern Exchange Establishment
Gulf Exchange Co
Habib Qatar Int Exchange
Islamic Exchange Ltd.

J. Oman

Al Jadeed Exchange LLC
Asia Express Exchange
Bank Muscat S.A.O.G.
Global Money Exchange Co LLC
Laxmidas Tharia Ved & Co
Majan Exchange LLC
Modern Exchange Co LLC
Oman & UAE Exchange Centre
Purshottam Kanji Exchange Co LLC

K. Maldives

Commercial Bank of Maldives Pvt Ltd.

L. Malaysia

Ria International

M. Singapore

Ameertech Remittance & Exchange

N. Australia

Ceylon Exchange Pvt Ltd.
Direct Forex Foreign Exchange
Foreign Exchange Central Pvt Ltd.
Kapruka Pvt Ltd.
Lanka Currency Converter Pvt Ltd.

O. Korea

KEB Hana Bank
Kookmin Bank
Woori Bank

P. Lebanan

Crystal Exchange Company SAL

Global

Ezremit Ltd.
Instant Cash
MoneyGram
Payoneer Inc
Placid NK Corporation
Prabhu Group Inc
Ria Financial Services
Royal Exchange (USA) Inc
Transfast Remittance LLC
Xpress Money

ⓔ *e-Exchange Agent Network*

* *Accounts of Bangladesh Operations.*

Annex 12: Group Structure

	Local Subsidiaries			Local Associates	
	Commercial Development Co. PLC	ONEzero Co. Ltd.	Serendib Finance Ltd.	Equity Investments Lanka Ltd.	Commercial Insurance Brokers (Pvt) Ltd.
Incorporated on	March 14, 1980 in Sri Lanka	February 17, 2003 in Sri Lanka	February 18, 1987 in Sri Lanka	August 8, 1990 in Sri Lanka	August 17, 1987 in Sri Lanka
Bank's Holding	**92.41%** (92.97% as at December 31, 2017)	**100%**	**100%**	**22.92%**	**18.48%** (18.59% as at December 31, 2017)
Principal Business Activities	Property Development	Provision of IT Related Services	Leasing and Hire Purchase Financing	Venture Capital Financing	Insurance Brokering
Business Address	4th Floor, No. 8-4/2, York Arcade Building, Leyden Bastian Road, Colombo 01.	"Commercial House", No. 21, Sir Razik Fareed Mawatha, Colombo 01.	No. 187, Katugastota Road, Kandy.	No. 108 A, 2/1, Maya Avenue, Colombo 06.	No. 347, Dr Colvin R De Silva Mawatha, Colombo 02.
Contact Numbers	+94 11 330 1877 +94 11 330 1878	+94 11 257 4417	+94 81 221 3498 +94 81 220 0272	+94 11 537 3746 +94 11 250 7605 +94 11 250 7606	+94 11 760 0600
Board of Directors					
Chairman	B R L Fernando	Prof A K W Jayawardane	K G D D Dheerasinghe	M J C Amarasuriya	M P Jayawardena
Managing Director/CEO	S Renganathan		D M U N Dissanayaka	A H M Riyaz	R A M Seneviratne
Director	A L Gooneratne	K D N Buddhipala	A N P Sooriyaarachchi	Deshamanya S E Captain	D M D K Thilakaratne
Director	A T P Edirisinghe	Mrs S A Walgama	Dr (Ms) J P Kuruppu	J D Peiris	U I S Tillakawardana
Director	L D A Jayasinghe	A N P Sooriyarachchi	S R Pushpakumara	J B Abu Baker	S P S Ranatunga
Director	U I S Tillakawardana	K S A Gamage	S M S C Jayasuriya	W I Arambage	W M N S K Weerapana
Director		S Prabagar	D S Bandara		
Director				H A Pieris	
Director				K C Vignarajah	
Company Secretary	L W P Indrajith	M P Dharmasiri	R A P Rajapaksha	Mrs R R Dunuwille	Ms Y A Kularathna

Summary of Financial Information

	Commercial Development Co. PLC 2018 Rs. Mn.	2017 Rs. Mn.	ONEzero Co. Ltd. 2018 Rs. Mn.	2017 Rs. Mn.	Serendib Finance Ltd. 2018 Rs. Mn.	2017 Rs. Mn.	Equity Investments Lanka Ltd. 2018 Rs. Mn.	2017 Rs. Mn.	Commercial Insurance Brokers (Pvt) Ltd. 2018 Rs. Mn.	2017 Rs. Mn.
Total assets	**3,024.791**	2,753.384	**171.254**	138.209	**5,425.100**	5,273.423	**258.053**	300.376	**344.009**	303.564
Total liabilities	**422.475**	417.129	**48.407**	54.450	**3,555.235**	4,072.063	**4.553**	10.120	**88.502**	70.557
Net assets	**2,602.316**	2,336.255	**122.847**	83.759	**1,869.864**	1,201.360	**253.500**	290.256	**255.507**	233.007
Total revenue	**396.770**	354.488	**212.438**	183.319	**851.542**	1,047.098	**23.265**	21.048	**294.872**	274.885
Profit before tax	**368.786**	482.538	**89.136**	61.319	**(38.913)**	0.119	**0.840**	(6.111)	**51.433**	44.329
Profit after tax	**328.546**	426.780	**64.261**	44.272	**1.031**	2.604	**(0.241)**	(6.716)	**32.828**	28.711
Dividend per share (Rs.)	**5.00**	5.00	**50.00**	50.00	**–**	0.50	**–**	–	**16.67**	15.00

Foreign Subsidiaries

	Commex Sri Lanka S.R.L. – Italy	Commercial Bank of Maldives Private Limited	CBC Myanmar Microfinance Company Limited
Incorporated on	December 2, 2008 in Italy	March 24, 2015 in Maldives	April 4, 2017 in Myanmar
Bank's Holding	100%	55%	100%
Principal Business Activities	Money Transfer and Money Exchange	Banking	Microfinancing
Business Address	No. 34, Via Giacomo Leopardi, Rome, Italy.	H Filigasdhoshuge, Ameer Ahmed Magu, K. Male 20066, Maldives.	No. 15, Office Street, Ward 4, Lewe Township, Naypyitaw, Myanmar.
Contact Numbers	+39 06 4885838 +39 06 48986390	+96 03332668	+95 6730566
Board of Directors			
Chairman	K D N Buddhipala	Hussain Afeef	K G D D Dheerasinghe
Managing Director/CEO		D D J Rajapakse	R C P Kalugamage
Director	U K P Banduwansa	S Renganathan	Mrs S A Walgama
Director	K A P Perera	S C U Manatunga	D J D P Hettiarachchi
Director	Dr (Ms) Antonia Coppola	U I S Thillakawardana	
Director	Prof Francesco Bellini	Adam Saleem	
Director	J Premanath	Dr Ibrahim Vishan	
Director			
Director			
Company Secretary	Mrs N Gamage	Ms Fathmath Muaza	R C P Kalugamage

	Commex 2018 Rs. Mn.	Commex 2017 Rs. Mn.	CBM 2018 Rs. Mn.	CBM 2017 Rs. Mn.	CBC Myanmar 2018 Rs. Mn.	CBC Myanmar 2017 Rs. Mn.
Total assets	**128.555**	94.969	**14,240.806**	9,509.824	**323.117**	64.512
Total liabilities	**90.782**	43.379	**11,774.754**	7,695.776	**4.215**	–
Net assets	**37.773**	51.590	**2,466.055**	1,814.048	**318.902**	64.512
Total revenue	**81.867**	83.460	**821.711**	404.845	**5.461**	–
Profit before tax	**(38.555)**	(3.005)	**427.243**	46.485	**12.696**	–
Profit after tax	**(38.199)**	17.702	**270.671**	32.984	**12.696**	–
Dividend per share (Rs.)	**–**	–	**–**	–	**–**	–

Annex 13: Glossary of Financial and Banking Terms

Acceptances

Promise to pay created when the drawee of a time draft stamps or writes the word 'accepted' above his signature and a designated payment date.

Accounting Policies

The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting Financial Statements.

Accrual Basis

Recognition of the effects of transactions and other events when they occur without waiting for receipt or payment of cash or cash equivalent.

Actuarial Gain/Loss

Gain or loss arising from the difference between estimates and actual experience in an entity's pension plan.

Amortisation

The systematic allocation of the depreciable amount of an intangible asset over its useful life.

Amortised Cost

Amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and minus any reduction for impairment or uncollectability.

Associate

An entity over which the investor has significant influence.

Available-for-Sale (AFS) Financial Investments

All non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables, financial investments – Held to maturity and financial investments at fair value through profit or loss.

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.

Capital Adequacy Ratio

The percentage of risk-adjusted assets supported by capital as defined under the framework of risk-based capital standards developed by the Bank for International Settlements (BIS) and as modified by the CBSL to suit local requirements.

Cash Equivalents

Short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash Generating Unit (CGU)

The smallest group of assets that independently generates cash flow and the cash flow is largely independent of the cash flows generated by other assets.

Collectively Assessed Loan Impairment Provisions

Also known as portfolio impairment provisions. Impairment assessment on a collective basis for homogeneous groups of loans that are not considered individually significant and to cover losses that have been incurred but have not yet been identified at the reporting date.

Commitments

Credit facilities approved but not yet utilised by the clients as at the reporting date.

Contingencies

A condition or situation, the ultimate outcome of which will be confirmed only on the occurrence or non-occurrence of one or more uncertain future events.

Corporate Governance

The process by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and direction of entity, the supervision of executive actions and accountability to owners and others.

Correspondent Bank

A bank in a foreign country that offers banking facilities to the customers of a bank in another country.

Cost/Income Ratio

Operating expenses excluding impairment charge for loans and other losses as a percentage of total operating income.

Credit Rating

An evaluation of a corporate's ability to repay its obligations or the likelihood of not defaulting, carried out by an independent rating agency.

Credit Risk

Risk of financial loss to the Bank, if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the loans and advances to customers and other banks and investment in debt securities.

Currency SWAPs

The simultaneous purchase of an amount of a currency for spot settlement and the sale of the same amount of the same currency for forward settlement.

Deferred Taxation

Sum set aside in the Financial Statements for taxation that may become payable/receivable in a financial year other than the current financial year. It arises because of temporary differences between tax rules and accounting conventions.

Delinquency

A debt or other financial obligation is considered to be in a state of delinquency when payments are overdue. Loans and advances are considered to be delinquent when consecutive payments are missed. Also known as "Arrears".

Derivatives

A derivative is a financial instrument or other contract, the value of which changes in response to some underlying variable (e.g. interest rate) that has an initial net investment smaller than would be required for other instruments that have a similar response to the variable, and that will be settled at a future date.

Dividend Cover

Profit after tax divided by gross dividends. This ratio measures the number of times dividend is covered by the current year's distributable profits.

Dividend Yield

Dividend earned per share as a percentage of its market value.

Documentary Letters of Credit (LCs)

Written undertaking by a bank on behalf of its customers, authorising a third party to draw on the Bank up to a stipulated amount under specific terms and conditions. Such undertakings are established for the purpose of facilitating international trade.

Domestic Systemically Important Banks (D-SIBs)

Systemically Important Banks (SIBs) are perceived as banks that are "Too Big To Fail". D-SIBs are critical for the uninterrupted availability of essential banking services to the country's real economy even during crisis. The CBSL has designated LCBs with total assets equal to or greater than Rs. 500 Bn. as D-SIBs.

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.

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.

Forward Exchange Contract

Agreement between two parties to exchange one currency for another at a future date at a rate agreed upon today.

Global Reporting Initiatives (GRI)

The GRI is an international independent standards organisation that helps businesses, governments and other organisations to understand and communicate their impacts on issues such as climate change, human rights and corruption. GRI promotes sustainability reporting as a way for organisations to become more sustainable and contribute to sustainable development.

Group

A parent and all its subsidiaries.

Guarantees

Three party agreement involving a promise by one party (the guarantor) to fulfil the obligations of a person owing a debt if that person fails to perform.

Hedging

A strategy under which transactions are effected with the aim of providing cover against the risk of unfavourable price movements (interest rate, foreign exchange rate, commodity prices, etc.).

Held-to-Maturity (HTM) Investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity.

High Quality Liquid Assets (HQLA)

Assets that are unencumbered, liquid in markets during a time of stress and, ideally, be central bank eligible. These include, for example, cash and claims on central governments and central banks.

Impaired Loans

Loans where the Group does not expect to collect all the contractual cash flows or expects to collect them later than they are contractually due.

Impairment

This occurs when recoverable amount of an asset is less than its carrying amount.

Impairment Allowances

Impairment allowances are provisions held on the Statement of Financial Position as a result of the raising of a charge against profit for the incurred loss. An impairment allowance may either be identified or unidentified and individual (specific) or collective (portfolio).

Intangible Asset

An intangible asset is an identifiable non-monetary asset without physical substance.

Interest Rate SWAP

An agreement between two parties (known as counterparties) where one stream of future interest payments is exchanged for another stream of future interest payments based on a specified principal amount.

Interest Spread

Represents the difference between the average interest rate earned on interest earning assets and the average interest rate paid on interest-bearing liabilities.

Investment Properties

Property (land or a building – or part of a building – or both) held (by the owner or by the lessee under a finance lease) to earn rentals or capital appreciation or both, rather than for use in the production or supply of goods or services or for administrative services; or sale in the ordinary course of business.

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.

Liquid Assets

Assets that are held in cash or in a form that can be converted to cash readily, such as deposits with other banks, Bills of Exchange and Treasury Bills and Bonds.

Loans and Receivables

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those intended to sell immediately or in the near term and designated as fair value through profit or loss or available for sale on initial recognition.

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.

Market Capitalisation

The value of an entity obtained by multiplying the number of ordinary shares in issue by its market value as at a date.

Market Risk

This refers to the possibility of loss arising from changes in the value of a financial instrument as a result of changes in market variables such as interest rates, exchange rates, credit spreads and other asset prices.

Materiality

The relative significance of a transaction or an event, the omission or misstatement of which could influence the economic decisions of users of Financial Statements.

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.

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.

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.

Related Parties

One party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions, directly or indirectly.

Related Party Transaction (RPT)

RPT is a transfer of resources, services or obligations between a reporting entity and a related party, regardless whether a price is charged.

Repurchase Agreement

Contract to sell and subsequently repurchase securities at a specified date and price.

Return on Average Assets (ROA)

Profit after tax expressed as a percentage of the average assets.

Return on Average Equity (ROE)

Net profit attributable to owners expressed as a percentage of average ordinary shareholders' equity.

Reverse Repurchase Agreement

Transaction involving the purchase of securities by a bank or a dealer and resale back to the seller at a future date at a specified price.

Risk-Weighted Assets

The sum total of assets as per the Statement of Financial Position and the credit equivalent of assets that are not on the Statement of Financial Position multiplied by the relevant risk-weighting factors.

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.

Specific Impairment Provisions

Impairment is measured individually for loans that are individually significant to the Bank.

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.

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.

Unit Trust

An undertaking formed to invest in securities under the terms of a trust deed.

Yield to Maturity (YTM)

Discount rate at which the present value of future cash flows would equal the security's current price.

Annex 14: Acronyms and Abbreviations

AFS	Available for sale
AGM	Annual General Meeting
ALCO	Assets and Liabilities Committee
AMA	Advanced Measurement Approaches
AML	Anti-Money Laundering
ASPI	All Share Price Index
BAC	Board Audit Committee
BCBS	Basel Committee on Banking Supervision
BCC	Board Credit Committee
BCMSC	Business Continuity Management Steering Committee
BCP	Business Continuity Plan
BHRRC	Board Human Resources and Remuneration Committee
BIA	Basic Indicator Approach
BIC	Board Investment Committee
BIRMC	Board Integrated Risk Management Committee
BIS	Bank for International Settlements
BNC	Board Nomination Committee
BRPTRC	Board Related Party Transactions Review Committee
BSDC	Board Strategy Development Committee
BTC	Board Technology Committee
CAR	Capital Adequacy Ratio
CASA	Current Accounts and Savings Accounts
CBSL	Central Bank of Sri Lanka
CCB	Capital Conservation Buffer
CCR	Counterparty Credit Risk
CEO	Chief Executive Officer
CFM	Close Family Members
CFO	Chief Financial Officer
COO	Chief Operating Officer
CPC	Credit Policy Committee
CRAB	Credit Rating Agency of Bangladesh
CRM	Credit Risk Mitigation
CRO	Chief Risk Officer
CSE	Colombo Stock Exchange
DBU	Domestic Banking Unit
DRP	Disaster Recovery Plan
EAD	Exposure at Default
EAR	Earning at Risk
ECL	Expected Credit Loss
ECMN	Executive Committee on Monitoring NPA
EGM	Extraordinary General Meeting
EIR	Effective Interest Rate
EIRMC	Executive Integrated Risk Management Committee
ESOP	Employee Share Option Plan
EVE	Economic Value of Equity
FIS	Fixed Income Securities
FVOCI	Financial Assets Measured at Fair Value Through Other Comprehensive Income
FVTPL	Financial Assets Measured at Fair Value Through Profit or Loss
FX	Foreign Exchange
FY	Financial Year
GDP	Gross Domestic Product
GOSL	Government of Sri Lanka
GRI	Global Reporting Initiatives
HFT	Held for trading
HR	Human Resources
HTM	Held to maturity
ICAAP	Internal Capital Adequacy Assessment Process
ICASL	Institute of Chartered Accountants of Sri Lanka
IMF	International Monetary Fund
IRMD	Integrated Risk Management Department
IRR	Interest Rate Risk
IRRBB	Interest Rate Risk in Banking Books
ISC	Information Security Council
ISMS	Information Security Management System
KCRI	Key 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	Lifetime Expected Credit Loss
LTV	Loan to Value Ratio
MATs	Management Action Triggers
MRMU	Market Risk Management Unit
NBT	Nations Building Tax
NII	Net Interest Income
NIM	Net Interest Margin
NOP	Net Open Position
NPA	Non-Performing Assets
NPL	Non-Performing Loans
NSFR	Net Stable Funding Ratio
OCI	Other Comprehensive Income
ORMS	Operational Risk Management System
ORMU	Operational Risk Management Unit
PAT	Profit After Tax
PBT	Profit Before Tax
PD	Probability of Default
POCI	Purchased or Originated Credit Impaired (financial assets)
RAS	Risk Appetite Statement
RCSA	Risk Control Self Assessment
ROA	Return on Assets
ROE	Return on Equity
RPT	Related Party Transactions
RSA	Rate Sensitive Assets
RSL	Rate Sensitive Liabilities
RWA	Risk-Weighted Assets
SA	Standardised Approach
SEC	Securities and Exchange Commission of Sri Lanka
SICR	Significant Increase in Credit Risk
SLFRS	Sri Lanka Financial Reporting Standards
SLAR	Statutory Liquid Assets Ratio
SLDB	Sri Lanka Development Bond
SPPI	Solely Payments of Principal and Interest
SME	Small and Medium Enterprise
SOFP	Statement of Financial Position
TMO	Treasury Middle Office
UNGC	United Nations Global Compact
VaR	Value at Risk
YoY	Year on Year
12mECL	12 month Expected Credit Loss

Annex 15: Alphabetical Index

Notice of Meeting – Annual General Meeting

Notice is hereby given that the Fiftieth (50th) Annual General Meeting ("AGM") of the Commercial Bank of Ceylon PLC (the "Company") will be held at the Galadari Hotel, "Grand Ballroom", No. 64, Lotus Road, Colombo 01, on **Thursday, March 28, 2019 at 3.00pm** for the following purposes:

1. To receive and consider the Annual Report of the Board of Directors on the affairs of the Company, the Statement of Compliance and the Financial Statements for the year ended December 31, 2018 together with the Report of the Auditors thereon.
2. To declare a dividend as recommended by the Board of Directors and to consider and if thought fit, to pass the following resolutions:

   (i) To consider and if thought fit to pass the following resolution by way of an ordinary resolution pertaining to the declaration of a final dividend and approval of its method of satisfaction. [To be passed only by the ordinary (voting) shareholders]. (Dividend Resolution No. 1)

THAT a final dividend of Rs. 2.00 per issued and fully-paid ordinary (voting) and (non-voting) share constituting a total sum of Rs. 2,022,009,686.00 based on the issued ordinary (voting) and (non-voting) shares as at February 21, 2019 [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, 2018 on the issued and fully-paid ordinary (voting) and (non-voting) shares of the Company;

THAT such dividend so declared be paid out of the profits of the Company, which would be liable to a Withholding Tax of fourteen per cent (14%).

THAT the shareholders entitled to such dividend would be those shareholders [both ordinary (voting) and (non-voting)], whose names have been duly registered in the Shareholders' Register maintained by the Registrars of the Company [i.e. SSP Corporate Services (Pvt) Limited, No. 101, Inner Flower Road, Colombo 03] and also those shareholders whose names appear on the Central Depository Systems (Pvt) Limited ("CDS") as at end of trading on the date on which the requisite resolution of the shareholders in regard to the final dividend is passed ("entitled shareholders");

THAT subject to the shareholders (a) waiving their pre-emptive rights to new share issues; and (b) approving the proposed allotment and issue of new ordinary (voting) and (non-voting) shares by passing the resolutions set out in items 2 (ii) and 2 (iii) below, the declared final dividend of Rs. 2.00 per issued and fully-paid ordinary (voting) and (non-voting) share, be distributed and satisfied by the allotment and issue of new ordinary (voting) and (non-voting) shares (the "distribution scheme") based on the share prices of ordinary (voting) and (non-voting) shares as at February 21,2019 in the manner following:

- The allotment and issue of new ordinary (voting) and (non-voting) shares in satisfaction of the total dividend entitlement amounting to a sum of Rs. 2,022,009,686.00 (less any Withholding Tax).

THAT accordingly and subject to the approval of the shareholders being obtained in the manner aforementioned the implementation of the said distribution scheme shall be by way of the allotment and issue of new shares:

The total sum of:

– Rs. 1,891,983,338.00 (subject however to necessary amendments being made to such amount to include the dividend payable on the options that may be exercised by employees under the Company's ESOP schemes) to which the ordinary (voting) shareholders are entitled (less any Withholding Tax); and

– Rs. 130,026,348.00 to which the ordinary (non-voting) shareholders are entitled (less any Withholding Tax), shall be satisfied by the allotment and issue of new ordinary (voting) and (non-voting) shares to the entitled shareholders of the ordinary (voting) and (non-voting) shares respectively, on the basis of the following ratios:

- One new fully-paid ordinary (voting) share for every 62.034884700 existing issued and fully-paid ordinary (voting) shares calculated on the basis of the market value of the ordinary (voting) shares as at the end of trading on February 21, 2019; and
- One new fully-paid ordinary (non-voting) share for every 52.383720827 existing issued and fully-paid ordinary (non-voting) shares calculated on the basis of the market value of the ordinary (non-voting) shares as at the end of trading on February 21, 2019

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 final dividend for 2018" dated March 5, 2019, be aggregated, and the ordinary (voting) and (non-voting) shares, respectively, arising consequent to such aggregation be allotted to a Trustee to be nominated by the Board of Directors of the Company, and that the Trustee so nominated and appointed be permitted to hold the said shares in Trust until such shares are sold by the Trustee on the trading floor of the Colombo Stock Exchange, and that the net sale proceeds thereof be donated to a charity or charities approved by the Board of Directors of the Company;

THAT the new shares to be issued in pursuance of the said distribution scheme constituting a total issue of 15,249,350 new ordinary (voting) shares, based on the issued and fully-paid ordinary (voting) shares as at February 21, 2019 (subject however to the necessary amendments being made to such number to include the dividend on the options that may be exercised by the employees under the Company's ESOP schemes) and 1,241,095 new ordinary (non-voting) shares based on the issued and fully-paid ordinary (non-voting) shares as at February 21, 2019 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 945,991,669 existing issued and fully-paid ordinary (voting) shares as at February 21, 2019 and 65,013,174 existing issued and fully-paid ordinary (non-voting) shares as at February 21, 2019 (subject to amendments thereto to include the shares arising on the options that may be exercised by the employees under the Company's ESOP schemes).

(ii) Waiver of pre-emption rights (Dividend Resolution No. 2):
Subject to the passing of the Ordinary Resolution set out in Dividend Resolution No. 1 above, to consider and if thought fit to pass the following Resolution by way of an Ordinary Resolution [To be passed by a separate vote of the ordinary (voting) shareholders and of the ordinary (non-voting) shareholders respectively]:

THAT the pre-emptive right to a new issue of shares provided for by Article 9 A of the Articles of Association of Commercial Bank of Ceylon PLC (the "Company"), be and is hereby waived in respect of the following proposed issue of new shares to be effected by the Company for purposes of satisfying the final dividend for the year ended December 31, 2018:

"The allotment and issue of 15,249,350 new ordinary (voting) shares (subject however to the necessary amendments being made to such number to include the dividend on the options that may be exercised by the employees under the Company's ESOP schemes), and 1,241,095 new ordinary (non-voting) shares credited as fully-paid to shareholders registered in the Company's Share Register and on the Central Depository Systems (Pvt) Limited ("CDS") as at the end of trading on the day when the relevant resolutions to be passed by shareholders are, in fact, duly passed by shareholders ("entitled shareholders") and which new shares shall rank equal and *pari passu* with the existing issued and fully-paid ordinary (voting) and (non-voting) shares of the Company including the right to participate in any dividend which may be declared after the date of allotment of such shares".

(iii) Approval of an issue of ordinary (voting) and (non-voting) shares (Dividend Resolution No. 3):

Subject to the passing of the Ordinary Resolution set out in Dividend Resolution No. 1 above, to consider and if thought fit to pass the following resolution by way of a Special Resolution [To be passed by a separate vote of the ordinary (voting) shareholders and of the ordinary (non-voting) shareholders respectively]:

THAT the proposed allotment and issue of 15,249,350 new ordinary (voting) shares [subject however to the necessary amendments being made to such number to include the dividend on the options that may be exercised by the employees under the Commercial Bank of Ceylon PLC (the "Company") ESOP schemes], and 1,241,095 new ordinary (non-voting) shares credited as fully paid to shareholders registered in the Share Register of the Company and on the Central Depository Systems (Pvt) Limited ("CDS") as at the end of trading on the day when the relevant resolutions to be passed by shareholders in relation to the final dividend are, in fact, duly passed by shareholders ("entitled shareholders") and which new shares shall rank equal and *pari passu* with the existing issued and fully-paid ordinary (voting) and (non-voting) shares of the Company including the right to participate in any dividend which may be declared after the date of allotment of such shares be and is hereby approved in pursuance of Section 99 of the Companies Act No. 07 of 2007 and Article 10 of the Articles of Association of the Company; and

THAT accordingly the Company's Management be and is hereby authorised to take all necessary steps to give effect to the aforesaid proposed issue of new ordinary (voting) and (non-voting) shares of the Company.

3. To re-elect/elect the following Directors who, in terms of the Company's Articles of Association, retire by rotation or otherwise as given below:

   i. To re-elect Mr Kankanam Gamage Don Dharmasena Dheerasinghe who retires by rotation in terms of Article 86 of the Articles of Association

   ii. To re-elect Prof Ananda Kithsiri Wijenayaka Jayawardane who retires by rotation in terms of Article 86 of the Articles of Association

   iii. To elect Mr Sanath Chandima Udayakumara Manatunge who was appointed to the Board in terms of Article 92 of the Articles of Association

4. (a) To reappoint Messrs Ernst & Young, Chartered Accountants, as recommended by the Board of Directors as the Company's Auditors for the financial year ending December 31, 2019; and

   (b) To authorise the Board of Directors to determine the remuneration of the Auditors for the financial year ending December 31, 2019.

5. To authorise the Board of Directors to determine donations for the year 2019.

By Order of the Board of Commercial Bank of Ceylon PLC,

Ranjani Gamage (Mrs)
Company Secretary

March 5, 2019
Colombo.

Notes

(i) A duly registered and entitled holder of the Company's ordinary (voting) shares is entitled to attend, speak, and vote at the AGM and is entitled to appoint a proxyholder to attend, speak, and vote in his/her stead.

(ii) A duly registered and entitled holder of the Company's ordinary (non-voting) shares is entitled only to attend and speak at the AGM and to vote only on the resolutions set out in items 2 (ii) and 2 (iii) of the Notice of Meeting. Such a shareholder is entitled to appoint a proxyholder to attend and speak on his/her behalf and to vote only on the resolutions set out in items 2 (ii) and 2 (iii) of the Notice of Meeting.

(iii) A proxyholder need not be a shareholder of the Company.

(iv) A Form of Proxy is sent along with this Report. The completed Form of Proxy should be deposited at the Registered Office of the Company, "Commercial House", No. 21, Sir Razik Fareed Mawatha, Colombo 01, not less than forty-eight (48) hours before the time appointed for the holding of the AGM.

Circular to the Shareholders on the Final Dividend for 2018

Dear Shareholder/s,

Final dividend for the year ended December 31, 2018 to be satisfied by the allotment and issue of new shares

The Board of Directors of Commercial Bank of Ceylon PLC (the "Company"), is pleased to inform its shareholders that a final dividend distribution of Rs. 2.00 per each existing issued and fully-paid ordinary (voting) and (non-voting) share is recommended for the financial year ended December 31, 2018 for due declaration by the shareholders at the Annual General Meeting ("AGM") to be held on March 28, 2019 (the date of the AGM) and such dividend so declared be paid out of the profits of the Company, for the financial year ended December 31, 2018, which would be liable to a Withholding Tax of fourteen per cent (14%).

The Board of Directors is confident that the Company will be able to satisfy the solvency test set out in Section 57 of the Companies Act No. 07 of 2007 ("CA 2007") immediately post-payment of such dividend. A certificate of solvency has been provided by the Company's Auditors, Messrs Ernst & Young, Chartered Accountants.

Subject to obtaining the approval of the shareholders, the said dividend will be satisfied in accordance with a distribution scheme whereby new ordinary (voting) and (non-voting) shares will be allotted and issued, in satisfaction of the remaining dividend entitlement, constituting a total sum of Rs. 2,022,009,686.00 based on the issued and fully-paid ordinary (voting) and (non-voting) shares of the Company as at February 21, 2019 [subject however to necessary amendments being made to such sum to accommodate the dividend payable on the options that may be exercised by employees under the Company's Employee Share Option Plan ("ESOP") schemes].

Accordingly, and in pursuance of the aforesaid distribution scheme, the Company proposes to issue:

(a) 15,249,350 new ordinary (voting) shares, calculated based on the issued and fully paid ordinary (voting) shares as at February 21, 2019 [subject however to necessary amendments being made to such number to include the dividend on the options that may be exercised by employees under the Company's ESOP schemes], and on the basis of their market value (closing price) as at the end of trading on February 21, 2019; and

(b) 1,241,095 new ordinary (non-voting) shares calculated based on the issued and fully-paid ordinary (non-voting) shares as at February 21, 2019 and on the basis of their market value (closing price) as at the end of trading on February 21, 2019.

An announcement will be made by the Company three market days prior to the date of the AGM on the final number of ordinary (voting) and (non-voting) shares to be issued in satisfaction of the said dividend.

The said shares shall be issued in the following ratios to the entitled shareholders:

(a) One new fully-paid ordinary (voting) share for every 62.034884700 existing issued and fully-paid ordinary (voting) shares calculated on the basis of the market value of the ordinary (voting) shares as at the end of trading on February 21, 2019; and

(b) One new fully-paid ordinary (non-voting) share for every 52.383720827 existing issued and fully-paid ordinary (non-voting) shares calculated on the basis of the market value of the ordinary (non-voting) shares as at the end of trading on February 21, 2019.

The above share ratio is based on a value of Rs. 106.70 per ordinary (voting) share and Rs. 90.10 per ordinary (non-voting) share [subject to fourteen per cent (14%) Withholding Tax, as may be applicable] as at the end of trading on February 21, 2019. The Board of Directors is satisfied that the aforementioned values which constitutes the consideration for which the new shares are to be allotted and issued is fair and reasonable to the Company and to all its existing shareholders.

Entitled shareholders

Entitled shareholders entitled to participate in the said dividend (the "entitled shareholders") are those who are duly registered in the Company's Share Register and also those shareholders whose names appear on the Central Depository Systems (Pvt) Limited ("CDS") as at the end of trading on the date on which the requisite resolution of the shareholders in this regard is duly passed.

In calculating the number of shares held by a shareholder as at the relevant date for the proposed allotment and issue of new shares, the shareholding of the shareholder as appearing in the CDS and the Shareholders' Register maintained by the Registrars of the Company [SSP Corporate Services (Pvt) Limited, No. 101, Inner Flower Road, Colombo 03] will not be aggregated. However, if a shareholder holds shares with multiple 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 a Trustee to be nominated by the Board of Directors. The Trustee so nominated, will hold the said shares in trust until such shares are sold by the Trustee on the trading floor of the CSE. The net sale proceeds arising therefrom shall, subject to receiving the approval of the shareholders therefor, be distributed to a charity/charities approved by the Board of Directors. The sale of such shares will be effected by the Company within a reasonable period of time, following the date on which the approval of the shareholders has been obtained in this regard.

Residual fractions of ordinary (voting) and (non-voting) shares above mentioned shall mean the fractions arising after applying the following formulas respectively:

For voting shareholders –

$$\frac{\text{Number of shares held by a shareholder as at end of trading on the AGM date X 1}}{62.034884700}$$

For non-voting shareholders –

$$\frac{\text{Number of shares held by a shareholder as at end of trading on the AGM date X 1}}{52.383720827}$$

Status of the new shares

The new ordinary (voting) and (non-voting) shares to be so issued, immediately consequent to due allotment thereof to the entitled shareholders, shall rank equal and *pari passu* in all respects with the existing issued and fully-paid ordinary (voting) and (non-voting) shares, respectively, of the Company.

Listing/Central Bank approval

An application has been made to the CSE for listing the new ordinary (voting) and (non-voting) shares on the official list of the CSE. This application has been approved "in principle" by the CSE. The Company will obtain approval from the Department of Foreign Exchange of the Central Bank of Sri Lanka in principle for the allotment and issue of the new ordinary (voting) and (non-voting) shares to the Company's non-resident shareholders, where applicable.

Shareholder approvals

The proposed method of satisfying the above-mentioned final dividend is subject to shareholders granting approval therefore by passing the resolutions set out in the attached Notice of Meeting pertaining to the following matters:

- Authorisation to satisfy the final dividend by an allotment and issue of new shares.

Article 124 of the Company's Articles of Association provides, in effect, that, subject to the CA 2007 the Board is empowered to pay a dividend or otherwise make a distribution in whole or in part by the distribution of specific assets and in particular of paid-up shares. In pursuance of principles of transparency, the Board seeks the authorisation of shareholders for the satisfaction of the final dividend by the issue of new ordinary (voting) and (non-voting) shares in the manner set out above. The relevant ordinary resolution to be passed by the shareholders in this regard is set out in item 2 (i) of the attached Notice of Meeting.

- Waiver of pre-emption rights to new share issues (Article 9 A):

In terms of Article 9 A of the Company's Articles of Association, any issue of shares beyond 500,000 shares must be first offered to the shareholders in proportion to their holding at the time of the offer, unless otherwise authorised by an ordinary resolution of the Company.

As mentioned previously, the final dividend is proposed to be satisfied, by the allotment and issue of new ordinary (voting) and (non-voting) shares in the manner set out above and on the application of the above-mentioned ratio. The said allotment and issue of new shares would accordingly be in excess of 500,000 shares. As such, the authorisation of shareholders is sought under and in terms of the above-mentioned Article 9 A for the waiver by shareholders of their pre-emption rights to the new shares to be issued exceeding 500,000 ordinary (voting) and (non-voting) shares. The relevant ordinary resolution to be passed by the shareholders in this regard is set out in item 2 (ii) of the attached Notice of Meeting.

- Alteration of Shareholder Rights (Section 99 of the CA 2007 and Article 10 of the Articles of Association):

The Company is required, in compliance with the above provisions, to seek shareholder approval by a special resolution for the proposed method of satisfaction of the final dividend by an allotment and issue of new ordinary (voting) and (non-voting) shares in the manner set out above. The relevant special resolution to be passed by the shareholders in this regard is set out in item 2 (iii) of the attached Notice of Meeting.

Confirmation of compliance

The Board of Directors hereby confirms that the allotment and issue of new shares is in compliance with the Articles of Association of the Company, the Listing Rules of the CSE and the provisions of the CA 2007.

Allotment of the new shares

The Board of Directors emphasises that the aforementioned allotment and issue of new shares is in satisfaction of the final dividend for the year ended December 31, 2018 and shall be dependent on and subject to the shareholders passing the requisite resolutions.

Uploading of shares into CDS accounts

In the event that the requisite resolution declaring the dividend (including its manner of satisfaction thereof) by way of the issue and allotment of new shares is passed by the shareholders, the accounts of the shareholders whose shares are deposited in the CDS would be directly uploaded with the new shares to the extent that such shareholder has become entitled thereto. The shares would be uploaded within seven market days from and excluding the date on which the requisite resolutions are passed. If a shareholder holds multiple CDS accounts the total entitlement will be directly deposited to the respective CDS accounts proportionately. Pursuant to a Direction issued by the Securities and Exchange

Commission of Sri Lanka ("SEC") pertaining to the dematerialisation of listed securities, the shareholders who hold shares in scrip form (i.e. Share Certificates) as per the Share Register maintained by the Registrars of the Company, will not be issued Share Certificates for the new shares allotted and issued in their favour. Such shareholders are accordingly requested to open an account with the CDS and to deposit their Share Certificates in the CDS prior to the date of the AGM of the Company. This will enable the Company to deposit the new shares directly into the shareholder's CDS account.

If a shareholder fails to deposit his/her existing ordinary (voting) and/or (non-voting) shares in the CDS prior to the date of the AGM, such shareholder's entitlement of new ordinary (voting) and/or (non-voting) shares will be deposited by the Company after such shareholder has opened a CDS account and has informed the Company's Registrars in writing of his/her CDS account number. Until such CDS account is opened by a shareholder as aforementioned, the new ordinary (voting) and (non-voting) shares that are allotted in his/her favour will be registered in such shareholder's account in the Share Register maintained by the Registrars of the Company (subject to compliance with the requirements of the Department of Foreign Exchange of the Central Bank of Sri Lanka as may be applicable in respect of non-resident shareholders).

Consequent to the opening of the CDS account by such shareholder, the new shares will be credited to such CDS account. Direct uploads pertaining to written requests received from shareholders to deposit such shares will be done on a weekly basis.

AGM

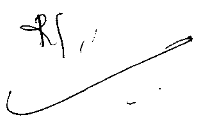
Attached hereto is the Annual Report comprising the Notice convening the AGM for March 28, 2019 and setting out in item 2 thereof, the relevant resolutions to be passed by the shareholders in the above regard.

Form of Proxy

Shareholders who are unable to attend the AGM in person are entitled to appoint a proxy to attend and speak and also vote on their behalf, depending on their voting rights. If you wish to appoint such a proxy, kindly complete and return the enclosed Form of Proxy (in accordance with instructions specified therein) to the Registered Office of the Company, not less than 48 hours before the time scheduled for the holding of the AGM.

Yours faithfully,

By Order of the Board of Commercial Bank of Ceylon PLC,



Ranjani Gamage (Mrs)
Company Secretary

March 5, 2019
Colombo

Notice of Meeting – Extraordinary General Meeting

NOTICE IS HEREBY GIVEN THAT an Extraordinary General Meeting of Commercial Bank of Ceylon PLC ("Bank") will be held immediately after the conclusion of the Annual General Meeting ("AGM") which has been convened for March 28, 2019 at 3.00 pm at the Galadari Hotel "Grand Ballroom" No. 64, Lotus Road, Colombo 01, for the following purpose:

To consider and if thought fit to pass the following resolutions as Special Resolutions:

1. Approval under Rule 2.2.1.k. of the Listing Rules of the Colombo Stock Exchange, Section 99 of the Companies Act No. 07 of 2007 and Articles 9 and 10 of the Articles of Association of the Bank of the PROPOSED DEBENTURE ISSUE (Resolution No. 1 – To be passed by Ordinary Voting Shareholders):

   THAT the Board of Directors ("the Board") of Commercial Bank of Ceylon PLC ("the Bank") be and is hereby authorised:

   i. To issue and allot up to One Hundred and Fifty Million (150,000,000) fully paid, Basel III Compliant – Tier 2, Listed, Rated, Unsecured, Subordinated, Redeemable Debentures ("Debentures") with a Non-viability Conversion feature at such interest rates as may be determined by the Board at the time of issue at a par value of Rs. 100.00 each with a minimum maturity period of 5 years and a maximum maturity period of 10 years and that Ordinary Voting Shares of the Bank be issued to the holders of such Debentures to the extent of the amounts due and payable on such Debentures (i.e. capital sum paid on the Debentures plus outstanding interest) in the event the Monetary Board of the Central Bank of Sri Lanka determines that a Trigger Event as defined in the Circular to Shareholders dated March 5, 2019 has occurred; and

   ii. To issue upon the occurrence of a Trigger Event, Ordinary Voting Shares to the holders of the Basel III compliant Debentures at the conversion price with such price being determined based on the simple average of the daily Volume Weighted Average Price of an Ordinary Voting Share of the Bank as published by the Colombo Stock Exchange during the three (03) months period immediately preceding such Trigger Event;

   iii. To issue upon the occurrence of a Trigger Event such Ordinary Voting Shares to the holders of the Debentures on the aforesaid basis in lieu of the amounts due and payable on the relevant Debentures (i.e. capital sum paid on the Debentures plus outstanding interest) without such Shares being offered in the first instance to the then existing Ordinary Voting Shareholders of the Bank *pari passu* to their shareholding subject to regulatory approvals from, namely, the Central Bank of Sri Lanka and the Colombo Stock Exchange. Such Ordinary Voting Shares arising from the non-viability conversion will be listed on the Colombo Stock Exchange.

2. Approval under Rule 2.2.1.k. of the Listing Rules of the Colombo Stock Exchange, Section 99 of the Companies Act No. 07 of 2007 and Articles 9 and 10 of the Articles of Association of the Bank of the PROPOSED DEBENTURE ISSUE (Resolution No. 2 – To be passed by Ordinary Non-Voting Shareholders):

   THAT the Board of Directors ("the Board") of Commercial Bank of Ceylon PLC ("the Bank") be and is hereby authorised:

   i. To issue and allot up to One Hundred and Fifty Million (150,000,000) fully paid, Basel III Compliant - Tier 2, Listed, Rated, Unsecured, Subordinated, Redeemable Debentures ("Debentures") with a Non-viability Conversion feature at such interest rates as may be determined by the Board at the time of issue at a par value of Rs. 100.00 each with a minimum maturity period of 5 years and a maximum maturity period of 10 years and that Ordinary Voting Shares of the Bank be issued to the holders of such Debentures to the extent of the amounts due and payable on such Debentures (i.e. capital sum paid on the Debentures plus outstanding interest) in the event the Monetary Board of the Central Bank of Sri Lanka determines that a Trigger Event as defined in the Circular to Shareholders dated March 5, 2019 has occurred; and

   ii. To issue upon the occurrence of a Trigger Event, Ordinary Voting Shares to the holders of the Basel III compliant Debentures at the conversion price with such price being determined based on the simple average of the daily Volume Weighted Average Price of an Ordinary Voting Share of the Bank as published by the Colombo Stock Exchange during the three (03) months period immediately preceding such Trigger Event;

   iii. To issue upon the occurrence of a Trigger Event such Ordinary Voting Shares to the holders of the Debentures on the aforesaid basis in lieu of the amounts due and payable on the relevant Debentures (i.e. capital sum paid on the Debentures plus outstanding interest) without such Shares being offered in the first instance to the then existing Ordinary Voting Shareholders of the Bank *pari passu* to their shareholding subject to regulatory approvals from, namely, the Central Bank of Sri Lanka and the Colombo Stock Exchange. Such Ordinary Voting Shares arising from the non-viability conversion will be listed on the Colombo Stock Exchange.

By Order of the Board of
Commercial Bank of Ceylon PLC,

Ranjani Gamage (Mrs)
Company Secretary

March 5, 2019
Colombo

Circular to the Shareholders on Proposed Debenture Issue

THIS DOCUMENT IS OF VALUE – If you are in any doubt as to the action you should take, you should consult your stockbroker or other professional adviser immediately.

COMMERCIAL BANK

Dear Shareholder/s

The Commercial Bank of Ceylon PLC ("the Bank") made a profit of Rs. 17,543.828 Mn. for the year ended December 31, 2018 (Group Rs. 17,862.831 Mn.). Total shareholders' funds increased to Rs. 118,405.949 Mn. (Group Rs. 120,596.830 Mn.) as of December 31, 2018 from Rs. 107,099.360 Mn. (Group Rs. 108,866.706 Mn.) as of December 31, 2017. Figures shown herein are extracted from published Financial Statements.

The Board of Directors of the Bank, having identified the need to strengthen the Tier 2 Capital Base of the Bank as per Basel III requirements, and in order to facilitate expansion and to reduce maturity mismatches, at their meeting held on December 19, 2018 decided to initiate, and also to recommend to shareholders;

AN ISSUE OF BASEL III COMPLIANT – TIER 2 LISTED RATED UNSECURED SUBORDINATED REDEEMABLE 5 YEAR AND 10 YEAR DEBENTURES WITH A NON-VIABILITY CONVERSION TO ORDINARY VOTING SHARES TO BE ISSUED BY THE BANK, SOLELY IF INSTRUCTED TO DO SO BY THE MONETARY BOARD OF SRI LANKA ON OCCURRENCE OF A TRIGGER EVENT.

The proposed issue is to raise a sum of Rupees Seven Billion Five Hundred Million (Rs. 7,500,000,000.00) through the issuance of up to 75,000,000 Debentures, each with a par value of Rs. 100.00, with an option to raise up to a further Rupees Seven Billion Five Hundred Million (Rs. 7,500,000,000.00) through the issuance of up to a further 75,000,000 Debentures, each with a par value of Rs. 100.00 in the event of an over-subscription of the initial issue (hereinafter collectively called "the Debentures").

The proposed Debentures will be redeemed after 5 years and after 10 years from the date of allotment of such Debentures and the principal sum and accrued interest (if any) payable on the redemption of such Debentures will be paid not later than three (03) market days from the date of redemption, unless a Trigger Event occurs as described in this circular.

The proposed issue of Debentures is subject to the approval of the Colombo Stock Exchange and the Central Bank of Sri Lanka and are to be issued under rules and regulations promulgated by the Colombo Stock Exchange and the Central Bank of Sri Lanka, including guidelines issued in relation to Basel III compliance in the Banking Act Direction No. 1 of 2016 issued by the Central Bank of Sri Lanka.

The final rating for the proposed Debenture Issue with a convertibility feature in compliance with Basel III requirements will be issued by Fitch Ratings Lanka Limited. Issuance of this rating will be subject to the adoption of a Special Resolution by the Shareholders of the Bank, at the Extraordinary General Meeting (EGM) that is being convened, and receipt of approval of the Central Bank of Sri Lanka (CBSL). The final Rating Report will be incorporated in the Debenture Prospectus.

1. Objectives of the Proposed Debenture Issue

Funds raised through this Debenture Issue are expected to improve the Capital Adequacy of the Bank. The medium to long-term duration of the Debentures and the subordinated nature of the instrument issued in compliance with Basel III requirements will enable the Bank to strengthen the Tier 2 Capital Base as per Basel III requirements. Approval will be obtained from the Central Bank of Sri Lanka to include the Basel III Compliant Debentures under Tier 2 capital.

The Bank expects to use the funds raised through the Debentures to expand the lending portfolio of the Bank. Since the Debentures proposed to be issued are of a medium to long-term nature, being of tenures of 5 and 10 years, the raising of funds through Debentures can be expected to reduce the mismatch between shorter term liabilities and medium to long-term assets.

The Bank intends to lend the proceeds of the Issue and thereby expand the Bank's loan book in the ordinary course of business over a period of three (03) months. The Bank has recorded net loans and advances growth of Rs. 123.654 Bn. in 2018 and therefore based on an expectation of similar credit demand in 2019 it is unlikely that a situation of not lending the Debenture proceeds within a period of three (03) months will arise.

The Bank as at date of this circular has not recognised related parties for the lending of the Debenture proceeds and therefore plans to disburse the Debenture proceeds in the ordinary course of business. However, in the event if the Bank lends funds raised through this Debenture Issue to related parties, the Bank will comply with the requirements stipulated under Section 9 of the CSE Listing Rules (as applicable). Further, in the event these Debentures are allotted to related parties, the Bank shall comply with all applicable laws/regulations in this regard.

Capital and current capital adequacy status

The Bank is in compliance with the Basel III requirements as at December 31, 2018.

Current CAR position of the Bank as at 31.12.2018		15.603%
Minimum CAR requirement to be maintained as at 01.01.2019 as per Basel III Direction No. 01 of 2016		14.000%
Minimum amount of funds the Bank is required to raise from the Debenture Issue which will have a convertible option in compliance with Basel III CAR requirements		Nil
Expected CAR position, subsequent to the Basel III compliant Debenture Issue	As at 31.12.2018 with Rs. 7.5 Bn.	16.397%
	As at 31.12.2018 with Rs. 15 Bn.	17.191%

The minimum Capital Adequacy requirements under Basel III are as follows:

Components of Capital	01.07.2017	01.01.2018	01.01.2019
Common Equity Tier I Capital with Buffers (CCB and Surcharge on D-SIB)	6.250%	7.375%	8.500%
Total Tier I Capital with Buffers (CCB and Surcharge on D-SIB)	7.750%	8.875%	10.000%
Total Capital Ratio (Tier I + Tier II) with Buffers (CCB and Surcharge on D-SIB)	11.750%	12.875%	14.000%

CCB – Capital Conservation Buffer
D-SIB – Domestic Systemically Important Bank

Subordinated funds raised through this Debenture Issue in compliance with requirements under BASEL III, are expected to further improve the Capital Adequacy of the Bank's Balance Sheet by increasing its Tier 2 Capital base thus strengthening its Total Eligible Capital as per BASEL III requirements.

2. Proposed issuance of Basel III compliant Debentures

Regulatory aspects regarding Basel III compliant subordinated debt

As per Banking Act Direction No. 1 of 2016 issued by the Central Bank of Sri Lanka, subordinated debt issued by licensed commercial banks needs to be compliant with Basel III requirements effective from July 1, 2017 in order to qualify as Tier 2 capital. According to Basel III guidelines, all subordinated debt issuance should have either a conversion feature allowing conversion to equity or a write-down feature. The Bank is therefore of the view that a non-viability conversion feature should be included in the proposed Debentures, and that such conversion, if applicable, should be to Ordinary Voting Shares of the Bank upon occurrence of a Trigger Event.

The conversion of Debentures to Ordinary Voting Shares will be in accordance with the applicable laws and regulations of Sri Lanka and the new shares will, subject to the approval of the Colombo Stock Exchange, be listed and will be subject to the instructions of the Monetary Board of the Central Bank of Sri Lanka with regard to application of the Single Holder Limit at the time of conversion of the Debentures in to Ordinary Voting Shares of the Bank.

3. Benefits for the Bank in Issuing Basel III Compliant Debentures

(a) Issuance of Basel III compliant Debentures will improve the capital adequacy ratios of the Bank.

(b) Issuance of Basel III Compliant Debentures will raise funds for expansion of the lending portfolio.

(c) The funds raised through the proposed Debenture Issue being of a medium to long-term nature will reduce maturity mismatches in the assets and liabilities portfolios of the Bank.

(d) The cost of capital attributable to Debentures is less than the cost of capital attributable to equity and issuance of Debentures thereby enables a reduction in the overall cost of capital relative to the situation that would prevail if an equity issuance were made instead of an issuance of Debentures.

(e) Upon the occurrence of a Trigger Event, any outstanding balance of these Debentures including the total par value of the Debentures and Debenture Interest accrued and unpaid as at that date will be converted to Ordinary Voting Shares of the Bank. As a result, the non-viability conversion has the effect of acting as a buffer by reducing outstanding claims from liability holders (Debenture holders) in the event of an occurrence of a Trigger Event.

(f) Voting rights of existing Ordinary Voting Shareholders are not altered as long as the Non-viability conversion Debentures are not converted into Ordinary Voting Shares of the Bank, and to the extent that a Trigger Event does not occur the issuance of these Debentures is a suitable instrument to improve capital adequacy and fund growth without resorting to a new issue of equity.

4. Issuance of Basel III Compliant Debentures

In order for the Debentures to be recognised as Tier 2 Capital of the Bank under Basel III as described in the Banking Act Direction No. 1 of 2016 issued by the Central Bank of Sri Lanka, the Debentures are required to have the following minimum features:

- Issued and fully paid in cash
- Listed on a recognised stock exchange
- Redeemable
- Subordinated to the claims of depositors and general creditors
- Unsecured and not covered by a guarantee or any other arrangement that legally or economically enhances the seniority of the claim above the depositors and general creditors of the Bank
- Issued with the prior approval from the Monetary Board of the Central Bank of Sri Lanka for inclusion in Tier 2 capital
- A minimum tenure of 5 years
- Rated by an acceptable Rating Agency
- Have a feature through which, in the event that the Monetary Board of the Central Bank of Sri Lanka determining that it is appropriate and in the best interest of the Bank and therefore so directs the Bank to convert the Debentures into Ordinary Voting Shares of the Bank such that through issuance of these new Ordinary Voting Shares the new shares issued will cover the total outstanding under the Debentures (resulting from the "Trigger Event" referred to in this circular).
- The investors in the Debentures have no rights to accelerate the repayment of future scheduled coupons, except in bankruptcy and liquidation of the Bank.
- Neither the Bank nor a banking group over which the Bank exercises control or significant influence can have purchased the instrument and the Bank cannot directly or indirectly have funded the purchase of the instrument.

The Bank may consider allotting up to seventy five percent (75%) of the issue value on a preferential basis to identified Qualified Investors of strategic importance.

5. Eligible Investors for Basel III Compliant Debentures

Investment and trading in Basel III Compliant Debentures will be limited to Qualified Investors. A Qualified Investor for the purpose of determining eligibility to invest in issuances of Basel III Compliant Debentures shall be:

- A commercial bank licensed by the Central Bank of Sri Lanka in terms of the Banking Act No. 30 of 1988 (as amended)
- A specialised bank licensed by the Central Bank of Sri Lanka in terms of the Banking Act No. 30 of 1988 (as amended)
- A mutual fund, a pension fund, Employees Provident Fund or any other similar pooled fund
- A venture capital fund/company and private equity company
- A finance company licensed by the Central Bank of Sri Lanka in terms of the Finance Business Act No. 42 of 2011 (as amended)
- A company licensed by the Central Bank of Sri Lanka to carry on finance leasing business under the Finance Leasing Act No. 56 of 2000 (as amended)
- A company licensed by the Insurance Board of Sri Lanka to carry on insurance business in terms of the Regulation of the Insurance Industry Act No. 43 of 2000 (as amended)
- A corporate (listed or unlisted) which does not fall under the above categories and is incorporated under the Companies Act No. 07 of 2007
- An investment trust or investment company
- A non-resident institutional investor
- An individual with a minimum initial investment of Rs. 5,000,000.00

6. Specific Risks Considering the Objectives of the Issue

Since the proposed Debenture Issue is to raise up to Rs. 15 Bn. which is a relatively small amount as compared to the overall assets of Rs. 1,303.485 Bn. and liabilities of Rs. 1,185.079 Bn. of the Bank (as at December 31, 2018), there is no specific risk factor that may lead to non-achievement of the objectives as per the stipulated timelines, since the reliance on the Debenture proceeds for asset growth is marginal. However, an adjustment in asset growth and in maturity mismatch reduction may result to the extent that capital adequacy is not improved due to an under-subscription of the issue.

Until full disbursement of the Debenture proceeds, the funds raised through the Debenture Issue will be invested in Government Securities. Such investments in Government Securities are expected to generate a return of 10.5% p.a. at current market rates. In the event the Debenture proceeds are not fully utilised as per stated objectives, such non-utilisation can be expected to lead to a reduction in Net Interest Spread as undisbursed Debenture funds would be invested in Government Securities as opposed to being utilised in lending activities which can be expected to generate a higher Net Interest Spread.

In the event the proposed Debenture Issue is under-subscribed, the Bank may have to adjust asset growth to comply with Basel III requirements. However, under-subscription is not envisaged since there has been reasonable demand for recent Debenture Issues of the Bank. No further Shareholder approval will be needed in the event the proposed Debenture Issue is not fully subscribed for or if the timelines stated above are amended as thought fit by the Bank.

7. Continuing Disclosure Requirements

The Bank undertakes to disclose the progress of the utilisation of the proceeds of the proposed Debenture Issue in the Annual Report/s and future interim financial statements until funds raised through the proposed Debenture Issue are fully utilised. The format of the relevant disclosures to be made shall be disclosed in the Prospectus.

8. Terms and Method of Conversion

Occurrence of "Trigger Event"

A "Trigger Event" is determined by and at the sole discretion of the Monetary Board of the Central Bank of Sri Lanka (i.e. conversion of the said Debentures upon occurrence of the Trigger Event will be effected by the Bank solely upon being instructed by the Monetary Board of the Central Bank of Sri Lanka), and is defined in the Banking Act 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.

(B) The decision to make a public sector injection of capital, or equivalent support, without which the Bank would have become non-viable, as determined by the Monetary Board".

The Banking Act Direction No. 1 of 2016 dated December 29, 2016, on the web-based returns specify in index reference 20.2.3.1.1.1.(10) (i) that, for such Debentures to be qualified as Tier 2 Capital (under Basel III guidelines) they should have a convertibility clause which enables the Debentures to be converted to Ordinary Shares in the occurrence of a Trigger Event. Furthermore, the Bank is of the view that any conversion of debt to equity upon conversion should have the same rights and privileges of the existing Ordinary Voting Shareholders (ranking equal and *pari passu* with existing Ordinary Voting Shares) and hence consider it appropriate to effect conversion of the proposed Debentures to Ordinary Voting Shares.

The Bank on receipt of a Trigger Event notification from the Monetary Board of the Central Bank of Sri Lanka will immediately make a market announcement of such notification and thereafter announce the "price" and "dates" (such as the Trigger Event date and the date of allotment) pertaining to the pending conversion of Debentures to Ordinary Voting Shares.

Conversion ratio

Upon the occurrence of the Trigger Event, the Bank shall be required and entitled to issue and allot within twenty (20) days, Ordinary Voting Shares of the Bank ranking equal and *pari passu* with the existing Ordinary Voting Shares, to the Debenture holders up to the outstanding balance of such Debentures, including the total par value of the Debentures and the Debenture interest accrued and unpaid. This will be at a conversion price which will be based on the Simple Average of Volume Weighted Average Price of Ordinary Voting Shares of the Bank as published by the Colombo Stock Exchange, during the three (3) month period, immediately preceding the date of the Trigger Event. The CDS upload pertaining to Ordinary Voting Shares will be completed within ten (10) market days from the date of allotment of such Ordinary Voting Shares. In the event if any Debenture holder being entitled to a fractional allotment of an Ordinary Voting Share on such issuance and allotment, the Bank shall settle the resulting sums in cash, based on the conversion price within fourteen (14) market days from the date of allotment of the said Ordinary Voting Shares.

Conversion and Trigger

The Bank has decided to use the simple average of the Volume Weighted Average Price (VWAP) as indicated above due to its practicality and equitability to all shareholders as a pricing formula for conversion. This formula takes into account the market price over a three month period preceding the date of the trigger event thereby lessening the impact of short-term price volatility and the volume impact in pricing. Due to the formula being applied using publicly available data published by the Colombo Stock Exchange, there is a high degree of transparency that results from the adoption of this method.

Ordinary Voting Shares arising from the non-viability conversion will be listed on the Colombo Stock Exchange.

If there is an issuance of Ordinary Voting Shares to the Debenture holders upon the occurrence of the Trigger Event, a Debenture holder would cease to be a Debenture holder and would become a Shareholder of the Bank to the extent of such issuance and will rank equal and *pari passu* with existing Ordinary Voting Shareholders with voting rights after the allotment of new shares to such Shareholders (being the previous Debenture holders) and will rank superior to the Ordinary Non-Voting Shareholders in respect of the voting rights attaching to the shares issued upon conversion.

Subsequent to the Debenture holders becoming Shareholders of the Bank, due to the occurrence of the Trigger Event and the resultant conversion, they would be entitled to exercise such rights as are exercisable by the other Shareholders of the Bank holding Ordinary Voting Shares. Once the conversion of Debentures is concluded, the convertible Debentures will cease to exist.

Dilution of Shareholding upon a Conversion of Debentures

In the event of conversion to Ordinary Voting Shares, there would be a dilution of the existing shareholding percentage held by the existing Shareholders. However, the extent of the dilution will be dependent on several factors that cannot be determined at this point, due to the following:

The number of shares to be issued resulting from such a conversion will be determined by the "Conversion Price" at the "Trigger Point" as detailed below.

There will be a dilution impact on the shareholdings of the existing Shareholders.

If the simple average of the Volume Weighted Average Price (VWAP) at the point of conversion is low compared to the prevailing share price, it would result in the allocation of a comparatively higher number of Ordinary Voting Shares by the Bank to the Debenture holders, which will dilute the shareholding of existing Shareholders.

If the simple average of Volume Weighted Average Price (VWAP) at the point of conversion is high compared to the prevailing share price, it would result in the allocation of a comparatively lower number of Ordinary Voting Shares by the Bank, which will dilute the shareholding of existing Shareholders to a lesser extent than in the former instance described above.

In order to avoid dilution of the shareholding of the existing Shareholders due to a conversion, in the event of there being a likelihood of the occurrence of the Trigger Event, prior to conversion of the said Debentures into Ordinary Voting Shares, the then existing Shareholders will be first called upon to infuse additional share capital and if such infusion is not forthcoming the proposed Debenture (i.e. Tier 2 Capital) will get converted in to Ordinary Voting Shares of the Company upon the determination of the "non-viability" point by the Monetary Board of the Central Bank of Sri Lanka and upon instructions being issued to the Bank in this regard.

The extent of dilution of existing Shareholders will have to be determined by reference to the number of shares that are in issue at the time of such a conversion. The number of shares that are in issue at the time of a conversion can vary during the tenure of the Debentures due to the issuance of new shares by way of scrip dividends, rights issues, capitalisation of reserves, and/or any other relevant corporate action.

However, it is unlikely that the trigger point would occur given the AA (lka)/Stable credit rating of the Bank by Fitch Ratings Lanka Limited and the strong performance of the Bank.

Pre-emptive Subscription Rights

Waiver of pre-emptive rights

In keeping with the Central Bank regulation, it is the Bank's intention to obtain Shareholder approval for the issuance of Ordinary Voting Shares [which may be required to be issued due to the Monetary Board of Central Bank of Sri Lanka instructing the Bank to exercise the convertible feature attached to these Debentures (the occurrence of the "Trigger Event")] and to waive the pre-emptive rights of the existing Ordinary Voting and Non-voting shareholders.

Non-occurrence of a Trigger Event

In the event of a non-occurrence of a Trigger Event these Debentures will be redeemed after 5 and 10 years from the date of allotment of such Debentures and the principal sum and unpaid and accrued interest (if any) payable on the redemption of Debentures will be paid not later than Three (03) market days from the date of redemption, unless otherwise a Trigger Event occurs.

9. Reason for convening an Extraordinary General Meeting

As per rule No. 2.2.1.k of the Listing Rules of the Colombo Stock Exchange, the Company is required to obtain the approval of the Shareholders for the proposed Debenture Issue by way of a Special Resolution. It will also be necessary to obtain, by means of a duly passed Special Resolution, approval of the shareholders for the proposed share issue which arises pursuant to the conversion of Debentures, which may affect the rights attached to the Company's existing Ordinary Voting and Non-voting shares, in compliance with Section 99 of the Companies Act No. 07 of 2007.

Therefore, an Extraordinary General Meeting of the Bank is being convened in accordance with the Notice of Meeting attached hereto, for the purpose of passing the Special Resolutions set out therein.

Shareholders who are unable to attend the meeting in person are kindly requested to complete the enclosed Form of Proxy (in accordance with the instructions specified therein) and to deposit it at the Registered Office of the Company not less than 48 hours before the time appointed for the meeting.

By Order of the Board of
COMMERCIAL BANK OF CEYLON PLC,

Ranjani Gamage (Mrs)
Company Secretary

March 5, 2019
Colombo

Form of Proxy (Voting Shareholders) Annual General Meeting

I/We .... of ....

.... being a shareholder/s of Commercial Bank of Ceylon PLC hereby appoint

.... (NIC No. ....) of .... whom failing:

Mr Kankanam Gamage Don Dharmasena Dheerasinghe	whom failing
Mr Mahinda Preethiraj Jayawardena	whom failing
Mr Sivakrishnarajah Renganathan	whom failing
Mr Sembakuttige Swarnajothi	whom failing
Prof Ananda Kithsiri Wijenayaka Jayawardane	whom failing
Mr Kumbukage Dharmasiri	whom failing
Mr Lakshman Dushyantha Niyangoda	whom failing
Ms Nawalage Therese Manouri Shiromal Cooray	whom failing
Mr Giriraj Sinh Jadeja	whom failing
Mr Themiya Loku Bandara Hurulle	whom failing
Justice Kanagasabapathy Sripavan	whom failing
Mr Sanath Chandima Udayakumara Manatunge	

as my/our Proxyholder to represent me/us and to speak at the Meeting and to vote on a show of hands or on a poll on my/our behalf as indicated below at the Fiftieth (50th) Annual General Meeting (AGM) of Commercial Bank of Ceylon PLC to be held on Thursday, March 28, 2019 and at any adjournment thereof and at every poll which may be taken in consequence thereof. (Please indicate your preference with a "✓" in the relevant box.)

	For	Against
1. To receive and consider the Annual Report of the Board of Directors on the affairs of the Company, the Statement of Compliance and the Financial Statements for the year ended December 31, 2018 together with the Report of the Auditors thereon.		
2. To declare a dividend as recommended by the Directors and to consider and if thought fit, to pass the following resolutions set out in the attached Notice of Meeting:		
i. Declaration of a final dividend and approval of its method of satisfaction (Dividend Resolution No. 1)		
ii. Waiver of pre-emption rights (Dividend Resolution No. 2)		
iii. Approval of an issue of ordinary (voting) and (non-voting) shares (Dividend Resolution No. 3)		
3. To re-elect/elect the following Directors who, in terms of the Company's Articles of Association, are retiring by rotation or otherwise as given below:		
i. To re-elect Mr K G D D Dheerasinghe who retires by rotation in terms of Article 86 of the Articles of Association		
ii. To re-elect Prof A K W Jayawardane who retires by rotation in terms of Article 86 of the Articles of Association		
iii. To elect Mr S C U Manatunge who retires by rotation in terms of Article 92 of the Articles of Association		
4. (a) To reappoint Messrs Ernst & Young, Chartered Accountants as recommended by the Board of Directors, as Auditors to the Company for the Financial Year ending December 31, 2019.		
(b) To authorise the Board of Directors to determine the remuneration of the Auditors for the Financial Year ending December 31, 2019.		
5. To authorise the Board of Directors to determine donations for the year 2019.		

Signed on this .... day of .... Two Thousand and Nineteen.

....	....	....
Folio Number	Signature/s of shareholder/s	NIC/PP/Co. Reg. No. of shareholder/s

Notes

(i) Instructions as to completion of this Form of Proxy are given overleaf.

(ii) As regards voting on the Resolutions indicated in the Form of Proxy, if no words are struck out or there is in the view of the proxyholder doubt (by reason of the way in which the instructions in the Form of Proxy have been stated by the shareholder) as to the way in which the proxyholder should vote, the proxyholder will vote as he/she thinks fit.

(iii) If the Form of Proxy is signed by an attorney, the relative Power of Attorney (POA) should accompany the completed Form of Proxy for registration in the event such POA has not already been registered with the Company.

(iv) If the shareholder is a company or a corporate body, the Form of Proxy should be executed under its common seal or in such other manner as provided for in its Constitutional documents, if any, or be signed by its attorney or by an officer on behalf of the company/corporate body, in accordance with its Articles of Association/ Statute.

(v) Every alteration or addition to the Form of Proxy must be duly authenticated by the full signature of the shareholder signing the Form of Proxy. Such signature should as far as possible be placed in proximity to the alteration or addition intended to be authenticated.

(vi) The use of the word "Member/s" herein is a reference to "Shareholder/s".

Instructions as to completion of Form of Proxy

(a) Article 68 of the Articles of Association of the Company provides that: "An instrument appointing a proxy shall be in writing, and

(i) In the case of an individual shall be signed by the appointor or by his attorney; or in the case of a corporation shall be either under the common seal or signed by its attorney or by an officer authorised to do so on behalf of the corporation. The Company may, but shall not be bound to require evidence of the authority of any such attorney or officer.

(ii) A proxy need not be a member of the Company".

(b) In terms of Article 63 of the Articles of Association of the Company:

"In the case of joint holders of a share, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose, seniority shall be determined by the order in which the name stands in the Register of Members in respect of the joint holding".

(c) The full name and address of the proxyholder and of the shareholder appointing the proxyholder should be entered legibly in the Form of Proxy.

(d) The completed Form of Proxy should be deposited at the Registered Office of the Company, "Commercial House", No. 21, Sir Razik Fareed Mawatha, Colombo 01, not less than forty-eight (48) hours before the time appointed for the holding of the Meeting.

(e) Articles 57 to 60 of the Articles of Association of the Company, dealing with voting are quoted below, for information of Shareholders:

"57. Method of voting

At any General Meeting, a resolution put to the vote of the Meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands) demanded by:

(i) The Chairman of the meeting; or

(ii) Not less than five persons present in person or by attorney or representative or by proxy and entitled to vote; or

(iii) A member or members present in person or by attorney or representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the Meeting.

A demand for a poll may be withdrawn. Unless a poll be demanded (and the demand be not withdrawn), a declaration by the Chairman of the meeting that a resolution has been carried or carried unanimously, or by a particular majority, or lost and an entry to that effect in the minute book, shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded for or against such resolution.

58. How a poll is to be taken

If a poll is duly demanded (and the demand be not withdrawn), it shall be taken in such manner (including the use of ballot or voting papers or tickets) as the Chairman of the Meeting may direct, and the result of the poll shall be deemed to be the resolution of the Meeting at which the poll was demanded. The Chairman may (and if so requested shall), appoint scrutineers and may adjourn the Meeting to some place and time fixed by him for the purpose of taking and declaring the result of the poll.

59. Chairman's casting vote

In the case of an equality of votes, whether on a show of hands or poll, the Chairman of the Meeting at which the show of hands takes place or at which the poll is demanded shall be entitled to a second or casting vote.

60. Time for taking a poll

A poll demanded on the election of a Chairman of the Meeting or on a question of adjournment shall be taken forthwith. A poll demanded on any other question shall be taken either immediately or at such subsequent time (not being more than thirty days from the date of the Meeting) and place as the Chairman may direct. No notice need be given of a poll not taken immediately."

REQUEST TO SHAREHOLDERS

SHAREHOLDERS ARE KINDLY REQUESTED TO INDICATE THE "FOLIO NUMBER" APPEARING IN THE ADDRESS LABEL [PASTED ON THE ENVELOPE CONTAINING THE ANNUAL REPORT] IN THE SPACE PROVIDED FOR "FOLIO NUMBER" IN THE FORM OF PROXY. THIS IS FOR THE CONVENIENCE OF THE REGISTRARS. PLEASE NOTE THAT NON-INDICATION OF THE "FOLIO NUMBER" WILL NOT INVALIDATE THE FORM OF PROXY, UNDER ANY CIRCUMSTANCES.

Form of Proxy (Non-Voting Shareholders) Annual General Meeting

I/We .... of ....

.... being a shareholder/s of Commercial Bank of Ceylon PLC hereby appoint

.... (NIC No. ....) of ....

.... whom failing:

Mr Kankanam Gamage Don Dharmasena Dheerasinghe	whom failing
Mr Mahinda Preethiraj Jayawardena	whom failing
Mr Sivakrishnarajah Renganathan	whom failing
Mr Sembakuttige Swarnajothi	whom failing
Prof Ananda Kithsiri Wijenayaka Jayawardane	whom failing
Mr Kumbukage Dharmasiri	whom failing
Mr Lakshman Dushyantha Niyangoda	whom failing
Ms Nawalage Therese Manouri Shiromal Cooray	whom failing
Mr Giriraj Sinh Jadeja	whom failing
Mr Themiya Loku Bandara Hurulle	whom failing
Justice Kanagasabapathy Sripavan	whom failing
Mr Sanath Chandima Udayakumara Manatunge	

as my/our proxyholder to represent me/us and to speak on my/our behalf and to vote on a show of hands or on a poll on my/our behalf as indicated below (and strictly in relation to the matters set out hereunder) at the Fiftieth (50th) Annual General Meeting (AGM) of Commercial Bank of Ceylon PLC which is scheduled to be held on Thursday, March 28, 2019 and at any adjournment thereof and at every poll which may be taken in consequence thereof. (Please indicate your preference with a "✓" in the relevant box):

Item in the Notice of Meeting	For	Against
2. To declare a dividend as recommended by the Directors and to consider and if thought fit, to pass the following resolutions set out in the attached Notice of Meeting:		
(ii) Waiver of pre-emption rights (Dividend Resolution No. 2)	☐	☐
(iii) Approval of an issue of ordinary (voting) and (non-voting) shares (Dividend Resolution No. 3)	☐	☐

Signed on this .... day of .... Two Thousand and Nineteen.

....	....	....
Folio Number	Signature/s of shareholder/s	NIC/PP/Co. Reg. No. of shareholder/s

Notes

(i) Instructions as to completion of this Form of Proxy are given overleaf.

(ii) Shareholders of non-voting shares are entitled only to attend and speak at the Meeting and to vote only in respect of the Resolutions set out in items 2 (ii) and 2 (iii) of the Notice of Meeting.

(iii) If the Form of Proxy is signed by an attorney, the relative Power of Attorney (POA) should accompany the completed Form of Proxy for registration in the event such POA has not already been registered with the Company.

(iv) If the shareholder is a company or a corporate body, the Form of Proxy should be executed under its common seal or in such other manner as provided for in its Constitutional Documents, if any, or be, signed by its attorney or by an officer on behalf of the company/corporate body in accordance with its Articles of Association/Statute.

(v) Every alteration or addition to the Form of Proxy must be duly authenticated by the full signature of the Shareholder signing the Form of Proxy. Such signature should as far as possible be placed in proximity to the alteration or addition intended to be authenticated.

(vi) The use of the word "Member/s" herein is a reference to "Shareholder/s".

Instructions as to completion of Form of Proxy

(a) Article 68 of the Articles of Association of the Company provides that: "An instrument appointing a proxy shall be in writing, and

i. In the case of an individual shall be signed by the appointor or by his attorney; or in the case of a corporation shall be either under the common seal or signed by its attorney or by an officer authorised to do so on behalf of the corporation. The Company may, but shall not be bound to require evidence of the authority of any such attorney or officer.

ii. A proxy need not be a member of the Company".

(b) In terms of Article 63 of the Articles of Association of the Company:

"In the case of joint holders of a share, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose, seniority shall be determined by the order in which the name stands in the Register of Members in respect of the joint holding".

(c) The full name and address of the proxyholder and of the shareholder appointing the proxyholder should be entered legibly in the Form of Proxy.

(d) The completed Form of Proxy should be deposited at the Registered Office of the Company, "Commercial House", No. 21, Sir Razik Fareed Mawatha, Colombo 01, not less than forty-eight (48) hours before the time appointed for the holding of the Meeting.

(e) Articles 57 to 60 of the Articles of Association of the Company, dealing with voting are quoted below, for information of shareholders.

"57. Method of Voting

At any General Meeting, a resolution put to the vote of the Meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands) demanded by:

i. The Chairman of the Meeting; or

ii. Not less than five persons present in person or by attorney or representative or by proxy and entitled to vote; or

iii. A member or members present in person or by attorney or representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the Meeting. A demand for a poll may be withdrawn. Unless a poll be demanded (and the demand be not withdrawn), a declaration by the Chairman of the Meeting that a resolution has been carried or carried unanimously, or by a particular majority, or lost and an entry to that effect in the minute book, shall be conclusive evidence of the fact without proof of the number of proportion of the votes recorded for or against such resolution.

58. How a Poll is to be Taken

If a poll is duly demanded (and the demand be not withdrawn), it shall be taken in such manner (including the use of ballot or voting papers or tickets) as the Chairman of the Meeting may direct, and the result of the poll shall be deemed to be the resolution of the Meeting at which the poll was demanded. The Chairman may (and if so requested shall), appoint scrutineers and may adjourn the Meeting to some place and time fixed by him for the purpose of taking and declaring the result of the poll.

59. Chairman's Casting Vote

In the case of an equality of votes, whether on a show of hands or poll, the Chairman of the Meeting at which the show of hands takes place or at which the poll is demanded shall be entitled to a second or casting vote.

60. Time for Taking a Poll

A poll demanded on the election of a Chairman of the Meeting or on a question of adjournment shall be taken forthwith. A poll demanded on any other question shall be taken either immediately or at such subsequent time (not being more than thirty days from the date of the Meeting) and place as the Chairman may direct. No notice need be given of a poll not taken immediately."

REQUEST TO SHAREHOLDERS

SHAREHOLDERS ARE KINDLY REQUESTED TO INDICATE THE "FOLIO NUMBER" APPEARING IN THE ADDRESS LABEL (PASTED ON THE ENVELOPE CONTAINING THE ANNUAL REPORT) IN THE SPACE PROVIDED FOR "FOLIO NUMBER" IN THE FORM OF PROXY. THIS IS FOR THE CONVENIENCE OF THE REGISTRARS. PLEASE NOTE THAT NON-INDICATION OF THE "FOLIO NUMBER" WILL NOT INVALIDATE THE FORM OF PROXY, UNDER ANY CIRCUMSTANCES.

Form of Proxy (Voting Shareholders) Extraordinary General Meeting

I/We .... of ....

.... being a shareholder/s of Commercial Bank of Ceylon PLC hereby appoint

.... (NIC No. ....) of .... whom failing:

Mr Kankanam Gamage Don Dharmasena Dheerasinghe	whom failing
Mr Mahinda Preethiraj Jayawardena	whom failing
Mr Sivakrishnarajah Renganathan	whom failing
Mr Sembakuttige Swarnajothi	whom failing
Prof Ananda Kithsiri Wijenayaka Jayawardane	whom failing
Mr Kumbukage Dharmasiri	whom failing
Mr Lakshman Dushyantha Niyangoda	whom failing
Ms Nawalage Therese Manouri Shiromal Cooray	whom failing
Mr Giriraj Sinh Jadeja	whom failing
Mr Themiya Loku Bandara Hurulle	whom failing
Justice Kanagasabapathy Sripavan	whom failing
Mr Sanath Chandima Udayakumara Manatunge	

as my/our Proxy to represent me/us and to vote on my/our behalf and to speak at the Extraordinary General Meeting of the Company to be held on March 28, 2019 and at any adjournment thereof and at any poll which may be taken in consequence thereof. I/We the undersigned hereby authorise my/our Proxy to vote on my/our behalf in accordance with the preference as indicated below (Please indicate your preference with a "✓" in the relevant box).

Items in the Notice of Meeting

	For	Against
(i) To pass the Special Resolution approving the proposed Debenture Issue (Resolution No. 1 of the Notice of Meeting)		

Signed on this .... day of ...., Two Thousand and Nineteen.

....	....	....
Folio Number	Signature/s of shareholder/s	NIC/ PP/ Co. Reg. No. of shareholder/s

Notes

(i) Instructions as to completion of this Form of Proxy are given overleaf.

(ii) As regards voting on the Resolutions indicated in the Form of Proxy, if no words are struck out or there is in the view of the Proxyholder doubt (by reason of the way in which the instructions in the Form of Proxy have been stated by the Shareholder) as to the way in which the Proxyholder should vote, the Proxyholder will vote as he/she thinks fit.

(iii) If the Form of Proxy is signed by an attorney, the relative Power of Attorney (POA) should accompany the completed Form of Proxy for registration in the event such POA has not already been registered with the Company.

(iv) If the shareholder is a company or a corporate body, the Form of Proxy should be executed under its common seal or in such other manner as provided for in its Constitutional Documents, if any, or be signed by its attorney or by an officer on behalf of the company/corporate body, in accordance with its Articles of Association/ Statute.

(v) Every alteration or addition to the Form of Proxy must be duly authenticated by the full signature of the Shareholder signing the Form of Proxy. Such signature should as far as possible be placed in proximity to the alteration or addition intended to be authenticated.

(vi) The use of the word "Member/s" herein is a reference to "Shareholder/s".

Instructions as to completion of Form of Proxy

(a) Article 68 of the Articles of Association of the Company provides that: "An instrument appointing a proxy shall be in writing, and

  (i) In the case of an individual shall be signed by the appointor or by his attorney; or in the case of a corporation shall be either under the common seal or signed by its attorney or by an officer authorised to do so on behalf of the corporation. The Company may, but shall not be bound to require evidence of the authority of any such attorney or officer.

  (ii) A proxy need not be a member of the Company".

(b) In terms of Article 63 of the Articles of Association of the Company:

"In the case of joint holders of a share, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose, seniority shall be determined by the order in which the name stands in the Register of Members in respect of the joint holding".

(c) The full name and address of the Proxyholder and of the Shareholder appointing the Proxyholder should be entered legibly in the Form of Proxy

(d) The completed Form of Proxy should be deposited at the Registered Office of the Company, "Commercial House", No. 21, Sir Razik Fareed Mawatha, Colombo 01, not less than forty-eight (48) hours before the time appointed for the holding of the Meeting.

(e) Articles 57 to 60 of the Articles of Association of the Company, dealing with voting are quoted below, for information of the Shareholders:

"57. Method of Voting

At any General Meeting, a resolution put to the vote of the Meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands) demanded by:

  (i) The Chairman of the Meeting; or

  (ii) Not less than five persons present in person or by attorney or representative or by proxy and entitled to vote; or

  (iii) A member or members present in person or by attorney or representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the Meeting.

  A demand for a poll may be withdrawn. Unless a poll be demanded (and the demand be not withdrawn), a declaration by the Chairman of the Meeting that a resolution has been carried or carried unanimously, or by a particular majority, or lost and an entry to that effect in the minute book, shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded for or against such resolution.

58. How a Poll is to be Taken

If a poll is duly demanded (and the demand be not withdrawn), it shall be taken in such manner (including the use of ballot or voting papers or tickets) as the Chairman of the Meeting may direct, and the result of the poll shall be deemed to be the resolution of the Meeting at which the poll was demanded. The Chairman may (and if so requested shall), appoint scrutineers and may adjourn the Meeting to some place and time fixed by him for the purpose of taking and declaring the result of the poll.

59. Chairman's Casting Vote

In the case of an equality of votes, whether on a show of hands or poll, the Chairman of the Meeting at which the show of hands takes place or at which the poll is demanded shall be entitled to a second or casting vote.

60. Time for Taking a Poll

A poll demanded on the election of a Chairman of the Meeting or on a question of adjournment shall be taken forthwith. A poll demanded on any other question shall be taken either immediately or at such subsequent time (not being more than thirty days from the date of the Meeting) and place as the Chairman may direct. No notice need be given of a poll not taken immediately."

REQUEST TO SHAREHOLDERS

SHAREHOLDERS ARE KINDLY REQUESTED TO INDICATE THE "FOLIO NUMBER" APPEARING IN THE ADDRESS LABEL [PASTED ON THE ENVELOPE CONTAINING THE ANNUAL REPORT] IN THE SPACE PROVIDED FOR "FOLIO NUMBER" IN THE FORM OF PROXY. THIS IS FOR THE CONVENIENCE OF THE REGISTRARS. PLEASE NOTE THAT NON-INDICATION OF THE "FOLIO NUMBER" WILL NOT INVALIDATE THE FORM OF PROXY, UNDER ANY CIRCUMSTANCES.

Form of Proxy (Non-Voting Shareholders) Extraordinary General Meeting

I/We .... of ....

.... being a shareholder/s of Commercial Bank of Ceylon PLC hereby appoint

.... (NIC No. ....) of ....

.... whom failing:

Mr Kankanam Gamage Don Dharmasena Dheerasinghe	whom failing
Mr Mahinda Preethiraj Jayawardena	whom failing
Mr Sivakrishnarajah Renganathan	whom failing
Mr Sembakuttige Swarnajothi	whom failing
Prof Ananda Kithsiri Wijenayaka Jayawardane	whom failing
Mr Kumbukage Dharmasiri	whom failing
Mr Lakshman Dushyantha Niyangoda	whom failing
Ms Nawalage Therese Manouri Shiromal Cooray	whom failing
Mr Giriraj Sinh Jadeja	whom failing
Mr Themiya Loku Bandara Hurulle	whom failing
Justice Kanagasabapathy Sripavan	whom failing
Mr Sanath Chandima Udayakumara Manatunge	

as my/our Proxy to represent me/us and to vote on my/our behalf and to speak (and strictly in relation to the matters set out hereunder) at the Extraordinary General Meeting of the Company to be held on March 28, 2019 and at any adjournment thereof and at any poll which may be taken in consequence thereof. I/We the undersigned hereby authorise my/our Proxy to vote on my/our behalf in accordance with the preference as indicated below (please indicate your preference with a "✓" in the relevant box).

Items in the Notice of Meeting

		For	Against
(i)	To pass the Special Resolution approving the proposed Debenture Issue (Resolution No. 2 of the Notice of Meeting)		

Signed on this .... day of ...., Two Thousand and Nineteen.

....	....	....
Folio Number	Signature/s of shareholder/s	NIC/ PP/ Co. Reg. No. of shareholder/s

Notes

(i) Instructions as to completion of this Form of Proxy are given overleaf.

(ii) Shareholders of non-voting shares are entitled only to attend and speak at the Meeting and to vote only in respect of the resolutions set out in item 2 of the Notice of Meeting.

(iii) If the Form of Proxy is signed by an attorney, the relative Power of Attorney (POA) should accompany the completed Form of Proxy for registration in the event such POA has not already been registered with the Company.

(iv) If the shareholder is a company or a corporate body, the Form of Proxy should be executed under its common seal or in such other manner as provided for in its Constitutional Documents, if any, or be signed by its attorney or by an officer on behalf of the company/corporate body, in accordance with its Articles of Association/ Statute.

(v) Every alteration or addition to the Form of Proxy must be duly authenticated by the full signature of the Shareholder signing the Form of Proxy. Such signature should as far as possible be placed in proximity to the alteration or addition intended to be authenticated.

(vi) The use of the word "Member/s" herein is a reference to "Shareholder/s".

Instructions as to Completion of Form of Proxy

(a) Article 68 of the Articles of Association of the Company provides that: "An instrument appointing a proxy shall be in writing, and

(i) In the case of an individual shall be signed by the appointor or by his attorney; or in the case of a corporation shall be either under the common seal or signed by its attorney or by an officer authorised to do so on behalf of the corporation. The Company may, but shall not be bound to require evidence of the authority of any such attorney or officer.

(ii) A proxy need not be a Member of the Company".

(b) In terms of Article 63 of the Articles of Association of the Company:

"In the case of joint holders of a share, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose, seniority shall be determined by the order in which the name stands in the Register of Members in respect of the joint holding".

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Stakeholder Feedback Form

Dear Reader,

We welcome your valuable ideas/comments on our Annual Report.

To request information or submit a comment/query to the Bank, please provide the following details and return this page to –

The Company Secretary
Commercial Bank of Ceylon PLC
"Commercial House"
21, Sir Razik Fareed Mawatha
P.O. Box 856
Colombo 01
Sri Lanka

Name : ....

Permanent Mailing Address : ....

Contact Number/s

- Tel : ....
- Fax : ....
- Email : ....

Name of Company (If applicable) : ....

Designation (If applicable) : ....

Company address (If applicable) : ....

Queries/Comments

....

....

....

....

....

....

....

....

Please tick (✓) the appropriate box

	Yes	No
Would you like to receive soft copies of the Commercial Bank's Annual and 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

Legal form
A public limited liability company incorporated in Sri Lanka on June 25, 1969 under the Companies Ordinance No. 51 of 1938 and quoted in the Colombo Stock Exchange in March 1970.

The Company was re-registered under the Companies Act No. 07 of 2007. Commercial Bank of Ceylon PLC is a Licensed Commercial Bank under the Banking Act No. 30 of 1988.

Company registration number
PQ 116

Accounting year end
December 31

Stock exchange listing
945,709,403 Ordinary voting shares and 65,013,174 Ordinary non-voting shares

44,303,400 Listed Unsecured Subordinated Redeemable Fixed Rate Debentures of Rs. 100.00 each – 2016 March/2021 March

17,490,900 Listed Unsecured Subordinated Redeemable Fixed Rate Debentures of Rs. 100.00 each – 2016 March/2026 March

50,718,000 Listed Unsecured Subordinated Redeemable Fixed Rate Debentures of Rs. 100.00 each – 2016 October/2021 October

19,282,000 Listed Unsecured Subordinated Redeemable Fixed Rate Debentures of Rs. 100.00 each – 2016 October/2026 October

83,938,400 Basel III compliant – Tier 2 Listed Unsecured Subordinated Redeemable Fixed Rate Debentures with a Non-Viability Conversion of Rs. 100.00 each – 2018 July/2023 July

16,061,600 Basel III compliant – Tier 2 Listed Unsecured Subordinated Redeemable Fixed Rate Debentures with a Non-Viability Conversion of Rs. 100.00 each – 2018 July/2028 July

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
Email: email@combank.net
Web: http://www.combank.net,
www.combank.lk

Head Office
"Commercial House",
No. 21, Sir Razik Fareed Mawatha,
P.O. Box 856,
Colombo 01, Sri Lanka.

Information Centre
Telephone: +94 11 235 3333, 7353333

Tax Payer Identification Number (TIN)
124006007

Credit Ratings
Sri Lanka Operation
– AA(lka) was re-affirmed by Fitch Ratings Lanka Ltd. in 2018

Bangladesh Operation
– AAA was re-affirmed by Credit Rating Information Services Ltd. in 2018

Compliance Officer
Mr V S Rajasooriyar

Lawyers
Messrs Julius & Creasy,
No. 41, Janadhipathi Mawatha,
Colombo 01, Sri Lanka.

Auditors
Ernst & Young
Chartered Accountants,
No. 201, De Saram Place,
Colombo 10, Sri Lanka.

Registrars
S S P Corporate Services (Pvt) Ltd.
No. 101, Inner Flower Road,
Colombo 03, Sri Lanka.
Telephone: +94 11 257 3894, 2576871
Facsimile: 2573609
E-mail: sspsec@sltnet.lk
(Kindly direct any queries about the administration of the shareholding to the above Company)

Subsidiaries and Associates

Subsidiaries
Commercial Development Company PLC
ONEzero Company Ltd.
Serendib Finance Ltd.
Commex Sri Lanka S.R.L. – Italy
Commercial Bank of Maldives Private Limited
CBC Myanmar Microfinance Company Limited

Associates
Equity Investments Lanka Ltd.
Commercial Insurance Brokers (Pvt) Ltd.

Board of Directors and Committees

Board of Directors
Mr K G D D Dheerasinghe – *Chairman*
Mr M P Jayawardena – *Deputy Chairman*
Mr S Renganathan – *Managing Director/CEO*
Mr S Swarnajothi
Prof A K W Jayawardane
Mr K Dharmasiri
Mr L D Niyangoda
Ms N T M S Cooray
Mr G S Jadeja
Mr T L B Hurulle
Justice K Sripavan
Mr S C U Manatunge
(Appointed w.e.f. July 27, 2018)

Company Secretary
Mrs J R Gamage

Board Committees
Mandatory Committees

Board Audit Committee
Mr S Swarnajothi – *Chairman*
Prof A K W Jayawardane
Mr K Dharmasiri
Ms N T M S Cooray
Justice K Sripavan

Board Integrated Risk Management Committee
Mr M P Jayawardena – *Chairman*
Mr S Renganathan
Mr S Swarnajothi
Mr K Dharmasiri
Mr L D Niyangoda
Mr T L B Hurulle
Mr S C U Manatunge (By invitation)

Board Nomination Committee
Mr K G D D Dheerasinghe – *Chairman*
Mr M P Jayawardena
Mr S Swarnajothi
Mr G S Jadeja
Mr S Renganathan (By invitation)

Board Human Resources and Remuneration Committee
Mr K G D D Dheerasinghe – *Chairman*
Mr M P Jayawardena
Mr S Swarnajothi
Mr S Renganathan (By invitation)

Board-Related Party Transactions Review Committee
Justice K Sripavan – *Chairman*
Mr S Swarnajothi
Mr L D Niyangoda
Mr S Renganathan (By invitation)
Mr S C U Manatunge (By invitation)

Voluntary Committees

Board Credit Committee
Mr K G D D Dheerasinghe – *Chairman*
Prof A K W Jayawardane
Mr S Renganathan
Mr S C U Manatunge

Board Investment Committee
Mr K G D D Dheerasinghe – *Chairman*
Mr S Renganathan
Mr K Dharmasiri
Mr G S Jadeja
Mr S C U Manatunge

Board Technology Committee
Prof A K W Jayawardane – *Chairman*
Mr S Renganathan
Mr T L B Hurulle
Mr K Dharmasiri
Mr S C U Manatunge

Board Strategy Development Committee
(w.e.f August 2, 2018)
Mr K G D D Dheerasinghe – *Chairman*
Mr M P Jayawardena
Mr S Renganathan
Prof A K W Jayawardane
Mr K Dharmasiri
Mr L D Niyangoda
Mr G S Jadeja

For Investor Relations and clarification on this Report please write to:
The Chief Financial Officer
Commercial Bank of Ceylon PLC,
"Commercial House",
No. 21, Sir Razik Fareed Mawatha,
P.O. Box: 856, Colombo 01, Sri Lanka.
Telephone: +94 11 248 6550
Email: email@combank.net

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