

# TRIMMING OUR SAILS & STAYING ON EVEN KEEL



COMMERCIAL BANK

*Our Interest Is In You*

# OUR MISSION

## REDEFINING CONVENIENCE IN FINANCIAL SERVICES

# OUR VISION

## TO BE THE PREFERRED FINANCIAL SERVICES ORGANISATION IN SRI LANKA, HAVING AN INTERNATIONAL PRESENCE BY THE YEAR 2011

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The Bank trimmed its sails exceedingly well to ride the rough seas of 2007 with ease. The Bank used its brand, its human resources, its technology and its productivity to produce yet another year of pride.

A progressively shrinking market, volatile externals and heightened unpredictability extended every sinew of the Bank. Yet by efficient management of our operating costs the Bank kept on even keel and cut a swathe amongst the other local banks in the country. We are still the most widely connected bank and have one of the best people-productivity ratios in the banking industry.

**GROUP**

- **PRE-FINANCIAL VAT AND PRE-TAX PROFIT RS. 8.343 BILLION**
- **PRE-TAX PROFIT RS. 6.791 BILLION**
- **POST-TAX PROFIT RS. 4.152 BILLION**
- **CAPITAL ADEQUACY RATIOS TIER I & TIER I & II 10.60% & 13.71%**

**BANK**

- **DEPOSITS GREW BY 16.26% (TO REACH RS. 183.110 BILLION)**
- **LOANS & ADVANCES GREW BY 16.02% (TO REACH RS. 178.878 BILLION)**
- **SINGLE BORROWER LIMIT INCREASED TO RS. 7.761 BILLION**
- **THE GROWTH RATES OF BOTH DEPOSITS AND ADVANCES OF THE BANK ARE BELIEVED TO BE HIGHER THAN THE INDUSTRY AVERAGES**
- **TOTAL ASSETS GREW BY 19.63% (TO REACH RS. 267.940 BILLION)**
- **RETURN ON AVERAGE ASSETS (ROA) INCREASED TO 1.67%**
- **COST TO INCOME RATIO IMPROVED TO 47.87% FROM 61.10%**
- **RETURN ON AVERAGE SHAREHOLDERS' FUNDS (ROE) IMPROVED TO 20.63%**
- **NON-PERFORMING ASSETS RATIO (NPA) INCREASED TO 3.01%**

## Financial Goals &amp; Achievements

		Achievements				
		Goal				
Financial Indicator (Bank)		2007	2006	2005	2004	2003
Return on Average Assets (ROA)	Over 2%	1.67%	1.00%	1.48%	1.35%	1.61%
Return on Average Shareholders' Funds (ROE)	Over 20%	20.63%	12.73%	15.93%	13.16%	15.20%
Growth in Income	Over 20%	43.95%	51.99%	31.00%	22.17%	20.26%
Growth in Profit after Taxation	Over 20%	103.89%	(14.87%)	40.33%	14.03%	22.71%
Growth in Total Assets	Over 20%	19.63%	24.38%	30.04%	25.57%	50.34%
Dividend Rate	Over Rs. 5.00/50%	Rs. 7.00	50.00%	45.00%	60.00%	50.00%
Capital Adequacy Ratios (Group)						
Tier I (%)	Over 8%	10.60%	7.62%	9.68%	10.78%	13.43%
Tier I & II (Total Capital) (%)	Over 13%	13.71%	11.58%	12.08%	13.16%	15.46%

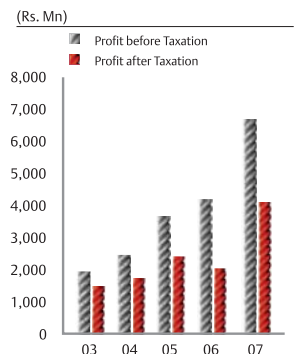


# On Even Keel

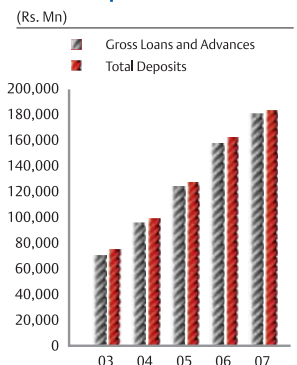


	Group			Bank		
	2007	2006	Change %	2007	2006	Change %
<b>RESULTS FOR THE YEAR (RS. MILLION)</b>						
Gross Income	35,206.860	24,451.866	43.98	35,222.918	24,469.470	43.95
Profit before Financial VAT & taxation	8,342.610	5,292.111	57.64	8,256.491	5,184.503	59.25
Profit before Taxation	6,790.849	4,321.153	57.15	6,704.729	4,213.545	59.12
Provision for Taxation	2,638.396	2,248.751	17.33	2,601.164	2,200.917	18.19
Profit after Taxation	4,152.453	2,072.402	100.37	4,103.565	2,012.628	103.89
Revenue to the Governments	4,224.216	3,216.851	31.31	4,186.984	3,169.017	32.12
Gross Dividends	1,855.626	911.413	103.59	1,855.626	911.413	103.59
<b>POSITION AT THE YEAR END (RS. MILLION)</b>						
Shareholders' Funds (Capital and Reserves)	24,357.891	16,016.460	52.08	23,936.037	15,842.841	51.08
Deposits from Customers	183,087.880	157,393.915	16.32	183,110.135	157,496.157	16.26
Gross Loans & Advances to Customers	178,726.737	154,072.159	16.00	178,878.233	154,174.351	16.02
Total Assets	268,385.230	224,060.639	19.78	267,939.639	223,974.253	19.63
<b>INFORMATION PER ORDINARY SHARE (RS.)</b>						
Earnings (EPS) (Basic)	17.04	8.88	91.89	16.84	8.61	95.59
Dividends (DPS)	7.00	5.00	40.00	7.00	5.00	40.00
Net Assets Value per Ordinary Share	98.58	71.20	38.46	96.80	70.38	37.54
Market Value at the year end - Voting	147.00	190.00	(22.63)	147.00	190.00	(22.63)
Market Value at the year end - Non-Voting	74.50	89.00	(16.29)	74.50	89.00	(16.29)
<b>FINANCIAL RATIOS</b>						
Return on Average Shareholders' Funds (%)	20.57	12.96	58.72	20.63	12.73	62.06
Return on Average Assets (ROA) (%)	1.69	1.03	64.08	1.67	1.00	67.00
Price Earnings (Times) - Ordinary Voting Shares	8.62	14.47	(40.43)	8.73	14.95	(41.61)
Price Earnings (Times) - Ordinary Non-Voting Shares	4.37	6.78	(35.55)	4.42	7.00	(36.86)
Year on year Growth in Earnings (%)	100.37	(12.11)	828.82	103.89	(14.87)	698.65
Year on year Growth in Dividends on Ordinary Shares (%)	40.00	11.11	260.04	40.00	11.11	260.04
Dividend Yield (%) - Ordinary Voting Shares	4.76	2.63	80.99	4.76	2.63	80.99
Dividend Yield (%) - Ordinary Non-Voting Shares	9.40	5.62	67.26	9.40	5.62	67.26
Dividend Cover on Ordinary Shares (Times)	2.32	2.63	(11.78)	2.29	2.54	(9.84)
Dividend Cover on Preference Shares (Times)	36.91	10.50	251.52	36.48	10.19	258.00
Total Dividend Cover (Times)	2.24	2.27	(1.32)	2.21	2.21	-
<b>STATUTORY RATIOS</b>						
Liquid Assets (%)	24.24	22.64	7.07	24.24	22.64	7.07
Capital Adequacy -						
Tier I (%) - Minimum Required 5%	10.60	7.62	39.11	10.57	7.61	38.90
Tier I & II (%) - Minimum Required 10%	13.71	11.58	18.39	13.69	11.56	18.43

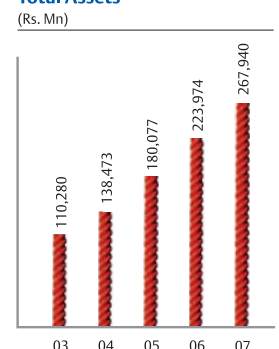
## Profit Before Taxation and After Taxation



## Gross Loans and Advances & Total Deposits



## Total Assets



# Smart Stewardship



*"A fine set of people, A Shared set of priorities, Proud traditions of success... to meet the challenges of future"*



## A Commitment to Consistency and Results

### Thinking on Our Feet

The Commercial Bank ended 2007 with a very substantial growth in profits, improvement in efficiency and a strengthening of its capital adequacy, driven by strong organic growth and a stellar performance by our operation in Bangladesh.

It was achieved in the context of considerable challenges posed by global and local conditions, and a turbulent banking industry environment.

### ***The Economy***

The Government's high military expenditure, coupled with its welfare oriented spending within a social democratic policy framework, is expected to result in fiscal excesses in 2008. Inflation will continue to be high which in turn will apply pressure on interest rates and the value of the rupee. Given this scenario,



the government may have no alternative but to take the international bond route to finance its expenditure, which, if taken too often, could prove to be highly damaging for the economy.

High oil prices, slow fiscal consolidation and security concerns are key risks in the short term. Sri Lanka is now classified as a middle

income country, and as a result, concessionary funding will be phased out. In this context, Foreign Direct Investments (FDIs) and Public Private Partnerships are needed to add momentum to growth in investments.

The reform of loss making State Owned Enterprises (SOEs) through an appropriate Public Private Partnership (PPP) model is also a matter of priority. This should be coupled with rapid infrastructure development, particularly in the areas of electricity and highways. Here too, the PPP route will be the most appropriate.

Business Process Outsourcing (BPO) ventures have the potential to deliver value in the short to medium term and the state and the private sector should aggressively explore options in this regard. Rooting out corruption and an increase in productivity should also be priorities.

### ***The Banking Sector***

Financial markets were volatile in 2007 and investors showed a distinct preference for short-term securities. As a consequence, both Government and private bond markets were relatively inactive in the first three quarters of the year.

Despite volatile conditions, the banking sector maintained its profitability levels. However, net interest margins are expected to shrink in 2008, as liquid funds become scarcer in the market. Banks will have to increasingly concentrate on enhancing their non-interest income component, to maintain profitability.

Mobilising deposits in a high inflation environment will be a challenge. Although high interest time deposits and attractively structured savings deposit schemes are among the options, the disposable income available for savings in the hands of the people will be less due to the high cost of living. Besides, the steady increase in the effective taxation during the past few years has increased the challenges for the banking industry.

Despite difficult conditions, the Capital Adequacy Ratios of the banking sector exceeded both local and international regulatory requirements. The financial market infrastructure has improved substantially in recent years, reducing systemic risks and increasing the efficiency of the payments and settlement systems.



### **Financial Performance**

Despite such difficult conditions the Bank had another excellent year. The Group reported a profit before tax (after financial VAT) of Rs. 6.791 billion for 2007, a growth of Rs. 1.717 billion or 33.82%, over the normalised profit before tax (after financial VAT) for 2006. The Group's profit after tax and financial VAT for 2007, at Rs. 4.152 billion reflected an even stronger growth of 46.95% or Rs. 1.327 billion, over the normalised profit after tax for 2006, on a Group turnover of Rs. 35.207 billion, which was up by Rs. 10.755 billion or 43.98%. The Commercial Bank, the largest entity in the Group, reported a profit before tax (after financial VAT) of Rs. 6.705 billion for 2007, an increase of 34.99%, over the normalised profit before tax (after financial VAT) for 2006. The Bank's profit after tax and financial VAT for 2007 grew by 48.35% to Rs. 4.104 billion, over the normalised profit after tax for 2006.

The profit growth of the Group was facilitated by an increase of Rs. 3.994 billion or 52.61% in the Group's net interest income which recorded Rs. 11.587 billion at the end of the period under review. This was achieved with the better management of interest margins in volatile market conditions, and adequate Balance Sheet growth during the period.

The Group's cost/income ratio dropped to 47.50% in 2007 from 51.80% in 2006 (normalised), while Return on Assets (ROA) increased to 1.69% in 2007 from 1.38% in 2006. The Bank's net non performing loans ratio was 3.01% at end 2007, as against 2.78% recorded at end 2006.

The Bank made a rights issue of ordinary shares in April 2007, in the ratio of 3 for 10. The rights issue improved the Capital Adequacy Ratios of the Bank and the Group. The Capital Adequacy Ratios of the Group improved to 10.60% from 7.62% in 2006 for Tier - 1 capital and to 13.71% from 11.58% in 2006 for total capital.

The effective income tax rate of the Bank improved from 44.13% in 2006 (normalised) to 39.21% in 2007, mainly due to the decrease in the effective income tax rate applicable to the Bank's operations in Bangladesh and the Domestic Banking Unit.

### **Bangladesh Operations**

Commercial Bank commenced its banking business in Bangladesh by acquiring the Bangladesh operation of Credit Agricole Indosuez, a French multinational Bank in 2003. In four years, the Bank has established

itself as a leading player in the industry and ranks fourth in terms of profitability among the foreign banks operating in Bangladesh and first among the regional banks.

In 2007, Commercial Bank commenced a partnership with Dutch Bangla Bank Ltd. (DBBL). This enables the Bank's customers to have access to DBBL's network consisting of over 200 ATMs in different parts of the country.

The Bank also entered into agreements with Prime Bank and Islami Bank to carry out cash management services and remittances disbursement through their branch network.

In 2007, Commercial Bank's operation in Bangladesh, received the award for the third position, under the Foreign Bank category, at the National Best Corporate Awards - 2007, organised by the Institute of Cost and Management Accountants Bangladesh (ICMAB).

### **2008 and Beyond**

The Bank's forte over the years has been its ability to adapt to difficult environments and deliver consistent results to all its stakeholders. We will continue to do this and to pursue our vision of having an international presence by the year 2011.

The Bank has a customer-base of over 2 million and offers a wide range of high quality and state-of-the-art products and services across all lines of business. It has one of the best connected networks in the country with 163 branches and 291 ATMs in Sri Lanka and 9 branches and 10 ATMs in Bangladesh. It is also linked to the DBBL 200 plus ATM network in Bangladesh. It has shown a strong capacity to read customer preferences and roll out new products targeting diverse customer segments.

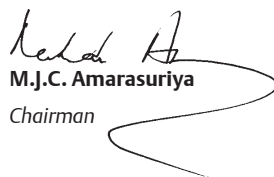
The Bank has some of the lowest non-performing assets and cost income ratios in the local banking industry. Careful credit approval procedures and cost conscious decision making have contributed to maximising our returns. In the future, the Bank will increasingly concentrate on making optimum use of its alternative delivery channels to redefine convenience in financial services.

Since 1995, the Commercial Bank has recorded rapid and consistent growth, outperforming its competitors. One of the major reasons for this success has been the

commitment of its motivated staff, whose pivotal role has made it possible with a strong work ethic which has improved productivity at all levels. My deep appreciation is due to the entire staff led by our Managing Director, for their outstanding efforts.

I would like to take this opportunity to thank my colleagues on the Board, who have given their best, in the face of adverse internal and external conditions, and made 2007 yet another year of success for the Bank.

Commercial Bank is in great shape and well poised to meet the challenges of 2008 and beyond. We have a fine team of people, a shared set of priorities, a proud tradition of success and are eagerly looking forward to another year of success.

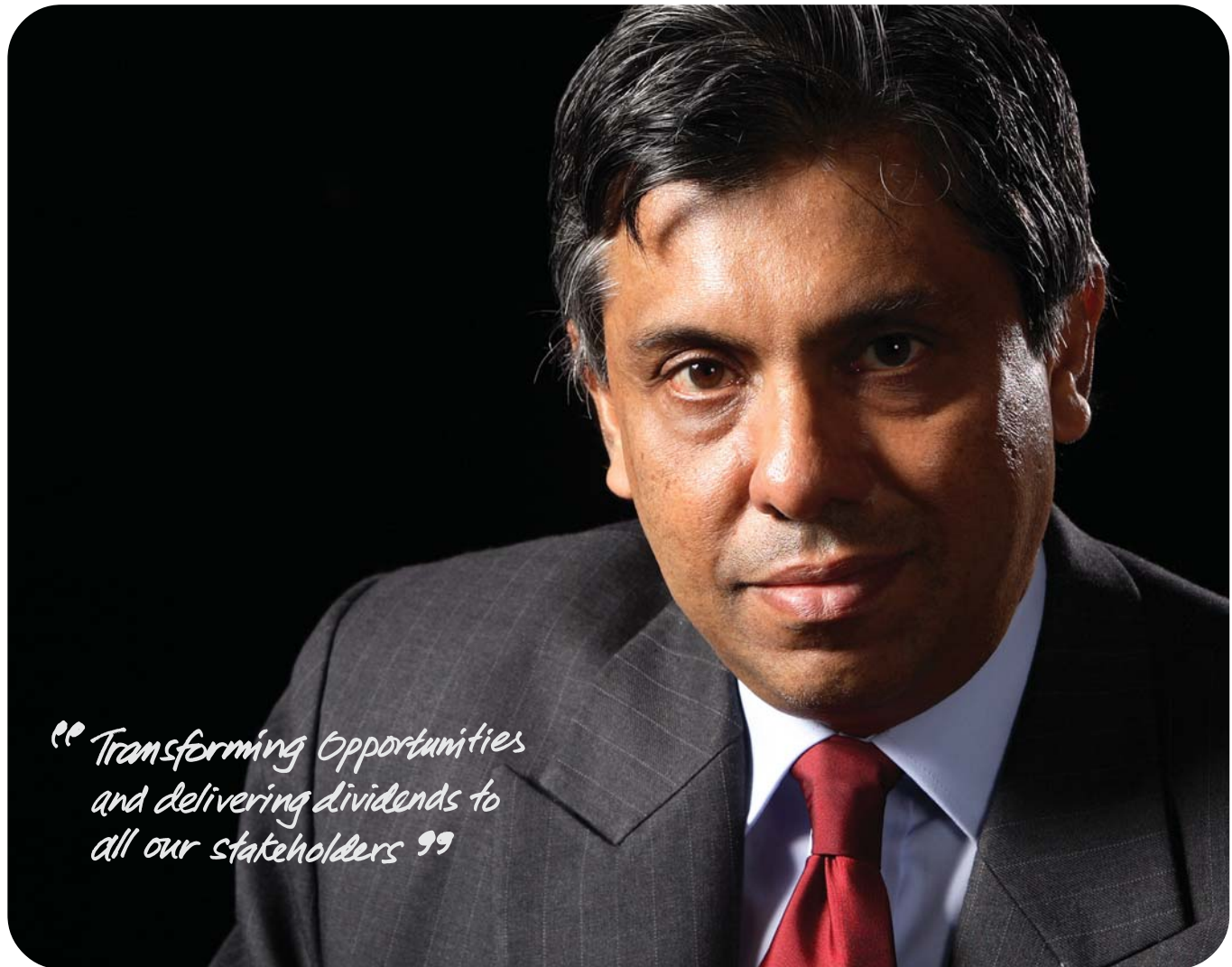


**M.J.C. Amarasuriya**  
Chairman

Colombo  
February 18, 2008



# A Challenging Environment



*“Transforming Opportunities  
and delivering dividends to  
all our stakeholders”*



## Accomplishments

Difficult market conditions could not prevent the Commercial Bank from posting yet another impressive year. The Bank recorded a post tax profit of Rs. 4,103.565 million, which was a growth of Rs. 2,090.937 million or 103.89% over last year. Even on the basis of a normalised profit of Rs. 2,766.099 million for 2006 (after taking into account the gains on the disposal of the DFCC shares and the initial



contribution to the restructured pension scheme) the growth in actual profit in 2007 amounted to Rs. 1,337.466 million or 48.35%.

This is an impressive achievement in any circumstance. Yet, that we delivered this performance in a situation of high inflation, volatile interest rates and escalating internal strife is a reflection of the prudent management strategy and the creativity of the team. This enabled us to deliver three interim dividends of Rs. 1.50 per share each and a fourth and final is now proposed.

Our Treasury stepped into previously uncharted territory and delivered strong value as a result. The derivative products offered by the Treasury provided new opportunities for hedging in commodities such as crude oil, gas and base metals, helping to swell the profits of the Bank. The Treasury also pioneered a foreign currency deposit product, FX Link, in 2007. FX Link is a capital guaranteed structured deposit product which affords the customer the



potential of earning a higher return than that of a traditional foreign currency deposit. Further, the Treasury also offers structured deposit products for its customers to earn a higher return on their foreign currency deposit accounts.

The Bank's operation in Bangladesh was another star and it has now established itself as one of the leading private banks in that

country. Our operations in Bangladesh are an important revenue earner for the Bank and in 2007 contributed Rs. 910.040 million or 13.57% of the Bank's pre-tax profit. We now have 9 branches in Bangladesh and are looking at expanding this network over the years. While our initial focus was on the corporate market the Bank is now positioning itself to begin progressively exploiting the retail market as well. Our record with regard to lending in Bangladesh has been particularly outstanding with zero non-performing loans.

Our success with our operations in Bangladesh has inspired us to continue looking at new markets and we are exploring all options both in South Asia and South East Asia.

The Bank is in the process of developing new tools that will provide greater flexibility with the management of funds and help in identifying risks with greater clarity. These new tools will help the Bank to analyse customer trends, costs and potential customer profitability and help in improving profitability whilst enhancing customer convenience.

Our team has been a driver of our success and has directly benefited from it. We will continue to invest in their growth and future so that we can retain this win win situation for both Bank and team.

We will also continue with our branch expansion policy and in 2007 we opened our 163rd branch in Sri Lanka. At the end of 2007, the Bank had a network of 163 branches and 291 ATMs all linked to a real time on line network.

A higher level of 'customer convenience' is another area of focus. All our new products are developed with this overall goal in mind. In 2007, we enhanced internet banking

option by developing our on line cheque viewing facility. Additionally, the Bank introduced several new products targeting diverse customer segments and appointed brand managers to handle separate product lines enabling us to understand our customers better.

The remittance market continues to show great promise. Our profits from this segment of the Bank's operations showed a remarkable growth over the year 2006. By employing smart and sophisticated marketing strategies we were able to attract substantial deposits from Sri Lankans remitting money to their country of origin. We have identified the Bangladesh remittance market as another potential growth area and will soon begin to look at possibilities there too.

We launched a new travel card in partnership with J P Morgan and Chase. This enables travellers using the card to access the Cirrus and MasterCard networks with over one million ATMs across the world, affording the customer a more convenient alternative to travellers' cheques.

The Com - e-Load facility which offered Dialog customers the ability to top up by an SMS was extended to Mobitel customers in 2007.

Our 'Saturday and Sunday Banking' has been tailored to suit local conditions. Banking hours have been adjusted to fit into local business practices that vary from area to area.

'Isuru' which has been in existence for some time was re-launched with an increased guaranteed amount of up to rupees one million. Similarly 'Paymaster' too was re-launched with wider scope than before. The Bank continued to develop its partnership with 'MoneyGram' which enables high speed transfers of money across the world.



The re-structuring of the Bank's Pension Scheme was concluded in 2006 and over 99% of the Bank's employees accepted the new scheme. The new scheme brings the Bank's pension scheme in line with international best practices. We have moved now from an undefined and fluctuating pension liability to a liability that is defined and precise.

International recognition came in many forms once again. The acclaimed US based 'Global Finance Magazine' chose Commercial Bank as 'The Best Bank in Sri Lanka' for the ninth consecutive year. The criteria for choosing the winner included growth in assets, profitability, capital strength, strategic relationships, customer service, competitive pricing and innovative products.

Commercial Bank also won the 'Bank of the Year' (Sri Lanka) Award for 2007, from 'The Banker', the prestigious UK-based magazine that serves the international banking community. The Bank has now won this international accolade six out of the eight times that the magazine has conducted the awards event, demonstrating a unique degree of consistency. The key criteria considered for the award include performance criteria, qualitative achievements and strategic initiatives.

Additionally, Euromoney, one of the world's most respected financial publications, following an independent assessment, named Commercial Bank, the Best Bank in Sri Lanka.

According to Euromoney, 'Commercial Bank of Ceylon PLC takes the plaudits for best Sri Lankan lender of the year'. Euromoney complimented the Bank for its strength across the board, from retail and corporate finance to stock underwriting, foreign

exchange and treasury services. This is the first time in many years that Euromoney had announced an award for a Sri Lankan bank.

The Bank's Annual Report for 2006 won the Gold Award in the Banking Institutions Sector, for the sixth consecutive year, at the Annual Report Awards Competition organised by The Institute of Chartered Accountants of Sri Lanka (ICASL). It also won the Silver Award in the Overall Category.

The Annual Report of the Bank for 2006 was placed first in the Banking Sector for the sixth consecutive year, at the South Asian Federation of Accountants (SAFA) awards. The Report was also adjudged 1st runner-up in the Overall Category.

The discharge of our social responsibilities has also been an important part of our success. The Bank's CSR Fund set up in 2004 continues to make important contributions in this regard.

In 2007, the Bank presented scholarships, each worth Rs. 25,000/- a year, to twenty-five undergraduates from around the country. This is the second batch of undergraduate scholarships awarded by the Bank's CSR Trust. A total of 125 undergraduates now receive Rs. 2,500/- a month from the CSR Trust. In addition, we granted over Rs 1.400 million to the Arunalu Grade V Scholarship winners.

The Bank's CSR Trust also donated equipment and essentials worth approximately Rs. 1.000 million to the Colombo National Hospital in response to a request made by the ENT unit of the hospital. The Community Impact Report captures in greater detail our accomplishments in this field.

### Concerns

High interest rates and high inflation resulted in a marginal increase in our non-performing loans. We were also forced to increase our provision for the condominium sector because of the increased potential for losses, given the sluggishness of the market. This was a main contributory factor for the increase in our total provisions to Rs. 1.777 billion, probably the highest ever in the Bank's history. Although we developed new partnerships with some of the vehicle vendors, the rate of growth in our leasing operations took a dip in 2007 compared to the previous year, due to depressed market conditions.

### Irritants

The taxation regime continues to bother us. It is a huge disincentive to all Sri Lankan private banks. The state's combination of direct and indirect taxes results in a payment of approximately 50% of our profit as taxes. A rational and focused tax regime that permits a higher retention rate is likely to deliver more value to the state coffers and the country in the long term than a short sighted, high intensity and aggressive tax regime that operates at present. Long term private sector players with a long term vision for the country are discouraged by a regime that extracts such a large percentage for the state.

### Challenges

This year will be an important year for the industry because it sees the entry of new standards with regard to provisioning, governance and accounting. The Basle II standards which come into effect from January 2008 will have major ramifications for the industry. In 2007, we submitted test calculations to the Central Bank and received

its approval. The Basle II standards require that quarterly returns be submitted to the Central Bank and our systems have been geared to handle this.

The Central Bank's new Corporate Governance code which came into operation with the dawn of 2008 sets new governance standards for banks.

A Direction issued by the Central Bank in December 2006, requires an increase in the provisioning requirements on performing and overdue loans and advances up to 1%, to be staggered over 10 quarters, thereby completing the process by the end of first quarter 2009.

New accounting standards will also impact on the industry. International Accounting Standards 32, 39 and IFRS 7 are due to come into effect in 2009. The new standards will have the greatest impact on banks since a significant portion of the assets and liabilities of banks will be covered by these new standards. The new standards may also require banks to develop new software which will entail additional costs.

The Bank has now been re-registered under the new Companies Act as 'Commercial Bank of Ceylon PLC' and new Articles of Association are being drafted to comply with the new legal requirements.

## The Future

Banking consolidation and new markets will provide the way forward for the Bank in the future. Our consolidation with NDB regrettably did not take place. However, this does not mean that we have abandoned the idea altogether.

The Bank is a long term player and its strategies are aimed at adding sustainable value to its stakeholders and the country in general. While the operating conditions of the last few years have been difficult, we are still optimistic about the long term potential of the Bank and the country. Despite the market conditions, there are still opportunities for the prudent and creative player and the Bank will continue to transform every opportunity into value for its diverse stakeholders.

Sri Lanka's future is linked very closely to the growth of the service sector. The Bank intends being a driver and beneficiary of this growth and will strive to develop Sri Lanka as a financial hub. We are constantly looking for new avenues of adding value and creating brighter futures for the Bank and the country. Our past investments in new infrastructure, IT and human resources have enabled us to deliver consistent results over the past few years and we will continue to make these investments to ensure sustainability.

The Bank is in the business of providing high quality, flexible financial solutions for a broad range of customers. We are committed to continue with this and deliver even higher levels of customer convenience in the future.

2007 was a difficult year and 2008 may turn out to be even more challenging. Yet we have seen that with prudent management and the creative use of all opportunities we could still deliver value to all our stakeholders. Our challenge in 2008 will be to maintain consistency amidst high volatility.

I appreciate the cooperation of the officers at all levels at the Central Bank of Sri Lanka. I wish to thank Messrs. Ernst & Young for the professional approach in conducting the external audit and issuing the report on time, enabling the Bank to publish this Annual Report and to conduct the Annual General Meeting on time.

We hope to report to you with the same confidence and with better results next year too.



**A.L. Gooneratne**  
*Managing Director*

Colombo  
February 18, 2008





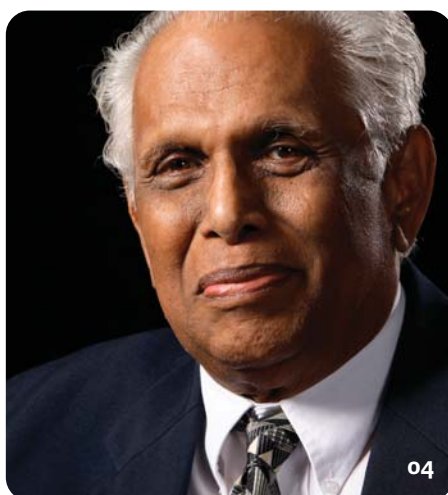




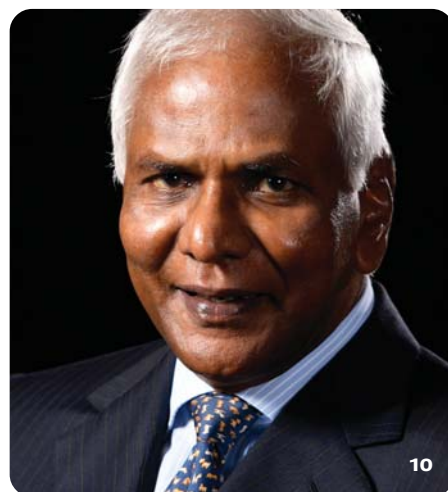
**Ahoy!**

**Profit grew mainly because of a growth in net interest income. Interest income grew through smart management of interest margins in an extremely volatile market and by prudent balance sheet management. Our COST TO INCOME RATIO of 47.87% is the lowest among all local commercial banks.**

## BOARD OF DIRECTORS - PROFILE







01. M.J.C. Amarasuriya (Chairman) 02. B.R.L. Fernando (Deputy Chairman) 03. A.L. Gooneratne (Managing Director) 04. Dr. H.S. Wanasinghe 05. A.N. Fonseka  
06. Lalin J.A. Fernando 07. Iyad M. Malas 08. D.S. Weerakkody 09. G. Galludec (Alternate to Iyad M. Malas) 10. Deshamanya Ken Balendra  
11. Mrs. R.R. Dunuwille (Company Secretary)

## BOARD OF DIRECTORS - PROFILE

### **M.J.C. Amarasuriya** *Chairman*

First appointed to the Board on May 15, 1986 and appointed Chairman on January 1, 1995.

No. of Shares held: 447,097 (Voting) and 151,881 (Non-Voting).

Chairman of  
Pelwatte Sugar Industries Ltd.  
Serendib Flour Mills (Pvt.) Ltd.  
Equity Investments Lanka Ltd.

President of  
The International Association of Lions Clubs.

Director of  
Commercial Leasing Co. Ltd.

Past Chairman of  
United Motors Lanka PLC.  
Joint Business Forum of Chambers of Commerce and Industry, Employers' Organisation and Trade Associations of  
Sri Lanka (JBIZ).

The Employers' Federation of Ceylon.

International Chamber of Commerce,  
Sri Lanka.

Regional Industry Service Committee of the  
North-Western Province.

Former Deputy Chairman of  
Hayleys PLC.

### **B.R.L. Fernando** *Deputy Chairman*

First appointed to the Board on January 1, 1995 and appointed Deputy Chairman on April 6, 2006.

No. of Shares held: 8,414 (Non-Voting).

Fellow of The Institute of Chartered Accountants of Sri Lanka.

Chairman of  
Chemical Industries (Colombo) PLC.  
CIC Paints (Pvt) Ltd.  
Chemanex Ltd.  
CIC Fertilizers (Pvt) Ltd. and its subsidiaries.  
CIC Feeds (Pvt) Ltd. and its subsidiaries.  
CIC Vetcare (Pvt) Ltd.  
CISCO Speciality Packaging (Pvt) Ltd.

Director of  
Rainwear (Pvt) Ltd.  
First Capital Equities (Pvt) Ltd.

Employees Trust Fund Board.  
Lighthouse Hotel.

Trustee of the Employers' Federation of Ceylon

Possesses extensive experience in Finance and Commerce.

### **A.L. Gooneratne** *Managing Director*

First appointed to the Board as the Managing Director on January 6, 1997.

Joined the Bank in March 1983 and held several senior positions prior to his appointment as the General Manager/Chief Executive in March 1996.

No. of Shares held: 806,216 (Voting) and 38,028 (Non-Voting).

Fellow of The Institute of Chartered Accountants, England & Wales.

Fellow of The Institute of Chartered Accountants, Sri Lanka.

Chairman of  
The Financial Ombudsman, Sri Lanka (Guarantee) Ltd. The Sri Lanka Banks' Association (Guarantee) Ltd.

Council Member of  
The Employers' Federation of Ceylon.

Represents the Bank's interests on the Boards of all of its Associate and Subsidiary Companies.

### **Dr. H.S. Wanasinghe**

First appointed to the Board on January 5, 1990.

No. of Shares held: Nil.

Senior Visiting Fellow of the Institute of Policy Studies.

Member of  
Council of Fellows of the Marga Institute.  
Board of Directors of the Centre for Policy Alternatives.  
The Transparency International, Sri Lanka.

Director of  
Commercial Development Company PLC.

Served the United Nations Economic and Social Commission for Asia and the Pacific for 15 years and on return to Sri Lanka in 1986 served as the Chairman of the Presidential Committee on Administrative Reforms, the Presidential Taxation Commission and the Public Investment Management Board. Before joining the United Nations, served as a Member of the Ceylon Civil Service for 24 years.

### **A.N. Fonseka**

First appointed to the Board on January 31, 2000.

No. of Shares held: 1,077 (Non-Voting).

Director of  
DFCC Bank PLC (General Manager/Chief Executive).  
Credit Information Bureau of Sri Lanka.

Chairman of  
Colombo Stock Exchange.

Vice-Chairman of  
Association of Development Financing Institutions in Asia and the Pacific (ADFIAP).

Member of  
Governing Board of The National Institute of Business Management.  
Post Graduate, Institute of Management, University of Sri Jayawardenepura.

Financial, Capital Markets, Legal and Taxation Clusters of the National Council for Economic Development (NCED).

National Payments Council.

Inter Regulatory Institutions Council.

Committee Member of  
The Ceylon Chamber of Commerce.

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**Lalin J.A. Fernando**

First appointed to the Board on April 25, 2003.  
No. of Shares held: Nil.  
Founder & Managing Director of Standard Trading Company (Pvt) Ltd.  
Director of  
L.F. Holdings (Pvt) Ltd.  
L.F. Teas (Pvt) Ltd.  
STC Logistics (Pvt) Ltd.  
STC Trading House (Pvt) Ltd.  
Horana Plantations Ltd.  
Ceylon Plantation Management Ltd.  
Unidil Packaging (Pvt) Ltd.  
Research International (Pvt) Ltd.  
Marlinkspike Property Developers (Pvt) Ltd.  
Counts over 36 years experience in the Tea Trade and Private Sector Management.

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**Iyad M. Malas**

First appointed to the Board on November 23, 2004.  
No. of Shares held: Nil.  
Holds an MBA from George Washington University and is a Chartered Financial Analyst.  
Has been with the World Bank Group from 1987 to 2007 and was previously a Manager in the IFC's Central Asia, Middle East and North Africa Department.  
As Head of the investment bank, Fleming CIIC in Cairo, was responsible for the creation of the largest investment bank in the MENA region.  
Instrumental in developing the Emerging Markets Data Base into a fully-fledged commercial product.  
Extensive experience working in Latin America, Asia, South Europe and the Middle East.  
Possesses extensive experience in the private sector and IFC including strong industry knowledge in General Manufacturing, Information Technology and Financial Markets.

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**Dinesh Weerakkody**

First appointed to the Board on July 29, 2005.  
No. of Shares held: Nil.  
Graduate in Business Administration.  
Holder of a Master's Degree in Business Administration (MBA) from the University of Leicester, England.  
Associate of the Chartered Institute of Management Accountants, UK.  
Managing Director of Cornucopia Lanka Ltd.  
Director of  
DFCC Bank PLC  
Smithkline Beecham Sri Lanka  
Former Chairman/CEO of Employees' Trust Fund Board, Sri Lanka.  
Advisor to the Prime Minister of Sri Lanka (January 2003 - April 2004).  
Human Resource Director of GlaxoSmithkline - Sri Lanka (January 1998 - November 2005).  
Council Member of  
Chartered Institute of Management Accountants (CIMA) Sri Lanka Division.  
Sri Lanka Tennis Association.  
Has received extensive training in Leadership, International Relations, Change Management and Human Resource Management in Singapore, UK, Japan, India and in the USA.

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**G. Galludec**  
*Alternate Director to  
Iyad M. Malas*

First Appointed to the Board on July 6, 2006.  
No. of Shares held: Nil.  
Graduated from EM Lyon (France).  
IFC Country Manager for Sri Lanka and Maldives and Program Manager - South Asia Enterprise Development Facility.  
Previously worked in the European Investment Bank in Luxembourg.  
First Secretary General of PlaNet Finance and has worked extensively in Micro finance and SME finance worldwide.  
Over 20 years of experience in the banking sector with extensive work in Africa, Central Europe and Asia in managerial positions.

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**Deshamanya  
Ken Balendra**

First appointed to the Board on October 2, 2006.  
No. of Shares held: Nil.  
Conferred the National Honour of Deshamanya by Her Excellency the President of Sri Lanka, in 1998, in recognition of distinguished services of a highly meritorious nature.  
Voted as the most effective business leader in Sri Lanka since independence in an opinion poll conducted by the 'Lanka Monthly Digest' in October 2003 and selected as the 'Sri Lankan of the Year' by the same publication in 1998.  
Co-chaired the Joint-Study Group which prepared the Indo-Sri Lanka Comprehensive Economic Partnership Agreement that was presented to the Prime Ministers of the two countries in 2003.  
Appointed by Her Excellency the President of Sri Lanka to the Task Force for Rebuilding the Nation immediately after the tsunami disaster and focused on the Roads and Bridges Sector.  
Chairman of  
Brandix Lanka (Pvt) Ltd.  
Ceylon Tobacco Co. Ltd.  
South Asia Regional Fund, sponsored by the Commonwealth Development Corporation for Investment in South Asia.  
Investment Committee of Aureos South Asia Fund, a joint venture between the Commonwealth Development Corporation of UK and NORFUND of Norway.  
The Board of Trustees of the National Council for Mental Health.  
Director of  
Chevron Lubricants Lanka PLC.  
Former Chairman of  
John Keells Holdings PLC.  
Bank of Ceylon.  
Securities and Exchange Commission.  
Insurance Board of Sri Lanka.  
Ceylon Chamber of Commerce.  
Past President of  
Sri Lanka Institute of Directors.  
Sri Lanka-India Society.  
Honorary Consul-General for Poland.

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**Mrs. R.R. Dunuwille**  
*(Company Secretary)*

Attorney-at-Law  
Chartered Secretary (UK).

## CORPORATE MANAGEMENT



### CORPORATE MANAGEMENT

01. A.L. Gooneratne (Managing Director) 02. G.L.H. Premaratne (Senior Deputy General Manager – Corporate Banking) (Since Retired)  
 03. R. Samaranyake (Senior Deputy General Manager – Finance & Planning) (Since Retired) 04. W.M.R.S. Dias (Chief Operating Officer)  
 05. G.L.C. Amarasinghe (Deputy General Manager - Human Resource Management) 06. B.H.M.G. Dharmasiri (Deputy General Manager - Corporate Banking)  
 07. S.D. Bandaranayake (Deputy General Manager - Operations) 08. M.A. Pemasiri (Deputy General Manager - Services) 09. Delip Fernando (Deputy General Manager - Inspection)  
 10. K.D. Nimal Luxshman (Deputy General Manager - Personal Banking) 11. Jegan Durairatnam (Deputy General Manager - International) 12. D.S. Weeratunga (Head of Global Treasury)  
 13. Dudeepa Ratwatte (Head of Global Markets) 14. Nandika Buddhupala (Chief Financial Officer) 15. Rohan Muttiah (Chief Information Officer)  
 16. Mrs. Marion Abeywardena (Asst. General Manager – Corporate Banking) 17. Vimal Fernando (Asst. General Manager - Personal Banking)

### SENIOR MANAGEMENT

01. S. Raghavan (Head of Exports) 02. Ajith Wijayasundara (Head of Information Technology) 03. Mrs. Carmelita De Silva (Head of Corporate Banking I)  
 04. Chandana Gunasekera (Senior Regional Manager - Colombo Inner) 05. Claude Perera (Head of Human Resources) 06. Palitha Narangoda (Market Risk Specialist)  
 07. Felician Perera (Head of Recoveries) 08. Richard Rodrigo (Head of Marketing) 09. Palitha Perera (Head of Operations) 10. Mrs. Sandra Walgama (Senior Regional Manager – Colombo South)  
 11. C.M. Abeysekera (Head of Corporate Banking II) 12. Naveen Sooriyarachchi (Head of Corporate Finance) 13. Mrs. Sarojini Dunuwille (Chief Manager - Legal)  
 14. S. Renganathan (Country Manager - Bangladesh) 15. Hilary Fernando (Chief Manager - Treasury Processing) 16. Nirana De Costa (Regional Manager - Colombo North)  
 17. B.W.R. Srikantha (Regional Manager – Colombo Metro) 18. Duminda Kurukulasuriya (Chief Manager - Imports) 19. Roshan Perera (Regional Manager - Greater Colombo)  
 20. Mrs. R.R. Dunuwille (Company Secretary) 21. Nugent Kapuwatte (Chief Manager - Leasing and Personal Loans) 22. Noel Wickramasinghe (Chief Manager - Logistics)  
 23. Lakshman Perera (Chief Manager - Card Centre) 24. Anura Ratnayake (Chief Manager - Operations - Foreign Branch) 25. V.S. Rajasooriyar (Regional Manager - North Eastern)  
 26. Vajira Thotagammana (Chief Manager - IT Operations) 27. Sarath Pallewela (Chief Manager - Security) 28. Leel Rodrigo (Regional Manager – South Eastern)  
 29. Ajith Naranpanawe (Regional Manager – North Western) 30. Sivam Yoganandasivam (Chief Manager – IT Research & Development) 31. Ivan Fernando (Regional Manager – Southern)  
 32. Sanath Manatunga (Chief Manager – Corporate Banking) 33. Prasanna Indrajith (Chief Manager – Finance)



## SENIOR MANAGEMENT





## MANAGEMENT COMMITTEE - BANGLADESH



- 01. S. Renganathan (Country Manager)
- 02. D. Das Gupta (Senior General Manager)
- 03. S. Prabagar (Chief Operating Officer)
- 04. S. Kutubuddin Ahmed (General Manager - Risk, Compliance and Corporate Affairs)
- 05. Golam Mortuza (Deputy General Manager - International Trade)
- 06. A.K. Nandy (Deputy General Manager - Head of Chittagong Branch)



01. Commercial Bank - Bangladesh opened its New Branch in Narayanganj. Managing Director Mr. A.L. Gooneratne and the High Commissioner for Sri Lanka in Bangladesh Mr. V. Krishnamoorthy are seen ceremonially opening the new branch.



02. Country Manager of Bangladesh Operations Mr. S. Renganathan receiving the "ICMAB National Best Corporate Award -2007" from Dr. A.B. Mirza Azizul Islam, Honourable Advisor to the Ministry of Finance, Planning, Commerce, Post and Telecommunication.



03. Mr. S. Prabagar, Chief Operating Officer of Bangladesh Operations receiving "The Financial Mirror - Robintex Business Award 2007" for the Bank's outstanding performance from Mrs. Geetiara Safia Chaudhury, Honourable Advisor to the Ministry of Industry.



## Manoeuvring Rough Seas

COMMERCIAL BANK CONSOLIDATED ITS POSITION AS THE PREMIER BANK IN THE COUNTRY AND CONTINUES TO BE THE MOST PROFITABLE, FINANCIALLY STRONG AND SOUND BANK MEASURED IN TERMS OF PROFITS, PROFITABILITY AND FINANCIAL RATIOS AND THE LOCAL AND INTERNATIONAL RECOGNITION IT HAS RECEIVED.

### Economy

The Sri Lankan economy showed mixed fortunes in 2007. The GDP growth rate for 2007 is expected to be around 6%. The rate of unemployment was 5.6% in the third quarter of 2007, recording an improvement from 6.4% in the corresponding period of 2006. However, a cause for concern was the high rate of inflation. Interest rates also recorded high levels with T-bill rates topping 20% by the end of the year. Besides, the LKR/US\$ exchange rate displayed considerable volatility due to a host of factors including high oil and commodity prices in international markets and internal risks associated with war, political instability and macroeconomic policy. The rupee noticeably strengthened against the US dollar towards the end of the year mainly due to the Government's successful mobilisation of foreign exchange inflows through its sale of treasury bonds to foreigners and its debut international bond issue towards the latter part of 2007.

The main issues confronting the Sri Lankan economy in recent years could be identified as high inflation, negative real interest rates, current account deficits and wide trade gaps, modest Balance of Payments (BoP) surpluses, an ever depreciating rupee and consistently wide revenue and fiscal deficits. Similarly high oil prices, slow fiscal consolidation, and security concerns are key risks to the near term growth-inflation outlook.

Some of the macroeconomic indicators of the Sri Lankan economy for the year 2007 is given below:

#### Snapshot of the Sri Lankan Economy

	2007	2006
GDP at Current Market		
Prices US\$ billion	32.63 <sup>e</sup>	26.01
GDP Growth Rate %	6.0 <sup>e</sup>	7.7
Balance of Payment (BoP)	631	204
Budget Deficit as % of GDP	7.2 <sup>e</sup>	8.4
Exchange Rate - Rs./US\$		
(End - Year)	108.50	107.50
Total Debt as % GDP	93 <sup>e</sup>	93
Gross Official Reserves		
US\$ million	3,062.5	2,525.9
Rate of Inflation (based on		
CCPI Annual Avg. Change) %	17.5	13.7
Change in Money Supply %	16.6	17.8
<b>Interest Rates (%)</b>	<b>2007</b>	<b>2006</b>
	<b>(end)</b>	<b>(end)</b>
AWPLR	17.95	15.19
SLIBOR - 1 Day	20.25	14.73
Treasury Bills - 12 Months	19.96	12.96
AWDR	10.31	7.60
AWFDR	15.49	11.50
Repo	10.50	10.00
Reverse Repo	12.00	11.50
All Share Price Index (ASPI)	2,538	2,726
Market Capitalisation (Rs. billion)	820.6	834.8

*e-Estimated*

### Banking Sector

The banking sector in Sri Lanka is the largest sub-segment within the Sri Lankan financial sector, accounting for 57.5% of financial sector assets as at end December 2006. Although there were 23 licensed commercial

banks in operation as at June 30, 2007, the six largest commercial banks accounted for 65% of total banking system assets. The state-owned National Savings Bank, which is the largest licensed specialised bank, accounted for another 10.5%. Overseas operations of Sri Lankan banks have been very limited. Commercial Bank acquired Bangladesh operations of Credit Agricole Indosuez in 2003 and operates 9 branches across the country. The state-owned Bank of Ceylon has branches in London, Chennai and Male.

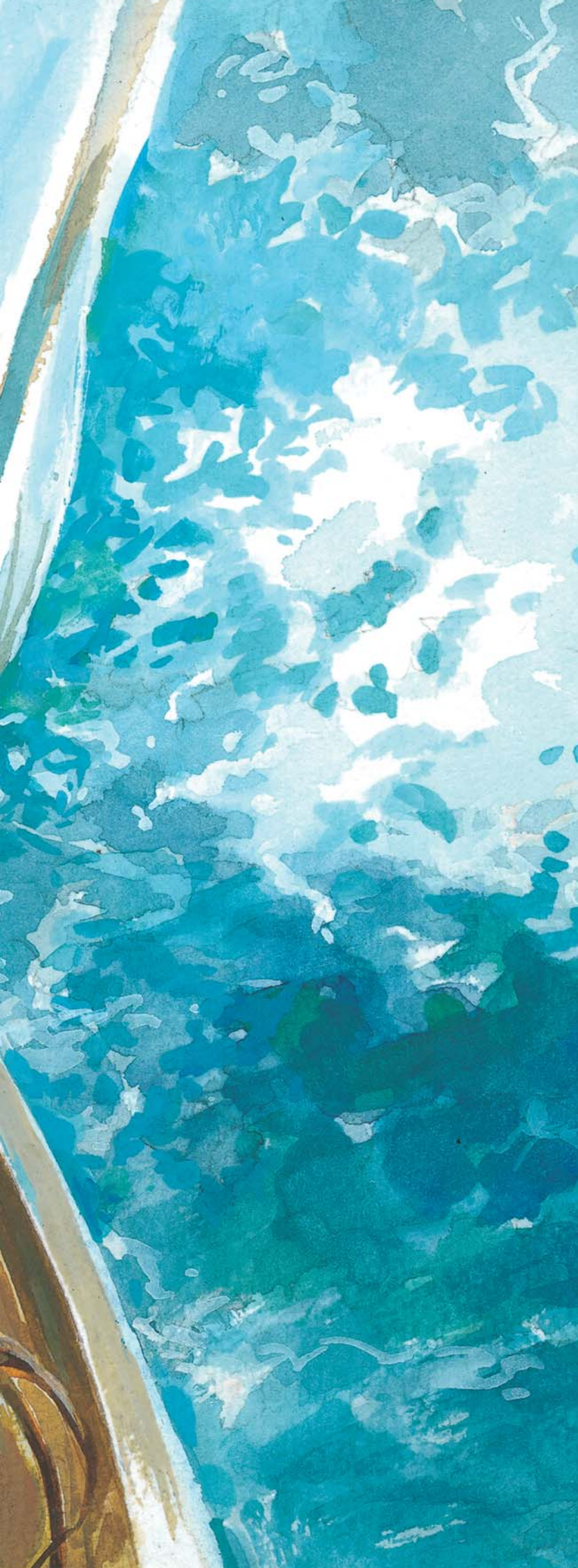
Despite, the volatile and rising interest rate environment, the Sri Lankan banking industry managed to sustain profitability. Although the volume of gross Non-Performing Loans (NPL) of the banking sector increased in 2007, the NPL ratio has declined steadily over the past few years mainly due to rapid loan growth and the improvement in Risk Management practices of banks, albeit there are significant disparities among individual banks.

Bank credit has expanded by over 20% annually over the last three years. The sectoral distribution of credit is fairly broad-based. Lending to the consumption sector amounted to around 20% of total credit, while loans to the housing, construction and property development sector accounted for around 16%. Deposits in the banking sector had grown by a compound annual growth rate of 17.1% during 2002-2006. The high cost of living as well as comparatively higher rates offered for Government securities will continue to pose a challenge in mobilising deposits.









## **Riding the rough with the smooth**

**The Bank's market capitalisation increased by Rs. 8 billion during the year despite the Price Earnings Ratio dropping to 8.73% compared to 14.95% in the previous year. On the other hand our profits rode a crest and hit an all time high: TURNOVER growing by 44% and PROFIT AFTER TAX by 104%.**

The physical infrastructure of Sri Lanka's financial system has considerably improved over the last several years, in terms of technology as well as availability. The Real Time Gross Settlements System (RTGS) and the Scripless Securities Settlement System (SSSS) introduced in 2003 and 2004, respectively, allow easy settlement of time-critical payments and the paperless transaction of Government securities. In 2006, a cheque imaging and truncation system was introduced to expedite the clearing of cheque-based payments countrywide.

New Directions issued by the Central Bank in 2007 on shareholder limits to facilitate broad-basing of ownership of banks. Similarly, directions have also been issued in relation to single borrower limits. As the basic form of Basel II Capital Adequacy Framework is operational from January 2008, banks have gradually begun to create separate risk management structures.

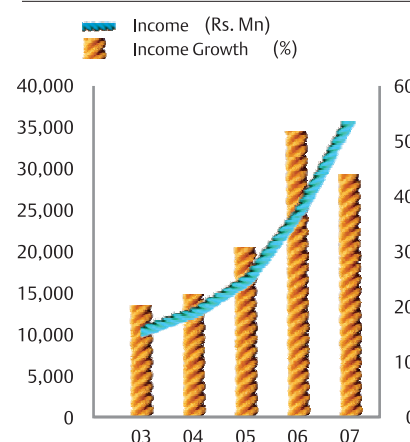
The Central Bank will also introduce a mandatory Code of Corporate Governance in place of the voluntary code that now exists, making Boards of Directors of banks responsible and accountable for the banks' performance and risk management, while attaching high priority to depositors' interests. In addition, the Colombo Stock Exchange has issued guide lines on rules on Corporate Governance principles with effect from financial years commencing on or after April 1, 2007. Additionally, a revised format for publication of banks' Financial Statements in their Annual Reports is to be introduced to improve disclosure requirements. The Central Bank of Sri Lanka is also expected to facilitate the adoption by banks of internationally accepted accounting and reporting standards such as IAS 32, IAS 39 and IFRS 7.

## Financial Review

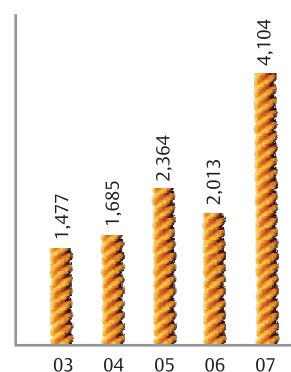
The Bank recorded a splendid performance during the year despite the turbulence that prevailed throughout the year due to macroeconomic environment in the country. Commercial Bank consolidated its position as the premier Bank in the country and continues to be the most profitable, financially strong and sound Bank measured in terms of profits, profitability and financial ratios and the local and international recognition it has received. Amidst a very competitive market where 23 commercial banks and 9 specialised banks vying to grab the honours, the growths recorded by the Bank in market shares in deposits and advances is commendable. Commercial Bank now commands 11%, 12% and 9% of the market shares in deposits, advances and total banking assets of the country respectively. The Bank provides a diverse range of financial and non-financial services through a wider network of branches, ATMs and other delivery channels in Sri Lanka as well as in Bangladesh.

The Bank was able to record excellent results in every business segment it operated during the year. The Bank stepped into new geographical locations locally as well as in Bangladesh, establishing business relationships with the members of these new distinct localities. Now, the Commercial Bank delivers its services from 163 branches locally, 9 branches in Bangladesh connected to a common computer network besides fulfilling the needs of members of the community through 291 ATMs, the single largest ATM network in the country which is connected to over 1,000,000 Cirrus and Maestro ATMs network globally. Business Promotion Officers have been placed in several Middle Eastern countries to canvass inward remittances of the expatriate community to the country. Additionally, arrangements are being made to place a few

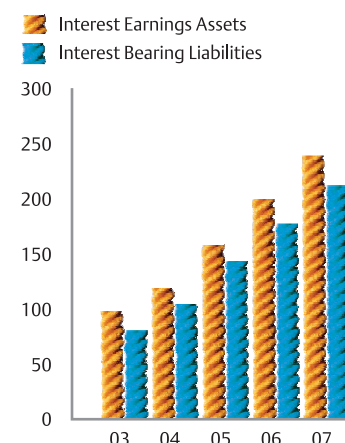
## Income & Income Growth



## Profit After Taxation (Rs. Mn)



## Growth in Business Volumes (Rs. Bn)



Bank officers at selected overseas locations. During the year, the customer base of the Bank increased substantially thus bringing new business opportunities to the Bank. Despite the substantial increases recorded in business volumes, the Bank managed to maintain a consistent risk profile in the asset portfolio of the Bank during the year.

The pre-tax profit of the Bank grew to Rs. 6.705 billion from Rs. 4.214 billion reported last year, recording a phenomenal increase of Rs. 2.491 billion or 59.12% over the previous year. Provision for taxation recorded a lower increase of 18.19% mainly due to effective tax planning measures adopted by the Bank. As a result, the profit after tax reached Rs. 4.104 billion compared to Rs. 2.013 billion recorded in the previous year representing a monumental growth of Rs. 2.091 billion or 103.89%. However, after discounting for the exceptional items recorded in 2006, being the initial cost incurred on account of restructuring the Pension Scheme of the Bank and profit earned on disposal of DFCC shares too, the pre-tax and post-tax profit for 2007, recorded an increase of Rs. 1.738 billion and Rs. 1.337 billion or 34.99% and 48.35% respectively, over the normalised pre-tax and post-tax profits recorded for 2006 by the Bank. The increase in profits was mainly facilitated by the impressive growths recorded in fund and fee based operations of the Bank during the year under review.

Strong organic growth in business volumes and prudent fund management amidst a volatile and increasing interest rate environment contributed in recording a substantial growth in net interest income. The volumes of deposit recorded an increase of 16.26% to reach Rs. 183.110 billion while total net advances recorded an increase of 15.81% to reach Rs. 174.324 billion over the previous year. The total interest earning

assets reached Rs. 240.833 billion from Rs. 199.744 billion representing a growth of Rs. 41.089 billion or 20.57% over the previous year while the total interest bearing liabilities reached Rs. 212.143 billion from Rs. 178.708 billion representing a growth of Rs. 33.435 billion or 18.71% over the previous year. The growths in volumes along with prudent fund management measures adopted, helped the Bank to reach Rs. 11.552 billion in net interest income recording an increase of Rs. 3.975 billion or 52.46% over the previous year. However, due to the overall increase recorded in the rates of interest, the Bank witnessed a gradual movement of funds from low cost deposits to high cost deposits. The Bank duly settled the syndicate borrowing of US\$ 65.0 million during the year.

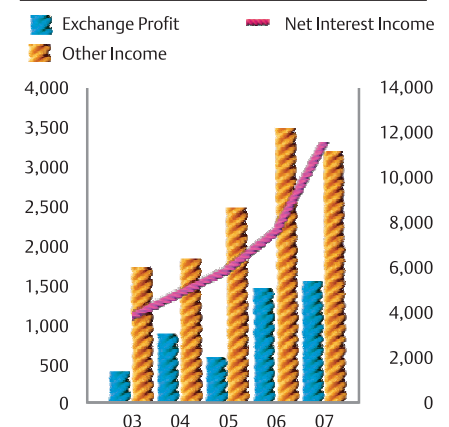
It is noteworthy to mention that the pre-and post-tax profits of the Bank reported above were achieved after providing Rs. 1.777 billion on account of possible loan losses in 2007 which recorded an increase of Rs. 1.122 billion or 171.34% compared to Rs. 0.655 billion provided in 2006. This increase was primarily attributable to the general provision of Rs. 0.548 billion made on performing and overdue loans and advances as per the Direction issued by the Central Bank in 2006. The Bank provided Rs. 0.110 billion under this Direction in 2006. Additional provisions made as a matter of prudence to an identified vulnerable sector and provisions made disregarding the security value as per the 'Hair Cut Rule' too had contributed in recording a substantial increase in provision for possible loan losses during the year. Consequent to these provisions, the Provision Cover and the Open Credit Exposure ratio of the Bank further improved to 67.54% and 9.59% respectively as at December 31, 2007 from 60.41% and 9.84% recorded as at December 31, 2006.

Though there is an increase recorded in the non-performing advances ratio mainly due to the inflationary conditions and general increase observed in the overall interest rates, the Bank's NPL ratio of 3.01% is considered to be the best among the peer banks based on the results published up to September 30, 2007. This signifies the sound risk management practices, pre-and post-sanction monitoring and aggressive recovery efforts made by the Bank during the period under review.

Foreign exchange profits recorded a moderate growth of 7.35% to reach Rs. 1.545 billion. This moderate growth was mainly attributable to the drops recorded in revaluation of OBC's retained profit kept in US dollars. However, foreign exchange trading recorded a substantial increase over the previous year. The LKR/US\$ rate was volatile during the year, however, before ending firmer at Rs. 108.50 after an influx of dollars through the Government's foreign debt financing policy. On year-to-year basis, the LKR recorded a depreciation of 0.93% against the US\$ in 2007 compared to 5.37% recorded a year ago.

## Net Interest Income, Exchange Profit & Other Income

(Rs. Mn)





## MANAGEMENT DISCUSSION AND ANALYSIS

The growth in business volumes resulted in an increase of fees and commission-based income by 18.46% compared to the previous year. However, a negative growth of 46.72% was recorded in other income as a result of profit on disposal of DFCC shares being included in the other income of previous year. After discounting for such effect, the other income in 2007 recorded a growth of 6.92% compared to the previous year.

Operating expenses continued to remain under firm control. As a result, the growth in earnings well exceeded the growth in costs. After discounting for the effect on initial cost of re-structuring the Pension Scheme and the saving on financial VAT thereon, the normalised operating expenses recorded an increase of 26.81% over the previous year which was well below the growth of 38.31% reported in earnings. As a result, the Cost to Income ratio of the Bank recorded a substantial improvement to reach 47.87% by the year end compared to 52.21% recorded a year earlier. It is pertinent to mention that the Cost to Income ratio of the Bank is considered to be the best ratio reported by a local commercial bank, based on the results published up to September 30, 2007.

The Bank depended solely on the retention of profits to support the enhanced capital requirements consequent to the increase recorded in the asset-base of the Bank. As a result, the Bank witnessed a deteriorating Capital Adequacy ratio during the last few years. This situation has further aggravated due to the increased risk weights applied on facilities granted against residential mortgages and other loans and advances as per a Direction issued by the Central Bank in 2006. With a view to addressing this dilemma as well as to supplement deposit mobilisation efforts, the Bank made a rights issue of ordinary shares on the basis of 3 for 10 and raised Rs. 5.741 billion during first half of the year. Subsequently, the Bank also made a scrip issue of shares on the basis of 1 for 3.

Total assets of the Bank increased to Rs. 267.940 billion as at December 31, 2007, as against Rs. 223.974 billion reported as at December 31, 2006, recording a growth of Rs. 43.966 billion or 19.63%.

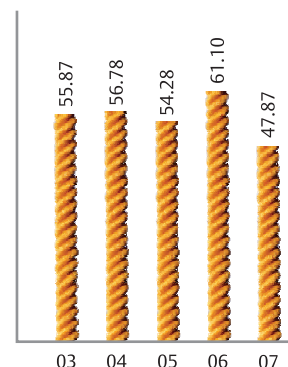
The Bank's Bangladesh operations continued to perform remarkably well, building customer relationships and increasing the branch network. Consequent to this performance, the Bangladesh operations repatriated a profit of US\$ 1.800 million during 2007. Thus, this operation has so far remitted US\$ 4.500 million during the two years ended December 31, 2007.

Commercial Bank recorded the largest market capitalisation of Rs. 34.234 billion among all listed banks and financial institutions in Sri Lanka and ranked No. 4 (No. 5 in 2006) among all listed companies on the Colombo Stock Exchange.

The Directors recommended a final dividend of Rs. 2.50 per share payable on March 28, 2008, which together with three interim dividends already paid totalling to Rs. 4.50 per share, will add up to a total dividend of Rs. 7.00 per share for the year 2007, on the enhanced issued share capital of the Bank consequent to the rights and bonus issues mentioned above. Thus, the Bank has declared a total dividend of Rs. 1.743 billion to its ordinary shareholders for 2007, as against Rs. 0.716 billion paid for 2006, an increase of Rs. 1.027 billion. The Dividend Payout ratio of the Bank including the final dividend declared, amounted to 43.67% for the year which is also well above the minimum of 25.00% prescribed under the Deemed Dividend Tax rule.

It is noteworthy to mention that the Bank has been able to maintain Compounded Annual Growth Rates in excess of 24.00% for both deposits and loans & advances and 25.00% in pre-tax profits over the past ten years.

### Cost/Income Ratio (%)

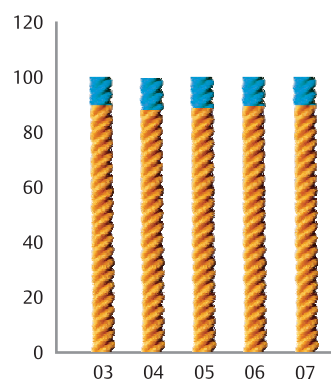


### Free Capital (Rs. Mn)



### Asset Mix (%)

■ Non Interest Earning Assets  
■ Interest earning Assets





The following table summarises the Bank's performance with regard to some of the key objectives set at the beginning of the year:

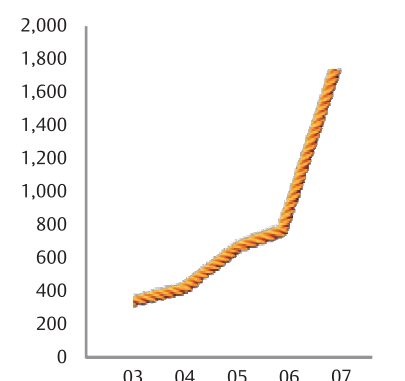
Key Objectives	2007 Actual	2007 Budget	2006 Actual
Total Revenue (Rs. million)	<b>35,222.9</b>	33,160.1	24,469.5
Pre-Tax Profit (Rs. million)	<b>6,704.7</b>	6,541.6	4,213.5
Post-Tax Profit (Rs. million)	<b>4,103.6</b>	3,801.3	2,012.6
<b>Ratios</b>			
Return on Average Shareholders Funds	<b>20.63%</b>	18.69%	12.73%
Return on Average Assets	<b>1.67%</b>	1.51%	1.00%
Earnings per Share	<b>Rs. 16.84</b>	Rs. 14.72	Rs. 8.61
Cost/Income Ratio	<b>47.87%</b>	50.85%	61.10%
Non-Performing Advances	<b>3.01%</b>	2.75%	2.78%
Capital Adequacy Tier I	<b>10.57%</b>	10.38%	7.61%
Tier I & II	<b>13.69%</b>	13.81%	11.56%
Deposits (Rs. million)	<b>183,110.1</b>	199,823.6	157,496.2
Advances (Rs. million)	<b>178,878.2</b>	193,198.5	154,174.3

As shown in the table, the Bank achieved most of the budgeted targets set at the beginning of the year whilst recording substantial improvements over the previous year. Growth in all business segments, as evidenced by the increase in revenue have been the main drivers behind the Bank's achievement during 2007.

The pre-tax profit of the Commercial Bank Group amounted to Rs. 6.791 billion as against Rs. 4.321 billion recorded in 2006, which amounted to a growth of 57.15%. The post-tax profit of the Group for the year amounted to Rs. 4.152 billion reflected a growth of 100.37%, compared to the post-tax profit of Rs. 2.072 billion of the Group in 2006. The factors that contributed to the excellent performance of the Bank have been attributable to record such high growth rates in the Group as well. However, after discounting for the effects of exceptional items recorded in 2006, the pre-and post-tax profits of the Group recorded a growth of 33.82% and 46.95% respectively.

As a result, the financial ratios of the Group have recorded substantial improvements over the previous year. The Group reported a basic Earnings Per Share of Rs. 17.04.

#### Gross Dividend to Equity holders of the Parent (Rs. Mn)



The contribution made by the four broad business divisions viz. the Corporate Banking, the Personal Banking, International Operations and the Treasury to the profits and business volumes of these divisions is summarised below:

	2007		2006	
	Rs. Million	%	Rs. Million	%
Profit before Tax:				
- Corporate Banking	<b>2,185.47</b>	<b>32.60</b>	1,039.69	24.68
- Personal Banking	<b>2,833.46</b>	<b>42.26</b>	1,887.84	44.80
- Treasury	<b>635.48</b>	<b>9.47</b>	306.78	7.28
- Overseas Operations	<b>1,050.32</b>	<b>15.67</b>	979.24	23.24
Total	<b>6,704.73</b>	<b>100.00</b>	4,213.55	100.00
Loans and Advances (Gross):				
- Corporate Banking	<b>77,039.71</b>	<b>43.07</b>	74,507.94	48.33
- Personal Banking	<b>89,229.81</b>	<b>49.88</b>	68,868.24	44.67
- Overseas Operations	<b>12,608.71</b>	<b>7.05</b>	10,798.16	7.00
Total	<b>178,878.23</b>	<b>100.00</b>	154,174.34	100.00
Deposits:				
- Corporate Banking	<b>29,221.07</b>	<b>15.96</b>	27,455.53	17.43
- Personal Banking	<b>137,715.13</b>	<b>75.21</b>	116,782.66	74.15
- Overseas Operations	<b>16,173.93</b>	<b>8.83</b>	13,257.97	8.42
Total	<b>183,110.13</b>	<b>100.00</b>	157,496.16	100.00

The performance, major initiatives during 2007 and plans for the future of these four divisions are discussed in detail.









**Not the best time  
for speed**

**For the first time in  
many years our  
growth of deposits  
and advances  
slowed down.  
However, our  
DEPOSIT BASE of  
Rs. 183 billion  
and our ADVANCES  
BASE of Rs. 179 billion  
still place us far  
ahead of most  
private banks.**

## CORPORATE BANKING

### Products

- Letters of Credit
- Shipping and other guarantees
- Import and export finance
- SWIFT facilities
- Syndicated loans
- Project financing
- Securitisation
- Structuring, managing and underwriting of Initial Public Offerings and Private Placement of Equity
- Company valuations and restructuring
- Investment advice and evaluation
- Structuring of Corporate Debt Instruments
- Working capital financing
- Leasing
- Domestic and International Factoring
- Off-shore banking facilities
- Internet banking
- Sponsor of the Colombo Stock Exchange
- Bullion Trading

### Core Competencies

- Financial stability and strength
- Highest rating among local commercial banks
- Large single borrower limit
- Expertise in corporate credit and trade finance
- High level of professionalism
- Innovative products
- State-of-the-art technology
- On-line branch network
- In-house legal expertise
- Cost effective operations
- Well established and trusted correspondent Banks

### Future Strategies

- To be identified as 'The Banker' for Corporates
- To diversify the advances portfolio
- To leverage on the well established customer-base and relationships with correspondent banks
- To introduce innovative products and services which are mutually beneficial to both the bank as well as customers
- To increase the market share in international operations
- To further improve the quality of the loan book
- To widen the spectrum of the Corporate Finance Unit
- To simplify operations and ensure speedy delivery
- To offer the best package to customers backed by state-of-the-art technology and cost effective operations
- To establish itself as an independent entity within the bank

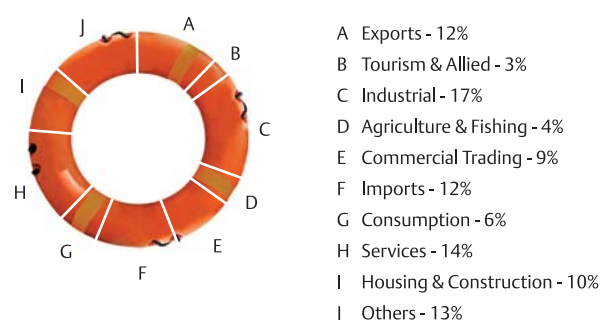
## Overview

The activities of the Corporate Banking Unit encompass the Foreign Branch, the Offshore Banking Centre and the Corporate Finance Unit (CFU). The Foreign Branch has over the years achieved a reputation for expertise in trade finance operations and caters to a clientele in diverse fields of business activity. Its customers vary from medium-size to multinational and large local corporate business entities and blue-chip companies.

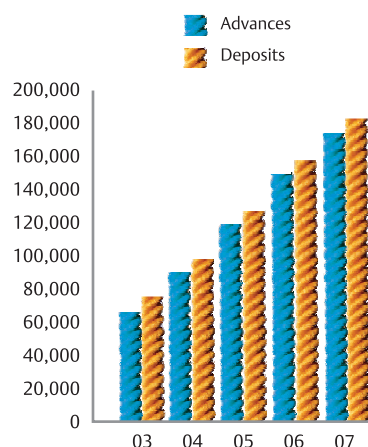
The Corporate Banking Unit offers its customers a wide range of services including working capital financing, leasing and factoring facilities, project financing and related services.

The Corporate Finance Unit (CFU) provides a wide array of investment banking services including syndicated finance, large project finance, structuring/placement of corporate bonds, private placement of equity/debt, IPOs, financial restructuring and financial advisory services.

### Sectoral Classification of Loans & Advances - 2007

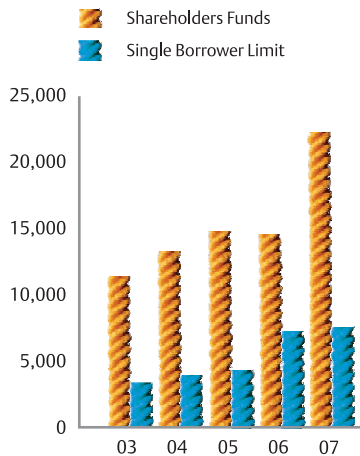


### Advances & Deposits (Rs. Mn)

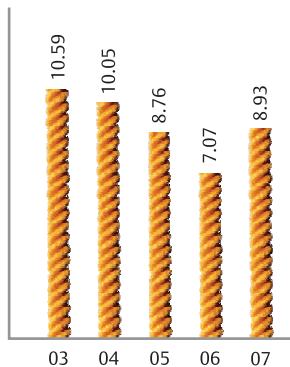




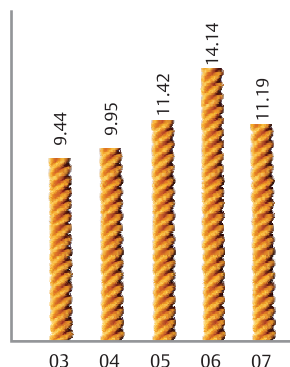
### Shareholders' Funds/ Single Borrower Limit (Rs. Mn)



### Shareholders' Funds/ Total Liabilities and Shareholders' Funds (%)



### Total Assets to Shareholders' Funds (Times)



### Achievements - 2007

- Loans and advances recorded a growth despite a low appetite for credit in view of the high interest rate environment which prevailed in 2007.
- The net non-performing ratio of the Bank as at December 31, 2007 was 3.01% which denotes the high quality of the loan book of the Corporate Banking Unit. This ratio is considered to be the best reported by an indigenous bank in the country signifying the sound credit appraisal process and the post-disbursement monitoring of the Bank.
- Import and export turnover of the Bank amounted to US\$ 1.129 billion and US\$ 0.824 billion for the year 2007, recording an increase of 18% and 6% respectively over the last year. A substantial portion of the import and export turnover of the country is presently routed through the Bank.
- The lease portfolio of Foreign Branch, recorded at Rs. 2.1 billion is a growth of 14% from the previous year, despite the economic volatility in the country. Further, the Foreign Branch maintained a very healthy lease portfolio with an infected ratio of less than 1%.
- Turnover from domestic factoring business also a recorded growth of 12% to reach a level of Rs. 4.47 billion from Rs. 3.99 billion in 2006. Turnover from the export factoring business which the Bank commenced in 2005, under the membership of the Factors Chain International, reached US\$ 4.1 million.
- The Corporate Finance Unit (CFU) recorded a substantial increase in income despite adversities posed by the unstable political and economic environment along with the rising interest rates. The CFU also structured several syndications and continued to invest in securitised bonds, debentures and preference shares during the year.
- The Bullion Trading Unit recorded a satisfactory growth and consolidated its position as the market leader in the trade. The Bank has now established a name as the premier bullion supplier in the country.
- The Bank has a well established and trusted network of correspondent banks, covering every part of the world. This long-standing relationship has provided a distinct advantage to the customers of the Bank in their international business with counterparties globally.

## PERSONAL BANKING

### Products

- Current, Savings (Passbook and Statement) and Fixed Deposit Accounts
- CAT Cards
- Credit Cards
- Debit Cards
- 'Arunalu' and 'Isuru' Minors' Accounts
- 'DotCom' and 'DotCom Spin' Teen Saver Accounts
- Power Savings Accounts
- Certificates of Deposit
- Salary Remittance Package
- 'Nivahana' Housing Loans with Fixed and Floating Rates
- 'Pahan' Personal Loans with top-up facility
- 'ComShakthi' Leasing facility
- 'Diribala' Development Loans
- Holiday Banking Centres
- Saturday Banking
- Priority Banking
- ComBank Online - Internet Banking
- Telephone/SMS Banking
- 'Udara' Senior Citizens' Deposit Account
- 'FC Plus' - Foreign Currency Savings Account with high interest rates
- Utility Bill payment service through ATM/Internet
- Bancassurance
- Com-e-Load-mobile phones reload facility
- Mobile ATM
- Com-Leap - Tiered Savings Accounts
- Com SMS - Mobile Phone Banking Facility
- Pay Master - Total Payment solution to Corporate Clientele

### Core Competencies

- 'ComNet' computer linked branch and ATM network
- State-of-the-art information technology
- Branch network spread out in every part of the country
- Wide portfolio of innovative products
- Recognition as the Best Bank in the country
- Speedy decision-making due to region-wise setup
- A target oriented work culture
- Speedy and friendly service
- 24 hours 365 days service
- Availability of Visa, Master Card, Debit card and Travel card

### Future Strategies

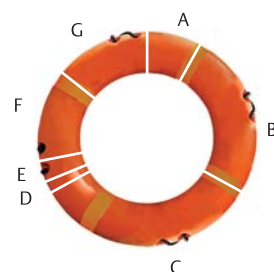
- To develop low cost delivery channels
- To adopt new customers relationship and segmentation techniques
- To expand cross selling
- To develop new products for untapped market segment
- To increase market share in deposits and advances
- To venture into new business lines such as wealth management, MICRO financing and pawning
- To use CSR activities to promote the image as a 'National Bank'
- To maintain superior customer service standards
- To maintain the technological superiority
- Reinforce the corporate image as the 'Best Bank' in all aspects

## Overview

Traditional bricks and mortar branches still play a dominant role in the Sri Lankan banking sector. Commercial Bank continued its branch expansion programme with the addition of 12 delivery points to their network. Now, the Bank provides services through delivery points spanning every part of the island. Further, the Bank installed 22 ATMs including off-site ATMs during the year making a total of 291 ATMs at the year end which is considered to be the largest single ATM network in the country. All delivery points and ATMs are interconnected in an on-line real time computer net work branded 'ComNet'. The Commercial Bank is now firmly established as a true national bank in the country.

The Personal Banking Division is responsible for the successful operation of the extensive islandwide network of delivery channels which caters mainly to the banking needs of personal customers and small and medium enterprises. The 10 Regional Offices make an important contribution to the excellent performance of this Division by decentralising and expediting the process of decision-making relating to credit and operations of branches. The Card Centre which issues 'CAT' ATM cards and Credit & Debit cards under franchises from Master Card International and Visa comes under this division. The operations of the Holiday Banking Centres, the Saturday Banking and the Priority Banking Centre at the Reid Avenue branch too comes under this division.

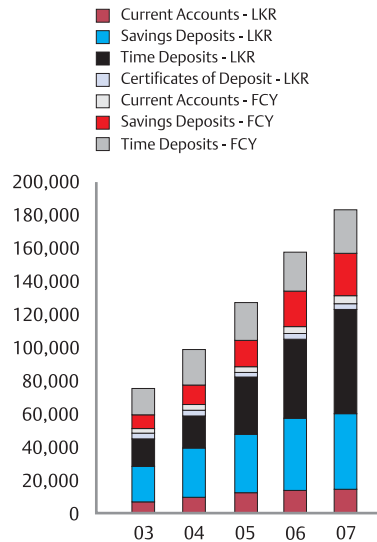
### Deposit Mix - 2007



- A Current Accounts - LKR - 8%
- B Savings Deposits - LKR - 25%
- C Time Deposits - LKR - 34%
- D Certificates of Deposit - LKR - 2%
- E Current Accounts - FCY - 3%
- F Savings Deposits - FCY - 14%
- G Time Deposits - FCY - 14%

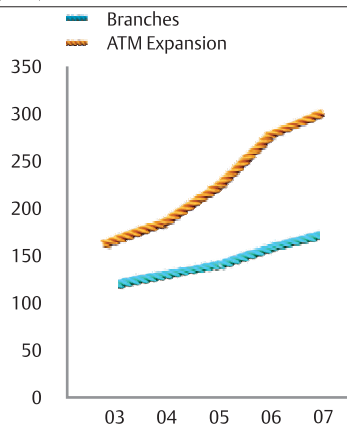
### Growth in Deposit

(Rs. Mn)



### Branches & ATM Expansion

(Nos.)



### Achievements - 2007

- The Personal Banking division recorded commendable growth rates of 17.92% and 29.57% deposits and advances respectively in spite of the inflationary conditions that prevailed in the country.
- This Division channelled a considerable amount of low cost funds mobilised in excess of the lending requirements to the Corporate Banking Division and the Treasury for their lending and investment activities.
- 7 branches were opened at Kalawana, Digana, Polgahawela, Boralessgamuwa, Hanwella, Pannala and Kirindiwela and also Supermarket Banking Counters were opened at Ragama, Matara, Panadura, Horana and Wattala.

Delivery points in the network comprised of 140 branches, 22 Supermarket Banking Counters and a Counter at the Bandaranaike International Airport. Bank considers this network, to be a great asset that provides immense potential and opportunities for future growth of the Bank

- Number of Regional Offices expanded to 10 with a view to further rationalising the operations of the branch network and speeding up the decision-making process.
- Kurunegala, Batticaloa and Maharagama branches commenced Saturday Banking while Matugama branch commenced Sunday Banking.
- Substantial increase in the number of transactions through the ATMs, which dispense over Rs. 225.0 million in over 88,000 transactions each day, bears ample testimony to the immense popularity of our 'CAT' ATM network.
- The number of 'CAT'/Debit cards issued during the year exceeded 260,000 leading to the total number of cards issued, to exceed 1,300,000.
- Introduction of Instant Debit Cards.
- Installed an ATM switch whereby the Bank issues ATM cards on behalf of certain other non-bank financial institutions.
- Launched the 'Pay Master', a total payment solution for corporate clientele and extending the 'Com e-load' facility to Mobitel, the 2nd largest mobile service provider in the country.









## **On course for bigger things**

**We increased our provision for loan losses by 171% over the previous year. At the same time we continue to enjoy the highest CREDIT RATING accorded to a local commercial bank: AA+ (Ika).**

**Number of ATMs in Sri Lanka will soon exceed 300 for convenience of our valued customers.**

## TREASURY

### Products

- Foreign Exchange dealings
- FIS and futures trading
- Commercial paper
- Currency Swaps
- Interest Rate Swaps, FRA's, Caps, Floors and Collars
- Commodity price hedging
- G7 and LKR FX options
- DCD's and other yield enhancing structures

### Core Competencies

- Availability of a fully customised Treasury software package
- Risk management unit with integrated ALM/FTP and customer profitability
- Competitive rates due to sufficient FX resources
- Possibility of mobilising foreign currency funds due to operations outside the country
- Possibility of mobilising local currency funds due to well established and wide branch network
- Innovative & customised treasury products
- Strong relationships with foreign banks
- Well trained Treasury team
- Financial strength and image of the Bank
- Hedging FX and interest rate risk
- Market views on FX and interest rates
- FIS trading
- Highest rating among local Banks

### Future Strategies

- To increase the fee-based income through derivative products
- To introduce structured products via our branch network
- To strengthen the role of ALCO with a view to maximise gains and to minimise risk
- To improve risk management practices
- To introduce Islamic banking to attract Middle Eastern clientele
- To further streamline Treasury operations
- To ensure accuracy and timeliness in decision-making
- To become a dominant market maker in Government debt securities
- Focus on retailing structured products via our network
- Selling LKR FIS to foreigners

## Overview

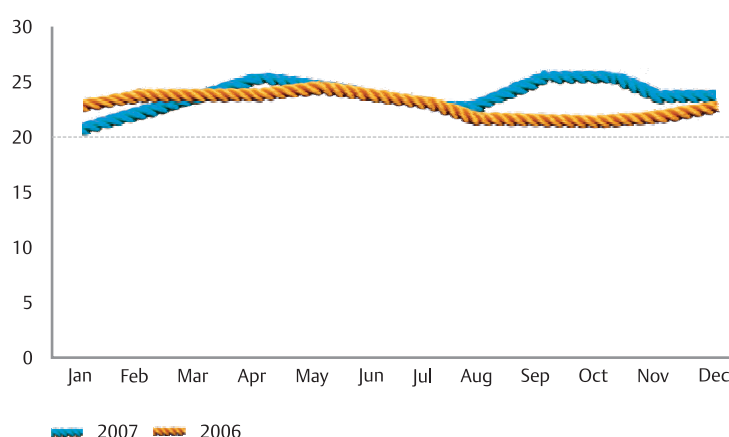
The Treasury is primarily responsible for managing the liquidity, exchange positions, exposure to market risks, mobilising resources from domestic as well as international markets, achieving preferred balance sheet mix and maximising the returns whilst minimising the risk to the Bank.

Sri Lankan financial markets faced a great deal of change in 2007 amidst volatility. Rupee interest rates traded as high as 40% on occasions. Treasury Bill yields picked up sharply after opening the year around 12.70%. The USD/LKR was also volatile with the rupee weakening by nearly 5.58% to touch a historical low at Rs. 113.50 at one stage in 2007, before ending the year firmer at Rs. 108.50 levels after an influx of dollars through the Government's foreign debt financing policy.

The local rupee bond market was opened to foreigners and this was received well by investors looking for carry trade related opportunities. For the first time a sovereign bond of US\$ 500 million was issued by the Government in 2007.

2007 saw a great deal of volatility in global markets with the US sub prime issue taking centre stage. The dollar came under pressure mainly due to this against most currencies, with EUR, GBP, CAD and AUD gaining the most. Commodity prices like oil and gold appreciated sharply and their gains are expected to continue in 2008. Interest rate climate saw the US and UK ending the year with a rate cutting bias on the back of sub prime worries, even though inflationary pressure from rising commodity prices were threatening.

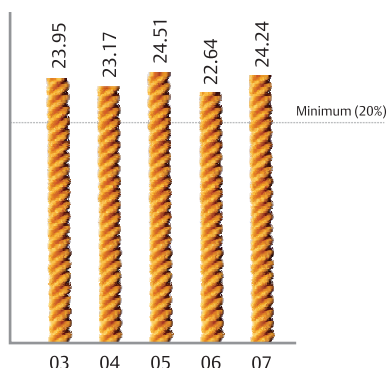
**Monthly Liquid Assets - Bank (Minimum 20%)**  
(%)





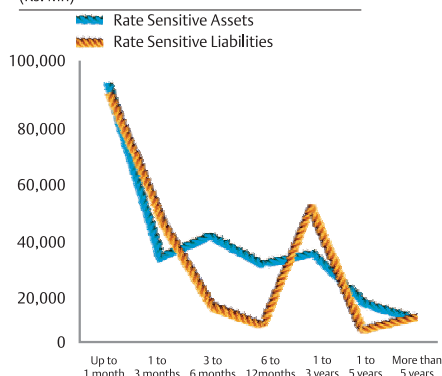
### Liquid Assets Ratio

(%)



### Rate Sensitive Assets & Liabilities

(Rs. Mn)



### Achievements - 2007

- Made significant strides in entering into new business areas in derivatives/structured products. The structured products desk managed to provide hedging opportunities to our clients exposed to gas, oil and other commodity price risk.
- Structured a number of option related deposit products for our corporate and high net worth clients to improve their yield pick up.
- The Treasury also has been able to create a niche for our selves in the USD/LKR option market and we manage an active Options and Interest Rate Swap book.
- All our derivative transactions are hedged on a back-to-back basis with our overseas counterparts, whilst an internal delta hedging strategy is used to hedge our USD/LKR option book.
- The Treasury also managed to record substantial increases in foreign exchange trading and in net interest margin.
- Managed an asset portfolio of Rs. 61.868 billion as at December 31, 2007 as against Rs. 39.537 billion a year before.
- Made a contribution of Rs. 635.480 million to the profit before tax of the Bank while maintaining a substantially good transfer price to the branches and other business units.
- The Fixed Income Securities Desk continued to perform admirably during the year.
- The Bank duly settled the US\$ 65.0 million syndicated loan obtained in 2004.
- Implementation of the new ALM system and ALCO's influential role in maximising our gains from the Balance Sheet, whilst minimising risk, was crucial in ensuring our margins in a highly competitive environment.

### Balance Sheet by Rate Sensitivity

	Upto 1 Month Rs. Mn	1 to 3 Months Rs. Mn	3 to 6 Months Rs. Mn	6 to 12 Months Rs. Mn	1 to 3 Years Rs. Mn	1 to 5 Years Rs. Mn	More than 5 Years Rs. Mn	Maturities not applicable Rs. Mn	Total 31.12.2007 Rs. Mn	Total 31.12.2006 Rs. Mn
Rate sensitive assets	92,855	30,198	37,983	26,791	30,489	13,050	9,467	–	240,833	199,744
Non-rate sensitive assets	–	–	–	–	–	–	–	27,107	27,107	24,231
<b>Total assets</b>	<b>92,855</b>	<b>30,198</b>	<b>37,983</b>	<b>26,791</b>	<b>30,489</b>	<b>13,050</b>	<b>9,467</b>	<b>27,107</b>	<b>267,940</b>	<b>223,974</b>
Rate sensitive liabilities	90,190	42,727	11,428	6,018	49,822	3,414	8,543	–	212,143	179,708
Non-rate sensitive liabilities	–	–	–	–	–	–	–	55,797	55,797	44,266
<b>Total liabilities</b>	<b>90,190</b>	<b>42,727</b>	<b>11,428</b>	<b>6,018</b>	<b>49,822</b>	<b>3,414</b>	<b>8,543</b>	<b>55,797</b>	<b>267,940</b>	<b>223,974</b>
Net rate sensitive assets/(liabilities)	2,665	(12,530)	26,555	20,773	(19,333)	9,636	924			
Rate sensitivity ratio (%)	102.96	70.68	332.38	445.15	61.20	382.20	110.82			

## OVERSEAS OPERATIONS

### Products

#### Bangladesh Operations

- Current, Savings, Fixed Deposits, Margin, Money Market accounts
- Bonus Savings accounts
- Dream Planner Savings accounts
- Dot Com Teen Saver accounts
- SHAMRIDDHI Tiered Savings accounts
- FC Plus Savings accounts
- High 5 FD
- Dollarmart FC account
- Personal, Term, SME, Housing, Auto Loans
- Lease Financing
- Import Demand Loans
- Packing Credit Loans
- Trust Receipt Loans
- Corporate Privilege Loans
- Probriddhi Loans

#### Maldivian Operations

- Project financing for resort development
- Lender in syndicated borrowing

#### e-Exchange

- Combank e-Exchange - Web-based money transfer facility

### Core Competencies

#### Bangladesh Operations

- Strong presence in Corporate Banking established since the time of CAI
- Zero non-performing advances
- Linked branch network
- High level of professionalism
- State-of-the-Art information technology

#### Maldivian Operations

- Well established long-standing relationship with the Maldivian customers

#### e-Exchange

- Strong Agent network spread across the globe
- Placement of Business Promotions Officers in main corridors for ground level marketing
- State-of-the-art information technology
- 'ComNet' computer linked branch and ATM network

### Future Strategies

#### Bangladesh Operations

- To maintain the image as a highly reliable and steady bank
- To consolidate the operations
- To engage in Islamic Banking
- To popularise Bank's IT based services
- To expand more delivery channels

#### Maldivian Operations

- Consolidate our operations in Maldives

#### e-Exchange

- To develop low cost e-based delivery channels
- To expand agent network for e-Remittances
- Set up our own Exchange Companies in highly potential markets

## Overview

Low GDP growth rate, deficit in Balance of Payment and high rate of inflation over a considerable period of time are some of the key macro economic indicators of a developing economy. These general trends which are prevalent in a developing country are clearly seen within the Sri Lankan economy as well. The situation is further aggravated by the country being dragged into a long running civil conflict.

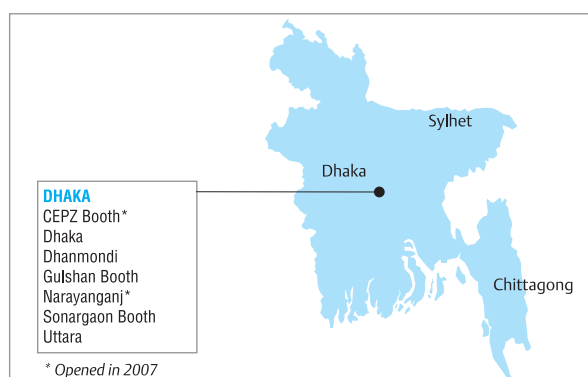
In its strategic planning process, the Bank correctly identified the ramifications of depending on a single economy. Having recognised the dangers of depending on the Sri Lankan economy alone, the Bank took several initiatives to mitigate the risk posed by the internal environment, most of which have been duly incorporated into the vision of the Bank.

With the acquisition of Credit Agricole Indosuez in Bangladesh in 2003, the Bank took its first major initiative of stepping beyond the shores of Sri Lanka and even up to now Commercial Bank is the only Sri Lankan bank which operates a network of branches in a foreign country. With these initiatives, a reasonable amount of Bank's assets are spread over other economies and this amount has been gradually increasing over the period.

A fair amount of the Bank's Off Shore Banking Centre assets had been invested in the high-end tourism industry in Maldives and this amount had grown consistently over the period of time.

Now, the Bank is a dominant player in the money remittance business. Our global presence is visible through a net work of direct and indirect agents with whom we have tied up for handling inward remittances of the large Sri Lankan expatriate community. We have extended the same services to Bangladesh operations as well.

### NETWORK OF DELIVERY POINTS IN BANGLADESH



## Achievements - 2007

### *Bangladesh Operations*

- Bank's Bangladesh operations, which commenced with a Total Deposits of BDT 3.9 billion in December 2003, reached a total Deposit base of around BDT 10.0 billion mark at the end of the year 2007. Advances portfolio of the Bank, which was BDT 2.9 billion as at December 31, 2003, has reached BDT 8.0 billion as at end of December 2007
- Deposits and Gross Advances grew by 22.0% and 16.77% respectively, further consolidating our position in Bangladesh.
- The number of accounts has increased more than 4 times compared to the end of December 2003.
- Opened an Off-Shore Banking Unit Office in the Chittagong Export Promotion Zone (CEPZ).
- Opened the sixth Branch and the ninth service outlet at Narayanganj, bringing the total number of branches and booths in Bangladesh to nine and increased the number of ATMs to 10 including 2 at off-site locations, reflecting our continued commitment to the country and exhibiting the desire to gradually move into Retail Banking.
- The number of Debit cards issued during the year exceeded 1,300 and the total number Debit cards issued exceeded 4,500 as at December 31, 2007.
- An agreement was signed with Dutch Bangla Bank Ltd. which has an ATM network of over 200, to enable our customers to use their ATMs.
- An agreement was signed with Islami Bank of Bangladesh, in addition to the existing agreement with Prime Bank Ltd., to disburse funds received from Bangladeshi Wage Earners abroad.
- 'Probriddhi Loan' an SME based loan scheme and lease financing was commenced.
- Custodial Services was launched to provide assistance to capital market foreign investors.
- Received an award at the Financial Mirror Robintex Business Award 2007 as the Best Foreign Bank.
- Was placed third under "Foreing Bank Category" in the Best Corporate Award 2007 by the ICMAB.

### *Lending to Maldivian Operations*

- Lending portfolio to the Maldivian corporate clients expanded satisfactorily under the purview of the Corporate Banking division. The exposure to the high-end tourism industry in Maldives is of high quality though the Bank is not physically present in that country.

### *Money Remittance Business*

- Recorded commendable growths in number of remittances and volumes. Number of remittances grew by over 60.0% while volumes recorded a phenomenal increase of over 90.0%. The money Remittance Business comes under the purview of the Personal Banking division.
- Aggressive expansion of the Agent network.
- Placement of new Business Promotion Officers in Middle Eastern countries and Italy.



### Information Technology

During 2007, Information Technology continued to play an active role in supporting current banking operations and helping new initiatives. In addition, there was also a focus on internal process efficiency.

Current banking operations were well supported with consistently high system, network and ATM availability. The expansion of the COMNET network, provided greater access to ATMs to our customers across the country. The introduction of a common ATM switch allowed COMNET to be extended to other banks and financial institutions, resulting in additional revenue and also brand visibility to non-customers.

The quality and bandwidth of data links to Bangladesh were enhanced with connection to SEA-ME-WE-4 being tested and on the verge of being implemented.

Disaster Recovery Planning continued, with carefully thought out procedures and activities documented and resources identified. The level of redundancy and back up of systems, data links and alternate locations were improved in a considered way.

New initiatives such as the Instant Card project were well supported with over the counter ATM cards now being available to Bank customers.

Support was also given to compliance needs with voice recording and improved call handling being made available to the Treasury dealing room through IP Telephony. In addition, risk management requirements were met with Asset and Liability Management reports being submitted to ALCO using the IPS Sendero system, with interfaces from systems for core banking, treasury, export-import and card management. The foundation was also set for enabling the Funds Transfer Pricing module in IPS Sendero.

Internal process efficiency projects were commenced with CMMi readiness activities being applied in the software development unit and ISO 27001 planning across IT and users. CMMi certification is scheduled for July 2008, with ISO 27001 preparation continuing through to 2009. CMMi will result in improved project management and greater certainty around accuracy, timeliness and cost control of software development projects. ISO 27001 will formalise our approach to information security and also position us for overseas expansion where the compliance regime for information management is prescriptive.

2007 has been a year of consolidation, supporting of immediate needs and planning for the future. Several of the activities commenced during the year will have a flow on benefit during 2008 and beyond. The process efficiencies and disciplines through certification will become an integral part of our work day and will position us to increase our contribution towards the continuing success of the Bank.

**Market Capitalisation**

(Rs. Mn)

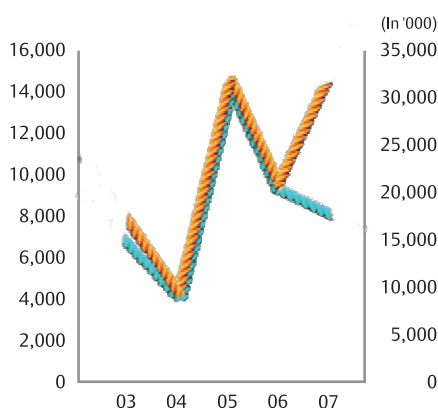
**Earnings per Share**

(Rs.)

**Share Trading**

(No)

No. of Transactions  
 No. of Shares Traded

**Strategic Direction and the Challenges of the Bank**

Although the immediate outlook for the local operating environment is expected to be turbulent, the Commercial Bank Group intends to continue its growth momentum through the initiatives and strategic priorities set out in the Corporate Plan. The Bank is well positioned to mitigate the risks posed by the potential volatility of macroeconomic conditions in the country.

The Corporate Plan and the Budget is a mid term plan, being prepared annually covering a period of five years on a rolling basis. This year the Bank prepared the plan for the period covering the years 2008-2012. The strategic direction of the Bank is critically reviewed by the Management as well as by the Board at the time of preparing and approving the Corporate Plan and the Budget. In keeping with the Vision and Mission statement of the Bank, the strategic direction has been clearly identified and laid down in the Corporate Plan. It detailed out SWOT analysis of the Corporate Banking, Personal Banking, Treasury, Information Technology, Human Resources Management and Bangladesh Operations of the Bank. Besides, it spells out Goals and Objectives of these main segments along with detailed action plans with specific time frames to achieve them. The Corporate Plan and the Budget incorporates highly ambitious targets for the plan period. Undoubtedly, the Corporate Plan and the Budget has immensely contributed in guiding the organisation to its present level. Further, it has contributed to building up the target driven culture across the organisation and leading to record superlative performance and to maintain the pre eminent position in the banking industry.

Priorities identified in the Corporate Plan to be implemented in the medium term:

- Enhancing international presence as envisaged in the Vision of the Bank, thereby reducing the overdependence on the Sri Lankan economy further.
- Consolidation of the Bangladesh Operations by opening more branches and expanding the ATM network.
- Maintain the most preferred bank status for Trade Finance
- Increase the present credit card base.
- Improve exchange turnover and market share.
- Improve the quality of advances and overall asset portfolio.
- Expanding export factoring and commencing import factoring.
- Expanding the remittance business further in the Middle Eastern countries and some parts of Europe.
- Setting up of remittance business in several selected European countries, in Canada and in Australia, under the brand name 'Commex'.
- Improving the risk management infrastructure.
- Improving key performance ratios.
- Expanding credit and support services to the SME sector.
- Increasing the contribution from fee based operations.

- Offering the most competitive terms and the best service standards.
- Simplifying operations to ensure speedy delivery.
- Leveraging the relationships with the correspondent banks.
- Growth through business acquisitions.
- Consolidate 'One Bank - One Family' concept.

The Bank functions in a turbulent environment with many adverse macroeconomic conditions. The Bank is resilient under these conditions and also well positioned to confront the challenges created by the external environment in order to achieve the strategic priorities laid down in the Corporate Plan and the Budget. Some of the challenges which has been identified for the ensuing year in this plan are:

- Increasing competition and resultant pressure on interest margins
- Volatility in rates of interest
- Containment of cost under an inflationary market environment
- Making the Bank Basle II compliant
- Provision of necessary infrastructure to support the expanding business activities
- Adherence to the new accounting standards to be implemented
- Sustain the IT supremacy
- Setting up of a fully pledged risk management unit
- Retention of profits to support the growth in business, being low due to the deemed dividend tax and provision required on performing and overdue loans
- Lower exchange profit due to the stabilisation of the exchange rate
- Possible increase in non-performing advances due to high interest rate environment
- Making the maximum use of the distribution network
- Tax planning under ever changing regulations

The Bank has set its eyes on getting itself elevated from its current position of being the largest private bank in the country and will be working hard to get the credit rating upgraded.



# The Bank's Ripple Effect

The production, distribution and consumption of wealth are integral elements of an economic system. Economic impact could be defined as any increase or decrease in productive potential of an economy. Economic impact extends beyond the boundaries of any single organisation and is linked to both the environmental and social elements of sustainable development. By analysing economic impact, we seek to understand how a company adds value to society. Economic impacts can be broadly categorised into two main areas i.e. direct and indirect. Direct impacts are the immediate economic effects of a company's financial transactions while indirect impacts are the economic effects that are created through a company's operations or provision of goods and services. Banks' direct contributions to the economy of its nation would comprise creation of employment opportunities, collection of taxes on behalf of the Government etc. Inculcating the savings habits among members of the community and improvement of socio-economic and environmental performance in client organisations through lending, could be considered as indirect contributions. Therefore, financial services sector of any country has a vital role to play in the development of an economy, principally in allocating financial capital through its lending strategies to different economic activities.

Banks do not operate in isolation. Different sectors in the society contribute in numerous ways for the smooth functioning of their operations. These different parties when put together are identified as stakeholders of a Bank. They include the shareholders who provide the much needed capital, depositors and investors who invest their money in the bank, borrowers who obtain credit facilities, employees who put their effort to serve the

customers and the Government who provides basic financial infrastructure by way of regulations, systems, processors and supervision.

Through the provision of financial services, banks create wealth. Therefore, it is bound to distribute the wealth so created among these stakeholders in many different forms. Shareholders will accrue wealth and receive a dividend in return for the risk of the equity investment, depositors and investors receive interest for risks undertaken on their investments, borrowers obtain credit facilities at prevailing competitive rates in the industry, employees receive salaries and other benefits for the contribution made to its institutions whilst the Government earns tax revenue, commensurate with the value created by the financial services industry to the economy.

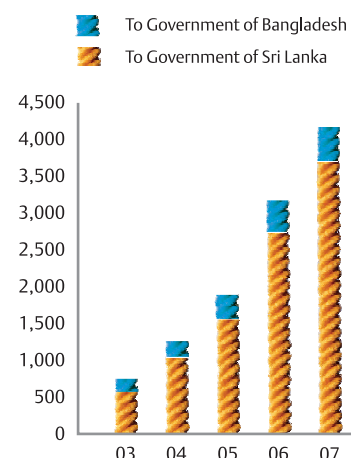
This section elaborates the creation and delivery of 'Value' to various stakeholders by the Bank.

Commercial Bank is a model corporate citizen. It creates value through provision of financial services in line with its mission, *"Redefine Convenience in Financial Services"*. The Bank has its own systems, processes and procedures in place to check, verify and validate the value creation process. The Bank conducts its business in a transparent and ethical manner in line with the best industry practices while being fair to every stakeholder. It adheres to good Corporate Governance principles as set out in the section on Enterprise Governance in page 51 in this report. Though profit maximisation is not the sole objective of the Bank, it is essential to earn profits to fulfil the aspirations of different stakeholders. The Bank is mindful of the need to add value on a

sustainable basis to these stakeholders in this value creation process. It has not been a case of building financial value and enhancing the bottom line at any cost for the Bank, but rather participating in a process of creating value through fair and ethical means.

The Bank continued to receive several awards and accolades during the year and most notably it was awarded the 'Banker' of the year by 'The Banker' magazine six out of eight times in the last eight years. Fitch Ratings Lanka Ltd. upheld the AA+(lka) rating assigned to the Bank, which is the highest rating given to an indigenous commercial bank over the past several years. The external auditors continue to issue an unqualified audit opinion on the Financial Statements of the Bank. These awards, accolades and ratings have been presented in appreciation of the sustainable performance maintained by the Bank while conducting its business in a transparent, ethical and fair manner. These achievements and accolades received by the Bank during the recent past are detailed in page 175 in this Report.

**Revenue to Governments**  
(Rs. Mn)



## ECONOMIC IMPACT REPORT

### Sources and Distribution of Income

For the year ended December 31,	2007	2006	2005	2004	2003
	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.
<b>Source of Income</b>					
Interest Income	30,503	19,532	13,033	9,584	7,931
Foreign Exchange Profit	1,545	1,439	587	874	397
Commission Income	2,383	2,011	1,760	1,377	1,051
Investment Income	310	305	441	217	401
Other	482	1,182	279	238	279
	35,223	24,469	16,100	12,290	10,059
<b>Distribution of Income</b>					
To Depositors/Debtentureholders as Interest	18,951	11,955	7,226	4,878	4,218
To Employees as Emoluments	3,539	4,374	2,364	2,132	1,697
Depreciation set aside	411	376	299	260	222
Provision for possible Loan Losses	1,777	655	415	699	623
To Providers of Supplies & Services	2,282	1,919	1,527	1,373	1,069
To Government as Taxation (Including Deferred Tax)	4,159	3,178	1,905	1,264	753
- Income Tax	2,601	2,201	1,278	819	477
- Financial Value Added Tax	1,552	971	623	441	272
- Debits Tax	6	6	4	4	4
To Shareholders as Dividends	1,856	911	869	650	538
To Reserves	2,248	1,101	1,495	1,034	939
	35,223	24,469	16,100	12,290	10,059

Furthermore, the Bank has recorded the lowest non-performing advances ratio among indigenous commercial banks and continues to account for the highest market capitalisation among all financial institutions operating in the country over the past several years.

The measures taken to create, sustain and deliver optimum 'value' to the stakeholders are given below:

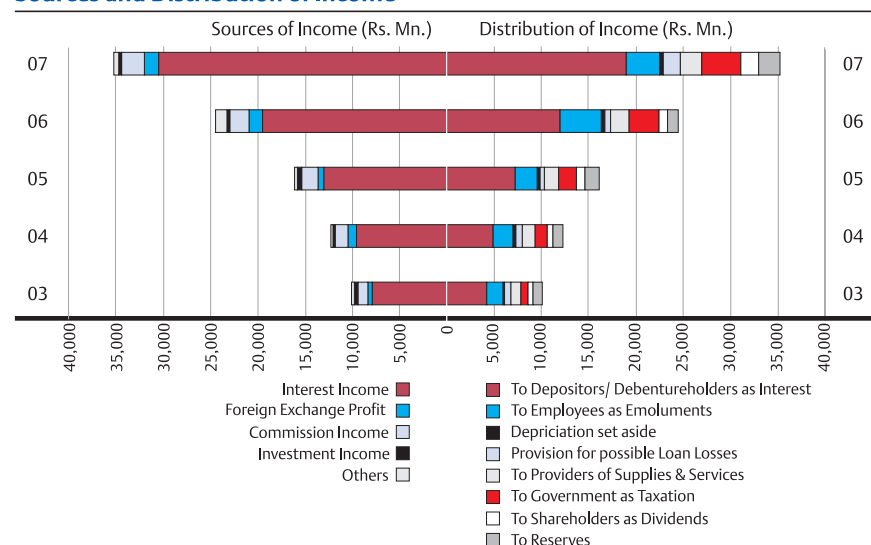
### Maintaining Capital Adequacy

Capital Adequacy Ratio (CAR) symbolises the financial strength and stability of a bank. It is a tool which indicates the limit up to which business can be expanded in terms of risk weighted assets of a bank. A bank's capital is the 'cushion' for potential losses, which protects the bank's depositors and other lenders. In this regard, banking regulators in most countries use CAR as a mechanism to protect stakeholders and enhance confidence in the banking system.

Day-to-day operations of a bank leads to expand the size of the balance sheet with the acquisition of assets and creating liabilities. These assets can be in the form of financial and non-financial assets. To supplement the growth in assets, the banks incur liabilities to providers of capital, depositors and lending institutions. The CAR recognises the different risk profiles attached to these assets in determining the capital required to 'cushion' any potential losses as the composition of the balance sheet of a bank is different to a normal organisation where a major portion of the assets and liabilities comprise of advances and deposits.

Vulnerability of the banks' financial stability would affect the systemic importance of the banks to the economy. Regulatory capital requirements are therefore necessary to limit operations of banks to prevent overtrading. At the same time, banks can leverage their

### Sources and Distribution of Income



growth to optimise the return on assets. Therefore maintaining a healthy CAR would ensure a stable and a sound banking industry, which undoubtedly contribute to the growth of the economy.

During the year, the Bank raised Rs. 5.741 billion by way of a rights issue of ordinary shares to supplement the funding needs of the Bank. This has resulted in increasing the CAR to a very satisfactory level, which compares well with the ratios reported by other banks.

The detailed Capital Adequacy Computation of the Group as at December 31, 2007 is given on page 47 of the Annual Report.

### A more Remunerative Dividend Policy

The Bank continued to pay a substantial dividend to its shareholders while ploughing back sufficient profits to augment the funding needs and capital adequacy requirements. The Bank is mindful of the need to strike a reasonable balance between these aspects in maintaining sustainable growth, commensurate with the risks undertaken by its investors.

This prudent dividend policy has contributed in building up the Bank's shareholders' funds to the present level and it is considered as one of the major funding sources of the Bank's expansion. In fact, the Commercial Bank has one of the highest free capital levels among the banks in the country today.

In addition to the enhanced share capital due to the rights and bonus issues, the Bank has also declared three interim dividends totaling Rs. 4.50 per ordinary share (both voting & non-voting) and the Board of Directors has proposed a final dividend of Rs. 2.50 per ordinary share. Thus, the total dividend declared by the Bank for the year 2007 amounted to Rs. 7.00 per share, the highest dividend declared in its history.

### Maintaining a Satisfactory Liquid Assets Ratio

The Bank maintains liquid assets to carry out the day-to-day operations and fulfil the statutory requirements imposed by the regulator. The Asset and Liabilities Committee of the Bank (ALCO) monitors the situation carefully and provides direction to maintain an optimum trade-off between liquidity and profitability.

It is the policy of the Bank to carry a positive mismatch primarily in 1-30 days category in interest earning assets and interest bearing liabilities. The Bank maintained an optimum amount of liquidity during the year. If and when the liquidity fell below the internally set limits which are always above the statutory limit, the Bank took effective and prompt actions to ensure it is maintained above the regulatory limit. These measures have resulted in meeting the funding requirements of all its stakeholders in a timely and efficient manner.

### Convenience to Customers

The computer system of the Bank is interconnected and the customers have the flexibility of operating from any location of their choice irrespective of the branch where the account was opened. The Bank's multiple delivery channels consisting of delivery network, (see page 83) ATMs and home banking facility etc. provide maximum customer convenience. It is pertinent to mention that the ATMs network of the Bank was available over 99% of the time in maximising customer convenience.

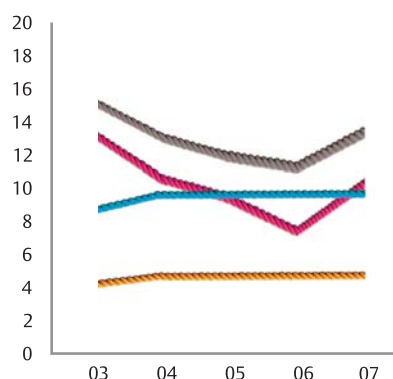
### Limiting the over Dependence/ Exposure to one Economy

The Bank is mindful of the risk of over dependence on the Sri Lankan economy and has taken several initiatives to gradually address this issue, while bringing the much needed foreign currency to the country. The major initiatives taken in this regard are, establishing our presence in Bangladesh, lending to Maldivian customers through Off shore Banking Centre, commencing money remittance business in several

#### Capital Adequacy Ratio

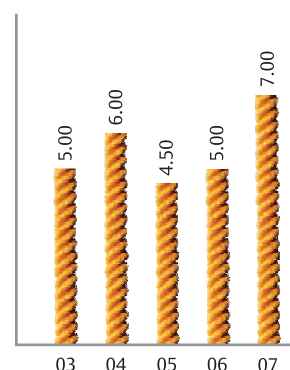
(%)

Tier I      Tier I & II  
 Tier I (Min)      Tier I & II (Min)



#### Dividends per Share

(Rs.)





countries etc. These initiatives have paid rich dividends as shown in page 38 under 'Overseas Operations' of the Annual Report. Besides, it is pertinent to mention that our Bangladesh Operation which commenced its business in end 2003 has remitted to date US\$ 4.500 million being its contribution to the national economy.

## Managing Risks

An integrated Risk Management Unit has been set up centrally to address all risk related functions including credit, market and operational risks. The ALCO and credit committee meet regularly to review the operations in respective areas. In addition, the Bank has set up a Business Continuity Management Unit under the Risk Management and has already implemented a contingency/recovery plan covering the entire branch network. Further, the Bank set up an Anti-Money Laundering Unit to mitigate its exposure to probable operational risks that may arise due to money laundering.

A comprehensive internal control system and contingency plans are in place to address credit and operational risks. The Board undertakes a bi-annual review of possible risks, implications thereon on the Bank and Risk Management measures in place to

prevent/mitigate the effect of same on the smooth functioning of the Bank. Detailed Risk Management measures in place are given in the article on Risk Management on page 66 of the Annual Report.

## Satisfied Work Force

The Bank maintains one of the highest employee/productivity ratios in the banking sector, measured in terms of average number of staff per branch, deposits per employee, advances per employee and profit per employee. It is clearly visible from the staff turnover ratio of the Bank which is one of the lowest ratios reported by Sri Lankan banks. Several initiatives such as training and development, conducting regular dialogue with employee work unions, sports activities, inter departmental/branch competitions, were organised during the year to improve employee productivity, industrial harmony and inter-personal relationships. These steps has contributed immensely to record improved performance year-after-year. The measures taken in this regard are detailed in page 75 of the Annual Report. The Bank is confident that these measures have immensely contributed to improve people productivity, work life balance and knowledge and skills of employees, in taking the Bank to greater heights as envisaged by the vision and strategic direction.

The Bank recruited 463 new staff during the year and the total staff strength as of end of the year was 3,745. 141 employees retired or resigned during the year.

## Optimum Utilisation of Resources

In its endeavours, the Bank is mindful of mobilising the so-called scarce resources such as capital, deposits and borrowings at attractive terms. The Bank is vigilant on mobilising the resources in the most cost efficient manner and is cognisant of the need for prudent investment of funds for the improvement of profitability. Hence, it carefully analyses the lending propositions and makes sure follow up action is in place before disbursement of funds.

These internal processes has contributed immensely to record the lowest non-performing advances ratio among the indigenous commercial banks in the country. In addition, the lowest cost/income ratio reported by the Bank which is the lowest among any local commercial bank, testifies the maximum/optimum utilisation of resources.

The Bank's shareholders' funds, free capital and the single borrower limit stood at Rs. 23.936 billion, Rs. 16.521 billion and Rs. 7.761 billion respectively as at December 31, 2007, mainly due to the initiatives taken, such as prudent dividend policy, tax planning and controlled capital expenditure over the years.

## Shareholders' Funds

(Rs. Mn)



## Capital Adequacy Computation - Group Computation of Risk-Weighted Assets

Assets	Balance		Risk-Weight Factor (%)	Risk-Weighted Balance	
	2007 Rs. '000	2006 Rs. '000		2007 Rs. '000	2006 Rs. '000
Cash, Statutory Deposit with Central Banks					
Treasury Bills, Government and other Securities	69,662,713	52,701,434	–	–	–
Facilities secured by Cash and guaranteed by Central Bank of Sri Lanka	20,466,003	17,965,957	–	–	–
Facilities guaranteed by Local/ Foreign Commercial and Development Banks	946,812	1,003,444	20	189,362	200,689
Guaranteed by OECD Incorporated Banks	–	1,417	20	–	283
Loans guaranteed by SLECIC	500	200	50	250	100
Loans secured by Primary Mortgages over Residential Property	15,553,219	11,864,148	55	8,554,270	6,525,281
Other Loans and Advances	140,207,705	122,316,000	110	154,228,476	134,547,600
Credit Equivalent of Off-Balance Sheet Items	15,258,659	12,044,944	100	15,258,659	12,044,944
Due from Banks Abroad	11,986,925	8,506,479	20	2,397,385	1,701,296
Due from Local Banks including Development Financial Institutions	–	1,949,872	20	–	389,974
Cash Items in the process of collection	140,594	134,139	20	28,119	26,828
Investments excluding Investments in Financial Associates	1,772,725	1,404,455	100	1,772,725	1,404,455
Property, Plant & Equipment and Intangible Assets	4,384,550	3,600,295	100	4,384,550	3,600,295
Other Assets	5,773,181	4,480,652	100	5,773,181	4,480,652
<b>TOTAL</b>	<b>286,153,586</b>	<b>237,973,436</b>		<b>192,586,977</b>	<b>164,922,397</b>

Instruments	Balance		Risk-Weight Factor (%)	Risk-Weighted Balance	
	2007 Rs. '000	2006 Rs. '000		2007 Rs. '000	2006 Rs. '000
General Guarantees of Indebtedness (Credit Guarantees and Advance Payment Guarantees)	11,042,883	9,406,754	100	11,042,883	9,406,754
Performance Bonds, Bid Bonds and Warranties	3,609,511	3,960,924	50	1,804,756	1,980,462
Shipping Guarantees	1,138,087	1,314,119	20	227,617	262,824
Documentary Letters of Credit	12,992,718	9,591,240	20	2,598,544	1,918,248
Usance Bills	5,006,384	4,937,977	20	1,001,277	987,595
Undrawn Term and Overdraft facilities < 1 year	16,301,393	14,293,339	–	–	–
Foreign Exchange Contracts	58,463,292	47,057	0-100	1,169,266	15,988
Interest Rate Contracts	2,770,000	36,876	0-100	19,063	10,375
<b>Total</b>	<b>111,324,268</b>	<b>43,588,286</b>		<b>17,863,406</b>	<b>14,582,246</b>

\* The credit equivalent of these off-balance sheet items has been risk weighted based on rates applicable for the underlying securities.

# ECONOMIC IMPACT REPORT

## Computation of Capital

	Rs.'000	2007 Rs.'000	Rs.'000	2006 Rs. '000
TIER I : Core Capital				
Paid-up Ordinary Shares/Stated Capital	9,514,809		1,428,186	
Share Premium			1,728,793	
Statutory Reserve Fund	1,634,497		1,429,319	
Published Retained Profits	103,704		68,165	
General and other Reserves	9,800,329		8,394,453	
Minority Interest	23,789		11,023	
Less: Goodwill	-		-	
Total Tier I Capital	21,077,128		13,059,939	
Less: Loans Granted under ESOP Scheme	(329,255)	20,747,873	(343,251)	12,716,688
TIER II : Supplementary Capital				
Revaluation Reserve (as approved by the Central Bank of Sri Lanka)	650,168		651,037	
General Provisions	867,203		238,622	
Approved Subordinated Term Debt	4,615,548		5,746,994	
Total Tier II Capital		6,132,919		6,636,653
Total Capital		26,880,792		19,353,341
<b>Deductions</b>				
Investments in Banks and Financial Associates		27,795		33,754
Capital Base		26,852,997		19,319,587

## Computation of Ratios

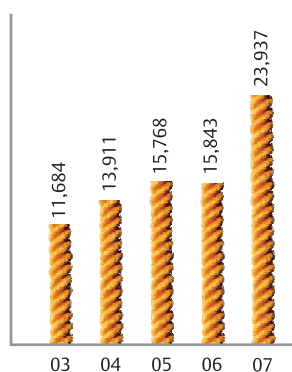
	2007 Rs. '000	2006 Rs. '000
Total Risk-Weighted Assets (RWA)		
Total Risk-Weighted Assets for Credit Risk	192,586,977	164,922,397
Total Risk-Weighted Assets for Market Risk	3,228,700	1,894,190
Sub Total	195,815,677	166,816,587
Minimum Capital Charge		
Capital Charge for Credit Risk	19,258,698	16,492,240
Capital Charge for Market Risk	322,870	189,419
Sub Total	19,581,568	16,681,659
Total Capital available to meet the Capital charge for Credit Risk		
Total Tier - I Capital	20,747,873	12,716,688
Tier - II Capital (after deducting investments in Banks and Financial Associates)	6,105,124	6,602,899
Sub Total	26,852,997	19,319,587
Core Capital Ratio (Minimum Requirement 5%)		
Total Tier - I Capital	20,747,873	12,716,688
Total Risk Weighted Assets	195,815,677	166,816,587
	10.60%	7.62%
Total Capital Ratio (Minimum Requirement 10%)		
Total Capital	26,852,977	19,319,587
Total Risk Weighted Assets	195,815,677	166,816,587
	13.71%	11.58%

## Risk-Weighted Assets

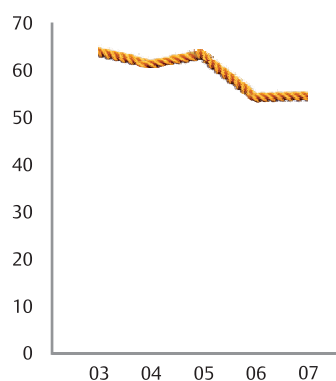
- Loans and Advances are net of specific provisions and interest in suspense.
- Total assets do not tally with that of the Balance Sheet mainly due to differences in treatment on securities sold under repurchase agreements and investments in capital of other banks/financial institutions in the capital adequacy computation.



### Capital Employed (Rs. Mn)



### Profit Retention Ratio (%)

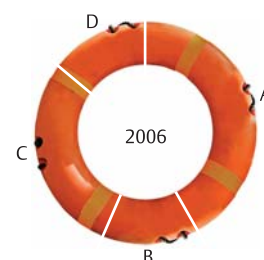
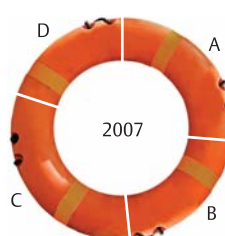


### Value Addition

	2007 Rs.'000	%	2006 Rs.'000	%
<b>Value Added</b>				
Income from Banking Services	34,782,698		23,234,534	
Cost of Services	(20,128,239)		(13,232,604)	
Value Added by Banking Services	14,654,459		10,001,930	
Non-Banking Income	440,220		1,234,936	
Loan Losses and Provisions	(1,777,476)		(655,070)	
	13,317,203		10,581,796	
<b>Distribution of Value Added</b>				
<b>To Employees</b>				
Salaries and Other Benefits	3,538,518	26.57	4,373,556	41.32
<b>To Providers of Capital</b>				
Dividends to Shareholders	1,855,626		911,413	
Interest to Debentureholders	1,104,753		641,540	
	2,960,379	22.23	1,552,953	14.68
<b>To Government</b>				
Income Tax	2,629,177		2,191,641	
Financial Value Added Tax	1,551,762		970,958	
Debits Tax	6,045		6,418	
	4,186,984	31.44	3,169,017	29.95
<b>To Expansion and Growth</b>				
Retained Profit	2,247,939		1,101,215	
Depreciation	411,396		375,779	
Deferred Taxation	(28,013)		9,276	
	2,631,322	19.76	1,486,270	14.05
	13,317,203	100.00	10,581,796	100.00

### Distribution of Value Added

	2007	2006
A To Employees	27%	41%
B To Expansion and Growth	22%	15%
C To Government	31%	30%
D To Providers of Capital	20%	14%



# ECONOMIC IMPACT REPORT

## Economic Value Added

Economic Value Added (EVA) is a measure of profitability which takes into consideration the cost of total invested equity.

	2007 Rs. '000	2006 Rs. '000	2005 Rs. '000	2004 Rs. '000	2003 Rs. '000
<b>Invested Equity</b>					
Shareholders' Funds	<b>22,936,037</b>	14,842,841	13,861,828	12,004,962	9,777,402
Add: Cumulative Loan Loss Provision	<b>3,557,301</b>	2,536,465	2,192,293	2,053,828	1,668,752
<b>Total Invested Capital</b>	<b>26,493,338</b>	17,379,306	16,054,121	14,058,790	11,446,154
<b>Earnings</b>					
Profit after Taxation and Dividends on Preference Shares	<b>3,991,065</b>	1,815,210	2,133,888	1,454,362	1,287,820
Add: Loan Losses and Provisions	<b>1,777,476</b>	655,070	414,864	699,200	623,207
Less: Loan Losses Written Off	<b>(1,836)</b>	(7,698)	(5,011)	(9,138)	(81,588)
	<b>5,766,705</b>	2,462,582	2,543,741	2,144,424	1,829,439
<b>Cost of Equity based on 12 months</b>					
Weighted Average Treasury Bill Rate plus 2% for the Risk Premium	<b>18.07%</b>	12.91%	10.87%	9.65%	10.00%
Cost of Average Equity	<b>3,963.893</b>	2,158,128	1,636,637	1,230,614	969,671
<b>Economic Value Added</b>	<b>1,802.812</b>	304,454	907,104	913,810	859,768

At Commercial Bank we are deeply conscious of delivering value to all our stakeholders consistently. We still remain one of the very few companies in Sri Lanka that has embraced EVA as a measure of performance.

In EVA terms, we have created Rs. 1.802 billion during the year 2007 and Rs. 4.788 billion over the past 5 years.

## Market Value Added

	2007 Rs. '000	2006 Rs. '000	2005 Rs. '000	2004 Rs. '000	2003 Rs. '000
Market Capitalisation	<b>34,234,000</b>	26,196,000	18,526,000	10,807,000	9,825,000
Less: Total Invested Capital	<b>26,493,338</b>	17,379,306	16,054,121	14,058,790	11,446,154
<b>Market Value Added</b>	<b>7,740,662</b>	8,816,694	2,471,879	(3,251,790)	(1,621,154)

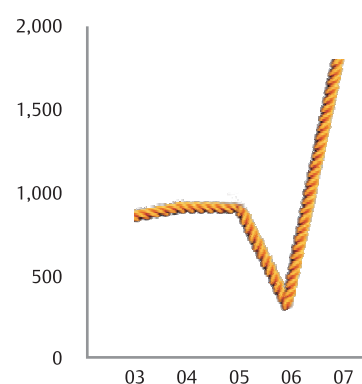
Market Value Added represents the confidence that the market places on the future stream of EVAs.

## Maturity Analysis

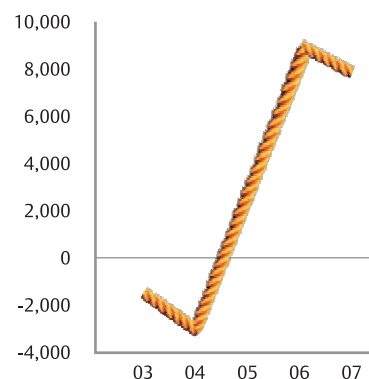
The Assets and Liabilities Committee of the Bank closely monitors the maturities of assets and liabilities of the Bank. A summary of the maturity pattern of the respective assets and liabilities of the Bank as at December 31, is as follows:

	Up to 3 3 months Rs. Mn	3 to 12 months Rs. Mn	1 to 3 years Rs. Mn	3 to 5 years Rs. Mn	More than 5 years Rs. Mn	<b>Bank</b> Total as at 31.12.2007 Rs. Mn	Total as at 31.12.2006 Rs. Mn
Interest Earning Assets	103,987	59,004	44,862	17,019	15,960	<b>240,833</b>	199,744
Non-Interest Earning Assets	17,736	847	3,735	75	4,714	<b>27,107</b>	24,231
<b>Total Assets</b>	<b>121,723</b>	<b>59,851</b>	<b>48,597</b>	<b>17,094</b>	<b>20,674</b>	<b>267,940</b>	223,974
Interest Bearing Liabilities	122,117	23,237	51,879	5,158	9,751	<b>212,143</b>	178,708
Non-Interest Bearing Liabilities	29,932	2,377	552	-	22,936	<b>55,797</b>	45,266
<b>Total Liabilities</b>	<b>152,049</b>	<b>25,614</b>	<b>52,431</b>	<b>5,158</b>	<b>32,687</b>	<b>267,940</b>	223,974
<b>Maturity Gap</b>	<b>(30,326)</b>	<b>34,237</b>	<b>(3,833)</b>	<b>11,936</b>	<b>(12,014)</b>	<b>-</b>	<b>-</b>
<b>Cumulative Gap</b>	<b>(30,326)</b>	<b>3,911</b>	<b>78</b>	<b>12,014</b>	<b>-</b>	<b>-</b>	<b>-</b>

**Economic Value Added**  
(Rs. Mn)



**Market Value Added**  
(Rs. Mn)



# Above Board

**ENTERPRISE GOVERNANCE IS “THE SET OF RESPONSIBILITIES AND PRACTICES EXERCISED BY THE BOARD AND EXECUTIVE MANAGEMENT WITH THE GOAL OF PROVIDING STRATEGIC DIRECTION, ENSURING THAT OBJECTIVES ARE ACHIEVED, ASCERTAINING THAT RISKS ARE MANAGED APPROPRIATELY AND VERIFYING THAT THE ORGANISATION’S RESOURCES ARE USED RESPONSIBLY”.**

From a publication jointly issued by IFAC’s Professional Accountants in Business and The Chartered Institute of Management Accountants.

Enterprise Governance, an emerging term in the post-Enron era that combines corporate governance or conformance and business governance or performance, encapsulates all the factors that go into governing of an organisation. The two dimensions are indispensable to one another. Commercial Bank has a balanced focus on both dimensions.

The Bank is firmly committed to the highest standards of corporate governance and has complied with the majority of good corporate governance practices recommended by various regulatory bodies such as The Institute of Chartered Accountants of Sri Lanka, Central Bank of Sri Lanka etc. As your representatives, the Board of Directors ensures that the activities of the Bank are at all times conducted with the highest ethical standards and in the best interests of all its stakeholders.

The Board of Directors sets the strategic direction and guides the corporate values. It

has set up and enforces clear lines of responsibility and accountability throughout the Bank; as summarized in the diagram below.

The Board on its part had in 2007 an Audit Committee, Human Resource & Remuneration Committee, Credit Committee and Strategic Planning Committee. The composition, mandate and workings of these committees are elaborated on succeeding pages of this section.

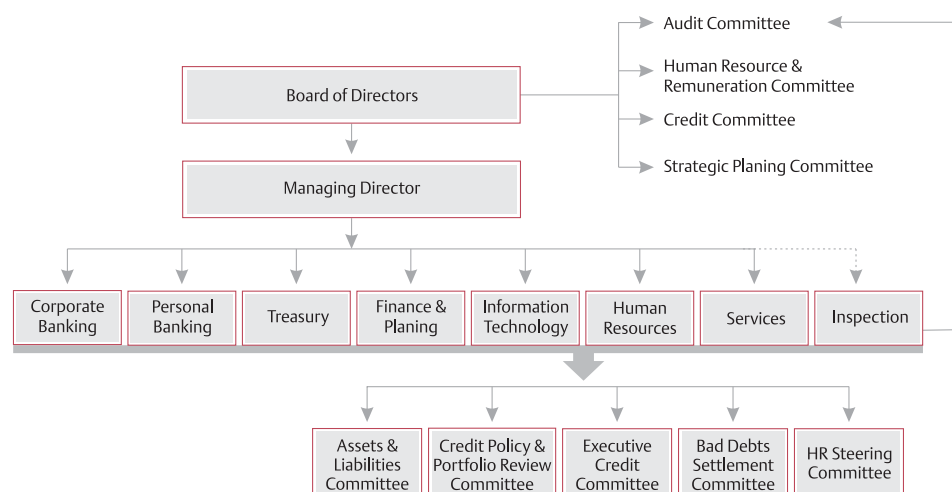
Creating value for shareholders through performance with the rest of the staff is the responsibility of the Corporate Management. Each function/profit centre is headed by a member of the Corporate Management. Key Performance Indicators (KPIs) of each function/profit centre as per the corporate plan and the budget are reviewed periodically.

In addition, the Bank has cross functional management committees as also shown in the diagram below. These committees are

made up of members from both Corporate Management and Senior Management of the Bank. These committees too meet frequently and review the level of achievement of KPIs.

Empirical evidence shows that well governed companies perform better. The Bank has been able to record an excellent performance as evident from the Compounded Annual Growth Rates of 25% in business volumes and 22% in profits in the past decade. The performance aspect of Enterprise Governance and the management of risks in the process are dealt with in detail in the Management Discussion and Analysis and the Risk Management chapters shown elsewhere in this Annual Report.

The table on pages 52 to 64 of this Report demonstrates the manner and the extent to which the Bank adheres to good Corporate Governance principles.





The table below demonstrates the manner and the extent to which the Commercial Bank adheres to the Code of Best Practice on Corporate Governance issued by The Institute of Chartered Accountants of Sri Lanka. The requirement of the Code are set out in the first column of the table below:

Code of Best Practice on Corporate Governance	Bank's Adherence
<b>A - Directors</b>	
<b>A.1 – The Board</b>	
<b>Composition of the Board</b> (Principle A.1 - Every Public Company should be headed by an effective Board, which should lead and control the Company)	Board comprises of eight Non-Executive Directors of whom three are Nominee Directors and one Executive Director, who is the Chief Executive Officer. They encompass a range of talents, skills and expertise required to provide sound and prudent guidance in respect to the operations and interests of the Bank.
<b>Holding of Regular Board Meetings</b> (Principle A.1.1 - The Board should meet regularly and Board meetings should be held at least once in every quarter of a financial year)	Regular Board Meetings are held monthly while Special Board Meetings are convened whenever necessary. In addition, there are several Board Sub-Committees, details of which are given on page 65.
<b>Availability of Formal Schedule of Matters Specifically Reserved to the Decision Making of the Board</b> (Principle A.1.2 - The Board should have a formal schedule of matters specifically reserved to it for decision including inter-alia. <ul style="list-style-type: none"> <li>Review/Formulate and monitor implementation of a sound business strategy</li> <li>Ensure that the CEO and Management Team are competent and adopt an effective CEO and Senior Management succession strategy</li> <li>Secure effective information, control and audit systems</li> <li>Ensure compliance with legal/ethical standards</li> <li>Ensure prevention and management of risks and</li> <li>Fulfil such other Board functions as are vital, given the scale, nature and complexity of the business concerned)</li> </ul>	Board is responsible for: <ul style="list-style-type: none"> <li>Ensuring satisfactory performance as general representatives of the shareholders and other stakeholders</li> <li>Deciding on the strategic direction of the Bank</li> <li>Formulation of policies, strategies and monitoring successful implementation thereof</li> <li>Appointment of the CEO, approving the organisational structure and planning for succession of Corporate Management</li> <li>Ensuring the implementation of an effective internal control system</li> <li>Ensuring compliance with the highest ethical and legal standards</li> <li>Ensuring that a proper risk management system is in place</li> <li>Approval of credit facilities beyond the delegated authority of the Executive Credit Committee</li> <li>Deciding on major capital investments on acquisitions, divestments and expansions</li> <li>Approval of the budget and the corporate plan</li> <li>Approval of annual and interim Financial Statements for publication</li> </ul>
<b>Procedure for the Directors to Obtain Independent Professional Advice</b> (Principle A.1.3 - There should be a procedure agreed by the Board for Directors in the furtherance of their duties to take independent professional advice if necessary, at the Company's expense)	The Board obtains independent professional advice from external sources at the Bank's expense, whenever the Board deems it necessary. In addition Board sub-committees advise the Board on various matters under their purview.
<b>Company Secretary</b> (Principle A.1.4 - All Directors should have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. Any question of the removal of the Company Secretary should be a matter for the Board as a whole)	An Attorney-at-Law/Chartered Secretary with adequate experience functions as the Secretary of the Board. She ensures that proper Board procedures are followed and that applicable rules and regulations are adhered to. All legal matters for which clarification is needed by the Board are referred to the Company Secretary, who in turn provides such information after obtaining necessary professional advice, wherever required. The Articles of the Bank specify that the Board may at their discretion remove the Company Secretary.

Code of Best Practice on Corporate Governance	Bank's Adherence
<p><b>Independent Judgement</b> (Principle A.1.5 - All Directors should bring an independent judgement to bear on issues of strategy, performance, resources (including key appointments) and standards of conduct)</p> <p><b>Dedication of Adequate Time and Effort</b> (Principle A.1.6 - Every Director should dedicate adequate time and effort to matters of the Board and the Company, in order to ensure that the duties and responsibilities owned by him/her to the Company are satisfactorily discharged)</p> <p><b>Training for the Directors</b> (Principle A.1.7 - Every Director should receive appropriate training on the first occasion that he or she is appointed to the Board of a listed Company and subsequently as necessary. Training curricula should encompass both general aspects of directorship as well as matters specific to the particular industry/ company concerned)</p>	<p>Directors are committed to add value and bring independent judgement to bear on the decision-making process of the Bank and to carry out their duties free from any undue influence or control of other parties. The Directors refrain from participating at discussions relating to matters of their interest, in whatever manner. The Board members are required to disclose details of all related transactions with the Bank, including those of close family members, which are made on an arms length basis.</p> <p>At least 12 regular Board meetings are held per annum. Adequate time is devoted at every meeting to ensure that the Board's responsibilities are discharged satisfactorily. In addition to the regular meetings, special meetings are held to deal with other issues, depending on the needs. Other specific matters are referred to Board Sub Committees for special attention and recommendation to the main Board. Directors also devote their time to circulated matters, which are required to be resolved on an urgent basis. In addition, the Board members have meetings and discussions with the management when required.</p> <p>The Board's policy on Directors' training is to provide adequate opportunities for continuous development subject to requirement and relevance for each Director. The Directors are constantly updated on the latest trends and issues facing the Bank and financial industry as a whole. In this regard, advice is sought from independent experts and presentations are made to the Board whenever major changes affecting the banking industry are announced.</p>
<b>A.2 – Chairman and CEO</b>	
<p><b>Clear Division of Responsibilities in Running the Board and Executive Responsibilities of Running the Bank's Business.</b> (Principle A.2 - There are two key tasks at the top of every public company - the running of the Board and the executive responsibility for the running of the Company's business. There should be a clear division of responsibilities at the head of the Company, which will ensure a balance of power and authority, such that no one individual has unfettered powers of decision)</p> <p><b>Presence of a strong and Independent Non-Executive Element on the Board</b> (Principle A.2.1 - A decision to combine the posts of Chairman and Chief Executive Officer in one person should be justified. Whether the posts are held by different people or by the same person, there should be a strong and independent Non-Executive element on the Board, with a recognised senior Member i.e. Lead Director, other than the Chairman to whom concerns can be conveyed. The Chairman or Lead Director and Chief Executive Officer should be identified in the Annual Report)</p>	<p>Positions of the Chairman and the CEO are separated, thereby preventing unfettered powers for decision-making in one person. Chairman is a Non-Executive Director while the CEO serves as the Executive Director. Chairman is responsible for leading the Board and its effectiveness. The Chairman and the CEO have been identified on page 16 of this Annual Report. In practice this means taking responsibility for Board's composition, appraisal and development, ensuring that the Board focuses on its key tasks and supporting the CEO in his role in managing the day-to-day operations of the Bank. The Chairman is also the ultimate point of contact for shareholders, particularly on Corporate Governance issues.</p> <p>The Board consists of 8 Non-Executive Directors. The only Executive Director is the CEO. As a result there is a strong Non-Executive element present on the Board. The selection process of Directors ensures that only Independent Directors are selected to the Board. This process will be reviewed to incorporate the criteria setout in the Central Bank and CSE Codes on Corporate Governance in future.</p> <p>The Chairman and the CEO have been identified on page 16 of the Annual Report.</p>

Code of Best Practice on Corporate Governance	Bank's Adherence
<b>A.3 - Chairman's Role</b>	
<b>Preserving Good Corporate Governance</b> (Principle A.3 - The Chairman's role in preserving Good Corporate Governance is crucial. As the person responsible for running the Board, the Chairman should preserve order and facilitate the effective discharge of Board functions)	The Chairman ensures that proper order and effective discharge of Board functions are carried out at all times by the Board Members.
<b>Conducting Board Proceedings in a Proper Manner</b> (Principle A.3.1 - The Chairman should conduct Board proceedings in a proper manner and ensure, inter-alia, that <ul style="list-style-type: none"> <li>the effective participation of both Executive and Non-Executive Directors is secured</li> <li>all Directors are encouraged to make an effective contribution, within their respective capabilities, for the benefit of the Company</li> <li>a balance of power in the Board is maintained</li> <li>the sense or decision of Directors on issues, under consideration, is ascertained</li> <li>the Board is in complete control of the Company's affairs and alert to its obligations to all shareholders and other stakeholders)</li> </ul>	Chairman conducts Board meetings ensuring effective participation of all the Directors, heeding to their concerns and maintaining the balance of power. The Board is in full control of the Bank's affairs.
<b>A.4 - Financial Acumen</b>	
<b>Financial Acumen of the Board</b> (Principle A.4 - The Board should ensure the availability amongst its members of those with sufficient financial acumen and knowledge to be able to offer guidance on matters of finance)	There are two senior Chartered Accountants, one Chartered Management Accountant and one Chartered Financial Analyst in the Board, who offer guidance on matters relating to finance.
<b>A.5 - Board Balance</b>	
<b>Balance of the Board</b> (Principle A.5 - It is preferable for the Board to have a balance of Executive and Non-Executive Directors (including independent Non-Executives) such that no individual or small group of individuals can dominate the Board's decision taking) (Principle A.5.1 - For a Director to be deemed 'Independent' the Board must affirmatively determine that the Director has no material relationship with the listed company (either directly or as a partner, shareholder, or offer of an organisation that has a relationship with the Company) (Principle A.5.2 - The Board should include Non-Executive Directors of sufficient calibre and number for their views to carry significant weight in the Board's decisions. Non-Executive Directors should comprise not less than one third of the Board and in the event that the same person holds the posts of Chairman and Chief Executive, it is recommended that the Non-Executive Directors comprise a majority of the Board) (Principle A.5.3 - The majority of Non-Executive Directors should be independent of management and free from any business or other relationship, which could materially interfere with the exercise of their independent judgement. Non-Executive Directors considered by the Board to be 'independent' in this sense should be identified in the Annual Report)	<p>The Banking Act No. 30 of 1988 prior to the amendments in 2005 had provisions restricting employees of a bank other than the CEO being appointed as Directors of that bank. The Board's composition was decided at the time, in line with this requirement. However, the amendments to the Banking Act in 2005 provide for up to one third of the Board Members to be appointed from employees as Executive Directors. Board agrees with the principle of appointing suitable employees to the Board. Nevertheless, the Board wishes to establish certain controlling measures prior to the implementation of this principle. In the circumstances, at present, only employee on the Board is the CEO.</p> <p>In any case, the majority of the Directors are Non-Executive independent Directors. The Board believes that the combined knowledge and experience of the Board matches the strategic demands facing the Bank.</p>



Code of Best Practice on Corporate Governance	Bank's Adherence
<p align="center"><b>A.6 - Supply of Information</b></p> <p><b>Provision of Quality Information in a Timely Manner</b> (Principle A.6 - The Board should be provided in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties)</p> <p><b>Availability of Quality Management Information</b> (Principle A.6.1 - Management has an obligation to provide the Board with appropriate and timely information, but information volunteered by management is unlikely to be enough in all circumstances and Directors should make further inquiries where necessary. The Chairman should ensure that all Directors are properly briefed on issues arising at Board Meetings)</p>	
<p align="center"><b>A.7 - Appointments to the Board</b></p> <p><b>Procedure for Appointment of New Directors</b> (Principle A.7 - There should be a formal and transparent procedure for the appointment of new Directors to the Board)</p> <p><b>Availability of a Nomination Committee for Making Recommendations on all New Board Appointments</b> (Principle A.7.1 - A Nomination Committee should be established to make recommendations to the Board on all new Board appointments. A majority of the members of this committee should be Non-Executive Directors and the Chairman should be a Non-Executive Director. The Chairman and members of the Nomination Committee should be identified in the Annual Report)</p> <p>(Principle A.7.2 - The Nomination Committee or in the absence of a Nomination Committee, the Board as a whole should annually assess Board-composition to ascertain whether the combined knowledge and experience of the Board matches the strategic demands facing the Company. The findings of such assessment should be taken into account when new Board appointments are considered and when incumbent Directors come up for re-election)</p> <p><b>Disclosure of Details of New Directors to Shareholders</b> (Principle A.7.3 - Upon the appointment of a new Director to the Board, the Company should forthwith disclose to shareholders:</p> <ul style="list-style-type: none"> <li>• A brief resume of such Director</li> <li>• The nature of his/her expertise in relevant functional areas</li> <li>• The names and registered addresses of companies in which the Director holds directorships or memberships in Board Committees.</li> </ul>	
	<p>A well-streamlined Management Information System is in place. Accurate and relevant information relating to matters referred to the members of the Board are made available to them well in advance. Whenever, the Board finds that the information made available to them for a decision is insufficient, they call for additional information. Further, adequate professional advice is provided to the Board by the Company Secretary as and when required. The Chairman's practice of inviting the member of Senior Management/Corporate Management to provide necessary clarification at Board meetings, ensure all Directors are properly briefed on the matters deliberated at the meetings.</p>
	<p>The authority on this area is given to the Board. The procedure adopted by the Board is to invite all the Directors to suggest suitable names for consideration by the Board as a whole. Views of all the Directors on the suitability of a proposed party are considered prior to taking a decision on the matter. Concurrence of the entire Board was obtained for appointments made during the past several years, other than the appointment of Nominee Directors, who were nominated by the respective shareholders and for whom subsequently consent was given by the Board. With the formation of the Nominations Committee, recommendation of suitable names to the main Board becomes the responsibility of this Committee.</p> <p>The Bank has formed a Nomination Committee in 2008 for making recommendations on appointments and re-elections to the Board. Majority of this committee are Non-Executive Directors. The Chairman of the committee is also a Non-Executive Director. Members of the committee are listed in the Annual Report. Recommendation of all the Directors will be considered by the Board when making new appointments and re-election decisions.</p> <p>Performance of the Board is assessed annually and the criteria to be considered in the appraisal covers all aspects. All these issues are given due consideration when recommending new Directors and at the re-election process.</p> <p>Names of new Directors are made available to the shareholders on their appointment by making announcements at the Colombo Stock Exchange. A profile of the new Directors' experience, qualifications and details of other companies where directorships are held by such Directors, are published in the Annual Report on page 16. Prior notice on the intention of appointment of new Directors are given to the Director of Bank Supervision of the Central Bank of Sri Lanka.</p>

Code of Best Practice on Corporate Governance	Bank's Adherence
<b>A.8 - Re-election of Directors</b>	
(Principle A.8 - All Directors should be required to submit themselves for re-election at regular intervals and at least every three years)	Except for the CEO and the three Nominee Directors, the Memorandum and Articles of Association provide for one third of the remaining Directors to retire by rotation each year. If the Board recommends the re-election, they are eligible to be re-appointed by the shareholders at the Annual General Meeting (AGM). Although these Directors are not re-elected for a specific period of time, when they are re-elected at the AGM, immediately after their appointment, they have to come up for re-election in 3 years or a shorter period, since only 5 Directors out of 9 can be considered in the re-election process, according to the Articles of Association. Though the Nominee Directors are not subject to retire by rotation, the Board is entitled to remove any such Director, if they are of the opinion that such removal is in the best interest of the Bank provided, that the shareholder concerned is entitled to nominate another person as the Nominee Director. The biographical details of the Directors are subject to re-election at the forthcoming AGM are indicated in their profiles, which are given on pages 16 of the Annual Report.
(Principle A.8.1 - Non-Executive Directors should be appointed for specific terms subject to re-election and to Companies Act provisions relating to the removal of a Director, and re-appointment should not be automatic)	
(Principle A.8.2 - Memorandum and Articles of Association of the Company, should provide for, all Directors including the Chairman of the Board, are to be subject to election by shareholders at the first opportunity after their appointment, and to re-election thereafter at intervals of no more than three years. The names of Directors submitted for election or re-election should be accompanied by sufficient biographical details to enable shareholders to take an informed decision on their election)	
<b>A.9 - Appraisal of Board Performance</b>	
(Principle A.9 - Boards should periodically appraise their own performance in order to ensure that prime Board responsibilities are satisfactorily discharged)	The Board has implemented a self-assessment exercise covering key functions under the following activities to assess the performance of the Board and carries out the following evaluations annually:
(Principle A.9.1 - The Board should annually appraise itself in the key responsibilities, inter alia, of:	<ul style="list-style-type: none"> <li>• Discharge of statutory/regulatory duties and other responsibilities of the Board</li> <li>• Corporate Governance and Risk Management monitoring</li> <li>• Seeking and contributing views and opinions on strategic decision making</li> <li>• Leveraging the skills and expertise of individual Board Members in furtherance of business</li> <li>• Understanding the compensation philosophy - 'to retain and motivate staff in a manner appropriate for the business'</li> <li>• Understanding the succession plans to ensure comprehensive staff succession - 'to ensure talent availability and address expectations of high potential and high quality staff'</li> <li>• Overall view of Management of the business by the Board.</li> </ul>
<ul style="list-style-type: none"> <li>• Reviewing/Formulating and Monitoring Implementation of a sound business strategy</li> <li>• Ensuring that the CEO and Management Team are competent and the adoption of an effective CEO and Senior Management succession strategy</li> <li>• Securing effective information, control and audit systems</li> <li>• Ensuring compliance with legal/ethical standards</li> <li>• Ensuring prevention and Management of risks and</li> <li>• Fulfilling such other Board functions as are vital, given the scale, nature and complexity of the business concerned</li> </ul>	Non-Audit Committee Board members assess the performance of the Board Audit Committee.

Code of Best Practice on Corporate Governance	Bank's Adherence
<b>A.10 - Appraisal of the CEO</b>	
<p>(Principle A.10 - The Board should be required, at least on an annual basis to assess the performance of the Chief Executive Officer)</p> <p>(Principle A.10.1 - At the commencement of every fiscal year, the Board, in consultation with the Chief Executive Officer, should set reasonable financial and non-financial targets, in line with the short, medium and long term objectives of the Company, that are to be met by the Chief Executive Officer during the course of the year)</p> <p>(Principle A.10.2 - The performance of the Chief Executive Officer should be evaluated by the Board at the end of each fiscal year in order to ascertain whether the targets set by the Board have been achieved and if not, whether the failure to meet such targets was reasonable in the circumstances)</p>	<p>The Board sets financial and non-financial goals and objectives for the CEO in line with the short, medium and long term goals of the Bank and has delegated appropriate authority to the Management to implement strategic objectives of the Bank. The CEO is entrusted with the management of the Bank's operations and he is fully accountable to the Board. The main corporate goals and objectives emanating from the Bank's Corporate Plan and the Budget are incorporated as personal goals of the CEO, whose performance is assessed by the Chairman/Human Resource &amp; Remuneration Committee annually and the assessment is ratified by the Board.</p>
<b>B - Directors' Remuneration</b>	
<b>B.1 – Remuneration Procedure</b>	
<p><b>Policy for Directors' Remuneration</b></p> <p>(Principle B.1 - Companies should establish a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual Directors. No Director should be involved in deciding his or her own remuneration)</p> <p>(Principle B.1.1 - To avoid potential conflicts of interest, Boards of Directors should set up Remuneration Committees of independent Non-Executive Directors to make recommendations to the Board, within agreed terms of reference, on the Company's framework of executive remuneration and its cost; and to determine on their behalf specific remuneration packages for each of the Executive Directors, including pension rights and any compensation payments)</p> <p>(Principle B.1.2 - Remuneration Committees should consist exclusively of Non-Executive Directors who are independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgement)</p> <p>(Principle B.1.3 - The members of the Remuneration Committee should be listed each year in the Board's remuneration report to shareholders)</p>	<p>The Human Resource &amp; Remuneration Committee reviews the Bank's human resources and remuneration policies and oversees the implementation of these policies. Remuneration levels are designed to attract, retain and motivate persons who contribute to the achievement of corporate objectives. The Chairman's and other Directors' remuneration are based on a certain percentage of the CEO's remuneration.</p> <p>The Human Resource &amp; Remuneration Committee, consists of the Executive Director and four Non-Executive Directors on the Board. These members are nominated by the Board of Directors of the Bank. The Committee is headed by the Non-Executive Chairman of the Bank. The Committee sets policies on remuneration, perquisites and allowances based on industry and market surveys.</p> <p>The Bank is in the process of regularising the composition of this Committee to fall in line with the requirement of the Code.</p> <p>Complete list of the members of the Human Resource &amp; Remuneration Committee is given on page 65 of this report.</p> <p>The Report of the Human Resource and Remuneration Committee is given on page 106 of the Annual Report.</p>



Code of Best Practice on Corporate Governance	Bank's Adherence
<p>(Principle B.1.4 - The board as a whole, or where required by the Articles of Association, the shareholders should determine the remuneration of the Non-Executive Directors, including members of the Remuneration Committee, within the limits set in the Articles of Association. Where permitted by the Articles, the Board may however delegate this responsibility to a small sub-committee, which might include the Chief Executive Officer)</p>	<p>The remuneration of the Non-Executive Directors are determined by the Board of Directors of the Bank, based on the CEO's recommendation in accordance with the international practices and the recommendations made by the Human Resource &amp; Remuneration Committee. There are no limits set by the Articles of Association of the remuneration of Non-Executive Directors.</p>
<p>(Principle B.1.5 - Remuneration Committees should consult the Chairman and/or Chief Executive Officer about their proposals relating to the remuneration of other Executive Directors and have access to professional advice inside and outside the Company)</p>	<p>The Human Resource &amp; Remuneration Committee determines the compensation of the CEO based on the performance appraisal.</p> <p>The Human Resource &amp; Remuneration Committee is headed by the Chairman. The CEO provides information to the Committee and is involved in any deliberations.</p> <p>The Committee has access to obtain professional services from local and international firms.</p>
<b>B.2 - Level and Make up of Remuneration</b>	
<p><b>Determination of the Level of Remuneration of both Executive and Non-Executive Directors</b></p> <p>(Principle B.2 - Levels of remuneration of both Executive and Non-Executive Directors should be sufficient to attract and retain the Directors needed to run the Company successfully, but companies should avoid paying more than is necessary for this purpose. A proportion of Executive Directors' remuneration should be structured so as to link rewards to corporate and individual performance)</p>	<p>Remuneration increment for all staff including the CEO being the only Executive Director, is based on achievement of Bank/Individual objectives. Due care is taken to manage the fixed and variable remuneration costs.</p>
<p>(Principle B.2.1 - The Remuneration Committee should provide the packages needed to attract, retain and motivate Executive Directors of the quality required but should avoid paying more than is necessary for this purpose)</p>	<p>A sufficiently attractive remuneration package is offered to both the CEO and the Non-Executive Directors in order to attract and retain them.</p>
<p>(Principle B.2.2 - Remuneration Committees should judge where to position their Company relative to other companies. They should be aware what comparable companies are paying and should take account of relative performance. But they should use such comparisons with caution, in view of the risk that they can result in an upward ratchet of remuneration levels with no corresponding improvement in performance)</p>	<p>The Remuneration Committee obtains services of local and international companies to conduct salary surveys to benchmark compensation packages with the external markets.</p>
<p>(Principle B.2.3 - Remuneration Committees should be sensitive to the wider scene, including pay and employment conditions elsewhere in the Group, especially when determining annual salary increases)</p>	
<p>(Principle B.2.4 - The performance-related elements of remuneration of Executive Directors should be designed and tailored to align their interests with those of shareholders and to give these Directors appropriate incentives to perform at the highest levels)</p>	<p>Compensation and benefits structure of the Bank is determined in accordance to the overall targets of the Bank.</p>

Code of Best Practice on Corporate Governance	Bank's Adherence
(Principle B.2.5 - Executive share options should not be offered at a discount (i.e. less than prevailing market price at the time the exercise price is determined) same as permitted by the Listing Rules)	The prices of the options at the time of their award are determined at the average market prices of the voting shares during the last three months of each year.
(Principle B.2.6 - In designing schemes of performance-related remuneration, Remuneration Committees should follow the provisions stipulated in the Code set out by ICASL)	The Committee considers the overall achievement and performance of the Bank when determining the variable pay plan.
(Principle B.2.7 - Board should have as an objective to set notice periods of one year or less so as not to disrupt the smooth functioning of the business)	The Bank is in the process of regularising this requirement.
(Principle B.2.8 - Remuneration Committees should consider what compensation commitments (including pension contributions) their Directors' contracts of service, if any, would entail in the event of early termination. Remuneration Committees in particular, consider the advantages of providing explicitly in the initial contract for such compensation commitments except in the case of removal for misconduct)	There are no terminal compensation commitments available to the Directors of the Bank.
(Principle B.2.9 - Where the initial contract does not explicitly provide for compensation commitments, remuneration committees should, within legal constraints, tailor their approach in individual early termination cases to the wide variety of circumstances. The broad aim should be to avoid rewarding poor performance while dealing fairly with cases where departure is not due to poor performance and to take a robust line on reducing compensation to reflect departing Directors' obligations to mitigate loss)	There are no terminal compensation commitments available to the Directors of the Bank.
<b>B.3 - Disclosure of Remuneration</b>	
<b>Disclosure of Remuneration to the Board as a Whole and Statement in the Annual Report on the Policy Adopted in Remuneration</b>	
(Principle B.3 - The Company's Annual Report should contain a statement of remuneration policy and details of remuneration of the Board as a whole)	The Report issued by the Human Resource & Remuneration Committee is disclosed on page 106 of the Annual Report.
(Principle B.3.1 - Total of the Executive Directors and the total of the Non-Executive Directors remuneration and not the individual remuneration to be disclosed)	The remuneration of the CEO and the Non-Executive Directors is disclosed in page 132 of the Annual Report.

Code of Best Practice on Corporate Governance	Bank's Adherence
<b>C - Relationships with Shareholders</b>	
<b>C.1 – Constructive use of the General Meetings</b>	
<b>Building up Relationships with Shareholders</b> (Principle C.1 - Boards should use the AGM to communicate with investors and encourage their participation)	The Bank always welcomes active participation of the shareholders at the General Meetings and solicits their views at all times, thus promoting a healthy dialogue. Whenever possible, the Bank implements their suggestions.
<b>Making Available the Notice of Meeting, Related Documents and a Summary of the Procedures Governing Voting at the General Meetings</b> (Principle C.1.1 - Companies should count all proxy votes and, except where a poll is called, should indicate the level of proxies lodged on each resolution, and the balance for and against the resolution, after it has been dealt with on a show of hands) (Principle C.1.2 - Companies should propose a separate resolution at the AGM on each substantially separate issue and should in particular propose a resolution at the AGM relating to the adoption of the report and accounts) (Principle C.1.3 - The Chairman of the Board should arrange for the Chairman of the Audit, Remuneration and Nomination Committees to be available to answer questions at the AGM if so requested by the Chairman) (Principle C.1.4 - Companies should arrange for the Notice of the AGM and related papers to be sent to shareholders at least 21 <b>calendar days</b> or other period determined by statute before the meeting) (Principle C.1.5 - Companies should Circulate with every Notice of General Meeting, a Summary of the Procedures, Governing Voting at General Meetings)	All proxy votes are counted and documented when a resolution is proposed at an AGM.  Each substantially separate issue is proposed as a separate resolution. The adoption of the report and accounts is also proposed as a separate resolution.  The Chairman of the Board is also the Chairman of the Remuneration and Nomination Committees. The Chairman of the Board and the Chairman of the Audit Committee are present at the AGM.  21 clear days notice was given to the shareholders in 2007 per the terms of the provisions setout in the Companies Act No.17 of 1982 and the Memorandum of Association of the Bank.  According to the new Companies Act No.7 of 2007, the period for notice required to be given to the shareholders is 15 market days. This requirement will be adhered to from 2008. A summary of the procedure governing voting at the Annual General Meeting is given on the proxy form.
<b>Enhancing shareholder value</b>	The market capitalisation of the Bank's shares stood at Rs. 34.234 billion, as at December 31, 2007 (which was the highest market capitalisation published by any financial institution in the country), an increase of 30.68% compared to the previous year end. Three interim dividends of Rs. 1.50 per share (Voting and Non-Voting) each were paid during the year whilst a final dividend of Rs. 2.50 per share (Voting and Non-Voting) has been proposed for 2007. These bear ample testimony to the Bank's concerted efforts at enhancing shareholder value.



Code of Best Practice on Corporate Governance	Bank's Adherence
<b>C.2 - Major Transactions</b>	
<p><b>Disclosure of Major Transactions and their Impact on the Consolidated Net Assets.</b></p> <p>(Principle C.2 - Directors should disclose to shareholders all proposed corporate transactions, which if entered into, would materially alter/vary the Company's net asset base or in the case of a Company with subsidiaries, the consolidated Group net asset base)</p> <p>(Principle C.2.1 - Prior to a Company engaging in or committing to a 'Major Transaction', involving the acquisition, sale or disposition of greater than half of the net value of the Company's assets or that of a subsidiary which has a material bearing on the consolidated net assets of the Company, Directors should disclose to shareholders all material facts of such transaction)</p>	<p>There were no other major transactions that materially affected the Bank's net assets base, other than what has been disclosed in the Annual Report.</p>
<b>D - Accountability and Audit</b>	
<b>D.1 - Financial Reporting</b>	
<p><b>Disclosure of an Assessment on the Position and Prospects of the Company</b></p> <p>(Principle D.1 - The Board should present a balanced and understandable assessment of the Company's position and prospects)</p>	<p>Bank attaches high priority to timely publication of quarterly and annual results with comprehensive details far in excess of the statutory requirements, ensuring a presentation of a balanced and understandable assessment of the Bank's position and prospects, enabling both existing and prospective shareholders to make a timely and fair assessment of the Bank's performance, prospects and informed decisions. Mediums of publication include printed materials, newspapers and the website of the Bank. The Bank strictly adheres to the accounting formats and other procedures laid down by the regulatory authorities such as the Central Bank and the Colombo Stock Exchange, in the submission of all periodic returns and other information. Price sensitive information is released to the regulators on a timely basis. The Financial Statements are prepared in accordance with the Sri Lanka Accounting Standards, which are based on the International Accounting Standards. Therefore, the Bank's Financial Statements comply with the International Accounting Standards in all material respects, to the extent that International Accounting Standards have been adopted in Sri Lanka.</p>
<p>(Principle D.1.1 - The Board's responsibility to present a balanced and understandable assessment extends to interim and other price-sensitive public reports and reports to regulators as well as to information required to be presented by statutory requirements)</p>	

Code of Best Practice on Corporate Governance	Bank's Adherence														
<p><b>Annual Report should contain a Declaration by the Directors</b> (Principle D.1.2 - The Directors' Report, which forms part of the Annual Report, should contain declarations by the Directors to the effect that:</p> <ul style="list-style-type: none"> <li>• The Company has not engaged in any activities, which contravene laws and regulations</li> <li>• The Directors have declared all material interests in contracts involving the Company and refrained from voting on matters in which they were materially interested</li> <li>• The Company has made all endeavours to ensure the equitable treatment of shareholders</li> <li>• The business is a going concern, with supporting assumptions or qualification as necessary</li> <li>• They have conducted a review of the internal controls which should cover financial, operational and compliance controls and risk management)</li> </ul>	<p>Report of the Directors (now known as 'Annual Report of the Board of Directors on the Affairs of the Company') containing the subject declarations is given on pages 93 to 100 of the Annual Report.</p>														
<p><b>Presenting a Statement Setting out the Responsibilities of the Directors for Financial Statements and a Statement by the Auditors about their Reporting Responsibilities</b> (Principle D.1.3 - The Annual Report should contain a statement setting out the responsibilities of the Board for the preparation of Financial Statements, together with a Statement by the Auditors about their reporting responsibilities)</p>	<p>The Statement of Directors' Responsibility for Financial Reporting is given on page 104 of the Annual Report.</p> <p>Auditors' Report on the Financial Statements of the Bank for the year ended December 31, 2007 containing the Auditors reporting responsibility is given on page 109 of the Annual Report.</p>														
<p><b>Presenting a Management Report in the Annual Report</b> (Principle D.1.4 - The Annual Report should contain a Management Report, discussing, among other issues:</p> <ul style="list-style-type: none"> <li>• Industry structure and developments</li> <li>• Opportunities and threats</li> <li>• Risks and concerns</li> <li>• Internal Control Systems and their adequacy</li> <li>• Financial performance</li> <li>• Material developments in Human Resource/Industrial Relations Prospects for the future)</li> </ul>	<p>This information is available in the Management Reports of the Annual Report.</p> <p>Please refer the relevant pages:</p> <table> <tr> <th>Information</th><th>Page</th></tr> <tr> <td>Industry structure and developments</td><td>21</td></tr> <tr> <td>Opportunities and threats</td><td>41</td></tr> <tr> <td>Risks and concerns</td><td>66</td></tr> <tr> <td>Internal Control Systems and their adequacy</td><td>63</td></tr> <tr> <td>Financial performance</td><td>24</td></tr> <tr> <td>Material developments in Human Resource/ Industrial Relations and Prospects for the future</td><td>75</td></tr> </table>	Information	Page	Industry structure and developments	21	Opportunities and threats	41	Risks and concerns	66	Internal Control Systems and their adequacy	63	Financial performance	24	Material developments in Human Resource/ Industrial Relations and Prospects for the future	75
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<p><b>Declaration by the Board whether the Business is a Going Concern</b> (Principle D.1.5 - The Directors should report that the business is a going concern, with supporting assumptions or qualifications as necessary. The matters to which the Board should give due consideration when adopting the going concern assumptions are set out in the Code)</p>	<p>This is given in the "Annual Report of the Board of Directors" on page 93 of the Annual Report.</p>														
<p><b>Summoning an EGM to Notify the Shareholders if Net Assets Fall Below One Half of the Shareholders' Funds</b> (Principle D.1.6 - In the event that the net assets of the Company falls below one half of the Company's shareholders' funds, the Directors shall forthwith summon an Extraordinary General Meeting (EGM) of the Company to notify shareholders of the position and of remedial action being taken)</p>	<p>There have not been such situations in the past. However, should the situation arise, an EGM will be called for and shareholders will be notified.</p>														

Code of Best Practice on Corporate Governance	Bank's Adherence
<b>D.2 - Internal Controls</b>	
<p><b>Maintaining a Sound System of Internal Controls Covering Financial, Operational, Compliance and Risk Management to Safeguard Shareholders' Investments and the Company's Assets</b> (Principle D.2 - The Board should maintain a sound system of internal control to safeguard shareholders' investment and the Company's assets)</p>	<p>Directors have put in place effective Internal Control, Risk Management and Compliance Systems to ensure that no Legal and regulatory provisions (Including Banking Act, Companies Act and Colombo Stock Exchange Code) are violated. A summary of the Risk Management measures in place at the Bank is given on page 66 of the Annual Report.</p>
<p><b>Reviewing of the Effectiveness of Internal Controls Periodically by the Directors and Reporting thereon to the Shareholders</b> (Principle D.2.1 - The Directors should, at least annually, conduct a review of the effectiveness of the Group's system of internal controls and should report to shareholders that they have done so. The review should cover all controls, including financial, operational and compliance controls and risk management) (Principle D.2.2 - Companies, which do not have an internal audit function, should from time to time review the need for one)</p>	<p>The effectiveness of the internal control systems is periodically reviewed by the Board Audit Committee and major observations are reported to the Board. It also ensures that effective internal and external audit procedures are in place and these functions are carried out by the Inspection Department which is ably assisted by five firms of Chartered Accountants approved by the Central Bank of Sri Lanka. The Board reviews the reports arising from the internal and external audits and monitors the progress of the Bank by evaluating the results against the budget and the industry performance.</p> <p>Not applicable.</p>
<b>D.3 - Audit Committee and Auditors</b>	
<p><b>Availability of an Audit Committee Comprising of Independent Non-Executive Directors and Reporting thereon in the Annual Report</b> (Principle D.3 - The Board should establish formal and transparent arrangements for considering how they should apply the financial, reporting and internal control principles and for maintaining an appropriate relationship with the Company's Auditors)</p>	<ul style="list-style-type: none"> <li>• A structured loss reporting process covering fraud or suspected fraud involving staff, damage or loss to Bank property, theft, customer misappropriations resulting in financial impact/losses, has been implemented</li> <li>• Long outstanding items reflected in suspense accounts are reported quarterly</li> <li>• A comprehensive compliance check list and exception reporting procedures are in place</li> <li>• Formal systems are in place to continuously update the knowledge and skills of employees in order to foster the acceptance and participation in building effective controls</li> <li>• Bank maintains cordial relationships with the External Auditors M/s. Ernst &amp; Young</li> </ul>
<p>(Principle D.3.1 - The Board should establish an Audit Committee of at least three Directors, all three Directors, all Non-Executive, with written terms of reference which deal clearly with its authority and duties. The members of the Committee, a majority of whom should be <b>independent</b> Non-Executive Directors, should be named in the Report and Accounts)</p>	<p>An active Board Audit Committee headed by the Deputy Chairman and represented by three other Non-Executive Directors is in place. The Managing Director attends the meetings by invitation. The Committee met four times during the year. The full report of this Committee including the terms of reference and specific tasks carried out during the year is given on page 107 of this Annual Report.</p>
<p><b>Maintaining appropriate relationships with the External Auditors to ensure their objectivity and independence.</b> (Principle D.3.2 - The duties of the Audit Committee should include keeping under review the scope and results of the audit and its effectiveness and the independence and objectivity of the auditors. Where the auditors also supply a substantial volume of non-audit services to the Company, the Committee should keep the nature and extent of such services under review, seeking to balance the maintenance of objectivity, independence and value for money)</p>	<p>The subject activities are part of the duties of the Audit Committee. During the year, provision of non-audit services to the Bank by them was limited to tax consultancy work.</p>



Code of Best Practice on Corporate Governance	Bank's Adherence
<b>D.4 - Corporate Governance</b>	
<p><b>Disclosure of Good Corporate Governance Practices Adopted in the Bank</b></p> <p>(Principle D.4 - Directors should be required to disclose the extent to which the Company adheres to established principles and practices of good Corporate Governance)</p> <p>(Principle D.4.1 - The Directors should include in the Company's Annual Report a Corporate Governance Report, setting out the manner and extent to which the Company has complied with the principles and provisions of this Code)</p>	<p>In order to further strengthen the good corporate governance practices already in place in the Bank by identifying the latest best practices around the world and implementing them wherever necessary, the Bank periodically evaluates its practices vis-a-vis the OECD Principles of Corporate Governance, which is acknowledged world over as an important initiative in this sphere, the Code of Best Practice on Corporate Governance issued by The Institute of Chartered Accountants of Sri Lanka and the Code of Corporate Governance for Banks and Financial Institutions issued by the Central Bank of Sri Lanka.</p> <p>The Bank is happy to note that the majority of the principles and practices recommended in these Codes are already in place in the Bank. All required actions are being taken to maintain this position and upgrade on areas, where necessary. The Bank also believes that with the adherence of the amendments made to the Banking Act and the proposed amendments to the Companies Act will improve the legal infrastructure and the regulatory framework relating to Corporate Governance of the Bank.</p> <p>Extent to which the Bank has complied with the Good Corporate Governance Principles is given as above in this Report.</p>

There are several Board Sub-Committees, each with a defined scope of work and terms of reference. These Committees are responsible for providing independent and expert advice to the Board on the subjects assigned.

The attendance of each Director at Main Board, Audit, Human Resource & Remuneration, Credit and Strategic Planning Committee meetings is set out in the table below:

	Main Board		Audit Committee		Human Resource & Remuneration Committee		Credit Committee		Strategic Planning Committee	
Committee/Composition	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended
M.J.C. Amarasuriya	14	14			4	4	*		1	1
B.R.L. Fernando	14	12	4	4			*		1	1
A.L. Gooneratne	14	14			4	4	*		1	1
Dr. H.S. Wanasinghe	14	13	4	4	4	4				
A.N. Fonseka	14	14	4	4						
L.J.A. Fernando	14	12			4	3				
Iyad M. Malas (Including attendance of G. Galludec)	14	11								
D.S. Weerakkody	14	12			4	3			1	1
Deshamanya Ken Balendra	14	13							1	1

\* The committee did not meet during the year but approved facility papers by circulation.

The composition, scope/principal activities carried out during the year of the different Board Sub-Committees are given below:

#### Board Sub-Committees

Committee/ Composition	Scope of the Sub-Committee/Principal Activities carried out during the year
<b>Audit:</b> B.R.L. Fernando * Dr. H.S. Wanasinghe A.N. Fonseka D.S. Weerakkody <i>(Effective 2008)</i> A.L. Gooneratne <i>(by invitation)</i>	<p>Ensuring that a sound financial reporting system is in place in conformity with the rules, regulations and ethical guidelines. Full Report of this Committee detailing the activities undertaken during the year is given on page 107 of the Annual Report.</p> <p>In addition to the Board members, Mr. A.T.P. Edirisinghe, a Consultant also attended all four meetings by invitation to provide expert advice to the Committee.</p>
<b>Human Resources &amp; Remuneration:</b> M.J.C. Amarasuriya * A.L. Gooneratne Dr. H.S. Wanasinghe L.J.A. Fernando D.S. Weerakkody	<p>Maintaining a market oriented remuneration policy for the Bank's staff, enabling the Bank to attract the best personnel in the market while maintaining a contended staff and making recommendations to the Board on appointments to the Corporate Management and their succession planning. Full Report of this Committee detailing the activities undertaken during the year is given on page 106 of the Annual Report.</p> <p>Bank participated in a Salary Survey conducted by Hewitt Outsourcing Services (India) Ltd. in order to ascertain the market levels of salaries and other remuneration which were taken into consideration in granting salary increases to the Executive staff.</p>
<b>Credit:</b> M.J.C. Amarasuriya * B.R.L. Fernando A.L. Gooneratne	<p>Formulating the Bank's Credit Policy and monitoring the Bank's Credit Risk. Approving the facilities referred to the Committee within its delegated authority. During the year, the Committee did not meet but approved the facility papers by circulation</p>
<b>Strategic Planning:</b> M.J.C. Amarasuriya * B.R.L. Fernando A.L. Gooneratne D.S. Weerakkody Deshamanya Ken Balendra	<p>Ensuring that a proper planning procedure is in place and striving to promote a target driven culture within the Bank. All the members of the Board deliberated on the Corporate Plan and the Budget 2008-2012 at a special Board meeting held in December 2007.</p>

\* Chairman of the Committee

# Anchored in Good Practice

## A Kaleidoscopic view on Risk Management

Risk Management is a process which clearly depicts management of risks and returns of every business decision at both the institutional level and the transactional level. Moreover, the Risk Management process sets the direction on how to change strategy in order to bring the risk return trade-off in line with the best long and short term interest of the institution.

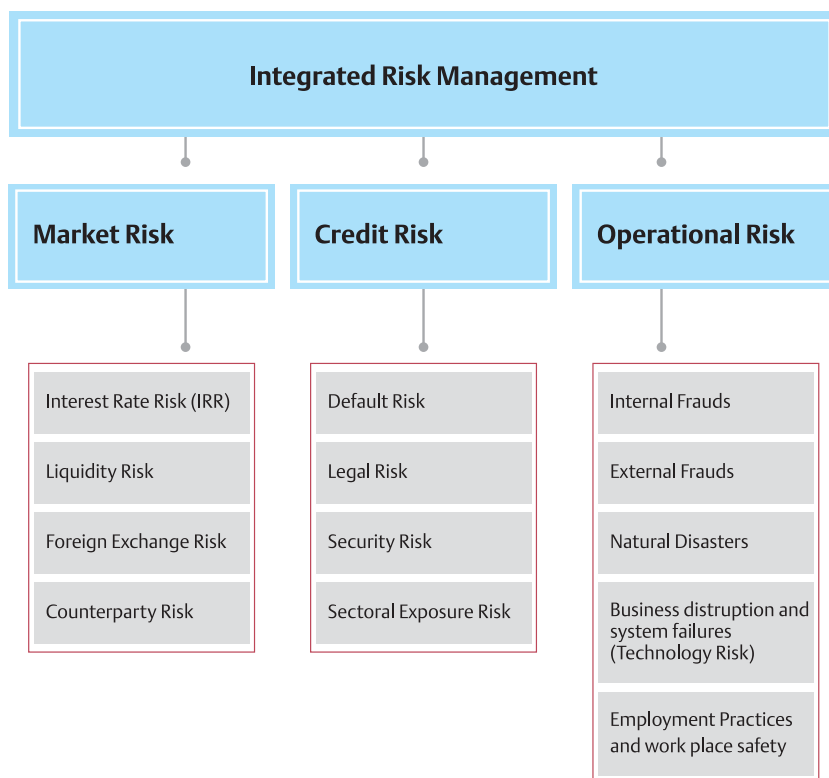
The primary goals of Risk Management are to ensure that the outcomes of risk-taking activities are predictable and consistent with the Bank's objectives and risk tolerance. Further, it is expected to maintain an appropriate balance between risk and reward in order to maximize the stakeholder value.

Undoubtedly, capital which is the primary means of protection against the risk of insolvency is fast becoming the 'limiting factor' for banks and as such, Capital Management of banks is gaining more and more significance. It is all about directing this scarce resource to the opportunities that are expected to generate the maximum return with the minimum risk. An effective Risk Management framework can immensely contribute to the efforts endeavoured by banks in managing the available capital.

The concept of Integrated Risk Management requirement amongst Licensed Commercial Banks in Sri Lanka is further promoted by recently issued Banking Act Directions No. 11 of 2007 on Corporate Governance and is brought under the purview of an Integrated Risk Management Board Committee.

### Managing Risk at Commercial Bank

A wider array of Risk Management tools and practices are available for financial institutions today. However, the design of the Risk Management system at Commercial



Bank is organisation specific and depends on its size and the level of sophistication. It is well structured to address both banking and non-banking risks in on-balance sheet as well as off balance sheet exposures, with a view to protecting capital and enhancing shareholder value. The Risk Management system ensures that the Bank takes well-calculated business risks while safeguarding the Bank's capital, its financial resources and profitability from various risks. While trying to eliminate, if possible, certain risks altogether, such as legal and operational risks, the Bank is also mindful of the correlation between risk and reward in other areas. It is the Bank's policy to manage such risks effectively by way of mitigating or minimising with a view to maximise the return to all its stakeholders. In this regard, the Bank has recognised the fact that continuing development of the Risk Management infrastructure in terms of systems, procedures and the necessary skills and expertise among the relevant staff to handle these risks professionally is the most

effective strategy and consequently allocated sufficient resources for developing the necessary infrastructure and skills. The management continues to oversee and update the systems, policies and procedures in all dimensions of operations within the broad guidelines and policies set by the Board. These policies and procedures are integrated into the day to day decision making and corporate governance process.

### Board and Management Oversight

The Board of Directors and the Management provide important oversight to risk management practices of the Bank resulting in proper alignment of its strategies with the risk appetite of the Bank and apposite deployment of capital, in its efforts to create value for all the stakeholders. Board of Directors at its meetings and through various sub-committees such as the Board Audit Committee, the Board Credit Committee and the Management at its meetings and through

various sub-committees such as Executive Credit Committee, the Credit Policy and Portfolio Review Committee and the Asset & Liabilities Committee make a substantial contribution in these efforts.

During the year, all sectional heads at the Management level of the Bank continued to periodically assess the extent of implementation of various risk management measures against each risk in a wide-ranging list of possible banking and non-banking risks documented. A report thereon was submitted to the Board through the Board Audit Committee as at June 30, 2007 and December 31, 2007, apprising the Board of the most significant risks and actions taken by the Management to mitigate such risks.

### Articulation and Realignment of Risk Management Process

The Bank gradually progressed in the journey which it embarked on a project to upgrade its risk management and control systems by establishing an Integrated Risk Management Department with a view to managing **growth and profitability** and monitoring **capital adequacy** more proactively. Concept of an integrated approach which was considered to be the most suited since the Bank cannot view and assess risks in isolation due to the possibilities of a single transaction triggering a number of risks, was perused further during the year.

On completion of the gap analysis carried out by the Deutsche Bank, Asia Pacific Head Office, Singapore, the Bank is in the process of identifying how well the suggestions and recommendations can be implemented to suit the statutory, cultural and Bank specific requirements. Setting up of a fully Integrated Risk Management Department is the priority. Thereafter, the Bank will be geared to manage risks at all levels viz. at the transaction level, the business unit level and enterprise-wide in a more scientific manner.

The Bank in its efforts to formalise and implement risk management frame work carried out several changes during the year. More efforts were made on implementing scientific Assets & Liability Management (ALM) and the Funds Transfer Pricing (FTP) frame work in the Bank, which identifies and proactively manages Market Risk aspects.

The Bank identifies three broad risk categories, namely Market Risk, Credit Risk and Operational Risk and endeavour to manage these major risk categories individually as well as holistically in an integrated manner.

### Market Risk

As the initial step towards an Integrated Risk Management Unit, the Bank identified the importance of having a good framework for Assets & Liability Management (ALM) and Funds Transfer Pricing (FTP). ALM is the process of balancing the management of separate types of market risks to achieve desired objectives while operating within predetermined, prudent risk limits. ALM process involves core activities such as Interest Rate Risk (IRR) management, Liquidity Risk management and Re-pricing Risk management.

Interest Rate Risk is considered as one of the greatest risks that the Bank may face in the present volatile market conditions. Interest rate risk is unavoidable in any financial institution where the maturities of assets are not identically matched to the liabilities. However, the misconception of requiring a large IRR exposure for banks to perform profitably need to be avoided. Inability of predicting the future interest rates accurately result in uncertainty of income that can be derived from mismatches, urging the Bank to manage the IRR prudently.

Systems were introduced to the Bank with the use of supporting software provided by the IPS Sendero Co., a subsidiary of the Fiserve Co. who provided the core banking software, to carryout scenario analysis by providing rate shocks to the balance sheet. This exercise helped the Bank to identify optimum performance levels. In addition, this kind of rate shocks does reveal the resilience of the Bank's balance sheet providing all stakeholders the assurance on the financial stability of the Bank in case of dire changes in interest rates in the market.

Effects of Interest Rate Risk at the Bank are viewed from two perspectives, namely Earnings Perspective and the Economic Value Perspective. In the Earnings Perspective, the Bank measures and defines the IRR in terms of its effect on profits. This perspective is used within a time horizon of a year and the quantity by which the earnings increase or decrease as a result of interest rate change, is used as a yardstick to measure performance. In the Economic Value Perspective, IRR is defined and quantified as the changes in the economic value of equity that occurs as assets and liability values rise and fall, with the change in interest rate. Variation in earnings is an important focal point for IRR analysis because reduced earnings or outright losses can threaten the financial stability of an institution by undermining its capital adequacy and by reducing market confidence. At present, the Bank generates reports based on Earnings Perspective and it is proposed to adopt Economic Value Perspective based reports during 2008. Stress testing is being carried out using  $\pm 100$  and  $\pm 200$  basis points scenarios to test the resilience of the balance sheet. Extreme case scenarios are tested on request of the various users.





## Measuring Market Risk

Methodology	Tools
Stress Testing	<ul style="list-style-type: none"> <li>• IRR</li> <li>• EVE</li> </ul>
Gap Analysis	<ul style="list-style-type: none"> <li>• Liquidity</li> <li>• Re-Pricing</li> </ul>
FTP	<ul style="list-style-type: none"> <li>• IRR</li> <li>• Product Pricing</li> </ul>

Matched term Funds Transfer Pricing (FTP) mechanism is adopted by the Bank which acts as a device of managing IRR effectively.

Management of Liquidity Risk is another pivotal aspect in day to day management of Bank's Market Risk.

Liquidity represents the ability to accommodate decreases in liabilities and to fund increases in assets. Liquidity is essential in all banks to compensate for expected and unexpected balance sheet fluctuations and to provide funds for growth. The price of liquidity is a function of market conditions and market perception of risks, both interest rate and credit risks, reflected in the bank's balance sheet and off-balance sheet activities. Additionally, market perception of management and strategic direction can be critical to the price of liquidity. To the extent that liquidity needs are met through holdings of high quality short-term assets, the price of liquidity is the income sacrificed by not holding longer term and/or lower quality assets.

The Bank continuously monitor and maintain a positive gap position between interest earning assets and interest bearing liabilities in Sri Lankan Rupee and Foreign Currency balances to meet such a crisis situation. Banks are required to maintain 20% Statutory Liquid Asset Ratio (SLR) on a daily basis.

If liquidity needs are not met through liquid asset holdings, a bank may be forced to restructure or acquire additional liabilities under adverse market conditions.

Gap Analysis is used for Liquidity and Re-pricing risk measurements at the Bank.

In order to prevent any excessive losses to the Bank due to un-hedged foreign exchange positions, the Bank has put in operation exchange position limits, trading loss limits, dealer limits and transaction limits. In addition, these limits are monitored by the Treasury Back Office whose reporting lines are segregated and independent to the Dealers.

Counterparty risks relevant to foreign exchange transactions that a dealer enter into can materialise in the event the counterparty is to declare bankruptcy. Counterparty risk limits are in operation in order to mitigate such risks.

## Credit Risk

Credit exposures that the Bank faces include both individual borrowers and groups of connected counterparties and portfolios in the banking and trading book. Procedures for managing credit risk are determined at the business levels with specific policies and procedures being adapted to different risk environment and business goals.

Where appropriate, derivatives are used to reduce the Credit Risk in any investment/loan portfolios. The derivatives are generally used in a controlled manner rather than in a haphazard manner giving due cognizance to the possible adverse impacts that could have on the financial results and position of an organisation.

Default risk is the risk that borrower defaulting repayment obligations. The Bank mitigates the default risks by adhering to credit policies laid down by the Bank at the time of granting loans. Credit quality is ensured with continuous monitoring and following up with leads provided on early warning signs on a regular basis.

Security Risk that may arise due to non-availability of acceptable collateral when and if the foreclosure is needed will be mitigated to a great extent by obtaining an enforceable security. Approximately 52% of Personal Banking loan portfolio is secured by mortgages.

The Bank's non-performing advances ratio over the years showed a reducing trend and at the end of 2007, it was 3.01%. The non-performing portfolios are closely monitored to ensure recovery of outstandings. If the payment of interest or principle is overdue for more than 12 months, such accounts are transferred to the Recoveries Department, the dedicated oversight of the Bank's recovery function.

The Bank does not involve in subprime lending, as a result is not exposed to the risks associated with such lending as experienced by the banks in United States of America and Europe.

In its efforts to be Basel II compliant and to maintain the uniformity in credit assessment, the Bank implemented a Credit Risk Scoring Model to assign a qualitative rating to all personal and housing loan schemes. The Bank intends to broad base this specialised model to other loan types in the ensuing years.

**Corporate Banking**

A grading system is in place based on probability of default and the customer is analysed against a range of quantitative and qualitative measures. Loan applications are prepared by the Client Relationship Managers and the approval process involves a separate hierarchy of senior officers who evaluate proposals independently. Significant exposures are reviewed and approved at Executive Credit Committee and the Board Credit Committee levels depending on the exposure. To avoid excessive exposure to particular industry and also to a single borrower, the Bank monitors the internal and statutory limits on a regular basis and takes remedial actions where necessary.

The credit administration function has been segregated from the functions of the Bank's Relationship Managers with a view to improving the efficiency in processes and to minimise deviations from guide lines laid down by way of credit manuals and circulars.

**Personal Banking**

Whilst standard credit application forms are used in most instances, the approval process is separated from the general business lines. Regional level approval of facilities is common to ensure practicing of "four eyes" concept at the approval level. In the event, if value of the facility exceeds the delegated authority of the regional office, approval of the central hierarchy is mandatory. Automation of credit approval process is considered to improve the efficiency whilst maintaining the controls. The Bank is planning to automate the credit approval process in the ensuing year.

Credit Policy pertaining to the Bank is clearly adhered by following manual and circular instructions. Excessive exposures as well as

warning signs are monitored at regional office level in addition to the branch level to ensure quality loan book.

**Loan Portfolio**

As shown in the section on Management Discussion Analysis of the Annual Report, the loans and advances portfolio of the Bank have grown by Rs. 24.7 billion to Rs. 178.8 billion compared to the position as at December 31, 2006. The loan portfolio of the Bank remains well diversified across sectors as shown in the concentration of Credit Risk (Note 19.6 on page 148), with no significant concentration to a particular sector.

**Operational Risk**

The Bank manages Operational Risk through the application of long-standing but continuously evolving bank wide control standards; training, supervision and development of staff; active participation and commitment of senior management in a continuous process of identifying and mitigating key operational risks across the Bank.

Training is used extensively to educate and bring out awareness among the staff on the operational procedures with a view to optimize operational efficiency at the Bank. When external frauds, internal frauds, shortcomings in processes are detected, immediate remedial actions are initiated to avoid repetition of such instances. Institution wide awareness of such events is achieved by way of circulars and use of intranet.

In an effort towards managing Operational Risk at the Bank, the principle of segregation of duties is practiced wherever possible. 'Four eyes' principle is practiced at several key areas and this practice is to be promoted to other critical areas as well. The policies

such as staff rotation and availing of annual leave, acts as risk mitigating tools while detecting any unhealthy practices etc.

The down side risk which is the possibility either that the outcome will be what is expected or that something will happen and loss will occur, is covered by way of insurance wherever possible.

Information System (IS) audits are carried out by the special IS audit team assigned for the task to ensure proper functioning of the underlying computer systems in the Bank. Clear distinction of Internal and External auditors is in place and the audit process is separated from the risk management for better transparency.

Inspection Department of the Bank carried out independent inspections on 122 branches and 36 departments during the year. In addition, external auditors appointed by the Bank too carried out inspections at 67 branches during the year. Due to security situation in the North and Eastern region of the country, ongoing branch audits were carried out during the year by way of off-site surveillances. 7 branches and 8 departments of the Bangladesh operations were visited twice during the year and off-site surveillances are carried out on an ongoing basis. Observations during these inspections are brought to the notice of the Board Audit Committee on a regular basis.

Generally Accepted Accounting Principles (GAAP) are applied when reporting financial results to ensure accurate reporting and compliance with the statutory requirements.

## Assessment of the Risk Profile of the Bank's Operations

### Summary of the Risks, their Implications and Risk Management Measures in place at Commercial Bank

Major forms of Risks faced by the Commercial Bank	Broad implications to the Bank arising from these risks	Important Risk Management measures in place at Commercial Bank to address these risks
<b>Credit Risk</b>		
<ul style="list-style-type: none"> <li>• Default risk</li> <li>• Security risk</li> <li>• Sectoral exposure risk</li> <li>• Legal risk</li> <li>• Related party risk</li> <li>• Counterparty risk</li> <li>• Cross-border risk</li> <li>• Sovereign risk</li> </ul>	<p>Loans and advances is the single biggest asset of the Bank, accounting for approximately 65% of the total assets. Hence, credit risk may result in adverse implications on profits arising from suspension of interest and the need to provide for/write off non-performing advances. Increasing non-performing loans ratio may lead to a downgrading of the credit rating which may in turn damage the reputation of the Bank. Finally, it may lead to deterioration in the quality of assets.</p>	<ul style="list-style-type: none"> <li>• An Intergrated Risk Management Department is being set up</li> <li>• Formation of a Credit Monitoring Unit to monitor re-scheduling of facilities and classification of overdrafts</li> <li>• Establish suitable limits on borrowers and country exposures</li> <li>• Risk mitigation steps such as taking collateral</li> <li>• Setting counterparty limits based on financial strength</li> <li>• Training of lending and legal officers on documentation and obtaining professional valuations</li> <li>• Developing skills and expertise in lending officers to scientifically assess project viability and objectively evaluate customer integrity</li> <li>• Educating the staff on provisions in the Banking Act, other relevant statutes and the regulatory guidelines of the Central Bank</li> <li>• Seeking external legal opinion</li> <li>• Prompt action on early warning signals given by the IT system</li> <li>• Strict adherence to the Single Borrower Limit and the regulatory guidelines of the Central Bank on loan classification, interest suspension and provisioning</li> <li>• Maintaining neutrality in politics and arm's length approach in related party lending</li> <li>• Regular review of country situations and country exposures</li> <li>• Expansion of the Overseas Operations to reduce dependance on the Sri Lankan economy</li> <li>• Constant post-sanction monitoring with MIS support from the Computer System</li> </ul>

Major forms of Risks faced by the Commercial Bank	Broad implications to the Bank arising from these risks	Important Risk Management measures in place at Commercial Bank to address these risks
<b>Market Risks</b>		
<ul style="list-style-type: none"> <li>• Interest rate risk</li> <li>• Liquidity risk</li> <li>• Exchange rate risk</li> <li>• Investment risk</li> <li>• Group financial risk</li> <li>• Share prices declining risk</li> <li>• Country risk</li> </ul>	<p>90% of the assets and 79% of the liabilities are subject to either fixed or variable interest rates while 30% of the assets and 28% of the liabilities are denominated in foreign currencies. Hence, financial/opportunity losses may arise from unexpected movements in market forces. Inability to honour obligations to depositors and other stakeholders on time, may result in breach of contractual obligations and imposition of penalties/repremanding by regulators. Furthermore, loss of market share, downgrading the credit rating, damages to the reputation and image, loss of employee morale/shareholder confidence, erosion of public confidence, withdrawing or curtailing credit limits by foreign correspondents, may occur.</p>	<ul style="list-style-type: none"> <li>• An active Assets &amp; Liabilities Committee (ALCO) that meets thrice a month</li> <li>• ALCO playing an active role in setting policies and monitoring compliance</li> <li>• ALCO decisions are reviewed by the Board</li> <li>• Carrying out gap analysis, timely repricing of products and hedging of exposures</li> <li>• Entering into forward contracts, swapping and currency options</li> <li>• Formulating a Liquidity Management Policy</li> <li>• Daily monitoring of Advances to Deposits Ratio</li> <li>• Maintaining the Liquid Assets Ratio with a contingency buffer</li> <li>• Close monitoring and projecting the trends in the share market</li> <li>• Dealer, broker, counterparty, transaction, product and currencywise exposure limits, which are constantly reviewed</li> <li>• Suitable cut-loss limits on different exposures</li> <li>• Regular monitoring of competitor behaviour and building competitor intelligence</li> <li>• Maintaining strong relationships with the correspondents</li> <li>• Enhancing the fee based income to minimise dependancy on fund based income</li> <li>• Timely recognition of market losses through market to market and exchange revaluation mechanism</li> <li>• Non-engaging in large scale transactions on speculative basis</li> <li>• Non-engaging in large scale derivative transactions</li> <li>• Maintaining open forex positions within 7% of capital funds</li> <li>• Strong access to money markets and credit lines through good reputation, strong earnings, financial strength, credit rating and backing of major shareholders</li> <li>• Developing necessary skills and expertise for all areas of the Treasury and setting up IT backed processing systems</li> <li>• Implementation of Software on ALM and Funds Transfer Pricing</li> </ul>
<b>Operational Risks</b>		
<ul style="list-style-type: none"> <li>• Employee behavioural risks such as omission, fraud, judgemental errors, negligence, etc.</li> <li>• Disaster related risks</li> <li>• Trained staff turnover</li> <li>• Insider dealing risk</li> </ul>	<p>Financial losses and damages to reputation arising from breakdowns in systems/procedures, internal controls and disruptions to smooth functioning of the Bank. Resulting deterioration in the quality of customer services. Imposition of penalties/repremanding by regulators. Loss of competencies over competitors.</p>	<ul style="list-style-type: none"> <li>• Setting up of suitable Delegated Authority levels</li> <li>• Formulation of a succession plan</li> <li>• Creating a conducive working environment for the staff</li> <li>• Training a second layer of staff and signing training bonds</li> <li>• Effective internal audit function</li> <li>• Issuing of circular instructions and protection of sensitive information</li> <li>• Segregation of front, mid and back offices at the Treasury</li> </ul>



Major forms of Risks faced by the Commercial Bank	Broad implications to the Bank arising from these risks	Important Risk Management measures in place at Commercial Bank to address these risks
<b>Operational Risks (Contd.)</b>		
<ul style="list-style-type: none"> <li>• Sensitive information leakage risk</li> <li>• Lack of creativity and innovativeness</li> <li>• Risk of MIS</li> <li>• IT related risks</li> <li>• Planning &amp; Budget related risks</li> <li>• Shortcomings in the organisational structure</li> <li>• Credit rating falling risk</li> <li>• Money laundering</li> <li>• Changes to statutory requirements</li> <li>• Risk of technological obsolescence</li> <li>• Risk of falling business volumes and market share</li> <li>• Risk of being overtaken and losing the leadership position</li> <li>• Risk of financial disintermediation</li> <li>• Overtrading risk</li> <li>• External frauds</li> </ul>	<p>Judgemental errors in decision making. Counter actions by the competitors to undermine the Bank's strategic advantages. Hindrances to expansion. Difficulties in maintaining the statutory ratios and sustaining profitability.</p> <p>Financial losses as a result of volatile revenues and reduced profitability. Probability of credit rating being downgraded and the resulting damage to the reputation. Loss of competitiveness and diseconomies of scale may lead to insolvency and ultimately threaten the going concern nature of the business. Overtrading may lead to insufficient capital.</p>	<ul style="list-style-type: none"> <li>• Development of a formal Business Continuity Plan</li> <li>• Setting up of a Business Continuity Management Unit</li> <li>• Quarterly assessment of the extent of compliance with the statutory requirements and reporting to the Board Audit Committee</li> <li>• Obtaining Oath of Secrecy and Certificate of Propriety</li> <li>• Building up sustainable competencies</li> <li>• Implementation of computer based MIS System</li> <li>• Implementation of 'Hot Back Up' system</li> <li>• Preventive maintenance of equipment through maintenance contracts with the vendors</li> <li>• Creating awareness on 'Know Your Customer' policy</li> <li>• Building up of contingency buffer in the form of reserves</li> <li>• Implementation of a well planned and sustainable expansion programme</li> <li>• Regular upgrading of hardware and software to keep it 'state-of-the-art'</li> <li>• Inculcating organisational values and ethics in employees</li> <li>• Maintaining a Skills Inventory</li> <li>• Risk transfer measures such as insurance</li> <li>• Innovative and convenient products and services</li> <li>• Offering extended banking hours to customers for their convenience</li> <li>• Regular assessment of the levels of customer satisfaction</li> <li>• Taking prompt action on customer complaints</li> <li>• Periodical review of business Strategy, Vision and Mission</li> <li>• Regular assessment of the levels of staff satisfaction</li> <li>• Practising the concept of Management by Objectives through the preparation of a Corporate Plan and an ambitious budget</li> <li>• Monthly review of performance against the budgeted targets</li> <li>• Measuring risk/inflation adjusted performance measures</li> <li>• Establishment of a target driven culture and performance based rewards</li> <li>• Benchmarking with competitor performance</li> <li>• Maintaining a database on competitor intelligence</li> <li>• Promoting customer loyalty</li> <li>• Constantly reminding the staff of the importance of delighting the customer</li> <li>• Adherence to code of ethics of the Bank</li> <li>• Encourage 'Whistle Blowing' to report malpractices</li> </ul>

## Developments during the year

### Credit Monitoring Unit

The Credit Monitoring Unit set up in 2004 under the Finance & Planning Division of the Bank in order to avoid conflicts of interests and ensure independence from those responsible for lending, was amalgamated with the Integrated Risk Management Department during the year. The Unit continued to monitor the rescheduling of credit facilities, ensure proper classification of overdrafts and grant permission to branches to monitor non-performing loans beyond one year. The activities of the Unit have immensely contributed to create awareness across the Bank of the guidelines of the Central Bank of Sri Lanka on the subjects and streamline the related processes.

### Treasury Risk Management

The treasury's risk management functions are to be carried out by the proposed integrated risk management department. The Market Risk function of the integrated Risk Management department will be bestowed with the task of setting up of risk management policies and guidelines, documenting the risk management procedures to be carried out by the treasury and establishment of required limits and monitoring, based on the guidelines which are to be provided by the Deutsche Bank. Market Risk unit is expected to monitor the liquidity position of the Bank. All treasury related regulatory and management reporting functions too are expected to be carried out through the Market Risk unit once it is in place.

### Funds Transfer Pricing

The Bank in an effort to effectively manage the Interest Rate Risk (IRR), introduced a new Funds Transfer Pricing (FTP) method that deviates from the traditional pool based single rate transfer pricing method adapted hitherto. New FTP method is tenure based matched term transfer pricing mechanism

that facilitates removal of IRR from all business units and managing it at the centralised location. This move will help the Bank in identifying and managing the IRR which was earlier dispersed amongst all business units, more effectively and efficiently.

### Anti Money Laundering Efforts

The Anti-Money Laundering ("AML") legislation came into operation in March, 2006. The regulatory guidelines in terms of the Section 2 (3) of the Financial Transaction Reporting Act No. 06 of 2006 ("FTRA") for all domestic Banks, were issued by the Financial Intelligence Unit ("FIU") of the Central Bank in May 2007. These guidelines included the principles of Know Your Customer ("KYC") and Customer Due Diligence ("CDD") besides various other AML operational controls.

All banks were expected to put in place an effective AML regime incorporating all KYC and CDD principles as well as other applicable controls and practices in order to prevent and deter money laundering/terrorist financing while at the same time curbing the other criminal and unlawful activities. Emphasis was placed on customer identification and the address verification of new as well as existing accounts as prescribed by the relevant provisions in the Act. Collecting of adequate customer data in order to create a reasonable profile of the customers was also included in the FIU rules.

In compliance with such legal obligations, the Bank had formulated an internal anti money laundering unit during 2006, giving extra importance to the task of gathering adequate customer information at the commencement of the customer relationship. This 'gate keeping' function was considered as the first and the most effective defence against all forms of unlawful activities.

Since preceding public awareness on AML practices is of critical importance for the successful implementation of the AML laws and practices, and at the same time keeping in mind the existing volumes of accounts involved in the review exercise in terms of the law, the Bank in consultation with the FIU made a request for more time to set in motion the full implementation of all AML functions during the coming year.

The reporting functions of cash transactions, electronic fund transfers and suspicious transactions were carried out effectively during the year in terms of the set regulations.

The Unit maintained a close relationship with the FIU and liaised with it on all relevant matters.

The Bank continued to practice the prudential measures in monitoring customer accounts and transactions during the year. The staff had been educated wherever necessary in order to update themselves with regard to AML developments and measures.

### Software Support for Risk Management

During the year' two software modules procured from IPS Sendero, on Asset & Liability Management and Funds Transfer Pricing were customised and improved to suit the local requirements. The implementation of the modules for the evaluation of profitability viz. Customer Profitability, Product Profitability and Organisational Profitability is in progress and will be completed by mid 2008. Software for credit scoring personal loans, home loans and credit cards portfolios have been procured. Credit scoring is extensively used when processing loan applications for personal and housing loans.

## Plans for 2008 and onwards

### Integrated Risk Management Department

Due diligence study carried out by the Consultants, the Deutsche Bank Singapore with a view to identifying gaps in risk management process and their observations and suggestions for setting up an Integrated Risk Management Unit is to be pursued further during the year.

### Business Continuity Management

The Business Continuity Management efforts of the Bank are driven by the Business Continuity Management Steering Committee comprising several members of the Corporate Management and the Senior Management. The Steering Committee provides the overall guidance to the Business Continuity Planning (BCP) Committee comprised of senior officers representing all key business and service units of the Bank.

A formal Business Continuity Plan has been developed by the BCP Committee in keeping with the requirements and the guidelines provided by the Central Bank of Sri Lanka and it has been formally approved by the Board of Directors of the Bank. Apart from abiding by the Central Bank requirements, the Bank has identified the need to have a well developed formal Business Continuity Plan in par with the international standards due to the Bank's international presence. The need to address vulnerable operational risks and develop plans to minimize the effects of such risks caused by inadequacies or failures of internal processes, systems and external events including natural disasters have been evaluated and dealt appropriately with in the Business Continuity Plan.

In view of the nature and the criticality of the Bank's operations varying from one business unit to another, the Bank's Business Continuity Plan has to be customised to suit each of such business units and business processes. The necessary customisation is underway.

A Business Continuity Management Unit has been set up at a location away from the Head Office in order to provide the necessary operational and logistical support to business units experiencing disruptions and difficulties in managing business operations.

During the year under review Business Continuity Plan (BCP) awareness programmes were conducted for staff attached to branches in Colombo and outstations. These programmes were mainly focusing the Branch BCP Teams and approximately one third of the bank staff has been trained.

Needed improvements were effected to the Business Continuity Plan during the year to ensure that the plan is updated and current. Central Bank of Sri Lanka carried out an inspection of the compliance of the Business Continuity Plan. On numerous occasions, Business Continuity Management unit assisted branches whose work was disrupted due to system failures and other temporary setbacks.

The Bank successfully tested the Business Continuity Plan by performing a Roles Swap between the Production server and the Back-up server to verify the readiness.

The Bank is in the process of organising the next phase of the Business Continuity Plan to prepare plans to cover the other specialised units of the Bank and its Bangladesh operations.

### Implementation of Basel II Accord

Basel II Accord is intended to improve the safety and soundness of the financial systems world over by aligning capital adequacy assessment more closely with the underlying risks in the banking industry, providing for a thorough supervisory review process and enhancing market discipline and disclosures. Basel II promises to offer incentives for banks to adopt sound risk management practices.

In accordance with the regulatory requirements, the Bank started computations on Basel II based Capital Adequacy ratios on a

parallel basis from December 2006. When computing the risk, Credit Risk was measured using standardised approach and the risk weights were arrived at based on external credit assessments of the borrowers. Market Risk was measured using standardised measurement approach. In this approach, the investment portfolio is divided into three main portfolios based on the risk aspect applicable to them, namely, Interest Rate Risk, Equity Position Risk and Foreign Exchange & Gold. Capital charge is arrived at on the interest related instruments that are reflected in the trading book, equities in the trading book and foreign exchange risk throughout the Bank separately. Capital charge for operational risk is arrived at using Basic Indicator approach.

The Bank had computed Capital Adequacy ratios on test basis based on Basel II for the Group as at December 31, 2007 and comparative ratios are shown below:

	Basel I	Basel II
Tier I	10.60%	9.99%
Tier II	13.71%	12.99%

As shown above, Capital Adequacy ratio does not get altered much despite some adverse transitional circumstances such as introduction of new Operational Risk based Capital charge in the Basel II. The effect of this new introduction partly setoff by adopting Risk Weightings of 100% on unrated credit facilities in Basel II, compared to usage of 110% Risk Weighting on credit facilities which are granted with underlined collaterals that do not fall into prescribed collaterals categories by the CBSL in Basel I computation.

Central Bank announced that the regulatory capital requirements of banks in Sri Lanka will be computed under the Basel II Accord with effect from the first quarter of 2008. The requirement to maintain capital for the market risk was implemented in 2006. In addition, the Bank will take the required capacity building measures to ensure a smooth migration to the advanced approaches of Basel II at the right time.

# Straining Every Sinew

## Managing Knowledge Smartly and Creating New Value

Managing knowledge smartly has enabled the Bank to remain the No. 1 private bank and given us the edge over our competitors. Integrating Human Resources, with the Bank's systems, processes, know-how, experience and organisational memory has helped the Bank deliver optimum value to customers, employees, shareholders and the nation. Knowledge has been an important driver of value creation over the years. In this section of the report we examine our knowledge management strategy over the past year and how this dovetails with our overall business strategy.

Discussing our knowledge management strategy is part of our endeavour to report as transparently as possible on all aspects of our operations including those aspects which are less visible such as knowledge generation, retention and application. The financial Balance Sheet provides an incomplete picture of a company's performance. The role that knowledge plays in the generation of the bottom line is often under-reported and it is with a view to curing this deficiency that we report on this aspect in some depth.

Our knowledge management strategy at the Bank is guided by five key values:

- Integrity
- Effectiveness
- Passion
- Innovation
- Leadership

These five key values drive the management of both the Bank's Human Capital and Structural Capital and the processes of interaction between these two. The Bank's strategy has focused on fusing the talent of its people with its organisational capabilities built over the years, to inspire a robust performance and create greater convenience for its customers.

**Vision** to be the **PREFERRED** financial services organisation in Sri Lanka, having an international presence by the year 2011







**Knowledge Capital**  
Knowledge Capital consists of the intangibles of a company's business: customer relationships, business practices, know-how, technical infrastructure, corporate culture, work ethics and the other soft factors that create value. Knowledge Capital is often sub-divided into two: Human Capital and Structural Capital.

## Business Processes

## Range of Services

## MISSION STATEMENT

## KNOWLEDGE GOALS

## STRATEGY 2008-2012

**Human Capital**  
Human Capital or 'walking capital' consists of the skills and experiences of employees and management, business routines, work ethics and organisational culture and factors that 'leave' everyday when employee and manager step out of the organisation. It consists of the skills, capabilities, attitudes, mindsets and emotions of employee and manager.

**Structural Capital**  
Structural Capital consists of those intangible assets that are relatively 'fixed' to the organisation and include a company's software, databases, brand, customers, patents, product portfolios, organisational memory and so on. It consists of the capabilities, competencies, orientation, emphasis and focus of the organisation that endures and grows beyond the lifetime of employee, manager and shareholder. Many organisations in today's world try to 'decant' human capital into structural capital so as to retain it within the control and purview of the Company concerned.

## Deposits Management

## Loans Management

## Asset & Liability Management

## Trade Related Services Management

## Channel Development

## Operations Management

## Risk Management

## Data Management

## Capacity Building

## Human Resource Management & Development

## Corporate Planning & Budgeting

## Financial Management

## Marketing Management

Accepting Deposits

Corporate and Retail Credit

Project Financing

Leasing

Personal Loans

Trade Financing

Travel Related Services

Debit Cards

Issuing of Local and International Credit Cards

Tele Banking Facilities

Internet Banking

Money Remittance Services

Bullion Trading

Export & Domestic Factoring

Dealing in Government Securities

Inward and Outward Remittance Services

ATM Services

Advisory Services

Securitisations

IPO Management

Structuring Corporate Debts

Sponsor of the Colombo Stock Exchange

Bancassurance

Paymaster Total Payment Solution

Priority Banking

Holiday Banking

Reloading Mobile Phones

Foreign Currency Swaps

Interest Rate Swaps

Foreign Exchange Dealings

## Human Capital

### Giving Priority to People

The Bank's Human Capital policy places people at the centre. The Bank's people are its most valuable asset and the manner in which the Bank has managed its people has been a crucial contributor to the Bank's success.

The Bank has focused on nurturing and building the skills and competencies of staff at various levels and grades to meet current needs and to create a wealth of knowledge for the future needs of the Bank.

The Bank's goal is to aspire at all times to be 'the employer of first choice'. Through the compassionate management of its human capital the Bank would like to create a dedicated team who are passionate about what they do and who on their own initiate, direct and synergise their common creativity towards achieving continuous excellence and greater levels of customer convenience.

### Knowledge Acquisition

Structured knowledge acquisition is a key aspect of the Bank's knowledge management strategy. The Bank's knowledge acquisition plan for 2007 was formulated keeping in mind the rapid growth of the Bank, the branch expansion, other initiatives and the challenging political context.

An exhaustive skills inventory was done early in the year in order to assess skill gaps that exist and to determine concretely the training and developmental interventions that need to be made. The HRM Division interacted closely with the line managers and specifically with the Operations Division to review the Bank's skills inventory. The inventory also included a detailed assessment of knowledge gaps at the branch level and the identification of appropriate

Commercial Bank continues to maintain the leading position in terms of people productivity. This is confirmed by the following indicators:

	2007	2006	2005	2004	2003
Staff per branch	22	22	22	22	22
Income per employee (Rs.'000)	9,405	7,165	5,082	4,293	3,799
Profit before tax per employee (Rs.'000)	1,790	1,234	1,150	875	739
Assets per employee (Rs.'000)	71,546	65,585	56,843	48,367	41,646

Year	No. of Employees	Total Value of Human Resource Rs. Bn	Value of Human Resource per Employee Rs. Mn
2007	3,745	38.294	10.225
2006	3,415	37.925	11.106
2005	3,168	33.830	10.679
2004	2,863	27.014	9.436
2003	2,648	23.867	9.014

interventions. The Bank's job rotation policy provided an additional avenue for staff to acquire new knowledge and skills.

### Knowledge Enhancement

The Bank has sought to develop skills and competencies at all levels. At the managerial level it has sought to develop a pool of managerial talent that is equipped with the skills to respond to strategic needs, succession challenges, challenging political environments, and to be ready to power organisational changes for the future.

The Bank's front-line staff interact with millions of customers and the Bank has focused on giving them the technical and product knowledge skills so that they are well placed to push the bar of customer convenience higher and higher.

The Staff Development Centre of the Bank provided training in several areas that included technical skills, soft skills, branch manager orientation, IT, back office, structured training for banking trainees, training for management trainees, Junior Executive Officer development programmes

### Human Resource Accounting

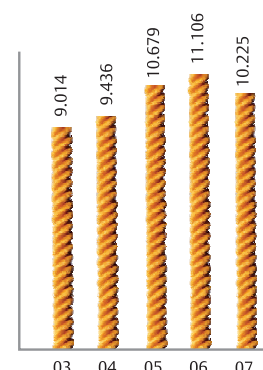
The Lev & Schwartz model has been used to compute the value of the Bank's human resource as at December 31, 2007.

The Human Resource Valuation is based on the following assumptions:

- All the existing employees will continue in employment up to retirement.
- Employee remuneration includes all direct and indirect benefits earned by them.
- Annual increment is granted at 10%-14% p.a. on average.
- Total future remuneration of all the employees for each year is discounted to the present value at 18.07%, the 12 months weighted average treasury bill rate plus 2% for the risk premium.

### Value of Human Resource per Employee

(Rs. Mn)



(both locally and internationally) all of which covered 154, 859 person hours during 2007. Special efforts were made to orient and induct the personnel in the outsourced services as well.

The Bank implemented an efficient recruitment and selection process to ensure that people with the right skills, knowledge and attitude were recruited to the Bank. Modern competency based selection tools were utilised to select the most suitable and appropriate candidates. New Management Trainees were recruited to infuse new thinking into the executive cadre of the Bank, and those already in the system and with potential were fast tracked and promoted. 443 new Banking/ Graduate Trainees were recruited during the course of the year. The Bank participated at a number of job fairs and organised several career guidance programmes with a view to project its brand image.

The Bank's staff grew by 10% over the year and staff attrition was kept at 6.0%. The mean age of the staff is 35 years; approximately 55% of the staff having joined the Bank during the past five years.

Outsourcing is a key aspect of the Bank's strategy and the Bank continued to provide outsourced staff services to branches, departments and divisions. Outsourcing brings additional cost efficiency and reduces the burden on management. The Bank's outsourced worker category grew by 16% over the previous year.

## A New Performance Management System (PMS)

The Performance Management System (PMS) has helped in establishing a performance driven culture, which has helped the Bank achieve and even exceed its targets. It has been instrumental in helping the Bank



sustain its performance over the years despite difficult political and economic conditions. In 2007, through a consultative process involving all stakeholders, the Bank developed a new PMS to respond to current and emerging challenges. The new PMS was implemented at the beginning of 2007 and automated during the 4th quarter.

The new PMS consists of 4 pillars:

- Goal setting and accountability
- Review and measurement
- Performance feedback
- Coaching.

The PMS is integrated into other HR processes with a view to establishing a process that holds managers accountable for the achievement of business outcomes. It seeks better management of all aspects of staff performance, clarity in developing goals and measurement, continuous performance monitoring and forced performance ratings. The Bank is proud to have been able to implement a 'next generation' PMS by making it available on-line at an early stage.

The new Variable Pay Plan (VPP) was implemented in early 2007 with a view to fuel the current growth pattern and to be aggressive in compensation positioning in the market. The Bank hopes that the new VPP will motivate staff even further and lead to higher levels of productivity.

Last year over 99% of the Bank's staff accepted the Alternate Terminal Benefits Plan offered by the Bank. The Bank has thus moved from a floating and undefined terminal benefits liability to a fixed and precise one which now conforms to international banking best practices.

## 'One Bank One Family'

The Bank consolidated the 'One-Bank One-Family' concept in 2007 and sought to create a work culture that excites and motivates staff. The Bank's goal is to make it 'the best place' to work in by creating an exciting, healthy, caring and productive environment for all levels of staff.

During the past year existing welfare programmes were reviewed and new programmes initiated. Feedback was obtained from line managers with a view to enhancing the work environment and to providing prompt and appropriate welfare services.

A new and user friendly grievance procedure was initiated so as to enable both organisation and employee to handle grievances promptly, effectively and with sensitivity. As in previous years, a close dialogue was maintained with the employee organisations.

## Honouring the Seniors

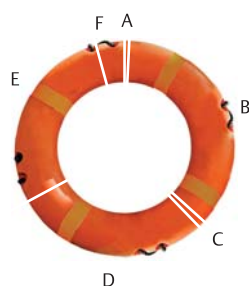
In 2007 the Bank annual Seniority Awards honoured a group of employees who had completed 25 years of service. Sixty eight employees that joined the Bank between January 1 and December 31, 1981 were felicitated at this ceremony.

## Nurturing Our Potential

The Bank is committed at all times to ensuring that its people develop to their utmost potential and to equip them to face the challenges of the new millennium effectively and with dignity. The Bank constantly seeks to create an environment fully conducive to learning and development and to provide the opportunity for the staff to add value at all times, to each of them individually and to the Bank, collectively. Transparency is practiced in all our activities and regular dialogue is promoted amongst all levels of staff.

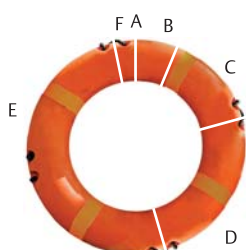
### Staff Mix -2007

A CM - 0.5%	D JEA - 30%
B EO - 37%	E BT/GT - 27.5%
C EA - 1%	F OA - 4%



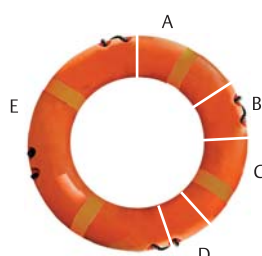
### Age Analysis -2007

A Above 60 - 0%	D 31 - 40 - 25%
B 51 - 60 - 6%	E 21 - 30 - 52%
C 41 - 50 - 14%	F 20 & Below - 3%



### Service Analysis -2007

A Above 20 - 16%	D 6 - 10 - 7%
B 16 - 20 - 8%	E Below 5 - 55%
C 11 - 15 - 14%	



### Staff Strength

As at December 31,	2007	2006	2005	2004	2003
Corporate Management	18	17	15	15	14
Executive Officers *	1,351	1,225	1,093	1,001	918
Executive Assistants and allied	44	46	66	53	62
Junior Executive Assistants and allied	1,107	1,053	1,008	942	798
Banking Trainees (BT)/Graduate Trainees (GT)	1,065	911	819	677	672
Office Assistants and Others	160	163	167	175	184
Total	3,745	3,415	3,168	2,863	2,468

### Age Analysis of the Staff as at December 31

Category	Corporate Management	Executive Officers	Executive Assistants & Allied	Junior Executive Assistants & Allied	Banking Trainees (BT)/ Graduate Trainees (GT)	Office Assistants and Others	Total for the year 2007	Total for the year 2006
Above 60 years	3	0	0	0	0	0	3	2
51-60 years	12	141	5	30	0	36	224	193
41-50 years	2	305	14	144	0	77	542	520
31-40 years	1	623	14	254	1	47	940	954
21-30 years	0	282	11	678	938	0	1,909	1,650
20 and below	0	0	0	1	126	0	127	96
Total	18	1,351	44	1,107	1,065	160	3,745	3,415

Average Age of Employees	2007	2006
Sri Lanka	32.0	31.4
Bangladesh	37.9	37.0
Average	34.9	34.2

### Service Analysis of the Staff as at December 31

Category	Corporate Management	Executive Officers	Executive Assistants & Allied	Junior Executive Assistants & Allied	Banking Trainees (BT)/ Graduate Trainees (GT)	Office Assistants and Others	Total for the year 2007	Total for the year 2006
Above 20 years	15	378	12	91	0	94	590	498
16-20 years	0	199	6	92	0	18	315	348
11-15 years	1	320	5	159	0	46	531	582
6-10 years	0	164	3	75	0	2	244	299
Below 5 years	2	290	18	690	1,065	0	2,065	1,688
	18	1,351	44	1,107	1,065	160	3,745	3,415

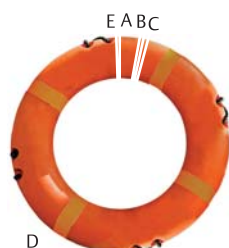
Average Service of Employees	2007	2006
Sri Lanka	9.0	10.0
Bangladesh	10.1	10.0
Average	9.6	10.0

\*Inclusive of Management Trainees, Confidential Secretaries and Employees on Contract.



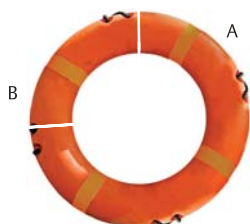
## Staff Recruitment - 2007

A EO - 3%	D BT/GT - 96%
B EA - 1%	E OA - 0%
C JEA - 0%	



## Gender Distribution - 2007

A Male - 74%	B Female - 26%
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## Gender Distribution as at December 31

Category	2007			2006		
	Male	Female	Total	Male	Female	Total
Corporate Management	17	1	18	16	1	17
Executive Officers	995	356	1,351	894	331	1,225
Executive & Allied	37	7	44	39	7	46
Junior Executive Assistant & Allied	694	413	1,107	641	412	1,053
Banking Trainees	864	201	1,065	746	165	911
Office Assistant & Others	160	-	160	163	-	163
	2,767	978	3,745	2,499	916	3,415

## Staff Recruitment

As at December 31,	2007	2006
Corporate Management		
Executive Officers*	14	4
Executive Assistants & Allied	3	-
Junior Executive Assistants & Allied	2	-
Banking Trainees (BT)/Graduate Trainees (GT)	443	378
Office Assistants and Others	1	6
Total	463	388

\*Including Management Trainees

## Staff Retention

	2007	2006	2005	2004
Staff Retention - Sri Lanka (%)	96.16	96.13	97.37	97.26
Staff Retention - Bangladesh (%)	90.40	91.53	94.44	85.95
Total	93.28	93.83	95.91	91.61

## Training & Development

	2007	2006	2005	2004
Training & Development Cost (Rs. million)	39.220	35.794	32.504	30.081
Training & Development Cost per Employee (Rs.)	10,473	10,481	10,260	10,507
T&D Cost as a % of Personnel Expenses	1.20	1.40	1.53	1.67

## Staff Welfare

	2007	2006	2005	2004
Staff Welfare Cost (Rs. million)	81.980	59.287	42.401	33.316
Staff Welfare Cost per Employee (Rs.)	21,891	17,361	13,384	11,637
Staff Welfare Cost as a % of Personnel Expenses	2.51	2.31	1.99	1.84

## Training Programmes

Year	External		Internal		Overseas	
	No. of programmes	No. of Participants	No. of Programmes	No. of Participants	No. of Programmes	No. of Participants
2007	210	931	399	7,798	42	69
2006	188	1142	372	6,010	59	98
2005	154	439	364	6,490	41	56
2004	154	376	331	6,449	45	63

## Response Rate for Vacancy Advertisements

	2007	2006
Banking Trainees (Approximately)	17,700	15,000
Management Trainees (Approximately)	2,500	1,000
Unsolicited Applications (Approximately)	1,000	3,000

## Structural Capital

### Fanning Flair through e-Products

In the past few years the Bank has rolled out a number of new e-products that have facilitated web based transactions and reduced transaction costs to almost zero. The Bank is proud that much of the software for these products has been developed in-house. Innovation and adaptability to changing needs and conditions are key drivers of the Bank's knowledge management strategy. The Bank has been inspired by these values in the creation of its new products.

The Bank's Salary Remittance Package (SRP) was re-branded last year and launched as 'Paymaster' with a number of additional services. SRP enabled large corporates to send their payrolls as data files to the Bank. The Bank then credited the accounts of all the employees working for the corporate concerned. The use of the ATM by the employee then generates revenue for the Bank. SRP generated huge volumes every month. In September 2007 for example the Bank processed 1,692 files to the value of Rs 3.4 billion involving over 300,000 transactions.

With a view to breaking into new markets SRP was re-branded as 'Paymaster'. Paymaster enables the Bank to reach a broader spectrum of organisations and also offers additional facilities. Paymaster enables the Bank to pay not just salaries only but also to pay suppliers and other third parties. Thus an insurance company may use Paymaster to authorise the Bank to make a payment to a beneficiary through e-transactions cutting down transaction costs hugely.

Our web based products now enable money to be remitted to an individual or an organisation from outside Sri Lanka in minutes. The Bank has partnered with MoneyGram and financial institutions overseas can use the Bank's system to authorise a payment to an individual, an account or another bank in Sri Lanka. The Bank's extensive ATM network enables the beneficiary to access the funds almost instantaneously. In 2007 this product generated 88,000 transactions per day exceeding a value of Rs. 225 million. Current exchange control restrictions however, do not permit a transfer of funds outside Sri Lanka.

'Com-eLoad' enables mobile phone users to top up their credit by sending an SMS to the Bank. The moment the Bank receives the SMS it debits the customer's account and credits the service provider's account. So far we have agreements with the two leading service providers: Dialog and Mobitel. Mobitel customers on a post-paid package have the additional facility of settling their bills in a similar manner.

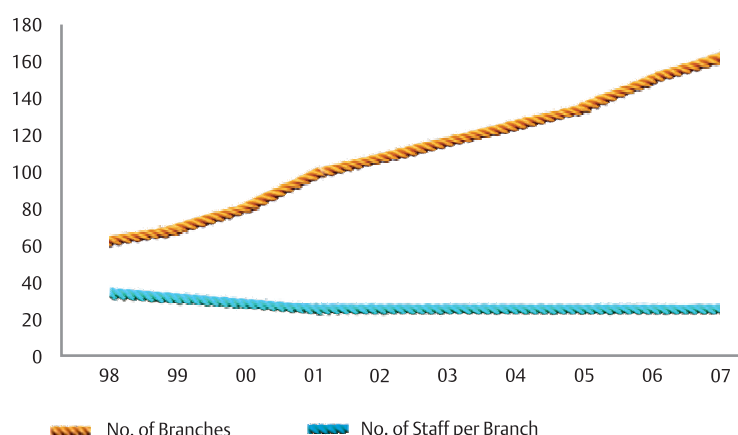
The Bank's 'online cheque viewing' facility enables customers to view digital images of all cheques that transact through their account. By accessing their accounts through the internet, customers can track all cheques either issued from their account or paid in to their account. The visual images of cheques provide a more convenient and user friendly method of monitoring accounts.

With a view to providing greater levels of customer convenience the Bank is looking at centralising a number of functions, principally its back office operations and its credit operations. This will enable front line staff to be more focused in their interactions with the customers and yet again generate higher levels of customer convenience.

### Enhanced and New Levels of Convenience

The customer continues to remain the central focus of the Bank's activities. The Bank's customer base is now 2.8 million and they come from all parts of the country and every social class. We touch their lives in many ways and every year we look at new ways of

No. of Branches and No. of Staff per Branch



making their lives richer and easier through products that are friendlier and convenient to use.

The Bank is present in a variety of ways and forms to facilitate customer convenience. Customers can access the Bank through the internet, through phone banking, through the ATMs and by visiting its branches. In 2007, the Bank opened seven new branches, five mini-coms and relocated the e-banking center in Sri Lanka and opened one branch and one service center in Bangladesh.

At the end of 2007 we had 163 branches and 291 ATMs across the country. Eighty of these branches will be kept open on public holidays during the course of this year to enable customers to have enhanced access to the branches. Transaction limits at supermarkets have been increased from Rs. 50,000 to Rs. 200,000.

## Adapting to and Mitigating Exchange Risks

The Bank has innovated new FX Products to enable customers to hedge their foreign exchange risks and diversify their investment portfolios. The products are designed to mitigate the risks arising out of fluctuations in foreign exchange rates.

- The 'Dual Currency Deposit' involves placing a deposit in one currency with the possibility that the principal will be repaid by the Bank in a second currency if the spot exchange rate between the currencies is above or below a certain rate at expiry. The customer is paid a higher yield for taking this risk.

- The 'Double No Touch/One Touch Note Deposit' provides customers with the benefit of a higher yield while protecting the principal at maturity by allowing the spot rate to fluctuate between the upper and lower barrier of the pre-determined range of a currency pair without breaching the ranges.
- The 'FX Accumulator' is a structured product for corporates looking for a forward type hedge. It is especially useful for importers, who will be able to buy a strip of cash flows of a specified amount on a specified date at an agreed strike price if the spot rate trades above the strike price. If the spot rate trades below the agreed strike price on a particular expiry date, the importer is obliged to buy a higher amount than the agreed specified amount.

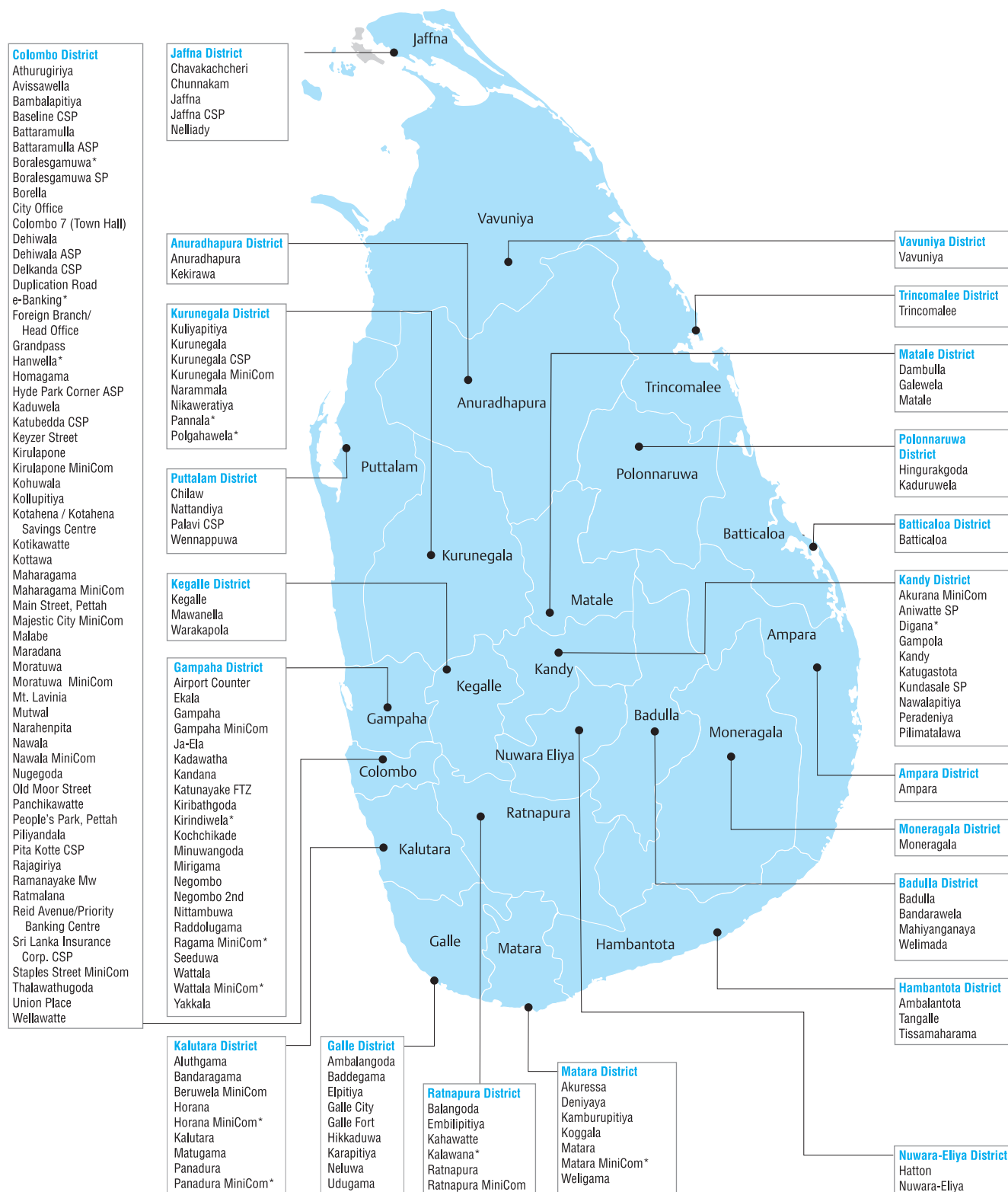
The Bank structured an 'Oil Option Collar' for the Lanka Indian Oil Company (LIOC) last year. The product was structured as a zero cost product and provided protection to LIOC from the rising gas and oil prices in the world market.

This was the first time LIOC entered into an oil hedge with a local bank in Sri Lanka. The hedge provided a cover for part of LIOC's gas and oil imports for a 3 month period.

It was also the first time the Bank had provided a commodity hedge. In line with its Knowledge Management strategy the Bank will look at adapting and extending this product to other commodity exporters to mitigate their risk.

	2007 (Rs. Mn)	2006 (Rs. Mn)	2005 (Rs. Mn)
<b>Information Technology</b>			
Additions during the year - Computer Software	143,486	111,758	44.107
Additions during the year - Computer Hardware	227,172	176,279	302.613
Total IT Development Expenditure	370,658	288,037	346.720
IT Expenditure	968,238	803,314	725,086
IT Development Expenditure as a % of IT Expenditure	38.28%	35.86%	47.82%
No. of ATMs	291	269	223
No. of ATM Transactions per day (Average)	88,560	41,722	32,448
Amount of Cash Disbursed through ATMs per day (Average) (Rs. million)	226.8	178.52	127.93

# NETWORK OF DELIVERY POINTS



\* Opened in 2007

ASP - Banking Centres at Arpico Supercentres

CSP - Customer Service Point

MiniCom - Banking Centres at Cargills Food City Supermarkets

SP - Service Point



The Bank set up an aluminum hedge for Alucop Cables last year. Alucop Cables entered into a set of forward contracts with the Bank to hedge part of their exposure arising out of the import of 400 metric tones of aluminum. If the aluminum is at an average price which is higher than their forward prices, the purchase price is capped and they purchase aluminum at the respective forward strike prices on each forward date. On the other hand, should aluminum prices move down to an average price which is lower than the forward prices, the purchase price remain at the agreed forward price.

## Investing in the Next Generation

The Bank has introduced a new incentive for children holding an 'Arunalu' saving account. Students sitting for the Year 5 Scholarship Examination can now earn double rewards if they are holders of an 'Arunalu' savings account. The Bank will double the account holder's balance, up to a maximum of Rs. 50,000, if he or she obtains the highest marks in the District at the Year 5 scholarship examination.

As in previous years, the Bank will also award Arunalu cash prizes of Rs. 10,000, Rs. 7,500 and Rs. 5,000 to account holders who attain the first, second and third place respectively in their schools at the Year 5 Scholarship Examination.

## The 'Voice' of Our Customers

Last year the Bank conducted a survey amongst our customers to gain a better understanding of what they thought of the Bank and what they would like the Bank to be for them. Using mainly focus group discussion among a cross section of geographical and lifestyle segments, ranging from youth to retired seniors and from small scale retailers to the blue-chip corporates, the survey came up with conclusions that would make any institution proud.

The survey confirmed that the Bank had been able to reach out to people in a myriad of ways and touched their lives in a very profound manner. One of the key messages that came out was the non-aggressive stance of the Bank and the warm caring relationships that had been forged over the years with customers of all hues.

# Raising the Bar of Corporate Responsibility

The Bank's responsibility to its multiple stakeholders is a matter of utmost priority. On the one hand we generate financial value to reward our shareholders. On the other, we generate social value to reward the community, especially those most disadvantaged and vulnerable. In addition, we generate value to reward our employees in a variety of ways which are captured in the knowledge management report of this Annual Report.

In 2004, we set up the Bank's CSR Fund with a seed capital of Rs. 25 million. The Fund provides the base for much of our CSR work. Every year the Bank adds up to 1% of its post tax profits to the Fund and in 2007 Bank contributed a further Rs. 22 million to this fund. The fund balance as at end of 2007 stood at Rs. 54.139 million. The Bank's CSR strategy is aimed at fostering self-reliance, independence and creativity among the most disadvantaged Sri Lankans.

## Implementing the UN's Global Compact Programme

The Bank subscribed to the UN's Global Compact programme and has adapted its systems and business practices to implement its 10 core principles. We see this as an important way in which the Bank contributes to sustainable livelihoods and equality of opportunity.

The Global Compact was launched by the UN in July 2000 and brings together governments, the business sector, civil society and the United Nations to respond to the challenges of globalisation and promote a sustainable and inclusive global economy. Today, thousands of companies globally are working together with other actors in the key areas of human rights, labour, environment and anti-corruption.

The Global Compact revolves around 10 key principles in the four key areas and is addressed at businesses around the world. Commercial Bank endorsed the 10 principles in 2002. The Bank, as a leading corporate citizen in Sri Lanka, believes that it must be in the forefront of finding solutions to the challenges posed by globalisation, poverty and social exclusion. By forging creative partnerships with other actors like governments, civil society and the UN, the corporate sector is better placed to respond to contemporary social challenges.

The following section shows how the Bank has been mainstreaming these 10 principles into its business practices and strategy in promoting its underlying values:

## Human Rights

### Principle I

*Business should support and respect the protection of internationally proclaimed human rights within their sphere of influence*

### Principle II

*Business should make sure that they are not complicit in human rights abuses*

The Bank's HRM, HRD, Employee Relations and Industrial Relations policies place a premium on 'human dignity' as an idea and highlight the pivotal role that human resources play in the growth of an organisation.

Further, the Bank's corporate strategies revolve around these policies. Also, a code on 'Sexual Harassment' which was formulated in-line with the collaborative effort of the International Labour Organisation and the Employers Federation of Ceylon, is now in force.

## Labour

### Principle III

*Business should uphold the freedom of association and the effective recognition of the right to collective bargaining*

Presently there are three Associations/Unions within the Bank, which are represented by both Non-Executive and Executive Staff. The Bank has an IR Policy and deals with the unions on the basis of mutual reciprocity. There are two Collective Agreements signed with the Ceylon Bank Employees Union that are in force from year 2006 till 2009. There is no discrimination on grounds of Union membership/involvement with union activities, when it comes to Career Progression which is done purely on merit. Arrangements were made to revise the Loans and other benefits of staff, with the concurrence of the Unions. Further, the Bank was able to introduce a restructured Pension Scheme with the agreement of the Unions, which was accepted by over 99% of the eligible employees. Further, support and the involvement of the Unions were obtained towards productivity enhancements, process improvements, etc. Also, joint events were organised with the Unions during 2007.

### Principle IV

*Business should support the elimination of all forms of forced and compulsory labour*

In the Bank, all labour is voluntary and out of free will. In respect of Non-Executive staff, terms and conditions of employment are negotiated and agreed upon every three years while for executive staff, regular review is being undertaken in-line with market trends. Further, the Bank has a well established Counselling Mechanism and also provisions have been made for staff to bring-in common grievances (without disclosing their identity - through a link in the HR Website) and Individual Grievances (through the link in the HR Café).

In respect of outsourced staff, payments are based on market rates. An outsourcing unit has been formed to ensure that the Service Providers pay all statutory and other dues to the outsourced staff on time.

## Principle V

*Business should support the abolition of child labour*

Minimum age limits are specified and in any event it is not less than 18 years. This position has been ensured even with regard to outsourced staff by including the minimum age condition in the agreements with the outsourcing companies.

## Principle VI

*Business should support the elimination of discrimination in respect of employment and occupation*

The Bank's practices are constantly being monitored to ensure that we comply with these fundamental labour principles. The Bank is committed to ensuring that the full spectrum of the rights at work are respected and promoted.

The Bank has done its utmost to ensure that there is no discrimination in the workplace as a result of sex, ethnicity, disability or any other such ground.

The Bank is a part of the 'Employer Network on Disability' which enables the differently abled to explore employment opportunities in the private sector. Six persons were provided employment through this initiative in 2006-07.

Further, we are redesigning many of our buildings, ATMs and other facilities to enhance access for the differently abled.

The Bank's HRM practices received two key

awards last year which reflect among other things an adherence to international labour standards and practices.

Three unions operate within the Bank at the moment and their right to associate and collectively bargain is fully protected. The Bank's existing Collective Bargaining Agreements with the Ceylon Bank Employees Union were signed in 2006 and will continue till 2009. It covers a variety of staff categories and deals with a variety of terms of employment and staff conditions. Union membership does not result in any discrimination within the workplace and promotions are carried out solely according to merit and professional skill.

The Bank started an initiative on 'Workplace Cooperation' in partnership with the Employers' Federation of Ceylon and the International Labour Organisation (ILO). The initiative brings together representatives from the three workers' associations together with the management to promote the joint interests of worker and Company.

## Environment

### Principle VII

*Business should support a precautionary approach to environmental challenges*

### Principle VIII

*Business should undertake initiatives to promote greater environmental responsibility*

### Principle IX

*Business should encourage the diffusion of environmentally-friendly technologies*

The Bank's 'Green' loans provide concessionary funding to those entrepreneurs who adopt environmentally friendly technologies. Our lending policies ensure that clients have obtained the necessary

environmental clearance and where required, an Environmental Impact Assessment of the project has been undertaken.

Under the Bank's CSR Fund four ancient irrigation tanks were rehabilitated over a period of two years with a view to providing water resources in an environmentally sustainable way to farmers in those regions.

Our Paper Management systems ensure that waste-paper within the organisation is recycled and reused wherever possible. New procedures are being progressively unveiled that will substantially reduce the use of paper in all our branches.

The Bank's own building projects ensure the use of environmentally friendly technologies wherever possible.

## Corruption

### Principle X

*Businesses should work against corruption in all its forms, including extortion and bribery*

Our procedures for Corporate Governance ensure the scrupulous observance of the highest ethics. This is encapsulated in a Code of Ethics which binds all employees and the Bank takes all measures to ensure that this is observed to the letter.

## Enhancing Access to Health Care and Education

The Bank has continued to invest in the health and education of the wider community. For the very young, we continued with our Arunalu Scholarship scheme in 2007 too. Every year, children who hold an Arunalu Account with the Bank are rewarded according to their performance at the Grade V Scholarship Examination. In 2007, the Bank paid Rs. 1.4 million to 170 children who performed exceptionally well at the Grade V Scholarship Examination.

We have also continued to invest in the future of those in university and last year we presented a further 25 scholarships to university students. Each scholarship provides Rs. 2,500 a month for 10 months of the calendar year and recipients are selected to ensure that the most deserving get the scholarships. In the previous year, the Bank presented 100 scholarships to university students.

Our Dhaka Branch of the Bangladesh operation sponsored the Dhaka University Job Fair in July 2007. The Job Fair provided a forum for prospective employers from a

variety of sectors to meet potential employees. It also provided a forum for students and others to talk to prospective employers and gain a better understanding of opportunities that were available, especially in the private sector.

In the health sector, the Bank donated Rs. 1.000 million to the Colombo National Hospital to support the expansion of the ENT (Ear, Nose and Throat) centre. The funds were used to buy emergency trolleys, ward trolleys, computer tables, lecture hall chairs, bed linen, towels, stationery and other equipment for the Centre.

In Bangladesh, the Bank provided BDT 1.5 million to the Islamic Eye Hospital for the completion of a Children's Eye Care Unit. The Unit will enhance the access that disadvantaged children will have to some of the most up to date technology at the Hospital.



01. Rewarding an Arunalu account holder with exceptional performance at the scholarship examination.

02. Recipients of the Scholarship presented by the Bank.

03. Handing over a donation for the expansion of the ENT centre of the Colombo National Hospital.

04. Country Manager CBC - Bangladesh Mr. S. Renganathan and General Manager Mr. D.D. Gupta participated in the Inaugural ceremony of renovated child friendly Pediatric OPD & Low vision clinic at Islamia Eye Hospital where CBC had donated BDT 1.5 million to the Hospital.



# Events 2007

## January

### CBC Ties up with MoneyGram



CBC tied up with MoneyGram to expand its remittance business to other parts of the world where we do not have direct agent arrangements for e-Exchange.

### CBC Offers Country's First Online Cheque Viewing Facility

For the first time in Sri Lanka, Commercial Bank customers were able to view the image of all cheques issued by them from their own homes and offices, online using 'ComBank Online'.

## March

### Best Bank in Sri Lanka (2007)



Commercial Bank was selected as the Best Bank in Sri Lanka for the 9th consecutive year by the Global Finance Magazine (USA).

## June

### Opened the Bank's 151st Branch at Kalawana



### CBC Launches Innovative Investment Products

The Bank launched a series of risk management products designed to help corporates, SMEs and individual customers manage their foreign exchange risks better. The products will assist customers to hedge their foreign exchange risk and diversify their cash investment portfolios.

## February

### CBC Extends 'Com-e Load' to Mobitel Subscribers



CBC signed up with Sri Lanka Telecom Mobitel to offer Mobitel customers a facility to instantly reload their phone balances simply by sending an SMS

### CBC Board Decides on Rights Issue Followed by a Bonus Issue

The CBC Board decided on a rights issue of shares on the basis of 3 new shares for every 10 existing shares (3:10) (both voting and non-voting). The Board also decided on a bonus issue of 1 share for every 3 existing shares (both voting and non-voting) on the new share capital after the conclusion of the rights issue.

## April

### Establishment of the Business Continuity Management Unit

In keeping with the best practices adopted by reputed banks, a comprehensive Business Continuity Plan (BCP) was developed for the Bank.

## May

### CBC's CSR Trust Supports National Hospital's ENT Unit



The Corporate Social Responsibility Trust of the Bank donated equipment and essentials to the Colombo National Hospital in response to a request made by the ENT Unit.

## July

### Euromoney Names Commercial Bank the 'Best Bank' in Sri Lanka



Commercial Bank was named the 'Best Bank' in Sri Lanka by Euromoney, one of the world's most respected financial publications, following an independent assessment. In its Awards for Excellence 2007, Euromoney stated that 'Commercial Bank of Ceylon PLC takes the plaudits for best Sri Lankan lender of the year'.

### Commercial Bank Pays Over Rs. 1.4 million to Year 5 Scholarship Winners

Commercial Bank rewarded 170 Arunlu account holders for achieving best results in Year 5 scholarship examination (2006).

## August

The Bank's 152nd outlet (MiniCom) was opened at Ragama.

Double the Balance for 'Arunalu' Account Holders



The Bank doubled the balance, up to a maximum of Rs. 50,000, for Arunalu account holders who obtained the highest marks in each District at the Year 5 scholarship examination.

## September

During the month the Bank opened two MiniComs at Matara & Panadura and a Branch at Kirindiwela

The Bank's E-Banking centre was relocated at Sir Chittampalam A Gardiner Mawatha, Colombo 2, for customer convenience



## October

The Bank's 157th Branch was opened at Digana & two MiniComs were opened at Horana & Wattala



Young Millionaires with New 'Isuru' Account



A millionaire at the age of 18 is one of the possibilities offered to parents of new born children with the re-launch of Commercial Bank's 'Isuru' minors' savings account.

## November

Two Branches were opened at Polgahawela & Boralessgamuwa



CBC Launches 'Paymaster' Total Payment Solution



'Paymaster', is a Total Payment Solution that enables organisations or individuals to make virtually any type of payment to multiple beneficiaries by simply uploading a file to Commercial Bank's on-line banking platform.

## December

The Bank's 162nd Branch was opened at Hanwella

'Bank of the Year' (Sri Lanka) for the Year 2007 - The Banker



Commercial Bank, was ranked among the cream of the global banking community and the best achievers in the industry, winning 'Bank of the Year' (Sri Lanka) for year 2007 for the sixth time, from 'The Banker,' the prestigious UK-based magazine that serves the international banking community.



CBC Annual Report 2006 Wins Awards

CBC 2006 Annual Report won the overall - Silver Award & the Banking Sector Gold Award at the Annual Report Awards, 2007 organised by The Institute of Chartered Accountants of Sri Lanka (ICASL).

The same Annual Report was also the Winner in the Banking Sector and First Runner-up in the Overall Category at the 'SAFA Best Presented Accounts Award and Corporate Governance Award 2006'.

ComBank's CSR Trust Awards 25 more Undergrad Scholarships



The Bank presented 25 scholarships, each worth Rs. 25,000 a year, to needy undergraduates from around the country.



# Financial Reports

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## Financial Calendar - 2007/08

Final Dividend for 2006 paid on April 12, 2007

Three Interim Dividends for 2007 paid on August 31, 2007, November 30, 2007 and December 20, 2007 respectively

Annual Report and Accounts for 2007 signed on February 18, 2008

Thirty-Ninth Annual General Meeting to be held on March 28, 2008

Final Dividend for 2007 proposed to be paid on March 28, 2008

## Interim Financial Statements in terms of Rule 8.3 of the Colombo Stock Exchange and as per the requirements of the Central Bank of Sri Lanka

For the three months ended March 31, 2007 (unaudited) in May 2007

For the six months ended June 30, 2007 (unaudited) in July 2007

For the nine months ended September 30, 2007 (unaudited) in November 2007

Annual Report and Accounts for 2007 (audited) in March 2008

## Proposed Financial Calendar - 2008/09

Interim Dividends for 2008 in second half 2008

Annual Report and Accounts for 2008 to be signed in February 2009

Fortieth Annual General Meeting to be held in March 2009

Final Dividend for 2008 in March 2009

## Interim Financial Statements in terms of Rule 8.3 of the Colombo Stock Exchange and as per the requirements of the Central Bank of Sri Lanka

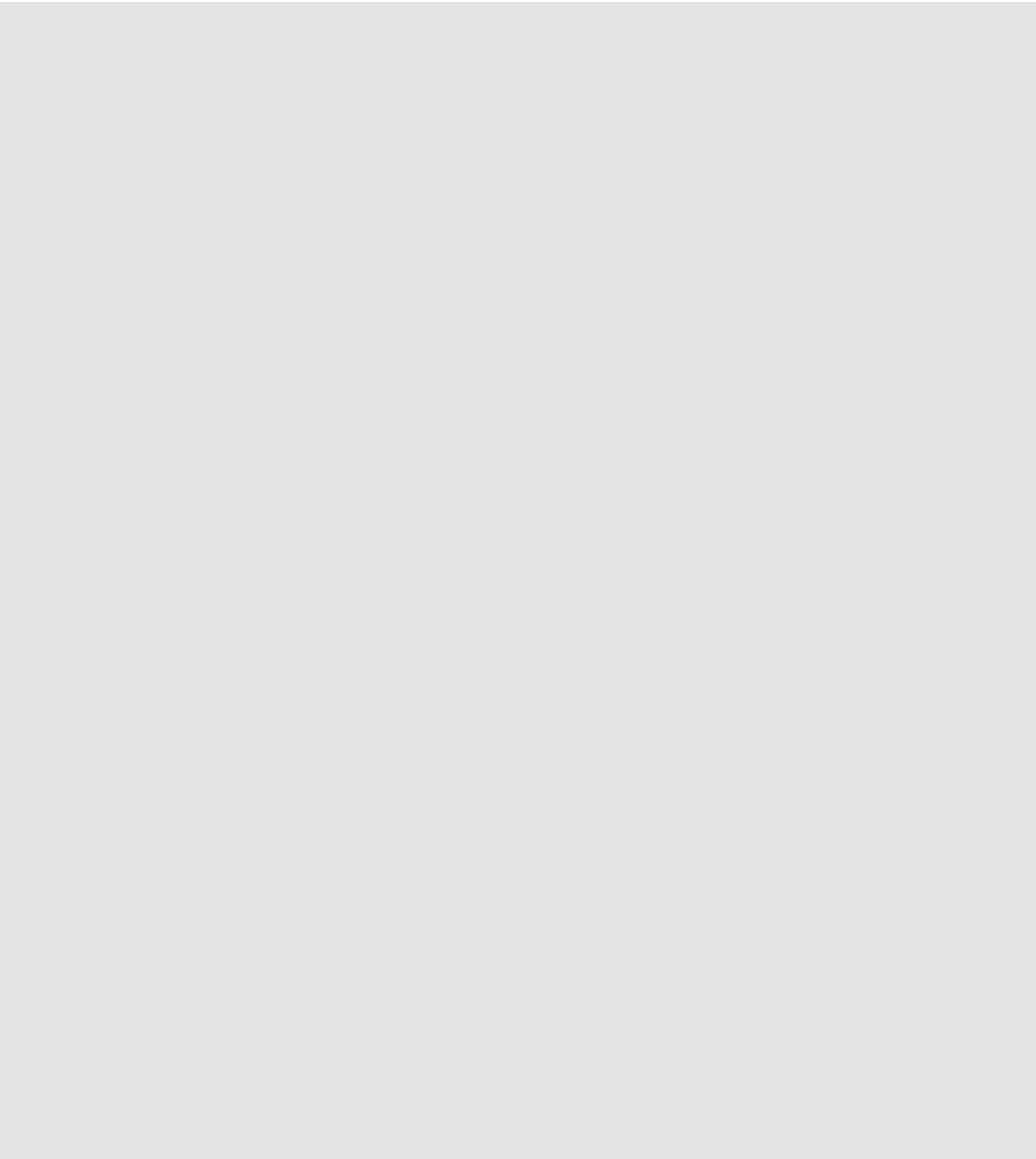
For the three months ending March 31, 2008 (unaudited) in May 2008

For the six months ending June 30, 2008 (unaudited) in August 2008

For the nine months ending September 30, 2008 (unaudited) in November 2008

Annual Report and Accounts for 2008 (audited) in March 2009





### **Annual Report of the Board of Directors on the Affairs of the Company and Statement of Compliance of the Contents of the Annual Report**

The details set out herein provide the pertinent information required by the Companies Act No. 7 of 2007, Listing Rules of the Colombo Stock Exchange and recommended best accounting practices. This Report also provides the information required to be included in the Directors' Report under the Companies Act No. 17 of 1982. The Annual Report was approved by the Directors on February 18, 2008.

### **General**

The Directors have pleasure in presenting to the members their Report together with the audited Financial Statements for the year ended December 31, 2007 of the Commercial Bank of Ceylon PLC., a public limited liability company incorporated in Sri Lanka on June 25, 1969 under the Companies Ordinance No. 51 of 1938, quoted in the Colombo Stock Exchange in March 1970 and a licensed commercial bank under the Banking Act No. 30 of 1988 and re-registered as per the Companies Act No. 7 of 2007 on January 23, 2008.

### **Principal Activities**

Subject to the above there were no significant changes in the nature of principal activities of the Bank and the Group during the financial year under review.

### **Bank**

The principal activities of the Bank continued to be banking and related activities such as accepting deposits, personal banking, trade financing, off-shore banking, resident and non-resident foreign currency operations, travel related services, corporate and retail credit, project financing, lease financing, rural credit, issuing of local and international debit and credit cards, telebanking facilities, bancassurance, internet banking, dealing in Government securities, bullion trading, export and domestic factoring etc.

### **Subsidiaries**

The principal activities of the Bank's subsidiaries, namely, Commercial Development Company PLC, ONEzero Company Ltd. and X-pertise Ltd. are property development, providing IT related services and training & development of human resource, respectively. Commercial Bank Primary Dealer Ltd., whose principal business activity was dealing in Government Securities, ceased its operations on September 30, 2005, consequent to the Bank obtaining the license to function as a Primary Dealer. The proceedings for the voluntary winding up of Commercial Bank Primary Dealer Ltd. are in progress. X-pertise Ltd. ceased its operations as at September 30, 2007, consequent to the decision to transfer its operations to the Bank. The proceedings for voluntary winding up of this Company too are in progress.

### **Associates**

At the beginning of the year the Group had four Associates namely, Commercial Leasing Co. Ltd., Equity Investments Lanka Ltd., Commercial Fund Management (Pvt) Ltd. and Commercial Insurance Brokers (Pvt) Ltd. The principal activities of these Associates were leasing and factoring, venture capital, fund management and insurance brokering respectively. Commercial Fund Management (Pvt) Ltd., ceased to be an Associate of the Bank from January 23, 2007, as the Bank disposed its equity stake in the Company.

### **Financial Statements**

The Financial Statements of the Group and the Bank are given on pages 110 to 171 of the Annual Report.

### **Auditors' Report**

The Auditors' Report on the Financial Statements is given on page 109 of the Annual Report.

### **Significant Accounting Policies**

The Significant Accounting Policies adopted in the preparation of Financial Statements are given on pages 116 to 130 of the Annual Report.

**Interests Register**

The Interests Register is maintained by the Bank, as per the Companies Act No. 7 of 2007. All Directors have made declarations as provided for in Section 192 (2) of the Companies Act aforesaid. The related entries were made in the Interests Register during the year under review. The share ownership of Directors is indicated on page 95 of this Report. Entries were made in the Interests Register on share disposals, Directors' interests in contracts, remuneration paid to the Directors etc. The Interests Register is available for inspection as required under the Companies Act.

**Directors' Remuneration**

Directors' remuneration, in respect of the Group and the Company for the financial year ended December 31, 2007 are given on Note 5 to the Financial Statements on page 132.

**Corporate Donations**

During the year, the Bank made donations amounting to Rs. 29,740,726/- (Rs. 13,505,145/- in 2006) in terms of the resolution passed at the last Annual General Meeting. The donations made to Government approved charities from the above amounted to Rs. 1,992,270/- (Rs. 3,432,000/- in 2006).

**Directorate****List of Directors**

The Board of Directors of the Bank consists of 9 Directors with wide financial knowledge and experience. The qualifications and experience of the Directors are given in the Directors' Profile, on pages 16 and 17 of the Annual Report.

The following were the Directors of the Bank as at the end of the year:

Mr. M.J.C. Amarasuriya (*Chairman*)  
 Mr. B.R.L. Fernando (*Deputy Chairman*)  
 Mr. A.L. Gooneratne (*Managing Director*)  
 Mr. L.J.A. Fernando  
 Mr. A.N. Fonseka (*Also Alternate Director to Mr. D.S. Weerakkody*)  
 Mr. G. Galludec (*Alternate Director to Mr. Iyad M. Malas*)  
 Deshamanya Ken Balendra  
 Mr. Iyad M. Malas  
 Dr. H.S. Wanasinghe  
 Mr. D.S. Weerakkody

Mr. L.J.A. Fernando was appointed as the alternate director to Mr. M. J.C. Amarasuriya with effect from December 27, 2007, until Mr. Amarasuriya's return to Sri Lanka from a visit abroad.

**Resignations/New Appointments**

None

**Recommendations for Re-election****Mr. M.J.C. Amarasuriya**

In accordance with Articles 85 & 86 of Articles of Association of the Company, Mr. M.J.C. Amarasuriya retires by rotation.

In terms of the Banking Act Directions No. 11 of 2007 (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 9 years, up to January 1, 2008, subject to the transitional provisions indicated in the aforesaid Directions. According to the transitional provisions, the longest serving Director, out of the Directors, whose period of service has exceeded 9 years, shall be deemed to have vacated office on December 31, 2008. The longest serving Director on our Board is Mr. M.J.C. Amarasuriya and as per the Banking Act Directions No. 11 of 2007, Mr. Amarasuriya is permitted to hold the office of a Director upto December 31, 2008 and he shall be deemed to have vacated office as a Director on December 31, 2008.

Mr. Amarasuriya, being eligible for re-election, is recommended by the Board of Directors for re-election, from the conclusion of the forthcoming Annual General Meeting of the Company, subject to the application of Directions No. 11 of 2007 aforesaid.

**Mr. L.J.A. Fernando**

In accordance with Articles 85 & 86 of Articles of Association of the Company, Mr. L.J.A. Fernando retires by rotation and being eligible for re-election, is recommended by the Board of Directors for re-election.

**Dr. H.S. Wanasinghe**

When Dr. H.S. Wanasinghe came up for re-election, in accordance with Articles 85 & 86, at the last Annual General Meeting, a resolution was passed by the Company declaring that the 70 year age limit shall not apply to Dr. Wanasinghe. Since this resolution is valid only for one year from the date of his re-election, another resolution will be required to be adopted at the forthcoming Annual General Meeting, notwithstanding the fact that Dr. Wanasinghe is not due to retire by rotation at the Annual General Meeting, in order to continue as a Director.

In terms of the Directions No. 11 of 2007 aforesaid, if a Director is over 75 years of age as at January 1, 2008, such Director may continue to serve as a Director for a period that shall not extend beyond December 31, 2008. Therefore, Dr. Wanasinghe is permitted to hold office of a Director up to December 31, 2008 and he shall be deemed to have vacated office as a Director on December 31, 2008.

Dr. Wanasinghe, being eligible for re-election, is recommended by the Board of Directors for re-election, from the conclusion of the forthcoming Annual General Meeting of the Company, subject to the application of Directions No. 11 of 2007 aforesaid.

In this connection, a special notice has been received by the Company from Union Investment Ltd., a shareholder of the Bank informing their intention to move a resolution stating that Section 210 of the Companies Act No. 7 of 2007 shall not apply to Dr. Wanasinghe (Resolution is stated on page 191 under Notice of Meeting).

**Directors' Meetings**

Details of Directors' meetings are presented on page 64 of the Annual Report.

**Directors' Responsibility for Financial Reporting**

The Directors are responsible for the preparation of Financial Statements of the Bank to reflect a true and fair view of the state of its affairs. The Directors are of the view that the Income Statement, Balance Sheet, Statement of Changes in Equity, Cash Flow Statement, Significant Accounting

Policies and Notes thereto appearing on pages 110 to 171 have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards, Companies Act No. 17 of 1982 from the commencement of the accounting year up to May 2, 2007 and Companies Act No. 7 of 2007 thereafter, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, the Banking Act No. 30 of 1988 & amendments thereto and the Listing Rules of the Colombo Stock Exchange.

**Directors' Interests in Ordinary Shares**

Individual shareholdings of Directors were as follows:

	As at 31.12.2007	As at 31.12.2006
Mr. M.J.C. Amarasuriya	447,097	309,864
	151,881	104,932
	(Non-Voting)	(Non-Voting)
Mr. B.R.L. Fernando	8,414	4,778
	(Non-Voting)	(Non-Voting)
Mr. A.L. Gooneratne	806,216	390,158
	38,028	17,324
	(Non-Voting)	(Non-Voting)
Mr. L.J.A. Fernando	Nil	Nil
Mr. A.N. Fonseka	1,077	622
	(Non-Voting)	(Non-Voting)
Mr. G. Galludec	Nil	Nil
Deshamanya Ken Balendra	Nil	Nil
Mr. Iyad M. Malas	Nil	Nil
Dr. H.S. Wanasinghe	Nil	Nil
Mr. D.S. Weerakkody	Nil	Nil

**Percentage Shareholding of the Directors**

Ordinary Voting Shares	0.54%	0.52%
Ordinary Non-Voting Shares	1.24%	1.37%

Directors' shareholdings have not changed subsequently from the date of the Balance Sheet up to January 18, 2008, being one month prior to the date of Notice of the Annual General Meeting.

**Directors' Interests in Cumulative Redeemable Preference Shares**

There were no Cumulative Redeemable Preference Shares registered in the name of any Director as at the beginning and at the end of the year.



**Directors' Interests in Debentures**

There were no debentures registered in the name of any Director as at the beginning and at the end of the year.

**Directors' Interests in Contracts**

Directors' interests in contracts or proposed contracts with the Company, both direct and indirect are disclosed on pages 101 to 103 of the Annual Report. These interests have been declared at Directors' Meetings. As a practice, Directors have refrained from voting on matters in which they were materially interested. Directors have no direct or indirect interest in any other contract or proposed contract with the Company.

**Application of Banking Act Directions No. 11 of 2007 (Corporate Governance for Licensed Commercial Banks in Sri Lanka)**

The above Directions mandate all Licensed Commercial Banks to commence compliance with the Directions from January 1, 2008 and be fully compliant with the provisions of the Directions by January 1, 2009, with the exception, where extended compliance dates have been specifically provided for.

The Board of Directors confirms that:

- (a) the Bank has commenced compliance with the Directions from January 1, 2008, as required by the Directions.
- (b) the Bank complies with the requirements, which are mandatory for compliance currently, and
- (c) with regard to the requirements for which extended compliance dates have been provided, the Bank has taken steps to be compliant, by such dates.

**Application of the Corporate Governance Rules of the Colombo Stock Exchange**

As per the Section 6 of the Listing Rules of the Colombo Stock Exchange on Corporate Governance Rules, it is mandatory for all listed companies to publish a Table in the Annual Report relating to the financial year commencing on or after April 1, 2007, confirming that as at the date of the Annual Report that the Company complies with the Corporate Governance Rules set out in the above

Section and if not, the reasons for non-compliance.

Further, it is mandatory for all listed companies to comply with the above Corporate Governance Rules with effect from the financial year commencing on or after April 1, 2008, and also to include the relevant affirmative statements in the Annual Report.

In the circumstances, the Bank is in the process of taking necessary steps to comply with the above requirements from January 1, 2008, the date on which the applicable financial year of the Bank begins.

**Auditors**

The retiring Auditors, Messrs. Ernst & Young have signified their willingness to continue in office. A resolution to re-appoint them as Auditors and granting authority to the Directors to fix their remuneration will be proposed at the Annual General Meeting.

The Auditors, Messrs. Ernst & Young were paid Rs. 4.556 Mn. for the year ended December 31, 2007 (Rs. 4.370 Mn. in 2006) as audit fees by the Bank. In addition, they were paid Rs. 1.440 Mn. (Rs. 0.652 Mn. in 2006) by the Bank, for permitted non-audit related services including tax consultancy services.

As far as the Directors are aware, the Auditors do not have any other relationship with the Bank, or any of its subsidiaries. The Auditors do not have any interest in contracts with the Bank, or any of its subsidiaries.

**Board Sub-Committees**

The Board of Directors of the Bank has formed the following sub-committees:

**Nomination Committee**

Members:

Mr. M.J.C. Amarasuriya (*Chairman*)  
Mr. B.R.L. Fernando  
Mr. G. Galludec

Mr. A.L. Gooneratne, Managing Director of the Bank attends the meetings by invitation.

***Integrated Risk Management Committee***

Members:

Mr. B.R.L. Fernando (*Chairman*)

Mr. A.L. Gooneratne

Mr. L.J.A. Fernando

Mr. A.N. Fonseka

Mr. G. Galludec

***Human Resources and Remuneration Committee  
(Formerly Personnel and Remuneration Committee)***

Members:

Mr. M.J.C. Amarasuriya (*Chairman*)

Mr. A.L. Gooneratne

Mr. L.J.A. Fernando

Dr. H.S. Wanasinghe

Mr. D.S. Weerakkody

The report of the Human Resources and Remuneration Committee is given on page 106 of the Annual Report.

***Audit Committee***

Members:

Mr. B.R.L. Fernando (*Chairman*)

Mr. A.N. Fonseka

Dr. H.S. Wanasinghe

Mr. D.S. Weerakkody

Mr. A.L. Gooneratne, Managing Director of the Bank and Mr. A.T.P. Edirisinghe, a practicing Chartered Accountant in the capacity of a Consultant attend the meetings by invitation.

The report of the Audit Committee is given on pages 107 and 108 of the Annual Report.

***Credit Committee***

Members:

Mr. M.J.C. Amarasuriya (*Chairman*)

Mr. B.R.L. Fernando

Mr. A.L. Gooneratne

***Strategic Planning Committee***

Members:

Mr. M.J.C. Amarasuriya (*Chairman*)

Mr. B.R.L. Fernando

Mr. A.L. Gooneratne

Deshamanya Ken Balendra

Mr. D.S. Weerakkody

***Vision, Mission and Corporate Conduct***

The Bank's Vision and Mission are given on the inner front cover of the Annual Report. The business activities of the Bank are conducted maintaining the highest level of ethical standards in achieving its Vision and Mission as set out in the Bank's Code of Ethics.

***Review of Business***

The Chairman's Review on pages 04 to 07, the Managing Director's Report on pages 08 to 11, and the Management Discussion and Analysis on pages 21 to 42, provide an overall assessment on the financial performance & financial position of the Group and describe in detail its affairs and important events of the year. These reports form an integral part of this Report.

***Future Developments/Branch Expansion***

The branch expansion policy continued during the year and the Bank opened 7 Branches and 5 MiniComs in Sri Lanka and a Branch and a Customer Service Point (CSP) in Bangladesh. One CSP was upgraded to a fully-fledged branch in Sri Lanka. Further, the Bank launched for the first time a synthetic forward exchange derivative where customers are given the opportunity to benefit from the volatile movement of foreign exchange rates. In addition, the Bank tied up with European Investment Bank for a post-tsunami line of credit. The Bank is now able to offer customers in 170 countries and over 143,000 locations, the ability to transfer funds via the Internet. The Bank intends to expand its branch network both in Sri Lanka and in Bangladesh.

***System of Internal Controls***

The Board of Directors has taken steps to oversee the implementation of an effective and comprehensive system of Internal Controls covering financial operations and compliance control required to carry on the business of banking in an orderly manner, safeguard its assets and secure as far as possible the accuracy and reliability of the records. Controls over financial reporting were also reviewed during the year to ensure that the financial reporting process is sound. The Directors have outsourced a part of the internal audit function to five leading firms of Chartered Accountants who review and report on the effectiveness of the financial, operational and compliance controls.

### Corporate Governance

Systems and procedures are in place to ensure that Corporate Governance is adequately and practically dealt with. The Board of Directors is of the view that it has focused on the necessary resources and processes to ensure that the Bank is compliant with The Code of Best Practice on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka, throughout the year ended December 31, 2007. Specific measures taken in this regard are elaborated under the caption Enterprise Governance on pages 51 to 65 of the Annual Report.

### Human Resources

The Bank continued to invest in Human Capital Development and implement effective Human Resource practices and policies to develop and build an efficient and effective work force aligned around new business priorities and to ensure that its employees are developing the skills and knowledge required for the future success of the Bank. Specific measures taken in this regard are detailed in the Knowledge Management Report and Community Impact Report on pages 75 to 84 and 85 to 87 respectively.

### Risk Management

An ongoing process is in place to identify, evaluate and manage the risks that are faced by the Bank. The Directors review this process through the Audit Committee. Specific steps taken by the Bank in managing both banking and non-banking risks are detailed in the section on Risk Management on pages 66 to 74 of the Annual Report.

### Income

The income of the Group for 2007 was Rs. 35,206.860 Mn. (Rs. 24,451.866 Mn. in 2006) while the Bank's income was Rs. 35,222.918 Mn. (Rs. 24,469.470 Mn. in 2006).

### Profit

The profits before tax of the Group and the Bank were up by 57.15% and 59.12% respectively (in comparison to the growths of 17.81% and 15.69% in 2006). Profits

after tax were up by 100.37% and 103.89% respectively (in comparison to the negative growths of 12.11% and 14.87% in 2006).

Details of profit relating to the Bank are given below:

	2007 Rs.	2006 Rs.
Profit for the year after payment of all expenses of management and providing for depreciation, possible loan losses, Financial VAT and contingencies	6,704,729,250	4,213,546,068
Provision for taxation	2,601,165,423	2,200,917,452
Net profit after taxation	4,103,563,827	2,012,628,616
Transfer from Revaluation Reserve	1,482,419	–
Profit/(loss) brought forward from previous year	(905,614)	994,023
Profit available for appropriation	4,104,140,632	2,013,622,639
<b>Appropriations</b>		
Transfer to the Statutory Reserve Fund	205,178,191	7,500,000
Transfer to the Capital Redemption Reserve Fund	–	906,555,000
Transfer to Special Risk Reserve of Primary Dealer Unit	17,413,612	–
Transfer to the Special Reserve of Primary Dealer Unit	52,240,836	–
Transfer to General Reserve	1,970,000,000	187,500,000
<b>Dividends on Preference Shares</b>		
13% Cumulative Redeemable Preference Shares (Redeemed on September 20, 2006)	–	84,918,124
11.25% Cumulative Redeemable Preference Shares	112,500,000	112,500,000
<b>Dividends on Ordinary Shares</b>		
Interim Dividend of Rs.1.50 per share	373,470,035	–
2nd Interim Dividend of Rs.1.50 per share	373,510,090	–
3rd Interim Dividend of Rs.1.50 per share	373,510,090	–
Final Dividend proposed of Rs. 2.50 per share	622,629,935	–
1st Interim Dividend of 15% paid in 2006	–	214,128,939
Final Dividend of 35% paid for 2006	–	501,426,188
Balance carried forward	3,687,843	(905,614)

The dividend payout ratio (inclusive of the dividends on Preference Shares) amounts to 45.22% of the profit after tax of 2007, compared to 45.36% for 2006 (33.01% on normalised post-tax profits for 2006). This also amounts to a Dividend Payout Ratio of 50.01%, for purposes of the newly introduced Deemed Dividend Tax requirement, as against the minimum of 25.00% required to be paid by companies.

#### **Dividends on Ordinary Shares**

The Directors recommend the payment of Rs. 2.50 per share as a final dividend for the year 2007 (35% in 2006). Three interim dividends of Rs. 1.50 per share each were paid in August, November and December 2007 (an interim dividend of 15% was paid in 2006).

The interim dividend was paid partly out of dividends received, which was not subject to further withholding tax (First interim dividend only). Final dividend will be paid partly out of dividends received and partly out of taxable profits of the Bank. The dividends to be paid out of profits will be subject to withholding tax.

#### **Income Tax Expense**

Income Tax Expense has been computed at the rates given in Note 9 to the Financial Statements.

#### **Property, Plant & Equipment, Leasehold Property and Intangible Assets**

Capital expenditure on Property, Plant & Equipment, including Capital Work-in-Progress, Leasehold Property and Intangible Assets amounted to Rs. 563.407 Mn., Rs. Nil and Rs. 143.486 Mn. respectively (Rs. 478.171 Mn., Rs. Nil and Rs. 111.758 Mn. in 2006). Details of these are given in Notes 23, 24 and 25 to the Financial Statements. Capital expenditure approved and contracted for is given in Note 36 to the Financial Statements.

#### **Market Value of Freehold Properties**

All freehold land & buildings of the Bank were last revalued by professionally qualified independent valuers as at December 31, 2004 and brought into Financial Statements with the concurrence of the Central Bank of Sri Lanka. The Directors are of the opinion that the revalued amounts are not in excess of the current market values of such properties.

#### **Reserves**

The total reserves of the Group stood at Rs. 13,843.084 Mn. as at December 31, 2007 (Rs. 13,588.274 Mn. as at December 31, 2006) details of which are given in Notes 32 and 33 to the Financial Statements.

#### **Stated Capital and Debentures**

The Stated Capital as at December 31, 2007 was Rs. 10,514.807 Mn. consisting of 232,931,177 Ordinary Voting Shares, 16,120,797 Ordinary Non-Voting Shares and 100,000,000 11.25% Cumulative Redeemable preference shares of Rs. 10.00 each. The details of the Stated Capital are given in Note 31 to the Financial Statements.

The funds raised from the 11.25% Cumulative Redeemable Preference Shares have been used to expand the leasing and other long term credit facilities.

#### **Share Information**

Information relating to earnings, dividends, net assets and market value per share is given in Financial Highlights on page 03 of the Annual Report. Information on share trading is given on page 179 of the Annual Report.

#### **Shareholdings**

There were 6,588 registered shareholders (6,213 in 2006) holding Ordinary Voting Shares and 3,289 registered shareholders (2,265 in 2006) holding Ordinary Non-Voting Shares of the Bank as at December 31, 2007. The distribution of shareholding is given on page 180 of the Annual Report.



## **Substantial Shareholdings**

The list of top twenty shareholders for both Voting and Non-Voting is given on page 181 of the Annual Report.

## **Equitable Treatment to Shareholders**

All shareholders in each category have been treated equitably in accordance with the original Terms of Issue.

## **Employee Share Ownership/Option Plans**

The Bank has decided to implement another Employee Share Option Plan for the Corporate Management and the Executive Officers in Grade III and above, based on the Bank's achievement of certain pre-determined performance criteria. In this connection, an Extra-ordinary General Meeting has been called for to obtain the approval of the shareholders on March 28, 2008, immediately after the conclusion of the 39th Annual General Meeting scheduled to be held at 10.30 a.m. Under this scheme, it is proposed to offer options up to 3% of the voting shares of the Bank. These share options could be exercised in a minimum of 3 or maximum of 5 tranches, commencing from March 31, 2009. The details of the existing Employee Share Option Plan is given in Note 31 to the Financial Statements.

## **Compliance with Laws and Regulations**

The Bank/Group has not engaged in any activities contravening the laws and regulations. All those responsible for ensuring compliance with the provisions in various laws and regulations confirm compliance in each quarter to the Board Audit Committee.

## **Environmental Protection**

The Bank/Group has not to the best of its knowledge engaged in any activity, which is harmful to the environment. Specific measures taken to protect the environment are given in the Community Impact Report on pages 85 to 87 of the Annual Report.

## **Statutory Payments**

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.

## **Outstanding Litigation**

In the opinion of the Directors and in consultation with the Bank lawyers, litigations currently pending against the Bank will not have material impact on the reported financial results or future operations of the Bank. Details of litigations pending against the Bank are given on pages 165 and 166 of the Annual Report.

## **Events after the Balance Sheet Date**

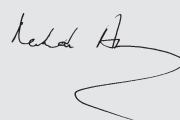
There have not been any material events that occurred subsequent to the date of the Balance Sheet that require adjustments to the Financial Statements, other than those disclosed, if any, in Note 41 to the Financial Statements.

## **Going Concern**

The Board of Directors has reviewed the Bank's business plans and is satisfied that the Bank has adequate resources to continue its operations in the foreseeable future. Accordingly, the Financial Statements are prepared based on the going concern concept.

## **Notice of Meeting**

Notice of Meeting relating to Thirty Ninth Annual General Meeting is given on page 191 of the Annual Report.



**M.J.C. Amarasuriya**  
*Chairman*



**A.L. Gooneratne**  
*Managing Director*



**Mrs. R.R. Dunuwille**  
*Company Secretary*

Colombo  
February 18, 2008

# DIRECTORS' INTERESTS IN CONTRACTS WITH THE COMPANY

## Directors' Interest in Contracts with the Company

Related Party Disclosures as required by the Sri Lanka Accounting Standard No. 30 on Related Party Disclosures (Revised 2005) is detailed in Note 39 to the Financial Statements. In addition, the Bank carries out transactions in the ordinary course of business in an arm's length basis at commercial rates with entities where the Chairman or a Director of the Bank is the Chairman or a Director of such entities, as detailed below:

Company	Relationship	Accommodation Granted/Deposits	Current Limit	Balance Outstanding As at 31.12.07 Rs.	Balance Outstanding As at 31.12.06 Rs.
(a) Mr. M.J.C. Amarasuriya					
Pelwatte Suger Industries Ltd.	Chairman	Loans & Advances	360,000,000	227,809,696	22,933,430
		Off Balance Sheet Accommodations	–	–	1,170,563
		Deposits		2,806,699	42,013,796
Serendib Flour Mills (Pvt) Ltd.	Chairman	Loans & Advances	391,730,000	331,074,431	339,439,803
		Off Balance Sheet Accommodations	500,000,000	–	61,072,739
		Deposits		34,224,081	86,068,046
(b) Mr. B.R.L. Fernando					
Chemical Industries (Colombo) PLC	Chairman	Loans & Advances	100,000,000	6,349,446	227,314
		Off Balance Sheet Accommodations	100,000,000	40,881,591	49,922,438
		Deposits		122,600	403,664
Chemanex Ltd.	Chairman	Loans & Advances	40,000,000	–	12,126,609
		Off Balance Sheet Accommodations	43,000,000	4,822,034	13,832,994
		Deposits		7,959,852	87,323
CIC Fertilizers (Pvt) Ltd.	Chairman	Loans & Advances	944,030,000	655,509,743	304,223,993
		Off Balance Sheet Accommodations	(895,000,000)	14,678,072	4,028,866
		(Includes LC sublimit) Deposits		695	377,779
CIC Feeds (Pvt) Ltd.	Chairman	Loans & Advances	473,000,000	385,404,241	349,374,936
		Import Demand Loans	(300,000,000)	158,373,365	124,221,163
		(Sublimit of LC)			
		Off Balance Sheet Accommodations	305,000,000	145,132,478	82,349,259
		Shipping Guarantees	–	108,684,000	–
CIC Seeds (Pvt) Ltd.	Chairman	Deposits		31,348	750,594
		Loans & Advances	21,000,000	9,600,000	56,795
		Off Balance Sheet Accommodations	55,000,000	54,033,123	7,579,119
		Off Balance Sheet Accommodations with cash margin	–	12,450,000	–
		Deposits		4,637,370	981,916
CIC Agri Bio Tech (Pvt) Ltd.	Chairman	Loans & Advances	15,000,000	6,038,983	–
		Import Demand Loans	(15,000,000)	2,133,000	–
		(Sublimit of LC)			
		Off Balance Sheet Accommodations	15,000,000	112,991	–
CIC Vetcare (Pvt) Ltd.	Chairman	Deposits		–	5,425,474
		Loans & Advances	40,000,000	43,521,184	37,997,872
		Import Demand Loans	(70,000,000)	29,791,903	23,972,317
		(Sublimit of LC)			
		Off Balance Sheet Accommodations	70,000,000	37,834,503	19,437,128
		Deposits		1,138,273	2,000,070

## DIRECTORS' INTERESTS IN CONTRACTS WITH THE COMPANY

Company	Relationship	Accommodation Granted/Deposit	Current Limit	Balance Outstanding As at 31.12.07 Rs.	Balance Outstanding As at 31.12.06 Rs.
(b) Mr. B.R.L. Fernando (Contd.)					
CIC Poultry Farms Ltd.	Chairman	Loans & Advances	13,610,000	3,539,869	–
		Off Balance Sheet Accommodations	20,000,000	4,312,500	–
		Deposits		3,714,715	2,125,155
CISCO Speciality Packaging (Pvt) Ltd.	Chairman	Loans & Advances	85,000,000	48,024,489	41,230,509
		Off Balance Sheet Accommodations	25,000,000	3,637,906	–
		Deposits		–	–
CIC Paints (Pvt) Ltd.	Chairman	Loans & Advances	–	–	–
		Off Balance Sheet Accommodations	–	–	–
		Deposits		5,834,133	9,452,236
Rainwear (Pvt) Ltd.	Director	Loans & Advances (US\$)	112,000	112,810	111,239
		Import Demand Loans (US\$)	(183,000)	29,150	75,305
		(Submit of LC)			
		Off Balance Sheet Accommodations (US\$)	183,000	27,223	–
		Deposits		34,472	318,393
The Light House Hotel Ltd.	Director	Loans & Advances	10,000,000	4,954,874	8,077,812
		Off Balance Sheet Accommodations	–	–	–
		Deposits		631,450	379,548
Premier Electronic (Pvt) Ltd.	Director	Loans & Advances	–	–	–
		Off Balance Sheet Accommodations	–	–	–
		Deposits		429,085	106,414
Link Natural Products (Pvt) Ltd.	Director	Loans & Advances	–	–	–
		Off Balance Sheet Accommodations	–	–	–
		Deposits		659,164	330,810
Employees Trust Fund Board	Director	Loans & Advances	–	–	–
		Off Balance Sheet Accommodations	–	–	–
		Deposits		9,481,339	12,914,034
(c) Mr. A.L. Gooneratne					
Commercial Leasing Co.Ltd.	Director	Loans & Advances	1,175,500,000	704,078,840	921,526,200
		Off Balance Sheet Accommodations	30,000,000	25,654,533	13,914,443
		Deposits		43,007,919	30,765,124
(d) Mr. A.N. Fonseka					
Colombo Stock Exchange	Director	Loans & Advances	–	–	–
		Off Balance Sheet Accommodations	–	–	–
		Deposits		265,281	1,127,739
DFCC Stock Brokers (Pvt) Ltd.	Director	Loans & Advances	–	–	–
		Off Balance Sheet Accommodations	–	–	–
		Deposits		487,020	168,692
Lanka Industrial Estates Ltd.	Director	Loans & Advances	–	–	–
		Off Balance Sheet Accommodations	–	–	–
		Deposits		5,365,130	29,712,891

# DIRECTORS' INTERESTS IN CONTRACTS WITH THE COMPANY

Company	Relationship	Accommodation Granted/Deposit	Current Limit	Balance Outstanding As at 31.12.07 Rs.	Balance Outstanding As at 31.12.06 Rs.
(e) Mr. D.S. Weerakkody					
Chartered Institute of Management Accountants	Council	Loans & Advances	–	–	–
	Member	Off Balance Sheet Accommodations	–	–	–
		Deposits			887,998
(f) Deshamanya Ken Balendra					
Ceylon Tobacco Co.Ltd.	Chairman	Loans & Advances	60,000,000	666,724	24,808,871
		Off Balance Sheet Accommodations	–	–	–
		Deposits	–	1,797,047	40,579,528
Brandix Lanka Ltd.	Chairman	Loans & Advances (US\$)	9,800,000	4,856,250	3,200,000
		Off Balance Sheet Accommodations (US\$)	–	–	–
		Deposits (US\$)		2,976	902,751
Brandix Finishing Ltd.	Director	Loans & Advances (US\$)	300,000	278,224	625,981
		Import Demand Loans (US\$) (Submit of LC)	(400,000)	200,000	400,000
		Off Balance Sheet Accommodations (US\$)	400,000	–	–
		Deposits (US\$)		–	11,237
Brandix Apparels Ltd.	Director	Loans & Advances (US\$)	–	–	644,732
		Off Balance Sheet Accommodations (US\$)	–	–	–
		Deposits (US\$)		20,158	800,064
Brandix Intimate Apparels Ltd.	Director	Loans & Advances (US\$)	300,000	–	292,915
		Off Balance Sheet Accommodations (US\$)	–	–	–
		Deposits (US\$)		4,657	9,599
Brandix Casual Wear Ltd.	Director	Loans & Advances (US\$)	696,000	563,493	324,704
		Off Balance Sheet Accommodations (US\$)	–	–	63,223
		Deposits (US\$)		44,397	–
Chevron Lubricants Lanka PLC	Director	Loans & Advances	150,000,000	–	–
		Off Balance Sheet Accommodations	100,000,000	–	–
		Deposits (US\$)		309,501	270,659
Phoenix Ventures Ltd.	Director	Loans & Advances	–	–	–
		Off Balance Sheet Accommodations	–	–	–
		Deposits		216,472	468,747



## DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

Under Section 150 (1) of the Companies Act No. 7 of 2007, Directors of the Company have responsibility for ensuring that the Company keeps proper books of account of all the transactions and prepares Financial Statements that give a true and fair view of the state of affairs and of the profit/loss for the year.

Accordingly, the Directors have caused the Bank to maintain proper books of account and review the financial reporting system at their regular meetings and through the Audit Committee. The Audit Committee Report is given on page 107 of this Report. The Financial Statements for the year 2007 prepared and presented in this Report are consistent with the underlying books of account and are in conformity with the requirements of the Sri Lanka Accounting Standards, Companies Act No. 17 of 1982 from the commencement of the accounting year up to May 2, 2007 and Companies Act No. 7 of 2007 thereafter, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, Banking Act No. 30 of 1988 and amendments thereto and the Listing Rules of the Colombo Stock Exchange. The Directors consider that, in preparing the Financial Statements exhibited on pages 110 to 171 inclusive, they have adopted appropriate accounting policies on a consistent basis and supported by reasonable and prudent judgements and estimates.

The Directors also have taken such steps as are reasonably open to them to safeguard the assets of the Bank and to prevent and detect frauds and other

irregularities. In this regard, the Directors have instituted an effective and comprehensive system of internal controls comprising of internal check, internal audit and financial and other controls required to carry on the business of banking in an orderly manner, safeguard its assets and secure as far as practicable the accuracy and reliability of the records.

The Bank's Auditors, Messrs. Ernst & Young, carry out reviews and sample checks on the system of internal controls as they consider appropriate and necessary for expressing their opinion on the Financial Statements.

Messrs. Ernst & Young, the Auditors of the Bank have examined the Financial Statements made available by the Board of Directors together with all the financial records, related data, minutes of shareholders and Directors meetings and express their opinion which appears as reported by them on page 109 of the Annual Report.

By Order of the Board,

  
**Mrs. R.R. Dunuwille**  
*Company Secretary*

Colombo  
February 18, 2008

# MANAGING DIRECTOR'S AND CHIEF FINANCIAL OFFICER'S RESPONSIBILITY STATEMENT

The Financial Statements of the Commercial Bank Group are prepared in conformity with the requirements of the Sri Lanka Accounting Standards, Companies Act No. 17 of 1982 from the commencement of the accounting year up to May 2, 2007 and Companies Act No. 7 of 2007 thereafter, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, the Banking Act No. 30 of 1988 and amendments thereto and the Listing Rules of the Colombo Stock Exchange.

The Accounting Policies have been consistently applied by the Group and are consistent with those used in the previous year. Comparative information has been reclassified wherever necessary to comply with the current presentation.

The Bank's Board Audit Committee, inter alia, reviewed all the Internal and External Audit and Inspection programmes, the efficiency of Internal Control System and procedures and also reviewed the quality of Accounting Policies and their adherence to Statutory and Regulatory requirements, the details of which are given in the Audit Committee Report on pages 107 to 108 of the Annual Report.

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 condition, results of the operations and the cash flows of the Group during the period under review.

We are responsible for establishing, implementing and maintaining Internal Controls and procedures of 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 and for safeguarding assets and preventing and detecting fraud and/or error. 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. The Board Audit Committee regularly examined the major decisions taken by the Asset and Liability Committee and Credit Policy and Portfolio Review Committee of the Bank during the year. The Bank has engaged the services of five firms of Chartered Accountants approved by the Central Bank of Sri Lanka to strengthen the audit and inspection functions. The continuous inspection and audit functions, engagement of firms of Chartered Accountants and effective functioning of Board Audit Committee ensure that the Internal Controls and procedures are followed consistently.

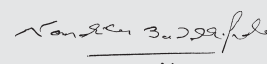
The Financial Statements of the Group were audited by Messrs Ernst & Young, Chartered Accountants, and their report is given on page 109 of the Annual Report.

We confirm that the Bank and all its subsidiaries have complied with all applicable laws and regulations and guidelines and there are no material litigations against the Group other than those disclosed in the Notes to the Financial Statements of the Annual Report.



**A.L. Gooneratne**

*Managing Director*



**K.D.N. Buddhipala**

*Chief Financial Officer*

Colombo  
February 18, 2008

The Human Resources and Remuneration Committee comprises five members, including an Executive Director and four Non-Executive Directors. The Human Resources and Remuneration Committee is headed by the Non-Executive Chairman Mr. M.J.C. Amarasuriya and Committee members include Managing Director, Mr. A.L. Goonaratne, Dr. H.S. Wanasinghe, Mr. Lalin J.A. Fernando and Mr. D.S. Weerakkody. The Managing Director who is responsible for the overall management of the Bank provides information to the Committee and participates in its deliberations. The Managing Director does not attend in relation to matters that can affect him. The Committee Members are nominated by the Board of Directors of the Bank.

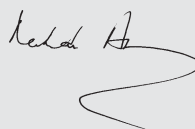
The Committee reviews Bank's human resource and remuneration policies and oversees the implementation of these policies.

The compensation and benefits structure of the Bank harmonises and strengthens the performance-driven culture of the Bank. The Committee periodically determines the basis for revising remuneration, benefits and other payments of performance-based incentives. The Committee determines the compensation and benefits of the members of the Managing Director and the key management personnel and establishes performance parameters in setting their individual targets. The Committee obtained the services of local and international companies to conduct salary surveys in order to benchmark the compensation package with the external market to ascertain the base pay and other benefits to make it attractive to the staff for the year 2007.

The Committee evaluates the performance of the Managing Director and key management personnel against the set targets and goals. The Bank's variable pay plan is determined according to the overall achievements of the Bank and predetermined individual targets which are based on various performance parameters. The level of bonuses payable on achievement of the targets is set at the level perceived as correct to provide necessary incentives for Executives and Senior Managers. The Committee makes appropriate adjustments to the bonus payable in the event of over or under achievement of the Bank against those targets.

The committee sets the criteria such as qualifications, experience and key attributes required and the eligibility to be considered for appointment or promotion to the post of Managing Director and the key management personnel.

In addition to the above, the Committee considers and recommends to the Board of Directors from time to time, the requirements of additional/new expertise. Further, the Committee assesses and recommends to the Board the promotions of the key management personnel and addresses their succession arrangements.



**M.J.C. Amarasuriya**  
*Chairman*

Colombo  
February 18, 2008

### The Composition of the Committee

In accordance with the currently accepted Best Practice and Corporate Governance Guidelines, the Board appointed Audit Committee comprises of three non-executive Directors, a majority of whom are independent. The Chairman of the Committee is a Senior Chartered Accountant. Additionally, Mr. A.T.P. Edirisinghe, a senior practicing Chartered Accountant with a wealth of experience in Audit, Accounting Standards and Financial Reporting serves on the Committee in the capacity of a Consultant. The Committee is responsible to and reports to the Board of Directors and is assisted by the Managing Director who attends committee meetings by invitation. The Bank's Deputy General Manager - Inspection, functions as the Secretary of the Committee.

### Role of the Committee

The Charter of the Audit Committee which clearly defines the role and responsibilities of the Audit Committee is periodically reviewed and revised with the concurrence of the Board of Directors. This process ensures that new developments and concerns are adequately addressed.

The main objective of the Audit Committee is to assist the Board of Directors to effectively carry out its responsibilities relating to financial and other connected affairs of the Bank. The Committee is empowered to -

- Examine any matter relating to the financial and other connected affairs of the Bank.
- Review all Internal and External Audit and Inspection Programmes.
- Review Internal and External Audit Reports and follow up on recommendations.
- Review the efficiency of Internal Control Systems and Procedures, in place.
- Review the quality of Accounting Policies and their adherence to Statutory and Regulatory Compliance.

- Ensure that a well managed sound financial reporting system is in place to provide timely reliable information to the Board of Directors, Regulatory Authorities, Management and all other stakeholders.
- Ensure Bank's policies are firmly committed to the highest standards of good corporate governance practices and operations conform to the highest ethical standards and in the best interests of all stakeholders.

### Meetings

The Committee held four meetings during the year under review. The attendance of Committee members at meetings is stated in the table on page 64. Managing Director/CEO attended the meetings by invitation. Members of the Senior Management of the Bank were invited to participate at meetings as and when required. The proceedings of the Audit Committee meetings are regularly reported to the Board of Directors.

### Activities

The Committee carried out the following activities:

#### Financial Reporting

The Committee reviewed the financial reporting system in place to ensure reliability of the information provided to the stakeholders and strict adherence and compliance to the accounting policies and requirements of Sri Lanka Accounting Standards. Having assessed the internal financial controls, the Committee is of the view that adequate controls and procedures are in place to provide reasonable assurance that the Bank's assets are safeguarded and that the financial position of the Bank is well monitored.

#### Regulatory Compliance

The Bank's procedures in place to ensure Compliance with Mandatory Banking and Statutory requirements were under close scrutiny. The Committee monitors the due compliance with all requirements through the quarterly statements submitted by the Corporate Management.



## Managing Risks

The Committee reviewed the effectiveness of the procedures established for identifying, assessing and managing risks. The members of the Corporate Management were invited to make presentations on Risk Management measures adopted in their areas of responsibility. Risk rating guidelines with an appropriate Risk Grading Matrix has been formulated for identifying and assessing the operational risks. Bank's adherence to Risk Management measures approved by the Board is reviewed bi-annually.

## Internal Audit and Inspection

With the concurrence of the Board, the Bank continued to engage the services of five firms of Chartered Accountants, approved by the Central Bank of Sri Lanka, to supplement the Bank's Inspection Department, in carrying out branch inspections. The Committee regularly reviewed the internal audit and inspection functions. Over 230 Audit and Inspection reports on Branches and Head Office Departments were examined and findings and recommendations were followed up. Members of the Committee undertook visits to some of the branches with a view to be better appraised of branch operations, efficiencies and customer service levels.

## External Audit

The Committee met with the auditors prior to commencement and at the conclusion of the Annual Audit to discuss the audit scope, approach and methodology to be adopted and the findings of the audit. Non-Executive Directors had separate meetings with auditors to ensure they had no cause to compromise on their independence. Auditors' Management Letter together with the Management's response thereto and the audited financial statements were reviewed with the auditors.

## Internal Controls

The Committee regularly examined major decisions taken by the "Assets and Liabilities Committee", "Credit Policy and Portfolio Review Committee", all exceptional items charged to the Income Statement, long outstanding items in Bank's Chart of Accounts, Credit Quality and adherence to bad debts classification and provisioning policies. Credit monitoring procedures were reviewed and strengthened. The efficacy of the internal control procedures in place for selected processes were carefully evaluated.

## Good Governance

Highest standards in Corporate Good Governance and strict adherence to the requirements of Bank's Code of Ethics are ensured through close monitoring. Through the Code of Ethics all levels of staff have been educated and encouraged to resort to whistle blowing, when they suspect wrong doings by other employees.

## Evaluation of the Committee

The other members of the Board of Directors, through the annual evaluation conducted, has assessed the effectiveness of the Committee as satisfactory.

The Audit Committee has recommended to the Board of Directors that Messrs. Ernst & Young be reappointed as Auditors for the financial year ending December 31, 2008 subject to the approval of shareholders at the next Annual General Meeting.



**B.R.L. Fernando**

*Chairman - Audit Committee*

February 18, 2008



■ **Chartered Accountants**  
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P.O. Box 101  
Colombo 10  
Sri Lanka

■ Telephone : (0) 11 2463500  
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Tax : (0) 11 5578180  
E-Mail : [cysl@lk.cy.com](mailto:cysl@lk.cy.com)

## **INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF COMMERCIAL BANK OF CEYLON PLC**

### **Report on the Financial Statements**

We have audited the accompanying Financial Statements of Commercial Bank of Ceylon PLC ("Bank"), the consolidated Financial Statements of the Bank and its subsidiaries, which comprise the Balance Sheets as at December 31, 2007 and the Income Statements, Statements of Changes in Equity and Cash Flow Statements for the year then ended, and a summary of Significant Accounting Policies and other explanatory notes.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these Financial Statements in accordance with Sri Lanka Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Financial Statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate Accounting Policies; and making accounting estimates that are reasonable in the circumstances.

### **Scope of Audit and Basis of Opinion**

Our responsibility is to express an opinion on these Financial Statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the Financial Statements are free from material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Financial Statements. An audit also includes assessing the Accounting Principles used and significant estimates made by management, as well as evaluating the overall Financial Statement presentation.

We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

### **Opinion**

In our opinion, so far as appears from our examination, the Bank maintained proper accounting records for the year ended December 31, 2007 and the Financial Statements give a true and fair view of the Bank's state of affairs as at December 31, 2007 and its profit and Cash Flows for the year then ended in accordance with Sri Lanka Accounting Standards.

In our opinion, the consolidated Financial Statements give a true and fair view of the state of affairs as at December 31, 2007 and the profit and Cash Flows for the year then ended, in accordance with Sri Lanka Accounting Standards, of the Bank and its subsidiaries dealt with thereby, so far as concerns the members of the Bank.

### **Report on Other Legal and Regulatory Requirements**

In our opinion, these Financial Statements also comply with the requirements of Section 151(2) and Sections 153 (2) to 153 (7) of the Companies Act No. 7 of 2007.

18 February 2008  
Colombo.

■ **Partners** : A D B Talwatte FCA FCMA T K Bandaranayake FCA M P D Cooray FCA FCMA  
Ms. Y A De Silva ACA W R H Fernando FCA FCMA W K B S P Fernando FCA ACMA  
A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond)  
A S M Ismail FCA FCMA H M A Jayasinghe FCA FCMA Ms. G G S Manatunga ACA  
Ms. L C G Nanayakkara FCA FCMA

# INCOME STATEMENT

For the year ended December 31,	Note	Group			Bank		
		2007 Rs.'000	2006 Rs.'000	Change %	2007 Rs.'000	2006 Rs.'000	Change %
<b>Income</b>		<b>35,206,860</b>	24,451,866	43.98	<b>35,222,918</b>	24,469,470	43.95
Interest income	1	<b>30,520,562</b>	19,537,228	56.22	<b>30,503,072</b>	19,531,748	56.17
Less: Interest expenses	2	<b>18,933,715</b>	11,944,666	58.51	<b>18,951,118</b>	11,954,610	58.53
Net interest income		<b>11,586,847</b>	7,592,562	52.61	<b>11,551,954</b>	7,577,138	52.46
Foreign exchange profit		<b>1,544,832</b>	1,439,008	7.35	<b>1,544,832</b>	1,439,008	7.35
Fees and commission income	3	<b>2,381,902</b>	2,011,191	18.43	<b>2,382,538</b>	2,011,285	18.46
Other income	4	<b>759,564</b>	1,464,439	(48.13)	<b>792,476</b>	1,487,429	(46.72)
		<b>16,273,145</b>	12,507,200	30.11	<b>16,271,800</b>	12,514,860	30.02
Less: Operating expenses	5						
Personnel expenses		<b>3,283,541</b>	2,566,189	27.95	<b>3,269,390</b>	2,559,721	27.72
Premises, equipment and establishment expenses		<b>1,599,623</b>	1,384,099	15.57	<b>1,623,797</b>	1,402,434	15.78
Provision for staff retirement benefits	6	<b>269,128</b>	1,813,835	(85.16)	<b>269,128</b>	1,813,835	(85.16)
Loan losses and provisions	7	<b>1,777,476</b>	655,070	171.34	<b>1,777,476</b>	655,070	171.34
Other overhead expenses		<b>2,577,539</b>	1,829,308	40.90	<b>2,627,280</b>	1,870,255	40.48
		<b>9,507,307</b>	8,248,501	15.26	<b>9,567,071</b>	8,301,315	15.25
Profit from operations		<b>6,765,838</b>	4,258,699	58.87	<b>6,704,729</b>	4,213,545	59.12
Add: Share of profit of Associate Companies	8	<b>25,011</b>	62,454	(59.95)	—	—	—
<b>Profit before taxation</b>		<b>6,790,849</b>	4,321,153	57.15	<b>6,704,729</b>	4,213,545	59.12
Less: Income tax expense	9	<b>2,638,396</b>	2,248,751	17.33	<b>2,601,164</b>	2,200,917	18.19
<b>Profit after taxation</b>		<b>4,152,453</b>	2,072,402	100.37	<b>4,103,565</b>	2,012,628	103.89
Attributable to:							
Equity holders of the parent		<b>4,149,021</b>	2,070,707	100.37	<b>4,103,565</b>	2,012,628	103.89
Minority interest		<b>3,432</b>	1,695	102.48	—	—	—
		<b>4,152,453</b>	2,072,402	100.37	<b>4,103,565</b>	2,012,628	103.89
Basic Earnings Per Share	10	<b>Rs.17.04</b>	Rs.8.88	91.89	<b>Rs.16.84</b>	Rs.8.61	95.59
Diluted Earnings Per Share	10	<b>Rs.16.91</b>	Rs.8.81	91.94	<b>Rs.16.72</b>	Rs.8.54	95.78
Dividend per Ordinary Share		<b>Rs.7.00</b>	Rs.5.00	40.00	<b>Rs.7.00</b>	Rs.5.00	40.00

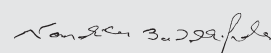
The Significant Accounting Policies and the Notes from pages 116 to 171 form an integral part of these Financial Statements.

		Group			Bank		
As at December 31,		2007	2006	Change	2007	2006	Change
	Note	Rs.'000	Rs.'000	%	Rs.'000	Rs.'000	%
<b>ASSETS</b>							
Cash and short-term funds	13	16,208,247	13,731,439	18.04	16,208,208	13,738,709	17.97
Balances with Central Banks	14	11,575,579	12,573,651	(7.94)	11,575,579	12,573,651	(7.94)
Government Treasury Bills and Bonds	15	41,266,310	12,221,771	237.65	41,068,234	12,040,309	241.09
Commercial paper		—	422,783	—	—	422,783	—
Securities purchased under re-sale agreements		3,804,120	4,593,089	(17.18)	3,804,120	4,593,089	(17.18)
Dealing securities	16	207,267	144,896	43.05	207,267	144,896	43.05
Investments held for sale	17	379,631	401,259	(5.39)	205,477	218,392	(5.91)
Investments	18	1,756,089	1,393,879	25.99	1,756,089	1,393,779	25.99
Treasury Bonds maturing after one year		8,794,841	20,024,893	(56.08)	8,794,841	20,024,893	(56.08)
Bills of Exchange	19.1	3,195,051	3,203,794	(0.27)	3,195,051	3,203,794	(0.27)
Loans and advances	19.2	160,177,214	137,840,803	16.20	160,184,019	137,846,492	16.20
Lease receivable within one year	19.3(a)	3,561,584	2,970,381	19.90	3,602,230	2,999,201	20.11
Lease receivable from one to five years	19.3(b)	7,227,459	6,397,494	12.97	7,331,505	6,465,175	13.40
Lease receivable over five years	19.3(c)	10,830	17,377	(37.68)	10,830	17,377	(37.68)
		258,164,222	215,937,509	19.56	257,943,450	215,682,540	19.59
Investments in Associates	20	62,720	40,965	53.11	44,331	44,331	—
Investments in Subsidiaries	21	—	—	—	433,681	433,681	—
Interest and fees receivable		2,119,836	1,638,893	29.35	2,119,836	1,638,893	29.35
Other assets	22	3,653,902	2,707,393	34.96	3,630,317	2,697,960	34.56
Property, Plant & Equipment	23	3,997,053	3,437,477	16.28	3,417,594	3,217,262	6.23
Leasehold Property	24	118,965	120,488	(1.26)	81,943	82,956	(1.22)
Intangible assets	25	268,532	177,914	50.93	268,487	176,630	52.01
<b>Total Assets</b>		<b>268,385,230</b>	<b>224,060,639</b>	<b>19.78</b>	<b>267,939,639</b>	<b>223,974,253</b>	<b>19.63</b>
<b>LIABILITIES AND EQUITY</b>							
Deposits from customers	26	183,087,880	157,393,915	16.32	183,110,135	157,496,157	16.26
Dividends payable		112,500	112,500	—	112,500	112,500	—
Borrowings	27	18,752,411	18,944,116	(1.01)	18,752,411	18,944,116	(1.01)
Securities sold under re-purchase agreements		23,238,005	14,317,063	62.31	23,342,102	14,330,006	62.89
Other liabilities	28	9,741,091	8,539,956	14.06	9,755,560	8,541,940	14.21
Tax liabilities		1,679,306	1,420,226	18.24	1,698,132	1,445,718	17.46
Deferred tax liabilities	29	711,917	624,940	13.92	552,322	580,535	(4.86)
Debentures	30	6,680,440	6,680,440	—	6,680,440	6,680,440	—
<b>Total Liabilities</b>		<b>244,003,550</b>	<b>208,033,156</b>	<b>17.29</b>	<b>244,003,602</b>	<b>208,131,412</b>	<b>17.24</b>
<b>EQUITY ATTRIBUTABLE TO EQUITY HOLDERS' OF THE PARENT</b>							
Stated Capital/ Share capital	31	10,514,807	2,428,186	333.03	10,514,807	2,428,186	333.03
Statutory Reserve Fund	32	1,634,497	1,429,319	14.35	1,633,678	1,428,500	14.36
Other Reserves	33	12,208,587	12,158,955	0.41	11,787,552	11,986,155	(1.66)
<b>Total</b>		<b>24,357,891</b>	<b>16,016,460</b>	<b>52.08</b>	<b>23,936,037</b>	<b>15,842,841</b>	<b>51.08</b>
<b>Minority Interest</b>		<b>23,789</b>	<b>11,023</b>	<b>115.81</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Total Equity</b>		<b>24,381,680</b>	<b>16,027,483</b>	<b>52.12</b>	<b>23,936,037</b>	<b>15,842,841</b>	<b>51.08</b>
<b>Total Liabilities and Equity</b>		<b>268,385,230</b>	<b>224,060,639</b>	<b>19.78</b>	<b>267,939,639</b>	<b>223,974,253</b>	<b>19.63</b>
Commitments and Contingencies	36	59,954,492	56,418,167	6.27	59,954,492	56,418,167	6.27
Net assets value per ordinary share		<b>Rs.98.58</b>	<b>Rs.71.20</b>	<b>38.46</b>	<b>Rs.96.80</b>	<b>Rs.70.38</b>	<b>37.54</b>

The Significant Accounting Policies and the Notes from pages 116 to 171 form an integral part of these Financial Statements.

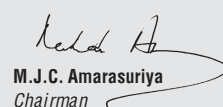
#### Certification

I certify that the above Financial Statements give a true and fair view of the state of affairs as at December 31, 2007 and its profit for the year ended December 31, 2007.

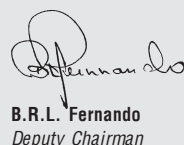


**K.D.N. Buddhipala**  
Chief Financial Officer

Approved and signed for and on behalf of the Board

  
**M.J.C. Amarasuriya**  
Chairman

February 18, 2008  
Colombo

  
**B.R.L. Fernando**  
Deputy Chairman

  
**A.L. Gooneratne**  
Managing Director

  
**Mrs. R.R. Dunuwille**  
Company Secretary

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# STATEMENT OF CHANGES IN EQUITY

For the year ended December 31,

		Attributable to equity					
	Note	Ordinary Voting Shares Rs. '000	Ordinary Non-Voting Shares Rs. '000	Share Premium Rs. '000	Cumulative. Red. Preference Shares Rs. '000	Stated Capital Rs. '000	Statutory Reserve Fund Rs. '000
<b>GROUP</b>							
Balance as at 31.12.2005		1,327,806	93,003	1,679,604	1,906,555	—	1,421,819
Final dividend for 2005		—	—	—	—	—	—
Issue of Ordinary Shares under Employee Share Option Plan		7,377	—	52,686	—	—	—
Share issue expenses written-off		—	—	(3,497)	—	—	—
Effect of change in accounting policy		—	—	—	—	—	—
Prior year adjustment for Deferred Tax on Leased Assets		—	—	—	—	—	—
Changes in accounting policy on accounting for deferred taxation of Associate Companies		—	—	—	—	—	—
Prior year adjustment for Deferred Tax on classification of retained earnings		—	—	—	—	—	—
Appreciation in the value of investment in Comtrust Equity Fund		—	—	—	—	—	—
Net unrealised losses from Bangladesh translation		—	—	—	—	—	—
Net profit for the year		—	—	—	—	—	—
Redemption of Preference shares		—	—	—	(906,555)	—	—
Transfer to Capital Redemption Reserve Fund		—	—	—	—	—	—
Transfers during the year		—	—	—	—	—	7,500
Dividends for 2006	11	—	—	—	—	—	—
Balance as at 31.12.2006		1,335,183	93,003	1,728,793	1,000,000	—	1,429,319
Final dividend for 2006		—	—	—	—	—	—
Issue of Ordinary Shares under Employee Share Option Plan		9,196	—	67,368	—	—	—
Rights issue of Ordinary shares		402,890	27,901	5,310,449	—	—	—
Bonus issue of Ordinary shares		582,043	40,302	—	—	—	—
Balance of CRRF transferred to General Reserve		—	—	—	—	—	—
Share issue expenses written off		—	—	(82,321)	—	—	—
Transferred to Stated Capital		(2,329,312)	(161,206)	(7,024,289)	(1,000,000)	10,514,807	—
Realised revaluation surplus on disposal of property		—	—	—	—	—	—
Surplus on revaluation of property		—	—	—	—	—	—
Deferred tax effect on revaluation surplus on property		—	—	—	—	—	—
Net unrealised losses from Bangladesh translation		—	—	—	—	—	—
Net profit for the year		—	—	—	—	—	—
Transfers during the year		—	—	—	—	—	205,178
Dividends for 2007	11	—	—	—	—	—	—
Balance as at 31.12.2007		—	—	—	—	10,514,807	1,634,497
<b>BANK</b>							
Balance as at 31.12.2005		1,327,806	93,003	1,679,604	1,906,555	—	1,421,000
Final dividend for 2005		—	—	—	—	—	—
Issue of Ordinary Shares under Employee Share Option Plan		7,377	—	52,686	—	—	—
Debtenture issue expenses written off		—	—	(3,497)	—	—	—
Effect of change in accounting policy		—	—	—	—	—	—
Prior year adjustment for Deferred Tax on Leased Assets		—	—	—	—	—	—
Appreciation in the value of investment in Comtrust Equity Fund		—	—	—	—	—	—
Net unrealised losses from Bangladesh translation		—	—	—	—	—	—
Net profit for the year		—	—	—	—	—	—
Redemption of Preference shares		—	—	—	(906,555)	—	—
Transfer to Capital Redemption Reserve Fund		—	—	—	—	—	—
Transfers during the year		—	—	—	—	—	7,500
Dividends for 2006	11	—	—	—	—	—	—
Balance as at 31.12.2006		1,335,183	93,003	1,728,793	1,000,000	—	1,428,500
Final dividend for 2006		—	—	—	—	—	—
Issue of Ordinary Shares under Employee Share Option Plan		9,196	—	67,368	—	—	—
Rights issue of Ordinary shares		402,890	27,901	5,310,449	—	—	—
Bonus issue of Ordinary shares		582,043	40,302	—	—	—	—
Balance of CRRF transferred to General Reserve		—	—	—	—	—	—
Share issue expenses written off		—	—	(82,321)	—	—	—
Transferred to Stated Capital		(2,329,312)	(161,206)	(7,024,289)	(1,000,000)	10,514,807	—
Realised revaluation surplus on disposal of property		—	—	—	—	—	—
Net unrealised losses from Bangladesh translation		—	—	—	—	—	—
Net profit for the year		—	—	—	—	—	—
Transfers during the year		—	—	—	—	—	205,178
Dividends for 2007	11	—	—	—	—	—	—
Balance as at 31.12.2007		—	—	—	—	10,514,807	1,633,678

Composition of the unappropriated profit/(loss) carried forward is given in Note 12 to the Financial Statements.

holders of the parent

Other Reserves						Total Rs.'000	Minority Interest Rs.'000	Total Equity Rs.'000
Primary Dealer Special Risk Reserve Rs.'000	Capital Redemption Reserve Rs.'000	Revaluation Reserve Rs.'000	General Reserve Rs.'000	Foreign currency Translation Reserve Rs.'000	Unappropriated Profit/(Loss) carried forward Rs.'000			
-	-	1,288,177	7,625,000	-	611,609	15,953,573	13,285	15,966,858
-	-	-	-	-	(426,243)	(426,243)	-	(426,243)
-	-	-	-	-	-	60,063	-	60,063
-	-	-	-	-	-	(3,497)	-	(3,497)
-	-	-	404,375	(404,375)	-	-	-	-
-	-	-	(357,113)	-	-	(357,113)	-	(357,113)
-	-	-	-	-	(41,838)	(41,838)	-	(41,838)
-	-	-	-	-	(27,812)	(27,812)	(1,603)	(29,415)
-	-	-	118,396	-	-	118,396	-	118,396
-	-	-	-	(11,674)	-	(11,674)	-	(11,674)
-	-	-	-	-	2,070,707	2,070,707	1,695	2,072,402
-	-	-	-	-	-	(906,555)	-	(906,555)
-	906,555	-	-	-	(906,555)	-	-	-
6,244	-	-	181,256	-	(195,000)	-	-	-
-	-	-	-	-	(411,547)	(411,547)	(2,354)	(413,901)
6,244	906,555	1,288,177	7,971,914	(416,049)	673,321	16,016,460	11,023	16,027,483
-	-	-	-	-	(501,426)	(501,426)	-	(501,426)
-	-	-	-	-	-	76,564	-	76,564
-	(622,345)	-	-	-	-	5,741,240	-	5,741,240
-	(284,210)	-	284,210	-	-	-	-	-
-	-	-	-	-	-	(82,321)	-	(82,321)
-	-	-	-	-	-	-	-	-
-	-	(1,482)	-	-	1,482	-	-	-
-	-	311,968	-	-	-	311,968	17,982	329,950
-	-	(109,189)	-	-	-	(109,189)	(6,294)	(115,483)
-	-	-	-	(11,436)	-	(11,436)	-	(11,436)
-	-	-	-	-	4,149,021	4,149,021	3,432	4,152,453
17,414	-	-	2,022,243	-	(2,244,835)	-	-	-
-	-	-	-	-	(1,232,990)	(1,232,990)	(2,354)	(1,235,344)
23,658	-	1,489,474	10,278,367	(427,485)	844,573	24,357,891	23,789	24,381,680
-	-	1,288,177	7,625,000	-	427,238	15,768,383	-	15,768,383
-	-	-	-	-	(426,243)	(426,243)	-	(426,243)
-	-	-	-	-	-	60,063	-	60,063
-	-	-	-	-	-	(3,497)	-	(3,497)
-	-	-	404,375	(404,375)	-	-	-	-
-	-	-	(357,113)	-	-	(357,113)	-	(357,113)
-	-	-	118,396	-	-	118,396	-	118,396
-	-	-	-	(11,674)	-	(11,674)	-	(11,674)
-	-	-	-	-	2,012,628	2,012,628	-	2,012,628
-	-	-	-	-	-	(906,555)	-	(906,555)
-	906,555	-	-	-	(906,555)	-	-	-
6,244	-	-	181,256	-	(195,000)	-	-	-
-	-	-	-	-	(411,547)	(411,547)	-	(411,547)
6,244	906,555	1,288,177	7,971,914	(416,049)	500,521	15,842,841	-	15,842,841
-	-	-	-	-	(501,426)	(501,426)	-	(501,426)
-	-	-	-	-	-	76,564	-	76,564
-	-	-	-	-	-	5,741,240	-	5,741,240
-	(622,345)	-	-	-	-	-	-	-
-	(284,210)	-	284,210	-	-	-	-	-
-	-	-	-	-	-	(82,321)	-	(82,321)
-	-	-	-	-	-	-	-	-
-	-	(1,482)	-	-	1,482	-	-	-
-	-	-	-	(11,436)	-	(11,436)	-	(11,436)
-	-	-	-	-	4,103,565	4,103,565	-	4,103,565
17,414	-	-	2,022,243	-	(2,244,835)	-	-	-
-	-	-	-	-	(1,232,990)	(1,232,990)	-	(1,232,990)
23,658	-	1,286,695	10,278,367	(427,485)	626,317	23,936,037	-	23,936,037

# CASH FLOW STATEMENT

	Group		Bank	
	2007	2006	2007	2006
<i>For the year ended December 31,</i>	Rs.'000	Rs.'000	Rs.'000	Rs.'000
<b>Cash Flows from Operating Activities</b>				
Interest and commission receipts	32,353,653	21,090,452	32,340,181	21,072,011
Interest payments	(18,078,925)	(11,382,499)	(18,096,328)	(11,392,443)
Recoveries on loans previously provided/written-off	352,256	252,493	352,256	252,493
Foreign exchange profit and other receipts	1,647,999	1,567,779	1,631,224	1,557,176
Cash payments to employees and suppliers	(7,284,868)	(7,183,818)	(7,378,199)	(7,270,466)
Operating profit before changes in operating assets	8,990,115	4,344,407	8,849,134	4,218,771
(Increase)/Decrease in operating assets:				
Balances with Central Banks	998,072	(3,528,471)	998,072	(3,528,471)
Funds advanced to customers	(25,519,765)	(32,405,550)	(25,569,072)	(32,424,082)
Other Operating assets	(946,510)	91,898	(932,357)	210,875
Increase/(Decrease) in operating liabilities:				
Deposits from customers	25,693,965	30,041,115	25,613,978	30,032,790
Other Operating liabilities	1,201,135	2,293,119	1,213,620	2,288,125
Net cash from operating activities before income tax	10,417,012	836,518	10,173,375	798,008
Income tax paid	(2,339,368)	(1,568,985)	(2,312,477)	(1,547,922)
<b>Net cash inflow/(outflow) from operating activities</b>	<b>8,077,644</b>	<b>(732,467)</b>	<b>7,860,898</b>	<b>(749,914)</b>
<b>Cash Flows from Investing Activities</b>				
Dividends received	63,877	58,778	106,777	96,663
Interest received	203,664	208,835	203,664	208,835
Government Treasury Bills and Bonds	(17,781,411)	(10,767,961)	(17,764,797)	(10,841,912)
Securities purchased under re-sale agreements	788,969	(3,784,954)	788,969	(3,784,954)
Securities sold under re-purchase agreements	8,920,942	2,930,916	9,012,096	2,940,832
Commercial paper	422,783	(15,216)	422,783	(15,216)
(Disposals)/Additions of Dealing Securities	(111,309)	37,347	(111,309)	37,347
Additions to investments	(1,244,702)	(856,298)	(1,244,802)	(856,298)
Income from Associates	2,772	1,830	–	–
Proceeds from sale of investments	947,073	3,319,314	947,073	3,319,314
Purchase of Property, Plant & Equipment	(633,062)	(527,455)	(563,407)	(478,171)
Purchase of Intangible Assets	(144,553)	(112,758)	(143,486)	(111,758)
Proceeds from sale of Property, Plant & Equipment	23,440	12,526	11,904	6,476
<b>Net cash inflow/(outflow) from investing activities</b>	<b>(8,541,517)</b>	<b>(9,495,096)</b>	<b>(8,334,535)</b>	<b>(9,478,842)</b>
<b>Cash Flows from Financing Activities</b>				
Dividends paid to Minority Shareholders	(2,354)	(2,354)	–	–
Proceeds from issue of shares	5,817,804	60,063	5,817,804	60,063
Proceeds from issue of Debentures	–	2,127,030	–	2,127,030
Redemption of preference shares	–	(906,555)	–	(906,555)
Share/Debenture issue expenses incurred	(82,321)	(3,497)	(82,321)	(3,497)
Net increase/(Decrease) in other borrowings	(1,052,032)	4,983,198	(1,057,931)	4,983,213
Dividends paid	(1,734,416)	(955,642)	(1,734,416)	(955,642)
<b>Net cash inflow/(outflow) from financing activities</b>	<b>2,940,681</b>	<b>5,302,243</b>	<b>2,943,136</b>	<b>5,304,612</b>

# CASH FLOW STATEMENT

	Group		Bank	
	2007 Rs.'000	2006 Rs.'000	2007 Rs.'000	2006 Rs.'000
<i>For the year ended December 31,</i>				
<b>Net increase in cash and cash equivalents</b>	<b>2,476,808</b>	<b>(4,925,320)</b>	<b>2,469,499</b>	<b>(4,924,144)</b>
<b>Cash and cash equivalents at beginning of the period</b>	<b>13,731,439</b>	<b>18,656,759</b>	<b>13,738,709</b>	<b>18,662,853</b>
<b>Cash and cash equivalents at end of the period (Refer to Note 13)</b>	<b>16,208,247</b>	<b>13,731,439</b>	<b>16,208,208</b>	<b>13,738,709</b>
<b>Reconciliation of Operating Profit</b>				
Profit before taxation	<b>6,790,849</b>	4,321,153	<b>6,704,729</b>	4,213,545
Add/(Less):				
Accrued Interest on loans and advances	<b>(480,943)</b>	(440,262)	<b>(480,943)</b>	(455,267)
Accrued Interest on deposits and borrowings	<b>854,790</b>	562,167	<b>854,790</b>	562,167
Investment income	<b>(270,313)</b>	(269,443)	<b>(310,441)</b>	(305,498)
Share of (profit) of Associate Companies	<b>(25,011)</b>	(62,454)	–	–
Notional tax credit on interest on Treasury Bills and Bonds	<b>(67,868)</b>	(17,705)	<b>(64,486)</b>	(15,755)
Capital (gains) on sale of shares	<b>(42,953)</b>	(776,670)	<b>(51,666)</b>	(776,670)
(Profit)/Loss on sale of Property, Plant & Equipment	<b>(9,509)</b>	(8,163)	<b>(7,583)</b>	(3,871)
Depreciation of Property, Plant & Equipment	<b>391,447</b>	322,272	<b>358,754</b>	289,189
Amortisation of Intangible Assets	<b>51,993</b>	85,889	<b>51,629</b>	85,648
Amortisation of Leasehold Property	<b>1,523</b>	1,452	<b>1,013</b>	942
Loan losses & provisions	<b>1,777,476</b>	655,070	<b>1,777,476</b>	655,070
(Gain)/Loss on Mark to Market Valuation on Treasury Bills & Bonds	<b>(7,722)</b>	2,742	<b>(7,722)</b>	2,742
(Gain)/loss on Mark to Market Valuation on shares	<b>48,938</b>	(25,999)	<b>48,938</b>	(25,999)
Capital (gains)/losses on Treasury Bills & Bonds	<b>(25,354)</b>	(7,472)	<b>(25,354)</b>	(7,472)
Dividends received from Associates	<b>2,772</b>	1,830	–	–
<b>Operating profit before changes in operating assets</b>	<b>8,990,115</b>	<b>4,344,407</b>	<b>8,849,134</b>	<b>4,218,771</b>



## 1. Corporate Information

Commercial Bank is a public quoted company incorporated on June 25, 1969 and domiciled in Sri Lanka. Its registered office is at 'Commercial House', No. 21, Bristol Street, Colombo 1. The shares of the Bank have a primary listing on the Colombo Stock Exchange.

The Consolidated Financial Statements of the Bank for the year ended December 31, 2007 comprise the Bank (parent company) and its subsidiaries (together referred to as the 'Group') and the Group's interest in its Associates.

Commercial Bank does not have an identifiable parent of its own.

The Financial Statements for the year ended December 31, 2007 were authorised for issue on February 18, 2008, in accordance with a resolution of the Board of Directors passed on February 18, 2008.

## 2. Principal Activities and Nature of Operations

### Bank

The principal activities of the Bank are banking and related activities such as accepting deposits, personal banking, trade financing, off-shore banking, resident and non-resident foreign currency operations, travel related services, corporate and retail credit, project financing, lease financing, rural credit, issuing of local and international credit cards, issuing of debit cards, telebanking facilities, bancassurance, internet banking, money remittance facilities, dealing in Government securities, bullion trading, export and domestic factoring etc.

### Subsidiaries

The principal activities of the Bank's subsidiaries, namely, Commercial Development Co. PLC and ONEzero Company Ltd. are property development and providing IT related services and training, respectively. Commercial Bank Primary Dealer Ltd., whose principal business activity was dealing in Government Securities as a Primary Dealer, ceased its operations as at September 30, 2005, consequent to the Bank obtaining the license to operate as a Primary Dealer. The proceedings for voluntary winding up of this Company are in progress. Further, X-pertise Ltd., whose principal business activity was development of human resource, too ceased its operations as at September 30, 2007, consequent to the decision to transfer its operations to the Bank. The proceedings for voluntary winding up of this Company too are in progress.

### Associates

The principal activities of the Bank's associates, namely, Commercial Leasing Company Ltd., Equity Investments Lanka Ltd., and Commercial Insurance Brokers (Pvt) Ltd., are leasing and factoring, fund management and insurance brokering, respectively. The investment held by the Bank in Commercial Leasing Company Ltd., was classified as an Investment held for Sale in accordance with the requirements of the Sri Lanka Accounting Standard No. 38 (Revised 2006) on Non-Current Assets held for Sale and Discontinued Operations, due to the Bank's decision to dispose its interest in this Company. The Bank disposed its investment in Commercial Fund Management (Pvt) Ltd., on January 23, 2007, whose principal activity was providing venture capital.

### 3. Accounting Policies

#### 3.1 Basis of Preparation

The Financial Statements of the Group are prepared under the historical cost convention, except that Government treasury bills and bonds, Dealing Securities and land & buildings are stated at valuation as explained in Notes 15, 16 and 23 to the Financial Statements. Assets and liabilities are grouped by nature and listed in an order that reflects their relative liquidity. These Financial Statements are prepared in Sri Lankan Rupees unless otherwise stated. Where appropriate the Significant Accounting Policies are disclosed in the succeeding notes.

The preparation and presentation of these Financial Statements is in compliance with the requirements of the Companies Act No. 7 of 2007 and the Banking Act No. 30 of 1988 and amendments thereto.

#### 3.2 Statement of Compliance

The Consolidated Financial Statements of the Bank are prepared in accordance with the Sri Lanka Accounting Standards.

#### 3.3. Significant Accounting Judgments, Estimates and Assumptions

In the process of applying the Bank's Accounting Policies, management is required to make judgments, apart from those involving estimations, which may have a significant effect on the amounts recognised in the Financial Statements. Further, the management is required to consider, key assumptions concerning the future and other key sources of estimation uncertainty at the Balance Sheet date, that have a significant risk of causing a material adjustments to the carrying amounts of assets and liabilities. The respective carrying amounts of assets and liabilities are given in the related Notes to the Financial Statements. The key items which involve these judgments, estimates and assumptions are discussed below:

##### Impairment Losses on Loans and Advances:

In addition to the provisions made for possible loan losses based on the parameters and Directives for specific and general provisions on Loans and Advances by the Central Bank of Sri Lanka, the Bank reviews its Loans and Advances portfolio at each reporting date to assess whether a further allowance for impairment should be provided in the Income Statement. The judgments by the management is required in the estimation of these amounts and such estimations are based on assumptions about a number of factors though actual results may differ, resulting in future changes to the provisions.

##### Review of Impairment Losses on Assets

The Bank determines whether assets have been impaired by performing an impairment review. This requires the estimation of the 'value in use' of the cash generating units. Estimating value in use requires management to make an estimate of the expected future cash flows from the cash generating unit and also to select a suitable discount rate in order to calculate the present value of the relevant cash flows. This valuation requires the Bank to make estimates about expected future cash flows and discount rates, and hence, they are subject to uncertainty.

#### 3.4 Basis of Consolidation

The Bank's Financial Statements comprise the amalgamation of the Financial Statements of the Domestic Banking Unit, the Off-shore Banking Centre and the foreign operations of the Bank. The Group's Financial Statements comprise consolidation of the Financial Statements of the Bank, its subsidiaries in terms of the Sri Lanka Accounting Standard No. 26 (Revised 2005) on Consolidated and Separate Financial Statements and the proportionate share of the profit/loss of its Associates in terms of the Sri Lanka Accounting Standard No. 27 (Revised 2005) on Investments in Associates.

**3.4.1 Subsidiaries**

Subsidiaries are those entities controlled by the Bank. Subsidiaries are fully consolidated from the date on which control is transferred to the Bank. Control is achieved where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the year are included in the Consolidated Income Statement from the date of acquisition or up to the date of disposal, as appropriate. The Consolidated Financial Statements are prepared to a common financial year ending December 31. All Subsidiaries in the Group have a common financial year ending December 31.

A listing of the Bank's Subsidiaries is set out in Note 21 to the Financial Statements.

Minority interests represent the portion of profit or loss and net assets not owned, directly or indirectly, by the Bank and are presented separately in the Consolidated Income Statement and within equity in the Consolidated Balance Sheet, separately from parent shareholders' equity.

**3.4.2 Associates**

The Bank's investments in its Associates are accounted for in the Consolidated Financial Statements using the Equity Method of Accounting. An Associate is an entity in which the Bank has significant influence and which is neither a subsidiary nor a joint venture.

Under the Equity Method, the investments in the Associates are carried in the Balance Sheet at cost plus post-acquisition changes in the Bank's share of net assets of the Associates. Losses in excess of the cost of the investment in an Associate are recognised when the Bank has incurred obligations on its behalf. Goodwill relating to an Associate is included in the carrying amount of the investment and is not amortised. The Income Statement reflects the Bank's share of the results of operations of the Associate.

Where there has been a change recognised directly in the equity of the Associate, the Bank recognises its share of any changes and discloses this, when applicable, in the Statement of Changes in Equity. Profits and losses resulting from transactions between the Bank and the Associates are eliminated to the extent of the interest in the Associate.

The reporting dates of the Associates and the Bank are identical and the Associate's accounting policies largely conform to those used by the Bank for like transactions and events in similar circumstances.

A listing of the Associates is set out in Note 20 to the Financial Statements.

**3.4.3 Business Combinations and Goodwill**

Business combinations are accounted for using the Purchase Method of Accounting as per the requirements of Sri Lanka Accounting Standard No. 25 (Revised 2004) on Business Combinations. This involves recognising identifiable assets (including previously unrecognised intangibles) and liabilities (including contingent liabilities) of the acquired business at fair value. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the fair values of the identifiable net assets acquired, the discount on acquisition is recognised directly in the Income Statement in the year of acquisition.

Goodwill acquired in a Business Combination is initially measured at cost, being the excess of the cost of the Business Combination over the Bank's interests in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. Sri Lanka Accounting Standard No. 25 (Revised 2004) on Business Combinations requires that following initial recognition goodwill to be measured at cost less any accumulated impairment losses and goodwill to be reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

However, acquired goodwill is written off in full in the year of acquisition, since the Bank is not permitted to pay dividends otherwise, as per the Section 22 of the Banking Act No. 30 of 1988.

When Subsidiaries/Associates/other business units are sold, the difference between the selling price and the net assets plus cumulative translation differences and unimpaired goodwill is recognised in the Income Statement.

No goodwill/discount on acquisition arose from the treatment of Associates under the Equity Method since Commercial Bank had the respective percentages of ownership in Associates from the commencement of those Associates.

#### **3.4.4 Transactions Eliminated on Consolidation**

All intra-group transactions and balances, income and expenses and any unrealised gains arising from such inter-company transactions and balances have been eliminated in full in preparing the Consolidated Financial Statements. Unrealised gains resulting from transactions with Associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are eliminated in the same way as unrealised gains unless there is evidence of impairment in value.

#### **3.4.5 Comparative Information**

The Accounting Policies have been consistently applied by the Group and are consistent with those used in the previous year. Comparative information is re-classified wherever necessary to comply with the current presentation which is more fully described in Note 35 to these Financial Statements.

### **4. Summary of Significant Accounting Policies**

The principal accounting policies adopted in the preparation of these Consolidated Financial Statements are set out below:

#### **4.1 Foreign Currency Translation**

The Consolidated Financial Statements are presented in Sri Lankan Rupees, which is the Bank's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the Financial Statements of each entity are measured using that functional currency.

##### **4.1.1 Transactions and Balances**

Transactions in foreign currencies are initially recorded using the closing exchange rate of the functional currency ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are re-translated at the middle exchange rate of the functional currency ruling at the Balance Sheet date. All differences are taken to Income Statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at the closing rate.

- 4.1.2** Forward exchange contracts are valued at the forward market rates ruling on the date of the Balance Sheet. Unrealised gains and losses are dealt with through the Income Statement.
- 4.1.3** Transactions of the Off-shore Banking Centre have been recorded in accordance with the paragraph 4.1.1 above except for the application of the year end exchange rate for the Income Statement.
- 4.1.4** As at the Balance Sheet date, the assets and liabilities of the overseas branch operations are translated into the presentation currency of the Bank as at the rate of exchange ruling at the Balance Sheet date and their Income Statement is translated at the weighted average exchange rate for the year. The exchange differences arising on the translation are taken directly to a separate component of equity. On disposal of a foreign operation, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the Income Statement.

## 4.2 Taxation

### 4.2.1 *Current Taxation*

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the taxation authorities in respect of the current as well as prior years. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted by the Balance Sheet date. Accordingly, provision for taxation is made on the basis of the profit for the year as adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No. 10 of 2006 and the amendments thereto, at the rates specified in Note 9.2 to the Financial Statements. Provision for taxation on the overseas branches is made on the basis of the profit for the year as adjusted for taxation purposes in accordance with the provisions of the relevant statutes in those countries.

### 4.2.2 *Deferred Taxation*

Deferred tax is provided on temporary differences at the Balance Sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- Where the deferred tax assets relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither the accounting profit nor the taxable profit or loss; and
- In respect of deductible temporary differences associated with investments in Subsidiaries and Associates, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profits will be available against which the temporary differences can be utilised.



The carrying amount of deferred tax assets is reviewed at each Balance Sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilised. Unrecognised deferred tax assets are re-assessed at each Balance Sheet date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the assets are realised or the liabilities are settled, based on tax rates and tax laws that have been enacted or substantially enacted at the Balance Sheet date.

Current tax and deferred tax relating to items recognised directly in equity are also recognised in equity and not in the Income Statement.

Deferred tax assets and liabilities are set off if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

#### 4.3 Events after the Balance Sheet Date

All the material events after the Balance Sheet date have been considered and appropriate adjustments/disclosures have been made in Note 41 to the Financial Statements, where necessary.

#### 4.4 Assets and Bases of their Valuation

##### 4.4.1 Advances to Customers

Advances to customers are stated in the Balance Sheet net of provisions for possible loan losses and net of interest, which is not accrued to revenue.

##### 4.4.1.1 Provision for Loan Losses

Specific provisions for possible loan losses are based on a continuous review of the loans and advances portfolio in accordance with the Sri Lanka Accounting Standard No. 23 on Revenue Recognition and Disclosures in the Financial Statements of Banks and the parameters set by the Central Bank of Sri Lanka. Accordingly, specific provisions have been made as follows:

Period Outstanding	Classification	Minimum Provision made net of realisable Value of Security
6 to 12 months	Sub-standard	20%
12 to 18 months	Doubtful	50%
18 months and over	Loss	100%

Where necessary, provisions have been made over and above the minimum percentages on a case by case basis.

In addition, a general provision is made at the rate of 0.1% per quarter on performing and overdue loans and advances portfolio commencing the fourth quarter 2006, as per a Direction from the Central Bank of Sri Lanka, which requires that a general provision up to 1% on total performing and overdue loans and advances portfolio be made on or before the end of the first quarter 2009.

##### 4.4.2 Foreclosed Properties

Foreclosed properties acquired in full or partial satisfaction of debts, are accounted for at the lower of cost or market value on an individual property basis. The shortfall between the prevailing market value of the foreclosed asset and the related loan outstanding, is recognised as a provision for loan losses in the Income Statement in the year of taking over the foreclosed properties, in satisfaction of the debt. The Bank reviews these assets at each reporting date to assess whether an allowance for impairment should be recorded in the Income Statement.

Foreclosed properties are shown under non-performing Loans and Advances (Note 19.5 to the Financial Statements) until they are disposed. Subsequent gains and losses on the disposal of the foreclosed properties are treated as provisions written back or charged to Income Statement, respectively.

#### **4.4.3 Finance Leases**

Assets leased to customers which transfer substantially all the risks and rewards associated with ownership other than legal title are accounted for as finance leases in accordance with the Sri Lanka Accounting Standard No.19 (Revised 2005) on Leases.

Amounts receivable under finance leases net of initial rentals received, unearned lease income and provision for rentals doubtful of recovery are classified as Lease Receivable in the Balance Sheet.

##### *4.4.3.1 Provision for Lease Receivable*

Specific provisions have been made in relation to identified bad and doubtful leases.

In addition, a general provision for possible losses on Lease Receivable is made at 0.5% of the total Lease Receivable. (This would be gradually increased to 1.0% by March 31, 2009.)

#### **4.4.4 Credit Card Receivable**

Amounts receivable on Credit Cards are included in Loans and Advances at the amounts expected to be recovered.

##### *4.4.4.1 Provision for Credit Card Receivable*

100% specific provision is made on Credit Card Receivable outstanding for 6 months and over.

In addition, a general provision is made at 3% on the capital included in Credit Card Receivable up to 6 months.

#### **4.4.5 Government of Sri Lanka Treasury Bills and Bonds**

##### *4.4.5.1 Investments in Treasury Bills and Treasury Bonds held for Trading*

Investments in Treasury Bills and Treasury Bonds in the trading portfolio are mark to market and carried at that market value in the Balance Sheet. Gains and losses on mark to market valuation are dealt with through the Income Statement.

##### *4.4.5.2 Investments in Treasury Bills and Bonds held to Maturity*

Investments in Treasury Bills and Bonds held to maturity are reflected at the value of the Bills/Bonds purchased and the discount/premium accrued thereon. Discount received/premium paid is taken to the Income Statement based on a pattern reflecting a constant periodic rate of return.

##### *4.4.5.3 Securities Purchased under Re-sale Agreements*

These are advances collateralised by purchase of Treasury Bills and Treasury Bonds from the public subject to an agreement to re-sell them at a predetermined price. Such securities remain on the Balance Sheet of the Bank and the asset is recorded in respect of the consideration paid and interest accrued thereon.

#### **4.4.6 Investments**

##### *4.4.6.1 Dealing Securities*

These are marketable securities acquired and held with the intention of resale over a short period of time. Such securities are carried at the market value at the Balance Sheet date.

*4.4.6.2 Investments held for Sale*

These are investments classified as held for sale as at the Balance Sheet date. The Bank intends to recover the value of these assets principally through a sales transaction rather than continuing to hold.

As per the Sri Lanka Accounting Standard No. 38 (Revised 2006) on Non-Current Assets Held for Sale and Discontinued Operations, these assets are measured at the lower of their carrying amount and fair value less costs to sell. Thereafter the Bank assesses at each Balance Sheet date whether there is objective evidence that an investment or a group of investments is impaired. The Bank 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.

*4.4.6.3 Investments*

These are acquired and held for yield or capital growth in the medium to long term. Such securities are recorded at cost. Changes in market values of these securities are not taken into account, unless there is considered to be a diminution in value which is other than temporary.

*4.4.6.4 Investments in Associates*

Investments in Associates are accounted for under the Cost Method in the Bank's Financial Statements and under the Equity Method in the Consolidated Financial Statements in accordance with the Sri Lanka Accounting Standard No. 27 (Revised 2005) on Investments in Associates.

*4.4.6.5 Investments in Subsidiaries*

Investments in subsidiaries are stated at cost in the Bank's Financial Statements in accordance with the Sri Lanka Accounting Standard No. 26 (Revised 2005) on Consolidated and Separate Financial Statements.

**4.4.7 Property, Plant & Equipment**

4.4.7.1 Plant and Equipment is stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of the plant and equipment when that cost is incurred, if the recognition criteria are met.

Land and Buildings are measured at fair value less depreciation on buildings and any impairment charged subsequent to the date of revaluation.

4.4.7.2 The provision for depreciation is calculated by using a straight line method on the cost of all Property, Plant & Equipment, in order to write off such amounts over the following estimated useful lives by equal instalments. Effective rates are as follows:

Freehold and Leasehold Buildings	2.5% per annum
Motor Vehicles	20% per annum
Computer Equipment	16.67% - 20% per annum
Office Equipment	20% per annum
Furniture & Fittings	10% per annum
Office Interior Work	10% per annum
Machinery & Equipment	10% per annum
Copy Rights	20% per annum

The depreciation charges are determined separately for each significant part of an item of Property, Plant & Equipment and begin to depreciate when it is available for use. Depreciation is not provided for Freehold Land.

4.4.7.3 When an asset is revalued, any increase in the carrying amount is credited directly to a revaluation surplus unless it reverses a previous revaluation decrease relating to the same asset, which was previously recognised as an expense. In these circumstances the increase is recognised as income to the extent of the previous write down. When an asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised as an expense unless it reverses a previous increment relating to that asset, in which case it is charged against any related revaluation surplus, to the extent that the decrease does not exceed the amount held in the revaluation surplus in respect of that same asset. Any balance remaining in the revaluation surplus in respect of an asset, is transferred directly to Retained Profits on retirement or disposal of the asset.

4.4.7.4 An item of Property, Plant & Equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognising of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in the Income Statement in the year the asset is derecognised.

#### **4.4.8 Leasehold Property**

Leasehold property is stated at recorded carrying values as at the effective date of Sri Lanka Accounting Standard No. 19 (Revised 2005) on Leases. Such carrying amounts are amortised over the remaining lease term or useful life of the leased property whichever is shorter. No further revaluations of these leasehold property will be carried out.

#### **4.4.9 Intangible Assets**

##### *4.4.9.1 Basis of Recognition*

An Intangible Asset is recognised if it is probable that future economic benefits that are attributable to 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 No. 37 on Intangible Assets. Accordingly, these assets are stated in the Balance Sheet at cost less accumulated amortisation and accumulated impairment losses.

##### *4.4.9.2 Subsequent Expenditure*

Subsequent expenditure on Intangible Assets is capitalised only when it increases the future economic benefits embodied in these assets. All other expenditure is expensed as incurred.

##### *4.4.9.3 Amortisation*

The useful lives of Intangible Assets are assessed to be either finite or indefinite. Intangible Assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. 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. The amortisation expense on intangible assets with finite lives is recognised in the Income Statement in the expense category consistent with the function of the intangible asset.

##### *4.4.9.4 Computer Software*

Computer Software is stated at cost less accumulated amortisation and any accumulated impairment loss. Amortisation is done at 16.67% per annum on cost.

##### *4.4.9.5 Copyright*

Cost of copyrights purchased are stated at cost less accumulated amortisation and any accumulated impairment. Amortisation is done at 20% per annum on cost.

*4.4.9.6 Impairment*

The unamortised balances of Intangible Assets with finite lives are reviewed at each Balance Sheet date for impairment whenever there is an indication for impairment and recognised as expenses in the Income Statement to the extent that they are no longer probable of being recovered from the expected future benefits.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the Income Statement when the asset is derecognised.

*4.4.9.7 Impairment of Non-Financial Assets*

The Bank assesses at each reporting date or more frequently if events or changes in circumstances indicate that the carrying value may be impaired, whether there is an indication that a non-financial asset may be impaired. If any such indication exists, or when an annual impairment testing for an asset is required, the Bank makes an estimate of the asset's recoverable amount. When the carrying amount of an asset (or cash generating unit) exceeds its recoverable amount, the asset (or cash generating unit) is considered impaired and is written down to its recoverable amount.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. Impairment losses relating to goodwill cannot be reversed for subsequent increase in its recoverable amount in future.

**5. Liabilities and Provisions****5.1 Commitments and Contingencies**

All discernible risks are accounted for in determining the amount of other liabilities. Bank's share of any contingencies and capital commitments of a subsidiary or an associate for which the Bank is also liable severally or otherwise is included with appropriate disclosures.

**5.2 Defined Benefit Plans (DBPs)****5.2.1 Pensions and Retirement Benefits***5.2.1.1 Description of the Plan and Employee Groups Covered*

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 are 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. Only the employees who joined the Bank on or before December 31, 2001 are in pensionable service of the Bank. The pensions paid to those employees who retired on or before December 31, 2001 and on whose behalf the Bank could not make contributions to the Pension Fund for more than 10 years, are charged to the Income Statement.



As detailed in 5.3.1 below, the Bank offered a re-structured pension scheme to convert the Defined Benefit Plan (DBP) to a Defined Contribution Plan (DCP) to the pensionable employees of the Bank during 2006 and over 99% of them accepted it. As a result, the above Pension Fund now covers only the staff who did not opt for the re-structured pension scheme and those employees who retired before the re-structured pension scheme came into effect. Since over 99% of the pensionable staff of the Bank accepted the alternative pension scheme introduced in 2006, the Bank did not carry out an actuarial valuation on the above fund as at December 31, 2007. The Bank incurred an initial cost of Rs.1.654 billion on account of this conversion.

#### *5.2.1.2 Funding Arrangements*

The Bank contributes to the Pension Fund and the Widows' & Orphans' Pension Scheme monthly based on a percentage of gross emoluments excluding certain allowances and bonus of the pensionable employees who did not opt for the above mentioned re-structured pension scheme. The percentages of contribution are as recommended by the Actuary. The Pension Fund is non-contributory while employees contribute 75% of the recommended contribution rate to the Widows' & Orphans' Pension Scheme.

#### *5.2.1.3 Actuarial Valuation and Actuarial Valuation Method*

An actuarial valuation is undertaken at least every three years to ascertain the full liability. The liability is calculated on an ongoing basis.

An actuarial valuation of the Pension Fund and the Widows' & Orphans' Pension Scheme was carried out as at August 31, 2006 by M/s. Hewitt Outsourcing Services (India) Ltd. The valuation has been carried out based on the Projected Unit Credit method, as per the Sri Lanka Accounting Standard No. 16 on Retirement Benefits Costs.

#### *5.2.1.4 Principal Actuarial Assumptions*

The principal financial assumptions used in the valuation are as follows:

Long-term rate of interest	9.0% per annum
Salary increases	10.0% per annum

The demographic assumptions underlying the valuation are retirement age (55 or 60 years), early withdrawals from service, retirement on medical grounds, death before and after retirement, etc.

The recommended contribution rate for the future has been suggested based on the above assumptions.

#### *5.2.1.5 Management of the Fund's Assets*

The assets of the Pension Fund and the Widows' & Orphans' Pension Scheme are held separately from those of the Bank and are independently administered by the Trustees as per the provisions of the Trust Deed.

**5.2.2 Gratuity**

Provision has not been made in these Financial Statements for gratuity payable under the Payment of Gratuity Act No. 12 of 1983 to those employees who joined the Bank on or before December 31, 2001, as they are either in pensionable service of the Bank under the DBP and that the Bank has its own non-contributory retirement pension scheme in force for them or has a DCP as explained in 5.3.1 below. However, if any of these employees covered by the DBP resigns before retirement, the Bank is liable to pay gratuity to such employees.

Provision has been made in these Financial Statements for retirement gratuities from the first year of service for all the employees who joined the Bank on or after January 1, 2002, as they are not in pensionable service of the Bank, in conformity with the Sri Lanka Accounting Standard No.16 on Retirement Benefits Costs. However, under the Payment of Gratuity Act No.12 of 1983, the liability to an employee arises only on completion of 5 years of continued service. The gratuity liability is unfunded and an actuarial valuation has not been carried out.

**5.3 Defined Contribution Plans (DCPs)**

Contributions to Defined Contribution Pension Plans are recognised as an expense in the Income Statement as incurred.

**5.3.1 Defined Contribution Pension Plans**

During 2006, the Bank re-structured its pension scheme which was a Defined Benefit Plan (DBP) to a Defined Contribution Plan (DCP). This re-structured 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 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, actual interest to be earned on the assets of the DCP is also allocated on a pro-rata basis to the employees who joined the re-structured scheme.

**5.3.2 Employees' Provident Fund**

The Bank and employees contribute to the approved private Provident Fund at 12% and 8% respectively.

**5.3.3 Employees' Trust Fund**

The Bank contributes to the Employees' Trust Fund at 3%.

**5.4 Securities Sold under Repurchase Agreements**

These are borrowings collateralised by sale of Treasury Bills and Treasury Bonds held by the Bank to the counterparty from whom the Bank borrowed, subject to a agreement to repurchase them at a predetermined price. Such securities remain on the Balance Sheet of the Bank and the liability is recorded in respect of the consideration received and interest accrued thereon.

**5.5 Provisions for Liabilities**

A provision is recognised in the Balance Sheet when the Bank has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligations, in accordance with the Sri Lanka Accounting Standard No. 36 on Provisions, Contingent Liabilities and Contingent Assets.

**6. Income Statement****6.1 Revenue Recognition****6.1.1 Interest Income**

In terms of the provisions of the Sri Lanka Accounting Standard No. 23 on Revenue Recognition and Disclosures in the Financial Statements of Banks, the interest receivable is recognised on accrual basis. Interest ceases to be taken into revenue when the recovery of interest and/or principal is in arrears for three months or more. Interest receivable on advances classified as non-performing is accounted for on cash basis. Interest falling due on non-performing advances is credited to Interest in Suspense Account. In addition, interest accrued up to three months on such non-performing advances is also reversed from the interest income and transferred to interest in suspense.

**6.1.2 Lease Income**

In terms of the provisions of the Sri Lanka Accounting Standard No. 19 (Revised 2005) on Leases, the recognition of finance income on leasing is accounted based on a pattern reflecting a constant periodic rate of return on capital outstanding.

The excess of aggregate lease rentals receivable over the cost of the leased assets constitutes the total unearned finance income at the commencement of a lease. The unearned finance income included in the lease rentals receivable is taken into revenue over the term of the lease commencing from the month in which the lease is executed in proportion to the capital outstanding.

Finance income in respect of lease rentals due ceases to be taken to revenue when they are in arrears for three months. Thereafter such income is recognised on cash basis. Interest accrued up to three months on such non-performing leases is also reversed from the interest income and transferred to interest in suspense.

**6.1.3 Income on Discounting of Bills of Exchange**

Income on discounting of Bills of Exchange is recognised on cash basis.

**6.1.4 Fees and Commission Income**

The Bank earns fees and commission income from a diverse range of services it provides to its customers. This includes fees and commission income arising on financial services provided by the Group including Trade Finance, Travel, Investment Banking, e-Banking, Credit Cards, Legal etc. Fees and commission income other than fees receivable on credit cards are recognised on cash basis.

**6.1.5 Dividend Income on Shares and Units**

Dividend income from shares and units is recognised when the Bank's right to receive the payment is established.

**6.1.6 Interest Income on Investments in Debentures and Trust Certificates**

Interest income on investments in Debentures and Trust Certificates is recognised on accrual basis.

**6.1.7 Rental Income**

Rental income is recognised on accrual basis.

**6.1.8 Interest and Fees Receivable on Credit Cards**

Interest and fees receivable on Credit Cards are recognised on accrual basis. Interest and fees cease to be taken into revenue when the recovery of interest or fees is in arrears for over three months. Thereafter, interest and fees are accounted for on cash basis.

**6.1.9 Gains and/or Losses on Disposal of Property, Plant & Equipment, Non-Current Investments held for sale, Dealing Securities, Investment Securities and Foreclosed Properties**

Gains and/or losses resulting from the disposal of Property, Plant & Equipment, Non-Current investments held for sale, Dealing Securities, Investment Securities and Foreclosed Properties have been accounted for on cash basis in the Income Statement.

**6.2 Interest and Other Expenses**

In terms of the provisions of the Sri Lanka Accounting Standard No. 23 on Revenue Recognition and Disclosures in the Financial Statements of Banks, the interest and other expenses payable are recognised on accrual basis in the Income Statement.

**6.3 Borrowing Costs**

Costs incurred in respect of funds specifically obtained for the acquisition of Property, Plant & Equipment have been recognised as an expense in the Income Statement, in the period in which they are incurred in terms of the Sri Lanka Accounting Standard No. 20 on Borrowing Costs.

**6.4 Terminal Benefits**

The actual amounts paid as pension and retirement gratuities to those employees, who are not covered by the Pension Funds as per 5.2.1 and 5.3.1 above, are charged to the Income Statement. The actual amounts paid as pension to those employees who are covered by the Pension Fund are borne by the Retirement Pension Fund.

**6.5 Off-Balance Sheet Transactions**

The Bank enters into Off-Balance Sheet transactions such as forward exchange contracts. At the year end, unrealised gains and losses are dealt with through the Income Statement.

**7. Cash Flow Statement**

The Cash Flow Statement has been prepared by using the 'Direct Method' of preparing cash flows in accordance with the Sri Lanka Accounting Standard No. 9 on Cash Flow Statements. Cash and Cash Equivalents comprise mainly of cash balances, loans at call and short-term placements/balances with foreign banks.

**8. Segment Reporting**

A segment is a distinguishable component of the Group that is engaged in providing services (Business Segment) or in providing services within a particular economic environment (Geographical Segment) which is subject to risks and rewards that are different from those of other segments.

In accordance with the Sri Lanka Accounting Standard No. 28 on Segment Reporting, segmental information is presented in respect of the Group. The segments comprise of banking, leasing, dealing and property/investment.

Inter-segment transactions are based on fair market prices.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly of Head Office expenses.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one accounting period.

### **9. Fiduciary Assets**

Assets held in a fiduciary capacity are not reported in these Financial Statements as they are not the assets of the Bank.

### **10. Dividends on Ordinary and Preference Shares**

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders. Interim dividends are deducted from equity when they are declared and are no longer at the discretion of the Bank.

Dividends on ordinary shares for the year that are recommended by the Directors after the Balance Sheet date for approval of the shareholders at the Annual General Meeting are disclosed in Note 11 to the Financial Statements.

Dividends on preference shares are accrued in the Financial Statements.

### **11. Directors' Responsibility Statement**

The Board of Directors takes the responsibility for the preparation and presentation of these Financial Statements. Please refer page 104 for the Statement of the Directors' Responsibility for Financial Reporting.

### **12. Effect on Accounting Standard issued but not yet effective**

Sri Lanka Accounting Standard No. 16 (Revised 2006) on Employee Benefits.

A revised SLAS 16 was issued in 2007, and become effective for financial years beginning on or after July 1, 2007. Accordingly, the Financial Statements for the year ending December 31, 2008 will adopt the revised SLAS 16.

Revised SLAS 16 applies to all employee benefits, not only requirement benefits that are covered by the current SLAS 16. As a result, all short term employee benefits will be required to be recognised when an employee has rendered service in exchange for those benefits.

The Bank does not envisage a significant financial impact as a result of the Revised SLAS 16.



# NOTES TO THE FINANCIAL STATEMENTS

## 1. Interest Income

	Group		Bank	
	2007	2006	2007	2006
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Customer advances	24,134,687	16,011,978	24,151,524	16,025,379
Cash and short-term funds (Loans at Call)	279,877	235,349	279,877	235,349
Treasury Bills, Treasury Bonds and other				
Money Market instruments	5,188,022	2,515,250	5,154,203	2,496,641
Interest rate SWAPS	197,575	96,828	197,575	96,828
Due from Banks	719,893	677,551	719,893	677,551
Other	508	272	—	—
	<b>30,520,562</b>	<b>19,537,228</b>	<b>30,503,072</b>	<b>19,531,748</b>

Since April 1, 2002, net interest income from Treasury Bills and Treasury Bonds has been grossed up by adding the notional tax credit, consequent to the interest income on Treasury Bills and Treasury Bonds being subjected to withholding tax as detailed in Note 9.2.

## 2. Interest Expenses

Customer deposits	13,558,135	9,016,132	13,562,628	9,025,190
Cash and short-term funds (Deposits at Call)	197,511	202,013	197,511	202,013
Re-purchase agreements and other				
Money Market instruments	2,848,736	1,297,323	2,861,646	1,298,209
Interest rate SWAPS	215,094	96,550	215,094	96,550
Due to Banks	662,899	461,517	662,899	461,517
Debentures issued	1,104,753	641,540	1,104,753	641,540
Re-finance borrowings	346,587	229,591	346,587	229,591
	<b>18,933,715</b>	<b>11,944,666</b>	<b>18,951,118</b>	<b>11,954,610</b>

## 3. Fees and Commission Income

Trade and other related activities	1,029,549	863,666	1,029,549	863,666
Personal banking	202,200	190,918	202,836	191,012
Foreign remittances	89,872	52,538	89,872	52,538
Electronic banking	439,368	333,374	439,368	333,374
Professional services	81,713	89,096	81,713	89,096
Other	539,200	481,599	539,200	481,599
	<b>2,381,902</b>	<b>2,011,191</b>	<b>2,382,538</b>	<b>2,011,285</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 4. Other Income

	Group		Bank	
	2007	2006	2007	2006
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Income from investment securities (quoted)	5,965	36,653	5,965	36,653
Income from investment securities (unquoted)	228,899	205,528	228,899	204,823
Income from investments in associates (unquoted)	2,772	1,830	2,055	1,830
Income from investments in subsidiaries (quoted)	—	—	40,845	36,760
Income from investments held for sale	26,905	9,555	26,905	9,555
Income from investments in Dealing Securities	5,772	4,500	5,772	4,500
Income from Unit Trust Company	—	11,377	—	11,377
Bad debts recovered				
(including recovery of debts written-off)	352,256	252,493	352,256	252,493
Profit on sale of Property, Plant & Equipment	9,509	8,163	7,583	3,871
Rental and other income	103,167	128,771	86,392	118,168
Gains/(Losses) on Mark to Market Valuation on shares	(48,938)	25,999	(48,938)	25,999
Capital gains on sale of shares	42,953	776,670	51,666	776,670
Gains/(Losses) on Mark to Market Valuation on				
Treasury Bills and Bonds	7,722	(2,742)	7,722	(2,742)
Capital gains on Treasury Bills & Bonds	25,354	7,472	25,354	7,472
	<b>762,336</b>	<b>1,466,269</b>	<b>792,476</b>	<b>1,487,429</b>
Less: Dividends received from associate companies transferred to the Investments in Associate Companies	2,772	1,830	—	—
	<b>759,564</b>	<b>1,464,439</b>	<b>792,476</b>	<b>1,487,429</b>

### 5. Operating Expenses

Operating expenses include the following:

Directors' Remuneration	44,909	33,204	44,539	33,074
Auditors' Remuneration	5,573	5,513	5,202	5,148
Non-Audit fees	1,523	652	1,440	652
Pensions paid to past Employees	19,024	17,832	19,024	17,832
Pensions paid to past Directors	980	1,897	980	1,897
Depreciation of Property, Plant & Equipment	391,447	322,272	358,754	289,189
Amortisation of Intangible Assets	51,993	85,889	51,629	85,648
Amortisation of Leasehold Property	1,523	1,452	1,013	942
Professional and legal expenses	97,594	98,132	97,317	97,916
Advertising and marketing	142,109	140,377	142,061	140,377
Donations	7,741	3,442	7,741	3,442
Donation to Corporate Social Responsibility (CSR) Trust	22,000	10,063	22,000	10,063
Employer's contribution to Employees' Provident Fund	164,351	139,821	162,998	138,699
Employer's contribution to Employees' Trust Fund	39,721	33,734	39,383	33,453
Gratuity provision	22,433	28,049	21,463	26,644
Financial Value Added Tax (VAT) on profits	1,551,762	970,958	1,551,762	970,958

### 6. Provision for Staff Retirement Benefits

A sum of Rs. 269.128 Mn (Rs. 1,813.835 Mn in 2006) has been charged against profits being the total contributions for the year to the approved Pension Fund and Widows' & Orphans' Pension Scheme/Defined Contribution Plan.

## 7. Loan Losses and Provisions

	Group		Bank	
	2007	2006	2007	2006
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Provision for bad & doubtful debts:				
Specific provision on Bills of Exchange	3,134	1,058	3,134	1,058
General provision on Bills of Exchange	15,069	—	15,069	—
Specific provision on loans and advances	978,906	418,637	978,906	418,637
General provision on loans and advances	592,229	128,617	592,229	128,617
Specific provision on credit card receivables	50,348	17,274	50,348	17,274
General provision on credit card receivables	13,653	10,763	13,653	10,763
Specific provision on lease receivable	114,301	58,778	114,301	58,778
General provision on lease receivable	8,000	12,245	8,000	12,245
Total provisions made during the year	1,775,640	647,372	1,775,640	647,372
Direct write-offs	1,836	7,698	1,836	7,698
	1,777,476	655,070	1,777,476	655,070

## 8. Share of Profit of Associate Companies

Commercial Leasing Co. Ltd.	—	54,687	—	—
Equity Investments Lanka Ltd.	2,807	2,446	—	—
Commercial Fund Management (Pvt) Ltd., (Disposed on January 23, 2007)	—	5,321	—	—
Commercial Insurance Brokers (Pvt) Ltd.	22,204	—	—	—
	25,011	62,454	—	—

## 9. Income Tax Expense

### 9.1 Entity-wise breakup of the Income tax expense is as follows:

#### Bank

Current income tax charge	2,768,225	2,172,244	2,768,225	2,172,244
(Over)/under provision for taxes in respect of prior years	(139,048)	19,397	(139,048)	19,397
Deferred tax (reversal)/charge [Note 29]	(28,013)	9,276	(28,013)	9,276
	2,601,164	2,200,917	2,601,164	2,200,917

#### Subsidiary Companies

Income tax expense of Commercial Development Co. PLC	23,286	24,044	—	—
Income tax expense of Commercial Bank Primary Dealer Ltd.	11,878	4,024	—	—
Income tax expense of ONEzero Co. Ltd.	733	45	—	—
Income tax expense of X-pertise Ltd.	750	629	—	—

#### Associate Companies

Share of Income tax expense of Commercial Leasing Co. Ltd.	—	13,022	—	—
Share of Income tax expense of Equity Investments Lanka Ltd.	43	170	—	—
Share of Income tax expense of Commercial Fund Management (Pvt) Ltd.	—	1,787	—	—
Share of Income tax expense of Commercial Insurance Brokers (Pvt) Ltd.	542	—	—	—
WHT deducted on dividend payments by subsidiary and associate companies	—	4,113	—	—
	2,638,396	2,248,751	2,601,164	2,200,917

## NOTES TO THE FINANCIAL STATEMENTS

### 9.2 A reconciliation between income tax expense and the product of Accounting Profit multiplied by the statutory tax rate is as follows:

	<b>Group</b>		<b>Bank</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>Rs.'000</b>	<b>Rs.'000</b>	<b>Rs.'000</b>	<b>Rs.'000</b>
Accounting profit before tax from operations	<b>6,765,838</b>	4,258,699	<b>6,704,729</b>	4,213,545
Tax effect at the statutory income tax rates	<b>2,458,922</b>	1,546,914	<b>2,419,292</b>	1,519,771
Tax effect of exempt income	<b>(548,292)</b>	(578,851)	<b>(543,772)</b>	(577,834)
Tax effect of non-deductible expenses	<b>2,876,466</b>	2,798,690	<b>2,857,511</b>	2,778,297
Tax effect of deductible expenses	<b>(2,048,374)</b>	(1,622,941)	<b>(2,030,858)</b>	(1,606,949)
Remittance tax of Bangladesh Operations	<b>42,184</b>	41,482	<b>42,137</b>	41,482
Share of Income tax expense of				
Associate Companies	<b>585</b>	15,629	—	—
Social Responsibility Levy at 1% of Income Tax	<b>24,280</b>	17,477	<b>23,915</b>	17,477
(Over)/under provision of current taxes in respect of prior years	<b>(139,070)</b>	19,306	<b>(139,048)</b>	19,397
Deferred tax (reversal)/charge	<b>(28,305)</b>	11,045	<b>(28,013)</b>	9,276
Income tax expense reported in the				
Income Statement at the effective income tax rate	<b>2,638,396</b>	2,248,751	<b>2,601,164</b>	2,200,917
Income tax expense of the Bank for the year is made up as follows:				
Income tax on profit of the Domestic Banking Unit			<b>2,160,222</b>	1,659,172
Income tax on profit of the Off-shore Banking Centre			<b>162,181</b>	105,954
Income tax on profit of the Bangladesh Operations			<b>445,822</b>	407,118
(Over)/under provision of current taxes in respect of prior years			<b>(139,048)</b>	19,397
Deferred tax (reversed)/charge			<b>(28,013)</b>	9,276
			<b>2,601,164</b>	2,200,917
Effective tax rate (excluding deferred tax)			<b>39.21%</b>	52.01%

Income tax expense has been provided on the taxable income at the following rates:

	<b>2007</b>	<b>2006</b>
Domestic operations of the Bank	<b>35.00%</b>	35.00%
On-shore banking operations of the Off-Shore Banking Centre of the Bank	<b>35.00%</b>	35.00%
Off-shore banking operations of the Off-Shore Banking Centre of the Bank	<b>20.00%</b>	20.00%
Bangladesh Operations	<b>45.00%</b>	45.00%
Commercial Development Co. PLC	<b>35.00%</b>	35.00%
Commercial Bank Primary Dealer Ltd.	<b>35.00%</b>	35.00%
ONEzero Co. Ltd.	—	—
X-pertise Ltd.	<b>35.00%</b>	15.00%

#### Notional Tax Credit for withholding tax on Government Securities on Secondary Market Transactions

The Inland Revenue (Amendment) Act No. 19 of 2003, provides that a company which derives interest income from the secondary market transactions in Government securities would be entitled to a notional tax credit (being one ninth of the net interest income) provided such interest income forms part of the statutory income of the Company for that year of assessment.

Accordingly, the net interest income earned by the Bank and Commercial Bank Primary Dealer Ltd. from the secondary market transactions in Government Securities for the year, has been grossed up in the Financial Statements and the resulting notional tax credit amounts to Rs. 64.486 Mn (Rs. 15.755 Mn in 2006) and Rs. 3.382 Mn (Rs. 1.950 Mn in 2006) respectively.

## 10. Earnings Per Share

Basic Earnings Per Share is calculated by dividing the net profit attributable to equity holders of the parent (after deducting dividend on preference shares) by the weighted average number of ordinary shares in issue (both voting and non-voting) during the year, as required by the Sri Lanka Accounting Standard No. 34 (Revised 2005) on Earnings Per Share. The weighted average number of ordinary shares outstanding during the year and the previous year are adjusted for the events that have changed number of ordinary shares outstanding, without a corresponding change in the resources such as bonus issues.

Diluted Earnings Per Share is calculated by dividing the net profit attributable to equity holders of the parent (after deducting dividend on preference shares) by the weighted average number of ordinary shares outstanding during the year (both voting and non-voting) adjusted for the effects of all dilutive potential weighted average number of ordinary shares that would be issued on the conversion of all the dilutive ESOPs into ordinary shares.

The following table shows the income and share data used in the basic and dilutive Earnings Per Share calculation.

	Group		Bank	
	2007 Rs.'000	2006 Rs.'000	2007 Rs.'000	2006 Rs.'000
<b>Amounts Used as the Numerator:</b>				
Net Profit attributable to equity holders of the parent	4,149,021	2,070,707	4,103,565	2,012,628
Less : Dividend on Cumulative Redeemable Preference Shares	112,500	197,418	112,500	197,418
Net Profit attributable to equity holders of the parent for basic and diluted Earnings Per Share	4,036,521	1,873,289	3,991,065	1,815,210
<b>Number of Ordinary shares used as the denominator:</b>				
Weighted Average Number of Ordinary Shares	174,716,365	142,818,724	174,716,365	142,818,724
Weighted Bonus element	—	5,855,568	—	5,855,568
Issue of Bonus shares during the year	62,234,467	62,234,467	62,234,467	62,234,467
Weighted Average Number of Ordinary Shares used for basic Earnings Per Share	236,950,832	210,908,759	236,950,832	210,908,759
Effect of dilution :				
Dilutive potential ordinary shares under Employee Share Option Plan	4,760,203	4,760,203	4,760,203	4,760,203
Less: Exercised ordinary shares under Employee Share Option Plan	(3,048,751)	(3,048,751)	(3,048,751)	(3,048,751)
Weighted Average Number of Ordinary Shares Adjusted for the effect of dilution	238,662,284	212,620,211	238,662,284	212,620,211
Basic Earnings per Share (Rs.)	17.04	8.88	16.84	8.61
Diluted Earnings per Share (Rs.)	16.91	8.81	16.72	8.54

## 11. Dividends

	Group		Bank	
	2007 Interim Rs. 4.50 (paid during 2007) Rs.'000	2006 Interim 15% (paid on Nov. 14, '06) Rs.'000	2007 Interim Rs. 4.50 (paid during 2007) Rs.'000	2006 Interim 15% (paid on Nov. 14, '06) Rs.'000
<b>On Ordinary Shares</b>				
Net dividend paid to the Shareholders	1,027,493	202,185	1,027,493	202,185
Withholding tax deducted at source	92,997	11,944	92,997	11,944
Gross dividend	1,120,490	214,129	1,120,490	214,129
<b>On Preference Shares</b>				
Dividend payable on Cumulative Redeemable Preference Shares of Rs. 10.00 each for the year/period				
Net dividend payable/paid	101,250	177,676	101,250	177,676
Withholding tax to be deducted/deducted at source	11,250	19,742	11,250	19,742
Gross dividend	112,500	197,418	112,500	197,418
Total dividend	1,232,990	411,547	1,232,990	411,547

Three interim dividends of Rs. 1.50 per share each, totalling to Rs. 4.50 per share was paid in 2007 to the Ordinary Shareholders, partly out of the exempt dividends received by the Bank. The effective interim dividend rate for the year 2006 was 15%.

Directors have recommended the payment of a final dividend of Rs. 2.50 per share for the year ended December 31, 2007 (35% in 2006) which will be declared at the Annual General Meeting to be held on March 28, 2008. In accordance with the Sri Lanka Accounting Standard No. 12 (Revised) on Events After the Balance Sheet Date, this proposed final dividend has not been recognised as a liability as at the year end.



# NOTES TO THE FINANCIAL STATEMENTS

## 12. Unappropriated Profit/(Loss) carried forward

	Group		Bank	
	2007 Rs.'000	2006 Rs.'000	2007 Rs.'000	2006 Rs.'000
Commercial Bank of Ceylon PLC	552,106	426,310	626,317	500,521
<b>Subsidiary Companies:</b>				
Commercial Development Co. PLC	(11,201)	(8,952)	–	–
Commercial Bank Primary Dealer Ltd.	78,481	56,757	–	–
ONEzero Co. Ltd.	31,468	19,242	–	–
X-pertise Ltd.	1,276	463	–	–
<b>Associate Companies:</b>				
Commercial Leasing Co. Ltd.	174,154	174,154	–	–
Equity Investments Lanka Ltd.	(2,657)	(3,366)	–	–
Commercial Fund Management (Pvt) Ltd. (Disposed on January 23, 2007)	–	8,713	–	–
Commercial Insurance Brokers (Pvt) Ltd.	20,946	–	–	–
	<b>844,573</b>	<b>673,321</b>	<b>626,317</b>	<b>500,521</b>

## 13. Cash and Short Term Funds

Coins and notes held in local currency	3,337,926	2,669,902	3,337,887	2,677,172
Coins and notes held in foreign currency	883,396	605,186	883,396	605,186
Due from Banks	11,781,746	8,506,479	11,781,746	8,506,479
Loans at call and short notice	205,179	1,949,872	205,179	1,949,872
	<b>16,208,247</b>	<b>13,731,439</b>	<b>16,208,208</b>	<b>13,738,709</b>

## 14. Balances with Central Banks

Bank's Current Account with Central Bank of Sri Lanka	9,959,910	9,942,248	9,959,910	9,942,248
Bank's Current Account with Bangladesh Bank	1,615,669	2,631,403	1,615,669	2,631,403
	<b>11,575,579</b>	<b>12,573,651</b>	<b>11,575,579</b>	<b>12,573,651</b>

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, 2007 the minimum cash reserve requirement was 10% of the rupee deposit liabilities. There is no reserve requirement for foreign currency deposit liabilities of the Domestic Banking Unit and the deposit liabilities of the Off-Shore Banking Centre, Sri Lanka.

As per the Bangladesh Bank regulations, the Statutory Liquidity Requirement is 18% on time and demand liabilities, which includes 5% as cash reserve requirement and the balance 13% can be maintained in foreign currency held with Bangladesh Bank and/or in unencumbered securities.

## 15. Government Treasury Bills and Bonds

	Group		Bank	
	2007 Rs.'000	2006 Rs.'000	2007 Rs.'000	2006 Rs.'000
Gross Government Treasury Bills and Bonds held for trading	6,179,641	3,262,393	6,179,641	3,262,393
Loss on Mark to Market Valuation	(8,844)	(2,742)	(8,844)	(2,742)
Net Government Treasury Bills and Bonds held for trading	6,170,797	3,259,651	6,170,797	3,259,651
Government Treasury Bills and Bonds held to maturity	35,095,513	8,962,120	34,897,437	8,780,658
	<b>41,266,310</b>	<b>12,221,771</b>	<b>41,068,234</b>	<b>12,040,309</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 15.1 Assets Pledged

	Group		Bank	
	2007 Rs.'000	2006 Rs.'000	2007 Rs.'000	2006 Rs.'000
The following assets have been pledged as security for liabilities.				
<b>Nature of Assets</b>				
Government Treasury Bills and Bonds				
<b>Nature of Liability</b>				
Secured against the Repo instruments	26,813,364	16,410,537	26,813,364	16,410,537
	<b>26,813,364</b>	<b>16,410,537</b>	<b>26,813,364</b>	<b>16,410,537</b>

The above disclosed amount signifies the carrying amount of Assets pledged of Government Treasury Bills and Bonds as at December 31.

## 16. Dealing Securities

	Group				Bank			
	As at 31.12.07		As at 31.12.06		As at 31.12.07		As at 31.12.06	
	Cost Rs.'000	Market Value Rs.'000	Cost Rs.'000	Market Value Rs.'000	Cost Rs.'000	Market Value Rs.'000	Cost Rs.'000	Market Value Rs.'000
<b>Quoted</b>								
<b>SHARES</b>								
Nations Trust Bank PLC (22,800 Ordinary Shares) (175,000 Ordinary Shares of Rs. 10.00 each as at December 31, 2006)	695	678 (@ Rs. 29.75)	4,547	4,944 (@ Rs. 28.25)	695	678 (@ Rs. 29.75)	4,547	4,944 (@ Rs. 28.25)
Merchant Bank of Sri Lanka PLC (153,614 Ordinary Shares) (153,614 Ordinary Shares of Rs. 10.00 each as at December 31, 2006)	4,627	2,151 (@ Rs. 14.00)	4,627	2,343 (@ Rs. 15.25)	4,627	2,151 (@ Rs. 14.00)	4,627	2,343 (@ Rs. 15.25)
HDFC Bank of Sri Lanka (38,000 Ordinary Shares) (38,000 Ordinary Shares of Rs. 100.00 each as at December 31, 2006)	8,493	4,836 (@ Rs. 127.25)	8,493	6,641 (@ Rs. 174.75)	8,493	4,836 (@ Rs. 127.25)	8,493	6,641 (@ Rs. 174.75)
Sampath Bank PLC (12,500 Ordinary Shares) (2,500 Ordinary Shares of Rs. 10.00 each as at December 31, 2006)	1,375	1,500 (@ Rs. 120.00)	233	271 (@ Rs. 108.25)	1,375	1,500 (@ Rs. 120.00)	233	271 (@ Rs. 108.25)
Haycarb Ltd. (50,000 Ordinary Shares) (100,000 Ordinary Shares of Rs. 10.00 each as at December 31, 2006)	2,328	2,138 (@ Rs. 42.75)	4,353	3,700 (@ Rs. 37.00)	2,328	2,138 (@ Rs. 42.75)	4,353	3,700 (@ Rs. 37.00)
John Keells Holdings PLC (180,890 Ordinary Shares) (60,000 Ordinary Shares of Rs. 10.00 each as at December 31, 2006)	29,458	23,018 (@ Rs. 127.25)	11,783	11,700 (@ Rs. 195.00)	29,458	23,018 (@ Rs. 127.25)	11,783	11,700 (@ Rs. 195.00)
Hemas Holdings PLC (18,300 Ordinary Shares) (65,150 Ordinary Shares of Rs. 10.00 each as at December 31, 2006)	2,199	1,739 (@ Rs. 95.00)	6,670	7,606 (@ Rs. 116.75)	2,199	1,739 (@ Rs. 95.00)	6,670	7,606 (@ Rs. 116.75)
Richard Pieris & Co. PLC (121,766 Ordinary Shares) (112,400 Ordinary Shares of Rs. 10.00 each as at December 31, 2006)	9,936	5,784 (@ Rs. 47.50)	9,936	8,767 (@ Rs. 78.00)	9,936	5,784 (@ Rs. 47.50)	9,936	8,767 (@ Rs. 78.00)
Aitken Spence Hotel Holdings Ltd. (94,000 Ordinary Shares) (100,000 Ordinary Shares of Rs. 10.00 each as at December 31, 2006)	9,275	6,369 (@ Rs. 67.75)	9,867	7,850 (@ Rs. 78.50)	9,275	6,369 (@ Rs. 67.75)	9,867	7,850 (@ Rs. 78.50)

# NOTES TO THE FINANCIAL STATEMENTS

	Group				Bank			
	As at 31.12.07		As at 31.12.06		As at 31.12.07		As at 31.12.06	
	Cost Rs.'000	Market Value Rs.'000	Cost Rs.'000	Market Value Rs.'000	Cost Rs.'000	Market Value Rs.'000	Cost Rs.'000	Market Value Rs.'000
Asian Hotels Properties Ltd. (190,100 Ordinary Shares) (150,000 Ordinary Shares of Rs. 10.00 each as at December 31, 2006)	8,376	7,604 (@ Rs. 40.00)	6,335	7,650 (@ Rs. 51.00)	8,376	7,604 (@ Rs. 40.00)	6,335	7,650 (@ Rs. 51.00)
Connaissance Holdings Ltd. (411,000 Ordinary Shares) (411,000 Ordinary Shares of Rs. 10.00 each as at December 31, 2006)	14,924	9,761 (@ Rs. 23.75)	14,924	15,207 (@ Rs. 37.00)	14,924	9,761 (@ Rs. 23.75)	14,924	15,207 (@ Rs. 37.00)
The Fortress Resorts Ltd. (174,893 Ordinary Shares) (174,893 Ordinary Shares of Rs. 10.00 each as at December 31, 2006)	2,609	1,181 (@ Rs. 6.75)	2,609	1,924 (@ Rs. 11.00)	2,609	1,181 (@ Rs. 6.75)	2,609	1,924 (@ Rs. 11.00)
Eden Hotel Lanka Ltd. (75,000 Ordinary Shares) (100,000 Ordinary Shares of Rs.10.00 each as at December 31, 2006)	1,705	1,219 (@ Rs. 16.25)	2,273	1,200 (@ Rs. 12.00)	1,705	1,219 (@ Rs. 16.25)	2,273	1,200 (@ Rs. 12.00)
Taj Lanka Hotels Ltd. (250,400 Ordinary Shares) (250,400 Ordinary Shares of Rs. 10.00 each as at December 31, 2006)	4,740	2,003 (@ Rs. 8.00)	4,740	2,942 (@ Rs. 11.75)	4,740	2,003 (@ Rs. 8.00)	4,740	2,942 (@ Rs. 11.75)
Colombo Land & Development Co. Ltd. (400,000 Ordinary Shares) (400,000 Ordinary Shares of Rs. 1.00 each as at December 31, 2006)	2,643	1,560 (@ Rs. 3.90)	2,643	1,760 (@ Rs. 4.40)	2,643	1,560 (@ Rs. 3.90)	2,643	1,760 (@ Rs. 4.40)
Tokyo Cement Co. (Lanka) Ltd. (61,200 Non-Voting Ordinary Shares) (400,000 Ordinary Shares of Rs.10.00 each as at December 31, 2006)	1,032	1,117 (@ Rs. 18.25)	6,910	6,800 (@ Rs. 17.00)	1,032	1,117 (@ Rs. 18.25)	6,910	6,800 (@ Rs. 17.00)
Ceylon Glass Co. Ltd. (1,371,428 Ordinary Shares) (800,000 Ordinary Shares of Rs. 1.00 each as at December 31, 2006)	5,149	2,743 (@ Rs. 2.00)	4,063	1,920 (@ Rs. 2.40)	5,149	2,743 (@ Rs. 2.00)	4,063	1,920 (@ Rs. 2.40)
Dankotuwa Porcelain Ltd. (41,667 Ordinary Shares) (83,333 Ordinary Shares of Rs. 10.00 each as at December 31, 2006)	1,348	625 (@ Rs. 15.00)	1,348	833 (@ Rs. 10.00)	1,348	625 (@ Rs. 15.00)	1,348	833 (@ Rs. 10.00)
Dipped Products Ltd. (87,100 Ordinary Shares) (67,100 Ordinary Shares of Rs. 10.00 each as at December 31, 2006)	8,734	7,077 (@ Rs. 81.25)	6,317	7,247 (@ Rs. 108.00)	8,734	7,077 (@ Rs. 81.25)	6,317	7,247 (@ Rs. 108.00)
Royal Ceramics Lanka Ltd. (20,000 Ordinary Shares) (700,000 Ordinary Shares of Rs. 1.00 each as at December 31, 2006)	810	640 (@ Rs. 32.00)	2,836	2,520 (@ Rs. 3.60)	810	640 (@ Rs. 32.00)	2,836	2,520 (@ Rs. 3.60)
Lanka IOC Ltd. (303,700 Ordinary Shares) (250,000 Ordinary Shares of Rs. 10.00 each as at December 31, 2006)	13,456	6,530 (@ Rs. 21.50)	12,167	7,125 (@ Rs. 28.50)	13,456	6,530 (@ Rs. 21.50)	12,167	7,125 (@ Rs. 28.50)

# NOTES TO THE FINANCIAL STATEMENTS

## 16. Dealing Securities (Contd.)

	Group				Bank			
	As at 31.12.07		As at 31.12.06		As at 31.12.07		As at 31.12.06	
	Cost Rs.'000	Market Value Rs.'000	Cost Rs.'000	Market Value Rs.'000	Cost Rs.'000	Market Value Rs.'000	Cost Rs.'000	Market Value Rs.'000
Vidulanka PLC (55,000 Ordinary Shares) (55,000 Ordinary Shares of Rs. 10.00 each as at December 31, 2006)	1,619	1,100 (@ Rs. 20.00)	1,619	1,155 (@ Rs. 21.00)	1,619	1,100 (@ Rs. 20.00)	1,619	1,155 (@ Rs. 21.00)
John Keells PLC (30,300 Ordinary Shares) (30,300 Ordinary Shares of Rs. 10.00 each as at December 31, 2006)	3,006	2,909 (@ Rs. 96.00)	3,006	2,697 (@ Rs. 89.00)	3,006	2,909 (@ Rs. 96.00)	3,006	2,697 (@ Rs. 89.00)
Dialog Telekom PLC (1,819,370 Ordinary Shares) (200,000 Ordinary Shares of Rs. 1.00 each as at December 31, 2006)	48,245	36,382 (@ Rs. 20.00)	5,403	5,300 (@ Rs. 26.50)	48,245	36,382 (@ Rs. 20.00)	5,403	5,300 (@ Rs. 26.50)
John Keells Hotels PLC (600,000 Ordinary Shares) (800,000 Ordinary Shares of Rs. 10.00 each as at December 31, 2006)	5,318	4,200 (@ Rs. 7.00)	7,090	6,800 (@ Rs. 8.50)	5,318	4,200 (@ Rs. 7.00)	7,090	6,800 (@ Rs. 8.50)
Hayleys MGT Knitting Mills PLC (50,000 Ordinary Shares) (50,000 Ordinary Shares of Rs. 10.00 each as at December 31, 2006)	2,834	2,850 (@ Rs. 57.00)	2,834	2,663 (@ Rs. 53.25)	2,834	2,850 (@ Rs. 57.00)	2,834	2,663 (@ Rs. 53.25)
ACL Cables Ltd. (5,400 Ordinary Shares) (25,000 Ordinary Shares of Rs. 10.00 each as at December 31, 2006)	589	510 (@ Rs. 94.50)	5,213	5,319 (@ Rs. 212.75)	589	510 (@ Rs. 94.50)	5,213	5,319 (@ Rs. 212.75)
Pelwatte Sugar Industries Ltd. (12,300 Ordinary Shares) (75,000 Ordinary Shares of Rs. 10.00 each as at December 31, 2006)	443	323 (@ Rs. 26.25)	2,312	2,644 (@ Rs. 35.25)	443	323 (@ Rs. 26.25)	2,312	2,644 (@ Rs. 35.25)
Ceylinco Insurance Co. Ltd (38,600 Ordinary Shares) (2006 - Nil)	8,340	7,141 (@ Rs. 185.00)	—	—	8,340	7,141 (@ Rs. 185.00)	—	—
Ceylon Guardian Investment Trust Ltd. (2,000 Ordinary Shares) (2006 - Nil)	270	330 (@ Rs. 165.00)	—	—	270	330 (@ Rs. 165.00)	—	—
Chemical Industries Colombo PLC (13,140 Ordinary Shares) (2006 - Nil)	777	509 (@ Rs. 38.75)	—	—	777	509 (@ Rs. 38.75)	—	—
Overseas Reality Ceylon PLC (103,100 Ordinary Shares) (2006 - Nil)	1,424	1,108 (@ Rs. 10.75)	—	—	1,424	1,108 (@ Rs. 10.75)	—	—
DFCC Bank PLC (18,840 Ordinary Shares) (2006 - Nil)	2,851	2,393 (@ Rs. 127.00)	—	—	2,851	2,393 (@ Rs. 127.00)	—	—

# NOTES TO THE FINANCIAL STATEMENTS

	Group				Bank			
	As at 31.12.07		As at 31.12.06		As at 31.12.07		As at 31.12.06	
	Cost Rs.'000	Market Value Rs.'000	Cost Rs.'000	Market Value Rs.'000	Cost Rs.'000	Market Value Rs.'000	Cost Rs.'000	Market Value Rs.'000
Hatton National Bank PLC (34,200 Ordinary Shares) (2006 - Nil)	2,710	4,190 (@ Rs. 122.50)	—	—	2,710	4,190 (@ Rs. 122.50)	—	—
Durdans Hospitals Ltd. (50,000 Ordinary Shares) (2006 - Nil)	2,934	2,675 (@ Rs. 53.50)	—	—	2,934	2,675 (@ Rs. 53.50)	—	—
Nawaloka Hospitals PLC (12,900 Ordinary Shares) (2006 - Nil)	39	30 (@ Rs. 2.30)	—	—	39	30 (@ Rs. 2.30)	—	—
eChanneling Ltd. (450,000 Ordinary Shares) (2006 - Nil )	11,046	7,200 (@ Rs. 16.00)	—	—	11,046	7,200 (@ Rs. 16.00)	—	—
Hayleys PLC (23,600 Ordinary Shares) (2006 - Nil)	3,395	2,543 (@ Rs. 107.75)	—	—	3,395	2,543 (@ Rs. 107.75)	—	—
Distilleries Company of Sri Lanka Ltd. (120,400 Ordinary Shares) (2006 - Nil)	12,820	12,100 (@ Rs. 100.50)	—	—	12,820	12,100 (@ Rs. 100.50)	—	—
Tea Smallholder Factories PLC (24,800 Ordinary Shares) (2006 - Nil)	1,638	1,910 (@ Rs. 77.00)	—	—	1,638	1,910 (@ Rs. 77.00)	—	—
Colombo Dockyard Ltd. (81,200 Ordinary Shares) (2006 - Nil)	3,995	4,304 (@ Rs. 53.00)	—	—	3,995	4,304 (@ Rs. 53.00)	—	—
United Motors Lanka PLC (50,000 Ordinary Shares) (2006 - Nil)	4,235	2,713 (@ Rs. 54.25)	—	—	4,235	2,713 (@ Rs. 54.25)	—	—
Associated Motorways Ltd. (25,000 Ordinary Shares) (2006 - Nil)	4,277	3,200 (@ Rs. 128.00)	—	—	4,277	3,200 (@ Rs. 128.00)	—	—
Sri Lanka Telecom PLC (426,500 Ordinary Shares) (2006 - Nil)	12,587	13,435 (@ Rs. 31.50)	—	—	12,587	13,435 (@ Rs. 31.50)	—	—
Chevron Lubricants Lanka PLC (10,900 Ordinary Shares) (2006 - Nil)	930	929 (@ Rs. 85.25)	—	—	930	929 (@ Rs. 85.25)	—	—
Asiri Medical Services Ltd. (44,000 Ordinary Shares) (2006 - Nil)	350	451 (@ Rs. 10.25)	—	—	350	451 (@ Rs. 10.25)	—	—
Kegalle Plantations PLC (1,500 Ordinary Shares ) (2006 - Nil)	58	81 (@ Rs. 54.00)	—	—	58	81 (@ Rs. 54.00)	—	—
Kelani Cables Ltd. (15,000 Ordinary Shares ) (2006 - Nil)	2,807	1,478 (@ Rs. 98.50)	—	—	2,807	1,478 (@ Rs. 98.50)	—	—



# NOTES TO THE FINANCIAL STATEMENTS

## 16. Dealing Securities (Contd.)

	Group				Bank			
	As at 31.12.07		As at 31.12.06		As at 31.12.07		As at 31.12.06	
	Cost Rs.'000	Market Value Rs.'000	Cost Rs.'000	Market Value Rs.'000	Cost Rs.'000	Market Value Rs.'000	Cost Rs.'000	Market Value Rs.'000
Asha Central Hospitals PLC (2007 - Nil) (75,000 Ordinary Shares of Rs. 10.00 each as at December 31, 2006)	-	-	3,037	3,056 (@ Rs. 40.75)	-	-	3,037	3,056 (@ Rs. 40.75)
NDB bank PLC (2007 - Nil) (13,700 Ordinary Shares of Rs. 10.00 each as at December 31, 2006)	-	-	2,446	2,747 (@ Rs. 200.50)	-	-	2,446	2,747 (@ Rs. 200.50)
C T Land & Development Ltd. (2007 - Nil) (109,800 Ordinary Shares of Rs. 10.00 each as at December 31, 2006)	-	-	1,505	1,565 (@ Rs. 14.25)	-	-	1,505	1,565 (@ Rs. 14.25)
	<b>273,449</b>	<b>207,267</b>	162,139	144,896	<b>273,449</b>	<b>207,267</b>	162,139	144,896
Provision for diminution in value	<b>(66,182)</b>		(17,243)		<b>(66,182)</b>		(17,243)	
Total	<b>207,267</b>		144,896		<b>207,267</b>		144,896	

## 17. Investments held for Sale

	Holding (%)	Group				Bank			
		As at 31.12.07		As at 31.12.06		As at 31.12.07		As at 31.12.06	
		Balance	Market Value/ Directors' Valuation	Balance	Market Value/ Directors' Valuation	Balance	Market Value/ Directors' Valuation	Balance	Market Value/ Directors' Valuation
		Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
<b>Quoted:</b>									
Commercial Leasing Co. Ltd. (Incorporated in Sri Lanka) (5,293,749 Ordinary Shares ) (5,293,749 Ordinary Shares of Rs. 10.00 each fully paid as at December 31, 2006)	30.0	260,704	547,903 (@ Rs. 103.50)	260,704	688,187 (@ Rs. 130.00)	86,550	547,903 (@ Rs. 103.50)	86,550	688,187 (@ Rs. 130.00)
<b>Unquoted:</b>									
Commercial Fund Management (Pvt) Ltd. (Incorporated in Sri Lanka)* (2007 - Nil) (125,000 Ordinary Shares of Rs. 100.00 each fully paid as at December 31, 2006)	50.0	-	-	21,213	21,213	-	-	12,500	21,213
<b>Units</b>									
Comtrust Equity Fund** (11,376,899 Units of Rs. 10.00 each) (11,420,324 Units of Rs. 10.00 each as at December 31, 2006)		118,927	123,781 (@ Rs. 10.88)	119,342	144,353 (@ Rs. 12.64)	118,927	123,781 (@ Rs. 10.88)	119,342	144,353 (@ Rs. 12.64)
Total		379,631	671,684	401,259	853,753	205,477	671,684	218,392	853,753

\* Bank disposed its investment in shares of Commercial Fund Management (Pvt) Ltd., on January 23, 2007.

\*\* During the year, Bank disposed 11,376,899 units of Comtrust Equity Fund and the balance units have been classified as Investments held for sale.

# NOTES TO THE FINANCIAL STATEMENTS

## 18. Investments

	Group				Bank			
	As at 31.12.07		As at 31.12.06		As at 31.12.07		As at 31.12.06	
	Cost	Market Value/ Manager's Buying Price	Cost	Market Value/ Manager's Buying Price	Cost	Market Value/ Manager's Buying Price	Cost	Market Value/ Manager's Buying Price
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
<b>Quoted:</b>								
<b>SHARES</b>								
Hatton National Bank PLC (7,700 Ordinary Shares) (3,850 Ordinary Shares of Rs. 10.00 each as at December 31, 2006)	315	943 (@ Rs. 122.50)	315	600 (@ Rs. 155.75)	315	943 (@ Rs. 122.50)	315	600 (@ Rs. 155.75)
Sampath Bank PLC (1,554 Ordinary Shares) (1,554 Ordinary Shares of Rs. 10.00 each as at December 31, 2006)	72	186 (@ Rs. 120.00)	72	168 (@ Rs. 108.25)	72	186 (@ Rs. 120.00)	72	168 (@ Rs. 108.25)
Seylan Bank PLC (1,000 Ordinary Shares) (1,000 Ordinary Shares of Rs. 10.00 each as at December 31, 2006)	24	32 (@ Rs. 32.00)	24	35 (@ Rs. 35.00)	24	32 (@ Rs. 32.00)	24	35 (@ Rs. 35.00)
DFCC Bank PLC (1,748 Ordinary Shares ) (1,167 Ordinary Shares of Rs. 10.00 each as at December 31, 2006)	155	222 (@ Rs. 127.00)	115	209 (@ Rs. 179.50)	155	222 (@ Rs. 127.00)	115	209 (@ Rs. 179.50)
Nations Trust Bank PLC (1,000 Ordinary Shares) (1,000 Ordinary Shares of Rs. 10.00 each as at December 31, 2006)	14	30 (@ Rs. 29.75)	14	28 (@ Rs. 28.25)	14	30 (@ Rs. 29.75)	14	28 (@ Rs. 28.25)
NDB bank PLC (2,712 Ordinary Shares) (2,712 Ordinary Shares of Rs. 10.00 each as at December 31, 2006)	215	458 (@ Rs. 168.75)	215	544 (@ Rs. 200.50)	215	458 (@ Rs. 168.75)	215	544 (@ Rs. 200.50)
<b>DEBENTURES</b>								
Hatton National Bank PLC (12% to 17% - 2007) (2007 - Nil) (60,000 Debentures of Rs. 100.00 each as at December 31, 2006)	-	-	6,000	6,015 (@ Rs. 100.25)	-	-	6,000	6,015 (@ Rs. 100.25)
Hatton National Bank PLC (10% - 2008) (100,000 Debentures of Rs. 100.00 each) (100,000 Debentures of Rs. 100.00 each as at December 31, 2006)	10,000	10,000 (@ Rs. 100.00)	10,000	9,225 (@ Rs. 92.25)	10,000	10,000 (@ Rs. 100.00)	10,000	9,225 (@ Rs. 92.25)
Sampath Bank PLC (Floating rate - 2009) (70,000 Debentures of Rs. 100.00 each) (70,000 Debentures of Rs. 100.00 each as at December 31, 2006)	7,000	6,563 (@ Rs. 93.75)	7,000	6,965 (@ Rs. 99.50)	7,000	6,563 (@ Rs. 93.75)	7,000	6,965 (@ Rs. 99.50)
Senkadagala Finance Ltd. (9% - 2009) (100,000 Debentures of Rs. 100.00 each) (100,000 Debentures of Rs. 100.00 each as at December 31, 2006)	10,000	10,000 (@ Rs. 100.00)	10,000	10,000 (@ Rs. 100.00)	10,000	10,000 (@ Rs. 100.00)	10,000	10,000 (@ Rs. 100.00)
DFCC Bank PLC (Floating rate - 2011) (10,000 Debentures of Rs. 1,000.00 each) (10,000 Debentures of Rs. 1,000.00 each as at December 31, 2006)	10,000	10,000 (@ Rs. 1,000.00)	10,000	10,000 (@ Rs. 1,000.00)	10,000	10,000 (@ Rs. 1,000.00)	10,000	10,000 (@ Rs. 1,000.00)
	<b>37,795</b>	<b>38,434</b>	<b>43,755</b>	<b>43,789</b>	<b>37,795</b>	<b>38,434</b>	<b>43,755</b>	<b>43,789</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 18. Investments (Contd.)

	Group				Bank			
	As at 31.12.07		As at 31.12.06		As at 31.12.07		As at 31.12.06	
	Cost Rs.'000	Market Value/ Manager's Buying Price Rs.'000	Cost Rs.'000	Market Value/ Manager's Buying Price Rs.'000	Cost Rs.'000	Market Value/ Manager's Buying Price Rs.'000	Cost Rs.'000	Market Value/ Manager's Buying Price Rs.'000
<b>Unquoted:</b>								
<b>SHARES</b>								
Credit Information Bureau of Sri Lanka (4,400 Ordinary Shares) (4,400 Ordinary Shares of Rs. 100.00 each as at December 31, 2006)	440	440 (@ Rs. 100.00)	440	440 (@ Rs. 100.00)	440	440 (@ Rs. 100.00)	440	440 (@ Rs. 100.00)
Fitch Ratings Lanka Ltd. (62,500 Ordinary Shares) (62,500 Ordinary Shares of Rs.10.00 each as at December 31, 2006)	625	625 (@ Rs. 10.00)	625	625 (@ Rs. 10.00)	625	625 (@ Rs. 10.00)	625	625 (@ Rs. 10.00)
Lanka Clear (Pvt) Ltd. (1,000,000 Ordinary Shares) (1,000,000 Ordinary Shares of Rs.10.00 each as at December 31, 2006)	10,000	10,000 (@ Rs. 10.00)	10,000	10,000 (@ Rs. 10.00)	10,000	10,000 (@ Rs. 10.00)	10,000	10,000 (@ Rs. 10.00)
Lanka Financial Service Bureau Ltd. (500,000 Ordinary Shares) (2006 - Nil)	5,000	5,000 (@ Rs. 10.00)	-	-	5,000	5,000 (@ Rs. 10.00)	-	-
Dialog Telekom PLC (1,170,000,000 Preference Shares) (2006 - Nil)	1,170,000	1,170,000 (@ Rs. 1.00)	-	-	1,170,000	1,170,000 (@ Rs. 1.00)	-	-
Central Depository of Bangladesh Ltd. (6 Shares of Bangladesh Taka 1.000 Mn each. Converted @ Rs.1.57830 per Taka) (6 Shares of Bangladesh Taka 1.000 Mn each. Converted @ Rs.1.68505 per Taka as at December 31, 2006)	9,470	9,470	10,110	10,110	9,470	9,470	10,110	10,110
Commercial Insurance Brokers (Pvt) Ltd. (120,000 Ordinary Shares) (120,000 Ordinary Shares of Rs. 10.00 each as at December 31, 2006)	-	-	100	1,200 (@ Rs. 10.00)	-	-	-	-
<b>Units</b>								
Comtrust Equity Fund (2007 - Nil) (11,333,474 Units of Rs. 10.00 each as at December 31, 2006)	-	-	118,511	143,255 (@ Rs. 12.64)	-	-	118,511	143,255 (@ Rs. 12.64)
<b>LEASE BACKED SECURITIES</b>								
Senkadagala Finance Ltd.	120,198	120,198	63,636	63,636	120,198	120,198	63,636	63,636
Commercial Leasing Co. Ltd.	96,269	96,269	184,404	184,404	96,269	96,269	184,404	184,404
Specialist Gasses (Pvt) Ltd.	43,150	43,150	110,700	110,700	43,150	43,150	110,700	110,700
<b>TRUST CERTIFICATES/BONDS</b>								
Peoples Leasing Company Ltd.	177,292	177,292	376,792	376,792	177,292	177,292	376,792	376,792
Commercial Leasing Company Ltd.	30,150	30,150	1,800	1,800	30,150	30,150	1,800	1,800
Senkadagala Finance Ltd.	41,100	41,100	132,300	132,300	41,100	41,100	132,300	132,300
Lanka Orix Leasing Company PLC	-	-	300,000	300,000	-	-	300,000	300,000
Government of Bangladesh Bonds	14,600	14,600	40,706	40,706	14,600	14,600	40,706	40,706
	<b>1,718,294</b>	<b>1,718,294</b>	<b>1,350,124</b>	<b>1,375,968</b>	<b>1,718,294</b>	<b>1,718,294</b>	<b>1,350,024</b>	<b>1,374,768</b>
Total	<b>1,756,089</b>	<b>1,756,728</b>	<b>1,393,879</b>	<b>1,419,757</b>	<b>1,756,089</b>	<b>1,756,728</b>	<b>1,393,779</b>	<b>1,418,557</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 19. Loans & Advances

	Group		Bank	
	2007 Rs.'000	2006 Rs.'000	2007 Rs.'000	2006 Rs.'000
<b>19.1 Bills of Exchange</b>				
Export bills	2,613,315	2,311,667	2,613,315	2,311,667
Import bills	663,576	1,024,072	663,576	1,024,072
	<u>3,276,891</u>	<u>3,335,739</u>	<u>3,276,891</u>	<u>3,335,739</u>
Less: Loan loss provision [Note 19.1 (a)]	41,470	47,541	41,470	47,541
Interest in suspense [Note 19.1 (b)]	40,370	84,404	40,370	84,404
	<u>3,195,051</u>	<u>3,203,794</u>	<u>3,195,051</u>	<u>3,203,794</u>
<b>19.1 (a) Movement in the Provision for Bad &amp; Doubtful Bills of Exchange:</b>				
<b>Specific Provisions</b>				
Opening balance	47,541	59,651	47,541	59,651
Amount provided	3,134	1,058	3,134	1,058
Amount reversed	(24,274)	(13,168)	(24,274)	(13,168)
Closing balance	<u>26,401</u>	<u>47,541</u>	<u>26,401</u>	<u>47,541</u>
<b>General Provision</b>				
Opening Balance	–	–	–	–
Amount provided	15,069	–	15,069	–
Amount made specific	–	–	–	–
Closing Balance	<u>15,069</u>	<u>–</u>	<u>15,069</u>	<u>–</u>
Total provision	<u>41,470</u>	<u>47,541</u>	<u>41,470</u>	<u>47,541</u>
<b>19.1 (b) Movement in the Interest in Suspense of Bills of Exchange:</b>				
Opening Balance	84,404	84,869	84,404	84,869
Interest suspended during the year	–	–	–	–
Amount recovered during the year	(44,034)	(465)	(44,034)	(465)
Closing Balance	<u>40,370</u>	<u>84,404</u>	<u>40,370</u>	<u>84,404</u>
<b>19.2 Loans &amp; Advances</b>				
Sri Lankan rupee and foreign currency				
loans & advances [Note 19.2 (a)]	166,730,414	143,514,134	166,737,219	143,519,823
Less: Loan loss provision [Note 19.2 (b)]	3,303,395	2,358,738	3,303,395	2,358,738
Interest in suspense [Note 19.2 (c)]	3,249,805	3,314,593	3,249,805	3,314,593
	<u>160,177,214</u>	<u>137,840,803</u>	<u>160,184,019</u>	<u>137,846,492</u>
<b>19.2 (a) Sri Lankan Rupee and Foreign Currency Loans &amp; Advances</b>				
<b>Sri Lankan Rupee Loans &amp; Advances:</b>				
Overdrafts	34,730,095	31,027,217	34,730,095	31,027,614
Loans	88,591,745	75,656,541	88,598,550	75,661,833
Per shipment loans	723,190	633,020	723,190	633,020
Staff loans	2,649,695	2,105,006	2,649,695	2,105,006
Foreclosed properties [Note 19.5]	81,613	81,613	81,613	81,613
Interest receivable and other	2,272,868	2,205,177	2,272,868	2,205,177
	<u>129,049,206</u>	<u>111,708,574</u>	<u>129,056,011</u>	<u>111,714,263</u>

# NOTES TO THE FINANCIAL STATEMENTS

	Group		Bank	
	2007 Rs.'000	2006 Rs.'000	2007 Rs.'000	2006 Rs.'000
<b>Foreign Currency Loans &amp; Advances:</b>				
Overdrafts	7,797,227	5,858,882	7,797,227	5,858,882
Loans	23,689,903	20,534,560	23,689,903	20,534,560
Pershipment loans	5,987,254	5,153,776	5,987,254	5,153,776
Interest receivable and other	206,824	258,342	206,824	258,342
	<u>37,681,208</u>	<u>31,805,560</u>	<u>37,681,208</u>	<u>31,805,560</u>
Total	<u>166,730,414</u>	<u>143,514,134</u>	<u>166,737,219</u>	<u>143,519,823</u>

## 19.2 (b) Movement in the Provision for Bad & Doubtful Loans & Advances:

### Specific Provision

Opening balance	2,168,080	2,003,100	2,168,080	2,003,100
Amount provided	1,029,254	435,911	1,029,254	435,911
Exchange rate variance on foreign currency provision	9,581	34,715	9,581	34,715
Amount reversed	(699,690)	(305,646)	(699,690)	(305,646)
Closing balance	<u>2,507,225</u>	<u>2,168,080</u>	<u>2,507,225</u>	<u>2,168,080</u>

### General Provision

Opening balance	190,658	49,692	190,658	49,692
Amount provided	605,882	139,381	605,882	139,381
Exchange rate variance on foreign currency provision	(370)	1,585	(370)	1,585
Amount made specific	—	—	—	—
Closing balance	<u>796,170</u>	<u>190,658</u>	<u>796,170</u>	<u>190,658</u>
Total provision	<u>3,303,395</u>	<u>2,358,738</u>	<u>3,303,395</u>	<u>2,358,738</u>

## 19.2 (c) Movement in the Interest in Suspense of Loans and Advances:

Opening balance	3,314,593	3,388,197	3,314,593	3,388,197
Interest suspended during the year	633,684	243,023	633,684	243,023
Amount recovered during the year	(698,472)	(316,627)	(698,472)	(316,627)
Closing balance	<u>3,249,805</u>	<u>3,314,593</u>	<u>3,249,805</u>	<u>3,314,593</u>

## 19.3 Lease receivable

### 19.3 (a) Lease Receivable within one year

Total lease rentals receivable within one year	5,378,924	4,482,954	5,439,863	4,523,134
Less: Unearned lease income	1,700,404	1,434,751	1,720,843	1,446,139
Loan loss provision	70,717	41,595	70,571	41,567
Interest in Suspense [Note 19.3 (e)]	46,219	36,227	46,219	36,227
	<u>3,561,584</u>	<u>2,970,381</u>	<u>3,602,230</u>	<u>2,999,201</u>

### 19.3 (b) Lease Receivable from one to five years

Total lease rentals receivable from one to five years	9,158,582	7,662,110	9,284,042	7,743,657
Less: Unearned lease income	1,789,458	1,176,111	1,810,726	1,189,949
Loans loss provision	141,665	88,505	141,811	88,533
	<u>7,227,459</u>	<u>6,397,494</u>	<u>7,331,505</u>	<u>6,465,175</u>



# NOTES TO THE FINANCIAL STATEMENTS

	Group		Bank	
	2007 Rs. '000	2006 Rs. '000	2007 Rs. '000	2006 Rs. '000
<b>19.3 (c) Lease Receivable over five years</b>				
Total lease rentals receivable over five years	11,837	18,091	11,837	18,091
Less: Unearned lease income	953	627	953	627
Loan loss provision	54	87	54	87
	<u>10,830</u>	<u>17,377</u>	<u>10,830</u>	<u>17,377</u>
<b>19.3 (d) Movement in the provision for bad and doubtful lease receivable:</b>				
<b>Specific Provision</b>				
Opening balance	82,223	44,131	82,223	44,131
Amount provided	114,301	58,778	114,301	58,778
Amount reversed	(40,052)	(20,686)	(40,052)	(20,686)
Closing balance	<u>156,472</u>	<u>82,223</u>	<u>156,472</u>	<u>82,223</u>
<b>General Provision</b>				
Opening balance	47,964	35,719	47,964	35,719
Amount provided	8,000	12,245	8,000	12,245
Amount made specific	—	—	—	—
Closing balance	<u>55,964</u>	<u>47,964</u>	<u>55,964</u>	<u>47,964</u>
Total provision	<u>212,436</u>	<u>130,187</u>	<u>212,436</u>	<u>130,187</u>
<b>19.3 (e) Movement in the Interest in suspense account of lease receivable</b>				
Opening Balance	36,227	5,033	36,227	5,033
Interest suspended during the year	51,712	68,518	51,712	68,518
Amount recovered during the year	(41,720)	(37,324)	(41,720)	(37,324)
Closing Balance	<u>46,219</u>	<u>36,227</u>	<u>46,219</u>	<u>36,227</u>

The maturity analysis of loans & advances is given in Note 34.

## 19.4 Non-Performing Loans & Advances

Net exposure on non-performing loans and advances as at December 31, before discounting the value of the securities obtained is given below:

	Group				Bank			
	2007 Rs. '000	%	2006 Rs. '000	%	2007 Rs. '000	%	2006 Rs. '000	%
Bills of Exchange	52,486		156,551		52,486		156,551	
Loans and advances	5,925,963		4,947,800		5,925,963		4,947,800	
Lease receivable	285,896		199,973		285,896		199,973	
Non-performing loans & advances (*)	6,264,345		5,304,324		6,264,345		5,304,324	
Add: Interest receivable on non-performing loans and advances	2,339,098		2,329,379		2,339,098		2,329,379	
Gross non-performing loans & advances	8,603,443		7,633,703		8,603,443		7,633,703	
Less: Interest in suspense	3,336,394		3,435,224		3,336,394		3,435,224	
Net non-performing loans & advances	5,267,049	3.01	4,198,479	2.78	5,267,049	3.01	4,198,479	2.78
Less: Specific Provisions for bad & doubtful debts [Note 19.4 (a)]	2,690,098		2,297,844		2,690,098		2,297,844	
Net exposure	<u>2,576,951</u>	1.48	<u>1,900,635</u>	1.26	<u>2,576,951</u>	1.48	<u>1,900,635</u>	1.26

(\*) This includes foreclosed properties, the details of which are given in Note 19.5.

# NOTES TO THE FINANCIAL STATEMENTS

Net exposure of Rs. 2,576.951 Mn (Rs. 1,900.635 Mn as at December 31, 2006) is covered by securities valued over Rs. 2,576.951 Mn (Rs. 1,900.635 Mn as at December 31, 2006) excluding stocks.

As per the 'Hair Cut Rule' of the Central Bank of Sri Lanka, the extent up to which securities can be discounted for provisioning purposes is 75% at the time of first provisioning, 60% for non-performing loans between 1-2 years in the loss category, 50% for those between 2-3 years in the loss category and 40% for those between 3-4 years in the loss category. It will be at the discretion of the management for cases over 4 years in the loss category.

All loans and advances where the recovery of capital or interest is in arrears for over three months have been classified into the non-performing category in accordance with the guidelines issued by the Central Bank of Sri Lanka. The Bank's computer system has been programmed to classify the loans in accordance with these guidelines. In instances where the recovery of capital or interest is in arrears for over three months, interest credited to the Income Statement on such loans and advances for the first three months too is transferred to interest in suspense.

## 19.4 (a) Specific Provision for Bad & Doubtful Debts - Summary

	Group		Bank	
	2007	2006	2007	2006
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Specific Provision</b>				
Opening balance	2,297,844	2,106,882	2,297,844	2,106,882
Amount provided	1,146,689	495,747	1,146,689	495,747
Exchange rate variance on foreign currency provisions	9,581	34,715	9,581	34,715
Amount Reversed	(764,016)	(339,500)	(764,016)	(339,500)
Closing balance	2,690,098	2,297,844	2,690,098	2,297,844

## 19.4 (b) General Provision for bad & doubtful debts - Summary

<b>General Provision</b>				
Opening balance	238,622	85,411	238,622	85,411
Amount provided	628,951	151,626	628,951	151,626
Exchange rate variance on foreign currency provisions	(370)	1,585	(370)	1,585
Amount made specific	—	—	—	—
Closing balance	867,203	238,622	867,203	238,622
Total Provision	3,557,301	2,536,466	3,557,301	2,536,466

## 19.5 Foreclosed Properties

The foreclosed properties included under loans & advances as at December 31, include the following:

	Extent			2007		Bank	
	A	R	P	Cost/W.D.V.	Forced Sale Value	Cost/W.D.V.	Forced Sale Value
				Rs. '000	Rs. '000	Rs. '000	Rs. '000
Land and Building at Kochchikade, Negombo (*)	2	2	36.91	81,613	100,000	81,613	125,000
Less : Fall in Value				(15,000)	—	(15,000)	—
Total				66,613	100,000	66,613	125,000

A = Acres, R = Roods, P = Perches

(\*) Bank acquired this hotel property in 1999 in settlement of a debt due to the Bank. With the approval of the Central Bank of Sri Lanka, Bank entered into a management agreement with Serendib Leisure Management (Pvt) Ltd. which expired in December 2002. Currently, this hotel is closed for operations.

# NOTES TO THE FINANCIAL STATEMENTS

## 19.6 Concentration of Credit Risk

Sector-wise analysis of Bank's loans & advances portfolio reflecting the exposure to credit risk in the various sectors is given below:

	Group				Bank			
	2007 Rs. '000	%	2006 Rs. '000	%	2007 Rs. '000	%	2006 Rs. '000	%
Exports	21,879,306	12.24	16,471,461	10.69	21,879,306	12.23	16,471,461	10.68
Tourism & allied	4,841,672	2.71	5,143,570	3.34	4,841,672	2.71	5,143,570	3.34
Industrial	27,861,656	15.59	24,047,631	15.61	27,861,656	15.58	24,047,631	15.60
Agriculture & fishing	7,688,429	4.30	1,606,924	1.04	7,688,429	4.30	1,606,924	1.04
Commercial trading	16,863,077	9.44	8,561,694	5.56	16,863,077	9.43	8,561,694	5.55
Imports	21,325,779	11.93	20,206,052	13.11	21,325,779	11.92	20,206,052	13.11
Consumption	11,570,708	6.47	5,840,736	3.79	11,570,708	6.47	5,840,736	3.79
Services	24,549,566	13.74	19,691,095	12.78	24,694,257	13.81	19,787,598	12.83
Housing & construction	18,126,246	10.14	9,393,570	6.10	18,126,246	10.13	9,393,570	6.09
Others	24,020,298	13.44	43,109,426	27.98	24,027,103	13.42	43,115,115	27.97
Total loans & advances	178,726,737	100.00	154,072,159	100.00	178,878,233	100.00	154,174,351	100.00

## 20. Investments in Associates

	%	Holding	Group				Bank			
			31.12.07		31.12.06		31.12.07		31.12.06	
			Balance	Market Value/ Directors' Valuation	Balance	Market Value/ Directors' Valuation	Balance	Market Value/ Directors' Valuation	Balance	Market Value/ Directors' Valuation
			Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Quoted:</b>										
Commercial Leasing Co. Ltd.										
(Incorporated in Sri Lanka)	30.00		-	-	50,250	609,538	-	-	50,250	609,538
(4,688,750 Ordinary Shares)						(@ Rs.130.00)				(@ Rs. 130.00)
(4,688,750 Ordinary Shares of Rs. 10.00 each fully paid as at December 31, 2006)										
Add: Share Premium held by the Bank					26,146				-	
Add: Rights issue of shares			-	-	36,300	78,650	-	-	36,300	78,650
(604,999 Ordinary Shares of Rs. 10.00 each fully paid in Dec 31, 2006)						(@ Rs. 130.00)				(@ Rs. 130.00)
Add: Share of profit applicable to the Bank:										
Balance at the beginning of the year					148,181				-	
Changes in accounting policy for accounting for deferred taxation					(41,838)	-			-	-
Current year's share of profit after tax			-	-	41,665				-	
Less: Dividend received during the year			-	-	-				-	
Current year's retained profit					41,665				-	
					148,008				-	
Balance at the end of the year					260,704	688,188			86,550	688,188
Transferred to investments held for sale					(260,704)	(688,188)			(86,550)	(688,188)
Balance at the end of the year					-	-			-	-

# NOTES TO THE FINANCIAL STATEMENTS

		Group				Bank			
		31.12.07		31.12.06		31.12.07		31.12.06	
		Balance	Market Value/ Directors' Valuation	Balance	Market Value/ Directors' Valuation	Balance	Market Value/ Directors' Valuation	Balance	Market Value/ Directors' Valuation
	% Holding	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Unquoted</b>									
Commercial Fund Management (Pvt) Ltd.									
(Incorporated in Sri Lanka)	50.00	-	-	12,500	21,213	-	-	12,500	21,213
(2007 - Nil)									
(125,000 Ordinary Shares of Rs. 100.00 each fully paid as at December 31, 2006)									
Add: Share of profit applicable to the Bank									
Balance at the beginning of the year				5,790					
Current year's share of profit after tax		-	-	3,519					
Less: Dividend received during the year		-	-	(596)					
Current year's retained profit				2,923					
				8,713					
		-	-	21,213	21,213			12,500	21,213
Transferred to investments held for sale		-	-	(21,213)	(21,213)			(12,500)	(21,213)
Balance at the end of the year		-	-	-	-			-	-
Equity Investments Lanka Ltd.									
(Incorporated in Sri Lanka)	22.92	44,331	41,674	44,331	40,965	44,331	41,674	44,331	40,965
(4,110,938 Ordinary Shares)									
(4,110,938 Ordinary Shares of Rs.10.00 each fully paid as at December 31, 2006)									
Add: Share of profit applicable to the Bank									
Balance at the beginning of the year		(3,366)		(4,409)					
Current year's share of profit after tax		2,764		2,276					
Less: Dividend received during the year		(2,055)		(1,233)					
Current year's retained profit		709		1,043					
		(2,657)		(3,366)					
Balance at the end of the year		41,674	41,674	40,965	40,965	44,331	41,674	44,331	40,965
Commercial Insurance Brokers (Pvt) Ltd.	20.00	100	21,046	-	-	-	-	-	-
(Incorporated in Sri Lanka)									
(120,000 Ordinary Shares)									
(120,000 Ordinary Shares of Rs.10.00 each fully paid as at December 31, 2006)									
Add: Recognition of share of Post Tax Profit of Associate Company									
Add: Share of profit/(loss) applicable to the Bank:									
Balance at the beginning of the year		-		-					
Current year's share of profit/(loss) after tax		21,662		-					
Less: Dividend received during the year		(716)		-					
Current year's retained profit/(loss)		20,946		-					
		20,946		-					
Balance at the end of the year		21,046	21,046	-	-	-	-	-	-
Total Value of Investments in Quoted & Unquoted Associate Companies at carrying value on Equity basis		62,720		40,965		44,331		44,331	
Total Market Value/Directors' Valuation of Investments in Associate Companies			62,720		40,965		41,674		40,965

# NOTES TO THE FINANCIAL STATEMENTS

## 21. Investments in Subsidiaries

	% Holding	Group				Bank			
		31.12.07		31.12.06		31.12.07		31.12.06	
		Balance	Market Value/ Directors' Valuation	Balance	Market Value/ Directors' Valuation	Balance	Market Value/ Directors' Valuation	Balance	Market Value/ Directors' Valuation
		Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Quoted									
Commercial Development Co. PLC (Incorporated in Sri Lanka) (11,345,705 Ordinary Shares) (11,345,705 Ordinary Shares of Rs. 10.00 each fully paid as at December 31, 2006)	94.55	—	—	—	—	274,393	624,014 (@ Rs. 55.00)	274,393	737,471 (@ Rs. 65.00)
Unquoted									
Commercial Bank Primary Dealer Ltd. (Incorporated in Sri Lanka) (15,000,000 Ordinary Shares) (15,000,000 Ordinary Shares of Rs. 10.00 each fully paid as at December 31, 2006)	100.00	—	—	—	—	150,000	150,000 (@ Rs. 10.00)	150,000	150,000 (@ Rs. 10.00)
ONEzero Company Ltd. (Incorporated in Sri Lanka) (500,000 Ordinary Shares) (500,000 Ordinary Shares of Rs. 10.00 each fully paid as at December 31, 2006)	100.00	—	—	—	—	5,000	5,000 (@ Rs. 10.00)	5,000	5,000 (@ Rs. 10.00)
X-pertise Ltd. (Incorporated in Sri Lanka) (428,797 Ordinary Shares) (428,797 Ordinary Shares of Rs. 10.00 each fully paid as at December 31, 2006)	100.00	—	—	—	—	4,288	4,288 (@ Rs. 10.00)	4,288	4,288 (@ Rs. 10.00)
		—	—	—	—	433,681	783,302	433,681	896,759

## 22. Other Assets

	Group		Bank	
	2007 Rs. '000	2006 Rs. '000	2007 Rs. '000	2006 Rs. '000
Deposits & prepayments	229,983	195,590	226,252	190,266
Clearing account balance	2,753,608	1,870,827	2,753,608	1,870,827
Other accounts	670,311	640,976	650,457	636,867
	3,653,902	2,707,393	3,630,317	2,697,960



# NOTES TO THE FINANCIAL STATEMENTS

## 23. Property, Plant & Equipment

### 23.1 Group

	Freehold Land	Freehold Buildings	Leasehold Buildings	Computer Equipment	Motor Vehicles	Office Equipment & Furniture	Capital Work-in- Progress	31.12.07 Total	31.12.06 Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Cost / Valuation									
as at beginning of the year	1,061,813	899,913	275,152	1,671,180	180,834	1,440,560	28,799	5,558,251	5,116,243
Additions during the year	76,325	1,580	13,432	227,172	66,644	211,573	36,336	633,062	527,455
Revaluation adjustment on accumulated depreciation	–	–	(56,587)	–	–	–	–	(56,587)	–
Surplus on revaluation of property	–	–	329,950	–	–	–	–	329,950	–
Disposals during the year	(1,598)	–	–	(811)	(12,510)	(4,345)	–	(19,264)	(85,704)
Exchange rate variance	–	–	–	(771)	118	(3,662)	–	(4,315)	–
Transfers/Adjustments	–	–	–	(1,189)	(5)	(2,665)	(5,613)	(9,472)	257
As at end of the year	1,136,540	901,493	561,947	1,895,581	235,081	1,641,461	59,522	6,431,625	5,558,251
Accumulated depreciation									
as at beginning of the year	–	74,785	62,904	1,050,079	87,832	845,174	–	2,120,774	1,878,249
Charge for the year	–	35,665	3,175	175,067	37,283	140,257	–	391,447	323,724
Revaluation adjustment on accumulated depreciation	–	–	(56,587)	–	–	–	–	(56,587)	–
Disposals during the year	–	–	–	(293)	(11,199)	(3,607)	–	(15,099)	(81,420)
Exchange rate variance	–	–	–	(1,260)	18	(4,776)	–	(6,018)	–
Transfers/Adjustments	–	–	–	–	–	55	–	55	221
As at end of the year	–	110,450	9,492	1,223,593	113,934	977,103	–	2,434,572	2,120,774
<b>Net Book Value as at 31.12.07</b>	<b>1,136,540</b>	<b>791,043</b>	<b>552,455</b>	<b>671,988</b>	<b>121,147</b>	<b>664,358</b>	<b>59,522</b>	<b>3,997,053</b>	
Net Book Value as at 31.12.06	1,061,813	825,128	212,248	621,101	93,002	595,386	28,799		3,437,477

**23.1.1** 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 is as follows:

Class of Asset	2007			2006		
	Cost Rs.'000	Accumulated Depreciation Rs.'000	Net Book Value Rs.'000	Cost Rs.'000	Accumulated Depreciation Rs.'000	Net Book Value Rs.'000
Land	375,919	–	375,919	299,710	–	299,710
Freehold Buildings	587,664	157,680	429,984	586,084	141,538	444,546
Leasehold Buildings	232,007	64,309	167,698	218,575	58,827	159,748
Total	1,195,590	221,989	973,601	1,104,369	200,365	904,004

# NOTES TO THE FINANCIAL STATEMENTS

## 23.2 Bank

	Freehold Land	Freehold Buildings	Leasehold Buildings	Computer Equipment	Motor Vehicles	Office Equipment & Furniture	Capital Work-in- Progress	31.12.07 Total	31.12.06 Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Cost/Valuation									
as at beginning of the year	1,061,813	899,913	98,515	1,669,905	46,513	1,390,937	23,186	5,190,782	4,786,537
Additions during the year	76,325	1,580	—	227,168	18,809	203,189	36,336	563,407	478,171
Disposals during the year	(1,598)	—	—	(39)	(4,736)	(3,951)	—	(10,324)	(74,184)
Exchange rate variance	—	—	—	(771)	118	(3,662)	—	(4,315)	—
Transfers/Adjustments	—	—	—	(1,189)	(5)	(2,652)	—	(3,846)	258
As at end of the year	1,136,540	901,493	98,515	1,895,074	60,699	1,583,861	59,522	5,735,704	5,190,782
Accumulated depreciation									
as at beginning of the year	—	74,785	6,317	1,049,512	31,572	811,334	—	1,973,520	1,754,175
Charge for the year	—	35,665	3,175	174,907	7,210	137,797	—	358,754	290,131
Disposals during the year	—	—	—	(29)	(4,736)	(3,440)	—	(8,205)	(71,022)
Exchange rate variance	—	—	—	(1,260)	18	(4,776)	—	(6,018)	—
Transfers/Adjustments	—	—	—	—	—	59	—	59	236
As at end of the year	—	110,450	9,492	1,223,130	34,064	940,974	—	2,318,110	1,973,520
<b>Net Book Value as at 31.12.07</b>	<b>1,136,540</b>	<b>791,043</b>	<b>89,023</b>	<b>671,944</b>	<b>26,635</b>	<b>642,887</b>	<b>59,522</b>	<b>3,417,594</b>	
Net Book Value as at 31.12.06	1,061,813	825,128	92,198	620,393	14,941	579,603	23,186		3,217,262

23.2.1 With the permission of the Monetary Board of the Central Bank of Sri Lanka, freehold and leasehold land & buildings of the Bank were revalued by professionally qualified independent valuers as at December 31, 2004. The surplus on the revaluation amounting to Rs. 1,131.147 million was credited to the Revaluation Reserve Account.

23.2.2 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 is as follows:

Class of Asset	2007			2006		
	Cost Rs.'000	Accumulated Depreciation Rs.'000	Net Book Value Rs.'000	Cost Rs.'000	Accumulated Depreciation Rs.'000	Net Book Value Rs.'000
Land	375,919	—	375,919	299,710	—	299,710
Freehold Buildings	587,664	157,680	429,984	586,084	141,538	444,546
Leasehold Buildings	96,885	23,204	73,681	96,885	20,764	76,121
Total	1,060,468	180,884	879,584	982,679	162,302	820,377

## 24. Leasehold Property

	Group		Bank	
	2007	2006	2007	2006
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
<b>Cost/Valuation</b>				
As at beginning of the year	128,700	128,700	84,840	84,840
Additions for the year	—	—	—	—
As at end of the year	128,700	128,700	84,840	84,840
<b>Accumulated Amortisation</b>				
As at beginning of the year	8,212	6,760	1,884	942
Amortisation for the year	1,523	1,452	1,013	942
As at end of the year	9,735	8,212	2,897	1,884
<b>Net Book Value</b>	<b>118,965</b>	<b>120,488</b>	<b>81,943</b>	<b>82,956</b>

The leasehold rights to land is disclosed under Leasehold Property with effect from the current financial year with comparative amounts being changed to conform to current presentation. The revised Urgent Issue Task Force (UITF) ruling does not permit further revaluation of Leasehold Property. An amount of Rs. 64.662 Mn is remaining in the equity under Revaluation Surplus relating to previous revaluation of leasehold rights to land. Last such revaluation was carried out by independent valuers in the year 2004.

## 25. Intangible Assets

	Group		Bank	
	2007	2006	2007	2006
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
<b>25.1 Computer Software and Copyrights</b>				
<b>Cost/Valuation</b>				
As at beginning of the year	527,412	430,405	525,887	429,230
Acquired during the year	85,683	97,657	84,616	96,657
Disposals during the year	(2,546)	—	—	—
Transfers/Adjustments	—	(650)	—	—
As at end of the year	610,549	527,412	610,503	525,887
<b>Accumulated Amortisation</b>				
As at beginning of the year	364,599	279,245	364,358	279,245
Amortisation for the year	51,993	85,889	51,629	85,648
Disposals during the year	(604)	—	—	—
Transfers/Adjustments	—	(535)	—	(535)
As at end of the year	415,988	364,599	415,987	364,358
<b>Net book value</b>	<b>194,561</b>	<b>162,813</b>	<b>194,516</b>	<b>161,529</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 25.2 Software Under Development

	Group		Bank	
	2007 Rs.'000	2006 Rs.'000	2007 Rs.'000	2006 Rs.'000
<b>Cost/Valuation</b>				
As at beginning of the year	15,101	–	15,101	–
Acquired during the year	58,870	15,101	58,870	15,101
As at end of the year	<u>73,971</u>	<u>15,101</u>	<u>73,971</u>	<u>15,101</u>
<b>Net book value/carrying value as at 31.12.2007</b>	<u>268,532</u>	<u>177,914</u>	<u>268,487</u>	<u>176,630</u>

## 26. Deposits from Customers

### Local Currency Deposits

Current account deposits	14,597,770	14,065,810	14,619,729	14,167,707
Savings deposits	45,719,566	42,952,016	45,719,862	42,952,361
Time deposits	62,742,264	48,060,083	62,742,264	48,060,083
Certificates of deposit	3,307,118	3,302,756	3,307,118	3,302,756
	<u>126,366,718</u>	<u>108,380,665</u>	<u>126,388,973</u>	<u>108,482,907</u>

### Foreign Currency Deposits

Current account deposits	5,231,856	4,575,136	5,231,856	4,575,136
Savings deposits	25,636,200	21,380,050	25,636,200	21,380,050
Time deposits	25,853,106	23,058,064	25,853,106	23,058,064
	<u>56,721,162</u>	<u>49,013,250</u>	<u>56,721,162</u>	<u>49,013,250</u>

### Total Deposits

	<u>183,087,880</u>	<u>157,393,915</u>	<u>183,110,135</u>	<u>157,496,157</u>
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### 26(a) Analysis of Deposits

Deposits from Banks	1,008,570	145,316	1,008,570	145,316
Deposits from Finance Companies	2,394,836	1,388,414	2,394,836	1,388,414
Deposits from other Customers	179,684,474	155,860,185	179,706,729	155,962,427
	<u>183,087,880</u>	<u>157,393,915</u>	<u>183,110,135</u>	<u>157,496,157</u>

The maturity analysis of Deposits is given in Note 34.

## 27. Borrowings

Call money borrowings	1,800,000	1,800,000	1,800,000	1,800,000
Borrowings from banks abroad	8,994,620	10,973,127	8,994,620	10,973,127
Refinance borrowings	6,872,791	5,095,989	6,872,791	5,095,989
Long-term borrowings	1,085,000	1,075,000	1,085,000	1,075,000
	<u>18,752,411</u>	<u>18,944,116</u>	<u>18,752,411</u>	<u>18,944,116</u>

# NOTES TO THE FINANCIAL STATEMENTS

## 28. Other Liabilities

	Group		Bank	
	2007	2006	2007	2006
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Accrued expenditure and interest	5,035,313	3,662,898	5,033,658	3,659,974
Cheques sent on clearing	2,348,480	2,062,161	2,348,480	2,062,161
Contribution to the restructured Pension Scheme	–	1,780,495	–	1,780,495
Provision for Gratuity	35,821	23,231	29,846	18,095
Other accounts	2,321,477	1,011,171	2,343,576	1,021,215
	<u>9,741,091</u>	<u>8,539,956</u>	<u>9,755,560</u>	<u>8,541,940</u>

## 29. Deferred Tax Liabilities

	Group				Bank			
	2007		2006		2007		2006	
	Temporary Difference	Tax Effect	Temporary Difference	Tax Effect	Temporary Difference	Tax Effect	Temporary Difference	Tax Effect
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
As at beginning of the year	1,794,105	624,940	770,729	227,367	1,667,231	580,535	726,658	214,146
Amount originating/(reversing) during the year	61,684	(28,305)	1,023,376	397,573	62,519	(28,013)	940,573	366,389
Deferred tax effect on revaluation surplus on Property	329,950	115,482	–	–	–	–	–	–
Exchange rate variance	444	(200)	–	–	444	(200)	–	–
As at end of the year	<u>2,186,183</u>	<u>711,917</u>	<u>1,794,105</u>	<u>624,940</u>	<u>1,730,194</u>	<u>552,322</u>	<u>1,667,231</u>	<u>580,535</u>

The above Deferred tax liability arises from the temporary differences associated with the Property, Plant & Equipment, Assets leased to customers and provision for Gratuity payable.



# NOTES TO THE FINANCIAL STATEMENTS

## 30. Debentures

As at December 31, 2007, debentures consisted of 6,680,440 Unsecured Subordinated Redeemable debentures of Rs. 1,000.00 each issued by the Bank in 2003, 2004, 2005 and 2006.

	Group				Bank			
		2007	2006		2007	2006		
		Rs.'000	Rs.'000		Rs.'000	Rs.'000		
As at beginning of the year		6,680,440	4,553,410		6,680,440	4,553,410		
Issued during the year		–	2,127,030		–	2,127,030		
As at end of the year		6,680,440	6,680,440		6,680,440	6,680,440		

	Bank							
					Effective Annual Yield		Value as at December 31	
	Colombo Stock Exchange Listing	Interest Payable Frequency	Allotment Date	Maturity Date	2007	2006	2007 Rs. '000	2006 Rs. '000
Debenture Categories								
Fixed Rate								
2003/2008 - 10.00% p.a.	Listed	Quarterly	12.05.2003	12.05.2008	10.38%	10.38%	115,890	115,890
2005/2010 - 12.00% p.a.	Not listed	Annually	10.10.2005	10.10.2010	12.00%	12.00%	284,000	284,000
2006/2011 - 12.00% p.a.	Not listed	Annually	16.05.2006	16.05.2011	12.00%	12.00%	15,000	15,000
2006/2016 - 13.25% p.a.	Not listed	Annually	16.05.2006	16.05.2016	13.25%	13.25%	505,000	505,000
2006/2011 - 13.50% p.a.	Listed	Annually	18.12.2006	18.12.2011	13.50%	13.50%	527,800	527,800
2006/2013 - 13.75% p.a.	Listed	Annually	18.12.2006	18.12.2013	13.75%	13.75%	250	250
2006/2016 - 14.00% p.a.	Listed	Annually	18.12.2006	18.12.2016	14.00%	14.00%	467,260	467,260
							1,915,200	1,915,200
Floating Rate								
2003/2008 - 3 months TB rate (Net) + 2% p.a.	Listed	Quarterly	12.05.2003	12.05.2008	18.97%	12.79%	2,128,520	2,128,520
2004/2009 - 3 months TB rate (Net) + 2% p.a.	Not listed	Quarterly	01.10.2004	01.10.2009	18.97%	12.79%	1,000,000	1,000,000
2005/2010 - 3 months TB rate (Net) + 2% p.a.	Not listed	Quarterly	10.10.2005	10.10.2010	18.97%	12.79%	120,000	120,000
2005/2010 - 3 months TB rate (Gross) + 1% p.a.	Not listed	Quarterly	10.10.2005	10.10.2010	19.81%	12.94%	905,000	905,000
2006/2011 - 3 months TB rate (Net) + 2% p.a.	Not listed	Quarterly	16.05.2006	16.05.2011	18.97%	12.82%	15,000	15,000
2006/2011 - 3 months TB rate (Gross) + 1% p.a.	Not listed	Quarterly	16.05.2006	16.05.2011	19.81%	12.97%	465,000	465,000
2006/2011 - 12 months TB rate (Gross) + 1% p.a.	Listed	Annually	18.12.2006	18.12.2011	15.42%	15.19%	131,020	131,020
2006/2013 - 12 months TB rate (Gross) + 1% p.a.	Listed	Annually	18.12.2006	18.12.2013	15.42%	15.19%	300	300
2006/2016 - 12 months TB rate (Gross) + 1% p.a.	Listed	Annually	18.12.2006	18.12.2016	15.42%	15.19%	400	400
							4,765,240	4,765,240
Total debentures as at end of the year							6,680,440	6,680,440

## Notes

**3 Months TB rate (Gross)** - three months Treasury Bill rate before 10% Withholding Tax Rate as published by the Central Bank of Sri Lanka immediately prior to the commencement of each interest period.

**3 Months TB rate (Net)** - three months Treasury Bill rate after 10% Withholding Tax Rate as published by the Central Bank of Sri Lanka immediately prior to the commencement of each interest period.

**12 Months TB rate (Gross)** - twelve months Treasury Bill rate before 10% Withholding Tax Rate as published by the Central Bank of Sri Lanka immediately prior to the commencement of each interest period.

### 31. Stated Capital/Share Capital

	Group		Bank	
	2007	2006	2007	2006
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Opening Balance	–	–	–	–
Transferred from Ordinary Share Capital-Voting	2,329,312	–	2,329,312	–
Transferred from Ordinary Share Capital-Non Voting	161,206	–	161,206	–
Transferred from share premium	7,024,289	–	7,024,289	–
Transferred from Preference share capital-11.25% cumulative redeemable	1,000,000	–	1,000,000	–
Closing Balance	10,514,807	–	10,514,807	–
<b>Authorised</b>				
250,000,000 Ordinary Voting Shares of Rs. 10.00 each	–	2,500,000	–	2,500,000
50,000,000 Ordinary Non-Voting Shares of Rs. 10.00 each	–	500,000	–	500,000
200,000,000 Cumulative Redeemable Preference Shares of Rs. 10.00 each	–	2,000,000	–	2,000,000
	–	5,000,000	–	5,000,000
<b>Issued &amp; Fully Paid</b>				
<b>Ordinary Shares - Voting</b>				
Opening balance - 133,518,264 Shares of Rs. 10.00 each (132,780,522 Shares in 2006)	1,335,183	1,327,806	1,335,183	1,327,806
Rights Issue of 40,288,996 Shares of Rs. 10.00 each	402,890	–	402,890	–
Bonus Issue of 58,204,268 Shares	582,043	–	582,043	–
Issue of 919,649 Shares of Rs. 10.00 each under Employee Share Option Plan (737,742 Shares in 2006)	9,196	7,377	9,196	7,377
232,931,177 Shares (133,518,264 Shares of Rs. 10.00 each in 2006)	2,329,312	1,335,183	2,329,312	1,335,183
Transferred to Stated Capital	(2,329,312)	–	(2,329,312)	–
Closing balance	–	1,335,183	–	1,335,183
<b>Ordinary Shares - Non-voting</b>				
Opening balance - 9,300,460 Shares of Rs. 10.00 each (9,300,460 Shares in 2006)	93,003	93,003	93,003	93,003
Rights Issue of 2,790,138 Shares of Rs. 10.00 each	27,901	–	27,901	–
Bonus Issue of 4,030,199 Shares	40,302	–	40,302	–
16,120,797 Shares ( 9,300,460 Shares of Rs. 10.00 each in 2006 )	161,206	93,003	161,206	93,003
Transferred to Stated Capital	(161,206)	–	(161,206)	–
Closing balance	–	93,003	–	93,003
<b>13% Cumulative Redeemable Preference Shares</b>				
Opening balance - Nil (90,655,500 Shares in 2006)	–	906,555	–	906,555
Redemption during the year	–	(906,555)	–	(906,555)
Closing balance - Nil (Nil Shares in 2006)	–	–	–	–
<b>11.25% Cumulative Redeemable Preference Shares</b>				
Opening balance - 100,000,000 shares of Rs. 10.00 each (100,000,000 shares in 2006)	1,000,000	1,000,000	1,000,000	1,000,000
Issued during the year	–	–	–	–
100,000,000 shares of Rs. 10.00 each (100,000,000 shares in 2006)	1,000,000	1,000,000	1,000,000	1,000,000
Transferred to Stated Capital	(1,000,000)	–	(1,000,000)	–
Closing Balance	–	1,000,000	–	1,000,000
Total	–	2,428,186	–	2,428,186

These shares are quoted in the Colombo Stock Exchange.

## NOTES TO THE FINANCIAL STATEMENTS

The 13% Cumulative Redeemable Preference Shares were allotted on September 20, 2001 and were redeemed on September 21, 2006.

The 11.25% Cumulative Redeemable Preference Shares were allotted on May 13, 2003 and will be redeemed on May 12, 2008.

### Employee Share Option Plan

The Bank obtained the approval of the shareholders at an Extra-Ordinary General Meeting held in September, 2002, to introduce an Employee Share Option Plan for the benefit of all the executive officers in Grade III and above by creating up to 5% of the ordinary voting shares at the rate of 1.25% shares each year over a period of four years, upon the Bank achieving specified performance targets.

The details relating to the four tranches of the Employee Share Option Plan are given below:

Tranche	Original No. of Options (*)	Date given	Price (Rs.) (**)	Exercisable between	Exercised as at end of the year
I	650,000	March 31, 2003	36.00	April 01, 2004 to March 31, 2008	624,943
II	812,500	March 31, 2004	57.85	April 01, 2005 to March 31, 2009	774,674
III	1,637,947	March 31, 2005	56.13	April 01, 2006 to March 31, 2010	1,579,827
IV	1,659,756	March 31, 2006	111.38	April 01, 2007 to March 31, 2011	69,307

(\*) Giving options under each tranche is based on the overall performance of the Bank for each year and the individual performance of the eligible employees. In the event of a bonus or/and right issue of shares during the vesting period the number of use/exercised options offered and the prices are suitably amended in line with the accepted market practices.

(\*\*) Determined on the basis of the weighted average price of the voting shares of the Bank between October 1 and December 31 of each year.

The number of options given to the Managing Director under tranches I, II, III & IV are 25,623, 30,753, 63,349 and 84,907 respectively.

### 32. Statutory Reserve Fund

	Group		Bank	
	2007 Rs.'000	2006 Rs.'000	2007 Rs.'000	2006 Rs.'000
Opening balance	1,429,319	1,421,819	1,428,500	1,421,000
Add: Transfer during the year	205,178	7,500	205,178	7,500
Closing balance	1,634,497	1,429,319	1,633,678	1,428,500

The balance in the Statutory Reserve Fund account will be used only for the purposes specified in the Section 20 (2) of the Banking Act No. 30 of 1988.

# NOTES TO THE FINANCIAL STATEMENTS

## 33. Other Reserves

	Group		Bank	
	2007 Rs.'000	2006 Rs.'000	2007 Rs.'000	2006 Rs.'000
<b>Capital Reserves</b>				
Share Premium Account [Refer Note 33 (a)]	–	1,728,793	–	1,728,793
Revaluation Reserve [Refer Notes 23 and 33 (b)]	<b>1,489,474</b>	1,288,177	<b>1,286,695</b>	1,288,177
	<b>1,489,474</b>	3,016,970	<b>1,286,695</b>	3,016,970
<b>Revenue Reserves</b>				
General Reserve [Refer Note 33 (c)]	<b>10,278,367</b>	7,971,914	<b>10,278,367</b>	7,971,914
Capital Redemption Reserve Fund [Refer Note 33 (d)]	–	906,555	–	906,555
Foreign Currency Translation Reserve [Refer Note 33 (e)]	<b>(427,485)</b>	(416,049)	<b>(427,485)</b>	(416,049)
Primary Dealer Special Risk Reserve [ Refer Note 33 (f) ]	<b>23,658</b>	6,244	<b>23,658</b>	6,244
Unappropriated profit carried forward [Refer Note 12]	<b>844,573</b>	673,321	<b>626,317</b>	500,521
	<b>10,719,113</b>	9,141,985	<b>10,500,857</b>	8,969,185
Total	<b>12,208,587</b>	12,158,955	<b>11,787,552</b>	11,986,155

### 33 (a) Share Premium Account

	Group		Bank	
	2007 Rs.'000	2006 Rs.'000	2007 Rs.'000	2006 Rs.'000
Opening balance	<b>1,728,793</b>	1,679,604	<b>1,728,793</b>	1,679,604
Proceeds from issue of shares under Employee Share Option Plan	<b>67,368</b>	52,686	<b>67,368</b>	52,686
Proceeds from Rights issue of shares	<b>5,310,449</b>	–	<b>5,310,449</b>	–
Writing-off of share issue/Debenture issue expenses	<b>(82,321)</b>	(3,497)	<b>(82,321)</b>	(3,497)
	<b>7,024,289</b>	1,728,793	<b>7,024,289</b>	1,728,793
Transferred to Stated Capital	<b>(7,024,289)</b>	–	<b>(7,024,289)</b>	–
Closing balance	<b>–</b>	1,728,793	<b>–</b>	1,728,793

Share Premium account was used for bonus issue of ordinary shares and writing-off of share and debenture issue expenses.

### 33 (b) Revaluation Reserve

The Revaluation Reserve relates to revaluation of Land & Buildings and represents the increase in the fair value of the Land & Buildings at the date of revaluation.

The Licensed Commercial Banks are allowed to carry out revaluation of their Land & Buildings every seven years and treat 50% of the surplus as supplementary capital in the Tier II of their Capital Base in the computation of Risk-Weighted Capital Adequacy Ratio.

	Group		Bank	
	2007 Rs.'000	2006 Rs.'000	2007 Rs.'000	2006 Rs.'000
Opening balance	<b>1,288,177</b>	1,288,177	<b>1,288,177</b>	1,288,177
Realised revaluation surplus on disposal of property	<b>(1,482)</b>	–	<b>(1,482)</b>	–
Surplus on revaluation of property	<b>311,968</b>	–	–	–
Deferred tax effect on revaluation surplus on property	<b>(109,189)</b>	–	–	–
Closing balance	<b>1,489,474</b>	1,288,177	<b>1,286,695</b>	1,288,177

# NOTES TO THE FINANCIAL STATEMENTS

## 33 (c) General Reserve

	Group		Bank	
	2007 Rs. '000	2006 Rs. '000	2007 Rs. '000	2006 Rs. '000
Opening balance	7,971,914	7,625,000	7,971,914	7,625,000
Transfer to Translation Reserve				
due to effect of changes in accounting policy	–	404,375	–	404,375
Prior year adjustment for Deferred Tax				
on Leased Assets	–	(357,113)	–	(357,113)
Appreciation in the value of investment in				
Comtrust Equity Fund	–	118,396	–	118,396
Transfer from the Income Statement	2,022,243	181,256	2,022,243	181,256
Transfer from Capital Redemption				
Reserve Fund	284,210	–	284,210	–
Closing balance	10,278,367	7,971,914	10,278,367	7,971,914

## 33 (d) Capital Redemption Reserve Fund

Opening balance	906,555	–	906,555	–
Add: Transfer from Income Statement	–	906,555	–	906,555
Utilised for the bonus issue of shares	(622,345)	–	(622,345)	–
	284,210	906,555	284,210	906,555
Transferred to General Reserve	(284,210)	–	(284,210)	–
Closing balance	–	906,555	–	906,555

The above reserve represented the nominal value of preference shares redeemed out of profits.

## 33 (e) Foreign Currency Translation Reserve

Opening balance	(416,049)	–	(416,049)	–
Transfer due to effect of change in				
accounting policy	–	(404,375)	–	(404,375)
Net unrealised losses for the year				
from the translation of Bangladesh operations	(11,436)	(11,674)	(11,436)	(11,674)
Closing balance	(427,485)	(416,049)	(427,485)	(416,049)

## 33 (f) Primary Dealer Special Risk Reserve

Opening balance	6,244	–	6,244	–
Transfer from the Income Statement	17,414	6,244	17,414	6,244
Closing balance	23,658	6,244	23,658	6,244

The above reserve comprises 25% of the post tax profits of the Primary Dealer Unit of the Bank, as per a Direction issued by the Central Bank of Sri Lanka.



### 34. Maturity Analysis

#### 34 (a) Group

(i) An analysis of the total assets employed of the Group as at December 31, based on the remaining period at the Balance Sheet date to the respective contractual maturity dates is given 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 31.12.07 Rs.'000	Total as at 31.12.06 Rs.'000
<b>Interest Earning Assets</b>							
Cash and short-term funds	10,311,578	8,628	—	—	—	10,320,206	8,828,469
Balances with Central Banks	736,855	55,955	—	—	—	792,810	2,048,636
Government Treasury bills and bonds	12,203,598	29,062,712	—	—	—	41,266,310	12,221,771
Commercial paper	—	—	—	—	—	—	422,783
Securities purchased under re-sale agreements	3,804,120	—	—	—	—	3,804,120	4,593,089
Investments	106,627	431,487	595,906	595,000	—	1,729,020	1,253,338
Treasury Bonds maturing after one year	—	—	8,164,589	—	630,252	8,794,841	20,024,893
Loans and advances	76,870,895	29,445,455	36,101,920	16,423,849	15,330,019	174,172,138	150,429,849
	104,033,673	59,004,237	44,862,415	17,018,849	15,960,271	240,879,445	199,822,828
<b>Non-Interest Earning Assets</b>							
Cash and short-term funds	5,888,041	—	—	—	—	5,888,041	4,902,970
Balances with Central Banks	5,770,834	760,706	3,735,007	75,533	440,689	10,782,769	10,525,015
Dealing securities	207,267	—	—	—	—	207,267	144,896
Investments held for sale	118,927	260,704	—	—	—	379,631	401,259
Investments	11,004	—	—	—	16,065	27,069	140,541
Investments in Associates	—	—	—	—	62,720	62,720	40,965
Interest and fees receivable	2,119,836	—	—	—	—	2,119,836	1,638,893
Other assets	3,643,233	—	—	—	10,669	3,653,902	2,707,393
Property, plant & equipment	—	—	—	—	3,997,053	3,997,053	3,437,477
Leasehold Property	—	—	—	—	118,965	118,965	120,488
Intangible assets	—	—	—	—	268,532	268,532	177,914
	17,759,142	1,021,410	3,735,007	75,533	4,914,693	27,505,785	24,237,811
<b>Total Assets</b>	<b>121,792,815</b>	<b>60,025,647</b>	<b>48,597,422</b>	<b>17,094,382</b>	<b>20,874,964</b>	<b>268,385,230</b>	<b>224,060,639</b>
<b>Percentage - 31.12.07</b>	<b>45.37</b>	<b>22.37</b>	<b>18.11</b>	<b>6.37</b>	<b>7.78</b>	<b>100.00</b>	
Percentage - 31.12.06	50.31	12.95	23.47	5.51	7.76		100.00

(ii) An analysis of the total liabilities and shareholders' funds of the Group as at December 31, based on the remaining period at the Balance Sheet date to the respective contractual maturity dates is given 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 31.12.07 Rs.'000	Total as at 31.12.06 Rs.'000
<b>Interest Bearing Liabilities</b>							
Deposits from customers	93,642,484	14,298,157	47,525,409	1,088,590	6,799,934	163,354,574	138,615,056
Borrowings	8,655,920	3,159,187	2,043,195	2,915,901	1,978,208	18,752,411	18,944,116
Securities sold under repurchase agreements	19,701,779	3,535,279	947	—	—	23,238,005	14,317,063
Debentures	—	2,244,410	2,309,000	1,153,820	973,210	6,680,440	6,680,440
	122,000,183	23,237,033	51,878,551	5,158,311	9,751,352	212,025,430	178,556,675

# NOTES TO THE FINANCIAL STATEMENTS

	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 31.12.07 Rs.'000	Total as at 31.12.06 Rs.'000
<b>Non-Interest Bearing Liabilities</b>							
Deposits from customers	19,733,306	—	—	—	—	19,733,306	18,778,859
Dividends payable	112,500	—	—	—	—	112,500	112,500
Other liabilities	9,741,091	—	—	—	—	9,741,091	8,539,956
Tax payable	297,869	1,381,437	—	—	—	1,679,306	1,420,226
Deferred tax Liabilities	—	—	711,917	—	—	711,917	624,940
Stated Capital/Share Capital	—	1,000,000	—	—	9,514,807	10,514,807	2,428,186
Statutory Reserve Fund	—	—	—	—	1,634,497	1,634,497	1,429,319
Other Reserves	—	—	—	—	12,208,587	12,208,587	12,158,955
Minority Interest	—	—	—	—	23,789	23,789	11,023
	29,884,766	2,381,437	711,917	—	23,381,680	56,359,800	45,503,964
<b>Total Liabilities Equity</b>	<b>151,884,949</b>	<b>25,618,470</b>	<b>52,590,468</b>	<b>5,158,311</b>	<b>33,133,032</b>	<b>268,385,230</b>	<b>224,060,639</b>
<b>Percentage - 31.12.07</b>	<b>56.58</b>	<b>9.55</b>	<b>19.60</b>	<b>1.92</b>	<b>12.35</b>	<b>100.00</b>	
Percentage - 31.12.06	66.75	18.47	3.59	1.50	9.69		100.00

## 34 (b) Bank

(i) An analysis of the total assets employed of the Bank as at December 31, based on the remaining period at the Balance Sheet date to the respective contractual maturity dates is given 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 31.12.07 Rs.'000	Total as at 31.12.06 Rs.'000
<b>Interest Earning Assets</b>							
Cash and short-term funds	10,311,577	8,628	—	—	—	10,320,205	8,828,469
Balances with Central Banks	736,855	55,955	—	—	—	792,810	2,048,636
Government treasury bills and bonds	12,005,522	29,062,712	—	—	—	41,068,234	12,040,309
Commercial paper	—	—	—	—	—	—	422,783
Securities purchased under re-sale agreements	3,804,120	—	—	—	—	3,804,120	4,593,089
Investments	106,628	431,487	595,906	595,000	—	1,729,021	1,253,338
Treasury Bonds maturing after one year	—	—	8,164,589	—	630,252	8,794,841	20,024,893
Loans and advances	77,022,392	29,445,455	36,101,920	16,423,849	15,330,019	174,323,635	150,532,039
	103,987,094	59,004,237	44,862,415	17,018,849	15,960,271	240,832,866	199,743,556
<b>Non-Interest Earning Assets</b>							
Cash and short-term funds	5,888,003	—	—	—	—	5,888,003	4,910,240
Balances with Central Banks	5,770,834	760,706	3,735,007	75,533	440,689	10,782,769	10,525,015
Dealing securities	207,267	—	—	—	—	207,267	144,896
Investments held for sale	118,927	86,550	—	—	—	205,477	218,392
Investments	11,003	—	—	—	16,065	27,068	140,441
Investments in Associates	—	—	—	—	44,331	44,331	44,331
Investments in Subsidiaries	—	—	—	—	433,681	433,681	433,681
Interest and fees receivable	2,119,836	—	—	—	—	2,119,836	1,638,893
Other assets	3,619,648	—	—	—	10,669	3,630,317	2,697,960
Property, plant & equipment	—	—	—	—	3,417,594	3,417,594	3,217,262
Leasehold Property	—	—	—	—	81,943	81,943	82,956
Intangible assets	—	—	—	—	268,487	268,487	176,630
	17,735,518	847,256	3,735,007	75,533	4,713,459	27,106,773	24,230,697
<b>Total Assets</b>	<b>121,722,612</b>	<b>59,851,493</b>	<b>48,597,422</b>	<b>17,094,382</b>	<b>20,673,730</b>	<b>267,939,639</b>	<b>223,974,253</b>
<b>Percentage - 31.12.07</b>	<b>45.42</b>	<b>22.34</b>	<b>18.14</b>	<b>6.38</b>	<b>7.72</b>	<b>100.00</b>	
Percentage - 31.12.06	50.25	12.89	23.51	5.51	7.84		100.00

# NOTES TO THE FINANCIAL STATEMENTS

(ii) An analysis of the total liabilities and shareholders' funds of the Bank as at December 31, based on the remaining period at the Balance Sheet date to the respective contractual maturity dates is given 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 31.12.07 Rs.'000	Total as at 31.12.06 Rs.'000
<b>Interest Bearing Liabilities</b>							
Deposits from customers	93,655,574	14,298,157	47,525,409	1,088,590	6,799,934	163,367,664	138,615,401
Borrowings	8,655,920	3,159,187	2,043,195	2,915,901	1,978,208	18,752,411	18,944,116
Securities sold under repurchase agreements	19,805,876	3,535,279	947	—	—	23,342,102	14,330,006
Debentures	—	2,244,410	2,309,000	1,153,820	973,210	6,680,440	6,680,440
	<u>122,117,370</u>	<u>23,237,033</u>	<u>51,878,551</u>	<u>5,158,311</u>	<u>9,751,352</u>	<u>212,142,617</u>	<u>178,707,876</u>
<b>Non-Interest Bearing Liabilities</b>							
Deposits from customers	19,742,471	—	—	—	—	19,742,471	18,880,756
Dividends payable	112,500	—	—	—	—	112,500	112,500
Other liabilities	9,755,560	—	—	—	—	9,755,560	8,541,940
Tax payable	321,054	1,377,078	—	—	—	1,698,132	1,445,718
Deferred tax liabilities	—	—	552,322	—	—	552,322	580,535
Stated Capital/Share Capital	—	1,000,000	—	—	9,514,807	10,514,807	2,428,186
Statutory Reserve Fund	—	—	—	—	1,633,678	1,633,678	1,428,500
Other Reserves	—	—	—	—	11,787,552	11,787,552	11,986,155
	<u>29,931,585</u>	<u>2,377,078</u>	<u>552,322</u>	<u>—</u>	<u>22,936,037</u>	<u>55,797,022</u>	<u>45,266,377</u>
<b>Total Liabilities &amp; Equity</b>	<b>152,048,955</b>	<b>25,614,111</b>	<b>52,430,873</b>	<b>5,158,311</b>	<b>32,687,389</b>	<b>267,939,639</b>	<b>223,974,253</b>
<b>Percentage - 31.12.07</b>	<b>56.74</b>	<b>9.56</b>	<b>19.57</b>	<b>1.93</b>	<b>12.20</b>	<b>100.00</b>	
Percentage - 31.12.06	66.83	18.48	3.33	1.74	9.62		100.00

Notes (i) Loans and advances are shown net of interest in suspense and provision for bad & doubtful debts.

(ii) Balances with Central Banks have been apportioned into the maturity groups based on the maturity pattern of the deposits liable for Statutory Reserve Requirements.

(iii) Demand and savings deposits have been classified into the up to 3 months category. However, the major part of these deposits represents core retail deposits with longer term maturity.

(iv) Shareholders' funds excluding Cumulative Redeemable Preference Shares are classified into the more than 5 years category since no contractual date of maturity can be identified. However, these funds are available and have in fact been used for financing assets with lesser maturity periods.

# NOTES TO THE FINANCIAL STATEMENTS

## 35. Comparative Information

The presentation and classification of the following items in the Financial Statements are amended to ensure the comparability with the current year.

	Group		Bank	
	Current Presentation 2006 Rs.'000	As Reported Previously 2006 Rs.'000	Current Presentation 2006 Rs.'000	As Reported Previously 2006 Rs.'000
(i) Bills of Exchange	3,203,794	3,288,198	3,203,794	3,288,198
Loans and advances	137,840,803	137,720,172	137,846,492	137,725,861
Lease receivable within one year	2,970,381	3,006,608	2,999,201	3,035,428
	<u>144,014,978</u>	<u>144,014,978</u>	<u>144,049,487</u>	<u>144,049,487</u>
(ii) Other Assets	2,707,393	2,842,982	2,697,960	2,796,017
Property, Plant and Equipment	3,437,477	3,437,522	—	—
Leasehold Property	120,488	—	82,956	—
Intangible Assets	177,914	162,768	176,630	161,529
	<u>6,443,272</u>	<u>6,443,272</u>	<u>2,957,546</u>	<u>2,957,546</u>
(iii) Deposits from Customers	157,393,915	157,531,828	157,496,157	157,634,070
Other Liabilities	8,539,956	8,402,043	8,541,940	8,404,027
	<u>165,933,871</u>	<u>165,933,871</u>	<u>166,038,097</u>	<u>166,038,097</u>

### Reasons for changes in the presentation and classification:

- (i) Provision for bad and doubtful debts in relation to bills of exchange which was classified under loans and advances during the previous year was reclassified under bills of exchange, during the current year for better presentation in these Financial Statements.

Interest in suspense which was classified under loans and advances during the previous year was reclassified under bills of exchange, loans and advances and lease receivable within one year separately and respectively, during the current year for better presentation in these Financial Statements.

- (ii) Leasehold land which was classified under Other Assets during the previous year was reclassified under Leasehold Property separately in the Balance Sheet during the current year for better presentation in these Financial Statements in conformity with SLAS-19 (Revised 2005) on Leases.

Computer Software which was classified under Property, Plant & Equipment during the previous year was reclassified under Intangible Assets during the current year for better presentation in these Financial Statements in conformity with SLAS-37 on Intangible Assets.

Software under Development which was classified under Other Assets during the previous year was reclassified under Intangible Assets during the current year for better presentation in these Financial Statements in conformity with SLAS-37 on Intangible Assets.

- (iii) Payorders issued to suppliers which was classified under Customer Deposits during the last year, was reclassified under Other liabilities during the current year for better presentation in these Financial Statements.

**36. Commitments and Contingencies**

- 36 (a)** In the normal course of business the Bank makes various irrevocable commitments and incurs certain contingent liabilities with legal recourse to its customers. Even though these obligations may not be recognised on the balance sheet, they do contain credit risk and are therefore part of the overall risk of the Bank. No material losses are anticipated as a result of these transactions.

	<b>Group</b>		<b>Bank</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>Rs.'000</b>	<b>Rs.'000</b>	<b>Rs.'000</b>	<b>Rs.'000</b>
<b>Commitments</b>				
Commitments for unutilised facilities (direct advances)	<b>16,301,393</b>	14,293,339	<b>16,301,393</b>	14,293,339
<b>Contingent Liabilities</b>				
Acceptances	<b>5,006,384</b>	4,937,977	<b>5,006,384</b>	4,937,977
Documentary credits	<b>12,992,718</b>	9,591,240	<b>12,992,718</b>	9,591,240
Guarantees	<b>18,066,653</b>	17,432,290	<b>18,066,653</b>	17,432,290
Bills for Collection	<b>4,847,574</b>	5,016,267	<b>4,847,574</b>	5,016,267
Stock of Travelers' Cheques	<b>1,054,141</b>	2,794,249	<b>1,054,141</b>	2,794,249
Bullion on Consignment	<b>739,235</b>	—	<b>739,235</b>	—
	<b>42,706,705</b>	39,772,023	<b>42,706,705</b>	39,772,023
Forward exchange sales	<b>29,036,865</b>	18,515,815	<b>29,036,865</b>	18,515,815
Forward exchange purchases	<b>28,090,471</b>	20,868,620	<b>28,090,471</b>	20,868,620
Forward exchange contracts (net)	<b>946,394</b>	2,352,805	<b>946,394</b>	2,352,805
Total contingent liabilities	<b>43,653,099</b>	42,124,828	<b>43,653,099</b>	42,124,828
<b>Total</b>	<b>59,954,492</b>	56,418,167	<b>59,954,492</b>	56,418,167

**36 (b) 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. Once professional advice has been obtained and the amount of damages reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing. At year end, the Bank had several such unresolved legal claims.

- (i) Court action has been initiated by a customer in proceedings Number 36/96 (I) to claim a sum of Rs. 183.050 million on account of 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. The case is to be listed for argument.
- (ii) Judgement was delivered on September 21, 1995 on the Court action initiated by a customer in proceedings Number 93650/M to claim a sum of approximately Rs. 6.000 million relating to a dispute over the payment by the Bank of several cheques alleged to have been forged. The Bank has lodged an appeal bearing number 872/95 (F) against the judgement delivered favouring the plaintiff. Written submission in reply is due.
- (iii) A Labour Tribunal case filed by an ex-employee on termination of employment is pending against the Bank. In addition, two appeal cases are pending against the order of the Labour Tribunal in the High Court, with respect to termination of employment.
- (iv) Court action has been initiated by a customer in proceedings Number 25831/MR to claim a sum of Rs. 2.880 million together with interest o/a of an interest refund claimed on a Current Account. Judgement was delivered against the Bank for a sum of Rs. 1.874 million. Bank has lodged an appeal against the judgement.
- (v) Court action has been initiated by a customer in proceedings Number 282/2002 (1) restraining the Bank from paying a sum of Rs. 13.350 million on a bank guarantee. The case has been transferred to Commercial High Court and is yet to be called up. The Bank has obtained a counter guarantee from an insurance company.



- (vi) Court action has been initiated by a customer in proceedings Number 27485/MR to recover a sum of Rs. 15.204 million in damages in relation to alleged wrongful payment of a cheque for Rs. 0.024 million and alleged incorrect remark on two other cheques for values of Rs. 0.500 million and Rs. 0.180 million that have been returned. The judgement is due on April 30, 2008.
- (vii) Court action has been initiated by a customer in proceedings Number 25085/MR to recover a sum of US\$ 27,500 alleged to have been paid by the Bank by debiting the account without authority of the customer. Bank has paid this amount in pursuance of a counter guarantee issued by the Bank. Judgement was delivered dismissing the plaintiff's action. Plaintiff has lodged an appeal against the judgement. The case is yet to be listed for argument.
- (viii) Court action for Rs. 1.500 million has been initiated by a customer in proceedings Number 36542/MR to recover a sum of Rs. 0.400 million and interest thereon and a further sum of Rs. 1.000 million from the Bank on an alleged breach of contract, and the Bank is defending the action.
- (ix) Court action has been initiated by a customer in proceedings Number 1336/M to claim a sum of Rs. 0.200 million and interest thereon relating to a dispute over the alleged non-payment by the Bank of two cheques when instructions were given to honour them and alleged payment by the Bank of another cheque when instructions were given not to do so. The Bank is defending the action.
- (x) Court action has been initiated by a customer in proceedings Number 57970/MR to claim a sum of Rs. 35.000 million in respect of an alleged transfer made by the Bank to a partnership account amounting to Rs. 7.555 million belonging to the plaintiff which has been withdrawn by the other partner. The Bank is defending the action.
- (xi) Court action has been initiated in proceedings Number 21510/L by a 3rd Party in obtaining an enjoining order against the auctioning of a property under the Recovery of Loans by Banks (Special Provisions) Act No. 4 of 1990, claiming to be the rightful owners of the property, mortgaged to the Bank by a customer. Written submissions of the plaintiff and the Bank are due.

### 37. Capital Commitments

#### 37.1 Capital expenditure commitments in relation for Property, Plant & Equipment

The Group has made commitments for acquisition of Property, Plant & Equipment incidental to the ordinary course of business as at December 31, as follows:

	Group		Bank	
	2007 Rs.'000	2006 Rs.'000	2007 Rs.'000	2006 Rs.'000
Approved and contracted for	208,898	44,472	208,898	44,472
Approved but not contracted for	61,950	45,350	61,950	45,350
	<b>270,848</b>	<b>89,822</b>	<b>270,848</b>	<b>89,822</b>

#### 37.2 Capital expenditure commitments in relation to Intangible Assets

Commitments for the acquisition of intangible assets as at the balance sheet date are as follows:

Approved and contracted for	108,389	83,391	108,389	83,391
Approved but not contracted for	—	—	—	—
	<b>108,389</b>	<b>83,391</b>	<b>108,389</b>	<b>83,391</b>
Total	<b>379,237</b>	<b>173,213</b>	<b>379,237</b>	<b>173,213</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 38. Financial Reporting by Segment - Group

(As per the provisions of Sri Lanka Accounting Standard No. 28 on Segment Reporting)

### (a) Business Segments

	Banking		Leasing		Dealing		Property/ Investments		Eliminations/ Unallocated		Total	
For the year ended December 31,	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
<b>Revenue from external customers</b>												
Interest	23,767,453	15,799,299	–	–	5,188,022	2,612,078	–	–	–	–	28,955,475	18,411,377
Exchange profit	627,847	785,387	–	–	916,985	653,621	–	–	–	–	1,544,832	1,439,008
Lease income	–	–	1,565,087	1,125,851	–	–	–	–	–	–	1,565,087	1,125,851
Commissions	2,374,030	2,010,197	–	–	7,872	994	–	–	–	–	2,381,902	2,011,191
Other income	382,323	278,790	–	–	7,722	(2,742)	221,418	1,021,774	148,101	166,617	759,564	1,464,439
Total revenue from external customers	27,151,653	18,873,673	1,565,087	1,125,851	6,120,601	3,263,951	221,418	1,021,774	148,101	166,617	35,206,860	24,451,866
Inter-segment revenue	–	–	–	–	–	–	–	–	–	–	–	–
Total revenue	27,151,653	18,873,673	1,565,087	1,125,851	6,120,601	3,263,951	221,418	1,021,774	148,101	166,617	35,206,860	24,451,866
<b>Segment result</b>	<b>6,102,571</b>	<b>5,537,831</b>	<b>1,289,629</b>	<b>659,677</b>	<b>933,197</b>	<b>354,638</b>	<b>221,418</b>	<b>1,021,774</b>	<b>148,101</b>	<b>166,617</b>	<b>8,694,916</b>	<b>7,740,537</b>
Unallocated expenses											(1,929,078)	(3,481,838)
Profit from operations											6,765,838	4,258,699
Net financing costs											–	–
Income from associates											25,011	62,454
Income tax expense											(2,638,396)	(2,248,751)
Minority interest											(3,432)	(1,695)
<b>Net profit for the year</b>											<b>4,149,021</b>	<b>2,070,707</b>

	Banking		Leasing		Dealing		Property/ Investments		Eliminations/ Unallocated		Total	
As at December 31,	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
<b>Other Information</b>												
Segment assets	172,281,745	150,500,792	10,781,714	9,369,230	73,524,904	54,691,480	1,963,356	1,538,775	9,770,792	7,919,397	268,322,510	224,019,674
Investment in associates	–	–	–	–	–	–	62,720	40,965	–	–	62,720	40,965
Unallocated assets	–	–	–	–	–	–	–	–	–	–	–	–
Total assets											268,385,230	224,060,639
Segment liabilities	145,538,542	131,807,584	10,781,714	9,369,230	73,524,904	54,691,480	2,026,076	1,579,740	12,132,315	10,585,122	244,003,550	208,033,156
Unallocated liabilities	–	–	–	–	–	–	–	–	–	–	–	–
Total liabilities											244,003,550	208,033,156

For the year ended December 31,	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000

### Information on Cash Flows

Cash flows from												
operating activities	7,294,193	690,593	(122,855)	(1,756,635)	933,197	354,638	–	–	(26,891)	(21,063)	8,077,644	(732,467)
Cash flows from												
investing activities	970,513	3,331,840	–	–	(7,648,717)	(11,637,215)	(1,085,698)	(549,508)	–	–	(7,763,902)	(8,854,883)
Cash flows from												
financing activities	6,738,279	2,395,202	–	–	(1,978,507)	1,737,103	–	–	(1,819,091)	1,169,938	2,940,681	5,302,243
Capital expenditure	(686,278)	(609,814)	–	–	–	–	(91,337)	(30,399)	–	–	(777,615)	(640,213)

# NOTES TO THE FINANCIAL STATEMENTS

## (b) Geographical Segments

	Group				Bank			
	2007		2006		2007		2006	
	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%
<b>Assets</b>								
Domestic Operations	220,626,326	82.21	184,760,511	82.46	220,180,735	82.18	184,674,125	82.45
Overseas Operations	19,243,793	7.17	16,555,284	7.39	19,243,793	7.18	16,555,284	7.39
Off-shore Banking Centre	28,515,111	10.62	22,744,844	10.15	28,515,111	10.64	22,744,844	10.16
	<u>268,385,230</u>	<u>100.00</u>	<u>224,060,639</u>	<u>100.00</u>	<u>267,939,639</u>	<u>100.00</u>	<u>223,974,253</u>	<u>100.00</u>
<b>Income</b>								
Domestic Operations	30,863,265	87.66	20,781,537	84.99	30,879,323	87.67	20,799,141	85.00
Overseas Operations	2,379,965	6.76	1,884,133	7.71	2,379,965	6.76	1,884,133	7.70
Off-shore Banking Centre	1,963,630	5.58	1,786,196	7.30	1,963,630	5.57	1,786,196	7.30
	<u>35,206,860</u>	<u>100.00</u>	<u>24,451,866</u>	<u>100.00</u>	<u>35,222,918</u>	<u>100.00</u>	<u>24,469,470</u>	<u>100.00</u>
<b>Profit before Tax</b>								
Domestic Operations	5,340,864	78.65	3,003,969	69.52	5,254,744	78.38	2,896,361	68.74
Overseas Operations	910,040	13.40	809,971	18.74	910,040	13.57	809,971	19.22
Off-shore Banking Centre	539,945	7.95	507,213	11.74	539,945	8.05	507,213	12.04
	<u>6,790,849</u>	<u>100.00</u>	<u>4,321,153</u>	<u>100.00</u>	<u>6,704,729</u>	<u>100.00</u>	<u>4,213,545</u>	<u>100.00</u>
<b>Profit after Tax</b>								
Domestic Operations	3,294,017	79.32	1,285,756	62.04	3,245,129	79.08	1,225,982	60.91
Overseas Operations	480,672	11.58	385,387	18.60	480,672	11.71	385,387	19.15
Off-shore Banking Centre	377,764	9.10	401,259	19.36	377,764	9.21	401,259	19.94
	<u>4,152,453</u>	<u>100.00</u>	<u>2,072,402</u>	<u>100.00</u>	<u>4,103,565</u>	<u>100.00</u>	<u>2,012,628</u>	<u>100.00</u>

## 39. Related Party Disclosures

The Bank carries out transactions in the ordinary course of business in an arm's length basis at commercial rates with Related Parties. Except for the transactions that Key Managerial Personnel (KMPs) have availed under schemes uniformly applicable to all the staff at concessionary rates, transactions with related parties listed below have been at commercial rates.

### 39.1 Transactions with Directors and other Key Managerial Personnel (KMPs)

Related parties include Key Managerial Personnel defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Bank and its subsidiaries. Such KMPs include the Board of Directors of the Bank, key employees who are holding directorships in subsidiary companies of the Bank and other key executives who meet the criteria described above.

#### 39.1.1 Compensation of Key Managerial Personnel

	2007	2006
Number of persons	22	22
Short-term employment benefits (Rs.)	125,406,372	101,244,326
Post employment benefits (Rs.)	12,464,292	13,305,360
Post employment benefits paid to past directors (Rs.)	980,040	1,896,600
Total (Rs.)	<u>138,850,704</u>	<u>116,446,286</u>

**39.1.2 Transactions, arrangements and agreements involving Key Managerial Personnel, their Close Family Members (CFMs) and entities which are controlled, significantly influenced by the KMPs or their CFMs.**

	Year end Balance		KMPs and their CFMs		Entities in which KMPs and their CFMs have control, joint control or significant influence			
	Average Balance		Average Balance		Year end Balance		Average Balance	
	2007	2006	2007	2006	2007	2006	2007	2006
<b>39.1.2.1 Balance Sheet</b>	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
<b>Assets</b>								
Loans and Advances	105,482,865	87,820,625	97,251,320	85,140,967	341,219	362,082	356,866	808,877
Credit Cards	518,326	454,841	502,887	306,665	—	—	—	—
	<b>106,001,191</b>	<b>88,275,466</b>	<b>97,754,207</b>	<b>85,447,632</b>	<b>341,219</b>	<b>362,082</b>	<b>356,866</b>	<b>808,877</b>
<b>Liabilities</b>								
Deposits	77,256,728	55,514,635	79,173,662	60,124,406	332,661	89,276	62,529	74,711
Debentures	1,000,000	—	1,000,000	—	—	—	—	—
	<b>78,256,728</b>	<b>55,514,635</b>	<b>80,173,662</b>	<b>60,124,406</b>	<b>332,661</b>	<b>89,276</b>	<b>62,529</b>	<b>74,711</b>
Number of Ordinary shares held	3,299,406	1,787,350	—	—	—	—	—	—
Dividends paid	22,233,640	7,978,844	—	—	—	—	—	—
<b>39.1.2.2 Off-Balance Sheet Items</b>								
<b>Commitments and Contingencies</b>								
Undrawn Facilities	13,323,244	15,623,904	14,378,046	15,920,787	90,000	90,000	57,696	90,000
	<b>13,323,244</b>	<b>15,623,904</b>	<b>14,378,046</b>	<b>15,920,787</b>	<b>90,000</b>	<b>90,000</b>	<b>57,696</b>	<b>90,000</b>

**39.1.2.3 Income Statement**

	2007	2006	2007	2006
	Rs.	Rs.	Rs.	Rs.
Interest earned	6,669,269	5,255,984	86,193	125,362
Interest paid	3,773,267	1,821,466	—	—
Payments made				
as shown in 39.1.1 above	138,850,704	116,446,286	—	—

**39.1.2.4 Share options for the Key Managerial Personnel**

	As at the year end	
	2007	2006
Number of cumulative options allotted under the Employee Share Option Plan (ESOP) 2002		
Tranche 1	138,641	138,641
Tranche 2	166,068	166,068
Tranche 3	325,866	325,866
Tranche 4	422,820	—

# NOTES TO THE FINANCIAL STATEMENTS

## 39.2 Group

The Group Related Parties include subsidiaries, associates, significant investors (either entities or individuals) that have control, joint control or significant influence, post employment benefit plans for the Bank's employees, KMPs, CFMs of KMPs (or any individual, significant investors) and entities in which such parties have control, joint control, significant influence or for which significant voting power is held by such parties.

### 39.2.1 Transactions with Subsidiary and Associate Companies of the Group/Bank

	Subsidiary Companies of the Bank				Associate Companies of the Bank			
	Year end Balance		Average Balance		Year end Balance		Average Balance	
	2007 Rs.	2006 Rs.	2007 Rs.	2006 Rs.	2007 Rs.	2006 Rs.	2007 Rs.	2006 Rs.
<b>39.2.1.1 Balance Sheet</b>								
<b>Assets</b>								
Loans and Advances	6,805,480	5,688,697	7,638,187	3,105,081	15,441,301	1,172,919	12,385,342	9,274,807
Lease receivables	120,378,539	96,502,809	100,920,510	94,142,546	—	—	—	—
Other receivables	16,135,365	16,135,365	16,135,365	16,135,365	—	—	—	—
	<b>143,319,384</b>	<b>118,326,871</b>	<b>124,694,062</b>	<b>113,382,992</b>	<b>15,441,301</b>	<b>1,172,919</b>	<b>12,385,342</b>	<b>9,274,807</b>
<b>Liabilities</b>								
Deposits	22,254,848	110,655,332	54,154,701	112,861,144	10,150,820	1,686,221	13,980,526	19,988,437
Securities sold under								
Re-purchase Agreements	104,097,140	12,942,921	98,433,759	13,247,351	24,324,618	—	13,790,784	—
Debentures	—	—	—	—	5,000,000	5,000,000	5,000,000	5,000,000
Other liabilities	37,865,707	47,563,490	57,862,209	30,216,220	562,500	562,500	562,500	562,500
	<b>164,217,695</b>	<b>171,161,743</b>	<b>210,450,669</b>	<b>156,324,714</b>	<b>40,037,939</b>	<b>7,248,721</b>	<b>33,333,811</b>	<b>25,550,937</b>
Number of Preference shares held	—	—	—	—	500,000	500,000	—	—
Dividends Paid (Rs.)	—	—	—	—	562,500	562,500	—	—

### 39.2.1.2 Off-Balance Sheet Items

	Subsidiary Companies of the Bank				Associate Companies of the Bank			
	Year end Balance		Average Balance		Year end Balance		Average Balance	
	2007 Rs.	2006 Rs.	2007 Rs.	2006 Rs.	2007 Rs.	2006 Rs.	2007 Rs.	2006 Rs.
<b>Commitments and Contingencies</b>								
Letters of Credit	—	1,833,147	4,910,399	1,858,014	—	—	—	—
Guarantees	200,000	85,000	673,804	3,647,498	—	—	—	—
	<b>200,000</b>	<b>1,918,147</b>	<b>5,584,203</b>	<b>5,505,512</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>

### 39.2.1.3 Income Statement

	During the year		During the year	
	2007 Rs.	2006 Rs.	2007 Rs.	2006 Rs.
Interest earned	13,508,066	13,401,015	1,878,364	158,180
Interest paid	17,403,059	9,944,289	3,856,415	869,806
Other income	41,541,312	4,177,932	22,593,896	11,384,839
Expenses incurred	135,634,915	127,561,006	—	—



### 39.3 Transactions with Significant Investors having Significant Influence over Bank and the Post Employment Benefit Plans for Bank's employees.

	Significant investors having significant influence over the Bank				Post employment benefit plans			
	Year end Balance		Average Balance		Year end Balance		Average Balance	
	2007	2006	2007	2006	2007	2006	2007	2006
<b>39.3.1 Balance Sheet</b>	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
<b>Liabilities</b>								
Deposits	15,200,266	34,859,525	14,795,723	15,546,896	2,795,871,971	2,135,090,735	2,465,481,353	1,067,545,368
Securities sold under								
Re-purchase Agreements	-	-	-	-	680,510,891	10,273,121	345,392,006	390,904,764
Other liabilities	-	-	-	-	-	1,781,171,506	-	148,430,959
	<u>15,200,266</u>	<u>34,859,525</u>	<u>14,795,723</u>	<u>15,546,896</u>	<u>3,476,382,862</u>	<u>3,926,535,362</u>	<u>2,810,873,359</u>	<u>1,606,881,091</u>
Number of shares held	72,099,881	43,711,470						
Dividends paid (Rs.)	443,064,610	184,784,006						

### 39.3.2 Income Statement

	During the year		During the year	
	2007	2006	2007	2006
	Rs.	Rs.	Rs.	Rs.
Interest paid	-	-	495,407,806	296,627,927
Contributions made	-	-	269,128,293	1,813,834,539

## 40. Interest Rate Swaps

The Bank had entered into following Interest rate SWAP agreements as at the end of financial year 2007:

Counterparty	Bank				
	Commercial Leasing Co. Ltd.	ICICI Bank Singapore	Deutsche Bank Singapore Corporation	Hongkong and Shanghai Banking Treasuries Ltd.	First Capital
Trade Date	August 4, 2005	September 15, 2006	September 15, 2006	September 15, 2006	May 17, 2007
Start Date	August 4, 2005	September 19, 2006	September 19, 2006	September 19, 2006	May 17, 2007
Termination Date	August 4, 2008	June 27, 2008	June 27, 2008	August 17, 2009	July 1, 2010
Notional Principal Amount	Rs.500.000 Mn.	USD 7.500 Mn.	USD 7.500 Mn.	USD 5.000 Mn.	Rs.100.000 Mn.
Type of interest payer	Fixed Rate	Fixed Rate	Fixed Rate	Fixed Rate	Floating Rate
Interest rate	12.500% p.a.	6.250% D/N p.a.	5.205% p.a.	5.120% p.a.	6 months WATB*

\* WATB - Weighted Average Treasury Bill Rate after tax.

## 41. Events After the Balance Sheet Date

No circumstances have arisen since the Balance Sheet date which would require adjustments to or disclosure in the Financial Statements other than the fact that the Bank has decided to offer another Employee Share Option Plan (ESOP), the details of which are given in the Annual Report of the Board of Directors appearing on page 100.

## INCOME STATEMENT

	Group			Bank		
For the year ended December 31,	2007 US\$ '000	2006 US\$ '000	Change %	2007 US\$ '000	2006 US\$ '000	Change %
<b>Income</b>	<b>324,488</b>	227,460	42.66	<b>324,635</b>	227,624	42.62
Interest income	<b>281,296</b>	181,742	54.78	<b>281,134</b>	181,691	54.73
Less: Interest expenses	<b>174,504</b>	111,113	57.05	<b>174,665</b>	111,206	57.06
Net interest income	<b>106,792</b>	70,629	51.20	<b>106,469</b>	70,485	51.05
Foreign exchange profit	<b>14,238</b>	13,386	6.36	<b>14,238</b>	13,386	6.36
Fees and commission income	<b>21,953</b>	18,709	17.34	<b>21,959</b>	18,710	17.37
Other income	<b>7,001</b>	13,623	(48.61)	<b>7,304</b>	13,837	(47.21)
	<b>149,984</b>	116,347	28.91	<b>149,970</b>	116,418	28.82
Less: Operating expenses						
Personnel expenses	<b>30,263</b>	23,872	26.77	<b>30,133</b>	23,811	26.55
Premises, equipment and establishment expenses	<b>14,743</b>	12,875	14.51	<b>14,966</b>	13,046	14.72
Provision for staff retirement benefits	<b>2,480</b>	16,873	(85.30)	<b>2,480</b>	16,873	(85.30)
Loan losses and provisions	<b>16,382</b>	6,094	168.82	<b>16,382</b>	6,094	168.82
Other overhead expenses	<b>23,756</b>	17,017	39.60	<b>24,215</b>	17,398	39.18
	<b>87,624</b>	76,731	14.20	<b>88,176</b>	77,222	14.19
Profit from operations	<b>62,360</b>	39,616	57.41	<b>61,794</b>	39,196	57.65
Add: Share of profit of Associate Companies	<b>231</b>	581	(60.24)	<b>-</b>	<b>-</b>	<b>-</b>
<b>Profit before taxation</b>	<b>62,591</b>	40,197	55.71	<b>61,794</b>	39,196	57.65
Less: Income Tax Expense	<b>24,317</b>	20,919	16.24	<b>23,974</b>	20,474	17.09
<b>Profit after taxation</b>	<b>38,274</b>	19,278	98.54	<b>37,820</b>	18,722	102.01
<b>Attributable to:</b>						
Equity holders of the parent	<b>38,242</b>	19,262	98.54	<b>37,820</b>	18,722	102.01
Minority Interest	<b>32</b>	16	100.00	<b>-</b>	<b>-</b>	<b>-</b>
	<b>38,274</b>	19,278	98.54	<b>37,820</b>	18,720	102.01
Basic Earnings Per Share	<b>0.16</b>	0.08	100.00	<b>0.16</b>	0.08	100.00
Diluted Earnings Per Share	<b>0.16</b>	0.08	100.00	<b>0.15</b>	0.08	87.50
Dividend per Ordinary Share	<b>0.06</b>	0.05	20.00	<b>0.06</b>	0.05	20.00

Exchange Rate of 1 US Dollar was Rs. 108.50 as at 31.12.2007 (Rs. 107.50 as at 31.12.2006).

## US DOLLAR ACCOUNTS

The Income Statement and the Balance Sheet given on pages 172 and 173 are solely for the convenience of shareholders, investors, bankers and other users of Financial Statements and do not form part of the Financial Statements.

As at December 31,	Group			Bank		
	2007 US\$ '000	2006 US\$ '000	Change %	2007 US\$ '000	2006 US\$ '000	Change %
<b>ASSETS</b>						
Cash and short term funds	149,385	127,734	16.95	149,384	127,802	16.89
Balances with Central Banks	106,687	116,964	(8.79)	106,687	116,964	(8.79)
Government Treasury Bills and Bonds	380,335	113,691	234.53	378,509	112,003	237.95
Commercial paper	—	3,933	—	—	3,933	—
Securities purchased under re-sale agreements	35,061	42,726	(17.94)	35,061	42,726	(17.94)
Dealing securities	1,910	1,348	41.69	1,910	1,348	41.69
Investments held for sale	3,499	3,733	(6.27)	1,894	2,032	(6.79)
Investments	16,185	12,966	24.83	16,185	12,965	24.84
Treasury Bonds maturing after one year	81,058	186,278	(56.45)	81,058	186,278	(56.49)
Bills of Exchange	29,447	29,803	(1.19)	29,447	29,803	(1.19)
Loans and advances	1,476,288	1,282,240	15.13	1,476,350	1,282,293	15.13
Lease receivable within one year	32,826	27,631	18.80	33,200	27,900	19.00
Lease receivable from one to five years	66,613	59,512	11.93	67,571	60,141	12.35
Lease receivable over five years	100	162	(38.27)	100	162	(38.27)
	2,379,394	2,008,721	18.45	2,377,356	2,006,350	18.49
Investments in Associates	578	381	51.71	409	412	(0.73)
Investments in Subsidiaries	—	—	—	3,997	4,034	(0.92)
Interest and fees receivable	19,538	15,246	28.15	19,538	15,246	28.15
Other assets	33,676	25,184	33.72	33,462	25,097	33.33
Property, Plant & Equipment	36,839	31,977	15.20	31,499	29,928	5.25
Leasehold Property	1,096	1,121	(2.23)	755	772	(2.2)
Intangible assets	2,475	1,655	49.55	2,475	1,643	50.64
<b>Total Assets</b>	<b>2,473,596</b>	<b>2,084,285</b>	<b>18.68</b>	<b>2,469,491</b>	<b>2,083,482</b>	<b>18.53</b>
<b>LIABILITIES AND EQUITY</b>						
Deposits from customers	1,687,446	1,464,129	15.25	1,687,651	1,465,081	15.19
Dividends payable	1,037	1,047	(0.96)	1,037	1,047	(0.96)
Borrowings	172,833	176,224	(1.92)	172,833	176,224	(1.92)
Securities sold under re-purchase agreements	214,175	133,182	60.81	215,135	133,302	61.39
Other liabilities	89,780	79,441	13.01	89,913	79,460	13.16
Tax Liabilities	15,477	13,211	17.15	15,651	13,449	16.37
Deferred tax liabilities	6,561	5,813	12.87	5,091	5,400	(5.72)
Debentures	61,571	62,144	(0.92)	61,571	62,144	(0.92)
<b>Total Liabilities</b>	<b>2,248,880</b>	<b>1,935,191</b>	<b>16.21</b>	<b>2,248,882</b>	<b>1,936,107</b>	<b>16.15</b>
<b>EQUITY ATTRIBUTABLE TO EQUITY HOLDERS' OF THE PARENT</b>						
Stated/Share capital	96,911	22,588	329.04	96,911	22,588	329.04
Statutory Reserve Fund	15,064	13,296	13.30	15,057	13,288	13.31
Other Reserves	112,522	113,107	(0.52)	108,641	111,499	(2.56)
Total	224,497	148,991	50.68	220,609	147,375	49.69
Minority Interest	219	103	112.62	—	—	—
<b>Total Equity</b>	<b>224,716</b>	<b>149,094</b>	<b>50.72</b>	<b>220,609</b>	<b>147,375</b>	<b>49.69</b>
<b>Total Liabilities and Equity</b>	<b>2,473,596</b>	<b>2,084,285</b>	<b>18.68</b>	<b>2,469,491</b>	<b>2,083,482</b>	<b>18.53</b>
Commitments and contingencies	552,576	524,820	5.29	552,576	524,820	5.29
Net Assets Value per Ordinary Share (US \$)	0.91	0.66	37.88	0.89	0.65	36.92

Exchange Rate of 1 US Dollar was Rs. 108.50 as at 31.12.2007 (Rs. 107.50 as at 31.12.2006).

## SUBSIDIARY/ASSOCIATE COMPANIES

	BANK'S INTEREST	PRINCIPAL ACTIVITY	DIRECTORS		2007 Rs. Mn.	2006 Rs. Mn.
<b>Subsidiary Companies</b>						
<b>Commercial Bank Primary Dealer Ltd.</b> 'Commercial House', 21, Bristol Street, Colombo 1. Tel: 2445010-15, 2336700, 2328193-5, 2332319 Incorporated on October 18, 1999 (Ceased operations on September 30, 2005)	100.0%	Primary Dealer for Government Securities	M.J.C. Amarasuriya ( <i>Chairman</i> ) B.R.L. Fernando A.L. Gooneratne A.N. Fonseka G.L.H. Premaratne ( <i>Resigned w.e.f. 28.01.2008</i> ) R. Samaranayake ( <i>Resigned w.e.f. 08.02.2008</i> ) W.M.R.S. Dias D.S. Weeratunge L.W.P. Indrajith ( <i>Company Secretary</i> )	Total assets Net assets Profit before tax Profit after tax Dividend rate (%)	<b>229.381</b> <b>229.301</b> <b>33.602</b> <b>21.724</b> –	214.929 207.577 19.325 12.637 –
<b>ONEzero Co. Ltd.</b> 'Commercial House', 21, Bristol Street, Colombo 1. Tel: 2430420 Incorporated on February 17, 2003	100.0%	Provision of IT Related Services	M.J.C. Amarasuriya ( <i>Chairman</i> ) A.N. Fonseka A.L. Gooneratne G.L.H. Premaratne ( <i>Resigned w.e.f. 28.01.2008</i> ) R. Samaranayake ( <i>Resigned w.e.f. 08.02.2008</i> ) W.M.R.S. Dias M.D.A. Peiris ( <i>Resigned w.e.f. 15.09.2007</i> ) S.D. Bandaranayake M.P. Dharmasiri ( <i>Company Secretary</i> )	Total assets Net assets Profit before tax Profit after tax Dividend rate (%)	<b>46.936</b> <b>36.467</b> <b>12.959</b> <b>12.226</b> –	30.083 24.242 7.029 6.984 –
<b>X-pertise Ltd.</b> 1, Union Place, Colombo 2. Tel: 2305280, 2305282 Incorporated on October 6, 2004 (Ceased Operations on September 30, 2007)	100.0%	Training & Development of Human Resources	M.J.C. Amarasuriya ( <i>Chairman</i> ) A.L. Gooneratne G.L.H. Premaratne ( <i>Resigned w.e.f. 28.01.2008</i> ) R. Samaranayake ( <i>Resigned w.e.f. 08.02.2008</i> ) W.M.R.S. Dias M.D.A. Peiris ( <i>Resigned w.e.f. 15.09.2007</i> ) G.L.C. Amarasiri Mrs. Sarojini Dunuwille ( <i>Company Secretary</i> )	Total assets Net assets Profit before tax Profit after tax Dividend rate (%)	<b>7.009</b> <b>5.564</b> <b>1.562</b> <b>0.812</b> –	6.444 4.751 1.797 1.168 –
<b>Commercial Development Co. PLC</b> 'Commercial House', 21, Bristol Street, Colombo 1. Tel: 2447300 Incorporated on March 14, 1980	94.55%	Property Development	M.T.L. Fernando ( <i>Chairman</i> ) B.R.L. Fernando A.L. Gooneratne Dr. H.S. Wanasinghe M.A. Pemasiri G.L.H. Premaratne ( <i>Resigned w.e.f. 28.01.2008</i> ) L.W.P. Indrajith ( <i>Company Secretary</i> )	Total assets Net assets Profit before tax Profit after tax Dividend rate (%)	<b>917.436</b> <b>270.656</b> <b>68.273</b> <b>44.445</b> <b>36.00</b>	410.755 137.836 57.974 33.279 36%
<b>Associate Companies</b>						
<b>Commercial Leasing Co. Ltd.</b> 68, Baudhaloka Mawatha, Colombo 4. Tel: 4526526 Incorporated on April 22, 1988	30.0%	Leasing, Factoring, Hire Purchase and Hiring of Vehicles	H.D.S. Amarasuriya ( <i>Chairman</i> ) M.J.C. Amarasuriya A.L. Gooneratne M.P. Jayawardena K.B. Kotagama T.N. Renard H.A. Peiris ( <i>Alternate</i> ) Nihal A. Rodrigo ( <i>Company Secretary</i> )	Total assets Net assets Profit before tax Profit after tax Dividend rate (%)	<b>7,975,669</b> <b>1,295,159</b> <b>408,526</b> <b>327,959</b> <b>Rs. 2.00 per share</b>	7,745.782 1,037.783 368.115 268.101 26.00%
<b>Equity Investments Lanka Ltd.</b> 108 A, 1st Floor, Maya Avenue, Colombo 6. Tel: 5373745, 2507605-6 Incorporated on August 08, 1990	22.92%	Venture Capital Financing	M.J.C. Amarasuriya ( <i>Chairman</i> ) H.D.S. Amarasuriya S.T. Nagendra A.L. Gooneratne Deshabandu S.E. Captain YAM. T.T.S.I.I.T. Ja'afar E.A.D. Perera ( <i>Alternate</i> ) Mrs. R.R. Dunuwille ( <i>Company Secretary</i> )	Total assets Net assets Profit before tax Profit after tax Dividend rate (%)	<b>187.691</b> <b>181.811</b> <b>12.247</b> <b>12.058</b> <b>5.00</b>	184.940 178.722 10.671 9.929 5%
<b>Commercial Insurance Brokers (Pvt) Ltd.</b> 3-2/2, 2nd Floor Galle Face Court 1 Colombo 3. Tel: 2447297, 2447299 Incorporated on August 17, 1987	18.91%	Insurance Brokering	A.L. Gooneratne (Chairman) M.P. Jayawardene M.P.A. Salgadu	Total assets Net assets Profit before tax Profit after tax Dividend rate (%)	204.996 154.691 15.826 13.118 60%	218.088 144.049 17.670 14.418 60%

Award and Accolades	1999	2000	2001	2002	2003	2004	2005	2006	2007
● <b>Ratings by Fitch Ratings Lanka Ltd.</b> Senior Debt			SL AA +	SL AA +	SL AA +	AA+(sri)	AA+(sri)	AA+(lka)	AA+(lka)
● <b>Awards by The Global Finance Magazine (USA)</b> Best Bank in Sri Lanka	Winner	Winner	Winner	Winner	Winner	Winner	Winner	Winner	Winner
● <b>Awards by The Banker Magazine (UK)</b> Bank of The Year in Sri Lanka			Winner	Winner	Winner	Winner	Winner		Winner
● <b>Award for Excellence by Euro Money Magazine (UK)</b> Best Bank in Sri Lanka (1st Bank in Sri Lanka to win this award)									Winner
● <b>Bracken Award by The Banker Magazine (UK)</b> Sri Lanka's Bank of The Year									Winner
● <b>Annual Report Awards by The Institute of Chartered Accountants of Sri Lanka</b> Overall			Winner	Winner	Winner	Winner	Winner	1st R.up	
Banking Sector			Winner	Winner	Winner	Winner	Winner	Winner	
Corporate Governance Disclosure			Winner	Winner	Joint 1st R.up	Winner			
Corporate Social Responsibility				Joint 2nd R.up	Joint 1st R.up				
● <b>Annual Report Awards by the South Asian Federation of Accountants</b> Overall						Winner	2nd R.up	1st R.up	
Financial /Banking Sector			Winner	Winner	Winner	Winner	Winner	Winner	
Corporate Governance Disclosure							Winner		
● <b>National Business Excellence Awards by the National Chamber of Commerce of Sri Lanka</b> Overall								Winner	N/A
Large Scale Investments							N/A	N/A	Winner
Extra Large Sector							2nd R.up	Winner	N/A
Block Buster Performance							N/A	Winner	N/A
Banking Sector							Winner	Winner	N/A
Business & Financial Sustainability							Winner	Winner	N/A
● <b>National Human Resource Management (HRM) Awards</b> Overall				Winner					
Overall (Large Sector)					Winner				
Most Innovative HR Practice (Large Sector)					Winner				
● <b>National Best Quality Software Awards by The British Computer Society (Sri Lanka Section)</b> Financial Sector (Com e-Load product)								Silver	
Financial Sector (Com Online product)								Merit	
<b>BANK'S ACHIEVEMENTS IN BANGLADESH OPERATIONS</b>									
● <b>Credit Ratings by Credit Rating Information Services Ltd.</b>						AA			
● <b>'A Class Bank' by CAMEL Rating</b>						A	A	A	A
● <b>Partex Business Awards by Robintex Financial Mirror</b> Best Foreign Bank							Winner	Winner	Winner
● <b>Arthakantha Business Awards for Outstanding Achievements</b> Best Foreign Bank (Banking Sector)						Winner	Winner		
● <b>Financial News Services (FNS) Business Awards</b> Best Performing Foreign Bank							Winner		
● <b>The Industry-business Awards by The Industry Magazine</b> Best Foreign Bank						Winner			Winner
● <b>Institute of Cost and Management Accountants of Bangladesh</b> National Best Corporate Award									2nd R.up



## DECADE AT A GLANCE

### Bank

(Rs. million) 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 CAGR %

For the year ended December 31,

#### Operating Results

Income	3,979	4,744	6,096	8,203	8,364	10,059	12,290	16,100	24,470	35,223	25.00
Interest income	3,031	3,762	4,796	6,510	6,613	7,931	9,584	13,034	19,532	30,503	
Interest expenses	(1,605)	(2,158)	(2,776)	(4,174)	(3,747)	(4,218)	(4,878)	(7,226)	(11,955)	(18,951)	
Foreign Exchange profit	362	274	421	563	464	397	874	587	1,439	1,545	
Commission & other income	440	517	600	732	1,097	1,731	1,832	2,479	3,499	3,175	
Operating expenses & provisions	(1,459)	(1,586)	(1,891)	(2,306)	(2,902)	(3,887)	(4,908)	(5,232)	(8,301)	(9,567)	
Profit before income tax	769	809	1,150	1,325	1,525	1,954	2,504	3,642	4,214	6,705	26.25
Income tax on profit	(178)	(151)	(214)	(315)	(321)	(477)	(819)	(1,278)	(2,201)	(2,601)	
Net profit for the year	591	658	936	1,010	1,204	1,477	1,685	2,364	2,013	4,104	22.44

As at December 31,

#### Assets

Cash and short term funds	8,440	4,050	5,456	4,272	1,835	9,002	12,136	18,663	13,739	16,208	
Balances with Central Banks	1,840	2,644	2,583	3,091	3,244	5,233	6,320	9,045	12,574	11,576	
Government Treasury Bills and Bonds	409	2,614	1,067	649	8,654	16,530	6,122	11,410	12,040	41,068	
Commercial paper	—	745	331	1,170	1,080	546	560	408	423	—	
Securities purchased under re-sale agreements	70	—	—	1,064	832	6,184	399	808	4,593	3,804	
Dealing Securities	—	—	—	—	—	—	110	182	145	207	
Investments held for sale	—	—	—	—	—	—	—	—	218	205	
Investments held to maturity	409	300	208	462	905	2,006	2,340	3,091	1,394	1,756	
Treasury Bonds maturing after one year	—	959	382	4,658	782	—	13,778	9,808	20,025	8,795	
Bills of Exchange	1,597	1,873	2,331	2,368	2,552	2,495	2,799	2,790	3,204	3,195	
Loans and advances	18,312	24,787	31,703	36,730	47,350	60,585	82,605	108,884	137,846	160,184	25.31
Lease receivable	730	1,047	1,263	1,519	1,921	3,364	5,317	7,088	9,482	10,945	
	31,807	39,019	45,324	55,983	69,155	105,945	132,486	172,177	215,683	257,943	
Investments in associate companies	78	78	78	78	78	78	109	107	44	44	
Investments in subsidiary companies	274	274	424	424	424	429	429	434	434	434	
Other assets	1,368	1,253	2,478	1,251	2,149	2,167	2,553	4,177	4,336	5,751	
Property, Plant & Equipment and Intangible Assets	1,059	1,263	1,306	1,410	1,546	1,661	2,896	3,182	3,477	3,768	
TOTAL ASSETS	34,586	41,887	49,610	59,146	73,352	110,280	138,473	180,077	223,974	267,940	25.49

#### Liabilities

Deposits from customers	25,274	30,128	37,523	46,306	54,585	75,185	98,730	127,601	157,496	183,110	24.69
Dividends Payable	98	98	108	163	118	190	230	230	113	113	
Borrowings	1,124	1,350	2,317	1,862	4,200	5,406	9,090	13,387	18,944	18,752	
Securities sold under re-purchase agreements	2,130	3,371	1,430	228	1,938	10,580	9,050	11,389	14,330	23,342	
Other liabilities	1,594	2,168	2,643	3,263	4,218	4,843	3,735	6,331	9,122	10,308	
Tax Payable	(1)	4	42	79	39	148	483	818	1,446	1,698	
Debentures	500	500	500	500	500	2,244	3,244	4,553	6,680	6,680	
	30,719	37,619	44,563	52,401	65,598	98,596	124,562	164,309	208,131	244,003	

#### Shareholders' Funds

Share Capital/Stated Capital	348 +	348	348	1,324 <sup>1A</sup>	1,324	2,603 <sup>*\$&amp;</sup>	2,603	3,327 <sup>**</sup>	2,428 <sup>~</sup>	10,515 <sup>#@</sup>	
Statutory Reserve fund	1,009	1,009	1,009	1,009	1,009	1,009	1,009	1,421	1,429	1,634	
Reserves	2,510	2,911	3,690	4,412	5,421	8,072	10,299	11,020	11,986	11,788	
TOTAL LIABILITIES & SHAREHOLDERS' FUNDS	34,586	41,887	49,610	59,146	73,352	110,280	138,473	180,077	223,974	267,940	25.49
Commitments and contingencies	14,612	15,445	17,880	19,749	24,082	38,158	43,942	47,154	56,418	59,954	

CAGR - Compounded Annual Growth Rate over the last decade

**Bank**

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>Ratios</b>										
Return on average shareholders' funds (%)	16.20	16.21	20.09	17.13	16.61	15.20	13.16	15.93	12.73	<b>20.63</b>
Income growth (%)	5.24	19.25	28.49	34.56	1.96	20.26	22.17	31.00	51.99	<b>43.95</b>
Return on average assets (%)	1.90	1.72	2.05	1.86	1.82	1.61	1.35	1.48	1.00	<b>1.67</b>
Rate of dividend (%)										
Dividend per share (Rs.)	40.00%	40.00%	45.00%	45.00%	50.00%	50.00%	60.00%	45.00%	50.00%	<b>Rs. 7.00</b>
Ordinary share dividend cover (times)	4.24	4.73	5.91	5.20	5.20	3.70	3.48	3.34	2.54	<b>2.29</b>
Gross dividends (Rs. million) to ordinary shareholders	139.30	139.30	156.71	188.06	208.95	348.25	420.00	639.36	714.00	<b>1,743.13</b>
Advances to deposits and refinance (%)	80.42	89.75	91.81	85.51	92.59	86.16	89.52	90.64	92.49	<b>91.75</b>
Property, Plant & Equipment to shareholders' funds (%)	27.37	29.72	25.87	20.90	19.93	14.22	20.81	20.75	21.33	<b>15.74</b>
Total assets to shareholders' funds (times)	8.94	9.81	9.83	8.77	9.46	9.44	9.95	11.42	14.14	<b>11.19</b>
Capital Funds to Liabilities including Contingent Liabilities (%)	8.53	8.04	8.08	9.35	8.65	8.54	8.26	7.46	6.05	<b>7.87</b>
Cost/Income Ratio (%)	56.91	58.66	54.75	55.27	55.46	55.87	56.78	54.28	61.10	<b>47.87</b>
Liquid assets to liabilities (%)	24.97	22.19	27.22	27.72	27.88	23.95	23.17	24.51	22.64	<b>24.24</b>
(As specified in the Banking Act No. 30 of 1988)										
Group Capital Adequacy (%) Tier I	15.53	14.90	14.97	15.72	14.94	13.43	10.78	9.68	7.62	<b>10.60</b>
Tier I & II	18.45	17.14	16.62	16.20	15.07	15.46	13.16	12.08	11.58	<b>13.71</b>
<b>Share Information</b>										
Market value of a share (Rs.)	120	115	93	127	200	144	159.75	135.50	190.00	<b>147.00</b>
Earnings per share (Rs.)	2	3	4	4	5	5	6	9	9	<b>17</b>
Price earnings ratio (times)	7	6	4	5	8	8	8	9	15	<b>9</b>
Net assets value per share (Rs.)	16	18	21	25	29	69	51	98	70	<b>97</b>
Earnings yield (%)	14	16	29	18	13	13	13	11	5	<b>11</b>
Dividend payout ratio (%)	24	21	17	22	18	27	29	30	39	<b>44</b>
<b>Other Information</b>										
No. of employees	1,985	1,996	2,067	2,259	2,399	2,648	2,863	3,168	3,415	<b>3,745</b>
No. of branches / CSPs / MiniComs	61	67	81	100	109	116	125	134	150	<b>163</b>
No. of branches / booths - Bangladesh	—	—	—	—	—	4	4	5	7	<b>9</b>
No. of Automated Teller Machines	60	67	79	109	143	166	188	223	278	<b>301</b>

+ Scrip issue of three bonus share for every ten ordinary shares held was made in June 1998.

! Scrip issue of one bonus share for every five ordinary shares held was made in May 2001.

^ Issue of 13% Cumulative Redeemable Preference Shares of Rs. 10/- each for Rs. 906.555 million was made in August 2001.

\* Scrip issue of one bonus share for every three ordinary shares held was made in May 2003.

\$ Right issue of one ordinary share for every four ordinary shares held was made in October 2003.

& Issue of 11.25% Cumulative Redeemable Preference Shares of Rs. 10/- each for Rs. 1,000 billion was made in May 2003.

\*\* Scrip issue of one bonus share for every one ordinary share held was made in June 2005.

~ Redemption of 13% Cumulative Redeemable Preference Shares in September 2006.

# Right issue of three ordinary share for every ten ordinary shares held was made in April 2007.

@ Scrip issue of one ordinary share for every three ordinary shares held was made in June 2007.

# INFORMATION TO SHARE AND DEBENTURE HOLDERS

## 1. Quarterly Performance - 2007

	1st Quarter March 31, 2007 Rs.Mn	2nd Quarter June 30, 2007 Rs.Mn	3rd Quarter Sept 30, 2007 Rs.Mn	4th Quarter Dec 31, 2007 Rs.Mn	Group Total Dec 31, 2007 Rs.Mn
Income	7,461.1	8,621.2	9,460.6	9,664.0	35,206.9
Interest Income	6,369.4	7,487.6	8,147.9	8,515.7	30,520.6
Less: Interest Expenses	3,937.0	4,497.5	5,040.2	5,459.0	18,933.7
Net Interest Income	2,432.4	2,990.1	3,107.7	3,056.7	11,586.9
Non-Interest Income	1,091.7	1,133.6	1,312.7	1,148.3	4,686.3
Net Income	3,524.1	4,123.7	4,420.4	4,205.0	16,273.2
Less: Operating Expenses	1,947.9	2,281.3	2,522.6	2,755.5	9,507.3
Profit from Operations	1,576.2	1,842.4	1,897.8	1,449.5	6,765.9
Add: Share of profit of Associate Companies	1.6	1.9	0.3	21.2	25.0
Profit before taxation	1,577.8	1,844.3	1,898.1	1,470.7	6,790.9
Less: Income tax expense	548.6	700.2	793.7	595.9	2,638.4
Profit after taxation	1,029.2	1,144.1	1,104.4	874.8	4,152.5
Attributable to:					
Equity holders of the parent	1,028.8	1,143.6	1,103.8	872.9	4,149.1
Minority interest	0.4	0.5	0.6	1.9	3.4
	1,029.2	1,144.1	1,104.4	874.8	4,152.5

	1st Quarter March 31, 2007 Rs.Mn	2nd Quarter June 30, 2007 Rs.Mn	3rd Quarter Sept 30, 2007 Rs.Mn	4th Quarter Dec 31, 2007 Rs.Mn	Bank Total Dec 31, 2007 Rs.Mn
Income	7,468.6	8,610.3	9,451.3	9,692.8	35,223.0
Interest Income	6,366.9	7,483.6	8,143.0	8,509.5	30,503.0
Less: Interest Expenses	3,940.0	4,501.2	5,044.8	5,465.1	18,951.1
Net Interest Income	2,426.9	2,982.4	3,098.2	3,044.4	11,551.9
Non-Interest Income	1,101.7	1,126.7	1,308.3	1,183.3	4,720.0
Net Income	3,528.6	4,109.1	4,406.5	4,227.7	16,271.9
Less: Operating Expenses	1,960.1	2,294.5	2,535.4	2,777.1	9,567.1
Profit before taxation	1,568.5	1,814.6	1,871.1	1,450.6	6,704.8
Less: Income tax expense	541.4	693.8	787.6	578.4	2,601.2
Profit after taxation	1,027.1	1,120.8	1,083.5	872.2	4,103.6

## 2. Stock Exchange Listing

The following securities of Commercial Bank of Ceylon PLC are listed on the main board of the Colombo Stock Exchange (CSE).

Shares	Debentures	
	Fixed	Floating
Ordinary Voting Shares	May 2003/2008	December 2006/2011
Ordinary Non-Voting Shares	December 2006/2011	December 2006/2013
Preference Shares	December 2006/2013	December 2006/2016
	December 2006/2016	

The Audited Income Statement for the year ended December 31, 2007 and the Audited Balance Sheet as at December 31, 2007 will be submitted to the Colombo Stock Exchange within three months from the Balance Sheet date.

The Stock Exchange ticker symbol for Commercial Bank shares is 'COMB'.

## INFORMATION TO SHARE AND DEBENTURE HOLDERS

### 3. Information on Share Trading

	Ordinary Shares		Preference Shares			
			13.00% Cumulative Redeemable		11.25% Cumulative Redeemable	
	2007	2006	2007	2006	2007	2006
Number of transactions	14,428	9,578	N/A	11	5	3
Number of shares traded	17,862,280	20,015,500	N/A	70,200	20,200	15,000
Value of shares traded (Rs.)	2,566,873,961	3,114,229,375	N/A	661,925	181,800	125,000

13.00% Cumulative Preference Shares amounting to Rs. 906.555 million, were allotted on September 21, 2001 and were redeemed on September 20, 2006.

### 4. Earnings per Share and Price Earnings Ratio

	2007	2006
Earnings Per Share (Rs.)	<b>16.84</b>	8.61
Price Earnings Ratio (Times)	<b>8.73</b>	14.95

### 5. Market Capitalisation and Market Prices

Market capitalisation of the Bank's shares, which is the number of ordinary shares in issue multiplied by the market value of a share, was Rs. 34.234 Bn. as at December 31, 2007 (Rs. 26.196 Bn. as at December 31, 2006).

This accounted for 4.17% (3.04% in 2006) of the total Market Capitalisation of the Colombo Stock Exchange and ranked Number 4 (Number 5 in 2006) among the listed public companies and continued to maintain the highest market capitalisation among the financial institutions. Commercial Bank ranked Number 44 in terms of the value of the shares traded on the Colombo Stock Exchange (Number 9 in 2006).

The information on market prices are set out below:

	Ordinary Shares				Preference Shares			
	Voting		Non-Voting		13% Cumulative Redeemable		11.25% Cumulative Redeemable	
	2007	2006	2007	2006	2007	2006	2007	2006
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Highest	250.00	192.50	144.50	90.00	N/A	9.75	9.00	9.25
Lowest	128.00	123.00	60.00	54.00	N/A	9.25	9.00	7.00
Year end	147.00	190.00	74.50	89.00	N/A	9.50	9.00	9.25

### 6. Information on Dividends

The details of the dividends paid/proposed are as follows:

	2007 Rs.	2006 %
<b>On Ordinary Shares</b>		
Interim dividend paid		15.00
Final dividend proposed/paid		35.00
First interim dividend paid	1.50	
Second interim dividend paid	1.50	
Third interim dividend paid	1.50	
	<u>4.50</u>	<u>50.00</u>

The Board of Directors of the Bank has recommended a final dividend of Rs. 2.50 per ordinary share for approval by the shareholders at the 39th Annual General Meeting (AGM).

## INFORMATION TO SHARE AND DEBENTURE HOLDERS

### 7. Shareholder Base

The total number of shareholders as at December 31, 2007 was 9,877 compared to the 8,478 as at December 31, 2006.

### 8. Distribution and Composition of Shareholders

	Ordinary Voting Shares				Ordinary Non-Voting Shares			
	No of shareholders	%	No of shares	%	No of shareholders	%	No of shares	%
Less than 1,000	2,964	44.99	915,872	0.39	1,927	58.59	647,723	4.01
1,001 5,000	2,124	32.24	5,431,630	2.33	911	27.70	2,138,140	13.26
5,001 10,000	652	9.90	4,561,604	1.96	209	6.35	1,460,875	9.07
10,001 50,000	651	9.88	13,522,230	5.81	195	5.93	4,367,070	27.09
50,001 100,000	82	1.24	5,785,494	2.48	31	0.94	2,047,601	12.70
100,001 500,000	84	1.28	16,723,717	7.18	14	0.43	3,179,422	19.72
500,001 1,000,000	11	0.17	8,084,968	3.47	1	0.03	568,005	3.52
Over 1,000,000	20	0.30	177,905,662	76.38	1	0.03	1,711,961	10.63
<b>Total</b>	<b>6,588</b>	<b>100.00</b>	<b>232,931,177</b>	<b>100.00</b>	<b>3,289</b>	<b>100.00</b>	<b>16,120,797</b>	<b>100.00</b>

### 9. Composition of Shareholders

#### Ordinary Voting Shares

	December 31, 2007				December 31, 2006			
	No of shareholders	%	No of shares	%	No of shareholders	%	No of shares	%
Resident	<b>6,378</b>	<b>96.81</b>	<b>152,822,964</b>	<b>65.61</b>	6,072	97.73	115,789,411	86.72
Non-Resident	<b>210</b>	<b>3.19</b>	<b>80,108,213</b>	<b>34.39</b>	141	2.27	17,728,853	13.28
<b>Total</b>	<b>6,588</b>	<b>100.00</b>	<b>232,931,177</b>	<b>100.00</b>	<b>6,213</b>	<b>100.00</b>	<b>133,518,264</b>	<b>100.00</b>

	December 31, 2007				December 31, 2006			
	No of shareholders	%	No of shares	%	No of shareholders	%	No of shares	%
Individuals	<b>6,164</b>	<b>93.56</b>	<b>46,018,267</b>	<b>19.76</b>	5,881	94.66	29,371,641	22.00
Institutions	<b>424</b>	<b>6.44</b>	<b>186,912,910</b>	<b>80.24</b>	332	5.34	104,146,623	78.00
<b>Total</b>	<b>6,588</b>	<b>100.00</b>	<b>232,931,177</b>	<b>100.00</b>	<b>6,213</b>	<b>100.00</b>	<b>133,518,264</b>	<b>100.00</b>

As per Rule No. 8.7 (h) of the Colombo Stock Exchange, percentage of public holding as at December 31, 2007 was 46.55% (46.23% as at December 31, 2006).

#### Ordinary Non-Voting Shares

	December 31, 2007				December 31, 2006			
	No of shareholders	%	No of shares	%	No of shareholders	%	No of shares	%
Resident	<b>3,218</b>	<b>97.84</b>	<b>14,989,588</b>	<b>92.98</b>	2,219	97.97	8,725,229	93.82
Non-Resident	<b>71</b>	<b>2.16</b>	<b>1,131,209</b>	<b>7.02</b>	46	2.03	575,231	6.18
<b>Total</b>	<b>3,289</b>	<b>100.00</b>	<b>16,120,797</b>	<b>100.00</b>	<b>2,265</b>	<b>100.00</b>	<b>9,300,460</b>	<b>100.00</b>

	December 31, 2007				December 31, 2006			
	No of shareholders	%	No of shares	%	No of shareholders	%	No of shares	%
Individuals	<b>3,099</b>	<b>94.22</b>	<b>9,760,898</b>	<b>60.55</b>	2,125	93.82	5,482,010	58.94
Institutions	<b>190</b>	<b>5.78</b>	<b>6,359,899</b>	<b>39.45</b>	140	6.18	3,818,450	41.06
<b>Total</b>	<b>3,289</b>	<b>100.00</b>	<b>16,120,797</b>	<b>100.00</b>	<b>2,265</b>	<b>100.00</b>	<b>9,300,460</b>	<b>100.00</b>

As per Rule No. 8.7 (h) of the Colombo Stock Exchange, percentage of public holding as at December 31, 2007 was 88.02% (87.95% as at December 31, 2006).



## 10. Twenty Largest Shareholders

Ordinary Voting Shares	December 31, 2007		December 31, 2006	
	No. of Shares	%	No. of Shares	%
DFCC Bank	67,090,868	28.80	38,706,270	28.99
HSBC Intl. Nominees Ltd. - SSBT - International Finance Corporation GNA-C61V	33,800,000	14.51	19,500,000	14.60
Galleon Diversified Fund Ltd.	12,175,622	5.23	7,100,000	5.32
Sri Lanka Insurance Corporation Ltd. - Life Fund	12,014,808	5.16	6,931,620	5.19
Sri Lanka Insurance Corporation Ltd. - General Fund	10,331,082	4.44	5,960,240	4.46
Mr. A.M.A. Almeshaal	7,283,633	3.13	6,775,000	5.07
Distilleries Company of Sri Lanka Ltd.	5,182,614	2.22	2,989,970	2.24
HSBC Intl. Nominees Ltd. - BPSS LUX - Aberdeen Global Asia Pacific Fund	4,768,186	2.05	2,952,800	2.21
National Savings Bank	4,624,928	1.99	3,075,382	2.30
HSBC Intl. Nominees Ltd. - HSBC Bank PLC - First State Asian Equity Plus Fund	2,717,500	1.17	—	—
Northern Trust Co. S/A Murray Johnstone International Delaware Business Trust	2,679,040	1.15	1,545,600	1.16
Mr. Y.S.H.I.K. Silva	2,617,816	1.12	1,355,144	1.01
HSBC Intl. Nominees Ltd. - JPMCB - Scottish ORL SML TR GTI 6018	2,240,233	0.96	1,090,000	0.82
HSBC Intl. Nominees Ltd. - SSBTL - Aberdeen - Asia Smaller Companies Investment Trust XCB9	1,993,333	0.86	1,150,000	0.86
HSBC Intl. Nominees Ltd. - BPSS LUX - Aberdeen Global - Asian Smaller Companies Fund	1,705,600	0.73	984,000	0.74
HSBC Ltd. - National Equi.Fund	1,525,333	0.65	880,000	0.66
Hatton National Bank Ltd.	1,430,574	0.61	825,332	0.62
Freudenberg Shipping Agencies Ltd.	1,343,400	0.58	775,000	0.58
Indra Traders (PVT) Ltd.	1,202,426	0.52	439,900	0.33
Dexia Banque Internationale - A Luxembourg - Firstnordic Fund Fcpfirstwordic Global Emerging Markets Fund	1,178,666	0.51	80,000	0.06
Sub Total	177,905,662	76.39	103,116,258	77.22
Others	55,025,515	23.61	30,402,006	22.78
Total	232,931,177	100.00	133,518,264	100.00

Ordinary Non-Voting Shares	December 31, 2007		December 31, 2006	
	No. of Shares	%	No. of Shares	%
Sri Lanka Insurance Corporation Ltd. - General Fund	1,711,961	10.62	987,670	10.62
Akbar Brothers Ltd.	568,005	3.52	456,416	4.91
Beta Holdings Ltd.	444,053	2.75	240,800	2.59
The Gilpin Fund Ltd.	346,666	2.15	200,000	2.15
Ellawala Exports (PVT) Ltd.	308,706	1.91	—	—
M.J.F. Exports Ltd.	278,677	1.73	160,776	1.73
The Associated Newspapers of Ceylon Ltd.	277,682	1.72	208,262	2.24
JB Cocoshell (Pvt) Ltd.	264,100	1.64	488,600	5.25
Mr. J.D. Bandaranayake	249,742	1.55	126,352	1.36
Employees' Trust Fund Board	196,570	1.22	54,564	0.59
Mohamed Faizer Hashim	177,692	1.10	90,730	0.98
Mahendra Jayanthipal Chandima Amarasuriya	151,881	0.94	104,932	1.13
Jayalath Githal De Mel	133,766	0.83	76,950	0.83
Ananda Krishnakumar Abeytunga Jayawardene	126,054	0.78	72,724	0.78
Alpex Marine (Pvt) Ltd.	121,333	0.75	100,000	1.08
H.H. Abdulhusein & Co (PVT) Ltd.	102,500	0.64	28,000	0.30
Gold Investment Limited	95,398	0.59	—	—
HSBC Ltd. o/a Namal Growth Fund	95,333	0.59	55,000	0.59
Mr. W.R.H. Perera	87,672	0.54	50,580	0.54
Mr. S.K. Wickremesinghe	86,528	0.54	49,920	0.54
Sub Total	5,824,319	36.13	3,552,276	38.21
Others	10,296,478	63.87	5,748,184	61.79
Total	16,120,797	100.00	9,300,460	100.00

# INFORMATION TO SHARE AND DEBENTURE HOLDERS

## 11. Information on Debentures

Debenture categories	CSE Listing	Interest payable frequency	Market values		
			Highest Rs.	Lowest Rs.	Year End Rs.
<b>Fixed rate</b>					
2003/2008 - 10.00% p.a.	Listed	Quarterly	Not traded during the year		
			1,000	1,000	1,000 (as at 13.09.06)
2005/2010 - 12.00% p.a.	Not listed	Annually	-	-	-
May 2006/May 2011 - 12.00% p.a.	Not listed	Annually	-	-	-
May 2006/May 2016 - 13.25% p.a.	Not listed	Annually	-	-	-
Dec. 2006/Dec. 2011 - 13.50% p.a.	Listed	Annually	711.89	711.89	711.89 (as at 20.08.07)
Dec. 2006/Dec. 2013 - 13.75% p.a.	Listed	Annually	Not traded during the year		
Dec. 2006/Dec. 2016 - 14.00% p.a.	Listed	Annually	Not traded during the year		
<b>Floating rate</b>					
2003/2008 - 3 Months TB rate (Net) + 2% p.a.	Listed	Quarterly	Not traded during the year		
			Not traded during the year		
2004/2009 - 3 Months TB rate (Net) + 2% p.a.	Not listed	Quarterly	-	-	-
2005/2010 - 3 Months TB rate (Net) + 2% p.a.	Not listed	Quarterly	-	-	-
2005/2010 -3 Months TB rate (Gross) + 1% p.a.	Not listed	Quarterly	-	-	-
May 2006/May 2011 - 3 Months TB rate (Net) + 2% p.a.	Not listed	Quarterly	-	-	-
May 2006/May 2011 - 3 Months TB rate (Gross) + 1% p.a.	Not listed	Quarterly	-	-	-
Dec. 2006/Dec. 2011 - 12 Months TB rate (Gross) + 1% p.a.	Listed	Annually	Not traded during the year		
Dec. 2006/Dec. 2013 - 12 Months TB rate (Gross) + 1% p.a.	Listed	Annually	Not traded during the year		
Dec. 2006/Dec. 2016 - 12 Months TB rate (Gross) + 1% p.a.	Listed	Annually	Not traded during the year		

(The comparative information for 2006 have been highlighted)

**3 Months TB rate (Gross)** - three months Treasury Bill rate before 10% Withholding Tax Rate as published by the Central Bank of Sri Lanka immediately prior to the commencement of each interest period.

**3 Months TB rate (Net)** - three months Treasury Bill rate after 10% Withholding Tax Rate as published by the Central Bank of Sri Lanka immediately prior to the commencement of each interest period.

**12 Months TB rate (Gross)** - twelve months Treasury Bill rate before 10% Withholding Tax Rate as published by the Central Bank of Sri Lanka immediately prior to the commencement of each interest period.

# INFORMATION TO SHARE AND DEBENTURE HOLDERS

Interest Rates		Interest rate of Comparable Government Security %	Other ratios as at date of last trade	
Coupon Rate %	Effective Annual Yield %		Interest Yield %	Yield to Maturity %
10.00	10.38	20.00	10.38 (as at 13.09.06)	9.80 (as at 13.09.06)
10.00	10.38	13.50	10.38 (as at 13.09.06)	9.80 (as at 13.09.06)
12.00	12.00	19.00	—	—
12.00	12.00	13.75	—	—
12.00	12.00	18.50	—	—
12.00	12.00	13.75	—	—
13.25	13.25	Indicative 17.50	—	—
13.25	13.25	Indicative 14.25	—	—
13.50	13.50	18.50	13.50 (as at 20.08.07)	13.25 as at 20.08.07
13.50	13.50	13.75	—	—
13.75	13.75	18.00	—	—
13.75	13.75	Indicative 14.00	—	—
14.00	14.00	Indicative 17.50	—	—
14.00	14.00	Indicative 14.25	—	—
17.74	18.97	20.00	11.10 (as at 05.10.05)	13.05 (as at 05.10.05)
12.53	12.79	13.50	11.10 (as at 05.10.05)	13.05 (as at 05.10.05)
17.74	18.97	20.00	—	—
12.53	12.79	13.65	—	—
17.74	18.97	19.00	—	—
12.53	12.79	13.75	—	—
18.49	19.81	19.00	—	—
12.70	12.94	13.75	—	—
17.74	18.97	18.50	—	—
12.53	12.82	13.75	—	—
18.49	19.81	18.50	—	—
12.70	12.97	13.75	—	—
15.42	15.42	18.50	—	—
15.19	15.19	13.75	—	—
15.42	15.42	18.00	—	—
15.19	15.19	(Indicative) 14.00	—	—
15.42	15.42	(Indicative) 17.50	—	—
15.19	15.19	(Indicative) 14.25	—	—

## Other Ratios

	2007	2006
Debt Equity Ratio (%)	29.94	46.58
Interest Cover (Times)	7.07	7.57
Quick Assets Ratio (%)	24.24	22.64

## EIGHTY-SEVEN YEARS TRADITION

**1920**

The Eastern Bank Ltd. (EBL) opens a branch in Chatham Street.

**1957**

The share capital of EBL is acquired by the Chartered Bank.

**1969**

The Commercial Bank of Ceylon Ltd. incorporated with EBL holding 40% of its equity.

**1971**

The business of the EBL is taken over by the Chartered Bank.

**1973**

The Galle, Jaffna and Kandy branches of the Mercantile Bank Ltd. are acquired by the Bank.

**1979**

The Foreign Currency Banking Unit is formed.

**1980**

Commercial Development Company Ltd. is incorporated to construct a Headquarters for the Bank with a 40% equity participation.

**1984**

The Headquarters of the Bank is shifted to "Commercial House", No. 21, Bristol Street, Colombo 1.

**1985**

The Foreign Department is elevated to the status of a fully-fledged branch. This move completed the reorganisation process whereby three independent offices representing the City Office, the Foreign Branch and the Head Office were created by segregating the different operations.

**1987**

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

**1988**

An associate company, Commercial Leasing Company Ltd. is formed.

**1990**

Introduced ATM facilities to its customers. First five ATMs were installed at Foreign, Borella, Nugegoda, Kotahena & Kollupitiya branches.

**1991**

A branch opened in the Katunayaka Free Trade Zone.

**1992**

The Bank sponsors a Fund Management Company, Commercial Fund Management (Pvt) Ltd. for the purpose of operating unit trusts. The first unit trust launched in March 1992. The Bank enjoys a 50% equity participation in this Company.

**1993**

Introduction of the Core Banking Software-International Comprehensive Banking System (ICBS) linking nine metropolitan branches.

**1994**

Bank celebrates its 25th Anniversary.

**1996**

Shareholdings in Commercial Development Company Ltd. increased to 94.55% through a share swap.

**1997**

Standard Chartered Bank sells its 40% stake in the Bank.

The Treasury Division was set up as an independent profit center.

**1998**

365-day branch at Colombo 7 Branch is opened. All branches except Jaffna are linked to the ICBS.

**1999**

Banking and supermarketing are combined by opening the first "MiniCom" at the Staples Street, Cargills Food City outlet.

**2000**

Internet Banking is launched.

**2001**

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

**2003**

The operations of Credit Agricole Indosuez in Bangladesh is taken over. The first service point at Arpico Super Centre was opened at Dehiwela.

**2004**

Commercial Bank Social Responsibility Trust was set up in September.

**2005**

Raises US\$ 65 million 2-year syndicated loan with an option to extend it for a further year at the option of the lender, the first such loan by a non-sovereign corporate in the country. Introduces the first mobile ATM in the country.

**2006**

Raised US\$ 10 million by issuing a five-year bond, the first of its kind by an indigenous bank in Sri Lanka.

Bank's CSR Trust awarded 100 scholarships to undergraduates.

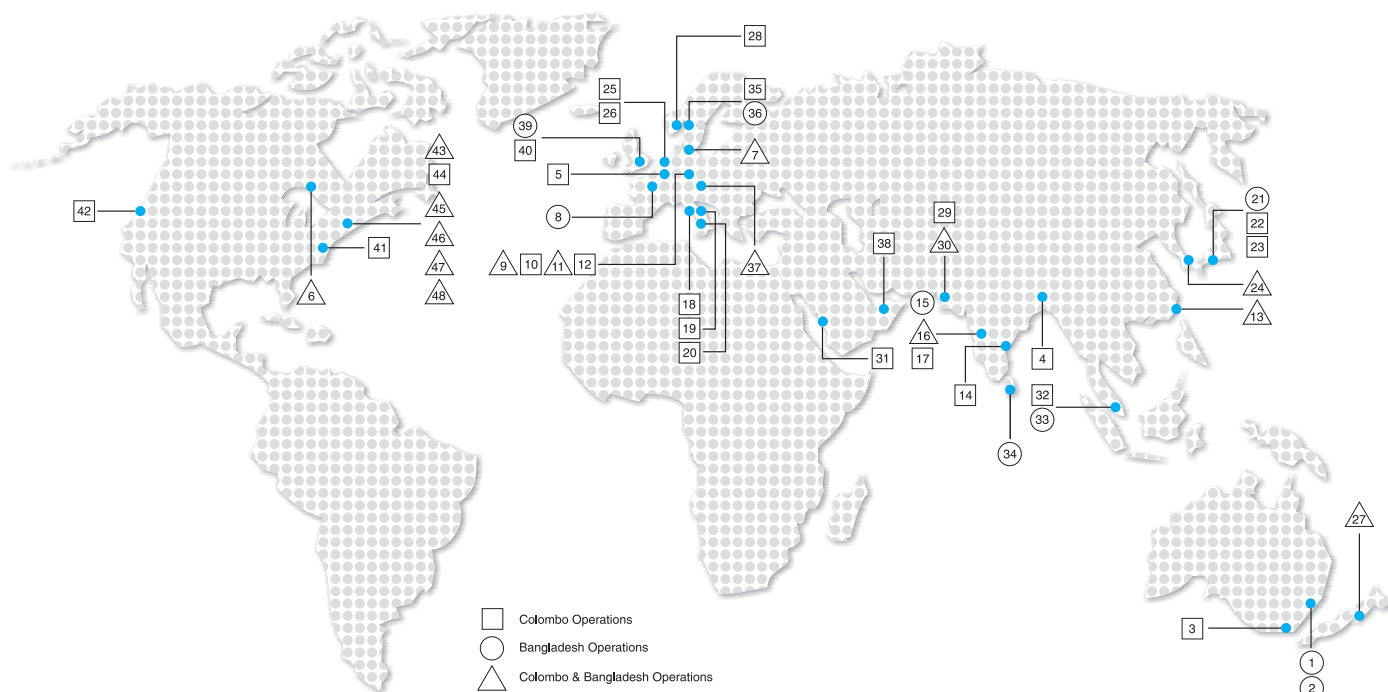
Opens 150th branch at Mahiyanganaya.

**2007**

Links up with 'MoneyGram' for Fund transfers around the world.

Launches 'Pay Master' total payment solution.

Bank disposes its investment in the shares of Commercial Fund Management (Pvt) Ltd.



Country	Name & Address of the Bank	BIC Code/Swift	CCY	Account No.	Website
Australia	1 Citygroup Pty Ltd. ABN 88 004 325 080, AFSL 238098 G.P.O. Box 40, Sydney NSW 1027 - Australia	CITIAU2X	AUD	205636005 *	citibank.com.au
	2 HSBC Bank Australia Ltd. 580, George Street, Sydney NSW 2000	HKBAU2SSYD	AUD	011-796323-041 *	hsbc.com.au
	3 National Australia Bank 11/120, Spencer Street, Melbourne Victoria 3000 - Australia	NATAAU33033	AUD	1803020052500	national.com.au
Bangladesh	4 Commercial Bank of Ceylon PLC 47, Motijheel Commercial Area, P.O. Box 3490, Dhaka 1000, Bangladesh	CCEYBDDH	AC\$	2-802000017	combank.net
Belgium	5 Fortis Bank NV/SA Montagne DU PARC 3, B-1000, Brussels, Belgium	GEBABEBB	EUR	291-1179210-78	fortis.com
Canada	6 Canadian Imperial Bank of Commerce Int'l Dept. Head Office, Commerce Court, Toronto M5L 1H1, Canada	CIBCCATT	CAD	1733117 1751514 *	cibc.com
Denmark	7 Nordea Bank Denmark A/S P.O. Box 850, DK-0900, Copenhagen, Denmark	NDEADKKK	DKK	5000408909 5000017703 *	nordea.com
France	8 Credit Agricole SA, 75710 Paris Cedex 15, CCP, Paris 702 U 020 France	AGRIFRPP	EUR	20533624000 *	credit-agricole.fr
Germany	9 American Express Bank GmbH Data & Exposure Control, P.O. Box 110162 Theodor - Heuss - Allee 112, D60036 Frankfurt AM Main, Germany	AEIBDEFX	EUR	018109406 018112204 *	amexbank.de
	10 Bayerische Hypo und Vereins Bank AG D-80311 Muenchen, Germany	HYVEDEMM	EUR	69101429	hvb.com hvb.de
	11 Commerz Bank AG ZTB BC Mitte 6.4, Mainzer Landstrasse 277-293, 60261, Frankfurt AM Main, Germany	COBADEFF	EUR	400872103701 400871436200 *	commerzbank.com
	12 West LB AG Girozentrale-P.O. Box D40199, Dusseldorf, Germany	WELADED	EUR	59031/EUR	westlb.com westlb.de

\* Accounts of Bangladesh Operation



## CORRESPONDENT BANKS

Country		Name & Address of the Bank	BIC Code/Swift	CCY	Account No.	Website
Hong Kong	13	Standard Chartered Bank P.O. Box 21, 9th Floor, 4-4A, Des Voeux Road, Central Hong Kong	SCBLHKHH	HKD	41109468048 44709419107 *	standardchartered.com
India	14	American Express Bank Ltd. 187, Mount Road, Chennai 600 006, India	AEIBINDXMAS	AC\$	510280024	americanexpress/india.com
	15	Calyon Bank, Mumbai, India	BSUIINBB	AC\$	00712402150000USD *	calyon.com
	16	ICICI Bank Ltd. ICICI Bank Towers, Bandra-Kurla Complex, Bandra (East), Mumbai 400 051, India	ICICINBB	AC\$	000406000181 000406000220 *	icicibank.com
	17	Standard Chartered Bank 23-25, Mahatma Gandhi Road, P.O. Box 558, Mumbai 400 001, India	SCBLINBB	AC\$	22205031885	standardchartered.com
Italy	18	Banca Intesa BCI #2612 Head Office, Int'l Money Transfer Dept., Piazza Della Scala 6, 20121 Milan, Italy	BCITITMM	EUR	9629220249	bancaintesa.it
	19	Banco Popolare Di Verona E Novara Piazza Nogara 2,37121 Verona, Vr, Italy	VRBPIT2V	EUR	000400000024	bpv.it
	20	Unicredito Italiano SPA Viale, Mberto, Tutini, 180, 1-00144 Rome, Italy	UNCRITMM	EUR	0995 4268	unicreditgroup.eu
Japan	21	Bank of Tokyo Mitsubishi Ltd. P.O. Box 191, Nihonbashi, Tokyo - Japan	BOTKJPJT	JPY	653-0461318 *	bk.mufg.jp
	22	Standard Chartered Bank P.O. Box 9997, 21st Floor, Sanno Park, Tower 2-11-1, Nagata-cho, Chiyoda-ku, Tokyo 100-6155, Japan	SCBLJPJT	JPY	2168531110	standardchartered.com
	23	Sumitomo Mitsui Banking Corporation International Business Operations Dept. P.O. Box 4, Tokyo Central 100 – 8201, Japan	SMBCJPJT	JPY	4395	smbc.co.jp
Korea	24	Kookmin Bank 9-1, 2GA, Namdaemun - RO, Jung - GU, Seoul 100-703, Korea	CZNBKRSE	US\$	7598USD010 7618USD013 *	kbstar.com
Netherlands	25	ABN Amro Bank N.V. 32, Vijzelstraat, P.O. Box 669, Amsterdam, Netherlands	ABNANL2A	EUR	540427349	abnamro.com
	26	Ing Bank N.V. P.O. Box 1800 1000 BV, Amsterdam, Netherlands	INGBNL2A	EUR	0050908928	Ing.com
New Zealand	27	Bank of New Zealand P.O. Box 2392, 1, Willis Street, Wellington, New Zealand	BKNZNZ22985	NZD	2659680000 2690700000 *	bnz.co.nz
Norway	28	Den Norske Bank Stranden 21, 0021, Oslo, Norway	DNBANOKK	NOK	7002-02-04808	dnbnor.com
Pakistan	29	Habib Bank AG Zurich P.O. Box 1424, Hirani Centre, 1.1, Chundrigar Road, Karachi 74200, Pakistan	HBZUPKKA	AC\$	20110-333-31503	habibbank.com
	30	Standard Chartered Bank 1.1, Chundrigar Road, Karachi 75600, Pakistan	SCBLPKKA	AC\$	15000297601 15000288701 *	standardchartered.com
Saudi Arabia	31	The National Commercial Bank International Banking Division, Banking Relations, 20th Floor, P.O. Box 3555, Jeddah 21481, Saudi Arabia	NCBKSJAE	US\$	55535150090301	alahli.com
Singapore	32	Standard Chartered Bank P.O. Box 1901, 6, Battery Road, 7th Storey, Singapore 049909	SCBLSGSG	SGD	0109344561	standardchartered.com
	33	United Overseas Bank Ltd. 80, Raffles Place 08-01, UOB Plaza 1, Singapore 048624	UOVBSGSG	SGD	1013992113 *	uobgroup.com

\* Accounts of Bangladesh Operation

Country	Name & Address of the Bank	BIC Code/Swift	CCY	Account No.	Website
<b>Sri Lanka</b>	<b>34</b> Commercial Bank of Ceylon PLC Commercial House, 21, Bristol Street, P.O. Box 856, Colombo 1, Sri Lanka	CCEYLKLX	AC\$	1420825031 *	combank.net
<b>Sweden</b>	<b>35</b> Skandinaviska Enskilda Banken Utlandsreskontran Stockholm S 106 40, Sweden	ESSESESS	SEK	52018529803	sebgroun.com
	<b>36</b> Svenska Handelsbanken Stockholm, Sweden	HANDSESS	SEK	40324079 *	handelsbanken.com
<b>Switzerland</b>	<b>37</b> UBS A.G. P.O. Box CH-8098, Zurich, Switzerland	UBSWCHZH	CHF	0230-00085408 0230-000003653 5050000N *	ubs.com
<b>United Arab Emirates</b>	<b>38</b> Mashreq Bank P.O.Box 1250,Dubai, U.A.E.	BOMLAHAD	AED	0195511268	mashreqbank.com
<b>United Kingdom</b>	<b>39</b> HSBC Bank PLC, 8, Canada Square, London - UK	MIDLGB22	GBP GBP EUR	58335536 * 59398188 * 59448448 *	hsbc.co.uk
	<b>40</b> Standard Chartered Bank City Office, Branch No. 37, Grace Church Street, London EC3V 0BX, UK	SCBLGB2L	GBP EUR	01804813401 01804813496	standardchartered.com
<b>United States of America</b>	<b>41</b> American Express Bank 300, Boulevard East, Weehawken, NJ 07086, U.S.A.	AEIBUS33	US\$	000724989	americanexpress.com
	<b>42</b> Bank of America NT & SA International Deposit Services, 1850 Gateway BL VD, 6th Floor, Concord CA 94520, U.S.A.	BOFAUS6S	US\$	6290890098	bankofamerica.com
	<b>43</b> Citi Bank 111, Wall Street, 19th Floor, New York 10043, U.S.A.	CITIUS33	US\$ US\$ US\$	36141446 36241316 * 36242538 *	citibank.com
	<b>44</b> Deutsche Bank Trust Company Americas P.O. Box 318, Church Street Station, New York, NY 10008, U.S.A.	BKTRUS33	US\$	04034566	db.com
	<b>45</b> HSBC Bank U.S.A. 500, Stanton Christiana Road, Newark Delaware 19713, NY - U.S.A.	MRMDUS33	US\$	000045829 000147605 *	hsbcusa.com
	<b>46</b> JP Morgan Chase Bank Head Office, 270, Park Avenue, New York, NY 10017, U.S.A.	CHASUS33	US\$	400808625 400809176 *	jpmorganchase.com
	<b>47</b> Standard Chartered Bank One Madison Avenue, New York NY 10010-3603 U.S.A.	SCBLUS33	US\$	3582052360001 3582052637001 *	standardchartered.com
	<b>48</b> Wachovia Bank N.A. 11, Penn Plaza, 4th Floor, New York, NY 10038, USA	PNBPUS3NNYC	US\$	2000191002407 2000193003365 *	wachovia.com

\* Accounts of Bangladesh Operation

## GLOSSARY OF FINANCIAL & BANKING TERMS

### **A** Acceptances

Promise to pay created when the drawee of a time draft stamps or writes the words "accepted" above his signature and a designated payment date.

### Accrual Basis

Recognising the effects of transactions and other events when they occur without waiting for receipt or payment of cash or its equivalent.

### Associate

An entity, including an unincorporated entity such as a partnership, over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

### **B** Bills 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.

### Bonus Issue (Scrip Issue)

The issue of new shares to existing shareholders in proportion to their shareholdings. It is a process for converting a company's reserves (in whole or part) into Stated Capital and hence does not involve an infusion of cash.

### **C** Capital Adequacy Ratios

The relationship between capital and risk weighted assets as defined in the framework developed by the Bank for International Settlements (BIS) and as modified by the Central Bank of Sri Lanka to suit local requirements.

### Cash Equivalents

Short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### Commitments

Credit facilities approved but not yet utilised by the clients as at the Balance Sheet date.

### Compounded Annual Growth Rate

The rate at which it would have grown if it grew at an even rate compounded annually.

### Contingencies

A condition or situation existing at Balance Sheet date where the outcome will be confirmed only by occurrence or non-occurrence of one or more future events.

### Cost/Income Ratio

Operating expenses excluding Loan Loss Provision as a percentage of income.

### Cost Method

A method of accounting whereby the investment is recorded at cost. The Income Statement reflects income from the investment only to the extent that the investor receives distributions from accumulated net profits of the investee arising subsequent to the date of acquisition.

### 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.

### **D** Dealing Securities

Marketable securities that are acquired and held with the intention of reselling them in the short term.

### Deferred Taxation

Sum set aside for tax in the Financial Statements that may become payable in a financial year other than the current financial year.

### Dividend Cover

Profit after tax divided by gross dividends. This ratio measures the number of times dividend is covered by current year's distributable profits.

### Documentary Credits

Commercial letters of credit provided for payment by a bank to the named beneficiary usually the seller of merchandise, against delivery of documents specified in the credit.

### **E** Earnings per Share (EPS)

Profit attributable to ordinary shareholders divided by the number of ordinary shares in issue.

### Economic Value Added

A measure of productivity which takes into consideration cost of total invested equity.

### Effective Tax Rate

Provision for taxation excluding deferred tax divided by the profit before taxation.

### Equity Method

A method of accounting whereby the investment is initially recorded at cost and adjusted thereafter for the post acquisition change in the investor's share of net assets of the investee. The Income Statement reflects the investor's share of the results of operations of the investee.

### **F** Finance Lease

A contract whereby a lessor conveys to the lessee the right to use an asset for rent over an agreed period of time which is sufficient to amortise the capital outlay of the lessor. The lessor retains ownership of the asset but transfers substantially all the risks and rewards of ownership to the lessee.

### Foreign Exchange Profit

Profit earned on foreign currency transactions arising from the difference in foreign exchange rates between the transaction/last Balance Sheet date and the settlement/Balance Sheet date. Also arises from trading in foreign currencies.

### Foreclosed Properties

Properties acquired in full or partial satisfaction of debts.

### Forward Exchange Contract

Agreement between two parties to exchange one currency for another at a future date at a rate agreed upon today.

### Free Capital

Excess of equity capital over net book value of Property, Plant & Equipment, Intangible Assets and Investments.

### **G** General Provisions

These are provisions made on loans and advances for anticipated losses on aggregate exposures where credit losses cannot yet be determined on an individual facility basis.

### Gross Dividends

The portion of profits distributed to the shareholders including the tax withheld.

### Guarantees

Three party agreement involving a promise by one party (the guarantor) to fulfil the obligations of a person owing a debt if that person fails to perform.

### **H** Historical Cost Convention

Recording transactions at the actual value received or paid.

### Human Resource Accounting

The Human Resource is considered as an asset (although not brought into the Balance Sheet) and the value is computed to focus attention on the management of this valuable asset.

### **I** Impairment

This occurs when recoverable amount of an asset is less its carrying amount.

### Intangible Asset

An intangible asset is an identifiable non-monetary asset without physical substance.

### Interest in Suspense

Interest suspended on non-performing loans and advances.

### Interest Margin

Net interest income expressed as a percentage of interest earning assets.

### Investment Securities

Securities acquired and held for yield or capital growth purposes and are usually held to maturity.

### Interest Spread

Represents the difference between the average interest rate earned and the average interest rate paid on interest earning assets and interest bearing liabilities, respectively.

### **K** Key Management Personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

- L Liquid Assets**  
Assets that are held in cash or in a form that can be converted to cash readily, such as deposits with other banks, bills of exchange, treasury bills.
- Loan Losses and Provisions**  
Amounts set aside against possible losses on loans, advances and other credit facilities as a result of such facilities becoming partly or wholly uncollectible.
- M Market Capitalisation**  
Number of ordinary shares in issue multiplied by the market value of a share as at the year end.
- Materiality**  
The relative significance of a transaction or an event the omission or misstatement of which could influence the economic decisions of users of Financial Statements.
- N Net Assets Value per Ordinary Share**  
Shareholders' funds excluding Preference Shares if any, divided by the number of ordinary shares in issue.
- Net Interest Income**  
The difference between what a bank earns on assets such as loans and securities and what it pays on liabilities such as deposits, refinance funds and inter-bank borrowings.
- Non-Performing Loans**  
A loan placed on cash basis (i.e. Interest income is only recognised when cash is received) because, in the opinion of management, there is reasonable doubt regarding the collectibility of principal or interest. Loans are automatically placed on cash basis when a payment is 3 months past due. All loans are classified as non-performing when a payment is 3 months in arrears.
- O Off-Balance Sheet Transactions**  
Transactions that are not recognised as assets or liabilities in the Balance Sheet but which give rise to contingencies and commitments.
- Open Credit Exposure Ratio**  
Total net non-performing loans expressed as a percentage of regulatory capital base.
- P Price Earnings Ratio (P/E Ratio)**  
Market price of a share divided by earnings per share.
- Provision Cover**  
Total provisions for loan losses expressed as a percentage of net non-performing loans before discounting for provisions on non-performing loans.
- Prudence**  
Inclusion of a degree of caution in the exercise of judgement needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated.
- R Rights Issue**  
Issue of share to the existing shareholders at an agreed price, which is generally lower than the market price.
- Related Parties**  
Parties where 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 as per Sri Lanka Accounting Standard No. 30 on Related Party Disclosures.
- Return on Average Assets (ROA)**  
Profit after tax divided by the average assets.
- Risk Weighted Assets**  
On Balance Sheet assets and the credit equivalent of off Balance Sheet assets multiplied by the relevant risk weighting factors.
- Repurchase Agreement**  
Contract to sell and subsequently repurchase securities at a specified date and price.
- Reverse Repurchase Agreement**  
Transaction involving the purchase of securities by a bank or dealer and resale back to the seller at a future date and specified price.
- Return on Average Equity (ROE)**  
Net profit for the year, less preference share dividends if any, expressed as a percentage of average ordinary shareholders' equity.
- Revenue Reserves**  
Reserves set aside for future distribution and investment.
- S Segmental Analysis**  
Analysis of financial information by segments of an enterprise specifically, the different industries and the different geographical areas in which it operates.
- Shareholders' Funds**  
Total of issued and fully paid share capital and capital and revenue reserves.
- Single Borrower Limit**  
33% of the shareholders' funds (excluding final dividend payable).
- Statutory Reserve Fund**  
A capital reserve created as per the provisions of the Banking Act No. 30 of 1988.
- Substance Over Form**  
The consideration that the accounting treatment and the presenting in Financial Statements of transactions and the events should be governed by their substance and financial reality and not merely by legal form.
- Subsidiary**  
An entity, including an unincorporated entity such as a partnership, which is controlled by another entity (known as the parent).
- 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.
- T Tier I Capital**  
Core capital representing permanent shareholders' equity and reserves created or increased by appropriations of retained earnings or other surpluses.
- Tier II Capital**  
Supplementary 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.
- Triple Bottom Line Reporting**  
Reporting on the efforts of a corporate to enhance Shareholder value while being ethical and accountable to the economy, society and environment.
- U Unit Trust**  
An undertaking formed to invest in securities under the terms of a trust deed.
- V Value Added**  
Value of wealth created by providing banking and other related services less the cost of providing such services.

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Notice is hereby given that the **Thirty-Ninth Annual General Meeting** of Commercial Bank of Ceylon PLC will be held at the Grand Ballroom of the Galadari Hotel, No. 64, Lotus Road, Colombo 1, on Friday, March 28, 2008 at 10.30 a.m. for the following purposes:

1. To receive, consider and adopt the Annual Report of the Board of Directors on the affairs of the Company & Statement of Compliance and the Financial Statements for the year ended December 31, 2007 with the Report of the Auditors thereon.
2. To declare a dividend as recommended by the Directors.
3. To re-elect Directors in place of those retiring by rotation or otherwise,
  - (a) Mr. M.J.C. Amarasuriya
  - (b) Mr. L.J.A. Fernando
  - (c) Dr. H.S. Wanasinghe\*
4. (a) To re-appoint Messrs. Ernst & Young as Auditors to the Company for the ensuing year, as recommended by the Board of Directors.  
 (b) To authorise the Board of Directors to determine their remuneration.
5. To authorise the Board of Directors to determine donations for 2008.

By Order of the Board,

  
**Mrs. R.R. Dunuwille**  
 Company Secretary

February 18, 2008  
 Colombo

## Notes

- i. A shareholder entitled to attend, speak and vote at the meeting is entitled to appoint a proxy holder to attend, speak and vote in his/her stead and a shareholder who is entitled only to attend and speak at the meeting is entitled to appoint a proxy holder to attend and speak on his/her behalf. A Proxy holder need not be a shareholder of the Company.
- ii. 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, Bristol Street, Colombo 1, not less than 48 hours before the time appointed for the holding of the Meeting.
- iii. It is proposed to post the Dividend Warrants on the 5th market day after receiving approval from the shareholders at the Annual General Meeting.

## (\*) SPECIAL NOTICE

A special notice has been received by the Company from Union Investments Ltd., a Shareholder of the Company informing their intention to move the following resolution:

### **Re-election of Dr. H.S. Wanasinghe**

We, Union Investments Ltd., a shareholder of the Company hereby give Special Notice of our intention to move the following resolution, as an ordinary resolution, at the forthcoming Annual General Meeting of the Company:

"That the age limit stipulated in Section 210 of the Companies Act No. 7 of 2007 shall not be applicable to Dr. Henry Shelton Wanasinghe, who attained the age of 81 years on June 16, 2007 and that he be re-elected a Director of the Company from the conclusion of the Annual General Meeting, subject to the requirement to vacate office as a Director of the Company in accordance with the Banking Act Directions No. 11 of 2007 (Corporate Governance for Licenced Commercial Banks in Sri Lanka) and any amendments thereto."

## CORPORATE INFORMATION

### 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. A licensed commercial bank under the Banking Act No. 30 of 1988.

### Company Registration Number

PQ 116

### Tax Payer Identification Number (TIN)

124006007

### Stock Exchange Listing

The Ordinary Shares, 11.25% Cumulative Redeemable Preference Shares and the Unsecured Subordinated Redeemable Debentures of 2003/2008 series, December 2006/December 2011 series, December 2006/December 2013 series and December 2006/December 2016 series, both fixed and floating interest rates of the Company are listed on the Colombo Stock Exchange.

### Registered Office

"Commercial House",  
No. 21, Bristol Street, P.O. Box 856,  
Colombo 1, Sri Lanka.  
Telephone: 2445010-15 (6 lines), 2328193-5 (3 lines)  
2430420, 2336700  
Telegraphic Address: COMBANK  
Telex: 21520 COMEX CE; 21274 COMBANK CE;  
21898 COMFEX CE; 22384 COMFX CE;  
23375 COMTLX CE.  
Facsimile: 941-2449889  
SWIFT Code - Sri Lanka: CCEYLKX  
SWIFT Code - Bangladesh: CCEYBDDH  
E-mail: email@combank.net  
Website: www.combank.net

### Head Office

"Commercial House", No. 21, Bristol Street,  
P.O. Box 856, Colombo 1, Sri Lanka.

### Board of Directors

Mr. M.J.C. Amarasuriya (Chairman)  
Mr. B.R.L. Fernando (Deputy Chairman)  
Mr. A.L. Gooneratne (Managing Director)  
Dr. H.S. Wanasinghe  
Mr. A.N. Fonseka  
Mr. L.J.A. Fernando  
Mr. Iyad M. Malas  
Mr. D.S. Weerakkody  
Mr. G. Galludec (Alternate Director)  
Deshamanya Ken Balendra

### Company Secretary

Mrs. R.R. Dunuville

### Audit Committee

Mr. B.R.L. Fernando (Chairman)  
Mr. A.N. Fonseka  
Dr. H.S. Wanasinghe  
Mr. D.S. Weerakkody  
Mr. A.L. Gooneratne (by invitation)

### Compliance Officer

Mr. Delip Fernando - Deputy General Manager  
(Inspection)

### Auditors

Ernst & Young,  
Chartered Accountants,  
No. 201, De Saram Place,  
P.O. Box 101,  
Colombo 10, Sri Lanka.

### Lawyers

Julius & Creasy,  
No. 41, Janadhipathi Mawatha,  
Colombo 1, Sri Lanka.

### Credit Rating

The Bank received AA+(Ika) credit rating from Fitch Ratings Lanka Ltd. (in 2007)  
The Bank's Bangladesh Operations received AA credit rating from Credit Rating Information Services Ltd. (in 2006) (The Annual Review for 2007 is in progress)

### Subsidiary Companies

Name of the Company	Holding	Principal Activity
Commercial Bank Primary Dealer Ltd.	100.00%	Primary Dealer for Government Securities
ONEzero Company Ltd.	100.00%	Provision of IT related Services
X-pertise Ltd.	100.00%	Training and Development of Human Resource
Commercial Development Company PLC	94.55%	Property Development

### Associate Companies

Name of the Company	Holding	Principal Activity
Commercial Leasing Company Ltd.	30.00%	Leasing, Factoring, Hire Purchase and Hiring of Vehicles
Equity Investments Lanka Ltd.	22.92%	Venture Capital
Commercial Insurance Brokers (Pvt) Ltd.	18.91%	Insurance brokering



## NOTES







# FORM OF PROXY (VOTING SHAREHOLDERS)

I/We .....  
of .....  
being a member/s of Commercial Bank of Ceylon PLC hereby appoint. ....  
of ..... whom failing:

Mr. Mahendra Jayanthipal Chandima Amarasuriya	whom failing
Mr. Bentotage Robert Lakshman Fernando	whom failing
Mr. Amitha Lal Gooneratne	whom failing
Dr. Henry Shelton Wanasinghe	whom failing
Mr. Anthony Nihal Fonseka	whom failing
Mr. Lalin Joseph Ainsley Fernando	whom failing
Mr. Gilles Galludec	whom failing
Mr. Dinesh Stephen Weerakkody	whom failing
Deshamanya Kandiah Balendra	

as my/our Proxyholder to represent me/us to speak at the meeting and to vote on a show of hands or on a poll for me/us on my/our behalf as indicated below at the Thirty-Ninth Annual General Meeting of the Company to be held on March 28, 2008 and at any adjournment thereof and at every poll which may be taken in consequence thereof.

	For	Against
1. To receive, consider and adopt the Annual Report of the Board of Directors and the Financial Statements for the year ended December 31, 2007 with the Report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2. To declare a Dividend as recommended by the Directors.	<input type="checkbox"/>	<input type="checkbox"/>
3. To re-elect Directors in place of those retiring by rotation or otherwise:		
(a) To re-elect Mr. M. J. C. Amarasuriya as a Director of the Company from the conclusion of the Annual General Meeting, subject to the requirement to vacate office as a Director of the Company, in accordance with the Banking Act Directions No. 11 of 2007 (Corporate Governance for licensed commercial banks in Sri Lanka) and any amendments thereto.	<input type="checkbox"/>	<input type="checkbox"/>
(b) To re-elect Mr. L. J. A. Fernando as a Director of the Company from the conclusion of the Annual General Meeting, until he is required to come up for any subsequent re-election, subject to the application of the Banking Act Directions No. 11 of 2007 (Corporate Governance for licensed commercial banks in Sri Lanka) and any amendments thereto.	<input type="checkbox"/>	<input type="checkbox"/>
(c) To re-elect Dr. H.S. Wanasinghe as a Director the Company from the conclusion of the Annual General Meeting, subject to the requirement to vacate office as a Director of the Company, in accordance with the Banking Act Directions No. 11 of 2007 (Corporate Governance for licensed commercial banks in Sri Lanka) and any amendments thereto. (Please see Special Notice received from Union Investments Ltd.).	<input type="checkbox"/>	<input type="checkbox"/>
4. (a) To re-appoint Messrs. Ernst & Young, as recommended by the Board of Directors as Auditors to the Company for the ensuing year and	<input type="checkbox"/>	<input type="checkbox"/>
(b) To authorise the Board of Directors to determine the remuneration of the Auditors.	<input type="checkbox"/>	<input type="checkbox"/>
5. To authorise the Board of Directors to determine donations for 2008.	<input type="checkbox"/>	<input type="checkbox"/>

In witness my/our hand/seal given on this ..... day of March, Two Thousand and Eight.

.....  
Folio No.

(Please indicate with an 'X')

.....  
Signature/s

# FORM OF PROXY (VOTING SHAREHOLDERS)

## Notes

- i. Instructions as to completion of this Form of Proxy are given below.
- ii. As regards voting on the Resolutions indicated in the Form of Proxy if no words are struck out or there is in the view of the 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 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, if 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, if any, or signed by its Attorney or by an officer on behalf of the Company/corporate body, in accordance with its Articles of Association/Statute.

## Instructions as to Completion of Form of Proxy

- (i) Article 67 of the Articles of Association of the Company provides that:  
"The instruments appointing a Proxy shall be in writing, and
  - (a) in the case of an individual shall be signed by the Appointer or by his Attorney; and
  - (b) in the case of a corporation shall be either under its common seal or signed by its Attorney or by an Officer 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.  
A Proxy need not be a member of the Company."
- (ii) The full name(s) and address(es) of the Proxyholder's and of the Shareholder appointing the Proxyholder should be entered legibly in the Form of Proxy.
- (iii) The completed Form of Proxy should be deposited with the Company Secretary at the Registered Office of the Company, No. 21, Bristol Street, Colombo 1, not less than 48 hours before the time fixed for the holding of the meeting.

Articles 56 to 59 of the Articles of Association of the Company, dealing with voting are quoted below, for the information of shareholders.

## 56. 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 three persons present in person or by Proxy or Attorney or representative and entitled to vote; or
- (iii) member or members present in person or by Proxy or Attorney or representative and representing not less than one tenth of the total voting rights of all the members having the right to vote at the meeting; or
- (iv) a member or members present in person or by Proxy or Attorney or representative and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

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.

## 57. How poll 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 a 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.

## 58. Chairman's casting vote

In the case of an equality of votes, whether on a show of hands or on a poll, the Chairman of the meeting at which the show of hands takes place or at which the poll is taken shall be entitled to a second or casting vote.

## 59. 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

THE SHAREHOLDERS ARE KINDLY REQUESTED TO INDICATE THE FOLIO NO. APPEARING IN THE ADDRESS LABEL PASTED ON THE ENVELOPE, WHICH CONTAINS THE ANNUAL REPORT, IN THE SPACE PROVIDED FOR "FOLIO NO." IN THE FORM OF PROXY, FOR THE CONVENIENCE OF THE REGISTRARS.

PLEASE NOTE THAT NON-INDICATION OF THE "FOLIO NO." WILL NOT INVALIDATE THE FORM OF PROXY, UNDER ANY CIRCUMSTANCES.

## FORM OF PROXY (NON-VOTING SHAREHOLDERS)

I/We .....  
of .....  
being a member/s of Commercial Bank of Ceylon PLC hereby appoint. ....  
of ..... whom failing:

Mr. Mahendra Jayanthipal Chandima Amarasuriya	whom failing
Mr. Bentotage Robert Lakshman Fernando	whom failing
Mr. Amitha Lal Gooneratne	whom failing
Dr. Henry Shelton Wanasinghe	whom failing
Mr. Anthony Nihal Fonseka	whom failing
Mr. Lalin Joseph Ainsley Fernando	whom failing
Mr. Dinesh Stephen Weerakkody	whom failing
Mr. Gilles Galludec	whom failing
Deshamanya Kandiah Balendra	

as my/our Proxyholder to represent me/us, and to speak at the Thirty-Ninth Annual General Meeting of the Company which is scheduled to be held on March 28, 2008 and at any adjournment thereof.

In witness my/our hand/seal given on this ..... day of March, Two Thousand and Eight.

.....  
Folio No.

.....  
Signature/s

# FORM OF PROXY (NON-VOTING SHAREHOLDERS)

## Notes

- i. Instructions as to completion of this Form of Proxy are given below.
- ii. Shareholders of non-voting shares are entitled only to attend and speak at the 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, if 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, if any, or signed by its Attorney or by an officer on behalf of the Company/corporate body in accordance with its Articles of Association/Statute.

## Instructions as to Completion of Form of Proxy

- (i) Article 67 of the Articles of Association of the Company provides that:

“ The instruments appointing a Proxy shall be in writing, and

- (a) in the case of an individual shall be signed by the Appointer or by his Attorney; and
- (b) in the case of a corporation shall be either under its common seal or signed by its Attorney or by an Officer 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. A Proxy need not be a member of the Company.”

- (ii) The full name(s) and address(es) of the Proxyholder's and of the Shareholder appointing the Proxyholder should be entered legibly in the Form of Proxy.
- (iii) The completed Form of Proxy should be deposited with the Company Secretary at the Registered Office of the Company, No. 21, Bristol Street, Colombo 1, not less than 48 hours before the time fixed for the holding of the meeting.

## REQUEST TO SHAREHOLDERS

THE SHAREHOLDERS ARE KINDLY REQUESTED TO INDICATE THE FOLIO NO. APPEARING IN THE ADDRESS LABEL PASTED ON THE ENVELOPE, WHICH CONTAINS THE ANNUAL REPORT, IN THE SPACE PROVIDED FOR "FOLIO NO." IN THE FORM OF PROXY, FOR THE CONVENIENCE OF THE REGISTRARS.

PLEASE NOTE THAT NON-INDICATION OF THE "FOLIO NO." WILL NOT INVALIDATE THE FORM OF PROXY, UNDER ANY CIRCUMSTANCES.

For any clarifications on this Report  
please write to:

The Company Secretary,  
Commercial Bank of Ceylon PLC,  
“Commercial House”,  
No. 21, Bristol Street,  
Colombo 1, Sri Lanka.  
or e-mail to: [email@combank.net](mailto:email@combank.net)

Minimise waste by informing the  
Commercial Bank Company Secretary  
to update the mailing list if you are  
receiving more than one copy of the  
Annual Report.

